

## EDITORIAL

The year started with what could be one of the most significant developments for increasing financial inclusion in many years. This comes from a small change in the legislation but one which could have far reaching consequences. An amendment to the Banking Act (passed as part of the Finance Act 2009) will allow banks to start using agents to deliver financial services. The use of small shops, petrol stations, pharmacies and other retail outlets as agents could have a dramatic impact on improving access to financial services, especially in rural areas.

Using retail outlets as bank agents offers two important contributions to improving access. First, it provides a potentially much lower cost channel compared with branches. Recent impact research undertaken by FSD shows, unsurprisingly, that cost remains an important constraint to financial service use by many people. Second, many people live and work a considerable distance from the nearest bank branch. Reaching the bank currently imposes a significant burden in terms of both time and travel cost. The extraordinary growth in use of the M-PESA mobile transfer system operated by Safaricom suggests that accessibility is a key factor in uptake of service usage. With more than 13,000 M-PESA points of presence countrywide many more people are now within affordable reach of one source of financial services.

With commendable speed the Central Bank of Kenya (CBK) has already moved to establish the new regulatory framework. FSD was pleased to have been able to support this process through an analysis of the policy options commissioned from one of the leading international firms in this area. The findings, together with an outline of the draft guidelines, were presented to industry stakeholders at a workshop in early January. It is intended that the guidelines will be finalised this quarter. Big changes can therefore be expected soon in the way in which we all access financial services. Many questions of course remain. Perhaps the greatest concern is the impact on competition. Will a few players develop and monopolise large agent networks or will this new infrastructure be effectively shared across the industry increasing the choices for all including low-income consumers?

**David Ferrand**  
Director

## NEWS AND VIEWS



Thousands of herders in arid areas of northern Kenya are set to benefit from a livestock insurance product launched in Marsabit on 22nd January 2010. Billed as a world first, the project uses satellite images of available grazing to determine when payouts occur. The project was developed by the International Livestock Research Institute (ILRI) with support from FSD, UK's DFID, USAID and the World Bank. Equity Bank and UAP Insurance are administering the new scheme. If successful, its expected to be expanded to other parts of East Africa.

### Consumer protection in financial services

Consumer protection encompasses all means necessary to safeguard the interests of consumers and empowers them to know their rights, their responsibilities as well as available recourse mechanisms that exist to protect them when things go wrong. An educated consumer is able to make wise and informed decisions when buying financial services. The Financial Education Partnership (FEP) has constituted a consumer protection working group which has commissioned a diagnostic study to assess: (1) financial consumer protection concerns among various interest groups including consumers and providers of financial services; (2) the existing financial consumer protection laws, regulation and implementation thereof; (3) the current regulatory set-up for financial consumer protection, its performance and any gaps or ambiguities of jurisdiction; (4) judicial and non-judicial processes of resolving consumer disputes, redress as well as alternative dispute resolution mechanisms. This includes the existence and effectiveness of recourse mechanisms offered by financial service providers. The findings will be discussed widely as a part of a process to strengthen consumer protection in Kenya.

### SACCO regulation

Savings and credit co-operatives (SACCOs) represent a major element of the financial system and provide services to a large number of low income households in Kenya. The FinAccess 2009 study indicates the strategic importance of the SACCO movement in Kenya to pro-poor financial sector development, with 9% of the adult population using SACCOs. By comparison, 3.4% use micro-finance institutions and 22.6% commercial banks. SACCOs are one of the leading sources of rural finance and in many rural

areas the local SACCO is the only provider of financial services.

The Ministry of Co-operative Development and Marketing is moving forward with the implementation of the new regulatory framework for deposit taking SACCOs. Last year saw intensive work by a joint Government-industry taskforce. The taskforce developed the draft regulations required under the new Sacco Societies Act 2008 and a plan for the establishment of the Sacco Societies Regulatory Authority (SASRA). FSD was delighted to provide technical support to the taskforce. Both reports were formally handed over to the Ministry by the end of the year, as planned. Meanwhile, a new SASRA board was appointed by the Government. It has already started work and is busy with the process of recruiting a chief executive and senior management team. Consultation on the draft regulations with industry stakeholders will start shortly. FSD and other stakeholders are now actively looking at how best to help the SACCO movement adapt to the new regulatory order.

### SACCO automation

Lack of suitable information systems that would support the SACCO businesses and ensure generation of accurate and reliable management reports is already a problem to many SACCOs and unless resolved will pose a major challenge in meeting the regulatory requirements. FSD Kenya recently supported a rigorous analysis of the automation options available to SACCOs, focusing on the large and medium scale - the primary target for regulation. The work, undertaken by Accenture, has produced recommendations on appropriate automation solutions for SACCOs. FSD will shortly be disseminating the results to the SACCO movement.

## CREDIT INFORMATION SHARING COMING TO KENYA



A potential SME client at a FINA Bank branch in Nairobi. Small and medium enterprises stand to benefit from increased access to credit resulting from credit information sharing.

2010 has arrived and there is a real sense of optimism and enthusiasm in the financial sector that this is the year Kenyans begin to benefit from the sharing of information about the public's borrowing habits. In August 2009, the joint KBA/CBK task force on credit information sharing implementation hired a project manager to guide the banking sector in implementing the requirements of the 2008 Banking Act (Credit Bureau) Regulations.

As of December 2009, the banks had agreed and approved the specification of the data that is to be shared with licensed credit bureaus. Three potential credit bureaus had applied for licences from the CBK and one, CRB Africa, has been issued with a letter of intent. It is anticipated that it will begin operating under a licence early this year. All of the banks are expected to participate in a data submission pilot scheduled for February 2010. This pilot will inform the project on the need for further preparatory or remedial work before setting a go live date.

**With a report from a credit bureau on prospective borrowers, a lender will be better able to assess both the borrowers' ability and willingness to repay.**

There are many benefits of a well functioning system of credit information sharing between providers. The most obvious of these is the reduction of risk due to information imbalance between lender and borrower (information asymmetry). In almost all cases, this imbalance favours the

borrower who knows far more about his/her own financial state than a lender ever will. With a report from a credit bureau on prospective borrowers, a lender will be better able to assess both the borrowers' ability and willingness to repay. This leads directly to better quality loan portfolios held by lenders and risk based pricing where borrowers with a demonstrated propensity to pay will receive lower interest rates.

Small and medium enterprises stand to benefit from increased access to credit resulting from credit information sharing. Sole proprietorships and small limited liability companies usually have a credit profile that resembles the owner. If the owner has a good repayment history on personal loans, it is likely that the business will also and once this information is known, the business is viewed more positively by lenders.

The success of the credit bureau initiative ultimately depends on how well understood and accepted the objectives are by all the stakeholders, including most importantly the general public whose reports will play a big role in increasing their ability to access credit. The education challenge ahead is highlighted in the FinAccess survey of 2009 which found that 77% of the Kenyan adult population had never heard of credit bureaus while of the 23% that had, 12% had no idea what it actually meant.

FSD is supporting the Kenya Bankers Association and the Central Bank of Kenya by funding a well designed public awareness campaign which it is hoped will considerably improve these statistics. Along with increasing understanding, it is necessary to gain positive acceptance. Since a good credit reports results in more competitively priced loans, potential borrowers should actively request their financial institutions to share their good repayment history.

**The introduction of credit information sharing is among the most significant and positive changes to the infrastructure of the financial sector that has taken place since the sector opened up in the early 1990's.**

Kenyans with access to the financial sector have interactions with a multiplicity of financial institutions including banks, venture capital companies, housing finance firms, micro-finance institutions, SACCOs and insurance companies. The current phase of the credit information sharing implementation project only provides for bank participation. Many studies make the point however that the more comprehensive the information is the better. Moving beyond bank data to capture credit information from non-bank financial institutions as well is the goal.

In order to allow for participation by non-bank financial sector players in the near future, the project envisions the creation of a Credit Providers Association which will have the task of monitoring data quality and timeliness of submissions, compliance with regulation on the part of credit bureaus and data providers and most importantly ensuring that complaints by the public are dealt with efficiently and fairly.

The introduction of credit information sharing is among the most significant and positive changes to the infrastructure of the financial sector that has taken place since the sector opened up in the early 1990's. It is encouraging that the business case for sharing credit information is now well understood in the banking sector. FSD Kenya remains committed to supporting the widespread adoption of this important technology in Kenya.

## EVENTS CALENDAR

- 24 - 25 February** **AITEC Banking & Mobile Money COMESA**, Nairobi - Kenya  
For full details of the conference, visit [www.aitecafrica.com](http://www.aitecafrica.com)
- 22 February - 13 March** **Certificate Programme in Microfinance Management (CPMM)**, Pretoria - South Africa  
Enrolment: [www.cebeatup.co.za/enrol/EnrolmentForm.pdf](http://www.cebeatup.co.za/enrol/EnrolmentForm.pdf) Information: [info.ce@up.ac.za](mailto:info.ce@up.ac.za)
- 15 - 26 March** **Youth-inclusive Financial Services**, Accra - Ghana  
For more information, visit [www.carseyinstitute.unh.edu/smdp/Ghana-main.html](http://www.carseyinstitute.unh.edu/smdp/Ghana-main.html)
- 15 - 27 March** **Sustainable Microenterprise and Development Program (SMDP)**, Accra - Ghana  
For more information, visit [www.carseyinstitute.unh.edu/smdp/Ghana-main.html](http://www.carseyinstitute.unh.edu/smdp/Ghana-main.html)
- 7 - 10 April** **Africa and Middle East Regional Microcredit Summit (AMERMS)**, Nairobi - Kenya  
[www.microcreditsummit.org](http://www.microcreditsummit.org)
- 4 - 7 May** **Mobile Money Transfer Africa Conference & Expo**, Nairobi - Kenya  
[www.mobile-money-transfer.com/africa](http://www.mobile-money-transfer.com/africa)

**FSD Kenya is an independent Trust established to support the development of inclusive financial markets in Kenya**

4th Floor Kenya Re Towers, Off Ragati Road, Upper Hill | P.O. Box 11353, 00100 Nairobi, Kenya

T +254 (20) 2718809, 2718814 | +254 (724) 319706, (735) 319706 E [info@fsdkenya.org](mailto:info@fsdkenya.org) W [www.fsdkenya.org](http://www.fsdkenya.org)