

CEO Chat Jude Edition

THEME: SME CREDIT NEEDS & OPPORTUNITIES



“My Chat with a Bank CEO”



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Chat Summary

Wednesday 17th June 2015

Topic: Household Access to Credit

Time: 10:00am-11:00am

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Household Access to Credit/ Interest Rates

Lamin Manjang: Good morning to all online users and the general public... I'm happy to have this opportunity to talk about a very topical issue, which is interest rates and access to credit in Kenya.

JUDITH NJERI: How easy is it to access Household Credit if you are in the informal sector?

Lamin Manjang: Judith thanks for getting us started...I see your question about access to credit for the informal sector... I'm glad to say that the lending to the household sector is about 26 per cent in Kenya...and this is actually high, it means that banks are providing credit to that sector. Of course the informal sector has certain challenges which create difficulty for banks to provide credit to that sector. One of the challenges faced by commercial banks in informal sector is the lack of information to be able to assess the credit needs of the client; therefore there is a need for multiple channels of intervention to support the informal sector...such as government programs as well as channels such as SACCOs and MFIs (micro finance).

Lamin Manjang: As you share your thoughts and questions. Maybe I can say that banks in Kenya are keen to support the growth of the private sector, because we realise that is the engine of economic growth. And so far we have seen private sector credit growth has averaged over 22 percent in 2014 overall (including lending to households).

Austin Waga: What is your view on KBRR projections towards the second half of the year and its impact on lending rates?

Lamin Manjang: Thank you Austin for the question on KBRR ... with the recent revision of the Central Bank Rate / CBR by the Central Bank, following concerns around the outlook for inflation and the exchange rate; the central bank revised the CBR from 8.5 per cent to 10 per cent. So we expect with the next cycle of the review of the Kenya Banks Reference Rate / KBRR, banks would reflect this increase in their lending rates.

The introduction of KBRR last year was designed to bring transparency in the pricing of loans. Before that, banks were pricing of their Base Rate, which was specific to individual banks. KBRR has allowed a uniform pricing formula and banks then would put a margin on top of that to reflect their cost of funds; operating costs; and profit margin. And we have seen since the introduction of KBRR, a continued gradual reduction in average lending rates.

Alex Mugo: May be I can start my questions by asking the scope of this so called HOUSEHOLD SECTOR?

Lamin Manjang: Thanks Alex...the scope of the household sector is personal instalment loans; mortgages; auto loans; credit cards to individual clients; and over draft facilities as well.

Judy Kerubo: Why do Banks increase their rates when the KBRR increases but do not decrease the rates when the KBRR decreases? Isn't this double standards?

Lamin Manjang: Thanks Judy...banks do actually respond to movements in the KBRR. When the KBRR was reduced in January of this year, banks re-priced their lending book to reflect the reduction in the KBRR. I would add that banks are required to provide adequate notice to clients (30 days) before a change in interest rates is implemented for variable interest rates.

Alex Mugo: Are the rules/guidelines for consumer protection when it comes to credits/loan? Most banks have strict rules to protect themselves and consumer may be left unprotected.

Lamin Manjang: Alex, there are consumer protection guidelines designed to specifically protect customers in their dealings with product and service providers, including banks. Banks are required to be transparent and fair in all their dealings with their clients. And there is recourse for clients to take up any unfair treatment with the regulator/CBK, industry association/KBA, alternative dispute resolution, and finally legal redress.

Abu Salim: On the interest rates, do you agree the spread by banks is the main contributor to the pricing of loans? The banks average of 9% or so is high.

Lamin Manjang: Abu Welcome to the Chat. The issue about spreads has actually been addressed by banks and we have seen the spread narrow from double digits to 9 per cent, with the expectation it will continue to narrow. Also with the introduction of KBRR there has been greater transparency and we expect the spreads to narrow further due to the increased competition for deposits.

Tina Mutisya: What initiatives are banks working on to address high rates?

Judy Kerubo: I agree with Titus. High loan rates make the loans inaccessible to those in the informal sector. Standard Chartered is currently at approximately 18%. If you increase the rates, won't they be overly expensive?

Alex Mugo: Which factors are considered while coming up with the lending rates? I know of some countries that have lower rates and others higher compared to Kenya.

Lamin Manjang: To answer points raised by Tina, Judy and Alex about high interest rates and what the industry is doing, the banking industry together with the CBK and the National Treasury worked to come up with the KBRR framework to bring greater transparency into the pricing of bank loans. And since the introduction of KBRR, we have seen a gradual reduction in lending rates and a reduction in spreads. However, there are other factors that affect the cost

of credit. Such as; high cost of operations; the delays and cost of registration of property; the cost of litigation for non-performing loans; the other third party costs such as insurance and property valuation. So other costs are there and therefore there must be a comprehensive effort by all stakeholders to bring down the cost of credit in the market.

The other intervention the industry has initiated was the introduction of credit information sharing. Although it started with negative data, we have now migrated to positive information sharing which will bring segmentation and the ability to offer more competitive rates to borrowers with a good credit profile.

Tolbert Wabunoha: Mr. Lamin are household incomes appraised before loans/credit for the same is disbursed or it will depend on collateral? In my view households are just another part of the consumption cycle.

Lamin Manjang: Hi Tolbert...thanks for the question...when we give personal installment loans; they are typically unsecured and based on the salary/other income of the individual. So in this case banks do not take any collateral. However, when banks offer mortgages and auto loans, they do then take collateral for those facilities.

Tolbert Wabunoha: Bringing down the cost of credit is another long story Boss Lamin. It will be a long term process that will spice up competition in the industry.

Lamin Manjang: Tolbert thanks for your sentiments. I would like to highlight that average lending rates in this market have reduced from a high of 22 per cent in 2012 down to 15.5per cent by Q1/2015. This is a trend in the right direction in terms of cost of credit coming down in Kenya.

Abu Salim: Thank you, are the banks proposing some of the changes? If what you mention above has effects on the business, banks would show this in the financials. Contrary, we see banks post very high profits and are evident from the spread.

Lamin Manjang: Abu, thanks for your comment about banks profits. Generally it is a positive thing if banks are making profits because it is reflective of a vibrant and resilient private sector. A "sick" banking sector is actually disastrous for an economy. Banks contribute in terms of taxes, facilitating the growth of the economy, employment creation, and financial deepening and integration. All of these are possible only if you have a healthy, profitable and growing banking sector.

Credit Information Sharing

Maurice Ndege: The biggest challenge with informal sector lending is lack of information and to curb this there is introduction of CREDIT RATING by one of the CRBs and it has seen the SMEs accessing credit. Can this be the bridge to the gap between SMES and lenders?

Lamin Manjang: Maurice, I think that credit reference bureaus have provided an opportunity for banks to assess the credit risk of various borrowers. When the credit information sharing framework was introduced by KBA and CBK, banks were sharing negative information about defaulters. Now we are now sharing positive information sharing where we can have a complete profile of borrowers and therefore this would enable banks now to segment borrowers and offer much more competitive terms to those good borrowers.

Regarding enterprises/SMEs in the informal sector and credit ratings, because they are not part of the formal commercial banking sector, their data is not in the CIS framework. But with SACCOs and MFIs joining the CIS framework, we hope this issue will be resolved.

STEPHEN NJUGUNA: I recently learnt that a third credit reference bureau was licensed by CBK... CreditInfo. Is there a need for having multiple bureaus?

Lamin Manjang: Stephen thanks. I think the more credit reference bureaus in the market, the more non-banking institutions (telcos, utilities, etc) will share the information with those bureaus. And therefore lenders would have a more comprehensive profile of borrowers.

Maurice Ndege: It is notable that SACCOs and MFIs are already joining the bureau platform which will help in enriching the CIS mechanism.

Lamin Manjang: Yes indeed Maurice. It is a positive development which is welcomed in the market.

Maurice Ndege: We also need to educate the people on the bureau benefits because if one is black listed in the bureau they are never aware of how to rebuild themselves especially now with Mobiloans most of them are finding it hard to redeem their creditworthiness.

Lamin Manjang: Maurice I see your question about rehabilitating ones credit standing after default. After a default, once a customer has paid off the debt, and there is no other new default, the credit profile of that customer would improve and they are more likely to get access to credit. It is advisable for customers to check with the credit reference bureau to get a copy of their credit report. With the regulations, you are entitled to a free report so one can take proactive action to check their credit rating and improve their credit profile if they need to. For instance, there might be a case of wrong or old information that needs to be corrected or updated.

STEPHEN NJUGUNA: Thanks Lamin. My thinking is- the information would be rich if centralized unlike when fragmented by having multiple bureaus.

Lamin Manjang: Stephen, banks are required to send the same information to the 3 bureaus simultaneously so the database is the same across the 3 bureaus.

Maurice Abongo: How do you do your credit rating to first time borrowers especially those new clients who don't have credit history from other financial institutions? Do you do psychometric test in your bank for first timers in credit lending?

Lamin Manjang: Maurice, lack of a credit history does not disqualify you from getting your first loan.

STEPHEN NJUGUNA: Mr. Lamin, Do you think there are chances of Banks withholding the positive information for fear of competition. i.e. competitor using the same to offer better terms?

Lamin Manjang: Stephen...regarding positive information sharing, this is a level playing field where banks are required by the regulator to share all customer data to the licensed bureaus.

General Questions, Comments and Feedback

Joel Gatama: Does Standard Chartered offer Retail/ Household lending?

Lamin Manjang: Yes Joel, we do offer retail and household lending. Visit www.sc.com/ke for more information.

ANN KAMAU: What will be the role of the Competition authority of Kenya (CAK) regarding loans pricing?

Lamin Manjang: Ann, regarding the Competition Authority's Role and loan pricing. I would say that the banking industry strives to operate in a competitive and transparent manner. A recent study by KBA and Deloitte confirms that indeed there is adequate competition in the banking industry in Kenya.

Pat Wanjau: I'll ask this one here since I don't know where else to. Why is the Standard Chartered Bank, Thika Road Mall branch, not listed in the KBA list? Is this list ever updated?

Lamin Manjang: Pat thank you for banking with Standard Chartered. We have taken note of your feedback and will inform KBA.

Pat Wanjau: Thank you Lamin. I hope this list is updated as I'm being inconvenienced by some institutions, namely CDSC Kenya. They do reference the list while updating the list of NSE investor details.

Oduor Ambrose: Thanks Mr. Lamin. We have always interacted while you were in Uganda and I really appreciate the efforts you have always put in banking sector Kudos.

Lamin Manjang: Thank you Oduor. Thanks for joining us. We look forward to partnering with all our clients and stakeholders to contribute to the development of the banking sector and overall development of the economy.

Maurice Ndege: It's good to note that you are entitled to one free credit report every year so as to see the information the bureau holds about you Metropol CRB is currently running a campaign on media and it has really created awareness.

Maurice Ndege: KBA is also working hard to create awareness on TCC (total cost of credit) and also has an app that has the APR calculator just to help borrowers compare the lenders and also offer platform for choice.

Lamin Manjang: Thanks Maurice for sharing.

David Kimwele: Hello. Unfortunately, the chat room is not mobile friendly. I could have participated more fully.

Chat Admin: David, thanks for your feedback. Your concerns have been noted.

STEPHEN NJUGUNA: What's your take on the recent publication of the rates by CBK on the interest rates by different Banks? Is it likely to influence customer decisions?

Tolbert Wabunoha: Abu that's correct. The other hidden factor is that bank managers may be under immense pressure to make more money for the shareholders this is never told to the public. We need some clean deals.

Tolbert Wabunoha: Thanks Lamin for the household credit info. I'm going to run one deal with SC/ug.....

Maurice Ndege: #ADMIN as just a suggestion we need to invite one of the bureaus officials to the chat so as to have them enlighten us on the bureau information and regulations. Lamin have a great day and thanks for your insights.

Unanswered Questions

Absalom Odiyo: what does the future hold for someone with Ksh. 15,000 a month in Asset Financing? Can that guy really finance a house, with the rates! Never. My Dilema is sometimes I operate a small business whose markup is 25% what would be your sober advice on me in such a case?

Chat Admin: We are about to wrap up the session. We wrap up in 5 minutes.

Alex Mugo:Mr Lamin. Thanks a lot, we are now more enlightened.

STEPHEN NJUGUNA: Thank you for your time Mr. Lamin.

Lamin Manjang: As I wrap up. I would like to thank everybody for their participation in the CEO Chat forum. As the KBA, the banking industry is very keen to ensure that we support our clients by providing them with appropriate products and services and helping them to grow in terms of their individual and business capacities, so we can all contribute to the development of this great country.

Thank you all. Good bye. And have a good day.

Chat Admin: Ladies and gentlemen, allow me to take this opportunity to thank Mr. Lamin Manjang 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 great success.

Oduor Ambrose: Thanks for the Informative session.

Jacob Owade: I enjoyed watching and learning from the session. Thank you

Chat Admin: Thank you all for your participation. We look forward to meeting here again next Wednesday 24th June. The topic will be Microfinance Lending & Accessibility. We look forward to your participation. Many thanks and have a wonderful day.

STEPHEN NJUGUNA: Thanks for the information. You could consider adding more time.

Chat Admin: Remember you can access the transcripts and podcasts of past chat sessions on the archives section of chat.kba.co.ke.