

## **Njuguna Ndung'u: Banking sector developments in Kenya**

Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the official opening of the Nakuru Branch of Fina Bank Limited, Nakuru, 26 July 2007.

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The Chairman, Members of the Board of Directors;  
Mr. Frank Griffiths, Group Chief Executive, Fina Bank;  
Distinguished Guests;  
Ladies and Gentlemen:

I wish to begin by thanking the Board and Management of Fina Bank Limited for extending an invitation to the Governor of the Central Bank to preside over the official opening of the Nakuru Branch of Fina Bank. Due to prior engagements, the Governor regrets that he could not attend this function, and has requested me to represent him today. I therefore wish to now turn to the Governor's remarks intended for this gathering.

1. Mr. Chairman, this invitation is indeed a great honour for the Central Bank, and I wish to thank you most sincerely for this gesture. As the regulatory authority for the banking sector, we are 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.
2. In the case of FINA Bank, it is evident that this event is part of a long journey in the bank's program of expansion and growth. I have been reliably informed that FINA Bank started its operations as a non-bank financial institution and later converted into a commercial bank. I note that the bank has embarked on an ambitious expansion strategy to solidify its position not just in the country but also in the East African region. Our presence here today is a testimony of this strategy.
3. Ladies and Gentlemen, Kenya's economy has experienced tremendous growth in recent years, with real GDP growing at 6.1% in 2006. This achievement is collaborated by the improved performance of the Banking Sector in Kenya. The Sector remained stable in 2006 with positive developments recorded in all key financial indicators. Total assets expanded by 19.5% from Kshs. 640 billion as at December 2005 to Kshs. 760 billion as at December 2006. As a result of the improved performance, the level of non-performing advances declined from the previous year's level of 99 billion to 95 billion as at end of December 2006.
4. Kenya's long term vision, dubbed the Vision 2030, targets a sustained economic growth of over 10 percent per annum over the next 25 years. In order to contribute to the achievement of these aspirations, the financial sector has to play a clearly defined role, particularly in mobilising resources required to finance the 20 flagship projects worth Ksh 500 billion that will be required over the next five years. This is a significant budget, equivalent to Kenya's annual budget and hence the need for a strong and vibrant financial sector that will help channelling these savings into the required investments. It is with this in mind that the Government is requiring banks to double their efforts in building a solid capital base capable of supporting product innovation, savings mobilisation and expanded access of financial services to the Kenyan public. Let me add that the heavy infusion of public investment to attract and enhance private sector investment will be important to continue the economic growth acceleration.
5. Although physical bank branch expansion programs play an important role in expanding access, it will be important for the banking sector to complement these programs with increased product innovation. The real challenge for all of us is how to enhance savings mobilisation, and effectively channel society's savings to its

most productive use. We, at the Central Bank would like to encourage banks to offer an expanded range of banking products in order to mobilise savings to support financing of economic activities in the country. This will also provide acceptable options to the investing public who are currently falling prey to schemes being touted by unscrupulous business people in the form of pyramid schemes. We need to guard our successes from these pyramid schemes menace. We will rely on the screening and monitoring roles of the commercial banks like yours to eradicate this menace and with the appropriate savings and investment products in place.

6. The banking sector in this country has, over the last few years, witnessed significant growth in consumer lending. This is evidenced by the growth in real private sector credit of 17.7 % in the twelve months to May 2007. The resultant credit expansion has brought significant benefits to the economy, but the information asymmetry that is prevailing in the lending environment poses a real challenge in the form of credit risk for the banking sector in Kenya.
7. In order to mitigate this risk and promote effective credit provision, consumer protection and strong institutions for these aspects, the Central Bank has been working towards the development of a credit information sharing mechanism in Kenya. The Banking Act has recently been amended to make it mandatory for institutions licensed under the Banking Act to share credit information on nonperforming loans. In this regard, the Central Bank has, in consultation with the Kenya Bankers Association, prepared relevant regulations, which will soon be gazetted in order to provide a framework for the licensing and operation of credit reference bureaus under the Banking Act. We will expect banks to make effective use of this mechanism as a credit analysis tool before extending any credit.
8. The Central Bank recognises the need to bring the legal framework for regulating the banking sector up to speed with international developments. In consultation with the Ministry of Finance and the Kenya Bankers Association, the Central has undertaken a comprehensive review of the Banking Act in order to align it to the best international practices and address some of the weaknesses which have been identified over time. We anticipate that once enacted, the legal framework will provide a conducive environment for a more robust banking sector.
9. Allow me to conclude my remarks by appealing to banks to explore ways of enhancing the efficiency in service delivery. By enhancing efficiency banks are capable of offering more affordable banking services. This has the potential of drawing a larger number of Kenyans to the financial system resulting in an expanded banking clientele. Following the recent study on cost of banking services, the Central Bank will soon be launching the results of the survey and a sensitisation program to educate the public for more effective market discipline. We believe that these measures will encourage efficiency in the banking sector and resultant lowering of bank costs for the benefit of both the banks and the economy.
10. Finally, let me extend my gratitude to the Board of Directors for inviting me to be with you on this auspicious occasion of the opening of the Nakuru Branch of FINA Bank.
11. It now gives me great pleasure and honour to declare the Nakuru Branch of FINA Bank officially open. Thank you all for your attention.