CENTRAL BANK OF KENYA

Opening Remarks by

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at the

10th East African Banking School

Laico Regency Hotel, Nairobi
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Mr. John Waka, Chairman, Kenya Institute of Bankers;

Chairman, Tanzanian Institute of Bankers;

Chairman, Ugandan Institute of Bankers;

Directors of the Institutes here present;

Distinguished Guests;

Facilitators and Speakers;

Participants;

Ladies and Gentlemen:

It gives me great pleasure to be here today to officially open this 10th East African Banking School. The School has over the years become an important forum that brings together banking sector players for interactive discourse on issues affecting the regional banking sector.

To start with, let me extend my profound appreciation to the Kenya Institute of Bankers for hosting this year's East African Banking School conference, and for inviting me to officially open it. I am indeed deeply honoured.

At the outset, I would like to commend all the three banking institutes for their worthy efforts in capacity building for their respective banking sectors. It is through these capacity building initiatives that our banking sectors have been rated as pioneers in several banking innovations – endogenous growth.

Ladies and Gentlemen: The theme of this year's conference, *"Winning Strategies for Financial Services",* is very pertinent not only to commercial banks but to the financial sector as a whole. Why do I say so? A mention of the recent global financial crisis sends shivers through most of us. The EAC financial sectors may not have experienced direct effects due to low exposure levels of toxic assets, but we do know we all suffered from the knock-on effects. The outcome also is a pointer we need more financial regulatory architecture in place. This in a sense reflects the inter-linkages in the global financial scene that we cannot ignore. But a second reason is to promote financial inclusion; savings culture and savings/investment cycles.

The rich programme of this conference is a pointer that participants are expected to come out fully prepared to design timely solutions to some of the challenges we are currently grappling with. Innovations in the banking sector rely heavily on the quality of the human resource in the sector.
As for financial sector regulators, their desire is for the development, deepening, stability, inclusion and efficiency of the sector. This is the reason why regulators have

placed a lot of emphasis on the need for effective risk management frameworks by all the players. I am sure the risk management sessions in the programme will delve more into when caution should be exercised in banking business without stifling innovation.

Ladies and Gentlemen: This year's East African Banking School conference takes place at a significant moment in East Africa's history – the implementation of the East African Common Market Protocol and the commencement of efforts towards an East African Monetary Union. When the Common Market Protocol is fully implemented, an integrated regional market of close to 130 million people will have been created. Similarly, the variety, and size of the market for financial services is therefore set to widen considerably in the region. As a result, we all stand to benefit from the integration - consumers will start to enjoy quality financial services at competitive prices and the market players will have an expanded consumer base. Furthermore, the labour force will be able to freely transfer their expertise across the region.

To facilitate smooth integration of our banking sectors, efforts are currently underway to harmonize the legal and regulatory regimes governing the banking sector in the East African Community. The harmonization is not only aimed at achieving convergence in supervisory and regulatory practices but also to match global financial sector best practices.

Ladies and Gentlemen: To fully utilise the opportunities anticipated to emerge from the regional integration, players in the financial sectors need to develop solid capacities through continuous training of both managerial and operational personnel. The key asset of banking as a service industry is its human capital. To remain at the cutting edge in this era of increased competition, all players must be willing to make adequate investments in their human capital.

Ladies and Gentlemen: The winning strategies for financial services are the drivers of growth in the financial sector. Though there are many winning strategies for financial services, I will today focus on only three of them;

- being customer centric,
- risk management frameworks, and
- human capital development.

Market players who develop competitive strategies which adhere to their customers' needs are on a path of success. In this regard, successful financial products, services and processes are those which are designed to address customers need for convenience, accessibility and cost efficiency. Market participants – many and many products.

A case in point is the ongoing convergence of the mobile telephone technology platform and banks. The banks are linking their customers to their bank accounts through the mobile phone platforms and online banking. As you may be aware, the M-pesa platform operated by Safaricom has so far registered more than 9 million customers in just three years, some of whom do not have bank accounts. Other mobile phone operators have followed this innovative path of financial services facilitation. This unprecedented development has informed the banks' quest to rush to partner with mobile phone technology providers not only to expand their clientele base but to also provide their customers with the convenience and cost savings.

The exponential growth experienced by M-pesa for example, is due to the convenience, accessibility and cost efficiency it provides to its customers in the transfer of money especially from the urban centres to the rural areas.

Ladies and Gentlemen: The other competitive strategy that the financial sector players can capitalise on is risk management. Proper identification and mitigation of potential risks is what distinguishes the levels of success in any form of business. As far as the banking sector in the EAC is concerned, it is encouraging to note that we have all adopted the Risk Based Supervision (RBS) approach in our regulatory and supervisory practices. This approach is a key contributor to the financial stability that our banking sectors have continued to witness over past few years – appropriate assessment of risk and pricing of risk.

Currently, our focus on credit information sharing is another avenue of helping the players to manage their credit risks. Credit information sharing is already operational in Uganda and Rwanda whereas it was rolled out in Kenya with effect from 31st July 2010. Tanzania and Burundi are in the process of considering introducing appropriate information sharing mechanisms. With operational credit information sharing mechanisms, we expect the levels of non –performing loans to decline as a result of increased information symmetry while at the same time the level of credit will increase due to the use of information capital to obtain credit. Information capital – solve information asymmetry.

Ladies and Gentlemen: Investing in human capital is yet another critical competitive strategy in the financial sector. Both the financial sector regulators and the market players require human capital with the requisite cutting edge knowledge and skills to enable them move the sector's development to new frontiers. The winning growth model: endogenous growth model – relies on human capital to drive growth. In this regard, I appreciate the efforts of the three bankers' institutes' towards this Banking School, which will enable participants to improve their knowledge, skills and professionalism. On the same note, every two years, the EAC central banks convene an East African Central Banking Course to enable their personnel to sharpen their skills and to equip them with knowledge on emerging developments in the global financial sector. The latest East African Central Banking Course was hosted by the Central Bank of Kenya in July 2010 at the Kenya School of Monetary Studies.

As I conclude, **Ladies and Gentlemen,** I would like to reiterate that the integration of the EAC member states will open many opportunities for the players in the financial sector. There will be challenges on 1) harmonizing frameworks 2) new analytical and design issues. What the players need are winning strategies, which I am sure you will have exhaustively delved into by the end of this conference. I therefore urge all of you to openly share your knowledge and experiences as a means to coming up with winning strategies applicable to our respective financial sectors. I believe that by the end of this conference, all of you will accept to be the goodwill ambassadors of development in our respective financial sectors. This will be an indirect push to the benefits of regional integration.

In view of the intensive programme ahead of you, I shall not extend my remarks any further. It is my hope that the knowledge you will acquire over the next four days, will make you the agents of positive transformation in our banking sectors to upscale our ranking in the global scene. I therefore take this opportunity to wish you all a fruitful conference.

With these remarks, **Ladies and Gentlemen**, it is now my honour and duty to declare the 10th East African Banking School officially opened.

Thank You