MONETARY AND FINANCIAL SERVICES INDUSRTY: A CASE STUDY OF THE KENYA COMMERCIAL BANK GROUP

(KCB GROUP)

This is an industry regulated under the Central Bank of Kenya (CBK). It includes the banking institutions and the non-banking financial institutions such as mortgage companies, savings and loans, insurance institutions, foreign exchange, securities and stock exchange bureaus. Kenya is the leading hub for financial services in both East and Central Africa.

There are four main competing companies in this sector in Kenya namely; Kenya Commercial Bank (KCB), National Bank of Kenya (NBK), which are owned by government partially, Barclays Bank of Kenya (BBK), and Standard Chartered which are foreign multinational companies.

LEGAL PROVISIONS AND REQUIREMENTS

Commercial Banks and Mortgage Finance Institutions are licensed and regulated pursuant to the provisions of the Banking Act, Cap 488 and the Regulations and Prudential Guidelines issued there under. They are the dominant players in the Kenyan Banking system and closer attention is paid to them while conducting off-site and on-site surveillance to ensure that they are in compliance with the laws and regulations.

Currently there are there are 43 licensed commercial banks and 1 mortgage finance company.

(**Sourced from www.centralbankofkenya.go.ke)**

SWOT ANALYSIS

Strengths

- Strong Management

  With a strong management system, a financial company does very well.

- Supply Chain

  An efficient and effective supply chain ensures financial services are delivered in a timely manner.

- Unique Products

  The financial industry is already flocked. Any uniqueness in the products offered can actually boost customer base. Companies can choose to vary their financing prices and options.

- Economies of Scale

  A company can cut on its costs by improving their sizes. Bigger firms are at advantage of getting discounts, leverage, bills among others.

- Brand Name

  With a strong brand name come customer confidence and a good reputation for the company. It not only allows firms to charge high prices for their products, but also customer base increases and a higher value is given to the goodwill.

Weaknesses

- High Debt Burden

  Lending and borrowing decisions should be made wisely. Poor decisions can impose heavy burden on the institutions such as increasing number of bad debts written off, increased provision for doubtful debts and high interest charges.

- Bad Acquisitions and Mergers

  A merger or acquisition should be a gradual process so as to check if synergies acquired will be beneficial. Cultural differences, high costs in reorganization and restructuring, customer confidences are among the challenges for M&As.

- Weak Management

  Management is the core of a business. Managers are involved in the planning, organizing, coordinating and staffing activities. If these processes are not performed or handled by people with no management skills, then the organization is at a high risk of going under.

Opportunities

- Financial Leverage
- Online Marketing

  This is a cheaper form of advertising than the use of physical selling and distribution means. Platforms such as Facebook, Twitter, Instagram, Pinterest, and OLX have made this easy.

- Innovation

  This is translating an idea into a product or service that customers pay for. Different products emerge every day in the market, but the ability to maintain the market share is the challenge. These innovations could be as a result of change in technology (evolutionary) or a change in market needs (revolutionary).

- Emerging Markets

  Financial institutions may observe a population size not being catered to and come up with a product. An example is the popular Jumbo Junior accounts for children below the age of the majority. Fast growing regions in a country are also considered as emerging markets.

Threats

- Volatile Currencies

  The value for money changes every other day. These changes are very unpredictable and therefore financial institutions need to revise the time value for money regularly.

- International Competition

  International companies are a major challenge to local financial industries in Kenya. This is because they are more financially stable, with better branding thus ability to penetrate deeper markets.

- Political Risk

The government is likely to change policies any day through the Central Bank of Kenya, terminating operations of many companies or making it challenging to operate in the new environment.

Stable political environments are also conducive for financial institutions to operate in.

- Volatile Costs and Revenue

It is important to note that 'a shilling today is worth for than a shilling tomorrow.' Any opportunity to increase revenue now and cut down costs is a better decision.

Planning can also be difficult for a company that cannot budget on its future cash flows and expenses.

KENYA COMMERCIAL BANK (KCB)

INTRODUCTION

Kenya commercial bank is a financial service provider in Kenya, Burundi, Tanzania, South Sudan, Rwanda and Uganda. It was formed in 1896, making it one of the oldest financial companies. Previously it was operated by the Indian government but upon independence in 1963, Kenya acquired 60% of the shareholding. In 1970, the government of Kenya acquired 100% but over the years has reduced its shareholding to 17% through public issue of shares. It is a public company in Kenya, with its headquarters in Nairobi, Kenya.

PRODUCTS AND SERVICES

Banking services

Operating under the CBK, KCB has over 150 branches countywide and highest number of Automated Teller Machines in Kenya. They offer a wide range of products and services in their banks that include:

I. Personal Banking services

   Several savings accounts are available to KCB customers, depending on their banking needs. The Muslim community now receives an esteemed service through the Sharia-Compliant account which is interest free.

   Besides savings, KCB offers personal loans and advances in salaries. Credit cards recognized locally and internationally such as Master Cards are available for customers.

II. Business banking

   KCB does not discriminate which type of legal business it partners with. It offers services to Small Medium Enterprises (SMEs), Ventures, Business Angels, and even large corporations. Government offices, churches, and schools too are not left out in doing business with KCB.

   Business banking services include business accounts, money market products, FOREX, loans and financing.

III. Foreign exchange

In most branches of KCB, a section in the retail industry has been set aside for selling and buying of foreign currency. The dollar is the most active currency.

IV. International money transfer

KCB has partnered with Western Union to enable Kenyans receive and send money to foreign countries.

Mortgage financing

S&L Mortgage

This is simply Savings and Loans mortgage financing. These services are offered by the subsidiary group of KCB Group. They recently introduced the 105% financing home loan, which is a very affordable price for Kenyans, an interest rate of as low as 12.5%.

Corporate responsibility

KCB Foundation

Created in 2007, KCB Foundation is a major player in the social and economic well-being of the community. It supports schools, health facilities, environmental conservation and supporting SMEs.

KCB also supports the Sporting Industry. Annually, it sponsors a Safari Rally Championship event, has a rugby, volleyball, football club and basketball teams that represent Kenya locally and internationally. It also has a Sports Club in Ruaraka that supports leagues for the said teams.

TARGET MARKET

In 1986, KCB was originally established in Zanzibar as a branch of the National Bank of India. It further expanded its operations into Nairobi in 1904 in order to enhance the economy of the local citizens. Upon independence, the Kenyan government acquired 60%.

In 1972, it acquired Savings & Loan Limited, with a mission to increase the scale of home ownership in Kenya. S&L Ltd was the biggest home financing company by then.

KCB has now grown widely and covers the whole Eastern African region, providing services to individuals, businesses and large corporate.

COMPETITIVE ENVIRONMENT

The financial industry is growing rapidly in Kenya, as the economy is improving. Kenyans have learnt the importance of saving schemes, investments and financial management. Companies are emerging every other day and are relatively doing well. KCB faces competition from both the big and small banking and non-banking institutions but the major ones being; National Bank of Kenya, Barclays Bank of Kenya and Standard Chartered in the banking industry whereas in the house mortgage industry, Housing Finance Group’s subsidiary- Housing Finance Corporation Limited (HFCL), takes up the largest market share.

However, KCB has the largest market share in assets (13%), customer loans (16%) and number of customers (13%) in the industry. The remaining percentage is shared by the other 42 commercial banks.

FINANCIAL PERFORMANCE OF KCB GROUP

Being one of the oldest players in the financial industry, it is expected that it has grown significantly, both in size and financially. In 2011, it made a remarkable trading profit of KES15.1 billion, making it the best in Eastern Africa.

Using the financial statement analysis, financial performance has improved in forms of Asset base, profits made, brand name, variety of products and services and so on.

Net profit: the net profit has been increasing over the years from KES14 billion in the financial year of 2013 to KES16 billion in 2014. The banking industry contributes most of the profits made, i.e. over 80% generally for all years.

Asset base: as at 2014, assets valued at KES490.3 billion, with the bank contributing to most of it at KES376 billion.

Cash and cash equivalents: From the statements of cash flows, operating activities generate most cash for the company. There was a significant decrease in cash and cash equivalents. Most of the cash was used in investing activities in the financial year of 2014.

Earnings per Share stood at KES5000, which was an improvement from the previous year of 2013, which stood at KES4000.