The development of financial services is critical to economic development. The historic evidence for this is clear, consistent and conclusive. But more recently the financial services sector in developed economies, most particularly Britain and the United States, has grown disproportionately in size and in remuneration. During this process of ‘financialisation’, the activities of the industry have become more and more divorced from the needs of households and businesses in the real economy. We can have too much of a good thing.

The challenge for emerging economies is to avoid the mistakes of the west: to resist invitations to import institutions uncritically from more financially developed societies, but to build from anew a sector focussed on the core needs of the non-financial economy. Finance is needed to provide four principal kinds of service. First, the payments system is the core utility on which our business and social life depend, and the activity that employs the majority of those who work in the financial sector. Second, we need help in managing wealth and consumption, in smoothing the vicissitudes of everyday life, and financing education and old age, through savings and investment. Third, the financial sector must channel savings into productive investment. And finally, properly conducted finance can help manage the risks we encounter in both personal and commercial life; poorly conducted finance can aggravate economic instability.

In this lecture, I will discuss the shape of the financial institutions economies need, institutions focussed on these fundamental objectives. A deposit channel which directs transactions balances and short term savings into loans for business and houses; an investment channel which uses long term savings to finance infrastructure and property. And I will warn against the dangers of highly detailed, overly prescriptive regulation. Such rulebooks can be no substitute for the relationships of trust which are key to the efficient provision of financial services – and are so often missing today.
Biography

John Kay is one of Britain's leading economists. His work is centred on the relationships between economics, finance and business. His career has spanned academic work and think tanks, business schools, company directorships, consultancies and investment companies. Today his main focus is on writing and he is renowned for his ability to express complex ideas clearly and succinctly. John has been a Fellow of St John's College, Oxford since 1970 and has held chairs at London Business School, the University of Oxford, and the London School of Economics. He is a Fellow of the British Academy and the Royal Society of Edinburgh. He has been a member of the Scottish Government’s Council of Economic Advisers and chaired the Review of Equity Markets and Long Term Decision Making which reported to the UK government’s Department of Business, Innovation and Skills. Following the outcome of the referendum on British membership of the European Union in June 2016, he was appointed a member of the Standing council on Scotland and Europe appointed by the First Minister of Scotland, Nicola Sturgeon.

John Kay is a director of several public and private companies. He is the author of many articles and has contributed regularly to the Financial Times for over 20 years. His books include Foundations of Corporate Success (1993), The Truth about Markets (2003) and Obliquity (2011): his most recent book, Other People’s Money, was published in 2015 to wide acclaim. The second edition of his 2009 book The Long and the Short of it — finance and investment for normally intelligent people who are not in the industry — will be published in December 2016.

John’s work has been honoured by many different bodies. He became Commander of the British Empire in the Queen’s New Year Honours List of 2014. He has been elected an honorary fellow of the Society of Investment Professionals and the Chartered Institute of Taxation and received the Daniel J Forrestal III award for Leadership in Professional Ethics and Standards of Investment Award from the Chartered Financial Analysts Institute. He has been awarded honorary degrees by Heriot Watt University, and his alma mater the University of Edinburgh. The Truth about Markets was declared Politics Book of the Year in 2005 by the Political Studies Association. He received the Senior Wincott Award for Financial Journalism in 2011 for his Financial Times columns; Other People’s Money was a book of the year for The Economist, Financial Times, and Bloomberg and was shortlisted for the Orwell Prize for Political Writing.

About FSD Kenya

The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme’s goal is to expand access to financial services among lower income households and smaller enterprises to create value through financial inclusion. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). Current funders include the UK’s Department for International Development (DFID), the Swedish International Development Agency (SIDA), and the Bill & Melinda Gates foundation.

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