

REMARKS BY THE ACTING CABINET SECRETARY FOR NATIONAL  
TREASURY, AMB. UKUR YATANI, DURING THE LAUNCH OF THE  
ENHANCED DEPOSIT COVERAGE LIMIT BY THE KENYA DEPOSIT  
INSURANCE CORPORATION: 1<sup>ST</sup> OCTOBER, 2019, NAIROBI

The Chair,

Board Members

The Representatives of Member Institutions

The CEO,

KDIC Management and staff

Invited Guests

Ladies and Gentlemen

**Good morning,**

It is indeed with great honour to preside over this important event in our journey towards a stable financial sector in this country.

Over the last two and half decades, the banking sector in Kenya has experienced remarkably vibrant growth with regard to financial inclusion and offer of variety of products to the diverse customers. As a result of these changes and milestones, the safety net players have had to adjust accordingly so as to cope with the same. The changes in the banking sector have indeed significantly supported the growth of

Kenya's economy, as well as securing the growth of the East African Community in general.

As part of the government reforms to create a vibrant and globally competitive financial sector, the government has continued to institute reform measures destined to entrench a saving culture among the citizens. This culture cannot be achieved and sustained when depositors live in fear of losing their hard earned money. In this regard, the KDIC is mandated to provide deposit insurance and incentives for sound risk management by ensuring that such fears are not only alleviated but depositors money is protected with other safety net players at all times.

**Ladies and Gentlemen,**

The steps that were undertaken to enable us reach this far, were not only deliberate planned but also professionally calibrated. Since the establishment of the **Deposit Insurance Fund Board** in 1986, the Insured Deposits coverage limit has been maintained at a maximum of Ksh. 100,000 per depositor. This amount is in tandem with the country's economic development, size of average bank deposits, as well as inflation trends. This implies that the adequacy of deposit insurance as a financial safety net has been declining.

The banking sector's dynamic landscape coupled with myriads of complex products developed over the last three decades raises fundamental issue of relevance and adequacy of the insurance premium set in 1986.

Kenya is now a hub of innovations and the advent of mobile money a decade ago has placed this country at higher level and a pacesetter in the region's financial perspectives, a position the government is keen to defend. It may also be noted that, like many other innovations, technology has opened the country and the financial sector in particular to numerous adversaries such as cybercrime increasing fragility of the same.

In addressing some of these challenges attributed to the country's rapid adoption of technology and in fulfilment of public policy objective, the government recently reviewed the mandate of KDIC from a 'Pay-box' plus to risk minimizer giving the Corporation powers of early detection and interventions to further protect the depositors' interest.

In executing its expanded mandate therefore, the Corporation is expected to work closely with the Central Bank of Kenya and other safety net players to proactively address sectoral matters that endanger not only depositors' money but the stability of the financial sector in general

**Ladies and gentlemen,**

I am happy to note that the Corporation has continued to play a leading role in the region, being the second deposit insurance to enjoy such an expanded mandate in the Sub-Saharan Africa after Nigeria's Deposit Insurance Corporation (NDIC) in addition to being instrumental in helping our neighbours establish and entrench Deposit Insurance.

I wish to further state that, the corporation is alive to the fact that it may not be possible to deliver on the above mandate fully without a robust strategy and plan that is aligned to other government initiatives. In this regard, I congratulate the Board and Management of KDIC, for coming up with a Strategic Plan that will guide its activities during the period 2018 - 2023.

**Ladies and gentlemen,**

It's also important to note that, for years, KDIC has been charging member institutions a flat rate on premiums. This practice has been criticised for not providing incentives for sound risk management and also considered a recipe for moral hazard for member institutions. I am therefore pleased to note that the Corporation has now developed a model that will enable it assess and levy of risk based premiums. This model will go along way in instilling discipline in the banking sector and further provide incentives for sound risk management as envisaged in the KDIC Act 2012 that is also in line with international best practices. I encourage KDIC to fully engage and sensitise all stakeholders before its expected rollout in July 2020.

I hasten to add that, while failure of financial institutions affects our entire population, it is sad to note that majority of the depositors and citizen at large have limited understanding of Deposit Insurance. Globally, players in this sector are going out of their way in carrying out targeted awareness campaigns and literacy education. I therefore encourage KDIC to invest in similar initiative and ensure Deposit Insurance becomes a household name in Kenya.

**Ladies and gentlemen,**

In the period 2015/2016, our banking sector experienced market turbulence that left 3 banks in receivership. The effects of this turbulence shook the industry and continue to be felt across the banking sector to date. I would like to commend KDIC for the pragmatic role they played together with CBK in resolving this situation. It is worth-noting that for the first time in the history of this country, depositors of a bank placed under receivership were able to access part of their deposits within first seven (7) days.

The team worked tirelessly to execute an appropriate resolution where the good bank was hived off and sold, allowing depositors to access even a larger portion of their deposits without waiting for years. At this juncture, I wish to challenge KDIC, CBK and the other safety net players to make this phenomenal success a norm rather than an exception in the Sector. The National Treasury will be available to offer any support needed to ensure successful intervention as required.

As you all understand, bank failure is a normally a painful experience, and the experience of the last three institutions, closed between 2015 and 2016 made many innocent families and entrepreneurs suffer.

To this effect, we remain grateful to all depositors for their understanding, patience and resilience during the difficult resolution process. I assure that moving forward and to minimize such experience, the Corporation working closely with the Central Bank of Kenya will aggressively undertake its mandate of early detection and intervention in resolving troubled banks with the required zeal. Towards this end, I

would like to emphasize on the need to have all safety net players to closely work together in establishing and implementing seamless mechanism of information sharing by integrating their systems to facilitate effective information sharing.

**Ladies and gentlemen,**

Implementation of a robust surveillance system will greatly reduce bank failures. Its therefore imperative that this Corporation needs to put robust mechanism to cushion depositors to enable them continue with normal life even as resolutions options are addressed through an enhanced pay out limit which we are unveiling today. After a careful consideration of various economic factors, KDIC with the approval of the National Treasury has reviewed the deposit coverage limit which I have the pleasure to launch today, from **Kshs 100,000 to Ksh 500,000 effective July 2020** making it amongst the highest in Africa.

This means that upto 98% accounts of depositors are fully covered. It indeed further enhances the value of the amount covered from the **current 8.2% to 20%** in line with international best practice. In this respect, I am informed that KDIC to foster financial stability, will continue to work closely with CBK, National Treasury and member institutions of licenced commercial banks and Micro-finance Banks to deepen co-operation and co-ordination so as to mitigate bank failures in our country as we race towards being the financial hub of Africa.

In conclusion, I thank the partners and all those who participated in this decorated, momentous journey of sustained financial stability in the banking sector by choosing to be a player and supporter of KDIC.

Thank you and God bless you.