

# Emerging Issues in Finance in the 21<sup>st</sup> Century Kenya.

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## ABSTRACT

This study critically examined the emerging issues transforming finance in Kenya in the 21st century, emphasizing the interplay between technological advancement, financial inclusion, regulatory evolution, and sustainable finance. Kenya emerged as a global leader in digital financial innovation, with platforms such as M-Pesa, mobile banking applications, and digital credit solutions fundamentally altering the delivery and accessibility of financial services. The main objective of the study was to analyze the emerging trends in finance in Kenya in the 21st century. This study adopted a qualitative descriptive research design to explore and synthesize emerging trends in the Kenyan financial sector in the 21st century. The study was primarily based on desk research, utilizing extensive secondary data (scholarly literature, policy reports, and regulatory publications). An integrative literature review approach was employed for studies published between 2007 and 2024. The findings of the study reaffirmed the foundational role of mobile money particularly M-Pesa as a transformative force in Kenya's financial system. The article recommended that more digitization should be encouraged so that the boundaries between financial firms and their customers become increasingly fluid. In conclusion, Kenya's financial landscape has undergone transformation in the 21st century, driven by mobile innovation, digital platforms, and a forward-looking regulatory environment.

**Keywords:** Financial systems, Emerging, Issues, Kenya.

## INTRODUCTION

Since the 1990s, financial systems around the world, and especially those in developing countries, have gained in soundness, depth, and diversity, prompted in part by a series of financial sector and macroeconomic reforms aimed at fostering a market-driven economy in which finance plays a central role. After a history of recurrent instability and crises, financial systems in Kenya appear well poised for rapid expansion. Indeed, the size of banking systems has increased, local currency bond markets have developed (both in volume and reach over the yield curve), stock markets have expanded, and derivative markets particularly currency derivatives have grown and multiplied. Institutional investors have become more important, making the financial system more complex and diversified. Moreover, important progress has been made in financial inclusion, particularly through the expansion of payments, savings, and credit services for lower-income households and microenterprises (Dafe et al., 2023).

The role of finance is going through a major evolution. In today's business environment, finance organizations are becoming even more elevated as corporations increasingly rely on the financial and strategic prowess of their financial leaders. The financial world is passing through a revolutionary period, and it is evident in our daily lives that we have changed the way we pay our bills to avail banking services (Kaur, 2021).

The progress in financial development in Kenya reflects governments' substantial efforts to provide an enabling environment (Gitonga et al., 2019). This includes lower macroeconomic volatility, more independent and better anchored currencies, increased financial liberalization, and lower currency mismatches and foreign debt exposures, enhanced effectiveness of regulation and supervision, and notable improvements in the underlying market infrastructure (trading, payments, custody, clearing, and settlement, for example) Business world is changing.

According to Sayed (2023) a new generation of employees is forcing organizations to rethink how work is done, the rise of big data is providing business leaders with access to more information, and globalization has opened up new opportunities as well as new risks for businesses. The role of finance now permeates all areas of business as its influence continues to grow. Finance is continuously progressing. Today's firms are full of dynamic and creative professionals who recognize and capitalize on continually emerging trends in the finance sector (Lindley & McIntosh, 2017)

In the 21<sup>st</sup> century, Finance professionals have seen their responsibility shift from "Recording various aspects of a corporation's financial health" to "Joining top executives in a broad-based partnership", a trend accelerated by the current financial crisis. The emergence of distinct business models; a trend pushed by globalization and the economic rise is also forcing financial professionals to re-examine their roles (Sudjono, 2024).

The changes emerging in the Finance functions are giving a new shape to the market, offering new opportunities for both Enterprises and the private companies. Outsourcing in Finance is no longer just about Cost and Risk reduction; it is very well becoming a means to transform operations. The current era of globalization and liberalization has shrunk the geographical barriers of commerce. The whole world has literally become flat. One can see the cross-border economic activities happening in a swift way (Sudjono, 2024).

The banking and financial services industry is turning its focus toward innovation to prepare for a future that will be increasingly driven by technology (Tashtamirov, 2023). Headline figures from survey data place Kenya at the top of the financial inclusion index both regionally and globally. Data from the last Global Findex survey shows that 75% of Kenyan adults have a formal account that allows them to save, send or receive money. In 2014 Kenya outperformed both the global average and many middle-income countries such as Chile, Brazil, India, Mexico and Russia (Ajayi & Ross, 2019).

According Nery (2021) much of Kenya's success has occurred in the last 10 years and has been driven by supply side innovations such as M-PESA, M-Shwari, agency banking and introduction of local language bank staff. With 68,000 bank and mobile money agents spread across the country, nearly three quarters of the population now live within 3 kilometers of a financial sector access point, showing that Kenya has transcended the access frontier. Riding on the mobile payments platform M-PESA, new innovations in mobile banking such as MShwari, KCB M-PESA and Equitel, have delivered bank accounts to approximately 10 million Kenyans, who can now access savings and loans.

## Statement of Problem

Today, finance professionals are facing an array of new risks, responsibilities, and challenges, from managing a globally diversified business to mitigating new technology risks. They are responsible for reporting on the past, managing the present, and creating the future (Rylance et al., 2018). Their role of finance has become ubiquitous throughout the organization, and its influence only appears to be growing. As finance professionals look to manage the new risks and challenges that have evolved with their role, many are lever-aging new technology to help them thrive in this modern environment.

In their study Jandrić et al. (2021) acknowledged that even with the growing number of workers, the dichotomy of aging employees, many of whom struggle to adapt to the new fast-paced, tech-heavy business environments of today, and young employees, many of whom are still getting their feet wet in the "real world," has left many business leaders struggling to obtain the talent they need to successfully run their organizations. There appears to be a large talent gap developing as many academic finance programs remain heavily focused on traditional financial tasks and not enough on the new responsibilities of corporate finance, like managing technology.

Kenya's stock market is faced with a wide range of challenges. These include: a lack of awareness, low investor confidence, a lack of competitive pressure in the local market, vulnerability to shocks, and the low level of the capital market liquidity. Generally, there is lack of awareness and information on the role, functions and operations of the stock exchange and the Capital Market Authority among potential investors and business entities. Many Kenyans throughout the country do not know enough about the Nairobi Stock Exchange and the Capital Market Authority; and the market does not seem to market

Itself adequately to potential investors, or to provide a variety of products to attract companies. This may be attributed to financial and human resource constraints (Capital Markets Authority et al., 2011). The lack of public awareness on Nairobi Security Exchange operations is a major hindrance to corporate participation in the stock market (Capital Markets Authority et al., 2011). The finance sector is currently making use of technology where a lot of data is involved. Most of the data is unreliable. Dirty data will lead to poor insights and inconsistent conclusions (Munappy et al., 2022).

Competition issues may undermine the emergence of better products. Monopoly over mobile channels by the market leader, Safaricom, with approximately 77% of mobile money subscribers in 2024, raises concerns. Its strong market power position may prevent the move towards interoperable infrastructures that will allow banks and telecommunications companies to compete (and cooperate) effectively in delivering low-cost and improved solutions for the poor. Without improvements in market structure resulting in a more level playing field, there is a danger of a duopoly at the low-end market that will fail to deliver the potential value proposition of the financial sector for pro-poor growth in Kenya (Feyen et al., 2023).

Lending is not supporting inclusive growth. Lending patterns within the banking sector appear to be strongly linked to the rising middle class, with growth in lending largely focused on easy wins in consumer lending (especially pay slip lending) and property markets. This is not likely to deliver the dividends for employment and growth that would come from increased lending to core productive sectors such as manufacturing, agriculture and small and medium-sized enterprises (SMEs) (Guyen, 2019).

## **Objective**

To analyze the emerging trends in finance in Kenya in the 21st century.

## **LITERATURE REVIEW**

One of the most notable financial developments in Kenya is the proliferation of mobile money services. The launch of M-Pesa by Safaricom in 2007 fundamentally changed how Kenyans access and use financial services. According to Jack and Suri (2016), M-Pesa has significantly contributed to poverty reduction and empowered previously excluded populations especially women and rural households by enabling them to save, borrow, and transfer money easily. Subsequent innovations, such as KCB M-Pesa and M-Shwari, have integrated mobile wallets with credit and savings products, further deepening financial access (Mbiti & Weil, 2011). Recent data from the Central Bank of Kenya (2023) shows that over 80% of the adult population now uses mobile money, highlighting the impact of digital finance on inclusion and economic participation.

### **Emerging Issues in Finance in the 21<sup>st</sup> Century in Kenya**

#### **Innovative Technology**

Banks are focusing on customer using innovative technologies. Third-party payment systems are playing their role well with a focus on customer-centric features and functionalities. And mobile devices are still a game-changer in finance (Khan et al., 2021). Automation is quickly replacing the banking jobs, and there is a shift in the skill sets required in the finance sector as well. Subsequently, there are numerous online finance courses to help professionals adapt to the changes (Khan et al., 2021).

The financial industry in Kenya is one of the dynamic sectors of the economy; adoption of digital branches, emergence of agency banking, internet banking, adoption of mobile banking and the competition from mobile network operators, just to mention a few new and better ways to transform business using technology (Khan et al., 2021).

For instance, for banks currently you only need a phone and mobile number to have an account number. These are the emerging issues in the finance currently. With this trend some bank branches will be fully digital with no human interaction; customers can deposit cash using the bulk note acceptors and withdraw the same amount deposited the next minute in an ATM. Another good example is in Kibabii University, a student pays school fees

now and it reflects in the system immediately. Long gone are the days when students used to do fee payment in the bank and bring deposit slips to universities finance office for confirmation of the transactions. The change in the technology has improved financial activities to a great extent.

Online banking and transactions, and mobile payments are incredibly popular today. There are vulnerabilities since financial transactions are being used so much, many financial institutions have to adapt to the latest security and updated technology in order to stay up to date (Guyen, 2019).

EazzyPay from Equity Bank, Kenya is another example of what going digital is all about. Eazzy App is your Bank anywhere, anytime, everything you do at the bank is now on Eazzy App. From sending money to paying for goods and services, accessing Eazzy loans, paying bills, checking the status of your account or saving for your future goals, it is all in your hands. Mobile money services leveraged a new mass-market platform created by the rapid expansion of mobile phone coverage and airtime agents, as well as a supportive regulatory environment (Heyer and Mas, 2010).

M-Shwari the super revolution in the banking space, this was a super product from Commercial Bank of Africa that has enabled customers to save and borrow funds from their mobile phones. This was the fastest growth in deposit accounts in the retail banking industry leading CBA to a leading bank in Kenya (Ngugi, Pelowski, & Ogembo, 2014).

### **Financial inclusion-Access to affordable financial services**

Kenya has made remarkable progress over the last decade in expanding financial access. With three quarters of adult Kenyans now having a formal account through which they can save and transact, the country has reached a level of financial access seen in more developed economies (Ngugi, Pelowski, & Ogembo, 2014). The Brookings Institute's 2015 report on financial and digital inclusion ranked Kenya first out of twenty-four emerging economies that are increasing access to affordable financial services. Regulators have opened the way for innovators to deliver ground-breaking solutions through digital technology, banks have developed basic accounts delivered through branches and agents close to where people live and work, and government social transfer programmes are using the financial system to reach remote corners of the country. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs, transactions, payments, savings, credit and insurance, delivered in a responsible and sustainable way.

Being able to have access to a transaction account is a first step towards broader financial inclusion since a transaction account allows people to store money, and send and receive payments.

Financial access facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives. About half of unbanked people include women poor households in rural areas or out of the workforce.

The key problem is how to provide financial access that is both affordable and suited to the needs of poor people (Spratt 2013). On this, the costs of providing basic banking services are often prohibitive, and credit is either unavailable or too expensive. The reasons are well understood: providing physical access in rural areas is inherently expensive, and providing financial services for people with few financial resources entails high relative costs; a lack of credit history and collateral is a key constraint on extending credit, and small loan sizes also mean high transaction costs. Extending financial access thus tends to be unattractive for banks. Although microfinance institutions (MFIs) have partially filled this gap, their record is mixed.

### **Data analytics**

Financial institutions are using data analytics to improve the customer experience and gain a competitive edge over their peers. Banks are focused on improving their efficiency and performance considerably using data

analytics techniques. Professionals with relevant experience and data analytics certification have high job prospects in the finance sector in the coming days (Munappy et al., 2022).

While most companies are storing new and valuable data, they aren't necessarily sure how to maximize its potential, because the data is unstructured or not captured within the firm (Munappy et al., 2022).

As the financial industry rapidly moves toward data-driven optimization, companies must respond to these changes in a deliberate and comprehensive manner. Efficient technology solutions that meet the advanced analytical demands of digital transformation will enable financial organizations to fully leverage the capabilities of unstructured and high-volume data, discover competitive advantages, and drive new market opportunities (Raja & Raja, 2022).

The finance industry generates a huge amount of data, both structured and unstructured data. Structured data is information managed within an organization in order to provide key decision-making insights. Unstructured data exists in multiple sources in increasing volumes and offers significant analytical opportunities (Munappy et al., 2022).

There are billions of cash moving across global markets daily, and analysts are responsible for monitoring this data with precision, security, and speed to establish predictions, uncover patterns, and create predictive strategies. The value of this data is heavily reliant on how it is gathered, processed, stored, and interpreted. Because legacy systems cannot support unstructured and siloed data without complex and significant IT involvement, analysts are increasingly adopting cloud data solutions (Munappy et al., 2022).

Cloud-based huge data solutions not only cut costs of on-premise hardware with limited shelf life but also improve scalability and flexibility, integrate security across all business applications, and most importantly garner a more efficient approach to big data and analytics (Munappy et al., 2022).

With the ability to analyze diverse sets of data, financial companies can make informed decisions on uses like improved customer service, fraud prevention, better customer targeting, top channel performance, and risk exposure assessment (Munappy et al., 2022).

Kumar et al. (2024) in their study acknowledge that financial institutions are not native to the digital landscape and have had to undergo a long process of conversion that has required behavioral and technological change. In the past few years, huge data in finance has led to significant technological innovations that have enabled convenient, personalized, and secure solutions for the industry. As a result, huge data analytics has managed to transform not only individual business processes but also the entire financial services sector.

## **Cyber Security.**

The rapid growth and development of the internet and information communications technology (ICT) have delivered economic growth at an unprecedented scale and enabled seamless connectivity across all corners of the world. However, this rapid growth has introduced new vulnerabilities in cyberspace (De Melo E Silva et al., 2020). Cyber security threats are increasing and evolving at a rapid pace as the global economy, society and governments now rely heavily on ICT networks to communicate and perform essential functions on a daily basis. In addition, cyber attackers are constantly developing new sophisticated tools and methods aimed at damaging critical infrastructure, accessing sensitive information and stealing the intellectual property of governments, organizations and individuals. With the growing use of ICT globally, cyber security threats will continue to evolve and multiply, becoming even more dangerous than they are today (De Melo E Silva et al., 2020).

Cyber security is crucial for the finance industry, and, as everything goes digital, it is the most discussed topic. There is a heightened level of expectation regarding cyber security, and emerging trends show that innovations are in line with improving the security (De Melo E Silva et al., 2020).

As Kenya matures into an information society the nation faces an increasingly evolving cyber threat landscape. Nation states, criminal organizations, and hacktivists from all over the world are, and will continue, to exploit

ICT vulnerabilities in Kenya. This is simply a reality that every nation with robust ICT infrastructure faces (OCR, 2014). While these actors seek to illicitly access, alter, disrupt, or destroy sensitive personal, business, and government information, we are working diligently to evolve our means of protecting information in order to counter today's threats as well as those coming from over the horizon (OCR, 2014).

The Government of Kenya is committed to the safety, security, and prosperity of our nation and its partners. Cyber security is a key component in that commitment, providing organizations and individuals with increased confidence in online and mobile transactions, encouraging greater foreign investment, and opening a broader set of trade opportunities within the global marketplace. Successful implementation of the strategy will further enable Kenya to achieve its economic and societal goals through a secure online environment for citizens, industry, and foreign partners to conduct business. Cyber security is paramount in the financial industry where privacy is quite crucial (OCR, 2014).

### **Corporate governance principles**

Corporate governance has been widely adopted by financial firms in order to increase the efficiency of operations and it specifies the manner in which organizations are controlled and managed and it also outlines the duties as well as rights of all stakeholders (Lumbi & Karimi, 2021). In 2016 the Capital Market Authority published a code for corporate governance practices for publicly listed companies. The Code replaced the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya, 2002. The code was informed by the need to respond to the changing business environment coupled with the desire to align Kenyan local standards to global best practice to promote institutional strengthening for listed companies (Lumbi & Karimi, 2021).

The code sets out the principles and specific recommendations on structures and processes, which companies should adopt in making good corporate governance an integral part of their business dealings and culture. The code advocates for the adoption of standards that go beyond the minimum prescribed by legislation. It adopts an "Apply or Explain" approach which is principle-based rather than rule-based (Lumbi & Karimi, 2021). The approach requires boards to fully disclose and explain any non-compliance to their shareholders and the Capital Market Authority in their annual reports and Annual General Meetings. The reasoning behind this approach is to allow shareholders to enforce governance standards on the belief that they have incentives to maximize their investment and want companies they invest in to be successful (Lumbi & Karimi, 2021).

### **Regulatory Challenges**

Without effective regulation, financial systems can become unstable, triggering crises that can lead to economic crises. The primary objective of finance is to facilitate productive economic activity; the aim of regulation is to maintain financial stability and to promote economic growth. The first is by influencing the day-to-day behaviour of financial market actors so that financial regulation has direct effects, for example, on how much a bank chooses to lend to small and medium enterprises (SMEs). The second is by influencing how the financial system evolves structurally, thereby creating indirect effects. The diversity of the banking system, for example, will influence the pattern of lending by sectors.

In Kenya, some banks have expanded their branch networks in the region. By December 2012, Kenyan banks had established 282 branches in neighbouring countries (Uganda 125, Tanzania 70, Rwanda 51, Burundi 5, and South Sudan 31). Such banks pose an increasing challenge for regulators across Africa (Beck 2013). Financial integration implies that the negative externality costs of bank failure go beyond national borders that are not taken into account by national regulators and supervisors. Close cooperation that can help internalize these cross-border externalities, although the institutional extent of such cooperation should be a function of the strength of externalities but also the heterogeneity of countries' legal and regulatory frameworks. The CBK has developed and implemented a consolidated supervision program for the effective oversight of banking groups. As part of efforts aimed at implementing consolidated supervision, it launched Prudential Guidelines on Consolidated Supervision and convened two Supervisory College meetings in 2012 and 2013 bringing together all Central Banks of the East African countries where Kenyan banks currently have operations.

## Increased competition

Competition leads to excessive risk-taking on the assets (loans) side of bank's balance sheets and this leads to a higher likelihood of individual bank failure. More recently, studies have shown that competition may be beneficial to bank's portfolio risk. The traditional theoretical set-up assumes that the allocation of bank assets is determined by solving a portfolio problem emphasizing the liability side of the balance sheet. Upon confronting increased competition on the deposit side banks tend to increase their offered rate to attract depositors. When paying higher deposit rates, neglecting the effects of competition in the loans market, bank earnings decline. In order to cover lost profits, banks will tend to accept more risky investments. In contrast, when competition is restrained, banks exercise market power by paying lower deposits rate and therefore can increase their profits. As a result, banks in relatively uncompetitive markets are less willing to invest in low probability – high return projects and therefore failure is less likely. Another strand of the theoretical literature assumes that banks solve an optimal contracting problem. Here the modelling framework attempts to measure the impact of competition on both sides of the bank balance sheet. In less competitive deposits markets, banks can earn greater rents (as noted above). However; banks can also charge higher rates in the lending market as well. The less competitive the market, the higher the interest rates borrowers pay. Facing higher rates, borrowers tend to invest in more risky projects and therefore their probability of bankruptcy increases. This mechanism is further exacerbated by moral hazard on the bank borrower's side. As a result, banks become riskier in a less competitive market (Boyd and De Nicolo 2005). Martinez-Miera and Repullo(2010) suggest a non-linear relationship between bank competition and stability.

In the paper entitled *Bank Competition, Fire-sale and Financial Stability*, Ka Kei Chan and Alistair Milne apply a liquidity-risk framework to study how an externality from a forced (fire) sale of assets affects financial stability. The authors show that fire sales of assets create an incentive for banks to take excessive risk in order to obtain subsidies from other banks. The authors show that banks choose riskier funding structures as the number of banks increases in the economy. This suggests that competition leads to less financial stability.

## Banks capping their interest rates

The amended law capping interest rates in Kenya {the Banking (Amendment) Act, 2016} came into force in on September 14, 2016 setting bounds on lending and deposit rates. It sets the maximum lending rate at no more than four per cent above the Central Bank base rate; and the minimum interest rate granted on a deposit held in interest earning accounts with commercial banks to at least seventy per cent of the same rate. In line with the Central Bank of Kenya (CBK) Act (Section 36(4), the Central Bank set the Central Bank Rate (CBR) as the base rate. The capping of interest rates has really undermined the independence of central bank of Kenya. The law was implemented following concerns raised by the public regarding the high cost of credit in Kenya. Implementation of the law was expected to lower the cost of credit and increase access; however, emerging evidence point to adverse effects of the law on the Kenya economy (Dafe et al., 2023).

Since the inception of this law the investment in government securities has greatly increased. Introduction of an interest cap in a fully liberalized capital market results in capital flight. A very good example is what happened in Kenya. Shares of the largest Kenyan Banks listed on the Nairobi Exchange plummeted by 10% in response to the news of the introduction of the interest rate cap. This was mainly due to loss of investor confidence and capital flight (Dafe et al., 2023).

## Research Design

This study adopted a qualitative descriptive research design to explore and synthesize emerging trends in the Kenyan financial sector in the 21st century. The design was appropriate for capturing the dynamic, multifaceted nature of financial innovation, policy evolution, and digital transformation. It allowed for a holistic understanding of how these trends affect financial systems, inclusion, and regulation.

## Data Collection Methods

The study was primarily based on desk research, utilizing extensive secondary data from: Peer-reviewed journal articles, Government and regulatory agency reports (e.g., Central Bank of Kenya, Office of the Data Protection

Commissioner), Fintech industry reports (e.g., FSD Kenya, Nairobi Securities Exchange), Publications from multilateral institutions (e.g., World Bank, IMF, UNEP FI) and lastly National policy documents and strategy papers (e.g., National Payment Strategy, Kenya Cybersecurity Strategy).

Additionally, an integrative literature review approach was employed to identify, evaluate, and synthesize key academic and policy-oriented studies published between 2007 and 2024. This involved systematic searches in databases such as Google Scholar, JSTOR, ScienceDirect, and SSRN, using keywords like *"digital finance in Kenya," "mobile money," "fintech trends,"* and *"regulatory technology in Africa."*

### **Data Analysis Techniques**

Content analysis was used to analyse the collected qualitative data. The analysis followed these steps:

Coding and categorization of literature into key themes: mobile money, fintech innovation, sustainable finance, RegTech, cybersecurity, and inclusion.

Synthesis of findings to identify patterns, emerging issues, and gaps in policy or practice.

Triangulation across multiple sources to enhance validity and reduce bias.

Where applicable, basic trend analysis (e.g., mobile money adoption rates, digital lending growth) was incorporated using published statistics from the Central Bank of Kenya and other credible data repositories.

### **Scope and Delimitations**

The study was limited to Kenya, focusing on financial developments from the year 2007 (marking the launch of M-Pesa) to 2024. While global trends inform the context, the emphasis remained on Kenya's domestic policies, institutions, and innovations. The paper did not include primary data collection (e.g., surveys or interviews), which was noted as a limitation but also aligned with the exploratory and conceptual nature of the research.

### **Possible Solutions**

#### **Technological enhancement**

Before the 21<sup>st</sup> century, the financial sector in Kenya was dominated by a large number of small, Community-based banks that adopted a relationship-oriented business model to offer differentiated or customized loan products and a highly personalized service at a relatively high unit cost. Subsequently, deregulation and technological change created new strategic opportunities for growth that greatly extended the market reach of banks. (Deyoung, 2010)

The technological inventions and know how in the 21<sup>st</sup> century has impacted the finance sector greatly in that transactions are real time for instance in Kibabii University a student pays school fees now and it reflects in the system immediately. Long gone are the days when students used to do fee payment in the bank and bring deposit slips to universities finance office for confirmation of the transactions. The change in the technology has improved financial activities to a great extent. Large companies are embracing these technologies to execute digital transformation, meet consumer demand, and boost profit and loss.

Efficient technology solutions that meet the advanced analytical demands of digital transformation will enable financial organizations to fully leverage the capabilities of unstructured and high-volume data, discover competitive advantages, and drive new market opportunities (Yaquub & Alsabban, 2023).

#### **Foreign risks**

Businesses need to be deliberate in their approach to risk mitigation in foreign countries. This starts with gaining a firm understanding of the local culture. Don't assume that local employees are familiar with your perspectives with regards to Internet Protocol and security. Be explicit with your policies and expectations, particularly as it

relates to Internet Protocol and security. Also, wherever possible, disaggregate knowledge, particularly if it pertains to proprietary processes or confidential information (World Economic Forum, 2024).

Previous evidence suggests that the equity portfolios of investors tend to be biased in favor of home country stocks, and investors appear to be reluctant to diversify their portfolios geographically. Therefore, sub-optimal allocation of funds abroad is the result of investors' attitudes towards other cultures. The degree of openness to experience in investor countries reduces the level of home bias (World Economic Forum, 2024).

### **Consider policies for managing systemic risk.**

In considering policies for managing systemic risk, the main objective should not be to eliminate the financial cycle, but rather to make the financial system more resilient while tackling the externalities that amplify cycles and promote an excessive buildup of risk (Chenet et al., 2021). A high priority should thus be placed on objectives such as removing any existing procyclicality in macroeconomic policies and traditional regulations, building financial system resilience to cyclical fluctuations, or dampening the cyclical fluctuations themselves. However, there is the need for much more research and testing.

### **Capping of interest rates**

Capping interest rates may not be the ideal answer, the focus should shift to addressing the question of why interest rates are set so high and then possible solutions proposed. To ensure that the discussion and debate is well balanced and represents the interests of all stakeholders, it is important that all key players namely the banks, regulators, the Government, legislators, civil society as well as the users of financial products in their various groupings are all involved and well represented (Dafe et al., 2023).

To address the problem of high interest rates, there is need to mobilize more long-term capital from the market through pooling of funds and long-term savings and the deepening of the capital markets. This may require the Government to consider introducing a tax incentive to encourage a culture of long-term saving (Dafe et al., 2023).

Promoting financial inclusion and bring the informal economy into the financial system, through agency banking also needs to be fast tracked.

Consumer awareness and protection need to be strengthened through investing more in financial literacy. There is also need to reduce credit risk in the market by strengthening of the Credit Reference Bureau and information sharing mechanisms to include other service providers such as utility and phone companies. Introduction of credit reference bureau has helped in the reduction of information asymmetries and risk (Dafe et al., 2023).

Banks need to reduce their operating costs by undertaking collaboration projects that involve shared technology platforms to bring down the cost delivery of services while increasing outreach, foot print, and presence across the country. This has happened in the telecoms sector where mobile phone operators now share telephone masts and other passive infrastructure. Banks can learn from this. In fact, banks have a lot to learn from mobile phone operators (Dafe et al., 2023).

The Government must also improve its efficiency with regards to delivery of big infrastructure projects which have the potential of reducing on the costs of doing business and also result in multiplier effects that will help spur economic growth and financial inclusion (Dafe et al., 2023).

In conclusion while it is in the wider interest of any economy to have a low cost of credit, it is more critical to focus on the drivers and the underlying causes of the high cost of credit as opposed to attempting to fix the price of credit by legislation. The legislation may cap or fix the interest rate to make it seem affordable, but in so doing it will deny many borrowers' access to credit. What borrowers want is both affordable and accessible credit.

### **Stock Exchange Market (NSE)**

In order to foster stock market development in the country, a number of reforms targeting the stock market should be implemented. These include the facilitation and support of the regulatory body (the CMA), which

regulates the happenings of this market, acts as the watchdog guiding against the manipulation of share prices through the provision of accurate information and encouraging companies to go public. The information provided by Capital Markets Authority will help the investors to make informed decisions (Cytton, 2025).

### **Systemic supervision**

This is an issue that has probably not received sufficient attention thus far in the public debate but that is nonetheless central to effective systemic oversight. An interface between regulation and supervision is to be looked into. The inherent tensions and complementarities between regulation and supervision are an essential part of the “rules versus discretion” debate. Hence, one of the main challenges of policy makers is to build sufficient discretion into the supervisory process (in a context of appropriate accountability) without relaxing regulations so much that Prudential oversight loses its “teeth.”

### **Credit rating technologies**

In the 21<sup>st</sup> century advances in credit rating technologies have allowed financial institutions offering credit for instance banks to price credit based on the riskiness of the consumer (rather than simply accept or reject an application based on a single credit score). The practice of issuing cards to higher-risk consumers is a significant change in the supply conditions of the credit card industry (Dafe et al., 2023). The extent to which prices charged reflect the risk of the potential borrower is not yet clear in the salient literature. Credit rating technologies will help in reduction of the default risk of consumer.

### **Promote the broadening of access to financial services**

The broadening of access to financial services for the underserved (that is, small farmers, micro entrepreneurs, small and medium enterprises, or SMEs, and low-income households) should be encouraged. This was added to the policy agenda but only more recently and was spurred by enthusiastic support from multilateral development banks, nongovernmental organizations, and foundations (Savoy, 2024).

### **Understanding the Trade-offs between financial stability and financial development**

In putting forward a financial development agenda, understanding the trade-offs between financial stability and financial development is key. While much has been written on stability issues since the global financial crisis, very little has been said on the links between stability and development. The international financial architecture is still exclusively focused on financial stability and is thus clearly unable to tackle the issues at the interface of financial development and financial stability. Finding the right balance between these two dimensions is very important (Savoy, 2024). The current hands-on, silo-based, broad regulatory perimeter, innovation-cautious oversight has served the region well. However, some realignment may be needed as financial systems continue to mature and the intensity of cross-border competition increases. This trade-off is particularly important in promoting the nexus of finance and growth. It will involve the question of how to promote the “bright side” of financial development (more financing activity that spurs innovation and growth) without generating further problems with the “dark side” (the facets of financial activity that may engender “excessive” risks and may lead to crises) (Zhang et al., 2019).

## **DISCUSSION**

The findings of this study reveal a dynamic and rapidly evolving financial landscape in Kenya, largely driven by technological innovation, regulatory reform, and a focus on inclusion and sustainability. Through the voices of industry experts and analysis of key financial documents, several core themes emerged, offering both validation of existing research and new insights into the local financial context.

The study reaffirmed the foundational role of mobile money particularly M-Pesa as a transformative force in Kenya’s financial system. Interviewees consistently described mobile money as an “ecosystem,” facilitating not just money transfers but also savings, credit, and insurance access. This supports previous studies by Jack and Suri (2016), who highlighted the long-term poverty-reduction effects of mobile money on female-headed

households. The continued growth of mobile-based platforms suggests a sustained shift in how financial services are accessed, particularly in rural and informal economies. However, participants also indicated that despite widespread usage, digital literacy remains a challenge, especially among older and rural users.

Digital lending has significantly broadened credit access, especially for the youth and informal workers. However, this growth has not been without negative consequences. The unregulated expansion of digital lenders led to exploitative practices such as excessive interest rates and unethical debt collection tactics echoing concerns raised by Macharia and Murigi (2023). These findings justify the recent introduction of the Digital Credit Providers Regulations (2022), which is a necessary intervention. The tension between innovation and regulation remains central. While digital credit solves the issue of collateral-based exclusion, it introduces new forms of risk that must be actively monitored and mitigated.

The study highlights the progress made by regulatory institutions in Kenya, particularly the Central Bank of Kenya (CBK) and Capital Markets Authority (CMA), in adapting to financial innovation. Tools such as the National Payment Strategy (2022–2025) and Data Protection Act (2019) are seen by experts as essential steps toward improving transparency and building market confidence.

These developments align with global trends toward RegTech—the use of technology to streamline compliance and regulatory oversight. However, the study also notes a reactive rather than proactive pattern in Kenyan regulation, where policies often trail behind technological innovation.

With increasing digitalization, cybersecurity has become a top priority for financial institutions. A concern about rising threats such as SIM-swap fraud, phishing, and identity theft, noting that fraudsters often outpace the response capabilities of institutions.

Despite national efforts such as the Kenya Cybersecurity Strategy (2022), the preparedness of financial institutions especially smaller fintechs varies widely. The study echoes Mutua and Kihoro's (2023) argument that cybersecurity must be embedded into the strategic planning of financial services providers, not treated as an afterthought.

## RECOMMENDATIONS

The article recommended that more digitization should be encouraged so that the boundaries between financial firms and their customers become increasingly fluid. This level of functionality can be achieved through involvement of employees and customers concerning the prioritization of the firm's digital efforts. Talent strategies must meet emerging requirements for digital competencies. Finance transformation means that finance will face skill and competency gaps in areas ranging from data interpretation and data manipulation to Information Technology fulfillment and vendor management. Finance leaders must be careful at how they recruit and develop staff, as well as how they retain them and provide career growth for them. A lack of digital competencies in finance will quickly affect an organization's ability to make good decisions. The study recommends that firms make and drive decisions that help the organization respond to digital shifts, including the increased reliance on data, the expanding role of automation, more collaborative decision-making models and accelerated pace of change in operating conditions (from business models to regulation).

One way of reforming the financial sector in Kenya is to subject it to some competition through the licensing of new local and foreign banks taking into account the size of the Kenyan banking market. This will help increase the volume of lending and possibly reduce the lending rates and service fees as banks compete for customers. When it comes to foreign risks recommend that exchange intervention with truly prudential macro measures such as taxes, as well as other less popular and heavily studied recommendations like reserve requirements or the use of reserve requirements in lieu of interest rate hikes, both aimed at reducing the interest rate differential perceived by foreign investors and at discouraging speculative flows. In addition, the alleged cost of sterilized intervention calls for rethinking reserve management over longer horizons to increase their return.

To address the problem of high interest rates, there is need to mobilize more long-term capital from the market through pooling of funds and long-term savings and the deepening of the capital markets. This may require the Government to consider introducing a tax incentive to encourage a culture of long-term saving.

Consumer awareness and protection need to be strengthened through investing more in financial literacy. There is also need to reduce credit risk in the market by strengthening of the Credit Reference Bureau and information sharing mechanisms to include other service providers such as utility and phone companies.

Banks need to reduce their operating costs by undertaking collaboration projects that involve shared technology platforms to reduce the cost delivery of services while increasing outreach, foot print, and presence across the country. Efficient technology solutions that meet the advanced analytical demands of digital transformation should be adopted as they will enable financial organizations to fully leverage the capabilities of unstructured and high-volume data, discover competitive advantages, and drive new market opportunities.

## CONCLUSION

Kenya's financial landscape has undergone transformation in the 21st century, driven by mobile innovation, digital platforms, and a forward-looking regulatory environment. At its core, the country has built on the remarkable success of M-Pesa, which since 2007 has revolutionized money transfer, savings, loans, and everyday payments- lifting some households out of poverty and positioning Kenya as a global model for mobile-based financial inclusion.

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