



## PRESS RELEASE

### UPDATE ON THE CREDIT INFORMATION SHARING FRAMEWORK

Despite the recent improvements in the Credit Information Sharing (CIS) framework, some concerns persist about its use. This relates largely to the use of adverse credit reports issued by Credit Reference Bureaus (CRBs), which are viewed as being used to deny borrowers credit (“blacklisting”). The Central Bank of Kenya (CBK) remains concerned about this perception and is taking concrete actions to address it and strengthen the CIS framework.

Accordingly, CBK has been working on two fronts: **First**, CBK has mandated all CRBs to include a standard statement at the top of every credit report indicating that a *customer’s credit score should not be used as the sole reason by a lender to deny a customer a loan*. Further, CBK is working with CRBs to improve the quality of the credit reports, and in particular, enhance the robustness of their credit scoring models and align them to best practices.

**Second**, CBK is working closely with banks in the ongoing implementation of *risk-based credit pricing*. In this context, banks are required to consider the credit score of a borrower *in addition to* other factors in making a lending decision. This approach would allow borrowers and especially micro, small, and medium-sized enterprises (MSMEs) to access appropriately priced credit.

CBK urges the public to honor their payment obligations on their credit facilities when they fall due. This will enable them to build a good credit history based on their payment behavior and thereby obtain loans at better rates. When borrowers experience challenges in repaying their loans, they should proactively engage their lenders. They should also review periodically their credit reports to track their credit scores and verify the accuracy of the reports. We remind the public that they are entitled to one free credit report per year.

The CIS framework was launched in Kenya in 2010 and has developed over time with three CRBs licensed by CBK and was refreshed in 2013 and 2020 (**Annex**). CBK will continue working with all stakeholders to ensure that the CIS mechanism works *for and with Kenyans*, and in line with best global practices.

**CENTRAL BANK OF KENYA**

November 11, 2022

## DEVELOPMENT OF KENYA'S CREDIT INFORMATION SHARING FRAMEWORK

When the CIS was launched in July 2010, only commercial banks could share their credit information. Further, the information shared with the CRBs only related to non-performing loans (negative information). To expand the CIS mechanism, further reforms were implemented in 2013. These included incorporating microfinance banks in the mechanism, sharing of information on performing loans (positive information) in addition to non-performing loans. Additionally, CRBs were allowed on approval from CBK to obtain information from third party sources such as utility companies, trade companies, insurance companies, Non-Deposit Taking SACCOs, and Development Finance Institutions.

However, the public have expressed concerns on the CIS framework, such as the following:

- It was seen as a punitive *blacklisting* tool that barred Kenyans from getting loans, instead of helping borrowers take advantage of their credit history to get better pricing of loans.
- Listing with CRBs of *nuisance* amounts less than Ksh.1,000 as non-performing, some arising from fees and charges on closed accounts.
- Limited use of credit scores in assessing credit applications by lenders.
- Fees on accessing credit reports from CRBs.
- The cost of clearance reports for youth entering the employment market was viewed as an entry barrier to employment.
- Unregulated digital (mobile-based) and credit-only lenders were seen as particularly outrageous in using CRB listing and other measures to harass delinquent borrowers.

Subsequently, the [Banking \(Credit Reference Bureau\) Regulations, 2020 \(the Regulations\)](#), came into force on [April 8, 2020](#), refreshing the framework that had been in place since 2013. The Regulations provide for the licensing and supervision of CRBs by CBK, and importantly, a framework for the exchange of borrowers' credit information between lenders and CRBs.

The key reforms introduced by the Regulations included setting a minimum threshold of Ksh.1,000 for negative credit information that is submitted to CRBs by lenders and incorporation of deposit taking SACCOs in the mechanism. Further, they provided for first-time CRB clearance certificates to be provided by CRBs at no charge.

The CIS mechanism aims to bridge the information gap about borrowers' creditworthiness—by considering the borrower's credit history and allowing credit to be priced appropriately.

A good credit record demonstrates the borrower's higher creditworthiness and should lead to a lower cost of credit. It is 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) that was launched in February 2019 by CBK. The Charter is premised on four pillars of *customer centricity, risk-based credit pricing, transparency and ethical banking*.

CRBs have a rich set of data from commercial banks, microfinance banks, deposit taking SACCOs and over 2,000 third party sources such as utility companies, trade companies, insurance companies, Non-Deposit Taking SACCOs, and Development Finance Institutions used to generate credit reports with credit scores for each borrower. Over the last 12 years, over 160 million credit reports have been requested from CRBs by individuals and institutions.

Credit scoring by CRBs considers various parameters. These include *payment behavior* (a good payment track record enhances the credit score), *type of loan* (e.g., digital loan versus a mortgage), term of the loan and the *total debt* a borrower has. This enables *inter-alia* differentiation of good and bad borrowers and short term versus long term loans.