



REMARKS BY MR. FREDRICK P.K. PERE

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CENTRAL BANK OF KENYA

AT THE LAUNCH OF PENSION-BACKED MORTGAGE PRODUCT BY
HOUSING FINANCE COMPANY OF KENYA LIMITED (HFCK)

THE STANLEY HOTEL, NAIROBI

29TH OCTOBER 2009

The Chairman;

Board Members;

Managing Director;

Distinguished Guests;

Ladies and Gentlemen:

1. Allow me at the outset to convey the best wishes of Professor Njuguna Ndung'u, the Governor of the Central Bank of Kenya. Professor Ndung'u asked me to represent him at this launch due to a prior commitment.
2. I am pleased to join you in the launch of this pioneering product by Housing Finance (HFCK). With an aspiration to be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya, it is noteworthy that HFCK has not wasted anytime in seizing the opportunity afforded by the amendment to the Retirement Benefits Act to permit use of pension savings as credit enhancement for loans to acquire and/or develop properties.
3. **Ladies and Gentlemen:** Access for mortgage financing has for a long time been a preserve of those who enjoy reasonable and predictable streams of income or have qualifying collateral. This has locked out a sizeable portion of the population, who though having accumulated reasonable pension savings could not access till retirement. With the launch of a pension-backed product, members of pension schemes will be able to use their accumulated pension savings to secure loans for purchase or construction of properties. This marks another milestone in Housing Finance's

achievements as it strives to play its role in enabling Kenyans access decent and affordable homes.

4. **Ladies and Gentlemen:** The banking sector in Kenya has exhibited resilience in the wake of global financial turbulences. In particular, the first round effects of the global financial crisis on the sector were not apparent. This was mainly attributable to the sector not being exposed to the “**toxic assets**” that precipitated the crisis. Of great interest is the performance posted by banks and mortgage finance companies in the first three quarters of 2009. Though the upward trend in profitability has slowed down, the performance remains impressive.

Being cognizant of the possible deterioration in the asset quality due to slowdown in the real sector, CBK has stepped up surveillance to ensure that institutions maintain credit underwriting standards and make adequate provisions. Indeed CBK has not hesitated to remind institutions that collateral should not be the primary basis for lending. Institutions must always assure themselves that they adhere to prudent credit appraisal in processing loan applications. Collateral is just but a fall back in case of eventualities not foreseen at the processing stage. The Central Bank of Kenya and Kenya Bankers Association (KBA) are working on CRBs to build information capital to improve on this terrain and change the collateral technology in use

5. **Ladies and Gentlemen:** There are several reforms so far undertaken by the Central Bank and the Government to strengthen the banking supervision legal and regulatory framework. Since 2004, CBK embraced a proactive Risk Based Supervision approach. Further, together with the banking sector we have worked towards the inculcation of a risk

management culture that proactively addresses potential threats to financial stability. Adoption of best practices in corporate governance and innovation of new products in a systematic manner have also helped banks avoid overexposing themselves to unwarranted risks.

The progressive increase in minimum core capital requirement from Kshs. 250million to Kshs. 1 billion by 2012 will undoubtedly serve as buffers for banks in the wake of periodic and global turbulences. This move also widens the scope of business the institutions can take up. For the Central Bank, this will make our banks even stronger

6. **Ladies and Gentlemen:** The Domestic Regulators recently entered into a Memorandum of Understanding to facilitate coordination and information sharing in supervisory and regulatory concerns. Promotion of market development is part of each of the four regulator's mandates. To this end, CBK appreciates the efforts by RBA to facilitate members of pension schemes to utilize accumulated pension savings as collateral for loans. We are committed to continuously cooperate in our market development efforts. The industry is welcome to join us in putting forward proposals that can help us harness the potential of our financial sector.

7. **Ladies and Gentlemen:** As I wind down my remarks, I urge all institutions to embrace technological developments that continue to improve the platform of financial service delivery. The depth in financial access that recent technological developments like the money transfers services have generated is case in point.

CBK has financial access and financial inclusion on its focus going forward. Recently, we partnered with Alliance for Financial Inclusion (AFI) in hosting an international Forum on Financial Access. The lessons learnt were handy

for us to push forward the agenda. Indeed, AFI awarded a grant to Kenya to undertake a study on Agent Banking. In this regard, CBK, KBA and Ministry of Finance officials are currently undertaking the study in Brazil and Columbia. The aim is to learn lessons and the required financial infrastructure for agent banking in Kenya.

Agent Banking aims at taking banking services closer to the consumers without compromising quality but at lower costs. Institutions can bear me witness that “brick and mortar” branches are expensive to establish and maintain across the country. To this end we urge all players to join us in exploring new avenues of enhancing the level of financial access by the Kenyan population.

It now remains for me to wish HFCK success in their endeavours to pioneer innovative products for the industry. We do believe this is an important step in solving the housing supply in Kenya.

With these few remarks, ladies and gentlemen, it is now my honour and pleasure to declare the new pension-backed mortgage product officially launched.

Thank You and God bless you all.