THE FINANCIAL SERVICES SECTOR IN KENYA

FACT PACK

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Business Sweden in Nairobi
KENYA SEEKS TO BE A MIDDLE-INCOME ECONOMY BY 2030

- Kenya has a long-term development plan named Vision 2030 which aims to transform the country into a middle-income economy by year 2030
- The plan comprises of three key pillars: economic, social and political development

**Economic Pillar**
Aims to achieve an average economic growth rate of 10% per annum until 2030

**Social Pillar**
Seeks to create just, cohesive and equitable social development in a clean and secure environment

**Political Pillar**
Aims to realize an issue-based, people-centred, result-oriented and accountable democratic system

**Enablers and Macro-Foundations**
Macroeconomic stability, infrastructural development, science, technology and innovation, land reforms, human resources development, security and public sector reforms

KENYA'S KEY ONGOING PROJECTS ARE GUIDED BY THIS VISION, WHICH IS AIMED AT GENERATING ECONOMIC GROWTH

SOURCE: KENYA VISION 2030

BUSINESS SWEDEN
The National Treasury provides overall policy oversight for the financial sector.

Financial services is one of the key sectors factored within the economic pillar of Kenya Vision 2030.

Financial service providers are diverse; they include 42 commercial banks, 49 insurance companies, 12 deposit-taking microfinance banks, and 199 registered savings and credit cooperatives (SACCO's).

The activities in the various sub sectors are distinct and have separate laws that guide their operations.

Growth in the sector is mainly driven by mobile financial services.

The National Treasury is responsible for Kenya’s financial ecosystem.

The financial sector in Kenya is driven by activity in five major sub sectors:

- Banking
- Insurance
- Capital Markets
- SACCO
- Pensions
THERE ARE FIVE MAIN ACTORS REGULATING THE FINANCIAL SECTOR ACTIVITIES

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<th>Central Bank of Kenya (CBK)</th>
<th>Regulates the Banking sector by formulation of monetary policy to achieve and maintain stability</th>
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<td>Supervises commercial banks through enforcement of the Banking Act regulations</td>
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<td>Facilitates and provides oversight on national and regional payment systems</td>
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<td>Insurance Regulatory Authority (IRA)</td>
<td>Licenses insurance and reinsurance companies, insurance brokers, agents, assessors, adjustors and health management organizations (HMOs) In accordance with the Insurance Act regulations</td>
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<td>Regulates, supervises and develops the insurance industry in Kenya</td>
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<td>Capital Markets Authority (CMA)</td>
<td>Licenses and supervises all the activities of capital market intermediaries</td>
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<td>Ensures proper conduct of all licensed persons and market institutions</td>
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<td>Regulates the issuance of the capital market products (bonds, shares etc.)</td>
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<td>Retirement Benefits Authority (RBA)</td>
<td>Regulates and supervises the establishment and management of pension schemes</td>
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<td>Protects the interest of members and sponsors of retirement benefits schemes</td>
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<td>Develops and promotes the retirement benefits sector</td>
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<td>Societies Regulatory Authority (SASRA)</td>
<td>Licenses SACCO societies to carry out deposit-taking business in accordance with the SACCO Act</td>
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<td>Regulates and supervises deposit taking savings and credit cooperative societies</td>
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THE SUB SECTORAL REGULATORY FRAMEWORK ENSURES FOCUSED AND EFFECTIVE OVERSIGHT OF THE SECTOR

SOURCE: NATIONAL TREASURY, KNBS
FOUR KEY FACTORS ARE DRIVING GROWTH IN KENYA’S FINANCIAL SERVICES SECTOR

1. Technology as a tool for cost reduction
   - Financial institutions are increasingly utilising mobile application platforms and internet banking, hence there is increased efficiency in distribution, leading to increased uptake of services in the mass market

2. Emergence of alternative channels of distribution
   - The agency model of distribution has reduced the operation costs and improved efficiency, thereby making it a key driver for diversification and wider reach

3. Increased financial inclusion levels
   - Increased financial inclusion in Kenya has driven financial institutions to seek into less penetrated markets in the region to open up new revenue channels in other EAC countries

4. Stable regulatory environment
   - The regulatory environment has been strengthened with emphasis being placed on transparency, governance and capitalisation, hence ensuring stability

THE DEVELOPMENT IN THE SECTOR HAS SET A FOUNDATION FOR INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH

SOURCE: BUSINESS SWEDEN ANALYSIS
KENYA’S BANKING SECTOR STRUCTURE

THE CENTRAL BANK OF KENYA OVERSEES THE OPERATIONS OF SEVEN TYPES OF FINANCIAL INSTITUTIONS

- **Commercial Banks**: 42
- **Mobile Money Operators**: 4
- **Microfinance Banks**: 12
- **Mortgage Finance Companies**: 1
- **Foreign Exchange Bureaus**: 86
- **Money Remittance Providers**: 14
- **Credit Reference Bureaus**: 4

**Commercial Banks**
- 42 Commercial Banks
- 8 Representative offices
- Corporate and consumer banking services

**Mobile Money Operators**
- 4 Mobile Money Operators
- Mobile payment solutions for individuals and corporates

**Microfinance Banks**
- 12 Microfinance Banks
- Banking services focused on Micro and Small enterprises

**Mortgage Finance Companies**
- 1 Mortgage Finance company
- Lending focused on property development

**Foreign Exchange Bureaus**
- 86 Foreign Exchange Bureaus
- Foreign currency exchange services

**Money Remittance Providers**
- 14 Money Remittance Providers
- Inter country money transfer for individuals and SMEs

**Credit Reference Bureaus**
- 4 Credit Reference Bureaus
- Credit information sharing services to financial institutions, utilities and individuals

SOURCE: CENTRAL BANK OF KENYA
The Kenyan banking sector is stable and growing despite some challenges experienced.

The Kenyan banking sector is stable and growing:
- Banking sector balance sheet grew by 9.2% in 2015.
- Access to finance for SME’s is relatively good; the share of SME lending relative to total lending by commercial banks is at 23.4%, the highest in Sub Saharan Africa.
- Alternative delivery channels such as mobile banking, internet banking and agency banking have accelerated customer base growth.

Despite growth, the sector has challenges:
- Recent development in terms of interest rate caps is expected to constrain the access to finance for SME’s in the coming years and already in 2016 interest rates declined.
- As a result of non-compliance, the Central Bank of Kenya (CBK) placed two banks under statutory management in the past year.

Stable interest rates, alternative channels and diversification support the progress in the sector.
THE INSURANCE AND SACCO SUB SECTORS HAVE A HIGH POTENTIAL FOR GROWTH AND EXPANSION

- The industry has 49 insurance, 5 reinsurance, 198 insurance brokerage companies and 5,155 insurance agents
- Kenya’s insurance penetration stands at 3.1% compared to Africa's average of 3.8%
- Kenya’s insurance sector is the fastest growing in Africa with 11.9% growth registered in 2015
- Gross premiums in 2015 were USD 880M
- Innovation in the sector has led to growth of micro insurance and alternative distribution channels

- SACCOs in Kenya are categorized into deposit taking and non deposit taking, the industry has a total of 177 deposit taking SACCOs as of 31st December 2015
- The total assets of the deposit taking SACCOs increased by 13.7% in 2015 to 3.4 Billion USD
- Average interest rates on loans ranges between 12% and 13.5% which is lower than commercial banks
- Deposit taking SACCOs grew by an average of 12% in 2015

LOW INSURANCE PENETRATION AND LENDING RATES LOWER THAN COMMERCIAL BANKS MOTIVATE INVESTMENT IN THE SUB SECTORS

SOURCE: IRA REPORT 2015, SASRA REPORT 2015, FINANCIAL STABILITY REPORT 2015
BUSINESS SWEDEN ANALYSIS
THE CAPITAL MARKETS AND THE PENSIONS INDUSTRY HAVE BEEN STABLE THE PAST YEARS

- The spread of assets in various classes in the pensions industry and the capital markets have driven stability in the sector
- The pensions industry is large and growing
  - Total assets under management by the pensions industry was 8.14 Billion USD
  - The pensions assets grew by 3.3% in 2015
- The NSE is the fifth largest market in Africa with an average market capitalisation of USD 20 Billion per annum
  - The NSE 20 share index grew by over 2000 points in the period 2011 to 2015
  - The Growth Enterprise Market Segment (GEMS) and Real Estate Investment Trust (REITs) have been introduced to augment the activities of the NSE
  - A new asset category (private equity and venture capital) was introduced in 2015 by RBA

THE STABILITY IN PENSIONS AND CAPITAL MARKETS IS DRIVING PRODUCT INNOVATION IN THE SECTOR
MOBILE MONEY IS A KEY CHANNEL FOR THE PROVISION OF PAYMENT SOLUTIONS

- The Kenya electronic payment and settlement system (KEPSS) manages transactions between financial institutions
- The number of POS terminals and ATM machine outlets in the country grew by 27% and 4% respectively in 2015
- Mobile money agents increased by 16.4% and mobile money transfer accounts by 25.4%, resulting in a 22.3% increase in transaction volumes in 2015
- The reduced clearing cycle from T+3 to T+1 and the capping to KSH 1 million has increased the usage of cheques as a means of payment for SMEs
- The dominant use of mobile money is for interpersonal transfers, 42% of users make livelihood payments, interact with their financial institutions and pay for goods and services

THE AVAILABILITY OF ALTERNATIVE DISTRIBUTION CHANNELS HAS SEEN INCREASED USE OF PAYMENT SOLUTIONS OTHER THAN CASH

SOURCE: CENTRAL BANK OF KENYA, FINACCESS SURVEY 2016
THERE ARE OPPORTUNITIES

ICT Enabled Financial Services
- The adoption of technology at a high rate creates room for development of compatible ICT enabled services
- The expansion of the service channels in the sector provides opportunities in the client management solutions realm

Risk Management
- The current state of information sharing opens up opportunities for investment both in terms of databases and reliable financial records
- The growth of the sector across various channels increases the need for solutions like cyber security, monitoring and record keeping

Financing
- More than 70% of SMEs lack access to medium and long term finance, which creates a need for innovative debt and equity instruments for SMEs
- Partnerships with local financial institutions provide opportunities for consultancy in product development

Regional Integration
- Treasury seeks to set up the Nairobi International financial center (NIFC) to be the regional hub for regional financial operations
- The local business environment is relatively stable and as such Kenya’s capital market is a stimulant for investments in the region

INCREASED LEVEL OF FINANCIAL INCLUSION PROJECTS MORE INVESTMENTS OPPORTUNITIES IN THE SUB SECTORS

SOURCE: BUSINESS SWEDEN ANALYSIS
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