

## **Njuguna Ndung'u: How to bring down business costs in banking**

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Bank of India's 105th Foundation Day celebrations, Nairobi, 7 September 2010.

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Your Excellency Sibabrata Tripathi, High Commissioner of India to Kenya;  
Dr. Manu Chandaria, Chairman, Bank of India Local Advisory Committee;  
Mr. Maganbhai Dhodia, Chief Executive, Bank of India, Kenya;  
The Local Advisory Committee Members;  
Management and Staff of Bank of India, Kenya;  
Distinguished Guests;  
Ladies and Gentlemen:

It is my pleasure to join you on this auspicious occasion celebrating Bank of India's 105th foundation day. I appreciate the invitation to share in the celebrations. Allow me at the onset to commend the Bank of India, its advisory committee members, management and staff for steering the institution from a single office in Mumbai in 1906 to its current international status. Kenya has benefited a lot in these developments.

Ladies and Gentlemen: From 1969 the Bank of India became public owned and has expanded in leaps and bounds to claim its position in the global market with 29 foreign offices, and more than 3,200 branches, including 141 specialized branches and 48 zonal offices in India. In Kenya, the bank has grown from the one branch established in Mombasa in 1953, to the current four branches country wide. With regard to its Kenya operations, I note that as at July 2010, the bank had an impressive asset portfolio of Ksh.17 billion and customer deposits of Ksh.14 billion, supported by a capital base of Ksh.2.4 billion.

Mr. Chairman: The impressive performance of Bank of India is consistent with the continued commendable performance of Kenya's banking industry. Some key highlights of this performance for the period from July 2009 to end of July 2010 are;

- Assets grew by 26 percent to stand at Ksh.1.6 trillion;
- Total deposits grew by Ksh.270 billion, representing a 28 percent growth rate, to stand at Ksh.1.2 trillion;
- Gross advances amounted to Ksh.848 billion, having grown by Ksh.128 billion from a similar period in 2009;
- A profit before tax of Ksh.42.8 billion was registered in the last seven months compared to Ksh.28.5 billion in July 2009, a growth rate of 50 percent;
- The number of bank branches at the end of July 2010 stood at 1,020 an increase of 24 branches from the end of December 2009;
- The number of bank accounts has increased by 35 percent from 7.9 million accounts in July 2009 to 10.7 million as at the end of July 2010.

This impressive growth has been supported by the expansion of banks into new market segments, prudent risk management and enhanced economic prospects underpinned by a stable macroeconomic environment. The Central Bank expects the banking sector to continue on this growth trajectory. Ongoing reform initiatives by the Government and CBK will serve to further propel the banking sector to new frontiers of financial inclusion for more Kenyans. For this reason, the Central Bank together with Kenya Bankers Association has been keen to move in the directions that market requires support.

Mr. Chairman: We need now to concentrate on 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 will enable banks to extend more credit to productive sectors boosting wealth and employment creation. The information sharing platform will help develop the required information capital that will support an adoption of a new collateral technology in the market and reduce the information search costs. This will be especially important for Small and Medium Enterprises and individuals who have been constrained in accessing credit due to lack of physical collateral. However, the benefits of credit information sharing will only accrue if banks and other information providers ensure information availed to the Bureaus is accurate and credible. It is therefore imperative that banks and their customers and licensed Credit Reference Bureaus continue to work together to ensure accuracy and credibility of records.

On its part the Central Bank will continue to work with other players to extend the reach of the credit information sharing mechanism beyond the banking sector. But so far, we are encouraged with the first batch of information sent to CRB Africa – 78 percent of it was accurate – with no errors. This shows that the information template reflects the true picture in the banking sector.

Ladies and Gentlemen: 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 5,892 Agents since the roll out in May 2010.

Ladies and Gentlemen: The third area to lower cost of doing business is for you banks – you have to develop innovative products for the market. You have to lower cost on these products to ensure uptake and volume.

The Central Bank will continue more forcefully with its four dimensional approach: **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 market's stability.

With these few remarks, Ladies and Gentlemen, let me once again applaud the Bank of India on your 105th Foundation Day, and wish the bank continued prosperity in the years to come – not only in Kenya but also in the EAC market.

Thank you.