Asymmetry of Information on Credit Reference Bureaus for Bank Customers in Kenya: A Case Study of Nakuru Town

Segita M. I. A. [1], ***Limo C. J.*** [2], ***Kibati P.*** [4], ***Muhanji S. I*** [5].

[1, 2, 3, 4&5]Kabarak University

Email: isegita@yahoo.co.uk, cjebet@kabarak.ac.ke, smuhanji@kabarak.ac.ke, kibatip@yahoo.com.

ABSTRACT

Credit Reference Bureaus (CRBs) are institutions that collect information from banks, creditors and available public sources on a borrower's credit history. The role of CRBs in Credit Information Sharing (CIS) is to compile database of customers' credit information and generate Credit Reports which banks and other authorized lenders use to appraise the credit worthiness of the customers. The purpose of the study was to establish the nature and extent of the information which the customers lacked about CIS and the causes of the asymmetry of information with a view to improving awareness and participation. The researchers conducted unstructured interviews involving customers from banks in Nakuru town, and wrote their responses verbatim. The data was analyzed qualitatively by identifying major themes, coding them, and carrying out content analysis. The researchers found that 62% of the customers were unaware of CIS. Furthermore, the informed customers had more exposure to their obligations in the CIS and the consequences of violating them. In contrast, they had no or little information about their rights and how they could benefit, hence low participation. Therefore, the policymakers and promoters of the CIS in Kenya should develop message content that highlights the benefits and rights of customers in the CIS.

KEY WORDS: Asymmetry of information, Credit Reference Bureaus, Customer, Credit Information Sharing, Credit Rating, Obligations, Rights.

INTRODUCTION

Pursuant to the Banking Act (Credit Reference Bureau) Regulations 2008 (henceforth "the Act"), Credit Information Sharing (CIS) was rolled out in Kenya by the Central Bank of Kenya (CBK) in July 2010 and the banks started submitting the customers' credit information[1] in August 2010 to the two CRBs: The CRB Africa Ltd and the Metropol Ltd. According to CBK (2011) as of 11th April 2011 banks had submitted over 760,000 records and accessed 442,128 credit reports[2] from CRB Africa Ltd which was the only CRB. Against this commendable progress by banks, customers accessed only 865 credit reports which were below the CBK's expectations due to unawareness of CIS. However, to the researchers' knowledge there is no published works that empirically assesses the information gap about CIS in Kenya due to the infancy stage Kenya is at implementing CIS.

Therefore, this study seeks to establish the nature and extent of the information which the customers lacked about CIS, the causes of the asymmetry of information, and recommend ways to improve customer awareness and participation in CIS. The pertinent question which was of primary concern to the study was, 'are customers' aware of how CIS affects them?' The study found that 62% of the customers were not aware of CIS, and those who were informed had skewed knowledge in favour of customers' obligations against customers' rights. The next section presents the theoretical and empirical review about asymmetry of information on CRBs followed by the methodology, discussion of the findings of the study, and lastly the summary, conclusions and recommendations.

LITERATURE REVIEW

Formal Credit Information Gathering and Monitoring

Valdez (2000) posits that credit ratings business started in 1909 when John Moody issued his first ever-ratings of company debt-200 American railway companies.

[1]**Credit Information** means any positive or negative information bearing on an individual's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics or mode of living, including but not limited to history and/or profile of an individual or entity with regard to credit, assets, and any financial obligations.

[2]**Credit Report** means a customer information file containing a subject's credit history compiled by a CRB and may include publicly available information.

These basis statistics profiled the risk of securities to guide investors. In 1913, John Fitch also published financial statistics for use in the investment industry, and in 1914 Moody improved the statistics to cover all government bonds. In 1941 Standards and Poor's issued P&S 500 , a stock market index for investor analysis and an economic indicator for the United States. In 1970s Moody included commercial paper and bank deposits in the ratings. The rating of bank deposits indicated the exposure of Banks to credit risk. Between 1965 and 1981, 8 Banks in the United became bankrupt. There was a 'Savings and Loans Crisis' in the 1980's; Banks across the world were lending extensively at unsustainable levels leading to Bank failures. Pandey (2005) posits that in 1974 the Tandon Committee found that loans given by Banks in India to companies were misused or mismanaged because of the existing system of Bank lending; the cash credit system. Under the cash and credit system Bank lending was related directly to the security in the form of 75% of inventory and receivables leaving a margin of 25% irrespective of the borrower's operations. Within this limits, the Banks considered loans to be safe and did not bother about the way in which the advances were being used. In Response to the 'Savings and Loans Crisis' the Basel 1 Capital Accord was created in 1988 and focused on the capital adequacy of financial institutions to deal with capital adequacy risk. It recommended that Banks operating internationally must have a risk weight of 8% or less, based on the five risk categories of assets of the financial institution (0%, 10%, 20%, 50%, and 100%). Subsequently Basel Accord II focusing on minimum capital requirements, supervisory review and market discipline was created to be fully implemented by 2015. As part of supervisory reviews, the 'know your customer policy' was developed for Banks in the 1990s requiring them to monitor closely the activities of their customers as a way of minimizing Bank exposure to risk and preventing economic crimes including money laundering, tax evasion and corruption.

Hubbard (2008) posits that Banks can reduce their exposure to credit risk on loans by investing in information gathering and monitoring. Valdez (2000) posits that some markets, for example the US, want the credit rating of the borrower officially assessed so as to guide them as to the risk and the appropriate rate of interest. Millaer & Guandamillar (2006) posits that the regulatory framework for CIS that meets international good practice must provide for: the maintenance of data for a reasonable time period-at least 5 years; enabling customers to make a fresh-start and erase the negative data once the time period for maintaining it has been reached; alerting customers of the problems associated with their report (an adverse action notice); restricts access of the information to authorized users; protects the rights of the customers to access the information and resolve disputes by correcting any erroneous or outdated information; and the system of supervision that allows regulators to go to court for public good, access the databases of the CRBs, perform external audits and specify penalties and sanctions against errant parties in the CIS.

However, there have been limitations in CIS. Cloos (1963) found that the reference dates used by the National Bureau of United States of America (US) for information analysis had not been tested adequately. In some instances the bureau's reference dates were wide off the mark by as much as 3 months, and important economic decisions were based on outdated or incorrect information. He recommended that bureaus should spell out more clearly the rationale behind the selection of their reference dates. Semenova (2008) found that given the opportunity to get extra profits and offer less expensive credit to new clients, banks may prefer a strategy of dishonest behavior (misreporting information). Therefore, adequate regulations and supervision of banks and CRBs was critical for protecting customers' interest. Banasik & Crook (2005) found that most credit scoring models were used to assess the creditworthiness of all applicants, yet the only observed performance of creditworthiness available to the model analyst was from the applicants previously judged good enough to be granted credit. In reality, an individual's changing financial circumstances and situational factors could reverse past credit history favorably or adversely.

Madeddu (2010) found that in Morocco CIS formally started in 2007 and only one licensed CRB was in operation. The Bank of Morocco (BAM) licensed and supervised CRBs, and also took a proactive and intermediary function between the CRBs and lenders. Lenders periodically provided the BAM with all credit information which was then transmitted by BAM to all CRBs operating in the market. In contrast, information sharing scheme in Egypt did not require the involvement of the Central Bank; information was shared deliberately and directly exchanged between lenders, the CRBs and users. The World Bank Group (2008) found that Malawi had one informal CRB; there were no specific laws or support from the Reserve Bank of Malawi. There were concerns over the violation of customer privacy, and lenders were unwilling to share credit information with, and access reference services from, the CRB. Thus the CRB was ineffective.

The Banking Act (Credit Reference Bureau) Regulations 2008 (Act), gave the customers rights: to have credit information record that reflects the existing situation of the customer at any given time (S.17); to dispute inaccurate, erroneous or outdated information maintained in CRBs' databases (S.20); to receive a detailed notice of the customer's information submitted by banks to the CRBs (S.28.a); to access the credit reports relating to the customer from the database administered by the CRB; to receive an adverse action notice from the Banks (S.28.b) which communicates to a customer the consequences he or she must suffer as a result of having negative credit information; and the discretion to share or not share positive credit information because suppression of positive information did not expose lenders to credit risk beyond their compensation. In contrast, banks were obligated to share with the CRBs their customer's negative credit information without consulting the customer. According to Bagyenda (2008) the Ugandan banks shared with CRBs a customer's positive credit information upon the customer's express written authorization similar to the Kenyan model (S.14).

The Act obligated CRBs to maintain: incorporation status under the Companies Act; operational manuals that ensure the accuracy of the information contained in its database; timely updating of the information; the software required for the operation; the security and control measures to prevent misuse or improper management of information (S.4); the reputation, integrity, experience and capacity of the directors and significant shareholders; the mechanism to integrate, gather, input and validate the data (S.5); suitability of the premises for bureau operations; adequacy of the management information system; administrative and operational processes and the internal control systems; and the security of information (S.6).

The activities of the CRBs were restricted to: obtain and receive customer information; store, manage, evaluate, update and disseminate the customer information to subscribers; compile and maintain database and generate reports from customer information database; assess the creditworthiness of a customer; sell to institutions specialized literature and other informational materials related to its activities; carry out market and statistical research; and carry out any other activity as may be approved by the CBK from time to time under the Act (S.13). However, the information held by the CRBs remains the property of the CBK and reverts to it where a CRB winds up (S.26).

Negative information means any adverse customer information relating to a customer including but not limited to: dishonor of cheques other than for technical reasons; accounts compulsorily closed other than for administrative reasons: proven cases of frauds and forgeries; proven cases of cheque kiting; false declarations and statements; receiverships, bankruptcies and liquidations; credit defaults or late payments on all types of facilities; tendering of false securities; and misapplication of borrowed funds (S.2).

Credit rating has implications. Brown & Zehnder (2007) found that CIS exposed the lenders to increased competition because they released private information about their existing clients. However the benefits of CIS outweighed the costs of increased competition: accurate prediction of loan defaults, selection of good loan applicants; improved availability of credit; easier access to credit; reduced misapplication of borrowed funds; increased repayment rates; and reduced information search costs. Positive credit information contributes to the building of information capital useful in negotiating competitive interest rates for credit facilities (CBK 2010). In contrast, negative credit information leads to an adverse action notice conveying denial or cancellation of, an increase in any charge for, or a reduction or other adverse or unfavorable change in the terms of coverage or amount of, any loan, existing or applied for, or any other action or determination adversely affecting the customer, based on customer information obtained from CRBs (S.28.b). However, the purpose of credit information is to enable lenders to evaluate credit risk and price financial products accordingly (CBK 2011).

METHODOLOGY

Due to the confidential nature of banking activities, it was not possible to get the exact number of customers for each bank. Convenient sampling was used to identify 81 respondents; 3 customers from each of the 27 banks operating in Nakuru town including Co-operative Bank, Barclays Bank, NIC Bank, Family bank, National Bank, Kenya Commercial Bank, Standard Chartered Bank, Bank of Baroda, Equity Bank, Chase Bank, ABC Bank, Diamond Trust Bank, K-Rep Bank, Commercial Bank of Africa, Dubai Bank, Credit Bank, Oriental Bank, CFC Stanbic Bank, Investment & Mortgage Bank, Post Bank, Transnational Bank, Consolidated Bank, Bank of Africa, ECO Bank, First Community Bank, Fina Bank, and Imperial Bank. These banks were operationally represented at branch level in all the 47 counties of Kenya.

Data was collected through unstructured interviews. The researchers asked questions directly to the customers, probed their answers, and recorded their opinions, feelings and expressions by way of written notes. The primary data extracted was about what the customers really knew and or didn't know about CIS in Kenya. The data was analyzed qualitatively through: editing for omissions and errors; theme identification, coding and content analysis; presenting in tables, charts and graphs; and the generation of frequency and percentage statistics to describe and examine relations and trends in the data.

RESEARCH FINDINGS AND DISCUSSIONS

Table 1: Customers' awareness of CIS in Kenya

Customers' awareness of CIS in Kenya	Aware		Unaware		Total	
	No.	%	No.	%	No.	%
The meaning of CIS and existence of CIS in Kenya	31	38	50	62	81	100

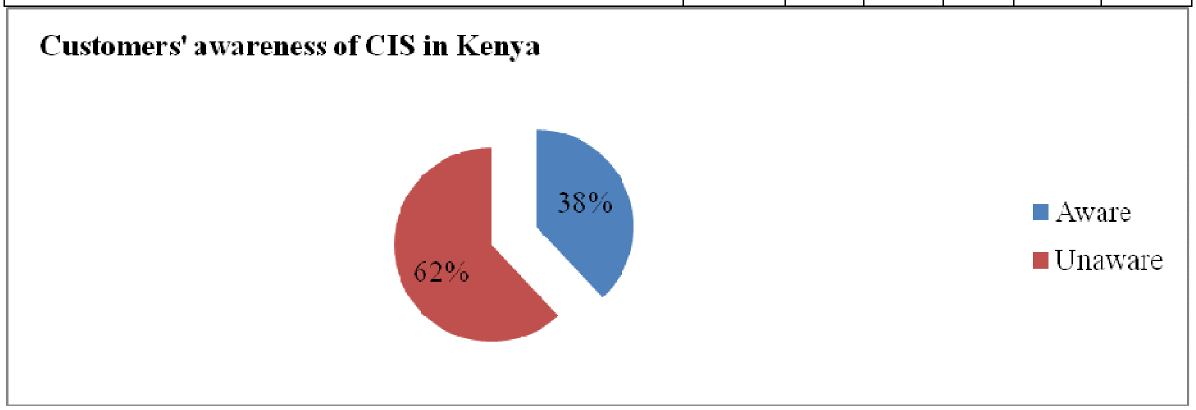

Figure 15: Customers' awareness of CIS in Kenya

<u>Customers' who were unaware of CIS in Kenya</u>

The researchers found that 62% of the respondents were unaware of the meaning of CIS, its existence in Kenya, the rights of customers, the obligations of CRBs and Banks, the information that trigger negative credit rating, and the effects of credit reports even in general terms due to:

Firstly, illiteracy was a barrier to understanding financial issues as exemplified in the quotation below:

"Mimi sijasoma shule. Sijui hiyo kitu unauliza. Ni nini hiyo." (R24)

Secondly, non banked customers were not exposed to the developments in the banking sector such as CIS. These include customers served by Credit Co-operative Society (SACCOs) and other non-bank financial institution including the Kenya Farmers Association (KFA) which specializes in serving farmers at flexible and preferential terms. This is exemplified by the quotation below:

"Banks put so many conditions before they lend, for example collateral yet many farmers don't have title deeds." (R1)

Thirdly, some channels of communication did not appropriately reach respondents as exemplified by the quotation below:

"I don't read newspapers, may be that is why I don't know" (R35).

"… wachapishe makaratasi ya maelezo kuhusu hiyo kitu na wapeane kwa watu wengi…pia wangeweka kwa mabenki makaratsi mengi yenye maelezo …radio ni ngumu kwasababu kuna station nyingi sana…SMS itasaidia kwa sababu watu wengi sana wako na simu siku." (R67)

The respondents recommended the use of pamphlets in public places and mobile phone short messages (SMS) because SMS instantly alerted the phone user and many customers had access to mobile phones than Newspapers and radios. Newspapers were less accessible and readers focused on personal interests like sports ignoring business sections where C.I.S information was likely to be. It was difficult to pick the most appealing radio channel given the customers' diverse interests.

Fourthly, some respondents perceived financial information to be of interest only to the middle class or wealthy people as exemplified by the quotation below:

"Hii watu wengi hawaijui, labda wale wako na mapesa mengi kwa benki ndio wanaijua…" (R67)

Fifthly, there were gender disparities in financial transactions. Respondents (3%) stated that men handled financial matters for their families thus fewer women than men had information about CIS as exemplified in the quotation below:

"My husband handles all bank matters, so I don't know whether I can answer you much" (R44)

Customers' who were aware of CIS in Kenya

The researchers found that 38% of the respondents were aware of CIS in Kenya. However there was asymmetry in their knowledge of the rights of customers, the responsibilities of CRBs and Banks, the information that trigger negative credit rating, and the effects of credit reports due to:

Firstly, the respondents got the CIS information through: seminars sponsored by their banks; letters written by banks; bank officials especially credit officers; and through persons affected by negative credit reports as exemplified by the quotations below:

"I belong to Barclay's business club. At one of the clubs meeting we were educated on CRBs" (R4)

"My bank gave me a letter…I don't remember everything. It was a while ago" (R59)

"*I delayed paying my loan…the credit officer ring me to follow up the matter. He informed me that I will be taken to CRB…I was afraid… I don't want that CRB thing, it is terrible."*(R12)

"I heard my dad talking about CRB… his name was in CRB because he was yet to pay land rates. This got him in trouble since he was not able to access loans from the bank" (R39)

These are institutions and persons with interests in the CIS which they could advance through biased information to customers. Secondly, the respondents considered financial issues too technical to comprehend thus requiring expert analysis which they lacked as exemplified by the quotation below:

"Hapana sijui hiyo ni ya watu wa finance" (R11)

Thirdly, the perception that the CIS benefited banks through credit risk reduction by locking out potential defaulters and wealthy customers through bank concealment/misrepresentation of negative information at the expense of ordinary customers caused customer apathy in CIS as exemplified by the quotations below:

"This thing was for the banks to safeguard themselves, not for the ordinary people" (R3)

"Oh yes…CRB only affect the common mwananchi, 'Wanjiku[3]*…Bank managers cannot submit big savers or they lose work…. So they have to find a way of helping them out"* (R65)

Among the 38% of the respondents who were aware of CIS, the researchers found that in respect of rights of customers, obligations of CRBs and Banks, information that triggers negative credit rating, and the effects of credit reports, the asymmetry of information was as follows:

Asymmetry of Information on the Rights of Customers in CIS

Table 2: Asymmetry of Information on the Rights of Customers in CIS

Rights of Customers in CIS	Aware		Unaware		Total	
	No.	%	No.	%	No.	%
Access credit information from CRBs	1	3	30	97	31	100
Receive an adverse action notice	0	0	31	100	31	100
Share positive credit report	0	0	31	100	31	100
Dispute erroneous or outdated credit information.	0	0	31	100	31	100
Receive detailed notice of information submitted to CRBs by banks.	0	0	31	100	31	100
Contact by the right channel of communication for CIS	7	23	24	77	31	100

[3]**Wanjiku** or common mwananchi means ordinary people.

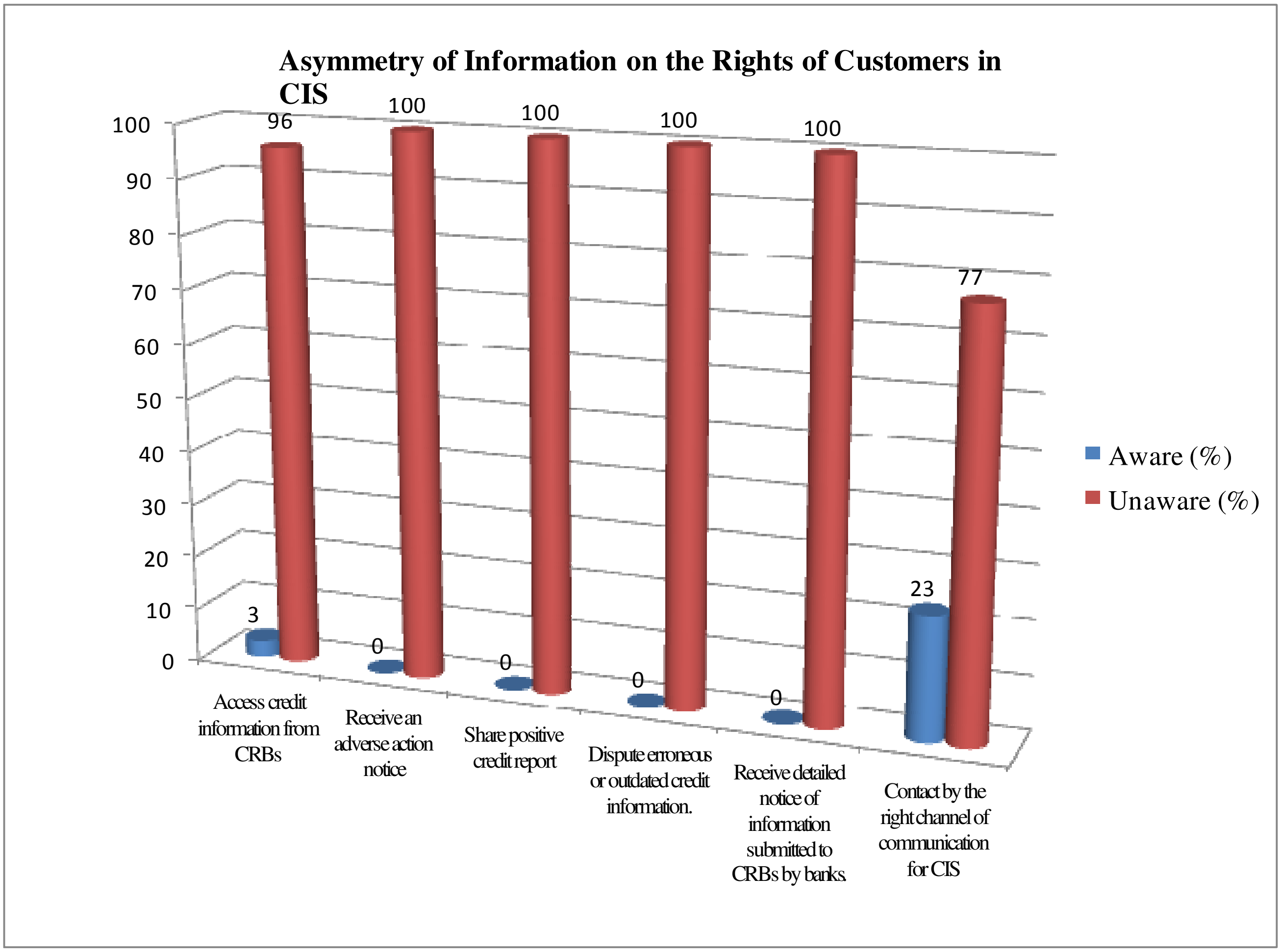

Figure 16: Asymmetry of information on the rights of customers in CIS

The researchers found that only 3% of the respondents were aware of the customers' right to access credit information from CRBs, and none of the respondents was aware of the customers' right: to receive an adverse action notice; share positive credit report; dispute erroneous or outdated credit information; and receive detailed notice of the information submitted to CRBs by banks. In general customers were unaware about their rights in the CIS, which suggested that customers' rights and benefits in CIS were not well publicized of CIS despite being clearly provided for in the law. This could suggest a weaker voice of the customers in the implementation of the CIS compared to the other participants' namely banks, CRBs, the regulators (CBK) and policymakers hence the perception that the CIS was designed to benefit banks and wealthy investors at the expense of ordinary customers. It could also give credence to the respondents' view that the CIS message was delivered to customers through inappropriate communication channels; 77% of the respondents did not access publicity of the CIS message.

Asymmetry of Information on the Responsibilities of CRBs and Banks in CIS

The researchers found that 100% of the respondents who were aware of CIS were also aware of CRBs' obligations to gather and monitor customers' credit information, to maintain an accurate and updated credit information database, and to generate and share credit information with banks and other authorized persons. However, only 16% of the respondents were also aware that CRBs and banks were obligated to preserve the security and confidentiality of the credit information database as exemplified by the quotation below:

"*Like my personal information to be treated with confidentiality unless I authorized…*" (R2)

"…your information should be true and they should discuss with you before spreading out" (R3)

The customers considered the right to confidentiality to be absolute. However the law obligated banks to share with CRBs customers' negative credit information without seeking their consent. Customers' consent was only required when sharing their positive credit information. On the other hand, 84% of the respondents were unaware that CRBs are obligated to keep their credit information confidential; they believed that CRBs were at liberty to disclose all their credit information to any interested person without their consent. A related finding was that 100% of the respondents were unaware that CRBs and banks were obligated to use a system that allowed continuous audits and supervision by the regulators (CBK). This could explain the concern by 6% of the respondents that banks could misrepresent credit information not to implicate their valued customers in whom they had long-term business interests. Furthermore, 3% of the respondents expressed concern that where the loans were deducted through the Check-Off System[4] and employers failed or delayed to remit the loan installments to the financiers, customers were unfairly exposed to negative credit rating as exemplified by the quotation below:

"…Do the CRB counter check the information they have or just take it as they are given?" (R77)

"Higher Education Loans Board (HELB have penalized me for the mistake of my employer who failed to remit the loan payments for HELB loan" (R61)

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[4] **Check-off system** means an arrangement of recovering loan on monthly basis from the borrower through the payroll system by the employer who in turn remits to the lender directly.

Table 3: Asymmetry of Information on the Responsibilities of CRBs and Banks in CIS

Responsibilities of CRBs and Banks in CIS	Aware		Unaware		Total	
	No.	%	No	%	No	%
Gathering and Monitoring Customers' Credit information.	31	100	0	0	31	100
Maintaining an accurate and updated credit information database.	31	100	0	0	31	100
Generating and sharing credit information with banks and authorized persons.	31	100	0	0	31	100
Keeping credit information database secure and confidential.	5	16	26	84	31	100
Providing a system that allows continuous audits and supervision by the regulators (CBK).	0	0	31	100	31	100
Faithful representation of customers' credit information	29	94	2	6	31	100

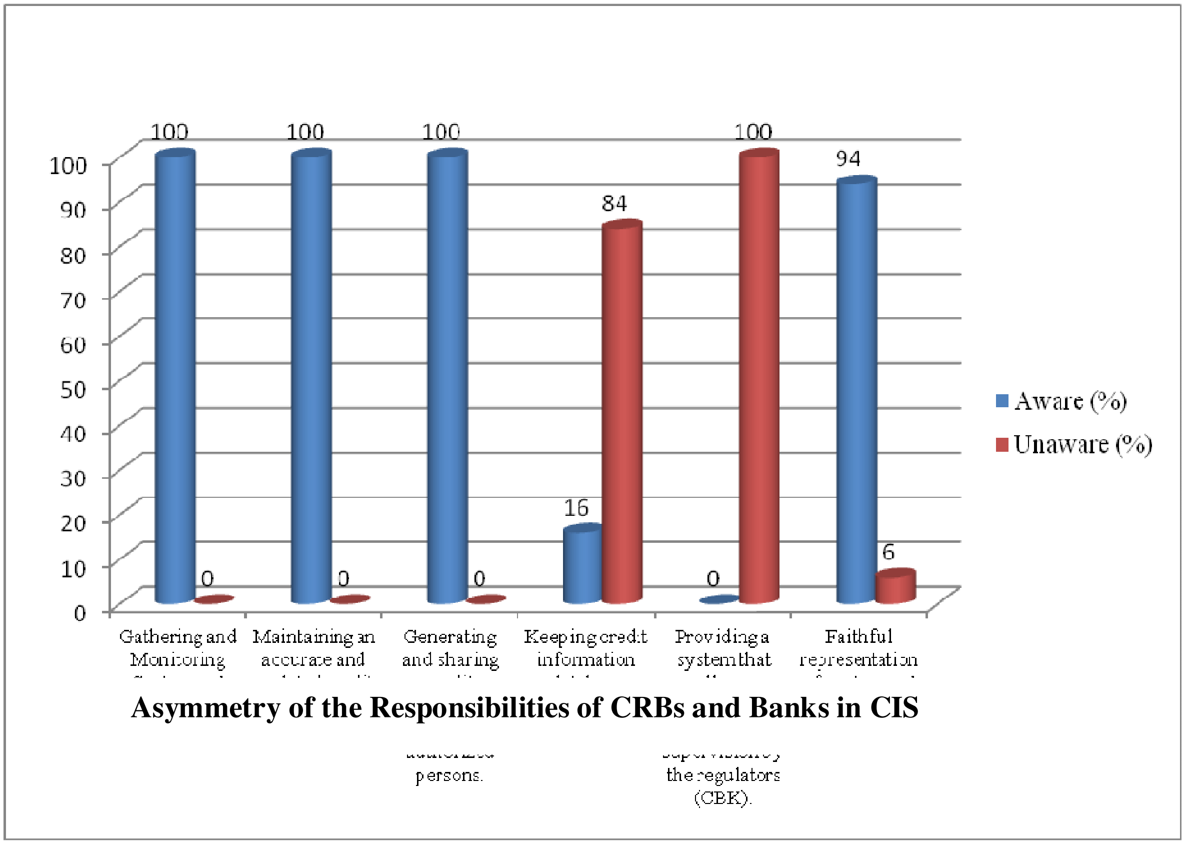

Figure 17: Asymmetry of Information on the Responsibilities of CRBs and Banks in CIS

Asymmetry of Information that triggers Negative Credit Rating

The researchers found that the reasons for negative credit rating, which the respondents were aware of, were credit default or late payments (87%); and dishonor of cheques (81%). Possibly these were the issues that affected the customers mostly due to cash flow and liquidity problems. Other reasons were; fraud and forgeries (10%); tendering false securities (10%); and false declarations and statements (6%). These later factors were relatively fewer than the former possibly because banks usually employed standard verification procedures including audits and searches before relying on the securities and documents presented- only few cases could pass unnoticed. A related finding was that the factors not considered by the respondents were: compulsory closure of bank accounts; receiverships, bankruptcy or liquidation; and misapplication of borrowed funds. A possible explanation for this could be that the respondents associated compulsory closure of bank accounts with fraud and forgeries, and associated receiverships, bankruptcy or liquidation with credit defaults because both factors arise from liquidity problems. Liquidity problems could also be caused by misapplication of funds. However misapplication of funds could be difficult to prove where the customers continued servicing the loans as per the terms of credit. Furthermore where funds were misapplied, credit default would be noticed first before misapplication of funds. To the extent discussed above, the respondents were aware of the information that triggers negative credit rating as exemplified by the quotation below:

"They collect information on defaulters, creditors,…and even cooked statements." (R74)

"Loan repayment history, defaulters, and bouncing cheques" (R3)

"…if you fail to pay loan…if you issue a cheque and it is not honoured. No other reasons."(R13)

Table 4: Asymmetry of Information that Triggers Negative Credit Rating

Information that triggers negative credit rating	Aware		Unaware		Total	
	No.	%	No.	%	No.	%
Dishonour of cheques other than for technical reasons.	25	81	6	19	31	100
Compulsory closure of bank accounts other than for administrative reasons.	0	0	31	100	31	100
Proven cases of fraud and forgeries.	3	10	28	90	31	100
False declarations and statements.	2	6	29	94	31	100
Receivership, bankruptcy or liquidation.	0	0	31	100	31	100
Credit default or late payments on all types of securities.	27	87	4	13	31	100
Tendering of false securities.	3	10	28	90	31	100
Misapplication of borrowed funds.	0	0	31	100	31	100

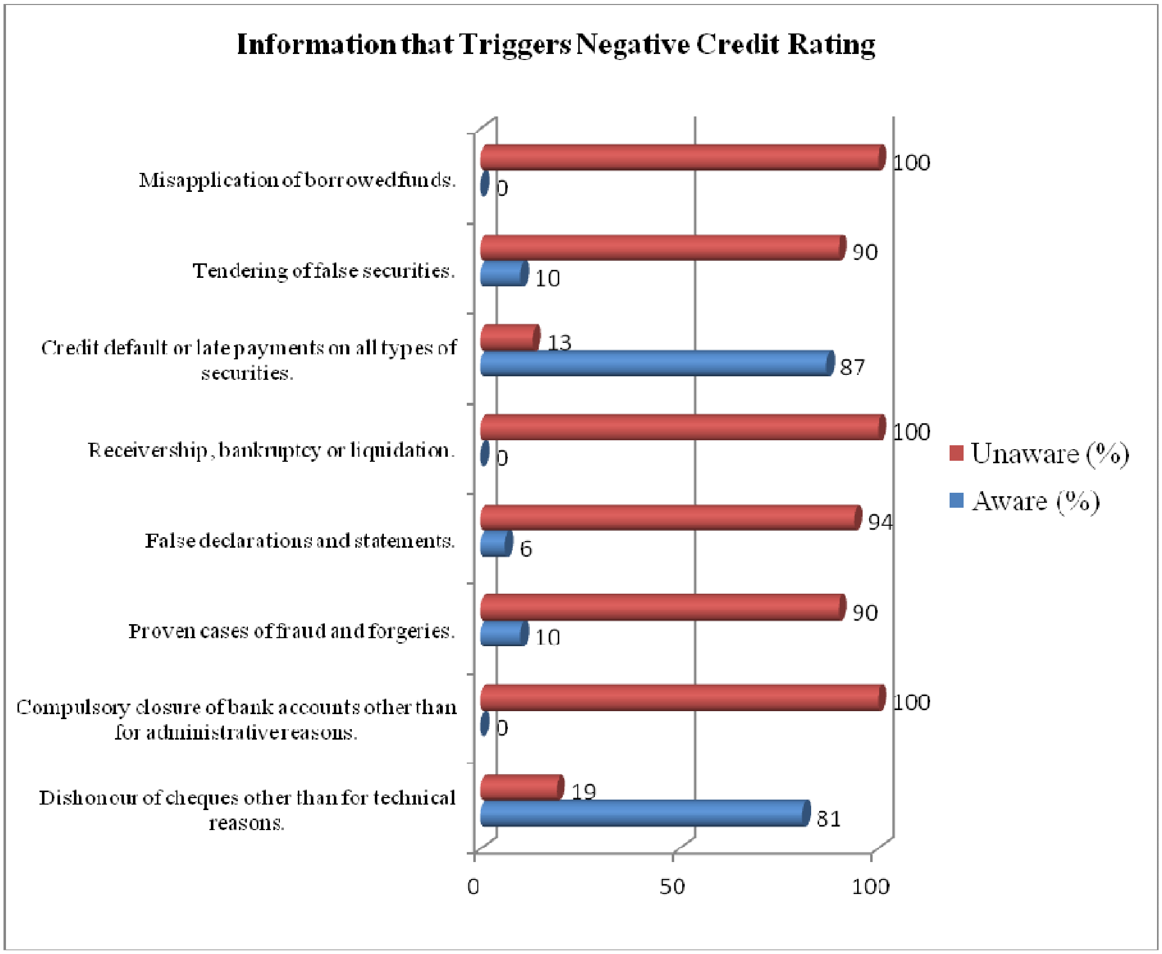

Figure 18: Asymmetry of Information that Triggers Negative Credit Rating

Asymmetry of Information on the Effects of Credit Reports

The researchers found that 87% of the respondents who were aware of CIS were also aware that negative credit rating led to issuance of an adverse action notice to a customer as exemplified by the quotation below:

"*If you default then you cannot go to another bank ... pay your obligations, sit down with your financiers and reschedule your loans kuliko kuhepa, let them know what you are going through … I think the bank should be able to talk with their clients first before posting their names"* (R3)

*"No bank will give you loan. It is unlawful and risky to give loan to a person who is not clean" (*R4)

"Defaulters have been cornered Kabisa" (R13)

The relatively high awareness rate of adverse action notice by customers suggested that information about the consequences of negative credit rating was generally available to customers. Possibly this was where the content of CIS publicity message was focused. This was supported by the finding that only 3% of the respondents were aware that positive credit information was a basis for customers to negotiate better terms of credit. This could suggest that the promoters of CIS focused more on highlighting the consequences of negative credit reports on customers than how positive reports could benefit them. This imbalance in message content could have created the perception 19% of the respondents had that CIS was designed to benefit the banks and the wealthy but not the ordinary customers hence their disinterest in understanding CIS. Furthermore, while 87% of the respondents were aware that negative credit rating affected customers' character in relation to creditworthiness, none of them considered its effect on the ethics and integrity standards required of one to hold certain public and state offices in Kenya. This could partly be explained by the fact that the Public Officers Ethics Act was introduced hardly a year ago in Kenya. A related finding was that none of the respondents was aware that after the expiry of the time limit of 7 years, CRBs must by law delete customers' negative credit information to enable them to make a fresh start. The respondents believed that negative credit rating amounted to irreversible blacklisting of the affected customer from obtaining credit.

Respondents (3%) expressed concern that joint decisions by company board of directors or partners could impact unfairly on an individual director's credit rating if the joint decisions or company loans guaranteed by directors fail as exemplified by the quotation below:

"…what happens to a group of people who have guaranteed others…." (R74)

Therefore, it is necessary to clarify how a company's negative credit information affects the credit standing of the individual directors who make decisions in the company.

Table 5: Asymmetry of Information on the Effects of Credit Reports

Effects of Credit reports	Aware		Unaware		Total	
	No.	%	No	%	No.	%
Use of positive credit information to negotiate better terms of credit.	1	3	30	97	31	100
Issuance of an adverse action notice to a customer.	27	87	4	13	31	100
7 year time limit for maintaining customers' negative credit information.	0	0	31	100	31	100
Disqualification to hold certain public and state offices in Kenya on ethical and integrity grounds due to negative credit rating.	0	0	31	100	31	100
Perception that CIS benefits only Banks and the wealthy.	6	19	25	81	31	100

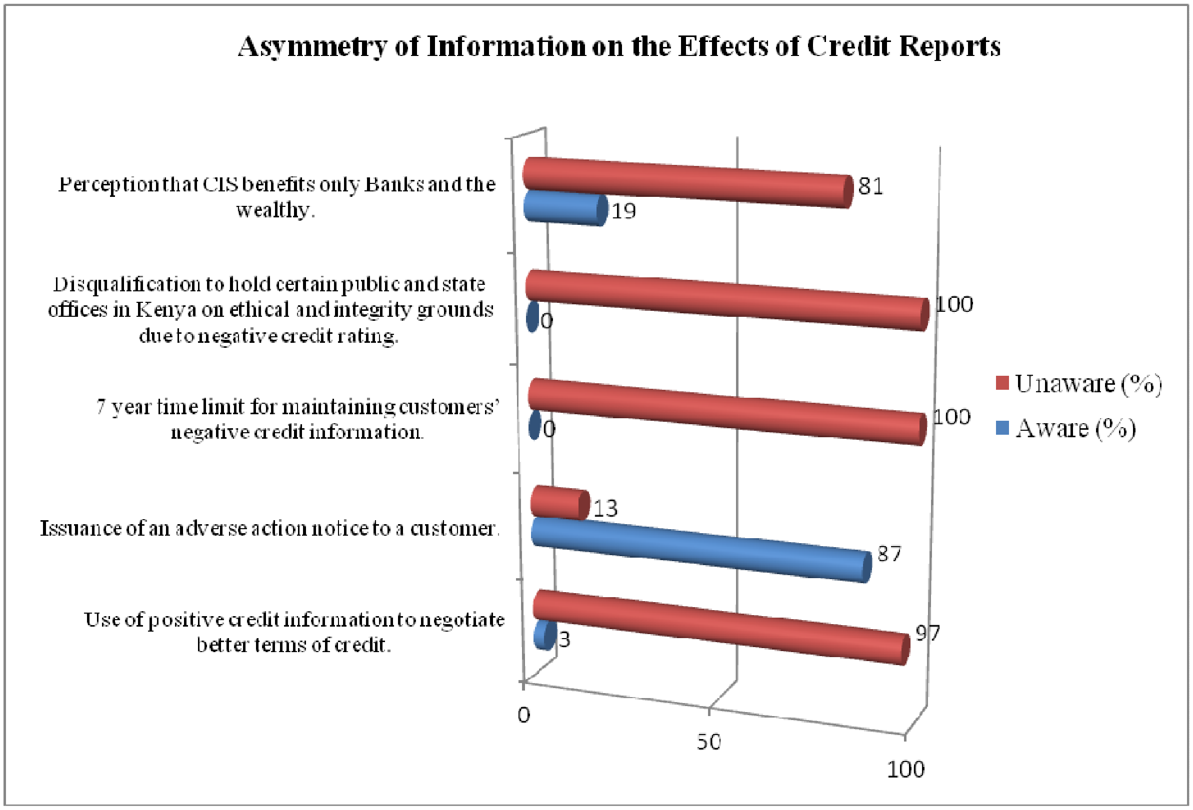

Figure 19: Asymmetry of Information on the Effects of Credit Reports

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The researchers found that 62% of the respondents interviewed knew neither the meaning nor the existence of CIS in Kenya. All the respondents who knew what CIS was also knew the CRBs' responsibilities to: gather customers' credit information; maintain an accurate database; and share credit information with authorized persons. They also knew the causes of negative credit rating: default or late payments (87%), dishonor of cheques (81%), fraud and forgeries (10%), tendering false securities (10%), and false declarations and statements (6%). However they did not consider compulsory closure of bank accounts, receiverships, bankruptcy or liquidation, and misapplication of borrowed funds as factor affecting credit rating. However, they knew the consequences of a negative credit rating on the customers; 87% of the customers were aware of issuance of an adverse action notice. In general, the customers were aware of their obligations in CIS and the consequences of breaching them.

In contrast, most respondents were not aware of the rights of customers in the CIS. Only 3% of the respondents knew that positive credit information was a basis for customers to negotiate better terms of credit. None of the respondents was aware that after the expiry of the time limit of 7 years, CRBs must by law delete customers' negative credit information to enable them to make a fresh start. 84% of the respondents were unaware that CRBs are obligated to keep their credit information confidential. 100% of the respondents were unaware that CRBs and banks were obligated to use a system that allowed continuous audits and supervision by the regulators (CBK). Only 3% of the respondents were aware of the customers' right to access credit information from CRBs. None of the respondents was aware of the customers' right to receive an adverse action notice, share positive credit report, dispute erroneous or outdated credit information, and receive detailed notice of the information submitted to CRBs by banks. In general most customers were unaware of their rights in the CIS.

Conclusions and Recommendations

There was disparity in the information customers had about their obligations and rights in CIS. The researchers concluded that the customers' participation in CIS in Kenya was below the CBK's expectation because the customers were not aware of their rights in the CIS and how they could benefit from it. The researchers recommended that the policymakers should develop message content that highlights the benefits and rights of customers in the CIS. The message should: be simple enough for ordinary customers to understand despite their educational levels; promote gender parity in financial management; and be delivered through appropriate channels of communication. In light of the developments in information communication technology, the researchers recommended that a study be conducted to determine what the most appropriate channel would be to communicate information of financial, business and economic nature to the general Kenyan public given customers' diverse interests. The researchers also recommended that non bank financial institutions which serve most customers should be active in CIS to the level of banks to achieve information symmetry. Lastly, the researchers recommended that employers who default in the check off system should be reported to CRBs to discourage default rates.

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