CENTRAL BANK OF KENYA

THE 9TH FINANCIAL SECTOR REGULATORS FORUM JOINT BOARDS RETREAT

Serena Hotel, Mombasa

Speech by Dr. Patrick Njoroge
Governor of the Central Bank of Kenya
26th August 2015

As Prepared for Delivery

I am delighted and honoured to be here today, on the occasion of the 9th Financial Sector Regulators' Joint Boards of Directors' Retreat. I am particularly grateful for the warm welcome and strong support that I have received from you. It is great to be part of this great community.

The theme of the retreat—*Empowering Consumers of Financial Services through Financial Education* — is appropriate and timely. At the outset, let me thank our Keynote speaker, Ms Gerda Piprek, for an excellent presentation. Her expert views on how financially literacy serves the broader goals of increasing uptake of financial services and enhancing financial stability and policy effectiveness, are quite insightful. Indeed, the rapidly increasing financial innovations and the complexity of new financial products make it an essential skill for participating in a modern society. Thanks Gerda!

Since the inception of our formal collaboration, much progress has been made in strengthening the bonds that bind us together. As you are all aware, we entered into a Memorandum of Understanding (MOU) in August 2009, realizing that collaboration can increase performance in our respective responsibilities of promoting a safe, efficient, sound and stable financial system. That said, there is scope for enhancing our current collaborative efforts in several areas. Let me highlight a few of these areas;

1. *Information Sharing:* Information sharing is critical to the success of our collaboration and I support fast tracking the establishment of a shared information sharing platform and database, for effective and evidence-based decision making. This would bolster surveillance of the financial system. I therefore expect the Technical Committee to fast-track this activity and submit a preliminary report to the Chief Executive Officers at the earliest opportunity.

2. *SMART regulation to Foster Stability of the Financial System*: The wave of innovations in the financial sector has resulted in increased cross industry, cross sector and cross border operations, and interconnectedness within the financial sector. While this is laudable, it equally raises concerns about the potential for financial contagion, which could lead to economic instability and damage to society. This calls for vigilance and more collaboration in prudential surveillance,

data analysis and sharpening of supervisory tools. In particular, I want to underscore the need to enhance data quality, harmonize regulatory and reporting practices, and building adequate capacity among the Regulators. This requires moving swiftly to develop SMART — *Standardized, Measurable, Actionable, Reliable and Transparent Regulatory and Supervisory Frameworks* —surveillance supervisory approaches, and assessment tools. This would effectively safeguard the soundness, integrity, efficiency, and stability of the financial system in Kenya and the region. I believe SMART regulation is the way to go because its very architecture minimises regulatory burden, focuses on outcomes rather that processes, and applies regulatory measures in proportion to the risk profile of individual institutions. SMART regulations allow regulators to enforce more efficiently and allow regulated entities to comply cheaply and reliably.

3. *Stress Testing:* Stress testing has become a cornerstone of prudential supervision and risk assessment across the world. The Central Bank has strengthened its capacity and has conducted banking system stress testing exercise using the Cihak Framework since January 2015. We have drawn important lessons from the results of these exercises and I urge other Regulators to adopt similar tools, which clearly demonstrate the value of forward-looking assessments of risks and vulnerabilities to the financial system.

4. *Financial Innovations and consumer protection:* New technologies have expanded the possibilities of financial services and products some of which have brought tremendous benefits to consumers, and resulted in measurable improvements in financial and greater access to the mainstream banking system. However, along with the rapid growth of these financial services is the emergence of complex financial products requiring enhanced consumer protection measures. I see the need to prioritise consumer protection in ways that will reduce if not eliminate consumer susceptibility to abuse or fraudulent activities. An effective consumer protection regime is essential and should broadly entail:
    - transparency and accountability in pricing;
    - clarity on charges and terms of financial products and services;
    - avoiding reckless and fraudulent lending practices;
    - protection of financial service consumers against over-indebtedness;
    - fair debt collections and transparent marketing practices;
    - privacy of client data including credit information sharing arrangement amongst all credit providers through credit reference bureaus;
    - ethical standards and staff behaviour in credit lending and screening practices; and
    - Alternative dispute resolution mechanism.

    In this regard, we should engage with our stakeholders to promote effective financial services consumer protection mechanisms through innovate financial education programmes and regulatory reforms.

5. *Recovery, Crisis Management and Resolution Frameworks:* The global financial crisis that has affected us all since 2007, offers important lessons in crisis management and resolution frameworks. An important lesson from that experience is the centrality of a crisis communication strategy. Markets need certainty and assurance that competent authorities have the facts and

means to resolve crises if and when they arise. As we ponder the whole subject of crisis management and resolution frameworks, let us work to ensure that we have in place a crisis communication strategy embedded within the broader *Crisis Management and Resolution Frameworks.* Best practise also demands that regular simulation exercises be undertaken to review their efficacy. I urge the Technical Committee to move with speed and develop proposals for discussion in subsequent Forum meetings.

Finally, I would like, at this juncture, to share some reflections on the East African Community (EAC) Monetary Affairs Committee (MAC) of Central Bank Governors, with regard to the implementation of the East African Monetary Union (EAMU) Protocol. I am happy to report that significant progress has been made to harmonize monetary policies & frameworks, and macroeconomic statistics. Similarly, much effort has gone into modernizing and integrating payment systems, including financial markets infrastructure. We are now moving on towards full convertibility of EAC currencies. We therefore need to work very hard during the 10-year transition window provided by the EAC Summit beginning 2014, to establish the following EAC institutions;

i). East African Central Bank;
ii). Surveillance, Compliance and Enforcement Commission;
iii). Financial Services Commission;
iv). Statistics Commission; and
v). Any other institution necessary for the proper functioning of the Monetary Union.

As we journey on the road to a Monetary Union, I wish to underscore the importance of undivided commitment to those deliverables within the ambit of EAC Partner States. I am sure that the full implementation of EAMU Protocol will change the way we do business as Domestic Financial Sector Regulators. Already, a draft Bill on the establishing the East African Monetary Institute (EAMI), a precursor to the establishment of the above four institution, has been drafted. Let us therefore continue with the collaboration to support the EAMU protocol implementation.

In concluding, it is my conviction that our consolidated synergies will result in better delivery of the Forum's objectives.

Thank You!