

CEO Chat Jude Edition

THEME: SME CREDIT NEEDS & OPPORTUNITIES



“My Chat with a Bank CEO”



Paul Njaga, CEO Chase Bank Kenya

Chat Summary

Friday 12th June 2015

Topic: SME Credit Needs & Opportunities

Time: 9:00am-10:00am

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SME Credit Needs & Opportunities

Paul Njaga: Good morning to all those who have logged in...especially Agrey from Tanzania -- karibu ndugu -- and will be participating in today's chat...also I would like to thank KBA for hosting this forum and I look forward to the discussions we are going to have this morning.
I see we already have received some comments.

Agrey Leloo: As there are corporate banks, investment banks, rural development banks and other, established to serve a main purpose like corporates institutions, why shouldn't there be an SME bank to purposely serve small medium enterprises so as to make an ease access to small entrepreneurs to get cheap loans and prosper rather than them engaging to SACCO's and others which also borrow from these banks hence introducing multiple interest rates?

Paul Njaga: We recognise that SMEs are business owners / entrepreneurs and also entities therefore they have both personal banking needs and then they have needs that are specific to their businesses ...therefore it makes sense to have banks that are able to address both personal and business needs -- as opposed to just SME focused banking. I also think that SMEs aspire to evolve into large corporations and therefore the current model makes sense.

Ezekiel Wafula: SMEs are hailed as a solution to unemployment my focus being on the youth are we in agreement that the numerous enterprise funds set by the government sufficient or we need the private sector to contribute and if so how can this be made possible?

Paul Njaga: The challenge of unemployment and SMEs contribution to addressing this problem should be faced by both private sector and Government in a complementary way.

... The commendable effort by Government through initiatives like Uwezo Fund and unemployment-focused policies is making it easier for private sector to contribute towards creating employment opportunities in a more effective way.

Naomi Thoiya: Why has there been an increased focus by banks in extending credit to SMEs?

Paul Njaga: Hi Naomi...welcome to the Chat...we are seeing an increased focus by banks in the SME space because banks have recognised the important role SMEs play in the economy and the opportunities to bank these enterprises. So extending credit and other financial solutions to SMEs will enable SMEs to grow, create employment, create wealth and by so doing contribute to national development.

James Ndwiga: Hello, My Name is James Ndwiga, SME has seen an increase of start -ups in Kenya and most employed staff are opting to take unsecured lending and start their fortunes. How are the Banks placed to help this start up grow and mentor them through incubation other than financial support and inclusion?

Ezekiel Wafula: @JamesNdigwa to add to your question do banks Influence the growth of SMEs, do we have any bank partnering with the government or most banks line up to be used to administer such funds?

James Ndwiga: @Ezekiel True, most banks are used as administrators of government funds that making it difficult to create clear policies and strategies to develop and grow the government disbursements. A good example is Uwezo Fund the government uses table banking idea which is already passed by time.

What is the bank's involvement in the fiscal policies development of the country and the government funded credit financing?

Ezekiel Wafula: To further elaborate on my comments we appreciate for SMEs to grow they need among other qualities networking do we have programs by the banks that provides a platform for SMEs that are innovative, have entrepreneurial skills and are able to manage their businesses well?

Paul Njaga: I see James has raised quite a number of important points...I will attempt to unpack them as they come. James you are right that budding entrepreneurs are starting their businesses through unsecured lending and I think banks are doing a good job in providing the necessary funding and also creating opportunities for capacity building, mentoring and networking

James Ndwiga: I agree Paul, however, if you look at the rapid growth of the unsecured book write off, it is a clear indication that Bank Acquirers have failed to educate this customers on the need to invest wisely and know their break even period before quitting their employment. Should I say we have failed to give financial literacy to customers and thus acquired the write offs? Should Banks introduce financial literacy training to its customers to avoid such?

Paul Njaga: James I see your point about financial literacy training...yes, it is a necessity and one that is ongoing through the capacity building initiatives that many banks are now offering.

Ezekiel Wafula: Paul see @Ndwiga above how can the Bank especially chase Bank bring the government up-to-date on modern ways of growing of SMEs who told the government that for growth of SMEs is provide cash and ask people to apply?

Paul Njaga: Ezekiel, as noted in my response to James, yes, banks are creating various platforms like business clubs, and in Chase banks case we have innovated the business "hub" concept where we are providing SMEs with the critical support that they need to support their businesses.

NICHOLAS OMBIJA: Morning Mr Njaga....with the report of the World Bank that high cost of credit is slowing growth of SMEs in Kenya, what is your take on this and what re some of the policies or strategies that can be put in place to face such for the positive impact on the SME's in Kenya or even East African countries?

Paul Njaga: Nicholas thank you for your point about the World Bank Report and cost of credit and SMEs. Cost of credit is no doubt an issue; but it indeed has been coming down...In 2012 it was close to 20 per cent and now it's around 15 per cent on average. It is important to note that whilst the cost of credit is an important variable, it is not the only one that influences the growth of the SME sector. For example, limited access to market, poor infrastructure, inadequate knowledge and skills, general government policies, and much more, all have an impact on the growth of the sector.

That being said, in sub Saharan Africa, Kenya is still the leading country as far as credit extension to SMEs by banks is concerned. Also, the cost of credit for SMEs in Kenya -- relative to other comparable markets in Africa -- is still lower.

Alex Mugo: Morning Mr. Paul. I think we have a big problem as SMEs reason being most of banks don't give us opportunities because they want to deal with big companies and they end up getting old services in the same old way. What needs to be done to give the upcoming companies with news ideas equal opportunities?

Paul Njaga: Good morning Alex...whilst I sympathise with your sentiments, I believe the landscape has changed considerably in recent past. Between 2013 and 2014, banks disbursed Ksh. 190 billion to SMEs in Kenya and the proportion of lending to SMEs continue to increase with time. What is needed is a closer engagement between SMEs and their respective bankers to address specific challenges. I also think the fact that banks are focusing more on SMEs reflects a balanced approach to lending to both SMEs and big corporates.

John Komu: Good Morning Bwana CEO, thank you for hosting today's chat. My question is - can the banks be a facilitator to an SME's growth in other ways other than the traditional credit facilities? For example creation of business clubs where the banks introduce customer A to Customer B who may benefit from Customer A's products?

Paul Njaga: Thank you John... I notice we are running out of time but let me quickly say yes... and it is happening.

Credit Information Sharing

Eddie Ndichu: Would an individual's personal credit score support their business credit score especially for sole businesses. Focus here being the youth given that they would struggle to differentiate themselves with their businesses at the beginning?

Paul Njaga: Eddie you are raising a very good point and it is true that one's personal credit history contributes to how banks assess the risk profile of businesses run by the same individuals.

To expound further, the progress made by the banking industry to rely more on credit reports (history) is going a long way in addressing the collateral problem facing borrowers like micro and small business owners as well as the youth.

Cosmas Butunyi: Good morning sir. Following up on Eddie's question above, does an entrepreneur's personal credit history taken into consideration for new businesses?

Paul Njaga: To answer Cosmas, Yes. The customer's credit history and the nature and viability of his/her new business are critical in credit evaluation decisions

Eddie Ndichu: That's very true @Mr.Njaga, I recently tried the *433# service by Metropol. Works great!!

Paul Njaga: That's good Eddie...digital is the way to go!

Wangui Muturi: Good Morning Mr. Njaga; I read on the Chase Bank website that Chase Banks aims to help people achieve what matters most to them. The biggest need to SMEs is access to financing and education on financial management. Most bank shy away from using non-conventional methods of evaluating the financial positions of the SMEs. Most SMEs are banked by MPESA yet most banks fail to consider the MPESA statements as legitimate. Most banks shy away from using household chattels as a way of evaluating an SME. I think banks have forgotten the 'small' in the SME and focused on the medium.

Paul Njaga: Wangui welcome to the Chat...I would say that the industry is making huge steps in addressing the issue of collateral requirements in lending. For example, with the development of the credit reference bureaus banks are placing more emphasis on credit reports and scores in determining the character of the borrower. With time, other non-banking players such as telcos, and utilities will also

contribute their data to the credit information sharing framework and this will derisk/promote further unsecured lending, particularly to the small micro businesses you refer to.

General Questions, Comments and Feedback

Imali Ngusale: Surely do all Kenyan SMEs have a turnover of Kshs.5 million per year #CreditChat?

Paul Njaga: Imali there is a large spectrum of SMEs and 5 million turnover is just one of the classifications that the industry uses, but that does not exclude other businesses. We recognise that smaller and micro businesses do exist and with time grow into SMEs and corporates in the future.

Jennifer Kinuthia: Good morning. To be able to adequately meet the needs in the market and stir up economic growth, what is your institution doing to be able to meet young people with brilliant ideas and business opportunities but do not have the credit history as outlined above.

Paul Njaga: Jennifer good morning, the industry recognises the need to support youth entrepreneurial initiatives... at Chase bank we have a youth banking department that is specifically focused on enabling such entrepreneurs to crystallize their bankable business ideas.

Renaldo D'Souza: Good Morning Mr. Njaga. The 2015/2016 budget was read yesterday. How well is the bank placed to support local SMEs particularly manufacturers to ensure that they are able to take advantage 40% of all Government contracts?

Paul Njaga: Renaldo, welcome, the budget proposal for the manufacturing industry is a positive development and banks will play their rightful role in supporting their SME clients to take advantage of the opportunities that will emerge. Banks are raising funding from a variety of ways; they are enhancing their internal capacities; and also expanding their product range and delivery channels. All these will facilitate SME manufacturers.

Robert Mutua: Morning Paul, Just to keep it simple and to the point, Chase Bank offers asset financing which is a good deal, well then why do they leave the young or rather the youth out of it and opt to finance only well established companies or individuals?

Paul Njaga: Robert thanks for your point...I think we touched on how banks, like Chase, are creating youth focused products.

Ezekiel Wafula: Paul I commend Chase Bank for this but can we go down to education, what has KBA done to constantly check education curriculum? As low as high school am sure the demand and supply concepts taught in schools should be reviewed and branding, marketing skills, strategy should be taught in schools and not at Masters Level can this policies reviewed and suppose the Government gives Kshs 6B to develop and implement this would it be in your opinion making it easy for SMEs to sustain themselves?

Paul Njaga: Ezekiel, as KBA we are engaged with the sector regulators on developing a national financial literacy strategy and school based curriculum. For more information about KBA initiatives you can visit the KBA web site.

Imali Ngusale: Time flies when learning is fun. We should be having such platforms so as to gain more banking literacy.

NICHOLAS OMBIJA: My suggestion this platform needs more time....looking forward to joining my dream bank and fast class bank .Chase Bank - CEO Paul Njaga THANKS for hosting this discussion.

Wangui Muturi: Hi Admin, Is it possible, in future to have this chat window bigger; such that it can be blown full screen?

Chat Admin: Thanks Wangui. We'll definitely look into that.

James Ndwiga: @Ezekiel Good Thought, I love your point.

NICHOLAS OMBIJA: Thank you Mr. Njaga, with all that what's the future of aspiring entrepreneurs in Kenya?

Ezekiel Wafula :@James thanks Bro just that I think intellectual capital is natured at a very last stages whereas successful business men impact this to their children at a very tender age for this to happens a lot of money spent by companies and specifically banks to train their employees will be used in giving credit, your comments Sir Paul?

CHRIS KIMATHI: Great insights shared indeed. Thank you Mr Njaga.

Alex Mugo: Chat Admin: As mentioned by one of the user, it will be great if one can join and participate to this chat from a mobile device, think about this and in case you need the experts (developers), we are here!

Ezekiel Wafula: I totally agree though it's a very good forum I have learned new things today thanks Paul

David Kanyora: Great discussions indeed. Thank you Paul Njaga for the insights.

Paul Njaga: Yes thank you all, my time is up but allow me to sum up. I think to pick up on Nicholas' point about the future for entrepreneurs...I would say the opportunities for SMEs are infinite as the country continues to develop. The banking industry will continue to play its rightful role of supporting entrepreneurs to realise their potential and those of their business ventures. For those entrepreneurs out there, shoot for the stars.

Chat Admin: Ladies and gentlemen, allow me to take this opportunity to thank Mr. Paul Njaga for being with us today and for his insights.

We would also like to thank you all so much for your questions and comments that have made this session interactive and a success.

You can get copies of the transcript, podcasts and other information relating to this and all past chats in the archive page of the chat.kba.co.ke website.

We look forward to meeting here again next Friday same time. The topic will be Retail/Household Access to Credit. We look forward to your participation. Many thanks and have a good day.

Unanswered Questions

Imali Ngusale: Good morning Paul Nyaga, how has @chasebankkenya braced itself for #Agenda2063, will the bank diversify regionally to capitalize on #freetrade

James Ndwiga: The New Directive by the CS finance of raising the working capital of Banks from 1 Billion to 5 Billion, will microfinance banks have to merge or be acquired by other banks to fulfill the requirement? #Speculation

Imali Ngusale: Thanks. I was referring to WorldBanks definition of SMEs. But I am more concerned about the upcoming Tripartite African Union. How will Chase Bank Kenya evaluate the customers' history records when we go regional?

Agrey Leloo: Mr CEO...why do banks act so friendly when administering loans and credits to companies and other customers, but withdraw the friendliness when particular businesses face it rough due to economic conditions and market competitions, instead they should partner with the particular entity, advice and guide it through the hardship rather they rush selling the collaterals ?

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