

CENTRAL BANK OF KENYA



REMARKS

BY

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

AT THE

**PRESS BRIEFING ON THE ROLL OUT OF CREDIT INFORMATION
SHARING**

Central Bank of Kenya, Nairobi

13th July 2010

Mr. Richard Etemesi, Chairman, Kenya Bankers Association;
Mr. John Wanyela, Executive Director, Kenya Bankers Association;
Mr. Wachira Ndege, Chief Executive, Credit Reference Bureau Africa Ltd;
Members of the Media Fraternity;
Colleagues;
Ladies and Gentlemen:

1. Let me at the onset thank members of the media fraternity who have accepted our invitation to attend this press briefing. The Central Bank of Kenya (CBK) is pleased to announce the roll out of credit information sharing for the banking sector. The CBK has accordingly this morning issued a circular to all institutions licensed under the Banking Act notifying them that the effective rollout date for the credit information sharing mechanism shall be **31st July 2010**. This implies that:-
 - The first reporting date for non-performing loans and other information sets to be submitted by banks shall be 31st July 2010.
 - The information as at 31st July 2010 should be submitted to the licensed Credit Reference Bureau by 10th August 2010.
 - Thereafter the information will be provided and updated at the end of each month.
2. As you will recall, the Banking (Credit Reference Bureau) Regulations, 2008 became operational on 2nd February 2009. CBK has since then licensed one Credit Reference Bureau, CRB Africa, granted approval in principal to Metropole CRB and is processing two other applications.
3. The rollout of the credit information sharing mechanism follows four pilot runs conducted between banks and CRB Africa. The principal objectives of the pilot runs conducted between February and June 2010 were to:-

- Confirm commercial banks capability to extract and submit data in the specified format;
 - Evaluate the suitability of the data specifications document jointly developed by CBK, Kenya Bankers Association and CRB Africa.
4. The pilot runs have provided useful learning experiences for banks and the Credit Reference Bureau that will facilitate the roll out. Banks and mortgage finance companies will therefore be expected to submit the mandatory non performing loan data as at 31st July 2010 to licensed CRBs by 10th August 2010. Institutions will thereafter be expected to submit to all licensed CRBs updates on non performing loans and other information sets on a monthly basis.
 5. It should be noted that whereas the CRB regulations mandate the sharing of non-performing loans information, they also provide for positive information sharing. The full benefits of credit information sharing can only be realized with the sharing of both positive and negative information. I am therefore pleased to note that the Kenya Bankers Association is already liaising with its member banks on modalities of sharing and building information capital that includes both positive and negative information.
 6. The roll out of credit information sharing marks a watershed in the development of Kenya's financial sector. Information asymmetry between banks and borrowers has for long constrained innovation and financial intermediation. This state of affairs has led to the front-loading of search costs and a risk premium in the cost of credit. Undoubtedly this has led to the high cost of credit that has constrained the expansion of businesses and deterred access to credit by a significant proportion of Kenyans.

7. Credit information sharing will facilitate the building of information capital that will guide the pricing of loans by financial institutions. Banks will at the appraisal stage be able to price loans with a vastly enhanced information set as compared to the current situation. Customers, armed with their credit histories, will also be empowered to negotiate better terms for credit with banks. This is definitely a win-win situation that will catalyse growth of credit for investment and wealth creation pushing Kenya faster towards Vision 2030 aspirations of being a middle income country.
8. Credit information sharing will reduce the search costs incurred by banks in pricing loans. This will in turn not only enhance access to credit but also reduce the cost of doing business and boost Kenya's competitiveness as the Eastern Africa Financial Services Hub.
9. We anticipate that the benefits of credit information sharing will start accruing from the middle of next month after the initial submissions. Banks will be able to start accessing credit reports from mid August 2010 for loan appraisals. Customers should also be able to start accessing their credit reports at the same time. I therefore urge bank customers to liaise with their banks and ensure that their account details are up to date. I also urge them to contact their banks to explore modalities of sharing positive credit information.
10. CBK will, in this roll out period, partner with KBA to sensitize the public on the modalities and benefits of credit information sharing. The media will play a key role in this campaign and let me take this opportunity to seek your support as we roll out the sensitization campaign from today.
11. The roll out of credit information sharing for the banking sector is just the first step. As you are aware, Kenyans also access credit from a whole host of non-banks including, microfinance institutions, SACCOs, other financial

sector regulators and utility companies. It is therefore imperative that the mechanism be extended to other non-bank credit providers.

12. Accordingly CBK in partnership with KBA and with the support of the Financial Sector Deepening Trust Kenya set up the Kenya Credit Information Sharing Initiative (KCISI) in August 2009. KCISI will work with banks as credit information sharing is implemented and explore modalities of extending credit information sharing beyond the banking sector.

13. It is important to underscore that Credit Reference Bureaus licensed by CBK shall be subject to onsite and offsite surveillance by the Central Bank. The Banking (Credit Reference Bureau), 2008 regulations stipulate activities the bureaus can undertake, restrictions on use of customer information and security and control measures. The CBK is empowered to take remedial measures including revocation of license for violations of the regulations by CRBs.

14. With regard to customer information protection, the Regulations place emphasis on confidentiality of information handled by CRBs and also places stringent restrictions on the use and application of such information. Banks and CRBs cannot share information with unauthorised third parties. The regulations provide for stringent penalties of up to Shs.500,000 for such breaches by CRBs. Banks on the other hand will be subject to penalties of up to Kshs.1 million and other remedial measures available under the Banking Act for such breaches.

15. In closing, let me underscore CBK's commitment to working with the government and other players to promote a stable, inclusive and efficient financial system.

We will now take your questions.

Thank You