Kenya's credit market landscape

Demand-side analysis of credit records held by Creditinfo CRB

fsd Kenya

CIS Kenya
Towards a more open credit market

CREDITINFO

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August 2024

About FSD

Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy while improving financial health and capability for women and micro and small enterprises (MSEs).

FSD Kenya works closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, micro and small enterprises, and underserved groups such as women and youth face.

Current FSD Kenya funders are UK International Development, the Swedish International Development Cooperation Agency (Sida), The International Fund for Agricultural Development (IFAD), and the Bill & Melinda Gates Foundation.

About CIS Kenya

The Credit Information Sharing Association of Kenya (CIS Kenya) was established to institutionalize the National Credit Information Sharing (CIS) Forum, which was created in early 2012. The Forum brought together both bank and non-bank credit providers to map out the way forward for implementing full file comprehensive credit information sharing in Kenya.

Before CIS Kenya's formation, the Kenya Credit Information Sharing Initiative (KCISI), a partnership between the Central Bank of Kenya (CBK) and the Kenya Bankers Association (KBA), spearheaded the implementation of credit information sharing in the country. CIS Kenya was officially launched on September 24th, 2013, originally known as the Association of Kenya Credit Providers (AKCP). Its Governing Council was constituted shortly after during its first AGM in November 2013. In mid-2014, CIS Kenya embarked on a strategic planning exercise to define its five-year focus from 2015 to 2019.

About Creditinfo Kenya

Creditinfo Kenya is a licensed and regulated entity by the Central Bank of Kenya (CBK). Under the CBK's legal framework, Creditinfo's core business is the provision of information related to credit. We offer services that cover every stage of the customer life cycle, helping banks and other credit providers evaluate prospective customers, monitor the performance of existing ones, and manage any debts they may have incurred. Our approach involves collecting data from a wide array of sources, transforming it into valuable intelligence, and making it available to our subscribers.

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1. Introduction

For many credit consumers in Kenya, access to appropriate and affordable credit remains out of reach. Not infrequently, borrowers seek more expensive and less formal options to meet their credit needs. Data from the 2021 FinAccess survey reveals that 60.8% of households have access to some form of credit. However, 33.4% of credit is provided by informal sources which are disproportionately used by women (38.1%) compared to men (28.4%) and often at higher costs. The usage of informal credit reflects the changing landscape of Kenya's credit market that has become relatively diverse. Over the years, there has been a shift from credit largely provided by traditional deposit-taking institutions like banks to new entrants from the non-bank sector. Only13% of traditional bank customers (13.6% male and 11.6% female) have borrowed from their banks compared to 55% of the members of informal groups (49% male and 58.9% female).[1]

To some extent, this changing landscape points to market failures and other inefficiencies that constrain the allocation of productive credit to where it is needed the most. In the Kenyan context, there is widespread acknowledgement that Micro, Small and Medium Enterprises (MSMEs) are at the heart of a vibrant private sector. While accessing finance remains a challenging task for most firms, the constraints often tend to be more difficult to overcome for MSMEs than for larger firms. Supply-side analysis of MSME access to bank credit published by the Central Bank of Kenya (CBK) shows that while the cumulative value of MSME bank loan portfolio rose by 121% between 2017 and 2022, the proportion of MSME loan portfolio to the total banking sector loan book only rose by 2.1% over the same period. [2] From the 2021 FinAccess Survey, only 2% of business owners were registered in 2021, down from 9% in 2018. From this perspective, banks are serving a very small segment of the MSME market, the majority of whom invest in and cultivate informal relationships for financing. However, there is acknowledgement among MSMEs that reliance on such informal relationships comes with significant limitations.[3]

While some data is currently being collected and reported on the functioning of Kenya's credit market, it mostly covers specific supply-side segments without providing a complete picture of the entire credit market. CBK, for instance, has in recent years published reports on banks' lending to MSMEs and the agricultural sector. However, the reports only cover credit provided by commercial banks at an aggregate level. Credit Reference Bureaus (CRBs) on the other hand, aggregates credit data from several sources and as such, overcome the limitation of analysis and reporting based on data from only one segment or source.

This report represents an extension of collaborative efforts by FSD Kenya and CIS Kenya to close the evidence gaps on Kenya's credit markets through the utilization of credit bureau data.

This report is based on data held by Creditinfo, one of the three licensed CRBs in Kenya.

There are two proximate and complementary objectives of this report. The first is to enhance the knowledge base on Kenya's credit market and form the basis of engaging stakeholders on market development and long-term policy implications. The second is to form the basis for informed and consistent messaging on the functioning of the Credit Information Sharing (CIS) mechanism, given previous policy pronouncements.

1.1. Kenya's Credit Information Sharing Mechanism

Part of the market failure in the credit market relates to information asymmetry. Credit

1 From FinAccess 2021
2 [2020]() and [2022]() Survey Reports on MSME Access to Bank Credit, Published by CBK
3 [PowerPoint Presentation (fsdkenya.org)]()

providers often have limited information on new borrowers' characteristics such as past borrowing and repayment behaviours that would provide an indication of repayment risk. Overcoming this information constraint has been the principal aim of the Credit Information Sharing (CIS) mechanism.

Kenya's CIS journey started with the amendment to the Banking Act in 2003 to allow commercial banks to share credit information amongst themselves. This was followed by the Credit Reference Bureau (CRB) Regulations that were gazetted in September 2008 to provide for the establishment, operations, governance and management of CRBs and their supervision by CBK.[4] The mechanism was formally launched by the then CBK Governor in July 2010. The initial data exchange arrangements involved 42 commercial banks sharing only negative data in a closed-user group through the then sole licensed CRB. Since then, the mechanism has undergone a major transformation leading to the current environment in which all regulated commercial banks, Microfinance Banks (MFBs), licensed SACCOs and Digital Credit Provider (DCPs) are required to share full-file data through the three licensed CRBs. At the same time, more than 2,000 unregulated credit providers are approved by CBK to participate in the mechanism.[5]

CBK provides regulatory oversight over the CIS mechanism through the Credit Reference Bureau Regulations (2020) anchored in the Banking Act. Coordination of the mechanism is spearheaded by the Credit Information Sharing Association of Kenya (CIS Kenya), formally established in 2013 to lobby for legal reform and support wider efforts towards strengthening the effectiveness and efficiency of the mechanism. The Kenya Bankers Association (KBA), the International Finance Corporation (IFC) and FSD Kenya have continued to complement these efforts.

The CRB Regulations, besides mandating regulated institutions to report certain customer information, also prescribe the credit data to be reported. Data sharing requirements are set out in a Data Submission Template (DST) that prescribes the specific fields and format of data to be reported. The DST categorises the fields into mandatory, voluntary and optional data. Reporting institutions that are mandated by law or approved by CBK are required to submit their customer data (including data on performing and non-performing loans) at least once every month by the 10th of the following month. Credit data related to mobile loans are required to be reported daily or on real-time basis.

As such, the data held at the CRBs is based on the data submitted by the institutions and validated by the CRBs to ensure compliance with standardised industry validation rules to ensure harmonised acceptance amongst the licensed credit bureaus. This process of data submission, validation, and rejection may affect the comprehensiveness of the data held at the CRB.

For the purposes of this report, this validated data is the one that has been used to underpin the analysis. Consequently, some data may not have been reflected in the report, having been rejected at the point of submission. In some instances, where the reporting institution did not comply with a certain field, the subsequent analysis did not include the data point thus compromising the completeness and accuracy of the analysis. As an example, in instances where the reporting institution did not define the gender of the borrower as either 'male' or 'female', the subsequent analysis and segmentation shows the genders as 'not specified'.

4 https://www.fsdkenya.org/blogs-publications/blog/credit-where-it-is-due-kenyas-credit-information-sharing-journey/
5 See list of approved TPCIPs

1.2. Data extraction and analysis

The analysis is based on credit records held by Creditinfo CRB that cover the 5-year period from January 2019 to December 2023 and segmented according to:

- Type of loan: digital vs non-digital. For the analysis, digital loans are defined as unsecured loans administered, distributed, and collected via mobile or digital channels.
- Type of provider: Bank, MFI, Sacco and digital credit provider.
- Type of borrower- Individual vs company (non-individual)
- Sex of the borrower (male vs female)
- Sector of the borrower

The process of extracting data from the Creditinfo databases utilized structured query language (SQL). To capture the dynamic nature of the credit landscape, the data was retrieved based on monthly updates (Bureau Snapshots). The extraction process and aggregations adhered to stringent data privacy and anonymization protocols to safeguard customer's sensitive information. Cross tabs were employed to uncover relationships and patterns between different categorical variables to shed light on the relationships within the dataset. Bar charts were used to provide visual representation of categorical data, offering a clear comparison of frequencies or proportions across distinct categories. Additionally, trend plots were utilized to explain temporal patterns and variations, enabling understanding of how variables change over the specified period. Together, these analytical methods contributed to a comprehensive exploration of the dataset, facilitating meaningful insights and robust conclusions.

It is important to note that certain policy interventions by the CBK in 2020 aimed at mitigating the adverse economic impacts of the COVID-19 pandemic, as well as the implementation of a Credit Repair Framework in 2022 influenced the consistency and comparability of reported data over the five-year period. For example, measures allowing retail customers and MSMEs to request loan extensions, along with the prohibition of unlicensed credit-only Microfinance Institutions from reporting credit data, impacted loan performance trends. It is therefore essential to interpret these trends within the context of these interventions.

1.3. Summary findings

Kenya's credit market can be surmised as being dominated by digital loans (in volume terms) provided by banks mostly to male borrowers. Banks continue to dominate the retail lending market, accounting for over 90% of the volume and value of digital and non-digital loans.

The study assessed that the number of unique borrowers has been on a steady increase on an annual basis, with 7.5m unique borrowers in 2019 compared to 11.4m unique borrowers in 2023. This constitutes both individual and non-individual borrowers (companies). The findings further show that on average, there were 6m unique male borrowers and 4.3m female borrowers in each of the five years. The increase in the number of unique borrowers is matched by an increase in the number of unique loans issued annually, with 37.58m unique loans issued in 2019 and 62.2m loans issued in 2023. In contrast, the aggregate value of loans disbursed annually has been on a decline, with KShs 2,067bn issued in 2019 compared to KShs 1,937bn in 2023. Male borrowers accounted for 61.4% of the total number of new loans issued between 2019 to 2023 which were almost double in value compared to the amount issued to female borrowers.

On average, there are 10m unique borrowers who have at least one digital loan annually compared to 1m for non-digital loans. Approximately 270m new digital loans valued at KShs 1,512bn were issued over the five-year period compared to 7.8m non-digital loans valued at KShs 8,282bn over the same period. There is, however, an observed decline in the average value of non-digital loans, from an average of KShs 8,353 in 2019 to an average of KShs 4,555 in 2023, a 45% decline.

The data shows that the number of new negative listings declined by more than half between 2019 and 2023. Whilst this can be attributed to changes in the regulatory framework on the treatment of negative listings, there is a marked decline between 2019 and 2020 which was before the regulatory changes. In 2023, 933,551 individual borrowers were negatively listed with Creditinfo CRB compared to 2,204,591 individuals in 2019. A significant number of negative listings are attributed to negative loans, accounting for as high as 94% of new negative listings in 2019. The data further shows that female borrowers have better repayment histories compared to men, accounting for an approximately of 36% of the new negative listings over five-year period, compared to 64% for men.

A significant number of borrowers that have a negative record have an outstanding loan balance of between KShs 1,001 to KShs 5,000. The data further indicates that a higher proportion of borrowers initially listed as having repayment difficulties with their loans (negative record) managed to fully repay them off after seven months and within one year. A significant finding is that 69% of borrowers that previously had a negative record were subsequently issued with a new loan. This is contrary to the public's perception that the CIS mechanism is a blacklisting tool and that a negative listing automatically precludes a borrower from accessing future loans.

2. Kenya's credit market landscape: 2019-2023

This section explores various dimensions of Kenya's credit market trends over the five-year period from 2019 to 2023. It examines the distribution of credit across various demographic and market segments including gender, age groups, loan categories and types of borrowers.

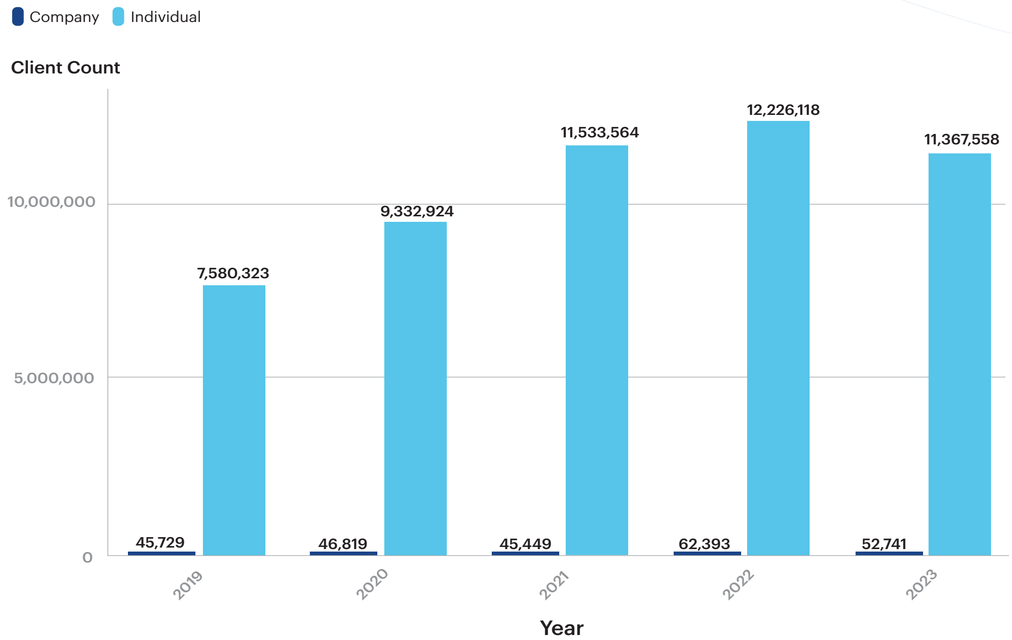
2.1. Volume and value of outstanding loans

Data on the volume and value of outstanding loans is presented in terms of both the number of unique borrowers (individuals and companies) and in terms of the number of unique loans.

2.1.1. Distribution by type of borrower

There was a significant increase in the number of unique individual borrowers over the five- year period, rising from 7.5 million borrowers in 2019 to 12.2 million in 2022 and then slightly decreasing to 11.3 million in 2023. This represents an average growth rate of 27% over this period. The number of company borrowers, or non-individual borrowers, also increased by approximately 36% over the five-year period. However, there was a slight dip between 2022 and 2023.

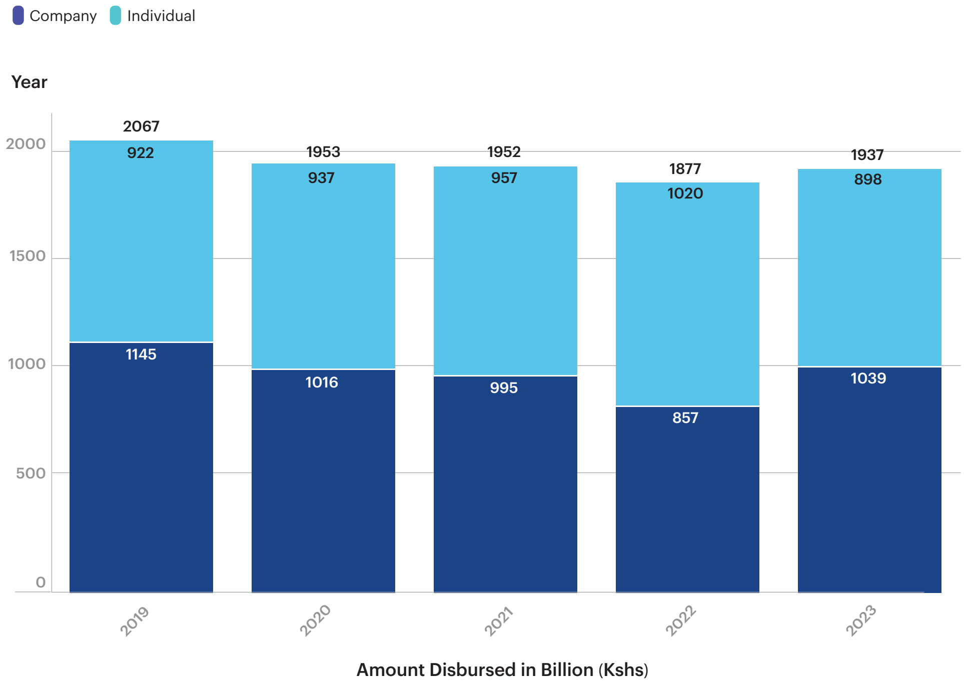
Figure1(a): Number of unique borrowers (individuals and companies) 2019-2023



While the number of borrowers has increased, the value of loans disbursed annually has been on a steady decline. The value of loans disbursed annually to companies declined from 2019, reaching the lowest point in 2022 before a slight recovery in 2023. The decline points to a tightening credit market due to a mix of macroeconomic factors and the COVID-19 pandemic that were exacerbated in by the effects of the General Elections in 2022. On the other hand, the value disbursed annually to individual borrowers increased between 2019 and 2022, before an almost 21% decrease in 2023.

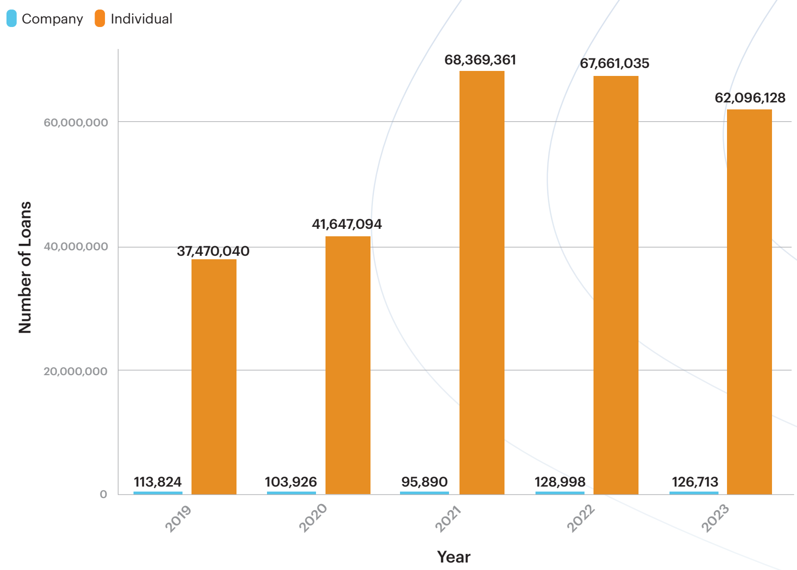
> **11.3m:**
> *Number of of unique individual borrowers in 2023*

Figure 1(b): Value of loans disbursed to individual and company borrowers



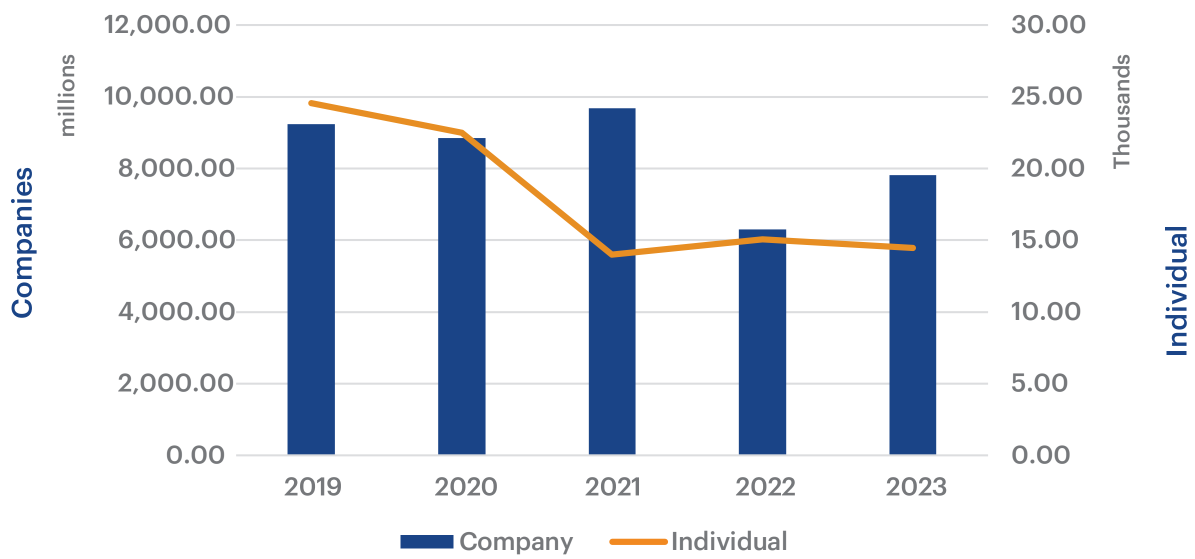
A different picture emerges in the analysis of the number of new loans to both individual borrowers and companies, revealing a consistent increase in the number of new loans disbursed in each of the five years. In 2021 there was a significant increase in the number of new loans to individual borrowers but a decline in the number of new loans to companies. The increase in the number of new loans to individual borrowers in 2021 might be attributed to a resumption in lending following the peak of the COVID-19 pandemic in 2020. However, the number of new loans to individuals in 2021 is significantly higher compared to the pre-COVID-19 levels, higher by 82% between 2019 and 2021 and by 64% between 2020 and 2021. Given that the numbers in 2022 and 2023 have remained at almost the same level as in 202, it is likely that the increase can be attributed to other factors beyond the COVID-19 recovery. The recovery for companies came a year later in 2022 and has remained at almost the same level in 2023.

Figure 2: Number of new loans by borrower type



The average loan value borrowed by companies between 2019-2021 was KShs. 9m, declining to KShs 6m in 2022. This is probably due to the subdued economic activity and high-risk environment associated with the 2022 General Elections. However, there was a recovery in 2023 to almost pre-2022 levels. A similar pattern is seen for the average loan sizes for individual borrowers where the average value was on a steady decline from 2019 with a sharp decline between 2020 and 2021. %. The observed decline in the average loan value to individual borrowers suggests that the growth in the number of borrowers seen in Figure 1(a) is primarily driven by the proliferation of low-value digital loans.

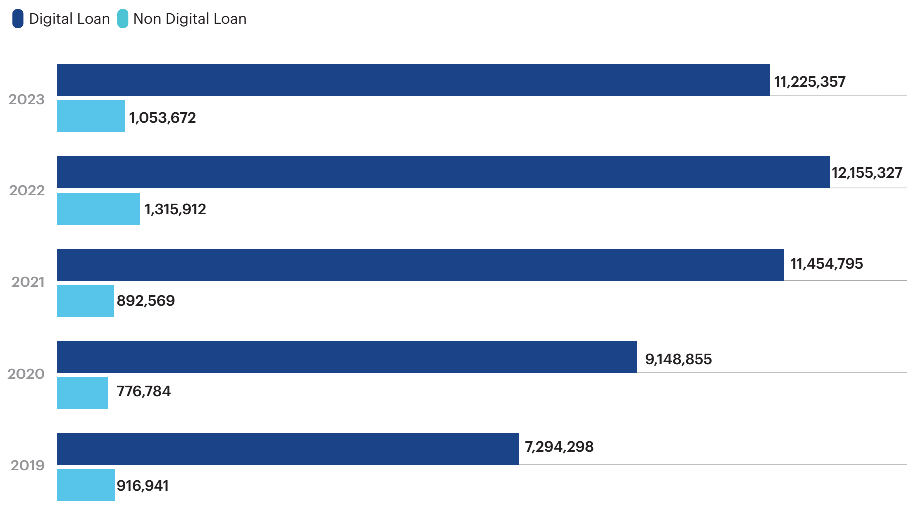
Figure 3: Average loan values by borrower type



2.1.2. Distribution by type of loan

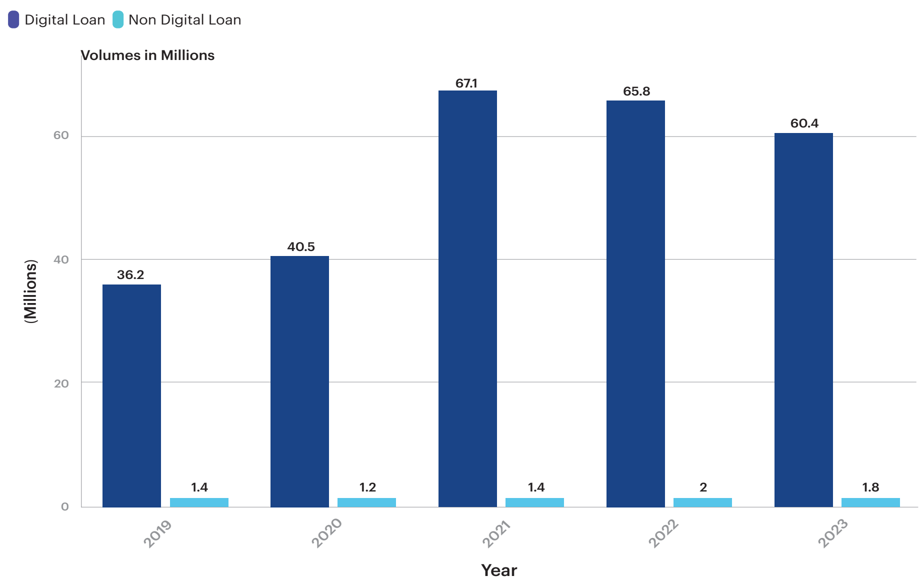
Segmentation by type of loan (digital and non-digital) shows that digital loans dominate the retail credit market, with an annual average of 10m unique borrowers having at least one digital loan compared to an average of less than 1m unique borrowers having at least one non-digital loan. The number of digital borrowers has consistently increased from 2019 to 2022, followed by a decline in 2023.

Figure 4: Number of unique borrowers with at least one digital and one non-digital loan



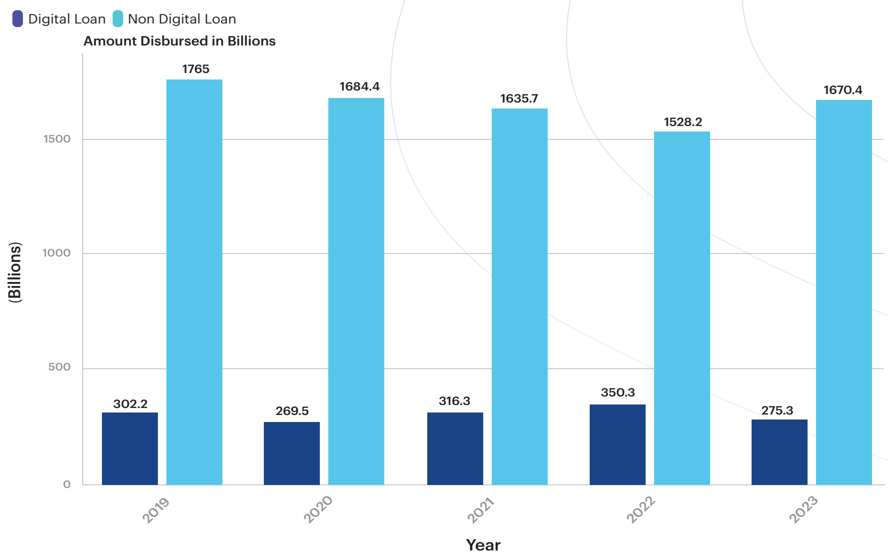
Likewise, there was a significant increase in the number of unique digital loans issued annually over the five-year period, from an annual average of 38m unique loans between 2019 and 2020, peaking to 67m unique loans in 2021 followed by a slight decline in 2022 and 2023.

Figure 5(a): Number of new digital and non-digital loans



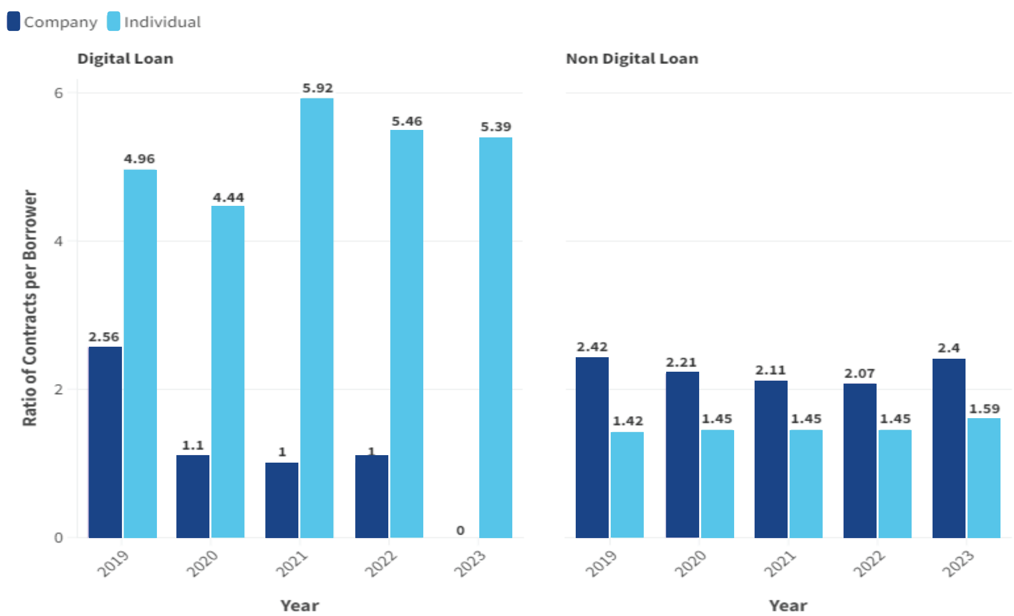
While digital loans accounted for a significant number of new loans disbursed over the period, they accounted for approximately 20% of the total value of new loans disbursed over the period as per figure 5(b) below with non-digital accounting for approximately 80% of the total value of loans disbursed over the review period.

Figure 5(b): Value of new digital and non-digital loans



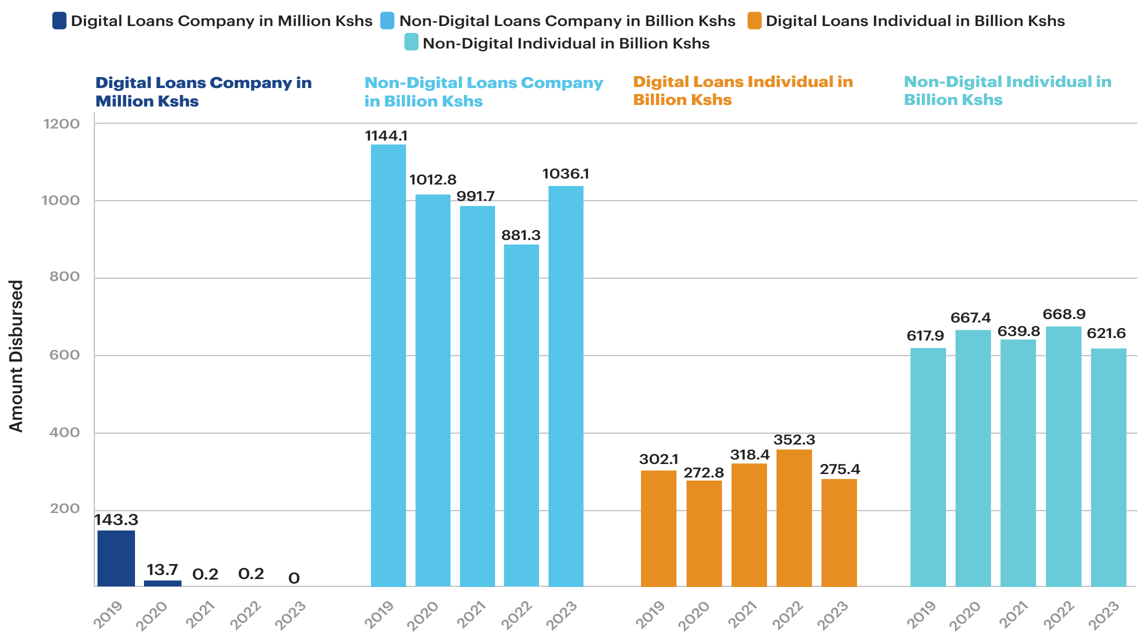
This is an indication of repeat borrowing as Figure 6 below shows that individual borrowers tend to hold more digital loans (approx. 5 loans per individual) compared to non-individual borrowers (approx. 1 loan per non-individual. On the other hand, non-individual borrowers hold on average a higher number of non-digital loans per borrower compared to individual borrowers.

Figure 6: Average number of digital and non-digital loans by borrower



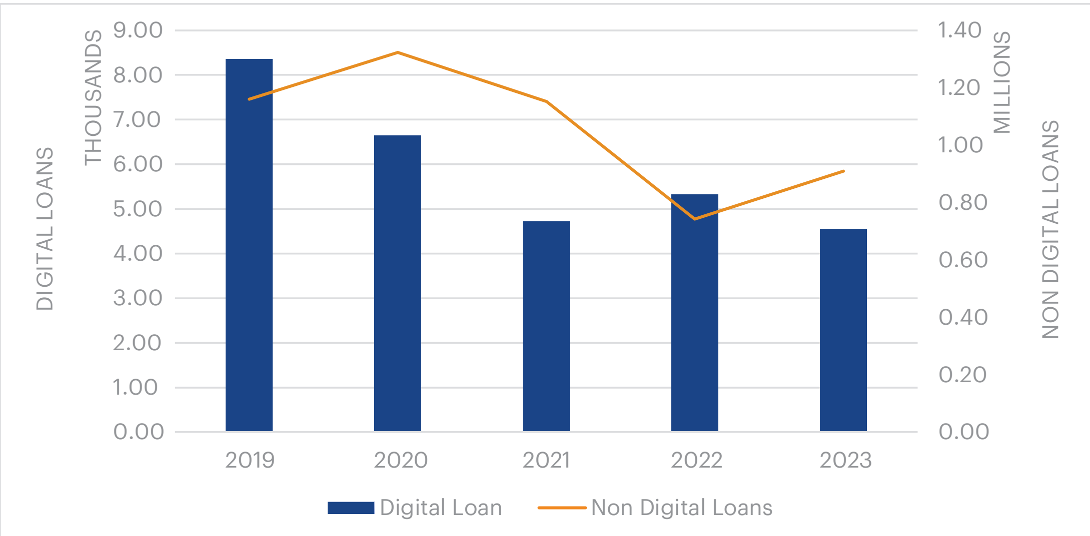
Segmenting the value of both digital and non-digital loans by borrower type shows a consistent decline in the value of non-digital loans to companies from 2019 to 2022 which is consistent with the decline in the total value of loans to companies as per Figure 1(b). Whilst this decline is followed by a recovery in 2023, it is not up to the 2019 level. In contrast, there is an observed increase in the value of digital and non-digital loans to individual borrowers, peaking in 2022 followed by a decline in 2023 for both types of loans.

Figure 7: Value of digital and non-digital loans by borrower type



An analysis of the average loan value for digital and non-digital loans shows a decline in the average loan value for digital loans, from an average value of KShs 8,353 in 2019 to an average of KShs 4,555 in 2023, a 45% decline. The average value of non-digital loans shows a mixed trend, increasing slightly in 2020 before a steady decline in 2021 and 2022 and a slight increase in 2023.

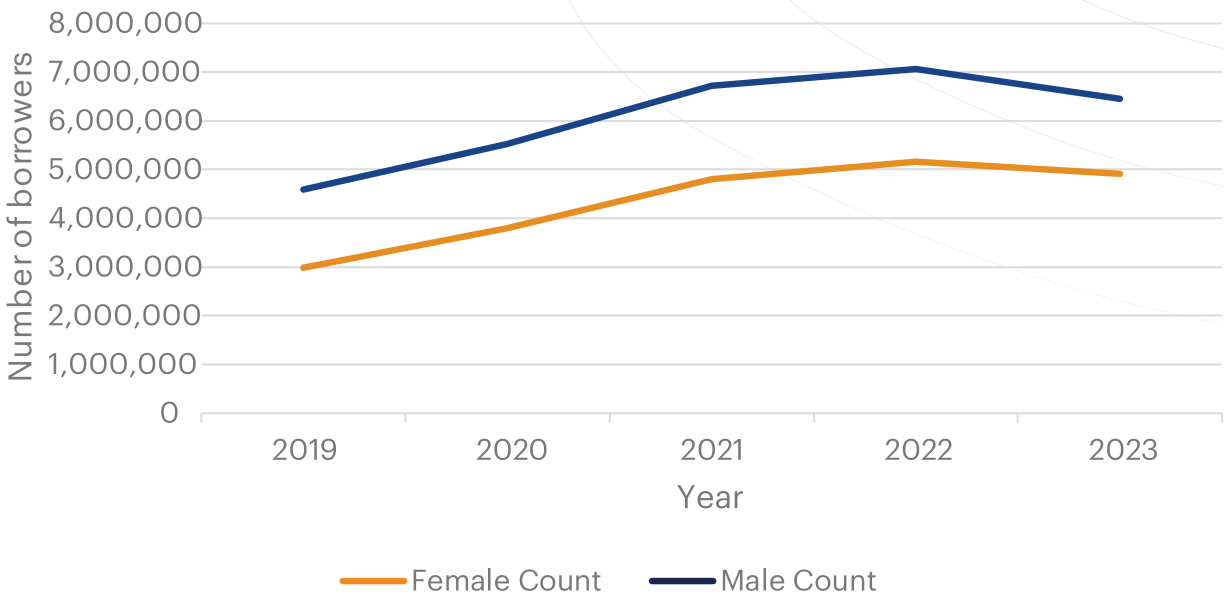
Figure 8: Average value of digital and non-digital loans



2.1.3. Distribution by sex of the borrower

Studies have shown that women face more restrictions compared to men in accessing credit and are likely to face higher borrowing costs.6 From the analysis, whilst there has been a steady increase in the number and values of loans disbursed annually, there were significantly more male than female borrowers who accessed credit in each of the five years under review. On average, there were 6m unique male borrowers in each of the five years, compared to an average of 4.3m unique female borrowers. One striking observation is the consistency of the gap between male and female borrowers, pointing to the continued failures to bring more women within the reach of formal credit markets.

Figure 9: Number of male and female borrowers



The lack of parity is even more significant in terms of the number (Figure 10a) and the gross value of value of loans disbursed (Figure 10b) to male and female borrowers. In each of the five years, the value of loans disbursed to male borrowers was almost twice the amount disbursed to female borrowers. Once again, there is an observed consistency in the gender gap with the highest gap recorded in 2019 (KShs 420.6bn) and the lowest in 2023 (KShs 356.1bn). Altogether, the missed opportunities for credit providers over the 5-year period was KShs 1,988.9bn in loans that would have gone to deserving yet underserved female borrowers.

> *There is an observed consistency in gap between the number and rate of loans issued to male and female borrowers*

6 Pablo de Andes et al, 2020. The gender gap in bank credit access. Journal of corporate finance. Accessed [here]

Figure 10(a): Number of loans disbursed to male and female borrowers

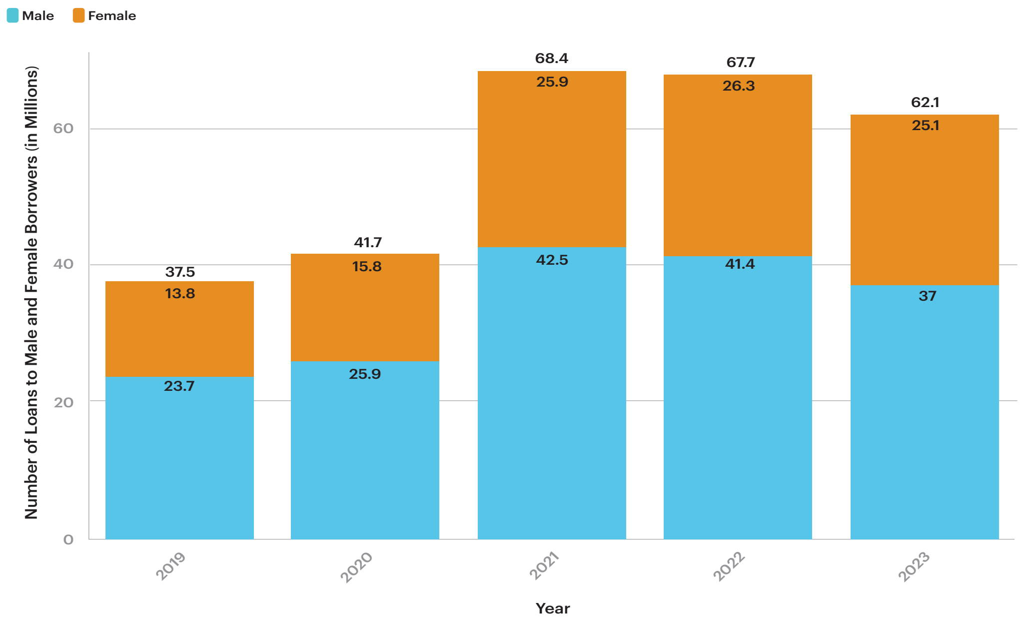


Figure 10(b): Value of loans to male and female borrowers

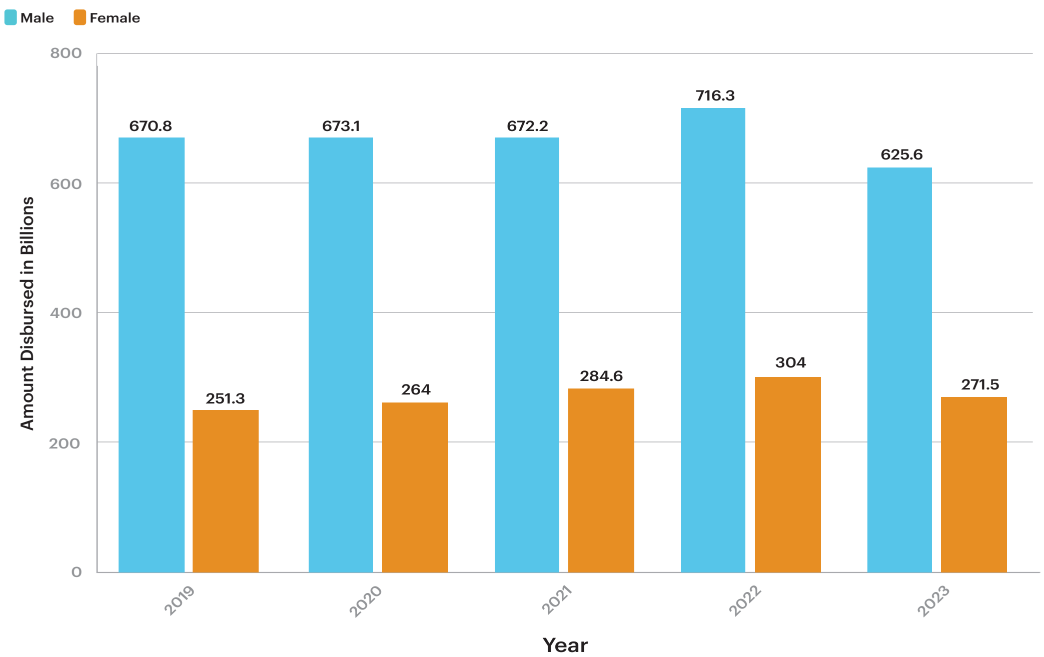
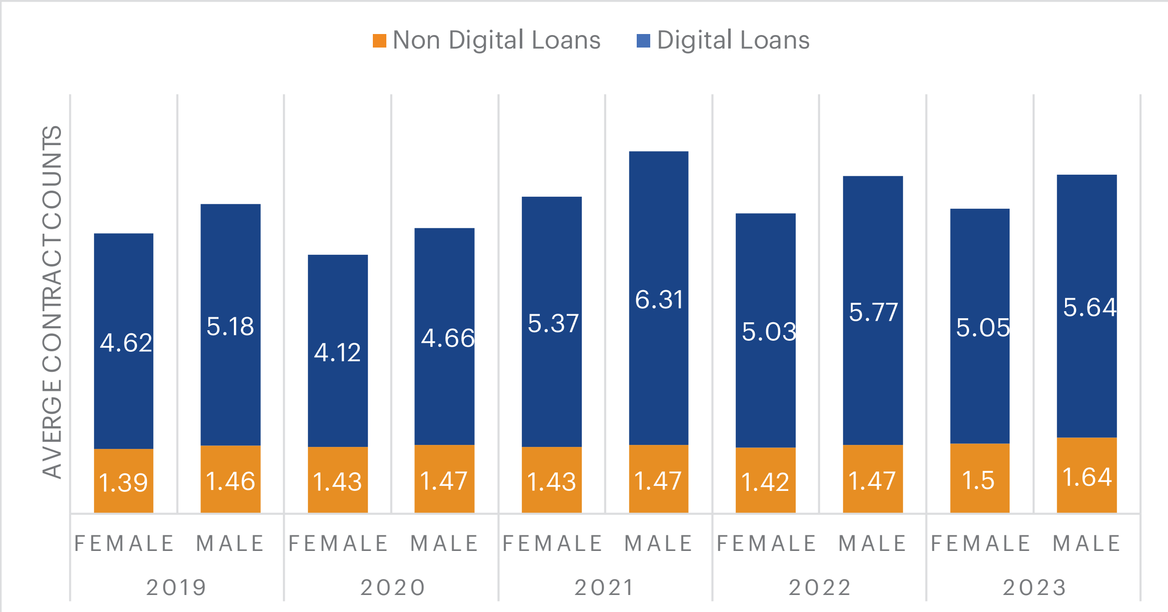


Figure 11 below shows the average number of loans held by male and female borrowers. We note that the average number of non-digital loans held by male and female borrowers is almost at par but with male borrowers having slightly more digital loans that female borrowers. Over the 5-year period, a male borrower had an average of 5.5 digital loans annually compared to 4.8 loans by a female borrower.

Figure 11: Average number of loans held by male and female borrowers



2.1.4. Distribution by provider type

From Figure 12(a) and Figure 12(b) below, banks accounted for a significant share of the total volume and value of digital loans disbursed in each of the 5 years. The volume of digital loans disbursed by banks steadily increased from 2019 to 2021 before a decline in 2022 and 2023. This is consistent with other studies that point to the popularity of bank products even with the proliferation of non-bank digital credit providers (DCPs).[7] Changes to the regulatory environment might explain the sharp increase in the volume of digital loans provided by banks between 2020 and 2021 (approx. 66% increase) with a less than proportionate increase in the value of loans over the same period (approx. 16% increase). In April 2020, CBK withdrew the approval granted to unregulated digital (mobile based) and credit-only lenders as third-party credit information providers to CRBs.[8] It is possible that without access to the CRB mechanism and the ability to appropriately assess repayment risk of potential borrowers, lending by unregulated lenders was constrained, pushing borrowers to bank-led providers who still had access to the CRB mechanism. New Regulations were introduced in 2022 that provide for the licensing and supervision of previously unregulated DCPs by CBK. The Regulations mandate licensed DCPs to provide both positive and negative information to each of the three licensed CRBs. However, out of the 550 license applications received, only 58 DCP licenses have been issued so far.[9] This is the reason why the DCP provider category has been omitted from the analysis herein.

7 See for instance a market enquiry by the Competition Authority of Kenya on the digital credit market in Kenya

8 https://www.centralbank.go.ke/uploads/press_releases/850440997_Press%20Release%20-%20Credit%20Reference%20Bureau%20Regulations%20-%20April%202020.pdf

9 2069457347_Press Release - Licensing of 7 Additional Digital Credit Service Providers.pdf (centralbank.go.ke)

Figure 12(a): Number of loans issued by banks, MFBs and MFIs

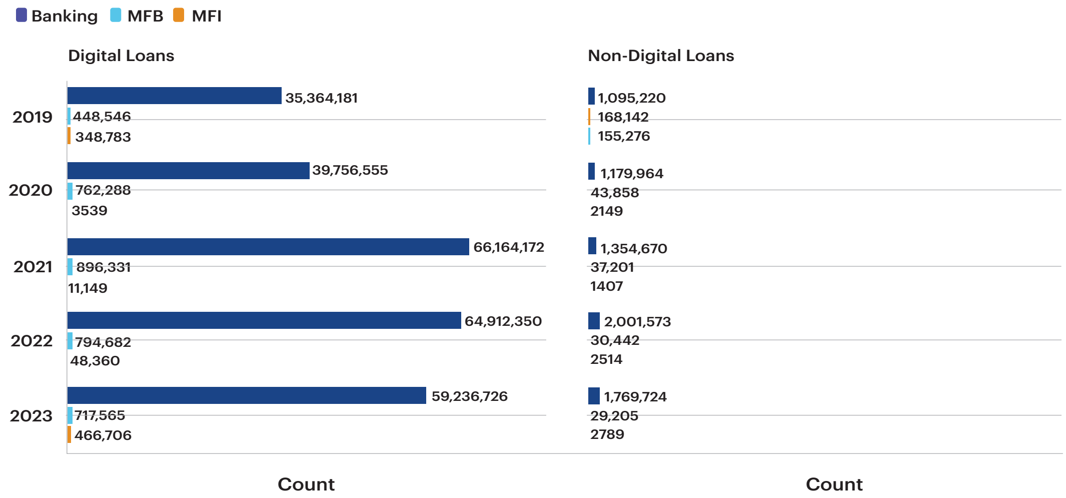
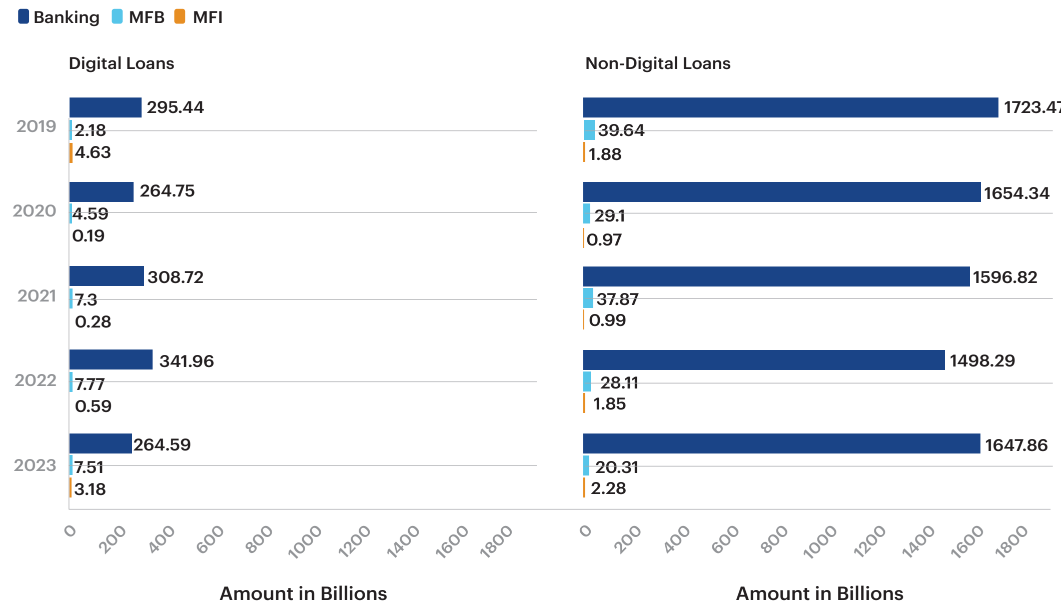


Figure 12(b): Value of loans disbursed in billions by banks, MFBs and MFIs

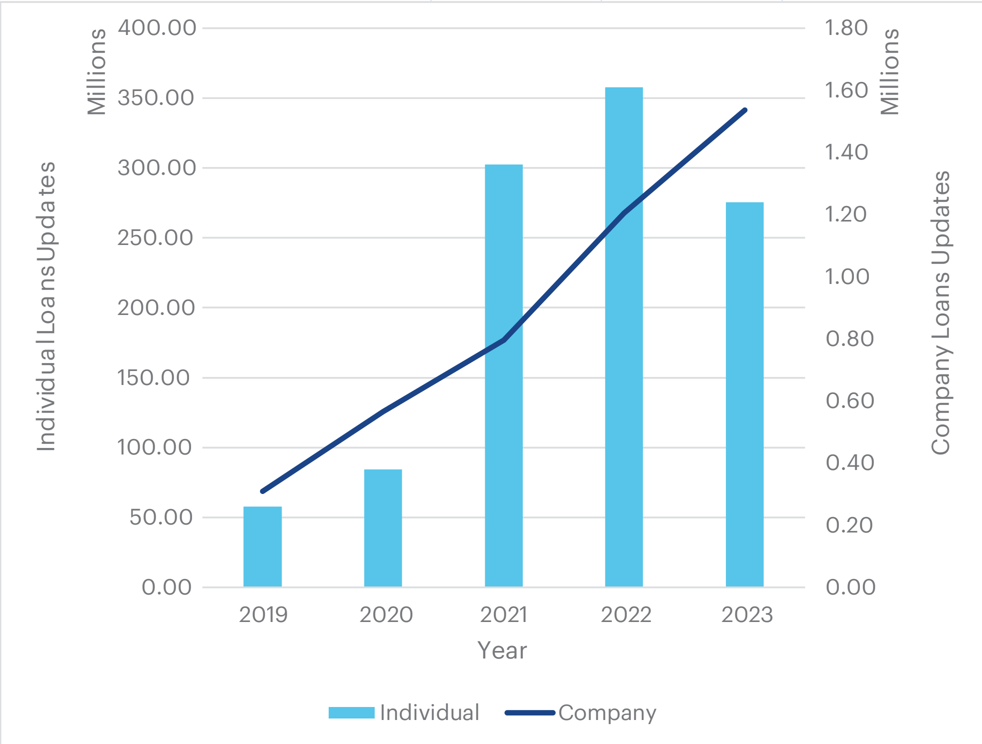


2.2. Updates to bureau records

Updates to credit records held by the bureau are represented as cumulative amounts considering that the CRB Regulations require that credit records be retained by the credit bureau for a period not exceeding five years. Credit information provided to the credit bureau can however be expunged before the lapse of this period in case of an error in the provision of that information.

The number of updates to individual records held by the bureau has been on a steady increase between 2020 and 2021, corresponding to an increase of over 200 million updates. There is an observed dip in the number of listings between 2022 and 2023 for individuals which could partly be attributed to various data suppression measures that were put in place. Records related to non-individual borrowers (companies) also show a similar upward trend with an almost five-fold increase between 2019 and 2023.

Figure 13: Cumulative number of updates to credit records



3. **Deep dive:** listing status and trends

Credit providers face considerable information asymmetry in their lending activities. At the outset of a lender-borrower relationship, lenders often have limited information about the borrower that would minimise repayment risk. Information such as how the borrower has handled past loans, number of active loans and so on are both hard to come by and difficult and expensive to gather on an individual basis.[10] The CIS mechanism solves for part of this information asymmetry.

The reporting of credit information has raised questions regarding the perceived value of a credit histories for both lenders and borrowers. There is a common perception that lenders primarily rely on negative listings when making lending decisions. However, an analysis of reported data challenges this notion, indicating that while a good credit history is indeed considered and often leads to positive outcomes for borrowers, lenders also advance loans to borrowers with negative records.

When a credit provider reports a customer's loan or credit facility as non-performing, that information is placed on the customer's credit file with the CRB as a negative record. Whilst a negative record affects a borrower's credit worthiness by lowering their credit score, best practice requires that the decision to lend to such a borrower should not be based solely on this negative record. Conversely, when a credit provider reports a customer's loan or credit facility as performing i.e. the borrower is making payments as per the agreed terms, that information is placed on the customer's credit file by the credit reference bureau as a positive record. A positive record improves a borrower's credit score with a higher score reflecting a higher creditworthiness of the borrower.

3.1. Positive to negative ratios

Examining the ratio of positive to negative listings among lenders that submitted credit information to Creditinfo CRB reveals a dynamic pattern. In aggregate terms, there are a total of 5.08m negative records and a total of 273.5m positive records held by Creditinfo CRB. This gives a positive to negative ratio of 53.8. There are wide variations in the ratio amongst individual enders, with the lowest ratio at 0.6 and the highest at 1,411. The provider with the highest number of records with the bureau (54.5m records) has a ratio of 43.6 while the provider with lowest number of records (283) also has the lowest ratio (0.6). There are several standpoints from which the aggregate and individual ratios can be interpreted. It could be that the relatively high ratios suggest that lenders are taking a cautious approach and only lending to borrowers with positive records or that the lenders' credit appraisal mechanisms are highly predictive of credit worthiness. The effect of these two possibilities is that they would, in theory, contribute to more positive than negative records. Another standpoint would be that the ratios point to a more stable market where loans are disbursed to those that have demonstrated an ability to repay, and the risk of systemic defaults is minimized.

10 https://www.fsdkenya.org/blogs-publications/blog/digital-credit-the-most-pressing-problem-in-kenyan-credit-markets-really/

Table 1: Positive to Negative ratios

Subscriber	Negatively listed	Positively listed	Total	Positive to Negative ratio
Provider 1	5.00	841.00	846	168.2
Provider 2	2,410.00	5,148.00	7,558.00	2.14
Provider 3	95.00	7,852.00	7,947.00	82.65
Provider 4	11.00	886.00	897.00	80.55
Provider 5	213,010.00	5,283,239.00	5,496,249.00	24.80
Provider 6	7,462.00	220,035.00	227,497.00	29.49
Provider 7	17.00	385.00	402.00	22.65
Provider 8	0	25,964.00	25,964.00	-
Provider 9	29,555.00	696,549.00	726,104.00	23.57
Provider 10	337.00	12,983.00	13,320.00	38.53
Provider 11	147,986.00	10,276,121.00	10,424,107.00	69.44
Provider 12	286.00	2,729.00	3,015.00	9.54
Provider 13	0	167.00	167.00	-
Provider 14	1,439.00	78,288.00	79,727.00	54.40
Provider 15	3,255.00	21,019.00	24,274.00	6.46
Provider 16	21.00	1,140.00	1,161.00	54.29
Provider 17	296,311.00	14,549,626.00	14,845,937.00	49.10
Provider 18	59,274.00	354,379.00	413,653.00	5.98
Provider 19	757.00	8,529.00	9,286.00	11.27
Provider 20	123.00	263.00	386.00	2.14
Provider 21	972.00	4,918.00	5,890.00	5.06
Provider 22	3.00	3,515.00	3,518.00	1,171.67
Provider 23	17,833.00	51,003.00	68,836.00	2.86
Provider 24	6.00	1,030.00	1,036.00	171.67
Provider 25	1,836.00	54,146.00	55,982.00	29.49
Provider 26	3,700.00	13,843.00	17,543.00	3.74
Provider 27	792,196.00	39,424,071.00	40,216,267.00	49.77
Provider 28	7,492.00	135,092.00	142,584.00	18.03
Provider 29	25.00	35,294.00	35,319.00	1,411.76
Provider 30	3,230.00	93,172.00	96,402.00	28.85
Provider 31	1,769.00	63,167.00	64,936.00	35.71
Provider 32	42.00	773.00	815.00	18.40
Provider 33	5.00	463.00	468.00	92.60
Provider 34	63.00	5,566.00	5,629.00	88.35
Provider 35	2,587.00	65,385.00	67,972.00	25.27
Provider 36	2,217.00	1,380.00	3,597.00	0.62
Provider 37	26.00	373.00	399.00	14.35
Provider 38	38.00	1,705.00	1,743.00	44.87
Provider 39	4,706.00	243,266.00	247,972.00	51.69
Provider 40	11,811.00	89,246.00	101,057.00	7.56
Provider 41	19,800.00	3,476,589.00	3,496,389.00	175.59

Subscriber	Negatively listed	Positively listed	Total	Positive to Negative ratio
Provider 42	18,842.00	14,046.00	32,888.00	0.75
Provider 43	63.00	1,079.00	1,142.00	17.13
Provider 44	804.00	7,439.00	8,243.00	9.25
Provider 45	177.00	106.00	283.00	0.60
Provider 46	14,223.00	66,882.00	81,105.00	4.70
Provider 47	2,059.00	5,424.00	7,483.00	2.63
Provider 48	442.00	4,093.00	4,535.00	9.26
Provider 49	66.00	510.00	576.00	7.73
Provider 50	1,222,632.00	53,309,571.00	54,532,203.00	43.60
Provider 51	3,564.00	187,365.00	190,929.00	52.57
Provider 52	37.00	4,444.00	4,481.00	120.11
Provider 53	110.00	3,759.00	3,869.00	34.17
Provider 54	93.00	1,922.00	2,015.00	20.67
Provider 55	2,192,213.00	144,640,704.00	146,832,917.00	65.98
Total	**5,088,036.00**	**273,557,484.00**	**278,645,520.00**	**53.76**

3.2. New negative listings

Table 2 below shows that the new negative listings for individual borrowers declined by more than half between 2019 and 2021 with a slight increase in 2022. This sharp decline can be explained by changes in the regulatory framework that were introduced in 2020. First, the new regulations introduced a minimum threshold of KShs 1,000 for negative credit information that is submitted to CRBs by lenders. Second, as previously highlighted, CBK withdrew the approval granted to unregulated mobile-based and credit-only lenders as third-party credit information providers to CRBs. It is important to point out that some of these providers used to submit only negative (but not positive) credit information to the CRBs. A similar trend is observed in the number of new listings of companies albeit on a much smaller scale.

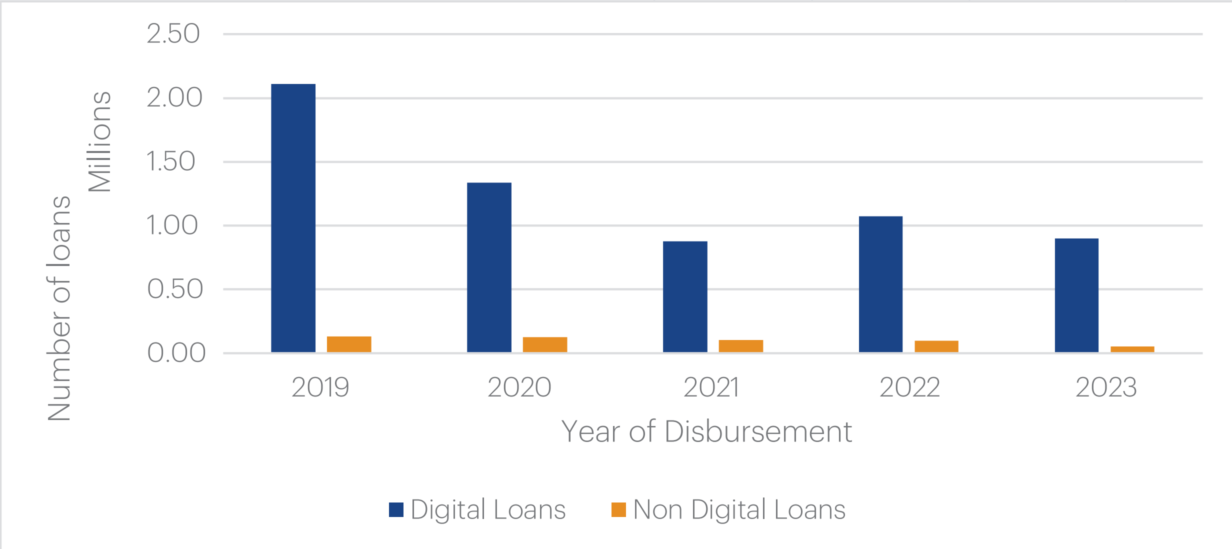
Table 2: Number of (new) negatively listed borrowers

Year	Individuals	Companies
2019	2,204,591	7,289
2020	1,427,203	7,025
2021	955,303	6,584
2022	1,136,649	6,575
2023	933,551	2,665

A significant number of new negative listings were attributed to digital loans. Again, we see a steady decline in the number of negatively listed loans from 2019 to 2021 and a slight increase in 2022.

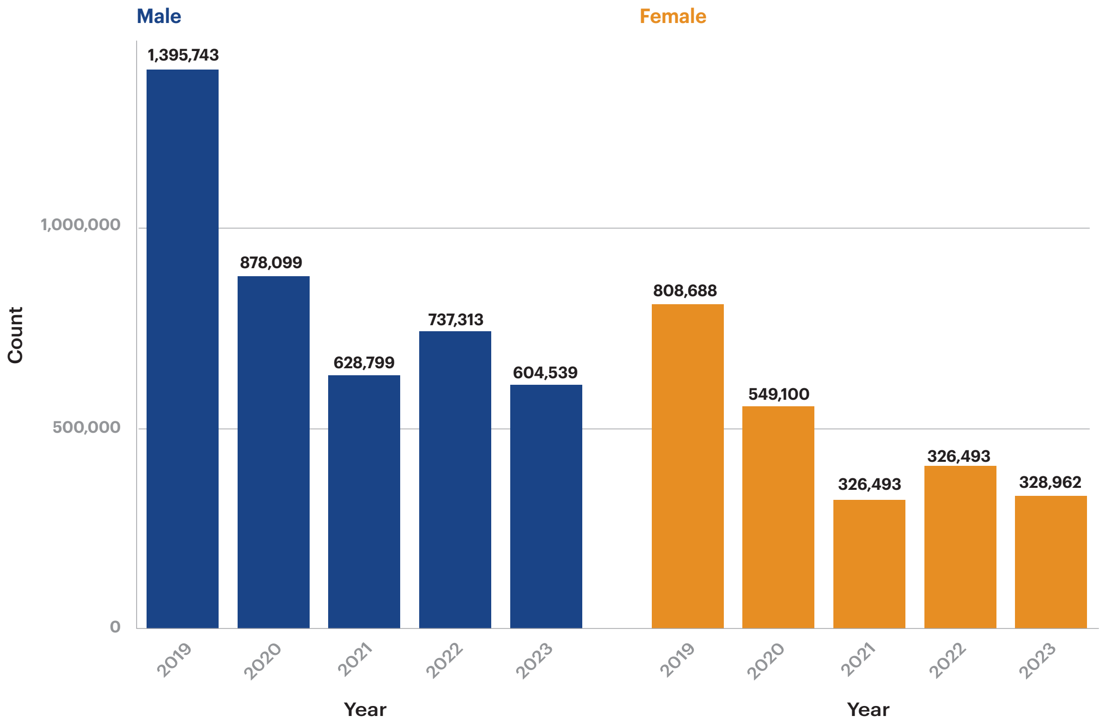
> *New negative listings for indivindual borrowers declined by more than half between 2019 and 2023*

Figure 14: Number of new negative listings segmented by type of loan



The segmentation of new negative listings by the borrower's sex is consistent with other studies that show that female borrowers have better repayment histories compared to men. In each of the five years under review, the number of new negative records attributed to female borrowers was less than those that were attributed to male borrowers. On average, female borrowers contributed approximately 36% of the new negative listings over the five-year period.

Figure 15: Number of new negative listings segmented by borrower's sex



A slightly different picture emerges when the number of new negative listing is taken as a proportion of the number of new loans issued, with marginal differences across male and female borrowers (Table 3). However, the bigger picture should not be lost even in these differences. The evidence is sufficiently compelling to show that female borrowers exhibit better repayment histories and the significant variations in the number and value of loans disbursed should not exist.

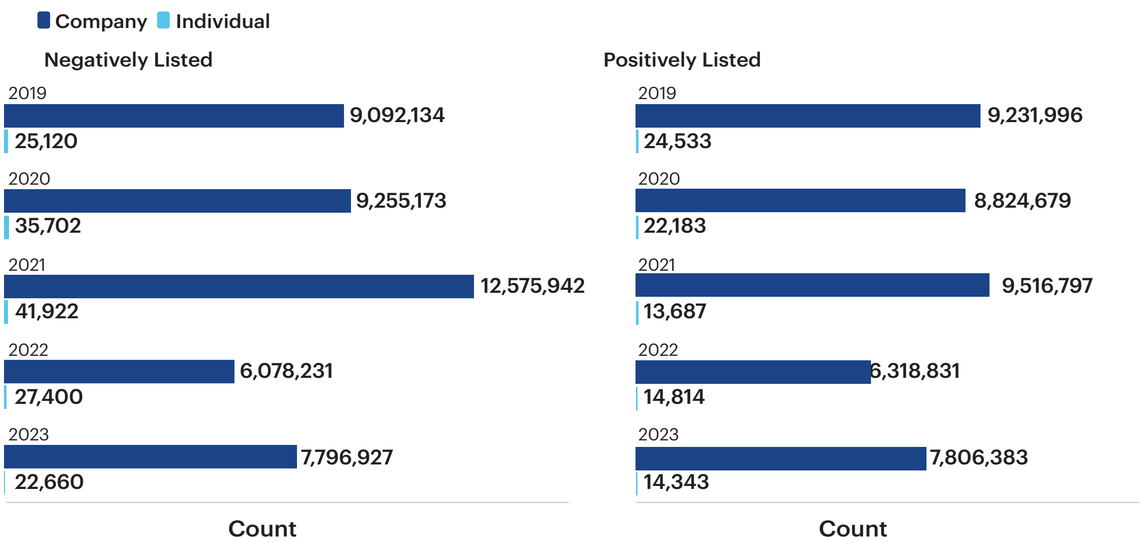
Table 3: New negative listings as a % of new loans

Year	Number of new loans disbursed		Number of new negative listings		New negative listings as % of new loans	
	Male	Female	Male	Female	Male	Female
2019	23,629,204	13,787,596	1,395,743	808,688	5.9	5.8
2020	25,897,484	15,755,258	878,099	549,100	3.3	3.7
2021	42,461,284	25,910,695	628,799	326,493	1.4	1.2
2022	41,374,693	26,289,003	737,313	399,328	1.7	1.5
2023	36,961,646	25,139,408	604,539	328,962	1.6	1.3

3.3. Original principal amounts by listing status

Debt and/or repayment stress has often been linked to debt build-up, with the hypothesis that higher loan amounts are more likely to be associated with repayment stress.[11] For individual borrowers, the average principal amount for negatively listed loans was higher than for positively listed loans, with an average of KShs 30,560 for negatively listed loans and KShs 17, 912 for positively listed loans. The corresponding amounts for companies was KShs 8.3m and KShs 8.9m for positive and negatively listed loans respectively (Figure 16). There is a marked increase in the average value of negatively listed loans to companies in 2021 which could be due to the adverse effects of the COVID-19 pandemic

Figure 16: Average principal of positive and negative listed loans by borrower type



11 https://www.cgap.org/sites/default/files/Focus-Note-Regulatory-Options-to-Curb-Debt-Stress-Mar-2013.pdf

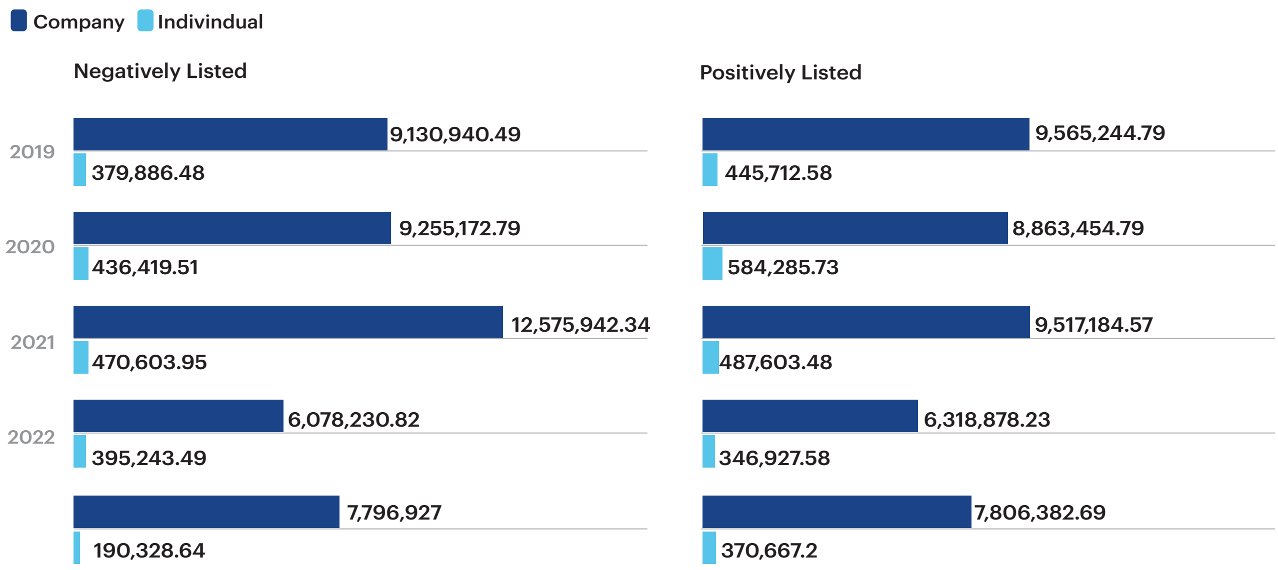
Additional decomposition of the average principal amount by the type of loan (digital and non-digital) is constrained by incomplete data related to the listing status of digital loans to companies in four out of the five years. Notwithstanding, available data shows that the average principal of negatively listed digital loans to individual borrowers has been on a steady increase from 2019 to 2023, with an average of KShs 5,375 in 2019 to KShs 13,063 in 2023. The average over the five-year period was KShs, 8,389. On the other hand, the average principal of positively listed digital loans to individuals steadily decreased from KShs 8,455 in 2019 to KShs 4,439 in 2023. The average over the five-year period was KShs 5,893.

Table 4: Average principal of positive and negative listed digital loans by individual borrowers

Year	Negatively listed (KShs)	Positively listed (KShs)
2019	5,375	8,455
2020	6,565	6,651
2021	7,234	4,689
2022	9,708	5,235
2023	13,063	4,439

Data on the principal amounts of non-digital loans to individuals and companies is complete and presented in Figure 17 below. An interesting observation is that with the exception of 2020, the average principal of positively listed loans to individuals was higher than that of negatively listed loans. A similar comparison for companies shows a mixed picture with the average principal of negatively listed loans lower in three of the five years.

Figure 17: Average principal of positive and negative listed digital loans by borrower type



Segmentation by the sex of the borrower shows that men have higher principal amounts for both positive and negatively listed loans compared to women. The average principal of negatively listed loans for both male and female borrowers increased between 2019 and 2021 followed by a decline in 2022 and 2023. A similar trend is observed for positively listed loans, but the decline is more pronounced for male borrowers compared to female borrowers.

Figure18: Average principal of positive and negative listed loans by borrower's sex

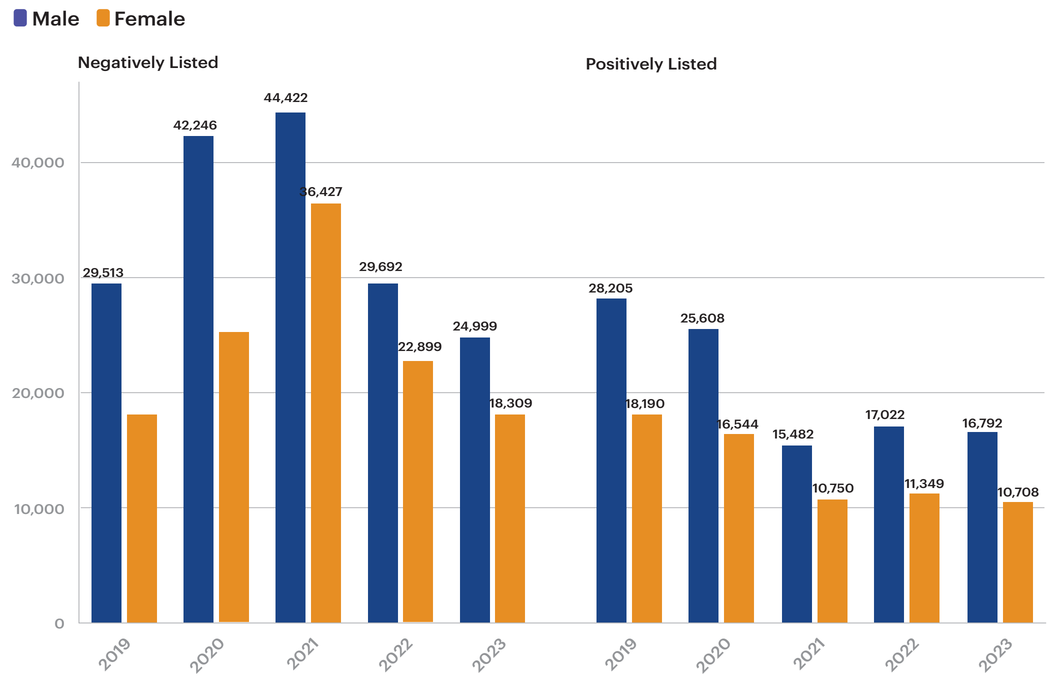


Figure 19 and Figure 20 below present an analysis of the average principal amounts for positive and negative listed digital and non-digital loans segmented by the type of provider (bank and MFB). For digital loans, the trends are mixed with the MFBs having a higher principal amount for negative listed loans in 2019 and 2021 and higher principal amounts for positive listed loans in 2020. For non-digital loans, banks have higher average principal amounts for both positive and negative listed loans in all the years under review.

Figure 19: Average principal of positive and negative listed digital loans by provider type

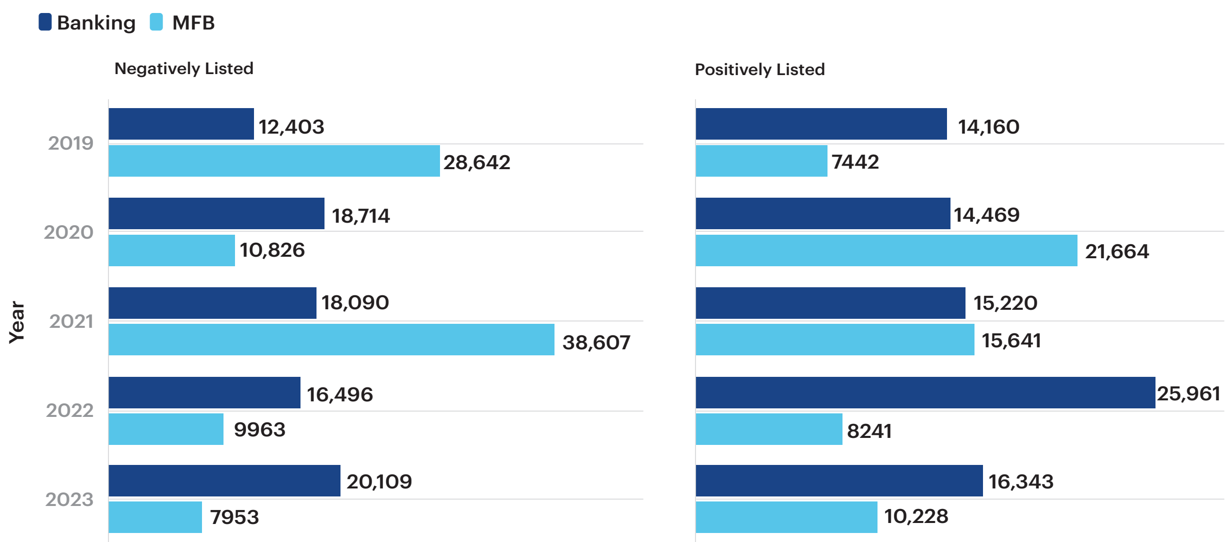


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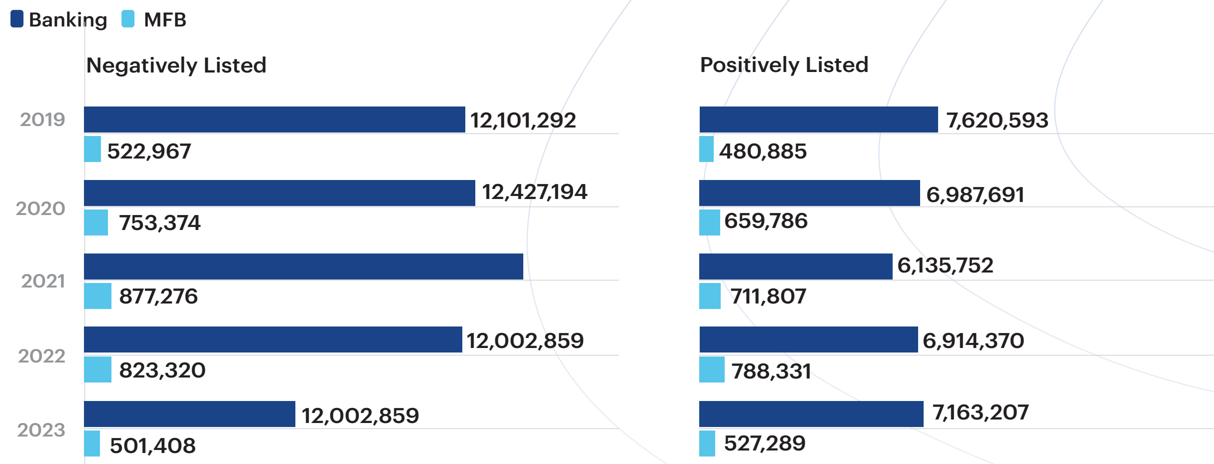
Figure 20: Average principal of positive and negative listed non-digital loans by provider type



3.4. Outstanding loan balances by listing status

One of the earlier criticisms of the CIS mechanism related to the negative listing of small value amounts, some of which related to non-credit transactions such as unpaid charges on bank accounts that wound up being wrongly listed in the CRBs. Some of these amounts also related to unpaid interest or fees on loans where the borrower had repaid the principal amount but failed or forgot to repay the accrued fees . The end result was a significant number of borrowers who were negatively listed for small amounts and fomented the perception of CRBs as a blacklisting tool. In April 2020, CBK introduced a threshold of KShs 1,000 for negative credit information that is submitted to the CRBs including a requirement for previous negative listings of loans less than KShs 1000 to be 'delisted'.

Figure 21 below shows that for individual borrowers, a significant proportion of negatively listed loans have an outstanding balance that falls within the KShs 1001 to KShs 5,000 range. An interesting observation is the relative high proportion of loans with an outstanding balance less than KShs 200 in 2019 and 2020. The subsequent drop in the proportion of loans with an outstanding balance below KShs 1,000 from 2021 onwards might be due to the CBK directive of April 2020.

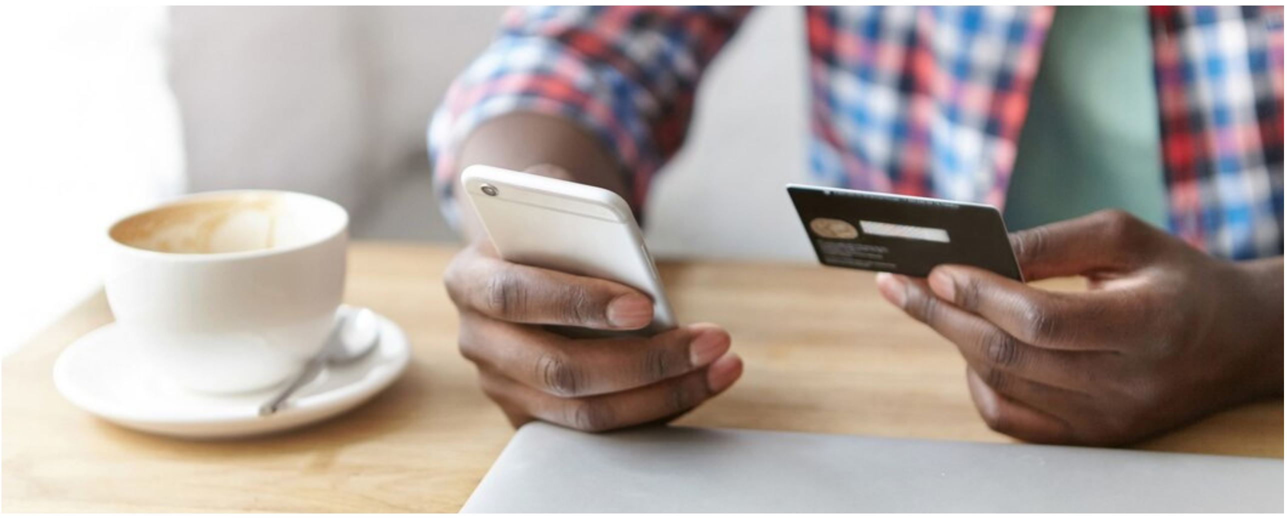
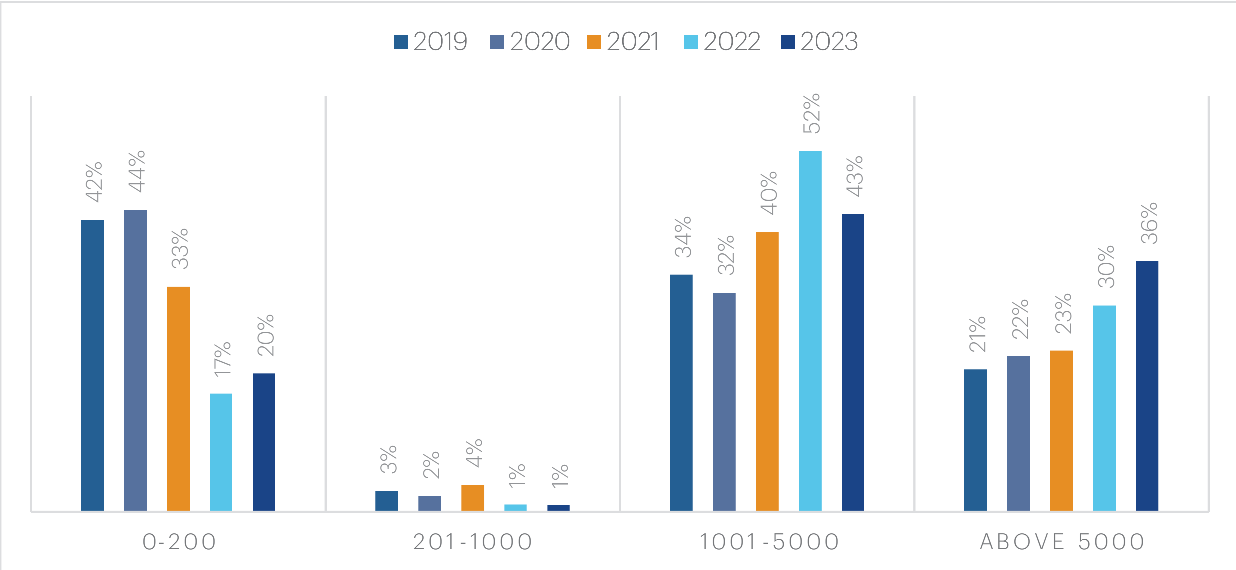


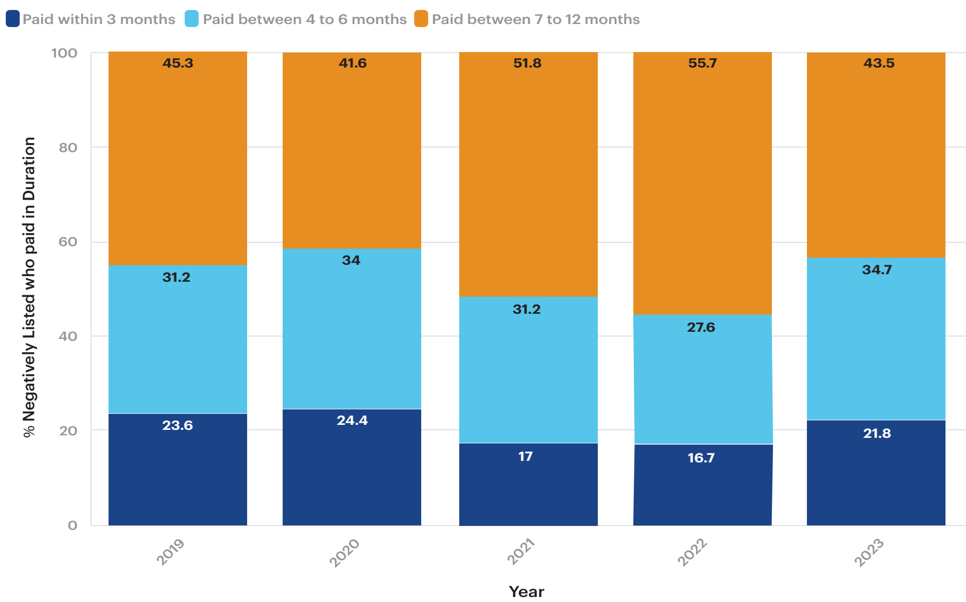
Figure 21: Outstanding balances of negatively listed loans



3.5. Repayment by negatively listed borrowers

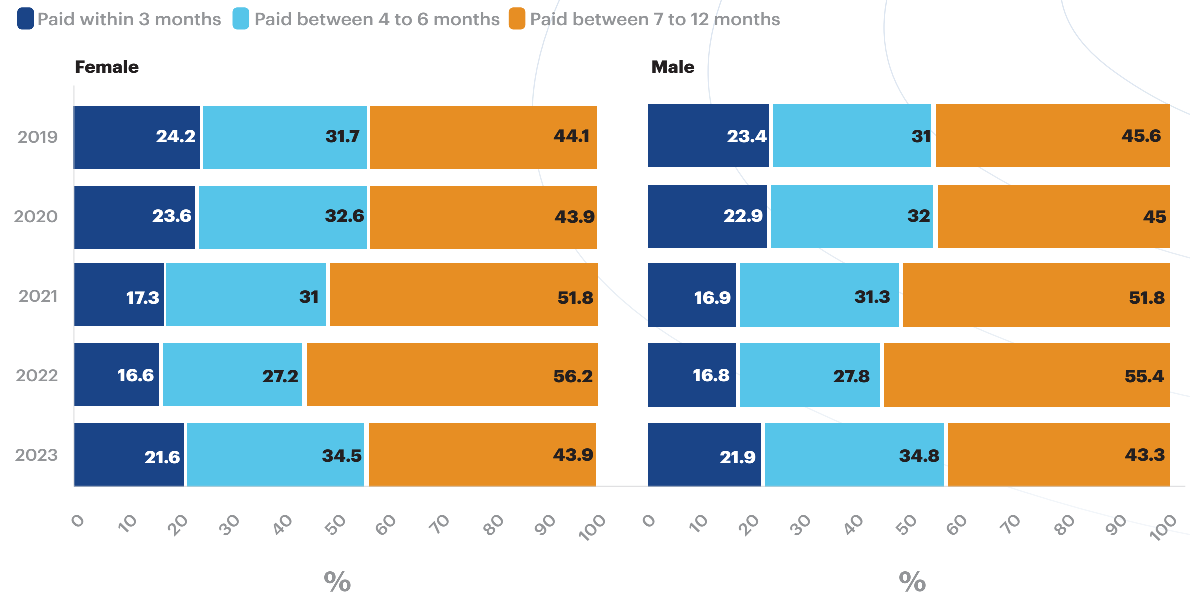
Figure 22 below shows the proportion of borrowers that had previous negative records listed in the credit bureau and who subsequently paid off their outstanding loans. The data indicates that a higher proportion of borrowers initially listed as having repayment difficulties with their loans managed to fully pay them off after seven months and within one year.

Figure 22(a): Proportion of borrowers with negatively listed loans that were repaid



There is little variation when the repayment is segmented between male and female borrowers, with the proportion of borrowers who repay their loans within the respective months almost the same for both male and female borrowers.

Figure 22(b): Proportion of male and female borrowers with negatively listed loans that were repaid

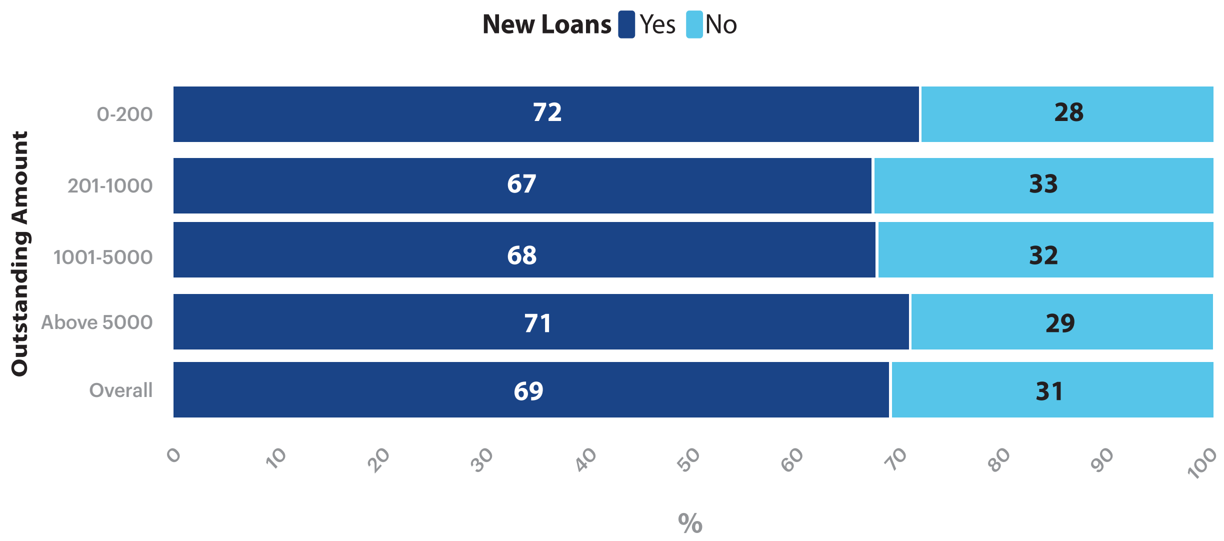


3.6. Borrowers with negative listing that were issued new loans

The perception of the CIS mechanism as a 'blacklisting' tool dates back to the foundational years when banks were initially permitted to share only negative but not positive credit information. The subsequent inclusion of Third-Party Credit Information Providers (TPCIPs) as subscribers to the mechanism further helped to foment this perception. Whilst the TPCIPs were required to submit full-file credit information, limited oversight over the submission process led to limited compliance with the majority submitting negative but not positive information. Additionally, the credit process of most lenders was such that any negative information on a potential borrower's record automatically disqualified them from a credit offer. Whilst this context has since improved, the negative perceptions towards the CIS mechanism still exist.

Figure 23 below presents the proportion of individual borrowers that despite having a negative record, were subsequently issued with a new loan. It shows that having a negative listing does not preclude a borrower from subsequently receiving a loan. Overall, the proportion of borrowers who had an loan and were subsequently issued with a loan was higher (69%) than those who did not receive a subsequent loan over the five-year period(31%). The highest recipients were those who had an outstanding digital loan balance of below KShs 200 but there is little variability with the other bands for outstanding loan balances. In total, the data shows that out of a total of 1.5 million credit checks on both individual and non-individual borrowers that had a negative record, 1.05 million were subsequently granted a loan despite the negative record. This further negates the perception that having a negative record automatically precludes one from accessing a loan.

Figure 23: individual borrowers with a negative record who were issued with a new loan



3.7. Performance of borrowers with a positive record

An additional perspective is provided by an analysis of borrowers that had a positive credit record and that were subsequently issued with a loan. Out of the approximately 17m borrowers that had a positive credit record over the five-year period, approximately 3.7m (22%) had a credit check by a lender over the same period. Out of these, 2m (54%) were subsequently issued with a loan. A key assumption here is that all the credit checks were part of a loan origination/application process. This further reinforces the position that a potential borrower's listing status is not the only determining factor in the credit appraisal process.

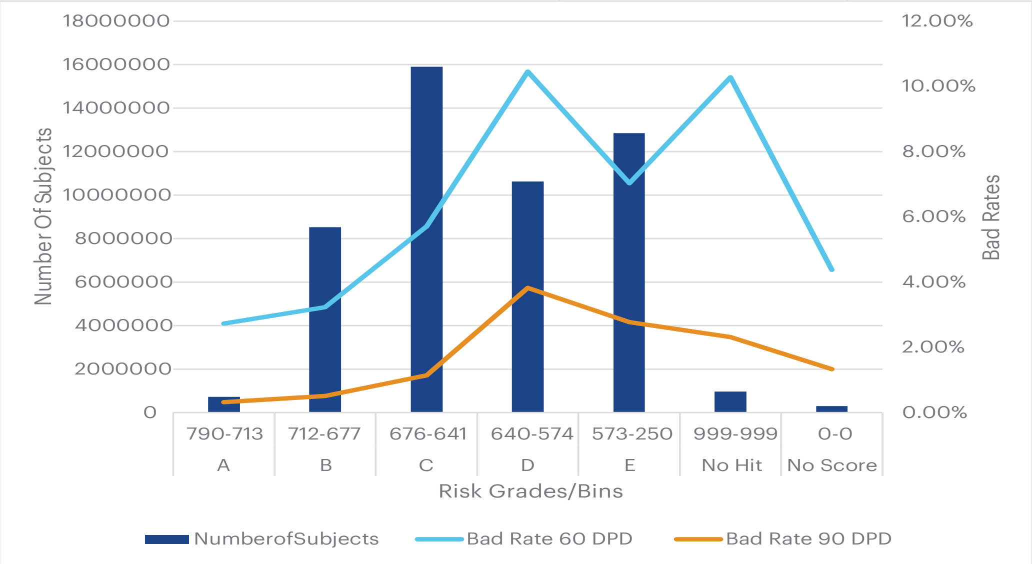
From Figure 24 below, there is an observed reduction in the default rates among borrowers with a positive record over the years (with the exception of 2022), suggesting improvements in the management of credit cycles among lenders such as predictive credit scoring mechanisms.

Figure 24: Default trends amongst borrowers with a positive listing

3.8. Loan Performance based on initial credit score

Figure 25 presents the performance of loans based on their initial credit score. The scores are grouped into bands of risk grades from the lowest risk A to the highest E. 'No Hit' and 'No Score' refers to instances where the borrower was not in the bureau database or did not have a score respectively. The subjects in higher credit score ranges (A to C) exhibit relatively lower Bad Rates for both DPD_60 (60 days past due) and above_90(90 days past due), indicating a correlation between better credit scores and lower default rates. However, as credit scores decrease i.e. the risk grade above C, the Bad Rates tend to rise, with the No Hit and No Score categories showing higher default rates. This analysis emphasizes the significance of credit scores in predicting and managing credit risk, with lower scores associated with increased default likelihood.

Figure 25: Bad rates Vs. score ranges



3.9. Categorisation of accounts reported as 'Default

Table 5 below provides an overview of the number of loan accounts in default and their corresponding default status, categorized by those under collection, defaults due to disability or death, dormant accounts, defaults under legal action, write-offs and revoked accounts. A significant observation is that approximately 50% of loan contracts in default relate to those that have been written off, suggesting a high incidence repayment stress. Accounts under collection represent a small proportion (2% of the total), followed by dormant accounts. Notably, the relatively low number of contracts categorized as 'under collection' suggests that financial institutions may be employing alternative remedial measures to rehabilitate defaulters, rather than relying solely on traditional debt collection methods. This proactive approach underscores efforts to address default issues and potentially minimize credit losses. A considerable proportion of accounts in default are categorized as 'unspecified', potentially due to the failure by lenders to complete mandatory fields in the data submission template, leading to incomplete information.

Table 5: Default Status

Contract Status											
Year	**Quarters**	**Number of Contact**	**Collection**	**Disability Deceased**	**Dormant**	**legal Action**	**Loan Written-off to off-Balance Sheet**	**Negative Status Not Specified**	**Not Specified**	**Revoked**	**Suspension**
2019	Qtr1	3,797,215.00	16,728.00	792.00	8,351.00	60.00	1,471,214.00	2,299,813.00		251.00	6.00
	Qtr2	3,964,924.00	22,327.00	843.00	8,487.00	70.00	1,602,745.00	2,329,950.00		496.00	6.00
	Qtr3	3,181,889.00	70,233.00	288.00	8,639.00	147.00	921,122.00	2,180,724.00	2.00	725.00	9.00
	Qtr4	2,076,966.00	478.00		9.869.00	57.00	808,336.00	1,258,126.00	13.00	80.00	7.00
2020	Qtr1	2,945,884.00	41,952.00	24.00	8.207.00	61.00	858,108.00	2,037,388.00	4.00	87.00	53.00
	Qtr2	1,565,699.00	309.00		6.270.00	51.00	7,907.00	1,551,084.00		65.00	13.00
	Qtr3	1,772,602.00	251.00		7.386.00	62.00	183,938.00	1,579,496.00	2.00	1.465.00	2.00
	Qtr4	5,230,740.00	115.00	9.00	4.857.00	63.00	2,301.00	5,223,327.00		67.00	1.00
2021	Qtr1	4,129,126.00	733.00		4,279.00	54.00	606,275.00	3,517,705.00		77.00	3.00
	Qtr2	4,867,562.00	430.00		6,352.00	62.00	914,819.00	3,945,829.00	6.00	64.00	
	Qtr3	4,241,216.00	391.00	1.00	4,490.00	68.00	316,208.00	3,919,997.00	1.00	60.00	
	Qtr4	3,215,676.00	378.00		3,196.00	53.00	320,016.00	2,891,966.00		66.00	1.00
2022	Qtr1	2,111,179.00	7,227.00		7,819.00	46.00	341,731.00	1,754,328.00	2.00	16.00	10.00
	Qtr2	2,772,962.00	6,978.00		4,817.00	30.00	899,912.00	1,861,225.00			
	Qtr3	3,439,105.00	7,277.00		5,291.00	29.00	1,241,431.00	2,185,077.00			
	Qtr4	2,126,645.00	11,375.00		55.282.00	24.00	829,539.00	1,230,425.00			
2023	Qtr1	2,214,500.00	11,137.00	769.00	107.297.00	29.00	1,002,484.00	1,092,784.00			
	Qtr2	4,533,039.00	11,514.00	796.00	116.934.00	29.00	1,143,503.00	3,260,263.00			
	Qtr3	4,599,362.00	13,620.00	754.00	2,720.00	29.00	1,325,589.00	3,256,649.00			1.00
	Qtr4	6,937,051.00	21,826.00	806.00	4.331.00	31.00	1,684,630.00	5,225,427.00			

4. Conclusion

This report provides a full suite of data and indicators for tracking developments in Kenya's retail credit market. It is the first in a series of reports that will be published on a quarterly basis over the next 12 months. In many ways, this report is based on the notion of pump priming-demonstrating a pathway to success. In this case, success is the availability of credible disaggregated data that can point to the state of Kenya's retail credit market to guide both policy action and market development. The aspiration is that over time, this will be a sustainable initiative driven by industry participants and policymakers.

The achievement of this aspiration requires that the market and policymakers should find the report to be useful and valuable. This means that the data and analysis presented should speak to the respective needs of the users. Whilst there are hundreds of variables and data points that can be used to show the state of a market for credit, this report is based on an analysis that the authors felt are representative of the market. However, there is acknowledgement that not all the analysis that could be presented has been presented due to various limitations. There is an added possibility that some of the analyses presented may not be perceived as useful. This opens an opportunity for the participation of other stakeholders in defining the scope and content of subsequent reports in a manner that meets their needs.

Ideally, the data that underpins this report should have been provided by all the three licensed CRBs in Kenya. However, the current process for the submission of credit information to CRBs is such that whilst there is a standard data submission template, other structural impediments means that the three CRBs do not hold the same data. This compromises the ability to compare data across the three CRBs and to generate a single report that consolidates data from all three. However, there are on-going initiatives spearheaded by CIS Kenya to standardize the data submission and acceptance process which would make comparability to be more feasible. A long-term vision is for future report to be based on this consolidated analysis.

5. Appendices

5.1. Glossary of terms

Secured Loans are the ones associated with these Collateral types:	
Land	Building
Motor Vehicle	Bonds
Cash Security	Debentures
Shares	Chattels
Insurance Policy	Other

The following definitions have been used to classify and describe the loan data

Item	Definition Used
Digital Loans	Refers to Mobile Loans
Non-Digital Loans	Refers to non-mobile loans or also called traditional loans
Type of borrower	• Individual further broken down into male or female genders. • Company
Nature of Loan	• Secured as per definition above. • Unsecured
Type of provider	• Banks • MFB • MFIs • Other credit providers not falling into the above categories
Type of loan	• Digital Loans • Non-Digital loans • Volume refers to the sum of the number of loans issued. • Value refers to the total disbursed or outstanding amount in Kenya shillings. • Negatively listed refers to a loan reported as non-performing. • Positively listed refers to a loan reported as performing. • Ticket size refers to the value of a single loan. • Average ticket size refers to the average of the volume over the value of the loans reported. • Enquiry refers to a loan where a credit report on the borrower was accessed.

Item	Definition Used
	• Negative or Positive record refers to credit reports where the status was a negative listing or only positive listings. Credit score refers to the bureau score of the borrower on their credit report. • Updates refers to the data submitted by reporting institutions either mandated under the CRB Regulations or voluntary. • Bad rate refers to the incidence of default by age, e.g. 90 days late, of credit after disbursement of a loan. • DPD means Days Past Due either 60 or 90 days

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