Conference Report (Draft)

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1. Introduction

1.1 Preamble

This report provides a summary of the deliberations of the recent **Kenya CIS Virtual Conference 2021** which was held on **9th March 2021 at 9.00 am to 13.00pm EAT.**

The Conference was organised by CIS Kenya with the endorsement of the Central Bank of Kenya and support from the World Bank Group (WBG) and Financial Sector Deepening Kenya (FSD Kenya). The theme for this year's Conference was '**Enhancing Resilience of the CIS Framework in the face of Crisis'.** The Conference brought together the leading sector players in Kenya's credit market to review the impact of COVID-19 pandemic and related policy and regulatory interventions to the Credit Information Sharing (CIS) mechanism in Kenya.

The Objectives for the Conference were: -

1. Familiarise with CBK current stance and strategic policy direction with regard to CIS;
2. Reiterate the critical role played by good quality (regularly updated) data in making the credit reporting system more predictive, and demonstrate the importance of the on-going Regulatory and Industry drive towards improved data quality;
3. Encourage on-boarding of new and acceptable data sources that strictly observe conditions set out by the Regulator and espoused in draft Industry Code of Conduct;
4. Promote best practices in consumer centricity, including prompt response to customercomplaints regarding their data reflecting in credit reports;
5. Review ramifications of COVID-19 pandemic and its implications on data volumes and quality arising from slow-down in lending, elimination of unqualified data, etc. and promote appropriate responses by lenders such as debt restructuring, payment holidays, etc;
6. Appreciate the range of global policy responses to the COVID-19 pandemic in relation to credit reporting and learn from their different contexts; and
7. Make policy recommendations that will inform future policy and regulatory reforms.

The Conference program consisted of the CBK Governor's Keynote speech, 4 technical presentations, 1 moderated panel discussion and CIS Kenya Governing Council opening and closing remarks. It was attended by more than 150 participants, including CEOs and Risk Managers of lending and other credit institutions in Kenya, Kenya Bankers Association, Association of Micro Finance Institutions of Kenya, Digital Lenders Association, Kenya Union of Savings and Credit Cooperatives, Leasing Association of Kenya, CEOs of local credit bureaus, FSD Kenya.

1.2 Conference program

Session 1 09:00 – 09:40	**Opening Remarks and Key Note Address** • Opening Remarks by **Mr. Charles Ringera**, Chairman, CIS Kenya • Key Note Address by **Dr. Patrick Njoroge**, Governor Central Bank of Kenya *Session facilitated by Jared Getenga, CEO CIS Kenya*
Session 2 09:40 – 10:20	Global Perspectives on Credit Reporting in the face of the COVID 19 pandemic • **Ms. Luz Maria Salamina,** Principal Operations Officer, WBG • Q&A *Session facilitated by Bartol Letica, Senior Operations Officer, WBG*
Session 3 10:20 – 10:40	Regulator's perspectives on impact of COVID -19 on the CIS mechanism and creditrisk management by **Mr. Gerald Nyaoma**, Director Bank Supervision *Session facilitated by CBK (BSD)*
Session 4 10:40 – 11:00	Updates from CIS Kenya • Highlights of recently-concluded On-Boarding Pilot, by **Job Mariga**, Head of Technical Services, CIS Kenya • Insights from COVID Consumer Survey by **Lemuel Mangla**, Head of Policy and Compliance, CIS Kenya *Session facilitated by Francis Gwer, Policy Specialist, FSD Kenya*
Session 5 11:10 – 12:10	Industry perspectives on impact of COVID -19 on the CIS mechanism and creditrisk management • Credit Bureaus & Credit Provider Panel Discussion (**Sam Omukoko -** GroupMD, Metropol; **Billy Owino -** CEO Transunion; **Kamau Kunyiha-** CEO Creditinfo; **Dr. Patrick Gathondu**, CEO BIMAS Kenya Ltd) *Session facilitated by Francis Gwer, Policy Specialist, FSD Kenya*
Session 6 12:10 – 12:30	Q&A arising from Sessions 3, 4 and 5 Panel members: WBG, BSD, AMFI, CRBs, CIS Kenya *Session facilitated by Francis Gwer, Policy Specialist, FSD Kenya*
Session 7 12:30 – 13:00	Way Forward and Closure • Discussion on Way Forward – *facilitated by Jared Getenga, CEO CIS Kenya* • Closing Remarks – **Dr. Habil Olaka**, CEO Kenya Bankers Association – *facilitated by Jared Getenga, CEO CIS Kenya*

2. Opening Session

Ms. Mbatha Mbithi, Vice Chair, CIS gave opening remarks on behalf of CIS Kenya Governing Council, and invited the Governor of the Central Bank of Kenya, Dr. Patrick Njoroge to give his Key-Note Remarks.

The highlights from the Governor's speech are summarized in the bullets below:

- This week on March 11 marks one year since the World Health Organization (WHO) declared COVID-19 a global pandemic. March 13 is when the first confirmed case was announced. In 2020, lives and livelihoods were impacted like at no other time in our lifetime, as governments, businesses and individuals adjusted to the unprecedented measures put in place to contain the pandemic.
- CBK moved swiftly to instill emergency measures to ensure continued operation of the economy, by encouraging use of digital financial services, providing liquidity to banks, ensuring business continuity and managing the health and safety of bank customers and staff.
- Additional measures were aimed at mitigating adverse impact on borrowers arising from movement restrictions, lockdowns, curfew, changed business conditions that rendered previously successful business models redundant and put thousands of jobs at stake. CBK spearheaded consultations with banks and led to industry-wide initiative to restructure loans that were performing at the onset of the pandemic.
- Borrowers were able to take advantage of emerging business opportunities, particularly in respect of manufacturing and supplying personal protective equipment such as face masks, masks, protective clothing, and sanitizers.
- On CIS: CBK completed wide ranging reforms in April 2020. The Banking CRB Regulations of 2020 refreshed the framework that had been put in place in 2013 considering that terrain, even before the pandemic, has dramatically shifted. The CRB regulations also provided an opportunity to provide relief to borrowers and address their pressing concerns.
    - On April 14 2020, CBK, announced 6-month suspension of listing of negative credit information with CRBs for borrowers whose loans were performing previously, and had and had become non performing after April 1 2020. This suspension did not apply to loans that were not performing before April.
    - Following public concern on misuse of the CIS mechanism, and poor customer service, CBK withdrew approvals for unregulated digital lenders and credit only providers to submit credit information to CRBs.
    - Concerns leading to overhaul of CRB regulations included the quality of data submitted to the CRBs, use of CRB reports and low public awareness on the CIS mechanism. Of grave concern to the public was the use of CIS to blacklist borrowers or to coerce them to pay as opposed to using CIS to price credit risk. In a nutshell, CIS was not working with and for Kenyans.
- More broadly, the long-standing public outcry on the high cost of credit had led to the enactment by Parliament of interest rate caps in September 2016.

Regrettably, the caps adversely impacted those same segments of the Kenyan population. MSMEs were shut out and had to contend with shylocks' highly unfavorable terms. The caps were repealed in November 2019. CBK had been working with banks through the period to regain the trust of their customers and the broader Kenyan population. Accordingly, CBK set a vision of a banking sector that works for and with Kenyans, by issuing the Kenya Banking Sector Charter in February 2019 anchored on four pillars: customer centricity, risk-based pricing, transparency, and doing the right thing. All banks were required to formulate board-approved plans to operationalize the charter. The plans were submitted in 2019 and implementation progress is reported to CBK on a quarterly basis.

- **Risk Based Pricing (RBP)** calls for responsible pricing of loans, based on customer's risk profile, and full-file CRB data. It was therefore imperative to increase the source of information, enhance the frequency and integrity of the data reported to CRBs and RBP training. CBK has in recent months engaged each bank on its RBP model, to ensure that each borrower's credit risk is appropriately assessed and priced and that all relevant information particularly CRB reports are taken into account in pricing.
- We mark one year since COVID-19 landed on our shores by reflecting on achievements, challenges, and most importantly, what have been our learnings?
- On the broad front, the Kenyan banking sector has remained sound and resilient, drawing on capital liquidity buffers that were built before the pandemic. The emergency measures put in place by CBK have seen the banking sector continue to operate even at the height of the containment measures. Over 90% of bank branches remained open across the country, even in areas that have been locked down. With the adoption of digital platforms, over 95% of transactions are now conducted outside bank branches.
- By end January 2021, 57% of the gross loan portfolio (Kshs 1.7 trillion) has been restructured. This provided space to borrowers to ride through the pandemic, mitigate job loss, and pivot their business models to the new normal. The restructuring provided banks time to build additional capital and liquidity buffers to sail through the pandemic. After the six-month suspension of negative listing on September 30, 2020, existing procedures for risk classification of loans and listing with CRBs apply. A 3-month transition period was provided before their loans could be reported to CRBs as non performing. This provided borrowers whose loans were performing at the beginning of the pandemic with space to rearrange their affairs, while ensuring their credit history was not adversely affected. It was however, important to restore existing procedures to ensure that credibility of the CIS mechanism is maintained and the loans repayment culture is not impaired.

- As a **Way forward:**
  - CBK will continue working with banks on the RBP journey. We will not perfect it in a day, but we must dare to take the first steps. Carry customers along.
  - The more information sources we have in the CIS, the more credible it will be. However, the sources of this information must be legitimate and not misuse the CIS to the detriment of borrowers. We are working with Parliament and other players on the enactment of a legal and regulatory framework for digital lenders that focuses on appropriate market conduct.
  - Perhaps most important is sensitizing the public on the CIS mechanism, done in simple terms to break down for instance, what a CRB report is, what does the score mean? To many Kenyans, the CIS mechanism remains a black box and being confronted with different scores from the three CRBs.

3. Global Perspectives on Credit Reporting in the face of the COVID 19 pandemic

The presenter, Ms. Luz Maria Salamina, is the Principal Operations Officer at IFC covering Sub Saharan Africa, Middle East and North Africa. She leads the credit infrastructure program that covers both credit reporting and security transactions. Before joining the World Bank Group in 2014, she was the general manager of one of the bureaus in Panama, as well as VP- retail banking in HSBC and Chase.

Her presentation covered:

3.1 COVID Challenge: How to report loans to the credit bureaus during the crisis?

Crises impact good performing borrowers' ability to meet their scheduled payments relegating them to the same level with existing non-performing borrowers.

Treatment of missed/ delayed payments due crisis: Continue Reporting or stop reporting?		
Different views	Argument	Outcome
1. Suppression or non-submission of payment delays due to a crisis	Such delays are not a result of the borrower's own choice hence should not be reflected on their records.	Data gaps could negatively impact a consumer's credit score affecting the integrity and reliance of CIS
2. Data on payment delays, created under forbearance or deferred payment arrangements, should be submitted	• Maintaining integrity of CRS while protecting borrowers. • Importance of full data for credit risk	Consistent with ICCR's General Principle 1

with the necessary safeguards	management, policy formulation.	

3.2 Best Practices

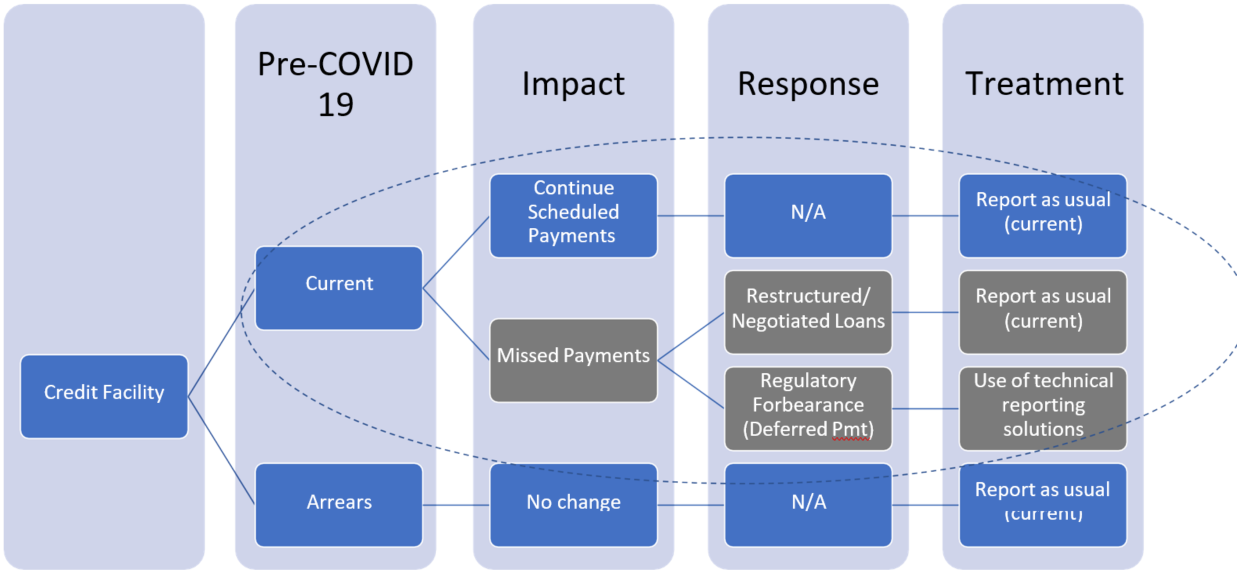
ICCR Note on “Treatment of Credit Data in Credit Information Systems in the context of the COVID-19 pandemic” has 8 policy recommendations covering three main objectives:

- safeguarding the integrity of credit reporting systems
- safeguarding borrowers; and
- improving transparency and disclosure regimes.

3.3 ICCR Policy Recommendations:

1. Promote continued full (file) sharing of credit information including reporting of missed payment data arising due to the crisis, with the necessary safeguards
2. Ensure consistent interpretation and application of the data reporting requirements by all credit providers and participants in the credit reporting system.
3. Ensure consistent interpretation and application of the data reporting requirements by all credit providers and participants in the credit reporting system.
4. Implement measures to ensure minimal or no effect on credit risk scores of data subjects (due to negative reporting):
    - Implementation of different technical reporting solutions e.g. special credit reporting codes, identifiers or conventions
    - Periodic random reviews of data supplied to CRSPs.
5. Work with CRSPs and CPs to ensure data subjects are provided digital access, to free credit reports & scores during the crisis, where possible.
6. Enhance complaints and dispute handling capacity of regulatory authorities, CPs and CRSPs during the crisis, in view of the likely increase in complaints and disputes.
7. Promote digitization of the process of accessing consumer reports to ensure that the right for data subjects to access credit reports is not affected during the crisis.
8. Enhance regulatory authorities’ consumer and financial literacy programs through publication of recommended plan of actions and availing additional useful resources to the borrowers. Some of the plan of actions include:
    - advising borrowers experiencing payment difficulties due to the crisis to approach credit providers to negotiate payment deferrals, restructuring of facilities.
    - publicizing how CPs and CRSPs will report and process payment delays, deferral and restructuring arrangements in a way that minimizes the impact on credit scores.
    - publicizing government intervention including policies and facilities.
    - more frequent review of credit reports.

PR 1: Full File Reporting – safeguarding good borrowers



PR 4-6: Practical Considerations

• Sustainability of the free reports and scores for duration of the crisis. Digital access can reduce cost of transmission and generation.

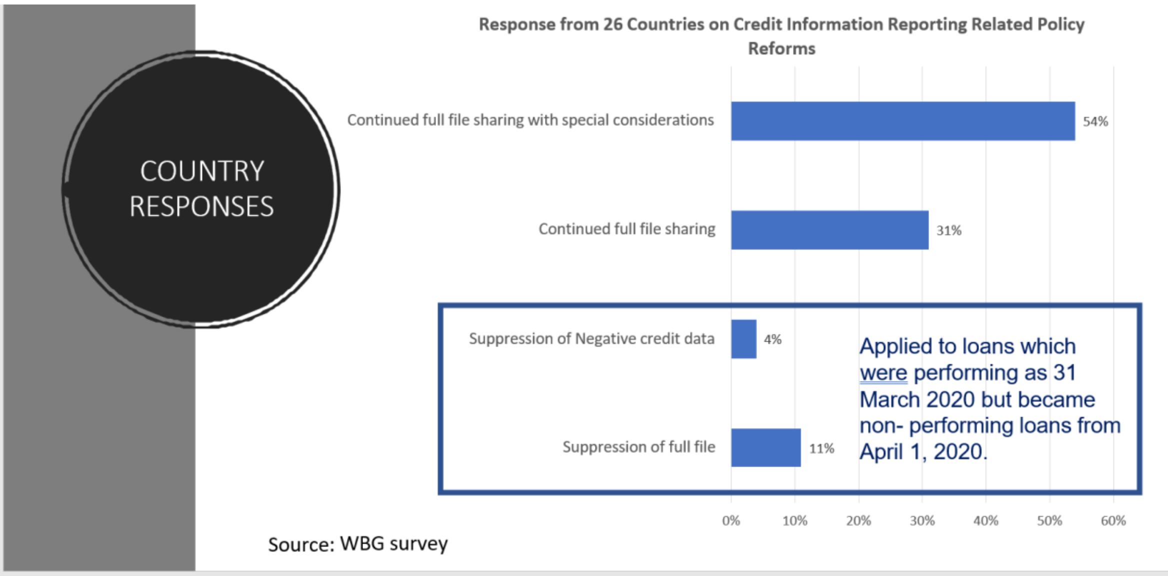
• Capacity to handle increasing complaints and disputes. Opportunity to leverage on technology for complaints and dispute handling.

PR 7-8: Practical Considerations

• Technological readiness, that is, proliferation of mobile banking apps for promoting digital access.

• Need to ensure accuracy, timeliness and dissemination (language and geographical reach) of policy pronouncements and periodic update of policies

• What programs can regulators undertake to ensure sustained financial literacy/awareness, to keep other stakeholders and consumers aware of changing policies etc.?



Source: WBG survey

1. A loan is 90 days delinquent on March 31 (NPL)

#	March 31	April 30	May 31	June 30	July 31	August 31	September 30	October 31
1	90	120/90/60/30/0	150/120/90/60/30/0	180/150/120/90/60/30/0	210/180/150/120/90/60/30/0	240/210/180/150/120/90/60/30/0	270/240/210/180/150/120/90/60/30/0	300/270/240/210/180/150/120/90/60/30/0
		Report actual	Report actual	Report actual	Report actual	Report actual	Report actual	Report actual

2. A loan is current on March 31

2	0	30/0	60/30/0	90/60/30/0	120/90/60/30/0	150/120/90/60/30/0	180/150/120/90/60/30/0	Starts as current?
		Report actual	Report actual	N/Y/Y/Y	N/N/Y/Y/Y	N/N/N/Y/Y/Y	N/N/N/N/Y/Y/Y	

3. A loan is 60 days delinquent on March 31, 90 days on April 30, 120 on May 31, 150 on June 30 and pays 2 months in July and continues paying monthly.

3	60	90	120	150	90	60	30	60 or 30?
		N	N	N	N	Y or N	Y or N	

4. The borrower is 60 days delinquent but gets a loan restructuring to get the account current and not pay again until Oct.

3	60	0	0	0	0	0	0	
		Y	Y	Y	Y	Y	Y	

	Impact	Mitigating actions
Interpretation of the directives	Missed payments but not yet NPLs	Issue additional instructions to clarify the interpretation)
Credit reporting system integrity	incomplete data, inconsistent and incomparable reports: some will have full file while others are positive information only.	Promote to keep two databases: one compliant with the Directive and another with full file information
Interpretation of credit reports	Credit providers will interpret the gaps to mean NPL yet some of the borrowers might be paying.	Implement technical reporting (codes/flags) to enable scoring based on full file.
Score calculation	The absence of data will affect the integrity of the models during and after the crisis. This will result in the need to recalibrate scores during and after the crisis.	Recalibrate credit scoring models.
Lending	Credit rationing – credit providers will ration credit generally but more specifically for those with information gaps.	Implement prudential measures that release more liquidity in the market i.e reduce reserve requirements.

Interplay Between Prudential Measures and Credit Reporting

It is important to ensure that prudential measures adopted

- accomplish the objective for which they were issued,
- are practically implementable,
- compliment other measures (fiscal, monetary etc)
- preserve the health of the financial system – speed the recovery phase and are sustainable.

How these directives are implemented will have important consequences in the credibility of the prudential policies and the integrity of the financial system in the long run.

Considerations when implementing measures:

- Time frame of the directive.
- Identify if the directive applies to a specific type of asset – describe the characteristics.
- Establish rules for the duration of the directive: 1) when directive is issued; 2) while the directive is in effect; 3) when the directive expires and going forward.
- Establish rules for the treatment across other systems and infrastructures e.g. credit reporting service provider (CRSP); collateral registries; insolvency/bankruptcy proceedings.
- Coordination to avoid/ minimize conflict and counteracting.

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

The highlights of the presentation by Mr. Gerald Nyaoma, Director Bank Supervision, Central Bank of Kenya are summarized below:

4.1 State of the Banking Sector.

The banking sector is stable and resilient.

Capital Adequacy

The sector is well capitalized as at December 31, 2020 with capital adequacy ratio at 19.15%, which was above the minimum statutory limit of 14.5%. The core capital ratio was 16.72%, well above the minimum statutory limit of 10.5 %.

Liquidity

The banking sector has adequate liquidity, which is well distributed among banks. The liquidity ratio stood at 54.55% well above the minimum statutory limit of 20%.

4.2 Credit Risk Profile.

Credit risk elevated over COVID-19 crisis period:

NPLs increased due to subdued business environment. Gross NPLs as a percentage of

Gross Loans rose from 12.5% as at December 2019 to 14.1% in December 2020. Gross provisions for NPLs went up during the pandemic period from 46.5% in December 2019 to 55.4% 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. Deterioration in asset quality spread across the large, medium and small peer groups.

4.3 COVID-19 Measures and Outcomes.

- **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.
- **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).

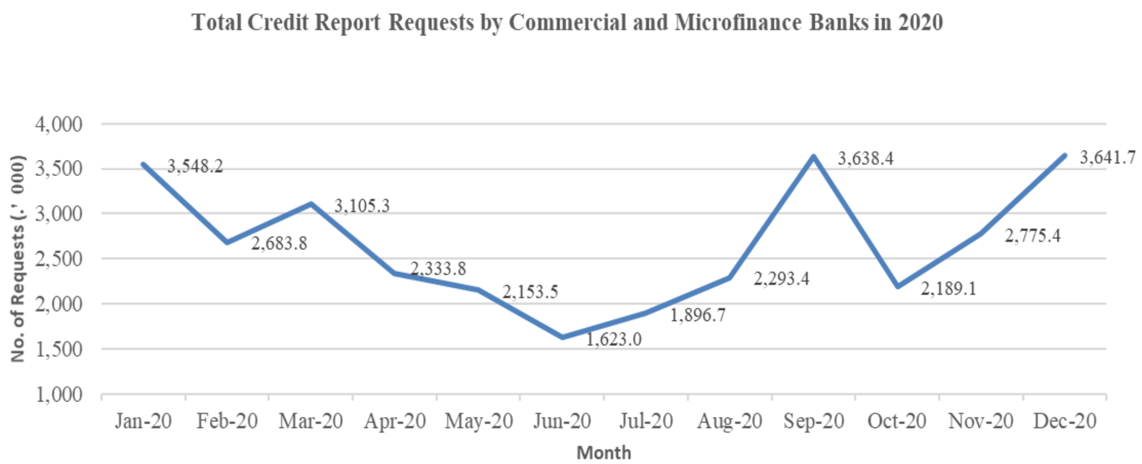
4.4 Ongoing CIS Reform Initiatives.

- **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**

- **Kenya Credit Reporting Strengthening Project (KCRSP)** – Technical Assistance programme supported by World Bank – co-ordinated by National Treasury, CIS-K aimed at:
    - 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) which introduced:**
    - 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.**

4.5 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.



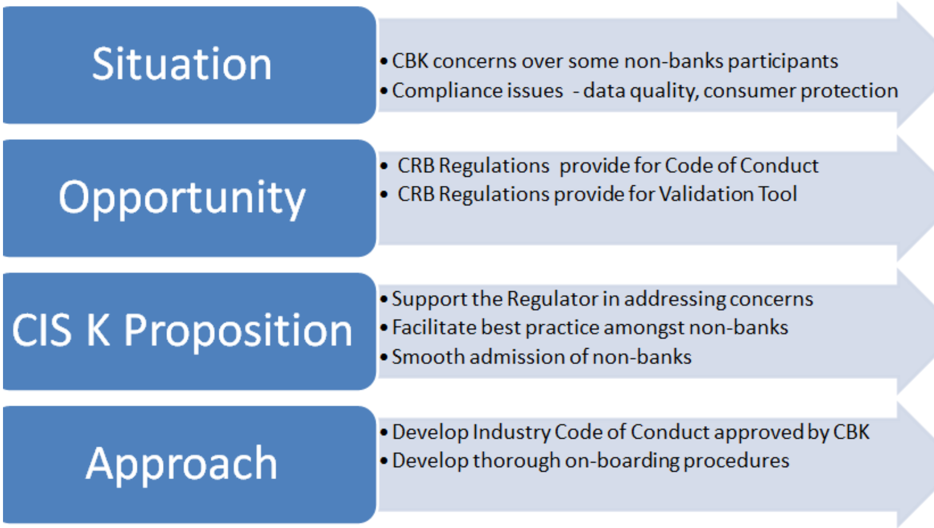
4.6 Next Steps.

- 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.

5. Updates from CIS Kenya

5.1 Highlights of recently-concluded On-Boarding Pilot

The first presentation on the program to support non-banks to join the CIS Framework was made by *Job Mariga, Head of Projects & Technical Services at CIS Kenya.* He gave a brief background as below:



Achievements in 2020

- Drafted Code of Conduct and submitted for CBK approval
- Developed draft On-boarding Procedures
- Undertook pilot to test the Procedures and build CIS Kenya capacity

Status of Initiatives		
a) Code of Conduct	*b)On-boarding Procedures*	*C) Pilot Project*
•CBK comments received and incorporated *•CBK approval awaited*	*Submitted as part of the Code of Conduct awaiting final approval*	*41 credit providers participated over a 6-months period*

Outcome of the Pilot

Onboarding Procedures were refined and finalized after testing with 41 institutions. They are elaborate and fit for purpose in assessing:

- Physical Location
- Human Resource Allocation
- Data Quality Threshold

New entrants now have a systematic, step-by-step guideline that is effective in supporting compliance with CRB Regulations and is useful capacity-building tool.

Major Strengths & Challenges Among Pilot Participants

Strength

Implementing a sector-specific approach of onboarding is more effective

Challenges

- Internal decision-making processes are bureaucratic Lack of staff dedicated to managing the process
- Deficient loan management systems incapable of extracting customer data

Benefits to Industry

- Capacity to support effective on-boarding has been fully established
- Procedures provide a streamlined and objective assessment process

In conclusion: Pilot offered successful POC

5.2 Impact of COVID-19; Disruptions on Credit Consumers in Kenya

Insights from Preliminary Demand-Side Survey 2021

Mr. Lemuel Mangla, Head of Policy and Compliance at CIS Kenya, indicated that the Survey tested the following hypotheses;

a) There was an increase in demand for loans due to the impact of COVID-19
b) COVID-19 affected access channels for loans by consumers
c) Credit consumers had to renegotiate their loan terms with financial institutions owing to the disruption of COVID-19
d) Due to COVID-19, there was an increase in the default rate
e) COVID-19 has influenced the choice of a credit provider

Methodology

- Target respondents 1,000
- Data collection 9th – 16th February 2021
- 1,123 respondents were interviewed, 509 (45.3%) in Nairobi, 398 (35.4%) Kiambu and 216 (19.2%) in Machakos county.

Research Questions

i) Did the demand for loans increase due to the pandemic?
ii) Did the pandemic affect the preferred channels for accessing loans?
iii) Did the terms of credit change owing to the disruption of COVID-19?
iv) Did the pandemic lead to an increase in loan default?
v) Did the relief measures by CBK/ Government help?

Findings

a) The demand for loans increased due to the pandemic

69.4% of the respondents applied for new loans in the period beginning March 2020. Amongst these respondents, 69.7% indicated that their credit applications were triggered by the pandemic.

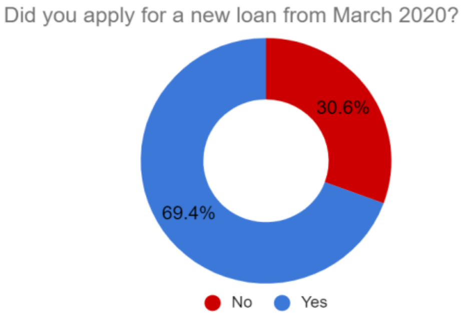


Figure 2: New loan application

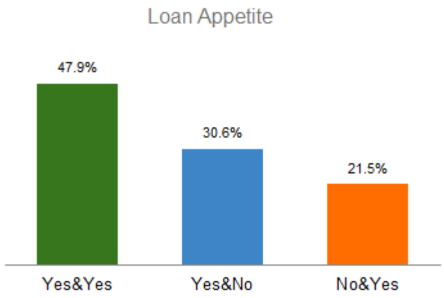


Figure 1: Loan appetite

b) The COVID-19 pandemic affected the preferred channels for accessing loans

Preference for digital channels

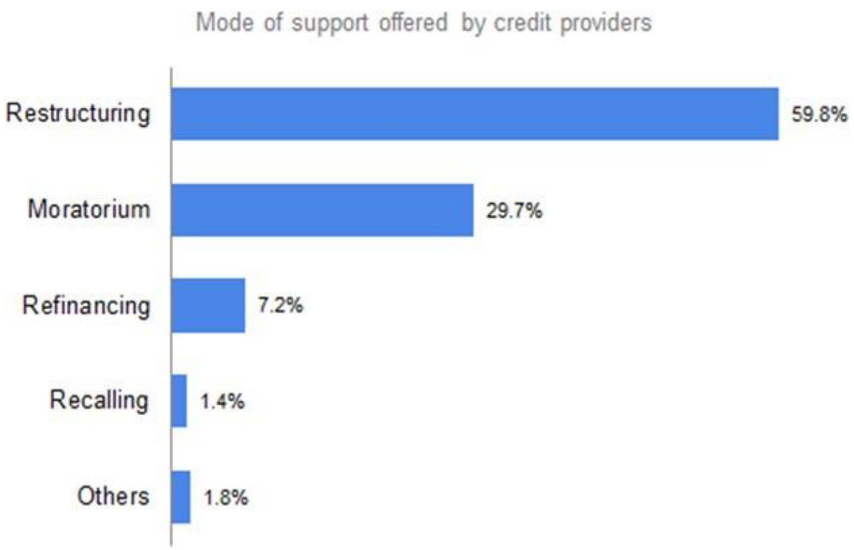
Before COVID-19

56.8%

During COVID-19

91.3%

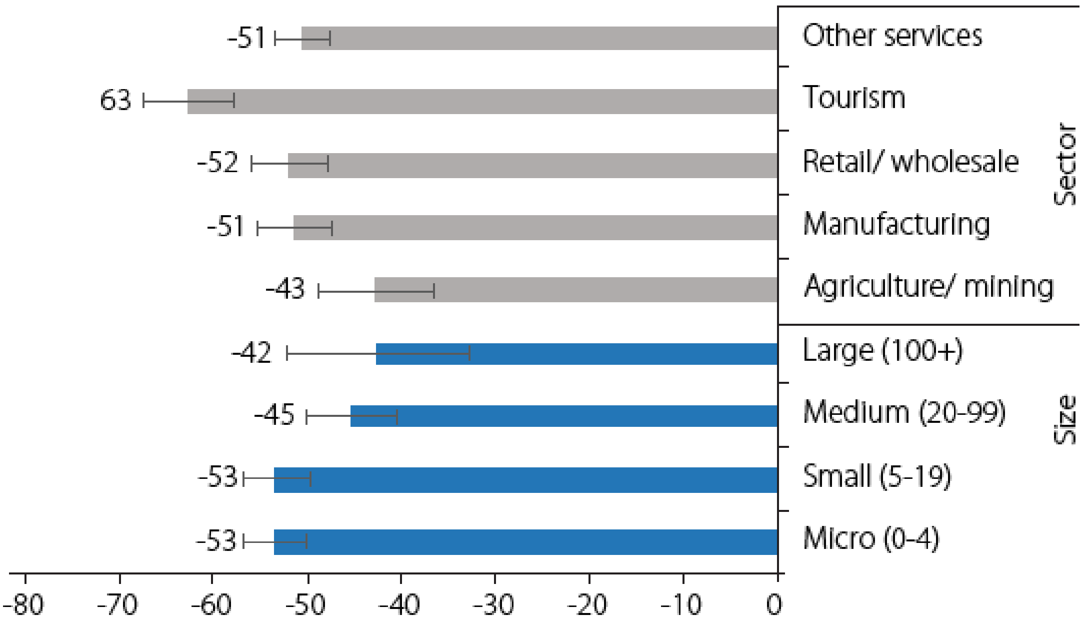
C)Terms of credit changed owing to the disruption of COVID-19



d)The pandemic led to an increase in loan default

Loan Repayment Pattern before COVID - 19					
	Unemployed	**Employed in Government**	**Self-employed**	**Student**	**Employed in Private Sector**
Paying on time	60.2%	98.9%	82.8%	71.4%	90.6%
Paying but late	37.9%	1.1%	15.8%	26.2%	8.5%
Not paying at all	1.9%	0.0%	1.4%	2.4%	0.9%
Loan Repayment during COVID - 19					
	Unemployed	**Employed in Government**	**Self-employed**	**Student**	**Employed in Private Sector**
Paying on time	11.8%	72.5%	18.1%	44.6%	39.6%
Paying but late	57.3%	25.3%	58.2%	27.0%	48.8%
Not paying at all	30.9%	2.2%	23.7%	28.4%	11.6%

b) Average change in sales



e) Did the CBK relief measures help?

Based on the loan relief package advanced by the CBK to cushion individual credit consumers, respondents were asked if the suspension of loan listing by digital lenders and credit-only MFIs helped. They were also asked about the impact of CBK directive of not listing amounts below 1,000 shillings and the non-listing of NPLs for six months. The most appreciated directive was the suspension of listing by digital lenders and credit-only MFIs at 68.5%. All the three measures had a positive reception by the consumers at more than 50%, as indicated in the bar graph below.

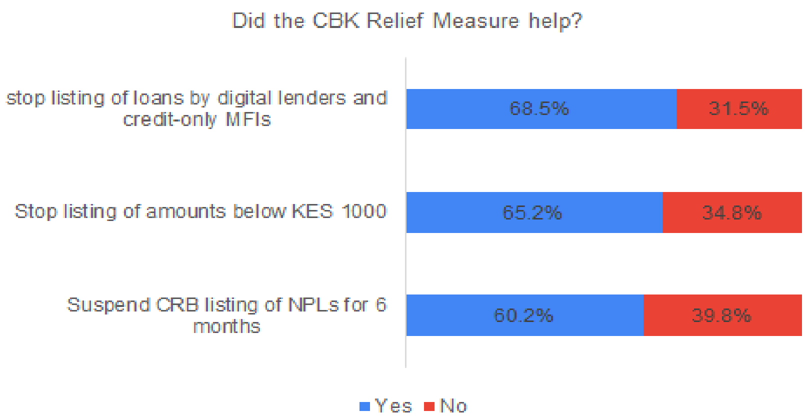


Figure 15: CBK relief measures

Conclusion

a) There was an increase in loan appetite occasioned by COVID-19 (69%)

b) Delinquent loan accounts increased for the private sector (48.8%) and informal sector (58.2%) as compared to government sector employees (25.3%)

c) Most respondents about (59.8%) indicated they received support from their credit provider

d) COVID-19 pandemic has accelerated the adoption of digital channels (91.3%)

e) More than half of the respondents (60.2%) appreciated CBKs directive on non-listing of NPLs for 6 months.

6. Industry perspectives on impact of COVID -19 on the CIS mechanism and credit risk management

6.1 Perspectives from TransUnion CRB

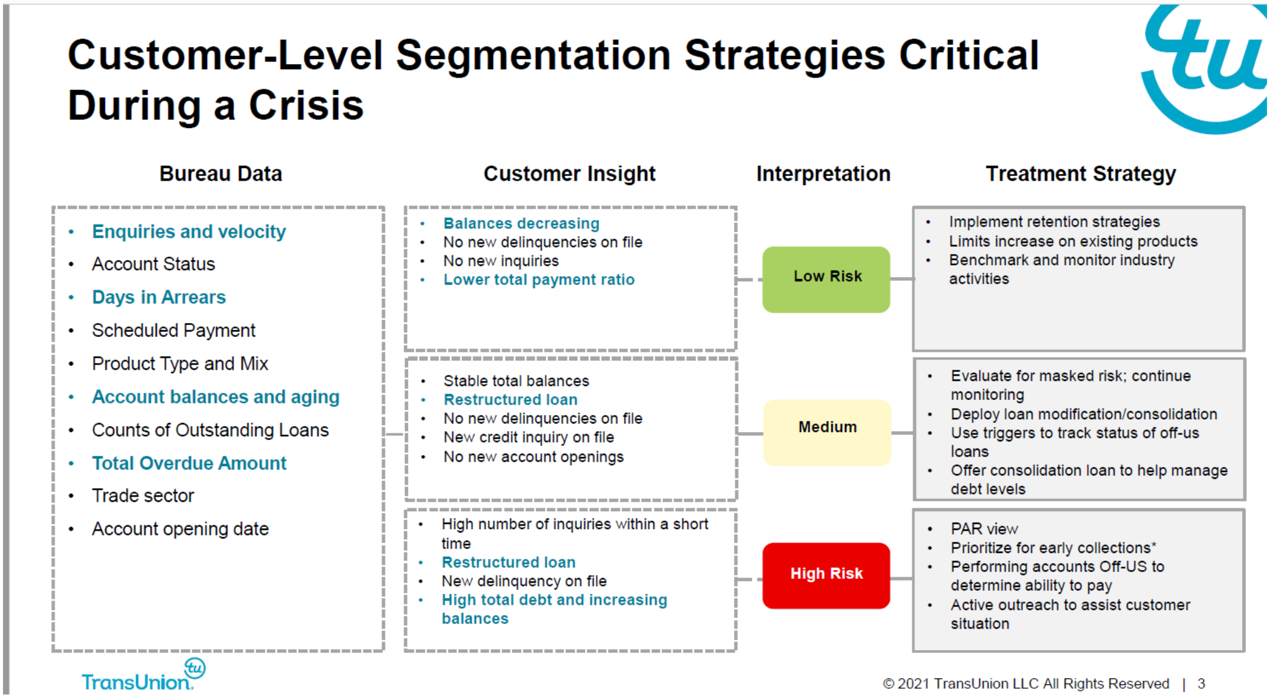
Consumer Education and Use of Credit Scores

The requirement for Consumer Education is eentrenched in CRB Regulations 2020. Risk-based pricing that takes into account consumers scores and behavior enables borrowers to benefit from maintaining good credit histories

- Better informed consumers are critical for the recovery of the financial sector as they perform better over time – improving their credit scores by 30-40% on average
- 6% of credit active population view their credit reports annually.
- 2 out of 3 new to credit consumers are becoming credit active for the first time through digital lending.
- Over 90% of consumers don't know what their credit score is and what affects it

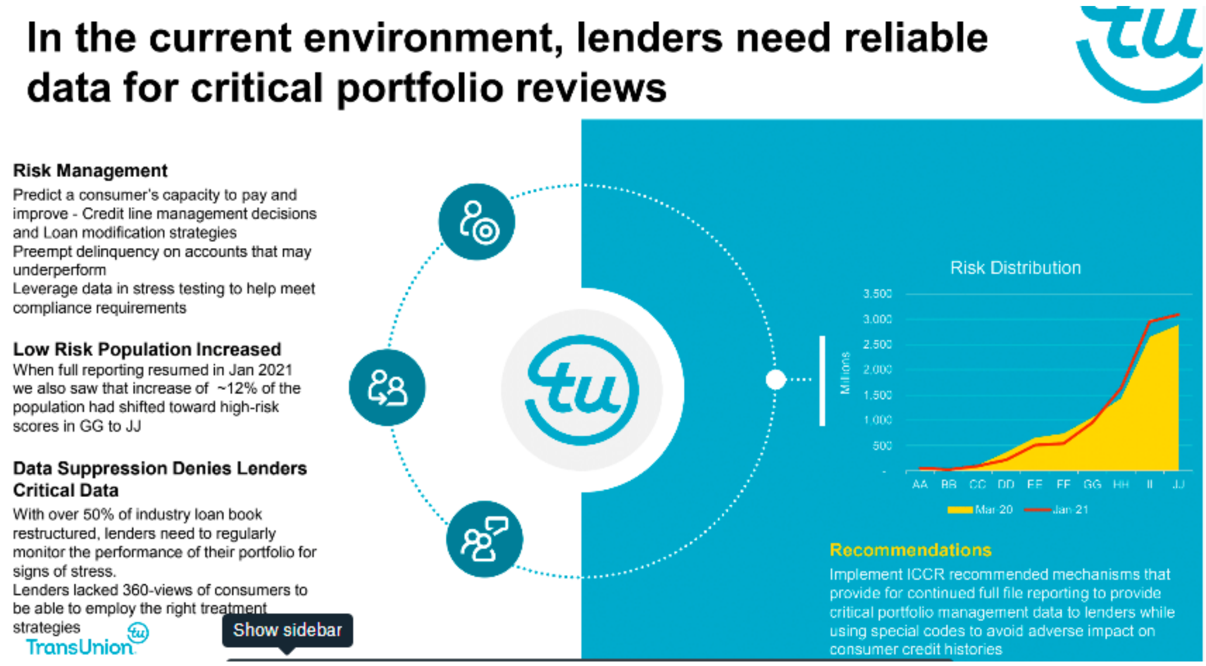
- Less than 30% of lenders regularly use credit scores for consumer credit life-cycle management and pricing of risk

Customer-Level Segmentation Strategies Critical During a Crisis



Source: TransUnion CRB Presentation

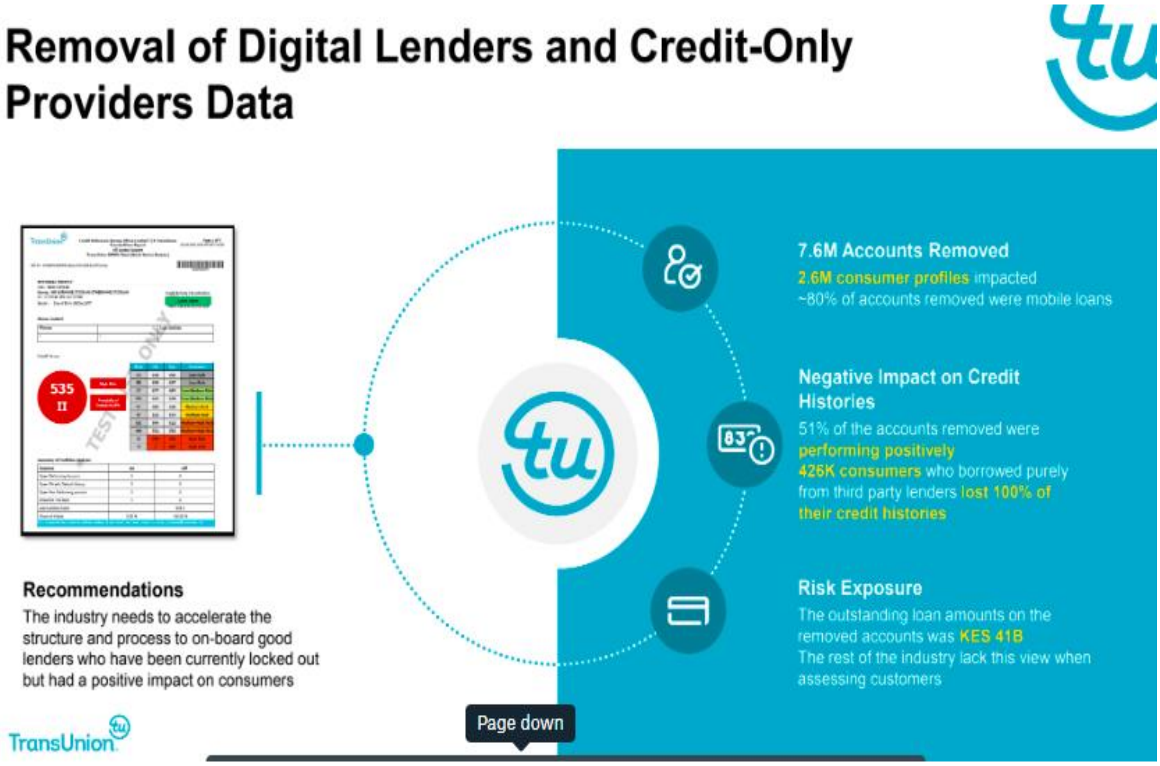
On the progression and spread risk during suppression of data in March 2020 and after resumption of full-file in January 2021. Figure below illustrates this distribution.



Source: TransUnion CRB Presentation

Digital lending has greatly impacted the inclusion of individuals who were formerly locked out of formal financial services. Out of every 3 new credit consumers, the entry of 2 of these to the credit market is attributed to digital lending products. It therefore follows that the pronouncement of the CBK on the removal of digital lenders and microfinance institutions has greatly impacted the gains on financial inclusion. 7.6 M accounts were expunged from the credit bureaus which led to 2.6M consumer profiles affected. 80% of the accounts expunged from the CRBs were all from digital lenders. of which 51% of the accounts were positively listed. Out of the 2.6 M consumer profiles affected 426,000 individuals lost their footprints in the CRBs as they had only borrowed from the digital lenders. a detailed explanation on the impact of this is as per the figure 13 below

Impact of removal of specified lenders from CIS mechanism by CBK

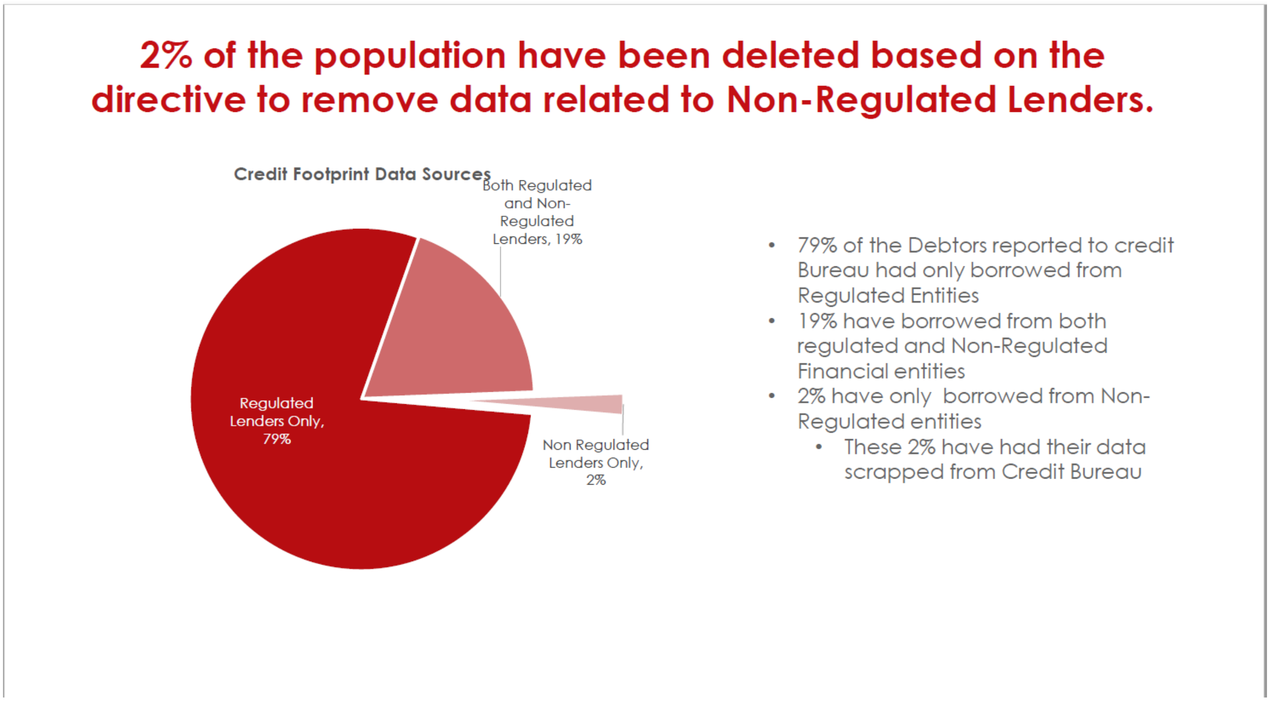


Source: TransUnion CRB Presentation

6.2 Perspectives from Creditinfo CRB Kenya Ltd

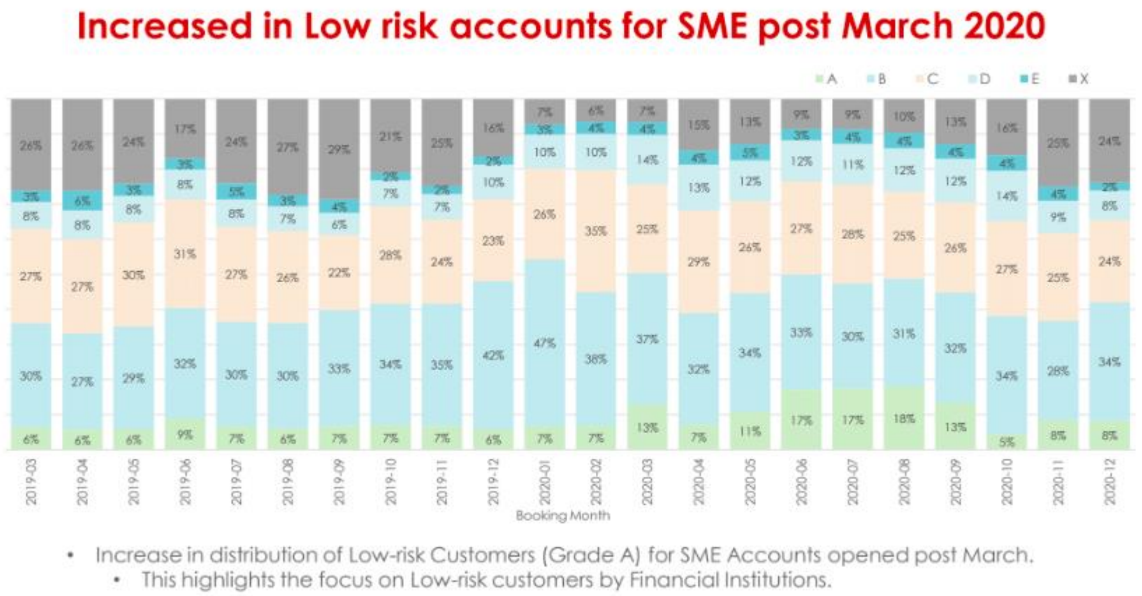
According to Creditinfo CRB, based on the CBK directives, there was an increase in the number of digital credit contracts as of March 2021 being submitted to the CRBs. However, no significant change took place for the traditional credit products.

Source: Creditinfo CRB Presentation



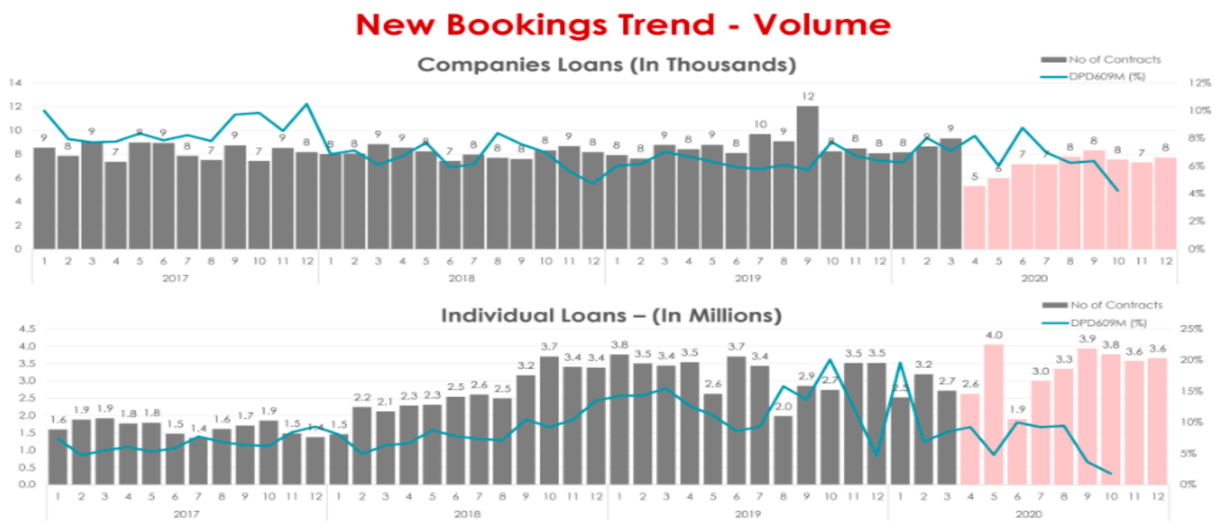
Source: Creditinfo CRB Presentation

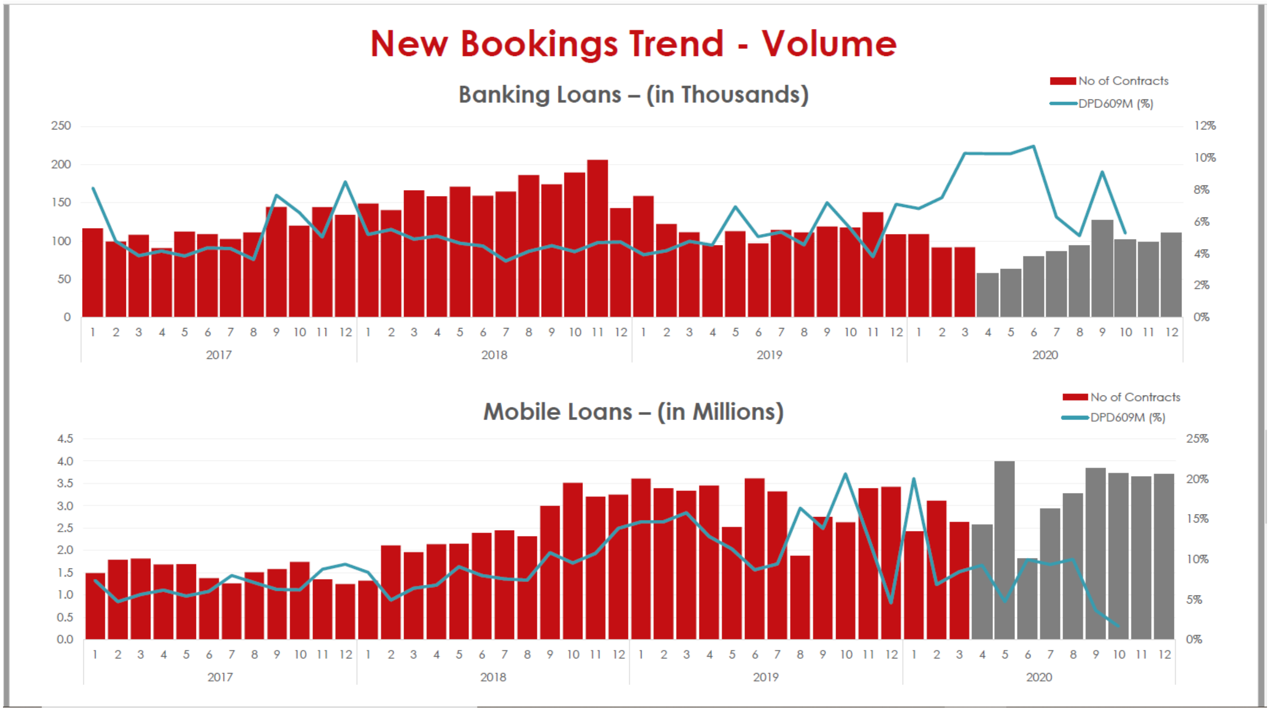
After the CBK directives on loan restructuring in March 2020, there was a steady increase of low-risk customers up to August 2020 but it began reducing when the directives were lifted/ the number of high-risk accounts also begun reducing during the period of the directive as shown in the graph below.



Source: Creditinfo CRB Presentation at Kenya CIS Conference 2021

There was a slight drop in the number of reporting new credit facilities to the bureau after the pronouncement. The graph below shows the number of new loan bookings reported to the CRBs and the performance of the loans. For individuals, there was a drop in the number of new loans recorded but in May 2020 there was a spike in the number of new loans occasioned by Fuliza, overdraft, loans.





6.3 Perspectives from Metropol CRB

The Group MD of Metropol, Sam Omukoko gave the following remarks:

- **Integrity of the CIS mechanism** - Consistency of the data from lenders to the bureau databases. Uncertainty around data quality or data management will directly affect use of the mechanism as a decision criterion. Bureaus have a responsibility to assure lenders and borrowers on reliability for credit decisioning process
- **Consistency of reporting** helps in development of trends and understanding the spending and lending patterns in the market. When that consistency is interfered with, the breaks distort ability to see the flow of credit into various economic sectors
- **Information capital** is about the value of information in credit bureaus, how it is captured and used by the lender to benefit the borrower. Before the COVID-19 pandemic, there was improvement in use of credit bureau data by lenders, away from the binary decision of Yes or No. Mining value out of the data in the Bureau is an important aspect of this whole mechanism.
- **Risk Based Pricing,** ties the decision on price and loan terms to the borrower's risk status, which is reflected in the credit score. That would see some customers being rewarded for good credit scores, which reflects their good credit behavior. We haven't got to that point in this market, and introduction of RBP will enable us to deal with the old age perception of credit bureaus as default listing institutions.
- **Standardization of some practices**. Data quality is important and it is equally important that bureaus hold the same information about borrowers. But in a market like this where we have regulated and unregulated entities, it is not

possible for all the bureaus to have uniform data across board. Ability to capture credit behavior in non-traditional areas like trade credit, Sacco lending etc influences these distinctions in credit bureaus. Moving towards standardization is an important aspect because it benefits the borrower when they know that all their credit data has been included in the report.

- **Standardation or harmonization of credit scores-**Technically, the absence of standardised data across the three bureaus renders it impossible to generate similar scores. Additionally, differing algorithms do not allow uniformity of credit scores. The most important thing is to define the risk bucket. The differences could be plus or minus five or plus or minus 10, but the credit scores, even if they vary from credit bureau to credit bureau, will definitely fall into the same risk bucket.
- **Role of CIS Kenya-** CIS Kenya has an important role to play in entrenching the mechanism in the country and playing a liaison role between the bureaus and the Regulator. It could play a better role in high promotional activities which do not infringe on CRB activities, or tend to reflect what the Regulator is doing. The mandate of CIS Kenya, if properly defined, and properly practiced, should be able to see the acceleration of the entrenchment of the mechanism and the correct CIS practices.

In Conclusion: The pandemic caused interruption in the whole CIS mechanism, but there were issues that we were pursuing before the pandemic that are still with us. We need to pursue those issues to their logical conclusion by ensuring that the mechanism delivers benefits in the country. There's no substitute for consumer education. Efforts by FSD Kenya, World Bank, Central Bank of Kenya and the National Treasury, to build momentum that brings the consumer into the mechanism will accelerate effectiveness of this mechanism, and these efforts should to be supported in the best way possible.

6.4 Perspectives from Lenders

Dr. Patrick Gathondu, the Chief Executive Officer of BIMAS Kenya Ltd made a presentation entitled:" AFTER ***THE STORM –Adapting and thriving"***, whose coverage included:

Brief introduction about BIMAS

- Credit only Microfinance Institution with an objective of creating sustainable wealth
- Rural MFI headquartered in EMBU
- 24 Branches and 39 0perations offices in 19 counties
- Current loan Book Kes. 1B
- Average Loan size Kes. 25,000
- Number of Clients 40,000

Key take home From Storms

1. Storms Bring People Closer Together

Built a resilient team, reached out ceaselessly

2. Storms Change our Behavior

They humble us into learning new patterns of behavior.(Purpose to change)

3. Storms Teach Us About our Foundations (let go of what must)

We redefined our lending policies, knowing our strengths was in group lending (Funded individuals, not groups, daily reports of qualifying groups, messaging)

4. Storms Offer Us an Opportunity to Discover New Strength and Skills (keep the lesson)

(new lines of communication, Trust, there is no time for ego, selfishness

5. Storms help us remember what is really important

We rolled a serious Communication Engine to our customers

6. They help us to see Gratitude (leaned on this for Resilience)

Went deep into the rural, sought to finance the continuing businesses Spoke to the hearts)

BIMAS Come-Back

- Focus on our Customer (Gap analysis)
- Re-orient our market leadership (Touch heart
- Re-think our loan book
- Build a committed team
- Offer support

Means to achieve

- Collection of loans
- Re-financing to keep our customers in tow
- New innovative products that address our customers' needs
- Build Staff incentives that promote earnings
- Avoid over indebtedness

7. Closing remarks

Dr. Habil Olaka, the CEO of Kenya Bankers Association, gave the closing remarks. He appreciated Dr. Patrick Njoroge, the Governor of the Central Bank, whose keynote speech set the appropriate tone for our deliberations. This is particularly with respect to a number of the issues on the journey to supporting the CIS mechanism in Kenya, starting with the issuing of the CRB regulations 2020 that were necessary to adjust the terrain, based on concerns that had been raised even before the COVID 19.

He also recognized Luz Maria Salamina, the Principal Operations Officer at the IFC, the Director of Bank Supervision at the Central Bank of Kenya, Mr. Gerald Nyaoma as well as Mr. Jared Getenga, CEO of CIS Kenya, alongside the various financial sector CEOs in attendance.

He also commended the respective role of World Bank Group, FSD Kenya, and CIS Kenya towards the success of the conference., noting that the collaboration between CIS Kenya and the development partners has always been instrumental in ensuring that the mechanism continues to serve the interests of credit providers and consumers alike. Of particular interest were the insights shared by the World Bank Group with regard to the global experiences around COVID-19 and the credit markets.

FSD Kenya has been extremely supportive of CIS Kenya initiatives, as manifested by the insights presented during the Conference from FSD Kenya funded work. This includes streamlining the onboarding of unregulated credit providers and the preliminary demand side survey.

The credit reference bureaus continue to offer the central infrastructure for tackling the challenges of information asymmetry. The in-depth perspectives of the respective CEOs around the impact of COVID and policy interventions were insightful. Similarly, the position of microfinance institutions as presented by the CEO of Bimas Microfinance has added value to our understanding of the impact of the COVID-19 to the microfinance sector, and can only look forward to a concerted effort by AMFI members to find solutions to maintain their support to the lower end of the pyramid.

In his capacity as the CEO of the Kenya Bankers Association, Dr. Olaka conveyed the appreciation of the Kenya Bankers Association, to the Central Bank of Kenya for regular guidance on banking sector developments, particularly during the COVID-19 pandemic. The banking sector has contributed immensely to easing borrower pain by restructuring loans to the extent of 1.6 3 trillion shillings, which represents almost 4% of the total banking sector credit portfolio, in addition to disbursing, roughly 94% of the liquidity that was availed through the lowering of the credit of the CRR. This was all achieved while maintaining healthy levels of regulatory capital and liquidity.

On the development of the CIS framework, KBA continues to cooperate with the rest of the industry, and are committed to the sustainability of CIS Kenya. KBA will continue to meet its obligations to CIS Kenya in order to ensure it continues to play its role towards a more robust CRS framework in Kenya.

CIS Kenya is preparing recommendations that we as industry would review before submission to policymakers for consideration.

The conference was officially closed by Dr. Habil at 12.57pm.

8. Recommendations

1. A mechanism be established to tap into industry contribution to the CBK strategic objectives on Risk-Based Pricing, Expanding Data Sources and Public Awareness. These pillars could form key objectives of the Technical Working Group once reconstituted
2. Kenya's authorities to consider establishing close liaison with ICCR, the CIS standard-setting body, to ensure consistency of policy interventions with international best practices, particularly in times of crisis
3. Kenya's authorities to consider early resumption of approvals for unregulated entities that sign up to an approved industry Code of Conduct and other requirements of the CRB Regulations 2020 to ease the burden on consumers who are paying more for being invisible at the CRBs.
4. A mechanism be set up for annual review of Data Specifications Template (DST) to enhance relevant data points on an incremental basis and address emerging technical issues on a timely basis.
5. CBK to establish a framework for establishment of a Data Validation Tool as provided for in CRB Regulations 2020, with the aim of streamlining data submission to multiple CRBs, strengthening ownership of data quality improvement within institutions, standardising error logs, and enhancing CIS Kenya role in monitoring and supporting data quality in un-regulated institutions
6. Enhance complaints and dispute handling capacity of Tatua Center and establish a framework for ensuring accountability by industry players adhere to dispute resolution timelines as stipulated in the CRB regulations 2020.
7. CIS Kenya to work with credit bureaus to introduce industry reports on the outlook of the credit market based on trends in the CIS mechanism.
8. CIS Kenya and credit bureaus to develop a joint public awareness campaign to minimise duplication and disjointed messaging to the public.

Enhancing resilience of
the CIS framework in the face of crisis

Kenya CIS Virtual Conference 2021