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November 10, 2022

## **BANKING CIRCULAR NO. 2 OF 2022**

### **TO ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS, MORTGAGE FINANCE COMPANIES AND MICROFINANCE BANKS**

#### **COMPLIANCE WITH THE BANKING (CREDIT REFERENCE BUREAU) REGULATIONS, 2020**

The Credit Information Sharing Mechanism (CIS) was launched in July 2010, with reporting of non-performing loans only (negative information). In 2013, new regulations were issued incorporating reporting of information on performing loans (positive information). This in effect operationalized full file credit information sharing. Over the past twelve years, the mechanism has become an integral part of the credit market in Kenya. As of September 30, 2022, over 160 million credit reports had been accessed by commercial banks, microfinance banks, deposit taking SACCOS, third-party data providers and individuals. On average over three million reports are requested monthly from the three licensed Credit Reference Bureaus (CRBs).

The issuance of the Banking (Credit Reference Bureau) Regulations, 2020 (the Regulations), in April 2020, embedded the risk-based pricing of credit. This was through the requirement for institutions to consider among other factors, a customer's credit score when appraising a credit application. The Regulations are therefore an important tool in ensuring that the banking sector *works for and with Kenyans*, as was outlined in the Banking Sector Charter (the Charter) launched in February 2019, by the Central Bank of Kenya (CBK). The Charter is premised on four pillars of *customer centricity, risk-based credit pricing, transparency, and ethical banking*.

However, many lending institutions are yet to effectively use borrowers credit scores in their credit risk pricing. Additionally, there are concerns that institutions are mainly using adverse credit reports to deny customers' credit. As you are aware, the CIS mechanism was intended to be a risk management tool to appropriately price credit risk and more broadly, enhance access to credit by Kenyans. In this context, institutions are required to consider the credit score of a borrower ***in addition to*** other factors in making a lending decision.

We have also noted the following issues that require your attention.

- High rejection rates of data submitted to CRBs due to erroneous formats or missing mandatory fields.
- Submission of incorrect/incomplete data.
- Institutions sharing varied data to the three CRBs.
- Non-sharing of data with all the three licensed CRBs.
- Late submission of data to the bureaus.

- Failure to advise customers before an adverse listing with CRBs.
- Delayed updating of customers' credit data (e.g., repayments and deletions/updates of erroneous data).
- Incorrect listing of borrowers.
- Failure of institutions to promptly address complaints reported to them.

CBK reiterates that data integrity is imperative for the functioning of the CIS mechanism. Accordingly, institutions should regularly review credit data reported to CRBs and adopt effective quality control systems and processes. Further, institutions are reminded to comply with the provisions of the Regulations, particularly the following specific provisions: -

1. **Regulation 18 (5)**-Submission of complete and accurate information to a CRB.
2. **Regulation 37** – Timely completion of investigations on customer disputed credit information and making the requisite updates as needed.
3. **Regulation 40 (1)**-A customer credit score should not be used as the sole reason by an institution to deny a customer a loan. Any communication with a customer should be aligned to this requirement.
4. **Regulation 40 (2)**- Institutions should consider a customer's credit score in the appraisal and pricing of credit facilities.
5. **Regulation 40 (5)** – An institution that denies a customer a credit facility solely based on a credit score is liable to a penalty of Ksh.2 million.
6. **Regulation 63** – Provision of appropriate notices to customers before an adverse listing.
7. **Regulation 65** – Submission of complete and accurate data and in the format and timelines required by the *Data Specification Template Version 4*.

The purpose of this circular is therefore to remind all commercial banks, mortgage finance companies and microfinance banks of the requirements of the Banking (Credit Reference Bureau) Regulations, 2020.

Please note that failure to comply with the provisions of the Regulations will attract enforcement action as specified under the Banking Act, Microfinance Act, and the Banking (Credit Reference Bureau) Regulations, 2020.

Yours faithfully,



**MATU MUGO**  
**DEPUTY DIRECTOR, BANK SUPERVISION**