Question A

The concept of banking has existed for centuries and keeps on evolving with the changing needs of human. For instance, today, the financial service industry is undergoing tremendous transformation due to the digital age (change in technologies).

Banking in Kenya dates back in the pre-colonial periods when Europeans started trading in East Africa. However, banking advanced further during the colonial period when the British Empire established the East African Protectorate in 1865. However, due to the growing trade activities in the region, there was much need for the use of currency, which revolutionized the banking sector. National Bank of India was the first bank ever to be established in Kenya, which was then followed by the establishment of the Standard Bank of South Africa and later Barclays Bank (a merger between Anglo-Egyptian Bank and National Bank of South Africa). Through Asian customers and European deposits, the British Empire helped the already-established banks grow rapidly. At this time, the only banking source for Africans was through the Post Office Savings Bank and was limited to where colonial service was stationed; hence most Africans didn’t reach these services.

Despite political upheavals, including the Mau Mau uprising and World War II, the banking sector grew considerably. Kenya experienced a steady growth in the economy, which led to an influx of new banks till 1959 with, for example, Bank of India and Dutch Bank Nedelandsche opening branch. After independence, East Africa Shillings was used. The Central Bank of Kenya was established in 1966, which saw the first Kenyan currency notes circulate and later established all commercial banks in Kenya accounts in the quest to control and regulate banking activities in the region. The Co-operative Bank was the first locally owned commercial bank in Kenya, while the government established the Kenya Commercial Bank to enhance the provision of affordable banking to Kenyans. With the growing technology, Kenya’s banking sector has evolved tremendously with, for example, the use of ATMs, electronic fund transfer, mobile banking, internet banking, etc.

With the establishment of the Central Bank of Kenya, there were tremendous changes in banking laws before blocked African from using commercial banking services. Laws governing the financial sector are entwined and multifarious. The Kenyan banking sector regulatory framework draws its legitimacy from the Banking Act Chapter 488 and the CBK Act Chapter 491 of Kenya Laws. The evolution of the banking law has seen the establishment of pertinent financial laws, including banking lending and regulatory matters, laws governing the capital market (Capital Market Act), credit bureau references, and laws governing money laundering.

Question B

Demonetization of the 1000 currency note will have a significant impact on curbing illegal financial activities besides facilitating financial inclusion in the country. First, to curb illicit financial flow (primarily through corruption), if carried out within the shortest time possible, will significantly reduce the perpetration of corruption in the country; hence reducing the activities in the black market. More importantly, the new currency has embodied new and enhanced security features, which will greatly impact illicit transactions through money laundering and counterfeits. As reported by the CBK, the ultimate aim of demonetizing the Ksh. 1000 notes were because the currency was used through forgery and illicit financial transactions in regional and domestic markets; hence the process was to curb the expansion of the underground economy. However, these might be challenged due to the lack of adequate infrastructure in the banking sector to implement the demonetization policy; hence suddenly might fail to meet the main objectives. With that, the Kenyan economy may be affected in several ways due to the demonetization of money as it was with the case of India, Myanmar, and Australia. For instance, due to the extended grace period and lack of adequate infrastructure, India and Australia failed to the curbed black market. Besides, it increases government revenue while, in the short-run, the country might experience severe cash shortage. Lastly, demonetization of currency leads to disruption of SMEs, which majorly depends on cash transactions. In the long-run, demonetization of the Ksh 1000 note will enhance economic growth through;

1. Facilitation of financial inclusion especial in the informal sector
2. Enhancing government revenue collection
3. Transition the economy to be more cash-less
4. Access to formal banking hence increased saving by the population
5. Reduced lending rates by the banks.

Question C

Historically, compared to other sectors, the banking sector has been slow in adopting changes. However, in the recent past, the digital revolution has brought a wave of revolution which has changed and continues to change various facets of the banking systems. Outlined below are trends in the banking sector that have changed the face of financial services. First is the in-branch revolution. A few decades ago, people could only complete their bank transactions by physically visiting the bank premises. In the wake of the digital revolution, however, this model (in-branch Services) has been rendered redundant by online and telephone banking services. Noteworthy, the massive embracement of both online and telephone banking services have even raised concerns about the future of physical branches.

Second, technology has enhanced the loan procurement process. Unlike before, soft loan applicants do not need to visit the bank premises to apply for a loan. Almost every bank has a digital platform that receives customers’ loans applications, and depending on the customer's loan credibility, it either denies or disburses the loan. Another trend that has changed the face of financial services is the use of various applications and online transfer platforms to transfer money from one person to another. Ideally, compared to before, individual to individual money transfers have been made easier and faster. Cheques books are no longer needed to transfer money from one person to another. Also, people are no longer queuing in the banking halls to withdrawal large sums of cash. Lastly, in the wake of digitalization, banks are now accessible at any time of the day. Before mobile money services, as well as online services, banking services were only available during the corporate working hours, from 8 am to 5 pm. Over the weekends, especially on Sundays, there were no bank transactions at all. However, technology has enabled banking services to be available 24 hours a day in seven days.