

Njuguna Ndung'u: Islamic finance – a paradigm shift in Africa

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the 3rd Gulf African Bank Annual East & Central Africa Islamic Finance Conference, Nairobi, 28 March 2011.

* * *

Mr. Suleiman Shahbal, Chairman, Gulf African Bank Ltd;
Mr. Najmul Hassan, Chief Executive Officer, Gulf African Bank Ltd;
Board Members of Gulf African Bank Ltd here present;
Distinguished Guests;
Ladies and Gentlemen:

I am delighted and honoured to have been invited to preside over the opening ceremony of this important conference. At the onset, let me extend a warm welcome to all participants attending the 3rd Gulf African Bank Annual East and Central Africa Islamic Finance Conference, with the theme: **“Islamic Finance: A Paradigm Shift in Africa”**

Allow me to compliment Gulf African Bank for organising this Islamic Finance Conference. Indeed, this landmark conference brings together financial experts, central bankers, financial regulators, lawyers, financial institutions and Islamic banking consumers from Kenya and beyond. To all international participants, let me extend a particularly hearty welcome, **“Karibuni Kenya”**.

This conference gives participants the opportunity to discuss emerging industry developments as well as reflect on the gains and challenges since the last Islamic Finance Conference held in May last year.

Ladies and Gentlemen: Sharia compliant banking is viewed by many as the fastest growing segment of the banking sector in the world. In Africa, Islamic banking is a fast growing financial sector attracting all customers even of different religious orientation.

The uptake of Islamic banking is projected to grow exponentially in sub-Saharan Africa. Kenya is among other African countries, that are taking up the lead in Sharia compliant banking services.

Today, Sharia compliant banking services in Kenya have made huge strides since its introduction in 2007. The banking sector boasts of two exclusively Sharia compliant banks. As at the financial year ended December 31, 2010 the two banks collectively commanded a market share of 0.9% of the banking sector with gross assets of Ksh.16.54bn, net loans and advances of Ksh.9.23bn and deposits of Ksh.13.76bn. The two banks had 58,101 deposit accounts and 2,609 loan accounts as at the end of December 2010 – in less than 4 years of operation.

In addition, several conventional banks now offer Sharia compliant products as part of their product range through specifically created Islamic banking divisions or windows. Other conventional banks have also expressed interest in providing Sharia compliant products to an increasing customer base.

Ladies and Gentlemen: Among the challenges facing Kenya's ambition to be a hub of Sharia compliant investment products to compliment the Islamic banking in the country are lack of; Shariah compliant investment vehicles, an enabling legal and regulatory framework and awareness by majority of the populace that hinder the uptake of these investments. For the country to fully embrace Islamic Finance, there is need to extend beyond the offering of Sharia compliant products by introducing such investment vehicles like unit trusts, corporate bonds (sukuks) and insurance (takaful) products and Sharia compliant treasury bills and bonds (government Sukuk).

It is encouraging to note the ongoing efforts by the Government and other players especially the Capital Markets Authority and Insurance Regulatory Authority to come up with a range of shariah compliant financial products. Already there are positive signals of these efforts with the introduction of Shariah compliant investments and Insurance Products.

It is in this spirit that the Kenyan government through the Finance Act 2010, amended Section 45 of the Central Bank of Kenya Act, to allow the Central Bank as the Government's fiscal agent to recognize the payment of a "return" rather than "interest" on government securities. This amendment opens up the spectrum of Shariah compliant investments in the country.

Ladies and Gentlemen: The future of Islamic finance in Kenya and in the region remains bright. On its part, the Government of Kenya will continue to pursue policies that create an enabling environment that will eventually culminate in Kenya establishing itself as a regional financial hub as envisaged in Vision 2030. In addition, the Central Bank will continue to partner with the sector to promote financial inclusion by supporting innovation in the Sharia compliant banking sector.

With these few remarks, let me wish all participants to this conference, fruitful deliberations over the next two days and declare the 3rd Gulf African Bank Annual East and Central African Islamic Conference officially opened.

Thank You.