

INVITATION FOR PUBLIC COMMENTS ON THE PROPOSED KENYA BANKING SECTOR CHARTER

Introduction

Pursuant to Section 33(4) of the Banking Act and Section 48(2A) (6) of the Microfinance Act, the Central Bank of Kenya (CBK) is empowered to issue directions with respect to the standards to be adhered to by a financial institution in the conduct of its business in Kenya. Such directions apply to an institution carrying on banking business, microfinance banking business, financial business and the business of a mortgage finance company as defined by the Banking Act and Microfinance Act.

CBK continues to advocate for a consumer-centered approach to the provision of financial services and products within the industry.

Background

In line with the on-going regulatory reforms aimed at strengthening consumer protection, improving transparency and enhancing competition in the banking sector, CBK seeks to introduce the Kenya Banking Sector Charter. The objective of the charter is to facilitate a responsible and disciplined credit market.

The Charter is expected to facilitate a market-driven transformation of the Kenyan banking sector and bring about tangible benefits for all Kenyans. The Charter will represent a commitment from financial institutions to entrench a responsible and disciplined banking sector cognizant of, and responsive to, the unique socio-economic realities of the Kenyan populace.

Similar frameworks have been implemented in several jurisdictions, including South Africa and Namibia.

Objectives of the proposed Kenya Banking Sector Charter

The Charter is premised on a new vision of the banking sector which is hinged on the following four pillars: -

- (i) Adoption of customer-centric business models by banks;
- (ii) Risk-based credit pricing;
- (iii) Enhanced transparency and information disclosure; and
- (iv) Entrenching an ethical culture in banks – doing the right thing.

In an effort to realize the vision, CBK proposes strengthening of the following areas in the Charter:

- a) **Fairness:** -financial institutions to entrench credit risk pricing based on credit scores by credit reference bureaus. Borrowers with good credit history should benefit through lower interest rates for loans.
- b) **Transparency:** - financial institutions to upload their respective internal and external fees on the cost of credit website to enable customers make rational financial (product) decisions.
- c) **Financial Literacy:** - Development of financial literacy initiatives that are distinct from the common product advertising and marketing, and that are more targeted, strengthened and coordinated to have greater impact in terms of effectiveness and efficiency.
- d) **Consumer Centric Business Models:** - financial institutions to implement business models that are innovative, responsive and dynamic to address the specific needs of their customers.
- e) **Financial Access:** - financial institutions to undertake to increase financing to micro and small sized enterprises by at least 20 percent by 2020 from December 2017 baseline.

In an effort to ensure that the proposed Kenya Banking Charter is comprehensive and inclusive, CBK invites comments from the public on this proposed Charter that can be downloaded from www.centralbank.go.ke. The comments should be submitted to the undersigned by August 24, 2018 on fin@centralbank.go.ke or the postal address indicated here below.

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NAIROBI

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