

Njuguna Ndung'u: Transformation of banks in Kenya

Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, during the Inaugural Session of the 11th Bank Human Resources Conference 2011 of the Indian Institute of Banking and Finance, Nairobi, 28 April 2011.

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Distinguished Guests;

The Chief Executive Officer, Indian Institute of Banking and Finance;

Members of the Institute;

All Protocols Observed;

Ladies and Gentlemen:

I am delighted and honoured to have been invited to preside over the opening ceremony of this Conference organized by the Indian Institute of Banking and Finance. At the onset, kindly allow me to extend a warm welcome to all participants attending this important Conference.

The theme: ***“Managing Transformation for achieving Growth”*** is indeed compelling. Growth is driven by fundamental factors, but key among them is the transformation of markets and institutions to guard the market and define appropriate incentives. One such market is the financial market guided and regulated by several institutions. Today, I will share my thoughts on how the Central Bank has transformed the banking sub-sector as a means of transforming and deepening the financial sector in line with Kenya's development goals. Let me parade at least seven of them:

1) ***Rollout of branch networks to provide financial services to remote and lower income areas:***

The expansion of branch networks in the financial services industry has registered significant growth over the last 4 years and is well distributed across all regions in both rural and urban centres. Currently, we have 1064 branches from 740 in 2007.

2) ***Allowing mobile phone financial services to provide a new technological platform:***

This entails approval for banks to leverage on mobile phone technology to present convenience and lower costs to their customers without compromising quality of service. Through mobile phone banking, customers are now able to perform their transactions ***“anytime, anywhere”***. Mobile phone money transfer has evolved from the initial concept of transferring money from one individual to another to include other functions such as payment of utility bills, disbursement and repayment of loans, payment of salaries and deposit mobilization.

3) ***Introduction of Agent Banking mechanism:***

This is the ***“banking beyond branches”*** model where commercial banks are allowed to engage third parties to provide certain banking services to increase outreach of the banks to the vast under-banked and unbanked Kenyan populace. In a nutshell, Agency Banking enables banks to leverage on additional cost effective distribution channels to offer financial services. So far 5552 Agents have been approved and are providing financial services.

4) ***Credit Reference Bureaus (CRBs):***

Through licensing of Credit Reference Bureaus, the CBK has enabled credit providers to collect, collate, analyse and disseminate credit information. Credit information sharing provides an opportunity for individuals and businesses to rely on

their credit history (information capital) to support the process of collateralization and even change the collateral technology in the country.

Individuals will also be able to use their positive credit history to negotiate for better terms and conditions from their banks. On the other hand, banks will benefit from the mechanism since it will address the problem of **information asymmetry** and by extension the problem of **non-performing loans** which has in the past threatened the stability of the banking sector. The traditional challenges of the moral hazard and adverse selection can hinder financial sector growth. As a result, credit appraisal by bank staff will greatly benefit from credit information sharing. What staff need to do is appreciate how the mechanism operates, its benefits and embrace it as a tool to enhance relationship with their clients.

5) ***Lowering the cost of doing business through Currency Centres:***

CBK believes that through cost reduction, banks will be able to extend credit to the productive sectors of the economy at reasonably cheaper costs. Consequently, CBK has in partnership with the Kenya Bankers Association, established currency centers in towns outside the Central Bank branch networks.

6) ***Licensing Deposit Taking Microfinance Institutions (DTMs):***

The Central Bank is also actively pursuing a policy of licensing DTMs as a means of reaching out to all segments of the market. DTMs are free to choose to be Nationwide or Community Based.

7) ***Capacity Building through HR training and development:***

CBK assists industry players empower their employees to embrace strategies aimed at making the banking sector safe, efficient, effective and all inclusive. The strategic initiatives include:

- a) ***Playing a leading role in the Human Resources Sub-committee of the Monetary Affairs Committee of East African Central Banks*** – Through this forum partner central banks are addressing emerging HR issues by revising the frameworks governing HR policies and strategies such as recruitment, retention policy and succession plans among others, in line with international best practice.
- b) ***Facilitating capacity building through the Kenya School of Monetary Studies (KSMS)*** – The KSMS was established to provide capacity building programmes for the financial sector in Kenya and the Region and I am happy to note that the School has offered relevant programmes in Banking and IT at Certificate and Diploma levels for over 10 years. We believe that by partnering with the Indian Institute of Banking and Finance, new programs and new initiatives can be developed in future.
- c) ***Advanced Academic and Management Development Programs*** – The KSMS has responded to new demand-driven capacity needs of the financial services sector by introducing advanced academic and management development courses, including the following programs :
 - (i) A Masters degree in Banking and Finance through a grant from the African Capacity Building Foundation (ACBF);
 - (ii) Postgraduate Diploma in Financial Management in collaboration with Moi University targeting the Eastern and Southern Africa Region;
 - (iii) Academic programmes through a collaborative agreement with the Jomo Kenyatta University of Agriculture and Technology, targeting the financial services and other related disciplines; and lastly,

- (iv) A Multilingual Diploma in Business Sciences and Islamic Financial Services approved by the Ministry of Higher Education.

Ladies and Gentlemen: Moving forward, CBK and the industry players are in the process of developing a national strategy for financial education and consumer protection in Kenya as another avenue of taking financial inclusion to the next frontier. The starting point for financial education is at the level of individual players – the agents for disseminating the knowledge.

I would like to commend the Indian Institute of Banking and Finance for organizing annual conferences like this which present an opportunity for banks to not only share experiences but to also exchange ideas on innovations and other emerging issues that require bank staff to prepare themselves to handle. This is an important platform to also inform the regulators the emerging challenges and opportunities not only for growth but further improvements on capacity for growth.

I urge other similar institutes such as the Kenya Institute of Bankers to embrace the idea as an avenue to bring together HR practitioners and policy makers in the banking sector to share ideas on innovations that require proactive HR training and development. This is an important avenue to transform institutions and create capacity for growth. ***Successful banks are those that proactively prepare their staff to cope with the ever evolving trends in the global financial scene.***

With these few remarks, let me wish all participants of the 11th Bank Human Resources Conference, fruitful deliberations and a joyous stay in Kenya.

Thank you.