

The Core Banking System is as sound as a Pound

On Thursday [the decision was made at 4 am in the morning], the Central Bank placed Chase Bank into receivership. Chase Bank on Wednesday published results in the Standard newspaper showing that its earnings dropped from a profit of Sh2.3 billion in 2014 to a loss of Sh742 million in 2015. Loans to employees and directors in 2016 amounted to 13.6 billion shillings versus the 3.24 billion shillings reported the previous time. That 13.6b figure was about 50% more than the core capital of the Bank. Chase Bank's non performing loans jumped from Sh3 billion in 2014 to Sh11 billion in 2015. Evidently, it is impossible to get a 360 degree perspective because the situation remains really fluid. Deloitte Kenya qualified the Accounts, this qualification was miniaturised in the Standard Newspaper Earnings Restatement and Release. A Qualification of the Accounts is no small thing and the act of miniaturising that Qualification is hardly helpful either. The Chairman Zafarullah Khan and his side-kick Duncan Kabui are wanted [as are the 5 National Bank Officials who also recently were sent on leave].

Chase Bank is the third Bank the Central Bank of Kenya has taken over since Patrick Njoroge became governor last July. A fourth bank National Bank has sent its chief executive and five senior managers on leave while its accounts are investigated. The First overarching Point to note is that we have now entered a new more "rules-based" system of regulation. What is also clear is that we were previously in a more permissive environment. Tier 3 Banks are finding themselves at the Bleeding Edge of this move to a more "rules-based" System. Years of resisting increased Capital requirements, has meant that these Tier 3 Banks are pirouetting their businesses on "wafer-thin" capital. Recent Events [Dubai Bank, Imperial Bank, National Bank and Chase Bank] now means Investors and Depositors are placing considerably less credence on the accounts as presented. Then in a "Double-Whammy", Depositors have embarked on a Deposit Flight to Quality further undercutting them. Without Shareholders now stumping up bucketloads of Capital, these Banks are in effect now "Zombie" Banks. The Process of Consolidation is now market-led. I appreciate the Authorities are keen to keep this orderly and not allow it to turn disorderly. The important Point for the Authorities is not to provide a blanket "Put" Option and to erect a Firewall in the right place. The Central Bank Governor has a fiendishly difficult Brief.

Social Media is not responsible for these Banks being placed into receivership. When You filter out the Noise, Social Media has proven a pre-

eminent Signal and Early Warning System. In fact, I would argue that recent events confirm the need for real-time surveillance. I recall many years ago the totemic Hans Joerg Ruedloff [who was then Chairman of Credit Suisse First Boston] telling me "CSFB does not takes [credit] losses" meaning you get caught on the wrong side of a Chase Bank type event and You're fired. I would have thought recent events make a Prima Facie Case for Real Time Surveillance both at the level of the Regulator and at the level of various Credit Committees. The Cutting Edge of the Financial Markets has already moved in this direction. Smart Money flew the day after Imperial Bank, I am afraid to say.

There was an interesting story in the Sunday Nation, implying that the Events as played out were a part of an elaborate Bear Raid by International Investors, who were looking to upscale their shareholding in Chase Bank. Let me take you back to 2008, when Lehman crashed and Bob Diamond [then CEO of Barclays PLC] paid just about any price [to the State of Qatar and this arrangement became the subject of some controversy] to keep Barclays out of the clutches of a State Rescue. The Point I am making is that the Game is lost the moment you are placed in receivership. That's what Bob Diamond understood.

Kenya has 42 banks or one Bank per million. This is sub-optimal. The more optimal Outcome is Fewer but bigger Banks. It is clear now that market Forces have the bit between their Teeth and that we are now embarked on a market-led consolidation process.

Across the Economy, we are witnessing a Flight to Quality. The Stock Market is placing a Premium on Companies they feel are properly governed [EABL, Safaricom, KCB and so forth], where they know they will not be caught out by an announcement that overnight the entire Capital and more has been lent out to Insiders. The Market is now placing an enormous discount on those Companies where they feel Governance is challenged. This Trend has a lot further to run.