Njuguna Ndung'u: Financial sector performance in Kenya

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, on the occasion of the Silver Jubiliee Celebrations for Family Bank Limited, Nairobi, 22 June 2009.

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Your Excellency Honourable Mwai Kibaki, President and Commander-In-Chief of the Armed Forces of the Republic of Kenya;
Honourable Uhuru Kenyatta, Deputy Prime Minister and Minister for Finance;
Mr. Titus Muya, Chairman, Family Bank Ltd.;
Mr. Peter Kinyanjui, Chief Executive, Family Bank Ltd.;
Distinguished Guests;
Ladies and Gentlemen:

I am delighted to be here this morning to join with Family Bank in celebrating twenty five years of providing financial services to Kenyans. Allow me at the onset to appreciate the presence of His Excellency the President. I also wish to salute the Board, Management and Staff of Family Bank for successfully serving Kenyans for the last twenty five years.

For most of the twenty five years of its' existence, Family Bank operated as a building society with a microfinance focus. In the last two years, the institution has operated as a commercial bank and has registered a commendable performance. In 2008, the institution recorded a profit before tax of Kshs. 530.7 million and opened 9 branches countrywide increasing its' branch network to 43. This is a sterling performance, but there still remains room for further expansion and improvement.

Your Excellency

The banking sector continues to exhibit resilience in the face of various local and global turbulences. The sector has also continued to grow and now consists of 43 commercial banks, 2 mortgage finance houses and 123 foreign exchange bureaus.

The first Deposit Taking Microfinance Institution was also launched last week.

Allow me to mention some indicators of the financial sector performance that painted a rosy picture in the last 12 months to April 2009:

- The Sector's assets increased by 12% from Kshs. 1.09 trillion in April 2008 to Kshs. 1.23 trillion at the end of April 2009 as banks continued to expand their lending portfolio.
- Deposits increased from Kshs. 880bn in April 2008 to Kshs. 940 bn on the back of deposit mobilization and expansion of branch networks by banks.
- The Capital Adequacy Ratio stood at 19.8% above the statutory minimum of 12%. This is an indicator that the sector has a cushion against periodic shocks.
- The sector's average liquidity at end of April 2009 was 41.6% well above the statutory minimum of 20%.
- The number of people employed by the sector increased from 24,911 at the end of April 2008 to 25,498 at the end of April 2009.
- The number of branches at the end of April 2009 stood at 904 an increase of over 100 branches from the corresponding period in 2008.

Your Excellency, the strength of the Kenyan banks is now being felt in the region. There is a growing trend by Kenyan banks to expand their operations regionally particularly within the East African Community. This is in response to the regional expansion by businesses resulting from the drive towards integration.

The five East African Central Banks therefore signed a Memorandum of Understanding (MOU) early this year. The MOU will facilitate information sharing and supervisory co-operation amongst the Central Banks particularly for regional banking groups. This arrangement will serve to mitigate cross border risks that regional banking groups may pose to the financial sectors of the East African countries.

On the domestic front, banks are also venturing into capital markets, insurance and the retirement benefits sectors. Supervisory co-operation and co-ordination is therefore also paramount for effective regulation and supervision of domestic financial conglomerates. The Central Bank is working with the other domestic financial sector regulators i.e. Capital Markets Authority, Insurance Regulatory Authority and the Retirement Benefits Authority to finalize an MOU that will facilitate information sharing and supervisory co-operation particularly for the emerging financial conglomerates. This domestic supervisory co-operation and coordination will mitigate the systemic risk posed by players operating in the different sub-sectors of the financial system.

Your Excellency

A stable and efficient banking system provides a safe haven for the savings for Kenyans. The banking sector is therefore well poised to tap into the vast reservoir of savings that remain outside the formal banking space. But this can only be done through cost effective and innovative products, as well as improving access to financial services.

Savings mobilization will undoubtedly support investments in the economy. Such investments will increase employment and uplift living standards of Kenyans. This will be important in achieving not just Kenya's Vision 2030 aspirations but also the Millennium Development Goals. The Central Bank will therefore continue to partner with banks and other market players to ensure that the sector plays its' rightful role in Kenya's development agenda.

It is now my honour and singular pleasure to invite the Honorable Deputy Prime Minister and Minister for Finance to make his remarks.

Honorable Deputy Prime Minister and Minister for Finance, you have the floor.