

NEWS BUSINESS


COMMODITIES REVIEW
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The crypto avocado millennial economy

The "Zeitgeist" of a time is its defining spirit or its mood. Capturing the "zeitgeist" of the Now is not an easy thing because we are living in a dizzyingly fluid moment. Whether its President Trump's rat-a-tat Tweets or a mind boggling 625% share price advance because an erstwhile Tea Company [The Long Island Iced Tea Corp was a little-known company making non-alcoholic lemonades and ice teas] renamed itself the Long Blockchain Corp. We are living in extraordinarily fast moving times.

Paul Virilio has said 'Wealth is the hidden side of speed and speed the hidden side of wealth' and he is not wrong.

Last year economist Richard Thaler was awarded the Nobel Memorial Prize in Economic Sciences for his contributions to behavioural economics and clearly behaviour is having an outsize influence on economics. Malcolm Gladwell defined a tipping point as "the moment of critical mass, the threshold, the boiling point". The book seeks to explain and describe the "mysterious" sociological changes that mark everyday life. Gladwell stated: "Ideas and products and messages and behaviors spread like viruses do".

In late April 2017, Avocado prices doubled and reached the highest in data going back 19 years. The jump in demand in recent years has been dramatic. American per-capita consumption was 6.9 pounds in 2015, versus 3.5 pounds in 2006. My point is millennials discovered the virtues of avocado, the behaviour spread like a 'virus' and boom, prices sky-rocketed. Prices have retraced since those 2017 highs. The avocado price surge is an example of the new 21st century millennial economy but there are many other examples.

The most extreme example of this virus style [millennial] behaviour has been in the crypto-currency markets. The total market cap of all crypto-currencies has passed the \$800 billion threshold and given the velocity of the move could cross the \$1 trillion dollar threshold in the blink of an eye. Bitcoin ramped 1,400% higher in 2017. Ripple, which is now the second most valuable cryptocurrency, is up 14 fold in one month and 300 fold in the past year. This is unprecedented in the size of the multiplier and its velocity with regard to the history of the financial markets, ever. There are 1,550 crypto-currencies in circulation. Even Venezuela's President Nicholas Maduro has joined the party and said Venezuela will issue \$5.9 billion in oil-backed cryptocurrency.

"I have ordered the emission of 100 million petros with the legal sustenance of Venezuela's certified and legalized oil wealth," said Maduro in a state television address. "Every petro will be equal in value to Venezuela's oil barrel."

Strict currency controls have forced people onto the black market, on which a dollar can buy 137,000 bolivars. The country's strongest official rate, meanwhile, is 10 bolivars per dollar.

What is clear as day to me is that not all 1,550 are going to make it the other side, not by a long chalk.

If you are playing this game, constantly sift the signal from the noise, be prepared to pivot on a dime and be studying the behaviour of the "millennial" crowd.

Aly-Khan is a financial analyst

AVIATION

Travellers to start booking direct Kenya-US flights this week on KQ portal

VICTOR AMADALA / National carrier Kenya Airways will this week enlist Nairobi-New York booking on its website.

This will allow passengers to book for the much awaited inaugural flight aboard KQ to USA's JFK International airport in New York later in the year.

Although the airline is yet to indicate when it will start flying to the US, Kenya Airways commercial director Vincent Coste in September last year told

journalists that they are targeting March this year.

"It is with great pleasure that Kenya Airways is invites you to bring New York to Nairobi. We will be launching the first ever direct flight to New York from East Africa," a statement from KQ read in part.

The launch for advance booking for up to one year to departure is standard practice by airlines seeking to venture into new routes.

The Friday evening event is indication

of light at the end of tunnel for Kenya-US direct flight that has been occasioned by frequent postponements

So far, Kenya has been granted two of the required four conditions to commence direct flights between Nairobi and the US.

American transport officials conducted the final audit of Jomo Kenyatta International Airport in Nairobi last October to assess security measures put in place ahead of direct

flights the two countries

The first one was in February when Kenya got a Category One status with the second being the commercial authority to operate, which was granted to Kenya Airways in July last year

The last hurdle will be the granting of Air Operator Certificate by the Federal Aviation Administration after inspecting the carrier's equipment and facilities. The FAA is expected to grant the certificate before end of this month.

REGULATION

Unlisted insurers to face tougher time with IFRS 9

Performance among unlisted insurance firms could drop as they gradually adjust to the new accounting regime as they align to the risk-based regime

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Insurance firms that have not been listed on the Nairobi Securities Exchange may have a harder time adjusting to the new IFRS 9 accounting standards.

"Insurance firms that have not been listed on the NSE may suffer more under the IFRS 9 because they are now mandated to disclose their performance," Kenbright chief actuary and managing director Ezekiel Macharia told the Star.

The new accounting rules will better align insurance firms to disburse policies under the risk-based regime. In 2021, the industry will face further scrutiny as the IFRS 17 come to play under which premium volumes will cease to determine a firm's capacity. Investment components and cash received will no longer be considered as revenue.

The new set of accounting rules will require underwriters to roll out an experience investigation to determine a client's risk. The investigation will also check how probable a customer is to default on paying outstanding premium.

Results from the investigation will then allow the firms to appropriate cash for the foreseeable loss. A rise in loss provisions will consequently impact the insurers' net assets.

Performance among unlisted insurance firms could drop as they gradually adjust to the new accounting regime.

The most recent report by the Insurance Regulatory Authority shows that Kenya has 55 insurance and re-insurance firms. Of these, only six are listed on the NSE.

They are Kenya Re, Jubilee Holdings, Liberty Holdings, Britam Holdings, CIC Group and Sanlam Kenya.

While listed firms are required by the Capital Markets Authority to publish annual financial reports to the public, the rest of the underwriters are



only required to divulge their financial condition to IRA.

The International Financial Reporting Standards IFRS 9 replacing the International Accounting Standards 39 are set to shine a light on profitability of the insurance sector.

An analysis carried out by KPMG published in May stated that the new rules had the potential to reduce the cost of capital for some insurers.

The report stated that increased transparency would drive comparability and in turn facilitate merger and acquisition activity as well as encourage greater capital investment as it would help underwriters gain trust of investors.

"Every insurer is certain to see an impacts on its reported numbers in one way or another. Their significance will depend on an insurer's previous accounting policies -which have differed across jurisdictions and- in some cases, even within jurisdictions," KPMG's Global IFRS Insurance leader

Joachim Kolschbach said in the report.

This was further reiterated by BIMA Intermediaries Association of Kenya chairman Washington Ndegea who told the Star the new rule would allow Kenyan underwriters to compete in the global market.

Right now we have global companies that want to buy into Kenyan insurance firms," he said. "This is what is needed in the industry so as to get rid of the weak players and enhance a more robust insurance sector."

IRA data shows insurance penetration in the country stands at 2.73 per cent, although this is low compared to the world average of 6.28 per cent. Macharia was optimistic that it would rise to three per cent over the next two years.

"We expect the insurance market to grow by 20-25 per cent driven by more activity in the life business," he said.

He added that sector players were more pro-active in complying with the new standards.

IFRS 9 REPLACES ACCOUNTING STANDARDS 39

KPMG partner James Norman during the KPMG East Africa second Insurance conference at Serena Beach Hotel, Mombasa
/JOHN CHESOLI