



**THE SACCO SOCIETIES REGULATORY  
AUTHORITY  
(SASRA)**

**REGULATORY COMPLIANCE:  
(6-Years of Prudential Supervision)  
ICPAK –Fin Mgt Seminar for Coops**

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# SESSION STRUCTURE

1. Pre- Prudential Regulatory Regime
2. Establishment & Mandate of SASRA
3. Performance and Stability of the DTs
4. SACCOs Contribution to Financial Inclusion
5. Outlook of the SACCO Industry
6. Challenges on regulation & Devt of DTs
7. Emerging Policy issues on regulatory environment

# 1.0 PRE-PRUDENTIAL REGULATORY REGIME

- Sacco business - Financial intermediation by Saccos based on co-operative principles and in accordance with the Sacco Societies Act Cap 490 B (SSA).
- Commissioner for Co-operatives Development (CCD) bestowed with powers that includes;
  - Registration of Saccos & instruments of charge
  - Operation & developments (Min of Co-ops Devt & Mkting)
  - Registration and approval of Accounts and
  - Dissolution of Co-operative Societies (Sec. 3 – CSA).
- Inspecting and Inquiring into the affairs of all the Saccos - Sec. 58 & 60 - CSA.



## 2.0 Establishment & Role of SASRA

### 2.1. Establishment

- SASRA was established by Sacco Societies Act, 2008 (Cap 490B) under Sec 4 (Legal mandate & Framework) & Operationalised via Regulations 2010 Legal Notice No 95 to operationalise the Act
- Separation of Saccos into two categories;
  - DTS's- Deposit Taking Sacco- Under SASRA)
  - Non-(DTS)-Under CCD (Caveat Section 3(2) gives powers to CS in charge of Co-ops to make regulations for Non DTS's

## 2.1 Establishment & Role cont..

### 2.1.2 Role of SASRA Sec 5 (Objects & Functions)

- License all deposit-taking Sacco societies;
- Regulate and supervise deposit-taking Sacco societies;
- Hold, manage and apply the General Fund of the Authority in accordance with the provisions of the Act;
- Levy contributions in accordance with the Act
- Do all other things as may be lawfully directed by the minister
- Perform such other functions as may be conferred by Sacco Act or other written law



# 3.0 Performance and Stability of DTSSs

Measurement Indicator	Year 2015	Year 2014	Y-Y Growth	2013
Number of DT-SACCOs				
Membership				
<b>FINANCIALS*</b>	K.Sh(M)	K.Sh(M)	%	K.Sh(M)
Capital(Core)	41,712	33,252	25.4	19,916
Capital Reserves	50,835	43,086	18.0	26,850
Assets	342,848	301,537	13.7	251,621
Deposits	237,440	205,974	15.3	172,526
Gross Loans	258,183	228,524	13.0	197,409
Allowance for Loan Loss	7,103	9,212	(22.9)	7,102
Net Loans & Advances	251,080	219,312	9.9	190,307

# 3.0 Performance & Stability of DTS

## Saccos cont.....

### Financial Soundness Indicators

Financial Soundness Indicators	Industry Minimum	Year 2015	Year 2014	Year 2013
<b>CAPITAL ADEQUACY</b>	K.Sh 10m	%	%	%
Core Capital/Total Assets	<b>10%</b>	12.17	11.27	7.74
Core Capital/Total Deposits	<b>8%</b>	17.57	16.40	10.90
Institutional Capital/Total Assets	<b>2%</b>	8.75	5.42	2.84
<b>ASSET QUALITY</b>		%	%	%
NPLs to Total Gross Loans	<b>5%</b>	<b>5.12</b>	5.72	4.12
NPLs Net of Provisions to Capital	-	<b>14.65</b>	17.06	14.50
Earning Assets to Total Assets	-	80.54	79.45	82.62

# 3.0 Performance & Stability of DTS

## Saccos cont.....

Financial Soundness Indicators	Year 2015	Year 2014	Year 2013
<b>EARNINGS RATING</b>			
Return on Assets (ROA)	1.87	2.56	2.32
Returns on Equity (ROE)	13.65	18.78	19.03
Interest Margin to Gross Income	42.97	45.70	46.86
Cost Income Ratio	66.76	65.04	65.38
Operating Expense Ratio	5.13	4.49	4.87
Non-Interest Expenses to Gross Income	41.69	38.40	43.76



# 3.0 Performance & Stability of DTS

## Saccos cont.....

Financial Soundness Indicators	Industry Minimum	Year 2015	Year 2014	Year 2013
<b>LIQUIDITY RATING</b>				
Liquid Assets to Short-term liabilities(Liquidity ratio)	$\geq 15\%$	55.99	47.32	7.76
Liquid Assets to Total Deposit		17.18	14.57	36.40
External Borrowing to Total Assets	$\leq 25\%$	5.31	6.43	6.23
Liquid Assets to Total Assets		11.90	9.99	10.93



# 3.0 Performance & Stability of DTS

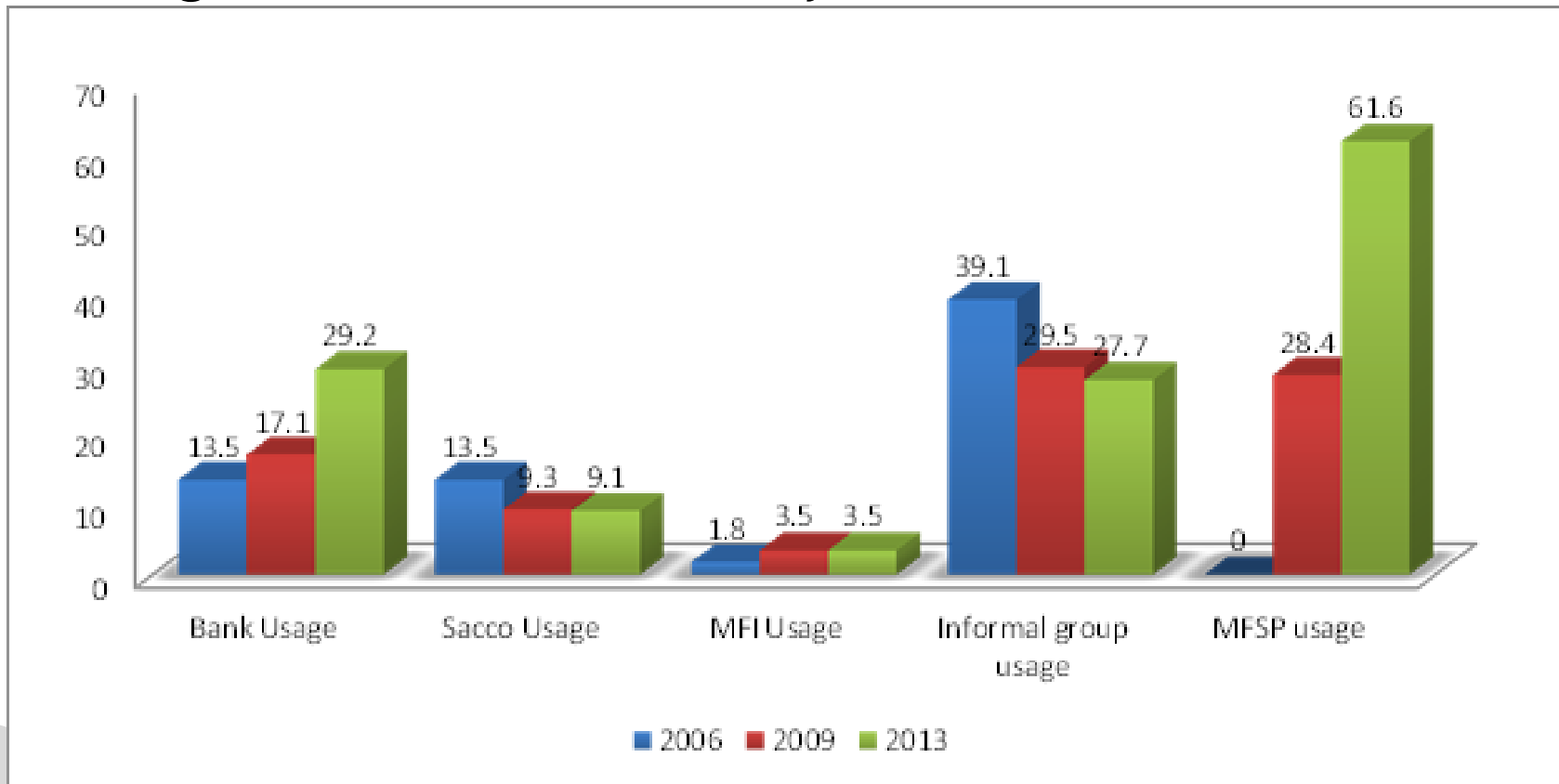
## Saccos cont.....

### 3.4 Prudential Performance of DTSs

- The financial ratios provided in the Act and Regulations provide a standard by which a DTS can be evaluated and compared with others and the subsector in general
- SASRA organizes these ratios into key indicators namely CAMELS representing **C**apital adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity to risks.
- Collectively, CAMEL is tool to evaluate the financial strength of a DTS, a group of DTSs or all the licensed DTSs together
- CAMEL composite rating ranges from **STRONG** and **UNSATISFACTORY**

# 4.0 SACCOs Contribution to Financial Inclusion

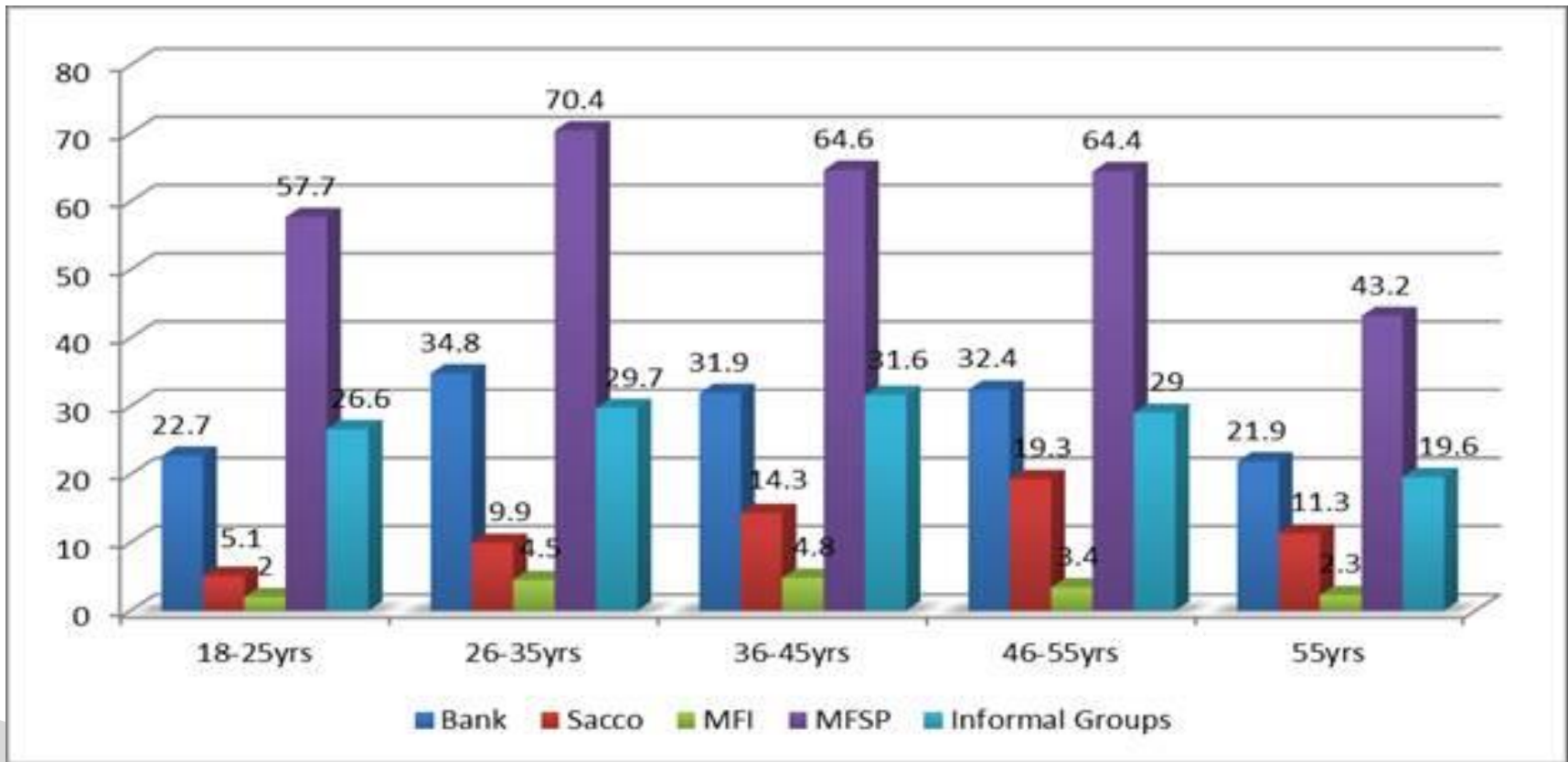
## 4.1 Usage of Financial Services by Provider



- Declining trend in the proportion of adult population using Saccos relative to other financial services providers

# 4.0 SACCOs Contribution to Financial Inclusion Cont...

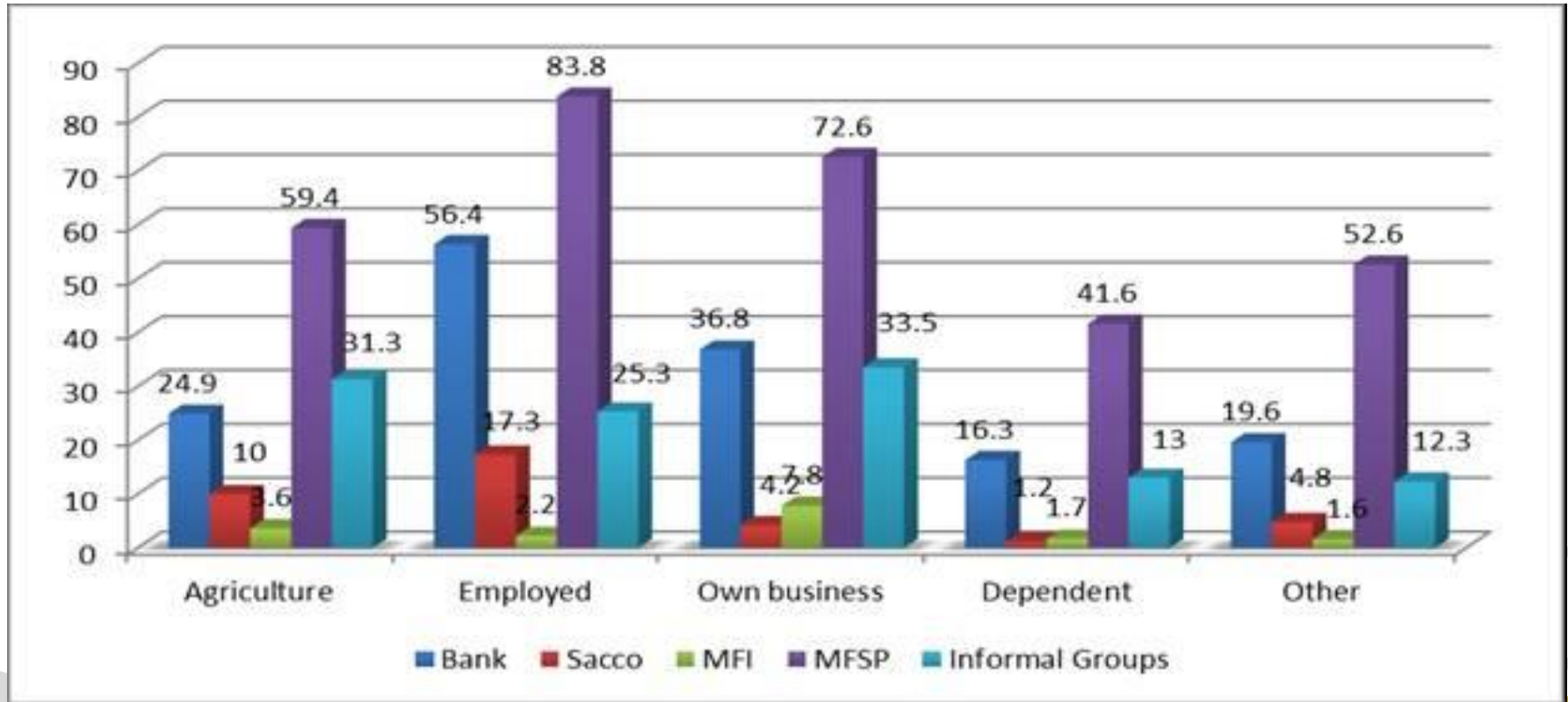
## 4.2 Usage of Financial Services by Age



- SACCOs fairly unpopular with the youth who make up about 60% of the adult/working population.

# 4.0 SACCOs Contribution to Financial Inclusion Cont...

## 4.3 Usage of Financial Services by Livelihood



- Saccos historically popular with employees and farmers hence big opportunity with SMEs given their contribution to economy today

# 5.0 Outlook for SACCO Subsector

- Last 25 years – very eventful for the SACCO subsector in terms of legal-policy and business environment.
- Driver is mainly changing legal and business environment
- Specifically, FOSAs started in mid 1990s, opening opportunities for SACCOs to diversify products and service offering
- But what does this mean for the future of SACCO subsector?
- Demutualization

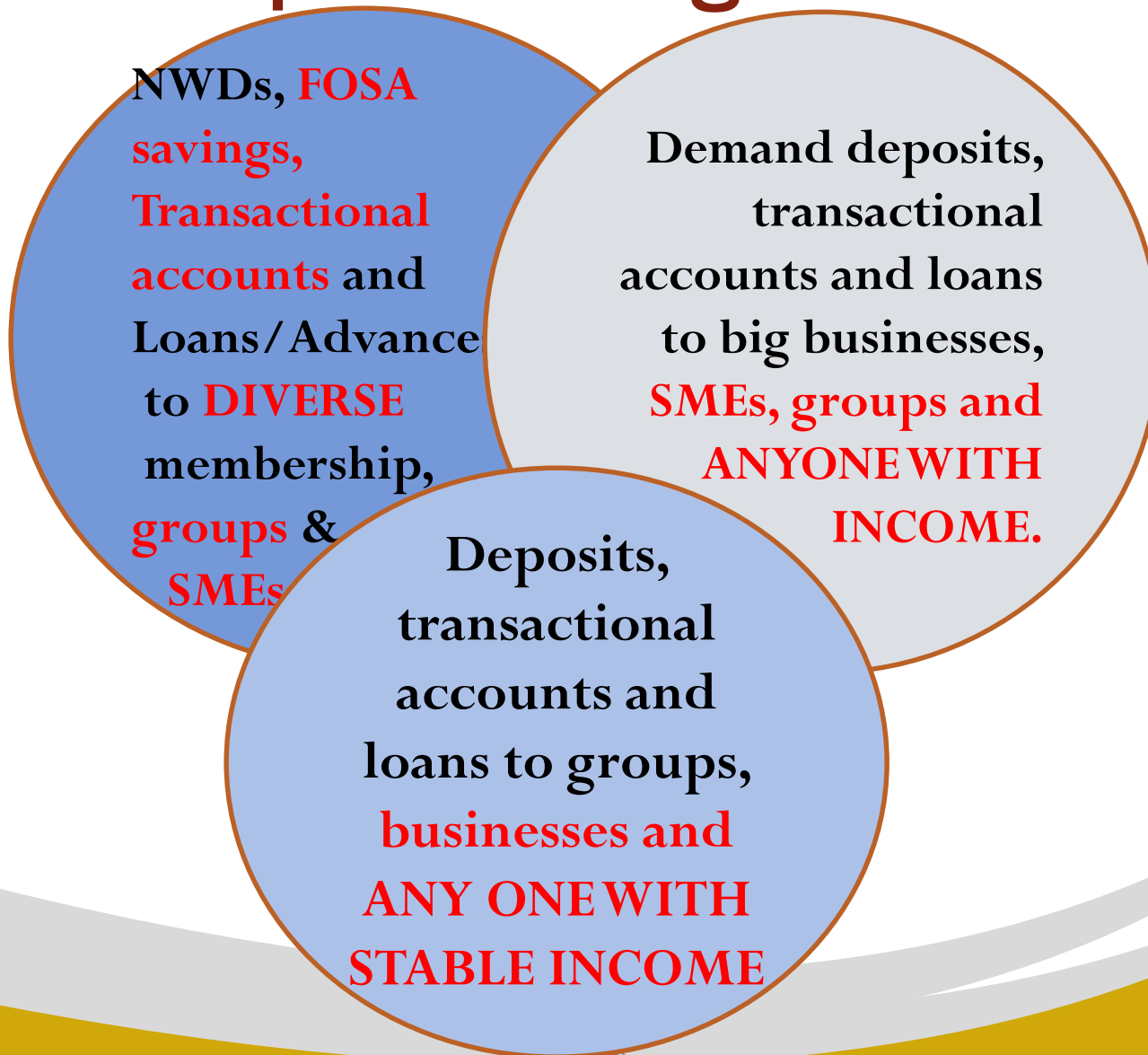
## 5.10 Deposit taking market ..AS WAS

**Non  
withdrawable  
Deposits (NWD)  
and Loans  
to  
members who  
are in a distinct  
bond**

**Demand  
deposits,  
transactional  
accounts and  
loans to  
businesses and  
high net worth  
individuals**

**Savings and loans  
to informal  
sector through  
group  
methodology**

## 5.12 Deposit taking market ..AS IS





## 5.20 Deposit Taking Market ..

### Questions:

- Will Kenya SACCO subsector **survive the competitive financial market environment**?
- What **industry initiatives** are there to transition Saccos to a mature Sacco Industry?
- What is the **competitive advantage** SACCO subsector?
- Can we **sustainably compete** as Cooperatives?

# 5.30 Development Continuum for SACCOs

NASCENT STAGE	TRANSITION STAGE	MATURE STAGE
Small asset size	Large Asset size	Cooperation among Saccos, "System approach"
Highly regulated	Shifts in Regulatory Framework	Deregulation/Self Regulation
Tight common bond	Adjustments in common bond	Open bond, Embrace ICT as business tool
Voluntary Directors/Staff	Less reliance on Volunteers	Professionalism in management
Serve weak sections of Society	Emphasis on growth	Highly Progressive and Sophisticated Trade Association
Single savings and Loan product	Shifts to Product Diversification	Full range Financial services
High commitment to traditional self help ideals	Greater Effectiveness & Professionalism in Trade Assoc.	Emphasis on Long Term Economic Sustainability
Reliance on sponsorship to take root	Development of Central Services to serve all Saccos	Well developed Central Services, full integration to national financial system

# 5.40 SACCO Trends in Comparative Jurisdictions

	2014			2005			1995		
Country	No. of Sacco's	Membership	Asset Base (USD) Billions	No. of Sacco's	Membership	Asset Base (USD) Billions	No. of Sacco's	Membership	Asset Base (USD) Billions
Kenya	4,965	5,103,237	5.06	3,000	2,708,316	1.64	2,135	1,285,190	0.36
Ireland	479	3,300,000	19.08	620	3,000,000	16.81	529	1,786,710	3.80
Canada	694	10,120,994	283.03	548	5,063,481	77.93	952	4,140,012	31.10
United States	6,399	100,513,991	1,136.12	8,879	86,175,204	694.15	11,140	62,200,000	280.20
Australia	99	4,500,000	75.22	157	3,500,000	25.36	246	2,852,685	9.40
Brazil	650	6,016,889	39.04	934	2,333,587	6.80	570	435,240	0.48
Mexico	142	5,140,944	6.18	39	2,522,375	3.07	260	206,258	0.11

# 6.0 Challenges in Regulation and Development of DTSs

## 6.1 Regulatory Policy Challenges

- i. SACCO subsector serving the shrinking middle
- ii. Inadequate risk management capacities in DTS
- iii. Operational Boards as opposed to Strategy/Oversight Boards
- ii. Absence of SACCO 'system' Liquidity Management mechanism
- iii. Credit Information Sharing – Saccos participating as third parties
- iv. Policy incentives for rationalization of the DTSs
- v. Delayed set up of the Deposit Guarantee Fund
- vi. CLF(Central Liquidiy Fund)

# 7.0 Emerging regulatory policy issues

## 7.1 Policy Proposals to Improve Stability and Access to Financial Services

- i. Need to recognize DTSs as financial Institutions and not simply as Cooperatives
- ii. Criteria to determine the suitability of directors and senior officers
- iii. Credit Information Sharing
- iv. Central Liquidity Facility
- v. Consolidation of Deposit Taking Saccos
- vi. Shared services amongst the deposit taking Saccos
- vii. Set up of DGF has started and seeking support of a new GoK/World Bank Project, Financial Sector Support Project

## 7.0 Emerging regulatory policy issues cont..

### 7.2 Other legal and policy developments affecting SACCOs

- i. Unclaimed Financial Assets Act – UFAA
- ii. Proceeds of Crime and Anti Money Laundering Act (AML/CFT - Financial Reporting Centre/Financial Intelligence Centre
- iii. Competition Authority of Kenya – Consumer/Member rights
- iv. Credit Information Sharing

