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# CLIENT NEWS

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31 March, 2025

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## Effects of CBK Licensing Fees Review & Its Impact on Borrowers

*Hansen Advocates' Monthly Newsletter - March 2025*

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The Central Bank of Kenya (CBK) is implementing a shift from a branch-based licensing fee model to a Gross Annual Revenue (GAR)-based model. Under this new structure, banks will now pay a percentage of their revenue as licensing fees instead of a fixed amount per branch. The new rates will increase progressively, starting at 0.6% in 2025, rising to 0.8% in 2026, and reaching 1.0% from 2027 onwards. This marks a significant departure from the previous framework, where banks paid between Ksh. 100,000 and Ksh. 400,000 per branch annually.



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## i. Higher Operational Costs for Banks

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With these changes, banks will face higher operational costs as they now need to allocate up to 1% of their total revenue for licensing fees. CBK estimates that this shift could reduce banks' profitability by 1.8% to 3.1% annually. ***To maintain their profit margins, banks are likely to pass these additional costs onto borrowers, leading to increased loan interest rates and service fees.***

Consequently, individuals and small businesses may face higher borrowing costs, making access to credit more expensive.

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## ii. Impact on Small & Tier III Banks

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The impact of these new fees will be particularly challenging for smaller banks, especially those in Tier III. *With a lower revenue base, these institutions may struggle to absorb the increased costs.* CBK has projected that at a 1% licensing fee, at least one small bank could turn loss-making. This could trigger mergers, acquisitions, or even the closure of weaker financial institutions, reducing the diversity of banking options available to customers.

## iii. Reduced Expansion of Physical Bank Branches

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The new fee structure may discourage banks from expanding their physical branch networks. *Unlike the previous model, which incentivized expansion, the GAR-based approach does not reward branch growth.*

Given the increasing reliance on digital banking, financial institutions may opt to reduce or slow down their branch expansion to cut costs. *This shift could negatively impact financial inclusion, particularly in rural areas where physical branches remain essential for banking services.*

## iv. Potential Banking Sector Consolidation

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The higher costs could lead to increased consolidation within the banking sector. As smaller banks struggle to keep up, they may be forced to merge with larger institutions, resulting in fewer banking options and potentially higher service charges due to reduced competition. Customers may need to adapt to a changing banking landscape where fewer but larger banks dominate the industry.

## v. What Borrowers Should Do

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For borrowers, it is advisable to take proactive steps in response to these changes. *Locking in lower interest rates now, before banks adjust their rates upwards, could be beneficial.*

Additionally, comparing different banks' charges and interest rates before borrowing will be essential in finding the most affordable credit options. *Alternative financing sources such as SACCOs and microfinance institutions should also be considered, especially if commercial bank loans become too expensive.*

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## vi. Our Take

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While CBK's new licensing framework aims to align Kenya's banking sector with international best practices, its ripple effects will be felt by both financial institutions and their customers. *As banks adjust to the increased fees, loan affordability may be impacted, particularly for SMEs and individual borrowers.*

At Hansen Advocates LLP, we continue to monitor these regulatory changes and provide strategic legal and financial guidance to our clients. Staying informed and planning ahead will be crucial in navigating this evolving financial environment.



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*This article is for informational purposes only and does not constitute legal advice. If you require legal guidance on how these changes may impact your financial decisions, please contact Hansen Advocates for professional legal consultation*

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