Njuguna Ndung'u: The importance of the banking sector in the Kenyan economy

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Bank of India, Kenya Branch, Diamond Jubilee Celebrations, Nairobi, 12 April 2013.

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Mrs. V.R. Iyer, the Chairperson and Managing Director of Bank of India;
Dr. Manu Chandaria, Chairman, Bank of India Local Advisory Committee;
Mr. R.K. Verma, Chief Executive, Bank of India, Kenya;
The Local Advisory Committee Members;
Management and Staff of Bank of India, Kenya;
Distinguished guests;

Ladies and gentlemen: I am delighted to join you on this auspicious occasion to celebrate the Diamond Jubilee of Bank of India's operations in Kenya. As the regulator for the banking sector, 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. In this regard, Bank of India, Kenya certainly has made its mark on the Kenyan market.

Ladies and gentlemen: Bank of India, Kenya Branch, was established in Mombasa in 1953, it has four branches. With regard to its performance, I note that as at February 2013, the bank had a total asset base of Ksh.27 billion. Net Loans and Advances stood at Ksh.11.5 billion while customer deposits were Ksh.20.8 billion, supported by a core capital base of Ksh.3.9 billion. The bank returned a profit before tax of Ksh.568.4 million for the year ended December 2012. This impressive performance of Bank of India is consistent with the continued commendable performance of Kenya's banking industry.

Ladies and gentlemen: The banking sector and the totality of the financial sector is very important to the economy. Let me share with you some key highlights of the Banking Industry's performance for the last 10 years that is the period 2002 to December 2012 to consolidate the importance of the banking sector in the Kenyan economy:

- Assets grew from Ksh.456.7 billion to Ksh.2.35 trillion;
- Total deposits grew from Ksh.360.6 billion to Ksh.1.76 trillion.
- Net advances increased from Ksh.222.8 billion to Ksh.1.27 trillion,
- Profit before tax of Ksh.5.8 billion increased to Ksh.107 billion.
- The number of bank accounts has increased from 1.9 million accounts to 17.6 million.
- Deposit insurance has evolved to cover fully 94% of the total deposit accounts.

This phenomenal growth has been supported by the expansion of banks into new market segments, prudent risk management and enhanced economic prospects underpinned by a stable macroeconomic environment. The Central Bank expects the banking sector to continue on this growth trajectory. Ongoing reforms and initiatives by the Government and CBK will serve to further propel the banking sector to new frontiers of financial inclusion for more Kenyans to access these services.

Ladies and gentlemen: Kenya's financial industry is currently one of the fastest growing not only in the East African region but in the continent. The Government is committed to the implementation of sound policies towards financial deepening and overall economic development of this country as captured in Vision 2030. It goes without saying that the banking industry is and will remain a major player towards this end.

Ladies and gentlemen: We need now to concentrate on reducing costs of doing business for banks so that we can bring down costs of financial services. For example, the recently introduced credit information sharing platform has enabled banks via reduced risk, to extend more credit to productive sectors boosting wealth and employment creation. The information sharing platform will support development of Information Capital as a new collateral technology in the market and reduce the information search costs and hence the risk premium over-load in the lending rates. In addition, the introduction of positive information sharing with Credit Reference Bureaus will allow good debtors to leverage on this and bargain for lower costs of borrowing.

The second area in reducing cost of doing business is the cost of rolling out branch networks to reach Kenyans cost-effectively. This has worked and will continue to work well with the introduction of Agent Banking. The CBK has so far licensed 16,333 Agents since the roll out in May 2010. The third area that has lowered the cost of doing business is banks introducing innovative products to the market by leveraging on advanced technology and the mobile phone financial services platform. Lower cost on these products has ensured uptake and volumes have grown. Finally, the currency centres have helped to de-congest services at the branch and headquarters of CBK and physical distances, lowering costs for banks.

In addition, the Central Bank will continue more forcefully with its four dimensional approach: ***Advise; Cultivate Partnership; Agent of Development, but also a Regulator.*** This approach will ensure innovative policies that work for the market and ensure financial inclusion for all Kenyans, lower unit cost of financial services and also ensure the market stability.

Ladies and gentlemen: In conclusion, I would like to assure the banking sector and other market players that the Central Bank will continue to support the market development by providing an enabling environment for growth in the banking sector. We shall continue to ensure that the sector operates efficiently, effectively and soundly, supported by the following three pillars:-

- First, strengthening Financial Stability, through a robust Supervisory and Regulatory Framework. In this regard, the Central Bank has adopted a consolidated supervision approach to take cognizance of the growing pan-African nature of the Kenyan banking sector – and where applicable, supervisory colleges will be used.
- Second, enhancing Financial Integrity in the Banking Sector so as to ensure that the financial systems are safeguarded against money laundering and financing of terrorism in line with international best practice.
- Third, promoting Financial Inclusion for financial deepening and development in line with the aspirations under the Kenyan Vision 2030.

We expect banks to strengthen their screening and monitoring role of their clients, new or potential ones for market development. The Kenyan Bank of India should take advantage of the market vibrancy as well as initiatives put forth by the Central Bank to grow its market share even further in the coming years.

Ladies and gentlemen: with these few remarks, let me once again applaud the Kenyan Bank of India, as you celebrate your Diamond Jubilee and wish the bank continued prosperity in the years to come – not only in Kenya but also in the East African Community region.

Thank You and God bless you all.