**CENTRAL BANK OF KENYA**

# Breakfast Meeting of Chief Executive Officers of the Domestic Financial Sector on Financial Inclusion

Kenya School of Monetary Studies (KSMS), Nairobi

**Remarks by Dr Patrick Njoroge**
Governor of the Central Bank of Kenya

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As Prepared for Delivery

The Cabinet Secretary, Ministry of Cooperatives and MSMEs
The Deputy Governor, Central Bank of Kenya
The Chief Executive Officer, Council of Governor Secretariat
The Chairman, Kenya Bankers Association Governing Council,
All the Chief Executive Officers Present,
All the invited guests and Staff from CBK, KNBS and FSD Kenya,
All Protocols observed

**Good morning!**
I am delighted to welcome you to this Breakfast Meeting of the Chief Executive Officers of Kenya's financial sector.

Let me take this earliest opportunity to thank the Cabinet Secretary, Ministry of Cooperatives and MSMEs for accepting our invitation. This is an important gesture for public-private sector partnerships in fostering an inclusive financial sector that serves all.

I also wish to thank each one of you for accepting our invitation to attend this meeting, coming short on the heels of a very successful Financial Inclusion Statistics Conference held here, at KSMS, November 13 – 16, 2022. Perhaps many of you may not have attended, but you may be aware of some of the outcomes.

Ladies and gentlemen, your presence this morning gives us an opportunity for government, policy makers, regulators, and private sector to have a conversation on key lessons from the 2021 FinAccess Household Survey Report including County Perspective Report launched by the Cabinet Secretary, National Treasury, on November 11, 2022. I am also happy to note that CBK, KNBS and FSD Kenya will use this platform to release the topline findings of the

Micro and Small Enterprises (MSE) Tracker Survey conducted in December 2022. These provide invaluable information to support our various mandates and implementation of our strategic goals.

Maybe at this point, I need to pause, and reflect on the importance of data. And why the Central Bank has invested a lot of resources to discuss data issues with you. To put this issue into context, let me draw some insights from global leaders and researchers, who have spent a lot of resources to demonstrate the value of data in their respective work.

Jay Bear[1], in his support for use of data in everyday' s decision-making, noted that, *"We are surrounded by data, but starved for insights"*. I think this may be true for many of us present with respect to the use of FinAccess Household Survey datasets and reports. While CBK and its partner institutions have dutifully collected and reported these datasets since 2006, how many of us have used even a half of it? I wish to reiterate that these datasets carry rich information necessary for your institutions. This is well captured in the words of Daniel Moran[2], "*You can have data without information, but you cannot have information without data"*. This however requires capacity and capabilities to extract value and communicate useful information from these datasets to relevant stakeholders. This is the reason why we extended our invitation to the technical teams. And remember, in the words of Peter Sondergaard[3], *"Information is the oil of the 21st century, and analytics is the combustion engine."* Perhaps I should end my quotes with emphasis from the from words of Tim Berners-Lee[4], *"Data is a precious thing and will last longer than the systems themselves."*

Back to the FinAccess datasets and reports, ladies and gentlemen, I wish to spend some time and share with you some of the lessons and policy insights from a regulator's perspective through the lens of *access*, *usage*, *quality* and *impact/welfare* dimensions of financial inclusion, which are useful to all of us present:

1. Evidence from the FinAccess Household Surveys show that use of digital technology has changed the way financial transactions are conducted. From *chamas and social* networks which rely on mobile money remittances; to banks, SACCOs and insurance companies which rely on digital technology to offer services and transact with customers. The power of digital technology is such that use of more traditional services such as traditional banks, SACCOs and insurance, is in decline, even while use of mobile banking and mobile money are on the rise. Indeed, in about 5 counties, use of mobile money is the most dominant formal channel for financial transactions. To ensure consumers continue to gain enhanced welfare from use of these services and products, we need to ensure quality is achieved and maintained trough effective regulation and oversight as well as adequate risk management practices.

2. There exist disparities in access to formal financial service providers across counties. While one can relate these differences to economic activities and availability of

[1] Marketing and Customer Experience Expert
[2] *American Computer Programmer and Science Fiction Writer*
*3* Gartner Research
[4] *Inventor of the World Wide Web*

critical infrastructure, it is necessary to interrogate what needs to be done to bring equity.

3. Despite the rapid rise of technology-driven innovations and rise in financial inclusion, *exclusion rate* from access to formal financial services and products by Kenya's adult population remains stubbornly high. While the excluded population from formal financial service providers declined to 16.3 percent in 2021 from 73.4 percent in 2006, this number is still high! Indeed, 11.6 percent of Kenya's adults were completely excluded from accessing any form of financial services while 4.7 percent relied on informal solutions. At the County level, thirteen (13) counties had exclusion rates exceeding 15 percent and only seventeen (17) had exclusion rates of less than 10 percent in 2021. The youths, least educated people, and rural areas residents, are the most excluded, hence need to reflect on the suitability of available financial solutions that meet their needs. We also need to examine whether it is voluntary or involuntary exclusion or if exclusion is driven by unfavourable policies and practices.

4. *Safety*, *security* and *convenience* on one hand, and *cost or affordability* on the other, remain key drivers in use of savings, purchase of insurance policy, acquiring a pension plan and/or investment through capital markets. There is also the issue of *lack of information* on certain products or services that hinder access and use of certain providers. While I am aware that many of us present have taken measures to create awareness through public education, we need to evaluate effectiveness of these measures and to recalibrate them to target mostly those left behind.

5. A more perplexing outcome is where most Kenyans obtain their *financial advice from family and friends*! Financial education and financial literacy are critical pillars of an inclusive and stable financial system. In total, use of *personal knowledge* and *family/friends* accounted for more than 80 percent of respondents in the 2021 survey across all the demographics. This is a worrying trend that we need discuss for a better solution. Effective financial education is a building block for responsible finance in terms of knowledge on the cost of borrowing, transaction costs and other consumer protection related issues. It also reduces level of abuse of financial services and products by a certain segment of the population, such as gambling by the youths using digital credit products. It is therefore a win-win for all the parties in this room to have a society that is financially literate that make sound financial decisions.

6. The *issue of consumer protection* also emerged strongly, both in the 2021 FinAccess Survey and the County Report. Customer complaints involving unexpected or unclear charges, loss of money, systems downtime and outages, poor customer service and unresolved issues by service providers were identified as pertinent to consumers. Unfortunately, some of these issues continue to persist up to today!

7. Ladies and gentlemen, another issue I continue to grapple with, is the declining *financial health* amid rising *financial inclusion*. Financial system is expected to provide relevant services and products that help consumers to meet their livelihoods, invest into future goals and mitigate the undesired effects of shocks that affect them.

Financial Health Index has declined from 39.4 percent in 2016 to 17.1 percent in 2021 but financial inclusion rose 75.3 percent to 83.7 percent during the same period! What does this mean ladies and gentlemen? That despite this expanded financial inclusion, only 17 percent of our society are perceived to be financially healthy! This may imply that people mainly use informal and non-financial solutions (selling assets and finding more work) to address their financial needs - manage day-to-day needs, coping with shocks and risks and investing in livelihoods and long-term goals. Clearly then, there is a gap in terms of relevance of formal financial solutions which needs to be addressed if we are to see improvements in financial health. While a team at the Central Bank and our partners continue to sharpen this index, it is imperative that the market, innovators, and policymakers continue to pay closer attention to the signal coming from this index.

There are many recent policies and initiatives that either directly and/or indirectly benefited from the FinAccess Household Surveys to foster an inclusive financial sector in Kenya. These include;

1. Licensing of Digital Credit Providers to deal with some of the Consumer Protection Issues that emerged strongly in the FinAccess Surveys, including but not limited to unfair debt collection practices, lack of transparency in pricing, unsolicited loans alerts, among others.
2. Rollout of a Credit Repair Framework by commercial banks, microfinance banks and mortgage finance companies as announced by CBK in November 2022 to improve the credit standing of mobile phone digital borrowers with non-performing loans and had been listed on Credit Reference Bureaus (CRBs). This benefited about 4.2 million beneficiaries, in personal and microenterprises sectors who were adversely impacted by COVID-19 pandemic and had been adversely listed with CRBs, to repair their credit standing.
3. Government initiative to establish Financial Inclusion Fund (Hustler Fund) is modelled on the need to bring everybody into financial system for inclusive growth. Future MSE Tracker surveys to include questions on the impact of the fund to the targeted population under the impact dimension of financial inclusion.
4. On promoting affordability of financial services CBK worked with the mobile money Payment Service Providers (PSPs) to **facilitate interoperability** across their different networks and reduce the related costs.
5. In 2021 the Government took measures to curb gambling menace, especially among the youths benefitted largely informed by the 2019 FinAccess Surveys.
6. The ***National Payments Strategy 2022-2025*** launched in 2022 envisages Kenya's digital finance landscape that is founded on five core principles: **trust**, **security**, **usefulness**, **choice**, and **innovation**. This is expected to achieve a vision of a secure, fast, efficient and collaborative digital finance system that supports financial inclusion and innovations in Kenyan.
7. The surveys have also provided rich datasets that researchers in both academia and professional organizations domestically and abroad, creating value for policy discussions and contribution to new knowledge in the financial inclusion space. Tracker Surveys on MSEs proved useful in helping the government to come up with

mitigating measures to curb impact of COVID-19 on small businesses. We look forward to more analyses from these surveys that focuses on specific sectors as well as triangulation with supply side data to drive work on financial inclusion.

I am also aware that insurance, pensions, SACCOs and Capital Markets continue to mine these datasets to approve new products, license new players and even come up with new policies and regulatory measures to promote financial inclusion. On the market side, Kenya Bankers Association has shared with us how this data continues to benefit its members. Therefore, ladies and gentlemen, everyone represented in this room has something to gain from these datasets. We just need to roll up our sleeves and delve into these datasets!

It is now my pleasure and honour to invite our **Chief Guest Mr. Simon Chelugui**, the Cabinet Secretary, to make his remarks. **Karibu Bwana CS!**

**Thank you.**