Njuguna Ndung'u: Financial sector contributions towards vision 2030 goals

Keynote address by Professor Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the AON Kenya Insurance Brokers seminar on "Financial sector contributions towards vision 2030 goals" Nairobi, 20 November 2014.

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Mr. Joseph Onsando, Chief Executive Officer, AON Sub-Saharan Africa;

Directors and Management of AON Kenya Insurance Brokers Limited here present;

Distinguished Participants;

Ladies and Gentlemen;

It gives me great pleasure to be part of this important seminar themed ***"Financial Sector Contribution Towards Vision 2030 Goals".*** Before I make my remarks, let me take this opportunity to thank AON Kenya Insurance Brokers Limited, for organising this important seminar to highlight the achievements of the financial sector under Kenya's long term development blueprint, Vision 2030. This seminar provides an excellent platform to examine our successes, challenges and map the way forward to increase the financial sector's contribution to Kenya's economic development.

As you are aware, the financial sector, the world over, plays a vital role in the socio-economic development process of a nation. In recent years, there has been increasing evidence showing that financial sector development is important not only for economic growth and development, but also for poverty reduction. Inclusive finance is good for sustainable inclusive growth. The financial sector intermediates between savers and borrowers by providing a wide range of financial services essential for productive economic activities. The financial sector also offers a wide range of products for risk mitigation, whose absence would impede entrepreneurship. The financial sector therefore allows for mobilization and allocation of financial resources for investment and wealth creation. The development of a well-diversified and accessible financial sector is imperative to meet the varied financial needs within the economy.

Ladies and Gentlemen: The anchor Vision 2030 is to transform Kenya into an industrialized middle-income country that provides high quality of life to its citizenry. Vision 2030 defines the financial sector as vibrant and globally competitive that will promote high level of savings to finance Kenya's investment needs. The key objectives for the financial sector in Vision 2030 are to enhance financial stability, efficient transformation and accessibility to all Kenyans.

Ladies and Gentlemen: The long-term policy objectives of the financial sector in Vision 2030 include:

i. Improved access and deepening of financial services and products for a much larger number of Kenyan households and small businesses;

ii. Mobilising higher levels of savings to support higher investment rates;

iii. Greater efficiency in the delivery of financial services to ensure that the cost of mobilising resources and allocating these resources becomes increasingly affordable and that the range and quality of services better caters to the needs of both savers and investors;

iv. Enhanced stability in the system to ensure that all banks and other deposit-taking financial institutions can safely handle the public's savings and ensure that the chances of a financial crisis – with all the costs that this would imply – are kept to a minimum; and

v. To make Kenya one of the ranked financial centres in "emerging markets" by 2030.

Ladies and Gentlemen: In the first five years of Vision 2030, 2008 – 2013, the major reforms and initiatives undertaken in the financial sector to enhance financial stability, efficiency and access include:-

- Licensing of deposit taking microfinance banks;
- Introduction of agency banking to increase reach with least cost;
- Automation of bond trading and lengthening the maturity of Treasury bonds to 30 years;
- Development of a capital markets master plan to chart the development of Kenya's securities markets for 10 years;
- Introduction of credit information sharing and licensing of two credit reference bureaus;
- Introduction of bancassurance products;
- Enactment of the Proceeds of Crime and Anti-Money Laundering Act in 2009 and the establishment of the Anti-Money Laundering Board in June 2011;
- The development of a regulatory framework for deposit taking savings and credit cooperatives (SACCOs); and
- Strengthened oversight of the insurance sector following the adoption of risk based supervision by the Insurance Regulatory Authority (IRA).

Ladies and Gentlemen: The financial sector has started to register significant achievements out of the outlined reforms and initiatives among others. Allow me to briefly mention some of these achievements.

The contribution of the financial services sector to Kenya's economic growth has been on an upward trend from 3.7% of GDP in 2009 to 9.2% of GDP in 2013. Over the same period, the sector grew faster than the economy. The financial sector grew by 9.3% in 2013 as compared to the economy which grew by 5.7%. This was an improvement from 4.9% growth by the sector in 2008 compared to the GDP growth of 0.2%. As a result, the financial services sector is one of the main drivers of Kenya's economic growth.

The national financial access surveys conducted in 2006, 2009 and 2013 revealed that the level of adult Kenyans accessing formal financial services has increased tremendously. This is from 27.4% in 2006 to 41.3% in 2009 and 66.7% in 2013. It is also worth noting that the level of Kenyans who access informal financial services has declined from 35.2% in 2006 to 26.8% in 2009 and to 7.8% in 2013. The increase in the level of financial access in Kenya is testimony to the success of the reforms and initiatives implemented by the players in the financial sector.

Ladies and Gentlemen: In 2013, Geospatial Surveys to map financial access points were undertaken in Kenya, Nigeria, Uganda and Tanzania. The survey results indicate that Kenya is ahead of the other countries in terms of financial access.

- 76.7% of the Kenyan population is now within 5 kilometres of a financial service touch point as compared to 47.3%, 42.7% and 35.1% in Nigeria, Uganda and Tanzania, respectively.
- Kenya has 65,353 financial service touch points as compared to 21,206; 20,229 and 17,212 financial touch points in Uganda, Tanzania and Nigeria respectively.

- Kenya has 161.9 financial access touch points serving 100,000 people as compared to 63.1, 48.9 and 11.4 financial access touch points serving 100,000 people in Uganda, Tanzania and Nigeria, respectively.

Ladies and Gentlemen: The automation of bond trading and lengthening of maturity profiles has enabled the country to mobilise substantial resources for the desired infrastructure projects. Several infrastructure bonds, which have all recorded unprecedented oversubscription levels, have demonstrated the Kenya financial sector's capacity to finance longer term public investment projects, but more importantly, has deepened the financial sector.

Kenya also successfully issued a debut Sovereign Bond in 2014 to finance infrastructure projects, ease pressure on domestic interest rates and establish a benchmark for Kenyan issuers to tap into the international capital markets. The overwhelming oversubscription recorded in the Sovereign Bond demonstrates the confidence that foreign investors have on Kenya's economy. The 10-year and 5-year tranches of the Sovereign Bond were issued at very competitive interest rates.

Kenya's aspiration of becoming an international financial centre is on course. Following Cabinet approval of a broad policy proposal for establishment of the Nairobi International Financial Centre in 2013, H.E. the President through an Executive Order set up the Nairobi International Financial Centre Authority (NIFCA). NIFCA will drive the process of establishing Nairobi International Financial Centre (NIFC). Consequently, an interim Secretariat for Nairobi International Financial Centre Authority (NIFCA) was established at the National Treasury. The Secretariat is currently engaging public and private sector players to inform the development of a comprehensive legal and regulatory framework for NIFC. This is one of the pillars making Kenya the Financial Hub of Eastern Africa.

These successes notwithstanding, there remain challenges for us to address. First, 25% of adult Kenyans are still excluded from financial services. As a result, we need to re-energise our efforts to address any remaining barriers for the majority of Kenyans to access financial services. The main barriers are the cost of financial services and the use and quality of financial services. The use and quality challenges pinpoint the need for enhanced consumer protection, financial education and above all information symmetry across the divide.

Ladies and Gentlemen: In order to address the existing challenges in the financial sector, the Vision 2030's Medium Term Plan for 2013–2017 has outlined the following flagship projects:

i. ***Establishment of the Nairobi International Financial Centre*** to raise funds for projects and tap into new investments coming to Africa.

ii. ***Deepening of Capital Markets*** through a robust policy and regulatory framework to ***stimulate long-term savings*** to finance investments by the Government and private sector.

iii. ***Promoting East African Community financial services integration*** to facilitate trade, enable cross-border operations and movement of capital.

iv. ***Facilitating the expansion of electronic payments*** to significantly reduce transaction costs across the financial system, especially in the provision of retail financial services.

v. ***Development of a national financial education and consumer protection strategy and framework*** to enhance usage and quality of financial services.

Given that most of you are from the insurance sector, you appreciate its importance in raising long-term funds to support economic development. This is particularly important in the capital markets that provide suitable long-term investment vehicles for insurance products. Kenya's insurance sector has played a pivotal role in development of the domestic bonds market. It is therefore important that we upscale the insurance penetration to mobilise additional long-term funds. The FinAccess Survey for 2013 indicated that just about 7% of adult Kenyans access insurance products. There is hence a huge market in Kenya waiting to be discovered by insurance players. The challenge is to design suitable, affordable and accessible products to tap this nascent market.

Ladies and Gentlemen: As the financial sector players, we have our work cut out to meet the needs of Kenyan households and businesses. We must put our best foot forward to understand the needs of our customers and offer suitably tailored products. Only then will Kenya meet its aspirations of being a middle income industrialized country that provides a high quality of life to its citizenry. I have championed financial inclusion in Kenya and beyond and I am sure that this seminar will provide some solutions and I therefore look forward to your proposals.

With these few remarks, ***Ladies and Gentlemen***, I wish you all fruitful deliberations in this worthwhile seminar.

Thank you.