

## Njuguna Ndung'u: Shariah-compliant banking and finance in Kenya

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of the First Community Bank's Mutual Fund, Nairobi, 6 March 2012.

\* \* \*

Ms. Stella Kilonzo, Chief Executive, Capital Markets Authority;

Mr. Steve Mainda, Chairman, Insurance Regulatory Authority;

Mr. Hassan Varvani, Chairman, First Community Bank Ltd;

Mr. Abdullatif Essajee, Managing Director, First Community Bank Ltd;

Mr. Nathif Adam, Director, First Community Bank Capital;

All the Excellencies here present;

Board Members of First Community Bank Ltd here present;

Distinguished Guests;

Ladies and Gentlemen:

I am delighted to be with you this evening at the launch of First Community Bank's Shariah-compliant mutual fund and to celebrate the success of Islamic Finance.

Allow me at the outset to compliment the Board and Management of First Community Bank Ltd for growing the bank from a start-up operation in April 2008, to an institution now boasting of deposits amounting to Ksh.7.3 billion and assets of Ksh.8.4 billion as at 31<sup>st</sup> January 2012. Indeed, First Community Bank Ltd pioneered the establishment of Shariah-compliant banking in Kenya and I am happy to note that the bank has continued to keep up the momentum by introducing a range of innovative Shariah-compliant products. These products will go a long way in deepening Kenya's financial sector. We can now boast of having a full-fledged Shariah-compliant financial infrastructure, thanks to the effort of Nathif Adam.

**Ladies and Gentlemen:** Kenya has not been left behind in the world-wide phenomenal growth of Shariah-compliant finance and banking and huge gains have been made since its inception. Today, we have two banks that exclusively offer Shariah-compliant products and who collectively, command a market share of 1% of the banking sector assets, in less than 4 years of operations. Having noted the growing interest in Shariah-compliant finance, some of the conventional banks have also created specific windows and divisions to enable them offer Shariah-compliant products to their customers.

I am encouraged to note that other institutions have now stepped in to offer Shariah-compliant financial services beyond banking. Takaful Insurance of Africa has been licensed by the Insurance Regulatory Authority to offer Shariah-compliant insurance services. Although the concept of "**Takaful**" has been in existence in the global arena for several decades, this product is now being offered for the very first time by an entity incorporated and licensed in Kenya.

**Ladies and Gentlemen:** First Community Bank Ltd has again trail-blazed by introducing a **Shariah-compliant mutual fund**. I am informed that the fund will be **denominated in Kenya Shillings and the aim is to pool funds amounting to Ksh.1 billion**. The fund will invest principally in Shariah-compliant opportunities in Kenya and other countries in the Eastern Africa region and may also undertake offshore investments. The bank intends to invest in money market instruments, equity, structured investments and other collective investment schemes that are all Shariah-compliant. Indeed, this fund will avail investment opportunities to many people, particularly those who could not invest in the available products on account

of faith-based or other risk related restrictions. It is a welcome addition to deepening Kenya's nascent capital markets. This move is also a positive step towards not only attracting increased foreign direct investments into the country and the region at large, but also enhancing the capacity of the Kenyan people to harness the available resources for national development.

As you are aware, a key goal of the Government of Kenya, as espoused in Vision 2030 is establishing Kenya as a premier financial services hub in the region with a wide range of competitive products and services. One of the ways of achieving this goal is ensuring that Kenya becomes the gateway for Shariah-compliant financing, through establishment of an enabling environment that supports the development of Shariah-compliant financial services and products. To this end, the Central Bank has in the recent past liaised with the Shariah-compliant banks and established the main challenges that impede the achievements of this objective. Some of these impediments are:

- Inadequate Shariah-compliant products. For example, the lack of Shariah-compliant liquidity instruments places Shariah-compliant banks at a disadvantage compared to the conventional banks;
- Uncertainty on the tax treatment of Shariah-compliant financial instruments;
- Inadequacy of the requisite human capital with respect to Shariah-compliant finance.

***Ladies and gentlemen:*** The Central Bank is in this regard engaging other relevant arms of Government to address these challenges in order to propel Shariah-compliant finance to the next level.

The future of Islamic Finance in Kenya and in the region remains bright. On its part, the Central Bank will continue to pursue policies that create an enabling environment that will eventually culminate in Kenya establishing itself as a regional financial hub as envisaged in Vision 2030.

***With these few remarks, I want to wish First Community Bank Ltd as well as the First Community Bank Capital (Investment Bank) the best in their future endeavours. The Islamic Finance picture is thus complete.***

***Thank You***