Responding to the push to lower interest rates

Structural reforms to improve financial stability

Focus on Transformation Agenda set to continue

Nairobi to be a leading finance hub in Africa

In line with the government's Vision2030 Transformation Agenda, there will be a renewed focus to operationalise the "Nairobi International Financial Centre". This plan, to make Nairobi a leading finance hub for Eastern and Southern Africa, was first mooted in 2010, with the concept model developed in 2011.

The benefits are expected to spread beyond Kenya to other East African countries by encouraging Foreign Direct Investment into the wider region.

Kenya's financial services sector currently accounts for nearly 6% of the country's GDP and has the potential to expand this contribution to GDP even higher.

Greater transparency for borrowers

Greater transparency in the determination of interest rates is expected with the proposal to introduce the Kenya Bank Reference Rate (KBRR).

KBRR will work in a similar manner to other benchmark rates such as the LIBOR. Banks will be expected to adopt the KBRR as their base lending rate.

Other initiatives include the requirement for financial institutions to disclose their Annual Percentage Rate (APR) payable on loan facilities.

It is hoped that, with these initiatives and others proposed by the Committee on Interest Rates, borrowers will have a better platform to compare interest rates between financial institutions. In the long run, this should help drive down interest rates as well as adding greater transparency by disclosing the 'true' cost of borrowing.

Demutualisation of the Nairobi Stock Exchange… finally!

The demutualisation of the Nairobi Securities Exchange (NSE) is expected to be completed in the coming months. The purpose is to separate ownership from trading rights.

The Cabinet Secretary proposes to amend the law to set the minimum shareholding by the Government and Investor Compensation Fund at 5% respectively. This amendment will formalise the current shareholding whereby the two institutions above already hold 5% each.

One benefit that will be derived from the demutualisation is the opportunity for the public to own shares in the NSE.

A two stop shop regulatory environment

Key policy recommendations have been proposed to consolidate the existing regulatory agencies. This is in keeping with the theme to enhance efficiency and effectiveness of regulation and the supervision of the financial sector.

Regulation and supervision of Banks, Insurers, Asset Managers, Pension Schemes and SACCOs is currently undertaken by separate regulators. The Cabinet Secretary proposes to table the Financial Services Act which will establish the Financial Services Authority (FSA). The FSA will take over the regulatory functions which are currently carried out by the Retirement Benefits Authority (RBA), Capital Markets Authority (CMA), Insurance Regulatory Authority and Sacco Societies Regulatory Authority (SASRA). However, the Central Bank of Kenya will retain its current regulatory and supervisory authority.

A consolidated regulatory regime, if properly implemented, would provide a single view on risks affecting regulated entities. This would also reduce the cost of regulatory compliance and minimise duplication of roles.

In formulating the FSA framework, consideration should be given to:

- interactions between CBK and FSA on areas of mutual interest, for example, bancassurance;
- liaison with other regulators in the East African Community; and
- a seamless integration of the existing regulators with the aim of avoiding unnecessary bureaucracy.

The Cabinet Secretary has committed to tabling a number of other bills including the CBK Bill and the Insurance Bill.

Insurance sector – no joy yet on excise duty

The Cabinet Secretary has proposed to separate the Policyholder Compensation Fund between life and general insurance businesses. Each fund will have different contribution rates to reflect the varying levels of risk.

The 2014/2015 budget has however failed to address the contentious issue of excise duty on fees charged by insurance companies. The Finance Act 2013 stipulates that 10% excise duty will be applied to such fees. It is uncertain whether insurance premiums should be subject to excise duty.