

Njuguna Ndung’u: The future of sharia compliant banking and finance in Kenya

Address by Prof Njuguna Ndung’u, Governor of the Central Bank of Kenya, at the official launch of the National Bank of Kenya’s sharia compliant banking “The National Amanah”, Nairobi, 29 April 2013.

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Board of Directors of National Bank of Kenya Limited here present,

Mr. Mohamed A. Hassan, Chairman, National Bank of Kenya

Mr. Munir Ahmed, Managing Director, National Bank of Kenya,

Distinguished guests,

Ladies and gentlemen:

I am delighted and honored to have been invited to preside over the official launch of the rebranded sharia compliant banking window of National Bank. Allow me at the onset to congratulate National Bank for this relaunch of the two sharia compliant products to be offered under the new brand name of “National Amanah”. This will no doubt enable the bank reach out to more of the unbanked in our country. This will not only grow the deposit base but also enhance the Government’s goal of financial inclusion for all Kenyans.

Ladies and gentlemen: sharia compliant banking and finance has evolved to become an integral part of global financial system transcending geographical boundaries from Asia, to the Middle East, to Europe, Americas and Africa. The assets worldwide have expanded from some US\$150 billion in the 1990s to US\$ 1.3 trillion by 2011. This was expected to have reached US\$ 1.6 trillion by end of last year.

Although sharia compliant banking industry currently only constitutes 1.6% of the total assets of the top 50 largest banks in the world, it remains one of the fastest growing segments in the global financial services sector. The sharia compliant banking industry is expected to witness further development particularly in terms of development of new products as well as opening up of new markets, in light of the industry’s resilience during the global financial crisis of 2007/2008. There must be important characteristics of sharia compliant products that we should learn.

At the local level too, Sharia compliant banking is notably beginning to take root. Kenya currently has two fully fledged shariah compliant banks and a number of conventional banks have been granted approval to roll out Shariah Compliant Products.

Kenya has also pioneered in the sharia compliant insurance and re-insurance segments. The Government, through Finance Act 2010, amended section 45 of the Central Bank Act, to allow for CBK to recognize the payment of a return rather than interest on government securities with the aim of opening up a spectrum of shariah compliant investment in the country. Similarly, Section 16 of the Banking Act was amended to allow for payment of a return rather than interest on savings products in the Banking Industry. I therefore urge all the players in this sector to come up with innovative products and services so that Kenya may achieve her ambition of becoming a financial hub in the region. The Central Bank of Kenya will work with all the players in facilitating the achievement of this dream.

Ladies and gentlemen: Sharia Compliant Banking, although still in its infancy in our country, has a lot of opportunity for growth. The two fully sharia compliant banks as at the end of February 2013 had a total of kshs.15.4 billion in loans and advances and kshs.19.5 billion in total deposits. Furthermore, these two banks together with other conventional banks offering Sharia Compliant Banking Window had total deposits of Sha.27.8 billion as at

31st December 2012. These numbers just show how Sharia Compliant Banking is gradually becoming a major player in the banking sector.

Ladies and gentlemen: The introduction of these specialized products in the Kenyan banking industry no doubt comes with its challenges. These include limited short term liquidity management products, lack of experienced human resources in this specialized Banking & Finance area, lack of product standardization which can be a cause of ambiguity and source of disputes to mention but a few. The Central Bank is currently formulating policy and regulations to regulate the sharia compliant products and therefore depart from the current practice of subjecting sharia compliant banking to conventional banking regulations. I urge all the Shariah Boards to work together to help find solutions or come up with suggestions on how to address these challenges. We at the Central Bank will be willing and happy to provide the necessary facilitation and share our views.

Ladies and gentlemen: The future of sharia compliant banking and finance in Kenya is bright but the challenges that exist need to be tackled collectively. I urge all players in the sharia compliant banking to embrace the spirit of cooperation and competition as they come up with ways of product and service standardization.

Kenya has pioneered in sharia compliant banking in this region but other countries in the region are headed in that direction, with Tanzania already having two fully Sharia compliant banks. Somalia is another country keen on modeling its emerging financial system predominantly along sharia compliance as it reconstructs. To maintain Nairobi as the predominant Financial Centre in East & Central Africa we need to develop necessary expertise and capacities in both conventional and sharia compliant financial systems.

Ladies and gentlemen: Let me now point out that Kenya's financial industry is currently one of the fastest growing not only in the East African region but in the continent. In this regard, the Government is therefore 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 must now work towards 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 to extend more credit to productive sectors boosting wealth and employment creation. The information sharing platform is a new collateral technology in the market and reduces the information search costs. 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 will work well with the introduction of Agent Banking. The CBK has so far licensed 17,088 Agents since the roll out in May 2010.

Thirdly, is for banks themselves to develop innovative products for the market by leveraging on advanced technology. You have to lower cost on these products to ensure uptake and volume. This will lower unit cost to the benefit of your customers. The Central Bank will continue more forcefully with its four pronged approach namely advise, cultivate partnership, develop and regulate the market. This approach will ensure innovative policies that work for the market and ensure financial inclusion for all Kenyans and also the market's stability.

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

- First, ensure Financial Stability through a robust Supervisory and Regulatory Framework. In this regard, the Central Bank has adopted a consolidated supervision

approach and Supervisory Colleges, where they apply, to take cognizance of the growing pan-African nature of the Kenyan banking sector.

- 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.
- Third, promoting Financial Inclusion for financial deepening and development in line with the aspirations under the Kenyan Vision 2030.

National Bank of Kenya should take advantage of the new developments in the industry as well as initiatives put forth by the Central Bank to grow its market share.

Finally, ***Ladies and Gentlemen:*** Let me again congratulate the National Bank on this endeavour and challenge it to be innovative in products and services offering in sharia compliant banking. I wish the bank every success in this new business segment.

With these few remarks let me take this opportunity to officially launch “National Amanah”, the Sharia Compliant Banking business segment of National Bank.

Thank you and God bless you all.