

# A BASELINE SURVEY TECHNICAL REPORT ON LOCAL PUBLIC OPINION ON THE CREDIT INFORMATION SHARING MECHANISM

FEBRUARY 2014





The AKCP was registered in April 2013 and provides a platform for the involvement of all credit providers in a comprehensive and all-embracing data sharing initiative. The AKCP also serves as the Secretariat to the Kenya Credit Information Sharing Initiative (KCISI) and promotes self-regulation among licensed and non-licensed credit providers while ensuring a level playing field for credit providers participating in the initiative. This initiative was set up by Central Bank of Kenya and Kenya Bankers Association in 2008 and is currently supported by FSD Kenya. For more information, visit the AKCP website [www.ciskenya.co.ke](http://www.ciskenya.co.ke).

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



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*GATES foundation*

# Table of contents

<b>INTRODUCTION</b>	<b>iii</b>	<b>Chapter 3</b>	<b>11</b>
<b>EXECUTIVE SUMMARY</b>	<b>iv</b>	<b>CREDIT PROVIDERS</b>	<b>11</b>
<b>Chapter 1</b>	<b>1</b>	3.1 Awareness and usage of CRBs	11
<b>BACKGROUND AND APPROACH</b>	<b>1</b>	3.2 Salience of credit reference data and data transmission template	11
1.1 General description of the survey and its objective	1	3.3 Attitudes towards CIS.	12
1.2 Description of survey methodology	1	3.4 Challenges of CIS and recommendations towards averting challenges	13
1.3 Sample description	1		
1.4 The stages of the project implementation	2	<b>Chapter 4</b>	<b>15</b>
1.5 Survey coordination	4	<b>MEDIA AND COMMUNICATION</b>	<b>15</b>
1.6 Pre-test study	4	4.1 Media and Usage	15
1.7 Actual interviewing	4	4.2 How to utilize the media	15
1.8 Quality control	4	4.3 Specific uses of media types	16
1.9 Field challenges encountered	4		
1.10 Data entry/processing	5	<b>Chapter 5</b>	<b>17</b>
<b>Chapter 2</b>	<b>6</b>	<b>QUALITATIVE ANALYSIS</b>	<b>17</b>
<b>CREDIT BORROWERS</b>	<b>6</b>	5.1 Awareness of credit referencing	17
2.1 Financial services and products usage	6	5.2 Awareness of Kenya Credit Information Sharing Initiative (KCISI)	17
2.2 Awareness credit information sharing	6	5.3 Marketing activities of KCISI	17
2.3 Collateral required to access credit	7	5.4 Perceptions towards credit information sharing as a determinant of giving credit facilities to customers	17
2.4 Awareness of credit reference bureaus	7	5.5 Perceived benefits of credit information sharing	18
2.5 Perceptions of CIS	8	5.6 Inclusion of other financial institutions in credit information sharing and the cost of compliance	18
2.6 Salience of CIS	8	5.7 Addressing the challenges of CIS implementation	19
2.7 Attitudes towards CIS	9	5.8 Regulation of credit reference bureau	21
2.8 Expectations from CIS guidelines	9		
2.9 Challenges and recommendations about CIS	10	<b>GROWTH SUMMARY</b>	<b>22</b>

## Abbreviations

<b>AFC</b>	Agricultural Finance Corporation	<b>MFI</b>	Microfinance Institutions
<b>AMFI</b>	Association of Microfinance Institutions	<b>SACCO</b>	Savings Credit and Cooperative Society
<b>AMFI</b>	Association of Microfinance Institutions	<b>SASRA</b>	Sacco Societies Regulatory Authority,
<b>CAPI</b>	Computer Aided Personal Interviews	<b>TESPOK</b>	Telecommunications Service Providers Association of Kenya
<b>CBK</b>	Central Bank of Kenya		
<b>CIS</b>	Credit Information Sharing		
<b>DFI</b>	Development Finance Institutions		
<b>DTM</b>	Deposit Taking Microfinance		
<b>FGD</b>	Focus Group Discussions		
<b>FSD</b>	Financial Sector Deepening		
<b>HELB</b>	Higher Education Loans Board		
<b>ICDC</b>	Industrial and Commercial Development Corporation		
<b>KBA</b>	Kenya Bankers Association		
<b>KCISI</b>	Kenya Credit Information Sharing Initiative		
<b>KIE</b>	Kenya Industrial Estates		
<b>KII</b>	Key Informant Interviews		
<b>KUSCCO</b>	Kenya Union of Savings and Credit Co-operative		

# INTRODUCTION

Credit management is a complex process. It requires sophistication on the part of the lender and credibility in the borrower. However, inefficiencies in some markets – particularly information irregularities from both lender and borrower – limit the level to which they contribute to financial inclusion. In the absence of comprehensive information about a borrower, credit decisions are often less than optimal. As a result, the incidence of Non-Performing Loans soars, interest rates increase and collateral requirements become more stringent, as lenders make efforts to mitigate the lack of transparency between them and their borrowers.

In response to this unsatisfactory situation, Credit Information Sharing (CIS) has been embraced in many markets throughout the world. It has proved to be a critical component of the financial infrastructure and has improved both the efficiency and robustness of the credit environment. The Kenya Credit Information Sharing Initiative (KCISI) was set up as a joint collaboration between the Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA), with funding from Financial Sector Deepening Trust (FSD Kenya), to oversee the implementation of CIS between commercial banks.

Credit information sharing in Kenya's banking sector was launched on 31st July 2010. Consumer awareness is critical to ensure that the potential benefits of the mechanism are fully appreciated. With funding from FSD, the Kenya Credit Information Sharing Initiative commissioned TNS RMS East Africa Ltd. to carry out a baseline and needs assessment of the current understanding of CIS amongst all its stakeholders. This study is expected to provide valuable insights into stakeholder attitudes, perceptions and opinions about the credit information sharing mechanism. It will also show how much is understood about its operations, products and benefits.

In addition, the findings of this survey will be used to design a monitoring and evaluation plan that will track and assess KCISI's communication

strategy against its objectives both short and long term. The plan will also inform key stakeholders about immediate outcomes, outputs and progress at every stage of the project's implementation. Finally the survey will measure the impact of the overall project after a certain period of time.

The survey was carried out by TNS RMS between May 28th and July 27th 2012. Field work was undertaken between 6th June and July 23rd 2012.

## Methodology

Both qualitative and quantitative methods were used to carry out the survey. In the quantitative phase we conducted interviews with 505 business people, 200 credit providers and 804 randomly selected, economically active respondents (from the general public). The latter were aged between 21 and 65 and had taken a credit facility in the last three years (June 2009 to June 2012).

The qualitative phase involved six focus group discussions. These were conducted with a selected sample from the general public, including people from different professions, and fourteen key informant interviews with credit provider's policy makers and members of the government, among others. The details of the survey sample constitution are discussed later in this report. The quantitative phase of the survey was administered using both face-to-face and electronic interviews (with Computer Aided Personal Interview CAPI) in respondents' preferred venues (mostly office/business premises and homes). TNS developed the survey instrument and training materials which included survey briefing notes and scripts used for making initial contact to potential respondents.

## EXECUTIVE SUMMARY

This report presents a sample of stakeholder perceptions about credit bureaus and the CIS mechanism. CIS has drawn a variety of reactions among players in the financial sector, from lenders and borrowers alike. Although the survey showed that there were a number of negative perceptions about CIS, there is popular concurrence that the mechanism is good for Kenya's economy, if fully implemented.

Generally, a large majority do not have an accurate concept of the functions of the credit bureau and/or CIS. For example, over 50% of those surveyed did not know what CIS was, unless prompted. This suggests a low awareness of the function of credit bureaus and the benefits of the CIS mechanism.

It is evident from study of the responses in the survey that many consumers do not understand the role of the credit bureau as an information intermediary in the credit-granting process. Incorrect perceptions about credit bureaus could lead to pressure for restriction of information sharing amongst credit-grantors. Such restriction would most likely result in contraction of available credit due to information asymmetry. The CIS project should therefore carefully assess the costs of such limitations relative to the benefits in terms of consumer protection. Allowing a full-fledged comprehensive CIS mechanism is vital if the project is to alter the existing negative perceptions of CIS amongst stakeholders.

### Findings

The findings of this survey demonstrate the need for the project to embrace and take advantage of the positive perception that exists about the future of CIS among all stakeholders. Over 90% agree that CIS is a great innovation for Kenya's credit market. They agree it is likely to promote financial growth through financial discipline and increased access to credit, at cheaper terms. This is very encouraging, despite the fact that many still view CIS as a 'sieving tool' for accessing credit. The fact that CIS is also viewed as a watch-dog to create financial discipline amongst consumers of credit is a high scoring benefit to business owners. Most of those surveyed were willing to have credit grantors to check credit bureau records. The few that were unwilling to support such access mainly felt that credit bureau records were unreliable, insecure or infrequently updated.

Of the many causes of negative perceptions about CIS, myths and consumer ignorance rank high on the list. This is probably due to a phased implementation of CIS in which the banking industry shared negative credit information about their customers. Also, the sheer lack of adequate information about CIS generated dissatisfaction and complaints. This was unwarranted about the actual mechanism. Feedback and complaints are an important part of the information base as they can be used to promulgate regulatory changes and promote buy-in on policy changes that embrace CIS best practice. Many complaints were in the areas of data security and consumer protection.

In brief, three key findings were drawn from this survey:

- ***Low awareness levels about CIS amongst all stakeholders***

Over 50% of the respondents (mostly consumers and non-banks) were hardly aware of CIS or its functions. 86% were in fact unaware of the existence of CRBs. These figures decreased by more than 30% when the respondents were prompted. Only 37% of the credit consumers surveyed learned about CIS from their lenders, demonstrating that lenders are rather quiet on the subject. However, the survey also found that the same lenders ranked highest in ensuring outreach and dissemination of information to consumers and staff. Low awareness was also attributed to the over complex content of the messages designed for stakeholders (especially consumers). The survey established that most of the material presented was technical to some extent.

- ***Lack of benefit accrual to credit consumers***

81% of the respondents expect the CIS mechanism to reward good borrowers through better credit terms. In addition, an average of 70% of all respondents believe that CIS benefits are currently heavily skewed towards lenders. This creates a general perception that CIS is a tool for lenders to weed out defaulters. The lack of benefit accrual to consumers is largely attributed to the lack of positive credit information and an inclusive reporting system. Respondents felt practices such as the use of post-listing (rather than pre-listing) notices to consumers, punitive negative data retention laws, limited access to CRBs, and inadequate channels for dealing with complaints all contribute to the derisory acceptance of CIS by consumers.

- ***CIS is a 'sieving tool' for lenders***

CIS is currently perceived by consumers as a barrier to accessing credit: they believe that they will never get new credit lines approved if they have a negative record on their credit report. In the same light, banks have resorted to using CIS as a debt collection tool, threatening debtors with being listed negatively at the CRB. This has led to the belief that CRBs are like a 'death sentence' to credit access for all those who are unable to pay their instalments in good time.

These responses indicate how little people actually know about the functions and benefits of CIS. They perhaps explain why criticisms of the mechanism and the lending processes that embrace it, have arisen.

### Lessons learned

Lenders and policy makers generally seemed more knowledgeable about CIS than consumers. This is mainly because they are either already participating in CIS or are preparing to do so. However, the information is not flowing

sufficiently to consumers. This in turn is generating a demand for greater involvement by lenders, in creating awareness about CIS.

The survey found that only 10% of respondents had a high level of education (college/degree qualifications). All communication about CIS should therefore be produced in clear, easily understandable language to accommodate all stakeholders. Separate target audiences should be considered, given that technical language suitable for staff of financial institutions and credit savvy consumers may not be understood by under-served, unbanked consumers. The content should also include more information about the benefits of CIS and how they can be achieved rather than detailed accounts of the structure and functions of the mechanism.

The survey also found that consumers and lenders alike expect a review of the laws with a view to making the system more consumer receptive. This could be achieved through a variety of means including sharing full-file comprehensive data, sending pre-listing notices and re-examining data retention laws. Rewarding good customers with better credit terms and requiring less collateral might also be considered. In addition, improving access to CRBs countrywide and creating a robust dispute resolution mechanism would be beneficial.

Capacity building is a noteworthy requirement amongst financial institutions, policy makers and all credit users. There is a need to educate all stakeholders about the use of credit reports, and the process of effective participation in CIS.

Ultimately, it is necessary to increase awareness levels about CIS using diverse means, and on a large scale. Policy makers, lenders, the media and project sponsors are all key resources to ensure the achievement of this objective.

Although stakeholders are not currently sufficiently conversant with credit bureau operations, the survey confirms that they do not seem to object to information sharing. Naturally this is only as long as it is secure and used appropriately. The project could take advantage of this positive attitude to emphasise the mechanism's relevance to all stakeholders.

## Moving forward

Survey respondents represented a segment of the population that had used credit at some point over the last three years, and understood the concept of CIS – once prompted. It is therefore highly likely that awareness of CIS is even more limited among less frequent users of credit. The fact that the role of credit bureaus in the credit-granting process is not very widely understood needs to be dealt with at an early stage if negative perceptions are to be reduced substantially and the use of credit reports promoted.

Some recommendations may require legal amendments for a strong CIS mechanism to thrive. However, the most imperative recommendation is to increase CIS sensitization activities across all sectors of the credit market in Kenya, through the implementation of a dynamic and effective CIS communication strategy. This will give the consumers a chance to improve their credit records by repaying their bad loans. Even more fundamentally, such awareness will evoke the use of credit reports in the risk management processes, prompting good borrowers to seek benefits of their good reputation from lenders.



## Chapter 1

# BACKGROUND AND APPROACH

### 1.1 GENERAL DESCRIPTION OF THE SURVEY AND ITS OBJECTIVE

The objective of the study was to conduct a base line and needs assessment of the current understanding of Credit Information Sharing. It was to include all the stakeholders (credit consumers, the wider public, government and all credit providers) of KCISI and FSD Kenya. This base line study was expected to establish an understanding of stakeholder opinion about the CIS mechanism, its operations, products and benefits.

### 1.2 DESCRIPTION OF SURVEY METHODOLOGY

This survey was carried out using the following key steps:

1. Inception phase (presentation of the inception report).
2. Qualitative Survey:
  - Key informant interviews (KIIs).
  - Focus Group Discussion (FGD).
3. Quantitative survey.

These were implemented as follows:

#### a) Inception phase

The survey began with an inception meeting with the KCISI project team, and other key stakeholders. TNS presented the survey approach and details of how the assignment would be executed. Topics covered include:

- Overview of strategic focus areas.
- Questionnaires and discussion guides.
- Agreement on key measures and summary indices.
- Confirmation of sampling and weighting techniques (if required).
- Finalization of proposed timing schedule.

#### b) Qualitative phase

This phase included two approaches: key informant interviews and focus group discussions.

- i. **Key informant interviews** – designed for the target groups who are difficult to assemble in a group set-up. Equally important was the flexibility to accommodate respondent schedules. This was a preparatory phase and it involved extensive interviews on the core CIS issues in Kenya. In this phase we sought a deeper understanding of CIS attitudes and perceptions at a higher level, (mainly the policy makers).
- ii. **Focus Group Discussions (FGDs)** – designed for the target groups who were moderately easy to assemble in a group set-up. This phase

was equally preparatory and involved discussions about core CIS issues at a lower level. In this phase, subjects' attitudes and perceptions about information sharing were explored, as well as their belief in the credibility of the information sharing infrastructure. Also examined were the associated fears and experiences of those who have had interaction with the CIS system (both lenders and borrowers), and the general morale when using the CIS infrastructure.

To ensure that the right respondents were recruited, before the fieldwork began, interviewers were given a screener questionnaire which was given to each respondent. The screener questionnaire included:

- ✓ Name of respondent.
- ✓ Name of organization worked for.
- ✓ Business sector.

Borrowers were asked:

- ✓ Name of respondent.
- ✓ Occupation.
- ✓ Business sector.
- ✓ If they have borrowed money in last two years.

### 1.3 SAMPLE DESCRIPTION

The survey sample constituted both male and female professionals, academics and business men and women, among other organizations and institutions. The table below shows a breakdown of the sample for the study.

#### a) Qualitative interviews

Table 1

KII Composition	Number of respondents
Central Bank of Kenya	1
SACCO Societies Regulator (SASRA)	1
Communications Commission of Kenya	1
Ministry of Finance	1
Ministry of Co-operatives	1
Kenya Bankers Association	1
Association of Microfinance Institutions	1
Higher Education Loans Board	1
Development Finance Institutions	1
KUSCCO	1

**Table 1 (continued)**

KII Composition	Number of respondents
LSK / Attorney General's Office / Judiciary	1
Association of Telecommunications Companies	1
Kenya Power	1
Water Regulatory Services	1
<b>Total</b>	<b>14</b>

**Table 2**

Group Discussion composition	Sample size	
	Number of Groups	Number of participants in each group
Credit Officers of banks, SACCOs, MFIs	1	5
Utilities and Telcos	1	5
Bank & non-bank credit customers	1	5
Businesses borrowers	1	5
Credit customers: individual borrowers	1	5
Media	1	5
<b>Total</b>	<b>6</b>	<b>30</b>

**Note:** Qualitative sampling was designed to be inclusive of a mix of as many stakeholders as possible in order to give a broad understanding from different perspectives.

## b) Quantitative interviews

The target respondents were sampled from Kenya's economically active adult population. This was undertaken at the household level as most have some level of economic activity. A random sampling approach at the household level (with an urban rural split) was therefore used.

- Interviews were conducted with mainly current or recent credit consumers and a mix of credit providers.
- The general population sample was further split by demographic characteristics of education levels, geographical location (where they obtained credit), age, income, religion and gender.

The sample structure for the general population survey was as follows:

**Table 3**

Regions	Individual Credit Customers	Businesses – Credit customers
Nairobi	90	150
Coast	112	50
North Eastern	67	50
Central	117	50
Nyanza	29	50
Eastern	108	50
Western	195	50
Rift-Valley	82	50
<b>Totals</b>	<b>800</b>	<b>500</b>

Source of information on Kenya adult population: Kenya National Bureau of Statistics.

**Table 4**

Credit providers	Proposed sample
MFIs	51
Banks	32
Registered SACOSS	80
Other credit providers	37
<b>Total</b>	<b>200</b>

Sources of information on numbers of credit providers: MFIs and Banks-Kenya Bankers Association. Registered SACCOs-SACCO Societies Regulatory Authority website. Accessed 14/05/2012.

## 1.4 THE STAGES OF THE PROJECT IMPLEMENTATION

### 1.4.1 Set-up and translation

Set up stage:

- Obtaining of lists of potential survey respondents (Credit providers and other respondents for the Key Informant Interviews).
- Development and scripting of survey questionnaires and other related instruments.
- Refinement of the questionnaires was based on the interview length and

relevance of questions to the overall survey objectives in the light of the target respondent characteristics.

4. In addition to the survey instruments, the following materials were created, prepared and approved by both TNS and KCISI for respondent recruitment purposes:
  - Interviewer introduction letters-KCISI.
  - Special email format for recruiting and scheduling interviews with potential interviews-TNS.
  - Special snowballing email format for respondent recruitment purposes-TNS.
5. A total of thirteen surveys were undertaken during the pre-test exercise in Nairobi, two internally with colleagues and the rest with a dummy sample of potential respondents.

#### 1.4.2 Training

Training was undertaken remotely by the Project Manager Mr. Michael Omondi and Mrs Diana Webuye, Field Executive, both of TNS RMS East Africa Ltd, in the attendance of three representatives from KCISI. Questionnaires were pre-tested at the TNS RMS Offices in Nairobi Kenya between 28th and 31st May 2012. A team of 48 people was directly included in the survey set-up and execution:

**Table 5**

Team Members	Female	Male	Totals
Project Manager	0	1	1
Assistant Project Manager	1	0	1
Supervisors	2	2	4
Callers (Booking appointments)	2	0	2
Team Leaders	3	2	5
Field interviewers	20	15	35
<b>Grand Total:</b>			<b>48</b>

The thirteen pre-tests were undertaken to determine the following issues:

- Flow of questionnaires.
- Test questionnaire routing.
- Length of interview.
- Difficult/sensitive questions.

The training was undertaken centrally in Nairobi and there was no other training at regional level. The interviewer training was conducted in English. The training program for the interviewers was as follows:

**Table 6**

Activity	Day of training	Day of the week	Date	Time	
Introduction of the survey and objectives	1	Monday	28/05/2012	9:00 AM	10:00 AM
Question by question training-credit Providers Questionnaire	1	Monday	28/05/2012	10:00 AM	12:30 PM
One on one Interview Training (PAPI)	1	Monday	28/05/2012	2:00 PM	3:30 PM
Debrief	1	Monday	28/05/2012	3:30 PM	4:00 PM
Question by question training-Credit Customers Questionnaire	2	Tuesday	29/05/2012	9:00 AM	10:00 AM
One on one Interview Training (PAPI)	2	Tuesday	29/05/2012	10:00 AM	12:30 PM
Debrief	2	Tuesday	29/05/2012	2:00 PM	3:30 PM
CAPI Interview Technique Training	3	Wednesday	30/05/2012	9:00 AM	10:00 AM
One on one Interview Training Credit Customers Questionnaire (CAPI)	3	Wednesday	30/05/2012	10:00 AM	12:30 PM
One on one Interview Training Credit Providers Questionnaire (CAPI)	3	Wednesday	30/05/2012	2:00 PM	3:30 PM
Debrief	3	Wednesday	30/05/2012	3:30 PM	4:00 PM
Dummy Group (for qualitative moderator training)	4	Thursday	31/05/2012	9:00 AM	10:30 AM
Dummy KII (for qualitative moderator training)	4	Thursday	31/05/2012	10:30 AM	11:30 AM
Debrief	4	Thursday	31/05/2012	11:30 AM	12:00 PM
Pilot survey and of both questionnaires and Project kick-off debriefs and final remarks	4	Thursday	31/05/2012	2:00 PM	5:00 PM

## 1.5 SURVEY COORDINATION

Team leaders were responsible for following up the interviewers, appointments and supplying extra data collection material where necessary. Both supervisor and team leader undertook quality checks i.e. accompaniments and questionnaire checks, but with different percentages (see the Quality Control section below for further details).

## 1.6 PRE-TEST STUDY

The pre-test was conducted between on the 31st May, 2012 in Nairobi. A total of thirteen interviews were undertaken during the pre-tests exercise.

Outcomes of the pre-test:

- Generally the questionnaire had a good flow and respondents followed and understood the content and subject matter.
- The questionnaires were reviewed and edited to ensure that an interview took a minimum of 45 and a maximum of 60 minutes to administer in CAPI format.
- Outcome of this exercise provided a great deal of information allowing finalizing of the questionnaire and the show cards. It was noted that some initially non-show card questions required show cards while others which had a show card provision actually did not require one.

## 1.7 ACTUAL INTERVIEWING

Actual interviews began on 6th June and ran until 23rd July 2012. The interviews were conducted face-to-face, according to the interviewer's guide (developed specifically for this study).

In some instances, respondents preferred to be interviewed by phone. In such cases, stand-by interviewers conducted the interviews. In this way callers concentrated on booking survey appointments only. Only under extreme circumstances were callers allowed to conduct interviews either on phone or in person on a face-to-face basis. Such circumstances were:

- In cases where they had fully exhausted their respondent list and were waiting to be supplied with another list.
- When there were interviews booked late in the evening after interviewers had left their duty stations.
- When all interviewers' itineraries were overwhelmed by scheduled appointments with respondents.

## 1.8 QUALITY CONTROL

The following methods were used for quality control:

### a) The verification phone call

A total of 150 back-checks were undertaken. This represents 10% of the total quantitative survey sample of 1500 interviews. Back-checks were used to verify that the interview actually took place and on the dates recorded in the survey data. There was no major quality issues reported.

### b) Checking for logic inconsistencies and incorrect skips

100% of the interviews were verified. This was usually done by the team leader and the supervisors on daily basis. No major issues were reported.

## 1.9 FIELD CHALLENGES ENCOUNTERED

The main challenge was with credit providers. Most of them kept shifting survey appointments due to their busy work schedule which strained both time and financial resources. Other challenges included:

- 2% of the respondents took the survey half way, postponing the interview to be completed at a later date. In some cases respondents asked for interviewers opinion/views before giving their responses to survey questions.
- There were some complaints from respondents about the length of the survey even though they had earlier accepted that it would take a maximum of one hour.

## Survey response rate

**Table 8: Total survey response rate for the quantitative phase**

A. Eligible respondents	2,131	
B. Eligible respondents contacted	2,389	
<b>I. CONTACT RATE (B/A)</b>		<b>1.00</b>
C. Respondent refusals	624	
D. Agreed to interview	1765	
<b>II. COOPERATION RATE (D/B)</b>		<b>0.74</b>
E. Interrupted interviews	256	
F. Complete interviews	1509	
<b>III. COMPLETION RATE (F/D)</b>		<b>0.85</b>
<b>RESPONSE RATE (I*II*III)</b>		<b>0.63</b>

Most of the refusals were due to:

- Lack of time.
- No valid reason given: “I don’t want to answer, I’ve had enough”.

Some of the eligible contacts did not materialize into actual interviews due to:

- The respondent suddenly travelled away during the survey period.
- The respondent rescheduled appointments which later clashed with our survey schedule.
- Out of reach during survey appointment (some in meetings/other personal commitments).
- Some appointments were timed out of the survey’s field deadline-37%.

#### 1.10 DATA ENTRY/PROCESSING

Data editing was undertaken prior to analysis. At this stage, all open ended questions in the survey were allocated unique codes. The data analysis team then checked that all questions had been answered and that the survey questions flowed, making sure that all the routings were correctly followed by the field interviewers. CAPI was employed for data collection, and the output format was in SPSS. This was cleaned and tables were generated for report writing.

## Chapter 2

## CREDIT BORROWERS

## 2.1 FINANCIAL SERVICES AND PRODUCT USE

Figure 1: Financial products and use – Individuals

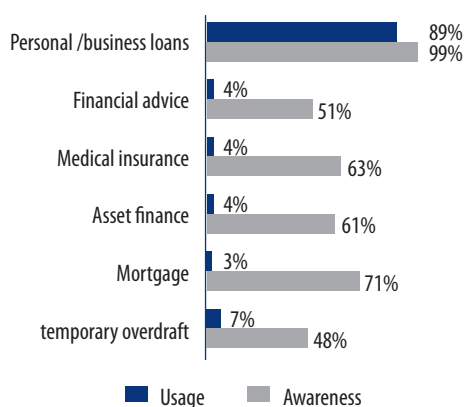
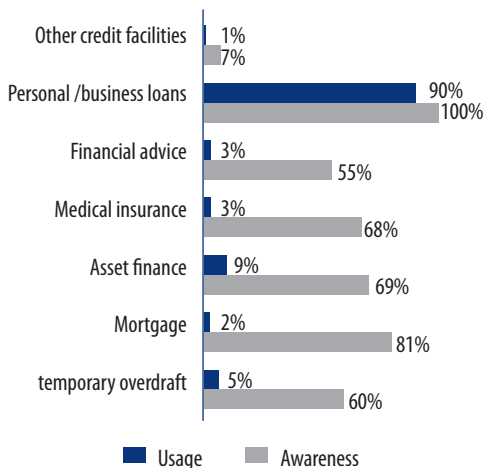


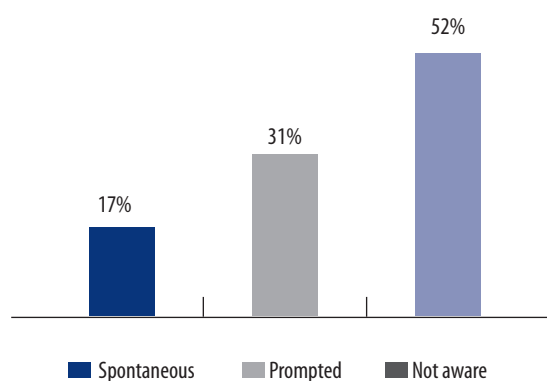
Figure 2: Financial products and use – Businesses



Credit information sharing was introduced on 31st July 2010. From charts A1 and A2 above, it is clear that borrowers are aware of most financial services and products offered by credit providers. 89% of individual borrowers and 90% of businesses surveyed are not only aware of business/personal loans, but are currently using or have used such a credit facility in the last three years. These borrowers have a high likelihood of interacting with the Credit Information Sharing system at some point.

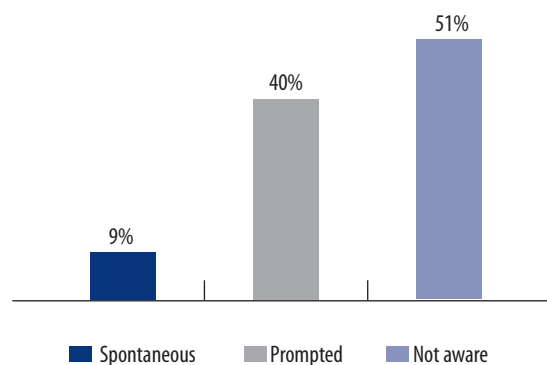
## 2.2 AWARENESS CREDIT INFORMATION SHARING

Figure 3: Awareness of Credit Information Sharing – Individuals



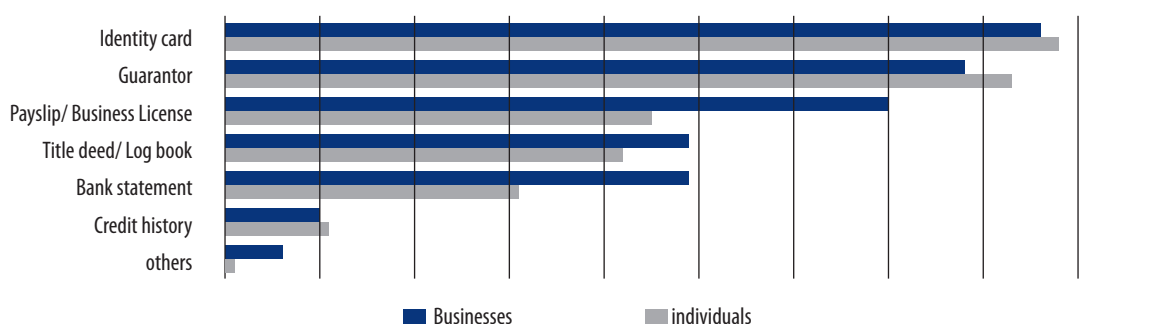
Base: Total sample 804

Figure 4: Awareness of Credit Information Sharing – Businesses



Base: Total sample 505

Since most of the people approached have at some time in the last three years (approximately the time when CIS has existed) taken a credit facility, it is likely that they would know something about CIS. About half of the individuals and businesses interviewed were aware of credit information sharing. However spontaneous or instant awareness is higher among individuals compared to businesses. These are clear indications that CIS is not a very popular subject of discussion among the general population. This could mean that CIS has either not been sufficiently publicized or there is insufficient knowledge about what it entails.

**Figure 5: Collateral needed to acquire a credit facility**

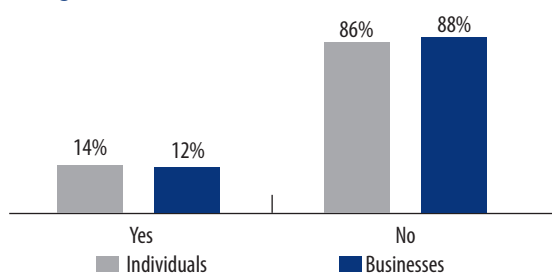
Base: Total sample 804 individuals and 505 businesses

### 2.3 COLLATERAL REQUIRED TO ACCESS CREDIT

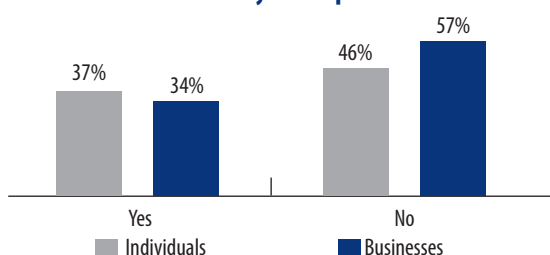
The value of CIS is based on borrower's credit history as this is the element of credit control. Despite close to 50% of those interviewed (businesses and individuals) being aware of CIS, very few knew that credit history is important when seeking credit facilities. This clearly reveals a disconnect between having heard about CIS and linking it to credit history. Borrowers therefore ought to be educated about how their credit history is key to determining their credit worth, and how that information is being shared between credit providers.

On the other hand, among borrowers aware of CIS at first mention, only 37% and 34% of individual and business borrowers respectively have been told about CIS by their credit provider. This could indicate that CRBs and financial institutions have not been making a deliberate effort to sensitize the public about CIS – or if they have done so, then the campaigns have not been successful. Misconceptions and myths about CIS therefore remain in the minds of borrowers. Much effort is therefore required to publicize CIS among the general public if CIS is to be accepted by stakeholders.

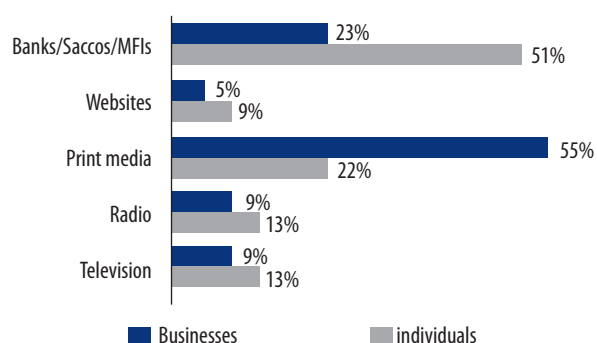
### 2.4 AWARENESS OF CREDIT REFERENCE BUREAUS

**Figure 6: Awareness of Credit reference bureaux**

The two CRBs currently in existence are known to few credit customers. As a critical player in the credit market, more needs to be done to create awareness. Ultimately, trust is required for the CIS system to succeed.

**Figure 7: Communication about CIS to borrowers by credit providers**

Base: Borrowers aware of CIS at first mention; Individuals; 134, Businesses; 44

**Figure 8: Sources of awareness of CRBs**

Base: Borrowers aware of CIS and CRBs at first mention; Individuals; 55 Businesses; 22

According to borrowers who are aware of CIS and CRBs, it is financial institutions and the print media who have created the most awareness. It appears that individual borrowers found financial institutions most effective while the business community favoured the print media.

This is one of the factors to consider when designing communication strategies for targeting particular audiences. Credit providers are nearer to borrowers and therefore better placed to both inform and educate the public about CIS, while print media can be used to target the business community, who have not time for extensive discussion.

Figure 9: Public perception about CIS

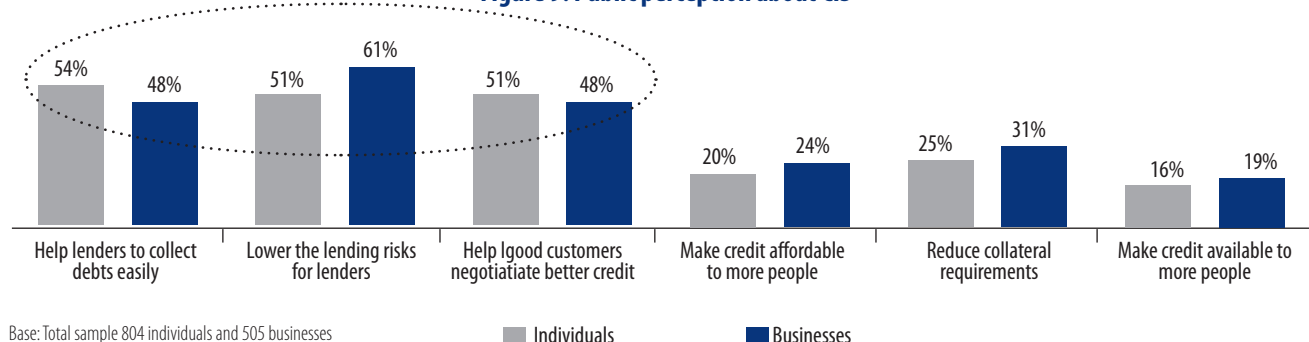
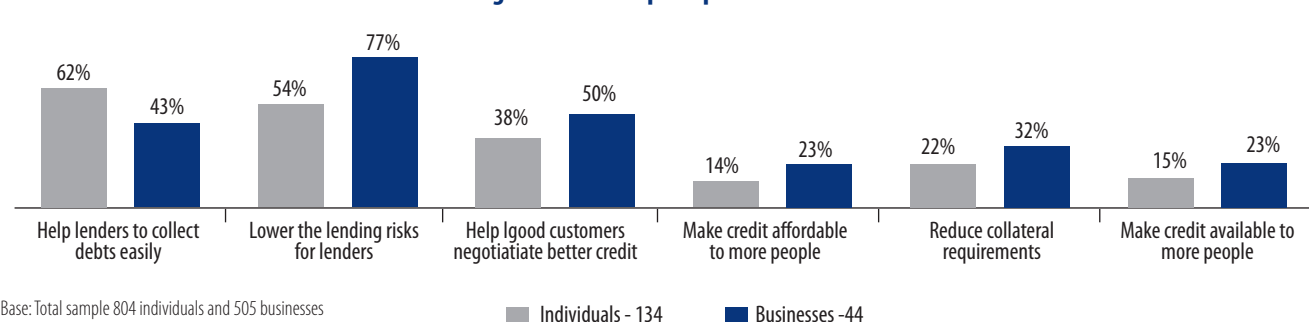


Figure 10: Public perception about CIS



## 2.5 PERCEPTIONS OF CIS

The general perception is that CIS benefits lenders not borrowers. The overall goals of making credit affordable as well as increasing financial inclusion are not clear to most of the credit customers.

Credit providers therefore need to increase their efforts to use the strong selling points of the benefits of CIS known to borrowers.

A closer look at only those who are aware of CIS confirms the position: the general perception still remains that CIS benefits lenders not borrowers. The overall goals of making credit affordable as well as increasing financial

inclusion are still not clear to most of the credit customers.

## 2.6 SALIENCE OF CIS

Further supporting the findings in chart A9, borrowers regard CIS as an important aspect of proper credit management; however a majority still feels that the benefits of credit referencing are currently felt only by lenders.

Borrowers therefore, have not been keen to find out more about CIS and therefore retain many misconceptions about the mechanism.

Figure 11: Salience of CIS

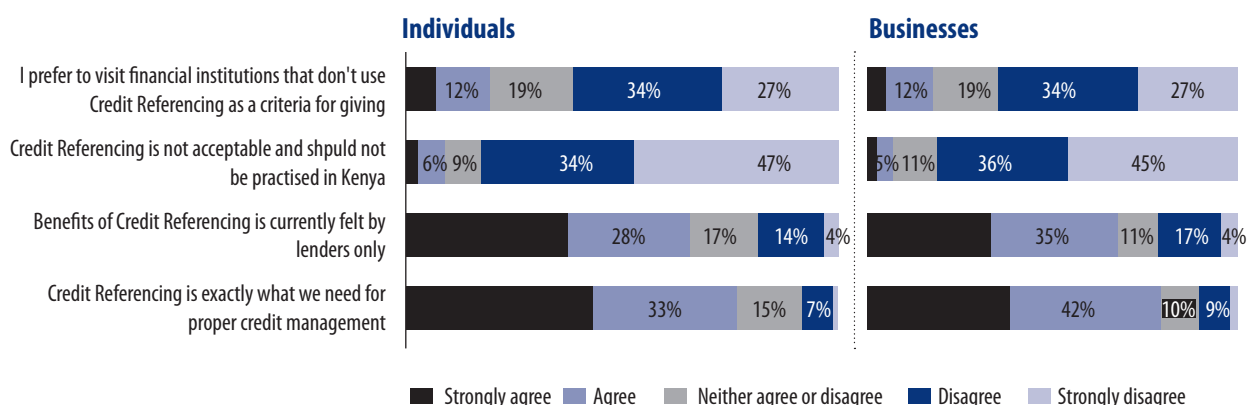
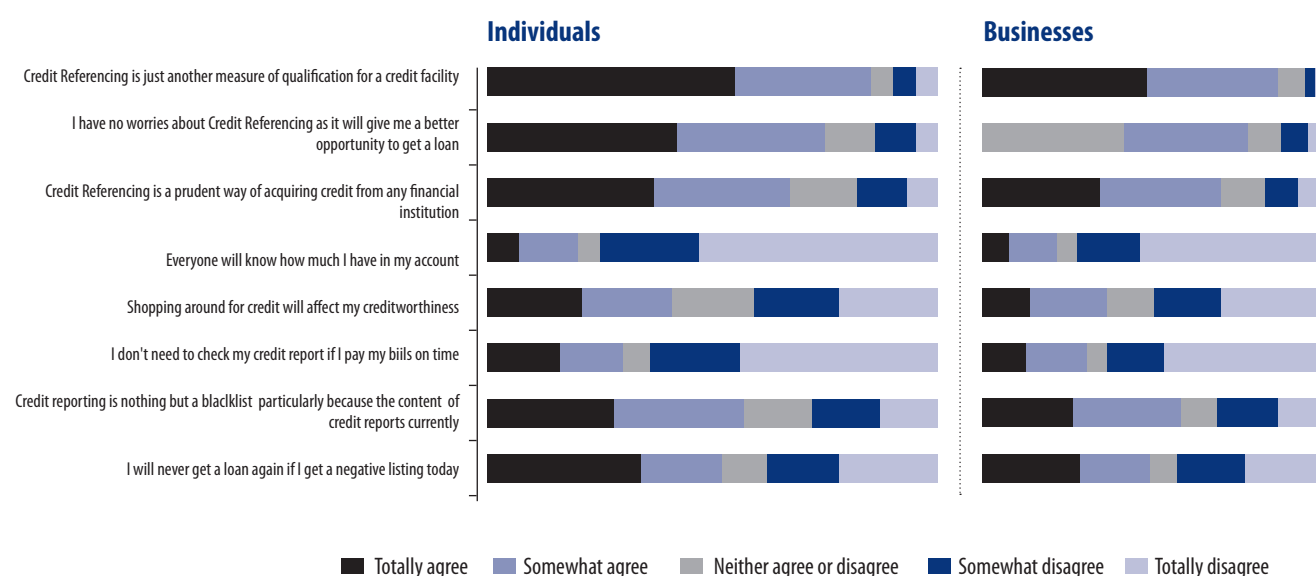


Figure 13: Salience of CIS



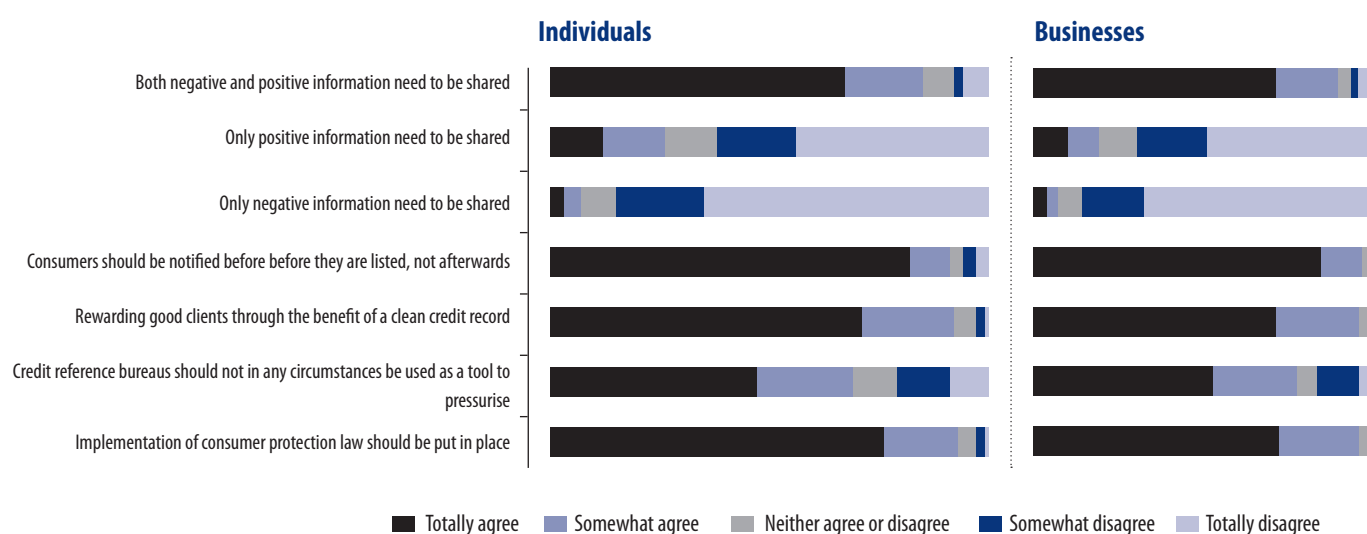
## 2.7 ATTITUDES TOWARDS CIS

Reactions to CIS are generally mixed. Borrowers have some positive sentiments, but there are misconceptions also. For instance, half of those interviewed believe that they would not be eligible for loans in future if they receive a negative rating. Current content of reports (negative information only) is among the drivers of the negative perception of CIS i.e. as a blacklisting method.

## 2.8 EXPECTATIONS FROM CIS GUIDELINES

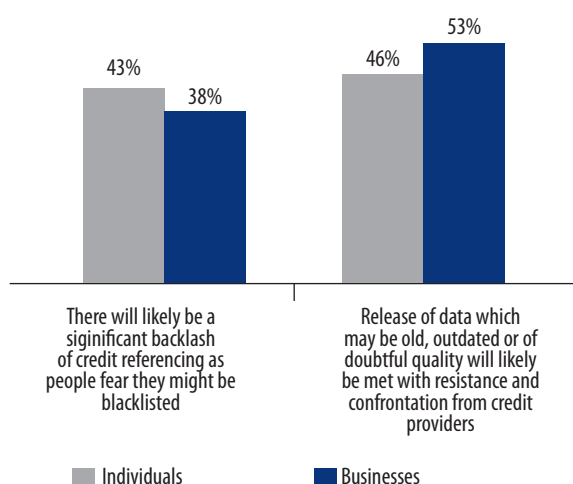
While rolling out CIS to all credit providers, it is important to note that borrowers are looking for fairness, i.e. sharing of both positive and negative information. They expect that their information will be treated confidentially within a legal framework which safeguards such information.

Figure 14: Attitudes towards CIS

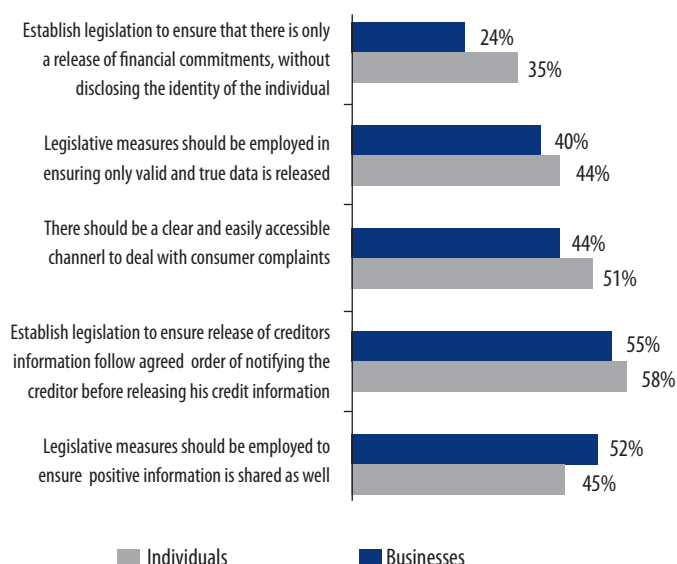


## 2.9 CHALLENGES AND RECOMMENDATIONS ABOUT CIS

**Figure 15: Fears about CIS**



**Figure 16: Recommendations about an effective CIS mechanism**



According to borrowers, the biggest fear with and cause of most resistance to CIS is the release of data which may be old, out-dated or of doubtful quality. Therefore, the top three recommendations made are: the establishment of legislation that ensures notification/consultations with borrowers before a defaulter is listed; sharing of positive as well as negative information and establishing clear and accessible dispute resolution channels.

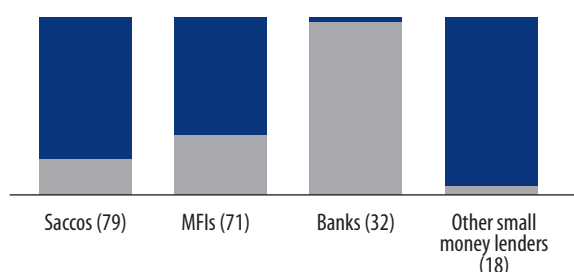
## Chapter 3

# CREDIT PROVIDERS

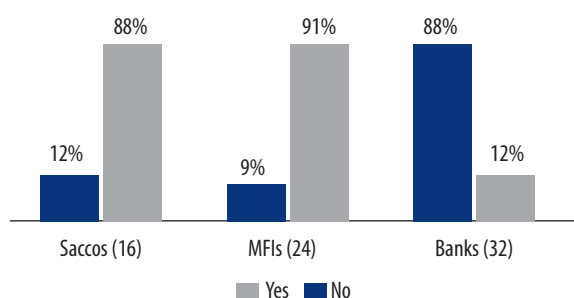
### 3.1 AWARENESS AND USE OF CRBS

CRBs seem to be well known among banks and not so much among other credit providers. Use of the credit reference data transmission template among the non-banks is even lower. Therefore, incorporating the non-banks into the CIS system would require education from the basics. This would need significant time and financial investment to achieve.

**Figure 17: Awareness of credit reference bureaux**



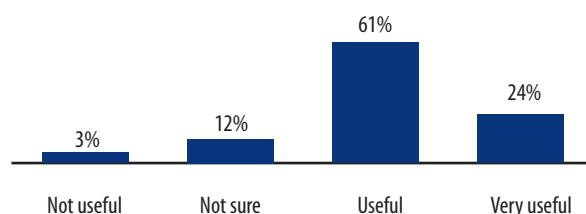
**Figure 18: Use of credit reference data transmission template**



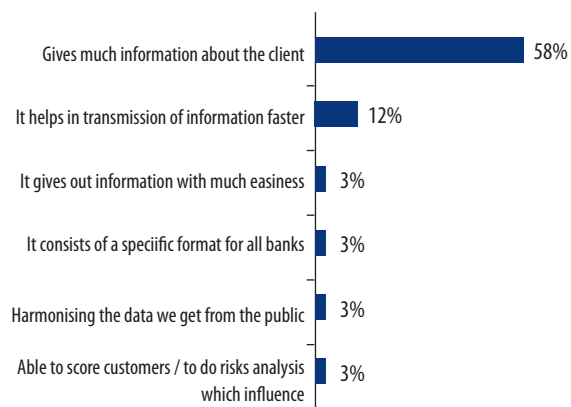
### 3.2 SALIENCE OF CREDIT REFERENCE DATA AND DATA TRANSMISSION TEMPLATE

A majority of credit providers who have used the template attest to its usefulness. The template now needs to be introduced to non-banks, keeping in mind relevance, compatibility and user-friendliness of the technology.

**Figure 19: Usefulness of data transmission template**

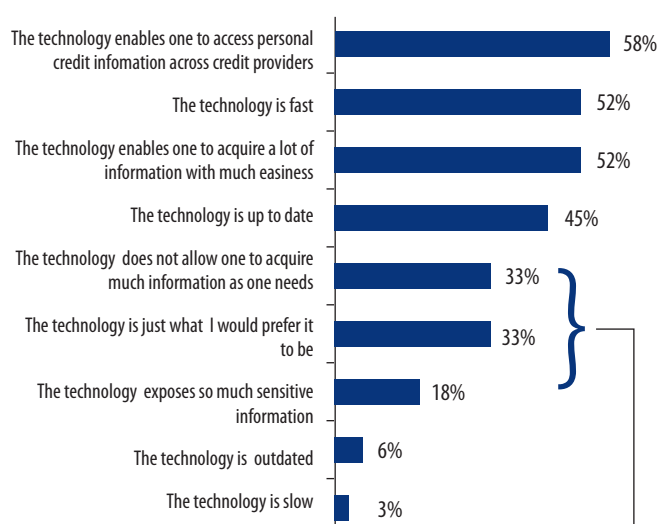


**Figure 20: Reasons for use of the template**

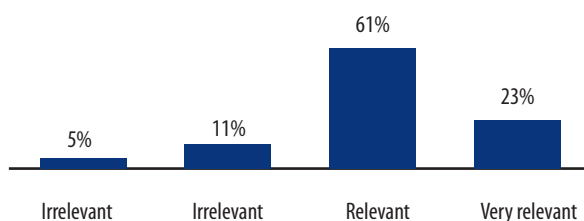
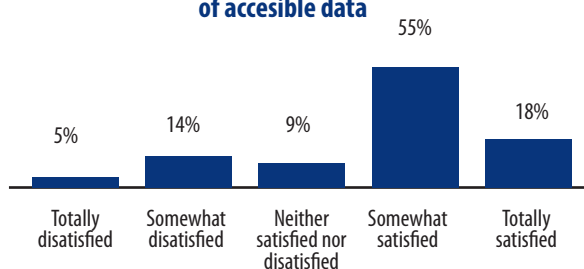


73% of credit providers who have used the template find it effective mainly because it gives much information about the client (borrower). This key strength needs to be capitalized on. Other applications can be added to the template to make it relevant and useful to other non-bank credit providers.

**Figure 21: Attitude towards the data transmission technology**



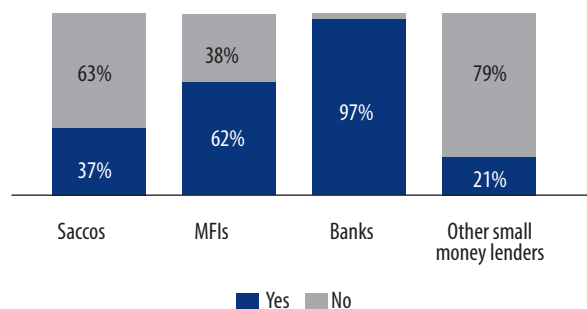
Although there is a lot of positive opinion about the data transmission template from institutions that have used it, there is a potential threat from those who have a negative attitude about the technology. With the inclusion of non-banks in the CIS system, it is necessary to seek common ground from all participating credit providers about the design and functionality of the technology for maximum acceptance and use.

**Figure 22: Relevance of data received from credit reference bureaux****Figure 23: Satisfaction with amount of accessible data**

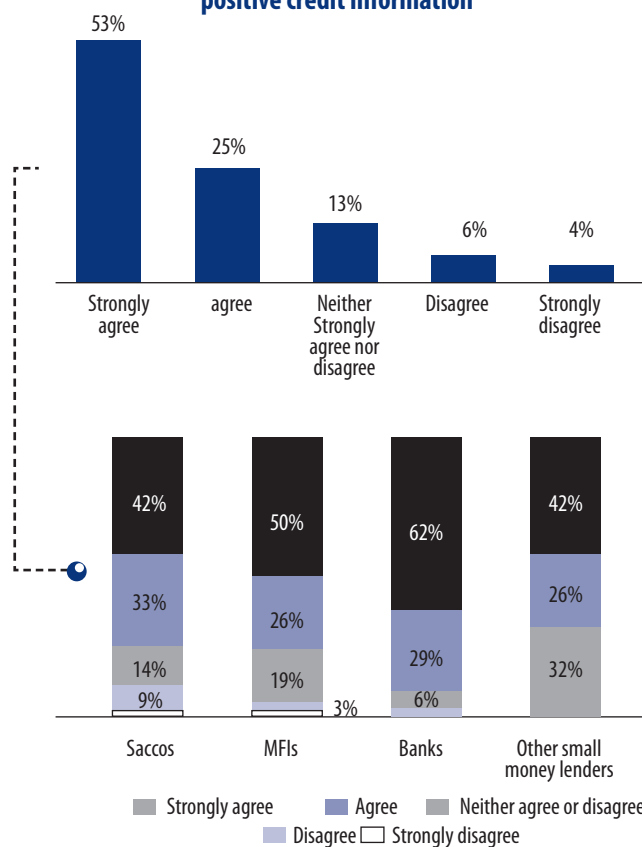
A majority (a combined 84% i.e. those who mentioned 'relevant' or 'Very relevant') of those who have contacted CRBs attest to the relevance of the data received. A combined 73% (those who mentioned 'somewhat satisfied' or 'Very satisfied') are satisfied with the amount of accessible data they received. However, there is a potential threat from those who are dissatisfied (a combined 19% i.e. those who mentioned 'somewhat dissatisfied' or 'totally dissatisfied') which means that the data they are receiving is not useful. Their suggestions and ideas could be used to improve the relevance of the data received from CRBs. There is therefore a need to build consensus among all stakeholders about the minimum level of information required from CRBs in tracking borrowers' credit history.

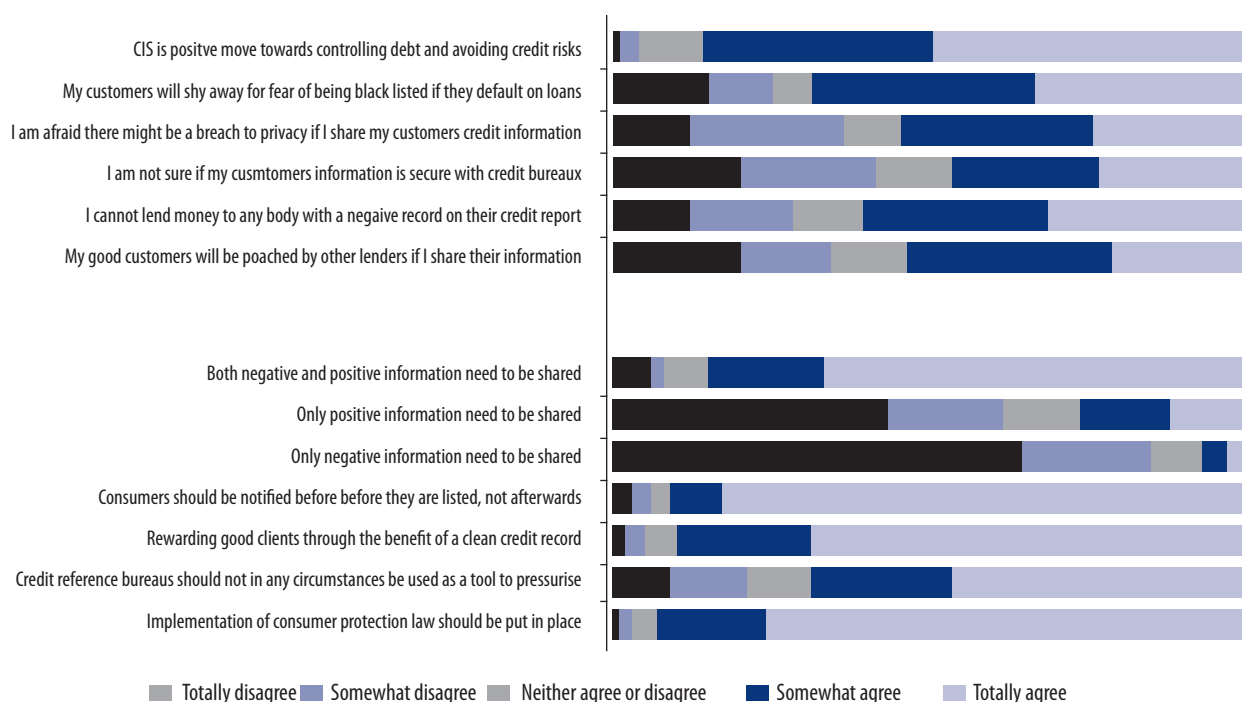
### 3.3 ATTITUDES TOWARDS CIS

CIS is a move in a positive direction for credit providers. There are however many concerns, such as trust, confidentiality and fair competition that would need to be overcome for successful, universal implementation. For instance, half of the providers interviewed believe they would lose customers through credit information sharing. Two thirds feel that their customers would be fearful and run away. On the other hand credit providers just like credit borrowers want both positive and negative information shared.

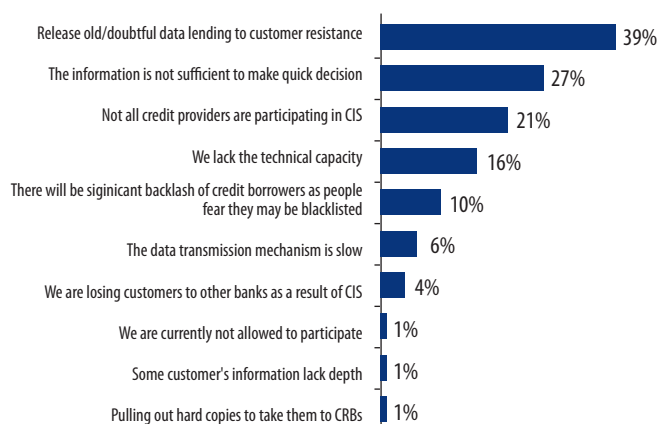
**Figure 24: Knowledge of positive information sharing initiative**

97% of commercial banks are aware of the recent initiative of sharing positive borrower's credit history. There is also a considerable awareness among other credit providers. Chart B9 shows that the degree of agreement with positive information sharing is high among most credit providers. However, there is still a need for deliberate sensitization campaigns by KCISI to create full awareness among target stakeholders about all aspects of this new initiative.

**Figure 25: Degree of agreement with sharing positive credit information**

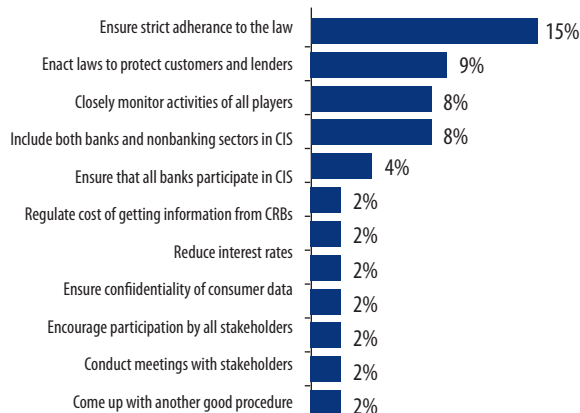
**Figure 26: Reactions to CIS initiative**

### 3.4 CHALLENGES OF CIS AND RECOMMENDATIONS TOWARDS AVERTING CHALLENGES.

**Figure 27: Challenges credit providers face with CIS**

The top three challenges faced by participating credit providers in CIS are the release of old/outdated data by CRBs; lack of sufficient data in facilitating quick decision making, and the fact that not all credit providers are participating (at the moment). Points of focus are on the need for each participating credit provider to maintain and share an up to date data base of its borrowers' information for the benefit of all counterpart credit providers. KCISI on the

other hand also need to ensure that all target credit providers participate in CIS to create a level playing field to the satisfaction of each stakeholder.

**Figure 28: Recommendations towards limiting CIS challenges**

The Central Bank of Kenya and KCISI are being called upon by credit providers to create a level playing field for the effective uptake of CIS. This can be achieved by ensuring strict adherence to the law, implementation of consumer protection and close monitoring of activities of all players. All commercial banks and non-bank credit providers should be fully involved in CIS.

In summary, the main challenges identified by the credit providers were:

- Harmonization of information sharing guidelines among the different players i.e. bringing on board non-banks would require higher level policy intervention to ensure that all players are bound by the same operational procedures and regulations.
- Expected high cost of compliance associated with operation and technical capacity building for implementing information sharing.
- Lack of cooperation between banks, which might even become a bigger challenge through the inclusion of non-banks in the sharing system.
- Fear of unfair competition especially among non-banks. Since they have not interacted with CRB before, they would need assurance that they would be treated fairly in an environment where they have to interact with banks.
- Overall, providers would like to see a solid legal framework that protects their interests and limits exposure of their businesses to unfair competition as a result of sharing information about their customers.

## Chapter 4

## MEDIA AND COMMUNICATION

## 4.1 MEDIA AND USE

Figure 29: Awareness of any CIS information in the media

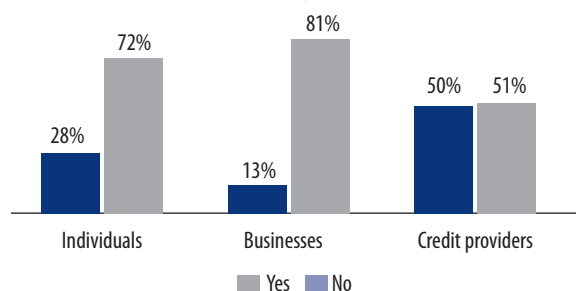


Figure 30: Is the media doing anything to promote CIS

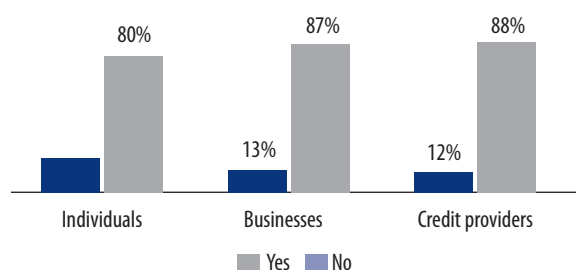


Figure 31: Specific recommendations on how to use the media

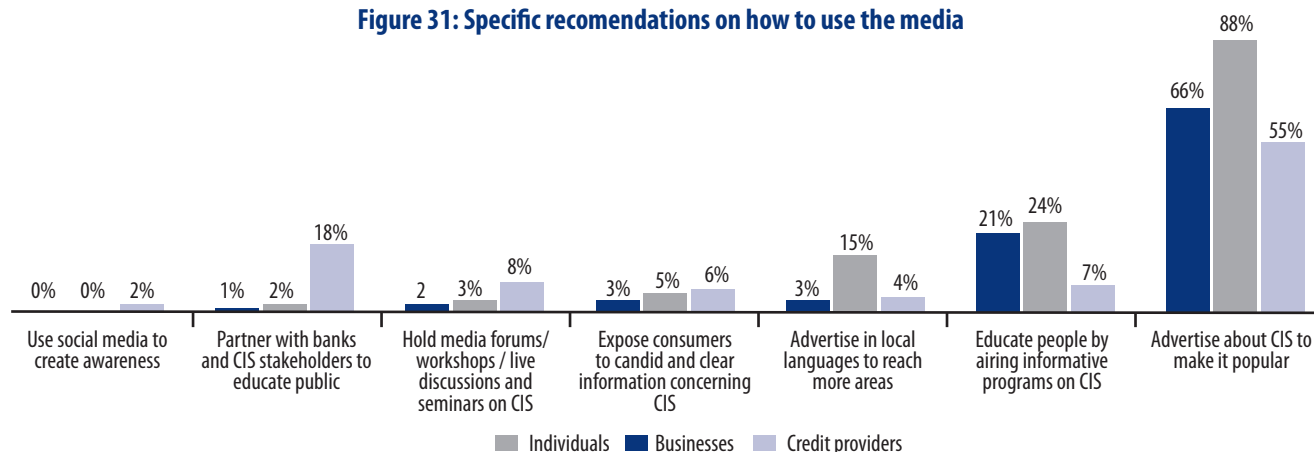
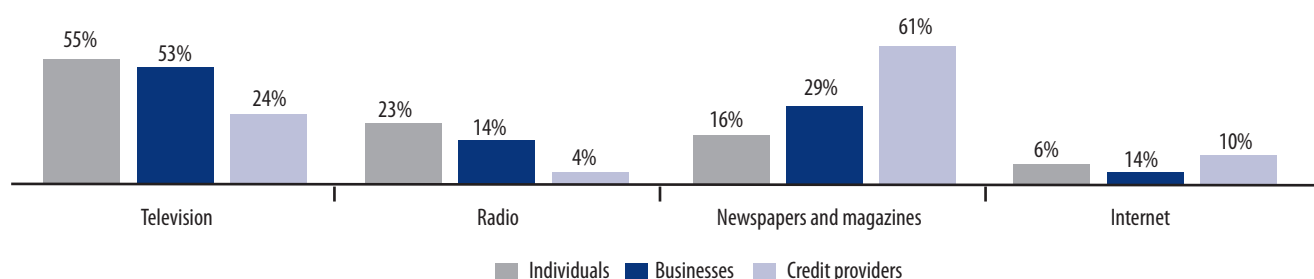


Figure 32: Most reliable media type used by borrowers and credit providers



Despite high levels of access to media (TV and Radio) in Kenya, not enough seems to have been done through the media. There is still a significant opportunity to exploit the media in advancing acceptance and therefore changing perceptions of CIS, especially among borrowers.

## 4.2 HOW TO USE THE MEDIA

Both borrowers and credit providers would like to see more awareness campaigns about CIS, its benefits and implications. However, the design of the communication message must be simple, avoiding technical financial jargon and including illustrations that people can identify with or relate to in their everyday lives.

While targeting both borrowers and credit providers, it is important to consider the fact that television is perceived to be the most reliable source of information among borrowers while newspapers and magazines are most popular among the credit providers. Already this gives clear indications as to which types of media will take the biggest share of communication resources and which ones will be a waste of time and resources if used.

### 4.3 SPECIFIC USES OF MEDIA TYPES

TV stations	Individuals	Businesses	Credit providers
Base	444	266	47
KTN	18%	18%	96%
NTV	14%	15%	96%
KBC	2%	1%	13%
Citizen	64%	63%	96%
QTV	2%	0%	0%

Print media	Readership	Readership	Readership
Base	127	145	122
Daily nation	73%	77%	99%
The standard	24%	17%	92%
The star	1%	4%	28%
Business daily	1%	1%	61%
County focus	1%	0%	7%

Radio stations	Individuals	Businesses	Credit Providers
Base	187	71	8
Citizen	42%	35%	75%
KBC	11%	7%	63%
Inooro	6%	13%	1%
Kameme fm	5%	6%	12%
Ramogi fm	5%	3%	1%
Kaya fm	4%	1%	1%
Classic FM	3%	8%	25%
Coro	3%	4%	1%
Pwani fm	2%	1%	1%
Kass fm	2%	1%	1%
Mulembe fm	2%	1%	1%
Radio Jambo	2%	1%	1%
Lake Victoria	2%	1%	1%
Kiss FM	1%	10%	1%
BBC	1%	1%	1%
Milele fm	1%	1%	12%

Internet sites	Browsership	Browsership	Browsership
Base	44	18	20
Business daily	23%	22%	80%
Face book	14%	11%	45%
Tweeter	7%	1%	15%
Yahoo	23%	17%	45%
Google	32%	39%	90%
Nation media	1%	0%	1%
Mocality	0%	11%	20%

*Citizen* radio stations are most listened to by both borrowers and credit providers. Among TV stations *Citizen* is the most watched, and among the print media, *Daily Nation* newspaper is the most read. Among the internet websites visited, *Business Daily* and *Google* (used as a search engine for information) are the most used. Specific communication targeting can be done through these media brands.

## Chapter 5

# QUALITATIVE ANALYSIS

This qualitative report outlines the findings from the qualitative focus group discussions and in-depth interviews conducted among key players in the financial sector as well as from the consumer's point of view.

### 5.1 AWARENESS OF CREDIT REFERENCING

Awareness of credit referencing is high among customers and also among other players in the financial sector. A major source of awareness among customers is through grapevine/informal sources. Others learnt about credit referencing through their bank.

Among the players in the financial sector, credit referencing has acquired the name 'watch dog'. In most cases credit referencing has been used as a tool to pressurize or force credit customers to repay their loans/credit. Interestingly, this perception is also shared with the credit providers who view credit referencing as a tool to enforce compliance among customers.

### 5.2 AWARENESS OF KENYA CREDIT INFORMATION SHARING INITIATIVE (KCISI)

Awareness of (KCISI) is still low especially among consumers. Asked if anyone has attended any of the workshops organized by KCISI, a majority noted that they only learnt about it through the media, reading their report publications. Awareness of the activities and purpose of KCISI among non-bank credit providers is also low. This can be attributed to lack of involvement in the activities of the initiative at the lower level within the lending institutions, probably because discussions are still underway to get non-bank credit providers to participate fully in the initiative.

### 5.3 MARKETING ACTIVITIES OF KCISI

Consequently, there are still low levels of awareness of marketing activities used by the KCISI. This can be attributed to low media involvement in creating awareness about CIS. As a result, there are negative perceptions and attitudes towards the initiative as a means of assessing credit worthiness of borrowers.

#### Attitude and perceptions about credit referencing

Customers	Credit providers /legal team
<ul style="list-style-type: none"> <li>▪ Watch dog</li> <li>▪ Black listing</li> <li>▪ Pressure</li> <li>▪ Bank</li> <li>▪ Increased cost of credit</li> <li>▪ Reduced credit accessibility</li> <li>▪ <b>Financial discipline</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Faster and efficient decision making</li> <li>▪ Stable financial economy</li> <li>▪ Reduced cost of credit</li> <li>▪ Reduced credit risk</li> <li>▪ Increased credit accessibility</li> <li>▪ <b>Financial discipline</b></li> </ul>

As illustrated above, there is a clear disconnect surrounding the perceptions of credit referencing between customers and credit providers. Customers generally have a negative attitude towards the initiative while that of credit providers is more positive. However a majority of the positive reaction from credit providers came from bankers, not non-banks who still have not interacted fully with the CIS mechanism.

Negative association among customers is highly influenced by:

- The law of sharing negative information about credit customers.
- Threats received from the credit officers about being forwarded to the CRBs have also created tension among credit customers.
- Inadequate sensitization on the need and benefits of credit information sharing.
- The law that allows only sharing of credit information among commercial banks (other credit providers excluded).

*"..... there was a time that I had financial problems and could not service my loan in time. ...the credit officer from the bank called me and all he could tell me is that my name is going to be forwarded to the CRB. ...."* **Credit customer**

### 5.4 PERCEPTIONS TOWARDS CREDIT INFORMATION SHARING AS A DETERMINANT OF GIVING CREDIT FACILITIES TO CUSTOMERS

Even though there are negative perceptions about credit referencing, borrowers agree that CIS as a good determinant of giving credit facility to customers. However, several concerns were raised concerning the ability of CIS to achieve full acceptance among borrowers. These include:

- **Implementation of a Consumer Protection Act** – where consumers consent to sharing information and also have the right to dispute any information about them held in a credit reference bureau.
- **Regulation of credit referencing bureaus** – adhering to code of conduct whereby the law requires the CRBs to meet international data security standards in the transmission and storage of information in their custody.
- **Sharing of positive information about credit customers** – brings competition among banks thereby reducing costs of credit (interest rates).
- Reducing the period in which the CRBs retain names of non-performing loans which is currently seven years.

Addressing these concerns will ultimately contribute to the positive perceptions about the credit information sharing.

## 5.5 PERCEIVED BENEFITS OF CREDIT INFORMATION SHARING

Since the understanding of CIS is different between borrowers and credit providers, the benefits of can be summarized as follows:

### A. Benefits to credit customers

#### i. Promoting financial discipline

Credit referencing ensures individuals obtain credit for a worthy cause. This also ensures proper and planned use of loans as well as consistent servicing. The fear of being black-listed will ensure people service their loans in time thereby creating a good credit environment in the economy.

#### ii. Reducing need for securities/collateral

The need to keep a good credit score enhances a borrower's credit worthiness. This will lead to reduced securities/collateral needed to acquire a credit facility and in return reduce credit risk and interest rates.

*".....the reason why banks ask for security is because they don't know you. They don't know whether you will default or not. ...."* **Ministry of Finance**

#### iii. Increased credit accessibility and financial inclusion

By reducing non-performing loans, financial institutions will have enough money to lend. This means many customers will be able to access loans even those who will not have security since their credit information has been shared with other credit providers.

### B. Benefits to credit providers and the financial sector

#### i. Reducing the credit risk

Credit defaulting is often a result of poor planning and management of credit among borrowers. With good records of borrowers' credit history, credit providers are better placed in making prudent decisions when choosing who to give a credit facility. A borrower with a poor credit score can be considered to be too high a risk.

#### ii. Increased efficiency in credit processing

Once credit information about an individual is available, financial institutions agree that it would hasten loan processing through fast decision making, reducing the time required to process a credit facility. This will in turn help cut the costs related to credit processing.

## 5.6 INCLUSION OF OTHER FINANCIAL INSTITUTIONS IN CREDIT INFORMATION SHARING AND THE COST OF COMPLIANCE

Currently, only commercial banks are allowed to share information about their credit customers with the CRBs. This has been perceived negatively by both customers and other credit providers. Therefore there is need to include all players in the financial/credit sector.

Credit providers and their regulators such as KUSCCO, SASRA, TESPOK, AMFI, CBK, Ministry of Finance etc. are currently working to create efficiency in financial services. They are also improving the provision of credit by reducing non-performing loans by keeping watch on serial defaulters.

Notably, Higher Education Loan boards are currently sharing information about their customers through CRBs and have seen the benefits as part of their credit control mechanism. From the study conducted, findings reveal that SACCOS too have already made provisions in their laws to allow sharing of information. However, they are yet to amend their laws to allow sharing of information with

other credit providers through the CRBs. There are some credit providers who cannot obtain a borrower's credit history from CRBs since they are still not part of the CIS mechanism. This has posed some serious challenges: the borrower is the one to approach his/her bank and ask for a credit report which will then be used to determine his/her ability to acquire a credit facility.

Another challenge is that non-banks, who are not currently included in the CIS system cannot access banked borrowers credit history through CRBs. This has led to a situation in which member institutions of a financial/credit providing organization decide autonomously whether or not to reference a borrower. Inconsistencies in the process of giving credit facilities among the concerned member institutions are inevitable.

*"... it is the role of TESPOK to ensure that all member organization abide by this criteria, for each organization has its own discretion to decide whether to reference customer or not"* **TESPOK**

Generally speaking, the idea of including non-bank credit providers was received positively by different credit providers. The technology and the manpower to run CIS are available to the majority of the credit providers. However, the technical details and guidelines of implementing CIS are not clear to all. The kind of information to be shared, how it is shared, and what kind of information to expect from other credit providers is not clear as there is currently no harmonized data sharing protocols.

*"I think that the national CIS forum should actually work with other providers of credit just to ensure that they know what is required in terms of reporting out of the system and the system requirements. . ."* **ICDC**

*"... we are the technical community so there would not be any technical issue. The issue would be under what guidelines is CIS going to be implemented and what would happen in the event there is a breach of that information as we see it. We are still trying to put in place data protection and cyber security laws plus those who can guide how that information is used. . ."* **TESPOK**

*"... to answer your question of capacity, I think it is a challenge ... because for SACCOS to get this information from CRBs, and to translate it and use it will require some kind of training and education. . ."* **SASRA**

*"... the concept is noble but its success depends on the mode of implementation in my opinion. Remember also some ideas are borrowed and if we borrow them we also need to customize them to fit our situation. . . but let the structure come out on how it is going to be operationalized in SACCOS and then the other bit of resistance we can always overcome that through sensitization."* **KUSCCO**

There are some challenges associated with the cost of compliance with the implementation of CIS. Top among them is technical and financial capacity of smaller institutions. This will call for capacity and training needs assessment before a complete roll-out is carried out. There would probably be a shortfall in resources if additional staff were needed. There could also be a capacity shortage. In both cases it is feared that capacity shortfall in MFIs and SACCOS might be higher than in the banks.

*"... the capacity shortfall of MFIs is slightly larger because again capacity also refers to systems, i.e. upgrade of systems. So yes it is difficult to expect 100% compliance when there is some element of capacity shortcomings."* **AMFI**

There are also concerns that the cost of acquiring information from CRBs is likely to pass on to the consumer through products and service charges.

*"I think it requires a lot of human and technical expertise and software. It will take a lot of time and I think that's why the KCISI are doing a capacity review to check whether they have the technical capacity to facilitate CIS. I also think that firms need to do capacity review so as to check what needs to be done and get a clear picture of what will be needed..."* **SASRA**

*"... well if there is going to be a cost attached to accessing the information that cost ends up going to the consumer. . . unless access is free but the cost ends up going to the consumer. . . look at the increase in cost of accessing credit as a result of CIS, who bears the cost. . .? Because, to be*

*very honest with you SACCOS will not afford that. We want to push every coin we have to the membership in terms of loans I am being honest. . ."* **KUSCCO**

While the cost of compliance is often higher initially, the benefits outweigh the disadvantages over time. The efficiencies that will come through an effective credit sharing mechanism will reduce the cost of lending across the board. Overcoming resistance will be the job of key participating institutions. Use of national forums can be used to educate members about the importance of CIS and the need to accept it as part of operational procedures. This is very important, especially for non-banks that are currently foreign to CIS and apprehensive of the mechanism.

## 5.7 ADDRESSING THE CHALLENGES OF CIS IMPLEMENTATION

The Ministry of Finance has been involved with the development of CIS since the Central Bank requested an amendment of the banking law to allow information sharing. The ministry is also responsible for financial sector policy and laws. As a new initiative in the Kenyan economy, challenges in its implementation are to be expected. However, if properly managed, they are likely to have a positive impact on the initiative. It is expected that with time CIS will become best practice among credit providers.

*"... With time, it will soon become the best practice; it is going to be the culture so there is no saying that banks are sharing information so I will now go to SACCOS. SACCOS are going to share information because it is a good thing. There is this perception that sharing information is a bad thing but because it is a good thing, it is going to spread and there will be no migration. . ."* **KCISI**

Sharing of positive information has some challenges. It should not be made mandatory until credit providers are properly educated in order to avert resistance and maximize inclusion of all stakeholders. In this way, small credit providers will have been sufficiently sensitized to guard against unfair competition, and will know what to do if it occurs.

*"... It will depend on structures put in place. . . for example you expect me to share my customers info in terms of how many facilities they have taken from me, how they have repaid them how much I have earned in terms of interest income, other provisions and fees. I may not want to give you all of that because once you realize this is a high net worth client you may be persuaded to steal them by reducing interest rate, buying them off... Now there is the law that has come in place that the bank that creates the first legal charge and then if the client has to move to a different bank you retain the legal charge but you give the other bank a guarantee so that the client is not discharging the security moving to another bank and then discharge them again; this is a big cost so I for see a problem there if we make it mandatory. . ."* **Anonymous**

Legal barriers that prevent non-banks from sharing information about credit customers still exist. They must be dealt with at policy level as soon as possible so that all stakeholders can feel part of a fair and harmonized system. Data protection will be critical when involving non-banks as they are new to CIS. Their data protection procedures and guidelines need to be married with those operating in the current CIS mechanism involving financial institutions (largely, banks).

According to the Central Bank of Kenya (CBK), CIS roll-out happens in phases. Phase 1 was purely for the banking sector; Phase 2 involves the CBK and KCISI bringing in the deposit taking microfinance institutions, after which the SACCOs will come on board in Phase 3. Phase 4 will involve the utility companies then TESPOK. The law will need to be updated to allow all procedures to take place. For example, the DFIs such as AFC and KIE also have credit data and are established under certain Acts of parliament. There is need to examine the relevant laws and amend them to allow for credit information sharing, and ensure customer confidentiality. CIS is therefore a process that is being rolled out gradually, but is eventually designed to include a wide range of financial institutions.

Stakeholders involved in the process are eager for changes in the law to be made as soon as possible in order to take advantage of the interest already generated in CIS. The longer it takes, the more interest might be lost in CIS as other mechanisms and technologies evolve.

*“... there are a number of draft bill and policies that have already been presented. Data protection is a bill already and is waiting to be presented in parliament cyber security is a draft document we are working, on freedom of information is a draft document we are still working on so and you know for our industry policy development actually involves already all stakeholders. ... you cannot begin inviting everybody to access credit information if you don't have policies to guide how that information is going to be used.” TESPOK*

The involvement of non-banks will give a holistic profile of a borrower's credit portfolio. In this way, a potential defaulter who is not known to banks through CIS can be easily identified from other non-banks credit records. If the necessary legislation is slow, credit providers will continue to procrastinate about the way forward, while borrowers will continue to have misconceptions and doubts about its advantages.

*“... I also see the Finance Act as a barrier. Not all credit providers have been included in that category of information sharing. Among non-banks, they have only included MFI and HELB, SACCOS and the rest of us have not been included but yet we are providers of credit. I felt that more research needed to have been done if that law was to be put in place. HELB has their own laws which allow listing of defaulters. The rest of us have to ask why*

*is DFI not in their own act transitioning under the development financial institution bill which will hopefully become an act. ...” ICDC*

*“... you know, the regulations as they sit now they were made pursuant to section 31 of the Banking Act, so the Microfinance and the Banking Act had to be amended to allow banks and deposit taking microfinance institutions to share information. As it is it is only for institutions licensed under the Banking Act. This regulation is being amended to allow the DTMs to also benefit and to also share information. The mechanism as it was started initially it was pursuant to the Banking Act meaning it is only for the institutions which were licensed and regulated under the Banking Acts, currently there is an ongoing initiative to amend or to come up with regulations which can accommodate those institutions licensed under the banking act and those under the microfinance act. ...” CBK*

According to the CBK, Kenya adopted a private sector driven CIS system. This is unlike those in other countries which practice public sector driven CIS, and where the Central Bank hosts the credit reference bureaus. In these cases the reference bureaus set up their systems using their funds and banks and other credit providers ensure that their systems are able to communicate with the bureaus.

Capacity building in the financial institutions and other non-financial credit providers needs to be undertaken. Head credit officers especially of non-bank credit sectors do not have adequate information about credit referencing to pass to their members and customers. There is need to conduct employee sensitisation as well as capacity building in order to raise awareness about the need and purpose of credit referencing. The cost will be met partly by credit providers, the CBK and the KBA: while an individual credit provider will be responsible for ensuring that their systems comply.

During regular stakeholder briefings, KCISI has been considering the challenges that may arise while CIS is being implemented. According to KCISI, they have introduced measures to discuss easy entry. Currently they are discussing with the lenders how best to implement CIS without making it too abrupt. Even if the law came into effect tomorrow, sharing all informing with other non-bank credit providers could not happen: lenders still need to successfully negotiate several hurdles in order for an effective roll-out to be achieved.

*“... The regulations have already been issued and the reason is because time is needed for the structures to be addressed. That is the role of the project (KCISI), to ensure smooth implementation. ... we have identified those potential shortcomings and we have a roadmap to solve them. So if they are not solved they will affect the uptake. But since we have a plan to address these shortcomings, I expect that the uptake won't be affected.” KCISI*

## 5.8 REGULATION OF CREDIT REFERENCE BUREAU

The study findings reveal that both customers and credit providers are concerned about the credibility of the credit reference bureaus. However the Central Bank has put rules and regulations in place to be followed by all registered CRBs. Should these regulations not be adhered to, penalties will be imposed on the CRB.

During the licensing of CRBs, the Central Bank conducts an audit on the management and shareholders. The CRB must satisfy the criteria for registration. After registration, the Central Bank also conducts regular onsite and offsite analysis to ensure that the rules are being followed. The Central Bank also has the mandate under the law to conduct enforcement.

## GROWTH SUMMARY

### What we have learnt

- a) Borrowers have insufficient information about CIS and as a result do not fully appreciate or understand the benefits they would derive from it.
- b) Providers are open and enthusiastic about credit information sharing because it would help them reduce credit risk.
- c) Non-banks feel they are outsiders and need assurance that they would be treated fairly in a credit sharing environment.
- d) The credibility of CRBs is critical for creating trust and confidence in the CIS among both credit providers and customers.

### How to put it to good use

- a) Separate technical education on credit management from simple awareness of CIS.
- b) Communicate in conventional media and in simple language to generate buzz around CIS and create awareness. (Engage and Excite)
- c) Inclusion of all players (including non-banks) should be backed with technical capacity building and flexibility to fit in different/existing technology platforms.
- d) CIS to be spearheaded by a central all inclusive body/authority that is guided by a clear legal framework. This will safeguard the individual and general interests of all stakeholders.





**FSD Kenya**  
Financial Sector Deepening

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