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## **Kenya CIS Virtual Conference 2021**

Presentation by

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On

**Regulator's Perspectives on Impact of COVID -19 on the CIS  
Mechanism and Credit Risk Management**

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# OUTLINE

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1. State of the Banking Sector.
2. Credit Risk Profile.
3. COVID-19 Measures and Outcomes.
4. Ongoing CIS Reform Initiatives.
5. CIS Mechanism – Recent Performance.
6. Next Steps.



# 1. State of the Banking Sector

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**The banking sector is stable and resilient.**

- **Capital Adequacy**
- The sector is well capitalized as at December 31, 2020:
  - The capital adequacy ratio was 19.15 percent.
    - ✓ This was above the minimum statutory limit of 14.5 percent.
  - The core capital ratio was 16.72 percent.
    - ✓ This was above the minimum statutory limit of 10.5 percent.
- **Liquidity**
  - The banking sector has adequate liquidity, which is well distributed among banks.
    - ✓ The liquidity ratio stood at 54.55 percent.
    - ✓ This was above the minimum statutory limit of 20 percent.



## 2. Credit Risk Profile

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- **Credit risk elevated over COVID-19 crisis period:**
  - NPLs increased due to a subdued business environment amidst the coronavirus (COVID-19) pandemic.
  - Gross Non-Performing Loans (NPLs) as a percentage of Gross Loans rose from 12.5 percent as at December 2019 to 14.1 percent in December 2020.
  - Gross provisions for NPLs went up during the COVID-19 pandemic period from 46.5 percent in December 2019 to 55.4 percent in December 2020.
    - Increasing provisions reflect banks expectations of increased NPLs.
- **Main sectors with increased NPLs** – Transport and Communications, Trade, Real Estate, Agriculture and Personal and Household loans.
- **Distribution** - Deterioration in asset quality spread across the large, medium and small peer groups.



### 3. COVID-19 Emergency Measures

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- **Flexibility in Loan Classification and Provisioning** - Regulatory flexibility was exercised with regard to loan classification and provisioning for loan facilities whose performance was negatively impacted by the pandemic.
- **Waiving charges for transfers between mobile money wallets and bank accounts as well as balance inquiries** to facilitate greater use of digital service delivery channels to minimize chances of COVID-19 transmission.
- **Temporary suspension of listing of negative credit information** for facilities that became non-performing from April 1, 2020 – September 30, 2020.
- **Reduction of the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent**, releasing KES.35.2 billion as additional liquidity availed to banks to directly support borrowers that were distressed as a result of COVID-19.



### 3. COVID-19 Emergency Measures and Outcomes

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- **Loan Restructuring**
  - Cumulative loans worth Ksh.1.63 trillion (approx. 56 percent of gross loan portfolio as at Dec 2020) restructured from March – December 2020.
  - Sectors with highest restructured loans: Personal and Household (20 percent), Trade (18 percent), Real Estate (14 percent) and Manufacturing (14 percent).
- **Utilization of Cash Reserve Ratio (CRR)**
  - Ksh.32.62 billion (92.7 percent) of the Ksh.35.2 billion freed from the 1 percent reduction in CRR had been utilized by banks as at January 14, 2021 and lent to borrowers affected by COVID-19 pandemic.
  - The main sectors funded are Tourism (31.93 percent), Trade (14.85 percent), Transport and Communication (13.55 percent), Real Estate (12.70 percent).



## 4. Ongoing CIS Reform Initiatives

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- **Regulatory considerations driving CIS reforms:**

- Improving the quality and integrity of credit data.
- Promoting *risk-based credit pricing* in the banking sector – in line with the 2019 CBK Banking Sector Charter.
- Enhancing transparency by CRBs in their credit scoring models and methodologies.
- Enhancing consumer protection and raising public awareness, confidence and overall participation in the CIS mechanism.



## 4. Ongoing CIS Reform Initiatives

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- **Kenya Credit Reporting Strengthening Project (KCRSP)** – Technical Assistance programme supported by World Bank – co-ordinated by National Treasury, CIS-K aimed at, among others:
  - Harmonising credit scoring methodologies used by CRBs.
  - Improving data quality and enhancing supervisory capacity.
  - Enhancing the level of awareness and acceptance of credit reporting in Kenya.
- **Review of CRB Regulations (April 2020) with introduction of the following changes:**
  - Minimum threshold of Ksh 1,000 for adverse listing.
  - First-time CRB clearance certificates to be provided free of charge.
  - Inclusion of SACCO societies as authorized subscribers.
  - Withdrawal of unregulated digital (mobile-based) and credit-only lenders.
- **Revision of data specification template (DST) to capture activity on mobile loan facilities.**

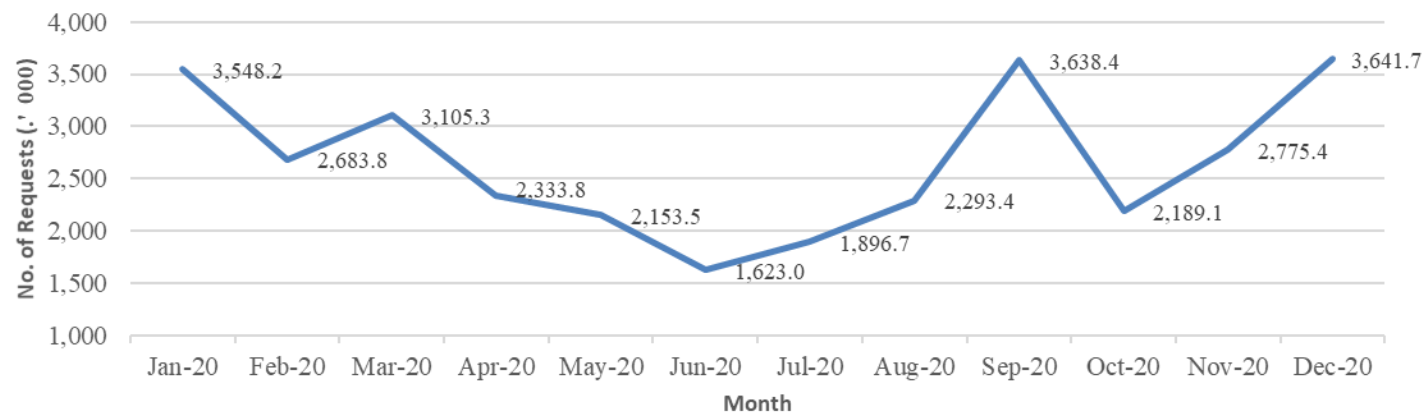




## 5. CIS Mechanism – Recent Performance

- Approximately 31.9 million credit reports requested by commercial and microfinance banks in 2020.
- Credit reports requested in 2020 were 18 percent higher than the 26.8 million reports requested in 2019.
- Total monthly reports requested in 2020 fell from 3.5 million in January 2020 to 1.6 million in June 2020 (three-months into the COVID-19 crisis) but rose again to 3.6 million in December 2020.

Total Credit Report Requests by Commercial and Microfinance Banks in 2020





## 6. Next Steps

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- Concluding assessment of banks' risk-based credit pricing models.
- Finalization of the harmonization of CRB's credit scoring methodologies.
- Continued sensitization of banks and the public on CIS.



**THANK YOU**