

Njuguna S Ndung'u: Collaboration among domestic financial sector regulators

Opening remarks by Prof Njuguna S Ndung'u, Governor of the Central Bank of Kenya, at the 3rd joint CMA/CBK/RBA/IRA Board Members seminar, Mombasa, 25 March 2010.

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Board Members;

Colleagues;

Ladies and Gentlemen:

1. I am delighted and honoured to be here this evening at the commencement of this important retreat.
2. To start with, let me extend my congratulations to the Board Members and Management of Insurance Regulatory Authority (IRA) for hosting the 3rd Joint Retreat for Board Members of Domestic Financial Sector Regulators.
3. Allow me to take this opportunity and touch briefly on the achievements of CBK since we last met in Naivasha in July 2009.
4. The Monetary Policy Committee (MPC) for instance, has since September 2009 been implementing decisions aimed at signaling to the market the need to expand credit to the private sector at affordable interest rates. In an effort to make credit cost effective we have several policy initiatives:
 - **Agent banking:** Central Bank has been pursuing a policy of broadening financial inclusion to the majority of Kenyans at lower costs through innovations. To this end, The Finance Act, 2009 amended the Banking Act to enable banks to use third party agents. This will enable them to leverage on additional cost effective distribution channels to offer financial services. Similarly, the model will enable banks to enhance delivery of financial services by use of third parties that include some of the entities that are regulated by the other domestic regulators.
 - **Credit Reference Bureau:** To improve the living standards of the majority of Kenyans, higher economic growth is required. Economic growth cannot be achieved without enhanced private sector lending. In this regard and to ensure access to credit at affordable rates, a robust credit information mechanism is key. To this end, CBK licensed the first ever Credit Reference Bureau which has already commenced operations. It is our hope that this move will positively alter the Kenyan banking sector landscape and facilitate the lowering of the cost of credit. It is our belief that the experience from the banking sector credit information sharing initiative will sooner rather than later be expanded to include other lenders and utility service providers to hasten the elimination of information asymmetry and hence promote efficiency in the market.
 - **Cost of collateral:** Institutions have on several occasions cited the cost of collateral as one of the major components contributing to high interest rates. To gain an understanding of the underlying factors in the collateral process, Central Bank, Kenya Bankers Association (KBA) and Financial Sector Deepening (FSD) Kenya commissioned a study aimed at reviewing the cost associated with collateral in the credit granting process. The study brought forward some invaluable insights on the intricacies surrounding the collateral process and recommendations which when implemented will result in both cost and time reduction.

- **Provision of long-term finance:** A small committee to look into development banking products was formed in February 2010 to explore avenues through which development banking products, also referred to as “Long-Term Financing Products”, can be introduced into the market. This was necessitated by several reasons, among them; the commercial banks credit market structure that focuses more on short term loan maturities; the moribund development financial institutions; the opening opportunities with flow of international funds that are intermediated by local institutions; and the need to develop the bonds market. The basic question: how can we lengthen the maturity profile of term loans to 5–10 years for SMEs?
 - **Interactions with market players:** Since September 2009, the MPC has been holding regular meetings with the Chief Executive Officers of commercial banks to brief them on the background to its decisions in the bi-monthly meetings. The meetings are part of a wider strategy to enhance the transmission of monetary policy decisions to the real sector through feedback, sensitization of the market on the activities of the MPC, as well as engaging banks on the need to lower the cost of credit in order to support economic growth.
5. On the market front, the Central Bank of Kenya, the Capital Markets Authority and the Nairobi Stock Exchange undertook significant reforms in the domestic bond market. These reforms included introduction of an Automated Trading System aimed at enhancing the safety and efficiency in the processing of secondary trading of government securities as well as corporate bonds in the market. The move is also expected to improve market liquidity thereby encouraging more investors to participate in the bond market. This development fits in very well with the aspirations of the capital markets development as envisaged in Vision 2030.
 6. We have accomplished much since we last met, but a lot more remains to be done to expand the depth and breadth of the financial sector. I am sure that together as the financial sector regulators we shall seek the necessary synergies to foster a safe, sound, efficient and inclusive financial system. But more demands as the EAC Monetary Union shapes up will be coming to us.
 7. Being cognisant of the onerous task ahead of us, I shall not extend my remarks any further. I look forward to the fruitful deliberations which I am sure we shall have.

Thank you for your attention.