EFFECTS OF CREDIT INFORMATION SHARING AND REFERENCING ON THE MARKETING OF CREDIT FACILITIES BY FINANCIAL INSTITUTIONS IN MOMBASA COUNTY

BY

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DECLARATION

This research Project is my original work and has not been submitted for a degree or any other award in any other university.

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ABSTRACT

Conventionally banks and other financial institutions have offered credit facilities to their clients based on their own judgment and on limited knowledge of the clients and have had to rely on the traditional marketing avenues for the loans notably reduced interest rates, accessibility, advertising and referrals offered by existing customers and staff. The introduction of Credit Information Sharing and Referencing has revolutionized the credit market and the players are faced with the uphill task of not only enforcing this practice, but also to educate their clientele on its existence, usage and implications and still attract existing and new borrowers.

This study assesses the impact of Credit Information Sharing on the Marketing techniques used by the lending institutions as well as identify new methods or approaches both planned or spontaneous, while at the same time assessing the impact of the new practice on borrowing patterns in the local economy and the extent to which Credit Information Sharing and Referencing has been sensitized to the local population.

The research design was descriptive in nature where both primary and secondary data was collected and used in the study for qualitative analysis. The study used an open-ended questionnaire that was administered to credit, sales or management staff of the different financial institutions in the county. Both descriptive and inferential data analysis methods were be employed in the study.

The study revealed that Credit Information Sharing and referencing, however consequential is not given the weight; it was originally thought to possess, by both borrowers and lenders in the lending market. The cost of borrowing, the availability and accessibility of credit and the turnaround time in processing the facilities are given much more considerations by the borrowers and the lenders in a bid to enhance the trade have capitalized on these areas at the expense of any other critical consideration, Credit Information Sharing and referencing included.
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Abbreviations and Acronyms

CBK- Central Bank of Kenya
CIS-Credit Information Sharing
CRB- Credit Reference Bureau
HELB-Higher Education Loans Board
ICT-Information and Communication Technology
KBA – Kenya Bankers Association
KCISI -Kenya Credit Information Sharing Initiative
OECD - Organization for Economic Development
SACCO- Savings and Credit Cooperative Organizations
CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Credit Information Sharing (CIS) is a process where banks and other credit providers submit information about their borrowers to a credit reference bureau so that it can be shared with other credit providers. It enables the banks to know how borrowers repay their loans. This is also known as "Credit Reporting".

The practice of Credit Information Sharing is relatively new in Sub-Saharan Africa with only Botswana, Namibia and South Africa practicing it. South Africa though have had to shelve the practice due to legal hiccups after a series of court interventions when most of the large scale borrowers have challenged the process in Courts of law and the financial sector awaits a new legislation to be enacted by February 2011 so that the practice may resume. The success stories of Credit Information Sharing and Referencing are in the U.S.A, Spain, Germany and Holland.

Sharing is now a reality in Kenya, following the gazetting of the Banking (Credit Bureau) Regulations, 2008, on 11th July 2007 and the licensing of a Credit Reference bureau by the Central Bank in February 2010. The Regulations were issued pursuant to an amendment to the Banking Act passed in 2006 that made it mandatory for the Deposit Protection Fund and institutions licensed under the Banking Act to share information on Non Performing Loans through credit reference bureaus licensed by the Central Bank of Kenya. In addition, the amendment to the law also provides for sharing of information on Performing Loans. This was the culmination of many years of deliberations between the Kenya Bankers Association (KBA), the Central Bank of Kenya (CBK), the Ministry of Finance and the Office of the Attorney General aimed at finding a solution to various challenges facing the lending environment in Kenya.

The Kenya Credit Information Sharing Initiative (KCISI) was founded in 2009 as a project within KBA to manage the day-to-day affairs of the program leading to implementation of a credit information sharing mechanism in Kenya. KCISI is led by a Project Manager, who is supported by a team of professionals with expertise in ICT, Communications and Legal Affairs. KCISI's expertise combines experience, insights, and extensive resources to provide analysis, advice and advocacy for the development of the data sharing project between the banks and the licensed credit bureaus.
The Project Manager is seconded to the Project from the Central Bank of Kenya and is tasked with the key oversight role over the implementation of the mechanism, as well as managing the public awareness campaign to ensure broader understanding of the initiative by all stakeholders. The decision was reached after several discussions by Kenya Bankers Association, the Central Bank and other players. This follows the operationalization of the Banking (Credit Reference Bureau) Act of 2008.

The move is expected to reduce the cost incurred by banks in the pricing of loans. This will in turn not only enhance access to credit but also reduce the cost of doing business and boost Kenya’s competitiveness as the East Africa’s financial services hub. Credit information is supposed to facilitate the building of information capital that will guide the pricing of loans by financial institutions. Banks will at the appraisal stage be able to price loans’ with vastly enhanced information set as compared to the previous trading periods.

Customers were expected to provide all their information to the respective banks by August 2010 so that banks are able to access credits reports for loan appraisals, especially now that there is right legal operational framework that allows for sharing of credit information. Credit report on borrowers is meaningful to both borrowers and the lender if they contain positive information from the repayment trends as well as information for both non-bank lenders.

Though viewed that this may result in retrenchment since the banks will need only few personnel to handle the information but on the contrary banks will need more personnel to analyse the information and that actually banks might need more employees than before. The methods of attracting borrowers are bound to change especially when borrowers with a good credit history will be aware of this fact and may use it to bargain for either reduced interest rates, longer repayment periods for the loans they are seeking or already servicing or an increase in the amounts that they are informed that they can borrow.

The approach to borrowers who have a negative credit history will be a halted approach, with the lending firm seeking to either secure the repayment of the existing facility as fast as possible, to partner with the borrower to correct the negative history through proper administration of the credit facilities based on the value that the lender attaches to a particular borrower or to seek information from other lenders on the recovery measures to adopt on the particular borrower.
Statement of the Problem

Prior to the introduction of Credit Information Sharing and Referencing, the lending institutions had been using independently well developed methods an easy way out to market their facilities based mainly on the awareness campaigns to the market through advertising and direct sales, reduced interest rates and other price differentiation mechanisms, turnaround time in service delivery and tailor making different credit products for different market niches.

This however, was done with minimal knowledge of the existing and potential borrower’s history and conduct of financial obligations in other organizations within and without the industry. Hence it has led to most times attracting serial defaulters and fraudsters in their client portfolios. The marketing has also tempted would be good loan clients to defaul ters as switching from one lender to another was conveniently done while abandoning the previous incomplete facility. It further heightened industry rivalry as sales efforts were directed toward wooing clients of other industry players who at most times had obligations due to the other institutions.

The practice of Credit Information Sharing and Referencing is however changing the scenario. Accessing past conduct of a client of a financial institution especially with regard to how they have been servicing their financial obligations is now easily accessible and is used as a yardstick assess the approval of a credit facility or what interest to charge and other cushion measures to take by a financial institution prior to lending. With the full adoption of Credit Information sharing and referencing not only will credit conduct history of all borrowers be easily accessible and be a routine reference point for all borrowings, but also all the clients of the financial institutions will be fully aware of its practice and implications. The marketers of the financial institutions will incorporate all the aspects of Credit Information Sharing in their going to market activities especially advertising and other customer attraction and retention campaigns.
1.3 Objectives of the Study

1.3.1 General Objective

To establish the effects of Credit Information Sharing and Referencing on the marketing of credit facilities by financial institutions in Mombasa County.

1.3.2 Specific Objectives

i. To identify the factors that influence borrowing from the lending organizations.
ii. To highlight the effects of Credit Information sharing and referencing on the six major pillars of marketing in the credit market.
iii. To examine the influence of Credit Information Sharing and referencing on the daily operations of the credit industry.
iv. To verify whether credit history is used as a consideration on customer’s appraisal, assessment and value determination.

1.4 Research Questions

i. What factors influence borrowers to their choice of a lending institution?
ii. What are the effects if Credit Information Sharing and referencing on the main pillars of marketing?
iii. What is the influence of Credit information sharing and referencing on the operations of the credit industry?
iv. What significance is the credit history accorded in the lending and Credit administration process?

1.5 Significance of the Study

The study will provide an understanding of how the Credit Information Sharing and Referencing is to be effected and conducted and how the different parties to credit, that is, the lending institutions, the borrowers, the Regulator (Central Bank of Kenya) and the guarantors/referees will play their roles guided
by the outlined policy versus the previous period where Lending Institutions had very limited avenues for
data to assist them in credits issues decision making.

The study will establish whether there will be a shift from the known borrower attraction practices by the
lending institutions especially with regard to the fact that borrowers may be at an advantage or
disadvantage on the bargaining course based on their credit conduct history. Thus individual lending
organizations shall be able to continually adopt and design proper market approach and retention tactics to
sustain their credit books and also grow in recognition of the fact that lending is a core business to most
banks and financial institutions.

The study will be of great aid to existing and potential borrowers with the knowledge that credit history as
a bargaining tool where their track record is known as positive and hence able to negotiate for better,
pocket friendlier interest rates. Banks and other lenders will be advantaged with the findings of the study
in the sense that they will not only to gauge the extent to which CIS has been communicated to the public
but to also know and make the right choice of marketing practice to enable them remain and excel in the
lending business.

Further the study will be a guide to other scholars and researchers who may wish to advance the study
further in bit(s) or whole and will be a resourceful reference material to their quests.

1.6 Scope of the study

The study is to be conducted within the domains of credit information sharing and referencing, the
marketing of financial services specifically credit facilities and the operations of credit referencing
bureaus. The study is limited to the marketing of Credit Information Sharing and referencing and its
effects on the marketing patterns adopted by the lending institutions offering credit in the county.

1.7 Limitation of the Study

Though Mombasa is a cosmopolitan city, its population is largely dominated by adherents of the Muslim
faith, with some financial institutions offering tailor made credit products for Muslim believers. Hence,
The findings of the study cannot be generalized to represent an identical image of non-Muslim dominated parts of the country.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction to Literature Review

This section will review literature on the Credit Information Sharing and referencing and the marketing of financial services with a view to highlight all relevant areas that are related to the study. The Chapter is divided into four areas covering credit reporting and information sharing, the marketing of financial services, the administration of the practice (issues arising) and the conceptual framework.

2.1.1 The Administration of Credit Information Sharing and Referencing

The credit reference bureaus will receive customer information, store it, manage it and evaluate the customers' information. It will also Compile and maintain data base and assess credit worthiness of a customer. The bureaus will also sell specialized literature to institutions while conducting market Research and any other approved activity.

The nature of information to be handled by the bureaus shall entail the following: details of customers’ identity, credit History, securities, patterns of payment, negative or positive information, credit standing, credit capacity, character, and the general history and/or profile of an individual or entity with regards to credit assets, and any financial place. There will also be negative information, which means any adverse customer information relating to a customer including but not limited to; dishonor of cheques other than for technical reasons, accounts compulsory closed other than for administrative purposes, proven cases of frauds and forgeries and proven cases of cheque kitting. Also included are false declarations and statements, receiverships, bankruptcies and liquidations, credit defaults or late payments on all types of facilities, tendering false securities and misapplication of borrowed funds.

Lenders are to gain as this initiative will help in sorting bad credit applicants from good ones, saving time spent on borrowing evaluation, reducing the cost of screening, pricing the loans in accordance with the risk of the borrower and improved loan processing speed and reduce operational costs. Specifically commercial banks will be enabled to have comprehensive risk view and more adequate risk pricing by; providing access to better credit information by allowing those who grant credit to exchange credit information and assist in evaluating and monitoring repayment ability and payment diligence. However it
will not eliminate fraud but it will significantly reduce it as it will help to identify /confirm that the consumer/or business genuinely exists. It will also confirm the address the consumer provides and business operates from, confirm ownership of the business and show past behavior (Staten et. Al-2009)

A borrower will be able to build a reputational collateral-Opportunity and maintain own credit history and good track record in credit history hence result in low credit classification, thus better conditions for loans as banks compete for good customers. In it also the negative credit profile history can be improved by being cautious with performance of financial obligations.

The regulator (CBK) will be helped to monitor efficient allocation of credit, provided with comprehensive, constantly updated data on firms and consumers. This provides an effective credit risk monitoring mechanism for the entire economy. It will also facilitates credit expansion without compromising on the quality of credit, reduce non performing loans and default probability levels in the economy, facilitate legislative compliance and promote good corporate governance. Traditionally lending to SME’s is seen by banks as a high risk business mainly due to the absence of comprehensive and reliable credit information. Credit reference bureaus will assist banks to increase these efforts in Micro and SME lending by promoting best practices and good governance while controlling risk exposure.

Only authorized members of the credit bureau will have access to data. The usage of data will be restricted to specific approved purposes and there will be data restriction within certain subgroups with the use of secure channels for information exchange. All the activities will be recorded in logs and recorded and effective controls i.e. people, processes and systems to minimize confidentiality leakages while ensuring assurances of adequate member safeguards to mitigate the risks of data leakages. Globally clauses are built into banks or other credit lenders application forms and consent is gained upon signature thereof. Alternatively, consent can be obtained through legislation or notification from appropriate governmental authority. Consent must be complete to allow access to all information and not selectively. The interests of the customer must be upheld at all times not to prejudice them in any way.

Customer has right to know all information about him/her submitted to a bureau, access credit reports and a free copy of credit report annually or upon receipt of adverse action notice from institution. The customer also has rights to dispute information held by bureau, institute investigations on disputed information and be assured of correction or amendment of information upon conclusion of investigation.
The lenders shall provide information to all licensed CRBs and notify customers of the bureau to which the information has been submitted.

Where an adverse decision has been taken based on the information obtained from the CRB, issue an Adverse Action Notice to the customer while providing accurate information to the CRB in accordance with the regulations. The lending institution/bank will also instruct CRBs to delete incorrect information and replace with correct information.

2.1.2 Financial Institutions Offering Credit Facilities in Kenya.

**Commercial banks** - these are purely profit oriented registered banks who offer a wide array of credit services but ply under the regulations of CBK. They are the most common and most sought after credit providers in the market.

**Cooperative Societies (SACCO’S)** - these offer credit to their members’ only and are more welfare inclined as compared to other lenders. They lend on percentages of amounts saved by members and are mostly industry or organization based.

**CBK** - The regulator lends to other commercial banks but under extreme conditions only and only facilitates credit to the Government and government institutions with strict adherence to the law.

**Private lenders** - These are private firms that are registered and allowed to trade in credit to members of the public and private organizations. They are highly selective of their clientele and are not under the watch of CBK but base their operations on the variety on contracts that they get into with their clients. Examples are Platinum Credit and Blue Financial Services.

There are other non registered credit providers operating as individuals and organizations with credit provision being their core or alternative business. They are known by different conventional tittles e.g. **Shylocks, Pawn shops, Rebaters and even more current Ecosavers**
1.3 Types of Credit Facilities Offered

Loans: These are classified into two major broad categories i.e. Secured and Un-secured loans (no collateral held). These are the most common and most frequently accessed credit facilities by both individuals, group of individuals and organizations. They are much easier to administer and determine repayment period and instalments and the interest rates to impress upon them.

Debentures: In this credit arrangement an enterprise’s capital is boosted by purchase of key capital inputs by the lender e.g. machinery and at times building(s) which are owned by the lender until such a time that complete repayments interest includes of the cost of purchase/acquisition are made to the lender.

Mortgage and Asset Finance: These two are much more similar to debentures but are also offered to individuals for both residential and personal use.

Credit Cards: These are a recurrent credit facility administered by means of electronic card that allow access of goods and services and even cash but up to a particular limit and usage is allowed whenever a deposit is made into the service provider’s account to allow a further operational limit by the card holder.

Overdrafts: These are arrangements that individuals or organizations that operate current accounts with banks are allowed to access more funds from the banks than they are holding in their accounts at that particular time. Accounts with overdraft facilities normally have negative limits and like credit cards these are recurrent facility that is not restricted to number of transactions or repayment period but only to availability of funds.

All the above credit facilities are secured by collaterals namely: land, landed properties (buildings), shares (preferably of firms trading in the stock exchange), cash margins, motor vehicles and other machineries, insurance policies with surrender value, guarantees (offered by individuals or the government)
2.1.4 The Positive Impact of Credit Information Sharing

Credit information sharing counters adverse selection: 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 (Pagano and Marco, 2008). CIS also counters moral hazard: Credit-sharing institutions can increase borrowers' cost of defaulting, thus increasing debt repayment (Padilla and Pagano, 2009).

Further, it also counters information monopoly: Conversely, sharing of credit-related information has the additional benefit of reducing the information monopoly a lender has on its borrowers. For example, banks with long-standing relationships with their borrowers know the credit history of those borrowers, while other lending institutions do not have access to this information. This allows the bank to charge higher interest rates and extract other rents from those high quality borrowers (Padilla and Pagano, 2009). CIS also reduces over-indebtedness: Information sharing between lenders reveals borrowers' debt exposure to all participating lenders, eventually reducing aggregate indebtedness as highly indebted individuals receive less credit (Barca Fabrizo, 2010).

2.2 Theoretical Framework

This study is based mainly on the Marketing orientation of the four possible marketing concepts namely; Production orientation, Product orientation, Sales orientation and Marketing orientation. The Marketing orientation puts the customer at the heart of the business. The organization tries to understand the needs of the customers by using appropriate research methods, appropriate processes are developed to make sure information from customers is fed back into the heart of the organization. In essence all activities in the organization are based around the customer. The customer is truly king! (Philip Kotler et al, 2007)

In today's competitive world putting the customer at the heart of the operation is strategically important. Whilst some organizations in certain industries may follow anything other then the market orientation concept, those that follow the market orientation concept have a greater chance of being successful. Marketing is "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."(Thomas Cline, Moses Altech and James 2006). Marketing is a product or service selling related overall activities. It
generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves.

To effectively market a product or service there are four things are needed to be done right. These are known as the marketing mix or 4Ps. Product, Price, Place and Promotion. How is the design, package and add value to the product. When an organization introduces a product into a market they must ask themselves a number of questions. Who is the product aimed at? What benefit will customers expect? How does the firm plan to position the product within the market? What differential advantage will the product offer over their competitors?

The Price strategies: What pricing strategy is appropriate to use. Pricing is one of the most important elements of the marketing mix, as it is the only mix, which generates a turnover for the organization. The remaining 3p’s are the variable cost for the organization. The Place strategies: Where will the firm locate? This refers to how an organization will distribute the product or service they are offering to the end user. The organization must distribute the product to the user at the right place at the right time. The Promotion strategies: How will the firm promote its product? A successful product or service means nothing unless the benefit of such a service can be communicated clearly to the target market. (Philip Kotler and Kevin Lane Keller-2007),

The marketing of financial services is a unique and highly specialized branch of marketing. The practice of advertising, promoting, and selling financial products and services is in many ways far more complex than the selling of consumer packaged goods, automobiles, electronics, or other forms of goods or services. The environment in which financial services are marketed is becoming more competitive, making the task of marketing financial services increasingly challenging and specialized. Financial services marketers are challenged every day by the unique characteristics of the products they market. For example, often financial services cannot be visually communicated in advertisements as easily as consumer goods can. Furthermore, the relatively unexciting nature of financial services makes the task of attracting consumer attention and inspiring consumer desire difficult one. However, the study of financial services marketing is in many ways far more fascinating than other areas of marketing. There are many predictable behaviors that consumers often exhibit in their dealings with financial services providers. The predictability of these behaviors and the abundance of data on existing and potential customers enable a uniquely scientific approach to developing and executing successful strategies for the marketing of financial services, much more so than in other markets. (Philip Kotler et al, 2007)
12.1 The Complex Characteristics of Financial Services.

Financial services lack of ownership. One cannot own and store a service like you can a product. Services are used or hired for a period of time. For the time they are in use and last consumers want and expect excellent service for that time. Because you can measure the duration of the service consumers become more demanding of it. They are also intangible in that you cannot hold or touch a service unlike a product. In saying that although services are intangible the experience consumers obtain from the service has an impact on how they will perceive it.(Tina Harrison 2007)

Financial services are Inseparable. The services cannot be separated from the service providers. A product when produced can be taken away from the producer. However a service is produced at or near the point of purchase. Take visiting bank, and reach a teller station and present you application, the waiting and delivery of the service, the service provided by the teller/officers is all a part of the service production process and is inseparable, the staff in a restaurant are as a part of the process as well as the quality of service provided.

The perishability of financial services also makes them complex. Services last a specific time and cannot be stored like a product for later use. The service is developed and used almost simultaneously. Again because of this time constraint consumers demand more. Further financial services are heterogeneous. It is very difficult to make each service experience identical. Generally systems and procedures are put into place to make sure the service provided is consistent all the time, training in service organizations is essential for this, however in saying this there will always be subtle differences.(Margaret J.Miller 2007)

There is mounting evidence that suggests the environment in which financial services are marketed is becoming more complex and challenging. In the early 1930s, a series of bank failures resulted in the heavy regulation of the financial services sector in the United States. These bank failures forced legislators to implement stringent regulations that prohibited commercial banks from participating in investment banking activities. Regulations such as the Glass-Steagall Act of 1933 and the Bank Holding Act of 1956 limited the types of products and services that financial institutions could offer. As a result, for decades many financial services organizations were limited to a narrow range of markets in which they could legally operate. However, in 1999 the Financial Services Modernization Act reversed many of the antiquated regulations that had limited the development of competition in financial services markets. Since then the financial services market environment has significantly changed. Below, we will discuss
Some of the evidence to illustrate the notable changes that characterize the financial services markets of today and tomorrow.

In addition to the changing market conditions, the process of providing financial services is undergoing revolutionary change. Recent figures suggest that the practice of offshore outsourcing (whereby a service organization utilizes a workforce outside of the United States to provide customer service or other forms of service activities) is likely to grow steadily in the U.S. service sector, including financial services. (Klein Daniel, 2010). This shift has and will continue to affect an array of jobs and will influence the future of the financial services marketing profession. The process of marketing of financial services is also changing due to emerging regulations enforced by regulatory bodies that control the nature and extent of marketing activities of financial services providers. As a result of these changes, competition is increasingly intense and it has become more challenging to achieve marketing success. In such an environment, the optimization of marketing capabilities in a financial services organization is ever more critical for the long-term health and survival of the organization. (Pagano, Marco 2008)

Securing a sense of mutual trust between the consumer and the financial institution has at times been a challenge in financial services markets. Distrust affects both the consumer and the company, as both may feel uncertain about the underlying intentions of the other party. For example, a recent consumer survey shows that one in every four consumers will not hesitate to cheat their insurance company, if they have a chance to do so. (Philip Kotler et al, 2007)

These consumers may, for example, choose to misinform their insurance company about their individual risk characteristics when signing up for an insurance policy, misrepresent the sequence of events that lead them to file a claim, or even neglect to disclose relevant information that may invalidate the insurance policy. (Alec Benn, 2009).

2.3 Empirical Literature Review

The systematic use of credit reports in assessing loan applications is one of the most remarkable developments in retail banking. Today, loan approvals no longer take days or weeks, but are made in minutes, thanks to information derived from credit reports. Over the past 30 years, the number of reports issued by credit bureaus in the United States has increased ten-fold, so that nowadays over three million
Credit reports are issued on a daily basis. Beyond the United States, the credit reporting industry has also seen substantial developments. Examining data for 129 countries, (Djankov et al 2008), show that the number of countries with a public credit registry increased from 21% in 1978 to 53% in 2003, while the number of countries with at least one private credit bureau increased from 16% to 41% over the same period.

Private credit bureaus rely on voluntary information exchange between lenders, which typically involves a trade-off. On the one hand, lenders benefit from information sharing, as it helps them to select good from bad loan applicants (Pagano and Jappelli, 2009). Moreover, information sharing can overcome moral hazard on the part of borrowers, motivating them to exert greater effort in projects (Vercammen, 2009; Padilla and Pagano, 2009,) and repay loans (Klein, 2010). On the other hand, sharing information may expose lenders to increased competition because they release private information about their existing clients. Banks may therefore be wary of sharing information in competitive credit markets, and may be particularly reluctant to share information with close competitors (Pagano and Jappelli, 2008).

Can competition in the banking sector hinder the emergence of information sharing in markets where adverse selection would make it valuable from a social point of view? This is an empirical question and the answer depends on the relative impact of adverse selection and lender competition on information sharing behavior. (Doblas-Madrid, Antonio, and Raoul Minetti 2011). So far, there is little evidence on these two forces that drive voluntary information sharing. Historical records show that credit reporting in the United States did initially emerge among non-competing lenders (Djankov, 2008). Anecdotal evidence from Russia also demonstrates the reluctance of banks to participate in the same credit bureau as their rivals. After the introduction of a law in 2005 forcing all lenders to join at least one bureau, many lenders set up their own credit bureaus, in order to avoid sharing information with competitors. In contrast to this, it is striking that many bureaus collect and distribute information specifically for the consumer credit market, which is arguably one of the most competitive retail. In a recent paper, Barca and Fabrizio (2010) show that the incentives to unilaterally disclose information on default behavior also depend on lenders’ inherent market power segments (Ongena Stephen and David Smith, 2008). It appears therefore that, at least in consumer credit, the benefits of sharing information may outweigh the costs of increased competition. So far, however, there is no systematic analysis of the driving forces behind information sharing to support this conjecture.
The credit market is also characterized by lender competition, which reduces information sharing incentives. We implement a simple form of spatial competition: Each lender has one direct competitor and two lenders with whom he does not compete at all. In such a situation, lenders benefit from sharing information with non-competitors, but lose market power if they share information with direct competitors. The advantage of our experimental approach is that we can exogenously vary both the degree of adverse selection, i.e. borrower mobility, as well as the intensity of competition between lenders. By comparing the outcome across treatments we can therefore identify how exogenous changes in information conditions and lender competition affect the emergence of information sharing. Our experimental approach also allows us to compare the relative impact of adverse selection and lender competition on information sharing behavior. (Philip Kotler et al, 2007)

The findings contribute to the growing empirical literature on the role of information sharing in financial market development. Several recent studies have demonstrated that information sharing is beneficial to credit market performance. Credit scoring models based on credit bureau data suggests that the use of credit reports allows lenders to more accurately predict loan defaults (Kallberg and Udell, 2003; Barron and Staten, 2003; Luoto et al., 2007; Powell et al., 2004). Moreover, recent experimental results indicate that information sharing disciplines borrowers to repay loans (Alec Benn, 2009).

Cross-country evidence, meanwhile, supports the conjecture that information sharing improves credit availability. Aggregate credit market volume is higher in countries where information sharing is more developed (Djankov et al., 2008). Moreover, analyses of firm-level data (Tina Harrison 2009) show that access to bank credit is easier in countries where credit bureaus or registries exist.

While existing evidence confirms that information sharing between lenders is beneficial for credit market performance, there is little evidence examining the circumstances in which credit bureaus emerge. Padilla Marco (2007) show that consumer credit reporting in Organization for Economic Development (OECD) countries is positively related to household mobility, and thus to potential adverse selection for banks. However, there is, to our knowledge, no systematic evidence on how credit market competition interacts with adverse selection in determining voluntary information sharing (Galindo, Arturo, and Margaret Miller 2011).

Credit registries are a typical response to information asymmetry problems between lenders and borrowers. A credit registry is either a public or privately owned entity that consolidates information on borrowers from lenders. Many studies have illustrated how comprehensive information helps lenders
Japelli Tulio (2009) found that historical information collected by a credit bureau had powerful default predictive power. A study by “Echo Awards”; (GEICO Direct Auto Insurance 1999) showed that lenders could significantly reduce their default rate by including more comprehensive borrower information in their default prediction models. In an analogous study – specific to Brazil and Argentina – found similar default rate decreases when more information was available on borrowers (Vercammen, et al. 2009).

Regionally Kenya is the leader in this practice and Uganda and Rwanda have made indications to follow suit and are working on the legal frameworks of the same. With the East African Community geared towards becoming an economic union the other member states i.e Tanzania and Burundi were urged to quickly adopt the practice as there was bound to be enhanced credit and capital mobility across the borders. However Banks and other financial institutions with cross border presence namely Equity Bank, Kenya Commercial Bank, Barclays Bank Ltd and Standard Chartered Bank Ltd are already applying the practice with strict reference that the practice is a company policy and are enforced right from the countries of incorporation. (Central Bank-2012-Annual East African Community Central Banks Governors’ conference on Stewardship and Human Resources Development)

Before the introduction of Credit Information sharing and referencing the Central bank was the sole regulator of the lending market and there was limited effort to regulate or create compliances that would make lending institutions share out information on their clients to be accessed by the other industry players. The CBK still licenses and regulates non-bank financial institutions, mortgage finance institutions, foreign exchange bureaus and deposit-taking microfinance institutions (DTMs). The Central Bank also regulates and supervises Building Societies, which are licensed by the Registrar of Building Societies under the Building Societies Act. Through the Banking Act, Central Bank of Kenya Act, Microfinance Act and Building Societies Act together with the regulations and prudential guidelines issued there under grants the CBK statutory powers to oversee the smooth entry (licensing), operations and exit of financial institutions falling under its purview.

CBK carries out both on-site surveillance and off-site surveillance. On-site surveillance involves routine inspections conducted by CBK officers (inspectors) at the institution’s place of business to examine business records to confirm the institution’s state of compliance with the legal and regulatory requirements. Off-site surveillance entails the review of the periodic returns submitted to the CBK by the institutions’. Both onsite and offsite surveillance are based on predetermined inspection programmes and
ng criteria and any non-compliance noted necessitates appropriate enforcement action as stipulated in the relevant legislations.

For many years up to the late 1980s, The Central Bank of Kenya would publish maximum and minimum interest rates applicable to overdrafts, loans and mortgages. This was done pursuant to S.39(1) of The Central Bank of Kenya Act, Cap. 491 of the Laws of Kenya. S. 39(1) provided as follows; “The bank may from time to time acting in consultation with the Minister, determine and publish the maximum rates of interest which specified banks or specified financial institutions may pay for the deposits and charge for loans or advances ...”. However attempts to enforce this legislation have been futile and with the collapse of the “Donde Bill” and the Interest Rates Cap bill presented to parliament in January 2012 by Hon. Jakoyo Midiwo.

2.4 Gaps to Be Filled

The literature available hardly covers the African credit market scenario and thus drawing concrete judgment from the literature to relate to the Kenyan case especially with regard to the impact of CIS on credit marketing is limited. The study also wishes to make known the level of credit literacy in the population and more so the understanding of the CIS by the population and how this knowledge is used by the lending institutions to advance their credit marketing activities.

Marketing managers of different credit offering institutions will have a blue print that will guide them on the appropriate market approach techniques to adopt unlike the current ones in place that were crafted without considering Credit Information Sharing and Referencing. The study will document credit marketing strategies by different lenders in the region and hence act as a reference point to any person seeking information on the same or willing to develop the study further, as there is no documented literature covering this field in the local libraries and resource centers.

The study will also be of great guide to policy makers at institutions that seek to have their activities funded by commercial lenders on how to administrate credit facilities advanced to them and avoid the consequences of being listed with CRB’s while at the same time negotiating for competitive interest rates on facilities they have secured based on their past credit history.
Conceptual Framework

The conceptualization of the study is based on two main domains of existence, operation, facilitation and growth in the credit market. The two main domains are: The legislative introduction of Credit Information sharing and referencing by the government through the regulator (CBK) and the strategies that are being adopted by credit offering firms to absorb the impact and consequences of legislation and retain their attractiveness to borrowers despite the perceived bottleneck to selling credit facilities.

The Credit Information Sharing and referencing is the independent variable and is supposed to adversely affect the levels of credit supply in the market, the adoption of the practice and consumer awareness levels and the levels of jockeying by the industry players. The dependent variable is the resultant market approach techniques adopted and continuously developed by the credit offering organizations in the market.

Figure 1: The Conceptual Framework

Source: Researcher - 2012
CHAPTER THREE: RESEARCH METHODOLOGY

This section presents the general methodology that the researcher will use in the research study. Issues of particular importance include the study preferred design, target population, sampling design, data collection instruments and procedure and data analysis and presentation of findings.

3.1 Research Design

The research is descriptive in nature. With the knowledge that Credit information sharing and referencing is a relatively new concept in the region and there is very little information about the situation at hand and more so the reaction of marketers of credit facilities in the market, descriptive research methods are concerned with the conditions or relationships that exist. Such methods are designed to investigate the current status and nature of the phenomenon such as the one at hand. The researcher aims at broader generalization where findings of this particular study will be applicable in similar cases in other related phenomena. The extensive literature review has thus been done to gain familiarity with the phenomena in the situation and to understand more about the concept.

3.2 The Target Population

There are thirty (30) registered financial institutions operating in Mombasa County though most of them have more than one branch or business unit but are all believed and known to operate uniformly and thus specific institutions and not branches or business units are considered as members of the population under study. Commercial Banks are the dominant members of the population followed by microfinance institutions and then private lending institutions.

Cooperative SACCOs have been excluded from this study based on their orientation that is more welfare based than profit, and further the legislation excluded the operatives of SACCOs from the subject under study. Based on the Annual KBA circular (2011) there are also thirty (30) registered financial institutions offering credit excluding SACCOs from which the employees of these organizations will be selected to serve as the sample representing the different clientele they serve and hence a full representation of all the members of the population.
The Sample Size Determination

Based on the population size of 30 financial institutions offering credit in the County, a combination of sampling techniques was used. The number of respondents sought was thirty. The researcher strived to have at least each of the financial institutions in the County have a representative participate in the questionnaire to have the most varied set of data as possible. Voluntary sampling was partially done where seven (7) of the respondents who had strong interest on the main topic of the study volunteered as respondents and the rest of the respondents were obtained by Convenience sampling where respondents were sought based on their accessibility and willingness to participate in the study.

This was based on the confidence that if another sample of the same size were to be selected, findings from the two samples would be similar to a high degree. There was also a low degree of variation in behavior of the population under study on relation to the research subject. This was done because the population was highly homogeneous and the desirability to save time and cost as the study is limited to a specific geographical area. The variability and size of the population was low and hence a census survey sufficed.

3.4 Data Collection Instruments

The data collection was through questionnaires. Semi structured questionnaires were administered to the sample of the population by the researcher. Most responses sought by the questionnaires were open ended giving room to the respondent to explain and/or justify their choices among the availed options.

The initial phases of the questionnaire were aimed at aiding in classification of responses based on institution and department. Respondent opinions, whether for or against particular aspects of the phenomena, were sought by the provisions made in the questionnaire allowing them to do so. The response evaluation sessions after every day of questionnaire administration by the researcher were used to analyze the reaction of different respondents to weigh the excitement or lack of it, and were used while verifying and editing responses for analysis purposes.
Data Description

Data to be collected by use of the selected tool was mainly qualitative but bore some quantitative aspects that were arrived as a result of the collection instrument in use and the designed classifying questions aided greatly in the generation of classifying data. Table 1 below shows an example of a tabulation that was used in data description.

Table 1: The Data Description Table

<table>
<thead>
<tr>
<th>JOB POSITION</th>
<th>AVERAGE AMOUNT BORROWED</th>
<th>OCCUPATION CATEGORY OF BORROWERS</th>
<th>LEVEL OF AWARENESS ON CIS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>EMPLOYED</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ENTERPRENEUR</td>
<td>LOW</td>
</tr>
</tbody>
</table>

Source: Researcher - 2012.

The varied responses from the open ended sections of the questionnaire will be categorized on likeness and similarity to represent a few well defined classes of responses for an easier analysis and interpretation of results to be presented thereon.

3.6 Data Analysis and Presentation

Once the data was received from the field it was edited for inconsistencies, coded and entered, controlled and analyzed using descriptive statistics, which include measures of central tendency (mean, mode, median) and measures of dispersion (typically standard deviation to determine response disparities). Descriptive statistics are invaluable in describing the sample data in such a way to portray the typical respondent and to reveal the general pattern of responses. Ultimately, for the purpose of communicative efficiency to likely users, findings were presented using both statistical techniques (frequency and distribution tables) and graphical representations (histograms, bar and pie charts). It was expected that the descriptive summaries from findings would present vastly dispersed data in consolidated and meaningful
interpretations. On this basis, all the analyses and presentations were focused on accuracy and reliability in relation to the study’s predesigned objective.


CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

1. Introduction

Though aimed at closing in on only the effects of CIS on the marketing patterns' of credit selling and retaining of clients, this research also unearthed a vast number of valuable information that is related to matters relating to credit and credit trade in the market which are also vital in the understanding of the whole phenomena.

Prior to evaluation of various responses that were received during the data collection period, it would be vital to bring out the key observation that was made across the range: all credit seekers in the different levels bear the same characteristics with very negligible variances and hence observations made from customers of one financial institution can be comfortably be applied to customers of another institution with minimum degree of error.

The first two questions of the questionnaire are introductory and are used in general classification of the results. A total of 30 employees of different financial institutions, four of which were not Commercial Banks, participated in the research exercise. The respondents were strictly either in Management or in Credit departments of the different organizations.

This chapter is presented in one section that covers all the questions in the questionnaire. The data has been presented in tables, pie charts and bar graphs. The responses were analyzed using descriptive statistics. Out of 30 questionnaires which had been administered to the interviewees, 29 of them were returned for data analysis. This translates to 96.7 percent return rate of the respondents. Overall, the response rate can be considered to have been very high.

4.2 Background Information of the Respondents

Table 2: Distribution of respondents by position in the organization

The researcher sought to find out the distribution of the respondents by position in the organization. The findings are presented in the table below:
<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officer-Credit Administration</td>
<td>11</td>
<td>37.9</td>
</tr>
<tr>
<td>New Business Officer</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Business Banker</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Asset Finance</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Loans Officer</td>
<td>2</td>
<td>6.9</td>
</tr>
<tr>
<td>Relationship Manager</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>SME Officer</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Clerk</td>
<td>4</td>
<td>13.8</td>
</tr>
<tr>
<td>Customer Consultant</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Management</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Incomplete x</strong></td>
<td>5</td>
<td>17.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Researcher - 2012

From Table 2, it is evident that majority of the respondents represented by 37.9% are credit administration officers, 13.8% are clerks, 6.9% are loan officers, 3.4% are new business officers, 3.4% are business bankers, 3.4% are asset officers, 3.4% are relationship managers, 3.4% are SME officers, 3.4% are customer consultant and 3.4% are from management. The column indicated as **incomplete x** was from semi complete questionnaires which were not fully completed to the researcher’s satisfaction but had some vital information that was used in the data analysis and compilation of findings.
Table 3: Most Relevant Response in the Organizations on CIS

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Unaware (%)</th>
<th>Disagree (%)</th>
<th>Strongly disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIS is fully operational in our organization</td>
<td>65.5</td>
<td>31.0</td>
<td>0.0</td>
<td>3.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Customers are fully informed about CIS and its implications</td>
<td>31.0</td>
<td>48.3</td>
<td>10.3</td>
<td>10.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Customers readily agree to have their details submitted to CRB’s</td>
<td>17.2</td>
<td>27.6</td>
<td>24.1</td>
<td>-27.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Introduction of CIS has led to change in our market approach techniques</td>
<td>41.4</td>
<td>48.3</td>
<td>0.0</td>
<td>10.3</td>
<td>0.0</td>
</tr>
<tr>
<td>CIS is a key decision making tool by potential borrowers in the borrowing decision process</td>
<td>34.5</td>
<td>55.2</td>
<td>0.0</td>
<td>10.3</td>
<td>0.0</td>
</tr>
<tr>
<td>CIS is a great bargain tool by borrowers</td>
<td>24.1</td>
<td>37.9</td>
<td>6.9</td>
<td>31.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Researcher - 2012

Table 3 reveals that majority of the respondents strongly agreed to the following statements being relevant in their organization i.e. CIS is fully operational in our organization (65.5%), Introduction of CIS has led to change in our market approach techniques (41.4%), CIS is a key decision making tool by potential borrowers in the borrowing decision process (34.5%) and Customers are fully informed about CIS and its implications (31.0%). The table further reveals that a relatively large proportion agreed to the following statements being relevant in their organizations: CIS is a key decision making tool by potential borrowers in the borrowing decision process (55.2%), Introduction of CIS has led to change in our market approach techniques (48.3%), Customers are fully informed about CIS and its implications (48.3%), CIS is a great bargain tool by borrowers (37.9%), CIS is fully operational in our organization (31.0%) and Customers...
readily agree to have their details submitted to CRB's (27.6%). However, 31.0% disagreed with the statement that CIS is a great bargain tool by borrowers is relevant in the organization.

### Table 4: Factors That Influence Borrowing From Organization

The researcher sought to find out the factors that influence borrowing from the lending organizations. The results are tabulated below:

<table>
<thead>
<tr>
<th>(Factors)</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessibility/proximity to customers</td>
<td>9</td>
<td>31.0</td>
</tr>
<tr>
<td>Low interest rates and charges</td>
<td>19</td>
<td>65.5</td>
</tr>
<tr>
<td>Marketing and other awareness campaigns</td>
<td>20</td>
<td>69.0</td>
</tr>
<tr>
<td>Referencing by existing customers and agents</td>
<td>17</td>
<td>58.6</td>
</tr>
<tr>
<td>Customer service and/or turnaround time</td>
<td>18</td>
<td>62.1</td>
</tr>
<tr>
<td>Disposable income levels</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Unique products not provided by many</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Attachment of customer to banks country of incorporation</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Relationship between customer and bank</td>
<td>1</td>
<td>3.4</td>
</tr>
</tbody>
</table>

**Source: Researcher - 2012**

The table above reveals that majority of the respondents listed Marketing and other awareness campaigns (69.0%), Low interest rates and charges (65.5%), Customer service and/or turnaround time (62.1%), Referencing by existing customers and agents (58.5%) and Accessibility/proximity to customers (31.0%).

Marketing and other awareness campaigns, low interest rates, customer service and/or turnaround time, referencing and referencing by other sources are the most considered factors in the choice of a lender in
listed order. This infers that the information and cost reaching the customer is the most crucial determinant factor in choice of a lending firm by existing and potential borrowers.

Table 5: Most Relevant Response for Statements on the Major Pillars of Marketing

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Unaware (%)</th>
<th>Disagree (%)</th>
<th>Strongly disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIS has an effect on pricing of credit products offered by the firm</td>
<td>7.1</td>
<td>6.7</td>
<td>31.0</td>
<td>48.3</td>
<td>6.9</td>
</tr>
<tr>
<td>CIS has affected the firm’s premises location decisions</td>
<td>3.7</td>
<td>3.1</td>
<td>3.4</td>
<td>62.1</td>
<td>27.6</td>
</tr>
<tr>
<td>CIS has prompted the firm to conduct more market research on new customer preferences and shifts</td>
<td>10.3</td>
<td>27.6</td>
<td>34.5</td>
<td>20.7</td>
<td>6.9</td>
</tr>
<tr>
<td>CIS has affected the firm’s credit product design decisions</td>
<td>13.8</td>
<td>27.6</td>
<td>24.1</td>
<td>24.1</td>
<td>10.3</td>
</tr>
<tr>
<td>CIS has affected the firm’s promotion activities especially on credit products</td>
<td>6.9</td>
<td>31.0</td>
<td>20.7</td>
<td>31.0</td>
<td>10.3</td>
</tr>
<tr>
<td>CIS has changed the lending process in the institution</td>
<td>27.6</td>
<td>41.4</td>
<td>10.3</td>
<td>17.2</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: Researcher - 2012

Table 5 reveals that majority of the respondents disagreed to the following statements being relevant in their organization i.e. CIS has affected the firm’s premises location decisions (62.1%), CIS has an effect on pricing of credit products offered by the firm (48.3%), CIS has affected the firm’s promotion activities especially on credit products (31.0%) and CIS has affected the firm’s credit product design decisions (24.1%). The table further reveals that a relatively large proportion agreed to the following statements
being relevant in their organizations: CIS has changed the lending process in the institution (41.4%), CIS has affected the firm’s promotion activities especially on credit products (31.0%), CIS has affected the firm’s credit product design decisions (27.6%) and CIS has prompted the firm to conduct more market research on new customer preferences and shifts (27.6%). However, 34.5% and 31.0% were unaware that CIS has prompted the firm to conduct more market research on new customer preferences and shifts CIS has an effect on pricing of credit products offered by the firm respectively are relevant in the organization.

Table 6: The Influence of CIS Legislation towards the Credit Industry and its Operations.

<table>
<thead>
<tr>
<th>Enhanced Consumer education and interaction</th>
<th>Agree (%)</th>
<th>Unaware (%)</th>
<th>Disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased cost and paperwork on loans processing</td>
<td>96</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Lengthened turnaround time on loans processing</td>
<td>86</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Enhanced correspondence in the industry</td>
<td>93</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Researcher – 2012

The researcher sought to find out the influence of CIS legislation towards the credit industry and its daily activities in which it emerged that given the low levels of penetration of information to the borrowing public, the legislation is yet to take root thus it is expected to have meaningful effect gradually. However CIS has immensely changed all the operations of the credit industry especially in enhanced consumer education and interaction due to the need to inform the borrowers on the effects of CIS.

The cost of lending has increased as more paperwork, internet costs and subscription costs to the bureaus have come in and are passed on to the borrower. The turnaround time on processing of loans has been made longer by CIS as the lenders have to make enquiries to the bureaus and verify information from the other industry players. This is in the quest for the lending institutions and other financial institutions to know their customers better thus customer credit delinquencies are made available for scrutiny, hence better judgment and consequentially reduced the default rates.

CIS has enhanced industrial communication especially the banks that initially had very cautious and restricted communication. Through the bureaus a lot of correspondences are made between the players in the industry and other non credit related information is shared especially on matters regarding security
and operational matters. Informal sessions among the players in the industry are becoming more frequent and the tension that had existed in the previous period before the introduction of CIS due to heightened competition has greatly reduced.

4.4 The Existence of Preferential Treatment

It was important for the researcher to find out if there are customers in the organization who are given preferential treatment based on their credit history. The results are as presented in the figure below:

Figure 2: Customers Given Preferential Treatment Based on their Credit History

Source: Researcher - 2012

Figure 2 above shows that more than half of the respondents (76.0%) agreed that there are customers in the organization given preferential treatment based on their credit history while 24.0% disagreed.
4.4.1 Reasons for Preferential Treatment.

The responses given for the Yes answer include; the good is preferred and the bad is declined; the loan has a shorter appraisal; a good credit history will enable for customers to get only product without negotiation on amount or serviceability evidence thus bad history will automatically mean caution; people with good history are allowed to get loans from the banks than those without; depending on the rating, the client who is not listed has a chance of getting lower interest charged; this is because the more a customer borrows and being able to service his/her loan without arrears, the more integrity and honesty and ability to repay and this is a fundamental prerequisite towards such clients being treated preferentially; a bad credit history automatically influences the future and gives a lot about the character of the borrower; good payers discount; negotiated borrowing rate; and invitation to special site visits and other forums.

The responses given for the No answer include: the organization is yet to reach a position where the database is complete sufficiently to determine risk profile, but this may be a reality soon; all customers are treated equally thus CIS is just a tool towards credit rating of customers; and the pricing of credit base lending rate is determined by the organization first and the premium resigned over this is then determined on the basis of the credit rating of the customer thus, credit history only plays a part when the customer is doing evaluation for pre-qualification.

4.5 Awareness of Existence of Preferential Treatment Based On Credit History

The responses given for the Yes answer include; the customers are made aware on application since they are given a session after disbursement of the loan; they are made aware because of these customers as the bank wants them to give more business; the customers note this at the time of processing their renewal facilities; to enable them know how important they are to the bank; banks standard tariffs/procedures/requirements are communicated to all customers after consideration of preferential treatment which is reflected clearly in the letters of facilitation issued for approval lending; and relationship management practices requires that they are informed.

The responses given for the No answer include: the customers are not made aware since they might misuse the privilege bestowed on them thus the bank uses only the information on its customers; the credit scoring is done without the knowledge of the customer and those who don’t qualify are advised on
how to run their accounts; and in the organization, the spread is very small between 0.5 OBR to 2.0% depending on the size of the credit to be availed and the security offered thus no unsecured credit.

Figure 3: Reported Instances Where Customers Have Disputed Credit Reports

The researcher further sought to find out from the respondent whether there are reported instances in the organization where a customer has disputed a credit report. The results are shown in the figure below:

![Bar Chart]

- **Reported instance in the organization where a customer has disputed a credit report**

Source: Researcher - 2012

Figure 3 reveals that majority of the respondents (44.9%) agreed there are reported instance in the organization where a customer has disputed a credit report while 51.7% disagreed. However 3.4% indicated that they didn’t know if there are reported instance in the organization where a customer has disputed a credit report.
The disputed reports are mostly from defaulted Credit Cards of the various Credit Card issuing institutions, Higher Education Loans Board and the commercial lenders who proceeded to list the default details with either no notification given to the defaulters, or no grace period allowed to the defaulters to remedy the situations that were due for reporting. The commercial lenders reports were mostly not disputed because of the adequate notice given and in the few instances that they were disputed it was as a result of disagreement on the arrears figures between themselves and the borrowers.

Figure 4: Lending to Persons Already Listed With the CRBs

The researcher sought to find out from the respondent the organization lends to persons already listed with the CRBs. The results are shown in the figure below:

Source: Researcher - 2012
Figure 4 above shows that more than half of the respondents (82.8%) agreed that the organization lends to persons not already listed with the CRBs while 17.2% responded on the contrary.

It emerged clearly that lending is at the discretion of a firm and in marketing bid to woo either high net worth clients who could have been listed and denied access to credit by other players in the industry then the firms proceeded to lend to persons already listed with CRB’s. The need to retain some loyal and valued clients also made the lending institutions to lend to persons listed with CRB’s. This however was done with the firms making more precautionary measures on the same facilities and at one instance a borrower had to be charged a much higher interest rate than the one prescribed in the tariffs of that Bank to cushion against eventualities especially the reoccurrence of default.

Table 7: Considerations Made on Lending to Persons listed with CRB’S.

The researcher also sought to find out what considerations are made on lending to persons already listed with the CRB’s.

<table>
<thead>
<tr>
<th>Considerations</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived credit servicing ability of client</td>
<td>4</td>
<td>13.8</td>
</tr>
<tr>
<td>Need to maintain an existing relationship with client</td>
<td>2</td>
<td>6.9</td>
</tr>
<tr>
<td>Desire to attract a potential customer from a competitor</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Small amounts of funds involved</td>
<td>1</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: Researcher - 2012

The table above shows that majority of the respondents indicated the following considerations: perceived credit servicing ability of client (13.8%), need to maintain an existing relationship with client (6.9%), desire to attract a potential customer from a competitor (3.4%) and small amounts of funds involved (3.4%).
Any other considerations made include: only if the customer has cleared his loan or amount outstanding and the reasons of not paying fully explained and accepted and the CRB should be updated about it; most subtle present obligation and give evidence prior to lending; and when the client has cleared facility and still listed.

Overall it was deduced that all the lending firms exercised a lot of caution on lending to persons or organizations already listed with the CRB’s but some still went on to lend but already in possession of the knowledge of the persons being listed. With appropriate considerations made and a decision to take on the risk after analyzing the perceived benefits either in interest returns or relationship buildup and or maintenance, lending firms are still free to lend to persons already listed with CRB’s.
CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS.

6.1 Discussions

This chapter discusses the findings and offers conclusions that were arrived at in the conduct of the study and sheds light on other areas that the researcher finds need to be studied further to not only complement this study but to also create further in depth understanding of the whole concept of CIS and its revolutionary effect on the financial world.

The study was designed to investigate the effects of Credit Information Sharing and Referencing on the marketing patterns of credit facilities in the local market of Mombasa County. Specifically, the study was designed to determine the change in marketing activities by lending institutions in the county especially their approach to new borrowers, the level to which CIS has been adopted by the financial institutions and the effects of CIS on other marketing variables namely; location, pricing of credit facilities, redesigning and representation of the products and newly adopted market approach techniques.

The overlying finding that bore more strength from the study was the finding that CIS and other legislations that do not affect directly the amount of monies being borrowed from the lending institutions, especially if there are no regulations on the floors and ceilings of amounts to be accessed and no effect on the interest rates or amounts repayable, then that regulation and or legislation has little effect on the borrowing patterns and hence minimal market approach techniques need to be adjusted to counter the proposed and existing perceived restrictions to lending.

Being a non negotiable regulation that had a great input by the financial institutions, the CIS has had to be uniformly adopted by all lending institutions and all those lending institutions that do not effect it will have more to lose in inability to access valuable data that’s crucial in making lending decisions and face the risk of being sidelined in other industry related benefits by other industry players especially the commercial banks under the umbrella of KBA.

Despite the findings arrived at by this study it would still be proper to wait until the practice of CIS to mature by another two to three years to reassess the impact of it on the market approach activities by the various players within and without the industry. The local population seeking credit are mostly first time
borrowers who are servicing their first facilities and the effects of CIS will be well felt when they are transiting to their second or third facilities which will range in between two to five years from present. This however does not negate the findings of this study but emphasizes that there is a great likelihood of change on the results so far arrived at by this study as the credit market is reflecting a lot of dynamism and the results attained so far may be nullified or enhanced at a later date when there will be an economic shift from the current inflationary trend that has made the cost of borrowing to have more weight on consideration for borrowing than all other factors.

The levels by which preferential treatment is given to customers with positive credit history varies from one lending institution to another but most of the institutions whose employees participated in the study exhibited caution and reservations, there by comparing credit history to credit turn over that could thin out on an account spontaneously. Customers could have built a positive history over time with deliberate anticipation of a custom made treatment from the lending institution. Being cost conscious institutions most of the lending institutions have hence not given so much weight to the existing history as a waiver of other regulations governing the lending procedures prescribed by each individual institution. Based on the major fact that lending institutions are purely profit oriented a contradictory situation emerges here of cost versus attraction but the institutions have been able to make decisions that favor them based on their weights.

From the study there has been a general overriding observation that a sizeable number of clients dispute the reports submitted to the Reference Bureaus. However, the lending institutions have been keen to ensure that little or no disputes occur over reports issued to the reference bureaus by giving adequate notice, mostly between Fourteen days and Twenty-Eight days, to the borrowers due for listing allowing a window to remedy the situation that would prompt the institution to have their default details listed. Further, a number of the listed individuals have always avoided challenging the reports with a view to mitigate the prevailing conditions and ensuring compliance with the terms settled out in the loan repayment agreements to have their details withdrawn from the Bureaus by the reporting institutions, and this is always a plus for the lending institutions on two main grounds: that they hardly faces instances of customers challenging the loan default status and listing and also there is little spill over of discontent customer information to other clients.
Conclusion

1) The leading factor in attracting borrowers to a particular lending institution is the public awareness and marketing activities of the different lenders. The cost of borrowing (Interest rates), the service delivery by the lending institutions and the referral by other persons or institutions follow in that order.

2) Credit information sharing and referencing is fully operational in all the lending institutions. Ninety Six percent (96%) of the respondents agreed to this while four percent (4%) disagreed, quoting that the institutions were either at the implementation or at subscription to the bureau stages.

3) The majority of lending institutions (79%) make sure that the intending borrowers are well informed about CIS and its consequences persons intending to borrow allowing them to make decisions based on this knowledge, unlike a minority of them that do not insist of fully informing the would be borrowers about the same (10.3%).

4) Apart from the negligible effect that CIS had on choice and/or location of a lending premises (6.8%), all the others pillars of marketing applicable in financial services were affected by at least a margin of 30%. The process of lending in most organizations (69.2%) has been affected by mainly increased time in loans processing as a result of making enquiries and clarifications on the various listing reports.

5) CIS has enhanced client-institutions communication and interaction more information is sought by both parties in relation to the practice. Communication between industry players in the credit market has also been enhanced as a lot of enquiries are made between the institutions about various listing reports and in the process a lot of information is exchanged that is beneficial to both sides.

6) Preferential treatment is given to persons with favorable credit history especially in repeat borrowing though most of the lenders withhold this to themselves to discourage instances where the borrowers may press on reduced charges and rates on the borrowings as a result of their past positive history.
7) Persons already listed with CRB’s are not likely to be lent any more funds (79%) unless cleared by the institutions that had listed them and by chance they are to be lent (21%) then there are more stringent regulations to be met and even a higher interest rate levied on them.

5.3 Recommendations

The study recommends there be a full adoption of CIS by the lending institutions by all participating lenders in the industry so as to create a level playing ground for all players so as to effectively weigh the effects of CIS on the marketing patterns of financial services in the county. By not fully adopting the practice of CIS and not disclosing its practice and consequences these institutions are making it not only hard to correctly assess the impact of CIS on the marketing practices but are also shortchanging their colleagues in the industry by playing unethical underhand industry existence practices.

As a result of CIS not being a non-influencing factor in the development of market approach strategies, then all lending firms should have it as a requirement that all persons or firms seeking to be granted any credit facility have their CIS reports availed to them and discussed and should there be a need to update their status then the same should be discussed prior to any action.

The lending institutions should aggressively continue with all market attraction and retention strategies and specifically target new first time borrowers who have little or no chance of having a credit history and hence the credit appraisals shall be done with much ease since there will be no need to enquire from the reference bureaus who release this at a cost, the cost that is usually levied upon the borrower.

Cooperative SACCOS, that haven’t yet, should adopt the practice of CIS. The SACCOS which have been viewed as hibernation centers for delinquent borrowers, who after defaulting from the commercial institutions borrow from these SACCOS which at times don’t enquire about loan balances with other institutions and their scores on servicing, making it hard for the commercial players to successfully sell their products on consideration that their prices are already lower. Further by not enquiring the loan history the SACCOS further enhance default by the same delinquent borrowers which at most times is costly to the guarantors who have had to lose part or all of their savings with the SACCOS.

The Higher Education Loans Board (HELB) which has already joined the practice of CIS, The Kenya Power Company and the Mombasa Water and Sewerage Company, which are just about to join the list of
participants in CIS and any other firms that offer financial and utility services should join the effort by KBA to further publicize CIS especially now that they have adopted the practice and their listings on the bureaus are given much weight by the commercial lenders in the market. This will avert the fact that the affected borrowers challenge most of the listings with the bureaus by these institutions and further create awareness of the existence of CIS as a practice not only of the commercial lending institutions but also a function and consideration of their core activities. This will result into CIS information being well widespread and understood and enabling its existence to be used as market attraction or repulsion agent by the affected lending parties.

5.4 Suggestions for Further Studies

The researcher recommends further research on the pattern of shift in interest rates by commercial banks and it effect on the growth of the SACCO’s. This, the researcher feels will enlighten the quest to determine the precise determinant of preferred lenders versus the other competitors in the market. Further on the researcher recommends a study on the Credit Administration techniques applied by the different lending institutions with the objective of establishing how relationships are maintained with the both existing borrowers and defaulters and also on how relationships are terminated.

The Researcher feels that these two studies will complement the findings of the study on CIS and its impact on the market approach patterns to the market and create a whole rounded understanding of the whole concept of sale of credit and more specifically the factors influencing the movements in the credit market.
REFERENCES


Barca, Fabrizio, and Becht, Marco (2010), The Control of Corporate Europe (ed.). Oxford: Oxford University Press.

The Central Bank of Kenya Act Chapter 491


Interest Rates Advisory Centre IRAC’s Legal opinion on Section 39 of The Central Bank of Kenya Act.


Kallberg, Jarl G., and Gregory F. Udell: European Perspective.” In Credit Reporting Systems and the International Economy.


**APPENDIX I: Work Plan.**

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>TIME PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Writing the proposal</td>
<td>April 2011 – July 2011</td>
</tr>
<tr>
<td>Proposal Presentation, Defense and Correction</td>
<td>July 2011-September 2011</td>
</tr>
<tr>
<td>Primary data collection</td>
<td>October 2011 – December 2011</td>
</tr>
<tr>
<td>Data analysis, interpretation and report writing</td>
<td>February 2012 – April 2012</td>
</tr>
</tbody>
</table>
### APPENDIX II: Budget of the Research

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research assistants</td>
<td>4,000.00</td>
</tr>
<tr>
<td>Computer time and related Accessories</td>
<td>14,000.00</td>
</tr>
<tr>
<td>Subsistence allowances</td>
<td>8,000.00</td>
</tr>
<tr>
<td>Stationery</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Overhead incidental expenses</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Internet Services</td>
<td>1,500.00</td>
</tr>
<tr>
<td>Travelling Costs</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3,000.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>49,500.00</strong></td>
</tr>
</tbody>
</table>
APPENDIX III: Introduction Letter

Stephen Okumu Odhiambo,
P.O.Box 90363-80100.
MOMBASA.
(0726-903990 or 0202130145.)

Dear respondent,

I am a student undertaking a research study for my Master of Business Administration in Kenyatta University. The title for my research is - Effects of Credit Information sharing and referencing on the marketing of credit facilities by financial institutions in Mombasa County.

The purpose of this letter is to request you to fill the questionnaire attached herewith. I wish to assure you that the information you will provide is intended for academic purposes only and not be used for any other reason whatsoever. Also note that the information will be treated with utmost confidentiality between you and me.

Yours Sincerely

Odhiambo Stephen.
Please answer all the questions.

1. Name of organization

2. Position in the organization

3. In the table provided below, please tick the answer you feel most relevant to your organization.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Unaware</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIS is fully operational in our organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers are fully informed about CIS and its implications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers readily agree to have their details submitted to CRB’s</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction of CIS has led to change in our market approach techniques</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS is a key decision making tool by potential borrowers in the borrowing decision process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS is a great bargain tool by borrowers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. What are the main factors that influence borrowing from your organization by customers (please list in the space provided)

5. Please tick the most relevant response in the table provided below, the answer you feel most relevant to your organization
<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral/unaware</th>
<th>disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIS has had an effect on pricing of credit products offered by your firm.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS has affected your firm’s premises location decisions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS has prompted your firm to conduct more market research on new customer preferences and shifts.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS has affected your firm’s credit product design decisions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS has affected your firm’s promotion activities especially on credit products.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS has changed the lending process in your institution.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. In your opinion, is the CIS legislation of influence towards the credit industry and its daily activities? Please explain.

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...................................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................

7. Are there customers in your organization given preferential treatment based on their credit history?

Yes ( )

No ( )

Please explain your choice answer above..................................................................................
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8. Are all the customers in Question 7 above made aware of the existence of preferential treatment bases on their credit history?

Please explain..............................................................................................................................................................................
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9. Is there a reported instance in your organization where a customer has disputed a credit report?

Yes ( ) No ( )

Please explain your organization’s action to the instance........................................................................................................................................................................................................
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........................................................................................................................................................................................................
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10. Does your organization lend to persons who are already listed with the CRB’s.

Yes ( ) No ( )

If yes, what considerations are made to lend to this category of borrowers........................................................................................................................................................................................................
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Thank you for participating in this exercise and please feel free to disclose any more information or change of opinion to the contact earlier availed.
APPENDIX V: List of Credit offering Institutions in Mombasa

1. ABC Bank ltd
2. Bank of India ltd
3. Barclays Bank ltd
5. Chase Bank ltd
6. Consolidated Bank of Kenya ltd
7. Cooperative Bank ltd
8. CFC Stanbic Bank ltd
9. EcoBank ltd
10. Equity Bank ltd
11. Family Bank ltd
12. Faulu Kenya ltd
13. First Community Bank ltd
14. Giro Bank ltd
15. Gulf African Bank ltd
16. Habib Bank ltd
17. Habib AG Zurich ltd
18. Housing Finance ltd
19. Imperial Bank ltd
20. Kenya Commercial Bank ltd
22. K-Rep Bank ltd
23. National Bank of Kenya ltd
24. National Industrial Credit Bank (NIC)
25. Paramount Bank ltd
26. Platinum Credit ltd
27. Southern Credit Bank ltd
28. Standard Chartered Bank ltd
29. Transnational Bank ltd
30. United Bank of Africa ltd