

CENTRAL BANK OF KENYA



SPEECH

BY

**PROF. NJUGUNA NDUNG’U
GOVERNOR
CENTRAL BANK OF KENYA**

at the

**8TH ASSOCIATION OF SAVINGS BANKS OF EAST AFRICA (ASBEA)
MEETING**

*Panafric Hotel, Nairobi
23rd November 2010*

Mr. Stephen Mukweli, the Chairman of ASBEA;
Mr. Chris de Noose, Managing Director, World Savings Banks Institute (WSBI);
Mr. Wilson Kinyua, Chairman, Kenya Post Office Savings Bank;
Mrs. Nyambura Koigi, Managing Director, Kenya Post Office Savings Bank;
Chairpersons and Chief Executives of ASBEA Member Institutions here present;
Distinguished Guests;
Ladies and Gentlemen:

It is my distinct pleasure to join ASBEA members at this important meeting. I am grateful for the invitation to join you as you commence your deliberations. Allow me to also welcome participants from our sister EAC states and those from beyond the EAC. I urge you all to enjoy both the meeting and its content and above all, the hospitality that Nairobi offers.

This meeting is indeed timely given the current global focus on financial inclusion. One and half weeks ago, the G20 Leaders meeting in Seoul, Korea mainstreamed financial inclusion in the G20 Agenda. The G20 adopted a financial inclusion action plan; announced the establishment of the Global Partnership for Financial Inclusion and an SME Finance Framework. These actions are expected to significantly contribute to improving access to financial services and expanding opportunities for poor households and small and medium enterprises. Last week, a Global Savings Forum was convened in Seattle, USA by the Bill and Melinda Gates Foundation. The Forum, at which Savings Banks Institutions were well represented, focused on building a new financial infrastructure to bring financial services to the poor.

Ladies and Gentlemen: One of the factors that sustains and drives poverty is access to markets. Financial market access is important for the poor to support savings, build up and accumulate assets. The poor need safe havens for their savings that they can use to build assets, smoothen their consumption and protect them from periodic shocks. Closer home in the EAC, a significant proportion of

the population, over 50% in most of the countries, lacks access to any form of formal or informal financial services. We therefore face a considerable but surmountable task of pushing forward the financial inclusion frontiers. Savings Banks certainly have a critical role to play in this regard given their long history in the region. Indeed, yesterday saw the centenary celebrations of the Kenya Post Office Savings Bank. For most East Africans, the Postal Banks were their first introduction to the world of financial services through the iconic “passbook”. Over the years, the passbook has been phased out and replaced by “paperless” transactions.

But against all odds, the EAC countries have set ambitious targets to move to new development frontiers. For instance, Kenya in its Vision 2030 seeks to raise the Savings to GDP ratio from 14 to 32%. To achieve this target, barriers to savings need to be identified and addressed. These barriers include costs of operating savings accounts and even distance to access financial services points. In this regard, the Central Bank of Kenya continues to promote innovation, adoption of new models and creation of new institutions to promote financial inclusion. But above all, we need to reduce costs of doing business for financial institutions to provide these services and the incentives they carry.

Ladies and Gentlemen: Innovation is a critical component of the Central Bank’s reform agenda. The Bank has promoted the uptake of mobile financial services in Kenya that have led to rapid and massive up-scaling of financial services in Kenya. Well over 15 million Kenyans now enjoy mobile financial services that picked up in 2007 with the introduction of mobile money transfers. There is now a growing integration of the platforms of telecommunication companies and banks. This year has seen the launch of integrated and co-branded telecommunication and banking savings products that have already recruited over 700,000 customers and mobilized over 5 million US Dollars in deposits. In the category of micro accounts in Kenya, we have seen in the last three years a great expansion; from about 4

million accounts to 11.25 million accounts currently. It means we are slowly succeeding in our efforts on financial inclusion.

With regard to adoption of new models of financial inclusion, the Central Bank rolled out the Agent Banking model for commercial banks in May of this year. This model will enable banks to expand their outreach cost effectively through use of third parties. We have so far approved over 8,000 agents. This model provides opportunities for banks to also partner with Savings Banks who traditionally have had extensive outreach particularly through the postal system.

Ladies and Gentlemen: To promote financial reach and access, particularly to rural and peri-urban areas, the Central Bank has since 2009 licensed three Deposit Taking Microfinance Institutions. Microfinance institutions target low income segments of the population and operate close to where these market niches are located. The three institutions have in their short period of existence already mobilized over 90 million US Dollars in deposits.

The most recent institutional reform carried out by CBK was the introduction of Credit Information Sharing in July of this year. This is intended to facilitate sharing of credit information, initially by commercial banks and later by other financial and non financial institutions. Credit Information Sharing is expected to facilitate access to affordable credit through the building of information capital. This is particularly pertinent to small and medium size enterprises and individuals in the informal sector who lack physical collateral to access credit. We believe even in the EAC region Credit Reference Bureaus will facilitate change and adoption of new collateral technologies.

Ladies and Gentlemen, as I draw to a close, I challenge ABSEA members to rise to the moment and reclaim their pride of place in the financial ecosystem. I note your efforts to embrace technology, but more must be done if you are to stay relevant in a fast evolving financial world. You must seek to grow partnerships with other financial institutions and emerging market players like telecommunication

companies to survive in the new financial ecosystem. I am confident that Savings Banks can leverage on their long standing history in the EAC and their extensive delivery channel networks to play their role in promoting financial inclusion for the benefit of the East African citizenry.

Ladies and Gentlemen: With these remarks, it is now my pleasure and honour to declare the 8th Association of Savings Banks of East Africa Meeting officially open and wish you fruitful deliberations.

Thank you.