Njuguna Ndung'u: The importance of information sharing and collaboration among financial sector supervisors

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of the Kenya Commercial Bank Supervisory College, Kenya School of Monetary Studies, Nairobi, 3 October 2012.

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The IMF East AFRITAC Officials here present;

Distinguished delegates from the EAC Partner States Central Banks here present;

Dr. Martin Oduor Otieno, Kenya Commercial Bank Group Chief Executive Officer;

Distinguished Participants;

Ladies and Gentlemen:

The Central Bank of Kenya is delighted to host this inaugural meeting of a Supervisory College in the East African region. This is a great milestone for the region's Central Banks in enhancing the existing mechanisms for information sharing and collaboration.

At the onset, let me commend the IMF's East AFRITAC for their unwavering support towards enhanced stability of the banking sector in the region. Today's launch of the pioneering supervisory college has been made possible through the technical assistance and capacity building by the East AFRITAC. I would like to thank all those who have contributed to the organisation of this meeting. Let me also extend a warm welcome to all participants.

Ladies and Gentlemen: The requirement for enhanced information sharing and collaboration among financial sector supervisors has gained more prominence recently. This is informed by the continued cross-border expansion of financial sector players as well as the convergence of their cross-sector operations. As a result, for us to be able to adequately address all potential risks from the continued convergence of players and their cross-border expansion, the time to embrace consolidated supervision within and across our borders is at hand.

As you may be aware the importance of cooperation between home and host regulators of banking groups dates back three to four decades ago. The Basel Committee for Banking Supervision developed guidelines in 1975 to guide cooperation between national authorities in the supervision of banks with cross-border establishments. These guidelines were enhanced with the issuance of the Basel Core Principles on Effective Supervision in 1997, in particular, Basel Core Principle 24 on Consolidated Supervision which requires that supervisors should regulate banking groups on a consolidated basis, and Basel Core Principle 25 on Home-host Relationships (Cross-border consolidated supervision) which requires cooperation and information exchange between home supervisors and the host supervisors.

Ladies and Gentlemen: Following financial crises experienced from 2007, the importance of information sharing and collaboration between banking group supervisors, especially through supervisory colleges, was re-emphasised by the G20 Leaders and Financial Stability Board Forum held in 2008. To actualise the Forum's declaration the Basel Committee for Banking Supervision released a paper on Good Practice Principles on Supervisory Colleges in October 2010. The paper supplemented the existing guidance on cross-border cooperation and information-sharing. It outlined expectations for both home and host supervisors in relation to supervisory college objectives, governance, communication and information sharing as well as potential areas for collaborative work.

Ladies and Gentlemen: Currently, 10 Kenyan banks have established presence across the Eastern Africa region including two in South Sudan and one in Mauritius. As at

30th June 2012, the 10 Kenyan banks had 240 branches outside Kenya, an increase of 34 branches from 204 in December 2011. It is worth noting that it is not only Kenyan banks that are expanding across the borders but banks in the other East African countries have also embraced the opportunity. A case in point is the application by Bank of Kigali to establish a Representative Office in Kenya. I envisage that more banks will consider cross-border expansion once the on-going harmonisation of the legal, supervisory and regulatory frameworks among the EAC Central Banks is completed.

Ladies and Gentlemen: Effectiveness of consolidated supervision and in particular a supervisory college depends on how it is structured. The structure of a supervisory college to be adopted depends on the unique characteristics of the banking group being considered. In this regard, CBK as the home supervisor of Kenya Commercial Bank (KCB) Group, and with the technical assistance of East AFRITAC, has designed this supervisory college to reflect the nature and complexity of operations of KCB. The structure is expected to promote timely information sharing and closer collaborations amongst the KCB Group supervisors.

Ladies and Gentlemen: As we hold this supervisory college meeting for KCB, it is worth noting that KCB has made great progress since its predecessor; the National Bank of India opened an outlet in Mombasa in 1896. I take note that as at 30th June 2012, KCB had a branch network of 226 branches; 56 of which were outside Kenya. Further, as at 31st July 2012, KCB's total assets were valued at Ksh.295 billion (USD3.5 billion) while its total loans and gross deposits amounted to Ksh.190 billion (USD2.26 billion) and Ksh.213 billion (USD2.53 billion) respectively.

Ladies and Gentlemen: Despite the commendable efforts towards full integration in the East African Community, banks with cross border operations continue to report operational challenges. The major operational challenge is the need for a huge capital outlay, which could otherwise be minimised through centralisation of some operations and decision making. With the advancements in information technology, centralisation of some operational processes is being embraced globally based on the resultant cost savings as along as adequate risk mitigating measures are assured. In this regard, I urge regulators in the Eastern Africa region to always embrace a developmental mindset as they consider proposals by market players. As long as adequate risk mitigation measures are demonstrated, innovations should be facilitated. It is only through this that our banking sectors will effectively play their roles of resource mobilisation, allocation and deepen the market. More importantly, innovations will reduce the cost of banking services and products. Lower costs are critical to tapping the vast unbanked populace in our region.

Ladies and Gentlemen: The output from this meeting will provide a framework to enhance effective supervision of the KCB Group. It will also set precedence for the supervision of other banking groups with cross border operations. I acknowledge the presence of KCB Management who I am informed will showcase their strategy and operational plans. It is through a clear understanding of institutional strategies and plans that supervisors are able to proactively discharge their supervisory mandates.

Ladies and Gentlemen: I believe that there is a great wealth of supervisory information and ideas to be shared in this supervisory college. As the East African Central Banks, there is need to be steadfast in supervision of institutions with cross border operations to minimise the likelihood of systemic effects in case of failure. I therefore wish to reiterate the importance of seizing this opportunity to discuss mechanisms of enhancing regional coordination in supervision as well as crisis management/mitigation.

With these few remarks ***Ladies and Gentlemen***, it is now my honour and pleasure to declare this inaugural supervisory college meeting officially opened and I wish you fruitful deliberations.

Thank You