



## PRESS RELEASE

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### BANKING SECTOR RISK MANAGEMENT SURVEY, 2010

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The Central Bank of Kenya (CBK) has today released the findings of the banking sector Risk Management Survey conducted in November 2010. In its endeavor to foster liquidity, solvency and proper functioning of a stable market based financial system, CBK undertook the survey which aimed at assessing the impact and adequacy of the Risk Management Guidelines (RMGs) issued in 2005 on the banking sector. The RMGs were issued pursuant to a similar survey undertaken in 2004 to determine the risk management landscape of the banking sector. Consequently, the RMGs were issued as part of CBK's drive to fully adopt *Risk Based Supervision* and to incorporate the international risk management best practices articulated in the *Basel Core Principles for Effective Banking Supervision* issued by the Basel Committee on Banking Supervision.

The key findings of the Risk Management Survey, 2010, which can be downloaded from [www.centralbank.go.ke](http://www.centralbank.go.ke), are:

- Majority (95%) of the institutions have recognized the importance of proper risk management by setting up independent and well funded risk management functions.
- There is enhanced risk-awareness and risk-management at 95% of the institutions hence improved efficiency and effectiveness of risk management;
- Risk management has helped to enhance the overall decision making processes and in reducing financial losses in 90% of the institutions; and
- The significant risks faced by the institutions are market risk, operational risk and credit risk. However, other emerging risks which are cited by the institutions as being of concern to them are country risk, sustainability risk, expansion/project management risks and the risk of non-compliance with applicable prudential and regulatory requirements.

Since 2005, the Kenyan banking sector has witnessed a structural transformation which has in turn posed additional risks to the players. Key factors driving the transformation include:

- ✚ Expansion by institutions in pursuit of greater market share. Banks have over the years undertaken a massive expansion locally and regionally. This is through opening of branches, establishment of subsidiaries and, recently, contracting of third parties as their agents.
- ✚ The introduction of *Sharia* Compliant Banking whereby banks offer financial services in conformity to the sharia principles. Besides two banks that exclusively offer *Sharia* compliant banking products, several other conventional banks have also established windows for sharia compliant products.
- ✚ Increased focus on corporate social responsibility in recognition of the significant role an institution's operating environment plays in its long-term sustainability.
- ✚ Increasing role of information technology in the banking sector, especially the inter-linkages of mobile phone technology and banking platforms as a means of cutting costs while enhancing efficiency and quality of service.
- ✚ The speed of financial inclusion from micro-level building up the bankable population.

The structural transformation has led to the continued significance of traditional credit, market and operational risks. But it has also led to the emergence of novel risks such as country, project and sustainability risks.

The Central Bank of Kenya will take into consideration, the findings of the 2010 Risk Management Survey in an ongoing review of the Prudential Guidelines and Risk Management Guidelines, which are targeted to be reissued in the course of 2011.

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