Note on the Liquidation of Chase Bank Limited, In Receivership (CBLIR)

Chase Bank Limited was a medium sized bank in Kenya with over 170,000 customers, 62 branches and an asset base of over Kshs 100.0 bn. As at 2015, the company had reported an 8-year CAGR in its PBT of 52.8% to Kshs 3.3 bn in 2014 from Kshs 0.1 bn in 2006. In April 2016, the bank was put under receivership by the regulator, Central Bank of Kenya (CBK) after facing liquidity challenges due to a run on the bank following inaccurate social media reports coupled with the resignation of its two directors, the Bank's Board Chairman and Group Managing Director. The bank has undergone through a process with the aim of preserving value for the depositors and shareholders; one of the key actions was the sale of some of the assets to State Bank of Mauritius (SBM Bank Kenya) and now that some of the assets cannot be fully recovered, the Central Bank of Kenya decided to liquidate the bank.

Some of the other banks that have gone through the same process include:

i. Dubai Bank Kenya Limited, which was placed under receivership on the 14th August, 2015 due to liquidity challenges and capital deficiencies, and,
ii. Imperial Bank Limited, which was placed under receivership by the CBK on 13th October 2015 due to irregularities and malpractices in the bank which exposed depositors, creditors and the banking sector to financial risk. Certain assets and liabilities totaling Kshs 3.2 bn in assets and an equivalent amount of liabilities, were acquired by KCB Group effective from 2nd June 2020, with KCB Bank taking over 5 out of Imperial Bank Kenya's 27 branches. Imperial Bank's Ugandan subsidiary sold all its shares to Exim Bank (Uganda) Limited in March 2016 for the sum of USD 6.8 mn in an effort to quickly recover funds for the benefit of all depositors, and,

In a bid to help understand the liquidation process and what it means this note shall cover the following;

i. Chase Bank Limited Business Restructuring,
ii. Analysis on the potential loss to be incurred by CBLIR Depositors, and,
iii. Conclusion.

A. Chase Bank Limited Business Restructuring

The Laws of Kenya and more specifically Insolvency Act, No. 18 of 2015 provides alternatives on how insolvent companies can be assisted to service creditor's obligations and protect the interests of all stakeholders. The options available include;

a. **Administration** - This process is headed by an Administrator, a certified Insolvency Practitioner, who may be appointed by an administration order of the court, unsecured creditors, or a company or its directors. An administrator of a company is required to perform the administrator's functions in the interests of the company's creditors as a whole,
b. **Receivership** – A firm's creditors may appoint an independent certified Insolvency Practitioner to act as a fiduciary ('receiver') for the firm to realize and sell the firm's assets and help settle the outstanding debts. In the banking sector, the CBK can put banks under receivership as in the case of Imperial Bank and Chase Bank. The Kenya Deposit Insurance Act, No. 10 of 2012, allows the CBK to appoint the Kenya Deposit Insurance Corporation (KDIC) as the sole and exclusive receiver of any institution,
c. **Company Voluntary Arrangements** - This arrangement is entered into when a company is insolvent and the directors, administrator or liquidator as the case may be, propose to the company's shareholders and its creditors on the best way to save the company from liquidation. Key to note, banking and insurance companies are not legally allowed to pursue this option, and,
d. **Liquidation** – Liquidation is a common insolvency proceeding whereby a company is wound up after all its assets and liabilities are identified in order to pay off creditors to the much extent possible.

Liquidation proceedings can be initiated by a court in Kenya or can be voluntary in nature where the company members or creditors make a liquidation application.

To read more on Business Restructuring, kindly visit our topical on Business Restructuring Options.

Chase Bank

In the case of Chase Banks Limited's liquidation, the process began in 2016 and the key highlights are indicated below:

1. The bank's collapse was initiated by the bank's release of two differing FY'2015 statements. The bank's initial FY'2015 statements showed that Chase Bank had loaned out a total of Kshs 5.7 bn to employees, directors and shareholders while the restated statements indicated the insider loan amounts were Kshs 13.6 bn, Kshs 7.9 bn higher than the previously published statements,
2. On the 6th of April 2016, rumors of the bank's closure circulated heavily on social media leading to panic withdrawals by customers and investors forcing the CBK to place the Bank under receivership the next day in order to prevent a total collapse of the bank and appointed KDIC as the receiver,
3. The Bank was put under receivership on 7th April 2016 with customer deposits in excess of Kshs 100.0 bn. According to the CBK, soon thereafter, KDIC appointed KCB Group as the Manager to carry out and manage Chase Bank's Assets and Liabilities to aid with the opening of the same,
4. The bank reopened on 27th April 2016 with 6.0% of the total deposits immediately available, meaning that all account holders could access up to Kshs 1.0 mn of their deposits. The accounts with Kshs 1.0mn and below totaled 162,970,
5. In August 2018, State Bank of Mauritius (SBM) Bank Kenya completed the acquisition of 75.0% of the assets and liabilities with the 25.0% remaining under the Chase Bank. The acquisition saw SBM inject capital of Kshs 8.6 bn and take over 62 Chase Bank branches and,
6. On 16th April 2021, the Central Bank of Kenya gave KDIC the go ahead to liquidate the bank.

B. Analysis on the potential loss to be incurred by CBLIR Depositors

From the purchase by SBM clients recovered 75.0% of their total investments and if the liquidation is to go ahead, each of the account holders who still have money could get payment from KDIC of Kshs 500,000.0. The remaining amounts above the above shall only be paid as liquidity dividends. In most cases, the process is protracted given that there are other creditors including bond holders who would be looking at small part of the pie but the priority is given to depositors.

The summary below shows how much depositors stand to get in total through the receivership process.

Item	Details
Total Amount of CBLIR Deposits	Kshs 76.1 bn
Deposit Amount transferred to SBM Bank (K) and expected to be fully recovered	Kshs 57.1 bn
Deposit Amount that remained under CBLIR, under KDIC management	**Kshs 19.0 bn**
Maximum no. of accounts to receive KDIC insured amount of Kshs 500,000.0 each	5,040.0
Maximum amount to be paid by KDIC after liquidation	Kshs 2.5 bn
Total Potential Loss after the liquidation	**Kshs 16.5 bn**

**Figures as of August 2018*

Key take-outs from the table above are;

a. According to SBM Bank (Kenya) FY'2018 Annual Report, the bank acquired Kshs 57.1 bn worth of deposits from CBLIR, which represents 75.0% of customer deposits, with the remaining Kshs 19.0 bn (25.0% of customer deposits) remained under CBLIR, under KDIC management,
b. 162,970 deposit accounts, equivalent to 97.0% of depositors accessed their funds in full; implying that 5,040 accounts (3.0% of total accounts) did not access all their funds. These outstanding deposit accounts will receive deposits worth Kshs 500,000.0 each, based on the KDIC's unprecedented cover per depositor that took effect from July 2020, which increased depositors' cover to Kshs 500,000.0 from Kshs 100,000.0, and,
c. The remaining 3.0% of deposit accounts at the time of receivership totaled 94.0% of the absolute deposit amount, Kshs 76.1 bn, and significantly Kshs 16.5 bn of that total may well be lost.

C. Conclusion

Confidence in the financial markets is of paramount importance for any economy. The fact that most of the depositors in Chase bank have recovered most of their deposits creates the confidence in the well function of the banking sector. For as long as the banks have assets and the issues being dealt with are not fraud it is then possible for the banks to weather the storm and get back to its feet all that is required is time and proper management. So the regulators should focus on creating strong ran institutions and increase better supervision.