



The Kenya Credit Providers Association Roadmap 2010-2015

ABOUT FSD KENYA

Established in early 2005, FSD Kenya aims to support the development of inclusive financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry our goal is to significantly expand access to services among lower income households and smaller scale enterprises. FSD operates as an independent Trust under the supervision of professional trustees, with policy guidance from its programme investment committee. Finance is provided by a number of development partners including the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation together with the Government of Kenya.

Material in this briefing note has been extracted from the *Kenya Credit Providers Association: Roadmap 2010-2015* report. This can be downloaded from the publications section of our website, www.fsdkenya.org.

THE KENYA CREDIT INFORMATION SHARING INITIATIVE (KCISI)

The Kenya Credit Information Sharing Initiative (KCISI) was established in August 2009 as a joint venture between the Central Bank of Kenya (CBK) and the Kenya Bankers Association (KBA) to coordinate the implementation of a credit information sharing mechanism in Kenya. It is jointly funded by the KBA, CBK and the Financial Sector Deepening (FSD Kenya), while some of the activities are funded by Financial and Legal Sector Technical Assistance Program (FLSTAP) through CBK. KCISI is currently housed at the KBA premises.

Among its immediate functions KCISI is charged with the responsibility of:

- overseeing the setting up of a data transmission mechanism that enables standard data exchange between member banks and the licensed bureaus.
- creating awareness and sensitization of bank staff, borrowing customers and general public on the merits of credit information sharing (CIS).
- setting up structures to ensure sustainable comprehensive CIS in Kenya, by incorporating other creditors outside the banking sector.

For more information on this initiative, please visit www.kenyacreditinfo.com.



KCPA Roadmap 2010-2015

INTRODUCTION

The introduction of mandatory submission of non-performing loan (NPL) data by Kenya's banking industry marks an important step of credit information sharing in the country's credit market. This achievement was the culmination of approximately ten years of deliberation during which time various laws and regulations were passed and a credit bureau licensed. After an extensive testing stage of the data transmission mechanism between February and June 2010, the process was considered ready for rollout on 31st July 2010.

On July 13th, the Governor of the Central Bank of Kenya, Prof. Njuguna Ndung'u, in a press briefing called to announce the roll out of credit sharing information, emphasized the need for sharing of both positive and negative information to guarantee realization of full benefits of the mechanism. He was pleased to note that the KBA is liaising with member banks on modalities of sharing and building information capital that goes beyond the currently mandated negative information.

WHY SET UP A CREDIT PROVIDERS ASSOCIATION?

Data submission among banks is currently managed by the Kenya Credit Information Sharing Initiative (KCISI), jointly conceived by the CBK and Kenya Bankers Association (KBA). Although residing in the offices of the KBA, the KCISI operates as part de facto arm of both the CBK and KBA, has no legal status and is currently funded by a mixture of one donor, a bank and the KBA. For a number of reasons, KCISI's current "fluid" arrangement is not tenable in the medium to long term.

There is need to review KCISI's strategic role in the anticipated voluntary sharing of positive credit information to complement the mandatory submission of NPL data. The expanded scope will involve the inclusion of non-bank sectors as part of a future credit information framework for Kenya that will help introduce information symmetries.

Currently, there exists no single institution in Kenya that has an over-arching strategic focus to build an inclusive credit information market. This gap is to be filled through the formation of a Kenya Credit Providers Association (KCPA), a non-profit body representing all credit providers who voluntarily choose to join its membership. The proposed formation of the Association is considered an important step in the evolution of the Kenyan Credit Information sharing market. KCPA will provide a self-regulatory framework by which consumer and commercial credit data is shared between all the members of the Association. The cornerstone of membership to the KCPA is based on reciprocity: a member has to share data in order to be able to receive data.

The regulatory regime and consumer protection measures for credit information available in Kenya are well within accepted international standards. However,

a number of reforms will be needed to scale up the scope of credit information sharing. First, the current regulations only apply to licensed institutions under the CBK, thus placing on the CBK the sole responsibility for regulatory oversight. Secondly, there is no mention in current regulations as to which entity is going to attend to dispute resolution. An industry solution in the form of an independent arbitrator will be required to undertake this role. Finally, data privacy/protection legislation will be required to ensure adequate consumer protection whilst simultaneously fostering an environment of credit information sharing. KCPA will provide an ideal lobby forum for a concerted attempt to introduce comprehensive and uniform legislation across the credit provider industry.

MEMBERSHIP OF KCPA

Membership of the Association will be open to any form of a registered company or a sole trader who undertake transactions with members of the public whether they be individual consumers, groups of individuals or commercial entities. Membership will be based on the following:

- Must be a registered entity as duly provided under the laws of Kenya
- Licensed with the relevant regulatory authority in terms of the Kenyan regulatory environment
- Must be able to participate in data submission on a "see and share: basis of reciprocity";
- Must submit data in the agreed format, as amended from time to time, by the KCPA,
- Must abide by the constitution and code of conduct of the KCPA; and
- Membership fees must be fully paid up and up-to-date.

Three types of membership are envisaged. All categories of membership will be at the discretion of the Management Committee of the Association. The categories are:

- Full membership – this will include all credit providers who are involved in consumer and/or commercial lending, terms of which require regular payment to be made. These will be members who share or intend to share full repayment history. These members will have full voting rights, subject to their size.
- Associate membership – these are open to any licensed bureaus that process consumer and/or commercial records. This class of membership has no voting rights.
- Affiliate membership – these apply to operators in the consumer or commercial credit market who have no intention of sharing data but aligns itself with the objectives and activities of the association.

BENEFITS OF MEMBERSHIP

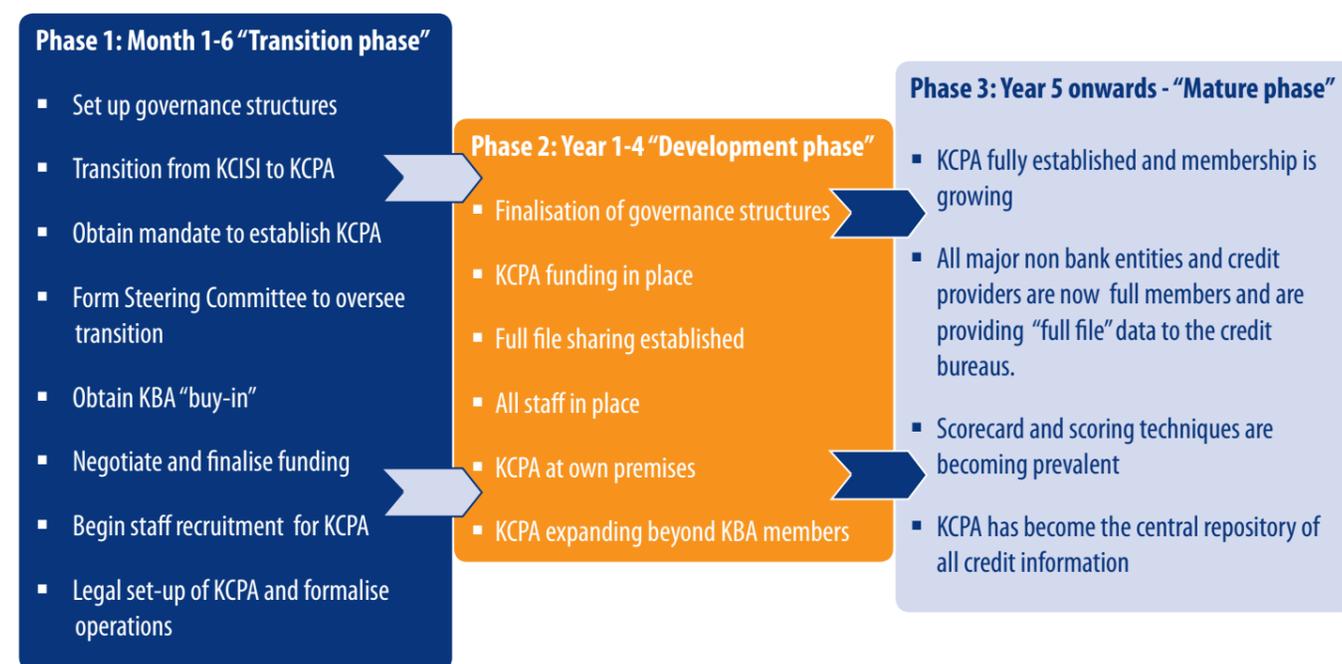
- More meaningful risk assessment in evaluating credit applications through participation in the ever-growing shared repayment history database of consumer credit information, with the ultimate benefits of an improved debtor's portfolio, better cash flow and lower bad debts.
- Customer tracing or address updating becomes easier with a regular inflow of information from members into the shared databases.
- Availability of information and advice on consumer credit granting and related matters via the Director.
- Communication with and/or representation by the Director as spokesman for the Association, to any bodies on any matters affecting, or which may affect, or are of concern, or are in the interests of members.
- Regular liaison by the Director with other Associations on matters of common interest or concern so that we may work together to provide mutual support.
- As a combined Association, has a powerful voice on all consumer credit granting and related matters.
- As membership means upholding the Association's Code of Conduct, this can assist members in reinforcing their standing and integrity with consumers, consumer bodies, government and in all other aspects.

- Improving services from Credit Information Bureaus as well as the development and introduction of new services to meet members' needs.

ROADMAP FOR GROWTH OF THE CREDIT INFORMATION SHARING MARKET

The Kenyan credit information market can be categorised as being in its inception phase (phase 1). After an estimated 12 month period, the data submissions will be expected to run smoothly with all licensed institutions sharing negative data (NPLs). The Kenyan market will only start realising its full potential once it accomplishes the sharing of both positive and negative information (phase 2) for at least a period of two years when meaningful payment profiles of individuals would have been established over that period. Finally phase 3 can be regarded as the most desired position in any market where there is full data sharing with a variety of value added services on offer. We estimate that the Kenyan credit market can reach some maturity within five years time, provided that positive data submission amongst at least all licensed institutions commences no later than 2011.

The key tasks must be undertaken in each phase are outlined in the figure below:



CONCLUSION

The Kenya credit information sharing environment has in recent years experienced pertinent milestones that has resulted in the passing of relevant laws and legislation; establishment of data standard manuals; licensing of Kenya's first credit bureau; and commencement of the submission of the first data series of non-performing loans by licensed commercial banks expected in July 2010.

In order to move the process to the next level, there is a clear case for the establishment of a Kenya Credit Providers Association to pursue the following objectives:

- Promote full file information sharing on a voluntary basis amongst all credit providers;
- Represent the interests of all credit providers in policy and regulatory reform;
- Undertake education and communication initiatives;
- Disseminate credible credit market information on a regular basis;

There is need for early consultations among the relevant parties to enable the registration and mobilization of membership to bring this Association to a reality within the first six months of this roadmap.