



Rose Mambo, CDSC
Chief Executive



THE RISE OF CDSC: KENYA'S FORMIDABLE CENTRAL DEPOSITORY

THEY STARTED WITH SOME VERY CONSERVATIVE PROJECTIONS. BUT UNDER ROSE MAMBO'S LEADERSHIP, CDSC NAVIGATED THE ROUGH CAPITAL MARKETS WATERS TO BUILD A STELLAR COMPANY.

BY JACOB OTIENO

A few decades ago, the stock market in Kenya was suffering from insignificant trading volumes and low levels of investor participation. Nairobi Securities Exchange (NSE) was riddled with paperwork and snail-paced systems that only served to erode investors' confidence. Then the Central Depository and Settlement Corporation (CDSC) was established, complete with its own development blueprint.

"The inefficient and largely manual trading system was incapable of facilitating robust capital market development," recalls Rose Mambo, the Chief Executive of the 10 year old central depository firm, during an interview at CDSC's offices on the 11th floor of Nation Centre.

There was thus need for major industry reforms.

Recognising the importance of a thriving capital market to a country's economic development, Central Bank of Kenya (CBK) the banking sector regulator in collaboration with International Finance Corporation (IFC), a global institution that offers investment, advisory and asset management services in developing countries, initiated a study in 1984 on the Development of Capital Markets in Kenya.

The objective of the study was to draw recommendations on measures that could facilitate development of the capital market

sector. These recommendations produced the blueprint used to reform the sector.

Five years later, the Capital Markets Authority (CMA), a regulatory body, was formed through an Act of Parliament. This was the start of the journey to a more robust capital markets sector.

Another study was commissioned in 1995 by the NSE to look into the idea of establishing a central depository system (CDS) to provide clearing and settlement services in Kenya's capital market. The study found the idea viable and the search for a technological solution that would automate both the trading and the clearing and settlement functions for the market began. Millennium Information Technology (MIT) firm from Colombo, Sri Lanka, won the tender.

The market agreed on a phased approach, where the clearing and settlement functions would be automated first, followed by the trading function. MIT immediately embarked on the implementation of the central depository system (CDS) which went live in 2004, and two years later the Automated Trading System (ATS) went live in 2006, positioning the market well for the exponential growth that took place in years to follow.

CDSC operations begin

In November 2004, CDSC kicked off its operations. Working with a team of experts in the stock market and investment, the central depository service provider began the immobilisation process, whereby physical certificates signifying ownership of shares were converted to electronic form. This eliminated the painstaking paperwork that had hitherto been the order of the day.

"We started with just 20,000 CDS accounts," recalls Mambo. "And we were very modest in our projections. We thought that after five years, we would hit 200,000 CDS accounts."

But a spate of Initial Public Offerings (IPOs) proved their theory wrong. Kengen, which is the largest power generating company in Kenya producing over 70 percent of the electricity consumed in Kenya, was the tipper.

"Kengen alone brought in 250,000 new CDS accounts," says Mambo. Then came Safaricom, East Africa's leading telecom company which, according to CDSC's Chief, brought with it 750,000 new CDS accounts. "When Safaricom joined us in 2008, our projection of 200,000 accounts had already been surpassed by a wide margin," says Mambo. It was like a dream come true.

The market turnover also skyrocketed at an impressive pace.

"We were doing 200 to 300 transactions





a day when the market was still manual, with a turnover of between Ksh 50 million (US\$547,661) and Ksh 60 Million (US\$657,193) a day," says Mambo.

Currently, CDSC transactions range from 3,000 and 5,000 a day, with a turnover of about Ksh 700 million (US\$7.6 million) to Kshs. 1 billion (US\$ 11 million) a day. The market capitalization has grown from Kshs. 259 billion in 2003 to the current Kshs. 2.7 trillion.

However, the jaw dropping figures that the market is currently generating would not have been possible if they used a manual process.

"Without automation, there was no way we could have achieved these volumes," Mambo says.

There are currently 2.3 million CDS accounts. The Chief Executive is now more concerned with rationalisation and harmonisation of the existing accounts rather than increase in accounts. She notes that some accounts are not active and they were only used during IPOs.

"A clean up of the accounts will help us find those holding less than 100 shares," she says. "Are these people really interested in coming back to trade, or they have exited the market? How can we encourage them to continue to trade?"

Mambo, however, clarifies that investing in the stock market is usually a long term process. People can open CDS accounts but with different plans in mind.

"This includes buying shares with the intention of holding, earning dividends, or simply participating in AGMs and decision making of the company. These are the things we would like to know from investors," says the CEO. The clean-up will also help determine unclaimed assets.

And in efforts to comply with the international standards and best practices for central depositories globally, CDSC will enhance the system further to allow for improved functionality, expansion of the product offering and additional risk mitigation measures. For instance, CDSC was initially using CFC Stanbic Bank as its only settlement bank. The use of a single commercial bank for all securities settlement was not at par with international standards.

"Relying on one commercial bank for all our settlements was actually a risk because we were exposing ourselves to a single point of failure," she explains. Therefore CDSC in August 2012 appointed three more commercial

banks, Equity, Barclays and Cooperative to serve as its settlement banks. CFC Stanbic remained its primary settlement bank.

In January this year, CDSC introduced settlement through the Central Bank of Kenya (CBK) to enhance settlement finality and reduce risks associated with settling capital markets transactions with commercial bank money. This, the CEO says, is also part of the ongoing process of adapting to best practices and complying with the global standards.

"Settlement through the Central Bank is one of the global standards for central depositories," she explains.

The International Organisation of Security Regulators (IOSCO), an association of organisations that regulate securities and financial markets across the world, has developed standards for all companies dealing with money settlements and payments.

Hurdles

Though the growth of CDSC has been phenomenal, it wasn't devoid of challenges.

"Handling the huge number of clients coming to CDSC required careful planning and significant resources," says Mambo.

When CDSC started, it was preconceived that the Central Depository Agents (stockbrokers and custodian banks) would handle the clients directly, while CDSC dealt with the CDAs only. That plan backfired and sent the team back to the drawing board.

"Many investors preferred to deal with CDSC directly seeking information and education about the role of CDSC in the market. We could not afford to let them down," says Mambo. This meant that CDSC had to restructure its customer service objectives.

Some of CDSC's biggest challenges have been when some stockbrokers collapsed.

"Everyone wanted to know: Are our securities safe? We had to do a lot of investor education to restore confidence," says Mambo.

The huge number of affected clients trooped to CDSC for reassurance, and their securities were indeed safely held at CDSC.

CDSC now faces new challenges in increasing the number of active participants in the market, introducing new products to broaden the scope of capital markets investments, and supporting the growth and development of Kenya's Capital Market.

CDSC positions itself as a market leader, and looks back at the journey it has made as part of its larger vision to make key contributions to Kenya's economic growth with pride.