CREDIT REFERENCE BUREAU STRATEGY AND LOAN PERFORMANCE AT
THE COMMERCIAL BANK OF AFRICA IN KENYA

BY

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DECLARATION

STUDENT’S DECLARATION

This project is my original work and has not been presented for award of any degree in any other University.

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D61/64545/2013

SUPERVISOR’S DECLARATION

The research project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

I would like to dedicate this research work to my family who are my pillars and sources of great inspiration. My parents Teresa Wairimu Wanjoji, Francis Kimani Wanjoji and Evelyne Wangare Wanjoji for their continuous prayers for God’s wisdom upon me to be the best I can. To my brother, Robert Kimani for his continuous enquiry on the progress on my studies. To my fiancée Mueni Musee, who has been my biggest cheerleader and support system during my studies. God bless you all.
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# ABBREVIATIONS AND ACRONYMS

<table>
<thead>
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<th>Abbreviation</th>
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<tr>
<td>CBA</td>
<td>Commercial Bank of Africa</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CRB</td>
<td>Credit Reference Bureau</td>
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<td>KBA</td>
<td>Kenya Bankers Association</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>SACCO</td>
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ABSTRACT

Credit reference bureaus enable information sharing about a borrower’s characteristics and their indebtedness. This improves a financial institution’s knowledge of applicant characteristics and permits a more accurate prediction of their repayment probabilities as well as abilities. The credit reference bureaus in Kenya play a complementary role to the commercial banks in that CRB’s enable the commercial banks to lend more to better risk clients. A lack of accurate information sharing on the credit history and current financial ability of prospective borrowers makes it extremely difficult for lenders to correctly assess their credit worthiness and likelihood to repay their loans. The objective of the study was to determine the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa. This was a case study research. The study made use of both primary and secondary data. Primary data was collected by use of face to face interviews between the researcher and respondents. The respondents included the Head of Remedial Services, Manager of Collections, Manager of Recoveries, Manager of Compliance, Head of Credit analysis, Head of corporate banking, Head of Risk and Head of Audit. Secondary data was obtained from organizational documents such annual financial reports and annual performance evaluations. An interview guide was used as an information gathering tool. Content analysis technique was used to analyse the data. The study found that CRBs are used for providing a person’s or entity’s credit history, sharing credit information analysis, storing and dissemination of information from lenders on borrowers loans, generating reports for borrowers upon request, helping in identification of serial credit defaulters and providing credit rating or scoring of a customer. The study concludes that Credit Information sharing affects non-performing loans by lowering banks risk level hence reducing the portfolio at risk and the provisioning for NPLS which in turn increases the profitability of the bank. Additionally choosing the right customer for lending through prudent lending plays a significant part in reducing the level of NPLs as the character of the borrower is checked through the credit information obtained and this ensures that banks only lend to customers whose credit history is favourable. Commercial Banks in Kenya should make more use of the CRB reports so that they control their greatest problem of non-performing loans. The commercial banks need to make a concerted effort to have complete information of the borrower in order to make prudent decisions in relations to the credit requests they receive. The operational costs incurred in performing due diligence tasks should generally transferred to their customers directly or indirectly. The government should license more bureaus and as such lead to greater availability of credit information to banks and as well as individuals. In policy, the study is of great help to stakeholders and the regulatory bodies and policy makers to make informed credit decisions. It will aid in policymaking regarding access to credit and other regulatory requirements of the commercial banks. In practice, the findings, conclusions and recommendations provide an opportunity to banking industry in Kenya on how they can fully utilize implementation of Credit Reference Bureau. In theory, the study contributes to the existing body of knowledge on Credit Reference Bureaus in banks especially in Kenya.
1.1 Background
Schreiner (2001) notes that most financial institutions face the enormous challenge of non-performing loans and that the only way to overcome it is by monitoring the borrower’s behaviors. As such, the Central Bank of Kenya (CBK) and the Kenya Banker’s Association (KBA) came up with the concept of credit information sharing, a concept in which financial institutions would submit information about their non-performing loans to a central body, the Credit reference bureau, which would in turn share this information with all other financial institutions to help determine the credit worthiness of new clients seeking to acquire loans.

The resource based view (RBV) is the theory that is anchored on the achievement of sustainable competitive advantage through the use of valuable, rare, inimitable and non-substitutable (VRIN) attributes at the disposal of an organization (Ambrosini and Brownman, 2009). The Dynamic Capabilities (DC) theory, on the other hand, evolved from the RBV theory. As the title of the theory suggests, DC revolves around determining how companies can constantly modify the use of their resources and operations to achieve a consistent increase in their efficiency and effectiveness. According to Ambrosini and Brownman (2009), the DC theory enhanced the RBV theory by including the concept of establishing a long term competitive advantage within companies instead of a static method of operations.
Loans are arguably the most significant source of income for most commercial banks. This study was therefore inspired by the need to examine whether establishment of a credit reference bureau system can act as a strategy that can maximize the performance of all loans that are issued by commercial banks to various clients. Ultimately, the study hoped to come up with recommendations that ensure lending is informed through information symmetry of borrowers.

Specifically, the study focused on the Kenyan situation. An analysis of factors that influence the issuance and servicing of loans by clients was discussed in-depth. Further, the study used the operations of the Commercial Bank of Africa to analyze the applicability of a credit reference bureau in its bid to improve the performance of its issued loans.

### 1.1.1 Concept of Business Strategy

A strategy is the setting of long term goals of an organization, the adoption of the activities to be undertaken to achieve them and the allocation of the necessary resources (Vladimir, 2009). Vladimir further defines a business strategy as the means by which a business sets out to achieve a set of defined objectives. According to (Mintzberg, 1987), business strategies are usually set to perform four main functions; to set the desired direction of the organization, to focus the efforts of all its stakeholders, to define the organization’s strategic position and to provide guidance to all sectors in order to maintain consistency.
According to Mintzberg & Brian (1996), business strategies are mostly of two kinds; generic and competitive. A generic business strategy is employed when the business needs to improve its performance regardless of that which is being carried out by the competitor. In this, the business makes decisions based on what is best for it at that particular moment, considering that which it can be able to achieve given the available resources. For a generic strategy, a business can decide to expand its operations by purchasing a new business, producing new products or beginning operations in a new region.

A competitive strategy is a decision made by a business in a bid to outdo their competitors. This is usually arrived at following an evaluation of the processes and activities carried out by the competitors and determination of what the business can do in order to deliver better results and be able to maintain a competitive advantage. The two most common competitive strategies are the lowering of the products’/services’ prices and the differentiation of products and services from those offered by the competitor. Porter (1980) states that there are three main principles underlying a business strategy; to create a unique market position, to make trade-offs by determining what to be done and what not to be done and to create a fit by ensuring all organizational activities are aligned with each other with the sole aim of supporting the main strategy.
1.1.2 Credit Reference Bureaus Strategy

A Credit Reference Bureau (CRB) is a company that assembles financial information from various sources and provides consumer credit information on individuals and organizations to various interested stakeholders. This information is usually collected and presented in the form of a credit report and is made available on request to contributing parties for the purposes of credit assessment and rating primarily on decisions relating to loan advances. Typical clients to CRBs include banks, mortgage lenders, credit card companies and other financing companies (Sacerdoti, 2005).

Credit reference bureaus enable information sharing about a borrower’s characteristics and their indebtedness. This improves the financial institution's knowledge of applicant characteristics and permits a more accurate prediction of their repayment probabilities as well as abilities. They also operate as a borrower’s regulating body, eliminating the borrower's incentive to become over-indebted by drawing credit simultaneously from many banks without any of them realizing. This in effect significantly reduces the probability of loan default (Pagano & Jappelli, 1993).

Credit histories not only provide the necessary input for credit underwriting, but also allow borrowers to take their credit history from one financial institution to another, thereby making lending markets more competitive and, in the end, more affordable. The development of a sustainable information sharing industry is therefore recognized as a key component of financial sector reforms in almost all developing and emerging economies (CBK, 2008).
1.1.3 Loan Performance

Loan performance in the commercial institutions is measured by the loan default rate of the borrowers. The failing of the 37 banks leading to the year 1998 was since attributed to the holding of numerous non-performing loans by the banks. A non-performing loan is defined as a loan in which the payments on its interest and principal have been defaulted by more than three months (Central Bank of Kenya, 2015). Before the inception of the information sharing strategy and the CRB regulation, banks had no mechanisms of finding out about the financial relations of their new clients with other financial institutions.

The uncertainty about borrowers’ repayment probabilities is referred to as credit risk and the poor management of such risks leads to non-performing loans in the long run (Kimasar & Kwasira, 2013). This therefore had negative implications on the good borrowers as the stringent rules and conditions imposed would affect all borrowers. Similarly, those that endeavored to repay their loans on time could not be rewarded or recognized as their repayment history was not available to the banks (Alloyo, 2013).

Loan performance is an important aspect in every bank in the determination of its liquidity and stability during all times. (Gitahi, 2013) states that loan portfolios are among the largest assets held by banks and are equally one of the largest sources of their income. In 2014 alone, the percentage of non-performing loans to total gross loans in Kenya was 5.5%, up from 5.0% in 2013 (World Bank Group, 2015). This percentage is arrived at by dividing the value of the non-performing loans by the total value of the loan portfolio.
According to Central Bank of Kenya (2014), the ratio of gross non-performing loans stood at 5.6% in 2014. Similarly, the value of non-performing loans held by the commercial banks in Kenya increased from Ksh. 81.8 billion in December 2013 to Ksh. 108.3 billion in December 2014 (Central Bank of Kenya, 2014). Loan performance is the core reason behind the demise of wound up banks in Kenya (Waweru & Kalani, 2009). This is because when the level of non-performing loans is high in a particular bank, the other asset provisions made cannot be adequate to protect it against the risk of defaulting on its payments (Kwambai & Wandera, 2013).

In comparison from other countries, Michael, et al. (2006) concludes that in India, the inclusion of non-performing assets in loan portfolios affects the operational efficiency of the banks, a situation that in turn affects the profits, liquidity and solvency of that bank. Further, non-performing assets also affect the psychology of the bankers in respect to the disposition of the funds towards credit delivery (Batra, 2003).

1.1.4 Effect of Credit Reference Bureaus on Loan Performance
The credit reference bureaus in Kenya play a complementary role to the commercial banks in that CRB’s enable the commercial banks to lend more to better risk clients. According to a progress report commissioned by the Financial Sector Deepening (FSD) on the state of the credit information sharing initiative in Kenya Davel, et al. (2012) confirm that commercial banks impose stringent collateral terms and increase interest rates of borrowing loans as a mechanism to cushion themselves against the risk of non-performing loans.
The introduction of CRB’s has therefore served as a middle playing field for both the banks and the customers in that the banks have been able to identify between good and bad borrowers where the good borrowers do not have to bear the brunt for mistakes not performed by them and that the banks can in turn reduce the risks of the loans issued turning into non-performing loans.

Regardless of the resistance exhibited earlier on by the financial institutions in Kenya during the introduction of this strategy, its adoption into a law made it mandatory for all lending institutions to abide by the requirements. This has in turn greatly reduced the information asymmetry between the institutions, making the lending process fast, reliable and significantly safer through reduction of the credit risk associated with the lending process.

1.1.5 Credit Reference Bureaus in Kenya

In Kenya, Credit reference bureaus were introduced after successful amendments to the Banking Act in 2003 and 2006. Banking regulations specific to credit reference bureaus were published in July 2008 and became effective in February 2009. It required all financial institutions to provide the credit reference bureaus with credit information about their customers that were holding non-performing loans. This information was to be provided together with the individual or organization identity, employment and income details as well as their professional or business histories. Also included is the credit history of the clients, the nature and details of the securities they are currently holding and their past patterns of payment.
The Central Bank of Kenya Website lists three licensed credit reference bureaus in the country. They are Credit Reference Bureau Africa Limited, Metropol Credit Reference Bureau Limited and Creditinfo Credit Reference Bureau Limited (2015). They are all based in Nairobi. In the 1980s and 1990s, Kenya had a staggeringly high nonperforming loans portfolio. Serial defaulters, as they were dubbed, thrived in the Kenyan banking sector because there was little to no information asymmetry. They borrowed from numerous banks and did not intend to repay their loans. Today, the three CRBs in Kenya help manage such individuals.

Credit Reference Bureaus serve three main functions. First, they enable the financial institutions to lend to better risk clients. By providing information about clients’ past credit habits, it is possible for banks to determine whose lending request should be accepted and whose should be declined. Secondly, they create a more competitive ground for the financial institutions for good borrowers leading to the reduction of the interest rates. Thirdly, the credit reference bureaus help in the development of a credit culture. According to Kago (2014), the CRBs can be said to be a borrower’s self-correcting mechanism as all borrowers are aware that a bad reputation with one lending institution will lead to a ruined reputation amongst all other lending institutions. This helps to instill a sense of discipline, hence a proper credit culture.
1.1.6 Commercial Banks in Kenya

Commercial Banks and Mortgage Finance Institutions in Kenya are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines. More specifically, The Companies Act, the Central Bank of Kenya (CBK) Act and the Banking Act are the main regulators and governors of the banking industry in Kenya. The Central Bank of Kenya (CBK) is not only tasked with formulating and implementation of monetary and fiscal policies in the country but it is also charged with the responsibility of ensuring compliance of all banking industry players to the set statutory policies and standards.

As at 30th June 2015, the Kenya banking sector comprised of 43 commercial banks and 1 mortgage finance company. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution. The Kenyan Banking Sector’s performance and magnitude has continuously improved with the size of total assets standing at Ksh. 3.60 trillion, gross loans worth Ksh. 2.17 trillion, while the deposit base was Ksh. 2.57 trillion and profit before tax of Ksh. 76.91 billion as at 30th June 2015. Over the same period, the number of bank customer deposits and loan accounts stood at Ksh. 31,570,749 and Ksh. 6,033,279 respectively (CBK, 2015).
The credit information sharing mechanism under the stewardship of credit reference bureaus has continued to expand since its launch in July 2010. The cumulative number of credit reports requested by institutions stood at 7,545,757 in June 2015 up from 6,098,916 reports in March 2015. Over the same period, the number of reports requested by customers increased from 101,288 to 111,633. The number of credit reports requested by banks increased from 826,921 in the quarter ending March 2015 to 1,446,841 reports requested in the quarter ending June 2015. Credit reports requested by customers decreased from 12,752 to 10,345 over the same period (CBK, 2015).

1.1.7 Commercial Bank of Africa

Commercial Bank of Africa Ltd (CBA) is the largest privately owned bank in East Africa and has been operating for over 50 years. The Group's headquarters are located in Nairobi, Kenya, with subsidiaries in Tanzania and Uganda. CBA began as a subsidiary of SocieteFinanciere pour les pays D’OutreMer (SFOM), a Swiss-based consortium bank. Other consortium members included Bank of America, Commerzbank (now Dresdner Bank), Bank Bruxelles Lambert and Banque National de Paris. In 1980, Bank of America bought out all of SFOM’s partners and restructured CBA to mirror their own systems and disciplines before selling its majority shares to local investors. Since 1991, when CBA became a wholly-owned Kenyan bank, it has continued to position itself in the quality end of its markets, followed a conservative approach in all of its activities and placed emphasis on service quality and operating efficiency (www.cbagroup.com).
In line with its market strategy, CBA has developed a niche as the leading provider for large corporations, institutions, diplomatic missions, non-governmental organisations and high net-worth private clients. In the year 2011, CBA began a drive towards innovation in the banking space, pushing its product team to pioneer new developments that cater to a wider local audience. To date CBA has been first to market with full digital banking channels, first with M-Pesa and M-shwari products, the first US dollar credit card in Kenya, the first 105% mortgage offering and the first foreign currency based mortgage provider (CBA Financial Summary: 2008-2011).

The success of this strategy is reflected in pre-tax profits rising from Kshs.70 million in 1991 to Kshs.4.5 billion in 2014 whilst, over the same period, total assets expanded from Kshs. 2.2 billion to Kshs. 197 billion and shareholders’ funds increased from Kshs.240 million to Kshs. 18.5 billion. As per the financial summary for the year 2014, the loans and advances stood at Kshs. 99.7 Billion while the total deposits held were at Kshs. 170.1 Billion (CBA Annual report, 2014).

1.2 Research problem
A high proportion of the commercial banks’ credit risks stem from credit default risk leading to non-performing loans within lending institutions. A lack of accurate information sharing on the credit history and current financial ability of prospective borrowers makes it extremely difficult for lenders to correctly assess their credit worthiness and likelihood to repay their loans. Unquestionably credit information sharing plays a strategic role in improving the efficiency of financial institutions in addressing loan defaults (Padilla and Pagano (1997).
Developed countries have shown that CRBs have played a crucial role in the development of the financial sector (Narasiaiah & Naidu, 2000). According to Beck (2007), increased information sharing accrues the following benefits to an economy; allows for more informed risk assessment, improves access to credit for groups that have traditionally underserved, enables greater and broader access to capital for small businesses and entrepreneurs, generally enables better lending decisions with lower rates of delinquency and default. The banks which have a low non-performing loan portfolio are the ones with strong credit risk management and very proactive approach for collections (The World Bank Group, 2006). The continuing buildup of the bad loans is causing stress in a number of Kenyan banks, prompting the International Monetary Fund (IMF) to demand increased vigilance from Central Bank of Kenya (CBK, 2009).

Various researches have been carried out in this field, with most focusing on the impact of the credit reference bureaus on financial institutions. Mwiya (2006) assessed the credit default in the Zambian banking sector and the need consequent need for Credit Reference Bureaus. Dankwah, et al (2012) assessed the relevance of credit reference bureaus and its effect on the financial industry in Ghana. Onabanjo (2014) discussed the effect of credit risk on the performance of commercial banks in Nigeria. Luoto, Jill, Craig McIntosh, and Bruce Wydick (2004) focused on the impact of credit information sharing in developing countries.
Kago (2014) evaluated the effect of the credit service bureaus service on financial institutions, with specific emphasis on the deposit taking microfinance institutions in Kenya. Shisia, et al. (2014) assessed the contribution made by the 2008 CRB regulation on the mitigation of credit risks in the Kenyan Banking industry. Wanjiru (2013) delved into the role the credit reference bureaus have played on the access of credit by individuals and institutions in Kenya, with emphasis on all commercial banks. From all the above works, only one by Kwambai & Wandera (2013) has focused on the impact of the credit reference bureaus on non-performance loans in commercial banks in Kenya. This study therefore builds on this work and aims to fill the knowledge gap by helping to determine whether indeed information on the past history of loans assists in loan underwriting in Commercial Bank of Africa, Kenya.

In spite of the introduction of CRBs, recent CBK statistics show a gradual increase in the gross non-performing loans and advances over the years. This is evidenced in the CBK performance overview for the quarter ended 30th June 2015 where the value of gross non-performing loans (NPLs) increased by 5.7% from Ksh. 117.2 billion in March 2015 to Ksh. 123.9 billion in June 2015. The quality of assets, measured as a proportion of net non-performing loans to gross loans slightly rose from 2.6% in March 2015 to 2.7% in June 2015. These statistics were examined in cognizance of the usage of CRBs in the banking sector within the context of loan issuance, management and recovery efforts to find out the effectiveness of the strategy. In view of the above, this research therefore aimed to answer the following question; what is the influence of credit reference bureaus as a strategy on loan performance in commercial bank of Africa?
1.3 Research objectives
The study was conducted to determine the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa in Kenya.

1.4 Value of the study
The study would play a role in enhancing policy formulation among commercial banks in Kenya. Firstly, the results of the study would be used by the Kenyan Government to come up with suitable strategies that relate to effective credit rating of borrowing entities and loan management thereafter. In addition, the study would enable the senior managers of commercial banks in Kenya have a platform where in house policies can be formulated for all their branches to maximize the performance of their issued loans in line with individual bank’s risk appetite.

The relationship between the levels of performance of loans advanced after reference is made from CRBs versus the performance of similar loans when CRBs are not involved would improve the knowledge that scholars, governments and banks have concerning the importance of CRBs within the banking industry. Further, the results would either support or contradict the already concerning loan performance within Kenya, thus, providing new grounds for the formulation of new and advanced theories concerning the relevance of CRBs.
In regards to practice, the results of the study would enable commercial banks to come up with the appropriate checklists when vetting the suitability of clients seeking loans. Secondly, the envisioned policies formulated by both the Kenyan government as well as local banks as a result of this study, would serve to sensitize Kenyans on the processes and critical aspects that are followed in determining loan qualification in any commercial bank in Kenya.

1.5 Chapter Summary
This is the introductory chapter to this study. It gives background information regarding the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa. The information given includes concept of business strategy, credit reference bureaus strategy, loan performance, effect of credit reference bureaus on loan performance, credit reference bureaus in Kenya, commercial banks in Kenya and the profile of Commercial Bank of Africa.

The other sections covered in this chapter include research problem, research objectives and lastly value of the study. The next chapter involves a review of available literature on the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa. The chapter thus delves much on uncovering the documented information regarding credit reference bureaus and loan performance.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
Credit Reference Bureaus were developed as a way to track the activities of borrowers and provide this information to banks and other financial lending institutions in order for them to determine their credit worthiness. The literature review chapter looks at the theories influencing CRBs existence and value. The section ends with some empirical literature on CRBs as well as provide a deeper understanding of CRBs and their function in the banking sector.

2.2 Theoretical Foundation
There are several theories that capture the importance of information symmetry as a strategy in management of loan performance. These include dynamic capability theory, resource based view and moral hazard theory.

2.2.1 Dynamic Capability Theory
Dynamic capability theory describes the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. The theory focuses on the strategic management of an organization’s resources in appropriately adapting, integrating and reconfiguring internal and external organizational skills, resources and functional competences to match the requirements of an ever changing operational space. A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness (Zollo, 2002).
According to Teece et al. (2006), there are three main processes that are key in developing a sustainable strategic capability in an organization which include processes, positions and paths. They further argue that competitive advantage is built at any point in time and could be shaped by the assets the firm possesses (internal and market) and the evolutionary path it has adopted/inherited. Makadok (2001) highlights two strategic approaches with regard to generate economic revenue: resource picking and capability-building.

2.2.2 Resource-Based View
The resource based view is a theory that was popularized in the 1980s and 1990s. It supports a firm for looking for competitive advantage within itself through an analysis of its VRIO attributes. Resourced based view theorists state that the firm’s greatest assets are its resources and this is what the firm should look to for competitive advantage. The VRIO framework forms a basis for an internal analysis of the firm’s competitive advantage. V stands for valuable, R stands for rare, I stands for Imperfectly Imitable, and O stands for Organized (Witcher & Chau, 2010).

The above criterion is used to determine whether or not a resource is strategic and if it improves the chances that the firm will achieve supernormal profits (Witcher & Chau, 2010). This is preferred to looking outside the firm to determine its profitability and competitiveness. Once a firm is able to determine resources that are strategic to its competitive advantage, it should guard them such that they are indiffussable throughout the industry.
2.2.3 Moral Hazard Theory

In Economics, information asymmetry is a situation in which one party has more information than the other. Moral hazard occurs under a type of information asymmetry where the risk-taking party to a transaction knows more about its intentions than the party paying the consequences of the risk. More broadly, moral hazard occurs when the party with more information about its actions or intentions has a tendency or incentive to behave inappropriately from the perspective of the party with less information. The transactions that take place between these two parties is therefore flawed in that one party has more power than the other. This results in a market failure of some kind. In moral hazard theory, one party takes risks because they are not directly responsible for them (Myerson, 2012).

According to Mirrles (1999), moral hazard is synonymous with unobservable behavior. In the case of the banking sector, unobservable behavior is something characteristic of the borrower. Once a borrower gets a loan, there is a high probability that they will not use it for the purpose indicated during the loan application. If they engage in risky activity using the loan, this means that the might not pay their loan and the risk is transferred to the lender. Moral hazard models also imply that information sharing should reduce default rates and interest rates and increase lending, either because credit bureaus foster competition by reducing informational rents or because they discipline borrowers (Padilla and Pagano, 1997).
2.3 Strategic Management Concept and Performance of Organizations

Strategic management is a characteristic of companies on the global community. It is necessary part of remaining competitive for firms. There are five basic strategic management concepts namely: goal setting, SWOT analysis, strategy formulation, strategy implementation and strategic monitoring (Hitt, Ireland & Hoskisson, 2011). The first process is setting the goals of the organization such that the next step which is strategy formulation, can be based on the vision, mission, goals and objectives of the company. A SWOT analysis is essential in order to determine the business environment both internally and externally. It determines potential opportunities for the company, its main weaknesses and strengths and threats. Once this is done, then the next step for the company is to implement the strategy through the help of management. The last strategic management concept is strategic monitoring which evaluates the success or failure of the strategy and determines the need for optional strategies to be implemented.

Strategic management affects organizations in a number of ways. The first step of the strategic management process is to develop goals and objectives for the company. This way, the strategic management team of the company can focus employee activities and roles towards this. The statement of goals also ensures that goals are achieved within a certain time frame leaving room for other goals to be set (Marr, 2006). Strategic management ensures that there is accountability in the company (Hitt, Ireland & Hoskisson, 2011). The last step of the strategic management process ensures that strategies are monitored for effectiveness. This way, the organization can improve on areas it needs to better its performance in the future.
2.3 Loan Management and Credit Reporting

Loan management is the process through which banks and other lending institutions monitor their loan portfolio. Most commercial banks provide loans as their major business venture. As such, it is imperative that they manage their loan portfolios as best they can in order to avoid liquidity problems. According to the Comptroller of the Currency Administrator of National Banks (1998), loan portfolios are the biggest source of both risk and revenue for commercial banks. The first way through which banks try and manage loans is through adoption of loan policies which are documents containing information that may help in maintaining cohesiveness of lending in banks (Padmalatha, 2011).

The traditional way that banks have done this is to approve loans as prudently as possible and consequently monitor the performance of these loans. However, portfolio managers need to do more than this. In order to effectively manage loan portfolios in commercial banks, portfolio managers need to have a broad and in-depth understanding of the risks associated with each loan and how connected the individual loans are because this interrelation also poses different risks to the bank. Risk in the banking sector is the probability that events may happen that may affect the ability of the borrower to repay their loan amounts and that affect the interest rates of the loan. This hampers the ability of the bank to make revenue and remain profitable (Comptroller of the Currency Administrator of National Banks, 1998).
Credit reporting firms are created to provide rapid access and reliable information to anyone seeking it, primarily banks and other lending institutions. This aids in the development and sustenance of a robust credit market (World Bank & IMF, 2005). The major problem that credit report firms alleviate is asymmetry of information between lenders and borrowers. According to World Bank & IMF (2005), credit report firms help to reduce adverse selection and risk. The credit reporting firms should provide data that is quality to enable lenders to make sound decisions based on this information. The section below addresses the development of credit report firms or credit reference bureaus.

### 2.5 Empirical Studies and Knowledge Gaps

Countries with both entry barriers and high bank concentration have a negative relationship with the sharing of positive information and depth of information. This is because in a less competitive environment, banks are less willing to bear the administrative costs associated with substantial and positive information sharing. Countries with higher barriers to entry have low transparency of credit CRB information. Banks in countries with a high bank concentration and high threat of competition resulting from lower entry barriers are not likely to have CRBs. The reasons for this include unwillingness to share information when there is high threat of entry and as such large established banks lose their monopoly when they share information (Bruhn, Farazi & Kanz, 2013).
James (2014) conducted an empirical study in 43 financial institutions that are licensed under the Kenyan Banking Act and both secondary and primary information was collected. The research findings show that the presence of credit reference bureaus reduces default rates among borrowers. The study also revealed that credit information shared increased credit availability. The results obtained from the study recommends credit information sharing in other sectors other than the banking sector. Another study conducted by Kwambai & Wandera (2013) on KCB loans revealed that credit information sharing, increased transparency among lenders and 16% of the respondents from Kenya Commercial banks reported that CRBs act as a form of discipline against defaulting (Kwambai & Wandera, 2013).

A study conducted by Moti et al (2012) and on loan performance and involvement of top management found out that the involvement of top management staff in defining credit terms in microfinance institutions did not affect the performance of loans. This is because of the fact that these management personnel are involved in the running of the organization and not the credit terms surrounding microfinance institutions. However, the study did reveal that credit officers’ involvement in the creation of credit terms had a positive effect on loan performance (Moti et al, 2012). The study further revealed that the character of the borrower did have an effect on the loan repayment availability and performance.
Research conducted by Galindo & Miller (2001), for example, shows that the relationship between information sharing and access to finance is a positive one. The research study used registry indices to determine the level of credit availability to firms. The study collected data from public registries from 34 countries in the world through an online survey method. 81 countries were asked to participate, and 59 of them responded. Another research study conducted by Brown & Zehnder (2006) concluded that the existence of public credit reference bureaus alone can help motivate borrowers to repay their loans within the required time. Jappelli & Pagano (2002) conducted a similar research study which showed that in those countries where public registries existed and information sharing was prominent, default rates were sufficiently lower than those without.

2.6 Chapter Summary
The purpose of this literature review was to investigate the effect of credit reference bureaus on loan performance. This study generally highlights the various aspects of credit reference bureaus and its resulting effect on loan performance in the banks in Kenya. The knowledge of this information would be used in data collection so as to meet the objective of the study. The chapter covers theoretical foundation (focusing on Dynamic Capability Theory, Resource-Based View and Moral Hazard Theory), strategic management concept and performance of organizations, loan management and credit reporting and finally empirical studies and knowledge gaps.
From the foregoing literature review, CRBs are formed with the purpose of dealing with information asymmetry. CRBs help to alleviate adverse selection and moral hazard. When lenders are aware of the creditworthiness of their potential borrowers, they are able to disburse loans in a way that reduces risk to them. This is especially important because banks’ loan portfolios are their biggest assets and also their biggest sources of revenue.

The chapter provided a general discussion of the literature reviewed and this was necessary in order to see what had been done in this field and to assist in the answering the research questions. The next chapter is the research methodology which sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the methodology the researcher employed in investigating credit reference bureaus strategy on loan performance at Commercial Bank of Africa. Among the elements discussed in this section are the data collection tools and techniques, as well as the techniques that were used to analyse the collected data.

3.2 Research Design
This was a case study research, where the data collection process would rely on the information gathered from employees of Commercial Bank of Africa. The data collected would be mainly qualitative, and thus the study took a descriptive research design, with the main research instrument being the interview guide. The interview guide constituted mainly open ended questions, which facilitated the collection of qualitative data. Bennett & Open University (1973) argues that the quality of a research and the data collected directly depends on the research design adopted, which is why it is imperative that the research design chosen in this context is relevant to the research questions.

The open ended questions gave the respondents of this research an opportunity to give brief explanations to the various questions as a way of clarifying what quantitative data might not immediately explain. Commercial Bank of Africa is the sixth largest bank in Kenya, according to its asset base and largest privately owned bank in East and Central Africa. It can be considered significant in understanding the credit reference bureaus strategy in loan performance.
3.3 Data Collection
The study made use of both secondary and primary data. Primary data was collected by use of face to face interviews between the researcher and respondents. The respondents included the Head of Remedial Services, Manager of Collections, Manager of Recoveries, Manager of Compliance, Head of Credit analysis, Head of corporate banking, Head of Risk and Head of Audit. Secondary data was obtained from organizational documents such annual financial reports and annual performance evaluations.

An interview guide was used as an information gathering tool, where the respondents, were expected to respond to the various open ended questions in the context of the research topic which elicited specific responses for both qualitative and quantitative analysis. The respondents were expected to give a brief account of every question in the form of explanation, and the dully filled interview guides were then analyzed using a thematic breakdown technique, where the data was broken down into themes and trends to facilitate the making of conclusions.

3.4 Data Analysis
Data analysis is a process of inspecting, transforming, and modelling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. The content analysis technique provides the researcher with a qualitative picture of the respondent’s concerns, ideas, attitudes and feelings used because it assisted in making inferences by objectively identifying specific information and relating the same to occurrence trends (Crestwell, 2003).
Kothari, (2004) argues that content analysis is a central activity whenever one is concerned with the study of the nature of the verbal materials. Content analysis involves observation and detailed description of objects, items or things that comprise the object of study. It was on this basis, content analysis was used in this study to analyse the interviewees’ views about credit bureaus and its influence on loan performance in Commercial bank of Africa. From the views collected, an assessment was conducted to establish support or departure of past research on similar studies.

3.5 Chapter Summary
This chapter has clearly described the methodology that was used to reach the objectives of the study. The research methodology was presented under research design, data collection and data analysis. It started with a brief introduction highlighting the general methodology and structure of the chapter.

The chapter also highlighted the method that was used to conduct the research and its use justified. The data collection techniques that were used and data analysis were discussed. The chapter is followed by data analysis, findings and discussion in chapter four. The results are analysed using content analysis to give findings on the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa in Kenya.
CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction
This chapter provides the data analysis, presentation and interpretation of the results of the study as set out in the research methodology. The purpose of the study was to determine the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa. This chapter presents the research findings and the subsequent discussions which take recognition of the pre-stated objective of the study. The findings of the study and the analysis of the results established from the interview guides sought to determine the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa.

This chapter also discusses the findings in comparison with relevant theory and literature as established by other authors in the same field of study. The data was collected through structured interview specifically designed to generate data relevant to the research objective and analyzed through content analysis. To enhance data quality of data obtained, unstructured questions were used whereby respondents indicated their views and opinions about the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa.
The interviewees targeted for this study were the management staff who included the Head of Remedial Services, Manager of Collections, Manager of Recoveries, Manager of Compliance, Head of Credit analysis, Head of corporate banking, Head of Risk and Head of Audit in Commercial Bank of Africa. Content analysis was used in this study due to the research instrument used was an interview guide hence the data collected was qualitative. The following analysis is based on 8 responses received out of the sample of 8 respondents intended for the study which contribute a response rate of 100.0%.

4.2 Demographic Information
This section concerns itself with outlining the presentation of the findings obtained from the questionnaires distributed to the respondents. For clarity of the information, it was necessary for a review of the responses to ascertain that the information from the respondents was adequate and complete for purposes of the research. In order to get the background information on credit reference bureau strategy and loan performance at the Commercial Bank of Africa in Kenya, the demographic data of the respondents was investigated in the first section of the questionnaire. They are presented in this section under gender, number of years in employment in CBA, department and employment position.
In this study the respondents sampled were expected to comprise both male and female members of staff. The question of gender was considered important in the study primarily because it could help the researcher get a balanced view from both males and females. Accordingly, a majority (comprising of 60.0%) of the respondents were male staff while 40.0% of them were female staff. The results show that the commercial bank studied had both male and female staff; however the majority of them were males. The results imply that the views expressed in these findings are gender sensitive and can be taken as representative of the opinions of both genders as regards to credit reference bureau strategy and loan performance at the Commercial Bank of Africa in Kenya.

The length of continuous service in an organization determines to a larger degree the extent to which one is aware of the issues sought by the study. In the wake of technological advancements and globalization, there are likely to be many changes in institutional and operating environments that the respondents should know when responding to the issues sought by the study. The study therefore sought to establish the number of years that the interviewees had been employed in Commercial Bank of Africa (CBA). From the study, majority of the interviewees indicated that they had been working with CBA for a period of 6 years and others for over ten years, 7 years, 5 years, while others had worked with CBA for 4 years. There were also responses of staffs with the greatest experience of 13 years of working with CBA and the lowest experience of 3 years and 10 months. For that reason, majority of the respondents had enough knowledge and aptitude owing to their years of experience in the organisation to respond to this study on the impacts of credit reference bureau strategy on loan performance at the Commercial Bank of Africa in Kenya.
Activities of credit reference bureaus and loan performance affect various aspects of organizations across various departments. The study included heads of departments designated as managers in charge of Remedial Services, Collections, Recoveries, Credit Analysis, Corporate Banking, Risk and Compliance and Audit. It was therefore important to ensure that questionnaires were distributed and returned from various departments within the Bank. Majority of the interviewees were drawn from the credit risk management department, while others worked in the audit, compliance and credit analysis departments. These findings imply that the departments that were targeted by the study were involved and that the findings are not biased hence representative of the various departments’ views on impacts of credit reference bureau strategy on loan performance at the Commercial Bank of Africa in Kenya.

The study found it relevant to assess the distribution of the respondents across the management levels. As such the study included middle level management and senior level management were selected to participate in the study. The interviewees were required to give their designations/employment positions in CBA. This list of those engaged are Head of Remedial Services, Manager of Collections, Manager of Recoveries, Manager of Compliance, Head of Credit analysis, Head of corporate banking, Head of Risk and Head of Audit. The results show that the interviewees’ responses are inclusive of the views of senior staffs who have the advantage of having a deeper understanding and responsibility of the strategic decisions made by the Bank regarding credit reference bureau strategy and loan performance at the Commercial Bank of Africa.
4.3 Credit Reference Bureau

The objective of this study was to determine the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa. Accordingly the interviewees were required to indicate whether they knew what a Credit Reference Bureau (CRB) is. From the study, all the interviewees (100%) unanimously agreed that they were aware of what CRB is. Accordingly the interviewees were requested to indicate some of the functions of CRBs. The interviewees reported that CRBs are used for providing a person’s or entity’s credit history, sharing credit information analysis, storing and dissemination of information from lenders on borrowers loans (both performing and non performing), they are also used for generating reports for borrowers upon request, helping in identification of serial credit defaulters and provide credit rating or scoring of a customer.

From these sentiments, the study established that indeed the interviewees are aware of the various functions of CRBs. According to Kago (2014) CRB is an organization providing detailed information on a person’s credit history, including information on their identity, credit accounts and loans, bankruptcies and late payments and recent inquiries. Other information shared by CRBs include: proven frauds and forgeries; cheque kiting; false declarations and statements; receiverships, bankruptcies, and liquidations; credit default and late payments; use of false securities; and misapplication of borrowed funds. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. The credit reference bureaus in Kenya play a complementary role to the commercial banks in that CRB’s enable the commercial banks to lend more to better risk clients.
Davel, et al. (2012) confirm that commercial banks impose stringent collateral terms and increase interest rates of borrowing loans as a mechanism to cushion themselves against the risk of non-performing loans. The introduction of CRB’s has therefore served as a middle playing field for both the banks and the customers in that the banks have been able to identify between good and bad borrowers where the good borrowers do not have to bear the brunt for mistakes not performed by them and that the banks can in turn reduce the risks of the loans issued turning into non-performing loans.

The respondents were asked to indicate their agreement to CRBs having provided reliable and inexpensive systems to exchange or share information on the customers and their ability to pay loans. Majority the respondents agreed that indeed credit reporting allows banks to better distinguish between good and bad borrowers. They explained that the CRB systems are reliable in providing, exchanging and sharing customer’s credit information. CRBs assist to ascertain the credit worthiness of customers for loans and advances. As such where customers with negative listing are prompted to pay off their loans before banks can grant them further credit facilities. This has significantly reduced the default rates. According to Brown & Zehnder (2006), the existence of public credit reference bureaus alone can help motivate borrowers to repay their loans within the required time. As such, better information on potential borrowers should mean that it would be both cheaper and easier to obtain loans as good borrowers could benefit from lower interest rate, easier terms and/ or less collateral.
Further, the interviewees recapped that CRBs provide equitable systems in reference to costs because they collect information from various sources which would be expensive for one institution to gather. CRBs by their mandate are legally enabled to do the listing of customer’s loan history which leverages on economies of scale. Though established in 2009 in Kenya, CRB running has gained continued expertise and relevance as they able to depict a clear and concise picture on the history and indebtedness of borrowers. Some of the interviewees reiterated that the cost of the use of the CRB systems should be further reviewed for greater accessibility since every time they look up for a customer at the CRB database there are some charges incurred by the bank. Ultimately the results confirm that CRBs contribute significantly to reduction in the costs of screening loan applications by enabling the lender to sort out prospective borrowers who have defaulted with other lenders (Brown & Zehnder, 2006).

The interviewees were also requested to indicate their agreement with that CRB has significantly reduced the cases of multiple borrowing over indebtedness, as well as loan defaults. Majority of the respondents opined that CRBs have contributed to control of serial defaulters and minimizing loan defaults, customers with outstanding loans are forced to pay off their loans and obtain clearance certificate which reduces default rates significantly. When lenders are aware of the creditworthiness of their potential borrowers, they are able to disburse loans in a way that reduces risk to them. However, some interviewees reiterated that the CRBs has not reduced the cases of multiple borrowing over indebtedness, as well as loan defaults since the lending institutions have room to decide whether to utilize the CRB information or not which leads to cases of continued lending to serial defaulters.
In accordance with the Beck (2007), increased information sharing allows for more informed risk assessment, improves access to credit for groups that have traditionally underserved, enables greater and broader access to capital for small businesses and entrepreneurs, generally enables better lending decisions with lower rates of delinquency and default. However, lack of accurate information sharing on the credit history and current financial ability of prospective borrowers makes it extremely difficult for lenders to correctly assess their credit worthiness and likelihood to repay their loans.

The study posed a statement that one of the functions of CRB in Kenya is to offer banks access to databases that capture relevant aspects of the customer’s debt or borrowing history, and thus reducing the vetting process and sought to establish how CRB had achieved thus far. The interviewees reaffirmed that the use of credit reports has greatly assisted on understanding the customer’s borrowing history. The information on applicants borrowing history is readily available on CRB reports which is a basically a consolidation of both positive and negative data from lending institutions which makes up one depository. This has in turn provided an all access pass to various stakeholders such as lenders, financial institutions and creditors that require credit information of interested parties.
On whether CRBs have played a key role in helping the creditors in decision-making, all the interviewees answered in unison that CRBs have been instrumental in credit information sharing which plays a key role in improving the efficiency of financial institutions by reducing loan defaults. This confirms the findings by Wanjiru (2013) that credit reference bureaus have played a great role on information sharing for access of credit by individuals and institutions in Kenya. The idea of establishing CRBs was conceived in order to enable banks in first sharing information on default among banks, secondly eliminating chronic bad borrowers – those with the aim of borrowing from different financial institutions with the aim of defaulting, thirdly to provide commercial professional credit reference to prospective foreign investors and also to identify honest and credible borrowers based on known history and character.

The study sought the interviewees comment on whether CRBs have facilitated risk identification in banks through risk mapping and scenario analysis. The interviewees assented that with total banking industry data they are able to provide data to predict bad debts cascaded over time and the impact of changes in rates would have on the industry and the economy. They further added that CRBs help banks determine general provisions to cater for portfolio decay over a period of time and that the CRBs can indicate industry segment issues that need to be looked at. It is clear from these results that commercial banks can solve potential moral hazard and adverse selection problems caused by the imperfect information between borrowers and lenders by screening and monitoring borrowers. From the information obtained from checking account transactions and other sources, banks assess and manage risk, write contracts, monitor contractual performance, and, when required, resolve nonperformance problems.
Kwambai & Wandera (2013) also echoed the same sentiments that effective credit risk management improves decision-making by linking information about risk to pricing, monitoring and control of loans and advances. Banks’ ability to ameliorate informational asymmetries between borrowers and lenders and their ability to manage risks are the essence of bank production. The main causes of credit risk involve weak appraisal mechanisms, incomplete security documentation, weak monitoring and control of adversely graded loans and ineffective remedial action.

The credit reference bureaus were expected to have had a significantly positive impact on the reduction of non-repayment of loans in commercial banks in Kenya. Majority of the interviewees indicated that the CRBs subtly use the power of default listing to leverage repayment of debts. A notice to blacklist giving the obvious implication on future access to credit has been proven to elicit voluntary compliance in contrast to the legal route which not only increases recovery costs but also lengthens the recovery process. In addition, CRB has had an impact on a good majority of borrowers wishing to safeguard their reputation and as such they have been reduced cases of serial defaulters which have been recorded.
4.4 Loan Performance in CBA
The study sought to ascertain CBA had some challenges with respect to loan default. All the respondents unanimously indicated that the Bank has had some challenges with respect to loan default. They explained that not all required information for sound decision making is available. The bank had had various cases of loan defaults and loan non payment. The causes of loan default have been largely attributed to unemployment of customers, excessive borrowing from non bank institutions such as SACCOs and employers, incorrect data submitted by member banks, failure to perform CRB checks and first time borrowers who have no intention to pay. The banking industry has in the past been faced with the challenges of obtaining comprehensive information on clients’ payment history for use during the credit assessment process. This has led to a high rate of NPLs after defaulters move from one bank to the other to secure credit facilities.

On what CBA has done to ensure that it does not find itself in a loan non-payment situation, the interviewees indicate that the Bank has tightened the credit access process by putting mandatory checks that ensure accuracy of data submitted from CRBs which is further ratified through concentrated background checks. Additionally, the information obtained from the registries has been better valued than other sources of information used in evaluating credit worthiness, even more than guarantees and financial statements. Barron and Staten (2003) showed that lenders could significantly reduce their default rate by including more comprehensive borrower information in their default prediction models. The trade balance indicates the redistribution of wealth among countries and is a major channel through which the macro-economic policies of a country may affect another country.
The study sought to establish whether financial institutions such as CBA could do away with loan non-performance with the help of CRB. The respondents unanimously recapped that indeed financial institutions such as CBA could significantly address the issue of loan non-performance with the help of CRB through good use of credit reports and thorough analysis. Other interviewees indicated that it is not easy for financial institutions such as CBA to do away with loan non-performance with the help of CRB since every good loan has the potential of becoming non performing until paid to the last coin and there is no law prohibiting lending to a listed entity.

In addition there are other reasons driving loan default which are usually beyond ones control such as job loss, retrenchment and layoffs. CBK (2014) found that a high proportion of the commercial banks’ credit risks results from credit default risk, which arises mainly due to the inability of the banks to carry out accurate credit assessment leading to high values of NPLs. According to Michael et al., (2006) the inclusion of non-performing assets in loan portfolios affects the operational efficiency of the banks, a situation that in turn affects the profits, liquidity and solvency of that bank. Further, non-performing assets also affect the psychology of the bankers in respect to the disposition of the funds towards credit delivery.
The study posed a statement that lack of sufficient customer information especially on their credit worthiness history and other financial information is the reason behind the prevalence of loan non-repayment and general poor credit performance in Kenya. The respondents commented that commercial banks tend to load a risk premium to borrowers because of lack of customer information which in turn increases cost of borrowing meaning repayment of loans go up which translates to a high load of default. In addition, credit information sharing is meant to facilitate the development of information capital to increase information asymmetry and allow cost of credit to decline substantially. Sacerdoti (2005) observed that credit bureaus help to solve a problem that is inherent in lending: imprecise knowledge of a borrower’s likelihood of repaying.

On whether banks seek consent from clients to check the status before awarding a loan would have a significant effect on reducing loan non-repayment, some respondents indicated this is an indeed a probability as customers would ensure their records are clean before applying for a loan and where they have a negative listing they would approach institutions and pay off the credit facility or lay down a repayment plan. There are also factors beyond business control like weather, terrorism, global trends and economic factors that can impact an individual’s ability to repay loans which could be relayed to the lending entity on enquiry so as to give premise on the loan arrears before listing. Padmalatha (2011) argues that coordination among lenders to share information about their clients past behavior alleviates asymmetric information problems. This information sharing can motivate borrowers to repay loans, when the legal environment makes it difficult for banks to enforce credit contracts.
On the other hand some interviewees recapped that these would have no effect since CBA can access these credit information from the CRB without the consent from the applicants, while some clients would refuse to have their records checked and instead go for more desperate institutions or corrupt appraisers who do not enlist the use of CRBs. As such, banks try and manage loans through adoption of loan policies which are documents containing information that may help in maintaining cohesiveness of lending in banks.

The interviewees were required to explain whether they thought the credit problems faced by the commercial banks in Kenya and in extension CBA are due to their risk appetite and lending policy, and nothing to do with the ineffectiveness of the CRB. They explained that partly the credit problems faced by CBA and banks a like in Kenya are due to their risk appetite and lending policy, and nothing to do with the ineffectiveness of the CRBs. CRBs have been proved to be an effective store of information which banks use to interpret their lending decisions and as such it is the prerogative of CBA to interpret and determine how they will use the data in their lending decisions.

The incorrect submissions by member banks could also affect the effectiveness of CRBs as wrong decisions can be made. Additionally by virtue of having different risk appetite, some banks take longer a period to classify an account. Kiage et al (2015) observed that, the recent global financial crisis was attributed to the August 2007 collapse of the sub-prime mortgage market and that commercial banks with greater risk appetite and that are more willing to make loans with a higher probability of default, tend to record higher losses
4.5 Discussion

From the foregoing results, CRBs are used for providing a person’s or entity’s credit history, sharing credit information analysis, storing and dissemination of information from lenders on borrowers loans, generating reports for borrowers upon request, helping in identification of serial credit defaulters and providing credit rating or scoring of a customer. The results also confirmed that proven frauds and forgeries; cheque kiting; false declarations and statements; receiverships, bankruptcies, and liquidations; credit default and late payments; use of false securities; and misapplication of borrowed funds. These study results coincide with Kago (2014) the credit reference bureaus in Kenya play a complementary role to the commercial banks in that CRB’s enable the commercial banks to lend more to better risk clients.

Introduction of CRB’s has served as a middle playing field for both the banks and the customers in that the banks have been able to identify between good and bad borrowers where the good borrowers do not have to bear the brunt for mistakes not performed by them and that the banks can in turn reduce the risks of the loans issued turning into non-performing loans. This confirms the findings by Brown & Zehnder (2006) that CRBs contribute significantly to reduction in the costs of screening loan applications by enabling the lender to sort out prospective borrowers who have defaulted with other lenders.
The study revealed that credit information sharing helped correct the imbalance of credit track record by allowing CBA and other lending institutions to collect and share data on millions of potential borrowers, thus allowing lenders to gather information on the creditworthiness of each. CRB has provided reliable and inexpensive systems to exchange or share information on the customers and their ability to pay loans. According to Padmalatha (2011) credit information sharing is meant to facilitate the development of information capital to increase information asymmetry and allow cost of credit to decline substantially.

The respondents intimated that credit information sharing has also helped CBA and other financial institutions recover loans, when borrowers know that their credit information would be shared, they have an additional incentive to pay. Previously Beck (2007) established that increased information sharing allows for more informed risk assessment, improves access to credit for groups that have traditionally underserved, enables greater and broader access to capital for small businesses and entrepreneurs, generally enables better lending decisions with lower rates of delinquency and default.

Lack of accurate information sharing on the credit history and current financial ability of prospective borrowers makes it extremely difficult for lenders to correctly assess their credit worthiness and likelihood to repay their loans. The use of credit reports has greatly assisted on understanding the customer’s borrowing history and the information on applicants borrowing history is readily available on CRB reports. This is in accordance with Sacerdoti (2005) who reported that credit bureaus help to solve a problem that is inherent in lending: imprecise knowledge of a borrower’s likelihood of repaying.
CRB consolidates both positive and negative data from lending institutions which makes one depository, this has been fully achieved by an all access pass to various stakeholders such as lenders, financial institutions and creditors and that the information captured on individual reports are comprehensive. Onabanjo (2014) argues that the idea of establishing CRBs was conceived in order to enable banks in first sharing information on default among banks, secondly eliminating chronic bad borrowers – those with the aim of borrowing from different financial institutions with the aim of defaulting, thirdly to provide commercial professional credit reference to prospective foreign investors and also to identify honest and credible borrowers based on known history and character.

The study revealed that Credit Information sharing affects non-performing loans by lowering CBA’s risk level hence reducing the portfolio at risk and the provisioning for NPLs which in turn increases the profitability of the bank. Choosing the right customer for lending through prudent appraisal mechanisms in due course reduces the level of NPL experienced as the character and reputation of the borrower is checked through the credit information obtained. This ensures that CBA only lends to customers whose credit history is favourable which is a positive to the borrower whose cost of borrowing is lower as the customer is able to bargain for finer interest rates chargeable on the loans sought. Barron and Staten (2003) also established that lenders could significantly reduce their default rate by including more comprehensive borrower information in their default prediction models.
In addition, increasing transparency among institutions has undoubtedly reduced information asymmetry which in turn has stemmed the number of bad borrowers and applicants who are highly over-indebted. The credit information shared helps financial institutions to eliminate serial defaulters who borrow from several banks with the intention of not paying. The inclusion of non-performing assets in loan portfolios affects the operational efficiency of the banks, a situation that in turn affects the profits, liquidity and solvency of that bank. Banks exist because they screen and monitor borrowers more efficiently than other investors can (Allen and Santomero, 1998)

The study also revealed that Credit Reference Bureau (CRB) has greatly improved the non-performing loans as defaulters are more aware of the drawbacks of being listed and as such the general public is careful not to have their credit history put then in a situation where they would be cut off from securing credit facilities. Due to the requirement by government institutions that all employees must meet the criteria for integrity, many clients have paid their loans; a positive effect on the banking industry. Sacerdoti (2005) contend that credit information sharing reduces information asymmetry and thus by reducing information asymmetry between lenders and borrowers, credit registries allow loans to be extended to safe borrowers who had previously been priced out of the market, resulting in higher aggregate lending.
According to Kiage et al (2015) banks try and manage loans through adoption of loan policies which are documents containing information that may help in maintaining cohesiveness of lending in banks. The 2007 global financial crisis in the United States of America was attributed to the collapse of the sub-prime mortgage market and commercial banks with greater risk appetite than their peers that ultimately led to default on numerous loans and advances.

### 4.6 Chapter Summary

The findings of this research showed that credit reference bureau (CRB) has improved the non-performing loans situation at the CBA which has been replicated across other lending institutions as defaulters have taken it upon themselves to duly service credit facilities taken up. Additionally, the general public is seemingly cautious of the demerits of being listed as defaulters as this will impact their future borrowing capabilities.

This chapter gives qualitative data analysis and presentation of the findings according to the research instrument. The chapter is categorized as follows: demographic information, credit reference bureau, loan performance in CBA and finally an adjoining discussion on the linkage of credit reference bureaus and loan performance.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This is the final chapter in this study which gives the summary of the findings, the conclusions and recommendations of the study based on the objective of the study. It comes after identifying the background, problem at hand and the objectives in chapter one, literature review was done in chapter two, chapter three set out the methodology that the study used to collect data and chapter four analyzed the data obtained from the study. The chapter finally presents the suggestions for further studies.

5.2 Summary
The study found that CRBs are used for providing a person’s or entity’s credit history, sharing credit information analysis, storing and dissemination of information from lenders on borrower’s loans, generating credit reports for borrowers upon request, helping in identification of serial credit defaulters and providing credit rating or scoring of a customer. This is a demonstration that CRB is an organization providing detailed information on a person’s credit history, including information on their identity, credit accounts and loans, bankruptcies and late payments. CRBs provide information on proven frauds and forgeries; cheque kiting; false declarations and statements; receiverships, bankruptcies, and liquidations; credit default and late payments; use of false securities; and misapplication of borrowed funds. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan.
The study also found that CBA imposes stringent collateral terms and increase interest rates of borrowing loans as a mechanism to cushion themselves against the risk of non-performing loans. CRB has provided reliable and inexpensive systems to exchange or share information on the customers and their ability to pay loans. The systems are reliable in providing, exchanging and sharing customers and that having non performing loans as a result of giving loans to customers that are unable to pay or are fraudulent in nature is more costly to the Bank. CRBs assist to ascertain the eligibility of customers for loans where borrowers with negative listing experiences find it difficult in accessing credit facilities from CBA and other lending institutions. The concept of listing forces the customers to be dutiful in payment of loans taken up and in case of further uptake of credit facilities, assurance that the borrower does not have arrears. This strategy has significantly reduced the default rates.

The study established that CRB has significantly reduced the cases of multiple borrowing over indebtedness, as well as loan defaults. One of the functions of CRB in Kenya is to offer banks access to databases that capture relevant aspects of the customer’s debt or borrowing history, and thus reducing the vetting process and sought to establish how CRB has achieved this thus far. CRBs have played a key role in helping the creditors in decision-making. With total banking industry data they are able to provide data to predict bad debts accrued over time and the impact of changes in rates will have on the industry and the economy. The credit reference bureaus have demonstrated significant positive influence on the reduction of non-repayment of loans in CBA Kenya.
The study found that not all required information for sound decision making is available. CBA has had various cases of loan defaults and loan non-payment. The causes of this loan default have been as a result of unemployment of customers, excessive borrowing from non-bank institutions such as SACCOs and employers, incorrect data submitted by member banks, failure to perform CRB checks and first time borrowers who have no intention to pay. CBA as well as other lenders has tightened the credit access process by putting mandatory checks with evidence, ensuring accuracy of data submitted, performing further background checks. Financial institutions such as CBA could do potentially do away with loan non-performance with the help of CRBs through good use of credit reports and thorough analysis. Lack of sufficient customer information especially on their credit worthiness history and other financial information is the reason behind the prevalence of loan non-repayment and general poor credit performance in Kenya.

The study found that the some default problems faced by banks in Kenya are due to their risk appetite and lending policy, and nothing to do with the ineffectiveness of the CRB since CRB is an effective store of information which banks use to interpret their lending decisions and that since CRBs provide the data it is up to banks like CBA to interpret and determine how they will use the credit data. The incorrect submissions by member banks could also affect the CRBs effectiveness as lending decisions can be made on improper data. This falsified information is demonstrated where different banks have different risk appetite leading to delayed classification of accounts that are already non-performing.
5.3 Conclusion

The study concluded that indeed credit reference bureaus have had a positive effect on the size of non-performing bank loans in Kenya and in extension to Commercial Bank of Africa’s loan portfolio by repressing the bad loans which could have been worse off if information asymmetry did not exist. The study concludes that good borrowers also benefit from lower interest rates, as lenders compete for their business. The study concludes that CRB has played a significant role in as far as risk identification and monitoring is concerned. Moreover, CRB has significantly helped reduce the rate of loan default in the banking industry as well as containing loan non-payment within acceptable levels.

The study also concludes that CBA and lenders alike should therefore need to base their decisions on relevant information about their borrowers on automated and sophisticated credit information sharing systems which are key to managing credit risk. This will result in better risk management for lenders, reduced NPLs and improved profitability. The study concludes that Credit Referencing Bureaus in Kenya are key enablers for the growth of a nation’s consumer economy and the quality of consumer credit portfolios, whilst protecting the privacy and credit exposure of individual consumers. Additionally the study also concludes that CRBs offers credit scoring and information sharing that can facilitate the building of information capital that will guide the pricing of loans by financial institutions.
5.4 Recommendations

CBA as well as other commercial Banks in Kenya should make more use of the CRB reports so that they control their greatest problem of non-performing loans. The borrowers must ensure that their records are clean and therefore if they have clean history from the CRB, they could bargain to get loans at low interest and better conditions. The recommendations based on the major findings are that CBA and all other banks should embrace and use Credit Information sharing as a tool to reduce and control non-performing loans resulting from chronic defaulters. The study also recommends CBA to embrace positive credit information in order to increase the borrower’s bargaining power.

CBA needs to make a bigger effort to acquire full proof information they require in order to make relevant decisions over the credit requests they receive irrespective of their operational costs incurred to achieve this as the related cost of default would in the long run outweigh it. To address the issue of costs, this would ideally be passed on to their customers directly or indirectly. Based on the findings, the researcher recommends that CBA could establish a credit management team that would be responsible and ensure that all customers who may seek to take up a facility with the Bank are vetted and checked against the licensed CRBs in Kenya before the approval of the facility.
The government should ensure mandatory compliance to settlement of debts as constitutionally required of the integrity section of the Kenyan law. The government should license more bureaus to increase the availability of information among the banks and as well as individuals. Regulations should place emphasis on confidentiality of information handled by CRBs and also places stringent restrictions on the use and application of such information. Banks and CRBs should not share information with unauthorized third parties. The regulations need to provide for stringent penalties for such breaches by CRBs. This will make it easier for the current banks and prospective ones too.

5.5 Areas for Further Research
The study recommends that further research should be done on the other institutions in the banking industry so as to get comprehensive information on how their loan repayment has been affected by the CRBs. More research needs to be done to determine what effect the CRBs have had on the financial performance of the commercial banks in Kenya. Whereas the current study focused on CRBs strategy and loan performance in the Commercial Bank of Africa in Kenya, future studies should seek to establish whether the same strategies are applicable to other institutions in the financial sectors of the economy. Another study could be conducted in the SACCOs and MFIs with an aim of investigating the relationship between CRB strategy and loan performance. Further studies should also focus on the challenges faced by financial institutions in utilization of CRB strategy and the possible mechanisms that could be employed to overcome the challenges.
5.6 Limitations of the Study

Since this was a case study on one commercial bank, CBA, the information gathered might differ from the impacts of CRB strategy on loan performance in all the commercial banks in Kenya. This is because different companies adopt different approaches that differentiate them from their competitors. The study however, constructed an effective research instrument that sought to elicit general and specific information on the impacts of credit reference bureau strategy on loan performance.

The other limitations faced in during this research were founded on unwillingness to share what interviewees termed trade secrets. Interviewees were reticent to share information they thought if shared with competing firms might jeopardize their competitiveness in the market. The researcher was only provided with information that could not be kept secret due to its availability in other research sources or that which interviewees thought could be easily obtained. The researcher had to rely on deduction and intuition to derive certain conclusions.

Commercial banks like CBA in the current competitive environment operate on tight schedules. In this regard, respondents were not able to participate in the interview in good time and this overstretched the data collection period. To mitigate this limitation, the researcher made use of network to persuade targeted respondents to avail themselves for the interviews.
The study also recommends that an open system needs to be enhanced to allow financial institutions as well as non-bank entities—retailers, telecom and utility companies—access to credit history of borrowers so as to know which clients to serve and what differential price to charge to cover risks. To facilitate credit information sharing even more effectively, information access should be available at low or no cost.

5.7 Implication of the Study on Policy, Theory and Practice

The study is of great help to stakeholders, the regulatory bodies and policy makers to make informed decisions. It will aid in policymaking regarding access to credit and other regulatory requirements of the commercial banks. The government of Kenya will also put into practice the recommendations of this study in formulating laws to regulate the banking sector; this will not only promote an enabling business investment environment but also protect consumers from exploitation by the industry players. The benefits brought by information sharing through CRBs can help the government to better implement spur growth in the lending industry that encourage uptake of credit for good borrowers, and help the country achieve it vision 2030 of being a middle income economy.

Implication on practice are that the findings, conclusions and recommendations provide an opportunity to the banking industry in Kenya to seize the advantage of Credit Reference Bureaus in increased informed lending. The study helps CBA and other financial institutions in formulating effective policies related to fulfil credit access in Kenya, the understanding of the concept of credit referencing, both negative and positive on credit default risk management.
The findings are valuable to the banking industry stakeholders as it provides an insight to the commercial banks management into the best credit risk management practices that they can adopt in order to reduce the level of NPLs in the industry and also access to both types of information can give businesses a more complete picture of a customer’s financial commitments so they can make more informed decisions about extending credit. The study is also useful to the borrowers at it provides knowledge on the use of positive information shared by the commercial banks to engage the lender on the pricing as the credit score becomes a bargaining power.

In theory, the study contributes to the existing body of knowledge on Credit Reference Bureaus in banks especially in Kenya. This is in the form of ongoing discussions on the issue to extend credit referencing to sharing of more positive information by banks to derive optimal benefits like increased credit access to a wider array of individuals and entities. Therefore this research forms a strong ingredient towards a wider acceptance and sensitisation on the relevance of CRBs.

5.8 Chapter Summary
This study is organized in five chapters. Chapter five is the closing chapter in this study on the the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa. The study set out to investigate the existing problems regarding the impact of credit reference bureaus as a strategy on the level of loan performance in Commercial Bank of Africa in Kenya. Accordingly the objective of the study was identified and the problem investigated as set out in the methodology.
The results obtained were analysed in chapter four. This Chapter has summarized the study findings, made deductions from the findings and drawn recommendations in line with the findings and conclusions. The chapter also makes suggestions for further studies. The limitations of the study were clearly pointed out and implications of the study on theory, policy and practice discussed.
REFERENCES


Shisiea, A., Marangu, W., & Omwario, B. (2014). An Assessment of the Contribution of Credit Reference Bureaus Regulation towards mitigating Credit Risks in the


DATE: 10/10/2015

TO WHOM IT MAY CONCERN

The bearer of this letter, MARTIN Wanjohi Kimani, Registration No. 061645452013, is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
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Appendix 2: Request Letter to Conduct Academic Research at CBA

8th October, 2015.

The MBA Administrator,
School of Business,
University of Nairobi,
P.O. Box 30197 -00100,
Nairobi.

Dear Sir/Madam,

RE: REQUEST TO CARRY OUT ACADEMIC RESEARCH ON CREDIT REFERENCE BUREAUS STRATEGY ON LOAN PERFORMANCE AT COMMERCIAL BANK OF AFRICA

Reference is made to the above subject, for Martin Warjohi Kimani (Staff Number 101182).

We are glad to confirm to you that:

1) Permission has been granted to him to carry out the above mentioned research
2) Face to face interviews with the requested staff have been done
3) This research has been accepted subject to the following conditions:
   i) That the data collected will not be used in any negative manner or form in reference to Commercial Bank of Africa Limited.
   ii) That the research will be used for and is limited to academic purposes only.

We hope that these conditions are acceptable and will guide his engagement.

Yours faithfully,

[Signature]

Ian Irungu
Manager - Human Resources Operations

HEADS OF DEPARTMENTS

Interview guide on credit reference bureaus strategy on loan performance at Commercial Bank of Africa

PART A: GENERAL INFORMATION

1. Indicate your gender?

2. Number of years in employment in Commercial Bank of Africa (CBA)?

3. Indicate the department you work in?

4. Employment position in CBA?

PART B: CREDIT REFERENCE BUREAU

1. Do you know what a Credit Reference Bureau (CRB) is?

2. According to you, what are some of the functions of the CRB?

3. Do you agree that CRB has provided reliable and inexpensive systems to exchange or share information on the customers and their ability to pay loans? Explain why you agree or disagree.

4. Do you agree that CRB has significantly reduced the cases of multiple borrowing over indebtedness, as well as loan defaults? Explain why you agree or disagree.

5. One of the functions of CRB in Kenya is to offer banks access to databases that capture relevant aspects of the customer’s debt or borrowing history, and thus reducing the vetting process. How has the CRB achieved this thus far?

6. Have CRBs played a key role in helping the creditors in decision-making?

7. Comment on this statement: CRB has facilitated risk identification in banks through risk mapping and scenario analysis?
8 Comment on this statement: the credit Reference Bureau has had a significantly positive impact on the reduction of non-repayment of loans in commercial banks in Kenya

PART C: LOAN PERFORMANCE IN CBA
1. Has your CBA had any challenges with respect to loan default? Please briefly explain.

2. If your answer in 6 above is yes, could you please explain what the possible reasons behind this could be?

3. If your answer in 6 above is No, what has CBA done to ensure that it does not find itself in a loan non-payment situation?

4. Do you think that financial institutions such as CBA could do away with loan non-performance with the help of CRB? Please explain how.

5. Comment on this statement: lack of sufficient customer information especially on their credit worthiness history and other financial information is the reason behind the prevalence of loan non-repayment and general poor credit performance in Kenya.

6. Do you think if banks sought consent from clients to check the status before awarding a loan would have a significant effect on reducing loan non repayment? Please explain your answer.

7. Do you think part of the credit problems faced by the commercial banks in Kenya and in extension CBA are due to their risk appetite and lending policy, and nothing to do with the ineffectiveness of the CRB? Please explain

8. In your own assessment what further aspects can CRBs encompass to prop up better loan management in issuance of credit and recovery?

9. Are there any underlying challenges that CBA faces in dealing with CRBs. Kindly expound.