



REMARKS BY KBA CHIEF EXECUTIVE OFFICER DR. HABIL OLAKA, DURING THE RELEASE OF THE 2019 STATE OF THE BANKING INDUSTRY REPORT ON 9TH JULY, 2019 AT SERENA HOTEL- NAIROBI

Stakeholders from financial sector and regulatory agencies;
Representatives of banks and other financial sector players;
Researchers, analysts and the members of the academia;
Distinguished Guests;

Ladies and Gentlemen.

I would like to take this opportunity to express my gratitude to all of you for taking time to be here this morning as we unveil the inaugural edition of the *State of the Banking Industry Report*.

This is a report by the Kenya Bankers Association Centre for Research on Financial Markets and Policy® that seeks to accomplish two objectives:

- The first one is to contribute towards the understanding of the banking industry in a manner that is comprehensive enough so that the insights speak to the various stakeholders of the banking sector. There is deliberate endeavour in the report to ensure that the various aspects of the market – be they policy in nature, regulatory, business environment, and stakeholder expectations – are analysed in a manner that recognises the extent to which they are linked.
- The second one is to build on the comprehensive nature of the analysis so as to give perspective on the banking industry's outlook. The outlook also points to analytical areas that the KBA Research Centre is currently looking at with a view to seeing how it will shape the understanding of the banking industry going forward.

The report that we are unveiling is in many respects an opportunity to look back and see our recent evolution as an industry. That is deliberate because the state of the banking industry is not a "point-in-time" assessment. That is why in this report, the journey of assessment goes as far back as 15 years, the period over which we have assembled a rich information set that underpins the analysis presented.

The information set is not just financial data at bank level as well as at the various clusters and industry level but also the various background studies as published in the KBA Centre for Research on Financial Markets and Policy® working paper series. The background studies that are cited in the *State of the Banking Industry Report* may be familiar to you given that you may have them at the different times of their publication. The value addition of the approach of the report we are releasing today is that such studies have been assembled in manner that allows us to see how they collectively inform our understanding of the banking industry.

Ladies and Gentlemen,

I suspect I have motivated in you the eagerness to listen to the details of the report as will be presented shortly. At the risk of being pre-emptive, let me highlight a few aspects of the report that I consider to be key takeaways.

- One, a stable banking system is very critical for the development of our economy. As we report, the Kenyan Banking industry is on a solid footing. We have a banking system that is deeply embedded in the economy with the outstanding loans and advances of about KES 2.3 trillion (equivalent of 52 percent of the economy's real output) as at the end of 2018.
- Two, we have a dynamic industry that is able to respond to the need of the market in a manner that balances risks and opportunities. The regulatory environment is supportive of such dynamism in a manner that supports market stability.
- Three, the banking industry is at the frontier in embracing technology both as a way of enhancing intermediation efficiency and growth as well in regulatory compliance.
- Four, even as we see all the positive strides the banking industry is making, we recognise the challenges it faces that make its operations be at below full potential. We have seen the levels of non-performing loans steadily increase in the past 4 years. This has been on the back of the limitations that the Banking (Amendment) Act 2016 that introduced lending caps.
- Five, we see the competition dynamics in the market fast evolve in a manner that is shaped by the market structure where banks are positioning themselves to increase their market shares either on the back of organic growth or through mergers and acquisitions. This is a sign of vibrancy and progress in the direction of further industry deepening.

As we ponder and deliberate on these issues let me take emphasise that the banking industry remains critical to our country's progress. The role that it will continue playing in supporting Small and Medium Enterprises (SME) will remain critical. That is why for instance we are championing the Inuka SME programme which continues to facilitate credit access through capacity building. As we do so we have seen banks increasingly develop strategies aimed at enabling *Wanjiku* to access credit through training and subsidised loans.

As an industry, however, we firmly believe that a risk-based pricing framework is one of the ways that will support the resolving credit constraints that the capped credit pricing has imposed. As we work with various stakeholders in the public and private sector to come up with a framework that will enhance access to credit for all sectors of the economy, we hope that the capping law will be reviewed to enable the economy to accrue the benefits of a vibrant banking industry.

Ladies and Gentlemen,

In conclusion, I would like to thank our members, various analysts and academic researchers for comments and suggestions on the report. We look forward to collaborations that will facilitate more research that will benefit the industry. It's my hope that the report we are releasing today will open new areas of conversation meant to take the banking industry, the financial sector and the economy forward.

Thank you for your kind attention

Dr. Habil Olaka
CHIEF EXECUTIVE OFFICER