

## **Njuguna Ndung'u: Recent financial sector performance in Kenya**

Remarks by Prof. Njuguna Ndung'u, Governor of the Central Bank of Kenya, on the occasion of the 50th anniversary celebrations for NIC Bank Limited, Nairobi, 18 November 2009.

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**Mr. James Ndegwa, Chairman of the Board of Directors of NIC Bank;**  
**Mr. James Macharia, Group Managing Director and Chief Executive Officer of NIC Bank;**  
**Board Members here present;**  
**Staff of NIC Bank; Distinguished Guests;**  
**Ladies and Gentlemen:**

I am delighted to be here this evening to join NIC Bank in celebrating fifty years of providing financial services to Kenyans. Today indeed marks yet another landmark event on NIC's successful path. I am therefore grateful for the invitation to join this joyous occasion. Let me at this early juncture commend the Board, Management and Staff of NIC Bank for successfully serving Kenyans for the last 50 years.

- I am informed that NIC Bank (formerly National Industrial Credit Bank Limited) was incorporated in Kenya on September 29, 1959 and started off as a non-bank financial institution providing hire purchase and instalment facilities. The institution became a public company in 1971 and was listed at the Nairobi Stock Exchange. In its quest to meet the growing customer needs in terms of diverse banking requirements, NIC Bank converted to a commercial bank and obtained its banking licence in 1995. In November 1997, the bank merged with African Mercantile Bank Limited (AmBank) which allowed the bank to enhance its position in the sector. Since then, the bank has grown significantly.
- Currently the bank has 15 branches countrywide having opened two branches in Kisumu and Thika in the last one year while the Meru branch is scheduled to be opened before the end of this year. The bank has also expanded regionally to Tanzania after acquiring a subsidiary (Savings & Finance Commercial Bank) where it now owns a majority stake.
- The bank has been an innovative market leader in electronic payments solutions in Kenya and has continued to enhance its service delivery to its customers through technological innovations and available technological platforms. To this end, the bank has introduced NIC on-line internet banking and NIC mobile phone transfer services through the M-pesa services. I find this particular service very innovative and integrated.
- It is also noteworthy that good Corporate Governance practices earned the bank three prestigious awards in 2007/2008 and 2009. These include the Financial Report Awards (FIRE) in 2007/2008 sponsored by CMA, NSE and ICPAK; the KRA Commissioner General's Special Commendation Award and the KRA Most Distinguished Taxpayer Award won in October 2009.
- Under corporate social responsibility, the bank has initiated programs that support Environmental Conservation and Advancement of Education.

These are no mean achievements for NIC Bank.

**Ladies and Gentlemen**, allow me to mention some key indicators of the financial sector performance in the last 12 months to September 2009.

- Despite the various local and global turbulences experienced over the past one year, the banking sector continues to exhibit resilience and has remained stable.

The impressive performance has been made possible by prudent risk management, adherence to banking regulations supported by sound legal and regulatory reforms that continue to be put in place in line with best practice.

- The global financial crisis has pushed regulators like the Central Bank to think of more regulation to prevent such a crisis in future. But the emerging wisdom is to argue for better regulation. What is it?: It is a regulatory regime that can more readily identify emerging vulnerabilities; Avoids regulatory arbitrage; A regime that can properly price risks; and a regime that strengthens incentives for prudent behaviour.
- The sector's assets increased by 11% to Ksh.1.31 trillion at the end of September 2009 as banks continued to expand their lending portfolio.
- Deposits increased to Ksh.1 trillion in October 2009 due mainly to deposit mobilization and expansion of branch networks by banks.
- The sector recorded higher than required capital adequacy ratios. As at September 30, 2009, the Capital Adequacy Ratio stood at 20% and was above the statutory minimum of 12%. This is an indicator that the sector has a substantial cushion against periodic shocks.
- The number of branches at the end of September 2009 stood at 918 an increase of over 154 branches from the corresponding period in 2008.

***Ladies and Gentlemen:***

- Let me take this opportunity to reiterate that the Central Bank appreciates the initiatives and innovations by the banking sector in coming up with new products and is committed to the creation of an enabling regulatory environment. I would therefore urge the banking sector to seek diversification of their products in light of the dynamic banking environment to leverage on their growth and earnings.
- From the regulators point of view, we have signed an MoU with the Capital Markets Authority, the Insurance Regulatory Authority and the Retirement Benefits Authority so that we can encourage information flow and limit regulatory arbitrage, but above all build a strong financial sector and financial hub of the East African Community.
- The strength of Kenyan banks is now being felt in the region, specifically within the East African Community. To facilitate information sharing and supervisory co-operation amongst the Central Banks, particularly for regional banking groups, the five East African Central Banks signed a Memorandum of Understanding early this year. This arrangement will serve to mitigate cross border risks that regional banking groups may pose to the financial sectors of the East African countries.
- Further, the Central Bank together with other stakeholders is working on a legal framework that will enable banks to carry out branchless banking through the use of third party agents such as SACCOs, microfinance institutions and retail outlets in order to enable Kenyans to access financial services with ease. It is expected that once the process is complete, the level of access of financial services by Kenyans will widen in depth and breadth. We continue to join hands with other actors locally and internationally to promote financial inclusion and access.
- In other developments, following the recommendation of a COMESA Team of Experts, the Central Bank has been picked to host the COMESA Monetary Institute (CMI) that will be based at the Kenya School of Monetary Studies. The institute will generate the required knowledge for monetary policy in the COMESA region. It will also work to harmonise regulation of financial markets in the region among other issues like a common COMESA currency.

Let me take this opportunity to commend the banking industry on their achievements in opening new economic frontiers and supporting Vision 2030. I challenge all banks not only to

invest more resources in technology, but to also expand their outreach into the rural areas in the provision of loans. I do agree that the level of economic activity determines the level of loans and credit advanced – but we are slowly evolving from the crisis so economic activity is picking up. I am also aware that in such areas loans and advances are also plagued with inappropriate definition of property rights and problems of enforcement of contracts. These issues are being addressed through information capital and legal reforms. The Central Bank will continue to partner with banks and other market players to ensure that the sector plays its rightful role in Kenya's development agenda. The NIC from its 51st year is thus poised to do better in a more incentivized environment.

With these very few remarks ladies and gentlemen, it is now my honour and pleasure to wish you all a very pleasant evening and best wishes in your future endeavours as you celebrate the Golden Jubilee of NIC Bank.

***Thank you and God bless you all.***