Njuguna Ndung'u: Islamic finance – the African experience

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the 2nd Gulf African Bank Annual East & Central Africa Islamic conference, Nairobi, 3–4 May 2010.

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Suleiman Shahbal, Chairman, Gulf African Bank Ltd;
Najmul Hassan, Chief Executive Officer, Gulf African Bank Ltd;
Board Members;
Distinguished Guests;
Ladies and Gentlemen:

I am delighted and honoured to be here this morning to preside over the opening ceremony of this important conference. To start with, let me extend a very warm welcome to all of you who are attending this 2nd Gulf African Bank Annual East and Central Africa Conference titled "Islamic Finance: The African Experience". Allow me in particular to extend a special hand of welcome to the international participants "Karibuni Kenya". I also wish to convey the apologies of the Governor, Professor Njuguna Ndung'u, who would have wished to personally preside over this occasion but had to attend to other engagements. I will make some remarks that reflect his strong views on Islamic finance and extend his best wishes for fruitful deliberations at the conference.

The conference is important as it offer opportunities for the banking and financial sector fraternity to meet and discuss emerging industry developments, to learn from their accomplishments and challenges and to share views on sound practices.

Islamic Finance is so far the fastest growing segment in the global financial industry. Despite the global financial crisis, Islamic finance has demonstrated strong growth with new areas of business such as mutual funds and Takaful industry attracting a lot of attention. We need to understand this business model that will support our relative comparative advantage in the EAC region.

Kenya was the first country in the East and Central African region to introduce Islamic banking. In this regard, two banks were licensed in the last two years to exclusively offer Shariah-compliant products with many other conventional banks establishing a window specifically for Shariah-compliant products. With this, I am proud to inform this gathering that the concept of shariah complaint banking has emerged as an alternative vehicle for mobilisation and supply of finance. For example, the two banks have already contributed in development agenda of the country by participating in Shariah-compliant (Sukuks) components of infrastructure bonds issued by the Central Bank of Kenya on behalf of the Government of Kenya. We are still waiting for "Structured Sukuk" to cover the bonds and T-Bills market.

However, although the concept of Islamic Finance has generated a lot of interest and overwhelming support from both muslim and non-muslim population in Kenya, as a regulator, we have faced certain challenges which I wish to share with this gathering. Key among these are:

a) Islamic Banking prohibits interest and allows profit sharing. However, most of our prudential returns and disclosure report formats were tailored for institutions which have the element of interest in their financials. We have therefore tailored our returns and disclosures formats to cater for the new market niche;

b) The Banking Act prohibits wholesale trading and restrict holding land and buildings while Sharia compliant lending has an element of trading and land and building. However, this challenge has been cured through granting of exemptions to institutions concerned upon request. But also we are happy that this allows theses banks and their clients to endogenise risk;

c) The law requires all banks to pay interest on savings accounts as long as the minimum balance is maintained. This challenge has also been addressed by incorporating in the Banking Act the leeway for banks to give some form of return for Shariah-compliant savings products.

It is worth noting that the two fully fledged Shariah-compliant banks currently boast of 1570 loan accounts and 58,548 deposit accounts and control 0.8 percent of banking sector's net assets after being in operation for less than two years. These developments have enabled the formerly unbanked Kenyans and specifically the muslim community in the marginal areas have access to financial services adding to the wealth creation in the economy. This is a solid testimony of the vast potential of Islamic finance in Kenya, which should be tapped, and opportunities explored in the insurance (takaful) and capital market segments using sharia compliant vehicles.

On the regional front, there is a move by the countries in the region to permit their institutions to offer Islamic products. Central Bank of Kenya is therefore sharing its experience in Shariah-compliant banking with other Central Banks in the East African Community. Therefore, there is growing interest in Shariah-compliant banking in our neighbouring countries and Kenya has the potential to be regional Islamic finance hub. This is tandem with vision 2030 aspirations. Under this Vision, one of the key aspirations for the financial sector is positioning of Nairobi as a regional financial hub by 2030.

With these few remarks, it is now remains for me to wish you very fruitful deliberations over the next two days and to declare the 2nd Gulf African Bank Annual East and Central African Islamic Conference officially opened.

Thank you.