AKCP
ASSOCIATION OF KENYA CREDIT PROVIDERS

2nd Regional Credit Information Sharing Conference

Conference Report

Unlocking Access to Affordable Credit

September 24th and 25th 2013
Nairobi, Kenya
The Hilton Hotel, Nairobi

Hosts: AKCP Association of Kenya Credit Providers; FSD Kenya Financial Sector Deepening; USAID From the American People

Sponsors: Kenya Bankers Association; TransUnion; Metropol; CRIF Decision Solutions Together to the next level

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Abbreviations and Acronyms

ADR	Alternative Dispute Resolution
AMFI	Association of Microfinance Institutions
ATMs	Automatic Teller Machines
BoP	Bottom of the Pyramid
CBA	Commercial Bank of Africa
CBK	Central Bank of Kenya
CIS	Credit Information Sharing
CRBs	Credit Reference Bureaus
DTMs	Deposit-Taking Microfinance Institutions
FSD	Financial Sector Deepening Trust – Kenya
KBA	Kenya Bankers Association
KCISI	Kenya Credit Information Sharing Initiative
Kshs	Kenya Shillings
KSMS	Kenya School of Monetary Studies
KYC	Know Your Customer
HELB	Higher Education Loans Board
IFC	International Finance Corporation
MFIs	Microfinance institutions
NPLs	Non-performing loans
BCEAO	Banque Centrale des Etats de l'Afrique de l' Ouest
PCBs	Private Credit Bureaus
SACCO	Savings and Credit Cooperative
SASRA	SACCO Societies Regulatory Authority
SMEs	Small and Medium-sized Enterprises
SSA	Sub-Saharan Africa
Telco	Telecommunications
USAID-FIRM	USAID Financial Inclusion for Rural Markets
WAMU	West African Monetary Union

About the Conference

Project Manager, KCISI
Jared Getenga

The 2nd Regional Credit Information Sharing (CIS) Conference was held in Nairobi on September 24th and September 25th 2013. This is the second conference of its kind, the first one having been held in July 2011 in Nairobi, Kenya.

The first conference presented a platform for stakeholders within the East African Community to discuss credit information sharing (CIS) best practices and the impact of CIS on individuals, credit providers and economies. The meeting was motivated by the fact that many credit providers and borrowing entities run cross-border operations in the region, which creates the need for harmonized CIS practices. It thus focused on International Standards for Credit Reporting, which were released in September 2011 by a Task Force coordinated by the World Bank, with support from the Bank for International Settlements.

This second conference emphasized the overall goal of delivering information capital in order to facilitate extension of reasonably priced credit in Africa and by so doing, catalyze economic growth. The conference theme was, ***"Credit Information Sharing: Unlocking Access to Affordable Credit."*** In addition to promoting public awareness about CIS, the conference sought to promote knowledge sharing and dissemination of best practices in CIS. It also sought to provide a platform where progress made in implementing CIS in different countries could be shared.

This year's event brought together 328 delegates representing central banks, credit providers, credit reference bureaus (CRBs) and other credit professionals from over 15 countries in Africa. Delegates heard local and international experts sharing about the importance of credit information sharing, regulatory considerations and developments in various credit markets on the continent. They also heard about the latest tools for analyzing credit information and how mobile technology can be used to create financial identities from previously excluded populations.

The conference was hosted by a partnership of several organizations that share a keen interest in seeing CIS advance not just in Kenya but across Africa. These organizations were the Association of Kenya Credit Providers (AKCP), Central Bank of Kenya (CBK), Financial Sector Deepening Kenya (FSD Kenya), and United States Agency for International Development (USAID). Special mention is also due to the Kenya Bankers Association (KBA) for their invaluable support to AKCP in planning and funding the conference.

A Successful Event

Based on feedback from participants and the extensive interaction that was witnessed throughout the conference proceedings, the 2nd Regional Information Sharing Conference proved to be a highly successful two days of learning, interaction and networking. We were immensely encouraged by the large turnout and diversity of representation at the conference, and for the support by non-Kenyan delegates, who were undeterred by the fact that the conference was held only a few days after Nairobi suffered a terrorist attack. Furthermore, the delegates set a number of ambitious yet achievable goals which are shared later in this report.

This report has been prepared in order to capture the conference proceedings for the benefit of our delegates, other CIS stakeholders in Africa and the wider public. We at AKCP trust that you will find it informative and interesting and that, in addition, it will serve as a useful reference in the years ahead.

Jared Getenga** is the Project Manager, **KCISI.
*Mr Getenga is currently responsible for steering the establishment of **AKCP.***

Keynote Addresses: Opening Ceremony

Speakers: (*Clockwise*)
Habil Olaka, *Chief Executive Officer, Kenya Bankers Association*
Benjamin Nkungi, *Chief Executive Officer, Association of Microfinance Institutions*
David Ferrand, *Director, Financial Sector Deepening Trust (FSD) Kenya*
Mark Rostal, *Chief of Party, USAID Kenya – Financial Inclusion for Rural Microenterprises (USAID Kenya FIRM)*
Jeremy Ngunze, *Deputy Chair, Kenya Bankers Association and Chief Executive Officer, CBA Kenya*

Banks and Deposit-Taking Microfinance Institutions (DTMs) have been among the first organisations to adopt CIS in Kenya. Accordingly, the opening ceremony was addressed by representatives of the associations of these two financial institution groupings, namely the Kenya Bankers Association (KBA) and the Association of Microfinance Institutions (AMFI). Other speakers included representatives of the conference hosts: AKCP, Central Bank of Kenya, FSD Kenya, and USAID-FIRM.

The KBA CEO,Mr. Habil Olaka, welcomed participants and informed them about the progress made in implementing CIS in Kenya to date. The process started with legal amendments to allow for CIS, followed by the sharing of negative information only, first among banks only, and later with DTMs as well. The latest development is positive information sharing among banks and DTMs on a pilot basis. Where the law permits, banks have also opened up their credit information to other credit providers. Mr Olaka also noted the positive impact that CIS has had in terms of reducing the incidence of non-performing loans. He echoed the call for support for AKCP from all credit providers and emphasized banks' readiness to cooperate with other credit providers.

The AMFI CEO, Mr Benjamin Nkungi, expressed satisfaction with the creation of AKCP as it sends a strong signal that CIS will not be the preserve of banks, but will be inclusive and of benefit to all. He highlighted the significant need that MFIs have for credit information, which stems from the fact that a significant number of MFI clients tend to be customers of banks before they move on to MFIs. As a result, after the banks introduced CIS, the trend has been that some of their defaulting customers have migrated to MFIs. Therefore, even with their involvement in a pilot CIS project, MFIs have reaped significant benefits, including improved loan portfolios, a reduction in serial defaulters and greater honesty from clients. This has allowed MFIs to devote more time to business development. Mr Nkungi however noted that the biggest challenges facing the growth of CIS include the institution of a comprehensive legal framework on CIS and the need for the wider populace to understand the benefits of CIS, which exceed any potential disadvantages that it may bring. MFIs also need to institute better reporting systems to participate in CIS. He looked forward to AKCP's support in overcoming these challenges.

> "Accurate information is the lifeblood of the credit industry … the poor need credit and have the capacity to take it on and manage it responsibly. However it takes accurate information for credit providers to serve them effectively. David Ferrand, Director, FSD Kenya"

In his address, David Ferrand, Director of FSD Kenya, pointed out

that accurate information is the lifeblood of the credit industry. Whereas the poor need credit and have the capacity to take it on and manage it responsibly, it takes accurate information for credit providers to serve them effectively. He also noted that CIS can be a challenge to implement due to the conflict between public and private interests. Trust is at the heart of well-functioning credit markets, and the building of trust between credit consumers and credit providers requires the latter to maintain confidentiality. He added his voice to the call for all credit providers to participate in CIS and urged them all to join AKCP and work together for its success.

Mark Rostal, Chief of Party of USAID-FIRM, focused on the important role played by CRBs in promoting the availability of affordable, risk-based credit. As evidence of USAID-FIRM's conviction on the importance of CIS to Kenya, Mr. Rostal confirmed that USAID-FIRM will support AKCP in the same way that it had previously supported the creation of another association – AMFI.

Finally, in his opening remarks, Mr. Ngunze, the Deputy Chair of the KBA, drew attention to

the support that the Governor of the Central Bank of Kenya, Professor Njuguna Ndung'u, has given to the KCISI as a true champion of industry reform. Mr. Ngunze also called for all credit providers to support AKCP. He then welcomed the Governor of the Central Bank of Kenya (CBK) to officially open the conference.

A moment of silence was observed for those who died in the tragic terrorist attack at the Westgate mall just a few days prior to the start of the conference. Delegates learnt that FSD Kenya had lost a member of staff, Ravi Ranrattam, during this event. Mr Ranrattam had been passionate about the CIS initiative. The goal of promoting financial inclusion through CIS will be pursued with renewed resolve, regardless of challenges such as terrorism.

Credit Information Sharing is Vital for Enhancing Access to Affordable Credit in Africa

Prof. Njuguna Ndung'u
Governor of the Central Bank of Kenya

*A presentation by **Prof. Njuguna Ndung'u***
***Prof. Njuguna Ndung'u,** Governor of the Central Bank of Kenya, presided over the opening ceremony of the conference. Here are highlights of his speech and the accompanying remarks.*

The need to grow financial services in Africa is evidenced by statistics that indicate low access to finance. For example, African domestic credit accounts for 44.9% of GDP compared to 156.5% in the European Union. Surveys show that most rural borrowers do not use banks. Many micro-enterprises use funds provided by family members, while small and medium-sized enterprises (SMEs) finance their operations using retained earnings. The primary reasons for the use of informal sources of finance include mistrust of banks, the high cost of bank credit and fear of formality. There is, therefore, the need for strong yet approachable credit institutions.

Information asymmetry creates difficulties for banks when it comes to assessing credit risk and thus leads to credit rationing. This is where CIS can make a significant contribution: CIS will make it possible for banks to lend using reputation collateral. CIS will also address the concerns that are continually raised about the high interest rates prevailing in the Kenyan market. The CBK supports a lower interest rate regime because access to credit is not enough; there is a need to get to the next level, which is affordable credit. However the CBK acknowledges that this can only be achieved when financiers have better information with which to evaluate credit risk. This is the kind of information that CIS can provide. Lower interest rates should therefore be a key benefit arising from CIS. In Kenya, effective CIS implementation will therefore contribute to the fulfillment of Kenya's Vision 2030 in so far as the financial sector is concerned.

Credit information usage in Kenya is gaining traction, but much work remains to be done. There are 3.1 million loan and advances accounts compared to 19 million active depositors. So far, 2.9 million credit reports have been accessed for use in credit evaluation, while 600,000 borrowers have been listed in the non-performing loan category. The users of these credit reports include banks, DTMs, and other credit providers such as the student loan provider, HELB, and two local development finance institutions: IDB Capital and the Agricultural Finance Corporation. Some employers have also started using credit reports in the assessment of the suitability of prospective employees. Already, CIS has improved risk management and expedited lending decisions, thus contributing to an improved loan repayment culture. As a result, funds previously tied up in non-performing loans have been unlocked and made available to new borrowers.

"There is need for African countries to collaborate in CIS because their financial markets are at different stages of development."

The other members of the East African Community are also making progress in CIS implementation. Rwanda, Uganda and Tanzania all have private CRBs, whilst Burundi has set up a government-owned bureau. Many other African countries have also implemented regulatory reforms to enhance their credit underwriting standards by embracing CIS. However, there is need for African countries to collaborate in CIS because their financial markets are at different stages of development. Information sharing across borders presents an opportunity to bridge various gaps that exist in these markets and weed out cross-border serial defaulters. Information asymmetry also has the potential of curtailing the entry of financial institutions into African markets thus denying them essential investment flows. We should therefore strive to deepen our credit markets through initiatives such as CIS.

It is important that this conference reviews the progress made towards implementing the International Credit Reporting Standards that were discussed during the first regional conference held in 2011. This is in light of the challenges facing the implementation of CIS which, among others, include data quality and data protection, limited access to rural customers and a reliable dispute resolution mechanism. There are also a number of legislative barriers that need to be overcome. The good news, however, is that all these challenges are being addressed. For example, in support of the growth of CIS, and to enable CRBs enhance their reach into the rural areas in a cost-effective manner, CBK will soon publish the 2013 CRB regulations allowing CRBs to use agents. The Regulations have new provisions towards enhanced customer protection and higher standards for data collection, storage, processing and use. As a foretaste of the impact of these regulatory initiatives, the number of complaints reaching the Governor in relation to credit reports is already reducing.

The CIS Regional Conference is being held at a time when Kenya is unveiling five key reforms that will significantly transform the effectiveness of what is an important beacon of financial infrastructure. The five landmark developments are:

(i) introduction of positive data sharing;
(ii) inclusion of Deposit Taking Microfinance Institutions (DTMs) in the CIS mechanism;
(iii) implementing an Alternative Dispute Resolution (ADR) mechanism;
(iv) permitting credit bureaus to open agencies, and;
(v) the registration of the Association of Kenya Credit Providers (AKCP) to spearhead a more comprehensive CIS mechanism.

The move from sharing only negative information to positive information, and eventually to the inclusion of all credit providers will help build a comprehensive picture of a borrower's behaviour. This will avoid customer over-indebtedness and prevent migration of serial defaulters to lenders who do not share in the CIS system. It will also promote product innovation and enhance consumer protection. Credit bureaus will, therefore, be in a position to provide credit scores using positive data from various lenders, thus allowing borrowers to use these scores to negotiate for lower interest rates. The ADR, which will speed up dispute resolution, includes a CIS Customer Complaints Office that will serve as an interim Credit Information Ombudsman. The AKCP will promote self-regulation among licensed and non-licensed credit providers and ensure a level playing field for credit providers who join the information sharing mechanism.

CBK is delighted with AKCP's formation and will support the organization to ensure its success. To start with, CBK through the Kenya School of Monetary Studies (KSMS) will provide free office space to AKCP to ensure it starts on a sound footing and assured neutrality. CBK is keenly waiting to see AKCP live up to its motto of ***"unlocking access to affordable credit.***"

Launch of the Association of Kenya Credit Providers (AKCP)

AKCP launch ceremony

The 2nd Regional Conference served as a launching pad for the Association of Kenya Credit Providers (AKCP) that was registered on 16th April 2013. The launch ceremony was presided over by the Governor of the Central Bank of Kenya, Prof. Njuguna Ndung'u. In attendance were the Project Manager of KCISI, Jared Getenga and representatives of key financial supporters of CIS in Kenya – Mark Rostal of USAID FIRM, David Ferrand of FSD Kenya and Jeremy Ngunze and Habil Olaka of KBA.

The Kenya Credit Information Sharing Initiative (KCISI) was set up in August 2009 as a joint CBK-KBA initiative. KCISI was set up to coordinate efforts to build a sustainable and holistic information sharing with a view to achieving positive economic impact in two ways: reducing NPLs and improving access to finance by lowering the cost of borrowing to creditworthy customers. However KCISI had no legal status. Additionally, there is no single institution in Kenya that has an over-arching strategic focus to build an inclusive credit information market.

Further, although banks and deposit taking MFIs were early participants in CIS, and whereas the Kenyan banking sector is the largest in the financial services industry in terms of assets, it is not the largest supplier of credit in terms of number of borrowers. The MFI and credit/union SACCO industry exceed the banking sector in terms of number of borrowers probably by a ratio of at least 3:1. Furthermore, anecdotal evidence points to potential consumers who have multiple borrowings within SACCOs/MFIs and banks. An initiative was therefore needed that would allow a broader range of credit providers to participate in CIS. This includes institutions such as credit-only MFIs, SACCOs, HELB, local development finance/specialist lending institutions such as the Agricultural Finance Corporation, Government enterprise finance initiatives (e.g. Youth Fund and Women's Enterprise Fund), hire purchase companies, leasing companies, credit card companies, and utilities. A concerted effort needed to be made to lay the foundation for all these credit providers to exchange reliable information in a timely manner.

It is important to note that the objective was not just to benefit lenders. A vibrant CIS environment yields significant benefits to borrowers as well. Lending to the small, medium and micro enterprise sector will be encouraged to a far greater extent in view of more pertinent information being readily available thus reducing the cost of due diligence on these kinds of businesses. There will also be macro-economic benefits in terms of responsible borrowing: there is sufficient evidence from large non-bank financial service economies such as Bolivia and Morocco that significant consumer indebtedness occurs in the wake of, amongst others, information asymmetries.

In early 2012, a national CIS forum was formed with a view to work towards the creation of an association of credit providers in Kenya. The Association of Kenya Credit Providers (AKCP) was finally registered in April 2013 in order to promote and facilitate CIS in Kenya by all credit providers. AKCP will thus also take over the activities of the Kenya Credit Information Sharing Initiative (KCISI).

AKCP's overarching objective is "to create an enabling environment for credit providers to conduct business in an orderly and disciplined manner for the ultimate benefit of the consumers through the use of credit information sharing." This will be achieved through:

- Education and communication activities to ensure that the value of credit information sharing to the economy is fully understood;
- Implementation of a self-regulatory mechanism to promote the highest standards in consumer protection in relation to submission, use, and dissemination of credit information among members and credit reference bureaus by providing a code of conduct to be observed by all members;
- Establishment of a dispute resolution mechanism for resolution of credit-related disputes between members, members and their customers, members and the regulators or any other related dispute.

The availability of credit information will facilitate a transition from collateral-based lending to greater reliance on information in the credit risk appraisal process. For this reason, the result of AKCP's efforts should be a more inclusive financial sector characterized by increased access to credit, particularly by market segments that have previously experienced constraints in accessing funding such as SMEs. AKCP also envisions a future characterized by affordable credit.

Members

Membership of AKCP will be voluntary. The following organizations subscribed to the AKCP constitution confirming its inclusive nature:

- Africa Trade Insurance Agency
- Agricultural Finance Corporation
- Association of Microfinance Institutions of Kenya
- Higher Education Loans Board
- IDB Capital
- Industrial and Commercial Development Corporation (ICDC)
- Lease Association of Kenya
- Kenya Bankers Association
- Kenya Industrial Estates (KIE)
- Kenya Tourism Development Corporation
- Kenya Union of Savings and Credit Cooperative Societies (KUSCCO)
- Nairobi City Water and Sewerage Company
- Shelter Afrique
- Women Enterprise Fund

A CIS toolkit has been prepared to help induct new members of the AKCP and to serve both as a reference manual for staff of credit providers and an operations handbook for AKCP staff. It also acts as a tool for knowledge exchange with CIS implementing agencies in and outside the region on Kenya's approach to CIS implementation.

Funding

As a membership association, AKCP will be funded by members' contributions. This will be supplemented by support from financial partners. Such support will be primarily for use in capacity building of both members and AKCP secretariat staff, and also for building public awareness about CIS. Significant funding support from FSD Kenya has already been secured, and CBK, through KSMS, will provide free office space.

CIS Benefits: Roundtable Discussion

Roundtable discussion -CEOs

A discussion on CIS benefits was chaired by the Governor of the Central Bank of Kenya, Prof. Njuguna Ndung'u. The panelists represented different credit providers in Kenya: the banking sector was represented by Dr. Julius Kipngetich, COO of Equity Bank; Mr. Jeremy Ngunze, the CEO of Commercial Bank of Africa's (CBA) Kenyan operations, and Mr. Arun Mathur, CEO, I&M Bank. Mr. Charles Ringera, CEO, Higher Education Loans Board (HELB) represented specialist lenders whilst Mr. John Mwara, CEO, Faulu DTM, represented MFIs.

The Governor introduced the discussion by reaffirming that the conference's purpose was to provide a forum to explore ways of reducing credit risk at local, international and institutional levels, with affordable credit as the end-result. The following were the highlights of the roundtable discussion.

Dr. Kipngetich lauded AKCP as a public solution to a public problem and as a positive move away from the tendency by Kenyans to develop private solutions to public problems. Equity Bank has been working on a private solution involving an SME credit scoring tool but recognizes that AKCP will provide an industry-wide solution that is worthy of Equity Bank's support. He also indicated that AKCP is a perfect example of co-opetitionas credit providers will co-operate and compete simultaneously. AKCP will also promote good citizenship as it supports the implementation of Chapter 6 of the Constitution of Kenya which necessitates ethical behaviour by all those seeking appointment to, or holding, public office. A clean report from a credit reference bureau will thus become one way the public can assess the ethical standing of the affected persons.

AKCP will also support a joint ICT platform to share credit information and, in this regard, he recommended that it would be good to work towards bank branches gaining online access to credit reports in real time. AKCP will also provide a dispute resolution mechanism for the benefit of consumers and enhance industry standards in credit provision. A good motto for AKCP to adopt in order to communicate CIS benefits to the public, he suggested, could be: "Keep your credit score healthy and enjoy lower interest rates."

Mr. Ngunze illustrated the benefits of CIS by talking about M-Shwari, a mobile banking product aimed at promoting financial inclusion, which was established by CBA in partnership with Kenya's leading mobile phone operator, Safaricom. All transactions, including savings, loan and loan repayments are carried out by mobile phone. The M-Shwari software platform determines the credit limit of a particular customer by using information from the telco world i.e. air time usage and MPESA transactions. Once a customer takes out a loan, the software platform then incorporates positive information from the savings record and loan repayment history of the customer. M-Shwari advances loans of amounts as low Kshs 100 (slightly over US$ 1). So far, loans worth US$ 50 million have been advanced and the product has 4.7 million customers with more customers being added daily. Mr. Ngunze shared some thoughts on how to help entrench the use of positive data to assess credit risk. This included banks giving free credit reports to their customers, and MFIs avoiding practices that negate CIS e.g. requesting a customer to get a letter of clearance from their bank rather than the MFI seeking a credit report. He also advised AKCP to invest heavily in information to create awareness.

Mr. Ringera shared in detail about the critical role HELB plays in facilitating access to higher education through the provision of low cost loans. HELB provides loans to undergraduate and post-graduate university students, and its mandate was recently expanded to include nurses, paramedics and students of technical and vocational training institutions. HELB has 150,000 clients and assets of Kshs 33.3 billion of which Kshs 17 billion represents loans that are yet to fall due for repayment. HELB's NPL ratio is 38%, caused by student loans worth Kshs 7.1 billion which are in arrears. CIS is seen by HELB as the best way to recover the outstanding debt and further, deter borrowers from defaulting or delaying to repay their loans. A student loan is usually a person's first experience with credit and how they treat that loan is likely to be a strong predictor of their credit behaviour. Recovery of this debt is essential if HELB is to meet its mandate, as by 2017 there will be 24 million potential recipients of HELB support. Mr. Ringera pointed out that failure to repay a HELB loan has serious ramifications as it denies other Kenyans access to higher education. To date, CIS has had a positive impact on loan recovery: the requirement for aspirants for public offices to obtain a clearance certificate from HELB has led to an increase in recovery from past defaulters.

Mr. Mathur pointed out the benefits of CIS from the perspective of a bank that focuses on corporate banking, especially for the manufacturing sector. He indicated that since the advent of CIS among banks, NPLs have fallen to below 1%. He emphasized that CIS, once fully implemented, will result in faster service to the customer as it will in certain cases allow the bank to bypass the long time it typically takes to register collateral. He also called for SMEs to capitalize on CIS to provide information on those corporates that do not pay the amounts they owe SMEs (arising from supply of goods and services) within a reasonable timeframe thus affecting not only the SMEs cash flow but also the SMEs credit rating.

Mr. Mwara drew attention to the fact that although microfinance is the fastest growing industry in the world, not all the results have been positive. Among the challenges has been over-indebtedness by clients due to the tendency to take out multiple loans with many MFIs. To address this challenge, Faulu Kenya had in the past developed a proprietary credit scoring mechanism, an endeavour that though costly, had yielded positive results. Among the benefits of CIS will therefore include enabling MFIs to identify and access good borrowers and thus focus on business and product development rather than on following up serial defaulters. That way, institutions will find ways to reward good borrowers with lower interest rates, which could include putting in place loyalty/reward systems. CIS will also make it possible to avail credit without recourse to collateral: loans will be "character-based." Clients will also avoid over-indebtedness. Mr. Mwara felt that it may be necessary to compel SACCOs to join AKCP by law in order to ensure the timely compilation of an inclusive picture of a customer's credit behaviour.

The Governor identified some interesting facts that emerged from the roundtable session as being the following:

- For credit markets to develop, all credit providers should participate in CIS;
- Information should be online, real time and comprehensive. This calls for an accurate, robust CIS platform;
- Customers are not averse to tools that use credit scores to determine how much they can borrow: for example, every ***M-Shwari*** user already has information that can be used to arrive at a credit limit;
- CIS allows a financier to construct a targeted intervention;
- CIS will lead to cost savings in credit risk evaluation and faster service to the customer.

Participants from the audience made a number of contributions. A delegate from Nigeria lauded AKCP as an initiative worth emulating. AKCP does not eliminate the need for CRBs: it simply provides a platform to submit the information timeously, accurately and in a uniform format. Mr. James Murigu of Metropol mentioned the need for legislation (e.g. a Prompt Payment Act such as exists in the United States) to ensure that SMEs are treated equitably by government and large corporates when it comes to receiving payment for goods/services rendered. AKCP can thus provide a platform for SMEs to use to advocate for prompt settlement of amounts due to SMEs by Government and large corporates. Other participants mentioned that tax authorities should extend a tax amnesty to SMEs in order to bring more of them into the formal financial system, including the formal banking system.

How CIS Transforms Lending and Borrowing Conditions

A skit by Sterling Quality Company Ltd

The skit provided a light-hearted illustration of a bank's dealings with two customers with markedly different financial profiles and credit behaviour. The first customer was a well-educated, wealthy and influential businessman. The second customer was an illiterate rural woman engaged in farming.

The bank initially adopted a traditional approach to credit risk evaluation, and ended up advancing unsecured credit to the influential businessman on the basis of his financial standing. It insisted on collateral from the rural farmer and thus did not advance credit to her.

Eventually the businessman failed to service the loan, and the bank could not trace him to recover the loan. Later on, once the bank had access to CIS, it was able to identify that the businessman was a high credit risk as he had delinquent accounts on his credit report, while the rural farmer was a low credit risk. The rural farmer is thus able to get unsecured credit while the urban businessman is denied credit until he has acted to regularize the delinquent account.

Case Studies of CIS in Sub-Saharan Africa

Moyo Donde

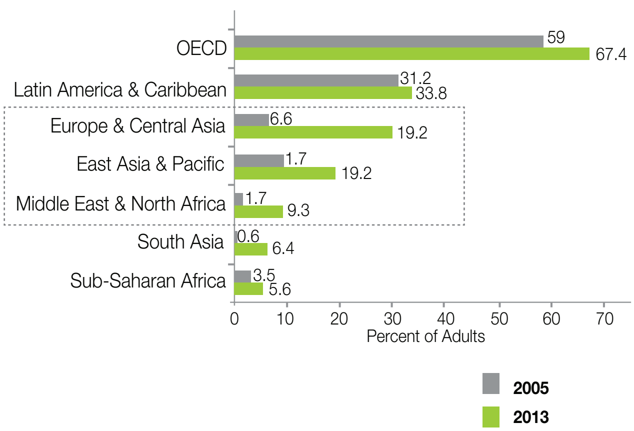
Agata Szydlowska

The work of the IFC Global Credit Bureau Program was presented by two officers of the IFC, Agata Szydlowska and Moyo Donde. This was followed by a presentation of two case studies from Ghana and the BCEAO region by representatives of the respective Central Banks.

Studies show that there is a direct correlation between private credit bureaus (PCBs) and access to finance. PCBs are a critical part of the financial infrastructure that supports both access to finance and financial stability. To promote the development of PCBs, in 2005, the IFC instituted the Global Credit Bureau Program which, so far, has impacted 60 countries. Under this program, the IFC provides technical support for private CRB development, public credit registry development and legal/regulatory development. The IFC has completed programs in Ghana, Tanzania, Ethiopia, Sierra Leone, Liberia, Burundi and WAMU (UEMOA), and has upcoming /ongoing projects in Zambia, Malawi, Nigeria and SADC. Globally, Sub-Saharan Africa (SSA) has the lowest penetration of PCBs. However, between 2005 and 2013, the penetration rate rose appreciably from 3.5% to 5.6% of the population.

Whereas the prevalence of PCBs is an important indicator, the kind of information that is shared is also critical. This aspect of progress in CIS implementation is gauged using a Credit Information Index. In computing the index, an assessment is carried out to find out whether both firms and individuals are listed, both positive and negative information is shared, retailers and/or utilities submit data, 5 or more years of historical data is submitted, all loans included amount to over 1% GNI per capita and consumers' right to inspect their CRB data is guaranteed by law. Sub-Saharan Africa also lags behind in the amount of credit information that is shared. Out of a maximum possible score of 6 (one point for each component of the index), SSA's Credit Information Index score was 2.0 in 2013, up from 1.5 in 2008. IFC has identified that the main challenges facing the growth of CIS in Africa are data quality, suitable CR models in small markets (the size of the market impacts the economic viability of CRBs), capacity constraints in the markets to manage CIS implementation and assessment of the impact achieved in the medium to long term.

Figure 1: Average CRB coverage (% of population)



Source: IFC, Doing Business Survey, 2013.

The case studies presented here illustrate the progress in CIS that has been made possible with the support of the IFC Global Credit Bureau Program to its clients.

Case Study: Ghana

Presented by Franklin Belnye, Bank Supervision Department, Bank of Ghana

The legal framework for the establishment of CIS in Ghana is the Credit Reporting Act, 2007 (Act 726). The Act bestows overall supervisory and regulatory authority over credit bureaus to the Bank of Ghana. This law also provides for the operation of a private credit bureau system, as a result of which the first credit report was issued in June 2010.

The law provides for submission of data by private financial institutions (which include banks, MFIs, moneylenders, insurance companies, and security industry players), and public sources. The latter include the Registrar General's Department which houses details of registered businesses, the Lands Commission (which holds information on interests in immovable property), the Collateral Registry (which provides documents charges and encumbrances on assets), Ghana Police Service (which shares information on investigation reports and convictions on economic crimes) and Registries of courts and tribunals (i.e. judgment debts, insolvency proceedings, criminal convictions, business wound ups, etc.).

At present there are three licensed credit bureaus in Ghana. Banks and non-bank financial institutions submit information to these CRBs. 137 rural community banks are also to submit data to CRBs with effect from October 2013. The aforementioned public sources also submit data to CRBs. Banks are required to submit the data within 72 hours of the credit agreement being executed, provided their customer has given consent to do so. Banks must also provide monthly status updates.

The primary challenges facing CIS implementation in Ghana include first, lack of a unique identifier for each borrower. This is compounded by unreliable date of birth, poor address system, identical names, etc. Secondly, poor data quality emerges as a challenge. This is brought about by issues such as data fields wrongly populated, names misspelt and dates captured in the wrong format, etc. Thirdly, some data providers are not submitting full-file information on all their customers as required by law for fear of their customers getting poached by competitors.

The industry is also faced with some legislative constraints, including the need for consent of credit subjects before reporting positive data, cumbersome preconditions for reporting negative data and restricted data sources.

In spite of the initial problems, credit information sharing appears to have yielded significant results in bringing more transparency to the lending function in Ghana and a decline in NPLs has been noted from 16.18% in 2010 to 12.82% in June 2013. However, only 70,000 credit reports have so far been accessed. At that rate, it could take 5-7 years for a CRB to become profitable, as it is a volume business.

Case Study: Banque Central des Etats de l'Afrique de l'Ouest (BCEAO)

Presented by Mr Symphorien Agbessadji, Deputy Director, Banking Activities and Economy Financing

The IFC provided advisory services for the establishment of a regional private credit bureau. The Western Africa Economic and Monetary Union comprises eight countries - Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The region has over 150 banks, and has also attracted many international banks e.g. BNP and Société Générale S.A., a French multinational banking and financial services company headquartered in Paris. Given the economic and monetary union, it is important that bank loan portfolios across the region be strong, hence the IFC project in CIS. The project covers all eight countries and thus needed to be executed simultaneously. The CRB is hosted at the regional central bank, which rewards banks that adhere to best practice in the use of CIS.

Agata Szydlowska
is a Financial Specialist with the IFC responsible for credit bureau projects across the Sub Saharan Africa region.

Violet Moyo Donde
is an Operations Officer with the IFC's Sub Saharan Africa Credit Bureau Program.

Franklin Belyne
is a Senior Executive of Bank Supervision Department, Bank of Ghana.

Symphorien Agbessadi
is Deputy Director, Banking Activities and Economy Financing, BCEAO.

Impact of Credit Bureaus on Financial Inclusion

A presentation by Sam Omukoko

Metropol Ltd sponsored a luncheon on the first day of the conference. Metropol's Managing Director, Mr Sam Omukoko made a presentation on which this article is based.

SME Business Solutions (SMEBS) is a membership program from Metropol that enables lenders and trade credit suppliers to increase the flow of credit to Small and Medium-size Enterprises (SMEs). It creates an exchange mechanism of information that allows the establishment of profitable relationships between credit providers and SME businesses. SMEs need to be visible to lenders in a transparent and professional manner. SMEBS enables SMEs to establish their business profiles and create an independent and reliable reference point for credit providers seeking to extend credit to SME businesses.

The SMEBS program proactively recruits SME businesses to help them to build good business and credit profiles. SMEs are encouraged to become members of the SMEBS program to obtain a SMEBS eCertification and a SMEBS Rating in order to increase the possibility of accessing affordable credit from credit providers. For lenders, being a member of the SMEBS program delivers competitive advantages and a suite of benefits that increase profits by lowering the costs and risks of providing credit, while opening up access to a previously underserved market segment.

Access to the SMEBS Rating provides:

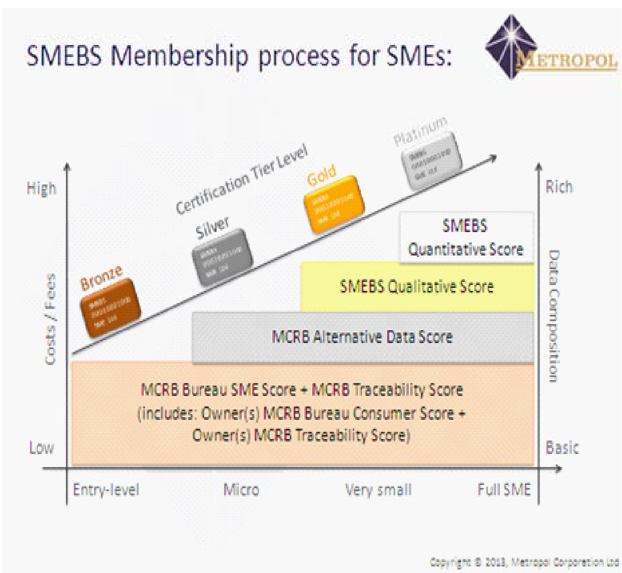
- An objective assessment, based on a robust methodology, of the risk that the SME will not pay back a loan or make repayments on time.
- The ability to fast-track and reduce the overheads of the approval process for new applications and renewals of loans to SMEs with a SMEBS Rating.
- The introduction of risk-based pricing of loan interest rates to increase acceptance rates while ensuring portfolio profitability.
- The possibility to access credit insurance through African

Trade Insurance Agency (ATIA) at individual or portfolio level for loans to SMEs with SMEBS Ratings.

Other SMEBS program membership benefits include co-branded marketing material, exclusivity of specific product offering(s) to SME members of SMEBS and marketing of product offering(s) to SME members of SMEBS through a dedicated mobile-ready web portal. In return, SMEBS program membership requires the lender to commit to exclusive use of Metropol CRB for SME credit report inquiries and payment of a nominal on-boarding fee to cover the costs of developing the co-branded marketing material, training of lender's staff on SMEBS Rating and maintenance of the SMEBS market web portal.

The SMEBS process is designed to accommodate the needs of the various sizes of small business from entry-level, through micro and very small, up to full SME size. This ensures appropriate SMEBS fees for the SME, the right level of data required to be collected and verified for SMEBS, costs of SMEBS process and costs for inquiries to MCRB for SMEBS reports.

Figure 2: SMEBS Membership process



Source: Metropol Corporation Ltd.

SMEBS Products: The focus of SMEBS is to provide SMEs with specific products and solutions that will help them to grow their businesses profitably. The focus areas include access to affordable credit (by registering with the Credit Bureau) and induction training /capacity building in credit management, credit policy formulation, marketing, access to markets, and preparation of business plans and funding proposals.

Sam Omukoko *is the founder, Group Managing Director and Chief Executive of Metropol Corporation Limited.*

Supervision of the Credit Reporting Industry

A presentation by Peter Sheerin and Gabriel Davel

This article is based on a presentation made by Peter Sheerin and Gabriel Davel. Their presentation drew on experiences from a number of countries in which the IFC and partners are working with regulators to implement a framework for the regulation of credit bureaus and credit information sharing. It also drew on the experience from leading dispensations such as the US and EU, as well as South Africa.

International standards for the regulation of credit bureaus do not yet exist. However, the process of developing such standards is well under way with the World Bank's "Principles of Credit Reporting" as the first significant step in that direction.

A credit bureau manages private data in respect of the citizens in each country. As such, it warrants the systematic supervision by financial sector supervisors. The supervision is equally warranted by the importance of credit information sharing for risk management in the banking sector, which plays an important economic role in improving access to finance for both consumers and SMEs, as well as creating protection against over-indebtedness.

Most bank supervisors make only limited use of credit information in bank risk monitoring. Yet credit information is an area of huge potential benefit. CRBs enable regulators to improve their monitoring of trends in credit risk. CRBs also enable regulators to improve stress testing, particularly with regard to the impact of

economic changes on specific institutions. Credit information could, for example, enable bank supervisors to assess the impact of specific economic events on the banking sector and on specific banks. These would include events such as a change in export commodity prices, a reduction in remittance flows, marked fluctuations in foreign exchange rates or the introduction of import and/or export duties. In each of these cases, the impact on the bank is assessed through the sensitivity of its loan portfolio to such changes.

Close cooperation between regulators and credit bureaus is advisable. Significant benefits for financial regulation will result if CRBs are required to provide both aggregated and institution-specific statistics. Such statistics can be applied for both on-site and off-site bank supervision.

Credit bureau information enables improved monitoring of credit cycles. In a growing market, aggressive loan portfolio growth and new market entrants often lead to increased debt stress. Easy access to new loans enables borrowers to take new loans from Peter to pay Paul. High household liquidity implies that high levels of debt stress may not immediately translate into increased arrears and defaults. Comprehensive CIS will enable regulators to detect debt stress at an early stage and take corrective action. It will also enable bank and non-bank lenders to identify high risk clients.

> "CRB data could play a critical role in credit market monitoring and provide valuable information for bank supervisors"

Complaints resolution and ADR mechanisms have an important consumer protection function in respect of CIS. An effective ADR mechanism ensures that specific consumer complaints are addressed and avoids the cost and risk that may result from consumers having to take legal action to address data inaccuracies.

In markets with newly established credit bureaus, the active support of the regulator plays an important part in the effectiveness of CIS. Both Cambodia and Kenya provide examples of the level of progress that is possible when regulators actively support CIS and encourage banks to participate.

Gabriel Davel
is a Consultant for the IFC.
He is also the KCISI Project Mentor.

Peter Sheerin
is Credit Bureau and Risk Management Advisor, Access to Finance, International Finance Corporation. He has served as an IFC Credit Bureau and Risk Management Advisor since December 2005.

Alternative Data to Drive Financial Inclusion

A presentation by Alan Goodrich

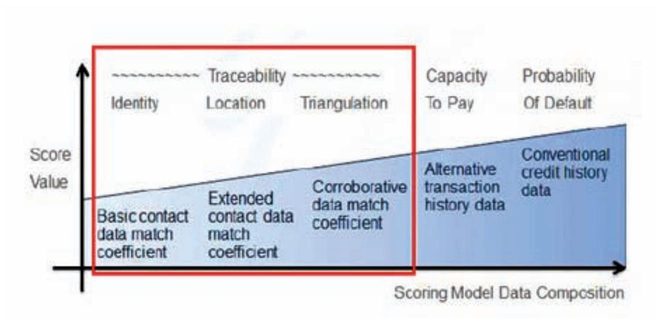
In his presentation, the founder of G-AnalytiX sheds light on the innovative ways in which financial identities are being created by hitherto excluded rural and farming populations, thus resulting in enhanced access to finance. This article is a summary of the said presentation.

G-AnalytiX data scientists and product innovation professionals work with clients and partners to increase reach, revenue and profit within four key pillars of financial services in developing markets. These are financial inclusion, market access, operational efficiency and prudential risk-based supervision.

Credit reference bureaus are enablers on the road towards achieving financial inclusion. This is demonstrated by the fact that they create comprehensive financial identities of individuals and corporates from a variety of sources, while stimulating and encouraging economic growth. These sources go beyond financial institutions to include mobile network operators, mobile money operators, government, agriculture transaction networks, credit card companies, and switches and utilities amongst others.

Given the rudimentary state of credit information in Sub-Saharan Africa, the creation of financial identities needs to be built incrementally based on available data, starting with basic contact information acquired through alternative data sources such as agricultural transaction networks and mobile phone usage. Thereafter one can move on to positive and negative credit history. Therefore, financial identities have essentially three components: Traceability (i.e. name and contact information), Ability to Pay, and Probability of Default.

Figure 3: Creating Financial Identities



Source: G-AnalytiX

At the bottom of the pyramid (BOP), the lack of formal credit history means that determining a confidence level that a borrower is traceable is essential to limiting or mitigating the risks. The information a lender has available to it in isolation regarding customers' contact information provides a comparatively low confidence level of traceability compared to leveraging a pool of data from multiple sources. G-AnalytiX helps enhance access to finance by BOP customers by working with CRBs and financial services providers to build their financial identities. Using models developed by G-AnalytiX, subscribers can leverage data collected from multiple sources and thus assess the accuracy of the contact information provided by the applicant through the computation of data match coefficients. Kenyan telecommunication companies ('telcos') have teamed up with lenders to service BOP clients, but also could be at higher risk than they realize because they also have challenges in traceability due to subscriber registration irregularities. For example, people have been known to use identity cards of relatives and friends to register a phone line. Likewise, the contact information held on databases of credit providers is not as accurate as one might assume. Financial service provider data is often out-of-date for customers, especially those that have not recently borrowed, which creates a need to leverage data from multiple sources. G-AnalytiX is currently working with Metropol CRB in Kenya to develop a traceability score based on the contact information held in Metropol's database, which will help address this issue.

G-AnalytiX also helps financial service providers use unconventional information to create financial identities. An example is the partnership with MobiPay, a mobile payment platform provider, which enhances access to finance by farmers. MobiPay has set up AgriLife, a data management and transaction network platform facilitating and providing visibility over the physical and financial supply chain for small-holder farmers. Using MobiPay's AgriLife platform, information from mobile wallet transactions (e.g. cash movements) together with the volume and value of farm produce (e.g. milk deliveries) is used to build a financial identity that can be used to assess a farmer's creditworthiness. AgriLife was launched in late 2012, and it is already facilitating over USD 2 million in revolving credit lines to some 120,000 small-holder farmers in Kenya and Uganda. In Zimbabwe, AgriLife now has over 100,000 farmers and traders in the process of coming on-board.

G-AnalytiX has also worked with Goldrock Capital on a product called Mkwanja, which enabled users to receive loans through their mobile phones. Studies have shown that mobile phone usage can be used to estimate a subscriber's income. In addition, mobile phone usage has been found to be highly predictive and not random and can thus be used to create financial identities. The model developed for the ***Mkwanja*** product showed high levels of predictive power. The increasing adoption of electronic payments is also now helping to generate information that can be used to create financial identities for SMEs. G-AnalytiX has developed models that can be used in this arena as well.

Alternative data combined with innovation in developing predictive models is critical to creating inclusive financial identities. It is also critical for increasing customer profitability in the SME and retail sectors. However using these financial identifies to assess credit risk is not enough: financial services providers also need to innovate and offer appropriate products that fit these target segments.

Alan Goodrich
is founder and Managing Director of Goodrich AnalytiX Ltd (G-AnalytiX).

Governance of Private Credit Bureaus

A workshop facilitated by Peter Sheerin and Gabriel Davel

Based on their broad experience in diverse markets, the two facilitators elucidated the importance of governance in the success of credit bureaus and credit markets in general. Their presentation, as well as the contents of the interactive discussion, is captured in this article.

Private credit bureaus operate in highly complex environments that encompass various legislations that govern credit, bank confidentiality and data protection among others. At the same time, they are profit making business, but which serve a public interest.

Key concerns in bureau supervision

In many instances, whereas regulators have good experience in bank supervision, they may not have experience in bureau regulation. The key concerns in bureau governance are transparency, accessibility of credit information and data quality/accuracy. Bureaus are responsible to relatively uniformed stakeholders, mainly its customers, but also to powerful stakeholders such as technology vendors, banks and regulatory authorities that can impose their will on the bureaus. For a bureau to succeed it must secure public confidence and public good will, all of which must be borne in mind by the regulator when making decisions.

Regulators grapple with the challenge of whether or not to set minimum capital requirements, a factor which may be helpful, especially where the industry is in danger of being invaded by unsuitable investors. Diverse ownership structures and operating models of bureaus also make it difficult for the regulator to enforce industry-wide regulations.

Regulators also need to determine how many bureaus to licence in a market. Whereas competition is good, too many bureaus in a small market can be disastrous to the industry. For example, Ecuador started with 6 bureaus, but in 10 years only one of them survived as the rest failed due to lack of profitability.

CRB Board responsibilities and challenges

The CRB Board responsibilities and challenges are similar to that of any other business. These include avoiding conflicts of interest between personal and corporate responsibility, which has been the bane of many bureau boards. The board must ensure ethics and professionalism, especially in the area of confidentiality of privileged information, which must never be pawned off to third parties or used for undue private gain through insider trading. There is also need for boards to have independent directors, who may bring much-needed skills and experience as well as goodwill to the CRB. To effectively discharge its mandate, each and every CRB board should have fundamental governance documents such as charter and code of regulations.

Role of regulators in CRB governance

The regulator must streamline regulations for the setting up and running of credit bureaus. These should include stringent audit, compliance and reporting structures. In addition, the regulator must elucidate regulations and policies to regulate the capacity needed to start and run bureaus. In all, the laws, policies and regulations should ensure that credit bureaus serve the wider public interest. They should engender collective decision-making that balances and harmonises the various competing interests for the larger public good. The regulator should stipulate the composition of boards, especially to avoid conflict of interest in markets where, for example, it is prohibited for credit providers to also operate bureaus or sit in their boards. Among the key issues that emerged from the Q&A session at the end of the presentation include the following:

- There are various models for handling conflicts of interest in CRBs. However there is no standard that fits all, and each country and region must use only what works in their context. IFC and the World Bank are at the forefront of developing working models.

- Businesses are increasingly transnational. Depending on the context, credit reference from one country may be usable or not acceptable in another country. Even where it is accepted, the presence of ADR mechanisms are critical to resolve the challenges and disputes that are bound to arise.

- Most bureaus are very small and unprofitable and may not afford robust audit and compliance resources and structures. Bureau profitability thus depends on its shareholder and management capacity.

- The industry structure is also important, and it may be preferable to have a few strong bureaus in an economy than many weak ones. It is important to note that credit bureaus make money by selling credit reports. Where there are buyers of that information, they will make profits. The best strategy may thus be to widen the uses of such reports and deepen the markets, in general improving the demand side for bureau services.

Conference Pictorial

Decision Solutions

A presentation by Wachira Ndege

TransUnion sponsored a breakfast during the conference followed by a presentation by two senior executives from TransUnion. The presentation focused on TransUnion's capabilities and a credit information analytical tool "Decision Edger." This article, written by Wachira Ndege, CEO of TransUnion-Kenya, captures the presentation.

About TransUnion

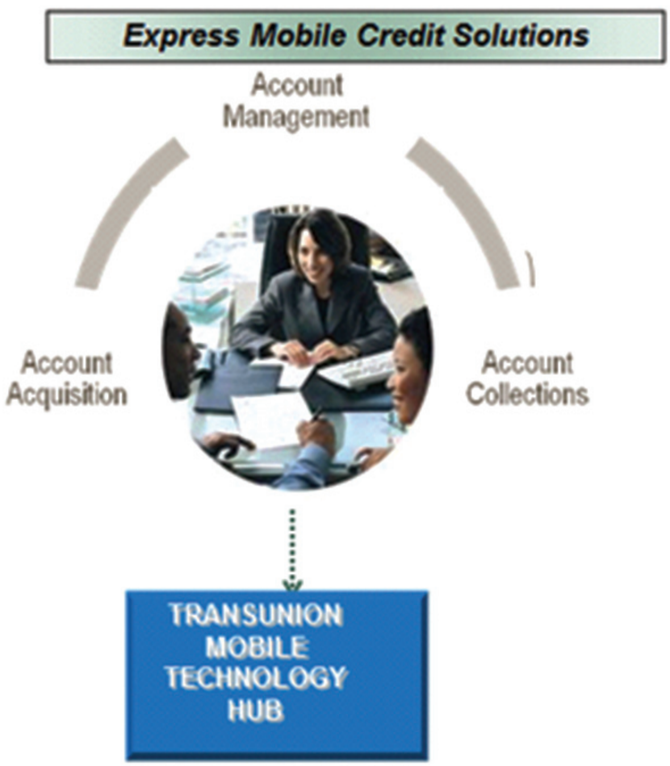
TransUnion, formerly known as CRB-Africa, was the first licensed credit reference bureau in Kenya. Headquartered in Chicago, USA, and spanning more than 30 countries, TransUnion is a global leader in credit information and information management services. TransUnion creates economic and competitive advantages for businesses and consumers. For business, TransUnion creates solutions to help them make better decisions and be more profitable through gathering, analyzing and delivering information. For consumers, TransUnion provides the tools, resources and education they need to help manage their credit health and achieve their financial goals.

The TransUnion Africa footprint extends throughout the continent, including Kenya, Botswana, Malawi, Mozambique, Namibia, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, where TransUnion, maintains credit histories on more than 30 million customers and over 2 million credit-active businesses. With over 700 employees throughout the region, TransUnion specializes in combining comprehensive data intelligence and advanced analytics and decisioning that allows clients to make objective and clear decisions to minimize business risk and implement growth opportunities to expand their businesses.

From an Analytics and Decisioning perspective, TransUnion is the leading provider of credit and decisioning model development and intelligence solutions. Combining the most accurate data and powerful analytical techniques, TransUnion is able to design customised models to help clients develop the most effective business strategies. Furthermore, TransUnion's services also include software solutions for application processing and rule-based assessments in addition to on-going monitoring services of consumer behaviour and management at every stage of the credit lifecycle. The scope of this article highlights one such solution – TransUnion DecisionEdge.

TransUnion DecisionEdge is an end-to-end automated decisioning platform that fulfils two distinct functions: a stand-alone decisioning and automation solution which can provide value at each phase of the credit lifecycle, and; a platform upon which to host a wide variety of TransUnion's products and solutions. DecisionEdge can be used to streamline processes and enable accurate decision making in today's challenging and ever-changing environment with greater accuracy, consistency and predictive power. The solution offers several unique features that include:

- Fast implementation, flexibility and scalability
- Interface, monitoring of volumes and history of deals
- Instant credit decisions
- Financial risk calculation by integrating credit data into an objective risk ranking
- Scorecard implementation
- Multiple product support
- Reports and document generation/ management
- Ease of integration with the credit bureau and any other client-owned data sources
- Communication via email, SMS and system to system



Source: TransUnion

Equally, the benefits of DecisionEdge are created across the various credit life cycles–account acquisition, account management and collections and comprise:

- Better and faster decision making
- Increased approval rate and revenue while balancing risk
- Improved customer satisfaction with instant decisions
- Low cost of entry and low cost of ownership–elimination of capital expenditure and dramatic reduction of IT costs
- No maintenance, support and operational headache as the solution is fully hosted
- Fast implementation and leverage of global expertise
- Improved compliance with full audit trail of decisions and documents to be viewed at any stage by management
- Savings on document printing and courier costs as all documents will be electronically saved to the unique application number
- Reduction in both bad debts and fraud due to automation of business rules and verification of products
- Production of management reports e.g. number of deals approved per month, per region, per user or average turnaround time

- Calculation of credit limits for new and existing customers based on pre-determined criteria
- Allowing for custom "business rules" to apply at the application stage to filter out clients that do not meet certain criteria. This helps to save money and focus resources on more strategic transactions.

Mobile Credit Solution

TransUnion DecisionEdge can be complimented by the Express Mobile Credit solution. This enables consumers to initiate credit transactions via their mobile device and receive a pre-approval confirmation. In effect, the solution is synonymous to having 20 million branches in Kenya as people are more mobile than ever! Express Mobile Credit solution provides an "off the shelf" solution to meet most business objectives, as laid out in the following features:

- Reduction of applicant policy failures e.g. ID number check, age and minimum income before the retrieval of a credit bureau report
- Automatic retrieval of credit history and selected risk scores for risk ranking, approval decision and term setting
- Customized message (approval/decline) returned to applicant in line with company branding, based on credit risk ranking and a set of lender-tailored credit policy rules
- Fraud prevention: verification of names and personal identification numbers
- Mobile risk indicator: verify IMEI and show the number of times a SIM card has been inserted into another device within a given period.

A Credit bureau expert from TransUnion

Conclusion

As a global leader in credit and information management, TransUnion creates advantages for hundreds of businesses around the world by helping to improve efficiency, manage risk, reduce costs and increase revenue by delivering comprehensive data and advanced analytics and decisioning. TransUnion has received various global awards, such as the 2009 Microsoft Award for innovation and excellence in financial services for DecisionEdge. Through these solutions and other efforts, TransUnion is working to build stronger economies in Africa and worldwide.

Financial Inclusion and Stability for African Credit Markets

Directors of Bank Supervision from countries in Sub Saharan Africa

Two roundtable discussions by representatives of bank supervision departments across Africa were held concurrently: one for East African countries and a second for West African countries. Each country representative shared an account on financial inclusion and stability, as well as the state of CIS implementation in their countries. An interactive discussion with delegates was then held around the challenges faced.

Uganda

Most Ugandans are financially illiterate and only 20% of them save, whether individually through financial institutions, or as a group. To promote financial inclusion, Uganda has a tiered banking system. Most bank branches are situated in urban areas and, although MFIs and DTMs exist in Uganda, their operations are concentrated in urban areas due to the higher cost of maintaining branches in rural areas.

Uganda has a CRB run by Compuscan, which was initially the only CRB in the country but the market has now opened up to other CRBs. 568 bank branches are live on the CRB system. There are 3,000 enquiries daily with over 1.4 million enquiries since the CIS system was set up. No bank can issue a loan without referring to the CRB. Uganda has a biometric ID system that simplifies verification of contact details.

CRBs have led to an enhanced loan repayment culture. NPLs are currently at 4.7% in Uganda and this is attributable in part to the use of credit information. Guidelines have been issued to protect the rights of institutions. Currently, negative data sharing is mandatory by law while, for positive data, consent must be granted by the borrower. However, the exact impact of CIS on financial inclusion remains to be determined.

Nigeria

Available statistics indicate that 54.4% of financially excluded persons in Nigeria are women, and that 80.4% of Nigeria's population is situated in the rural areas. In a bid to boost financial inclusion, the Central Bank of Nigeria developed the 2012 Financial Inclusion Strategy that entails:

- Simplification of information required to meet Know Your Customer (KYC) requirements. There is a three-tiered KYC system, and for loans/deposits below 200,000 Naira, no ID is needed. Above this, a formal ID is needed.
- Implementation of an agent banking framework
- Implementation of a consumer protection framework
- Institution of mobile banking (cash light strategy)
- Credit management system
- Credit reference bureaus.

Initially there was a public credit bureau system managed by the Central Bank. However in 2009, 3 CRBs were registered. They complained that patronage of their services was low and this was impacting their sustainability. To promote use of CRBs, efforts were made to raise awareness about the benefits of CIS for borrowers. Further, guidelines were revised to ensure that every credit provider must use credit reports in credit appraisal, prior to granting credit, with initial non-compliance attracting a penalty. In cases of persistent non-compliance, the bank officers involved pay a fine and full provision must be made for all loans granted without reference to a credit report. All these efforts will eventually boost access to finance.

Tanzania

According to the 2009 Finscope Survey, financial inclusion in Tanzania was 12% for the adult population. The estimate is that by late 2013, the inclusion had risen to 20%. These figures show that the bulk of the population, comprising mostly the informal sector and rural populations, are excluded. Promoting financial inclusion requires policy interventions on both the supply and demand sides in order to address bottlenecks that affect service mobilization, credit provision, fund transfer and insurance. Tanzania has made a number of policy provisions to enhance financial inclusion. Tanzania currently has 52 banks with a combined total of about 600 branches. These branches are located mostly in the urban areas. Banks are required to serve rural areas in order to boost inclusion, and since February 2013, banks are now permitted to use agent banking to facilitate both savings and withdrawals. Examples of bank agents include retail stores, pharmacies and religious institutions.

CIS has also been implemented as another financial inclusion strategy to address the information asymmetry that hinders access to finance. Two CRBs have been licensed. However the Bank of Tanzania hosts the data bank which collects both positive and negative data from commercial banks. The information is then forwarded to data banks. The private CRBs also source information from other sources e.g. the courts and power suppliers.

Rwanda

Rwanda recognizes the importance of financial inclusion in economic growth and in building a strong and resilient economy. Rwanda has made significant gains in financial inclusion. In 2008, based on the Finscope Survey, 52% of the population was excluded from the formal banking system but, by 2012, the same survey reported that 72% of the Rwandan population had used a financial product such that only 28% were excluded.

Rwanda has specialized SACCOs and MFIs to help address financial inclusion. However, the country still has a number of challenges with regard to financial inclusion, which include the following:

- Lack of connectivity to the national electricity grid in some parts of the country, which hinders the entry of financial institutions;
- Inadequacy of appropriate financial products and services that are tailored to the needs of the customer;
- Need for broadening and deepening financial literacy;
- Need for deepening of capacity in the financial sector.

Rwanda has implemented CIS through a single, privately-owned CRB. Banks, MFIs and specialized SACCOs all share information with this CRB. There is a unit in the Central Bank of Rwanda that is responsible for the supervision of CRBs in that country.

Kenya

The state of financial inclusion is comprehensively captured in the 2009 survey, which showed that 32% of the adult population were enjoying formal financial services. We expect the current financial inclusion figures to be significantly higher than these figures. To address the challenge of financial inclusion, the following steps have been taken:-

- implementation of agent banking
- licensing of more branches – there are over 1000 bank branches in Kenya
- licensing of DTMs
- licensing of two CRBs
- SACCO Societies Regulatory Authority regulations which allow deposit-taking SACCOs to share information
- financial literacy education

- bank-assurance is now permitted – banks can sell insurance products within their premises
- development of special funds which seek to meet the needs of youth and women

It has been acknowledged that financial inclusion is an issue of both products and distance. To promote financial stability and enhanced access to unsecured credit, Kenya has implemented negative information sharing among banks and DTMs, while piloting is on-going among MFIs, while the AKCP has recently been launched to promote full file sharing.

Liberia

In his presentation, the Liberian delegate pointed out that financial inclusion is at the heart of world discussions on economic development. Quoting the Governor of the Bank of Bangladesh, he added that there is a demonstrable link between financial inclusion and financial stability because it promotes a more diversified and sustainable credit base; diminishes the appeal of potentially unstable credit sources and schemes; promotes financial stability at the household level, and empowers the citizenry and thus directly contributes to economic development and social cohesion. Indeed, financial inclusion has been adopted as a key pillar of the Liberian Agenda for Transformation: Steps towards Liberia Rising 2030, which seeks to drive Liberia into a middle income economy by 2030. It is driven by the Central Bank of Liberia and mediated mainly through sector-based initiatives and market reforms.

Ghana

As part of its financial inclusion agenda, Ghana commenced its rural banking programme in the 1970s. Presently, the country has over 138 rural banks, which continue to play a major role in keeping wealth in the communities. The country recently introduced CRBs that brings together information from banks, non-bank financial institutions, community banks and MFIs. Through the WAMU/UEMOA Central Bank, the country is harmonising its inclusion agenda with that of the entire region, incorporating experiences and best practices to inform its domestic policies and programmes.

Sierra Leone

To date, Sierra Leone remains a highly unbanked economy, with only about 15% of the population having bank accounts. However, the country has initiated robust financial inclusion initiatives that include: encouraging commercial banks through moral suasion to reach out and open branches in the rural areas; encouraging the establishment of community banks through the initiation of government-led community banks on a pilot basis as models for the private sector to emulate; instituting a framework for and encouraging the founding of financial service associations, which operate like SACCOs, at least 50 of which are already operational; implementation of a financial sector development programme; introduction of CRBs, and; the licencing of DTMS and credit-only MFIs.

Going forward, the government is preparing legislation for the establishment of a collateral registry. With the help of IFC, it has also procured new software for CRBs for online credit information processing in real time.

Burundi

As a whole, the business environment in Burundi has not been pro-poor, and the commercial banks have mainly concentrated on serving the needs of big business at the expense of the majority poor. However, the MFIs have now commenced outreach to the rural populations and extending credit to consumers there. Among the other initiatives to bolster financial inclusion for the unbanked already undertaken include encouraging the use of mobile telephony to mediate banking and credit as it removes the need for collateral. With the help of IFC, with which it signed a MoU, the Burundi government is pushing ahead with an ambitious financial inclusion agenda and is now in the stage of sourcing for a legal advisor for the programme. It also adopted the hub-and-spoke model of bureau operations, a system that has successfully been applied in other countries in Asia and Latin America, and also in neighbouring Tanzania. The system may include the establishment of a collateral registry.

INTERACTIVE DISCUSSION

Question: What evidence do you have that financial exclusion can threaten financial stability?
Where people are excluded from the formal banking system, they resort to informal lenders for costly funding. However, these informal lenders bank with the banking system, and therefore, any defaults that they experience would ultimately affect the stability of the banking system. Furthermore, monetary policy operates through the formal financial system. If financial inclusion is low, this impacts the efficacy of monetary policy.
Financial inclusion must thus include financial literacy. Illiterate borrowers need consumer protection. It is important that they understand how interest rates charged by informal lenders compare with rates charged by banks and MFIs. Studies have shown that inflation and interest rates are higher for countries where the penetration of the formal banking system is low.

Question: What advise can supervisors give to CRBs on the use of credit information?
It is not the role of supervisors to tell CRBs what to do. Rather, as regulators, they formulate policies for the financial sector, including CRBs. The role of regulators is to promote an enabling environment to foster financial stability. CRBs promote financial stability by helping banks manage credit risk and avoid NPLs. Credit reports can also be used as a tool for recovery of delinquent loans, for those customers who might seek to become serial defaulters.
As such, supervisors can formulate policies that promote the use of CRBs. Supervisors can promote the use of credit reports for reputation collateral and to reduce lending rates. In Uganda for example, lower rates are now being extended to good borrowers, and collateralized lending is also decreasing.

Question: What are some of the challenges encountered by bank supervisors?
Nigeria: Some of the reasons why people do not borrow are cultural. Nigerians do not like debt. Therefore, there is need for financial literacy programs to include information about the benefits of borrowing. Others do not trust banks, thus suggesting a need for strong consumer protection policies. Another challenge is the withholding of positive data by banks.

Uganda: There are numerous microfinance institutions which are not regulated. The Bank of Uganda recently commenced regulating DTMs.

Question: Prudential guidelines require unsecured loans to be classified separately. Will prudential guidelines be changed to allow for use of reputation collateral?
Nigeria: Banks in Nigeria already have discretion on whether or not to require collateral for a loan.

Kenya: In Kenya collateral is not essential unless the loan is an insider loan or a related party loan. However, a bank is expected to carry out due diligence on all its customers. All non-performing loans must also be disclosed.

Question: Is it a conflict of interest for the Bank of Tanzania to host a credit bureau?
No. The bankers association established the CRB, but did not trust each other to hold the CRB database. The Central Bank is simply a conduit through which data is transmitted, so there is no conflict of interest.

Question: Credit reporting can lead to an SME being blacklisted, yet many times the SMEs' credit worthiness is impacted by the tendency by large corporations and government to delay settling amounts due to SMEs. How can a more equitable situation prevail?
In Kenya there is a proposal to introduce legislation to ensure prompt settlement of amounts due to SMEs. Similar legislation exists in other countries e.g. US and Europe.

Question: Can't regulators partner with the education system to promote financial literacy?
In Nigeria, the government has established Entrepreneurial Development Centres (EDCs) in every region. These EDCs are championed by the Central Bank.
Uganda has a government-supported Lit strategy, which has two strands: the first takes place through the school system, while the second targets youth who are out of school. The latter entails discussion groups.

Question: How does the WAMU/UEMOA region coordinate its financial inclusion strategies?

The countries of the WAMU/UEMOA region have a joint central bank that coordinates major policy initiatives across the region. In addition, it has a College of Advisors comprising directors of bank supervision from each member state that was inaugurated in 2010. The College holds quarterly meetings to harmonize banking and financial policies. During such meetings, supervisors make presentations on the latest developments and challenges in their economies and in that way the countries identify regional best practices and brainstorm on prevailing challenges.

Question: How does the WAMU/UEMOA region handle distortions from informal financial intermediaries and schemes such as shylocks and pyramid schemes?

This is mainly done through regulation and the mainstreaming of all credit providers, who have been placed under regulatory supervision. The region has also initiated training and education programmes for credit providers to inculcate in them the fundamental tenets and ethics of financial and credit management.

Question: How does one handle the issue of high interest rates, especially the huge gap between interest on savings and bank lending rates?

The difference between the return on savings and the lending rates is a vexatious one. In West Africa, the WAMU/UEMOA is already studying the issue in search of a solution. Meanwhile, it uses moral suasion to keep a lid on the gap. Considering that the economies were liberalized, the regulators may not find it possible to regulate the lending regimes to detail.

In Ghana, the government instituted a baseline rate model that is informed by four primary factors: operating expenses, cost of funds, provision for bad debts, and return on equity. However, these only help the regulator in setting a minimum lending rate, and risk premiums may still be negotiated over and above that rate. Since the system became operational in July 2013, a significant drop in bank lending rates has been observed.

In Burundi, the banks have been obliged by law since July 2013 to publish their credit ratios, including a comparison between their lending and borrowing rates as well as commissions and other charges. That way, the consumer can make credit decisions based on knowledge, and the banks will be forced to keep their rates reasonable or lose business.

Alternative Dispute Resolution

Cynthia Matshikgotshi, Anne Amadi and Jared Getenga

A presentation was made by Cynthia Matshikgotshi on the ADR mechanism in South Africa. Thereafter Jared Getenga made a case for ADR in Kenya, but also demonstrated that certain disputes are best resolved at bank level prior to being referred to an ADR. Anne Amadi then led an interactive Q&A session. This article captures the content of the presentations and the Q&A session.

The South African Experience

South Africa has a sophisticated credit bureau system. The country ranks No 1 in Africa in terms of ease of access to credit based on the strength of legal rights and the depth of credit information. For example, the rights of credit consumers include the right to receive a free credit report and the right to challenge the accuracy of the information contained in such reports. In the latter case, the credit provider must provide credible evidence or remove the listing. A credit consumer also has the right to redress in the event that the credit provider was at fault, and the right to know the reason why a credit application is declined.

Prior to 2004, there were many challenges facing CRBs in South Africa. Consumers viewed them with suspicion. They felt that the process focused on 'black listing' of consumers. CIS was viewed as a violation of consumer rights such as privacy and CRBs were viewed as biased against the consumer and blamed for declining credit applications. Furthermore, consumers had no confidence in the dispute resolution process. The government also considered closing the CRBs, incorrectly concluding that they were responsible for a deteriorating economy due to sharing incorrect or incomplete information, lack of accountability to their customers and lack of adequate supervision.

Following consultation by the relevant credit industry stakeholders (credit bureaux, credit providers and independent members), the Credit Information Ombudsman's Office (Credit Ombud) was launched in 21 March 2004. The Credit Ombud is a non-profit organisation that provides free services to consumers and is funded by credit providers. The role of the Credit Ombud is to resolve credit bureaux-related disputes, carry out consumer education and awareness, afford consumers an opportunity for redress and promote responsible credit information reporting. Disputes are logged via the Internet, telephonically, by fax or in person.

In South Africa, the ADR sector is currently not regulated. However, the National Credit Act (NCA) of 2005 recognises the use of ADR. The NCA was instituted in order to protect the credit consumer, promote a fair, transparent and accessible credit market and industry, and promote and advance the social and economic welfare of South Africans. There is a recent proposal to amend the National Credit Act (2005) to give the National Credit Regulator the power to regulate ADR.

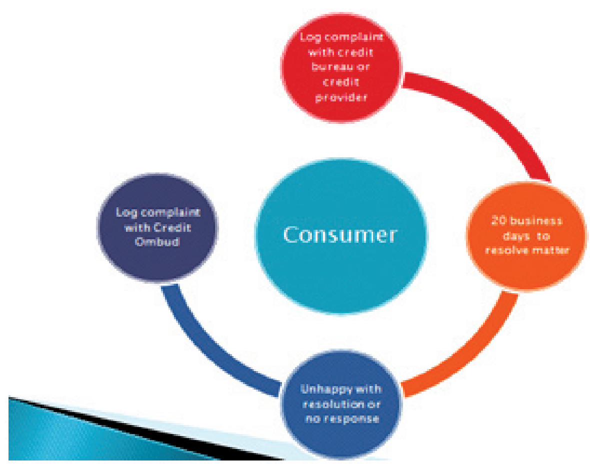
As a result, the use of ADR in South Africa is growing. The courts also support it and have in some cases advised the use of ADR in order to stop litigation from proceeding. Judges tend to favour ADR because typically, courts should be used only as a last resort. The South African constitutional court also seems to prefer the use of ADR. In a case where a defendant appealed a judgment in favour of a plaintiff because the defendant went to court without giving the defendant the choice to use ADR, the court ruled in favour of the defendant. The jurisdiction of the credit information department of the Credit information department extends to the situations depicted in the table below.

Table 1: Jurisdiction of Credit Ombud in South Africa

Jurisdiction of Credit Information department	Jurisdiction of non-bank credit department
• Inaccurate or incorrect credit information; • Insufficient or incomplete credit information; • Out-dated credit information • No-fault default • Prescribed debt • Double listing • Identity fraud	Instances where the member (a credit provider) has: • breached any relevant laws or regulations • breached an applicable code of practice or code of conduct provided for by relevant legislation, regulations or by-laws • failed to meet standards of good practice • acted unfairly and/or in a reprehensible manner towards a complainant

Among the key challenges facing the Credit Ombud in South Africa include delays and lack of responses from service/credit providers. There have also been instances where third parties charge credit consumers for services that are then outsourced to the Credit Ombud free of charge. Lack of branches also impacts awareness of Credit Ombud services.

Figure 4: Process for logging complaints with the South African Credit Ombud



Source: Credit Ombud SA.

ADR Agenda for Kenya

In any market where there is CIS, it is important to put in place a customer-friendly, cost-effective, flexible and time-saving dispute resolution mechanism that can mediate mutually beneficial solutions and thus maintain a cordial working relationship between the parties. It is important to understand the differences between ADR and litigation: ADR is private and informal, while litigation is public and formal. Furthermore, litigation processes are carried out using technical language and are subject to procedural technicalities. It is also important to distinguish between ADR and arbitration as the two processes are not identical.

In Kenya, there have been instances of litigation where the matter at hand would have been better resolved through ADR. This includes disputes over cheque book charges, small unpaid loan balances, accounting errors by the bank, and erroneous closure/non-closure of a bank account. Some of these cases could effectively be handled administratively by the bank itself without resorting either to ADR or litigation.

The Constitution of Kenya, 2010 gives formal recognition to ADR and establishes commissions with powers of ADR. Additionally, the Consumer Protection Act provides for a consistent, accessible and efficient resolution mechanism in relation to disputes arising from consumer transactions. The AKCP will also establish an ADR mechanism to work closely with the Consumer Protection Advisory Committee. A handbook is under preparation to guide ADR for the CIS mechanism that will be launched before year-end. The Kenyan courts have also upheld a judgment that says a customer must first seek redress through ADR.
Consumer protection considerations
It is important to reinforce consumer protection as a key pillar of CIS. ADR is part of consumer protection as it minimises costs and delays and enhances systems credibility. Although the ADR process is informal, ADR judgments must be based on fact and reason. ADR presupposes impartiality on the part of the ADR officer.

Funding the ADR mechanism
In countries where the credit providers fund the ADR facility, this should not impede the independence of the ADR provider. In South Africa, the Credit Ombud is funded by the credit providers. The risk of litigation by dissatisfied consumers ensures the Credit Ombud's independence: a judgment incorrectly made in favour of a credit provider would forever impinge on the image and credibility of the Credit Ombud.

Establishing an ADR mechanism
When countries are setting up an ADR mechanism, it is important to engage in consultation with the relevant stakeholders in order to secure their buy-in. It is also important to agree on a clear dispute resolution process. The ADR office must also adopt clear policies, put in place effective case management procedures and timelines and hire appropriately skilled staff. On-going consumer awareness and education will also be required. In South Africa, it has been noticed the use of ADR by consumers is influenced by the capacity of the customer, the accessibility of the ADR mechanism (branches all over the country are recommended), approachability and the ADR's reputation for independence, fairness and honesty.

Cynthia Matshikgotshi
is the Head of Credit Information Department for the South African Credit Ombud.

Anne Amadi
is an Advocate of the High Court of Kenya. An independent consultant, she brings a wealth of expertise in the areas of gender, governance, access to justice and Alternative Dispute Resolution (ADR).

Jared Getenga
profile earlier provided on page (7) of this report.

Adopting a Smart Approach to Managing Growth with Innovative Risk Management Solutions

A presentation by Karel Kolár

A presentation on CRIF's Decision Solutions was made during the conference. This article, prepared by Karel Kolar, provides information on CRIF and the Decision Solutions product.

According to CEB TowerGroup, by 2016, emerging economies will account for over 40% of global household consumption, almost double the share from 2008. How, then, should African financial institutions best prepare for fast growing loan volumes and be positioned to attract new customers whilst simultaneously managing risk and regulatory requirements? CRIF Decisions Solutions suggests an innovative approach to credit risk management which involves the following:

- gathering as much customer and credit information as possible, from a variety of sources: the applicant, the credit bureau and your own institution's databases, in order to get a 360° view of the applicant;
- applying credit scoring to intelligently predict how the borrower will pay the loan;
- constructing a credit decision strategy that takes into account your company's policies, regulatory requirements, customer's risk profile based on their credit score and any other factors deemed appropriate in arriving at the credit and loan decision;
- automating the data gathering, scoring and decisioning processes;
- linking all the pieces of the process together, end-to-end, in order to achieve a rapid loan disbursement turnaround time efficiently and effortlessly;
- continual monitoring and evaluation with a view to achieving process improvements.

CRIF is a leading global company specializing in credit, business information, lending and decision management solutions and is one of the largest Loan Origination Solution providers worldwide that is relied on by 2,400 financial institution customers spanning over 40 countries for quick and accurate credit decisions on a day-to-day basis. Established in 1988 in Bologna, Italy, CRIF has an international presence, operating in four continents (Europe, America, Africa and Asia). CRIF is currently the market leader in continental Europe in the field of banking credit information and one of the main international players for business and commercial information and credit and marketing management services.

CRIF Decision Solutions offers to the African market predictive analytics, consulting and the CRIF Credit Framework. The latter is a suite of lending and decision management technology components that work together seamlessly to offer a highly configurable lending system, which delivers control, flexibility and short time-to-market. The CRIF Credit Framework is illustrated in the Figure below.

The CRIF Credit Framework is offered both as an on-premise installed solution as well as a centralized "Cloud" loan origination solution. By taking advantage of a mass need for a state-of-the-art loan decisioning, workflow and reporting system, a group of financial institutions can pool resources to obtain this capability at a relatively low cost whilst retaining the benefits of efficiency gains, improved controls and responsiveness.

Craig Focardi, CEB TowerGroup Senior Research Director, recently pointed out that lenders, though faced with different economic challenges, have the common goal of intelligently managing credit risk and streamlining processes affected by ever-changing regulatory requirements. He noted that loan origination systems are increasingly being viewed as a competitive advantage and that lenders are thus increasing their investment in, and the value they place on such technologies.

***Karel Kolár** is Business Development Manager for Southern Europe and Africa at CRIF Decision Solutions S.p.a*

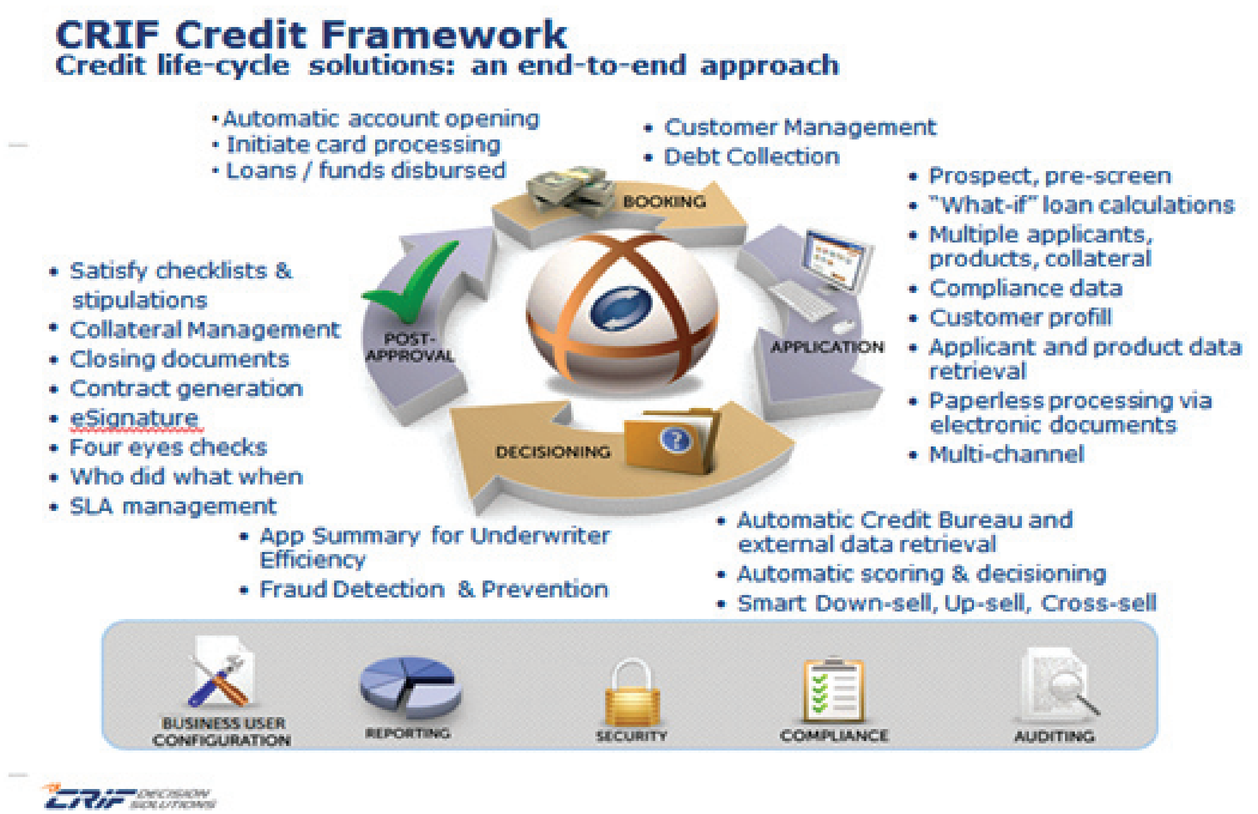


Figure 5: CRIF Credit Framework
Source: CRIF

How to Make Lending Decisions Using Credit Reports

Presenters: Thamir Hassan, Jamal Rahal, and George Akello

Presentations were made by two credit information sharing experts, Thamir Hassan and Jamal Rahal, and supplemented by the views of a senior bank executive, George Akello. The information shared in these presentations, and the issues raised in the ensuing panel discussion, are captured in this article.

The credit life cycle entails three processes: origination, account management and collections/recovery. The lending decision is part of the origination process. It has a simple outcome that belies its complexity. Typically, the lending decision involves the evaluation of demographic information of the applicant, their cash-flows, purpose of the loan, the macroeconomic environment, the credit report and possibly other information. In other words, the credit report is just one aspect of the evaluation that contributes to the lending decision. The most effective lending decisions correctly differentiate between good and bad accounts.

A typical credit report would include contact information, summary of open loan accounts and their activity for a specific period, details of enquiries, details of defaults, judgments and notices and finally the credit bureau's credit score. Effective interpretation of the credit report requires experience and extensive data analysis. Data analysis carries with it a number of advantages: it is based on reality rather than perception; one is able to capture and highlight new trends; and one is able to utilise and integrate various sources of data in the process. There are numerous ways one can analyse the data on credit reports. One can create credit characteristics out of the credit report data and then analyse the loan portfolio by these characteristics. Some examples of credit characteristics include customer demographics, length of credit history of the customer, product type (e.g. secured/unsecured), utilization of credit limit and whether this is increasing or decreasing, delinquency (magnitude, recency, frequency), and activity. One example of how one can use demographic information involves categorizing data on good and bad accounts by age band in order to identify the age group most likely to default.

ment of CRBs. We thus find that in some markets in Africa, only negative information can be legally shared, with a few currently allowing for sharing of positive information. South Africa comes the closest to full file sharing but, even then, the amount of information shared is less than what is available in many developed markets.

Data accuracy is a pre-requisite to correct use of credit reports. In many markets, for example, the definition of "default" or "delinquent" varies from bank to bank. To ensure correct data analysis, bureaus need to define these terms to maintain consistency across the board. Research shows that there are four factors that impact loan delinquency: marketing, the credit evaluation process, account management and collection.

Thamir Hassan

Jamal Rahal

George Akello

Data analysis is influenced by the data delivery model and the depth of information available in a particular market. In more developed markets, data is delivered in machine readable format, and bureaus offer automatic interfaces and other value-added products such as credit scores and default triggers.
The depth of information is governed by whether there are legal, market size or technical constraints to credit information sharing. The level of awareness in some markets about the role of credit reports in lending decisions is low, and this has delayed implementation of CIS. In other economies, the size of these markets acts as a constraint to the establish-

Integrating credit information into lending decisions therefore requires credit process re-engineering through which each aspect of the process is re-evaluated. Typically, credit scores are in used in three ways:

- **Application Scoring:** This uses application data to predict probability of default in the next 18 months. No large credit grantor nowadays can ignore application scoring as it leads to better, fairer and faster decisions. It is also an effective way to foster financial inclusion.

- **Behavioural Scoring:** Thisuses data on applicant behaviour with a particular credit provider to predict probability of default in next 6 to 9 months. Most large credit grantors in mature markets use behavioural scoring in one form or the other.

- **Credit Bureau Scores:** This uses data on applicant behaviour with all credit providers/ grantors to predict probability of default in next 6 to 9 months. These scores are widely used in the largest mature markets. Their main limitation is that they are not tailored to the portfolio characteristics of a particular institution.

Credit scores are also the product of data analysis. Credit scores use all the information on a credit report in order to predict credit behaviour. Once a scoring system is in place, a credit provider can analyze its loan portfolio by credit score in order to determine what actions to take on each segment. For example, customers with good scores can qualify for automatic credit limit increases, with the magnitude of the increase being driven by their score (see Figure 6 below).

figure 6: Using credit scores to make lending decisions

Band	Min Score	Max Score	Description
1	799	999	Platinum
2	742	798	Platinum
3	691	741	Gold
4	656	690	Gold
5	618	655	Silver
6	583	617	Silver
7	557	582	Bronze
8	501	556	Bronze
9	457	500	Copper
10	211	456	Copper
Total			

Increase credit limit by 40%

Increase credit limit by 30%

Increase credit limit by 15%

Increase credit limit by 5%

No credit limit increases

Source: *TransUnion*

Thamir Hassan *is Senior Vice President, Business Development, TransUnion, Africa.*

Jamal Rahal *is a highly respected expert in Risk Management and Credit Bureaus. In Kenya, he is advising CBA for all risk and credit scoring matters in the M-Shwari project.*

George Akello *is Regional Credit Officer (Africa), Country Chief Risk Officer at Standard Chartered Bank, Africa.*

Closing Remarks: Spotlight on the SACCO sector and the relevance of CIS to meet the sector's needs

A presentation by Carilus Ademba

The Closing Remarks and Vote of Thanks were delivered by Mr Carilus Ademba. Mr Ademba heads the SACCO Societies Regulatory Authority (SASRA).

The SACCO sector in Kenya has come of age. There are over 4,000 SACCOs in the country, the largest of which has assets of over Kshs 25 billion (US$ 296 million). Further, there are 51 SACCOs with assets of over Kshs 1 billion (US$ 11.8 million). Many SACCOs have branches in key urban centers of the region with the largest SACCO having 16 branches.

The Kenyan SACCO movement is the largest in Africa with membership of 3.5 million and 2.7 million loan accounts as of 31 August, 2013. The sector has been growing at an average rate of 10% per annum. Members of the larger SACCOs can also withdraw from their savings accounts using ATMs. The larger SACCOs also have front offices similar to banking halls where they serve their customers.

Table 2: Kenyan SACCO sector: statistics as of 31 August, 2013

Parameter	Kshs billion	US$ billi
Assets	307	3.6
Loan portfolio	235	2.8
Deposits	226	2.7

Source: *SASRA*

Members of SACCOs come from all walks of life, but membership of some professions lead to automatic membership of a SACCO. For example, all bank employees, police, military, teachers, university lecturers and civil servants automatically join with their first salary. Tea and coffee farmers save from the sale of their first produce and join a SACCO. The public transport system requires owners of buses and mini-buses to be members of a transport SACCO.

SACCOs have enabled most Kenyans to finance their businesses and their children's education as well as to own a home or farm. Some SACCOs construct houses at low cost and sell them to their members at preferential prices. SACCOs have been known to disburse business loans in the Kshs 100 - 200 million range (US$ 1.2 million -US4 2.4 million).

Despite the sector's size and notable economic significance, the sector only started being regulated in 2009. Thus far, regulation is limited to deposit taking SACCOs, and for this reason only 215 SACCOs are regulated. The SACCOs are subject to detailed reporting requirements such as submission of insider loan reports (which must be carried out every two weeks) and submission of financial statements each month. Further, all appointments to individual SACCO boards, including the CEO, must pass the "fit and proper" test.

Given that every SACCO has a bank account, and given the size of the sector, poor performance of SACCO loan portfolios could have an adverse impact on the banking sector. Furthermore, it is likely that SACCO members have loans with at least one bank and possibly an MFI. It is for these reasons that the SACCO Act allows for credit information sharing between SACCOs. However the Act does not allow information sharing with other credit providers. That notwithstanding, SASRA is supportive of SACCOs joining AKCP and sharing information with other credit providers. SASRA will thus ensure that AKCP succeeds by advising its members to join and supporting the necessary legislative changes.

Mr Ademba ended by thanking the conference speakers, hosts, sponsors and participants for working together to make the conference a success.

Recommendations and Key Outcomes

By Jared Getenga

The key outcomes and recommendations arising from the conference were captured in the form of a vision statement of what delegates would like to have achieved two years hence. The following key outcomes were adopted as components of the vision statement.

Key Outcome No 1: CRBs will be firmly seen as relevant to consumers and not just as existing to serve banks. They will be viewed as facilitators of access to credit. Consumers will be comfortable being associated with CRBs. Complaints at the ADR will include communications from people asking why their details are not at the CRBs.
Recommendation: Significant investment will be required in awareness creation leading to attitude change among both credit providers, consumers of credit and the general public.

Key Outcome No 2: Credit providers, notably banks engaged in cross-border lending will be able to access credit reports across the region. CIS will take place across borders and credit reports will be standardised across the region.
Recommendation: An MOU will need to be signed by the region's central banks allowing for credit reports to be shared across borders. ADR mechanisms, among other structures, will need to be restructured to handle issues of a cross border nature. These two items should be included in the agenda of the Domestic Regulators Forum.

Key Outcome No 3: AKCP will be a well-established institution. The legal and regulatory framework governing CIS will be harmonised in Kenya.
Recommendation: Extensive lobbying to ensure that the Credit Information Sharing Bill in Kenya is debated and enacted.

Key Outcome No 4: The use of friendly and easy-to-use scoring methods by CRBs, which are accessible to credit consumers at the branch level on real time, will become institutionalized.
Recommendation: CRBs need to intentionally adopt uniform colour codes on their credit scoring system.

Key Outcome No 5: Demonstrable financial sector stability with credit providers reporting appreciable improvements in asset quality. In line with Basel III, the information generated by CRBs will be used to promote financial sector stability in a counter-cyclical manner. Credit consumers will reap lower interest rates across the industry on account of better risk assessment through the use of credit information.
Recommendation: Increasing use of credit reports by all significant credit providers.

Key Outcome No 6: SMEs will have a mechanism with which to hold large corporates and government accountable to honour their obligations promptly. This ensures an SME's credit rating is not impacted by payment delays that are beyond its control.
Recommendation: Stakeholders to drive the implementation of supporting legislation e.g. a Prompt Payment Act such as exists in the United States.

AKCP ASSOCIATION OF KENYA CREDIT PROVIDERS

List of Conference Participants

Name	Bank ID
Prof. Njuguna Ndung'u	Governor Central Bank of Kenya
Jeremy Awori	Kenya Bankers Association, Chair
Habil Olaka	Kenya Bankers Association, Chief Executive Officer
David Ferrand	Financial Sector Deepening Trust
Mark Rostal	USAID - Financial Inclusion for Rural Microenterprises
Jared Getenga	Kenya Credit Information Sharing Initiative
Charles Ringera	Higher Education Loans Board
Dr. Julius Kipng'etich	Equity Bank
John Mwara	Faulu Kenya
Jeremy Ngunze	Commercial Bank of Africa
Arun S Mathur	I & M Bank
Ben Nkungi	Association of Microfinance Institutions
Peter Sheerin	International Finance Corporation (IFC)
Agata Szydlowska	International Finance Corporation (IFC)
Gabriel Davel	International Finance Corporation (IFC)
Moyo Violet Ndonde	International Finance Corporation (IFC)
Jamal Rahal	USAID Consultant
George Akello	Standard Chartered Bank
Wachira Ndege	TransUnion KE
Dr Thamir Hassan	TransUnion, SA
Sam Omukoko	Metropol CRB
Karel Kolar	CRIF
Alan Goodrich	G-Analytix
Cynthia Matshiakgotshi	Credit Ombud, SA
Carilus Ademba	SASRA
Mr Boniface KABONEKE	Banque de la Republique du Burundi
Niyonkuru Emmanuel	Banque de la Republique du Burundi
Mr. Nwadiuko S E.	Central Bank of Nigeria
Mshelia Musa Surhyel	Central Bank of Nigeria
Symphorien A.	BCEAO (Regional Central Bank for WAMU region)
Messrs Tapsiru L D.	Bank of Sierra Leone
Mr Philip Bangura	Bank of Sierra Leone
Mr Banji Milambo	Bank of Zambia
Mr Calvin Habasonda	Bank of Zambia
El-Tumu Trueh	Bank of Liberia
Mussah A. Kamara	Bank of Liberia
Ali Naser	Libyan credit information center
Elonie MUKANDOLI	National Bank of Rwanda
Shane Moldenhauer	Credit Info - TZ
Davith Kahwa	Credit Info - TZ
Dino Celeste	L'Agence Export (Pty) Ltd, SA, Sandton
Peter Gatere	Central Bank of Kenya
Joshua Oigara	Kenya Commercial Bank
Wayne H -Barrett	AFB
Quang Nguyen	Marka
Antony Mirie	Praxis Group
James Kashangaki	FSD Kenya
Japheth Kisilu	Consolidated Bank
Edna Kihara	Alios Kenya
Dan Awendo	Investeq Capital
Bhaskar Kalyanaraman	Fina Bank
Binay Dutta	Dubai Bank
James Murigu	METROPOL
Daniel Mavindu	Rafiki DTM
Duncan M. Mwaniki	SUMAC
Lydia Kibaara	Remu DTM
Vindhya Ramesh	Bank of Baroda
Pauline Githugu	Century DTM
Timothy K. Tiampati	IDB Capital
Mbatha Mbithi	ICDC
Peter Njuguna	SASRA
Joshua Ojall HSC	MWALIMU NATIONAL
Gladys N. Gichohi	HARAMBEE
David M. Waroe	AFYA
James Mutura	STIMA
Solomon Atsiaya	KENYA POLICE
Clement Tongi	UNITED NATIONS
Peter A. Vuhyah	KAKAMEGA TEACHERS
Paul Kihiu	Select Africa
Ambrose M Wamwere	Blue Financial Services
Anne Mwasi	Musoni
Collins Rono	Greenland Fedha
Dickson Waitueka	Greenland Fedha
Miriam Gachau	Fountain credit
Manuel Mwangangi	Jitegemea Credit Scheme
Eliud Wachira	Micro Enterprises Support Programme Trust (MESPT)
Joyce Kangara	Fort Credit Ltd.
Mildred Wafula	Rupia Ltd
Samuel Njoroge	ABC Bank
James Gichuki	Bank of Africa
James Njoroge	Bank of Africa
Augustine Wambua	Bank of Baroda
Amit Gupta	Bank of Baroda
R M Pandey	Bank of India
Chrispus Muhia	Barclays Bank of Kenya
Willy Macharia	Barclays Bank of Kenya
Melchizedek Odiyo	Barclays Bank of Kenya
Lucas Gikungu	Barclays Bank of Kenya
Dunstan Ndubi	Barclays Bank of Kenya
Christian Victor	Barclays Bank of Kenya
Lucy Mwaura	Barclays Bank of Kenya
Karen Kantai	Commercial Bank of Africa
Angela Muriuki	Commercial Bank of Africa
Eva Githuku	Commercial Bank of Africa
Diana Oyosi	CFC Stanbic
Fenwick Mbaka	Chase Bank
Stephen Karia	Chase Bank
Collins Sabatia	Chase Bank
Dennis Ratemo	Chase Bank
Michael Mutiga	Citibank
Edith Okumu	Citibank
Esther Ngaine	Citibank
Peter Kariuki	Citibank
Peter Abuor	Consolidated Bank
Billy Ubindi	Consolidated Bank
Philemon Wachara	Co-operative Bank
James Njung'e	Co-operative Bank
Juliet Ruguru	Co-operative Bank
Olga Sechero	Development Bank
Peter Pertet	Development Bank
Mahmoud M A	Deposit Protection Fund Board
Irene Njoroge	Deposit Protection Fund Board
Doris Mugambi	Deposit Protection Fund Board
J. Ikunyua	Deposit Protection Fund Board
Nita Shah	Diamond Trust Bank
Regina Ngyema	Diamond Trust Bank
Tamindar Umesh	Diamond Trust Bank
Azra Thobani	Diamond Trust Bank
Yvonne Mwangi	Dubai Bank
Erick Kyalo	Dubai Bank
Maureen Wanjiru	Dubai Bank
Hillary Rotich	Ecobank
Justin Muoki	Ecobank
Daniel Litu	Ecobank

Name	Bank ID
Thiaka Njuguna	Equitorial
Solomon Mutunga	Equity Bank
Samuel Ndungu	Equity Bank
Purity Kinyanjui	Equity Bank
Peterson Ngangu	Equity Bank
Lawrence Maina	Equity Bank
Raphael Kimolo	Equity Bank
Nobert Kirimi	Equity Bank
Charles Mutunga	Equity Bank
Charles Sikulu	Family Bank
Philip Aseta	Family Bank
Anthony Mwangi	Fidelity Bank
Kennedy Kimende	First Community
Paul Magoto	First Community
Zakary Muchai	Fina Bank
Tilas N Muringi	Giro Bank
Lillian Muturi	Giro Bank
Timon Sirma	Guardian Bank
Benson Mwawongo	Guardian Bank
Grace Monyoncho	Gulf African Bank
Lillian Waluchio	Gulf African Bank
Abdullahi Hussein	Gulf African Bank
Evelyne Kamau	Habib AG Zurich
Patrick Mwangi	Habib Bank -Africa
Felix Ouma	Habib Bank -Africa
Grishon Mativo	Habib Bank -Africa
Geoffrey Mwaura	Housing Finance
Moses Ndungu	Housing Finance
Jacqueline Oyuke	I & M BANK
George Jaba	I & M BANK
Peter Nzuki	Imperial Bank
Dickson Njeru	Jamiibora Bank
Priscilla Kiptoo	Kenya Commercial Bank
Andrew Njeru	Kenya Commercial Bank
John Mukulu	Kenya Commercial Bank
Derrick Obwaka	Kenya Commercial Bank
Brian Kilonzo	K-Rep Bank
Chris Kariuki	K-Rep Bank
Nicholas Mutegi	K-Rep Bank
Loise Ochola	Middle East Commercial Bank
Jared Opiata	National Bank
Beatrice Ndurya	National Bank
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Geoffrey Ochieng	National Bank
Sylvia Nekesa Sakhasia	National Bank
Edwin Induli	NIC BANK
Joseph Kithuka	NIC BANK
Wilfred Machini	Oriental Commercial Bank
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Bryan Mwiti	Transnational Bank
Michael Kwerie	UBA
Christopher Njuguna	UBA
Ian Kingara	UBA
Mitesh Chouhan	Victoria Commercial Bank
Charles Karanja	Victoria Commercial Bank
Alex Gabriel	Association of Microfinance Institutions
Caroline Karanja	Association of Microfinance Institutions
Claire Nyabere	Women Enterprise Fund (WEF)
Lucy Thome	Kenya Industrial Estate (KIE)
Sharon Muasya	Kenya Industrial Estate (KIE)
Robert Bii	Kenya Industrial Estate (KIE)
Isaac Kimathi	KUSSCO
Linda Karimi	KUSSCO
Catherine Magua	SASCO

Name	Bank ID
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Peter Njuguna	SASRA
Roselyne Ragama	SASRA
Gideon Mutai	SASRA
Geoffrey Monari	HELB
Bernadette Masinde	HELB
Victor Lomaria	HELB
Peter Gikang'a	CENTRAL BANK OF KENYA
Luke Plapan	CENTRAL BANK OF KENYA
Nancy Sang C	ENTRAL BANK OF KENYA
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Martin Ngigi	KPLC
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Mbutu Mwaura	NAIROBI WATER
Kent Mukoya	NAIROBI WATER
Phillip Mulaki	African Trade Insurance
Tusekile Kibonde	African Trade Insurance
Mohamed Gueye	SHELTERAFRIQUE
Yekini Olayanju	SHELTERAFRIQUE
Protus Kathenya	NESC
Nuru Mugambi	KENYA BANKERS ASSOCIATION (KBA)
Fidelis Muia	KENYA BANKERS ASSOCIATION (KBA)
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Kennedy Mutisya	KENYA BANKERS ASSOCIATION (KBA)
Anthony Kibe	Leasing Association of Kenya
Julie Kamunya	Tsusho Capital
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Duncan Oyaro	FSD KENYA
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James Muisyo	Century DTM
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Caroline Muteithia	Faulu DTM
Mike Malan	Compuscan
Josephine	NLS KENYA
Benedikt Kramer	BCB BIOMETRIC CREDIT BUREAU
Ben Lyon	Kopo Kopo

Conference Credits

Exhibitors Profiles

In addition to AKCP, CRIF, Metropol and TransUnion who are featured elsewhere in this report, the Exhibitors at the conference were as follows:

BCB Biometric Credit Bureau
Biometric Credit Bureau (BCB) offers pioneering biometric technology, a low cost credit information sharing solution designed to assist microfinance clients and SMEs in reaching rural and poor communities. BCB's biometric technology solution is easy to use and manage and is a key enabler to increasing individual access to financial services. Biometric technology is used to collect data that addresses the challenges of identification. BCB is a reliable, efficient, cost effective, professional and independent service provider developed for the microfinance sector which will serve as the backbone of a brighter financial future for Africa.

Contact: Benedikt Kramer, kramer@bcb-group.com, **www.credit-bureau-africa.com**

Established in 1994, **Compuscan** has emerged as the first truly home-grown African Credit Bureau, committed to being a total credit management solutions provider for emerging markets. Compuscan's credit management solutions, risk information and technologies turn strategy into action and elevate business performance by giving you the power to automate more decisions, improve the quality of your decisions, and connect decisions across your business. As a full service credit reference bureau, Compuscan collects, validates, verifies, houses and distributes consumer credit information. Compuscan is based in Kampala, Uganda.
Contact: **info@compuscan.co.ug**

EQUITY
Bank · Your Listening, Caring Partner

Equity Bank Limited (www.equitybank.co.ke) has subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange. Equity's transformation from a small, insolvent, building society into a leading commercial bank is an inspirational success story. By 2012, Equity Bank had more than 8 million customers, making it the largest bank in Africa by customer base. Through a business model that is anchored on access, convenience and flexibility, the Bank has evolved to become an all-inclusive financial services provider.

Fintech is a leading ISO 9001:2008 certified enterprise information technology solutions and services provider with operations across Africa in Kenya, Malawi, Mauritius, Uganda and Zimbabwe. Fintech has over 20 years' experience in providing cutting edge solutions and services in various sectors, especially the financial services industry in both presence and non-presence countries across Africa such as Tanzania, Rwanda, Ghana, Liberia, Libya, The Gambia, Ghana, Egypt, Nigeria, Morocco, South Sudan, Ethiopia, Kenya, Malawi, Uganda, Mauritius, Uganda, Zimbabwe and Tunisia. Fintech solutions include: Core Banking, Sacco/MFI Management, Leasing, Mortgage, E-tax, Clearing and Settlement (including Truncation), E/Channel Banking (Mobile, Internet, Agency, ATM and POS), CRB Reporting, Business Intelligence, CRM, ERP, Managed Services, Database, Unified Communications, Consultancy, and Switching. Fintech has partnered with world leading IT vendors/Service Providers, such as Microsoft, Oracle, Oracle Financial Services Software, RSA, ATOS, Axionics and IBM.
Contact: **www.fintech-group.com**

Kenya Bankers Association (www.kba.co.ke) is the umbrella body of all commercial banks in Kenya. The core function of the Association is to promote member banks' interests in the financial sector particularly and the economy generally by engaging the government and sector regulator, the CBK. The Association has undertaken major initiatives towards the development of banking, including aligning standards for the industry; the modernization of the payments systems; and the Automated Clearing House, which it operates in conjunction with the Central Bank of Kenya. Under a partnership with the CBK, the Association has implemented key milestone projects such as the Real Time Gross Settlement System, the Currency Centre project and a Cheque Truncation System. Through its close coordination and liaison with the CBK, the Association established the Kenya Credit Information Sharing Initiative (KCISI) in August 2009 as a sign of its commitment to credit information sharing.

NLS Banking Solutions (www.nlske.com) commenced operations in 2006. NLS offers a full spectrum of consulting and custom software development services for banks, financial institutions and other organizations. The company's extensive experience spans multiple platforms, operating systems, and diverse institutions empowering it with a substantial base of in-depth knowledge and proven expertise to deliver cutting-edge, robust, scalable, and competitive software solutions.

USAID FIRM has provided strategic assistance to more than 40 institutions covering the private sector (financial and non-financial), government and industry associations. The Financial Inclusion for Rural Microenterprises (FIRM) program facilitates USAID's Development Credit Authority partnerships with Kenyan financial institutions. USAID Kenya has one of the largest Development Credit Authority programs sharing the risk with Kenyan financial institutions for approximately $65 million in loans to rural microenterprises. USAID Firm also supports the Central Bank of Kenya, Ministry of Finance, and the Office of the President to develop and promulgate policy reforms. These include the design of a consumer protection framework advising the Government of Kenya on the creation of an entity similar to the Small Business Administration in the United States. The program has also assisted the Central Bank of Kenya in adopting international best practices.

Contact: Communications Coordinator, FIRM, Tel: +254 (0)736 137 684
Email: **geoffrey_otieno@dai.com**

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Association of Kenya Credit Providers
Located at the Kenya School of Monetary Studies
Noordin road, off Thika road
Ruaraka Nairobi, Kenya

P.O. Box 65041 – 00618
t. **254 20 2652308** (wireless)
t. **254 20 864 6267/215**
e: **info@ciskenya**.co.ke

www.**ciskenya**.co.ke

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