



IOPS TECHNICAL COMMITTEE MEETING

IMPACT OF DIGITALISATION OF FINANCIAL SERVICES ON SUPERVISORY PRACTICES

“Kenya: Case Study”

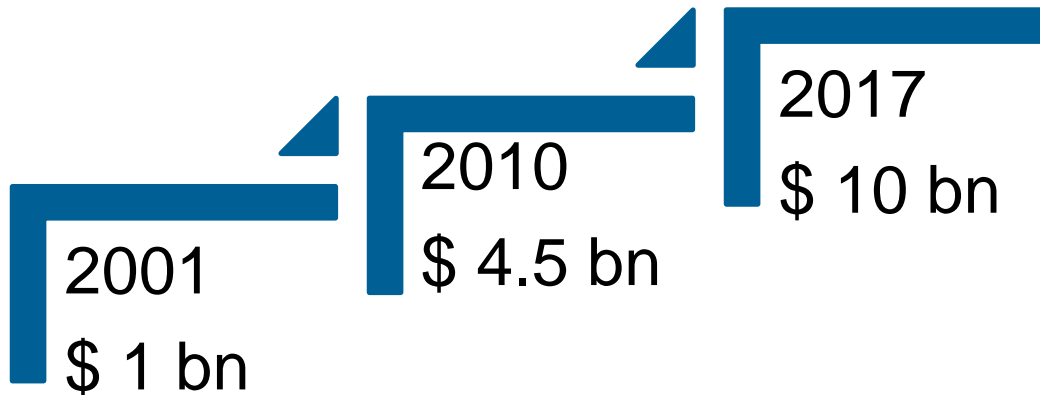
Nzomo Mutuku
Acting Chief Executive Officer
Retirement Benefits Authority

AGENDA

- ❖ Retirement Benefits Industry in Kenya
- ❖ Digitization of Financial Services
- ❖ Impact on Supervision

INDUSTRY PERFORMANCE

Assets: Kes



Schemes: 1,300



Registered Service Providers



Members: 3.0 Million



RECENT REGULATORY REFORMS - I

1. **Risk Based Supervision** - officially adopted in Kenya in 2010. Overall Risk Score declined from 1.15 in 2011 to 0.524 in June 2017.
2. **Trustee Development Programme Kenya** - launched in August 2011 to improve scheme administration and governance over 4,629 trustees attended training of which 4,092 have been certified, including over 100 non Kenyans.
3. **New & Alternative Investment Assets Classes** - to align with market developments, enhance portfolio diversification, manage risks and boost returns introduced new asset classes including REITs (Development & Income), Private Equity & Venture Capital, Derivatives, Exchange traded funds (ETFs). Proposed additional Class for debt financing of Public Private Partnership (PPP) projects for infrastructure or housing
4. **Market Conduct Regulation** - created Market Conduct Department in 2016. to focus on Consumer Education, Consumer Protection and Good Governance for retirement benefits schemes

RECENT REGULATORY REFORMS - II

5. **Post-Retirement Medical Funds** - require schemes to allow for additional voluntary contributions by a member to fund a medical fund to be accessed at retirement
6. **Collaboration with other Financial Sector Regulators – on** Information sharing, financial stability financial education and literacy programmes – possible merger in the near future
7. **National Retirement Benefits Policy** - Taskforce led by The National Treasury with RBA as Secretariat is working on the Retirement Benefits policy for necessary for proper coordination, governance and development of the sector

DIGITIZATION IN FINANCIAL SERVICES

Use Case	Examples		
Money Transfer			
Retail Payments			
Credit			
Services			
Government			
Pensions			

DIGITIZATION IN PENSION SERVICES

Mbao Pension Scheme

- ❖ Informal sector biggest employer in Kenya (85% of workers)
- ❖ Cannot make predetermined monthly contributions as prescribed by normal pension schemes towards their retirement savings
- ❖ Mbao Pension Plan targeting informal sector launched in June 2011.
- ❖ Fully mobile phone based including contributions, statements and receipt of benefits.
- ❖ Membership stands at over 100,000 members
- ❖ Challenge is sustaining persistence of contributions from members

Other digital services in pension industry

- ❖ Online and mobile pension administration services
- ❖ Voting through phone during pension₇scheme Annual General Meetings

SUPERVISORY RESPONSE - I

Supervisory Forbearance

- ❖ RBA opted to interpret certain regulatory provisions in a flexible manner in order to facilitate digital based pensions eg:
 - ❖ Contributions to be sent within 10 days after period end
 - ❖ Physical AGM
 - ❖ Initial level of administration expenses as ratio of assets

SUPERVISORY RESPONSE - II

- ❖ **SupTech** - has emerged to help regulatory agencies digitize data, operational procedures, and automate the regulatory process.
- ❖ Intended to proactively monitor a financial institution's transactions or client's data to prevent non-compliance or respond to a compliance violation in a shorter time than is possible today
- ❖ RBA returns portal, launched in June 2016 allows supervised entities to submit contribution returns, audited accounts, investment returns, actuarial and custodian reports online through the portal. Allows RBA proactively supervise the sector in line with change from compliance-based to risk-based supervision.
- ❖ In addition, RBA has a separate channel targeting scheme members which allows them to file Complaints and Whistle Blow online

SUPERVISORY RESPONSE - III

- ❖ Planned Strategies to Encourage Innovation (joint initiative with other financial sector supervisors);
 - ❖ **Regulatory Sandbox** - allows businesses to test innovative products, services, business models and delivery mechanisms in the real market, with real consumers.
 - ❖ **Framework** set up by the regulator which allows FinTech startups and other innovators to conduct live experiments in a controlled environment under a regulator's supervision.
 - ❖ **It is a set of rules** that allow innovators to test their products/business models in live environment without following some or all legal requirements, subject to predefined restrictions [*e.g., Limitations (on number of clients, risk exposure); Time ; limited testing ; Set of predefined exemptions; Testing under regulator's; supervision]*
 - ❖ **Rationale for Regulatory Sandboxes:** *Minimizing legal uncertainty; Improving access to investment; Adaptation to test - and – learn approach; Creating rules for new products/business models.*

SUPERVISORY RESPONSE - IV

- ❖ Planned Strategies to Encourage Innovation;;
 - ❖ **Regulatory Technology (RegTech)** - created to address regulatory challenges in the financial services sector through innovative technology.
 - ❖ **Regtech** comprises of a group of companies that use technology to help businesses comply with regulations efficiently and inexpensively.
 - ❖ Regtech companies work **in collaboration with financial institutions and regulatory bodies**, and utilize **cloud computing** and **big data** for sharing information. **Cloud computing** is a low-cost technology with the ability to share data in real time and securely with various entities.
 - ❖ The Technology emerged to solve challenges arising from a technology-driven economy and introduction of digital products which has increased **incidences of data breach, cyber hacks, money laundering and other fraudulent activities**.
 - ❖ **Regtech tools** monitor **online transactions in real time** in order to identify issues or irregularities in the digital payment sphere.
 - ❖ **Any outliers** observed are relayed to concerned financial institutions for analysis and determination if a fraudulent activities are taking place.

Asante

www.rba.go.ke