



KDIC Sub-Sector Report

“Lessons from FinAccess Surveys”

November 2025



ACCESS | USAGE | QUALITY | IMPACT



KENYA DEPOSIT INSURANCE CORPORATION

Vision statement: To be reliable, effective Deposit Insurer and Resolution Authority

Mission statement: To protect depositors and enhance public confidence in the financial system by promoting sound risk management and timely resolution

Core values

- **Professionalism:** we commit to be strategic, efficient and deliver quality service
- **Integrity:** we commit to do the right thing with honesty and transparency
- **Customer Focus:** we commit to consistently deliver an experience that exceeds Customer expectations and needs
- **Innovation:** we endeavor to harness new ideas to achieve organizational transformation
- **Teamwork:** we commit to work together to achieve the organization strategic goals
- **Accountability:** we shall take responsibility for decisions taken and be able to explain, clarify and justify actions

FOREWORD

Deposit insurance is a fundamental pillar of financial stability, providing a safety net for depositors. The Kenya Deposit Insurance Corporation (KDIC) is a statutory institution mandated to provide deposit Insurance for member institutions, Liquidate and Windup troubled banks. KDIC plays a significant role in ensuring early detection and timely intervention, to minimize the failure of institutions. The Corporation has successfully minimized the impact of bank failures by ensuring timely compensation to depositors and maintaining public confidence in the financial system. The financial sector has evolved significantly, with an increasing number of depositors shifting from traditional banking to digital and mobile financial services. This shift presents the need for broader coverage of digital financial products under deposit insurance.

As the financial sector evolves, the role of deposit insurance in maintaining depositor confidence and financial stability remains crucial. Strengthening deposit insurance policies, ensuring timely intervention in distressed financial institutions, and expanding coverage to emerging financial products will be essential in securing Kenya's financial sector against potential crises. Additionally, there is a need for stronger collaboration among regulatory bodies to develop more robust safety nets that can withstand financial shocks. This report creates more awareness to the public on our role as KDIC in the financial sector. Depositors, regardless of their financial status, have confidence on the safety and stability of the banking system.

I am pleased to present the 2024 Finaccess Household survey; Subsector Report for KDIC. The findings in this survey provides lifelong lessons on the mandate of the Corporation and the need to continuously advance the deposit insurance framework, to address the shifting financial sector to more digital financial services to remain relevant and address any risks that come with this evolution.

I thank the KDIC Board of Directors, Management and staff for their impeccable support in achievement of the corporation mandate and the unrelenting effort to see KDIC become a reliable, effective deposit Insurer and Resolution authority.

Mrs. Hellen Chepkwony
Chief Executive Officer

ACKNOWLEDGEMENT

The successful documentation of the KDIC subsector report after the launch of the top line findings, of the 7th edition of the 2024 Finaccess Household Survey was made possible with the support of our CEO, Hellen Chepkwony ensuring that the project received funding, allowing the KDIC technical representatives to participate in the entire process from survey design, validation of questions, data collection quality assurance, analytical work and eventual launch, dissemination of the topline findings of the survey and culmination to our subsector report.

Sincere gratitude to the KDIC Board of Directors for providing policy direction on the Corporation Strategic objectives to achieve our mandate of Deposit Insurance to guarantee safety of deposits. Bank Resolution; early intervention and prompt corrective action on failed banks and Risk Minimization to ensure early detection and timely intervention to minimize the failure of institutions.

We further appreciate Dr. Isaac Mwangi (CBK), the project lead in the development of the sectoral reports, as well as Prof. Robert Mudida (Director, CBK), Mr. Cappitus Chironga (Deputy Director, CBK), Dr. Peter Wamalwa and Ms. Michelina Echwa; **KNBS team:** Tabitha Mwangi; Simon Gaitho; Sylvester Maingi and Lucas Sagire; **FSD team:** Dr. Amrik Heyer, Lukania Makunda; Sharon Juma and Peter Gakure; **KDIC technical team:** Julie Nkirote and Caroline Mutungi. Their insights and recommendations enhanced the clarity, accuracy and overall quality of the final report, ensuring its relevance to industry stakeholders and policymakers. The report has also benefited from CBK graphic designers led by Sylvia Anam, George Kamau and Duncan Mbiu who ensured all the sub-sector reports are aesthetically pleasing.

We acknowledge the invaluable insights from the KDIC Senior Management. Reviewing the KDIC subsector report and contributing to the quality of the report.

It is out of the concerted effort we have the subsector report. This report will be quite insightful in our journey of protecting depositors, creating more public awareness and enhance confidence in the financial system and educating the public on our mandate.

EXECUTIVE SUMMARY

Deposit Insurance plays a vital role in strengthening financial inclusion. The subsector report gives a focus on the findings of the 7th edition Finaccess Household Survey year 2024 and the role of Deposit insurance in creating financial inclusion. The Finaccess report shows the gap in public awareness on deposit insurance. There is a need to inform the population on the benefit of deposit insurance for the depositors banking in financial institutions that are licensed by CBK, especially the rural population who are less represented in the formal banking as per the survey findings.

Access to financial services is a critical pillar of financial inclusion. Deposit insurance enhances this by ensuring security of funds in regulated financial institutions. When individuals trust that their savings are protected, they are more likely to engage with the formal banking and this leads to increased deposits available for borrowing. The impact of deposit insurance can be assessed through four key dimensions: access, usage, quality, and overall impact on financial stability.

Usage of financial services is influenced by the perceived safety and reliability of banking institutions. Deposit insurance ensures that depositors continue to use formal banking channels for savings and transactions, even in times of economic uncertainty. Finaccess Household Survey provides a better understanding of the financial inclusion landscape indicators to track financial inclusion dynamics over time, and provide rich data to support evidence-based policy formulation and use by stakeholders.

FinAccess Household survey has gone a step further, focusing more on the quality of the financial services and the impact they have on consumers. The survey has an improved framework for measuring financial literacy it has also refined consumer protection. KDIC is a pillar to the financial sector. We envision to become a reliable, effective Deposit Insurer and Resolution Authority, ensuring we drive public confidence in the financial system by promoting sound risk management and timely resolution. We remain adaptive to the changing financial sector landscape to ensure that our deposit protection mechanisms remain relevant to cover both traditional and digital banking products.

TABLE OF CONTENTS

KENYA DEPOSIT INSURANCE CORPORATION

Vision statement: To be reliable, effective Deposit Insurer and Resolution Authority 3

Mission statement: To protect depositors and enhance public confidence in the financial..... 3

FOREWORD..... 4

ACKNOWLEDGEMENTS..... 5

EXECUTIVE SUMMARY 6

DEFINITION OF TERMS AND ABBREVIATIONS..... 8

1.0 INTRODUCTION 9

1.1 Background information 9

1.2 Deposit protection- Role of deposit insurance in financial sector 9

1.3 Evolution of Deposit Insurance in Kenya 9

1.4 Deposit insurance fund balance against insured deposits¹ 10

1.5 Safety Net Landscape for the Banking Industry in Kenya 11

1.6 Methodology..... 12

1.6.1 Survey Objectives..... 12

1.6.2 Survey Design 12

1.6.3 Sample Size and Distribution 12

1.6.4 Sample Frame, Selection of Households and Weighting..... 12

1.6.5 Survey Response Rates..... 12

2.0 ACCESS TO DEPOSIT INSURANCE AND PUBLIC CONFIDENCE 13

2.1 Most trusted financial service provider for the Rural and Urban population..... 14

2.2 Most trusted financial services per wealth quantile 15

2.3 Most Trusted Financial service providers across counties 16

3.0 USAGE OF FINANCIAL SERVICES 17

3.1 Bank usage as per the wealth quantiles 17

3.2 Bank usage for the Rural and urban 17

4.0 EXPANSION OF DEPOSIT INSURANCE COVERAGE BEYOND CONVENTIONAL BANKS 18

5.0 EMERGING ISSUES AND CHALLENGES IN THE DEPOSIT PROTECTION SECTOR..... 19

6.0 POLICY RECOMMENDATIONS 20

Definition of terms and abbreviations

Abbreviation/Concept	Definition
CBK	Central Bank of Kenya
KNBS	Kenya National Bureau of Statistics
FSD	Kenya Financial Sector Deepening Trust Kenya
KDIC	Kenya Deposit Insurance Corporation
Bank Resolution	Corrective action on failed banks
Deposit Insurance	Management of the Deposit Insurance Fund, levying premiums and applying the fund to compensate depositors
Risk minimization	Early intervention systems to prevent bank failure
Mobile banking	Banking services accessed through mobile devices
Mobile money	Financial transactions conducted through mobile phones, including transfers, payments, and savings.
Deposit Coverage limit	This is the protected deposit capped at Kes.500,000 =
Safety Nets	Institutions that maintain stability in the financial sector
Wealth quintile	Each household respondent is given an affluence score based on household assets. The population is equally divided into groups (quintiles) and each respondent is placed in their corresponding quintile based on the level of affluence/ social strata
JFSRF	Joint Financial Sector Regulators Forum
DPFB	Deposit Protection Fund Board

1 INTRODUCTION

1.1 Background information

The Kenya Deposit Insurance Corporation (KDIC) was established under the Kenya Deposit Insurance (KDI) Act, Cap 487C. The Corporation has a mandate of promoting the stability of the financial system by promptly resolving financial institutions licensed under the Banking Act. It also provides insurance schemes for customers of member institutions, and incentives sound risk management. KDIC established and manages a Deposit Insurance Fund pursuant to section 20 of KDI Act. The Fund is used to compensate depositors against losses in the event of a bank failure, thus promoting public confidence and contributing to the financial stability in the banking system, through prompt resolution and compensation of depositors.

The Kenya Deposit Insurance Corporation is a member of the Joint Financial Sector Regulators Forum (JFSRF). The Corporation was admitted to the Forum following a resolution of the 14th JFSRF's meeting of November 2023 to conduct the 2024 FinAccessHouseholdSurvey across all the forty-seven (47) counties. Participation of the KDIC in the survey, from the survey design, validation of questions, data collection quality assurance, analytical work and eventual launch and dissemination of the topline findings of the survey, provided lifelong lessons on the role of the Corporation in fostering financial inclusion through ensuring public confidence in the institutions protected under KDIC. Other stakeholders that collaborated in the survey, outside the JFSRF members were; Financial Sector Deepening (FSD), Kenya National Bureau of Statistics (KNBS), Alliance for Financial Inclusion (AFI), UN Women Kenya Country Office, Equity Bank, Safaricom Limited, Kenya Mortgage Refinance Company (KMRC) and International Fund for Agricultural Development FADI. The survey continues to provide very useful data that influences policy making by public sector players and supports private sector players in designing new strategies,

coming up with innovations and aiding supporting research. The KDIC is therefore proud to be part of this transformational exercise in terms of financial and technical cooperation.

1.2 Deposit protection- Role of deposit insurance in financial sector

Deposit insurance is a fundamental pillar of financial stability, providing a safety net for depositors. Globally, deposit insurance systems play a critical role in safeguarding depositors and promoting financial stability. Countries with well-established deposit insurance schemes have successfully minimized the impact of bank failures by ensuring timely compensation to depositors and maintaining public confidence in the financial system. Africa has witnessed a growing emphasis on deposit insurance frameworks, with countries like South Africa, Nigeria, and Ghana implementing structured deposit protection schemes to enhance financial sector resilience (IADI,). In Kenya, KDIC plays a pivotal role in the financial ecosystem by providing protection to depositors and mitigating systemic risks.

1.3 Evolution of Deposit Insurance in Kenya

Kenya's deposit insurance framework has a rich history going back to 1986. Following the instability in the banking sector from early to mid-1980S, the government through the Central Bank of Kenya established the Deposit Protection Fund Board (DPFB) under the Banking Act, CAP 488 Laws of Kenya, as part of the departments domiciled at the CBK. The Ministry of Finance provided the seed capital, KES 300 million within 5 years after establishment of DPFB to facilitate its mandate. The Board's mandate was to offer deposit protection to customers of member institutions that failed, and in so doing promote public confidence and foster stability in the banking sector.

The DPFb as deposit insurer functioned as a pay-box plus, focusing solely on payment of protected deposits, to depositors of failed banks and carrying out bank liquidation. This approach however faced challenges, especially from the inability to separate the role of regulator and deposit insurer as the Central Bank of Kenya (CBK) played both roles. Against this realization, the CBK appointed a task force to review the Depositor protection and Bank Resolution framework. This task force reviewed the legislation governing DPFb's operations and recommended a new legal framework to improve and clarify its governance framework and expand its mandate to provide its autonomy and enhance corporate governance structure.

DPFB carried out the IADI assessment of compliance with Core principles in 2008 that augmented the recommendations of the legal review to enhance the role and operations of the Resolution Authority. Arising from the reviews, the Kenya Deposit Insurance (KDI) Act No. 10 of 2012, Cap 487C, was enacted, transitioning DPFb to KDIC. The Act became operational in July 2014, marking a new era of deposit protection in Kenya. It expanded KDIC's operational scope and mandate from a pay-box plus to a risk minimizer with resolution authority powers with a mandate to provide Deposit Insurance for member institutions (banks), Liquidate and Windup troubled banks

Further, KDIC protects depositors against the loss of their deposits in the unlikely event of a bank failure. The Corporation provides payments of insured deposits thus enhancing the confidence of depositors, inspiring them to keep their savings within the insured banking system.

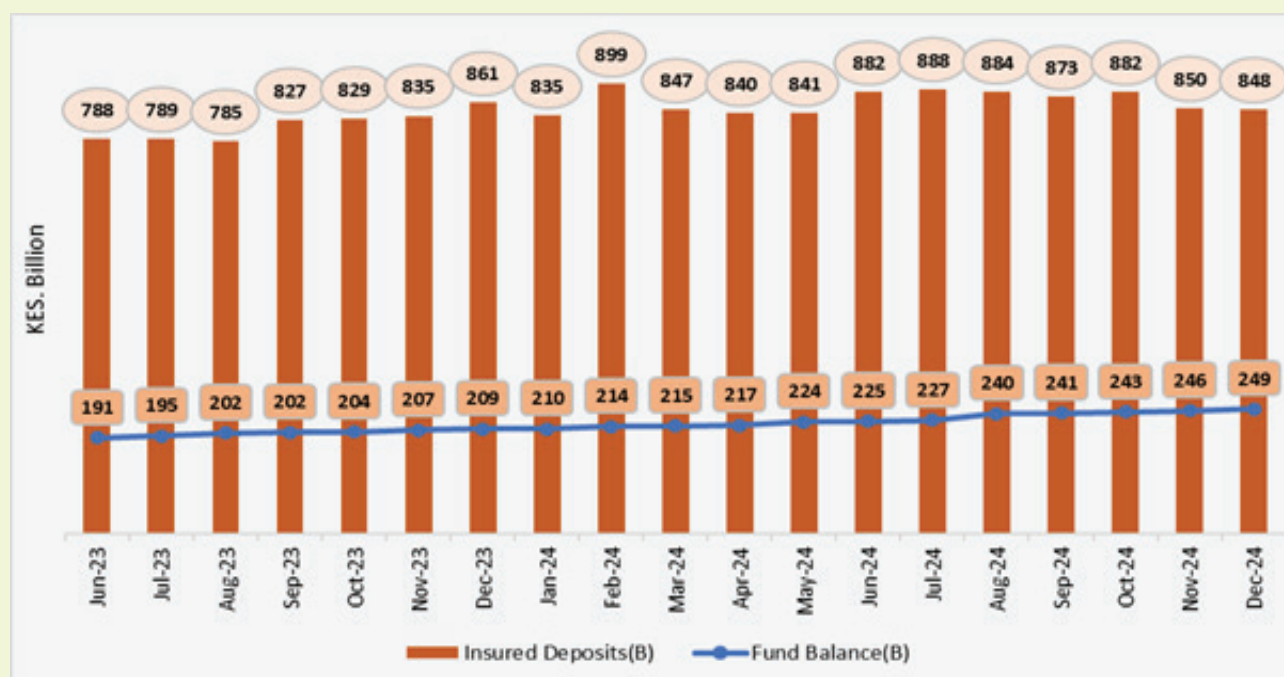
The Corporation was established in response to challenges presented by banking crises and bank failures in the country. KDIC continues to focus on its strategic objectives with a goal to ensure provision of exemplary service delivery to our stakeholders, continued investment in technology and innovation. The Corporation is committed to delivering value to our stakeholders and contributing to the socio-economic development of Kenya, by promoting public confidence in the banking system and fostering financial stability. (Source KDIC Annual report and financial statements filed with Auditor General).

1.4 Deposit insurance fund balance against insured deposits¹

Since its inception, KDIC has lived up to its mandate in the over thirty years of existence. KDIC has achieved year on year growth in the deposit insurance fund. As of December 2024 member institutions held a total deposit of Kes. 5.749 trillion across 116.08 million customer accounts. This is a reflection of growth in the banking sector, the Fund has grown from an initial capital of KES. 300 million in 1992 to KES. 249 billion as of December 31, 2024, with financing coming from the annual premiums paid by member institutions and interest income from the Fund's investments. Currently KDIC oversees the country's Deposit Insurance for 37 Commercial banks, 14 Microfinance banks, 1 Mortgage Finance Institution. The figure 1.1 shows the value of the fund at 249 billion against the insured total deposits at 848 billion this demonstrates the need for KDIC to continuously grow the fund through premium collection and reinvesting the fund to cover the deficit.

¹ KDIC Annual report and financial statements, Year 2023/2024: filed with Auditor General

Figure 1.1 Insured deposit against the fund balance



1.5 Safety Net Landscape for the Banking Industry in Kenya

The Kenya Deposit Insurance Corporation (KDIC) has continued to leverage its existing mutual partnerships with the safety net players with the aim of enhancing the Corporation's mandate as well as entrench the concept of Deposit Insurance in the country. KDIC mandate contributes to the stability of Kenya's financial sector hence the need for a stronger collaboration among regulatory institutions within the country to create room for knowledge and information sharing in a bid to forestall and resolve any potential industry challenges relating to the Corporation mandate. Collaboration even with the media creates room for real-time monitoring and proactive response strategies to counter misinformation hence the need for more intentional collaboration.

KDIC is established under National Treasury which is the parent ministry. National Treasury is a critical and fundamental Safety Net as it is part of the Corporation's

Business Continuity plan, it provides a backstop funding facility. The National Treasury as a ministry provides leadership in Economic and Public Finance Management, and development planning for shared growth through formulation, implementation and monitoring of economic, financial and development policies. This pivotal role requires that it the National Treasury be consulted before a closure of a bank.

The Central Bank of Kenya (CBK) is a safety net for the financial sector. It is responsible for formulating monetary policy to achieve and maintain price stability. The Central Bank also promotes financial stability; through effective and efficient payment, clearing and settlement system; formulates and implements foreign exchange policies; holds and manages foreign exchange reserves; issuing of currency; and is the banker for, adviser to and fiscal agent of the Government". CBK is the regulator and supervisor for banks and ensures market discipline, compliance to banking laws and guidelines, formulates prudential guidelines.

KDIC protects depositors of Commercial banks, Mortgage finance institutions and Microfinance banks licensed by the Central Bank of Kenya their membership to KDIC is mandatory. Currently, we have 37 Commercial banks, one Mortgage Finance Institution, and 14 Microfinance banks. KDIC is therefore mandated to protect depositors against the loss of their insured deposits in the unlikely event of failure of a member bank.

1.6 Methodology

1.6.1 Survey Objectives

The main objective of FinAccess Surveys is to monitor developments and progress achieved in financial inclusion, for policy makers and industry players to gain a better understanding of the inclusivity and overall dynamics of Kenya's financial inclusion landscape.

The detailed survey objectives were:

- Tracking trends and progress on financial inclusion.
- Providing information on barriers to financial inclusion.
- Providing information on market conditions and opportunities.
- Providing data for academic research on financial inclusion.

1.6.2 Survey Design

The 2024 FinAccess was a cross-sectional Survey that targeted individuals aged 16 years and above residing in conventional households in Kenya. Data analysis, however, was conducted on individuals aged 18 years and above, as national identity cards, which is a key requirement to accessing formal financial services, is only issued to this age group.

1.6.3 Sample Size and Distribution

The Survey sample was designed to provide estimates at national as well as rural and urban areas, and across all the forty-seven (47) counties. The minimum sample size for the survey was

computed for each of the Survey domains, resulting in a total sample size of 28,275 households and 1,885 Enumeration Areas (EAs). The sample distribution by counties is detailed in Annex 4.

1.6.4 Sample Frame, Selection of Households and Weighting

The sample was drawn from the Kenya Household Master Sample Frame (K-HMSF), which was developed based on the 2019 Kenya Population and Housing Census. The K-HMSF comprises 10,000 clusters selected using Probability Proportional to Size (PPS) methodology from approximately 128,000 Enumeration Areas (EAs) created during the cartographic mapping of the 2019 Population and Housing Census. The sampling frame is stratified into 92 sampling strata, including urban and rural strata in 45 counties, while Nairobi and Mombasa Counties are entirely urban.

The survey targeted one eligible individual per selected household. Interviewer listed all the usual members of the sampled households, and one individual aged 16 years or older was randomly selected using Kish Grid. The Kish Grid random number table was integrated into Survey solutions CAPI software, ensuring that respondent selection was automatic, with no manual intervention by the enumerator. The Survey data was not self-weighting due to non-proportional allocation of the sample to the sampling strata. The resulting data was, therefore, weighted and adjusted for non-response to ensure the data was representative at the national and county level.

1.6.5 Survey Response Rates

A total of 28,275 households were selected for the Survey at the national level. Among these, 24,684 households were found to be eligible for interviews at the time of data collection, and 20,871 were successfully interviewed resulting in an overall household response rate of 84.6 percent. The rural households' response rate was 87.6 percent compared to 79.4 percent for the urban.²

² 2024 FinAccess headline report:
<https://finaccess.knbs.or.ke/reports-and-datasets>

2

ACCESS TO DEPOSIT INSURANCE AND PUBLIC CONFIDENCE

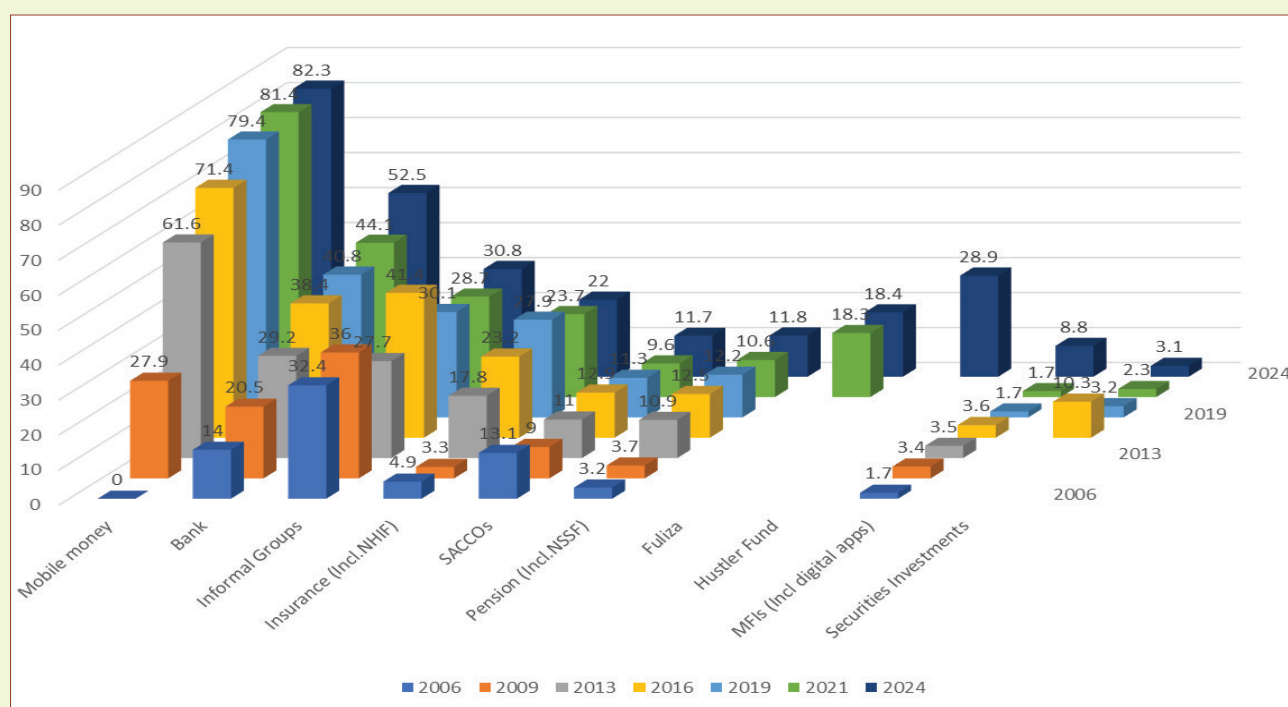
The KDIC mandate is to protect depositors and enhance public confidence in the financial system by promoting sound risk management and timely resolution of troubled institutions. Resolution of a failed Bank is a public trust issue; the Corporation has remained focused on what matters most - protecting depositors and preserving public trust in Kenya's financial system. The financial sector has evolved significantly, with an increasing number of depositors shifting from traditional banking to digital and mobile financial services.

KDIC has continued to adapt to the changing financial landscape ensuring deposit protection mechanisms remain relevant. With increased mobile money usage, the deposit insurance the Corporation

needs to initiate a policy dialogue with CBK and the mobile money providers to explore regulatory frameworks for insuring mobile money deposits. Coverage of mobile money will enhance the public confidence in the use of the service, in the event of failure depositors would be guaranteed of a refund of their money.

The figure 2.1 below, illustrates the significant growth in mobile money compared to the various savings options available. A large population is using mobile money at 82.3% followed by the banks at 52.5%, with 30.8% of the population saving their money with informal groups. This unequivocal benefit of deposit protection guarantee to the depositor is critical as it promotes public confidence and financial stability.

Figure 2.1 Savings options within the financial sector

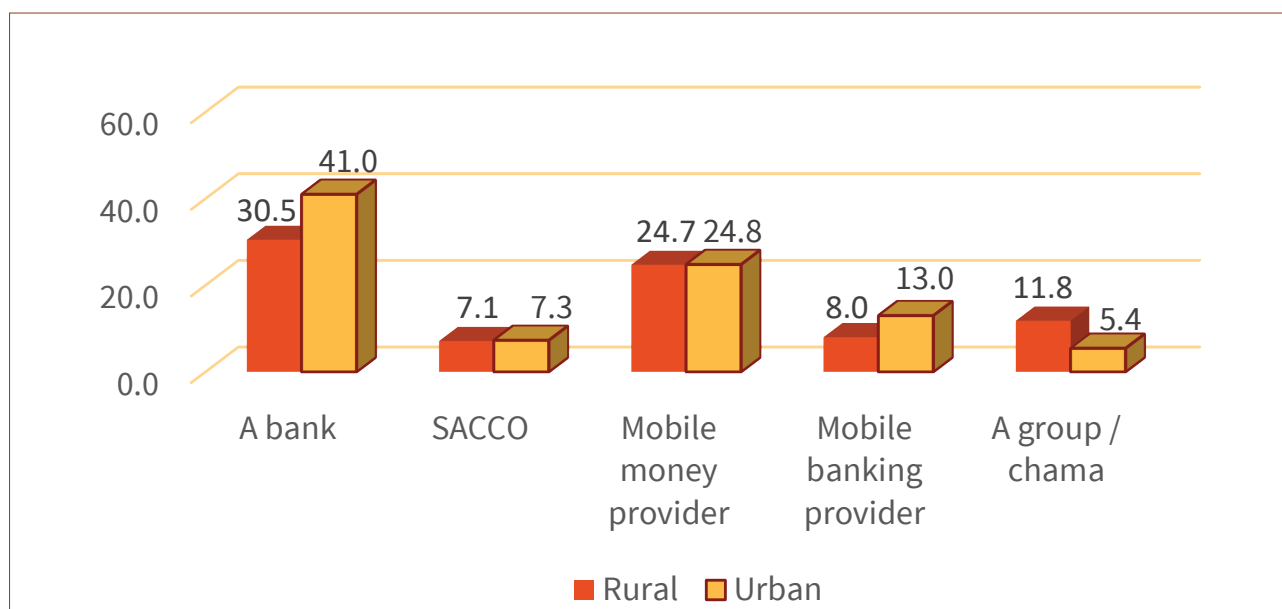


Saving money in a financial institution licensed by CBK provides the depositor with a guarantee that their deposit is protected by KDIC. The depositor would also be reimbursed their money in the event their bank was to collapse. There is need for awareness campaigns to target the informal groups population to move from the unconventional saving options and save their money in financial institutions licensed by CBK and benefit from deposit insurance provided by KDIC.

2.1 Most trusted financial service provider for the Rural and Urban population

The figure 2.2 below, shows that 41% of the urban population consider banks as their most trusted financial service provider compared to the rural population at 30.5%. The level of trust in use of mobile banking for the urban population at 24.8% and rural population at 24.7%.

Figure 2.2 Trusted Financial Service Provider



KDIC must seek to prioritize the grassroots including the rural population, while the Corporation primary objective is Deposit Insurance scheme for depositors to promote public confidence and contribute to financial stability. KDIC must create more customer confidence in use of formal banking services to spur economic progress among the communities

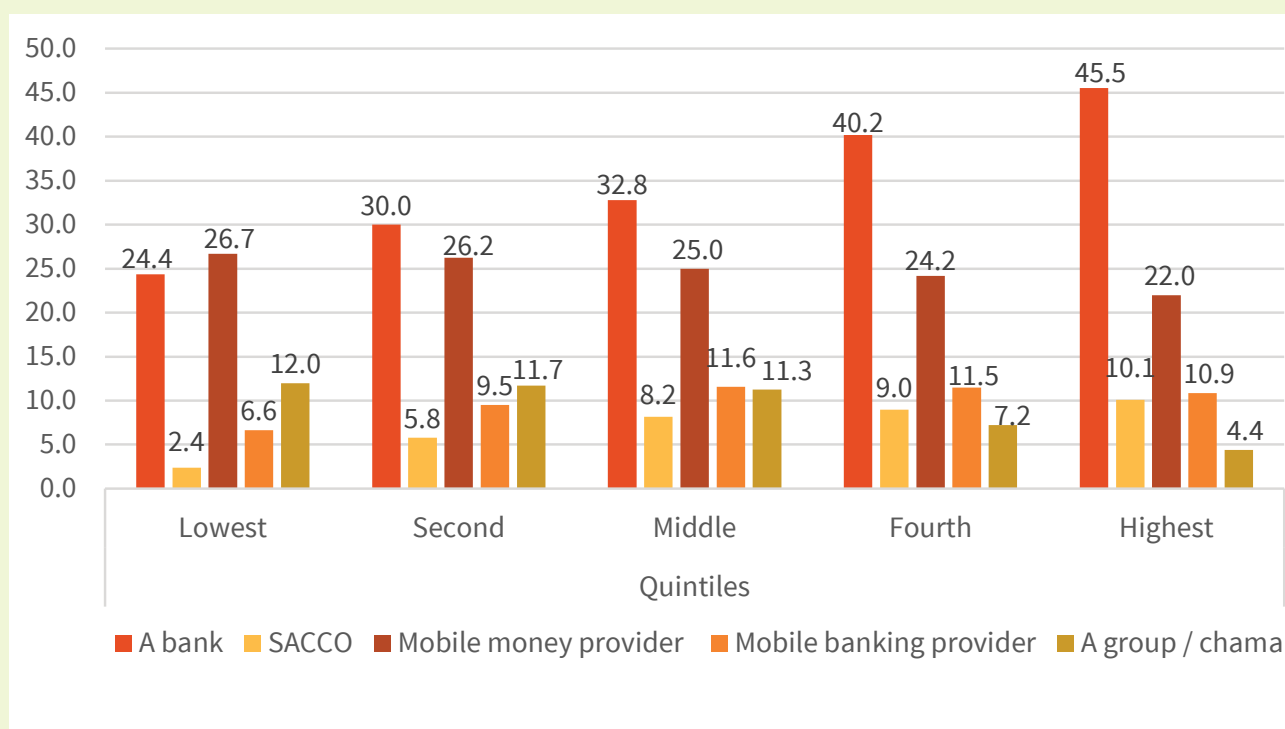
including the rural population and in effect drive financial stability which is part of the overall objective. Increased trust in the banking sector for both the rural population as well as the Urban is essential for channeling capital to various economic activities that will lead to growth of incomes and a more stable financial sector.

2.2 Most trusted financial services per wealth quantile

The wealth quantile shows the population level of affluence as per the social strata. The more affluent trust brick and mortar banking. Figure 2.3 shows that 45.5% of the population trust that their money is safe in the bank this can be attributed to the level of knowledge and the perceived social security of saving money in the bank compared to the lowest quantile who are 24.4% level of trust. The trust in using mobile

money for savings is between 22% and 26.7% for the lowest quantile. This can be attributed to the expansion of the mobile service providers, which has enabled them to provide financial services across the wealth quintiles. Mobile money is convenient and easily accessed, as result it is predominantly used. The prevalent use of mobile money as well as its convenience enhances trust in the service across the wealth quantiles. The lower quantile prefers to save with chamas 12% of the population compared to 4.4% for the higher quantile.

Figure 2.3 Confidence in banks



The deposit protection is capped at KSh.500,000 the purpose of deposit insurance is to ensure protection of the small unsophisticated depositors; the corporation needs to model awareness

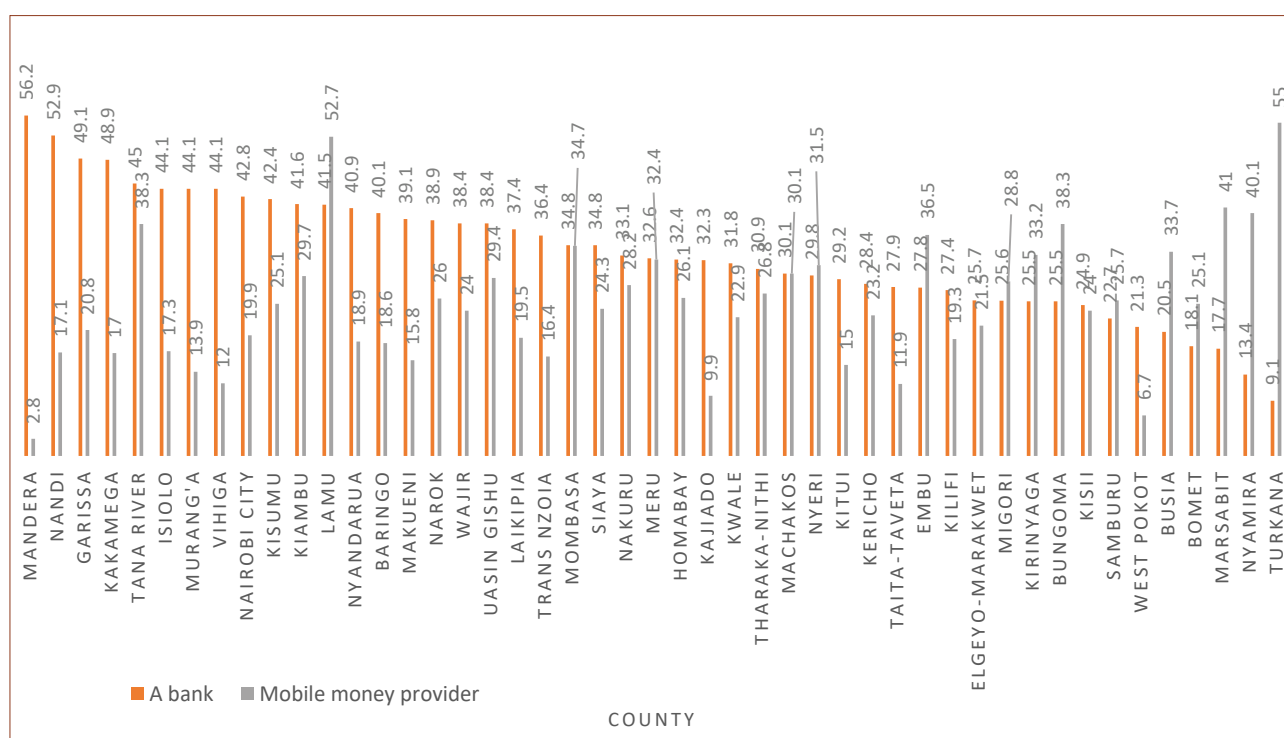
campaigns on deposit insurance targeting the lower social strata to encourage savings in the bank this will create access to deposit insurance, financial services which includes access to credit and eventual economic empowerment.

2.3 Most Trusted Financial service providers across counties

Use of banking or mobile money as a trusted savings option by the population is evident across the various counties. The figure 2.4 shows that in Mandera county 56.2% prefer banks as their trusted savings provider compared to Turkana County at 55 % preference of mobile money. Mobile money

is a preferred and trusted savings service provider just as banks across the counties. This is attributed to the massive investment in mobile money by the telco industry. Excluding mobile money from deposit insurance leaves a significant portion of the population vulnerable, hence the need to review the deposit protection framework to include mobile money.

Figure 2.4 : Trust in bank and mobile money as service provider



3

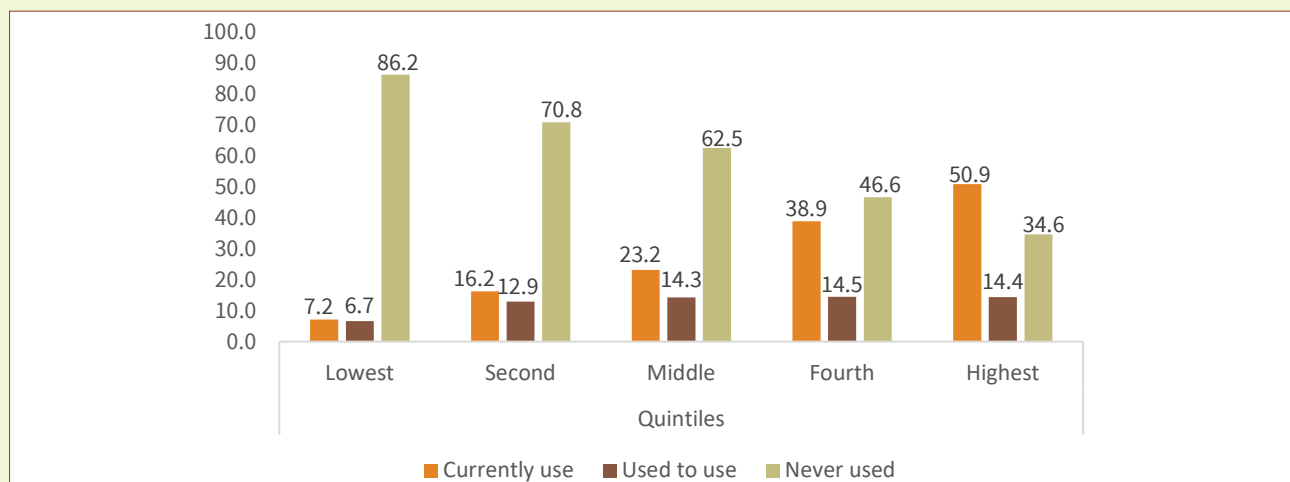
USAGE OF FINANCIAL SERVICES

3.1 Bank usage as per the wealth quintiles

In figure 3.1, 86.2% of the lowest quintile have never used banking services, followed by the second quintile at 70.8%. The respondents are excluded from using banking services but have deposit savings

outside the deposit taking institutions. They have no insurance cover for their deposits. This segment is not only vulnerable to financial losses resulting from loss of deposits, but also likely to experience decline in welfare due to their lower level of wealth compared to middle, fourth highest quintile.

Figure 3.1: Bank usage by wealth quintile

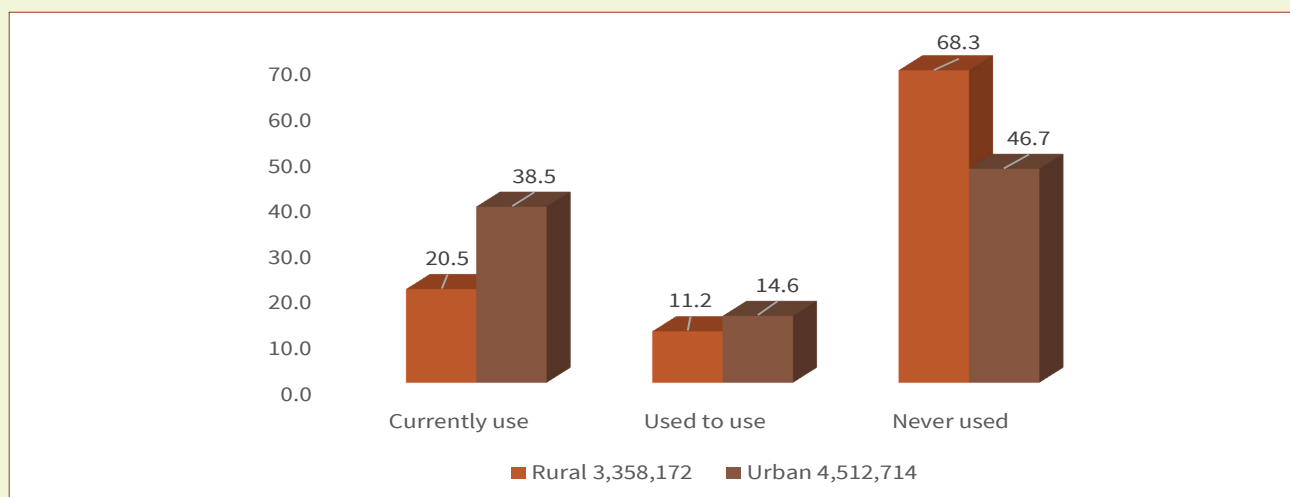


3.2 Bank usage for the Rural and urban

In figure 3.2, 68.3% of the rural population and 46.7% of the urban population have never used banking services. therefore, they save deposits outside the deposit insurance system. The incident of a shocks

is severe for the rural residents due to the residents having lower wealth and capacity to mitigate the impact of the shocks on welfare. Hence, there is a need to create awareness on deposit insurance, banking services. Access to secure savings options and credit, drives economic empowerment.

Figure 3.2: Usage for the Rural and urban residents



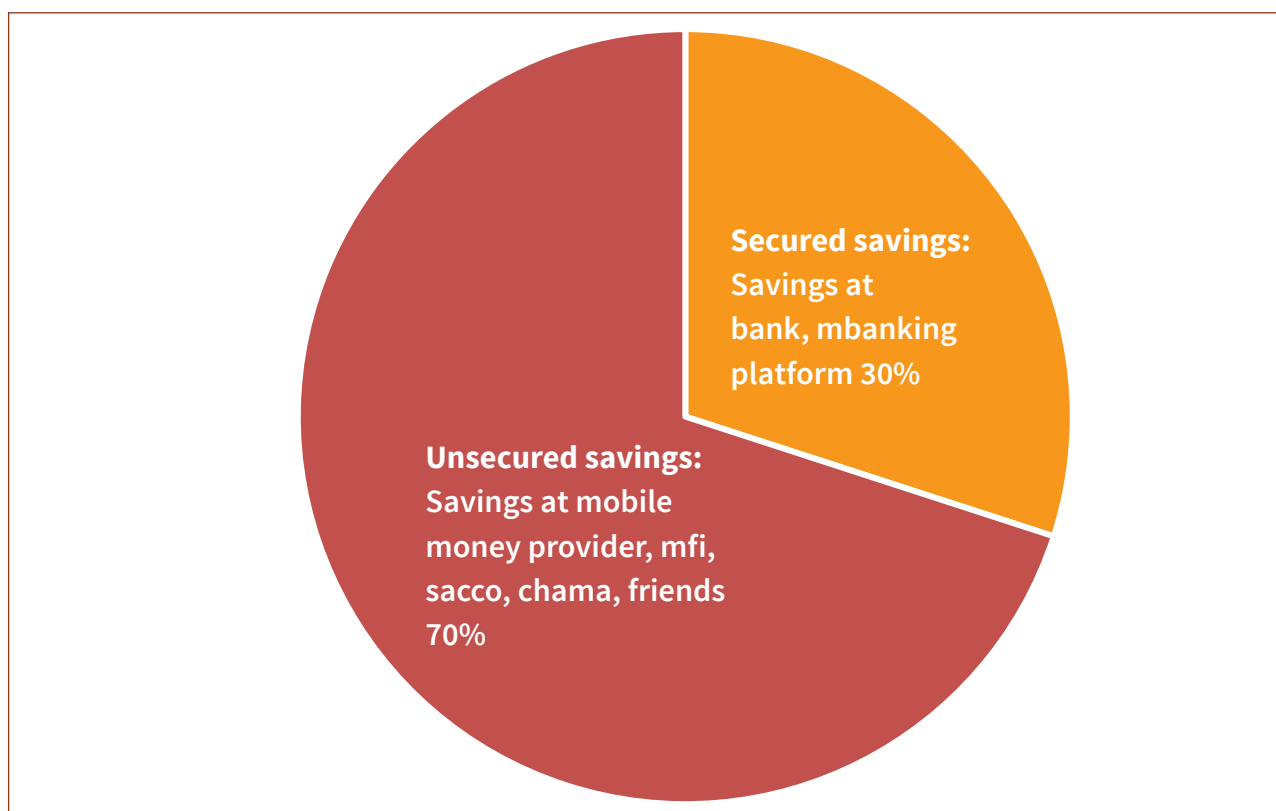
4

EXPANSION OF DEPOSIT INSURANCE COVERAGE BEYOND CONVENTIONAL BANKS

The figure 4.1 below, shows that 30% of the population keep the savings in the Traditional Bank and mobile banking. This is primarily attributed to households prioritizing daily financial needs over long-term savings preferring to use mobile money and keeping money with chamas. This reflects the continued appeal and use of SACCOS which offer lower interest loans compared to commercial banks.

This diversification in banking preferences highlights the need for KDIC to expand its deposit protection coverage beyond conventional banks to include digital and cooperative financial institutions. More public awareness for the population is needed to deepen their understanding of Deposit insurance this guarantees safety of our deposits.

Figure 4.1



5

OVERALL IMPACT OF DEPOSIT INSURANCE ON FINANCIAL INCLUSION

The overall impact of deposit insurance on financial inclusion is reflected in the ability to enhance financial stability and resilience. With increase in default rate especially with mobile loans KDIC risk-based premium should be able to address the surge for the affected financial institutions. This also calls for KDIC to expand its deposit protection coverage beyond conventional banks.

Improving Confidence in the Banking System: Deposit insurance provides a safety net that assures depositors their funds are protected even if their financial institution fails. This in turn creates trust which is crucial for people to participate in the formal financial system. The deposit protection enhances confidence to the public to keep their monies in banks. This allows more people to join the formal financial system.

Reducing Fear and Anxiety: For individuals, especially those with limited savings, the fear of losing money through a bank failure is a big barrier to formal financial services. Deposit insurance removes this fear, making it more likely for them to open and use savings accounts.

Enhancing Stability in the Financial System: A deposit insurance scheme enhances the stability and responsible banking practices among member institutions. This further enhances stability and trustworthy environment for banking, competition and growth. This increase allows the players to develop better and more inclusive financial products thereby accommodating people.

Broadening the Scope of Coverage to Digital Financial Services: If the deposit protection can be extended to include e-money, this can act as a motivator to encourage more people to adopt and trust digital financial services which further pulls more people to the formal financial system.

Increases Appetite for Savings: By providing protection of deposits, members of the public are attracted to save more in banks as opposed to keeping their money in informal channels.

KDIC must advocate for stronger risk mitigation strategies, including responsible lending practices, improved borrower education, and enhanced regulatory oversight of digital credit providers. Ensuring that deposit protection frameworks cover institutions offering digital loans will be crucial in maintaining confidence in the financial sector.

POLICY RECOMMENDATIONS³

1. Inclusion of Mobile Money in Deposit Insurance Coverage

- **Action:** Initiate policy dialogue with CBK and mobile money providers to explore regulatory frameworks for insuring mobile money deposits.
- **Rationale:** With 82.3% of the population using mobile money, excluding it from deposit insurance leaves a significant portion of the population vulnerable.

2. Digital Risk Mitigation Strategy

- **Action:** Develop a comprehensive digital risk mitigation framework, including cybersecurity protocols, fraud detection systems and consumer protection mechanisms.
- **Rationale:** The rise in digital financial services has led to increased cyber threats and fraud, as evidenced by the 9.6% loss rate in mobile money.

3. Targeted Financial Literacy Programs

- **Action:** Roll out county-specific financial literacy campaigns focusing on rural and low-income populations.
- **Rationale:** Survey data shows lower trust and usage of formal banking in rural areas and among lower wealth quintiles.

4. Integration of SACCOs and MFIs into KDIC Coverage

- **Action:** Conduct feasibility studies and stakeholder consultations to assess the inclusion of SACCOs and MFIs under KDIC's insurance umbrella.
- **Rationale:** Many Kenyans save through SACCOs and informal groups, which are currently uninsured.

5. Enhanced Data Sharing and Trust Account Transparency

- **Action:** Establish a centralized data-sharing protocol among financial institutions to track and protect trust accounts.
- **Rationale:** Unbundling trust accounts is essential for accurate depositor protection and risk assessment.

6. Strengthening Inter-Agency Collaboration

- **Action:** Formalize a Memorandum of Understanding (MoU) among KDIC, CBK, KNBS, FSD, and other stakeholders for coordinated oversight and crisis response.
- **Rationale:** A unified approach enhances early detection, resolution, and depositor protection.

7. Monitoring and Evaluation Framework

- **Action:** Develop KPIs and a monitoring dashboard to track the implementation and impact of deposit insurance reforms.
- **Rationale:** Ensures accountability and continuous improvement of KDIC's strategic initiatives.

³ Source of statistics; Finaccess report, (2024)



CONTACT **US**



17th Floor UAP Old Mutual Towers, Upper hill
P.O. Box 45983-00100, Nairobi, Kenya.
Email: customer@kdic.go.ke
Tel: +254 709 043 000 / +254 020 667 7000