KENYA BANKERS
ASSOCIATION

SPEAKING NOTES BY KBA CEO HABIL OLAKA DURING THE RELEASE OF THE INITIAL INDICATIONS OF THE IMPACT OF BANKING AMENDMENT BILL 2016 ON MARCH 21ST 2017 AT HILTON NAIROBI

Ladies and Gentlemen

Good Morning

- Allow me to highlight the salient issues from the two presentations.
- In August 2016, the law introducing caps on lending rates was signed, and became effective in September 2016. The expectations was that households and businesses would flock to banks to access "cheap"' credit. However, that has not been the case.
- Over the last six months, the impact of the interest caps continues to surface as a hot topic in various fora.
- At the center of this debate is the question, what does interest rate caps means for the future of the banking industry and economy?
- Today's briefing is part of our on-going effort at the banking industry to promote an informed discussion. We intend to give regular updates every quarter as we continue to monitor the impact of the Bill.
- Before I get into the highlight of the research findings, let me reiterate that banks remains committed to implement the law and are putting every effort into making the Banking (Amendment) Act 2016 work, without compromising the stability of the banking sector by exposing the industry to increased risk. The banking sector remains committed to listening to its customers, and ensuring that products and services are tailored with the customer in mind.
- While, we recognise the government's emphasis on passing the Act was to protect bank customers and allow consumers to have greater access to finance, it is critical to note that unintended consequences have been observed. The credit growth has slowed adversely impacting on average Kenyans, the banking industry and the broader economy.
- It is therefore imperative for all the stakeholders to re-engage to reach a win-win scenario that delivers lower interest rates. The banking industry shares the government's goal to make affordable finance more accessible but the act in its current form is not fit for purpose to deliver that goal. The act has forced banks to turn customers away if it doesn't make financial sense, which is why the industry must re-engage with Treasury, Central Bank and the legislature to address the deficiencies in the Act as it stands.
- KBA Member banks remains committed to make banking better and rebuild trust in the sector: The banking industry is not just relying on the Act to make affordable finance more accessible. We are also making the sector more sustainable with systemic change

such as using technology to enhance efficiency and reduce costs for customers; improving customer support and service standards; and educating customers to make sound financial choices.

- While it is still too soon to quantify the economic impact, indications from the KBA research are pointing to the fact that this Act is not fit for purpose.
- KBA undertook two studies:
    1. The impact Of Banking (Amendment) Act, 2016 On Customers Credit & Savings- The study, whose objectives were to explore and establish the impact of the Bank Legislative changes (perception and impact) on savings and loans; to determine customers' perception of the industry; and to forecast customers future financial goals.
    2. Banking Survey to assess the Impact of Banking Amendment Act 2015 on the economy

Consumer research findings

- It is worth pointing out that most customers are not borrowing or saving more because of the Act; there has been limited change in banking culture as anticipated by parliamentarians; however, bank customers have witnessed better banking experience in terms of improved customer service.
- The report also noted Customers want banks to support them to achieve their financial goals, mainly starting/running a business; homeownership; setting up an education fund and completing payment. Therefore, policy interventions must be geared towards these financial goals.

On the Bank Side

- In terms of lending, credit approvals have slowed down and disbursement appear to be concentrated in four key sectors: Household; Trade; Manufacturing; and Building & Construction, all which accounts for 70% of the credit market.
- Credit to private sector was already on a downward trend due to volatility in the banking sector dating back to late 2015 and into 2016. Therefore the cap introduced in the volatile market worsened the credit conditions. Inspite, of these challenges, banks have done their best to adjust to the new pricing regime, orienting operations to increase efficiency.

- On deposit- withdrawal behaviour, withdrawals aligned to consumption/expenditure patterns. While, deposits behaviour aligned to incomes; no evidence of response to returns incentive.

- On the deposit side, while customers are getting better returns from their deposits, because their incomes have not necessarily increased, there is no evidence this act has not translated for micro-savers.

- The Act has not only had an adverse impact on banks and borrowers, it has also affected the financial markets. Capital markets have had an immediate hit with significant drop both in total market capitalization and banks market capitalization. Market cap dropped from Ksh. 2.1 Trillion in August 2016 to Ksh. 1.8 Trillion as of March 20th 2017. While the banks market cap dropped by 10.3 Per cent to Ksh. 520 Billion in the same period.
- All the key indices have taken a downward trend, sharply reducing from the time of capping in September 2016.
- All these adverse impact of the Banking Act are indications that Kenya's financial system is bank led and therefore any adverse effect on the banking industry has a wider effect on the entire sector.

Thank You