

Njuguna Ndung’u: Financial inclusion through the agent banking model and credit reference bureaus

Remarks by Prof Njuguna Ndung’u, Governor of the Central Bank of Kenya, at the official opening of Fina Bank’s, Ngong Road Branch, Nairobi, 17 June 2010.

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***The Chairman and Board Members;
Group Chief Operating Officer;
Management and Staff;
Distinguished Guests;
Ladies and Gentlemen:***

It gives me great pleasure to be with you today at the official opening of Fina Bank’s, Ngong Road Branch. As the regulator for the Banking Sector, the Central Bank is pleased to be associated with the achievements of the banks we regulate, particularly where these developments lead to increased access to banking services for the Kenyan public. This is what Fina Bank is doing this evening.

It is evident that Fina Bank is focused on its programme of expansion and growth strategy, having started its operations as ***Finance Institution of Africa*** in 1986 before converting to the present day ***Fina Bank*** in 1996. With the opening of this branch, the bank will have a network of 14 branches in the country. I also note that the bank has established its presence regionally by opening subsidiaries in Uganda and Rwanda. This is encouraging indeed.

Mr. Chairman, let me take this opportunity to compliment the Board, Management and Staff of Fina Bank for this great achievement. I note that as at April 2010, the bank commanded an impressive asset portfolio of Ksh.13.5 billion and customer deposits of Ksh.11.5 billion, while riding on a capital base of Ksh.1.3 billion. The Central Bank is particularly encouraged by the bank’s leading role as a lender in the Small and Medium Enterprise (SME) sector, a growth sector in Kenya’s economy which has been described as the “jewel” of Kenya’s economic growth.

This is indeed important following from the Budget proposals that created a revolving fund for SME – It may well be the best policy in our times to support the growth pole provided by SMEs.

Ladies and Gentlemen, Kenya’s growth picked up in the last quarter of 2009, extending into 2010 and on the back of good rainfall and a resurgence of tourism, we are optimistic that this positive trend will continue, and therefore forecast that the economy will post a 4 to 5 percent growth in 2010 on average.

Equally the banks have had a spectacular performance. For the period ended March 31, 2010, the Kenyan Banking sector registered an increase in asset base largely supported by growth in deposits. Assets increased by 20.8 percent to stand at Ksh.1.5 trillion while deposits increased by 22.8 percent to Ksh.1.1 trillion. This growth is by and large attributed to the growth of our economy that increases opportunities for investment and demand for credit.

The Central Bank is pleased to note that the banking sector has put up strategies that support and stimulate the economy and responded positively to the successive reduction of the Central Bank Rate and Cash Reserve Ratio. While it is noteworthy and encouraging for banks to post healthy profits, this should also go in tandem with the reduction of lending rates to stimulate private sector borrowing and financing of investments, working capital as well as reducing the risks of default. At this juncture I want to register my compliments to Fina Bank for having reduced its base lending rate to 14.75 percent. I am sure there is room to do more. The continued lowering of base lending rates by commercial banks will not only stimulate our

economy but also reduce non-performing loans in the industry. However, lending rates reduces the risk of default.

Ladies and Gentlemen, The Central Bank will endeavour to pursue prudent policies that foster financial stability, increase financial inclusion and improve financial efficiency. Let me at this juncture highlight two policy issues that are at the heart of the of financial inclusion;

- **Agent Banking Model:** An amendment to the Banking Act through the Finance Act 2009 has enabled the banking industry embrace **agent banking**. Agent banking will permit banks to contract third parties to provide certain banking services on their behalf without having to put up brick and mortar. This model will therefore increase financial inclusion to the majority of the unbanked Kenyans at an affordable cost to both the bank and the customer. The Central Bank is pleased by the level of interest and financial innovation the model has generated.
- **Credit Reference Bureaus:** To ensure the growth of credit lending at affordable and sustainable rates, the Central Bank has licensed the first **Credit Reference Bureau (CRB)** and a few more are in the pipeline. A robust credit information apparatus will enable the banking industry share critical customer information that will lead to lowering the credit risk in the industry and hence the lowering of lending rates in the banking industry. This policy aims at building information capital that will allow the credit market to function properly and efficiently and change the collateral technology and reduce the cost of collateralization.

The Central Bank of Kenya will continue to pursue policies that drive financial innovation, build strong banks and partnerships in the banking industry to ensure a stable financial sector in the country. Strong banks can weather shocks more easily. Strong banks will support economic growth.

Ladies and Gentlemen, I wish to conclude by congratulating Fina Bank for opening the Ngong Road Branch and to assure the Board and Management of Fina Bank of the Central Bank's support in your growth initiatives and progression.

With these few remarks **Ladies and Gentlemen**, it is now my honour and pleasure to declare Fina Bank – Ngong Road Branch – officially open.

Thank You and God bless you all.