CENTRAL BANK OF KENYA

Speech by

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at the

BREAKFAST LAUNCH OF THE FINACCESS 2009 RESULTS

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Distinguished Guests;

Ladies and Gentlemen;

It gives me great pleasure to be with you today to formally launch the results of the second national survey on access to financial services in Kenya. Before I make any remarks, let me take this opportunity to thank the Financial Access Partnership (FAP) and the FinAccess 2009 Secretariat, which is based at the Research Department of the Central Bank of Kenya (CBK), and the collaborating partners; the Financial Sector Deepening (FSD Kenya) and the Kenya National Bureau of Statistics (KNBS), for making today's launch possible.

Ladies and Gentlemen, it is important to note from the very onset that over the last five years Kenya's financial landscape has considerably changed. The financial system is now offering a wider range of financial services to more Kenyans with a wider geographical coverage even going beyond its borders. A number of factors have been responsible for these developments. These include:

- developments in the monetary sector of the economy and increased economic activity;
- the financial confidence in the sector;
- policy and regulatory reforms; and
- increased competition and advances in technology.

These developments have set off a dramatic shift away from the traditional branch banking in the delivery of financial services. The introduction of automatic teller machines (ATMs) a few years ago moved customers out of the physical branches but this was preceded by automation system in the banking industry. And now more than ever, access through point-of-sale (POS) devices, mobile phones and the internet are poised to accelerate the swing to branchless banking. With reduced transactions costs, reduced barriers to entry and massive expansion in terms of geographical outreach, access to finance is bound to increase tremendously. The challenge to us is to develop regulations that allow low-cost delivery of financial services without exposing customers to unnecessary risks and costs.

Ladies and Gentlemen, the Government recognizes the vital role the financial system plays in the economy. This recognition is entrenched in the country's development blue print – Vision 2030, which aims at transforming the country into a newly industrialized middle-income country that provides high quality of life to its citizenry by the year 2030. Indeed under Vision 2030's economic pillar, the financial services sector is one of the priority sectors amongst Tourism, Agriculture and Livestock, Wholesale and Retail Trade, Manufacturing, and Business Process Outsourcing identified to address Kenya's economic challenges and grow GDP to 10% by the year 2012. The six priority sectors contribute the most to our GDP (57%) and create half of formal sector jobs. That is why Vision 2030 envisages a financial sector that is vibrant and globally competitive in driving high levels of savings and financing the country's investment needs. To achieve this goal, however, three core objectives: enhancing financial stability, improving its efficiency, and expanding financial access must be addressed. The financial sector has to collect savings from micro-savers and provide them to the real sector for productive investments.

Stability is critical because we cannot achieve sustainable development without an effective and stable financial system that allocates resources and mitigates risks effectively. Serious threats to our financial system have emerged from the current global financial crisis. Although the Kenyan financial system was not exposed to the toxic assets that destabilised the global financial systems, the potential real sector impacts are still real. However, measures have been put in place to address the challenges arising from the crisis but also to realign monetary policy to lean with the wind. Such measures have included; lowering both the Cash Reserve Ratio (CRR) and Central Bank Rate (CBR) to ease credit restriction and liquidity in the market, so as to allow cost of credit to come down and lower interest rates; enhanced surveillance of banks especially on capital adequacy, liquidity risk management, forex exposures and market risks; and licensing credit reference bureaus to reduce banks' exposure to credit risks. No efforts are being spared to attain financial stability and the Government is pressing ahead with all necessary reforms designed to strengthen the legal, regulatory and supervisory framework to ensure stability of the financial system.

The efficiency of the financial system has an immediate impact on the wider real economy through the consequent cost of financial services. Of course we are depressed that the spread has remained around 9.0% for many years. Concerns have been expressed in the past over the level of interest rates and fees charged by commercial banks. The Government through the CBK has in this regard consistently sought to redirect monetary policy easing via the signaling rate, CBR, the latest review to 8% being in May. Competition is clearly essential to ensuring that financial institutions have the incentive to invest in improving productivity and the gains being passed on to their customers. The CBK has acted to encourage greater transparency in pricing to help ensure the effectiveness of competition. The Government has also initiated reforms in the commercial justice system, property rights definition, collateral and land registries and the company registry to support fair competition through an efficient financial system.

Let me now turn to the subject of **expanding access to financial services**, which is our main theme this morning. The importance of financial services for socio-economic development is not restricted to credit provision alone. Secure and high quality savings, affordable insurance services and pension schemes are financial services demanded by all including poor households, who have suffered the most in terms of accessing these services. Poor households, the majority of who are still un-banked need to manage their finances efficiently through accessible and affordable financial services and reduce their vulnerability to fluctuations in cash flow, save for consumption smoothing, cope with emergencies like poor health and/or death and accumulate high quality savings for investment in household and other productive ventures. Considerable scope, therefore, exists for expanding access to financial services to the un-banked segments and markets in our economy.

Evidence from a diversity of institutions locally and internationally show that financial services can be provided to micro and small scale enterprises (MSEs) and poor households profitably. The critical challenge we face is in developing pro-poor financial services and innovative systems through which they flow in order to open up these markets. The Government is committed to a market-based approach to financial sector reforms, but it looks to the private sector to deliver the results on the ground. Recent figures suggest that this policy is already starting to pay off. Data from the Central Bank of Kenya shows that in the first quarter of this year alone, a total of 49 new bank branches had been opened in various parts of the country. I am also happy to note that FinAccess 2009 survey results show the proportion of those formally banked rising from 18.9% in 2006 to 22.6% in 2009 and the proportion of the financially excluded falling from 38.4% in 2006 to 32.7% in 2009 also corroborates this. The growth in numbers of people being reached by banking services is therefore encouraging. But also these ratios are complemented by the trend showing total deposits increasing to surpass Ksh.900 billion in 2009 – this implies more coming to the banks as well as expansion for the existing customer deposits. Indeed we also see today an increasing number of institutions offering innovative products and services that are expanding financial access. In particular, the use of new technologies is crucial to the development of the financial sector and to dramatically expand financial access. The Government is pleased to acknowledge and encourage the contributions these institutions are making to the growth of the sector.

Ladies and Gentlemen, we all know we still have quite some ground to cover in expanding access to financial services. The survey being launched today, FinAccess 2009 marks a major contribution towards improving our understanding of the dynamics of the changing financial landscape in Kenya. The new information it provides is important in understanding the financial landscape as the basis for directing interventions where they are most needed. The survey results show, for example, the important role informal sources of finance continue to play for a large number of Kenyans who are not reached by the formal financial system. The FinAccess 2009 survey also shows examples of how homegrown solutions such as mobile phone money transfers through M-PESA, SACCOs, MFIs and community based financial organisations are contributing towards expanding the access frontier. To enhance their effectiveness the Government will continue to improve the legal, regulatory and supervisory framework to maximize gains and minimize risks to the consumer. For example, the enactment of the Microfinance Act in 2006 provides a great opportunity to broaden and deepen access to financial services. The MFIs will target low-income earners and rural areas in Kenya. Towards this end, the Central Bank has developed and published the proposed Prudential Regulations for Deposit Taking Microfinance Institutions. It is our hope that implementation of the Microfinance Act will provide the opportunity for integration for a variety of financial service providers into the formal financial system. The Government also enacted the SACCO Act 2008 to regulate SACCOs especially those with front office operations (FOSA). This enables SACCOs to offer financial services that were previously the preserve of commercial banks and therefore expand access of their clients to these services more conveniently. Appropriate regulations such as these strengthen the sector, assuring stability and laying a platform for further growth.

Another remarkable result from the survey is the high level of cell-phone usage among Kenyans; nearly 50% of all adults are users but with greater uptake in urban areas at 72.8% and in Nairobi at 80.4%. New forms of financial access are now established and can be further developed on the new technology platform. The M-PESA money transfer service is indeed already playing a pivotal role in remitting transfers and expanding access to financial services particularly to the un-banked in rural areas. The Government again, is working to provide a legal, regulatory and supervisory framework to encourage these innovations in order to further expand the financial access frontier.

Results of the survey also indicate that in urban areas, for instance, almost half (47.3%) of the adult population receive financial services from different combinations of the formal, formal other and informal financial institutions. This is a critical observation in the phase of efforts to promote partnerships amongst the various institutions whereby institutions such as banks can use MFIs or SACCOs to extend the provision of their services and reach clients they would otherwise not have reached. This can limit the cost of informal financial channels.

Ladies and Gentlemen, let me also observe that the information generated now by the two FinAccess surveys; FinAccess 2006 and FinAccess 2009, also helps firms in the industry identify where opportunities exist. I am delighted that the industry now has this useful information base at its disposal. The results of the FinAccess studies will help the private sector to better understand the dynamics of the broader Kenyan market and use that understanding to develop new products and ways to deliver them to customers they haven't served before.

Finally, I would like to thank all the institutions that contributed in various ways towards this FinAccess study – notably the Kenya National Bureau of Statistics (KNBS), the Financial Sector Deepening (FSD-Kenya), Synovate Kenya, the Research Department of the Central Bank and the entire Financial Access Partnership. This range of surveys should now be made continuous to provide data points and information that can help us assess success, deal with challenges and inform participants as well as investors of the parameters involved, in addition to understanding the dynamics of this sector.

We have quite some ground to cover to achieve the objective of improving access to financial services. The majority in this country still lack access to basic financial services. However, the FinAccess studies provide us with valuable information as to where we should focus our efforts.

In conclusion, let me also observe that the FinAccess studies have been championed and driven by a partnership between public and private institutions. I commend and support such initiatives and hope that this lays the foundation for a deeper and sustained partnership between the public and private sector in tackling the challenges and taking advantage of opportunities that arise.

With these few remarks, **Ladies and Gentlemen**, I welcome you to this breakfast event.

THANK YOU