Central Bank of Kenya

FINANCIAL INCLUSION GOOD FOR FINANCIAL SECTOR INVESTMENT AND DEVELOPMEMNT

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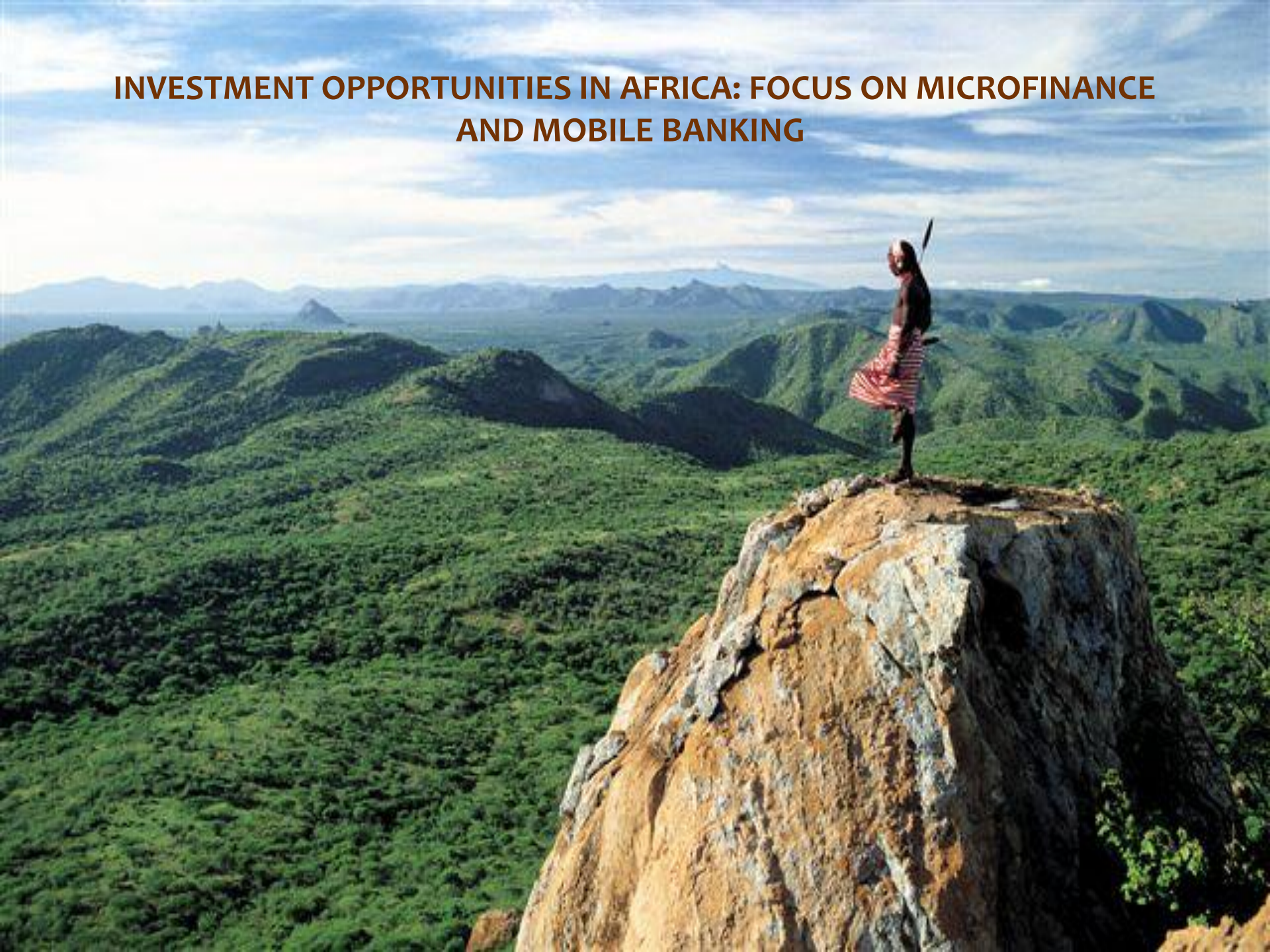
INVESTMENT OPPORTUNITIES IN AFRICA: FOCUS ON MICROFINANCE AND MOBILE BANKING



Outline

- Financial Inclusion Leading Financial Vibrancy and Development
- Financial inclusion Profile
- The Regulator's Role
- Outcomes
- Investment Opportunities

Financial Inclusion for Financial Development

- Nearly 3bn. people in developing countries have little or no access to formal financial services that can help them increase their incomes and improve their lives (World Bank).

- Is there a missing market for them?

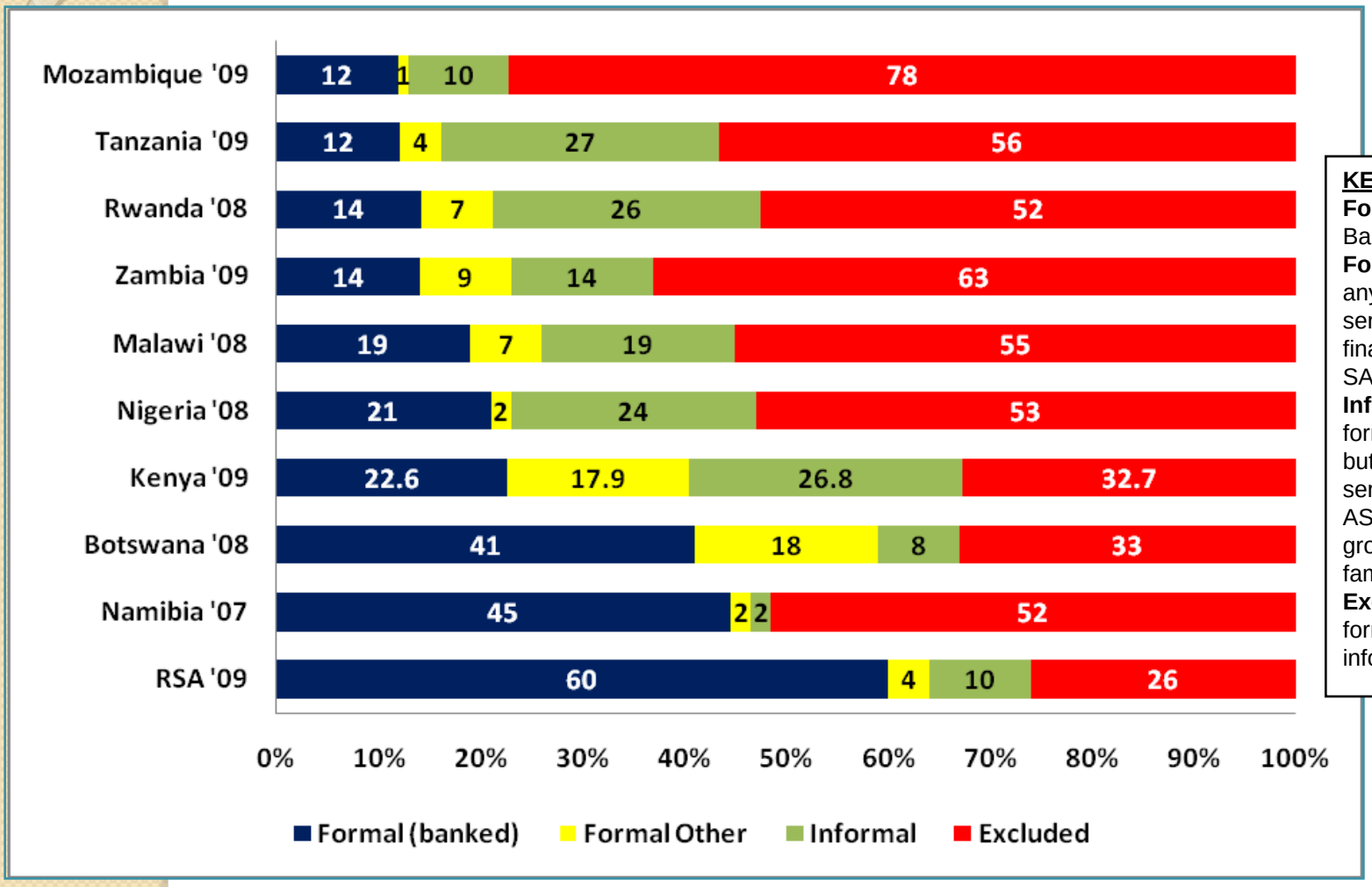
- Most African economies have evolved from a period of missing markets and missing institutions.

- Financial Inclusion: making financial markets vibrant
  - -Brings more participants to the market
  - -The poor want a safe haven for their deposits
  - -Increased deposits enlarges capacity for banks to lend
  - -Financial innovation is possible: development and deepening

Financial inclusion for Financial Development..

- Bond markets and capital markets have developed
- Strategies to enhance financial inclusion therefore are a critical component for financial development
- Financial Inclusion: solving supply and perhaps demand side constraints have opened markets and financial sector has become very vibrant
- Access to financial markets: Good for the poor: Asset accumulation through savings and credit
- This has potential to increase vibrancy in the market-capacity

STATUS OF FINANCIAL INCLUSION IN SELECTED AFRICAN NATIONS



KEY

Formal – use a bank, Post Bank or insurance product.

Formal other – do not use any formal product, but use services from non-bank financial institutions such as SACCOs and MFIs.

Informal – do not use any formal/formal other products but use informal financial service providers such as ASCAs, ROSCAs and groups/individuals other than family/friends.

Excluded – use no formal/formal other or informal financial. .services.

FinScope Zambia (2009) and FinAccess (2009)

Kenya's Financial Inclusion has progressed

- Kenya's financial sector has undergone significant transformation in the last few years;
  - The financial infrastructure has slowly come into place,
  - The market response has been swift,
  - Economic activity has supported growth
- In the last 6 or so years, we have seen:-
  - Significant decline of barriers to entry to the financial sector
  - Significant decline in cost of maintaining micro accounts
  - The introduction of new instruments targeting lower segments of the population.
  - Increased branch network of branches across the country
- But still segments of market exist; we have 43 banks divided into large, medium and small banks as well as Deposit Taking Microfinance Institutions (DTMs)

Kenya's Financial Inclusion Results so far

- The effects have been felt: some results are quite significant;
  1. Deposits and deposit accounts have increased
  2. Loan accounts have increased
  3. Banks competing and room for mergers and consolidation
  4. Investment in service provision or financial infrastructure; Risk analysis and credit risk ratings are going to be important

The Regulator's Role

- **CBK has provided space for innovative solutions;**

1. **Mobile Phone Financial Services Platform** - Use of mobile phones for person to person, person to business, business to person and ATM payment transfers.
2. Licensing of **Deposit Taking Microfinance (DTM) Institutions -** Nationwide and Community MFIs.
   - 5 DTMs (one community based) licensed so far with 47 branches across country.

3. Deposit Protection Fund-Covers up to Ksh. 100,000 (USD 1,250) covers 90% of total accounts in the financial sector.

4. Expansion of Branch Network of Commercial Banks
   - Increase from 534 in 2005 to 1072 by end of March 2011, distributed well across the country.

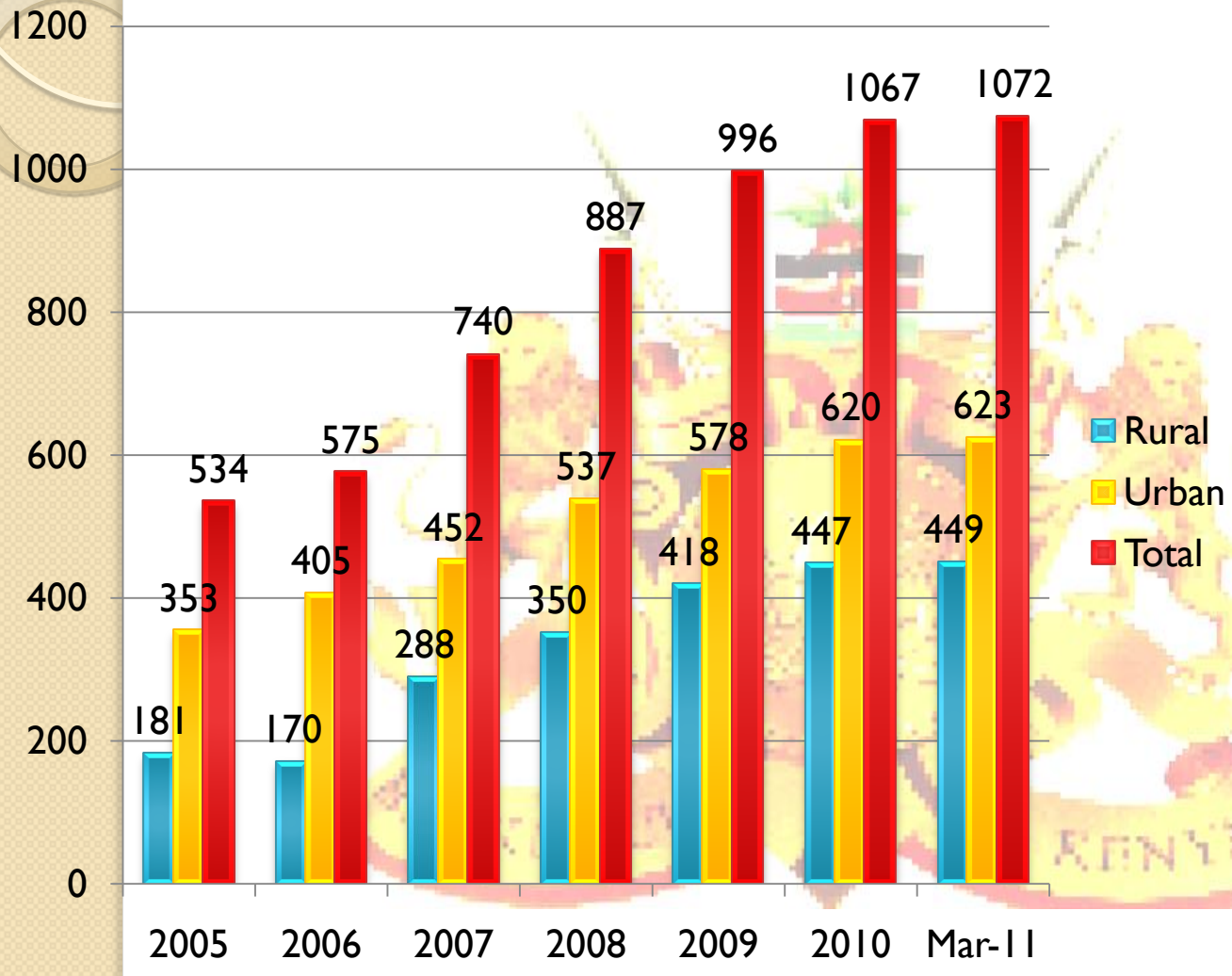
The Regulator's Role

5. **Agent Banking** – Turning non-bank outlets into financial services providers.
   - So far 8,809 agents approved, leveraging on mobile phone agents also. Agents to push forward financial inclusion frontiers.
6. **Enhancement of core capital** – for commercial banks; New minimum core capital by 2012
7. **Consumer Protection** - The missing link in financial inclusion.
   - Consumer protection rights entrenched in Kenya's new constitution.
   - New Constitution; A legal framework to support development of strong institutions to grow and support the market.

Other Supporting Financial Infrastructure

- **Macro-level Support**
  - **Credit Reference Bureaus** - Extending credit based on financial identity
    - Over 750,000 records have been submitted to the CRB by banks and DPFB institutions.
    - Banks have accessed over 500,000 credit reports; whereas
    - Individuals have accessed slightly over 1,000 credit reports.
  - **Currency Centres** - Reducing Cash in Transit Costs for banks and their branch networks across regions:-
    - Three Centres have been established with the first having been operationalised end 2009/early 2010.
  - **Financial Education** through a financial regulators joint effort.

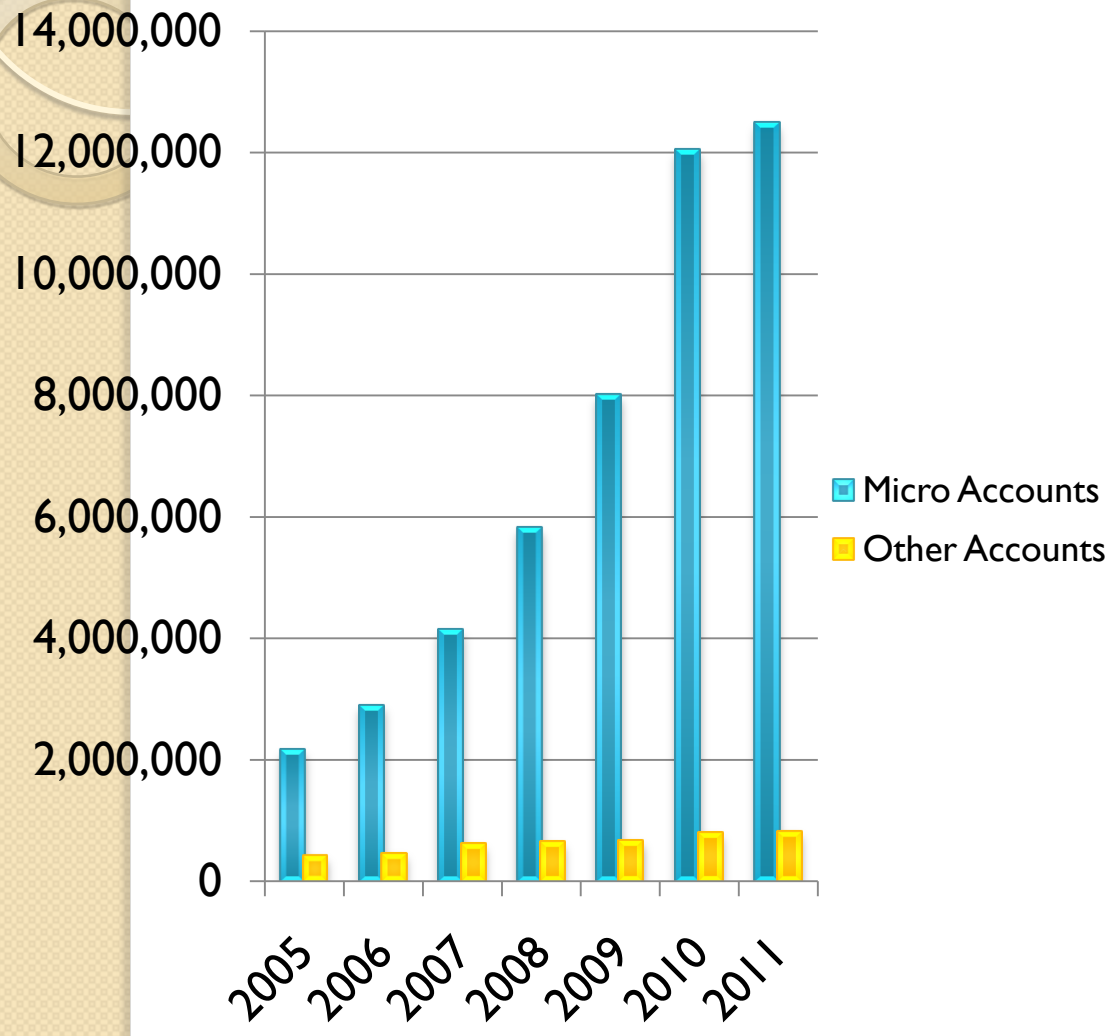
Outcomes - Expanding Financial Services: Branch Networks, MFIs



- Increase from 534 in 2005 to 1072 end of March 2011.
- Growth driven mainly by competition and declining barriers to entry.
- Overall growth as at was 101%; and 148% growth in rural branches compared to 76% growth in urban areas.

Source :Central Bank of Kenya, 2011

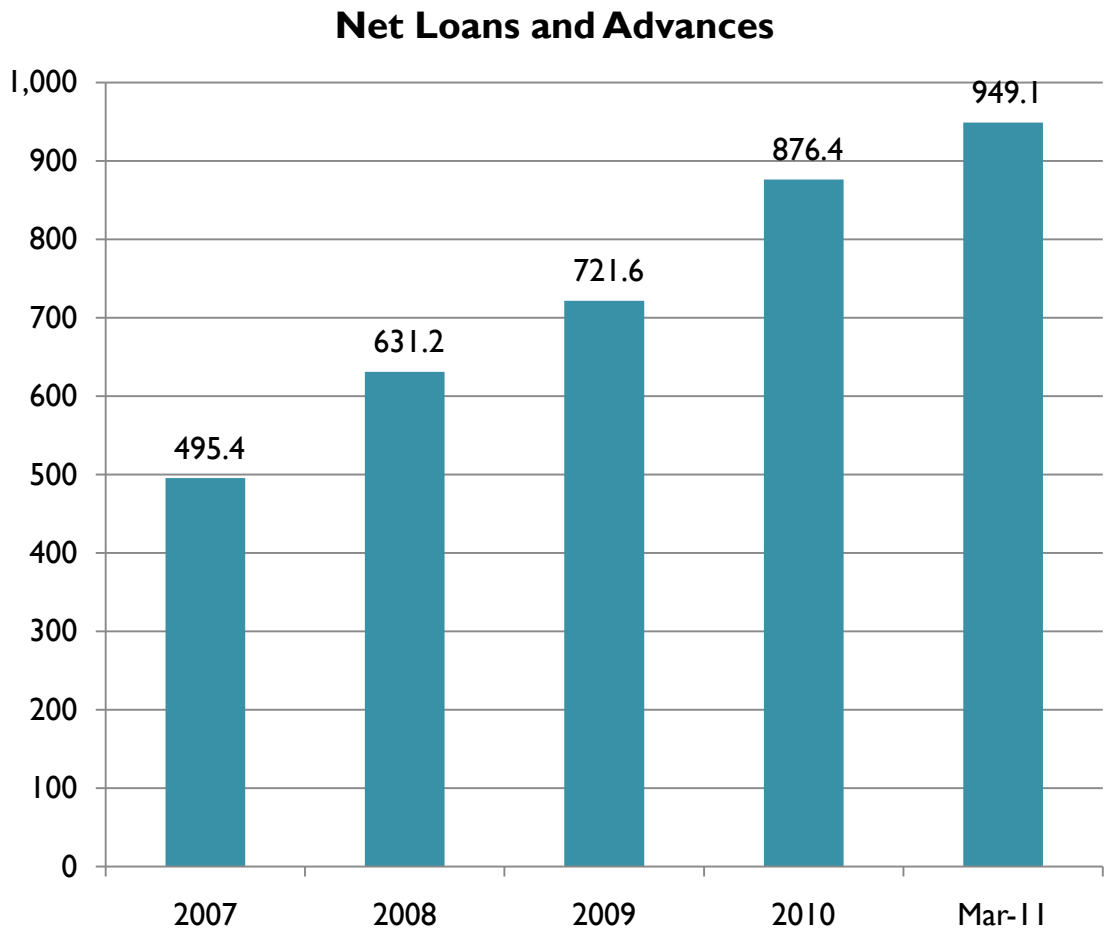
Outcomes - Growth of Kenyan Banking Sector and Deposit Protection Fund (DPF) - Deposit Accounts



Source :Central Bank of Kenya, 2011

- Number of deposit accounts has increased from 2.55 million in 2005 to nearly 13.3 million at end of February 2011.
- Number of micro accounts has increased by over 400% from about 2.14 million accounts in 2005 to about 12.2 million accounts at end of February 2011.
- Growth attributable to reduced costs of maintaining micro accounts and introduction of innovative instruments.
- But also increased branch outlets that solve the physical distance.
- Barriers of entry have been significantly reduced.

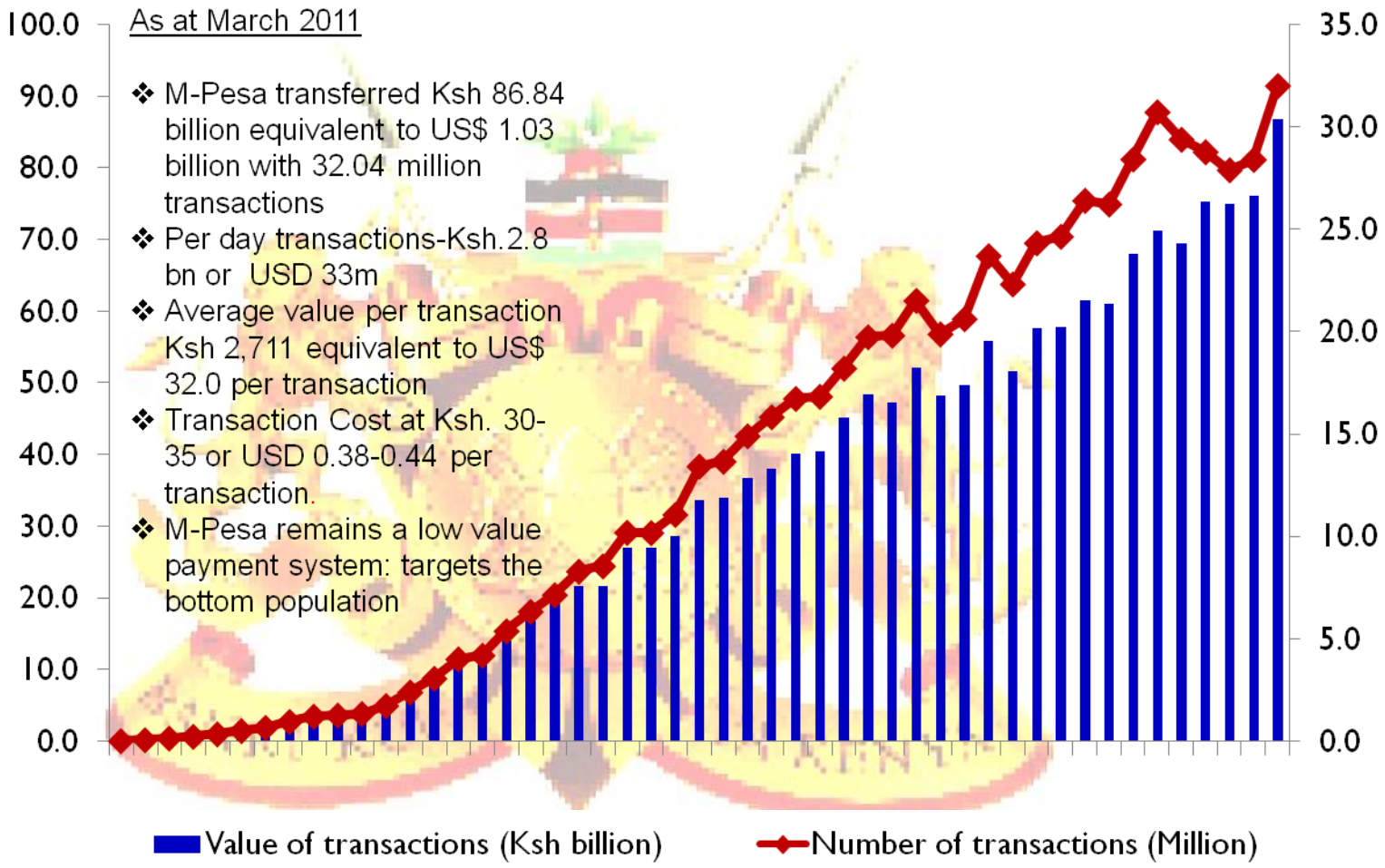
Outcomes – Net Loans and Advances



Source :Central Bank of Kenya, 2011

- Net loans have increased from 495.4 billion in 2007 to 949.1 billion at end of March 2011.
- Growth is largely accredited to the financial Inclusion reforms and initiatives, innovatio ns especially technological led innovations and financial awareness initiatives

Outcomes – Mobile Phone Financial Services-M-Pesa Flows, Volumes & Values



Source :Central Bank of Kenya, 2011

Outcomes – Agent Banking: Nature and Distribution

NATURE		
TELECOMS RELATED	INDEPENDENT/INDIVIDUAL	TOTAL
6,740	2,069	8,809
DISTRIBUTION		
RURAL AREAS	URBAN AREAS	TOTAL
67%	33%	100%

Source :Central Bank of Kenya, 2011

From Money Transfer to Mobile Financial Services…

- For the last three years, millions of Kenyans have been able to use mobile phone platforms to make payments and send remittances.
- In 2009 mobile phone platforms began being integrated with banking platforms.
- One of the criticisms then was that mobile phone money transfers did not seem to affect financial intermediation significantly.
- In May 2010, Equity Bank partnered with Safaricom to launch M-Kesho account that goes beyond transfers to micro-savings, micro-credit and micro-insurance.
- Since the launch, over 786,000 M-Kesho accounts have been opened with over USD 8.5 million mobilised.
- Other banking products that leverage on mobile phone technology include KCB Bank Connect and Family Bank's Pesa Pap.
- Other mobile phone operators have also launched their mobile money products – Zain (Zap) and Essar (Yu Cash).

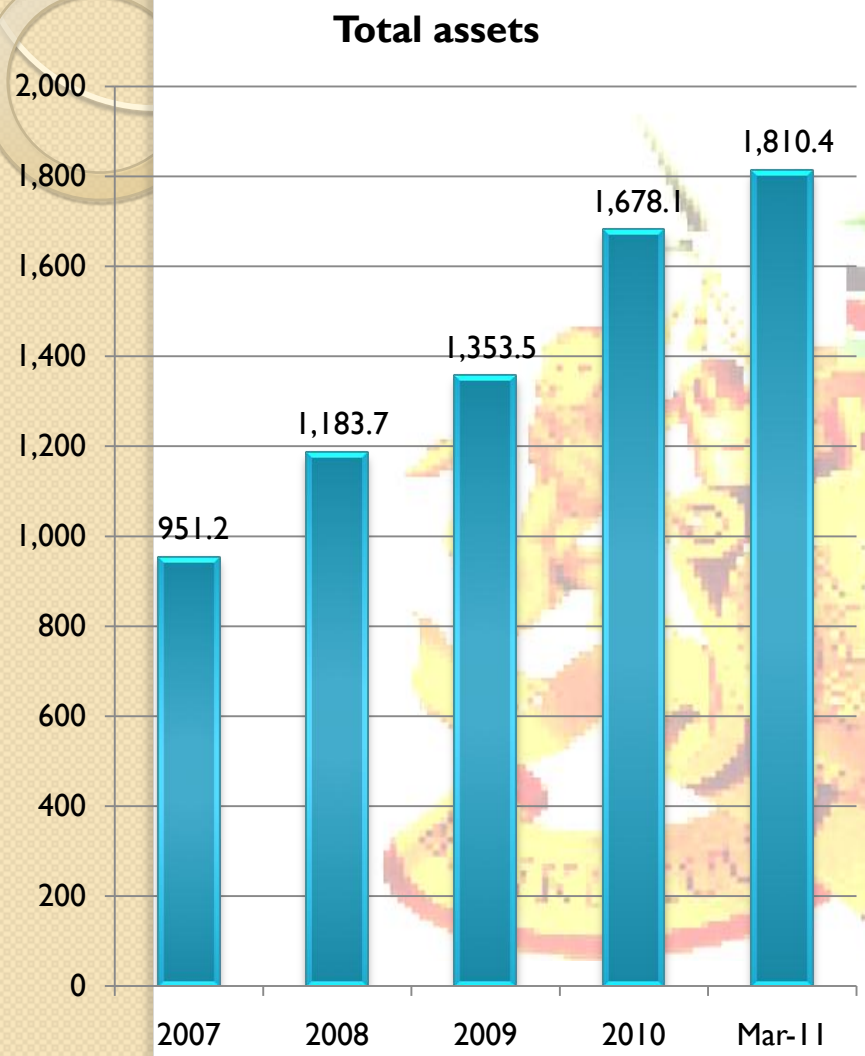
Kenyan Banks Expansion to the EAC Region

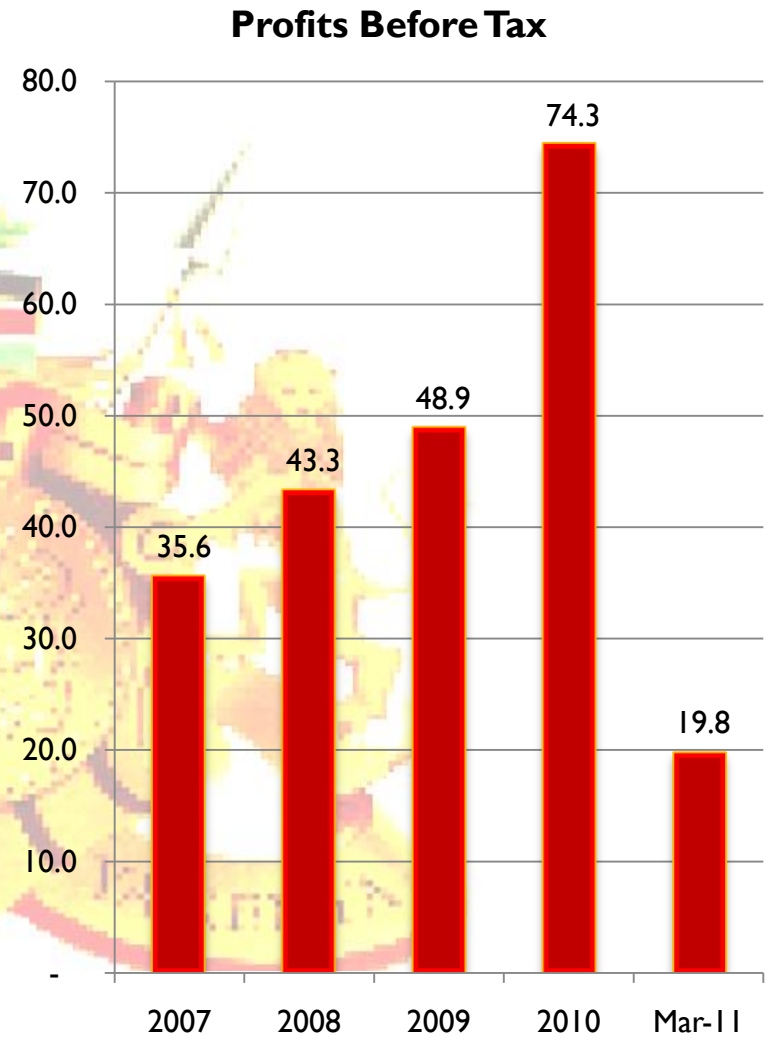
Name of Bank	Number of Bank Branches in:				
	Kenya	Tanzania	Uganda	Rwanda	Burundi
Kenya Commercial Bank (KCB)	169	11	13	9	-
Equity Bank	116	-	43	-	-
Diamond Trust Bank	32	10	15	-	2
Fina Bank	15	-	5	9	-
NIC Bank	16	3	-	-	-
Commercial Bank of Africa (CBA)	19	5	-	-	-
I&M Bank	16	3	-	-	-

- KCB has another 11 branches in Southern Sudan
- Equity Bank has 3 branches in Southern Sudan
- I&M Bank has 14 branches in Mauritius through its subsidiary Bank One Limited

Source :Central Bank of Kenya, 2011

Profitability Indicators





Source :Central Bank of Kenya, 2011

Investment Opportunities

- There is a potentially huge market of the unbanked waiting to be discovered-32.7% as at 2009.
- Need for more stronger players to enhance competition-opportunities for equity or debt financing opportunities.
- Credit Information sharing –Room for more players to promote competition and enhance quality of reports.
- Credit rating – more rating companies on performance of institutions to enhance their position and unleash their potential
- Variety of products limited- room for more innovative financial products especially leveraging on IT platform