Njuguna Ndung'u: Update on the Credit Information Sharing Project

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, during the executives dinner to launch the second phase of the Credit Information Sharing Project, Nairobi, 16 February 2012.

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Dr. Geoffrey Mwau, Economic Secretary, Ministry of Finance;

Dr. Yira Mascaro and Mr. Ulrich Matthias Zeisluft, Representatives of the International Finance Corporation and World Bank;

Mr. Richard Etemesi, Chairman, Kenya Bankers Association;

Mr. Habil Olaka, CEO, Kenya Bankers Association;

Chief Executives of Utility and Telecommunications Service Providers;

Chief Executives of various Development Finance Institutions;

Mr. Carilus Ademba, CEO SACCO Societies Regulatory Authority;

Mr. Ben Nkungi, CEO, Association of Microfinance Institutions of Kenya;

Chief Executives of Licensed Credit Reference Bureaus in Kenya;

Distinguished Guests;

Ladies and Gentlemen:

I am delighted to be here today to make some brief remarks at this very auspicious occasion of ushering in a new phase of the Credit Information Sharing (CIS) Project. On behalf of the Central Bank of Kenya which is co-hosting this event with the Kenya Bankers Association, let me extend a very warm welcome to all credit providers represented here today. We look forward to an interactive evening of sharing our past successes and identifying the opportunities for a broader collaboration between various market players.

Before I proceed; let me thank our partners FSD Kenya for sponsoring this dinner event and for their continued support towards the development and rollout of the CIS mechanism in Kenya. In addition, we are extremely grateful to the Financial and Legal Sector Technical Assistance Project (FLSTAP), International Finance Corporation (IFC), and United States Agency for International Development (USAID) for their key contributions towards the early stages of the development and rollout of credit information sharing in the banking industry in Kenya.

Ladies and Gentlemen: The Central Bank of Kenya has championed the cause for sharing of credit information because of our recognition that this tool creates significant impact on efficiency and expansion of the credit markets. Much empirical work has been conducted on the economic impact of information sharing in consumer credit markets. The broad and consistent conclusions point towards (1) greater financial inclusion, (2) access to credit and (3) improved lending performance. Enhanced financial access arises whenever information collateral is built into credit decisions. The outcome is: fewer mistakes by lenders; less default by borrowers and appropriate pricing of credit.

Our partnership with the Kenya Bankers Association in this project has yielded considerable results. Two credit reference bureaus have been licensed and there is active engagement with all commercial banks and the Deposit Protection Fund in exchange of information on Non-Performing Loans. A total of 1,306,439 and 6,041 credit reports have so far been accessed by banks and bank customers respectively from the two licensed credit reference bureaus. This translates to a monthly average of 76,849 and 355 credit reports for banks and bank customers respectively. This uptake of credit referencing is quite encouraging and this will be a pillar of growth in the Kenyan financial sector.

Having said that, ***Ladies and Gentlemen***, we are alive to the fact that the current CIS mechanism has a number of challenges. These challenges may be categorised into four broad areas. First and most critical is that the current system is ***limited to commercial banks and, very soon, to Deposit Taking Microfinance Institutions***. If this is allowed to continue, various credit providers may create “silo” databases, often referred to as “segmented” information sharing. Credit reports generated by such systems give an incomplete and often misleading picture. “Comprehensive” systems, by contrast, allow a more complete credit profile of a consumer to be drawn. For small businesses, it also includes trade credit data and leasing arrangements. These non-financial services, such as utility and telephone services, are usually more common than are financial payment data, particularly in less developed markets, where, for example, the number of cell phone users may far outstrip the number of credit card users. The use of non-financial data in credit files offers the promise of a diversified information capital that will facilitate extension of reasonably-priced credit to those who have not previously accessed formal credit.

The ***second*** challenge is the need to move towards achieving full file reporting by participating institutions. Full file reporting, that is, sharing of both negative and positive information on customers is important as it enables risk based pricing through credit scoring. It is important to have full file reporting to facilitate credit scoring mechanism and enhance the information capital. Further, full file comprehensive credit reporting systems are more successful at expanding access to credit, improving loan performance and preventing over indebtedness. We therefore appeal to the credit providers on the need to consider sharing full file information, in order for our market to enjoy the full benefits of the CIS mechanism.

Thirdly: we face the challenge of ensuring that both lenders and borrowers are sufficiently ***sensitised*** on the merits of a robust credit information sharing mechanism and are able to use it to their advantage. This calls for well thought out awareness campaigns and capacity building programs. It is particularly important that lenders develop skills that enable them apply credit management tools as effectively as possible so that low-risk customers are rewarded appropriately.

Finally, the success of this process hinges on a ***robust legal framework*** that supports a full-file comprehensive data sharing mechanism. We need to develop an effective legislation that addresses all aspects of credit bureau operations, data management and consumer protection.

The challenges in the current system call for collective efforts by all stakeholders. I am pleased to report that CBK and KBA through the Kenya Credit Information Sharing Initiative (KCISI) is keen to establish modalities that make the CIS mechanism more comprehensive. Indeed, we continue to receive requests from non-bank lenders to be allowed to participate in the mechanism. Further, the presence of key players in the credit market in this room today is a testimony to the high interest this mechanism has generated.

Ladies and Gentlemen: As I conclude, let me take this opportunity to thank FSD Kenya, our development partner in several projects aimed at inclusive financial markets in Kenya; World Bank; Kenya Bankers Association who have been partnering with us in this initiative; and all market players who have played key roles in this process, but more importantly those who came here today to take part in the launch of the second phase of the Kenya Credit Information Sharing Mechanism. I do believe that with your support we can achieve the desired results of the second phase and that the ambition of developing a fully-fledged financial infrastructure will become a reality soon in Kenya.

With these few remarks, I wish to declare the second phase of the Credit Information Sharing Project officially launched.

Thank you all and enjoy the evening!