

**CENTRAL BANK OF KENYA**



*Remarks by*

**PROF. NJUGUNA NDUNG’U  
GOVERNOR  
CENTRAL BANK OF KENYA**

*During the*

**THE 2<sup>ND</sup> REGIONAL CREDIT INFORMATION SHARING (CIS)  
CONFERENCE**

*Hilton Hotel, Nairobi  
September 24, 2013*

*Mr. Jeremy Awori, Chairman, Kenya Bankers Association;*  
*Mr. Habil Olaka, Chief Executive Officer, Kenya Bankers Association;*  
*Mr. Benjamin Nkungi, Chief Executive Officer, Association of Microfinance Institutions of Kenya;*  
*Chief Executive Officers of various Commercial Banks, Microfinance and Development Finance Institutions here present;*  
*Representatives of various Central Banks from around Africa;*  
*Representatives of IFC, USAID and FSD Kenya;*  
*Representatives of the licensed Credit Bureaus (CRB Africa, Metropol CRB and CRIF);*  
*Distinguished Ladies and Gentlemen;*

*It gives me great pleasure to be here today to officially open this landmark conference that brings together various players in the credit information sharing (CIS) fraternity. This is the second such conference, the first having been held in July 2011. We appreciate the growing interest that the subject has generated internationally, and more recently in Africa, as attested to by the presence in this conference of representatives from various countries. Let me extend a warm welcome to you all to Kenya. I sincerely hope that you will enjoy Kenya's hospitality and tourist attractions during your stay in Kenya.*

*Ladies and Gentlemen;* We are gathered here today because we believe that CIS mechanism is vital for unlocking access to affordable credit. Indeed the depressing statistics show that in the year 2012, domestic credit stood at 44.9% of GDP in Sub-Saharan Africa compared to 156.5% for the European Union. Besides cost of credit, we do know that asymmetric information provides difficulties and in fact acts as a mechanism for rationing credit. Information capital will minimize these difficulties. Conferences such as this allow participants to share experiences as well as challenge each other. We are therefore happy to have participation by you all.

*Ladies and Gentlemen;* you will recall that at the first regional Credit Reporting Conference, we focused on International Standards of Credit Reporting which were eventually released in September 2011 by a Task Force coordinated by the World Bank, with support from the Bank for International Settlements. These principles are designed to ensure that credit reporting systems are safe, efficient and reliable. It is important that at this conference we review the performance of our respective countries in meeting those standards. Further, I am informed that various local and international experts will be making presentations during this Conference covering recent developments and emerging issues.

Participants will be taken through CIS international benchmarks and trends by experts from the International Finance Corporation (IFC) of the World Bank Group. The conference will also provide the delegates with an opportunity to discuss and share experiences on fundamental issues on the subject of CIS.

*Ladies and Gentlemen;* The CIS mechanism in Kenya has evolved significantly since it was unveiled in July 2010. There has been increased usage of credit reports by banks in credit evaluation, with the cumulative requests amounting to 2,907,395 as at June 30, 2013. This has greatly contributed to improved risk lending, expedited lending decisions and improved loan repayment culture, thus minimising the information asymmetries that dominated the lending process in the banking industry. We have succeeded in unlocking funds previously tied up in non-performing loans and thus making them available to new borrowers. Apart from banks, credit reports have also been useful to other credit providers, for example the Higher Education Loans Board (HELB), IDB Capital and the Agricultural Finance Corporation (AFC). Most employers too, utilise credit reports in the assessment of the suitability of prospective employees. All these initiatives demonstrate the importance of CIS to the Kenyan economy.

*Ladies and Gentlemen; Despite these positive developments, the mechanism has faced some challenges that need to be addressed for the benefit of all stakeholders. Customers are yet to fully benefit from the CIS mechanism. The cost of credit still remains high to most borrowers. As it is well known, CIS alleviates the problems of asymmetric information by countering adverse selection, moral hazard and information monopoly thus enabling lenders to make more informed decisions efficiently. Lenders should therefore be able to extend credit to customers at more favourable rates.*

*Other challenges include data quality issues, legal impediments, inadequate dispute resolution mechanisms and limited access by customers in rural areas. We recognise the various initiatives that have been improvised to deal with some of these challenges. It is also anticipated that the coming into effect of the soon to be gazetted Credit Reference Bureau Regulations, 2013 will play a major role in resolving most of the challenges. Towards this end, the Regulations contain provisions for credit reference bureaus (CRBs) to engage third party agents with a view to enhancing their outreach. The Regulations have also placed greater responsibilities towards customer protection and higher standards for data collection, storage, processing and use.*

*Ladies and Gentlemen; CIS is also very pertinent from a regional perspective. In the East African region; Uganda, Tanzania and*

Rwanda have licenced private CRBs while Burundi has in place a government run credit bureau. Many African countries have also implemented regulatory reforms to enhance their credit underwriting standards by embracing CIS. The integration of several African countries has enabled several indigenous financial institutions to establish subsidiaries in other countries. Because credit markets in Africa are at different levels of development, information sharing across borders presents an opportunity to bridge the gaps in the various markets and assist in weeding out cross border serial defaulters. Information asymmetry has the potential of curtailing the entry of financial institutions into African markets thus denying them essential investment flows. We should therefore strive to deepen our credit markets through initiatives such as CIS.

*Ladies and Gentlemen,* the CIS Regional Conference is being held at a time when Kenya is unveiling five key reforms that will significantly transform the effectiveness of this important beacon of financial infrastructure in our economy. The five landmark developments are: introduction of positive data sharing, inclusion of Deposit Taking MFIs (DTMs) in CIS mechanism, implementing an Alternative Dispute Resolution mechanism (ADR), allowing credit bureaus to open agencies and the registration of the Association of Kenya Credit Providers (AKCP) to spearhead a more comprehensive CIS mechanism going forward.

The first two reforms were facilitated by the amendments to the Central Bank of Kenya Act, Banking Act and Microfinance Act in 2012. The Banking Act and the Microfinance Act were amended to require all institutions licenced under the two statutes to share negative credit information on their customers through CRBs. The Central Bank of Kenya Act was amended to require banks to share positive information on their customers with CRBs. Allowing lenders to share positive information, enables good borrowers to build reputation collateral. Credit bureaus will soon be in a position to provide credit scores using positive data from various lenders. With good credit scores, the push for less stringent demands for fixed assets as collateral will begin in earnest while a positive credit report is an excellent bargaining tool for lower interest rates. It allows us to develop an efficient collateral technology.

The new requirement for participation of licensed DTMs marks the first step towards inclusion of non-bank credit providers in order to make the database more comprehensive. Expansion of the database to other credit providers will provide a complete picture of the customers and enable the providers develop tailored products to their requirements. The benefit of a comprehensive database is the minimization of customer over-indebtedness. A comprehensive database also minimises the tendency of serial defaulters migrating to lenders who do not share information.

The third and fourth reforms are intended to strengthen consumer protection. The CIS Customer Complaints Office (CISCOF) has been established as an interim Credit Information Ombudsman to help resolve customer complaints regarding accuracy of data. This Alternative Dispute Resolution process, which will be discussed in this conference, will speed up dispute resolutions.

Finally Ladies and Gentlemen, the Association of Kenya Credit Providers (AKCP) has been registered with the primary objective of developing an efficient CIS mechanism in Kenya. This Association, which we are launching today, will promote self-regulation among licensed and non-licensed credit providers and ensure a level playing field for credit providers who join the information sharing mechanism. This is a major step in complimenting the existing CIS regulatory framework.

These measures are expected to radically change the credit market in Kenya, to benefit lower risk customers and enhance access to credit by SMEs. Going forward, CIS being a relatively new area in this region, there is need to raise public awareness on its importance and safeguard confidentiality of customer information.

The Central Bank of Kenya is committed and will work with all relevant parties to ensure that the CIS mechanism grows to its full



*potential. The efficiencies that will accrue to our credit market will contribute significantly to the stability of the financial sector and to the goals of our Vision 2030. As a demonstration of this commitment, we have consulted with the Kenya School of Monetary Studies and agreed to provide office space for the new Association so as to give it a sound footing that also guarantees its neutrality.*

*It is now my pleasure to declare this two-day Regional CIS Conference officially open.*

*Thank you and God bless you all*