



CENTRAL BANK OF KENYA

**CONSULTATIVE PAPER ON REVIEW OF COMMERCIAL BANKS LICENCE FEES
IN KENYA**

MARCH 2025

1.0 Background

The Consultative paper relates to the Central Bank of Kenya (CBK) proposal to review banking license fees and other charges for commercial banks under the Fourth Schedule of the Banking Act. The current fees were last updated thirty-three (33) years ago in 1990. Since then, significant changes have occurred in Kenya's financial sector, including exponential growth in the size, complexity, and risk profile of financial institutions.

The objective of the proposed review has been necessitated by the increasing level of oversight by CBK which requires significant resources to effectively discharge its supervisory mandate, including Consolidated and Cross border Supervision. In addition, the proposed review is aimed at establishing a licence fee framework aligned with international standards and modern banking dynamics.

2.0 Evolution of the Kenyan Banking Sector

The Kenyan banking sector has grown significantly over the past 30 years. Total assets have increased by more than 38 times, from Ksh.202 billion in 1994 to Ksh.7.6 trillion in 2024. Deposits have increased by more than 33 times, from Ksh.179 billion to Ksh.5.7 trillion. Profits before tax have increased by more than 21 times, from Ksh.11 billion to Ksh.262 billion. The loan portfolio has also increased by more than 37 times, from Ksh.114 billion to Ksh.4.1 trillion. The number of local bank branches increased by 289 percent, from 371 branches in 1994 to 1,556 branches in 2024. Similarly, the number of cross-border bank branches have increased from nil in 1994 to 550 as at December 2024. However, and despite this growth, the license fees for commercial banks have remained unchanged.

3.0 Current CBK Licence Fee framework

Computation of banking license fees is currently based on the number of branches to determine the applicable annual licence fees for each commercial bank. Under the branch-based methodology, the more branches a bank has, the higher the license fees. The current licence fees payable by commercial banks are outlined under the Fourth Schedule of the Banking Act as detailed in **Table 1** below.

Table 1: Current Licence Fees Payable by Commercial Banks in Kenya

	Licence Fees	Amount (Ksh.)
1.	Head Office	400,000
2.	Non-operating holding Company	500,000
3.	Fees Per Branch:	
	i. Municipality	150,000
	ii. Town Council Area	100,000
	iii. Urban Council Area	30,000
4.	Agency	1,000

Source: Central Bank of Kenya

The licence fees for the Head office of a commercial bank is pegged at Ksh.400,000, while licence fees for each branch ranges between Ksh.100,000 and Ksh.150,000 depending on the

geographical location of the branch. In addition, CBK Prudential Guideline, 2013, stipulates annual licence fees for Non-operating Holding Companies and the bank’s third-party agents at Ksh.500,000 and Ksh.1,000, respectively.

CBK’s regulatory and supervisory mandate has become increasingly complex. The increasing complexities are attributed to CBK’s enhanced regulatory and supervisory activities associated with the growth and evolution of the banking sector. In addition, Kenyan banks have expanded their operations into the region with emergence of banking groups and growing complexity of supervision including consolidated and cross-border supervision. Accordingly, it is necessary to review license fees to facilitate effective regulatory and supervisory oversight by CBK.

4.0 Methodologies adopted in assessing License Fees: Domestic and International Regulators

CBK reviewed different types of methodologies adopted by domestic regulators and various jurisdictions on license fees charged on commercial banks. **Table 1** below summarizes the findings: -

Table 1: Summary of Methodologies adopted by Domestic Regulators and Various Jurisdictions

No.	Methodology Adopted	Description of the Methodology	Country/Domestic Regulator
1.	Branch-Based methodology	Uses a variable model based on the number of branches to determine the applicable annual license fees payable.	Kenya, Singapore.
2.	Proportion of Total Deposits	Uses a predetermined rate to levy licence fees as a proportion of total customer deposits.	Zambia, Kenya Deposit Insurance Corporation.
3.	Proportion of Gross Annual Revenue	Uses a predetermined rate to levy licence fees on total revenue generated by a bank.	Uganda, Rwanda, Capital Markets Authority and Communication Authority.
4.	Proportion of Total Assets	Uses a predetermined rate to levy licence fees and considers the total asset base of a bank.	Insurance Regulatory Authority.
5.	Standard Set Fee	A single set licence fee payable.	Malaysia, Canada, Ghana, Nigeria
6.	No annual Licence fee (one-off fee)	N/A	Tanzania.

4.1 Comparative Licence Fees charged by CBK and Kenyan Domestic Regulators

An analysis of the license fees charges on licensees by Domestic regulators, Communication Authority of Kenya, Capital Markets Authority and Kenya Deposit Insurance Corporation revealed a mix of different methodologies. These includes the type of entity, size of the entity, a proportion of gross annual income/turnover and risk profile. The comparative analysis shows that licence fees charged by CBK on commercial banks are the lowest in comparison to the licence fees charged by selected Domestic Sector Regulators as detailed in **Table 2**.

Table 2: Comparative Licence Fee charged by CBK and Domestic Regulators

Domestic Regulators	Minimum Fees in Ksh.	Methodology
Central Bank of Kenya	100,000 to 400,000	Branch-Based Methodology.
Insurance Regulatory Authority	250,000-5,000,000	Standard Set Fee.
Kenya Deposit Insurance Corporation	-	0.15 percent of customer deposits.
Capital Market Authority	200,000 - 6,300,000	One percent of Gross Revenue
Retirement Benefits Authority	953,667	Standard Set Fee.
Communication Authority of Kenya	15,000,000	0.4 percent of Annual turnover Initial Operating fee.

4.2 Comparative Licence Fees charged by CBK, Regional and International Regulators

A review and analysis of licence fees charged by selected regional and international regulators indicate that Kenya’s license fees are lower. In East Africa, Kenya’s license fees are the least compared to Uganda, Rwanda, and Tanzania as shown in **Table 3**.

Table 3: Comparative Licence Fee charged by CBK, Regional and International Regulators

Jurisdiction	Minimum Equivalent Fee in Ksh.	Methodology used
Central Bank of Kenya	100,000 to 400,000	Branch Based Methodology.
Uganda	2,000,000	0.05 percent of Gross Annual Revenue.
Rwanda	628,350	0.5 percent of Gross Annual Revenue.
Tanzania	600,000	Standard Set Fee.
Nigeria	953,667	Standard Set Fee.
Ghana	1,300,000	Standard Set Fee.
Zambia	98,849	Proportion of Deposits.
Singapore	1,500,000 to 1,875,000	Branch Based Methodology.
Malaysia	4,800,000	Standard Set Fee.
Canada	4,000,000	Standard Set Fee.

5.0 Methodologies adopted in assessing License Fees

5.1 Overview

CBK considered four (4) methodologies; Branch, Deposit, Asset and Revenue based methodologies, used by Kenyan Domestic Regulators, and selected comparative jurisdictions to come up with the appropriate methodology for determining applicable license fees by commercial banks in Kenya. The methodologies include: -

- **Branch-Based Methodology:** - This methodology uses a variable model based on the number of branches to determine the applicable annual license fees payable by each commercial bank. The methodology is currently being used in Kenya and Singapore

- **Proportion of Deposits:** - This methodology uses a predetermined rate to levy licence fees as a proportion of total customer deposits. The methodology is currently being applied by Zambia and the Kenya Deposit Insurance Corporation.
- **Proportion of Assets:** - This methodology uses a predetermined rate to levy licence fees and considers the total asset base of a bank, comprising mainly of loans and advances, investments in government securities, and other assets. The methodology is currently being applied by only one domestic regulator, the Insurance Regulatory Authority.
- **Gross Annual Revenue:** - This methodology uses a predetermined rate to levy licence fees on total revenue generated by a bank, including both funded income from lending activities and non-funded income from fees and commissions, dividend income, and interest income from other investments.

5.2 Pros and Cons of each methodology

a) **Branch Based Methodology:** - Methodology is currently being used in Kenya and Singapore.

i. Pros of Using Branch based methodology

- **Fairness:** Using branch-based methodology as a basis for license fees is a fair and proportionate method of distributing the burden of licence fees among banks.
- **Ease of collection of licence fees:** Simple to administer and entails commercial banks paying licence fees commensurate with the number of their branches.

ii. Cons of Using Branch based methodology

- **Failure to recognise technological changes and dynamics:** The methodology is obsolete as it has been overtaken by technological advances with most banks moving away from brick and mortar to branchless banking.

b) **Proportion of Total Deposits:** - Methodology is currently being applied by Zambia and the Kenya Deposit Insurance Corporation.

i. Pros of Using Deposit-Based Methodology

- **Direct Link to Funding Source:** This method directly links the license fees to the bank's primary source of funding.
- **Equity among banks:** the methodology establishes a fairer system where banks that benefit more from deposit mobilization contribute proportionately more licence fees.

ii. Cons of Deposit-Based Methodology

- **Inaccurate indicator of a bank's performance:** The methodology may not necessarily reflect a bank's performance. Banks may mobilize sufficient deposits which are deployed to fund assets that do not generate optimal returns.

c) **Proportion of Total Assets:** - Methodology is currently being applied by only one domestic regulator, the Insurance Regulatory Authority.

i. Pros of the Asset-Based Methodology

- **Comprehensive Assessment:** The asset base methodology provides a holistic view of a bank's overall size and financial standing.
- **Systemic Risk Consideration:** This methodology aligns with the principle of assessing license fees based on the potential impact a bank's operations can have on the broader economy.
- **Reflects the Scope of Business:** A bank's asset base often mirrors the scope of its business activities.

ii. Cons of the Asset-Based Methodology

- **Inaccurate indicator of a bank's performance.** The methodology may not necessarily reflect the performance of a bank. A bank categorised as a large bank with a big asset base may generate less revenue if most of its assets are impaired.
- **Not widely applied:** The methodology is not widely used by comparative Domestic sector regulators and the various selected international regulators.

d) **Gross Annual Revenue (GAR):** -The Gross Annual Revenue (GAR) methodology uses a predetermined rate to calculate the applicable license fees based on gross revenue generated by a bank in a financial year. The methodology is used by Uganda, Rwanda, Capital Markets Authority and Communication Authority of Kenya.

i. Pros of GAR methodology

- **Simplicity:** This method is more transparent and easier to understand by both stakeholders and the regulators. Calculating the fees involves multiplying the revenue by a predetermined rate.
- **Ease of Administration:** It is easier to administer and enforce license fees based on gross annual revenue.
- **Fairness:** It is a fair and proportionate method of distributing the burden of license fees amongst the banks. GAR is the best indicator of a bank's performance as it is the result of how both assets and liabilities (mainly deposits) are employed by a bank.
- **Broad application.** The methodology is widely applied by selected domestic sector regulators, regional regulators, and international comparators in the determination of applicable licence fees by commercial banks.

ii. Cons of GAR Methodology

- **Lack of Precision:** This may not accurately reflect a bank's ability to pay. Some banks may have high revenues but low profit margins, while others may have lower revenues but higher profitability.

6.0 Gross Annual Revenue Methodology

CBK evaluated the four (4) methodologies for setting license fees by considering their potential revenue generation, profitability and viability impact on banks, and each method's advantages and disadvantages over a three-year period.

Based on this evaluation, CBK’s proposes the adoption of Gross Annual Revenue (GAR) methodology based on the following factors: -

- i. Gross Annual Revenue (GAR) is a better measure of financial performance than deposit-based or asset-based methodologies.
- ii. The GAR methodology provides a holistic approach to performance of a bank as it is the result of employment of a bank’s assets and liabilities.
- iii. Deposit-based and asset-based methodologies focus on a single aspect of a bank’s business, either deposits or assets which could be potentially misleading. A bank may have a large volume of deposits or assets that may not necessarily be reflected in its financial performance.
- iv. Branch-based methodology does not recognise technological changes and dynamics: The methodology is obsolete as it has been overtaken by technological advances with most banks moving away from brick and mortar to branchless banking.
- v. The GAR methodology has a wider application by both Kenyan Domestic Regulators (CMA, CA) and international comparative jurisdictions (Uganda, Rwanda) in determining applicable licence fees than branch-based, deposit-based and asset-based methodologies.

6.1 Applicable Rates used by Domestic and Comparative international Regulators

CBK made reference to the licence fee rates adopted by various Domestic, Regional, and international regulators as highlighted in **Table 4** in arriving at an appropriate rate to be applied in determining licence fees to be paid by commercial banks in Kenya.

Table 4: Summary of Applicable Rates by Domestic and International Regulators

Country/Domestic Regulator	Rate (Percentage)	Baseline/Dimension
Uganda	0.05	Gross Annual Revenue.
Rwanda	0.5	Gross Annual Revenue.
Zambia	0.2	Total Deposits.
Communication Authority	0.4	Gross Earnings.
Capital Market Authority	1	Gross Earnings – (Initial one-off fee).
KDIC	0.15	Total Deposits.

Based on the outcome of this review, CBK proposes to adopt GAR methodology at a rate of **1.0 percent** prorated over a period of three years. The progressive review of licence fees over 3 years is expected to moderate the potential adverse and significant impact on profitability and viability of banks.

During the first year of implementation, CBK proposes to apply a rate of **0.6 percent**, second year, a rate of **0.8 percent** and ultimately in the third year at a rate of **1 percent**. The rationale and justification of the proposed rate of 1.0 percent is grounded on the following factors: -

- It is within the rate of 0.05 percent and 1 percent currently charged by other comparative domestic regulators and international jurisdictions.
- Aligns with the size, complexity, risk profile, and interconnectedness of the Kenyan banking ecosystem compared with other neighboring jurisdictions.
- The proposed 3-year graduated implementation of the 1 percent rate will moderate the potential adverse and significant impact on profitability and viability of banks.

CBK proposes the upward review of licence fees for commercial banks be done progressively over a period of three (3) years to ensure that the banks are able to transition smoothly into the new licensing fee framework. The estimated output and impact of GAR of each rate over the three-year period is as shown in **Table 5**.

Table 5: Proposed Progressive review of licence fees of Commercial Banks and impact of adoption of GAR over 3 years period

			Reduction in overall Profitability of banks (%)
Year	Rate (%)	Amount Generated at prorated rates over 3 years (Ksh.bn)	
December 31, 2025*	0.60	4.5	1.8
December 31, 2026	0.80	6.0	2.4
December 31, 2027	1.0	7.5	3.1

**Assumes that the proposal to review licence fees for commercial banks will be approved by the National Assembly in 2025*

7.0 Projected impact of each methodology on viability of banks

In order to assess the impact on profitability and viability of banks presented by each methodology, CBK applied the predetermined rates of **0.6 percent**, **0.8 percent** and **1 percent** over a period of three years. The projected impact of each rate on the three selected methodologies is as shown in **Table 6**.

Table 6: Projected Impact at a Predetermined Maximum Rate of 1 Percent

		Reduction in overall Profitability of banks (%)		
	Methodology	Y1 (0.60%)	Y2 (0.80%)	Y3 (1%)
1	Proportion of Deposit (%)	11.6	15.5	19.4
2	Proportion of Assets (%)	16.2	21.6	27.0
3	Gross Annual Revenue (%)	1.8	2.4	3.1

Analysis of Table 6 reveals the following: -

a) Impact: - Reduction in overall Profitability of commercial banks

- Deposit-based methodology will lead to reduction in overall profitability of commercial banks by an estimated 11.6 percent to 19.4 percent.
- Asset-based methodology will lead to highest reduction in overall profitability of commercial banks by an estimated 16.2 percent to 27 percent.
- GAR methodology will lead to marginal reduction in overall profitability of commercial banks by an estimated 1.8 percent to 3.1 percent.

b) Sensitivity Analysis and Impact on Profitability of banks Per Tier

An analysis of the impact of all the three (3) methodologies on profitability of individual banks especially in Tier III, vary significantly.

At a rate of 1 percent, the Deposit, Asset and GAR methodologies, will turn five (5) banks, six (6) banks, and one (1) bank in Tier III respectively, into loss making position.

Accordingly, Deposit-based and Asset-based methodologies if adopted will have significant negative impact on profitability and viability of commercial banks in Kenya.

8.0 Proposal for the adoption of GAR Methodology

Based on this evaluation, CBK's proposes the adoption of GAR methodology with a 1 percent fee rate prorated over a three-year period. The GAR methodology at a rate of 1 percent presents CBK with the most appropriate and feasible methodology of determining the applicable licence fees payable by commercial banks in Kenya.

9.0 Discontinuation of Other Application Fees

CBK proposes to drop all other application fees and charges as stipulated under the Banking (Fees) Regulations for purposes of streamlining and ease of administration process of licence fees from commercial banks. CBK therefore recommends adoption of a single consolidated banking license fee framework based on the proposed GAR methodology.

10.0 Call for Comments

The purpose of this paper is therefore to invite the public, industry, and stakeholders for comments on the CBK's proposal to review licence fees of commercial banks in Kenya and provide feedback to be considered in deciding the way forward. This consultative paper is part of CBK's initiatives to ensure informed policy review in the banking sector. Comments should be submitted by **March 31, 2025**, through the email address fin@centralbank.go.ke.

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MARCH 2025**