

Njuguna Ndung’u: Promoting private sector credit and mortgage finance in Kenya

Keynote address by Prof Njuguna Ndung’u, Governor of the Central Bank of Kenya, at the launch of Metropol Consumer and SME Bureau Scores, Nairobi, 24 July 2014.

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Mr. Peter Kebati, Chairman, Board of Directors, Metropol Credit Reference Bureau;

Mr. Sam Omukoko, Managing Director, Metropol Credit Reference Bureau;

Board Members;

Representatives of Commercial Banks, Microfinance Banks and other Financial Institutions;

Distinguished Ladies and Gentlemen:

It is a great honour for me to join you this morning to witness the roll-out of another innovative financial product, Metropol’s Consumer and SME Bureau Scores. At the outset, I wish to express my gratitude to the Directors and Management of Metropol Credit Reference Bureau (CRB) for inviting me to this auspicious occasion.

Ladies and Gentlemen: The roll-out of full file banking sector credit information sharing effective February 2014 is already yielding positive results. We are gathered here today for the inauguration of Consumer and SME Bureau Scores, which has been made possible by the expanded credit information sharing (CIS) mechanism. I take this opportunity to congratulate Metropol CRB for quickly seizing the opportunity to develop a customer’s scoring mechanism, that will contribute to the growth of the credit market in Kenya. Introduction of credit scoring by Metropol CRB will not only enrich the value of its credit reports to the lenders but will greatly improve the lenders credit risk management.

Ladies and Gentlemen: When the CIS mechanism was launched in 2010, the viability of the licensed CRBs hinged primarily on the volume of credit reports accessed by the lenders. However, with the introduction of full file credit information sharing, CRBs are now well positioned to introduce value add products such as credit scoring that will not only propel their success but will contribute to the development of the financial sector; especially the dynamic and changing profile of collateral technology and pricing credit in our financial market.

As you are aware, a high level Committee was established under the leadership of the Cabinet Secretary to the National Treasury in January 2014 to explore ways of increasing private sector credit and mortgage finance in Kenya. The formation of the Committee that comprised of representatives from the National Treasury, Central Bank of Kenya, Kenya Bankers Association and other private sector representatives and market players, was informed by the Government’s desire pursuant to Vision 2030 to transform the country to a middle income status by 2030. Countries that have attained a middle income status, such as Malaysia and South Africa, have reported private sector credit to GDP ratios of more than 100%. Kenya’s current ratio of private sector credit to GDP of about 40% is way below those of middle income and comparable countries. In addition, Kenya has only about 20,000 mortgage accounts concerted efforts to improve the situation were thus deemed necessary.

Ladies and Gentlemen: The Committee finalized its task in April 2014. The various recommendations made by the Committee are already being implemented. As we gather here, the banking sector is at the deep end of rolling out a transparent pricing mechanism, whereby all banks are required to price their loans based on a common reference rate, the Kenya Banks’ Reference Rate (KBRR). This was the first of the recommendations by the Committee. To supplement the KBRR, the banking industry has also rolled out the use of the

all-inclusive Annual Percentage Rate (APR) in loan pricing. This is loan pricing that includes the interest rate on the loan and other fees and charges such as appraisal, legal and valuation fees.

KBRR is computed as an average of the Central Bank Rate (CBR) and a two-month moving average of the 91-day Treasury bill rate, and announced by MPC. The CBR reflects the monetary policy direction consistent with inflation profile, while the 91-day Treasury bill rate reflects the return on short term risk free assets. Prior to this every bank had its own base rate, whose composition was not known to the borrowers. This now opens a transparency window for borrowers who can compare and negotiate lending rates across banks.

Banks are now required to explain to their customers and the Central Bank the composition of the premium (k) they charge above KBRR. The Central Bank will periodically publish on its website details of the premium (k) obtained through returns from the banks. The CBK has already developed a template for this information capturing process. This will in turn promote transparency and competition in the pricing of credit. Borrowers are now empowered to compare interest rates offered by banks as they shop for the cheapest credit facilities. This is the surest way of increasing credit in the market to the productive and profitable sectors.

The contribution by Metropol's credit scoring is to help customers know their risk profile and how their loans will be priced but also empower them with tools to negotiate for better rates.

Ladies and Gentlemen: Apart from the introduction of KBRR, the Committee made other recommendations that require the Government and other players including the Central Bank to implement certain policy and institutional reforms to promote private sector credit and mortgage finance in Kenya. These reforms will have an overarching objective of reducing the cost of doing business. These recommendations include:

- Promotion of sharing of infrastructure by banks.
- Fast tracking of the on-going modernization of the Lands and Companies Registries to facilitate quicker collateral process.
- Establishment of a legal framework for creation of an electronic moveable assets register.
- Enhanced financial services consumer protection and education.
- Ensure that Government borrowing does not crowd out private sector as well as adopting alternative sources of funding such as sovereign bonds. (This has been done with success).
- Fast tracking capital markets reforms to make capital markets more efficient and attractive alternative sources of long term funding.
- Facilitate lines of credit for large housing development projects targeted at lower income buyers for owner occupation.

These recommendations are at different levels of implementation.

Ladies and Gentlemen: Integrity and sanctity of information shared under the credit information sharing mechanism and building information capital are critical in promoting confidence in the mechanism. Once individuals and participating entities are assured of sanctity of the mechanism, application will increase and more innovative ideas will be shared to enrich the mechanism. This is the reason why consumer protection measures under the CIS mechanism were strengthened under the revised Credit Reference Bureau Regulations, 2013 that became operational in February 2014. In the same vein, I urge Metropol CRB and other CRBs to ensure that their value add products are introduced within the same precincts of consumer protection. Any blot on consumer confidence may ruin a noble cause that has taken several years to establish.

Ladies and Gentlemen: As I conclude, it is worth noting that we are yet to reach the optimal level in credit information sharing. There are still several credit providers who currently are only able to contribute data but cannot access credit reports directly. We need to bring all financial sector and non-financial sector credit providers into the ambit of the CIS mechanism. The Central Bank will continue to support market development and market players in the development of an all-encompassing CIS mechanism. This will undoubtedly increase the supply of credit to the private sector to support Kenya's growth and development as envisaged under Vision 2030; but more importantly, increasing supply must go hand in hand with declining and appropriate pricing of this credit. But above all this credit must be destined to productive sectors of the economy to make a difference to an all-inclusive growth.

With these few remarks, **Ladies and Gentlemen**, it is now my distinguished honour to declare the Metropol CRB Consumer and SME Bureau Scores officially launched.

Thank You.