



CHALLENGES FACING RETAIL INVESTORS IN KENYA'S FINANCIAL MARKETS

**INVESTMENT RESEARCH REPORT
ABRIDGED VERSION**

NOVEMBER 2022

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LEGAL MANDATE

The Investment and Financial Analysts Act (No.13 of 2015) provides for the establishment, powers and function of the Institute of Certified Investment and Financial Analysts, for the provision of the examination and registration of certified investment and financial analysts, and for connected purposes.

VISION STATEMENT

The leading institute for investment and finance professionals.

MISSION STATEMENT

To promote excellence and professionalism amongst our members and the financial industry.

CORE VALUES

- I**ntegrity
- C**ompetence
- I**nnovation
- F**airness
- A**ccountability

REGISTERED OFFICE

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EXECUTIVE SUMMARY

Research Title	Challenges Facing Retail Investors In Kenya’s Financial Markets
Research Period	Three (3) Months; March 2022 to May 2022
Research Objectives	<p>The investment research sought to answer the main question “What are the main challenges facing retail investors in the Kenyan Financial Markets?”</p> <p>Specific objectives for the research were:</p> <ul style="list-style-type: none"> a) To conduct a comprehensive analysis of Kenya’s retail investment sector. b) To determine which factors have a greater impact on the markets than others. c) To assess the identified factors and lessons that can be used to inform regulatory policy and activities. d) To determine the importance of retail investors in Kenya’s financial system and what the government can do to keep the investment climate favorable.
Scope of the Research	<p>Other research questions explored as part of the study were as follows:</p> <ul style="list-style-type: none"> i) How have the challenges faced by retail investors in Kenya affected the financial performance of the sector? ii) Are there factors that cause a more severe effect on the markets than others? iii) How can such factors and lessons help inform policy and activities of regulatory bodies? iv) How important are retail investors in the financial system in Kenya and what can the government do to maintain a conducive investment climate?
Research Design	<p>Both quantitative and qualitative research designs were employed in determining the challenges retail investors face in Kenya’s financial market and their impact on the sector.</p> <p>Qualitative research was employed to provide answers to the why and how the challenges would be identified. While Quantitative research provided answers to what the challenges were, when they occurred, how often they occurred, and how to resolve them.</p>
Research Methodology	<p>The research quantitative tool was distributed via Google forms, to ICIFA and CDSC account holders. This ensured that the intended respondent was reached and that the data collected came from a reliable source.</p> <p>Prior to the distribution of the quantitative tool, in-depth interviews and focus group discussions were held with key stakeholders in the sector, including fund managers, brokers, investment advisors, CEOs, research and investment department heads of insurance, investment banks, pension schemes, and SACCOs in the country.</p>

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<p>Project Coordinator</p>	<p>Tony Juma, <i>Research Officer, ICIFA</i></p>
<p>Appointed Independent Consultant</p>	<p>Pine Hill Consulting Limited</p>
<p>Technical Committees</p>	<p>Education & Research Committee (2021/2022)</p> <p>FA Dr. Duncan Elly Ochieng (Chair), FA Isaac Njuguna (Vice-Chair), FA Margaret Kibera, FA Purity Kagendo, FA Jackline Onyango, FA Eric Munywoki, FA Dr. Geoffrey Injeni, and FA Daniel Kithinji. Secretary: Tony Juma, <i>Research Officer</i></p> <p>Regulation, Standards and Research Committee (2022/2023)</p> <p>FA Anthony Mwithiga (Chair), FA David Kanyi, FA Margaret Kibera, FA Geoffrey Odundo, FA Dr. Peter Onyango and FA Anthony Murimi. Secretary: Tony Juma, <i>Research Officer</i></p>
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1. PREAMBLE

The Institute of Certified Investment and Financial Analysts (ICIFA) is the professional body established under the Investment and Financial Analysts Act (No.13 of 2015) to register and license investment and financial analysts in Kenya aimed at promoting and monitoring compliance with standards of professional competence and ethical practice and enhancing professionalism in the investment and financial sector.

ICIFA in Kenya sought to document and collect data on *“An Assessment of Challenges that Retail Investors Face in Kenya’s Financial Market”*. This report highlights in detail and offers recommendations to mitigate the identified challenges. A key challenge identified being inadequate capital to invest among the retail investors.

A Paradigm shift has been witnessed in the last General Elections where the Bottom-up economic model was favored to replace the Trickle-Down economic model. The Bottom-Up model advocates for enactment of policies that are favorable to SMEs, reduction of the taxation burden and creating cheap credit access to SMEs to facilitate entrepreneurship and innovation.

The bottom-up model advocates for increase in entrepreneurship and innovation therefore improving the Gross Domestic Product of the country that will directly affect variables such as individual incomes, inflation and investment appetite.

In the event the objectives of the bottom-up policy are fully fulfilled, the financial markets will witness more activities by the retail investors. The aforementioned arises as a result of increased entrepreneurship activities that would enable retail investors to have surplus money to invest in the Nairobi Securities Exchange.

Besides, a good-performing economy would lead to more Initial Public Offerings (IPOs) by new firms hence the IPOs will lead to more new retail investors participating in the capital markets. Currently, the Nairobi Securities Exchange is dominated by foreign institutional investors who use the local markets for diversification.

With continued and active consumer education on products, services and procedures of the financial markets, the retail investor will be better positioned to make sound investments in anticipation to the realization of the bottom-up-economic model. At present, ICIFA champions investor education through the ICIFA Investment show hosted on the ICIFA YouTube Channel.

2. OVERALL ASSESSMENT

Despite numerous challenges, the Kenyan Retail Investor has been critical in the development and growth of the financial sector. The key challenges have been high transaction costs and insufficient information to aid in making sound investment decisions, as well as market inactivity regarding IPOs and poor communication from investment institutions and regulatory bodies.

The retail investor is aware of key players in the market and their roles, however, awareness of service or product providers and trading companies is low. There is a need for education on players in the market, products, services, and listed companies.

The decision-making process of the retail investor is limited by inadequate synthesized information on the financial markets and available product characteristics and projected returns. Affinity to engage financial advisors is low due to cost and accessibility which has promoted the use of personal research, trends, and popular opinion to have a substantial impact on investment choice.

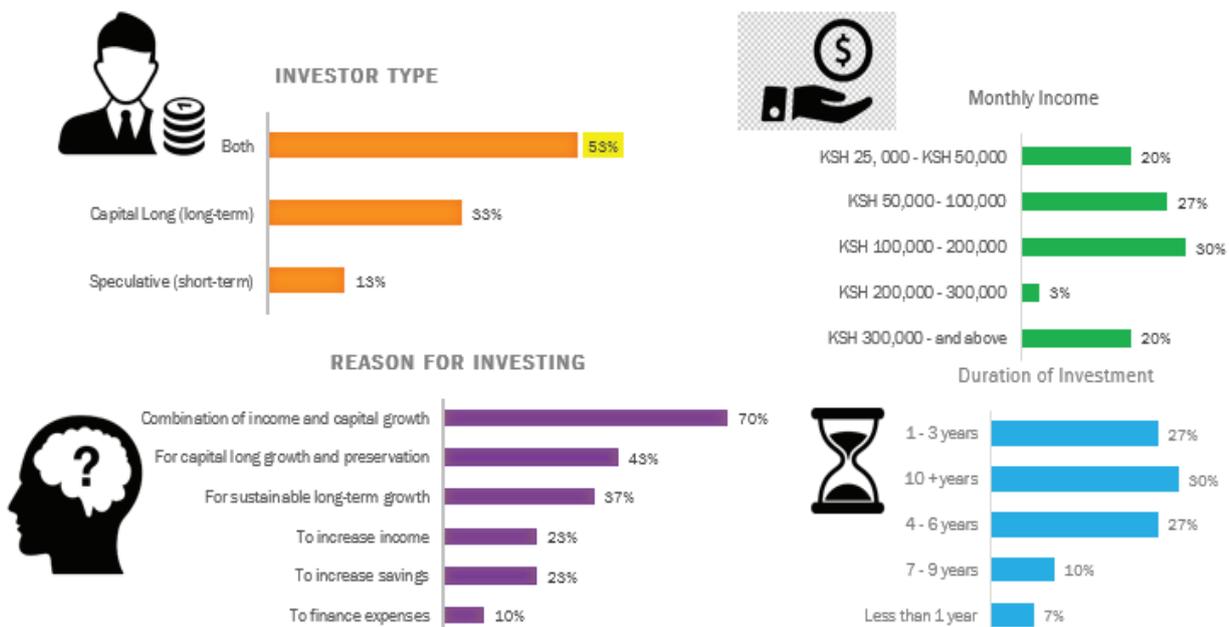
Certain policies, procedures, regulations, and institutions of the sector have harmed the development and growth of retail investors. Policy such as the KYC policy has been viewed as cumbersome and repetitive which discourages investor participation.

The privatization commission has not brought into the market any IPOs since its formulation. Product innovation has been limited by regulations governing the sector thus resulting in the development of products not aligned to the needs of customers or restriction of retail investor participation in products.

3. SUMMARY OF THE REPORT

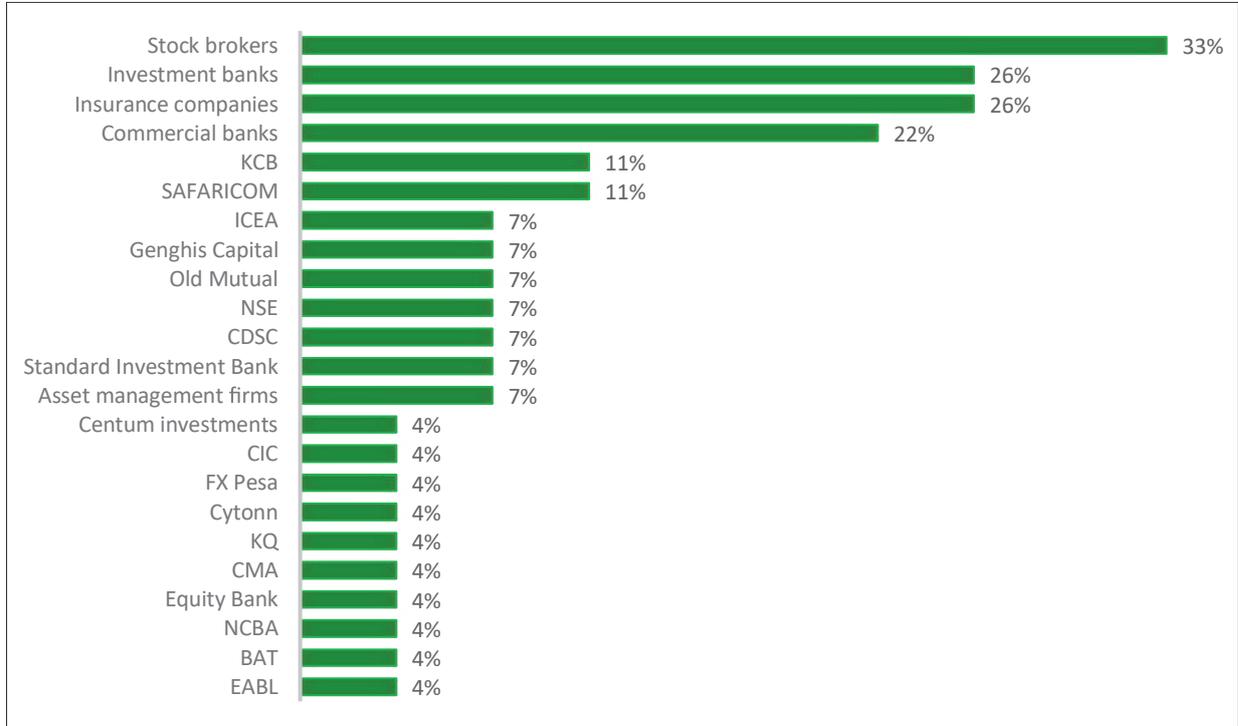
3.1 RETAIL INVESTOR DEMOGRAPHICS

Presently, the Kenyan retail investor is an individual with or without professional knowledge of the financial sectors, with an average monthly income ranging between Ks 50,000 and Ks 200,000, who has been investing for 1 to 6 years and/or 10 years or more, who is both a long-term and short-term investor, and whose primary reason for investing is a combination of income and capital growth.



3.2 PLAYER AWARENESS

Stockbrokers (33%), investment banks (26%), and insurance companies (26%), in general, are well-known in financial markets. Companies that are synonymous with investors are led by KCB and Safaricom both at 11%.



3.3 SOURCE OF INFORMATION

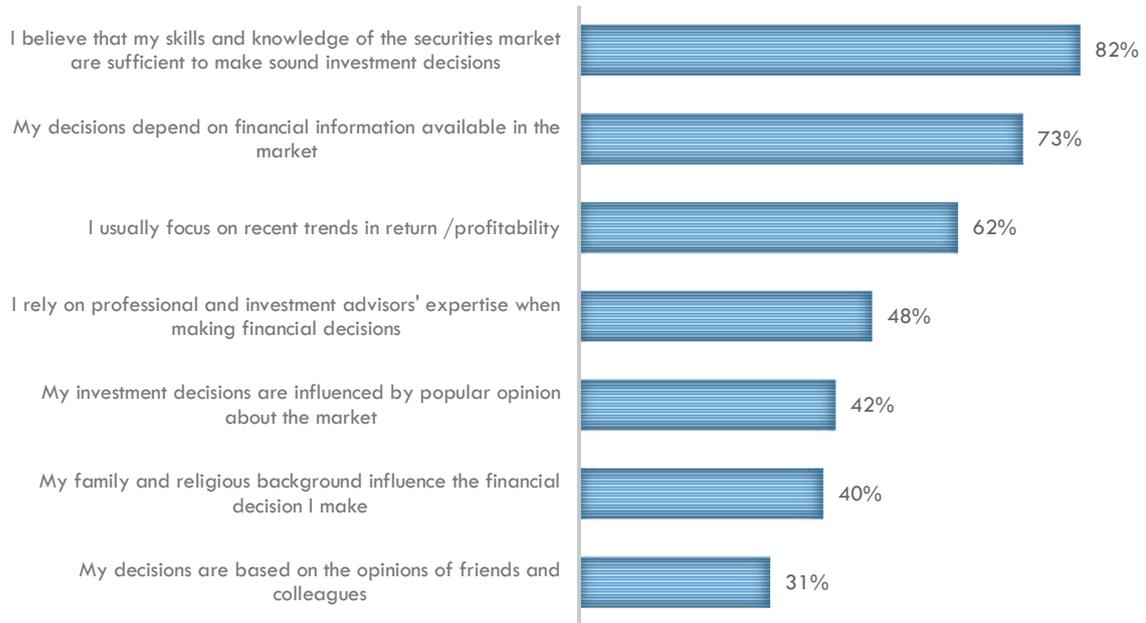
Personal research (77%), is the main source of information for potential investments. The retail investor currently comprises both professional and non-professional individuals. Aside from religion and sector knowledge, the three most important factors influencing retail investors' decisions were as follows:

- i) 62% of respondents agreed that recent trends in return and profitability influence their investment choice;
- ii) Another 42% agreed that popular market opinion influenced their decision;
- iii) Finally, 31% agreed that their decision is based on the opinions of friends and colleagues.

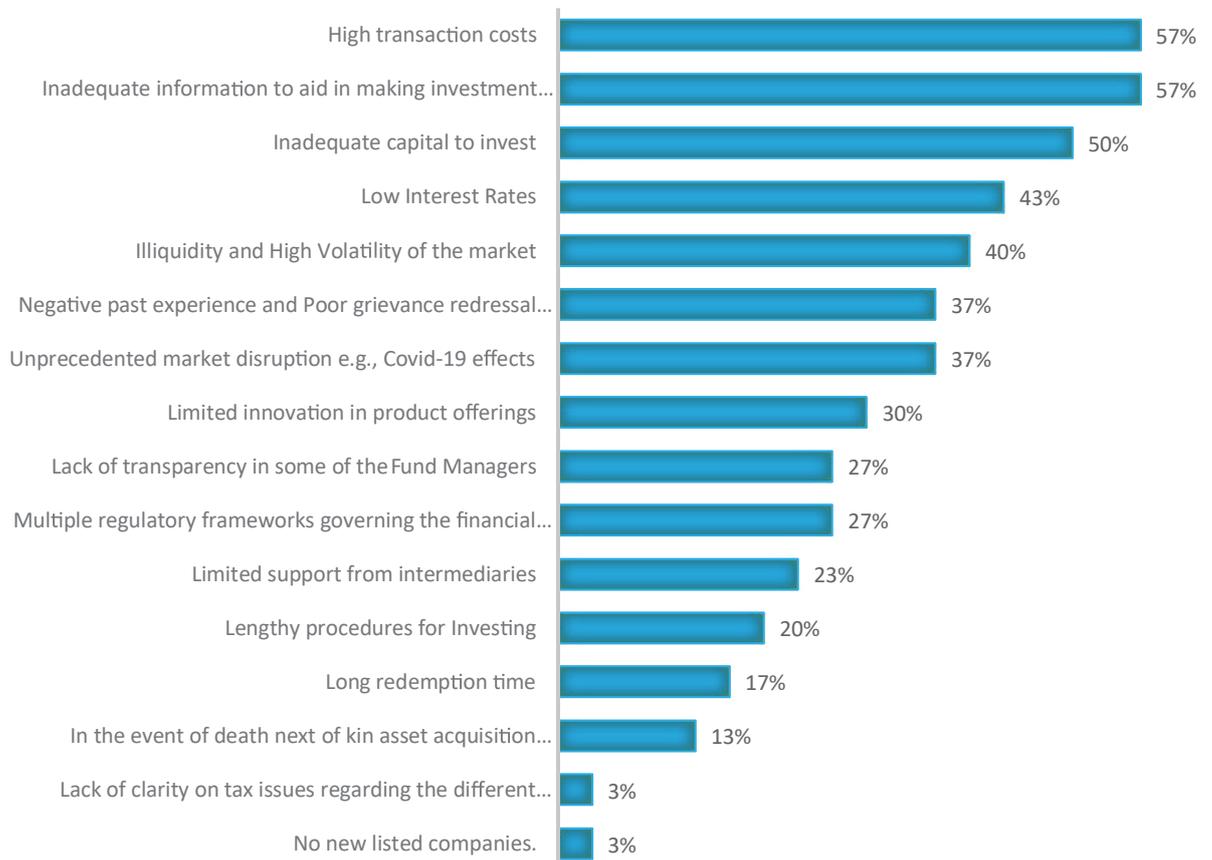


3.4 FACTORS INFLUENCING INVESTMENT CHOICE

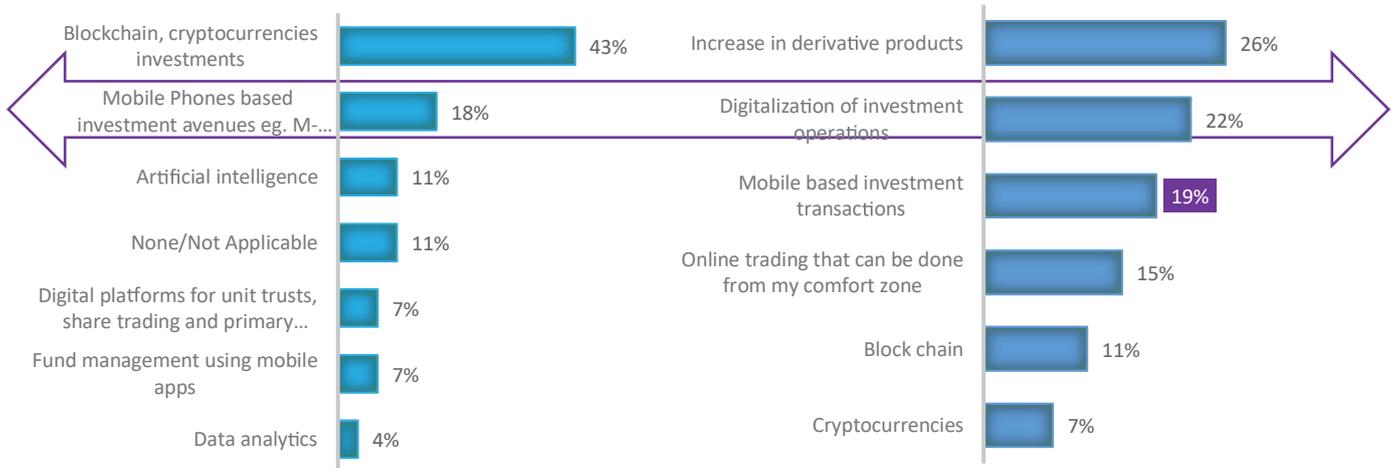
48% of retail investors rely on professional and investment advisors' expertise when making their investment decisions.



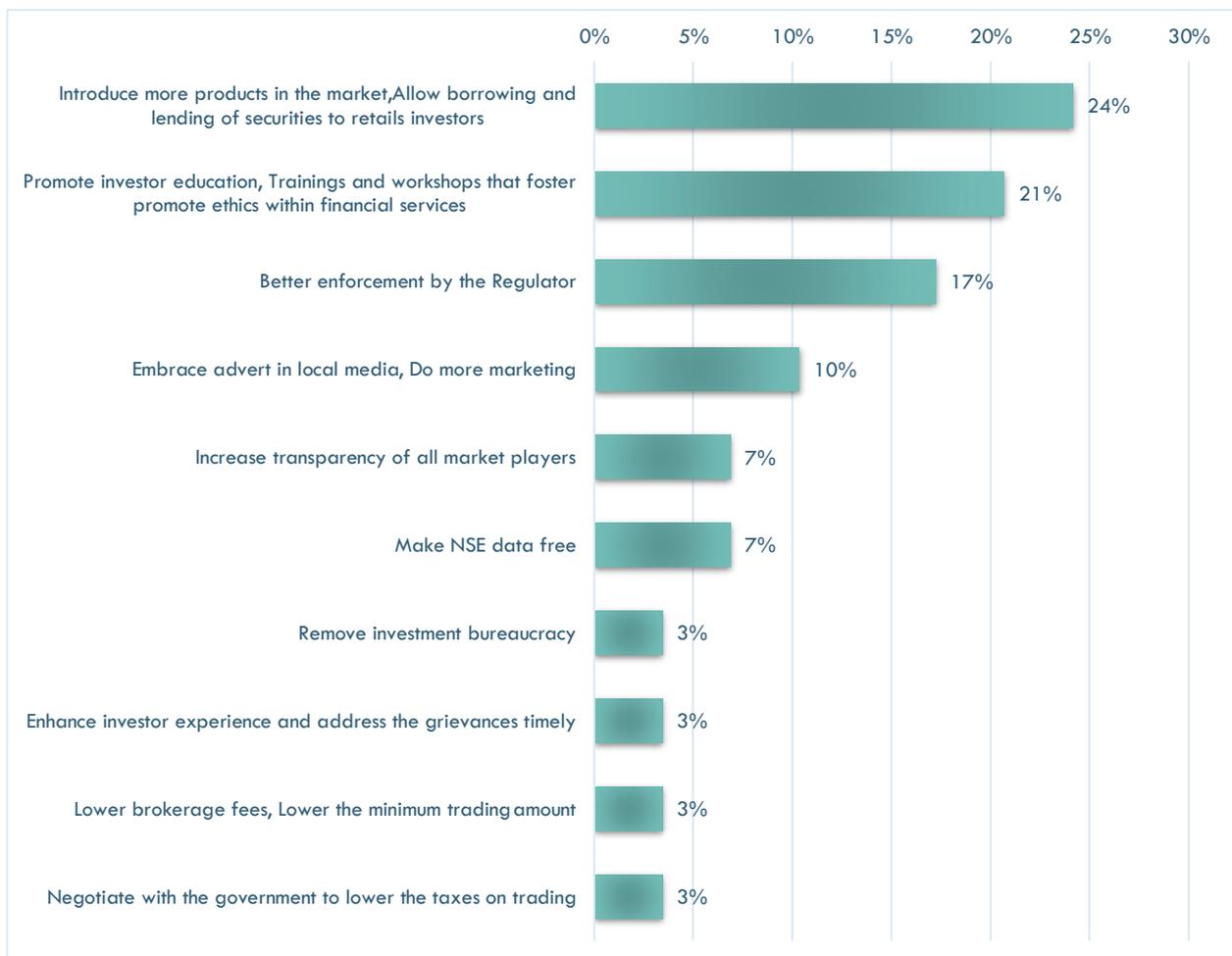
3.5 RANKING OF CHALLENGES FACING RETAIL INVESTORS



3.6 PRODUCT TRENDS AND INNOVATION



3.7 RECOMMENDATIONS ON HOW TO OVERCOME CHALLENGES



ICIFA

INSTITUTE OF CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS



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