

# CEO Chat Jude Edition

**THEME:** SME CREDIT NEEDS & OPPORTUNITIES



## “My Chat with a Bank CEO”

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Charles Njuguna, Faulu Microfinance Bank Managing Director

Chat Summary

Wednesday 24<sup>th</sup> June 2015

Topic: Microfinance Lending & Accessibility

Time: 10:00am-11:00am

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1. *Microfinance Lending & Accessibility*
2. *Unanswered Questions & Other Comments*

## Microfinance Lending & Accessibility

**Charles Njuguna:** Good morning and welcome everyone to this chat which I hope will be interactive...I think it is a very pertinent discussion and I look forward to the engagement.

As we start allow me to give an overview of the role of microfinance banks. I think Microfinance banks play a very critical role in the market in terms of driving financial inclusion for the people at the entry level of the formal banking segment. Given that our customers who are getting into the formal banking segment need financial education and may not have access to collateral, we may not also have access to their banking records (which will facilitate a more in-depth review of their credit standing), there is a need for Microfinance banks which have a clear understanding of the risks and opportunities of this segment to play a critical role in providing credit to this segment.

**JACKSON OKOTH:** Hallo Sir, the Treasury cabinet secretary in this year's budget has proposed to raise minimum core capital for commercial banks to Sh 5 billion by 2017. How will this impact on the credit market especially microfinance lenders?

**Charles Njuguna:** Good morning Jackson and welcome to the chat...I think with the increase of core capital will enable commercial banks to tap into a wider market segment and over and above that we would have stronger financial institutions with a stronger capital base which will result in product diversification to respond to client needs...actually three of the microfinance institutions are already within the 5bn core capital requirement for commercial banks so this is a positive move towards having stronger financial institutions.

**JACKSON OKOTH:** It has been the feeling of many that credit from microfinance banks is expensive. Do these lenders adhere to the KBBR benchmarks? How do you price your loans?

**Charles Njuguna:** Jackson to answer your question about pricing, the key driver is the macroeconomic environment and then there are bank specific characteristics and customer specific characteristics. So in the case of microfinance institutions, we usually have to attract deposits from commercial banks which we complement with other deposits from development finance institutions (DFIs) -- and these tend to come at a higher interest rate which translates to slightly higher interest rates for customers. Then secondly, the customers we are also interacting with do not have formal bank statements or collateral so to some extent these loans carry a higher risk and hence a higher interest rate to cushion the bank in the case of default. But with the introduction of the credit information sharing framework we are now able to assess the customer risk profile better and their borrowing activity and this should translate to lower interest rates for the good borrowers. For microfinance banks that are regulated by CBK would price off the KBBR.

**Tony Shilako:** Initially MFI targets were to meet new client needs, and to improve their access to capital driving down interest rates, some MFIs have changed course and become DTM'S. But the transition from non-profit to for-profit has been rocky and controversial hence reversing gains made .Kindly elaborate on this.

**Charles Njuguna:** Welcome Tony and a very nice point that you have raised. I think the purpose of the conversion to DTMs was to enable microfinance institutions to tap into retail deposits from customers and this has progressed quite positively for the industry because we are able to offer wider and more innovative products to our clients at more competitive rates. With this access to additional deposits, DTMs can further deepen their lending to the market segments we are playing in.

**Imali Ngusale:** Oh Really! Does this mean that Banks can always shield each other from absence of currencies?

**Charles Njuguna :** Thanks Imali, please clarify your question about currencies.

**Maurice Abongo:** Charles, most of micro finance institution lend to small business that have already established themselves and ignore the startups businesses. Why is this so? And what is your take from Faulu in giving credit to start-ups business?

**Charles Njuguna:** Thank you Maurice for your question on SME lending. Microfinance does not restrict the lending to established startups. As mentioned earlier the clients we deal with are the ones who are gaining access to the formal banking environment and are often in micro businesses.

**JUSTUS OGUMAH:** Kindly enlighten me on categorization of 'credit only' microfinance institutions and the regulations available governing such institutions

**Charles Njuguna:** Welcome Justus. We have microfinance banks (formerly called deposit taking microfinance institutions). So over and above offering credit facilities, microfinance banks mobilise deposits from retail customers, offer micro insurance, and transactional banking services. The other category is credit only microfinance institutions and these only have loan facilities for clients. These are the two broad differentiating factors. Currently, there are 9 microfinance banks regulated by CBK.

**Marion Agwaya:** Good morning Sir, What is the role of credit information sharing in stimulating collateral lending?

**Maurice Abongo:** Apart from CBR what other techniques do use to check for credit worthiness to borrowers?

**Charles Njuguna:** To answer Marion and Maurice with regards to credit information sharing and credit worthiness, I would say that credit information sharing is a mechanism through which licensed credit reference bureaus can generate a credit report on a bank customer. This has been very helpful in identifying high risk borrowers and contributes to improving the quality of the industry loan portfolio. And now the CIS framework has been amended to include positive data sharing. So banks are providing the full customer data which enables us to price our loans much better for the clients who have a positive credit history. Ultimately this will unlock access to affordable credit for the borrowers with a good credit track record.

**Rose Kamau:** How do you justify the higher cost of interest by MFIs to the largely lower income population?

**Charles Njuguna:** Welcome Rose and thanks for your question about the higher cost of interest. Loan pricing is dependent on a number of factors, which is the cost of the funds (deposits), operational cost and is also based on the risk which ideally links to collateral availability, access to formal records such as bank statements, as well as costs associated with managing the facility (operational expense). Therefore, we take all these factors into consideration when coming up with the pricing of the loan. That said we are looking at more innovative ways to bring down costs and operational expenses through channels like mobile banking. As micro lenders we are very sensitive to the impact of pricing on our customers and we continuously look for ways to driving down the pricing of these loans.

**Paul Chepnyamis:** What are the factors to consider for one to get funding through micro finance for real estate investment or commercial? Again is there a limit micro finance when it comes to lending?

**Charles Njuguna:** Paul as per the CBK regulations, there is a limit to how much a microfinance bank can lend to a single client and this is pegged to the core capital of each microfinance bank.

**JACKSON OKOTH:** We have seen a fierce technology race among banks and Saccos. Where the microfinance institutions in this game are and what technology are you deploying?

**STEPHEN NJUGUNA:** What are your thoughts on mobile banking and financial inclusion? Does this present a new competition frontier for Micro Finance Banks that have been providing credit to the un-banked rural population and how can the institutions respond to this.

**Charles Njuguna:** Stephen and Jackson you raise very pertinent points regarding mobile technology...I think mobile banking plays a very critical role in facilitating financial inclusion. With more than 20 million mobile subscribers, this is a channel we can't ignore. We have increasingly seen microfinance banks adopt new technology and leverage mobile banking channels to reach out to our customers including those in very remote areas.

**JACKSON OKOTH:** Sir, do you share credit information of your clients with commercial banks and Saccos among other players on the credit information sharing platform?

**Charles Njuguna:** Jackson I see your question about CIS data, yes, all commercial and microfinance banks share data with the credit reference bureaus. Lenders can now use these reports to assess customer risk profiles based on their borrowing activity. Soon all lenders will be looped into the framework which will result in the same benefit of cheaper loan rates.

**John Mwangi:** Sir Morning... What are the strategies for microfinance institutions to provide credit without collateral, since we are receiving credit from mobile banking which ask for no collateral.

**Charles Njuguna:** Thank you John for your question about collateral and mobile banking. As we continue to build credit history with our clients and with reliance of the CIS framework then the need for collateral will over time reduce.

**Alex Mugo:** Morning Mr. Njuguna. I'm informed that Faulu is becoming a bank (correct me if am wrong), with the current competition do we expect may be some new services/products as far as our topic today is concerned?

**Charles Njuguna:** Alex as shared earlier we are a microfinance bank. And yes, we will be looking to introduce innovative products and services, as well as work towards improving the customer experience

**Benjamin Muli?** Client thought with introduction of KBRR in Kenya will reduce the cost of credit but this has not happened one year down the line...do we still expect reduction or it will turn out to be what ERC has done to the petroleum prices as they have always gone up with its formation?

**Charles Njuguna:** Benjamin thank you for your point. The fact is that we have seen interest rates have come down from a high of 22 percent in 2012 to 17 per cent in January 2014 and further down to 15 percent during this year. Which is a very positive trend in stimulating lending that consequently drives economic growth.

**Edward Kalya:** Good Morning Sir, how do you apply technology (Mobile) based on the way customers are using it, so as to apply it to simplify the structure and grow the savings investments on your end. How is the balance achieved?

**JACKSON OKOTH:** How are microfinance companies such as yours leveraging on technology to reach out to customers and generate more business?

**Charles Njuguna:** Welcome Edward. Technology is an enabler to how we service our customers and we continue to monitor trends to ensure that we remain responsive to this.

**Josephat Kimanzi:** Hi Charles, Kenya's parliament is proposing that the country pegs interest paid on deposits as a fraction of the rate that banks charge customers for loans, reigniting the debate on introducing interest caps. You comment on this sir.

**Charles Njuguna:** Hi Josephat, in a market like Kenya where interest rates are market determined, it is the Kenya Bankers Association's view that a legislation which seeks to bring in an element of control would essentially mean that we will end up eliminating a big percentage of potential borrowers whose credit risk profile is considered higher than what the proposed cap would allow for. The proposed capping of interest rates will work against the financial inclusion agenda which has been a great achievement for Kenya.

**Marion Agwaya:** How are the microfinance banks leveraging on technology and mobile phones in particular to enhance financial inclusion and lending?

**Charles Njuguna:** Marion there are currently existing loan products where clients can access loan products via mobile technology.

**JACKSON OKOTH:** THANK YOU SIR FOR YOUR INSIGHTS, COULD YOU GIVE US YOUR EMAIL SO THAT WE CAN CARRY THIS DISCUSSION FORWARD

**Rose Kamau:** I second that request by Jackson. Please let us have your e-mail contacts

**Chat Admin:** Jackson, please get in touch with our PR Office - [beverlyn@ginadin.com](mailto:beverlyn@ginadin.com)

**Charles Njuguna:** As we wrap up I would like to thank everyone for participating in this very rich discussion on microfinance lending and accessibility. The banking industry remains committed in driving the financial inclusion agenda, and micro lenders in particular will be key in transforming customers lives which will contribute to the Economic Pillar of Vision 2030. Thank you all again. Goodbye and have a lovely day ahead.

### **Unanswered Questions & Other comments**

**Imali Ngusale:** Dear Charles, whenever the customer lacks formal bank statements or collateral how does the bank insulate itself from fraud?

**Rose Kamau:** Secondly are MFIs embracing new technology to improve their knowledge about their customers? How?

**Imali Ngusale:** Good morning Charles I'm just reviewing your response to Jack's question. What is the rate given to deposits from Commercial banks?

**JACKSON OKOTH:** Sir could you give us some of the technological developments that have occurred in the microfinance space over the last couple of months or years?

**Imali Ngusale:** Dear Charles thanks for your feedback. By currencies I meant Kenyan Shillings. Do we ever have a scenario where Microfinance institutions have more assets (loans) than liabilities (fixed deposits)?

**Eric Wainaina:** Thanks for taking the time. There were reports in the Kenyan media of a plan by the Kenya Bankers Association to launch a service which will cut reliance on M-pesa services. My question is, how will your bank benefit from such a platform to grow its lending especially to microfinance institutions? Second question, what more do you think should be done in FinTech(Financial Technology) to grow lending and accessibility for Microfinance?

**Monica Mwakio:** What's your take on Insurance companies buying into MFI/Bs? Is this the future of MFI/Bs?

**JUSTUS OGUMAH:** Thank you Sir, Now how easy is it to set up a credit only microfinance, are the capital requirements of DTM as per the Microfinance Act applicable to credit only?

**Chat Admin:** Justus, for more information on the requirements to set up a credit only micro finance institution, please visit the Central Bank of Kenya's website - <https://www.centralbank.go.ke/>

**STEPHEN NJUGUNA:** A good discussion it was. Thank you Mr. Njuguna for your time and responses.

**Maurice Abongo:** Thanks you Charles. It was such an insightful discussion. Your email address is on demand!

**SAMUEL WAINAINA:** I always forget to be on time. Please admin set a system reminder may be through email or mobile sms.

**Chat Admin:** Ladies and Gentlemen please join me in thanking Mr. Charles Njuguna for this insightful and informed discussion on microfinance lending and accessibility. Please keep an eye on the Archive page (<http://chat.kba.co.ke/index.php?r=chat/archives>) for a full transcript of this mornings and all past CEO Chat sessions.

Thank you all once again. Unfortunately this was the last chat session for this quarter. We look forward to interacting with you all at the next quarter chat session.