Press Release

Banking Industry on a Strong Footing Despite Market Challenges

- *The banking industry navigated market shocks over the past three years to record a positive trend in asset growth; the pace of asset growth has however been on a downward trend for four consecutive years up to the end of 2018.*
- *With outstanding loans and advances of KES 2.3 trillion as at the end of 2018 – equivalent to about 52 percent of the economy's real GDP – the banking industry is strongly embedded in the economy, supporting its development aspirations.*
- *A persistent build-up of Non-Performing Loans (NPLs) and strained access to credit for Micro Small and Medium Enterprises (MSMEs) were among the top industry challenges.*

Nairobi, 9th July 2019: The banking industry maintained an impressive growth trajectory over the past three years, navigating a market environment characterized by constrained credit to the private sector, especially Micro Small and Medium Enterprises (MSMEs). According to a newly-published report by the Kenya Bankers Association (KBA), the introduction of interest rate caps prompted adjustments that have seen banks shift from segments considered riskier and investments that balance returns and asset quality. This has led institutions to shift resources to low and risk-free assets.

The *State of the Banking Industry Report*, whose key findings are underpinned by an assessment that goes as far back as 15 years, seeks to contribute towards the understanding of the banking industry in a comprehensive manner that also addresses the various stakeholders in the banking sector. The report analyses various aspects of the market including policy, regulatory, business environment and stakeholder expectations, recognising the extent to which they are linked.

Speaking during an event organized to unveil the report, KBA Chief Executive Officer Dr. Habil Olaka noted that investments in financial resources, personnel and technology are expected to drive banks' compliance with regulations. Compliance areas range from capital, corporate governance, disclosures, and Anti Money Laundering and Countering Terrorist Financing (AMLCFT).

Dr. Olaka noted that market distortions that have led finance institutions to shift their resource allocation from Small and Medium Enterprises need to be addressed, given that the SME sector is critical for sustained economic growth.

"As an industry, 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", he observed.

According to the report, there has been a persistent build-up of non-performing loans over the past five years. The trend, notes the report, shaped the performance of bank's credit in the sense that it influenced the banking industry's risk perception.

"The industry's performance in 2018 shows a delicate balance between careful asset growth amidst returns-risks trade-offs and cost management and efficiency enhancement," said Jared Osoro, the Director of the KBA Centre for Research on Financial Markets and Policy®.

Report Highlights

- A stable banking system is critical for the development of our economy. The Kenyan banking industry is on a sound footing and 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.

- The banking industry is dynamic and able to respond to the needs of the market in a manner that balances risks and opportunities. The regulatory environment is supportive of such dynamism in a way that supports market stability.

- The banking industry is at the forefront in embracing technology both as a way of enhancing intermediation efficiency and growth as well in regulatory compliance.

- Despite the impressive strides in the banking industry, it is important to recognize the challenges that push its operations below the full potential. Non-Performing Loans (NPLS) have steadily increased in the past three years, with their gross levels as a proportion of gross loans crossing the single digit level in two of the three years (12.3 percent and 12.0 percent by the end of 2017 and 2018 respectively), up from 9.4 percent as at the end of 2016. This has been on the back of the limitations that the Banking (Amendment) Act 2016 that introduced lending caps.

- It is envisioned that competition dynamics in the market are fast evolving 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.

For more information visit www.kba.co.ke

About the Kenya Bankers Association:
KBA (www.kba.co.ke) was founded on 16th July 1962. Today, KBA is the financial sector's leading advocacy group and banking industry umbrella body that represents total assets in excess of USD 40 billion. KBA has evolved and broadened its function to include advocacy on behalf of the banking industry, and championing financial sector development through strategic projects such as the launch of the industry's first P2P digital payments platform PesaLink. In line with the Government's policy on public-private partnerships, KBA and Central Bank of Kenya have implemented key projects such as modernization of the National Payments System through the Automated Clearing House, implementing the Real Time Gross Settlement System (RTGS), and the Kenya Credit Information Sharing Initiative. The KBA members are comprised of commercial banks and deposit taking microfinance banks.

For more information, visit www.kba.co.ke or contact KBA Director of Communications and Public Affairs, Nuru Mugambi Email: nmugambi@kba.co.ke