CENTRAL BANK OF KENYA

Remarks By

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during the

4^{th} ICPAK FINANCIAL SERVICES CONFERENCE:
"Financial Services Sector: Steering the Economy to the Next Level"

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Mr. Patrick Mtange, Chairman, Institute of Certified Public Accountants of Kenya;
Ms. Caroline Kigen, Chief Executive Officer, ICPAK;
Distinguished Guests;
Ladies and Gentlemen:

It gives me great pleasure to be here today to open this 4th Financial Services Conference. Let me at the outset thank the Institute of Certified Public Accountants of Kenya for organizing this forum and particularly for the choice of the theme **"Financial Services Sector: Steering the Economy to the Next Level"**. At the Central Bank we work on the subject at the policy level with patriotic interest.

Ladies and Gentlemen: For our country to develop and realize the aspirations of Vision 2030, the financial services sector must take the lead in steering the economy 'to the next level'. Towards this goal, it is critical to keep in focus the vision for the financial sector as contained in the Vision 2030 blueprint that is, to create a vibrant and globally competitive financial sector.

Ladies and Gentlemen: In pursuit of this vision, the Central Bank in collaboration with the government and market players continues to play a pro-active role in initiating the necessary reforms geared towards creating an enabling environment. Significant progress has been made on these initiatives but at the outset, we need to recognize that it is **financial inclusion** that will provide the gateway. The progress made so far shows that financial inclusion is a major public policy instrument. Several successes can be listed on this front:

I. Licensing of Deposit Taking Microfinance Institutions (DTMs)

Since 2008 when the DTMs regulatory framework became effective, 6 DTMs have been licensed and two granted approval in principle. As at the end of May 2012, the 6 licensed DTMs had 63 branches and 1.56 million deposit accounts with deposits worth over Ksh.11.6 billion. They also had 495,840 loan accounts with an outstanding loan portfolio of over Ksh.17.7 billion. This is significant progress given that banks in total only have 2.1 million loan accounts.

The DTMs provide an avenue of reaching out to the lower levels of the population given that our markets are segmented, requiring different and more specialized actors in some segments. DTMs can be community based or nationwide with different core capital requirements of Ksh.30 million and Ksh.60 million, respectively.

II. Agency Banking

Effective 2nd January 2012, DTMs were allowed to appoint third parties (agents) to offer specified DTM services on their behalf. This followed the successful rollout of agent banking by banks effective May 2010. So far eleven (11) banks have been granted approval to roll out their agency networks. Eight (8) of these banks have appointed 11,176 agents, which had executed over 18.6 million transactions valued at over Ksh.93.1 billion over the two year period to May 2012.

III. Mobile Phone Financial services

There has been tremendous growth in Mobile phone financial services in the country. Consequently, a number of institutions have initiated various innovations and new products to conveniently serve their customers and reduce the long queues that were previously experienced in banking halls. Mobile phone money transfer services have been a phenomenal success and have put the country at the global centre stage of financial inclusion and innovation.

In a country like ours with remote corners not served by financial institutions, Mobile Financial Services has provided the answer. More importantly, our banks have easily integrated into their financial services with these technological platforms. The up-scaled level is now to use mobile phones to send money to savings accounts and credit provision through the same channels. This is already taking place with M-Kesho type of products in the market.

IV. Credit Information Sharing

The Credit Information Sharing (CIS) mechanism for banking institutions has successfully taken root with mandatory sharing of negative information on a monthly basis. All the 43 licensed commercial banks in Kenya and institutions under the Deposit Protection Fund Board have been submitting negative credit information to the licensed Credit Reference Bureaus (CRBs) within the required timeframes.

The Banking Act and the Central Bank of Kenya Act have now been amended to allow institutions licensed under both the Banking Act and the Microfinance Act to share both positive and negative credit information of their customers. This will go a long way in enriching the CRBs database for the benefit of the entire banking sector and create objectivity in reporting. Credit information sharing allows the market to build information capital for the financial sector in Kenya. This will help build credit histories of borrowers and support a change of collateral technology in use currently. Development of information capital will remove information asymmetry that promotes moral hazard and adverse selection consequences in the financial market.

V. East Africa Community Harmonization of Legal and Prudential Supervisory Rules and Practices

As part of the ongoing integration of the East African Community (EAC) member states, the EAC Central Banks are in the process of harmonizing their supervisory prudential rules. This will enhance the performance of Kenyan banks covering the EAC region.

The harmonization process has already identified the key aspects of divergence that require harmonization. A draft convergence criteria based on international best practice as well as feedback from players in the banking industries of member countries has been developed.

VI. Anti-Money Laundering Framework

Following the operationalisation of the Proceeds of Crime and Anti-Money Laundering Act, 2009 effective 28th June 2010, the Financial Reporting Centre (FRC) was created on 12th April 2012. The Central Bank and the Ministry of Finance seconded staff to facilitate the setting up of the FRC. The CBK has continued to undertake public sensitization on the AML regulatory framework including the establishment of the FRC. This is to safeguard the credibility of the financial sector as we push our financial inclusion agenda and goals forward.

Ladies and Gentlemen: In order for us to appreciate where we have came from; allow me to mention some key indicators of financial performance:

- Total Assets of banks have increased from Ksh.951 billion as at December 2007 to Ksh.2.12 trillion in April 2012, an increase of 123%.
- The loan portfolio in the same period has increased from Ksh.534 billion in December 2007 to Ksh.1.26 trillion in April 2012, an increase of 136%
- Banks' branch network has increased from 740 to 1200 currently, while we also have more than 10,000 Agents now in operation

- Mobile phone financial services have 19 million subscribers to date transacting an average of Ksh.3.0 billion every day
- Increase in the number of bank deposit accounts from 4.7 million in 2007 to 14 million in April 2012, a phenomenal increase of almost 300%. While the deposit values have grown from Ksh. 710 billion in 2007 to Ksh.1.6 trillion in April 2012, an increase of 125%.
- Loan and Advances accounts have increased from 1.2 million in 2007 to 2.1 million currently.

Ladies and Gentlemen: These statistics show a phenomenal growth in less than five years. In 2010, the financial sector grew by 8.8% while the economy grew by 5.6%. In 2011, the financial sector grew by 7.8% and the economy by 4.4%. This shows that the financial sector is deepening and that its growth is pulling the national economic growth with it. As the economy continues to recover and the government is rolling out infrastructure projects to increase the capacity for future economic growth, the financial sector will thrive and must stand ready to finance long-term projects to support this growth of the economy.

Indeed this impressive performance is an indication of our growing economy but also supported by the prudent risk management and regulatory reforms that continue to be put in place in line with best practice. As efforts progress towards a more developed financial sector, there is need to ensure fairness and transparency. The public needs to be furnished with reliable and adequate financial information.

While discharging your duties therefore, be it as accountants, auditors or advisers of financial institutions, bear in mind that you play a critical role towards protecting and guiding the sector in the development of our economy. The constitution has two important contributions on this: the Competition Policy (that lowers unit cost) and Consumer Protection. These two important aspects will drive a healthy balance for the sector and the consumers of financial services. As ICPAK theme this year is in these lines, we consider you as partners in this important journey.

Ladies and Gentlemen: The Central Bank in conjunction with Government and all other stakeholders in the financial sector will continue the policy path of maintaining macro-economic stability for development and financial inclusion for financial deepening and development even with frequent occurrences of economic shocks.

Ladies and Gentlemen: It is now my honor and privilege to declare this conference with a very enviable theme officially open and to wish you fruitful deliberations.

Thank you