

## “my 15min chat with a bank CEO”

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### Richard Etemesi & Habil Olaka Chat Log

Thursday, 12<sup>th</sup> July 2012

Topic: Interest Rates

Time: 12:00pm – 12:45pm

Registered Members: 163

Online Participants: 47



If you had the opportunity to chat with a Bank CEO, what would you talk about?

#### Chat Log\* Contents

1. Interest Rates
2. Loans & Credit Reference Bureaus
3. Other Topics
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5. Compliments & Comments

\*Time indicated based on KBA Server (U.S. Mountain Time)

#### **Interest Rates**

tish[07/12/12 3:23 AM ]: Are the rates going to drop now that there was a rate cut

richard[07/12/12 3:29 AM ]: tish thanks for your question...we covered this point..i mentioned that banks already are reducing their loan rates...we expect this to continue

setwin[07/12/12 3:32 AM ]: will the decision by banks to reduce lending reates have any effect on inflation?

richard[07/12/12 3:32 AM ]: setwin thanks...it is possible that lowering lending rates may spike inflation as it will spur demand and demand tends to drive up inflation. for inflation to be contained there needs to be correspondednt growth in production. this means that a lot of the lending should be targeted towards improving productive capacity of manufactures rather than purchasing consumer goods

## Kenya Bankers Association

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zephie[07/12/12 3:26 AM ]: Taking it from your comments on Deposits. why is it that customer deposits dont attract a better interest?

richard[07/12/12 3:27 AM ]: zephie thanks...in my view customer deposits do attract a good rate because they are subject to competition. there are 43 banks competing for your deposits. there are also other investment opportunities you can consider such as t-bills

tygona[07/12/12 3:36 AM ]: on your point regarding deposits having competition, i believe the same applies to loans.It almost seems as if banks have chosen to operate as a \"cartel\" to the detriment of the customer who has very little or no choice when looking for a loan.

richard[07/12/12 3:37 AM ]: tygona thanks but I disagree with your point...there are 43 banks in addition to 100+ MFIs in the loan market giving customers many options...in fact banks only hold 2 million loan accounts, the rest of the 10 million plus loan accounts are held with MFIs and SACCOS.

RPG254[07/12/12 3:09 AM ]: Why don't Kenyan banks show their lending rates using APR. This was highlighted in a recent media article

mobanda[07/12/12 3:26 AM ]: is there a standardised banking rates policy

richard[07/12/12 3:10 AM ]: (APR) will be rolled out in the next three months...APR will enable consumers of financial services to make informed comparisons

raegis[07/12/12 3:11 AM ]: Inflation's declined, T-Bill yields are relatively steady in a 10-12% band, and the MPC's cut the CBR.

richard[07/12/12 3:11 AM ]: thanks raegis...the cbr is the benchmark rate that banks include when determining their rates..it is not the exclusive factor...there are other factors banks use to determine interest rates...cbr is just one...t-bill rates relate to govt borrowing..and should therefore not be used as a benchmark for determining interest rates as they will fluctuate...depending on the govt's borrowing requirements...on the other hand the repo rate which is used for monetary policy is quite close to the cbr

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raegis[07/12/12 3:11 AM ]: What's stopping banks from making more drastic cuts to their lending rates?

richard[07/12/12 3:17 AM ]: lets talk about spreads...the misconception amongst the population is that spreads = profit...in actual fact spreads = revenue... (after generating income/revenue) banks have then got to account for the cost of operations, provisions, and other costs to come up with the profit. the challenge in Kenya is that it is very expensive to maintain and manage a bank.

richard[07/12/12 3:19 AM ]: for instance legal fees, challenges with the backlog in the judiciary... it takes long to register titles...banks employ the highest number of security personel in the country...and so all this contributes to the cost of banking.

richard[07/12/12 3:20 AM ]: in actual fact...bank spreads have actually been coming down

tygona[07/12/12 3:22 AM ]: when interest rates go up, why are existing loan holders also subjected to the new rates as opposed to this being applicable for new loan applicants?

richard[07/12/12 3:24 AM ]: tygona thanks...loans are granted based on deposits generated by banks. when interest rates go up both lending and deposit rates increase and therefore even for existing loans, when the deposit rates go up, the loan rates have to match.

### Loans and Credit Reference Bureaus

pedro[07/12/12 3:34 AM ]: why should banks charge me a penalty of up to 10 per cent for early repayment.. i mean you give me cash to generate wealth, if i do and repay you why punish me by that much

richard[07/12/12 3:34 AM ]: under the agreement reached between the CBK and minsitry of finance with the KBA, banks have suspedned early repayment penalty provided that you are not transferig your loan to anotehr bank to take advantage of teh reducing loan rates

RPG254[07/12/12 3:19 AM ]: Richard: I reviewed some Loan Docs (Terms and Conditions) and the bank has all the rights including the ability to call the loan for any reason. Why don't we have standard docs that protect both banks & customers in equal measures?

richard[07/12/12 3:23 AM ]: Ive seen a question on terms and conditions on loan contracts...the KBA Credit Committee is looking into standardisation of terms and conditions across the industry. in addition the KBA will be creating the office of the banking ombudsman who's responsibility will be to arbitrate between consumer and the bank in case of disputes

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zephie[07/12/12 3:13 AM ]: Hallo Mr Richard. Sir, We were told that the introduction of credit reference bureaus would make things better, this has not happened , Why?

richard[07/12/12 3:14 AM ]: hello zephie...credit reference bureaus are a work in progress...at the moment...we are sharing negative data amongst commercial banks. we decided to start there to clean up the system...the real benefit will come once banks share positive data, which will make it easier

RPG254[07/12/12 3:15 AM ]: What about positive data - don't banks share those with CRB? Why the delay?

setwin[07/12/12 3:16 AM ]: When do you anticipate the banks to begin sharing positive data?

richard[07/12/12 3:15 AM ]: banks have not started sharing positive data yet...but we will start soon...we also are bringing in other credit providers like MFIs and SACCOs so we have a complete credit history

tygona[07/12/12 3:15 AM ]: Is it true that if you opened an account and didn't use it for a while and it went into Dr because of bank charges, you get listed on CRB?

richard[07/12/12 3:16 AM ]: tygona thank you...no..it doesn't

#### Other Discussion Points

mwago[07/12/12 2:32 AM ]: Will cheques now have the new logo and from when? When is the three ring logo disappearing

Cechoat[07/12/12 2:34 AM ]: Mwago we will need to transition the new logo...KBA will engage banks so the process does not interrupt cigs toners

mwago[07/12/12 2:37 AM ]: Any other changes apart from the rebrand? What should the customer expect now with the new look of things as we await Etemesi?

Cechoat[07/12/12 2:39 AM ]: Mwago apart from the new logo, KBA has changed its operational structure, we have three new departments: operations and tech; a centre for research

Cechoat[07/12/12 2:39 AM ]: And a communications and public affairs function

eondara[07/12/12 2:52 AM ]: Etemesi: Your thoughts on the Barclays Bank Libor scandal and Bob dimond

Cechoat[07/12/12 2:52 AM ]: Eondara, thanks for your question but we are not focusing on individual banks

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#### Compliments & Comments

wanjala[07/12/12 2:32 AM ]: The forum is a very good initiative

mwago[07/12/12 2:40 AM ]: @Nuru I like the devts..cool..At least I see we will not be in the dark in matters banking now..I like

Krisk[07/12/12 2:49 AM ]: Hi all, great work Nuru ...the new site looks excellent

qris[07/12/12 3:41 AM ]: That was awesome. Thanks KBA, Thanks @REtemesi

Laura[07/12/12 3:42 AM ]: Thank you for the chat.

kizee[07/12/12 3:42 AM ]: this was exciting

Laura[07/12/12 3:42 AM ]: looking forward to the next

Brenda[07/12/12 3:42 AM ]: many thanks for this interactive session... lets do it again soon.

tish[07/12/12 3:42 AM ]: Thanks but it was very brief...Hope its longer next time..

RPG254[07/12/12 3:43 AM ]: Thanks to Richard & KBA

RPG254[07/12/12 3:41 AM ]: CEOChat: Is there a way to just show the conversation rather than who is entering and exiting the chatroom? Also give a list of questions before the chat. The question/s can be displayed to prevent duplication as well get a comprehensive answer

zephie[07/12/12 3:42 AM ]: Thank you for the chart. Waiting for the podcast response. please send the download details. Thank youu Nuru, thank you Mr Etemesi.

izo[07/12/12 3:44 AM ]: thank you RE

richard[07/12/12 3:43 AM ]: this has been an extremely interesting and eye opening experience... i do hope to be able to engage with all of you in a similar forum soon..but if you have any questions, please send them to [mychat@kba.co.ke](mailto:mychat@kba.co.ke) and i will be happy to answer...you can also follow me on Twitter @REtemesi thank you and have a good day

Gcapital[07/12/12 3:45 AM ]: Hold on is it over?

Cechoat[07/12/12 3:44 AM ]: Thank you all. Please join us next week. We have Martin Oduor talking about SMEs. Frank Ileri talking about mortgages and real estate finance. This is your moderator @nurumugambi signing off

Admin[07/12/12 3:49 AM ]: You can send your questions to [mychat@kba.co.ke](mailto:mychat@kba.co.ke) . Thank you all for your participation and we will be back next week for another chat session.

**Unanswered Questions:** Unfortunately there were several questions that the CEOs did not get to answer due to time constraints. Therefore, the following questions will be addressed by the KBA via Online Posts, including Podcast response:

Paloma[07/12/12 3:14 AM ]: What other benchmarks do banks use beside inflation and cbr to determine interest rates?

eondara[07/12/12 2:34 AM ]: Question for Etemesi: Share with us your thoughts on the creation of one regulatory authority in the financial sector.

leshan[07/12/12 2:37 AM ]: Several question for bankers on youth development loans

Musasia[07/12/12 3:15 AM ]: On capitalization, is the time frame given to banks achievable?

bngara[07/12/12 3:16 AM ]: hi Richard, do you think banks will be willing to share positive data without fear of customer porching from eachother

raegis[07/12/12 3:20 AM ]: 1 in 2 Kenyans now has a mobile phone - which, theoretically, can lower your cost of operations, while extending reach simultaneously. How will this affect the csector\' current revenue model?

raegis[07/12/12 3:24 AM ]: Is the Communication Act 1998, and subsequent amendments to that law, adequate in providing the legal and regulatory room for mobile banking to be more commonplace? Are there risks in data security which banks feel should be plugged before they make mobile banking their main avenue of transactions?

ealich[07/12/12 3:26 AM ]: Why are staff loan in commercial banks as high as 7% and at 4% for central bank\'s staff what is the consideration

joeld85[07/12/12 3:46 AM ]: when it comes to hiring permanent staffs,why dont you give your sales staff the first chance?

JNM[07/12/12 3:24 AM ]: Won\'t standardization kill innovation in banking?

pedro[07/12/12 3:24 AM ]: if i have a good credit history as evident by the credit bureau report, must inegotiate for lower rate..should it not be automatic

zephie[07/12/12 3:32 AM ]: what is the avarage cost of funds for the banks presently, does it justify the lending rates provided?

rgadhia[07/12/12 3:34 AM ]: Richard do you think the CBR has any impact on lending rates - as you mentioned, lending rates are determined by deposit rates which in tinr are determined by t-bill rates which in my view are based on investors (primarily banks) inflation expectations?

KrisK[07/12/12 3:34 AM ]: hi I wonder, shouldnt the office of the Ombudsman sit with CBK rather than KBA? As the regulator isnt the onus on them to provide direction

JNM[07/12/12 3:35 AM ]: Isn\'t KBA an interested party..I thought the principles of justice include that no one should judge their own case?

Gcapital[07/12/12 3:47 AM ]: @Frank Ileri What\'s your view with the slow progress in REITs implementation?