

## “my Chat with a Bank CEO”

---

*James Macharia, Group Managing Director – NIC Bank*

*Thursday, 8<sup>th</sup> November 2012*

*Topic: Banks and the Capital Markets*

*Time: 10:00am – 10:50am*

### Chat Log Contents

- *Banks and the Capital Markets*
- *SMEs and the Economy*
- *Regulation*
- *General Questions*
- *Answered Questions*



If you had the opportunity to chat with a Bank CEO, what would you talk about?

### **Banks and the Capital Markets**

**JamesNIC:** our topic today is banks and the capital markets...this topic is very important because banks and the capital markets are complimentary in terms of the wider financial services industry...this topic is coming at a time when we have heightened activity in both segments of the financial services industry...the banking sector and the capital markets and therefore it is important for everyone to know how the two interrelate. I invite you to ask your questions...share comments.

who would like to get us started?

**opijah asked:** Hi, I would like to ask what efforts are being made to expand trading in shares from Nairobi

**JamesNIC:** Opijah thanks for your question...one of the areas for expansion is bringing in of the SME segment...until now the SME segment has not been well represented in the stock market...in this regard the NSE has plans to have a focus on SMEs...it is an important move because SMEs represent a critical mass in terms of the businesses operating in our country...there are a few corporates...but when you look at the future of our country it will depend on the growth of SMEs.

thanks...it was a good question.

**(Continued)**

**swmoche asked:** What is your outlook of the capital markets in the face of the political uncertainty?

**JamesNIC:** Swmoche..thank you...the outlook is very positive because the kenyan business community looks at the capital markets into the long term...so despite the fact that there is political uncertainty, this has not dimmed the outlook of the business community...for example, you will find that in 2012/2013 election period, we have the highest number of companies coming to the stock exchange to raise money by way of rights issue...you are aware that already there about 4 banks which have come to the market...and banks are the most sensitive in terms of political risk, but this has not changed their plans in terms of coming to the market to raise money ...i might also add...that this view has been vindicated by the fact that the rights issues that have come to the market have been very successful...so not just the companies themselves but even the investing community do have a positive outlook.

**edcon asked:** Hi sir,could it be possible for people to be trading online?this can really ease trading and increase transactions although there might be a risk

**JamesNIC:** Edcon...thank you for the question... certainly that is the direction we are taking, particularly if you look at kenyan diaspora...it is important that we do facilitate such trading because this will ensure that the country gets foreign direct investment...we also have large international investors based in key world capitals like london and new york who certainly would like to participate in the kenyan capital markets and therefore trading online would be a big boost for this activity.

**jaymes:** i had asked about smep going to the otc market whats your take in this..

**JamesNIC:** Jaymes...thank you for your question on SMEP. Over the counter trading I think is very important as a precursor for companies going into the mainstream NSE...therefore by smep opting for this entry, i think it will just open room for opportunity for the general investing community to know them...so when they decide to get into the mainstream there will be adequate awareness which will influence their success in future entry into the NSE (the main stream NSE).

**najma:** how profitable are investment markets in kenya?

**JamesNIC:** Najma...welcome...the profitability of the markets is somewhat cyclical ...there are times when the market is very bullish and therefore the prices are going up very frequently...other times we have a bearish market which results in the dampening of the markets in general... when markets are bullish, investors take profit as prices go up...and therefore they reap the benefit and make money in the process... when interest rates were high the markets were not very profitable because investors preferred putting their money in banks ...but recently weve seen from the third quarter this year that the interest rates are coming down and therefore investors will come back to the equity markets... ..we can therefore expect a sustained period of share prices going up and with it profitability in the investment market.

**(Continued)**

**kavita:** The idea of Banks running stockbrokerage firms cum investment banks is suffocating growth of Stock brokers in Kenya. This is because the customers who bank in those banks are same ones who go looking for the papers, shares etc..Are banks Killing this sector slowly

**JamesNIC:** Kavita...thank you for your observation...first I need to say that banks are looking for opportunities to serve their customers as a one stop shop and therefore putting all financial services under one roof...secondly, given the history of stock brokerage business in Kenya, there has been times when the confidence levels has been very low in the investing community...i believe by banks entering this segment, the confidence levels have been restored and this has positive impact on the overall stock brokerage industry.

**JamesNIC:** Youve been raising good points and questions...Id like to comment on why banks are announcing rights issues...with the recent rapid growth in the banking sector there is a need to boost the capital bases of the various players in the sector in order to support future growth...banks also have strategically tried to position themselves in light of the imminent implementation of new prudential rules/guidelines which amongst other things will require banks to create a capital conservation buffer of 2.5pct...this buffer is over and above the current minimum thresholds...many banks are also seeking entry into the larger East African region...by setting up subsidiary companies in order to take advantage of the expanded market and the various protocols under the East African Community...these investments require larger capital outlays hence the need for incremental capital by way of rights issues...in this regard we have seen DTB and NIC raise capital to support the spread of their network, whilst SCB and CFC Stanbic have raised capital for growth of their Kenya operations.

### **SMEs, the Economy and the Capital Markets**

**mnguyai:** .... there have been plans to introduce a segment on the NSE for SMEs to list their shares. how far is this from being implemented?

**JamesNIC:**...the NSE is collaborating with stock brokers and investment banks are actively holding sessions to see how this can be implemented....

**swmoche:** Capital market is a key pillar for Kenya to realise the vision 2030. What do you think should be done to make it even for robust to help accelerate the achievement of Vision?

**JamesNIC:** thanks Swmoche we can bring in a lot more players in the market...for example we mentioned about the SMEs who constitute the critical mass of our business in this country. we also possibly need to bring out awareness in the counties so that the outreach can be expanded across the country..as opposed to the capital city.

## Kenya Bankers Association

### “My Chat with a Bank CEO”

#### 8 November 2012 Chat Log: Bans and the Capital Markets with James Macharia

(Continued)

**butunyi:** There are always complains from the SME sector that banks are not doing enough to meet their financing needs. Your thoughts on this?

**JamesNIC:** ...Id like to say that banks have taken active steps to support SMEs by doing a number of things...for example many banks have created dedicated departments for SMEs/business banking, banks have also created Clubs specifically to support the financial management of SMEs and to help them grow through networking and exposure...and then finally to support SMEs, given the perceived high risk of SMEs, banks have partnered with international development finance institutions like the IFC (World Bank) to support this particular segment.

### **Regulation**

**edcon:** with the introduction of capital gains tax,will this result to reduced transactions for the speculators?

**JamesNIC:** Edcon, thank you for your question, certainly with the capital gains tax, this will be an outflow which will obviously impact on the profit of the trader and therefore traders who are looking for short term gains may decide that this activity is not very attractive and therefore reduce the level of activity in the future... I would add that capital gains tax is not new, it has been there before. it is also very well accepted in other markets like the london stock exchange... when people gett used to capital gains tax they will basically continue trading as if it never existed.

**kavita:** Is it possible for a stockbroker to sell what he doesnt have. Foprinstance he identifies a seller A and buyer B. Then he sells the paper form A to B as though it is his?

**JamesNIC:** Kavita...your question about someone selling a stock they dont have...this is illegal

**capitalfmkenya:** karimi asked on facebook \"What are the factors that can enhance stock market development in African and also improve their efficiency? Since the Stock markets in Africa are still developing\"

**JamesNIC:** Karimi thanks for your question...to enhance the capital markets in Africa, we require robust governance structures in order to boost the confidence of the investing community. we also need a broader participation of the general public to make sure that the market is not seen as a \"club\" for the rich but one that serves the entire population. technology also plays a big part in development of the capital markets...like weve discussed earlier, the introduction of online trading ensures that the capital markets in africa are linked up to the world leading stock markets

## Kenya Bankers Association

### "My Chat with a Bank CEO"

#### 8 November 2012 Chat Log: Bans and the Capital Markets with James Macharia

(Continued)

**swmoche:** What is your take on ABS and MBS? Securitization has helped developed countries realise significant development in the housing sector? How can this be managed to avoid going the America way?

**JamesNIC:** Swmoche, thanks, the american problem was that they created too many layers of derivatives...here to avoid that we need to keep it simple...when you create securities, you dont create derivatives from those securities and therefore if something goes wrong there will be no domino or systemic effect

**capitalfmkenya:** Farida asked on twitter \" What is the regulatory status of our capital Market?\"

**JamesNIC:** Farida via Twitter...thanks...as of now the capital markets have a stand alone, independent regulator but there is talk about merging the various regulators in future...which would cover banking, capital markets, and insurance...but this is all subject to future government policy.

### **General Questions**

**jaymes:** what are you doing to increase awarness on capital markets because as much as its not true people still think shares are for the rich?

**JamesNIC:** Jaymes...that is a good question about the perception on shares being for the rich...we have seen of late investment banks and the NSE having forums to promote investment in the capital markets, including like we have said in this chat earlier...the establishment of an SME exchange... weve also seen companies splitting their shares in terms of prices, which helps a lot in terms of liquidity on the stock exchange...so in effect stock splits enhance liquidity of the shares by makeing them more affordable.

**capitalfmkenya:** Alex asked on twitter \".What is Paper Trading?\"

**JamesNIC:** Thank you Alex via Twitter...until recently the only way to trade was by having the physical share certificates, however with the establishment of CDSC people can immobilise their shares and therefore trade electronically...as opposed to having the physical, paper share certificates...this process is also called dematerialisation and in fact a deadline has been given when all paper share certificates should be converted into electronic form...I hope that answered your question...thanks Alex.

## Kenya Bankers Association

### "My Chat with a Bank CEO"

#### 8 November 2012 Chat Log: Bans and the Capital Markets with James Macharia

(Continued)

**capitalfmkenya:** willis asked on twitter \"Can you give me some points which I should remember in order to make profit in Kenya Stock Markets in Kenya?\"

**JamesNIC:** Willis, thank you via Twitter, there are many ways someone can make profit by investing in the stock exchange...one of them is to look at the particular stock and determine if you want to hold them for the short term or for the long term....if you feel a certain stock will make gains in the short term, you buy and sell within a period of 3 months...if not...focus on keeping the shares for the longer term capital gains...the other way of making profits on the stock market is to diversify your portfolio so that if some of the stocks are going down...others in your portfolio will go up...therefore your risk will be diversified...and avoid you making losses.

**capitalfmkenya:** Samantha asked on Facebook \"Is there any objective analysis which I can do to determine whether my trading is going fine or not, and also when I should increase or reduce?\"

**JamesNIC:** Samantha via Facebook...if you want to determine if your investment is making good progress or not...you could take for example calculations on the capital gains of that particular share, on top of that you add the dividend recieved on that share and then you compare the sum of those two with any interest which you could have earned if you had put that money in a bank fixed deposit account.

**capitalfmkenya:** Omondi asked on twitter \"What is a difference between a stock market and a new issue market? Does any opening in new issue market effects stock market?\"

**JamesNIC:** Omondi via twitter...thanks...a new issue market is actually a part of the stock market...the stock market deals with both historic and exisiting stocks plus any new issues which may come in the future.

**hmugambi:** Is share value in the stock market an accurate way to gauge how well a company is doing financially?

**JamesNIC:** hmugambi welcome...share value is supposed to indicate how well a company is doing. but in our developing market here in kenya, it is not always the case... for example you might find a company report billions of shillings in profit but their share price will go down.

**capitalfmkenya:** Moha asked from Facebook \"Stock exchange sometimes gives negative returns as well. Should I still enter?\"

**JamesNIC:** Moha via Facebook...thanks for your question...yes you can still enter because you are looking at the future returns... for example there are some investors who invested in safaricom when it was sh2.50 they took a veiw that the share price will go up...and it did...it is now at sh4.40

## Kenya Bankers Association

### "My Chat with a Bank CEO"

8 November 2012 Chat Log: Bans and the Capital Markets with James Macharia

(Continued)

**capitalfmkenya:** Kisia asked on twitter \"Can any outside force manipulate the market?\"

**JamesNIC:** Kisia thanks for joining via twitter...it is possible because we are currently exposed to the international markets and we have large international investors coming to this market. we have seen foreign participation in the stock market sometimes going as high as 70pct and therefore if you have a very large investor coming for a certain stock, that is likely to influence the share price of that stock on that particular day

**najma:** what is bear and bull market?

**JamesNIC:** Najma thanks for joining...a bear market is when the prices are either stagnant or going down...and the converse is true for a bull market when the share price is going up

**najma:** What is Blue Chip stock?

**JamesNIC:** Njama a blue chip is a stock with the least risk element and also with very high returns

**capitalfmkenya:** wekesa asked on Facebook \"What security do I have while trading in stock market? Can I enjoy my life and secure my family with trading?\"

**JamesNIC:** Wekesa thanks for joining via Facebook...the answer is yes and no...yes if the stock market is stable and the share prices do not collapse...if they do collapse you can loose your life savings...therefore you should possibly diversify your portfolio of shares...dont put all your shares in one basket...buy shares over different counters so you have options...also diversify into other areas outside of the stock market such as real estate, insurance schemes, bonds, government securities which are risk free...etc

**andrewmurugami:** james what are examples of blue chip stocks in todays market

**JamesNIC:** Andrewmurugami...thanks for your question....look at the stocks with the highest returns in terms of dividends and with consistent profitability and in a stable industry....for example the banking industry is quite stable, well capitalised, well regulated and with a broad and solid capital base

## Kenya Bankers Association

### “My Chat with a Bank CEO”

8 November 2012 Chat Log: Bans and the Capital Markets with James Macharia

(Continued)

#### **Final Comments**

**swmoche:** Thank you James for the insightful discussion. Thank you KBA for facilitating this. Kudos

**JamesNIC:** Swmoche, karibu, thank you for your feedback

**ceochat:** James, thank you for the time...last comments before we wrap up?

**JamesNIC:** Thanks Nuru for moderating...I am very delighted by the robust participation...I am sure that this kind of engagement is good for all parties as it brings out clarity as to how the banking sector and capital markets and the investing community, including ourselves, interact with each other.

**Mnguyai:** Very insightful. Thank you for your time

**JamesNIC:** I also would like to commend the Kenya Bankers Association (KBA) for this very unique initiative which has not been seen in any of the sectors of our country...and which certainly has added a lot of value in terms of public understanding of the dynamics of our banking industry which should be for mutual benefit .

To wrap up, I encourage you to keep learning more about the capital markets...the internet has a lot of helpful information...for example for NIC Bank, we have a web site for the NIC Bank Group which includes NIC Capital our investment bank; and NIC Securities, our brokerage firm

**ceochat:** Thanks James, congratulations on your successful rights issue

**JamesNIC:** Asante sana...have a good day

**andrewmurugami:** mr james thans too sana

**ceochat:** Thank you all for joining



(Continued)

**Unanswered Questions**

Unfortunately there were several questions that the CEO did not get to answer due to time constraints. Therefore, the following questions will be addressed by the KBA via Online Posts, including Podcast response:

opijah: Hi, I would like to ask what efforts are being made to expand trading in shares from Nairobi

Mugambi: Hello JamesNIC, I would love to know the difference between the NSE 20 share index & the FTSE 15 index, and the logic behind the two

mnguyai: It has been said that trading on the NSE has usually been driven by emotions of investors at the time rather than based on company fundamentals. how true is this?

swmoche Many banks are now diversifying to other nontradition services like stockbrokerage, investment banking, insurance business and so on. What is your take on these trends and their impact on the capital markets growth?

capitalfmkenya: Peris asked on twitter \"I am a very small investor, so what would be my position in the stock market? \"

ice: what is the greatest business advice you ever received?

capitalfmkenya: wanjala asked on Facebook \"Returns from stock market are tax free or taxable?\"

mnguyai: It has been said that trading on the NSE has usually been driven by emotions of investors at the time rather than based on company fundamentals. how true is this?

Allen: In your opinion the current political situation continues as it is till say January 2013 how will it most likely affect the stock market?

najma: when should I sell my existing shares?

kavita: ...and dont you think they are gaining unfair advantage over the rest? I predict a time where entry into stockbrokerage industry one has to have a bank first?

andrewmurugami: james good morning, what is capital investment and what are its merits

edcon: Thank you..but it has positive effects in those developed countries.majority of kenyan are low and middle income earners and possibly that's why it was phased out?

mnguyai: for a young investor just joining the market, which are the best avenues?

capitalfmkenya: Kirui asked on facebook \".Is there any objective analysis which I can do to determine whether my trading is going fine or not, and also when I should increase or reduce?\"

capitalfmkenya: Kombo on Facebook asked \"Someone told me that Option trading is good and if done carefully with the trend it can reward me well. What is your view ?\"

Allen: Is the current political situation affecting the stock market? If the current trend keeps up till say January 2013 how is it most likely going to affect the stock market?

capitalfmkenya: kisia on twitter said \" the ceo got a Tablet on his mind...smart answers\"

mnguyai: for a young investor just joining the market, which are the best avenues?

najma: What is the difference between the Intrinsic Value and Market Price?

keivn: Is the stock market a really valuable investment for a small investor considering the rise in share prices e.g. most stocks at the NSE is/ appears to be very small considering the broker has his 'cut'?

capitalfmkenya: florence asked on twitter \"Where does my fund have to be domiciled?

najma: How are the Exchange's markets differentiated for closed-ended investment funds?

capitalfmkenya: Ken asked on facebook \"Are there any risks associated with investing in the Kenya Stock Market?\"

chefragi: do u have forums to advise students on matters to do with CMA?

chefragi: why securities and not stock?

dmwangi: hae...hw does bank nominee affect stock market