

★ business

UP TO DATE, ACCURATE BUSINESS INFORMATION
NEWS YOU CAN USE, EVERY DAY

Loan pricing race to hot up with new rate

BY JAMES WAITHAKA

THE bankers' lobby will today announce the sector's Annual Percentage Rate, a new loan pricing mechanism anticipated to boost transparency and competition.

The Kenya Bankers Association said Friday that lenders will start disclosing components making up total costs of credit to loan applicants. KBA will also unveil a credit calculation website and mobile application "on which bank customers can directly compare rates", it said.

The official launch follows completion of a piloting session over the past two months. The APR pricing mechanism will enable borrowers to "compare different bank loan costs based on standardised parameters and a common computation model".

"As an industry, we are enhancing pricing disclosures to enable bank customers make more informed choices. This is one of the mechanisms embraced by banks to address issues relating to easing access to credit," Habil Olaka, KBA's chief executive, said in May.

APR is an intervention in collaboration with the Central Bank, which earlier this month introduced the Kenya Banks Reference Rate for up January when it will be reviewed. KBA said the APR framework was developed with technical support from Financial Sector Deepening Kenya.

The KBRR is computed as an average of the Central Bank Rate and the weighted two-month moving average of the 91-day Treasury bill rates.

"The KBRR was developed as part of the recommendations to enhance the supply of private sector credit and mortgage finance in Kenya by facilitating a transparent credit pricing framework. It will be the base rate for all commercial banks' lending," the Monetary Policy Committee said in a statement on July 8.

It said the KBRR will enhance transmission of monetary policy signals through commercial banks' lending rates. It will be announced every six months if economic conditions do not change drastically.

"KBA already committed to the



RAISING THE BAR: Habil Olaka, KBA's CEO speaking at a past banking forum.

market that it'll launch the APR even before the KBRR was announced. The pilot has been completed and involves a lot of administrative changes for banks," said Frank Ileri, managing director for Housing Finance.

APR will force banks to compete on the Total Cost of Credit, which is the amount payable over the period of a loan excluding the principal.

"One concern was what confusion this would bring into the market. The APR attempts to quantify the cost of loans, but some of the costs are third-party and outside banks' control," Ileri said.

TCC sums up interest payments, fees and charges, commissions and third-party costs and fees such as insurance, legal, valuation, brokerage and statutory levies over the loan tenure.

"It is very good from a transparen-

cy perspective, and forces relationship teams to understand their businesses better and communicate frequently to customers," Ileri said.

CBK's prudential guidelines also require lenders to supply borrowers with a loan repayment schedule.

"These moves bring in more transparency; the customer will better decide whether to take up a facility or not. In the case of a mortgage, for example, you are talking of about 20 years. If you don't like the disclosures (the 'ugly figures'), the alternative is to buy cash, but remember the value of the property will have appreciated over that period. Those are the trade-offs to be made," said Timothy Gitonga, business operations director at Housing Finance.

Bankers believe the prudential guidelines, besides protecting customers, clarify consequences of default.

Photo/FILE

Can YOU outsmart the expert?

ALY KHAN'S
STAR
PORTFOLIO



ARM'S BULKING UP TO FEED ITS BOTTOM LINE

ATHI River Mining's managing director Pradeep Paurana at Mind Speak – a Rich Management's business club forum – once described how on returning from university at Stern, his father handed him the keys to the firm.

He was told by his father something to the effect that: "Its all yours now."

That day at Mind Speak in Westgate (at the Cinema, before Marshall – a member of President Museveni's close protection – took one look at our venue and transferred the club to the InterContinental in 2011), Paurana described how in 1997 he had listed the company; on the very same day as the Saba Saba rallies, and he had to duck the odd volley of tear gas on his way to the event.

This year, Athi River Mining celebrated 40 years. It operates in Kenya, Tanzania, Rwanda and South Africa and has 3,500 employees. For a number of years, I have relied on PP (Pradeep Paurana) for my insights on the cement industry and he has shown me a number of spreadsheets where it was clear our per capita cement consumption was egregiously low (a fifth when compared to Egypt, for example).

Evidently, the genesis of ARM's bulking up was driven by that analysis. ARM placed their bets a while back. Of course, the cement industry has been catching everyone's attention, even Aliko Dangote's – the Nigerian businessman who is Africa's richest man.

I once mentioned to Dr Christian Turner, British High Commissioner to Kenya, that a sense of anticipation had preceded his arrival and he said: "Aly-Khan that's the bow wave."

Well, Dangote is preceded by a bow wave and therefore his much trumpeted arrival is something few can miss. The gap between the bow wave and the actual arrival will prove longer than the PR machine is predicting, in my view. Recently, Lafarge (which holds a significant stake in both Bamburi Cement and East African Portland Cement) agreed to merge with Holcim. The competitor landscape is fluid.

ARM Cement is ahead of the curve in my opinion. On Friday, I attended ARM's AGM. ARM also reported its first half results where revenue for the period expanded by 16 per cent and profit before tax accelerated by 20 per cent. Cement sales increased by 10 per cent in Kenya and in Tanzania by an eye-popping 38 per cent.

The Tanga clinker plant will commence production in the second half and this will significantly widen margins as ARM replaces imported clinker with its own. With Tanzania now the fastest growing component of the EAC with a more than seven per cent GDP expansion rate, the bulking up in Tanzania looks particularly prescient.

We can now see the bulking up beginning to feed into the bottom line. ARM carries a market capitalisation of \$464.14 million (Sh40.74 billion). It is headed to \$1 billion (Sh87.77 billion).

Dangote is preceded by a bow wave and his much trumpeted arrival is something few can miss

Shares go up and down and readers are advised that this column represents Mr Satchu's personal opinions.

Firm gets nod to prospect for copper and lead

BY CONSTANT MUNDA

MOMBASA-based Tavez Connections Ltd has applied for a special exploration licence to prospect for copper and lead metals in Kilifi county.

Moses Njeru, acting director of Mines and Geology, said the company will prospect in an area measuring about 8.3 square kilometres.

He invited written objections to

the grant of the licence in a gazette notice on Friday, which should be lodged with his office by August 18.

"By virtue of section 7(1)(d) of the Mining Act, the said area of land is therefore excluded from prospecting and/or mining except as regards any prospecting and mining rights granted... before the date of this notice which are subsisting or any right of renewal

thereof," he said.

A number of prospectors have been exploring for copper and other metals countrywide. The Kenya Revenue Authority early this month pounced on illegal copper being sneaked out of the country by BootCut Mining Company Ltd to a Chinese company.

It was suspected that the copper was sourced from mines in Nyatike in Migori county.