

## **Patrick Njoroge: Credit Information Sharing for innovation and financial inclusion**

Speech by Dr Patrick Njoroge, Governor of the Central Bank of Kenya, at the 3rd Regional Credit Information Sharing (CIS) Conference, Nairobi, 23 February 2016.

\* \* \*

***Mr. Henry Rotich, Cabinet Secretary, The National Treasury;***

***Dr. Louis Kasekende, Deputy Governor, Bank of Uganda;***

***Dr. Charity Dhlwayo, Deputy Governor, Reserve Bank of Zimbabwe;***

***Mr. Wagara Melchior, 1st Vice Governor, Bank of Burundi;***

***Representatives of the Bank of Mexico, Bank of Zambia, BCEAO;***

***Representatives of the World Bank and IFC;***

***Mr. Habil Olaka, CEO, Kenya Bankers Association;***

***Mr. Charles Ringera, CEO Higher Education Loans Board & Chairman, CIS Kenya***

***Distinguished Guests, Ladies and Gentlemen:***

Good morning. It is a great pleasure to be here with you today, to welcome all of you to the 3rd Regional Credit Information Sharing (CIS) Conference. In particular, I extend a special welcome to representatives of central banks from various countries around Africa and from Mexico. That we gather once again for the third regional conference is evidence that CIS is increasingly becoming a critical aspect of the financial system.

***Ladies and Gentlemen:*** The theme of this conference “***CIS for Innovation and Financial Inclusion-Mikopo Kisasa!***” is indeed timely as it resonates with the objectives we have set to drive the Kenyan financial sector. These objectives include innovation, lower cost of credit, transparency and disclosure. Having an inclusive financial sector goes beyond mere access to financial services to include consumer protection and making sure that the duty of care owed by financial institutions to their customers is well executed. In addition, the provision of sufficient information to assist consumers in making informed financial decisions is a fundamental enabler in enhancing financial inclusion.

As you are all aware, information asymmetry in the financial sector is very prominent and as such one of the hindrances to deeper financial inclusion. To eradicate this, transparency in the pricing of credit by commercial banks and other financial institutions cannot be over emphasized. It is in this regard that the Central Bank of Kenya has started publishing the average lending rates for various loan products as well as the overall average weighted lending rates by commercial banks. This will enable the borrowing public to make informed borrowing decisions, which in turn will facilitate a competitive banking sector with high quality and reasonably priced products.

I know that the topic of low cost of credit has been over-analysed. However, this conference brings together creative minds that can innovate new affordable products designed to suit the needs of the customers at the bottom of the pyramid. This would also require financial institutions to align business models to support, especially, Small and Medium Enterprises (SME) lending. Further, lower cost of credit can also be achieved through continued collaborative efforts between actors in the sector to develop innovative distribution channels. It is therefore paramount that financial institutions embrace financial innovation in order to enhance coverage of financial services and reduce transaction costs, particularly through electronic and mobile money transfers.

With regard to innovation, I would like to note that CIS is one of the most inventive mechanisms in Kenya that has contributed immensely to the development of the financial sector. Despite being a young concept, the success achieved by CIS is remarkable. This has been duly recognized in Kenya's enhanced rankings in the World Bank Doing Business Report, 2016. In the Ease of Getting Credit Indicator, Kenya emerged position 28 globally. This is a significant improvement from position 118 in 2015, largely attributed to the developments in the CIS environment such as the sharing of full file data by both Commercial and Microfinance Banks.

However, ladies and gentlemen, despite this remarkable progress, we have three critical concerns that I present as challenges to the credit market regarding CIS.

First, it is said that lenders are quick to inform consumers when their credit profile is poor, but are mute when the score is good. Consequently, borrowers only know about the credit bureau when there is a problem. This needs to change. Banks in Kenya have been sharing positive data for two years now, and therefore must begin to inform and reward their low risk customers with better terms.

Secondly, lenders must be willing to invest in efforts to ensure highest standards of data quality. This is important because a borrower's credit report is a score-card on the character of individuals and corporates. It is imperative that every effort is made to provide accurate and updated information on each of their customers, without regard to status or social standing.

Thirdly, there is need to address consumer complaints associated with credit information as promptly as possible. Where these issues escalate to disputes, lenders should explore alternative dispute resolution mechanisms. I am confident that the deliberations regarding Alternative Dispute Resolution, which are part of this conference, will provide insights into the critical aspects of consumer protection that are needed to ensure credibility of the whole mechanism.

On our part as the Central Bank, we will continue to play our supervisory role effectively, and ensure that we monitor very closely compliance with CIS reporting requirements, given that sharing comprehensive information on a timely basis is the only way this mechanism can reach its full potential. It is important to note that central banks are also beginning to explore effective use of credit information to strengthen banking supervision. I am informed that the Bank of Mexico offers a useful case study that will be discussed in the first session of this Conference. It is important that central banks invest in the analytical skills needed for effective utilization of the data for supervision and monetary policy.

I wish you all very fruitful discussions as you share experiences that will shape the future of CIS in Kenya, Africa and beyond. It is now my distinct pleasure to welcome Cabinet Secretary Henry Rotich to officially open the conference.

Karibu Bwana Waziri!

Thank you.