Njuguna Ndung'u: Kenyan banking sector development over the last six years

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Kenya Bankers Association 50th Anniversary Luncheon, Nairobi, 7 August 2012.

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Honourable Njeru Githae, Minister for Finance of the Republic of Kenya;

Dr. Donald Kaberuka, President of the African Development Bank;

Mr. Richard Etemesi, Chairman, Kenya Bankers Association;

Mr. Habil Olaka, Chief Executive Officer, Kenya Bankers Association;

Members of the KBA Governing Council;

Distinguished Guests;

Ladies and Gentlemen:

It is a great pleasure for me to join you on this auspicious day to celebrate the Golden Jubilee of the Kenya Bankers Association (KBA). Allow me at the onset to thank the Honourable Njeru Githae, Kenya's Minister for Finance and Dr. Donald Kaberuka, President of the African Development Bank for gracing this occasion. Their presence demonstrates the importance they attach to the role that the Kenyan banking sector plays in the economy. Let me also congratulate the members and management of KBA on turning 50.

Ladies and gentlemen: The choice of the theme for this luncheon, "Banking's Role in Development, Recognizing the Achievement while Catalyzing Greater Private-Public Sector Collaboration" depicts the path through which the Kenyan banking sector has scaled the heights over the last six years. The current resilience of our banking sector is the outcome of partnership between the regulator and the regulated. This is not a common occurrence in most sectors, but I can confidently tell you that CBK and the Kenya Bankers Association (KBA) have successfully demonstrated they are agents of development in the financial market.

Ladies and gentlemen: The tremendous growth in the Kenyan banking sector in the midst of financial turmoil in the developed markets has been put to question by parties who may not be aware of the past efforts towards a more sound and resilient sector. Allow me to mention just a few initiatives that CBK and KBA undertook jointly over the last five years to complete the financial infrastructure set up in the economy and whose outcome is reflected by the unrivalled performance in the region.

1. ***Roll out of credit information sharing***: Kenya witnessed several unsuccessful efforts by the Kenyan banking sector to introduce credit information sharing (CIS) in Kenya since 2003. However, CIS became a reality in 2008 when a regulatory framework was developed jointly by CBK and KBA. As banks benefit from enhanced credit risk management, Kenyan borrowers have started enjoying lower lending rates but more needs to be done by banks.

2. ***Roll out of agent banking***: On realisation that it is not economical to establish brick and mortar branches across the country, the Banking Act was amended to allow banks to provide banking services through third parties (agents). To operationalise this amendment, CBK and KBA came together to lay the ground work. This included benchmarking with best practices in other countries and developing appropriate guidelines. Following consultative forums with the market players, the agent banking model was successfully rolled out in May 2010.

Since the rollout 11 banks have been granted approval to rollout their agency networks and 9 of them have engaged more than 12,000 agents spread across the country. The aim of agency banking is to increase outreach of banks to enable them satisfy the financial needs of the under-banked and unbanked Kenyan populace as well as leveraging on additional cost effective distribution channels to offer financial services. So far agents of banks have facilitated more than 21 million transactions valued at more than Ksh.105 billion (USD1.2 billion) as at June 2012.

3. ***The cost of collateral and feasible solutions***: Banks have cited cost of collateral as one of the main contributing factors to the prevailing high interest rates. To demystify this, CBK, KBA and Financial Sector Deepening (FSD) Kenya undertook a study on Cost of Collateral in 2008. The study confirmed that the high costs of collateral creation, perfection and enforcement accounted for a sizeable portion of interest rates charged by banks. The findings of the study were shared with the various relevant arms of Government for their consideration. We appreciate the ongoing reforms in the Ministry of Lands and we expect the same to be replicated in the other government agencies.

4. ***Establishment of currency centres***: The high cost of transporting cash to the nearest CBK branch coupled with increasing robbery cases made it imperative for a solution to be established. Through CBK and KBA partnership, three currency centres in Nyeri, Nakuru and Meru were established in phase one of the project. Savings realised by banks in terms of cash-in-transit expenses as well as insurance premiums are expected to trickle to the economy as banks adjust their bank charges accordingly.

5. ***Clearing and settlement process***: Effective and targeting real time for electronic transfers and T+1 for cheque clearing.

Distinguished guests, ladies and gentlemen: These are just a few of the joint initiatives in the banking sector – they have lowered the cost of doing business in the sector. They have allowed the unbanked to be banked – we now have close to 15 million deposit accounts from around 2.5 million in 2007. Going forward, CBK and KBA will continue to collaborate in strengthening the banking sector's legal and regulatory framework as well as enhancing the credit information sharing mechanism.

Ladies and gentlemen: I once again applaud Kenya Bankers Association for the cherished partnership we have had. I urge them to remain committed to our mutual cause for the benefit of our economy. I assure you of CBK's commitment.

With these few remarks ***ladies and gentlemen***, it is now my pleasure to welcome

Honourable Njeru Githae, Minister for Finance to make his remarks.

Thank you