

## **Njuguna Ndung'u: Promoting access to affordable credit in Kenya**

Remarks by Professor Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of the Strategic Plan for the Association of Kenya Credit Providers (AKCP), Nairobi, 27 October 2014.

\* \* \*

***Mr. Charles Ringera, Chairman, Association of Kenya Credit Providers;***

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

***Mr. Benjamin Nkungi, Chief Executive Officer, Association of Microfinance Institutions of Kenya;***

***Association of Kenya Credit Providers Governing Council Members;***

***Chief Executive Officers of Credit Reference Bureaus, Commercial Banks, Microfinance Banks and Development Finance Institutions;***

***Representatives of IFC, FSD Kenya and USAID FIRM;***

***Members of the Press;***

***Distinguished Ladies and Gentlemen;***

***Good morning...***

It is my honour and pleasure to join you this morning to launch the Association of Kenya Credit Providers (AKCP's) 2015–2019 Strategic Plan. As you may recall, almost exactly one year ago, AKCP was officially launched in this same room. Today marks the start of AKCP's concrete journey of providing a solid platform through which all credit providers in Kenya can actively engage in the pursuit of a comprehensive and all-embracing credit information sharing mechanism.

***Ladies and Gentlemen:*** The success of any entity depends on its strategic orientation. I applaud AKCP for moving with speed to develop a five year strategic plan that maps out its priority focus over the period. The main mandate of AKCP is to promote the development of an effective functioning Credit Information Sharing (CIS) mechanism in Kenya. I note with appreciation that the strategic priorities identified for the five years including: Institution Building, Legal Reform, Capacity Building, Communication & Awareness and Knowledge Generation, are all relevant for AKCP to kick-start the process of strengthening the CIS mechanism in Kenya. This has well defined its place in the financial ecosystem in Kenya as well its viability and sustainability.

***Ladies and Gentlemen:*** The rate of a country's economic growth is driven by investments and these investments are largely dependent on the ease with which productive enterprises access funding to transform their viable ideas and opportunities into productive ventures. That is why I am proud to be associated with AKCP's tag line: ***"Towards a more open credit market"*** because with more transparent credit markets, investors are able to easily access affordable funding. As a result of implementation of several innovative initiatives and reforms in Kenya's financial sector including introduction of the CIS mechanism, the sector has recorded improved efficiency. Similarly, formal financial inclusion has been on an upward trend from 26.4% in 2006 to 66.7% in 2013. Consequently, financial stability has been strengthened through the enhanced credit risk management systems as well as the improved economic conditions.

Despite this progress, the current level of private sector credit in Kenya of about 40% of Gross Domestic Product is still far below the levels recorded in comparable emerging economies such as Malaysia, South Africa and Mauritius. The main factor cited as impeding private sector credit in Kenya is high lending rates, that can be dealt with through concerted

efforts of all players in the sector. With AKCP bringing together several categories of credit providers, its voice on this issue and the technology to provide sustainable solutions should be loud enough.

**Ladies and Gentlemen:** As you may be 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 the supply private sector credit and mortgage finance in Kenya. The main focus of the committee was to make proposals for transparent pricing that should allow competition and movements in the market and thus lower lending rates commensurate to returns on investments as well as reduce the risk profile and premium loaded to market participants.

The committee finalized its task in April 2014. Among the recommendations made by the committee was the introduction of a transparent pricing mechanism, where all banks price their loans based on a common reference rate, the Kenya Banks' Reference Rate (KBRR). KBRR became effective on 8th July 2014 and borrowers are now able to compare lending rates across banks. Prior to this, every bank had its own base rate, whose composition was not known to the borrowers and so not comparable.

Banks are now required to explain to their customers and the Central Bank the composition of the premium (k) they charge above the KBRR. The Central Bank will shortly start to periodically publish, on its website, the details of the premiums (k) obtained through returns from banks. This will promote transparency and competition in the pricing of credit. This is one of the avenues of increasing credit to the productive and profitable sectors of our economy.

**Ladies and Gentlemen:** Credit Information Sharing (CIS) plays a critical role in enhancing credit to the private sector. It enables credit providers to undertake effective credit risk assessment based on the available credit histories whereas the borrowers are able to negotiate for better credit terms based on their good credit histories. Since the rollout of the CIS mechanism in 2010, commercial banks and microfinance banks had requested more than 4.8 million credit reports from the two licensed credit reference bureaus as at 30th September 2014. The borrowers have on the other hand accessed 77,422 credit reports over the same period. As the full-file sharing introduced in February 2014 takes root, the usage of the CIS mechanism will continue increasing.

**Ladies and Gentlemen:** As already alluded to, the establishment of AKCP was informed by our desire to optimize the benefits of the CIS mechanism. This is only possible when most of the credit providers are participants. That is why AKCP's initial task is to recruit credit providers who are not yet members of the Association. We all appreciate that most Kenyans are multi-borrowers and their credit reports can only be complete if all credit providers participate in the CIS mechanism. A wider membership of AKCP enhances a quick optimization of the benefits to be derived from the CIS mechanism. This is only possible when an encompassing regulatory framework for all credit providers, both regulated and non-regulated, is developed. This is the other main task for AKCP.

**Ladies and Gentlemen:** When CIS was launched, the only products on offer were basic credit reports. However, the introduction of full-file credit information sharing in February 2014 enabled credit reference bureaus to introduce value added products such as credit scoring. Credit scoring not only enriches the value of credit reports to the lenders but greatly improves the lenders credit risk management. Credit scores will help borrowers to know their risk profiles and how their loans will be priced.

Credit scoring will also go a long way to complement the Kenya Banks Reference Rate (KBRR). This is because credit scores will form an objective basis for credit providers to determine the risk premium to be charged above KBRR.

**Ladies and gentlemen:** As I conclude, I challenge all players represented here today to closely work with AKCP to ensure the realization of its strategic objectives. As identified in

the Government Report on ***Increasing Private Sector Credit and Mortgage Finance in Kenya***, CIS has an important role to play in promoting access to affordable credit. The report encourages full implementation of the Credit Reference Bureau Regulations 2013 as well as the expansion of the mechanism to non-banks. In order to ensure sustainability of this new Association, I urge all potential members to support AKCP via membership subscriptions and other avenues as well as also to engage actively through the committees that constitute its governance structures.

With these few remarks, ***Ladies and Gentlemen***, it is my pleasure to declare the Association of Kenya Credit Providers (AKCP's) 2015–2019 Strategic Plan officially launched.

***Thank You***