Conference Report

CIS for Innovation and Financial Inclusion *“Mikopo Kisasa”*

THE 3RD REGIONAL CIS CONFERENCE &
NAIROBI BUSINESS COMMUNITY SUMMIT

February 23-26, 2016
The Hilton Nairobi, Kenya

FINANCIAL SECTOR SUPPORT PROJECT

FSD Kenya
Financial Sector Deepening

THE WORLD BANK
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NATIONAL TREASURY

CREDITINFO

METROPOL
reach new heights

TransUnion

KENYA BANKERS ASSOCIATION

CIS Kenya
Towards a more open credit market

Contents

Abbreviations and Acronyms

AMFI	Association of Microfinance Institutions (Kenya)
APC	Annual Percentage Rate
BOU	Bank of Uganda
BCEAO	Central Bank of West African States
CEO	Chief Executive Officer
CIS	Credit Information Sharing
CISA	Credit Information Sharing Awareness
CIS Kenya	Credit Information Sharing Association of Kenya
CRB	Credit Reference Bureau
DFIs	Development Finance Institutions
EAC	East African Community
FSD	Financial Sector Deepening Trust
FSSP	Financial Sector Support Program
HELB	Higher Education Loans Board
IFC	International Finance Corporation
KBRR	Kenya Banks' Reference Rate
MSME	Micro, Small and Medium Enterprise(s)
NPL	Non Performing Loan
OECD	Organisation for Economic Cooperation and Development
SA	South Africa
SACRRA	South African Credit and Risk Reporting Association
SME	Small and Medium Enterprise
Tatua	Tatua Centre (CIS Kenya's ADR mechanism)
TCC	Total Cost of Credit
TCC-RS	Total Cost of Credit and Repayment Schedules
WAEMU	West African Economic and Monetary Union
RBZ	Reserve Bank of Zimbabwe

Message from the Chairman

Charles Ringera
Chair Governing Council, CIS Kenya

In 2011 and 2013 respectively, the first and second credit information sharing (CIS) regional conferences were held in Nairobi to help create awareness on the developments of CIS in Kenya and the region. The theme of the first conference, *Up-scaling the Credit Markets in East Africa,* was informed by increasing recognition of the need to improve credit markets and enhance credit reporting systems throughout the EAC. The second conference focused on *Unlocking Access to Affordable Credit,* a theme informed by the progress made by EAC member states in rolling out CIS mechanisms. Over the years, the CIS conferences have evolved into a unique platform to inform and influence the CIS agenda within the EAC and beyond.

The 3rd Regional CIS Conference

Credit information systems can, and should be improved, to enhance access to credit. Existing and upcoming innovations that seek to accomplish this goal inspired the 3rd Regional Credit Information Sharing ('CIS') Conference, hence the theme - *"CIS for Innovation and Financial Inclusion - Mikopo Kisasa!"* Translated from Swahili, *"Mikopo Kisasa"* means *"Contemporary Lending Approaches".* The conference took place on 23rd and 24th February. The Credit Information Sharing Association of Kenya ('CIS Kenya') hosted executive delegates, representing various segments of the credit markets in the EAC Region and beyond.

The Conference was followed by the Nairobi Business Community Summit, which took place on 25th and 26th February at the same venue, providing half-day sensitizations on CIS to bank staff and credit consumers respectively on each day. Both events had an interesting and informative program, facilitated by renowned local and global experts who shared insights on fundamental aspects of CIS that are vital in managing credit risk.

About the Conference

Jared Getenga
CEO, CIS Kenya
Chair of the steering committee,
Third Regional CIS Conference 2016

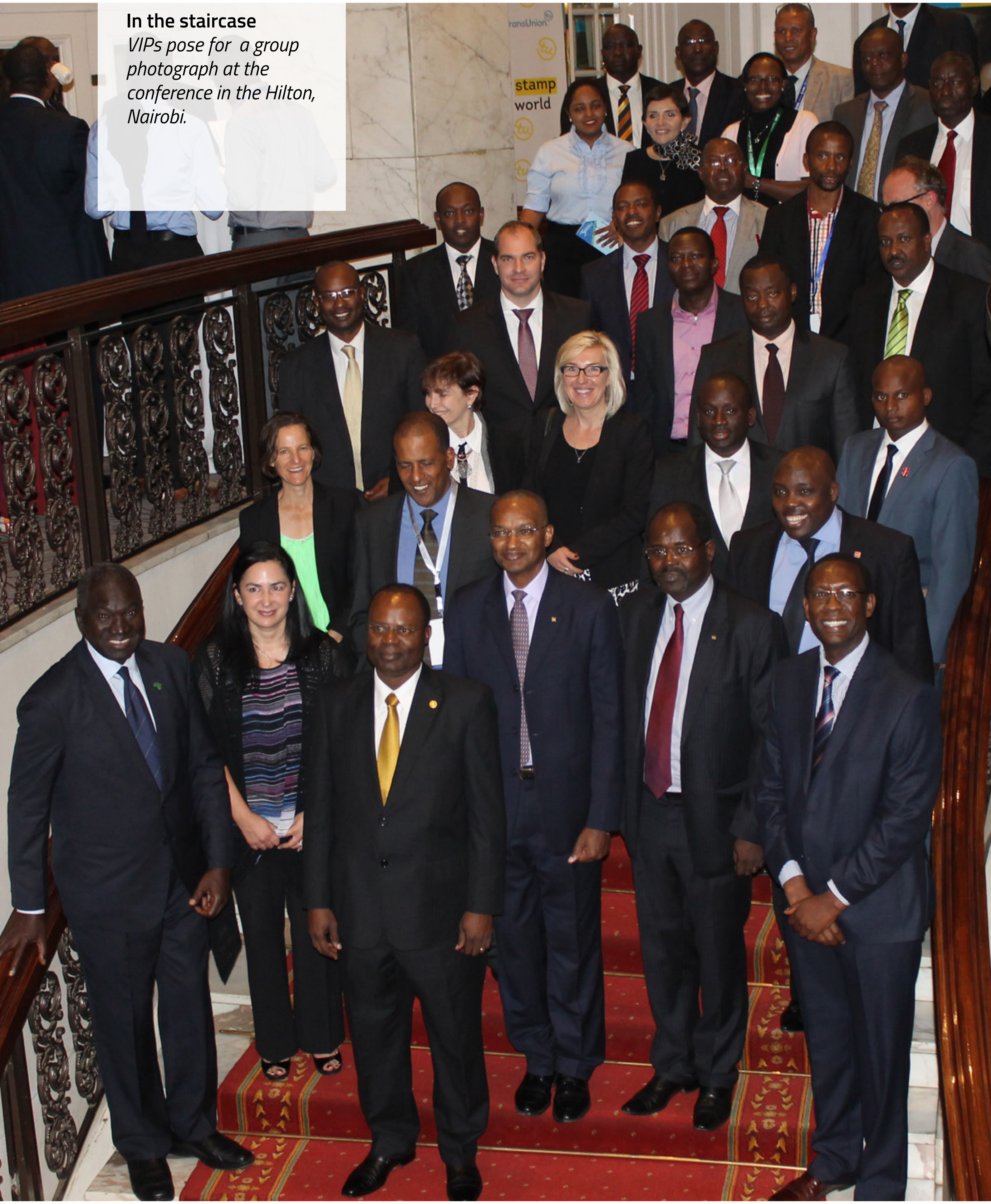
Synopsis

We are proud to present to you this report. It captures the highlights of the conference which include:-

- endorsement by policymakers of CIS goals of promoting access to affordable credit in the region's economies;
- the need for unified legislation to promote increased participation in CIS;
- the importance of implementation of cross-border data sharing amongst EAC credit markets;
- the need for consumers to reap the benefits of a good credit history;
- the benefits of using Alternative Dispute Resolution for resolving CIS-related disputes;
- the value of self-regulation for timely, comprehensive and improved data accuracy;
- the use of CRB data and tools in banking supervision; and
- the urgent need to address the skills gap that exists in Africa with regard to data analytics;

The report also contains coverage of the Nairobi Business Community Summit.

I would like to take this opportunity to thank all the Sponsors and participants that made this conference a success. Special appreciation goes all our Resource Experts, as well as guests from outside Kenya for their unique contribution, which made for worthwhile and insightful deliberations at the Conference.



In the staircase
VIPs pose for a group photograph at the conference in the Hilton, Nairobi.

Opening Ceremony

Jared Getenga, CEO, CIS Kenya, James Kashangaki, FSD Kenya, Charles Ringera, CEO, HELB, Hon. Henry Rotich, Cabinet Secretary for National Treasury, Dr. Patrick Njoroge, Governor, Central Bank of Kenya, Joshua Oigara, KCBGroup CEO and Mehnaz Safavian, World Bank, during the opening of the conference

Keynote Speakers:
Hon. Henry Rotich, Cabinet Secretary for National Treasury (Guest Speaker)
Dr. Patrick Njoroge, Governor, Central Bank of Kenya
Charles Ringera, Chair, CIS Kenya Governing Council and CEO, HELB
James Kashangaki, Head of Inclusive Growth, FSD Kenya
Mehnaz Safavian, Lead Financial Sector Specialist, World Bank
Joshua Oigara, Group CEO, Kenya Commercial Bank (CISA Fund Paramount Partner)

Session Chair: Jared Getenga, CEO, CIS Kenya.

Mr Charles Ringera, Chair of CIS Kenya welcomed guests to the Conference, whilst Henry Rotich, Cabinet Secretary for National Treasury presided over the opening of the 3rd CIS conference. Other speakers at the opening ceremony were representatives of Governor of the CBK which regulates certain aspects of CIS in Kenya, and senior representatives of key partners to CIS Kenya – FSD Kenya and the World Bank. The Group CEO of the Kenya Commercial Bank which is a key contributor to a CIS awareness campaign, also addressed conference participants during the opening ceremony. The highlights of the Opening Ceremony are captured below.

After welcoming participants to the conference, the Chair of CIS Kenya, Mr. Charles Ringera, took participants through CIS Kenya's growth since its launch in September 2013. The organization has overseen the transition from a situation in which only negative information was shared to full file sharing. It has a fully staffed and fully operational Secretariat, and a Governing Council, which, to date, has provided strong and consistent leadership in the implementation of the organization's strategic plan.

The plan encompasses five pillars: growing institutional capacity; promoting legal reforms; providing capacity building to enhance risk management and product innovation; educating the credit consumer and lastly promoting knowledge generation to drive the CIS research agenda. Significant gains have been made to date under each pillar.

The Chief Guest, Henry Rotich, Cabinet Secretary to the Treasury started by citing the significant progress and improvement made in Kenya's financial sector. Some outstanding gains include notable strides in financial inclusion, (as borne out by the findings of the 2016

Hon. Henry Rotich, Cabinet Secretary for National Treasury

Dr. Patrick Njoroge, Governor, Central Bank of Kenya

Joshua Oigara, KCBGroup CEO

Jared Getenga, CEO, CIS Kenya

Finaccess Survey), and Kenya holding first place in the world for leveraging technology to drive financial inclusion. Despite this progress, however, the level of private sector credit in Kenya (at about 40% of GDP) remains far below the levels recorded in comparable economies such as Malaysia, South Africa and Mauritius.

Mr. Rotich pointed out that the government of Kenya, has, therefore, put in place several measures to address this challenge. First, is the introduction of the Transparent Pricing Mechanism under which all banks price their loans based on a common reference rate - the Kenya Bankers Reference Rate ('KBRR'). The KBRR is intended to address the constraint that high lending rates place on access to credit. Secondly, with the World Bank's support, the Financial Sector Support Project (FSSP), has been launched to strengthen the legal, regulatory and institutional environment with a view to enhancing financial stability and improving access to the provision of affordable and long term financing. Third, to remove impediments to the lending process, a new secured transactions law and electronic collateral registry is being developed, as well as reforms to facilitate leasing, factoring and the digitization of land registries countrywide. Fourth, the level of government borrowing is being reduced in order to avoid crowding out private sector borrowers and to drive down interest rates. Fifth, the government is the world's first purely mobile phone based government security – the m-akiba government bond. The bond will help lower the cost of government debt, whilst providing a savings vehicle for the retail market.

Mr. Rotich also noted that more needs to be done to reap higher benefits from CIS in terms of reducing interest rates. To start with, consumers of loans granted through mobile phones, who have shown a consistent history of prompt repayment, ought to be granted preferential interest rates. Next, a broader range of credit providers should participate in the CIS regime; and to address this, a Financial Services Authority Bill has been commissioned by the National Treasury. Third, credit consumers should be empowered to use their credit scores to negotiate for better lending terms.

He also expressed support for continued regional engagement that promotes sharing of experiences. He noted the need to promote unified approaches to financial sector reforms and inter-regional trade and asked players in the sector to begin to consider how to achieve cross border sharing of credit information.

The Governor of the CBK, Dr. Patrick Njoroge, echoed the Cabinet Secretary's sentiments particularly with regard to the need for more affordable credit, transparent pricing of credit, and for customers with positive credit history to enjoy better credit terms at banks. He also called for greater product innovation and the use of technology to enhance coverage of financial services and reduce transaction costs. He pointed out that lower cost of credit can also be achieved through continued collaboration between actors in the sector to develop innovative distribution channels. He also urged financial institutions to align their business models to support SMEs.

Dr. Njoroge also pointed out the need for lenders to invest in data quality. Given that a borrower's credit report is a reflection of their character, the need for accurate, up to date data, on all customers, regardless of status or social standing, cannot be overemphasized. He also urged banks to handle consumer complaints associated with credit information promptly, and to use the ADR mechanism as the first approach to conflict resolution.

FSD Kenya has been and remains a key financial partner to CIS Kenya. James Kashangaki, Head of Inclusive Growth FSD Kenya pointed out that whilst FSD Kenya has been involved in many programs aimed at promoting financial inclusion, its most significant work is probably its support of the creation of CIS infrastructure. FSD Kenya has now expanded its scope to include complementary aspects of the credit market infrastructure such as: the secure transaction regime currently being worked on in partnership with World Bank and Treasury and other government agencies; the use of alternative data in risk analysis; infrastructure for credit risk pooling instruments - guarantees and insurance; and research to better understand the effects of credit market infrastructure on the availability, affordability and appropriateness of credit solutions. Mr. Kashangaki affirmed FSD's commitment to provide continuing support to the expansion and sustainability of the CIS mechanism.

Delegates follow proceedings during the opening of the conference

Mehnaz Safavian, Lead Financial Sector Specialist, World Bank ('WB'), then shared insights from a recent WB study which illustrate the positive impact of CIS on an economy. After a country introduces credit information reform, there is a 7% increase in the probability of a firm having access to credit, an average decrease in interest rates of 5%, the possibility of extending loan maturities by up to seven months and a 4% increase in firms' access to working capital.

In high income countries up to 45% of banks rely on credit reporting in their lending decisions compared to middle and low income countries where only 16 % of the banks employ this practice. Other benefits of credit reporting are decreased relationship lending and financial product innovation. She also pointed out that whilst Kenya has made remarkable progress in the credit reporting space the country still has a long way to go relative to other middle income countries such as Mexico and Malaysia.

Finally, Joshua Oigara, Group CEO, Kenya Commercial Bank, talked about the ongoing digital disruption of the financial services sector by mobile phone technology and the needs for banks to adapt to this new reality in order for them to succeed. KCB has witnessed significant growth in its loan book as a result of digital lending, with over US$ 110 million disbursed in this manner. He also highlighted the role played by CIS in facilitating digital lending Collecting information for credit appraisal now takes seconds. The shift is now to algorithm based banking – using algorithms to evaluate credit risk, thus enhancing rapid deployment of loans to customers. The risk management practices used by banks in the past are perhaps the largest barrier for the next evolution of banking business. Banks will have to re-engineer their processes and their information databases.

The Value of CIS in supporting Monetary Policy, Financial Regulation and Supervision

Speakers:
Valeria Alvarez Navarro, Banco De Mexico (Bank of Mexico)
Ilana Melzer, Director Eighty20, South Africa
Dr. Louis Kasekende, Deputy Governor, Bank of Uganda

Session Chair: Habil Olaka, CEO Kenya Bankers Association

The Role of the regulators in supervision is to ensure that individual institutions remain safe for depositors, financially sound, and thus minimize systemic risk. Insights into a model used by the Bank of Mexico to achieve these objectives were gleaned from a presentation by Alvarez Navarro Valeria from Banco De Mexico. Ilana Melzer, Director Eighty20 shared South Africa's experience in credit bureau data analytics for banking supervision. Dr. Louis Kasekende Deputy Governor Bank of Uganda shared the experience of Uganda's Central Bank. These presentations and remarks are summarized in this article.

Mexico

Mexico currently uses two channels to report credit information. The first channel involves information reported to credit registries managed by the National Banking and Securities Commission ('CNBV') and the Bank of Mexico ('Banxico'). The former receives

Valeria Alvarez Navarro, Banco De Mexico (Bank of Mexico)

information on commercial loans and mortgages granted by banking institutions; whilst the latter receives information on commercial loans over a threshold and retail loans. The second channel entails information reported to the CRBs – this includes data from regulated financial institutions, non-regulated financial entities, commercial enterprises and public entities such as the Internal Revenue Service – the latter provides information on unpaid tax liabilities.

One one hand, Banxico uses this information to analyse statistics of loans granted by banks and foreign agencies, with a view to identifying various trends in sectors and regions. On the other hand, CNBV uses this information for supervision purposes; to estimate the portfolio risk by institution; to track interest rates and lending by sector. However, the usefulness of information received by the government's credit registries is limited by the fact that they receive information on loans reported by regulated entities only; credit reports are not homogenous across sectors; and retail loans are reported without a unique identifier. This makes it difficult to arrive at a consolidated picture of credit behaviour, debt and/or the financial burden of categories of borrowers. Further, government agencies that grant housing credit do not report granular information on a regular basis.

An incomplete view of the banking system's exposure would ultimately hinder effective supervision. However, this has been overcome by the fact that since CRBs use a unique identifier, the credit information held by CRBs has become a strong supplementary tool for Banxico's supervision and risk analysis responsibilities.

During the financial crisis of 2008, it was patently clear that credit loss provisioning required closer attention given its direct relationship to financial sector stability. At that time, the approach to provisioning was based on an incurred loss model, which recognized impairment losses "too little and too late". A regulatory framework was, therefore, developed to improve risk assessment leading to the adoption of a forward looking approach – the expected loss model - which made it possible to react to risk before it occurred. The new approach allowed for early identification and recognition of losses.

Studies in Mexico have shown that banks are less conservative than credit bureaus when it comes to rating their portfolios. The individual rating methodology used by banks also has lower predictive power than similar tools used by credit bureaus. Accordingly a bank which manages credit risk based solely on its own credit loss experience runs the risk of ignoring trends that could lead to future losses. Banks should, therefore, consider the experience of their counterparts in the industry with similar borrowers when making provisions – such experience is available in reports provided by credit bureaus. Even when credit providers have their own internal risk assessment tools they can and should use CRB tools as a benchmark to assess if their methodology is sufficient for regulatory purposes. The Mexican experience has also brought to the light the fact that, compared to the models used by CRBs, the models used by banks also tend to over-price loans. The result is a higher interest spread than is warranted by potential future losses.

Other types of analyses can be carried out with information provided by credit bureaus. To start with, the information can be used to measure the indebtedness of households from both the banking and non-banking system. The debt burden estimation indicator is the ratio of monthly total debt payments divided by the monthly wage. Monitoring this trend can be a tool for a responsible approach to financial inclusion, as well as a means of ensuring financial stability, because Banxico can determine whether one bank is giving loans that will create a population that is over-indebted, and which will thus be unable to access credit in the future.

Other information that can be obtained from CRBs which is useful in supervision includes the evolution of the size of the non-banking system and its implication to financial stability; sources of the deterioration of credit portfolios by type of credit and institution; early recognition of portfolio deterioration processes by credit type; trends in borrowing of commercial and government entities; competition trends in bank credit (e.g. migration of customers between credit institutions); credit aggregates as early indicators of economic activity, and amongst others, the impact of credit in the formation of prices in the economy.

Banxico also uses information from CRBs to analyse a number of trends: payment behavior of the same company in different banks (some companies engage in selective default); the impact of guarantees by the development banks on payment behavior of SMEs to banks; relationships between the creditworthiness of the commercial portfolio and macroeconomic factors; risk adjusted price policies in banks; analyze credit behavior by industry sector and geographic location; credit quality of other non-bank intermediaries.

South Africa

South Africa on the other hand has a highly developed credit reporting infrastructure which maintains positive and negative data on over 23 million credit active consumers. The South African credit market is dominated by mortgages. Aside from using this data to assess the creditworthiness of credit consumers during the loans origination process, lenders typically use credit bureau data to understand their

Ilana Melzer, Director Eighty20, South Africa

competitive positioning. In addition, the regulator publishes high level statistics about active credit consumers which are used by industry players and investors to assess the market. This strengthens the case for lenders to participate in the process.

Beyond published data, further analysis can be conducted on credit consumers. For example, during a period in which rapid growth in unsecured credit took place in South Africa, an analysis of the profile of unsecured borrowers was requested and made available. Likewise, a key area of interest is the growth of mortgage lending in previously underserved, lower income markets. The Centre for Affordable Housing Finance in Africa requested for an analysis of payment data in order to compare performance of loans granted to lower income borrowers with loans granted in the conventional segment of the market.

More recently, patterns of default and characteristics of borrowers in default have been analysedanalyzed. In some cases the analysis of bureau data is accompanied by qualitative research, to understand borrower experiences, levels of awareness, motivation and attitudes. Access to data by such third parties requires approval by South African Credit Risk and Reporting Association ('SACRRA'), the custodian of the data. Such data can only be made available if the borrowers' identity is concealed. However the nature of the loan, type of lender and borrowers' demographic characteristics are visible. The related research findings must also be shared with SACRRA and its members.

The benefits - for regulators, lenders and the industry include provision of a richer, responsive picture of key trends in the market and the ability to interrogate various trends. Whilst a particular interrogation would relate to a particular question, it would also highlight broader metrics that are of interest, and that could be tracked, and reported on, on a regular basis. For instance, whilst the Reserve Bank monitors mortgage performance and bank lending closely, it may also want to monitor repayment on non-mortgage products by borrowers with mortgages, or repayment patterns on non-bank credit for those with bank credit, as an early warning signal. Such analyses have been very well received by lenders who need to understand the market.

Uganda

Dr. Louis Kasekende, Deputy Governor, Bank of Uganda (BOU) explained that in Uganda, bank supervisors are required to develop a risk profile of each bank for monitoring purposes. The BOU has also developed a comprehensive set of data requirements, including standard financial stability indicators, to be submitted by banks and other supervised financial institutions on a scheduled basis. Reporting requirements emphasize credit data. The loan data is used in the BOU's quarterly stress test on banks, which tests shocks such as default by one or more large borrowers,

Dr. Louis Kasekende, Deputy Governor, Bank of Uganda

an increase in NPLs and changes in interest rate margins, amongst others.

The quantitative data enables BOU to enforce compliance with prudential regulations. BOU also assesses the loan to value ratios of banks and may introduce caps to this ratio in future. Risk based supervision also emphasizes qualitative aspects and to this end the BOU issues guidelines for risk management in banks.

Since the early 2000s these interventions have generated a sustained improvement in loan performance. NPLs have averaged only 3.8% of total loans between the start of 2002 and the end of 2015 compared to more than 15% in the late 1990s. As a result bank failures have been limited to only a few small banks.

The first Credit Reference Bureau (CRB) in Uganda was established in 2009. All banks and other licensed financial institutions are required to submit data on non-performing loans and on customers involved in other financial malpractice. In addition, a credit report must be obtained before lending to any borrower. The CRB also provides credit information to BOU for vetting Board members and other senior managers of supervised financial institutions.

Governors Round Table

Speakers:
Chisha Mwanakatwe, Senior Director, Supervisory Policy, Bank of Zambia
Madani Toure, Director of Statistics, BCEAO
Waigara Melchior, 1st Vice Governor, Bank of Burundi
Dr. Charity Dhliwayo, Deputy Governor, Reserve Bank of Zimbabwe
Bernard Dadi, Director National Payment System, Bank of Tanzania
Session Chair: Luz Maria Salamina, Principal Financial Specialist, World Bank

This panel discussion provided a platform for five African Central Banks to share how the CIS mechanism is operating in their countries/regional economic blocs, and the impact it is having. All the countries are seeking to enhance access to credit for all segments of the population, decrease NPLs, and lower the interest rate regime. Strengthening the CIS system is an immediate priority for most of the countries.

Bank of Zambia

The country has a CRB which has been in operation since 2006. It functions well, and receives both positive and negative data, but has low coverage of 8.9 % of the adult population. Although this is slightly above the sub-Saharan Africa average of 7.1 %, compared to the OECD average of 66.7 %, it is clear that much ground remains to be covered.

Credit markets in Zambia, continue to experience high but declining default rates. Access to credit is limited and tends to be concentrated largely in urban areas, and to certain sectors. To address this trend, the Bank of Zambia has sought to increase CIS with directives that compel credit providers to submit information. However, CIS is yet to be rolled out to credit providers outside the financial sector.

In its continued efforts to develop the credit reporting framework the Bank of Zambia has embarked on a project with technical assistance from the World Bank Group and IFC which focuses on four components. First, strengthening the bank of Zambia's regulatory oversight and supervisory capabilities over credit reporting; second, facilitating the integration of microfinance and SME credit reporting and other non- regulated credit providers into the credit regime; third, supporting the improvement of stakeholder education and public awareness in credit reporting and finally, supporting the creation of a credit providers association.

In addition, with regard to the secured transactions framework, the Bank of Zambia, in collaboration with the Patents and Companies Registration Agency and with technical assistance from WB and IFC is at an advanced stage in the development of a collateral registry for moveable assets.

Additionally a Credit Market Monitoring Program (CMMP) is being put in place with support from FSD Africa which will serve as a repository of quality and quantitative data to serve as a major building block for evidence-based policy formulation. This should enable the Bank of Zambia to measure credit activity, monitor important sector trends, identify problems and assess the impact of any regulatory intervention in the credit market among other expected benefits.

Chisha Mwanakatwe Senior Director, Supervisory Policy, Bank of Zambia and Waigara Melchior 1st Vice Governor, Bank of Burundi

BCEAO

The WAMU (West Africa Monetary Union) Regional Credit Bureau project developed based on a recommendation by a Committee

Madani Toure, Director of Statistics, BCEAO

on financing the WAMU member states economies (established by the 8 Heads of State of the Union). It was also triggered by an existing strong information asymmetry between borrowers and lenders in the region. Further, the unsatisfactory ranking of the WAMU member States in the World Bank Doing Business Report particularly referred to absence of a Private Credit Bureau operating in the Community as the reason for constraints in access to credit.

Key milestones to date include a Regional Law (Loi Uniforme) regulating establishment/operations of credit bureaus adopted by the Council of Ministers in June 2013. As a monetary union with an integrated credit market and a banking system with a common agreement, banks in any country can offer credit to any individual /entity in the union. There is also a common financial market and common banking supervision. This explains why a regional credit bureau is best placed to serve the needs of institutions in the region. Although the regional bureau is based in one country, it has satellite offices in each of the member countries of the union. A second milestone is the signing of a Cooperation Agreement with IFC in 2013 between BCEAO and the IFC for the implementation of the project. IFC's role was to provide BCEAO all information and the necessary Technical Assistance to guide the process of establishment, development and deployment of a credit bureau at the regional scale. A third milestone is the awarding of the project, through an international competitive bid, to Creditinfo Volo.

The Regional CRB kicked off in Kick off in February 2016 – it is a single credit bureau serving eight countries with the same legal framework, technology and services. The BCEAO collects data from all regulated banks in its member institutions and then relays the data to the CRB. Non-regulated entities supply data directly to the CRB, but only with the prior consent of the borrower.

The initiative required an enabling legal framework, whose main components are:

- Regional consultation among the main stakeholders in the 8 WAMU member states to draft a single Regional Law ;
- Obligation for the national parliament of each member state to adopt the Regional Law by (the WAMU treaty mandates the adoption of such laws concerning the regulation of the banking industry);
- Supremacy of the Regional Law over member state national laws / legal framework (e.g. laws on data privacy) ;
- Modern law which encompasses all international best practices, regarding data protection perfectly in line with existing data privacy laws ;
- Bylaws, signed by the BCEAO's Governor, are immediately and directly applicable in each WAMU country;
- Definition in consultation with the stakeholders of a unique, single data sharing layout to be adopted by all lenders and credit bureau members in the 8 countries ;
- Definition in consultation with the credit bureau of a price matrix valid in the 8 UMOA countries.

Through policy actions and initiatives to create awareness the collection of data has improved allowing the regional CRB to generate more comprehensive credit reports. Further, bank supervisors in one country in the union, share information with bank supervisors in another country in the union.

Bank of Burundi

Access to finance in Burundi remains low. A national survey conducted in Burundi in 2012 showed that 12 % of the adult population had at least one account with a licensed financial institution and this has increased to 21.1 % in 2013 and 26 percent in 2014. Access to financial services remains low because of various challenges such as financial services which are not tailor-made to the Burundian context, lack of innovation, lack of financial education and low incomes.

To increase financial inclusion, the Government of Burundi adopted a National Strategy on Financial Inclusion in October 2014. The Strategy seeks to remove the barriers for certain sections of the population and aims to promote financial education and access to and use of financial products and services.

Concerning the exchange of credit information, the Bank of Burundi has begun the process of putting in place a CIS mechanism and as a first step a legal framework has been developed. Establishment of a credit bureau and a guarantee register will also take place, but within the framework of harmonization of EAC practice, with support from the IFC.

Reserve Bank of Zimbabwe (RBZ)

Zimbabwe is currently battling with a high level of NPLs in the banking sector (20%). To address this, an asset management company was created to purchase NPLs from the banking system, resulting in a reduction of NPLs to just over 10%. This, however, is a one-off intervention and there is need for a long term solution. Ultimately, the issue of NPLs in Zimbabwe is caused by poor credit risk appraisal and this is tied to the lack of a CIS mechanism. RBZ is, therefore, in the process of setting up a CRB. The RBZ's credit registry department currently coordinates the collection of credit information from all banking and credit institutions, and maintains a registry. The CRB should be complete within the first half of 2016.

Dr Charity Dhliwayo, Deputy Governor, Reserve Bank of Zimbabwe

The CRB will collect both positive and negative information and it is hoped that this will ultimately resolve current problems with regard to access to credit. RBZ also expects to use CRB data analytics to inform monetary policy and to promote financial sector stability.

Zimbabwe is also in the process of establishing a collateral registry system.

The absence of a CIS mechanism has resulted in banking institutions shunning low income groups. CIS, once introduced, will enable low income groups to leverage on reputational collateral to gain access to funding.

Bank of Tanzania

Bernard Dadi, Director National Payment System, Bank of Tanzania

Tanzania adapted a National Financial Inclusion Framework in 2014. Tanzania has a CRB and the number of records is 1.8 million customers, with an average number of 36000 monthly inquiries.

Fast Access, which carries out mobile data scoring, has been helpful in promoting financial inclusion as their tool enables credit to be extended to those at the bottom of the pyramid. Indeed the particular market segment is growing rapidly.

Building Industry Partnerships for Consumer Awareness

Luz Maria Salamina, Principal Financial Specialist, World Bank Group

Nuru Mugambi, Director, Public Policy and Communications, Kenya Bankers Association

Speakers:
Luz Maria Salamina, Principal Financial Specialist, World Bank Group
Nuru Mugambi, Director, Public Policy and Communications, Kenya Bankers Association

Session Chair: Everlyne Oloishorua, Head of Communications, CIS Kenya

Whereas credit reporting globally has few documented examples of awareness creation on a national level Panama is one country whose example is worthy of attention. Panama's evolution has been recognized and included in the Credit Reporting Knowledge Guide of the IFC. Luz Maria Salamina from the World Bank shared the Panama experience. Nuru Mugambi then shared about the creation of the Credit Information Sharing Fund (CISA Fund), an industry partnership created to finance awareness about CIS.

Panama Case Study

Panama has had a credit bureau for 60 years and adults with formal credit are 1.5 million out of a population of 2.5 million adults (total population 4 million). There are 95 banks 40 with general license which serve the local population. Overtime, the perception was that the CRB existed to deny credit. In order to change that perception APC began to work on a campaign dubbed 'Your finances under control'. Over the course of the campaign APC facilitated face-to-face interaction by 1.4 m in a 'kiosk' set up in a busy mall. This was supplemented by TV and radio programs; editorial columns in the papers; engaging the public through a social media strategy; online access to credit reports; webinars; and over 5000 people trained underwent formal training.

Panama City

Lessons Learnt

Three initial steps can be used to create awareness of CIS. First, ask questions to find out the concerns of credit consumers. This information is valuable in designing messages to create awareness. The second step is to identify the consumer's circle of influence and thereafter, to engage these influencers in your campaign. The circle of influence includes the lender, the regulator, the society and the media. The third step is to form partnerships that will make the process sustainable. This involves creating a working group, training stakeholders and fostering good relationships among participants. This working group will be responsible for implementing the communication strategy.

Key concepts for a successful financial literacy campaign include giving the consumer access to the credit report, using simple consistent messages and having an efficient complaints' resolution process.

Everlyne Oloishorua, Head of Communications, CIS Kenya

Introducing the CISA Fund

KBA has recognized the need to work together as an industry in order to create consumer awareness.

The transition of CIS from a negative to full file regime created a huge information gap and also placed on the credit providers, the responsibility to change their use of CIS from one previously viewed as segregative and punitive to one that is welcomed by consumers on the basis that it is inclusive and rewarding, enabling people to build and use reputational collateral.

Research undertaken by KBA found that the bank is the number one influencer of their customer when they are in the process of making financial decisions. This means that bankers are well place to champion consumer awareness and, therefore, have a responsibility to ensure that the benefits of CIS benefits are passed on to the customer.

The first thing consumers need to realize is that they need to take responsibility for their own credit information. One of the prerequisites for this is to ensure that the benefits of CIS pass on to credit consumers. In Kenya the benefits are yet to be felt, and this may well be one of the reasons for low consumer awareness. That notwithstanding, there is still much ground to cover before the CIS mechanism is fully functional and able to give an accurate picture of a consumer's credit exposure. A more comprehensive CIS mechanism, as well as increased understanding by customers of how financial institutions use credit scores, will empower the consumer to walk into a financial institution and negotiate for better rates.

The CISA Fund requires collective effort in the drive to change the perception of CIS. The media is a primary tool for reaching the public, yet the cost of media coverage is very high. This makes it necessary to collaborate and pool resources in order to achieve meaningful impact. Initially, KBA partnered with CBK to start the process, however it is gratifying that overtime, other participants in the CIS mechanism have come on board.

The CISA Fund partners as at the time of the conference were as follows:-

- CIS Kenya, WB, IFC, KBA and FSD Kenya
- CISA Fund Paramount Partners: Creditinfo, TransUnion, Metropol and KCB
- Strategic partners: HELB, Tatua Centre, the Judiciary and M-KOPA Solar
- Other partners: Stima SACCO, WEF and AFC.

Supporting Financial Inclusion with Credit Scoring

Agata Szydlowska, CreditInfo

Presenter:
Agata Szydlowska, Head of Financial Inclusion & CRB Awareness Africa, CreditInfo
CISA Fund Paramount Sponsor

Credit scoring is very valuable to credit providers as it results in more accurate, faster, and less costly credit appraisal processes. Credit scoring can also be used to enhance credit appraisal of, and, by extension, access to finance by, MSMEs. Such businesses may not have a credit history, and moreover, the creditworthiness of these businesses is intertwined with the creditworthiness of their owner. It also enables low income borrowers, who typically have no formal credit history to access funding. Creditinfo provides appropriate tools to enable financial institutions to serve MSMEs and low income borrowers.

About Credit info

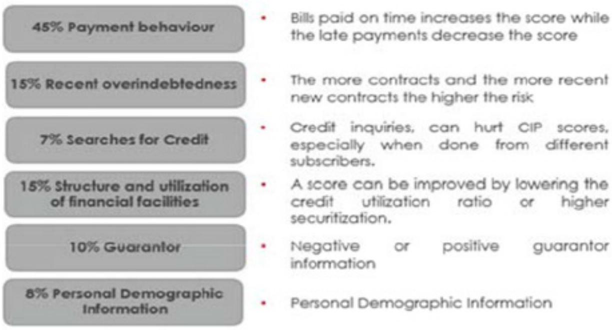
Creditinfo Group (CreditInfo) was established in 1997 and has 26 operations in over 37 countries. It has specific expertise in emerging markets and its presence in Africa is rapidly expanding, with bureaus in 11 countries on the continent. CreditInfo focuses on providing a holistic solution in risk management involving the provision of scoring, decision engines, pricing modules, consulting services on credit processes and risk management. It also provides software on fraud prevention, work flow, collection-software and other credit tools.

Introduction to Credit Scores

Credit reports can be complex – with a typical report containing over 150 data items. A credit score provides a simple way to interpret the complex information provided in a credit report. Essentially, a credit score provides a numerical assessment of the risk of default. It thus becomes part and parcel of the credit appraisal process. The higher the score, the lower the probability that the respective customer will go into default.

Credit Scoring is based on three key concepts: methodology, experience and data. Data here, includes socio-demographic information, bank financial records and data maintained by the credit bureau. Scoring is used to control and manage credit risk, to reduce costs and to provide better customer service. Scorecards allow efficient decisions to be made based on available data. Scoring is about automation of processes and speeding up these processes. The score can be used in the different stages of customer credit, i.e., during the application, monitoring and collection processes. For example, during the application process, a credit score will indicate whether the institution should lend, decline, refer or provide the credit at different prices, limits or amounts.

Figure 1: Typical components of a Credit Score



Source: Creditinfo

A number of benefits accrue to financial institutions which use credit scores. The direct benefits include reduced costs, speed, ability to process higher volumes, ability to enforce policy, increased customer loyalty, better pricing for creditworthy customers. Indirect benefits include but are not limited to improved risk measurement, consistency between information gathering and processes, more transparent/auditable lending processes, adherence to best practice and improved customer service.

Using credit scores to promote financial inclusion

MSME lending

Micro Small and Medium Enterprises (MSMEs) play a significant role in the economies of the EAC, contributing over 60% to employment. Their credit needs have been estimated as being over US$ 3000 billion. MSMEs have a number of unique characteristics. Unlike large corporations where the owner and the business are separate, in MSMEs, more often than not, the finances of the owner and the business are intertwined. About 60% of SMEs have no credit history, whilst 50% of MSME owners use their personal bank accounts for business purposes. MSMEs are dependent on the owner's personal actions, are more affected by credit losses and have seasonal revenue trends which are difficult to monitor or predict. Sometimes the owner's risk may be the same or more than the risk of the business as a whole.

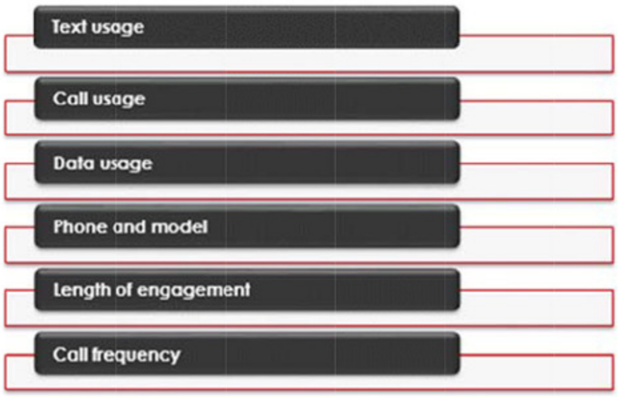
Further, the smaller the business, the more owner-centric the business will be.

Blended scoring is a methodology used by CreditInfo to cater for this set of circumstances. It involves using both personal information and business information to assign a credit score to an MSME. This increases the predictive strength of the scorecard.

Lending to low income groups

Low income borrowers typically do not have a credit history. Credit scoring be used to assess risk in small value lending such as the mobile loan products in the Kenyan market (see Figure 2). Credit scoring is also used in internet-based lending and Creditinfo has, in the past, assisted an internet based lender achieve remarkable reductions in default rates once the lender started using credit score methodology in its credit appraisal processes.

Figure 2: Data sources which can be used to assess credit risk of low income earner



Michael Mithika, conference emcee and Shane Moldenhauer, Regional Manager – Southern and Easter Africa Creditinfo Group

Mikopo Kisasa - Insights from Metropol CRB

Sam Omukoko, CEO, Metropol

Presenters:
Sam Omukoko, CEO, Metropol Credit Reference Bureau
Kevin Ogoro, Head of CRB Operations, Metropol Credit Reference Bureau

Sam Omukoko shared the history of Metropol Credit Reference Bureau which was set us in 1996 as a business information company licensed as a CRB in Kenya and Uganda. It is also licensed as a credit rating company in Kenya and an SME rating company in Rwanda. Kevin Ogoro shared about the changing CIS landscape in Kenya.

Since its establishment, many changes in technical delivery of products to lenders and legislation have occurred. In 2003 Metropol CRB embarked on a project to develop a scoring method that banks/lenders can use to assess the creditworthiness of an SME. This has been in use over the last 3 years in 3 banks. Metropol also operates a large customer service centre and where clients can have their questions answered. Metropol CRB offers both credit rating and credit scoring. Metropol CRB now has a mobile application service known as Crystobol through which consumers can access their credit report through the mobile phone.

Kevin Ogoro, Metropol CRB, noted that significantnotable developments were taking place in Kenya's financial sector such as the increased reporting of credit accounts, doubling to 6 million in 2 years. Mobile loans have doubled contributing to increased access to credit. The average individual has three loan/credit accounts hence the diversity of credit is also increasing.

More than a third of customers are accessing credit from multiple financial institutions. When interest rates increased borrowing did not drop which indicates that people simply choose another source of credit such as SACCOs or mobile money whose rates did not go up.
Technology is changing the credit landscape and at present, mobile loans have brought 1.4 million new customers into the bureau. Technology can be leveraged to grow a small lender to become the largest player by number of customers.

Risk ranking on the Metro score allows lenders to choose a default rate of risk they want to take. For other levels of risk other financial products can be tailored such as adding collateral or pricing of the product. For mobile loans individuals with good scores get a higher initial credit mobile limit.

Kevin Ogoro, Head of Credit Bureau Operations, Metropol CRB

The credit data evolution – a powerful and progressive landscape

Steven Kamau, CEO, TransUnion KE

The evolution of credit data, which has resulted in the sharing of detailed credit information among credit lenders, is beneficial both at the micro- and macro-economic levels. Over just a few short years, we have seen some significant milestones in the processing of credit information, to the extent that we can definitely call it an evolution and even, arguably, a revolution in some aspects.

Following the gazetting of the banking regulations in 2008, the Central Bank effected credit information sharing. This instituted the process through which financial institutions submit information regarding their borrower credit history to a centralised location that would later share the aggregated data with other credit providers. These information hubs are today known as credit reference bureaus and they work to provide insight into the risk associated with potential or existing customers, allowing lenders to differentiate between good and bad borrowers.

CIS has led to fundamental market shifts, as well as changes in how we approach business and connect with consumers. Greater access to information has triggered an evolution in the lending industry which has been further driven by digital technology and regulatory developments, with some of the greatest technology innovations arising from within our emerging markets ahead of more developed countries.

As an example, the use of mobile money was born in the Philippines, but Kenya was the first country to experience its full potential and is regarded as being a global leader in digital financial services. Today Kenya is a shining case study for the success of financial inclusion, across multiple layers of the traditional financial services offering as well as innovative new segments such as mobile lending. Credit information sharing has no doubt been integral within this journey.

The changing face of CIS

In recent years credit information sharing has morphed from the submission of largely 'flat' data to a more multi-dimensional data form, which allows for a bigger, deeper decision pool for credit providers and greater financial inclusion for consumers.
Historically, bureaus only tracked and held negative data on customers. Today, most bureaus hold both positive and negative data, which gives a holistic and dynamic view of existing and potential customers. Therefore, credit providers were previously only able to make basic and somewhat limited risk decisions with flat and simple data.

Today, with the inception of CIS credit bureaus have access to millions of lines of different and dynamic data sets with the TransUnion Africa database comprising well over 1.5 billion lines of data across Africa and the volume and velocity at which it continues to grow is exponential.

The value of CIS

We are moving away from a 'default listing mind-set' to one of 'payment profile information', which provides regular updates to create a full file view of the customer that takes into account potential future commercial behaviour and personalised trend information, as well as demographic, geospatial and historical information on the customer. This allows credit providers to make more informed decisions about prospective customers' entitlement – or not – to credit lines and facilities.

This evolution was borne from the desire of credit providers to reduce the cost of lending to both the consumer as well as the lender. Now lenders are able to use far more robust risk management processes in determining best predictions of whether to grant the loan, based on their review of whether the loan will be repaid and at what cost. In addition, with online access to credit reports and other bureau solutions, credit providers have the ability to realise faster loan processing.

When lenders have access to a greater perspective; to deeper, more granular data sets they gain a far more in-depth view of a customer which ultimately allows for better segmentation between potential defaulters and non-defaulters. When you combine quality data with faster data processing and real-time outputs, lenders gain an edge, an instant advantage in responding to customer applications.

At a macro-economic level, improved credit information sharing creates opportunities for a greater cross-section of the population to access credit, particularly those with no access to tangible collateral. As we enhance and grow our credit sharing drive, we allow the magnification of previously under-served markets and 'invisible' consumers to become active members of the credit-granting industry. Access to credit on a greater scale undoubtedly enables greater financial inclusion translating into an escalation of economic growth.

Kenya: A successful CIS case study

Mobile advancements have been integral in changing how credit bureaus approach business and connect with both providers and consumers across the market, and this is particularly relevant for Africa. We have seen tremendous gains in financial inclusion across East Africa in recent years.

In Kenya, financial services access increased from 27% to 67% in just seven years, from 2006 to 2013. It is not illogical to speculate that 10 years earlier, financial access statistics would have been only in the teens or even single digits.

Much of this rise in financial services access can be attributed to the rise of mobile technology in Kenya as well as greater access to credit information through CIS-promoting regulations. Previously, consumers had to travel to a credit bureau to get credit information. However, thanks to an automated mobile-driven strategy, consumers can now access the information they need via mobile services, which allows for a significantly quicker turn-around time.

Twenty years ago in Kenya, microfinance providers expanded their distribution networks through brick and mortar. Undoubtedly, the single biggest factor driving the growth in inclusion in the region has been the rise of cell phones and mobile money. Between 2005 and 2014, Kenyan banks nearly tripled branches and quadrupled ATMs. Today, 86% of the population now lives within five kilometres of a financial access point.

So, it's safe to say that almost all Kenyan homes have their own ATMs, their own online banking, their own private access to their bank of choice. Not possible? But of course… with the rise of mobile money and other mobile financial solutions, almost all Kenyans hold the power of their banking needs in the palm of their hand.

To look back again, about 20 years ago, the term 'microcredit' started to give way to 'microfinance' as practitioners realised all segments of low-income people needed a range of financial services, including savings, insurance and money transfers as well as credit. Today, a broad range of institutional types such as commercial banks, microfinance banks, credit-only MFIs, SACCOs and mobile money providers offer a wide range of financial products and services, all of which are underpinned by the credit sharing initiative as after all, greater access to information allows a greater ability to devise relevant, targetable and accessible products and solutions.

The greater inclusion of financial services access in Kenya has also had a significant effect on small and medium enterprises (SMES). The growth of SMEs is an important driver for the industrial development of Kenya and its 'Vision 2030' programme, which aims, through a succession of five-year plans, to transform Kenya into a more industrialised, mainly middle income country for its citizens, in a clean and secure environment. In this regard, a functioning credit reference system plays a role in reducing transactional costs in lending to SMEs, with positive effects such as more available credit, reduced prices and enhanced competition – ultimately to the benefit of the country's economic growth. The growth of the SME sector highlights that CIS not only works to grow traditional lending industries such as commercial banks but also burgeoning and relatively new industries such as retail and insurance. Sharing data across industries can only improve the lenders view of the customer and therefore only improve access to credit ensuring sustainable economic growth.

Moving forward

With a firm focus on leveraging technology and our data base assets, TransUnion, which is the fastest growing credit bureau in Africa, sees itself as being able to provide a 'one stop shop' for an enhanced customer base.

We plan on growing our consulting and training divisions and the ultimate intention is to position our brand as a genuine strategic partner. As our work force is almost entirely indigent in the countries in which we operate, we are also assisting in job creation and education.

We operate in a number of markets in Africa and are constantly looking at new markets. We understand what we do and we know the value that we can provide. We are ready and willing to target new markets where there are fundamental issues that we know we can solve. We replicate the footprints of our key strategic partners and understand their focus, their growth initiatives and the micro- and macro-economic factors within which they operate positioning us as the leaders in credit and risk information services worldwide.

Employing Self-Regulation and Governance to strengthen CIS

Darrell Beghin, Executive Director, SACCRA

Presenters:

Darrell Beghin, Executive Director, SACCRA
Dr. Harun Mwangi, CEO, Media Council of Kenya
Mark Kiambo, Head of Technical Servcies and Compliance, CIS Kenya
Session Chair:
Fidelis Muia, Director, Technical Services, KBA
Case Study: SACCRA

This case study shows the role that self-regulation plays in strengthening the credit information sharing system, to promote standardisationstandardization, data quality and reciprocity in terms of accessing and sharing data.

Self-regulation in credit reporting could be viewed as contradictory, in situations where credit sharing is a legal requirement. However, credit providers cut across multiple industry sectors, whilst credit reference bureaus have diverse business models. This calls for a mechanism to ensure standardisation in data sharing. This mechanism will enable common comprehension and accurate reflection of payment performance. The creation of this mechanism necessitates self-regulation.

Role and History of SACRRA

Established in 1989, the South African Credit and Risk Reporting Association ('SACRRA'), is a not-for-profit voluntary association of members who share credit and risk performance data of their customers. Its members include credit providers, financial service providers, retailers, service providers, cellular companies, insurance companies, subscription companies and marketing companies. In addition, it has 5 Associate Members (Credit Bureaus), with a sixth in hosting application stage. Its foundational premise is to promote reciprocity i.e., those who use credit information should also share information, hence the slogan, "Share to Access."

SACRRA's focus and mission is to promote standardised submission formats, data sharing and data quality. It facilitates about 62 million payment profile/trade lines a month, with daily reporting steadily increasing but currently standing at 11 million lines.

SACRRA thus provides the framework to facilitate the sharing of complete and accurate credit and risk data. In this way, it enables its members to comply with the provisions of the National Credit Act as regards credit information sharing, performing credit risk assessments and affordability calculations. Further, SACRRA facilitate remedies for defective data and ensures the timely and complete submission by all its data contributing members. SACRRA has signed a Memorandum of Agreement with the National Credit Regulator to work together on optimised data sharing and on driving quality data reporting. SACCRA does not, however, engage with credit consumers.

SACRRA's scope has expanded to include the sharing of business credit and risk data and developing equivalent associations in the South African Development Community ('SADC') region. Presently, however, data is submitted by the transaction originator, which is not satisfactory. A regional strategy is needed to track information accurately, and cross-border agreements on data exchange need be put in place to facilitate this. For example, for South African workers based in Lesotho, it is difficult to get an accurate profile of their credit behaviour, as there is no information on their transactions in Lesotho.

All data is submitted through a central hub which results in simultaneous data availability to all CRBs. A data submission template is provided by SACRRA. The template was developed by a multi-stakeholder group with a focus on capturing the most important data. SACRRA's hub issues member alerts of anomalies, and has a dashboard to monitor trends. Data quality assessments are also carried out periodically. SACCRA also has a tool to expose parties who do not comply with the rules. Further, members are given support during on boarding, and must undergo testing prior to being granted approval to transmit data through the hub. A validation tool also exists for data submission forms.

SACRRA is funded by its members, an arrangement which, by its own admission, is not conducive to independence from its members. The more ideal association structure is a PPP (public-private partnership) where the government is also a stakeholder. Examples of associations where a PPP arrangement works well is the National Payments Association of South Africa, on whose Board the Reserve Bank of South Africa is represented.

In addition to the association's Constitution, SACCRA members must abide by a Code of Conduct, Protocols and Standard Operating Procedures. The Management Committee consists of elected representatives of the membership base. SACCRA also employs an ongoing stakeholder engagement model.

SACRRA thus provides the framework to facilitate the sharing of complete and accurate credit and risk data.

Self-regulation vs statutory regulation

Statutory regulation often comes into existence to support international accords that the respective country is party to. However statute does not extend to operational issues such as the intricacies of data sharing and data management.
The advantage of statutory regulation is that it provides a certain level of comfort to consumers. However its also comes with disadvantages: it imposes certain aspects, regardless of consultation during the process of drafting the regulation; and it reflects government concerns and policy and not necessarily those of all the other stakeholders. As such, it informs the government's interventions in the marketplace – which may be either misplaced or valuable. Changes to statute are tedious and time consuming to achieve.

As already indicated earlier, self-regulation is necessary to promote accuracy and standardization in data sharing amidst a diverse range of credit providers and CRBs with differing strategies and business models. Its advantage is that the standards and rules are negotiated and agreed, not imposed. It also allows rapid deployment of decisions, policies and rules. It is also the most cost effective approach of working across diverse sectors to achieve alignment and conformity. Peer pressure and reputational risk are also faster remedies than litigation.

Self-regulation does have its disadvantages: it requires constant monitoring and engagement and remedial action; yet it the mechanism can lack sufficient power to censure those who do not comply. Additionally, a self-regulated group can be biased and protective of their own interests placing them above those of the general public. To be effective, a self-regulation association should have the right expertise – able to manage and understand data, information technology, credit and risk management.

Case Study: Media Council of Kenya

Dr. Harun Mwangi, CEO, Media Council of Kenya

Using the Media Council of Kenya as an example, this case study illustrates the rationale for self-regulation and the factors required for self regulation to succeed

Justification for self-regulation

Most scholars agree that self-regulation refers to "Professionals' direct possession of the powers to regulate all or part of their professional conduct… accountability." (Campbell, 1999, Hulin & Smith, 2008).

Very clear justification is required for any self-regulatory entity. The justification may be grounded in philosophy emanating from law, the business case or best global practices. For media the philosophical basis is the national constitution, in which the freedom of speech is enshrined.
Common values amongst members are required, which motivate them to pursue self- regulation. These values are then captured into a code which unites all members. The media have a commonly developed and owned code of conduct, and as a result the media fraternity demonstrates strong solidarity.

There must also be broad-based ownership and support of all the associations' initiatives. The most influential members in the industry must be supportive or the entity will not be viable. In the media industry, these entities are the three largest media houses, the Editors' Guild, the Kenya Union of Journalists and the Law Society of Kenya.

The association must also be sustainable financially, institutionally and managerially. The Media Council of Kenya is supported financially by media houses, individual members of the journalism profession and the government.

Fifth, members have to be willing to comply fully with the association's decisions. Ultimately, a successful regulatory body must have the power to enforce its decisions, be able to act independently and be seen to do so, have the respect and full support of its members. Finally, the association should add clear, measurable value to the industry in which it operates.

Challenges of self-regulation

Broadly, challenges emanate from the professional, economic, political and socio-cultural realms. Professional challenges include solidarity, unity and trust amongst journalists, the financial capacity (or lack thereof) amongst certain professionals, and professional socialisation which has a positive angle (e.g. ownership, solidarity, respect and trust) but also negative aspects (pressure to conform).

Figure 1: History of the Media Council of Kenya

The Media Council of Kenya was registered as a trust in 2004. Its key objectives among others were to set and enforce performance standards as per the Code of conduct for the practice of journalism; to provide a platform for handling complaints levelled against the media and to protect media freedom.
In 2007, the Media Act was enacted, which anchors the Council in legislation. The MCK thus transitioned to a co-regulatory model ie one in which there is both a statutory backing for its existence as well as self-regulation. The government became a stakeholder in MCK and MCK now receives some funding form government whilst remaining free of government and political interests.

Socio-cultural challenges include issues such as: the manner in which MCK officials respond to external forces affecting its members; what the incentives for ethical conduct are; and whether the public is sufficiently aware of the organisation and its role as a regulator. Economic challenges include achieving financially sustainability and how much economic reward professional conduct and independence brings.

Using the Data Hub to improve data quality and efficient transmission

Mark Kiambo, Head of Technical Servcies and Compliance, CIS Kenya

CIS Kenya is seeking to establish a Data Hub as a means to promote data accuracy in the CIS mechanism in Kenya. This presentation by Mark Kiambo sets out the rationale for a data hub.

CIS Kenya is a catalyst in the quest for higher quality loan portfolios and better credit terms for consumers. 4 million credit customer profiles are uploaded daily at CRBs in Kenya. Given the volume of data involved, and the impact of credit reports on the reputation of credit consumers, CIS Kenya has a members' Code of Conduct which governs how information is shared. The key concern is data quality and data integrity i.e. achieving valid, reliable, objective, relevant, complete and up-to-date data.

Data Hub – definition and rationale

The proposed CIS Kenya Data Hub will be a central point of data submission. With a data hub, all information is submitted once, and all CRBs receive a copy of the data simultaneously. Data quality is also checked before transmission, assuring uniformity of quality. Only members of CIS Kenya will have access to the data hub.

A special category of membership does however exist for those organisations who need to access, but do not store data e.g. regulators.

Why have a Data Hub?

The advantages of a data hub include reduced risk of human error, real-time submission, central point for addressing data quality issues, and the ability to address conflicting acceptance rate reporting. A data hub also facilitates the dispute resolution process. It does this by ensuring that all bureaus receive a copy of the dispute, and that the result of the resolution are uploaded to all CRBs simultaneously.

The data hub also gives objective feedback on data quality. A feasibility study was recently concluded with a view to establishing a solid case for an investment in a data hub. The overall findings were that stakeholders want a data hub, with clear guidelines on its use.

Records of default

Currently a record of default stays on the report for 5 years. Mr. Kiambo acknowledge that there is a need to review this, especially for mobile-phone based loans which are repaid within 24 hours. However even, as these guidelines are revised, one must balance the interest of borrowers and lenders because the observed trend is that defaulters tend to move from bank to bank.

Contribution of Alternative Dispute Resolution (ADR) towards an effective CIS Framework

Hon. Justice Fred Ochieng, Commercial and Legal Admiralty Division

Manie van Shallkwyk, Consultant ADR

Hon. Justice Gatembu Kairu, Judge of the Court of Appeal

Lorraine Ogombe, Kenya Judiciary

Arthur Igeria, Board Chair, Nairobi Centre for Arbitration

Speakers and Contributors
Hon. Justice Fred Ochieng, Commercial and Legal Admiralty Division
Manie van Schalkwyk, Consultant ADR
Hon. Justice Gatembu Kairu, Judge of the Court of Appeal
Lorraine Ogombe, Kenya Judiciary
Session Chair: Arthur Igeria, Board Chair, Nairobi Centre for Arbitration

The panel discussion sought to enlighten participants about the benefits of ADR, the steps being taken to promote ADR as the first means of dispute resolution in Kenya, and of the experiences that banks and customers have had with ADR so far. It also shed light on the functioning of the CIS ADR mechanism in Kenya – the Tatua Centre and the results of a Peer Review of the Tatua Centre were shared with participants. After the discussion, testimonials were shared by 2 credit providers and 1 credit consumer on their experience with the services of the Tatua Center.

Hon. Justice Ochieng kicked off the discussion by defining ADR and its advantages relative to going to court. The key points of his remarks are set out below:-

- Alternate dispute resolution ('ADR') is a free, formal, speedy, cost effective alternative to court action. It also protects relationships because it seeks to ensure that the two parties remain friends.
- ADR has always been a part of Africa's system of justice. This enabled people to work and live together in harmony. Rwanda provides a success story in the *Gacaca* courts – an alternative justice system.
- Various constitutions in East Africa promote ADR. For example, Uganda and Tanzania promote ADR for both civil and criminal cases. In both countries, long before Kenya enacted its new constitution (which promotes

ADR), it is mandatory for parties to try ADR before they go to court.

- Kenyans claim to lack confidence in the judiciary but the number of cases filed daily is greater than the number of cases completed. This state of affairs belies their claim to lack confidence in the judiciary.
- In November 2014, ADR was launched for CIS. For CIS disputes, the courts recommend the use of ADR in the first instance.

Justice Gatembu shed light on the fact that mediation is a skill, which mediators require training and accreditation for. There are commercial mediators and family mediators. Mediation is more conciliatory and does not focus on punishing the offender but does seek acknowledgement of wrong done, voluntary remedies and forgiveness. The result is a win-win for both lawyers and clients.

Mediation is now being introduced in Kenya on a pilot basis. Arbitration has become as expensive as legal representation. Mediation will, however, be free. Nairobi's Centre for International Arbitration is part of the process. Lorraine Ogombe indicated that the Chief Justice of the Supreme Court of Kenya is fully behind the initiative to promote mediation. Going forward, after the pilot project is complete, cases will be reviewed by the Deputy Registrar of the Judiciary to determine what should initially go for mediation and which cases should proceed to Court. The idea is for Kenyans to come to terms with the fact that courts should be viewed as the last resort in every dispute.

Peer Review of Tatua Centre

Mr. Manie van Shallkwyk, a Consultant from SA then presented the findings of a Peer Review of the ADR mechanism for CIS in Kenya. The review was carried out against standards laid down by the World Bank and the International Network for Financial Services Ombudsman Schemes. The latter's standards include independence, clarity of scope, accessibility, effectiveness, transparency, fairness and accountability. Independence includes independence from both industry and consumer bodies as well as the availability of sufficient staff and resources to carry out the role of Ombudsman. Further, the funding structure should be of such a nature that the funders cannot influence the work of the scheme and the scheme should be able to select and employ its own staff. With regard to accessibility, the Ombudsman should not be contactable by any means of communication and services should be available free of charge.

Mr Shalklwyk clarified that the scope of the review of Tatua Centre encompassed the Centre's processes, case files and proposed funding structure. Additionally, interviews were carried out with stakeholders (including consumers), culminating in a stakeholder workshop at which the benefits and challenges of ADR were discussed. The scope also included examining whether Tatua should expand beyond catering to credit providers and their consumers, to become a Financial Ombudsman and serve the insurance, pensions and other financial services sectors.

The table below summarises the key findings of the review

Figure 2: Findings of independent review of Tatua Centre

Issue	Finding	Comments
Independence, impartiality	Fully compliant	
Clarity of Scope and powers	Not compliant	Tatua did not have a website at time of review however it will soon be launched.
Accessibility	Partially compliant	Tatua is based in Nairobi and does not have any branches at present. Hence is not readily accessible to a rural consumer. Tatua did not have a website at the time of review however it will soon be launched.
Fairness	Compliant	The Centre is able to resolve without fear or favour
Transparency/ Accountability	Not yet compliant	Tatua will be compliant once fully operational. Requirements to comply are: ▪ to have regard to **overall public interest** in forward-planning and day-to-day operations; ▪ **to consult publicly** about its **scope, procedures, business plans** and **budgets;** ▪ **to publish a report at least yearly**, explaining the work that it has done.
Effectiveness	Compliant	Consumers rate Tatua at 88%, and will tell friends and families of the service. Staff of TC are highly respected and are well qualified to perform duties and are professional in their approach. However banks need to be encouraged to recommend Tatua to their customers.

On the issue of a Financial Ombudsman, Mr Shallkwyk's assessment is that Tatua is well positioned to expand into this role. It was determined that the establishment of an industry ombudsman already has backing from the government, as the Central Bank of Kenya is considering an ombudsman scheme which will serve banks, pensions, SACCOs and insurers.

ADR/Ombudsmen schemes can be voluntary or involuntary or a hybrid of the two. Mr Shalklwyk recommends that Tatua be a hybrid scheme. A hybrid scheme would require Central Bank approval, in order to ensure adherence to a minimum set of standards, and further, participation in Tatua would be a condition for licensing a financial institution. However the scheme itself would be non-statutory so that industry players can set the rules and, in this way, keep the scheme flexible and responsive to stakeholder needs. The scheme's jurisdiction should thus be established by the industry and all its rulings would be binding on the industry.

Mr Schallwyk also made observations with regard to the manner in which the CIS mechanism is currently operating. He saw a clear need to educate consumers so that they no longer view CRBs as a threat. He also recommended that CRBs ensure that the ADR decision be updated by all CRBs at the same time. He also discouraged the use of credit information for employment purposes, except for positions involving cash handling or financial management. He also observed that the practice where CRBs generate income from the provision of clearance letters warranted review. "The purpose, application and effectiveness of "clearance letters" should be investigated together with the impact of this requirement is on rural Kenyans". (The latter have to travel all the way to Nairobi to collect these letters). Further, he noted that the requirement that CBK approve sources of data for CRBs could potentially limit data sources for CRBs ultimately limiting product innovation and differentiation within CRBs and should, therefore, be reconsidered.

Hon Justice Fred Ochieng (Commercial and Legal Admiralty Division), Lorraine Ogombe (Kenya Judiciary), Manie Van Schalkwyk (Consultant ADR) and Hon Justice Gatembu Kairu (Judge of the Court of Appeal) in a panel discussion enlightening participants about the benefits of ADR. at the conference.

Testimonials

Credit providers

James Mutua of Equatorial Commercial Bank and Dennis Njoroge, Risk Manager, AAR Credit shared their experience with the Tatua Centre's mediation services. In Equatorial Commercial Bank's case, the defaulting customer was a credit card customer. After the customer's name was adversely listed, this had an impact on his ability to access credit at an alternative institution. The customer, therefore, filed a complaint with the Tatua Center. In AAR Credit's case, a borrower defaulted and could not be traced or warned of the listing, as attempts to contact them through their mobile phone failed. The customer also only discovered that his name had been listed when he sought to borrow funds from a microfinance institution.

Both credit providers expressed satisfaction at the speed with which ADR resolved their matter. In both cases, the dispute was resolved and the customer agreed to start servicing the debt. For one of the credit providers, the use of ADR even resulted in a new customer for their institution – AAR Credit's customer had requested one of their friends to accompany them to the ADR Centre, and this person later became an AAR Credit customer after the issue was satisfactorily resolved.

Customer Testimonials

Maina Kinuthia shared about how his name was adversely listed on account of purportedly defaulting on a bank loan when in actual fact the bank had not correctly accounted for a prepayment of his loan. Mr Kinuthia took the matter to Tatua, and the issue was resolved speedily, with the bank retracting their position. Whilst Mr. Kinuthia commended the speed with which the Tatua Centre acted, he lamented that no remedy was given for the damage to his reputation done in his presence, notably at his SACCO where he had applied for a loan and been denied credit, on the basis of the adverse listing.

CIS Legal Framework: Current Status, Challenges and Recommendations

Bernard Otieno, Senior Partner, Otieno & Amisi Advocates

Hannah Ndarwa Karuri, Legal Advisor, CIS Kenya

Presenter: Bernard Otieno, Senior Partner, Otieno & Amisi Advocates
Session Chair: Hannah Ndarwa Karuri, Legal Advisor, CIS Kenya

Credit information is discloses a person's private affairs. It is, therefore, important that the manner in which the CIS system in Kenya operates be compliant with the principles of Article 31 of the Constitution, which upholds the right to privacy of every Kenyan: "Every person has the right to privacy, which includes the right not to have (a)their person, home or property searched; (b) their possessions seized; (c) information relating to their family or private affairs unnecessarily required or revealed; or (d) the privacy of their communications infringed."

Additionally, the CIS system should fulfil Principle 4 of the World Bank principles of credit reporting: "The overall legal and regulatory framework for credit reporting should be clear, predictable, non-discriminatory, proportionate and supportive of data subject and consumer rights. The legal and regulatory framework should include effective judicial or extrajudicial dispute resolution mechanisms."

The CBK guidelines on CIS (which have the force of law) contain safeguards to ensure and uphold the right to

Figure 3: Procedure for disputing information

***OUR PROCESS**

RECEIVE COMPLAINT	**INTERVENTION & FACILITATION**	**DISPUTE RESOLUTION**
The complaint must have a reference number from the CRB and you might be asked to provide extra information and documentation.	Tatua Center's Registrar will contact the CRBs, lenders and any other party involved to help come up with a resolution. This may include exchanging correspondence and you may be called upon to clarify any issue.	If the intervention undertaken by the Registrar does not bring about a resolution to the dispute, the Registrar will provide a list of mediators from which you will choose one. The Registrar will organize a meeting between you, the lender and the mediator who will assist you and the lender come up with a resolution to your dispute.

* ADR is a process through which a neutral, independent 3rd party who is qualified in that field assists the parties to come up with a resolution of their dispute.

privacy. These include the right of the customer to know what information has been provided to a CRB, the right to access a credit report (a free copy annually), the right to receive 30 days' notice prior to adverse listing, the right to give consent to non-bank/microfinance bank entities to share information with CRBs, and the right to dispute information and have it corrected. Moreover, CRBs should not share information which the customer identifies as being incorrect. Bureaus must also protect customer information from loss or unauthorised access and prepare and disclose a summary of the rights of their customers.

Weaknesses for the existing legal framework for CIS

Firstly, the existing mechanism not inclusive. Insufficient clarity exists for the participation of what the CBK Guidelines refer to as 'third parties' in the CIS system. Third parties include organisationsorganizations such as SACCOs, Higher Education Loans Board, state corporations engaged in lending, cooperatives, microfinance institutions, utilities, digital TV providers, the courts, KRA, landlords, and other pertinent bodies. This hinders the creation of an accurate credit profile of Kenyan consumers. Moreover, the process for third parties to share information with CRBs is onerous, they must seek approval from both the customer and CBK. The third party must then enter into an agreement with the CRB.

Secondly, there needs to be a regulatory system or one law that governs all aspects of CIS. Currently entities regulated by the Central Bank are bound by CBK Guidelines, whilst SACCOs are bound by SASRA guidelines.

Additionally there is no legislative framework for cross border sharing. This means that if a Kenyan customer seeking to borrow from a Ugandan entity, the Ugandan entity does not have access to the Kenyan customers' credit report in Kenya.

Finally, credit reports are not homogenous. For example, some CRBs disclose confidential information such as salary data (which is not provided for by the law) whilst others do not. Others provide a credit score on the free credit report, others do not.

Proposals for reform

A stand-alone Act is required, and CIS Kenya has already drafted the CIS Bill and forwarded it to Treasury. Amendments will need to be made to the following laws, through a CIS Laws (Amendment) Bill: the laws affected are the Agricultural Development Corporation Act; Agricultural Finance Corporation Act; Banking Act, Chapter 488; Central Bank of Kenya Act, Chapter 491; Companies Act Chapter 486; Companies Act, 2015; Consumer Protection Act; Cooperative Societies Act, Chapter 490; Energy Act; Higher Education Loans Board Act, Cap 213A; Industrial and Commercial Development Corporation Act; Kenya Information and Communications Act; Microfinance Act, Chapter 493D; Sacco Societies Act, Chapter 490B; Tourism Act and Water Act.

It will also be important to establish who the overall regulator for CIS will be, given that it cuts across all these sectors.

Common causes of CIS disputes

Mr. Otieno highlighted the common causes of CIS disputes as being unresponsiveness to customer queries by banks, disputed debt amounts, failure to give notice of an adverse listing, inaccurate information, fraud within the credit provider, Inappropriate Language using terms such as addressing the customer as a defaulter, and telling them they have been black listed and need to clear their name with the CRB. To mitigate disputes, in addition to timely response, banks should establish a clear dispute resolution mechanism at the bank level. They should also avoid listing loans which they had previously written off.

Additionally, when a loan is being transferred from one financial institution to another, in the intervening period a customer may default on a payment due, on the basis that it is being taken over by another institutions, without realizing that the current lender still expects payments to be made until the transfer is complete.

How Innovation is Driving Financial Inclusion: The M-KOPA Story

Speaker: Pauline Githugu, Director Legal Administration and External Affairs, M-KOPA.

M-KOPA Solar, headquartered in Nairobi, Kenya, is the global leader of "pay-as-you-go" energy for off-grid customers. Since its commercial launch in October 2012, M-KOPA has connected more than 300,000 homes in Kenya, Tanzania and Uganda to solar power, and is now adding over 500 new homes each day. M-KOPA has helped 1.5million access affordable clean energy.

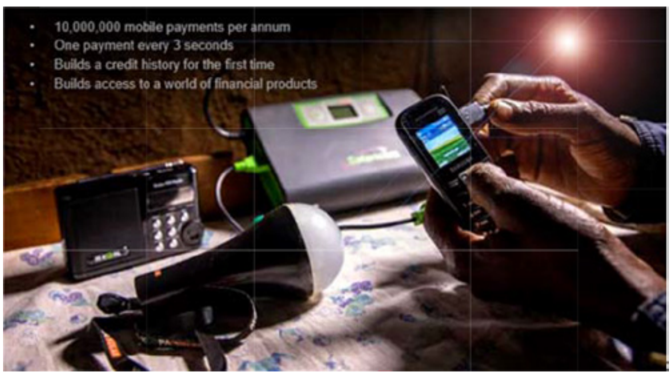
The success of M-KOPA (M= mobile, KOPA= to borrow) stems from making solar products affordable to low-income households on a pay-per-use installment plan. Access to credit is typically very difficult for MKOPA's target customer, and in addition such people cannot afford most household items nor power from the national grid. For credit, they typically rely on family networks and loan sharks.

However, the MKOPA business model capitalizes on the fact that the target customer typically own a mobile phone. Customers thus acquire solar systems for a small deposit and then purchase daily usage "credits" for US$ 0.5 (fifty cents), or less than the daily cost of using traditional kerosene-fueled lighting. All revenues are collected in real-time via mobile money systems (such as M-PESA in Kenya) and embedded GSM sensors in each solar system allow M-KOPA to monitor real time performance and regulate usage based upon payments. After one year of payments customers own their solar systems outright and can upgrade to more power. Each battery powered 8W system comes with two lights, a torch, mobile phone charger, solar powered radio and now a solar powered digital TV. This connected design means that M-KOPA is processing vast amounts of data (i.e. over 10,000 mobile payments per day) via the company's proprietary cloud platform, M-KOPAnet.

The data that M-KOPA collects can be used by its customers to build a credit history which in turn will help them access more credit from other sources as well as more products from M-KOPA. M-KOPA plans to sell smart phones, TVS, bicycles and water tanks to its existing customers using a similar approach.

M-KOPA has been recognised for its pioneering business mode and scale, notably winning the 2015 Zayed Future Energy Prize, being selected as the top New Energy Pioneer at the 2014 Bloomberg New Energy Finance Awards and earning the 2013 FT/IFC Excellence in Sustainable Finance Award.

Figure 4: How MKOPA is helping thousands of Kenyans build a credit history.



Source:M-KOPA

The Development of Data Science Skills Capacity to Address Big Data Analysis Requiremen ts of Modern Financial Regulation

Presenter:
Murray de Villiers, Manager, Academic Programs, SAS South Africa

Africa needs to equip its existing and emerging workforce to operate competitively in a digital world, where big data drives strategic decisions both for corporates and regulators. SAS is a global leader in data analytics. This presentation explores ways in which Africa can nurture the requisite talent.

Murray de Villiers Manager, Academic Programs, SAS South Africa

The discussions at the 3rd CIS Conference have placed the spotlight on big data in a number of ways. The CIS mechanism, telecommunications companies and digital banking are generating vast qualities of data, what is known as "big data." This creates the need to democratize the utilization of data for strategic and regulatory purposes. Banks also need to migrate from merely obtaining credit scores of borrowers to analyzing and engaging customers and reward the most credit worthy customers.

This will only be possible if businesses, CRBs and regulators have staff who are competent in data analysis. As early as 2011, McKinsey Global Institute carried out a study which pointed to a deficit in the United States of data analysis talent. Today, the role of data scientist is the most highly paid job in America. As Bridget Bollero pointed out in January's issue of TechTarget, data scientists have a unique combination of skills which includes "skills in analytics, data mining, machine learning and statistics, experience with algorithms and coding... they are also business-minded and can turn their findings into products or services that help companies gain a competitive edge." Elaborating on this further, competencies in demand in the data analytics industry are as follows:-

- ***Technical skills*** *:* Mathematics, Statistics and Computer Science;
- ***Teamwork:*** Most of the problems involved are too complex or too big to be handled by an individual within the time available, and have to be solved by multi-disciplinary teams;
- ***Communication:*** the ability to give professional presentations, compile written reports about real analytical problems, in a clear non-technical way;
- ***Toolmastery:*** Experience in the application of industry standard software (data management, data visualization, predictive analytics, reporting).
- ***Business acumen:*** Must understand how sophisticated models will impact the organisation's bottom line (i.e. ask the right questions);

This means that Africa needs to invest in nurturing and developing deep analytics talent as well as analytics knowledge throughout an organisation. Further, the continent needs to produce graduates with analytics skills at all stages of the data analytics life cycle.

In academia, not only does Africa need to develop Analytics programs, it also needs to introduce an understanding of analytics across the wider curriculum. The curriculum design should therefore include the following:-

- ***Breadth:*** Each student's specialisedspecialized field of study should be enhanced with general analytical knowledge and skills;
- ***Integration:*** Well planned consolidation of several years of study and different disciplines, including work integrated learning;
- ***Creative problem solving:*** Exposure to challenging opportunities to do additional research and demonstrate innovative and critical thinking, creativity and effective communication;
- ***Bridging the gap between academia and industry:***Prepare the student for the transition from the university to the work environment.

North Carolina State University (a pioneer in the field) has developed an Analytics degree and is a case in point.
However the adaptation of the education system needs to start right at primary school and secondary school, with placing greater importance on English, Mathematics, and Science. At university, Bachelors Degree programs in Statistics, Computer Science and Engineering should be introduced with a clear aim of these acting as "feeders" into Data Science Masters Degree programs, with appropriate specializations in Business Analytics; Quantitative Risk Management and Actuarial Science. The company should also provide in-job/refresher modular training.

Universities and industry should also collaborate on specific projects to ensure that students keep abreast of the industry's needs and are involved in meeting them. SAS is involved in numerous industry projects at any one time, and such projects involve university students.

Action Plan and Way Forward

Legal reform: Introduce comprehensive legal framework (CIS Bill) and develop cross border sharing framework

Educating consumers: improve understanding of ***credit scores*** amongst consumers and promote their capacity to manage their creditworthiness

Capacity Building: Roll out programs to help lenders use credit reports/scores to promote financial inclusion and efficiency in credit appraisal

Data Submission system: introduce centralized data transmission system to improve efficiency and accuracy of data transmitted to credit bureaus (after consultation with stakeholders)

Industry partnership: Use CISA fund as a catalyst to promote awareness and mutual interests of participating members

Consumer protection: Promote the use of lenders' internal dispute resolution methods and embrace Tatua center, to ensure that the consumer has efficient and fair access to resolution of their disputes.

Highlights of the Business Community Summit: Credit Providers Session

Habil Olaka, CEO, Kenya Bankers Association


Luz Maria Salamina, Principal Financial Specialist, World Bank

Gabriel Daval, South African Consultant on Credit reporting

In his opening remarks, Mr. Habil Olaka, CEO, Kenya Bankers Association highlighted the areas which need to be addressed in order to optimize the use of the CIS mechanism for the benefits of banks and their customers. Firstly, he indicated that Branch Managers and Credit Officers should be fully conversant with CIS in order to enable them to handle customer complaints and enquiries in a timely manner. Secondly he noted that some of the data being submitted to CRBs seems to be of low quality, yet accurate data is important because a credit report reflects on the customer's character. Further, doubts with regard to the accuracy of the underlying data renders the best analysis useless. A caption on the SACRRA website reads, 'quality water is to life what quality data is to business.' Effort must therefore be placed on enhancing data quality. Banks should also encourage customers to use the Tatua Centre, as it will has enable the timely, efficient dispute resolution without incurring unnecessary costs of litigation.

Last but not least, he pointed out that banks should invent products that are based on CIS. One of the challenges is that the benefits and impact of CIS are yet to be experienced by customers or be reflected in new banking products. It is important that CIS be used to pass on pricing benefits to the customers who deserve it.

Gabriel Daval, a South African Consultant on Credit reporting then talked about the use of CIS in credit risk management. He started by pointing out the benefits of CIS. To start with, it has been demonstrated that the availability of credit information reduces default rates. Examples from Argentina and Brazil show a decline in default after the bureaus began to show both negative and positive information. Statistics also show that the likelihood of defaulting after a person has defaulted once or twice increases with every loan. CIS also decreases loan processing time and cost. CIS also increases access to finance for SMEs which is vital given the critical role played everywhere by SMEs on economic growth. Issuing loans without checking a customer's credit information, where such information is available, even if they have collateral should, therefore, be considered reckless. However CIS can only function effectively if all the banks send complete and accurate data on time every month. Banks are usually not likely to submit insider loans, yet insider loans contribute significantly to bank failure. In this regard, regulators should consider applying penalties to banks who do not submit all loans all the time.

Credit information can be applied to monitoring the credit market as well as risk monitoring and management. A forward looking bank is one that has the full picture of their clients. Sometimes it is the more affluent seeming clients you would tend to trust who have too many loans. Credit information makes it possible to predict the probability of default and to understand how the banks loan portfolio is likely to change over time.

Next was a presentation by Luz Maria Salamina, of the World Bank. Her presentation focused on the fact that a solid financial infrastructure is the basis for the development of a strong, modern economy that is inclusive and promotes growth. Enablers of a responsible credit system are credit bureaus, collateral registry and insolvency/creditors' rights. A strong financial system promotes two types of credit; consumer credit and MSME credit.

Credit information narrows the gap between what you know about the potential borrower and what they know about themselves. This is the role the credit bureau plays. They minimize the gap by providing positive data to promote access to credit. Negative data is useful only to deny credit. The most relevant outcome of positive data is the ability to approve credit and increase the possibility of growing bank portfolios. Knowledge about the credit of potential borrowers helps banks to determine how much more credit can be extended to them.

Credit scores measure some variables and bureaus bring the value of experience to this tool and can identify which variables are predictive. In credit scoring the variables used are important. Risk based pricing using the score takes into account funding costs, operational costs including administration, taxes, margin shareholders expect to get and the cost of that risk premium based on the score (expected loss).

Disputes can be mitigated by keeping proper records and documentation, timely response, eliminating ignorance both of staff and customers, establishing a clear dispute resolution mechanism, considering moratorium periods and avoiding 'mechanical and emotional submission'.

Bernard Otieno, Senior Partner, Otieno and Amisi Advocates then talked about common causes of CIS disputes. These include unresponsiveness to customer queries, disputed debt amounts, lack of notice, inaccurate information, fraud, inappropriate language, problematic areas and genuine errors. Disputes can be mitigated by keeping proper records and documentation, timely response, eliminating ignorance both of staff and customers, establishing a clear dispute resolution mechanism, considering moratorium periods and avoiding 'mechanical and emotional submission'. He also highlighted the weaknesses of the existing legal framework for CIS include that the mechanism is not inclusive, absence of a uniform regulatory system, lack of clarity on participation of 'third parties', restriction of cross sharing, legal framework is precariously anchored, lack of a legislative framework for cross border sharing and credit reports are not homogenous. To address these there are proposals that have been made for reforms.

Jared Osoro, Director of Research, KBA and KBA Credit Committee then talked about the new regime of transparency in lending. The Kenya Bankers Association has been working to increase transparency, which is expected to attract more customers. According to Prudential Guideline No. 22 of the CBK, banks are required to provide the customer with the total cost associated with a given loan as well as the repayment schedule for the loan. This cost is referred to as the Total Cost of Credit (TCC). Arriving at the TCC is a process where banks use the Kenya Bankers Reference Rate (KBRR) to compute an interest rate to which they add all other costs associated with a given loan. The Annual Percentage Rate (APR) is the Total Cost of Credit expressed in percentage form. This should be comparable between banks.

Whereas CIS allows lenders to know more about customers, KBRR, TCC- RS and APR allows customers to know more about pricing by lenders. It also allows them to compare the cost of credit offered by different banks.

The three credit bureaus then shared about their products and how banks can use them to manage credit risk and enhance customer service.

Jared Getenga, CEO, CIS Kenya in his closing remarks emphasized the need for data of good quality which was both timely and complete. CIS was moving away from a bank centric approach focused on risks to a customer centric model that focused on better customer service. For CIS to succeed bank branches need to take ownership.

Highlights of the Business Community Summit : Credit Consumers Session

Mark Kiambo from CIS Kenya shared about how banks share information on all loans granted with the CRBs. This includes both performing and non-performing loans. Consumers should be aware that information remains on a credit report for 5 years.

CRBs have various reports which are used by banks – credit reports, credit scores/credit ratings and market analyses. A Credit score or rating is an analytical function depicting one's creditworthiness. The benefits of CIS is that firstly, it enables credit consumers to get a financial identity. A credit consumer can build and improve their credit score. An improved credit score can be used to negotiate better terms with the bank. It can also be used by businesses to win jobs and tenders.

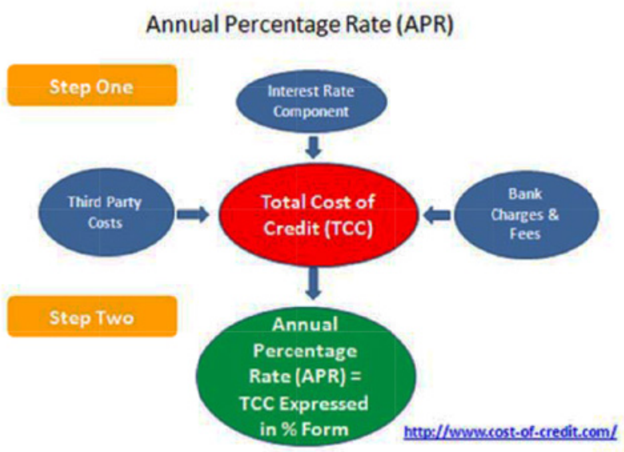
Luiz Maria Salamina, CRB Principal Specialist at the World Bank office in Nairobi shared about the benefits of credit and the responsible use of credit. She pointed out that the word CREDIT comes from a Latin word which means "entrusted." If properly used, consumer credit enhances a person's quality of life as it enables them to acquire assets that they wouldn't otherwise be able to afford. A house in a good example. Other examples are education and transport. Credit to MSMEs also drives economic growth. It enables business expansion and job creation which collectively have the effect of driving expenditure on consumer goods, as well as new investment in productive assets. Credit thus accelerates consumption by both businesses and individuals.

What role does credit information play in all this? When banks evaluate the creditworthiness of a customer they look at the "3C's of credit" – **Capacity** (which a borrower is personally responsible to assess themselves as well), Collateral, and **Character**. Information on character is provided by the credit report. Character is the result of both capacity to borrow and willingness to pay. Consumers should be careful when taking out credit because it impacts their reputation.

Under capacity, a bank evaluates employment stability, tenancy stability, the debt to income ratio and capacity to pay. If the credit report reflects a poor score/rating, this may trigger a request for collateral – ie. it need not necessarily result in the loan request being declined.
Credit consumers should also know the 3 C's of credit from their perspective – **Cost, Conditions** and **Contract**. With regard to cost, credit consumers should realize that the full cost of a loan is the combination of the interest rate and fees.

Jared Osoro, Director of Research at KBA shared about how to determine the total cost of credit (TCC). The Prudential Guideline No 22 of CBK requires banks to give customers the TCC and a repayment schedule for every loan. The TCC has three components: the KBRR (the policy rate set by CBK), bank specific costs and a premium to cover all other costs (legal fees, valuation fees, other professional fees). However customers also need to now the APR – the interest rate for the year – bank charges, commitment arrangement fees. An application ('app') for computing the APR is available on the KBA website and can be downloaded onto a mobile phone.

Figure 5: Computation of APR



Source: Kenya Bankers Association

Erick Onderi, Deputy Registrar, of Tatua Center made a presentation on how consumers can lodge disputes at the Center. He elaborated on the processes followed by the Center in resolving all CIS disputes and further emphasized on the need for customers to ensure they check their credit reports regularly to enable them correct any information that is erroneous, outdated, incorrect and inaccurate since the services offered by the Center are free.

Erick Onderi, Deputy Registrar, of Tatua Center

Finally the need to advocate for fair credit terms for customers with a good credit history remains a priority for CIS Kenya. The turnout at the Credit Consumers' Day was lower than envisaged. This was partly attributed to the fact that some banks opted not to cooperate with CIS Kenya and publicize the event amongst their customers citing their dissatisfaction with the continued emphasis that credit information should be used to bring down interest rates .

Conference Pictorials

Conference Pictorials

Towards a more open credit market

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