STAKEHOLDER AWARENESS OF THE CIS MECHANISM IN KENYA

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CIS Kenya
Towards a more open credit market

FSD Kenya
Financial Sector Deepening

A report prepared for the Credit Information Sharing Association of Kenya (CIS Kenya), and Financial Sector Deepening, Kenya

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The report was commissioned by FSD Kenya. The findings, interpretations and conclusions are those of the authors and do not necessarily represent those of FSD Kenya, its Trustees and partner development agencies.

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). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA) and Agence Française de Développement (AFD).

Table of Contents

Abbreviations

CIS Kenya	Credit Information Association of Kenya
AMFI	Association of Microfinance Institutions
CBK	Central Bank of Kenya
CIS	Credit information sharing
CRBs	Credit Reference Bureaus
FSD	Financial Sector Deepening
HELB	Higher Education Loans Board
IFC	International Finance Corporation
KBA	Kenya Bankers Association
KUSCCO	Kenya Union of Savings and Credit Cooperatives
MDC	Mobile Data Collection
MFIs	Microfinance institutions
SASRA	Sacco Society Regulatory Authority

Tables and figures

Chapter 1

INTRODUCTION

1.1 STUDY BACKGROUND

Many developed economies have embraced credit information sharing (CIS) as a mechanism that is critical to the attainment of an efficient and robust credit environment. In Kenya, CIS has been underway since 2009, and has been undertaken in two phases. The first phase saw the implementation of CIS by the Kenya Credit Information Sharing Initiative (KCISI) (2009 to 2013) which is a joint collaboration of the Central Bank of Kenya (CBK) and the Kenya Bankers Association (KBA), with funding from Financial Sector Deepening (FSD) Kenya. This led to the licensing of credit reference bureau regulations (CRBs) and the successful rollout of CIS amongst all commercial banks. The second phase saw the registration of the Credit Information Sharing Association of Kenya (CIS Kenya) in 2013 which was mandated to spearhead expansion of CIS to include both banks and non-banks. A key milestone in the implementation of the CIS mechanism in Kenya has been the publication of the Credit Reference Bureau Regulations 2013 (CRB Regulations 2013) in January 2014, which mandated commercial and microfinance banks to share full-file information. Several other microfinance institutions (MFIs) have started voluntarily sharing full-file information on a test basis while SACCOs are currently making preparations to join the initiative. Discussions are also underway to bring utility companies, telcos, and leasing companies, as well as consumer credit service providers, on board.

In April 2010, a KCISI communication plan was implemented with a special focus on bank staff and bank customers whose key aims were to elicit greater utilisation of credit reports by lenders and borrowers, and enhance confidence in the system and the adoption of prudent borrowing practices. Following feedback from forums held during the first phase of this initiative, it emerged that there existed a number of myths and concerns about CIS among lenders and customers, which led to the carrying out of a baseline survey in July 2012. This baseline survey measured a number of indicators which targeted both borrowers and credit providers. For credit borrowers (individuals and businesses) the study targeted financial services and product usage, awareness of CIS among individuals and businesses, perceptions of CIS, attitudes towards CIS, expectations from CIS guidelines, the role of media in promoting CIS and how to utilise the media; while for credit providers (various credit providers) it targeted awareness and usage of credit reference bureaus, attitudes towards CIS, benefits of CIS from the credit providers' perspective, and challenges perceived by credit providers. Key findings from the baseline survey informed the revision of the communication strategy implemented from January 2013 with the immediate objective being the need to increase positive perception, acceptance, and usage of CIS in Kenya by 2014.

To track subsequent progress, Ipsos carried out an updated stakeholder perception survey on the CIS mechanism, commissioned by CIS Kenya (with funding from FSD Kenya), between December 2014 and February 2015 with the intention of establishing shifts (if any) in stakeholder opinions on the CIS mechanism, its operations, products and benefits, and additionally, to establish the expectations of the various stakeholders with regards to CIS. The findings of this study are outlined below.

1.2 Study approach

The updated stakeholder survey employed a multipronged approach involving both primary and secondary (desk) research. The desk research phase comprised of a review of media reports (obtained from Ipsos's media monitoring department) on how CIS has been reported on various media platforms in Kenya between 2013 and 2104. Primary research was comprised of both quantitative and qualitative methods, including face-to-face interviews with 300 business credit customers (randomly selected across major towns in the country), 800 individual customers (randomly selected nationwide from the general public), and 250 credit providers (purposely selected across major towns in the country). In the qualitative phase, 14 in-depth interviews were conducted with various key stakeholders/informants from purposively selected organisations of interest, among them the Central Bank of Kenya (CBK), the International Finance Corporation (IFC), Credit Reference Bureaus (CRBs), the SACCOs Society Regulatory Authority, the Kenya Bankers Association, the Higher Education Loans Board, and various journalists covering CIS. This selection was made in collaboration with the CIS Kenya survey lead team. Data from these different sources were triangulated to result in the findings presented in this report.

This report presents findings on existing shifts (where applicable) in stakeholder opinions on the CIS mechanism; its operations, products, and benefits; and in addition, establishes the expectations of the various stakeholders with regards to CIS. In addition to measuring the same baseline indicators, other key findings on the CIS mechanism have been incorporated as indicated in the study findings in this report.

Chapter 2

STUDY FINDINGS

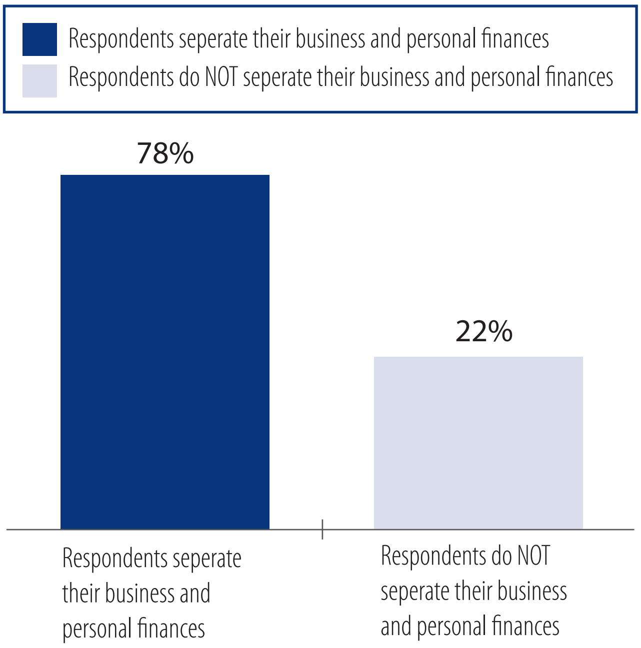
This report presents findings on existing shifts (where applicable) in stakeholder opinions on the CIS mechanism; its operations, products, and benefits; and in addition, establishes the expectations of the various stakeholders with regards to CIS. In addition to measuring the same baseline indicators, other key findings on the CIS mechanism have been incorporated as indicated in the study findings in this report.

2.1 Borrower perspectives on the CIS Mechanism

The study found that there has been an overall improvement in the level of awareness and uptake of various financial services and products in the market. Similar to the 2012 findings, the most commonly mentioned financial services and products also happen to be the most commonly used, demonstrating a need to raise awareness to spur the uptake of a product or service. It is further evident that the majority of business borrowers are applying prudent financial management practices by separating their personal finances from their business finances, with 78% of respondents indicating that they do so, as depicted in Figure 1.

Figure 1 : Proportion of business borrowers that separate their business and personal finances (2015)

(Base=326)



On the credit scene, it was noted that financial institutions continue to require traditional collateral and documentation, as observed in the pre-CIS period. Guarantors, title deeds, and log books were mentioned by a significant proportion of borrowers as collateral requirements they were still required to fulfil. Credit information sharing is also beginning to be appreciated as a requirement, though its use was mentioned by only a small proportion of the respondents. In the 2015 study findings, credit histories scored 7 and 9 per cent from individual and business borrowers, respectively, as shown in Figures 2 and 3.

Figure 2: Credit eligibility requirements for individual borrowers.

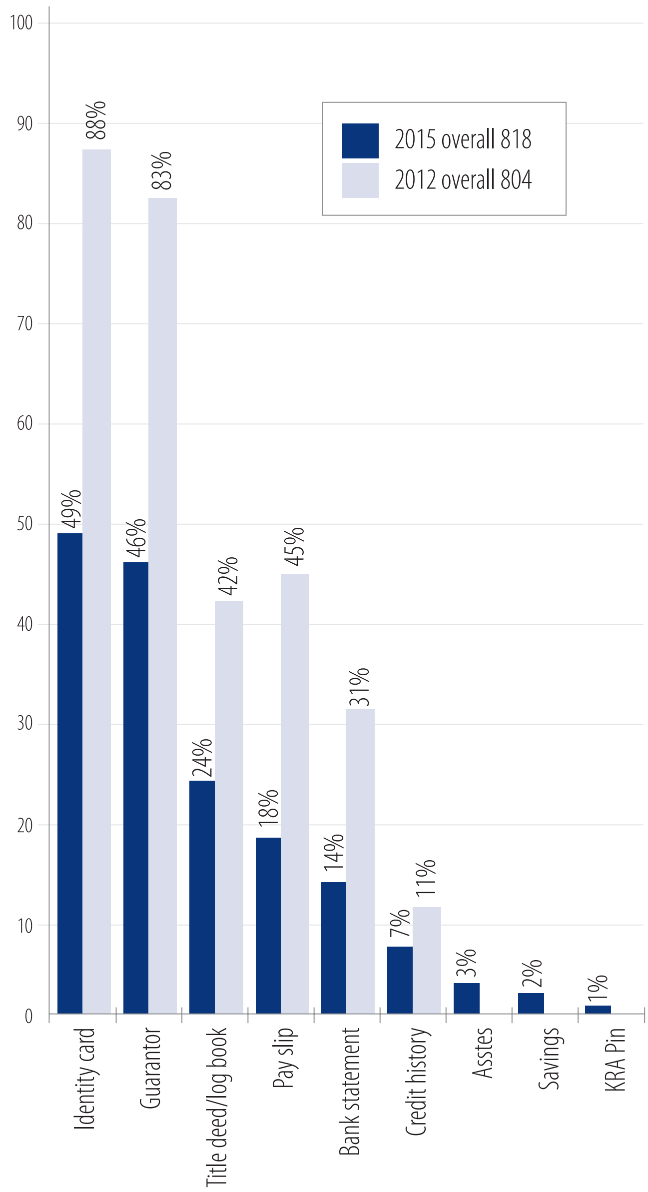
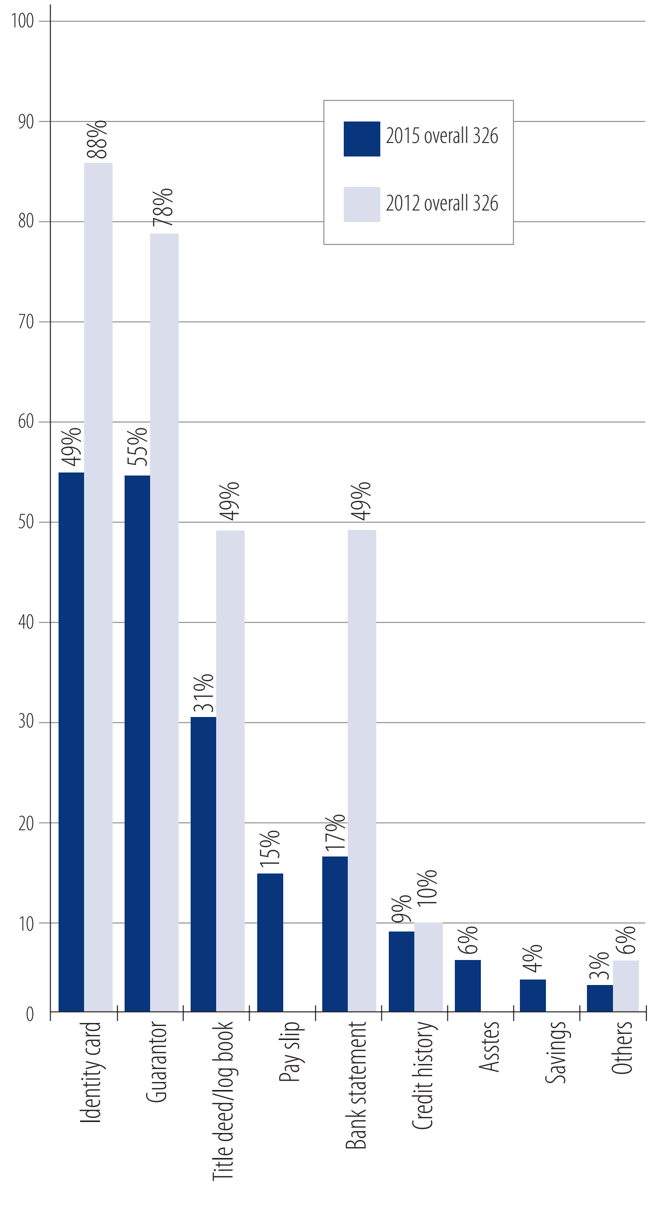
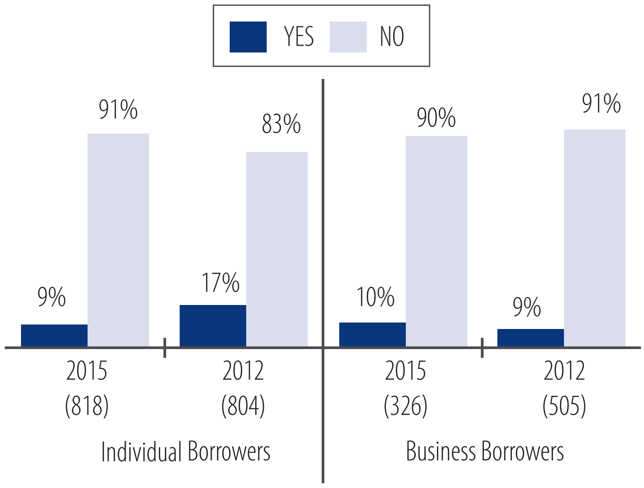


Figure 3: Credit eligibility requirements for business owners.



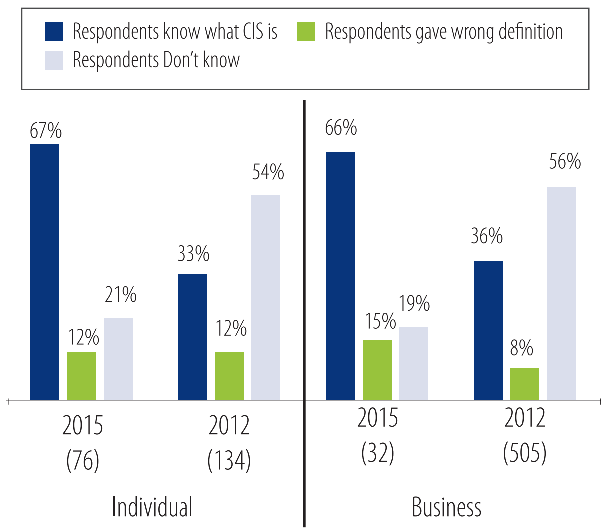
On the CIS mechanism, the study findings show that the level of awareness of the mechanism and its operations continues to be low among borrowers. For instance, in the 2012 survey, 17 per cent of individual borrowers and 9 per cent of business borrowers reported having heard of CIS; while in 2015, only 9 per cent of individual borrowers and 10 per cent of business borrowers reported having heard of CIS (see Figure 4). This is indeed a significant decline, especially among individual borrowers, which could indicate a lack of continuous educative information on the mechanism.

Figure 4: Proportion of respondents that have heard of credit information sharing (CIS)



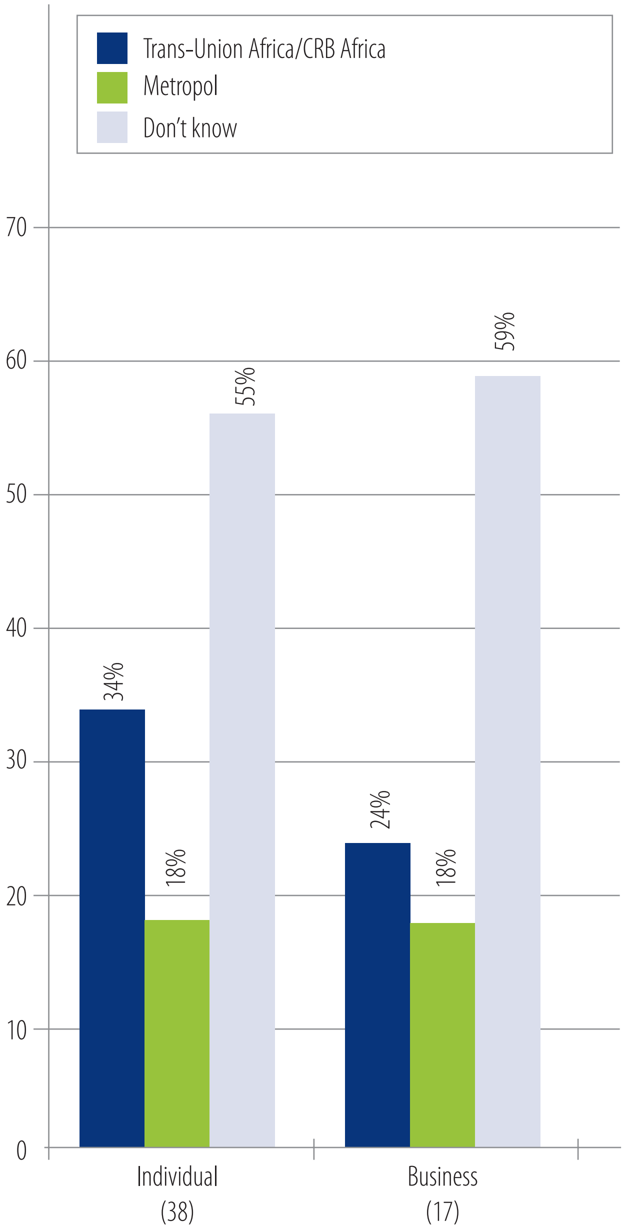
Notwithstanding this, among borrowers who reported having heard of CIS, a marked improvement/shift was noted (of 34 per cent and 30 per cent among the individual and business borrowers, respectively) in terms of knowledge around the mechanism compared to 2012. Nevertheless, a number of misconceptions of the mechanism remain, similar to the 2012 findings. For instance, a proportion of borrowers still believe that CIS is the process through which customers provide information to financial institutions – a knowledge gap that needs to be addressed.

Figure 5: Proportion of respondents that understand what CIS is



Similar to the knowledge gap that exists in relation to the CIS mechanism, knowledge of CRBs also continues to remain low, though there has been a marked improvement since 2012, as depicted in Figure 6. Trans-Union (formerly CRB-Africa) was the CRB most mentioned by individual borrowers, while Metropol was the most mentioned CRB among business borrowers. A significant number of individual and business borrowers, 55 and 59 per cent respectively, could not name any CRB.

Figure 6: Borrowers can identify existing CRBs (2015)



The study found that perceptions of the CIS mechanism have been largely positive, as reported by respondents who were aware of the mechanism. In 2015, 20 per cent of individual borrowers (cf. 9 per cent in 2012) and 33 per cent of business borrowers (cf. 18 per cent in 2012) have tried to obtain a credit report. More than 80 per cent of these reported that their experience was largely positive, because, as they mentioned, they received accurate and useful information in a relatively short period of time, and with fewer processes. In addition, the borrowers believe that a credit report is useful as, among other things, it will help distinguish them from persistent defaulters (27 and 62 per cent of individual and business borrowers, respectively); ensure that accurate information is provided by their credit providers to the CRBs for documentation (63 and 53 per cent of individual and business borrowers, respectively); and that accurate credit scoring will be done by the CRBs to reflect their situation (64 and 69 per cent of individual and business borrowers, respectively). When asked who the biggest beneficiary of the CIS mechanism is, the findings indicate that borrowers continue to perceive the lender to be the biggest beneficiary of the mechanism – an obviously precarious situation owing to the fact that to fast track usage, borrowers would need to feel the benefits accruing to them as well.

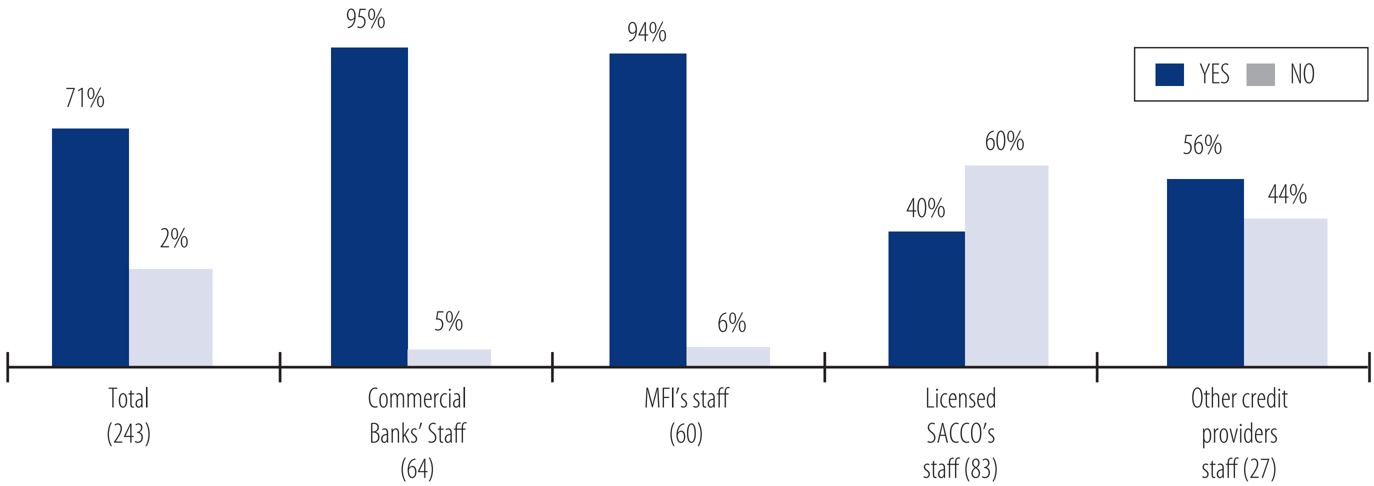
When asked to comment about key challenges/fears they had in relation to the CIS mechanism, the same fears reported in 2012 were also reported in 2015: possible lack of privacy (30 and 25 per cent of individual and business borrowers, respectively); fear of being denied a loan (9 per cent of individual borrowers); and information being hacked, compromised, or manipulated (4 and 3 per cent of individual and business borrowers, respectively). Additionally, the fear that wrong or inaccurate information will be shared with providers and may jeopardise the borrower's chances of obtaining credit was also reported by about 4 and 9 per cent of the surveyed individual and business borrowers, respectively.

It also came out in the discussion of fears that there is insufficient information about how the mechanism works, pointing to the need for additional enhanced and directed communication. This seemed in harmony with the suggestions borrowers made for the CIS system, including awareness creation on credit information sharing, reduction of charges incurred in obtaining credit reports, and improving the means by which information is shared.

2.2 Lender perspectives on the CIS Mechanism

In 2015, more than 70 per cent of all loan applications made to financial institutions were processed successfully, an indication that the uptake of credit continues to be relatively high. From the survey, it was established that the general awareness and usage of the CIS mechanism among lenders continues to be significantly high, with 71 per cent reporting usage of CIS when processing loan applications for the past two years. However a significant number (almost 50 per cent) of other credit providers (excluding

Figure 7: Proportion of credit providers that have used CIS before (2015)



banks, MFIs, and licensed SACCOs) reported low knowledge and usage levels of the CIS mechanism, as depicted above in Figure 7, which suggests uneven information sharing on the mechanism among lenders.

The study further sought to identify the length of time that different lenders have used the CIS mechanism since its introduction in the country. As expected, commercial banks reported having used the mechanism for the longest period, with 21 per cent of surveyed commercial banks reporting that they have used the mechanism for the last five years (owing to the fact that the mechanism targeted this group first when it was introduced in the country), as shown in Figure 8.

Further, most lenders reported being aware of where CRBs obtain their information, with the majority believing that they obtain it from private sources. The information gaps on the mechanism among the 'other credit providers' (excluding banks, MFIs, and licensed SACCOs) were evident as, for instance, from among the surveyed lenders: 66 per cent from this category were either not aware that CRBs are responsible for issuing credit reports or had the wrong information (see Figure 9).

Figure 8: Duration of CIS use by credit providers (2015)

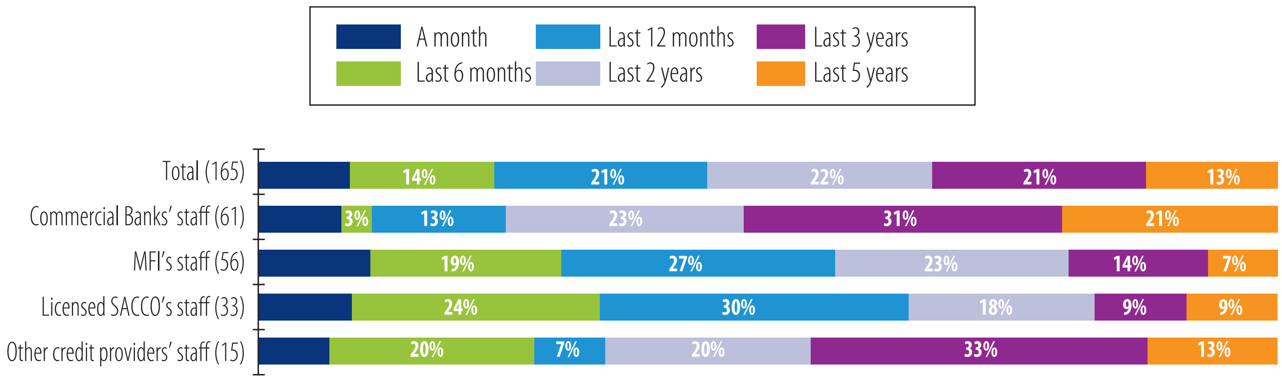
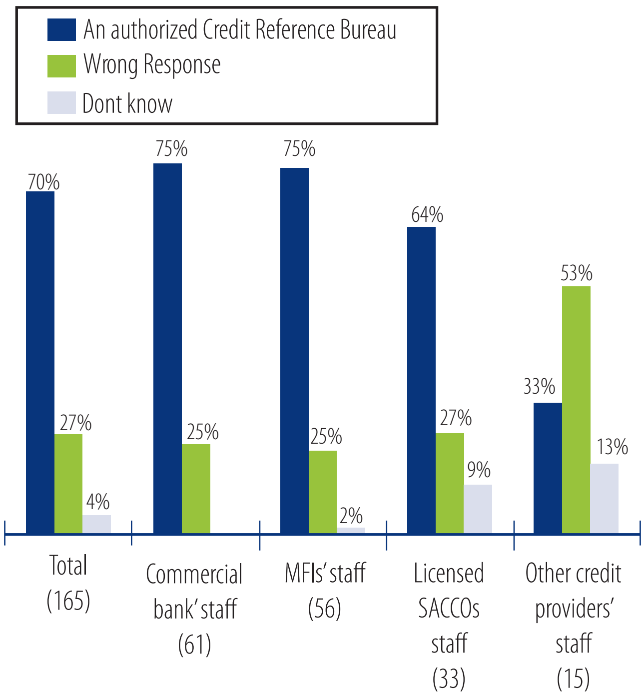
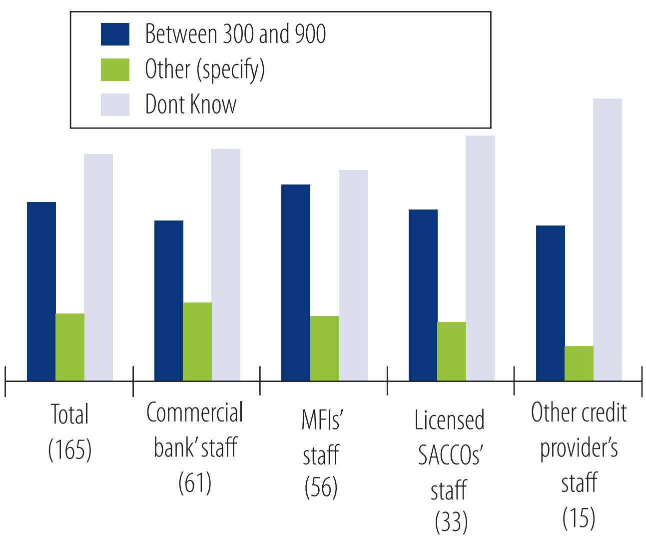


Figure 9: Proportion of credit providers that know the institutions that issue credit reports (2015)



In addition, an interesting finding indicated that whilst the majority of the surveyed lenders could correctly identify the characteristics of a positive and negative score, over 50 per cent of the surveyed respondents could not identify the correct credit score ranges as depicted in Figure 10.

Figure 10: Lenders' awareness of credit score range what is the normal number reange for a credit score



When asked who they thought was the biggest beneficiary of the CIS mechanism, over 75 per cent of surveyed lenders responded that the lender has been the biggest beneficiary of the mechanism (similar to borrowers' perceptions). This could have accrued from their own experiences, as the majority (over 70 per cent of lenders surveyed) reported having had a positive experience interacting with the mechanism (such as through obtaining credit reports from CRBs for their customers). Key benefits emanating from the introduction of the CIS mechanism, as reported by lenders, have been the opportunity to understand customer characteristics (more than 45 per cent) and management of business risk (more than 20 per cent) .

Further, when asked to comment on perceived benefits emanating from the mechanism for their customers, most lenders (over 30 per cent) believe that the CIS mechanism will help customers distinguish themselves from persistent defaulters, while other credit providers also cited the opportunity for lenders to review customer profiles in order to extend better credit terms to them. In addition, the CIS mechanism has been generally perceived to have made access to credit easier by collating customer information as well as having improved work performance which translated to increased chances of growing customer bases.

When asked to comment on the key challenges experienced with the mechanism, more than 40 per cent of the surveyed lenders reported inaccurate customer information on credit reports as being one of the major challenges. Other challenges reported included experiencing prolonged delays before accessing customer credit reports (reported as largely being due to network/ poor connectivity problems) and lack of support of full-file sharing across the board by various players.
Lenders also indicated that there is a need to increase awareness among other lenders about the CIS mechanism, with 47 per cent recommending that this be done through conferences/forums/workshops and over 10 per cent recommending that this be done through TV, internet, and training opportunities. Additionally, the provision of more accurate information, and improving the means through which information is shared, were cited as key areas for improvement.

2.3 Media and communication

The study also sought to understand how both credit borrowers and credit providers consume information in order to inform future communication campaigns for the CIS mechanism. It was found that TV featured prominently as a key source of information among borrowers while stakeholder conferences, seminars, forums and workshops were highly recommended by the lenders as shown in Figure 11.

Media and communication information from the primary sources was triangulated with findings from the media monitoring data (2013 and 2014) whose key objective was to find out how much information had been available on these media platforms as well as the nature of this information. From the media monitoring analysis, the highest frequency of the messaging on CIS in the media was found to be through print and was attributed largely to banks, CRBs, industry comments/feedback, government direction and perspective on CIS, as well as some publicity from CIS Kenya.

This presented a disconnect in the channel used to disseminate CIS information as other channels – such as TV – were the key source of information for a significant number of borrowers, as revealed in the primary research findings. In addition, the prominence of CIS messaging over the two years was rated as 'good', a rating which refers to stories that lack a relevant picture/footage and a prominent headline (through print media), and which could have contributed to the knowledge gaps witnessed, as these could have been missed when reported in the media.

Figure 11: Source of information from which respondents heard about CIS

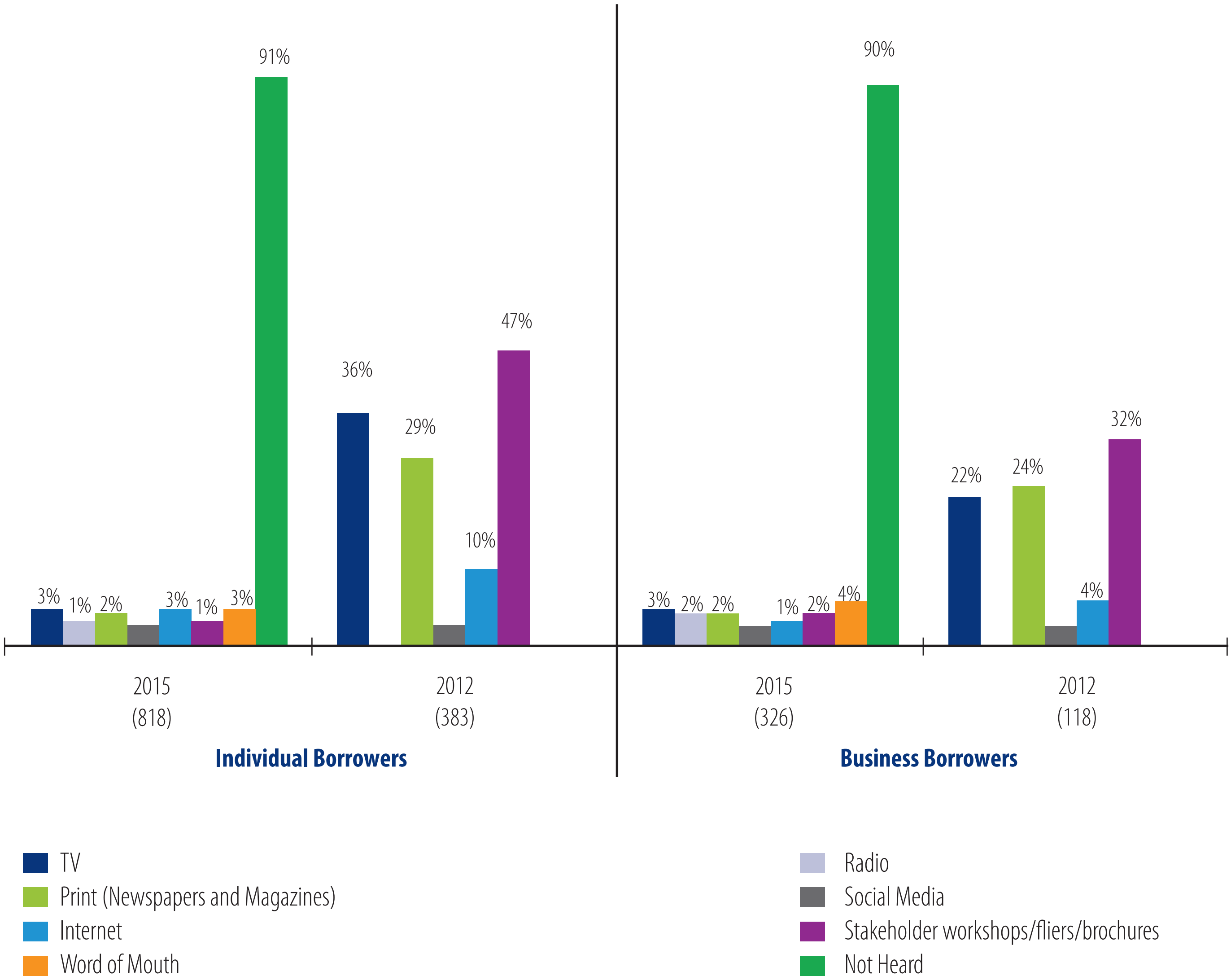


Table 1: Channels to target lenders with information on the CIS Mechanism

If someone wanted to educate persons that are lending officers, what key platform would you recommend for such activities?					
	.	Respondent Type			
	Total (266)	**Commercial Banks' staff (65)**	**MFIs' staff (60)**	**Licensed SACCOs' staff (101)**	**Other credit providers' staff (40)**
Conferences/Seminars/Forums/ Workshops	47%	44%	39%	53%	14%
Television	14%	18%	21%	9%	14%
Internet	11%	15%	11%	9%	14%
Trainings	11%	8%	11%	14%	-
Newspaper	10%	17%	4%	8%	14%
Radio	6%	8%	5%	7%	-
One on one sessions	5%	3%	5%	4%	43%
Social media	3%	2%	7%	2%	-
Road shows	2%	5%	-	-	-
Brochures/Flyers/Pamphlets	2%	3%	-	2%	-
Newsletters	1%	2%	-	1%	-
Teleconferencing/Telecommunication	1%	-	2%	1%	-
Meetings	1%	-	-	2%	-
Apprenticeship	1%	3%	-	-	-
N/A	2%	2%	2%	2%	-
Don't know	-	-	-	-	-
None	1%	-	-	2%	-

The media monitoring analysis also revealed that the messaging themes had moved on from the implementation processes to providing more information to potential borrowers and lenders about the benefits accruing from implementation of the mechanism.

In addition, the message tonality (sentiments from people and the news media about CIS) in 2014 had become more positive, and had moved away from the previous negative sentiments characterised by, among other things, lawsuits by borrowers over their inclusion in the listing of bad borrowers.

In 2014, a lot of efforts were made across the industry to encourage positive information sharing among lenders, as well as showcasing the benefits of the CIS mechanisms for both borrowers and lenders.

2.4 Moving forward

As the study reveals, a lot remains to be done in order to increase the level of awareness of and appreciation for the CIS mechanism, by both the borrowers and providers of credit. Whilst CIS is growing in Kenya, a clear legislative mechanism is needed to ensure a holistic approach is taken towards its promotion and growth.

Additionally, increased awareness amongst borrowers, especially those not currently interacting with the mainstream providers (banks, MFIs and licensed SACCOs) and other lenders (those not in the mainstream listing indicated), is needed in order to spur increased use and support of the mechanism. Indeed, continued communication campaigns are required, in addition to building capacity on the infrastructural capability of CRBs to ensure efficiency in the issuance of credit reports as demand grows and the promotion of goodwill.

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