

## **Njuguna Ndung'u: Survey on bank charges and lending rates in Kenya**

Speaking notes of Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of the survey on bank charges and lending rates, Nairobi, 28 August 2007.

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Mrs. Jacinta Mwatela, Deputy Governor of the Central Bank of Kenya;  
Mr. Richard Etemesi, Chairman of the Kenya Bankers Association;  
Ms. Caroline Pulver, Representative of the Financial Sector Deepening Trust;  
Representatives of the Kenya Bankers Association;  
Distinguished Guests;  
Colleagues;  
Ladies and Gentlemen:

I would like to start by first thanking all of you for accepting our invitation to attend the launch of this survey on bank charges and lending rates. Allow me at this early juncture to extend a special vote of thanks to the Financial Sector Deepening (FSD) Trust, Kenya for partnering with us on this key initiative.

I would also like to acknowledge the efforts of Research International, Tell-Em Ltd. and the Central Bank Team that worked on this project.

We all appreciate that bank charges and lending rates continue to be of great public concern in our country. The issue at times seems to take an emotive stance with the public being "pitted" against the banks. At the Central Bank, we believe that this should not be the case and what we prefer to see is a healthy informed debate around this issue.

It is with this in mind that the Central Bank has been at the forefront in measures aimed at enhancing market discipline through publication of charges and lending rates in the print media and the survey that we are launching today. I must underscore that the aim of this launch is not to "name" any bank as the cheapest or "shame" another as the most expensive.

Allow me to delve into the heart of the findings of the survey that are instructive in informing the way forward. First, the level of awareness of charges and lending rates amongst bank customers is generally low. Second, related to this, the survey also established that the level of "comparison shopping" for banking services and products is also low. This alludes to an information asymmetry problem. Information is indeed critical to the effective functioning of markets. It is not in doubt that when information on alternatives is readily available, the outcomes will be customer driven products and competitive price offerings.

It therefore behoves the Central Bank and the players in the market to address this information asymmetry problem urgently if we are to enhance access to banking services and customer satisfaction. The launch of the survey is the first step in this direction and is not a one-off event. We will endeavour to engage the public in conjunction with other key players particularly the banks and the media in educating them about the various product offerings in the market and their related cost. I am in this regard, delighted at the presence of both these key players here today.

The endgame is expected to be more competitive product offerings that will draw more Kenyans into the banking space. As you may be aware, the Financial Access Survey released in January this year indicates that 38% of Kenya's bankable population is totally excluded from financial services and products. It is also instructive that only 19% of this populace is served by the formal banking sector. We must therefore collectively endeavour to push forward the "access" frontier and salvage Kenyans from the jaws of pyramid schemes and shylocks.

These schemes are capitalising both on information asymmetry and the perception by the public that current formal financial services are expensive.

I must commend initiatives in the recent past by banks to introduce niche products such as those targeting Small and Medium Enterprises and bundled products charging a flat fee for a basket of services. But more needs to be done in this arena. We also need to reflect on other barriers to access beyond fees and charges such as minimum and operating balances on accounts, laborious account opening processes, branch locations and timings and customer service.

I believe there is scope in this regard through the Kenya Bankers Association (KBA) for the development of a basic competitive “no frills” account that can be offered by all banks. Such an account would have low or nil minimum balances as well as minimal charges if any. Indeed such an account would be a vehicle to bring more Kenyans into the banking system. India and South Africa have developed such products to enhance financial inclusion. My challenge therefore to the Kenya Bankers Association is to spearhead an initiative in this regard, to develop a uniquely Kenyan “**Mzalendo**” basic transactional account. The Central Bank stands ready to support this kind of innovation.

Ladies and Gentlemen: Another possible area of cost cutting is through innovations that reduce the cost of delivery of banking products. In this regard, the Central Bank is seeking to facilitate the use of agents such as microfinance institutions by banks in the comprehensive review of the Banking Act that I have alluded to in my remarks in the recent past at other fora. The use of agents by banks should lower service delivery costs as they do not have to put up “brick and mortar” structures to expand their footprint across the country. It is the Central Banks’ expectation that savings from such innovations will be passed on to customers in the form of lower charges and lending rates.

As I draw to a close, I wish to briefly dwell on credit products. Competition in the recent years coupled with aggressive marketing has increased personal loans by banks. As we have seen from the survey presentation this morning, the cost of credit is not just the lending rate but also includes other costs such as commitment fees, negotiation fees, legal, valuation and insurance fees. The challenge that we must then face is disclosure to consumers of the total effective cost of loans. In this regard, I would urge KBA to require in its’ code of conduct that banks disclose the total all inclusive “annual percentage rate” of credit facilities to enable customers make informed choices and avoid “debt overloads”.

The recent years have produced results that we will quote for many years to come:

- a) Lowering barriers to entry: threshold of minimum balance, loan requirements, etc, improves access to financial services.
- b) Lowering transactions costs attracts potential micro-savers to banks.
- c) Banks can make profits in downstream activities.

Let me end by reiterating that the Central Bank remains committed to continued consumer education and sensitization on banking products and services in conjunction with banks, the media and other like minded players. We are convinced that this will bring on board more Kenyans into the formal financial sector, uplifting their well being and enabling them to participate in and benefit from our national development aspirations.

I thank you all once again for honouring our invitation and it is now my pleasant duty and honour to officially launch the Survey on Bank Charges and Lending Rates.

Thank you.