Njuguna Ndung'u: Savings-investment cycle – supporting pension schemes by protecting the value of pensions and promoting efficiency of the financial sector

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the annual luncheon of the Association of Retirement Benefits Scheme, Nairobi, 23 May 2007.

* * *

Chairman and Council members of the Association of Retirement Benefits Schemes,
Distinguished guests,
Ladies and Gentlemen

I am happy to be with you today for this luncheon and I deeply appreciate this kind gesture from your association.

Coming early in my tenure as Governor of the Central Bank of Kenya, an occasion such as this affords me the opportunity to acquaint myself with so important a building block of the financial sector of the economy as yours. I hope it also affords you an opportunity to understand what I intend to achieve during my tenure and what that means to your Retirement Benefits Schemes.

I would like therefore to take this opportunity to share with you a few thoughts on Retirement Benefits Schemes and the Central Bank. I must first acknowledge and commend Retirement Benefits Schemes in which your association is a stakeholder, for the very important role they play in the welfare of the retirees as well as in support to the economy.

To the retirees, Retirement Benefits Schemes provide an invaluable vehicle for accumulating savings during the life cycle of earnings and provides an insurance mechanism of a steady stream of payoffs at retirement period, which allows a decent living standard in retirement. This I regard as an important savings-investment cycle. But it works well when the financial sector also works well.

To the economy in general, Retirement Benefits Schemes provide a vehicle for pooling financial resources for investment. For instance, I am made to understand that Retirement Benefits Schemes in Kenya have acquired assets amounting to KSh212 billion. This is a significant amount of savings.

Retirement Benefits Schemes' assets require security in two senses. First, the schemes require security in the ordinary sense of actual security of funds – the assurance that funds are available when needed by the beneficiaries. This security is provided by the Retirement Benefits Scheme managers operating within strict governance frameworks and oversight by the regulator of the benefits schemes – the Retirement Benefits Authority. The security is further enhanced by other regulators of the financial system like Capital Markets Authority, Commissioner of Insurance, and (the institution I come from) – the Central Bank.

Secondly, I think the main source of security lies in ensuring investment opportunities with rewarding returns that are also predictable, while at the same time protecting the savings from inflation erosion. Retirement Benefits Schemes thus thrive well in stable financial systems and where these benefits can be invested for gain and also develop the financial market. Retirement Benefits Schemes benefit from Central Bank in both scores: stable, predictable low inflation; stable, well-functioning financial sector.

The law mandates the Central Bank to play two overriding roles. I would therefore like to say a word or two on how the Central Bank in pursuit of the two overriding goals would be beneficial to the Retirement Benefits Schemes.

Let me start with inflation. The Central Bank is committed to pursue effective monetary policy that is consistent with the development agenda of the country and the development of an appropriate financial sector in which you play a role. In particular, the commitment is to a prudent monetary policy that keeps a tight lid on inflation. This should help Retirement Benefits maintain the value of benefits. This is a commitment which the Central Bank will sustain and thus make a meaningful contribution to the economy and to Retirement Benefits Schemes. This environment allows you decide where to invest your funds and assures you that whatever payoffs you make to beneficiaries, they are not eroded by inflation and are mediated efficiently by the financial sector.

To ensure financial sector stability, the Central Bank provides prudential guidelines and other regulations to guide the operations of the banks and micro finance institutions to provide proper functioning and orderly exit. The Bank is also charged with the responsibility to promote an efficient and effective payment, clearing and settlement system. This facilitates the proper working of the financial sector and stable payments systems.

Note: Effective monetary policy requires an efficient financial sector. This has been identified as a sector to lead the way in the Vision 2030. I also anticipate that the financial sector will require to develop innovative products to tap into these savings provided by your schemes. I have observed the development of fund managers in the market in the last 5 years has been tremendous – a positive development. I am therefore looking forward to a good working relationship with the industry as we strive to achieve the nation's overall development goals.

Thank you.