

Njuguna Ndung'u: Financial sector collaboration

Opening remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the breakfast meeting for domestic financial sector regulators, Nairobi, 31 August 2009.

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Hon. Deputy Prime Minister and minister for Finance
Board Members and Chief Executive Officers of RBA, CMA and IRA,
Distinguished Guests,
Ladies and Gentlemen:

It is my pleasure to be with you this morning and I am indeed honored to be accorded this opportunity to give brief remarks at this important breakfast meeting where the Domestic Financial Sector Regulators will be signing the Memorandum of Understanding (MOU) on financial sector Collaboration.

At the onset, allow me to extend my gratitude to the Hon. Deputy Prime Minister and Minister of Finance for agreeing to grace the ceremony and deliver a key note address. In the same token, let me take this opportunity to recognise the work of The Technical Committee on Collaboration which has been instrumental in organising the event.

Ladies and Gentlemen, the Monetary Affairs Committee is a caucus of Central Bank Governors under the East African Community Monetary Union which is mandated, among others, to harmonize regulatory regimes and supervisory frameworks in the region in the banking sectors. During the 12th Monetary Affairs Committee (MAC) Governors' Meeting held in Kigali, Rwanda in May 2009, my fellow Governors and I celebrated the execution of the MOU amongst the five Central Banks, which was put into effect in early 2009. It was indeed pleasing for Governors to note that the Bank of Uganda had already signed an MOU with other domestic financial sector regulators in Uganda. Other MAC Governors were therefore urged to implement a similar arrangement with their respective domestic regulators by June 2010. This is to demonstrate that collaboration amongst domestic regulators is in line with regional aspirations. Consequently the celebrations that we mark today will enable CBK achieve a milestone set by MAC Governors ahead of the set time of June 2010. I cannot thank my fellow domestic regulators enough. But for the Kenyan side, let me commend RBA and Edward Odundo for the time and effort he has put on this initiative.

As you are aware, there has been increased integration of economic and financial markets globally. Globalization is creating new business opportunities and opening new markets. However, the forces of globalization and the ensuing competition are prompting financial companies to engage in business operations that make group management and risk aggregation more challenging. Similarly, a new concept of cross-ownership and trading is emerging in our market, thus blurring sector boundaries and product lines. For example, we have banks that want to offer bancassurance while insurance companies are underwriting financial risks that were once a domain of investment banks. As a result, it is becoming increasingly difficult for one regulator to set up a regulatory regime without taking into consideration the impact it bears on the other financial sub-sectors. In the same vein, we are increasingly seeing banks acquiring brokerage firms in the capital market. Harmonisation of regulatory regimes in the entire financial sector is therefore critical in order to offer consistency and maintain financial stability.

The ongoing global financial crisis has only served to underscore the inter-linkages of financial systems. The crisis has demonstrated that risks and shocks that originate from one area can be transmitted internally within a group or externally through converging products, markets or cross borders. In this regard, financial sector regulators should base their supervision on a consolidated basis by reviewing risks across the entire financial spectrum rather than purely on an industry solo basis.

Ladies and Gentlemen, before I conclude my remarks, allow me, on behalf of my fellow regulators, and on my own behalf, to express our sincere gratitude to all the guests who responded to our invitation and set aside time to grace this ceremony. I am sure also, the totality of the financial market will appreciate this move by the regulators.

Finally, Ladies and Gentlemen, being aware of the task ahead of us, let me take this opportunity to invite our chief guest to address this gathering.

Welcome Deputy Prime Minister, Hon. Uhuru Kenyatta.