Njuguna Ndung'u: Dissemination of the results of the Kenya Financial Diaries, 2014.

Keynote address by Professor Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the dissemination of the Kenya Financial Diaries, Nairobi, 12 August 2014.

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Distinguished Guest;

Ladies and Gentlemen:

It is my honour and pleasure to join you during this breakfast event to disseminate the results of the Kenya Financial Diaries, 2014. This is a commendable and timely study by the Financial Sector Deepening Kenya aimed at understanding behaviour of the consumers of financial services in the country. By focusing on low income peoples' lives the findings of the Diaries will help policy makers, industry players, researchers and others to better understand the challenges faced by low-income groups and recognise new opportunities to develop appropriate interventions and financial service options that better meet their needs.

As you will recall, towards the end of last year, we launched the results of the FinAccess National Survey, 2013, and early this year, we launched the FinAccess Geographic Information System (GIS) Mapping of all financial access points results carried out by the Financial Access Partnership (FAP) that include both Central Bank of Kenya (CBK) and Financial Sector Deepening (FSD), Kenya.

I am therefore happy to see that FSD Kenya has taken the initiative to also commission the Kenya Financial Diaries, 2014. This is very complementary to the other regular studies that we have undertaken together, like FinAccess surveys. It will help the researchers on financial sector issues more deeply understand what is behind the trends that we see in FinAccess surveys and uncover new opportunities to push the financial inclusion frontier in Kenya further. The information is equally critical for informed decisions by consumers of financial services.

Ladies and Gentlemen: In line with Vision 2030, we have transformed the financial sector into a dynamic and growth pulling sector. But the goals set by Vision 2030 have not yet been achieved, although we are confident to achieve them. ***These goals will be achieved by addressing the Vision's three core objectives, namely: enhancing financial system stability, efficiency, and expanding financial access to all Kenyans.***

The Financial Diaries give us an opportunity to consider these issues of stability, efficiency and inclusion in a very different light, through the eyes of low income Kenyans, and in many ways it shows us that those goals for financial sector are really quite intertwined. Financial inclusion is important to the Central Bank because of its impacts on the economy at large as well as its potential to improve the lives of the poor. When the majority of the population has access to and use of quality and affordable financial services and products, it fuels the national savings/ investments cycle, thus allowing for capital accumulation and asset building, which enables the poor to escape the poverty cycles. When the poor have secure savings, it reduces their vulnerability to periodic economic and social shocks. Increased access to and use of finance will expand the number of participants in our financial system and so lower the unit costs. None of these are trivial impacts.

Ladies and Gentlemen: This morning marks a major milestone as we ruminate on the implications of this important Financial Diaries study results. I would like to highlight four key findings that I believe have particular bearing on the advancement as well as development of the financial sector in Kenya.

- ***The first is that the financial lives of the poor are incredibly dynamic and complex***. We have all observed this, in our families, estates and communities, but here we see complexity quantified. The median household has not one income source, but 10 separate income sources!

Hence, expanding access to financial services is not just about what I'm calling the 3Ps: Presence, Price and Pushing, but also about relevance and fit with the needs of clients. Technological innovations have helped us dramatically increase access and usage in Kenya. Getting to the next level of application – and application that is meaningful for all Kenyans – is going to require a new generation of financial services and service improvements that meet the real needs of markets and people. When we see the diversity and number of financial devices that Kenyans are using and continue adapting, we can see that they are willing to try new solutions. This is a good reception to the dynamic solutions coming to the market.

The results also highlight important gaps in current offerings in our market, while also giving us a much deeper understanding of peoples' earning and spending patterns and behaviour. I hope that these rich insights inspire some creative thinking by the private sector players to tackle product relevance challenge and consider some new approaches to the low income market.

- ***Second, the results makes it clear that financial devices play a very important role in helping poor people meet their basic needs and invest in the future***. Reading the study report, we see how taking a loan from a local bank, one father was able to help his daughter get treatment that she needed after a miscarriage. We see how the credit facilities that schools extend to parents over the course of a school year enables poor parents stretch their budgets and afford this major investment in their children's future. This also enhances the family capacity for the future. Indeed, financial services are making themselves present at every turn for these families. Finance is not a luxury, but absolutely a necessity in poor people's lives, just as surely as it is for everyone. That is why when we look at the range of needs, we can focus on the pricing to make it sustainable and enlarge the market.
- ***Third, poor Kenyans are in fact saving, but they are choosing to hold most of that savings in informal financial devices e.g. rotating group saving and lending***. Few other studies are able to tell us about money that Kenyans are holding in informal financial devices, and one of the great values of the Financial Diaries is that it gives us this more comprehensive portfolio view especially as regards the mix of savings in banks and durable goods. As you know, the Central Bank is very concerned about savings. We know that achieving growth as a nation requires that deposits be available for productive investment.

We expected that increasing the savings rate here in Kenya is about getting our people to save more. But, we also know that this will be enhanced after a particular threshold of income is achieved and surpassed. The Financial Diaries report suggest that we may need to explore that more. Perhaps in addition to saving more, we also need to save differently. In the Diaries households, only 9% of financial assets are being held in the formal financial sector and the balance in the informal segment.

The authors of the report also point out that getting this kind of informal to formal shift is going to be difficult when savers want to see their money working. One advantage of the informal financial sector, that is, the non-organised non-institutional sector and in SACCOs and some MFIs is that savings are more visibly deployed among other group members and in one's own self. It is visibly doing a job, and that can be harder to see when returns on savings are low and the investments those savings finance are not immediately visible.

I have no easy answer about how Kenya's financial sector can address this challenge, but it is an important insight that we need to understand better. How can we show people that their savings in the formal financial sector are in fact working? How can we improve the proportion of saving in formal institutions alongside the informal institutions that are already working for people and helping them accomplish many of their financial goals? This demonstrates the need to create appropriate incentives to save for the poor.

- ***Finally, this study results also suggests that it's not just the proposition or service offering that is inhibiting growth in use or application by the poor in formal institutions, but also the service experience***. Bank clients are reporting losses in their formal accounts and they do not always understand the cause and nature of the loss because of breakdown in the communication of costs and fees. The breakdowns in service quality that these respondents experience help us understand why the banks are not always the preferred destination for poor people's savings. I believe there is much more that formal providers can do to improve these service experiences and earn the utmost confidence and trust of potential and current clients.

  The Central Bank has already taken strides to encourage greater transparency and accountability in pricing of financial services to foster effective competition. We will continue to do so, and, if I can make a prediction, I would expect to see more providers in the future competing with one another on the quality of their service as well as pricing their financial services as we move into the future. This study results shows us just how thoughtful, active, and discerning consumers in our market can be, and they will continue to vote for their preferred providers with their feet and their money.

I appreciate these findings and look forward to seeing how various financial service providers begin to incorporate these important insights into their operations and product developments. This is how we can target that 25 percent or so of the population still excluded from the financial sector. I encourage all of you to read the report and take advantage of opportunities that FSD Kenya offers to engage more deeply with the content in ways that are specific to your businesses. This is tremendously a valuable new resource for all of us working in the financial sector in Kenya.

Let me take this opportunity to thank FSD Kenya again for sponsoring this study and hosting this breakfast event and also acknowledge Digital Divide Data Kenya and Bankable Frontier Associates for their commendable job in executing the research and preparing the report that we are witnessing today.

With these few remarks, ***Ladies and Gentlemen***, I welcome you to this breakfast event.

Thank you.