PAPER NO. CI22

CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS (CIFA)

SECTION TWO

FINANCIAL INSTITUTIONS AND MARKETS

STUDY NOTES

PAPER NO. 5 FINANCIAL INSTITUTIONS AND MARKETS

GENERAL OBJECTIVES

This paper is intended to equip the candidate with knowledge, skills and attitudes that will enable him/her to make investment decisions based on analysis of financial markets

5.0 LEARNING OUTCOMES

A candidate who passes this paper should be able to

- Identify financial intermediaries available for investment
- Calculate security market index
- Comply with financial market regulations
- Trade financial securities in the financial markets

CONTENT

- Functions of financial system
- Classification of assets and markets
- Structure of financial markets
- Major types, subtype and characteristics of securities traded in organized market: currencies, contracts, commodities, and real assets
- Flow of funds and financial system
- Financial intermediation and disintermediation
- Challenges of financial intermediation and irregularities in markets
- Characteristics of a well functioning financial system
- Organic theory of financial markets
- Definitive approaches to financial markets
- Automation of security exchanges: Automated trading systems (ATS) Central Depository System (CDS)
- Internationalization of financial markets

- Challenges of marketing financial services
- The consumer decision process in financial services
- Categories of financial products and services
- Pricing financial services
- Advertising financial services
- Distribution of financial services; traditional channels of distribution; technology driven delivery channels
- New product introduction in financial services markets

CHAPTER ONE

MARKET ORGANISATION AND STRUCTURE

A market can be defined as an organizational device, which brings together buyers and sellers. A financial market is a market which financial assets (securities) such as stocks and bonds can be purchased or sold. It brings together the parties willing to trade in a commodity, which constitutes fluids. The respective parties in financial markets are known as demanders of funds (borrowers) and suppliers of fluids (lenders) who come together to trade so as to meet financial needs. The level of economic development of any country will be affected by the ability of the financial markets to move surplus funds from certain economic units, which constitutes individuals and corporate bodies to other economic units in need of additional funds.
Financial market can be divided into three categories: -

- **a)** Capital and money markets.
- **b)** Primary and secondary markets
- **c)** Organized and over — the counter markets.

Functions of financial system and markets

1. Distribution of financial resources of the most productive units i.e. savings are transferred to economic units that have channel of alternative investments (link between buyer and seller)
2. Allocations of saving to real investment.
3. Achieving real output in the economy by mobilizing capital for investment
4. Enable companies to make short term and long term investment and increase liquidity of shares.
5. Provision of investment advice to individuals through financial experts
6. Enable companies to raise short term and long term capital/funds
7. Means of pricing of securities e.g. NSE index shares indicate changes in share prices.
8. Provide investment opportunities i.e. savers can hold financial instruments for investments made.

Primary and secondary market

Primary financial markets are those markets where there is transfer of new financial instruments. Financial instruments constitute assets, which are used in the financial markets. They consists of cash, shares and debt capital both long term and short-term e.g. commercial paper.
The primary financial markets trade is for securities which have not been issued e.g. if a

company wants to make an issue of ordinary share capital issue of commercial paper, issues of preference shares, debentures etc, offers and purchase will be through the primary etc.
Secondary markets — the secondary financial markets are for already issued securities. After a thorough issue of new securities in the primary market later trading of the securities will take place in secondary market e.g. if a company is to make public issue of ordinary share capital the issue will take place in primary market. If the initial purchasers wish to dispose off the shares, trading will take place in the secondary market. The only distinction between primary and secondary markets is the form of security being traded but there is no physical separation of the markets.

Capital and money markets
This classification is based on the maturity of financial instruments. The capital market is a financial market for long-term securities. The securities traded in these markets include shares and bonds.
The money market is market for short-term securities. The securities traded in these markets include promissory notes, commercial paper, treasury bills and certificates of deposits while capital market is regulated by capital authority; the money market is regulated by central banks.

Organized and over- counter markets
An organized market is a market which is a specified place of security trading, defined rules, regulations and procedures for security trading. Only listed securities trade in organized market, where exchange is through licensed brokers who are members of exchange
Conducted by accountants, auctioneers, estate agents and lawyers who were engaged in other areas of specializations.
In 1951 an estate agent (Francis Drummond) established the first stock broking firm. He then approached the finance minister of Kenya with an idea of setting up a stock exchange in East Africa. in 1953 he too approached London Stock Exchange Officer and London accepted to recognize the setting up of Nairobi Stock Exchange as an oversee stock exchange. The major reorganization emerged in 1954 when stockbrokers emerged and registered the NSE as a voluntary association under society's Act. It was registered as a limited liability company.

Stock exchange terms

1. Broker
Is an agent who buys and sells securities in the Market on behalf of his client on a commission basis. He also gives advice to his client and at times manages the portfolio for his client. In connection with the new issue, a broker will advise on price to be charged, will submit the necessary documents to the quotation department the stock exchange and the capital market

authority. He may be involved in arranging for funds or for the purchase of shares and may underwrite the issue (assure the company that shares are sold if not broker will buy them).

2. Jobber:

He is a dealer. He is not an agent but a principal who buys and sells securities in his own name. His profit is referred to as Jobber's turn. Since they are experts in the markets, they are not allowed to deal with general public but only with brokers or other jobbers to avoid exploitation of individual investors. A Jobber will quote two prices for a share.

The bid price-which is the price at which he is willing to buy securities

Offer price-price at which he is willing to sell the shares.

The difference between offer price and the bid price is called spread price = Ask price - Bid price. A Jobber will take stocks in his books (also called along sale) when brokers have predominantly selling orders, and will also sell short (Short sale) when brokers are engaged in buying.

3. Bulls

Speculators in the market who believe that the main market movement is upwards and therefore buy securities now hoping to sell them at a higher price in the future

4. **Bears**

These are speculators in the market who believe that the main market movement is downwards therefore securities now hoping to buy them back later at a lower price.

5. Stags

These are speculators in the market who buy new shares because they believe that the price Set by issuing company is usually lower than the theoretical value and that when shares are later dealt with in the stock-exchange the share price will increase and they will be able to sell them at profit.

CAPITAL MARKET INSTRUMENTS

This is a market for issuing long-term funds.

They include:

- **i) Common share/ordinary share**
- **ii) Preference share**
- **iii) Debentures**
- **iv) Treasury Municipal bonds**
- **v) Warrants & Convertible**
- **vi) Terms loans**
- **vii) Mortgages**

Services rendered by capital markets

1. It offers long term finance which is necessary for acquisition of fixed assets of companies and for development purpose generally.
2. Market provides permanent finance necessary for a strong financial base of going concerns e.g. share capital, irredeemable preference shares, convertible debentures and convertible preference shares.
3. The market provide services in the form of advice to investors as to which investments are viable and can answer their investment needs e.g. advice given by stock exchange brokers to their investing public
4. Enables companies and individuals to obtain long term finance which they can then sale in the money market in form of short term loans therefore serving as a source of livelihoods to such party
5. The market acts as a channel through which foreign investment find their way into Kenya in form of foreigners buying shares in Kenya which they have to buy using their currencies which brings in need foreign exchange.
6. The market is responsible for an orderly secondary market which facilitates the liquidation of long term investments.

Reasons why capital markets are more developed in Kenya than money market

1. It’s easier to get access to capital market because in most cases the goodwill of the borrower may not be necessary and at the same time such finance may not call for security as the asset in question acts as its own security e.g. mortgage finance
2. There less risks of misuse of funds from this market because these are available in form of fixed asset whose title remains with the lender, therefore less chances of manipulation/misappropriation which is a characteristic of finance from money market.
3. Long term finances available in this market are relatively cheaper because inflation reduces the latter payments of interest and principle in real monetary funds
4. Long term investments using permanent long term finance are capable for paying for themselves which may not entail further financial strain on the borrower therefore making it attractive finance.
5. Kenya as a developing country requires long term investment for accumulation of fixed asset and other long term resources all of which necessitates the development of this capital market as a base for the development of the economy in general
6. CBK has facilitated the development of this market by providing a conducive atmosphere for setting up financial institutions which avail finance on long term basis such as building societies, mortgage houses etc
7. Agriculture has and will remain the main stay of Kenyan market economy and this has led to faster growth of agro-business industry which necessitates long term investment,

this creation of such institutions as agricultural on development of this market by instructing such financial institutions as insurance companies to channel all their savings into long term finances and also to avoid finance on long term basis to industries and buildings constructions.

Differences between money and capital market

Capital market	**Money market**
In this market goodwill is not important but rather the ability to raise security is what matters	Goodwill of the borrower qualifies him for this finance
Finance is obtained in kind e.g. in form of assets	Finance is obtained in cash
Finance is usually cheaper due to the effects of inflation on this money	Finance is usually more expensive
The market acts as channel through which foreign exchange gets its way into the country	Usually the market does not deal in foreign exchange for investment reasons
Finance is secured against a fixed asset	Finance is usually unsecured
Finance usually takes long time to raise due to lot of formalities	Finance takes short time to raise
Finance calls for intermediaries in form of brokers	Finance does not call for intermediaries when raising
Funds are not highly negotiable	Funds from this market are highly negotiable
Central bank controls this market , this is done through selective credit control and credit squeeze	The market is not influenced very much by the central bank through credit squeeze and selective credit control
Serves big companies more than small companies	Open to all companies regardless of their size

History and organization of Nairobi securities exchange

In Kenya, dealing in shares and stocks started in the 1920's when the country was still a British colony. However the market was not formal as there did not exist any rules and regulations to govern stock broking activities. Trading took place on a ‘gentleman's agreement.’ Standard commissions were charged with clients being obligated to honor their contractual commitments of making good delivery, and settling relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate agents and lawyers who met to exchange prices over a cup of coffee. Because these firms were engaged in other areas of specialization, the need for association did not arise.

In 1951, an Estate Agent by the name of Francis Drummond established the first professional stock broking firm. He also approached the then Finance Minister of Kenya, Sir Ernest Vasey and impressed upon him the idea of setting up a stock exchange in East Africa. The two approached London Stock Exchange officials in July of 1953 and the London officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange.

In 1954 the Nairobi Stock Exchange was then constituted as a voluntary association of stockbrokers registered under the Societies Act. Since Africans and Asians were not permitted to trade in securities, until after the attainment of independence in 1963, the business of dealing in shares was confined to the resident European community. At the dawn of independence, stock market activity slumped, due to uncertainty about the future of independent Kenya.

1988 saw the first privatization through the NSE, of the successful sale of a 20% government stake in Kenya Commercial Bank. The sale left the Government of Kenya and affiliated institutions retaining 80% ownership of the bank.

Notably, on February 18, 1994 the NSE 20-Share Index recorded an all-record high of 5030 points. The NSE was rated by the International Finance Corporation (IFC) as the best performing market in the world with a return of 179% in dollar terms. The NSE also moved to more spacious premises at the Nation Centre in July 1994, setting up a computerized delivery and settlement system (DASS). For the first time since the formation of the Nairobi Stock Exchange, the number of stockbrokers increased with the licensing of 8 new brokers.

In 1996, the largest share issue in the history of NSE, the privatization of Kenya Airways, came to the market. Having sold a 26% stake to KLM, the Government of Kenya proceeded to offer 235,423,896 shares (51% of the fully paid and issued shares of Kshs.5.00 each) to the public at Kshs.11.25 per share. More than 110,000 shareholders acquired a stake in the airline and the Government of Kenya reduced its stake from 74% to 23%. The Kenya Airways Privatization team was awarded the World Bank Award for Excellence for 1996 for being a model success story in the divestiture of state-owned enterprises.

On Monday 11 September 2006 live trading on the automated trading systems of the Nairobi Stock Exchange was implemented.

The East African Securities Exchanges Association came into being in 2004, following the signing of a Memorandum of Understanding between the Dar-es-Salaam Stock Exchange, the Uganda Securities Exchange and the Nairobi Stock Exchange.

In May 2006, NSE formed a demutualization committee to spearhead the process of demutualization. A demutualization consultant (Ernst and Young) was appointed to advice on the process.

In September 2006 live trading on the automated trading systems of the Nairobi Stock Exchange was implemented. The ATS was sourced from Millennium Information Technologies (MIT) of Colombo, Sri Lanka, who are also the suppliers of the Central Depository System (CDS). MIT have also supplied similar solutions to the Colombo Stock Exchange and the Stock Exchange of Mauritius. The NSE ATS solution was customized to uphold the spirit of the Open Outcry Trading Rules in an automated environment.

In the same breadth, trading hours increased from two (10:00 am – 12:00 pm) to three hours (10:00 am – 1:00 pm). Other innovations included the removal of the block trades board and introduction of the functionality for the trading of rights in the same manner as equities. Besides trading equities, the ATS is also fully capable of trading immobilized corporate bonds and treasury bonds.

An MoU between the Nairobi Stock Exchange and Uganda Securities Exchange was signed in November 2006 on mass cross listing. The MoU allowed listed companies in both exchanges to dualist. This will facilitate growth and development of the regional securities markets.

In February 2007 NSE upgraded its website to enhance easy and faster access of accurate, factual and timely trading information. The upgraded website is used to boost data vending business.

In July 2007 NSE reviewed the Index and announced the companies that would constitute the NSE Share Index. The review of the NSE 20-share index was aimed at ensuring it is a true barometer of the market.

A Wide Area Network (WAN) platform was implemented in 2007 and this eradicated the need for brokers to send their staff (dealers) to the trading floor to conduct business. Trading is now mainly conducted from the brokers' offices through the WAN. However, brokers under certain circumstances can still conduct trading from the floor of the NSE.

In 2008, the NSE All Share Index (NASI) was introduced as an alternative index. Its measure is an overall indicator of market performance. The Index incorporates all the traded shares of the day. Its attention is therefore on the overall market capitalization rather than the price movements of select counters.

In April 2008, NSE launched the NSE Smart Youth Investment Challenge to promote stock market investments among Kenyan Youths. The objective of the challenge is threefold:

- To occupy the minds of the youth positively and draw them away from the negative energy created by the current political, economic and social situation in the country;
- Encourage the culture of thrift and saving funds amongst the university students;
- Encourage the youth to invest their savings in the capital markets.

After the resignation of Mr. Chris Mwebesa, the NSE Board appointed Mr. Peter Mwangi to be the New NSE Chief Executive in November 2008.

The Complaints Handling Unit (CHU) was launched in August 2009 to bridge the confidence gap with NSE retail investors. CHU provides a hassle free and convenient way to have any concerns processed and resolved. Investors, both local and in the Diaspora can forward their issues via e-mail, telephone, fax, or SMS and have the ability to track progress on-line.

The Nairobi Stock Exchange marked the first day of automated trading in government bonds through the Automated Trading System (ATS) in November 2009. The automated trading in government bonds marked a significant step in the efforts by the NSE and CBK towards creating depth in the capital markets by providing the necessary liquidity.

In December 2009, NSE marked a milestone by uploading all government bonds on the Automated trading System (ATS). Also in 2009, NSE launched the Complaints Handling Unit (CHU) SMS System to make it easier for investors and the general public to forward any queries or complaints to NSE

In July 2011, the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited. The change of name reflected the strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. In the same year, the equity settlement cycle moved from the previous T+4 settlement cycles to the T+3 settlement cycle. This allowed investors who sell their shares, to get their money three (3) days after the sale of their shares. The buyers of these shares will have their CDS accounts credited with the shares, in the same time.

In September 2011 the Nairobi Securities Exchange converted from a company limited by guarantee to a company limited by shares and adopted a new Memorandum and Articles of Association reflecting the change.

In October 2011, the Broker Back Office commenced operations. The system has the capability to facilitate internet trading which improved the integrity of the Exchange trading systems and facilitates greater access to our securities market.

In November 2011 the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices were launched. The launch of the indices was the result of an extensive market consultation process with local asset owners and fund managers and reflects the growing interest in new domestic investment and diversification opportunities in the East African region.

As of March 2012, the Nairobi Securities Exchange became a member of the Financial Information Services Division (FISD) of the Software and Information Industry Association (SIIA).

In March 2012 the delayed index values of the FTSE NSE Kenya 15 Index and the FTSE NSE Kenya 25 Index were made available on the NSE website www.nse.co.ke. The new initiative gives investors the opportunity to access current information and provides a reliable indication of the Kenyan equity market's performance during trading hours.

Market segments and eligibility requirements for listing of securities at Nairobi securities exchange

The Official list is categorized into three different market segments approved by the Authority. The segments have different eligibility and disclosure requirements prescribed by the Authority under The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 and provided under Part V as appendices to these rules.

These market segments are:

(i) Main Investment Market Segment (MIMS)
(ii) Alternative Investment Market Segment (AIMS)
(iii)Growth Enterprise Market Segment (GEMS)
(iv)Fixed Income Securities Market Segment (FISMS)

Eligibility requirements for public offering of shares and listing

Main Investment Market Segment (MIMS

1. ***Incorporation status***- The issuer to be listed shall be a public company limited by shares and registered under the Companies Act (Cap. 486 of the Laws of Kenya).
2. ***Size***: Share capital- The issuer shall have a minimum authorized issued and fully paid up ordinary share capital of fifty million shillings
3. ***Net assets***- Net assets immediately before the public offering or listing of shares should not be less than one hundred million shillings.
4. ***Free transferability of share***- Shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any pre-emptive rights.
5. ***Availability and reliability of financial records***- The issuer shall have audited financial statements complying with International Financial Reporting Standards (IFRS) for an accounting period ending on a date not more than four months prior to the proposed date of the offer or listing for issuers whose securities are not listed at the securities exchange, and six months for issuers whose securities are listed at the securities exchange.
The Issuer must have prepared financial statements for the latest accounting period on a going concern basis and the audit report must not contain any emphasis of matter or qualification in this regard
6. ***Competence and suitability of directors and management*** - At the date of the application, the issuer must not be in breach of any of its loan covenants particularly in regard to the maximum debt capacity.
As at the date of the application and for a period of at least two years prior to the date of the application, no director of the issuer shall have-any petition under bankruptcy or insolvency laws in any jurisdiction pending or threatened against the director (for director (for individuals), or any winding-up petition pending or threatened against it (for corporate bodies);
- any criminal proceedings in which the director was convicted of fraud or any criminal offence, nor be named the subject of pending criminal proceeding, or any other offence or action either within or outside Kenya; or been the subject of any ruling of a court of competent jurisdiction or any governmental body in any jurisdiction, that permanently or temporarily prohibits such director from acting as an investment adviser or as a director

or employee of a Stockbroker, dealer, or any financial service institution or engaging in any type of business practice or activity in that jurisdiction.

The issuer must have suitable senior management with relevant experience for at least one year prior to the listing, none of whom shall have committed any serious offence in any jurisdiction that may be considered inappropriate for the management of a listed company.

The issuer shall ensure continued retention of suitably qualified management during listing and no change of management for a period of twelve months following the listing other than for reason of a serious offence that may be considered to affect the integrity or be inappropriate for management of a listed company.

The issuer must have at least a third of the Board as non-executive directors.

7. ***Dividend policy***- The issuer must have a clear future dividend policy.
8. ***Solvency and adequacy of working capital***- The issuer should not be insolvent. The issuer should have adequate working capital.
9. ***Share ownership structure***- Following the public share offering or immediately prior to listing in the case of an introduction, at least twenty five per centum of the shares must be held by not less than one thousand shareholders excluding employees of the issuer.
   In the case of a listing by introduction, the issuer shall ensure that the existing shareholders, associated persons or such other group of controlling shareholders who have influence over management shall give an undertaking not to sell their shareholding before the expiry of a period of twenty four months following listing and such undertaking shall be disclosed in the Information Memorandum
10. ***Certificate of comfort***- If the issuer is listed in a securities exchange outside Kenya or is license by any regulator the Authority shall obtain a certificate of no objection from that foreign securities exchange and from the relevant regulators.

Alternative Investment Market Segment (AIMS)

1. ***Incorporation status***- The issuer to be listed shall be a public company limited by shares and registered under the Companies Act (Cap. 486 of the Laws of Kenya).
2. S***ize***: Share capital- The issuer shall have a minimum authorized issued and fully paid up ordinary share capital of twenty million shillings.
3. ***Net assets***- Net assets immediately before the public offering or listing of shares should not be less than twenty million shillings.
4. ***Free transferability of share*** - Shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any pre-emptive rights.
5. ***Availability and reliability of financial records***- The issuer shall have audited financial statements complying with International Financial Reporting Standards (IFRS) for an accounting period ending on a date not more than four months prior to the proposed date

of the offer or listing for issuers whose securities are not listed at the securities exchange, and six months for issuers whose securities are listed at the securities exchange.

The Issuer must have prepared financial statements for the latest accounting period on a going concern basis and the audit report must not contain any emphasis of matter or qualification in this regard.

6. ***Competence and suitability of directors and management*** - At the date of the application, the issuer must not be in breach of any of its loan covenants particularly in regard to the maximum debt capacity. As at the date of the application and for a period of at least two years prior to the date of the application, no director of the issuer shall have- any petition under bankruptcy or insolvency laws in any jurisdiction pending or threatened against the director (for individuals), or any winding-up petition pending or threatened against it (for corporate bodies); any criminal proceedings in which the director was convicted of fraud or any criminal offence, nor be named the subject of pending criminal proceeding, or any other offence or action either within or outside Kenya; or been the subject of any ruling of a court of competent jurisdiction or any governmental body in any jurisdiction, that permanently or temporarily prohibits such director from acting as an investment adviser or as a director or employee of a Stockbroker, dealer or any financial service institution or engaging in any type of business practice or activity in that jurisdiction.

   The issuer must have suitable senior management with relevant experience for at least one year prior to the listing, none of whom shall have committed any serious offence in any jurisdiction that may be considered inappropriate for the management of a listed company.

   The issuer shall ensure continued retention of qualified management during listing and no change of management for a period of twelve months following the listing other than for reason of a serious offence that may be considered to affect the integrity or be inappropriate for management of a listed company.

   The issuer must have at least a third of the Board as non-executive directors
7. ***Dividend policy***- The issuer must have a clear future dividend policy.
8. ***Solvency and adequacy of working capital***- The issuer should not be insolvent. The issuer should have adequate working capital.
9. ***Share ownership structure***- Following the public share offering or immediately prior to listing in the case of an introduction, at least twenty per centum of the shares must be held by not less than one hundred shareholders excluding employees of the issuer or family members of the controlling shareholders.

   No investor shall hold more than t existing shareholders, associated persons or such other group of controlling shareholders who have influence over management shall give an undertaking to the Authority not to sell their shareholding before the expiry of a period of twenty four months following listing and such undertaking shall be disclosed in the Information Memorandum.

10. ***Certificate of comfort***- If the issuer is listed in a securities exchange outside Kenya or is licensed by any regulator the Authority shall obtain a certificate of no objection from that foreign securities exchange and the relevant regulators.

Growth Enterprise Market Segment (GEMS)

1. ***Incorporation status***- The issuer to be listed shall be a public company limited by shares and registered under the Companies Act (Cap. 486 of the Laws of Kenya).
2. ***Size***: Share capital-. The issuer shall have a minimum authorized and fully paid up ordinary share capital of ten million shillings.
3. ***Net assets***- The issuer must have not less than one hundred thousand shares in issue.
4. ***Free transferability of share*** - Shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any pre-emptive rights.
5. ***Availability and reliability of financial records***-
6. ***Competence and suitability of directors and management***- The issuer must have a minimum of five directors, with a least a third of the Board as non- executive directors As at the date of the application and for a period of at least two years prior to the date of the application, no director of the issuer shall have-
   (i) Any petition under bankruptcy or insolvency laws in any jurisdiction pending or threatened against any director (for individuals), or any winding- up petition pending or threatened against it (for corporate bodies)
   (ii) any criminal proceedings in which the director was convicted of fraud or any criminal offence, nor be named the subject of pending criminal proceeding, or any other offence or action within or outside Kenya; or
   (iii) been the subject of any ruling of a court of competent jurisdiction or any government body in any jurisdiction, that permanently or temporarily prohibits such director from acting as an investment advisor or as a director or employee of a stockbroker, dealer, or any financial service institution or engaging in any type of business practice or activity in that jurisdiction.
7. ***Solvency and adequacy of working capital***- The issuer should not be insolvent. The issuer should have adequate working capital.
   The Directors of the Issuer shall give an opinion on the adequacy of working capital for at least twelve months immediately following the share offering, and the auditors of the issuer shall confirm in writing the adequacy of that capital.
8. ***Share ownership structure***- The Issuer must ensure at least fifteen per cent of the issued shares (excluding those held by a controlling shareholder or people associated or acting in concert with him; or the Company's Senior Managers) are available for trade by the public.

An issuer shall cease to be eligible for listing upon the expiry of three months of the listing date, if the securities available for trade by the public are held by less than twenty-five shareholders (excluding those held by a controlling shareholder or people associated or acting in concert with him, or the Company's Senior Managers.)
The issuer must ensure that the existing shareholders, associated persons or such other group of controlling shareholders who have influence over management shall give an undertaking in terms agreeable to the Authority and the Securities Exchange restricting the sale of part or the whole of their shareholding before the expiry of a period of twenty four months following listing and such undertaking shall be disclosed in the listing statement.

9. ***Listed shares to be immobilized***- All issued shares must be deposited at a central depository established under the Central Depositories Act, 2000 (No. 4 of 2000).
10. ***Nominated Advisor***- The issuer must appoint a Nominated Adviser in terms of a written contract and must ensure that it has a Nominated Adviser at all times.

Reasons behind low quotation at Nairobi securities exchange

1. Most companies operating in Kenya are owned by families who value their control and as such cannot go public as this will entail dilution of their control by the incoming shareholders.
2. Quotation at NSE is supposed to be a means of raising finance from the public and most of companies operating in Kenya have access to cheap finance and as such this motive does not hold.
3. Going public does not entail a lot of formalities.
4. Going public also entails a loss of secrecy to the public because annual reports have to be published. Such information is accessed by the competitors.
5. Some companies in Kenya are subsidiaries of multinational companies and are already quoted at home and the original owners may not be willing to sell their interest to the public.
6. Going public is expensive as a company is required to pay floatation fee among other costs such as underwriting commission, brokerage fee, cost of printing prospectus, advertising cost, legal fee, audit fee etc.
7. Some companies choose to remain private to avoid/evade corporate tax
8. Some companies that make high profits prefer investing those profits instead of sharing them out, going public require profits to be given out to shareholders in form of dividends.

Incentives that government has given companies to induce them to go public

1. it has offered tax holidays for companies going public in particular those investing in specific areas e.g. agro-based company
2. has offered has offered preferential treatment to companies in allocation of foreign exchange in importation of raw materials
3. Government is willing through quasi governmental body to participate in the equity of such companies going public.
4. It has bank capital gain tax on sale of shares and tax on share transfer and its intended to make shares attractive to investors
5. Offered protection against importation of similar products to those currently manufactured by Kenya quoted companies.
6. Embarked on promotional activities of product of these companies abroad in a bid to secure them foreign market and this is done free of charge through trade fairs and exhibitions in international market
7. Provided such facilities as good infrastructure and communication facilitates which provide easy accessibility to sources of materials and markets to these companies' goods has subsidized no. of products in a bid to make them affordable by majority of consumers.
8. Has also given a tax deduction an concession to inputs of agro-based industries and manufactured goods aimed at making them affordable to consumers
9. Given guarantees on repatriation of dividend and interest to non-resident investors in a bid to attract their investment in Kenyan quoted companies.

Reasons why parastatals cannot be quoted

1. Most parastatals are not profit making organization and as such are supposed to maximize society welfare in an objective cannot appeal to the public so as to buy share e.g. national irrigation boards, K.T.D.A, K.P.C.U
2. Some parastatals give services which are crucial to the state and control to the public interest which if they go public will prejudice such sensitive roles as this may not be taken care of by profit oriented investors
3. Most of parastatals are government subsidies and also have access to foreign aid further they can borrow from abroad using government guarantee and such no need for finance from the public in form of share capital e.g. Kenya airways
4. Most parastatals has bad financial performance and for sometime been operating on loses and as such this bad performance cannot make their shares attractive and also not qualify for quotation e.g. Kenya railways, KMC, KCC, uplands
5. Some of the parastatals are so highly geared that no potentials investors can strive to invest his money in such if they went public.

6. Some parastatals are geared towards achievements of short term objectives and as such may not be willing to go public so as to be able to attract public investors e.g. Tana and Athi river development authority.

Advantages of being quoted

1. A quoted company is able to raise finance in good terms because it will be able to reduce its floatation cost its shares at a premium
2. It will be able to obtain underwriting facilitates because it can negotiate with strength for good underwriter as its shares are likely to be sold out
3. Shareholders of a quoted company are open to a ready market from the stock exchange through which they can sell their shares which allows them to gauge the worthiness of their investment and which increases the goodwill to the company.
4. Quoted company will be able to raise permanent finance by way of selling certain security to the public as ordinary shares.
5. It will be to enjoy national and international prestige that boosts its goodwill.
6. The NSE will approve for quotation only these companies which in their opinion are viable hence an assurance to potential shareholders that it is financial stable.
7. Quoted company is viewed as credit worthy from the creditors from the creditors point of view
8. Quoted company is open to read up to date information which will come inform of feedback regarding its share prices in the stock exchange
9. Quoted company will be able to get comparative figures from NSE
10. Being quoted will necessitate companies to operate within ethical guidelines and this will prevent quoted companies from engaging in unethical activities and unfair practices during the course of operations.
11. Quoted companies are allowed to enjoy privileges given by the government to induce others to be quoted e.g. tax allowances and occasion of foreign exchange protection from competitors etc

Limitations of being quoted

1. The company loses its secrets to competitors who may not have been quoted e.g. publication of company's accounts which threatens its survived
2. In case the company's profit trend declines, such will be revealed to the public hence lowering share prices of such company and its goodwill
3. Companies which profit records are not impressive maybe deregistered and dropped out stock quotation which will be dangerous to such company as it will have lost its secret to

the public and may in the extreme lead such a company into receivership as creditors will also lose confidence in it

4. Being quoted in the SE entails loss of control to incoming shareholders who acquire votes in the company.
5. Quotation is expensive because the company will have to pay high floatation cost such as underwriting commission
6. A company to be quoted is supposed to undergo tedious formalities such as getting permission from the capital issue committee and S.E.C
7. In the short run the share prices of a quoted company may be low in the SE due to oversupply of those shares in particular. If there has been a new issue and it will lower share prices of the company and this in turn will lower its credibility from creditors point of view.
8. Quoted company is committed to the payment of a permanent cost inform of ordinary dividend which more over its not a tax allowable expense therefore compounding the cost of the finance to the company
9. Quoted company will face problems of takeovers bids as a result of competitors who may have had a chance to buy such shares in large blocks and this may dissolve the company if they acquire a major shareholders.

SPECIAL FINANCIAL INSTITUTIONS

The major financial institutions in Kenya economy are commercial banks, savings and loans, credit unions, savings banks, life insurance companies, pension funds, and mutual funds. These institutions attract funds from individuals, businesses, and governments, combine them, and make loans available to individuals and businesses. A brief description of the major financial institutions follows.

Institution	Description
Commercial bank	Accepts both demand (checking) and time (saving) deposits. Also offers negotiable order of withdrawal (NOW), and money market deposit accounts. Commercial banks also make loans directly to borrowers or through the financial markets.
Saving and loan	These are similar to a commercial bank except chat it may not hold demand (checking) deposits. They obtain funds from savings, negotiable order of withdrawal (NOW) accounts, and money market deposit accounts. They lend primarily to individuals and businesses in the form of real estate mortgage loans.

Credit union they are commonly known as Savings co-operative societies (Sacco's), credit unions deal primarily in transfer of funds between members. Membership in credit unions is generally based on some common bond, such as working for a given employer. Credit unions accept members' savings deposits, NOW account deposits, and money market account deposits and lend funds to members, typically to finance automobile or appliance purchase, or home improvements.

Savings banks these are similar to a savings and loan in that it holds savings, NOW, and money market deposit accounts. Savings banks lend or invest funds through financial markets, although some mortgage loans are made to individuals.

Life insurance

Company It is the largest type of financial intermediary handling individual savings. It receives premium payments and invests them to accumulate funds to cover future benefit payments. It lends funds to individual, businesses, and governments, typically through the financial markets.

Pension fund Pension funds are set up so that employees can receive income after retirement. Often employers match the contribution of their employees. The majority of funds is lent or invested via the financial market.

Mutual fund Pools funds from the sale of shares and uses them to acquire bonds and stocks of business and governmental units. Mutual funds create a professionally managed portfolio of securities to achieve a specified investment objective, such as liquidity with a high return. Hundreds of funds, with a variety of investment objectives exist. Money market mutual funds provide competitive returns with very high liquidity.

OTHER SPECIALISED FINANCIAL INSTITUTIONS

1) .Industrial and commercial Development Corporation (LC.D.C)

I. C.D.C was established in 1954 by the government. Its main objective was to promote industrial & commercial development in Kenya.

Its specifically provides financial or technical assistance to small enterprises. Financial assistance may be in the form of working capital financing or purchase of fixed assets. This may take the form of equity or debt financing. Equity is provided by large-scale enterprises with more than 50 employees. Loans are given to both small and medium
sized enterprise. Long-term loans repayment period is 6 years for industrial and up to 10 years for commercial loans

2) Agricultural finance corporation (AFC)

It was established by the government in 1963. The main objective is to provide support for the agricultural sector. This is through provision of short term and long-term loans. The loans must be for a defined project by a farmer. Loans may be short term or long term and there exist flexibility to allow its repayment.

3) Kenya Industrial Estate (KIE)

It was established in 1967. At inception it was a wholly owned subsidiary of ICDC. However in 1978 it was separated from ICDC and become an independent body as a parastatal under the ministry of industry.
The main objective of K1E is to assist in the development of new projects and the expansion and modernization of new business enterprise. This is through the provision of finds and technical assistance. They provide both debt and equity finance.

4) Kenya Tourist Development Corporations: (KTDC)

The KTDC was established in 1960's. Its main responsibility was carrying out Investigations, formulation and study of projects development of the tourism industry
KTDC Provides financial assistance in forms of loan, for tourism related enterprises. It has substantial share —holdings in local hotels, which includes Hilton, Serena, and Pan Africa etc.

5) Industrial Development Bank (IDB)

It was established in 1963 as a limited company. The main objective of setting this Institution was to promote industrial development in Kenya through the establishment promotion and expansion of small or large-scale enterprises. This is through financial assistance .n the form of loans, provision of guarantee and securities and underwriting

6) Hire — purchase financial companies

These are institutions, which provide assets on credit with an arrangement to pay the principal and interest in installment basis. However, the legal ownership of the assets remains with the hire-purchase company. The title is transferred when the last installment is made. Hire Purchase Company's in Kenya include- Kenya finance corporation (KFC), Pan-Africa credit finance Ltd, Investment and mortgage Ltd. etc.

7) Insurance Companies

The main role of insurance companies is to assist individuals and corporate bodies safeguard against future risks they may also engage in other activities. The main capital for insurance companies is the premium paid by the policy holders.
Forms of Insurance Company's in Kenya includes: - Life Insurance, Third party insurance etc. Examples of Insurance Company's in Kenya include: jubilee insurance company, pan African insurance company, Blue shield insurance Co. Ltd. etc.

8) Building societies/Housing finance Co:

These are financial institutions, which provide finance to the public so as to purchase or construct houses. The individual or corporate bodies make deposit upon which they later receive loan for acquiring or constructing house. Some buildings societies in Kenya include: Housing finance corporation (HFC), East African building society and Pioneer building society.

9) Pension and provident scheme institution

These institutions obtain funds from both employees and employers of contribution. They manage and invest these funds so as to meet the current and future obligations of the pension scheme to its members.

10) Merchant Banks

It originated and also derives its name from the activities of wealth merchants who provided credit for the trading ventures. The ventures were for small-scale merchants. Before the establishment of banking systems in the 19th century, the merchants changed their role of merchants and started offering financial service. Today merchant banks performs the role of underwriting and assisting companies to raise capital in the financial markets They underwrite the security issues, buy and sell securities and provide advice in Investment in securities.

Financial innovation

Miller, Silber and Van Horme characterize and describe financial innovations as an unanticipated improvement in the array of financial products and instruments that are stimulated by unexpected tax or regulatory impulses.

They cite the following examples;

1) The Eurobond market emerged in response to a 30% withholding tax imposed by the US government on interest payment on bonds sold in the US to overseas investors.
2) Zero coupon bonds were offered to exploit the mistake of the internal revenue service in the US which permitted deduction of the same amount each year for tax purposes. (the tax authority employed simple interest and not compound interest)
3) Financial futures came into being when Bretton woods system of fixed exchange rates was abandoned in the early 1970s.
4) Paper currency was invented when the British government prohibited the minting of coins by the colonial North America.
5) The euro dollar market was developed in response to the regulation in the US that imposed a ceiling on the interest rate payable on time deposits with commercial banks.
6) Financial swaps emerged initially in response to a restriction imposed by the British government on dollar financing by British firms and sterling financing by non British

Financial innovations refer to development of new products, formation of new institutions, embracing new technology and other aspects that portray newness in the financial markets.

The common types of financial innovations in regard to development of new products are swaps, Eurobonds, Zero coupons bonds, portfolio insurance, and options.

Factors responsible for financial innovations;

i. High level of transaction costs
ii. Need to reduce agency costs
iii. Existing opportunities to increase liquidity of assets for example, factoring of debts.
iv. Regulatory and legislative changes which leads to volatility of interest and exchange rates.
v. The move to floating exchange rates; the major fluctuations in exchange rates have added uncertainty to all international transactions
vi. Computers and information technology- computers can be used to design and develop new products and strategies since they can provide for a large data processing capacity
vii. The world economic growth: - evidence has it that the growth in the world economy can be attributed to improvement in financial performance.
viii. Regulations and deregulations: some innovations are propelled by government regulations for example swaps
ix. Cross listing of securities across stock exchanges.

Other activities that portray financial innovations include; Strategic decision making, system realignment, institutional setting, injecting new management, expanding to new markets

Financial innovations enable institutions to raise their competitive strengths, improve their risk management skills and better satisfy the needs of their customers and market requirements.

The main types of financial innovations include;

- **a)** Institutional innovations
- **b)** Process innovations
- **c)** Product innovations

Institutional Innovations

-Includes, changes in business structure, establishment of new types of financial intermediaries, or changes in the legal and supervisory framework. For example; introduction of Credit Reference Bureaus
-Mobile banking involves provision and availing banking and financial services with the help of mobile telecommunication devices.
-Banks getting into investment banking services – Commercial banks are moving to acquire stock brokerage and investment banks to get involved in the stock market activity.
-Banks offering insurance services on behalf of insurance companies
-Islamic Banking – Banking that is guided by Islamic law or Islamic Sharia Law

Process Innovations

These innovations include the introduction of new business processes leading to increased efficiency and market expansion. Among the main process innovations include; office automation, use of computers in accounting systems and client data management software.

Among the main innovations include;

-Electronic Banking – Mainly takes the form of Automated Teller Machines (ATM), Internet Banking and telephone transactions. Access to the banking services is thus convenient, fast and available throughout the clock. Banks are also able to provide services more efficiently and at relatively low cost.Transactions are effected in batches

-Real Time Gross Settlement (RTGS)

RTGS system is a funds transfer mechanism where transfer of money takes place from one bank to another on a “real time” and Gross basis. Real time means the transactions are processed as they are received. Gross settlement means the transactions are settled on one to one basis without bunching with any other transaction.

RTGS system is primarily for large value transactions. As soon as transactions are remitted by the paying bank they are credited in the receiving bank. Transactions are effected continuously

Product Innovations

Include introduction of new deposit accounts, new credit arrangement, credit cards, debit cards, insurance and other financial products. Product innovations are introduced to respond better to changes in market demand or to improve efficiency.

Among the main product innovations include;

- Business Club concept
- Personal unsecured loans
- Money transfer services
- Products tailored to favour certain groups; Diva, X bank accounts of Standard Chartered

The Role of the State in Financial Innovations

-Influences financial innovations through regulations
-Government should actively drive the construction of a market environment that is suitable for financial innovations, promote the formation of fair trading rules for financial innovation activities, create a market environment for fair competition, and establish a good order for financial competition

Benefits of Financial Innovations

-Greater efficiency and diversity in financial intermediation as a result of financial innovation which increase productivity and growth potential of the economy
-Funds are made available at lower costs
-Many financial products are available to investors and depositors
-Enhances financial stability

Demerits of Financial Innovations

-Financial institutions engage in high risk behaviour
-Some risks may not be visible or may be unknown which can expose the financial system to shocks
-Promotes Money laundering

-May course moral hazard especially if too much credit is extended
- Increased Crime rates through the ATMs, mobile banking and so on.

Financial innovation and flow of funds

In modern economy funds flow from savers i.e. those having surplus to financial institutions that facilitate the transactions. Then from this financial institution e.g. banks funds moves to investors i.e. deficit units who identify long term investment opportunities therefore the deficit unit get direct external finance due to flow of funds in the market therefore facilitate innovation and flow of funds intermediaries i.e. financial institutions are necessary between surplus unit and deficit units. Financial intermediation is the process of linking deficit units to surplus units.

Innovation in credit derivatives has made it easier to trade and hedge credit risk. Access to credit was extended on a dramatic scale to less credit worth borrowers without a commensurate increase in the risk premiums on the securities increase that embedded this more risky credit.

As a consequence of this basic evolution of financial system a large share of financial assets ended up in institutions in many cases these assets are being funded with short term obligations. Just like banks are vulnerable to erosion in market liquidity. Changes in the structure of financial will cause finance boom in many respects financial innovation have outpaced the system's capacity to measure and limit risk to manage the incentive problems in the securitization process. We would rather have today's financial system however fraud is about 97.3% of all financial innovations are just new ways to fleece customers/hide risk and all wages financial crises have been associated with this.

Financial intermediation and Dis-intermediation

Financial intermediation is the process of linking the public and financial markets players. Financial dis-intermediation is the removal of the link. Financial intermediaries (stock brokers) are middle men between investing public on one hand and securities exchange on the other hand. They: -

1. Act on the behalf of the public
2. Provide information to potential shareholders
3. They mediate between savers and investors. Examples of intermediaries are: commercial banks, Sacco's, credit unions, pension funds, life insurance companies and investment banks among others
4. Give advice to investors and firms
5. They also do valuation funds which need to merge
6. They give defensive tactics in case of forced takeovers
7. Also underwrites securities

Depository financial market intermediates firms and accepts market deposits, transfer loans, from buyers to sellers of securities, they avail loans in addition to managing investments and providing advices.

Non-depository financial market intermediaries collect surplus funds and channel them to co-operation and individuals with deficit. They collect fund from many individuals aggregate them and channel them to corporations and individuals that need them.

Challenges of financial intermediation and regularities of markets

This linking process has faced challenges which affect the functioning of the S.E markets e.g.

1. There is a failure to mobilize saving for investment in the productive enterprises.
2. Also the growth of related financial sector such as micro-finances has reduced the players in the market to the funds.
3. The process is also faced by flight of capital which takes place because of local inflation and currency depreciation.
4. The market environment is unpredictable hence difficult to give proper advice to investors.
5. Market regulators such as capital market authority, central bank, retirement benefit authority and insurance regulatory authority have failed to regulate trading in securities hence the public/investors are left in the hands of unqualified intermediaries therefore gaining very little from the transaction

Characteristics of a good market

Financial markets have been found to be fairly good (perfect) in the advanced economies as well as many number of emerging capital markets. The following are characteristics of a good market

1. No entry barriers

Anyone can participate in the market therefore the suppliers/users of funds can enter the market and deal with each other

2. Large no. of buyers and sellers

The market is ensured by the presence of large number of buyers and sellers of securities. No single market participant should be large enough to influence the security prices.

3. Divisibility of financial asset

Financial assets are divisible and therefore affordable investments are made by all participants.

4. Absence of transaction cost

Participants can buy and sell securities with care and without much cost.

5. No tax differences

Ideally there are no taxes; one set of investors should not be favored over others

6. Free trading-Anyone is free to trade in securities.

The organic theory of financial markets/system

A market is anyone of a variety of different systems, institutions procedures social nations and instructions whereby person's trade, and goods and services are exchanged forming part of the economy.

The growth rate that the financial markets can achieve by increasing output and enhancing sales of securities lies in the efficiency take-over's, acquisitions/mergers. Take-over's, acquisitions/mergers do not bring about profits generated in the financial market and therefore are not considered organic.

Organic growth of financial market represents the true growth for care of the markets. It's a good indicator of how well management has used its exchange of securities to expand. Organic growth of financial markets also identifies whether the intermediaries have used their skills to improve the business.

Definitive approaches to financial markets

The Kenya and global financial systems are going through a very challenging period of adjustments. The forces that make the system vulnerable build up for a long time. Kenya government has to undertake substantial reforms to the frameworks policy, regulations and oversight of financial system.

Financial system plays a vital role in long term economic growth by helping to efficiently allocate the resources of savers to those individuals and firms with ideas into action.

Financial system plays a critical role in economic stability by affecting the capacity of the real economy to withstand shocks and the ability of macro-economic policy to mitigate the impact of those shocks.

Our system was once organized around banks i.e. defined narrowly or institutions that take deposits and give loans over time there has been a gradual but pronounced decline in the share of financial assets. Organized and held by banks and corresponding increase in the share of financial assets held across a variety of non-bank financial institution funds and complex financial structures.

The lines between banks, investment banks and other institutions have eroded over time, as have the lines between institutions and markets. Banks made by both and non-banks were increasingly sold by originating institutions and packaged into securities.

Decimal pricing

Kenya stocks, derivative linked to stocks and some bonds trades in decimals or shillings and cents. This means that the spread between the Bid and Ask prices can be as small as 1 cent. The switch to decimal stock trading which was completed in year 2001 was the final stage. Trading in decimals originated in the 16^{th} century when North America settlers cut European coins into use as currency. In an intermediary phased during the 1990's trading way handled in sixteenth (1/16)

Organization of securities market

Securities include shares, debentures, treasury bills, municipal bonds etc

1. An investor approaches a broker who takes his bid or offer to the trading floor.
2. At the trading floor buying and selling brokers meet and seal the deal.
3. The investor is informed of what happened/transpired at the trading floor through a contract note. The note is sent to buying and selling investors. The note contains details e.g. buying and selling price, charges or commission payable, number of shares bought or sold.
4. Settlement is made through a broker
5. Old share certificate is cancelled (for selling investor) and a new one issued in the name of buying investor.

Factors to consider when buying and selling securities of a company or government

1. Economic conditions of a country and other non-economic factors
2. State of the management of the company.
3. Nature of the product dealt in and its market share
4. Marketability of the securities
5. Diversification
6. Companies trading partners and its competitors
7. Prospects of the growth of the firm due to expected growth in demand of products of the firm.

Automation of stock exchanges

i. **Automated trading system (ATS)/mechanical trading system**

Automated system also refers to mechanical trading system. It's a set of trading rules which gives entry points and exit points automatically to investors. Automated trading system/Auto trading and robo-trading form a strategy for trading as it allows the computer to figure out what trade to make and actually execute the trade. It can trade a large array of assets. This includes stocks, options etc.

ATS typically use artificial intelligence and develop their strategies through trial and error. In theory the trial and error happens during development face. Computers are better at trading than human being. The challenge is that successful ATS are few and far. ATS will become a standard throughout the world in future since human beings simply do not make good traders and most so called investors lose money.

In addition the current stock market downtown has left millions of stock and mutual fund holders losing 50% of their portfolios with a little bit of luck, the trade will turn and everybody in the world can benefit from ATS.

Advantages of computers over human beings

i. Computers have no emotions to cloud its judgment. 90% of traders and investors lose money because of their emotions fear causes us to sell a stock and greed causes us to buy into market. Most people have a strong desire to be right and this is their ego getting the best of them.
ii. Computers have ability to process information faster and it can process all sorts of data in contrast human beings can only take in a small amount of information at a time.
iii. Computers have a large memory so that they can track many positions and pieces of data simultaneously.
iv. Computers are consistent and are totally immune to moods and therefore can perform more consistently than human beings.
v. Computers do not embezzle. Scandals have made many people to question whether they can trust financial managers/government to protect them.

When ATS becomes more popular people will consider it a viable alternative to traditional way of investing. ATS will become more effective and successful human beings hence it will become industry standard.

ii. **Central Depository system (CDS)**

It acts as a means of representing ownership and movements of securities. CDA account holders enjoy the convenience of obtaining electronic securities transfer and trade settlement.

Who may open CDS account?

1. An individual who has reached the age of 18 years.
2. A corporation within the context of a company's Act.
3. Any corporate body that is incorporated within Kenya.
4. A society under any written law relating to co-operative society.
5. Any society registered under societies Act
6. Statutory bodies incorporated under an act of parliament.

Need to open a CDS account.

It will facilitate buying and selling of shares and also to carry out other CDS transactions on all equity and non-equity counters (bonds, warrants etc) which have been prescribed into CDS.

How to open a CDS account

One can open a CDS account with any authorized depository agents. All stock broking companies in Kenya are currently ATS. If you are an individual investor you may go to an ADA of your choice. Procedure: -

a. Complete opening of your account form and two specimen signatures.
b. For Kenyans submit the documents together with two certified copies of your Kenya national identity card as for foreigners you need to pay accounts opening fee and submit two certified copies of your passport.

If you are a corporate investor:

a. Complete opening of accounts form and two specimen signature
b. Certificate of incorporation.

Your ADA will then open your CDS account and give you your CDS account number.

CHAPTER TWO

MARKETING FINANCIAL SERVICES

We can let market forces to come together and determine how the financial service industry will evolve but nonetheless acknowledging that regulations should step in it necessarily to protect public interest.

Regulations are important in creating a level playing field. The regulators chief function is to assure that financial markets remain competitive enough to provide customers a wide choice of affordable products and services. The financial service industry is supposed to provide funds effectively at reasonable prices.

MARKETING CHALLENGES FOR FINANCIAL SERVICES

Financial products and services are a particular type of good that pose special challenges to marketing. These challenges include the following:

Intangibility
Financial services meet a general monetary rather than a specific tangible need. Accordingly, financial service providers must get their message across effectively and ensure an attractive image. A financial service cannot appeal to a depositor's senses, but rather provides them with an intangible benefit.

Inseparability
Financial services are produced and distributed at the same time. The main concern of the marketer is therefore to provide the right service at the right place and time. This requires close proximity to customers. In addition, the packaging of the savings product is very important.

Limited Differentiation
Financial services are very much alike. Reasons for choosing one provider over another are often related to convenience. This is especially true for small depositors whose demand for a savings product in often not excessively dependant on interest rates.

Trust
Financial service provision involves an intimate relationship between the producer and the consumer. Thus, financial relationships are often built over a long period of time and are very sensitive to changes in mutual trust.
Geographic Dispersion
Because proximity is a key factor in financial service provision, large financial institutions must offer a wide branch network, numerous sales points, or doorstep services to ensure the satisfaction of regional and local needs.
Except in the case of recent high-tech developments such as internet banking, financial institutions cannot hope to serve a large customer base if they only distribute their products and services centrally.

Growth Balanced with Risk.
Selling financial products, particularly loan products, involves risk. Accordingly, organizational growth must be well balanced with the capacity of a financial institution to manage risk.

Fiduciary Responsibility
The primary responsibility of a depository is to guard the interests of the depositors. Systems and procedures, as well as financial services, must be structured accordingly.

Labor Intensity
Financial service provision is highly labor intensive. While automation, especially computerization, can effectively make transaction management more efficient, financial services, particularly savings services, remain dependent on the personal relationship between customers and the front-line staff of the institution.

The Financial services consumer.

It ensures that consumer’s interest is properly taken into account.
Raising awareness and informing consumers’ attention and specific problems of concern to consumers in the area of financial service.
Ensuring adequate representation of consumers’ in development of financial service policy is well done.
Also encouragement of development of financial services expertise should bring about exchange of information and best practice.

IDENTIFYING AND TARGETING FINANCIAL PROSPECTS.

Identifying through demographic information

-it's the use of market research to determine which financial prospect can best perform. Forces on the position in the market/company wants to maintain, expand information/develop these proposed that best suits your companies needs.

-determine the type of business/industries within a particular geographical area in which your company want to do financial business.

-find out which businesses are most likely to need the services you provide.

-it must identify the quality and quantity of potential work in the area and decide if its fit into your company's market and profit strategy.

-once the company has a good idea of which prospect are most reliable in types of location, serviceability or any other pertinent aspect the prospect must be fine tuned.

Development and management of financial products

Financial management is a critical component of selecting the right investment. This involves more effective ways of comparing different types of investments following up total costs and benefits across the portfolio there is modeling and tracking financial implication of cost and benefits accuracy to the company from the sale of its financial products.

Traditional channels of financial distribution.

It's the informal way of transferring of financial products from a provider to the user which also entails the movement of funds from the service user to the destination user of the firm. Some other time, middlemen would be used to distribute funds.

Intermediaries specialize in performing calculations that they can perform more cheaply than the capital owner.

Technology driven delivery channels

This embraces internet marketing i.e. electronic commerce. It's done through

i. **Promotion advertising**
   -customers can be quite effectively targeted in many situations because of the context that they themselves have sought out.

ii. **Customer service**

-the site may contain information for those who have no physical contact with their markets.

iii. **Market research**

-data can be collected relatively inexpensively by carrying out research through internet.

Challenges running websites

1. The desired domain name may not be available.
2. Having your site identified to potential users is a problem.
3. Selling online is usually more expensive.

PRICING FINANCIAL SERVICES

Pricing is an important component of an enterprise business processes and financial performance. Companies can face a variety of pricing problems such as unnecessary discounting and quoting prices below breakeven point.

Improving pricing is one of the most strategic and powerful ways of companies to improve their service and financial performance.

PRICING STRATEGIES

A business can use a variety of pricing strategies when selling a product or service. The Price can be set to maximize profitability for each unit sold or from the market overall. It can be used to defend an existing market from new entrants, to increase market share within a market or to enter a new market. Businesses may benefit from lowering or raising prices, depending on the needs and behaviors of customers and clients in the particular market. Finding the right pricing strategy is an important element in running a successful business.

Models of pricing

Absorption pricing

Types of pricing in which all costs are recovered. The price of the product includes the variable cost of each item plus a proportionate amount of the fixed costs and is a form of cost-plus pricing

Contribution margin-based pricing

Contribution margin-based pricing maximizes the profit derived from an individual product, based on the difference between the product's price and variable costs (the product's contribution margin per unit), and on one’s assumptions regarding the relationship between the product’s price and the number of units that can be sold at that price. The product's contribution to total

firm profit (i.e. to operating income) is maximized when a price is chosen that maximizes the following: (contribution margin per unit) X (number of units sold).
In cost-plus pricing, a company first determines its break-even price for the product. This is done by calculating all the costs involved in he production, marketing and distribution of the product. Then a markup is set for each unit, based on the profit the company needs to make, its sales objectives and the price it believes customers will pay. For example, if the company needs a 15 percent profit margin and the break-even price is $2.59, the price will be set at $2.98 ($2.59 x 1.15). [2]

Creaming or skimming
In most skimming, goods are sold at higher prices so that fewer sales are needed to break even. Selling a product at a high price, sacrificing high sales to gain a high profit is therefore "skimming" the market. Skimming is usually employed to reimburse the cost of investment of the original research into the product: commonly used in electronic markets when a new range, such as DVD players, are firstly dispatched into the market at a high price. This strategy is often used to target "early adopters" of a product or service. Early adopters generally have a relatively lower price-sensitivity - this can be attributed to: their need for the product outweighing their need to economise; a greater understanding of the product's value; or simply having a higher disposable income.
This strategy is employed only for a limited duration to recover most of the investment made to build the product. To gain further market share, a seller must use other pricing tactics such as economy or penetration. This method can have some setbacks as it could leave the product at a high price against the competition.

Decoy pricing
Method of pricing where the seller offers at least three products, and where two of them have a similar or equal price. The two products with the similar prices should be the most expensive ones, and one of the two should be less attractive than the other. This strategy will make people compare the options with similar prices, and as a result sales of the most attractive choice will increase.

Freemium
Freemium is a business model that works by offering a product or service free of charge (typically digital offerings such as software, content, games, web services or other) while charging a premium for advanced features, functionality, or related products and services.
The word "freemium" is a portmanteau combining the two aspects of the business model: "free" and "premium". It has become a highly popular model, with notable success.

High-low pricing
Method of pricing for an organization where the goods or services offered by the organization are regularly priced higher than competitors, but through promotions, advertisements, and or coupons, lower prices are offered on key items. The lower promotional prices are designed to bring customers to the organization where the customer is offered the promotional product as well as the regular higher priced products.

Limit price
A limit price is the price set by a monopolist to discourage economic entry into a market, and is illegal in many countries. The limit price is the price that the entrant would face upon entering as long as the incumbent firm did not decrease output. The limit price is often lower than the average cost of production or just low enough to make entering not profitable. The quantity produced by the incumbent firm to act as a deterrent to entry is usually larger than would be optimal for a monopolist, but might still produce higher economic profits than would be earned under perfect competition.
The problem with limit pricing as a strategy is that once the entrant has entered the market, the quantity used as a threat to deter entry is no longer the incumbent firm's best response. This means that for limit pricing to be an effective deterrent to entry, the threat must in some way be made credible. A way to achieve this is for the incumbent firm to constrain itself to produce a certain quantity whether entry occurs or not. An example of this would be if the firm signed a union contract to employ a certain (high) level of labor for a long period of time. In this strategy price of the product becomes the limit according to budget.

Loss leader
A loss leader or leader is a product sold at a low price (i.e. at cost or below cost) to stimulate other profitable sales. This would help the companies to expand its market share as a whole.

Marginal-cost pricing
In business, the practice of setting the price of a product to equal the extra cost of producing an extra unit of output. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labor. Businesses often set prices close to marginal cost during periods of poor sales. If, for example, an item has a marginal cost of $1.00 and a normal selling price is $2.00, the firm selling the item might wish to lower the price to $1.10 if demand has waned. The business would choose this approach because the incremental profit of 10 cents from the transaction is better than no sale at all.

Market-oriented pricing
Setting a price based upon analysis and research compiled from the target market. This means that marketers will set prices depending on the results from the research. For instance if the

competitors are pricing their products at a lower price, then it's up to them to either price their goods at an above price or below, depending on what the company wants to achieve.

Odd pricing

In this type of pricing, the seller tends to fix a price whose last digits are odd numbers. This is done so as to give the buyers/consumers no gap for bargaining as the prices seem to be less and yet in an actual sense are too high, and takes advantage of human psychology. A good example of this can be noticed in most supermarkets where instead of pricing at $10, it would be written as $9.99. This pricing policy is common in economies using the free market policy.

Pay what you want

Pay what you want is a pricing system where buyers pay any desired amount for a given commodity, sometimes including zero. In some cases, a minimum (floor) price may be set, and/or a suggested price may be indicated as guidance for the buyer. The buyer can also select an amount higher than the standard price for the commodity.

Giving buyers the freedom to pay what they want may seem to not make much sense for a seller, but in some situations it can be very successful. While most uses of pay what you want have been at the margins of the economy, or for special promotions, there are emerging efforts to expand its utility to broader and more regular use.

Penetration pricing

Penetration pricing includes setting the price low with the goals of attracting customers and gaining market share. The price will be raised later once this market share is gained.

Predatory pricing

Predatory pricing, also known as aggressive pricing (also known as "undercutting"), intended to drive out competitors from a market. It is illegal in some countries.

Premium decoy pricing

Method of pricing where an organization artificially sets one product price high, in order to boost sales of a lower priced product.

Premium pricing

Premium pricing is the practice of keeping the price of a product or service artificially high in order to encourage favorable perceptions among buyers, based solely on the price. The practice is intended to exploit the (not necessarily justifiable) tendency for buyers to assume that expensive items enjoy an exceptional reputation, are more reliable or desirable, or represent exceptional quality and distinction.

Price discrimination
Price discrimination is the practice of setting a different price for the same product in different segments to the market. For example, this can be for different classes, such as ages, or for different opening times.

Price leadership
An observation made of oligopolistic business behavior in which one company, usually the dominant competitor among several, leads the way in determining prices, the others soon following. The context is a state of limited competition, in which a market is shared by a small number of producers or sellers.

Psychological pricing
Pricing designed to have a positive psychological impact. For example, selling a product at $3.95 or $3.99, rather than $4.00. There are certain price points where people are willing to buy a product. If the price of a product is $100 and the company prices it as $99, then it is called psychological pricing. In most of the consumers mind $99 is psychologically 'less' than $100. A minor distinction in pricing can make a big difference in sales. The company that succeeds in finding psychological price points can improve sales and maximize revenue.

Target pricing
Pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production. The target pricing method is used most often by public utilities, like electric and gas companies, and companies whose capital investment is high, like automobile manufacturers.
Target pricing is not useful for companies whose capital investment is low because, according to this formula, the selling price will be understated. Also the target pricing method is not keyed to the demand for the product, and if the entire volume is not sold, a company might sustain an overall budgetary loss on the product.

Time-based pricing
A flexible pricing mechanism made possible by advances in information technology, and employed mostly by Internet based companies. By responding to market fluctuations or large amounts of data gathered from customers - ranging from where they live to what they buy to how much they have spent on past purchases – dynamic pricing allows online companies to adjust the prices of identical goods to correspond to a customer's willingness to pay. The airline industry is often cited as a dynamic pricing success story. In fact, it employs the technique so artfully that most of the passengers on any given airplane have paid different ticket prices for the same flight.

Value-based pricing

Pricing a product based on the value the product has for the customer and not on its costs of production or any other factor. This pricing strategy is frequently used where the value to the customer is many times the cost of producing the item or service. For instance, the cost of producing a software CD is about the same independent of the software on it, but the prices vary with the perceived value the customers are expected to have. The perceived value will depend on the alternatives open to the customer. In business these alternatives are using competitors' software, using a manual work around, or not doing an activity. In order to employ value-based pricing you have to know your customer's business, his business costs, and his perceived alternatives.It is also known as Perceived-value pricing.

OTHER PRICING APPROACHES

Other pricing strategies include Yield Management, Congestion pricing and Variable pricing. Nine laws of price sensitivity and consumer psychology with respect to different purchase decisions.

They are:

1. Reference Price Effect – buyer's price sensitivity for a given product increases the higher the product's price relative to perceived alternatives. Perceived alternatives can vary by buyer segment, by occasion, and other factors.

2. Difficult Comparison Effect – buyers are less sensitive to the price of a known or more reputable product when they have difficulty comparing it to potential alternatives.

3. Switching Costs Effect – the higher the product-specific investment a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives.

4. Price-Quality Effect – buyers are less sensitive to price the more that higher prices signal higher quality. Products for which this effect is particularly relevant include: image products, exclusive products, and products with minimal cues for quality.

5. Expenditure Effect – buyers are more price sensitive when the expense, accounts for a large percentage of buyers' available income or budget.

6. End-Benefit Effect – the effect refers to the relationship a given purchase has to a larger overall benefit, and is divided into two parts: Derived demand: The more sensitive buyers are to the price of the end benefit, the more sensitive they will be to the prices of those products that contribute to that benefit. Price proportion cost: The price proportion cost refers to the percent of the total cost of the end benefit accounted for by a given component that helps to produce the end benefit (e.g., think CPU and PCs). The smaller the given components share of the total cost of the end benefit, the less sensitive buyers will be to the component's price.

7. Shared-cost Effect – the smaller the portion of the purchase price buyers must pay for themselves, the less price sensitive they will be.

8. Fairness Effect – buyers are more sensitive to the price of a product when the price is outside the range they perceive as "fair" or "reasonable" given the purchase context.

9. The Framing Effect – buyers are more price sensitive when they perceive the price as a loss rather than a forgone gain, and they have greater price sensitivity when the price is paid separately rather than as part of a bundle.

Defining market segmentation

Market segmentation is the process of viewing a heterogeneous market (i.e., a market characterised by divergent demand) as consisting of a number of smaller and more homogeneous parts, called segments

In its ultimate form, market segmentation results in each customer being served differently, i.e., individual marketing

However, due to its high-cost, individual marketing rarely is the case in consumer markets

Variables that shape the buying decision-making process

„ Individual differences
‹ Consumer resources (time, money, information reception and processing capabilities)
‹ Knowledge
‹ Attitudes
‹ Motivation
‹ Personality, values and lifestyle

„

Environmental influences

- Culture
- Social class
- Reference groups
- Family
- Situation
- learning (the process by which experience leads to changes in knowledge and behaviour)

The effect on financial institutions that fail to segment the market

i. Customers with different requirements are being approached with the same financial service, the same pricing, a standardised communications policy and an inflexible service delivery process
ii. Customer satisfaction decreases sharply
iii. Customer retention becomes harder
iv. New customer acquisition rates decline
v. The market perceives the financial institution as having either a product orientation or a production orientation, not a market orientation

What are the benefits of financial services market segmentation

1. It operationalises the concept that a company cannot be all things to all people (i.e., the "blanket" approach)
2. By excluding certain segments, a financial institution focuses its efforts and resources on a narrower target and gains deep knowledge of the needs of that target
3. It drives costs down, by enabling a closer match of corporate resources with a segment's requirements
4. In enhances customer satisfaction by addressing customer requirements more accurately
5. It enhances customer retention, since target segments see that they are being valued by a financial institution
6.
7. It increases the odds of target segments perceiving the financial institution as a brand
8. It enables the financial institution to foresee changes in the buying behaviour of the target market and to respond timely with new offerings
9. It enables the financial institution to detect target segments, which are small in size but have large potential, i.e., niche segments

	Customer-specific	Situation-specific
Observable	„Cultural variables „Geographic variables „Demographic variables „Socio-economic variables	„User status „Frequency of use „Brand-loyalty
Unobservable	„Psychographics „Personality „Lifestyle	„Benefits „Perceptions „Attitudes „Preferences „Intentions

How many criteria are used to segment a market?

„ 1. Uni-variate segmentation, that uses one criterion at a time

‹ E.g., by gender, by social class, by income, by age

„ 2. Multi-variate segmentation, that makes a combined use of criteria

‹ E.g., geo-demographics, psychographics

Building financial consumer retention and loyalty

It's important to create a strong consumer base that provides your company with long-term returns to create consumers retention and loyalty. The following should be considered:-

i. **Promotion calendar**
-This calendar has the overview information and plans received by consumers.

ii. **Marketing materials**
-This encourages loyalty and ultimately increases revenue amongst small investors.

iii. **Merchant offers**

-It's an offer of a variety of merchants promotions targeted to small scale investors portfolio to meet security holders needs and encourage loyalty and retention.

iv. **Offer for business**

-Business program designed to support the securities acquisition that meet security holders needs for discount on their business.

v. **Bill payment**

-It's a program for small scale securities holders that provide operational and marketing support.

vi. **Best practices training** and collateral that support the business and drive consumer retention and loyalty.

CHAPTER THREE

FINANCIAL MARKETS

Financial markets provide a forum in which suppliers of funds and demanders of funds can transact business directly. Whereas the loans and investments of intermediaries are made without the direct knowledge of the suppliers of funds (savers), suppliers in the financial markets know where their funds are being lent or invested.

MONEY MARKET:

It's a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), bankers acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos).

Money market instruments

These are instruments used to raise short-term funds from the market. They include

1. **treasury bills**

These are government securities issued to:
(i) Cover government deficit
(j) Finance maturity debts
(k) Control inflation
These are usually sold on auction system at a discount which depends on the value and it maximum period.

$$\text{Yield in Treasury bills} = \frac{\text{face value} - \text{market value}}{\text{Face value}} \times \frac{360}{\text{No of days maturity}}$$

Main features.

1 .Maturity period is usually 1 year or less. If the period is more than one
year, then it is a treasury bond. In Kenya we have Treasury bill of 28 days (I month), 91 days

(3months) and 182 days (6 months).
2 .Treasury Bills, in Kenya are denominated in terms of 50,000, 100,000, 1,000,000 — 20,000,000 shillings etc.
3 .The yield on treasury bills is determined by the market forces through competitive bidding.
4. Increase from the T.B's is usually taxed at normal tax rate on interest on the part of the receiver.
5. They are usually risk-free securities because they are guaranteed by the government.

2. **certificate of deposits**

These are certificates issued by a bank or non banking financial institution indicating that a specified sum of money has been deposited there in:
The certificate bears the maturity date and a specified interest rate and can be issued in any denomination.
They can be issued in bearer or non-bearer from:
(a) Bearer>. Anyone who bears the certificate has a right to the money even if it has no name.
(b) Non bearer> has a name on it of the person to whom the money belongs i.e. depositor and may not be transferable.
Tile interest rate on these is usually paid after maturity and the finds deposited can be withdrawn before maturity but at a penalty.
Types of certificate of deposits:
(a) Normal CD — Issued by commercial banks
(b) Euro dollar CD — Dominated in US dollars/or foreign currency & issued by banks.
(c) Yankee CD — Denominated in US dollars and issued by a foreign bank having a branch in the US.
(d) Thrift CD — issued by a non - banking financial institution.

3. **commercial papers**

Consist of promissory notes issued by financially stable companies and sold to investors in the market. They usually have a maturity period of less than one year and mainly sold on discount basis, which has the effect of increasing the effective rate of interest.

Effect yield: $= \frac{\text{face value— market value}}{\text{Face value}} \times \frac{360}{\text{No of days maturity}}$

Illustration:
A company sells 120 days commercial paper with par value of shs. 10,000 but at shs. 9.700 compute the effective yield on the paper

$\frac{10000-9700}{9700} \times 360/120 = 9.3\%$

- They can be discounted before maturity.
- They are negotiable due to the credit worthiness of the issuing co.

4. **bankers acceptances**

These are bills of exchange drawn in and accepted by the bank usually, a bank's customer under an agreement with the bank draws a bill on the bank and the bank accepts it. The bill becomes a banker's acceptance.

The bank charges acceptance commission and the drawer will have a two name bill, i.e. his own and that of bank. This makes the bill a highly negotiable instrument.

Main features:

(i) Highly required because they can be discounted at any time especially by the accepting bank.
(ii) Usually sold on discounted basis
(iii) usually unsecured.
(iv) Mainly used to finance international transaction/trade due to the fact that there may not be enough trust between the parties.
(v) Usually have a maturity period of less than one year, mostly 6 months or 3 months.

5. **inter-bank overnight loans:**

- This arises from the central bank's requirement that Commercial Banks hold a specified level of liquidity every day. Commercial banks to meet at the clearing house (which is managed by the Kenya Banker's Association) and the bank with insufficient funds to borrow from those with excess and the one with deficit to approach these with excess and negotiable terms of the loan. Lending Banks instructs clearing house through a cheque or telephone to transfer some of its deposits to the borrowing bank. Since these loans are authorized the borrowing bank serves on order the following day transferring ownership back to the lending bank. In case of liquidities, the bank can borrow from central bank.
- These are usually un-secured loans.

6. **re-purchase agreements**

- Government security dealers may use repurchase agreements to increase their level of liquidity. Re-purchase agreement is a sale of short-term government security by the dealer to the investor where the dealer agrees to re-purchase the securities at a specified future time.
- The investor receives a specified yield while holding the security.
- The maturity period may be fixed or left open in which case either the borrower or lender can

terminate the agreement at any time. Most re-purchase agreements are overnight although once for as long as 6 months can be made.

Characteristics of finances bought and sold in money market

1. Securities bought and sold highly negotiable i.e. can be bought and sold easily e.g. treasury bills, bills of exchange.
2. The finance is usually not secured and as such depends upon the goodwill of the borrower/buyer.
3. The finance is usually very expensive.
4. The finance is used to solve liquidity problem of concerned party.
5. It's not a perfect market because if the demand of such finance exceeds its supply and above normal, the central bank intervenes to influence the price/interest rate on this finance.

Services offered by money markets

1. offer/avails finance to solve liquidity problems of individual companies
2. offers a medium through which securities are discounted therefore making them highly negotiable liquid
3. Market offers advice to concerned parties as to which parties will meet their financial needs.
4. Market sets the price of different finances which gauges economic activities of a given point in time, e.g. if interest rates are high, it will make borrowing expensive and reduce operations of companies which may reduce their output and profits but encourage savings.
5. Acts as a channel through which short run investment in term of treasury bills are offered
6. Acts as a sole source of finance for small business in Kenya such as retailers and wholesalers use this source as a base to penetrate capital markets.
7. It acts as a medium through which transactions are effected using such instrument as bills of exchange, promissory notes etc
8. Acts as a link between holders of short term securities on one hand and discounts of this security on the other hand and therefore provide an atmosphere of negotiability of documentary instrument.
9. Market bring together buyers/borrowers and sellers/lenders of short term finances which means it acts as financial link between parties in money and capital market.

Reasons why money markets are not fully developed in Kenya

1. Most of the businesses in Kenya are small scale enterprises which in most cases lack the necessary credibility and credit worthiness which is very essential for a business to be able participate fully in this market.
2. Savers attitude have also contributed a great deal to slow development of this market because quite a large number of business men in Kenya refers to their money at home due to fear of taxation than put it in bank account this withholds finance from circulation which would have been available for lending
3. Cost of short term finances: it prohibitive in Kenya to borrow a short term basis because interest, discount rates etc outweigh the return from the project investment. It reduces number of parties buying money in this market e.g. the cost of overdraft is too high in Kenya.
4. There is a lot of ignorance among Kenyan business men as to which finances are available to this market.
5. Most of people in Kenya is made up of low income group and this have little or no income to save hence limited availability of finance in this market.
6. Short term investments in Kenya are few and even very risky and investment climate has favored long term investment in particular in real estate which created negative imbalance market.
7. Short term loans in most cases call for securities which most borrowers do not have therefore limiting availability of this money.
8. Most of the investments are expensive to buy because their par value is too high to be afforded by average savers.
9. There has been a lot of defaulting by African entrepreneur particularly in agro-business which has limited the finance available to lend to other business.
10. CBK has also for some time concentrated on the development of capital market evidenced by mushrooming of building societies all of which are geared at lending a longer term and such as time, less or no attention has been paid to development of money market.
11. There has been a tendency of poor management of business mostly due to lack of sound of management
12. Most businesses in Kenya have negative attitude towards short term deal finance which they associate with liquidation and yet others/free finance this attitude has hindered development of this market.