

A Consumer Guide to Banking in Kenya



Standard Banking Practices Compiled
by the Kenya Bankers Association (KBA)
2013 Edition



KENYA BANKERS
ASSOCIATION

One Industry. Transforming Kenya.



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Written by Nuru Mugambi

Contributions by: Habil Olaka, Bernadette Ngara, Fidelis Muia, William Maiyo, Bhaskar Kalyan,
Kariuki Waihenya, Kristopher Kinyanjui, Abdia Dabaso, Hannah W. Ndarwa

Kiswahili translation by Shaban Ulaya

Page design and layout by Conrad Karume

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Overview



INTRODUCTION

The Kenya Bankers Association (KBA) encourages its members to employ best practice when providing financial services, including the highest level of customer care when engaging with the banking public.

The purpose of this Consumer Guide, therefore, is to define standards of good banking practice for both bank customers and members of the Kenya Bankers Association.

An English and Kiswahili translation of this Guide can be downloaded via the KBA Web site: www.kba.co.ke.

About KBA

Kenya Bankers Association is the umbrella body of the financial institutions licensed under the Banking Act, Cap 488, and the Kenya Post Office Savings Bank Act Cap 493B. The Association promotes and

develops sound and progressive banking principles and practices and contributes to the sector's development. It also manages the public relations aspects of banking as a service industry in addition to its role of negotiating employment terms on behalf of its members. KBA works to maintain close co-ordination and liaison with the Central Bank of Kenya, financial institutions, the Chamber of Commerce, management and educational institutions, the Federation of Kenya Employers, and other such organisations to realise KBA's ambition: "One Industry. Transforming Kenya."

The Association owns and operates the Automated Clearing House and partners with the CBK on initiatives such as the Modernisation of Payment Systems (including the Cheque Truncation Project), the establishment of Currency Centres across the country, and the Kenya Credit Information Sharing Initiative.

Disclaimer: The first edition of this Guide was published by the KBA in 2001 as 'The Banking Code'. Please note that not all banks offer the entire suite of products and services covered in this Guide. The relationship between a customer and their Bank is contractual therefore this Consumer Guide is by no means a binding document with legal obligations between any customer and his/her bank nor does it vary any clause in any contract between a customer and the Bank. Moreover, this Guide shall not be quoted in any proceedings between any KBA member and customer or customers either in part or in whole.

Section 1



OUR KEY COMMITMENTS TO YOU

As financial service providers, banks offer customers products and services that empower them to manage and grow their financial resources.

Towards this end, banks work to:

- A act professionally, fairly and reasonably in all dealings with customers;
- B ensure that all the products and services on offer meet KBA standards, even if individual banks have their own terms and conditions;
- C give customers information about products and services in plain language, and explain as needed, including advising the customer about their options and if a different product/service can better suit their needs;
- D help customers to understand the financial implications of the products and services and how they work, to enable the customer to make an informed decision;
- E have secure and reliable banking and payment systems so as to limit inconveniences;
- F make sure that the procedures followed by bank staff and agents reflect good banking practice and the highest level of customer care;
- G recognise factors that may affect bank customers, such as adverse impacts of macroeconomic and political changes, and consider individually as well as collectively through the KBA how to assist customers through periods of financial difficulty;
- H create open channels of communication with customers, including knowledgeable complaints handling support systems, and ensure these channels are advertised and made accessible to all customers;
- I handle customer complaints within reasonable time, and advise customers on the approximate timelines in which their inquiries or complaints would be responded to and addressed; and
- J make sure that all products and services adhere to relevant laws and regulations, including the Central Bank of Kenya Prudential and Risk Management Guidelines.

1.1 Helping you make an informed choice

Banks offer many different types of products and services to meet the needs of a diverse customer base.

The difference between bank products, services and channels is often misunderstood. In addition, customers may not be clear on the information they need from their bank before they take up a product or service.

This section will help define a bank's portfolio and the various channels a customer would use to access the offering of their choice. It also covers information that a bank should provide before a consumer becomes a customer, as well as afterwards.

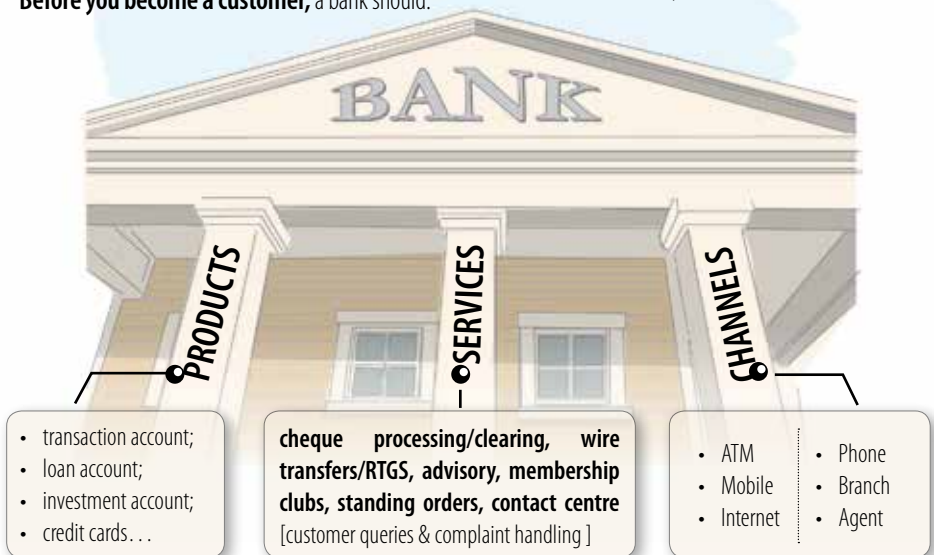
1.2 Information you will need

Before you become a customer, a bank should:

- give you general information about the bank and the products and services they offer to meet your needs; and
- **tell you at that point in time all the information that is required from you** in order to open an account, including documents required under the Central Bank of Kenya (CBK) Prudential & Risk Management Guidelines.

Before you select a product or service, a bank should:

- give you information on **basic accounts as well as accounts on promotion**, to enable you to compare and make an informed decision;
- give you **clear information**, explaining the key features of the services and products you are interested in;





Did you know?

Many bank customers do not take the full advantage of bank products and services simply because they are not aware. Did you know that with an ordinary bank account a customer can give instructions on multiple standing orders (or account sweeps) that can help with maintaining a personal monthly budget as well as meeting financial commitments such as loan repayments?

- **disclose the costs** (interest rate, charges, fees) or other financial obligations relating to the product or service of your choice;
- advise you on **how you can get the maximum benefit** from the product or service, for example if there are complimentary or free services associated with the account;
- give you extra information on **your rights and responsibilities if you open a joint account**;

- **advise you on possible costs or penalties associated** when you operate the account in a manner that is not covered in the account terms and conditions;
- **disclose to you the applicable charges or fees** should you decide to terminate the contract (this does not include early repayment on loans, which is a fee that a bank would not charge in accordance with the Consumer Protection Act 2012); and
- **allow you to make the final decision** and give you information on that single product or service.

1.3 Interest Rates

Knowing about how a bank prices (on deposit and loan accounts) is important information of which you should be aware.

Before you take up a deposit or loan account, a bank should:

- **give you information on the interest rates applicable to your accounts; and**
- **advise when they will deduct interest or pay it to you.**

In addition to training customer-facing staff assigned to bank deposit and loan accounts on how to respond to a customer's request for information about interest rates, a bank should make general information available via bank Web site, helpline number and, where relevant, the newspapers through public notices.

1.4 Shari'ah-compliant banking

Increasingly, banks are offering niche services and products to meet the needs of a diverse customer base. Shari'ah-compliant or Islamic banking is an example.

Islamic banking is a system of conducting trade and banking activities in line with Islamic Shari'ah principles while avoiding all the prohibited activities such as interest or Riba, Gharar, and financing of haram trade and businesses.

Islamic banking is not based on pricing money and earning interest, but it is a system of trade where goods and services are sold and capital is invested by taking risks to earn Halal profits. Interest free banking is a subset of the Islamic banking concept.

The difference between Shari'ah compliant banking and conventional banking

The main difference between Shari'ah-compliant banking and conventional banking is that Islamic teaching holds that money in itself has no intrinsic (fundamental) value and forbids people from profiting by lending it, without accepting a level of risk – in other words, interest (known as "Riba") cannot be charged on money. Under Shari'ah law, wealth can only be generated through legitimate trade and investment. Any gain/profit related to this trade/investment is shared between the person providing the capital and the person providing the expertise (Mudharabah).

Section 2



BANK TARIFFS AND COMMISSIONS

As with any business, banks charge customers for their products and services.

These charges, known as Tariffs and Commissions, are levied on the bank offerings, and are not limited to fees charged on transactional accounts, loan accounts, credit cards and the various channels customers transact across.

As indicated in the previous section, before a customer signs up for an account, the bank is

required to advise them about applicable tariffs they will pay for day-to-day running of the account.

Once the contract is signed, the bank should give the consumer a copy of the signed agreement which contains the terms and conditions of the agreement.

2.1 Means of Notification

Unless otherwise stated, any changes to the tariff will be announced by the bank by means of notification. This could take the form of:

- letters addressed to affected bank customers;
- notices in the banking hall;
- public notices published in the newspaper; or
- publishing in the bank's official Web site.

Customers should also be able to find out about these charges by phoning the bank; visiting a branch or customer service centre; or receiving email or phone messages (SMS).

2.2 Notification Period

It is best practice for banks to notify their customers at least 30 days in advance or before material account changes are effected.

For account-specific increases in tariffs or commissions, the bank would communicate the change promptly and directly to the affected customers.

2.3 Changes in Interest Rates

When a bank changes the interest rates on accounts, they should provide notice in line with standard notification practice. To help customers compare rates, a bank should have the old rate available.

For individual (consumer) accounts, banks will advise customers within 30 days of the change, noting the effective date.

For Islamic banking customers:

- Under Islamic banking the term "Interest" does not apply but rather Profit; and
- As per Shari'ah, once a contract of financing has been signed between the bank and the customer, none of these parties has the right to change the profit rate, regardless of the fluctuation of interest rates in the market.

2.4 Tariffs on Card Products

Debit and Credit cards are products that banks offer customers for convenient access to funds and other transactions. These products can be used at various channels, such as Automated Teller Machines (ATMs), retail store Point of Sale (POS) terminals and via the Internet.

Depending on the bank and card product, fees and commissions may be levied and these fees could differ depending on the type of channel used and if the customer uses a different bank's network (other than the bank that issued the card).

Customers should be advised about the tariff structure and schedule before they use these products.

Section 3



BANK TERMS AND CONDITIONS

The Terms and Conditions of bank products and services spell out a customer's rights and responsibilities.

A bank's Terms and Conditions (also known as T's & C's) should:

- be clear and in plain language;
- be aligned with the type of product or service; and
- only use technical language where necessary.

Should a bank significantly modify or change the T's & C's of the various accounts they market, they should notify the affected customers 30 days in advance.

It is customary for immaterial (minor) amendments to Terms and Conditions to be communicated within 30 days of the change.

You should always feel free to ask bank staff or your branch manager to explain unclear Terms and Conditions. It is advisable that these conditions are

understood before a contractual agreement with the bank is signed.

3.1 Advertising and Marketing

Banks participate in various activities to market their products and services. These include promotional sales campaigns and advertising.

In line with best practice in communications and Consumer Protection Guidelines, bank advertising should:

- be clear, fair and reasonable and not misrepresent or mislead;



First, Know your rights . . .

A customer has the right to switch or close their bank account if they feel that a change in the account's Terms and Conditions adversely affects them. (Note: fees may apply for terminating the contract)

- give consideration to the needs of the target audience; and
- clearly cite the applicable terms and conditions.

The Kenya Bankers Association requires its members to adhere to reasonable marketing practices as defined by the Central Bank of Kenya (CBK) Prudential Guidelines, the Kenya Bureau of Standards (KEBS), and the Competition Authority of Kenya (CAK).

3.2 Cooling-off Period

When accessing financial services, particularly in the area of credit or loans, it is always advisable to take time to fully understand your rights and responsibilities.

As much as a sales person can be convincing, take time to “cool off” and decide. A cooling-off period is the time a customer is allowed to make a decision before signing an agreement.

A customer should ask and be informed about the standard duration of this period so as not to feel pressured to enter into any contractual agreement with any service provider.

3.3 Discontinued Products and Accounts

Banks will from time to time introduce new products and services to meet evolving customer needs and adapt to possible changes in the bank’s strategic direction. When this happens, some bank products may be phased out (discontinued), upgraded or

evolve into a different offering.

When an account or product is discontinued, the bank should:

- give the customer a 30 day notice before discontinuation; and
- Clearly inform the customers on various alternatives available and guide them on how to switch to another product or take suitable action as required

In the case of a branch closure, the bank should provide adequate notice (30 days) to individual customers and transfer the accounts to another branch at no charge to the customer.

3.4 Dormant Accounts

Based on the account opening Terms and Conditions of each Bank, some accounts may be classified as dormant. Typically a bank is required to notify their customers about the change in classification, indicating the reason (for example inactivity over a specified period of time).

In this case the bank would be required to advise on the conditions required in order to activate the dormant account.

3.5 Closing or Freezing Accounts

Unless there are exceptional circumstances, a bank should not suspend or close an account without giving the account signatory at least a 14 day notice. However, if the Bank is required to freeze the account

UNCLAIMED FINANCIAL ASSETS



Did you know?

According to the Unclaimed Financial Assets Act 2011, financial service providers such as banks are required on an annual basis to hand over to the Unclaimed Financial Assets Authority any unclaimed deposits (cash, cheques, and other assets of financial value) that have NOT been accessed by the customer in over 2 years. Therefore, customers **MUST** ensure that the bank has their up-to-date contact information, including mailing address, cell phone number and email. Customers also **MUST** transact on their accounts on a regular basis so as to prevent their account from falling dormant. Bank customers should make a point to visit your local bank branch at least once a year.

in compliance with statutory requirements or legal obligation, a post freeze notice should be given to the customer promptly.

3.6 Moving Accounts

Should a customer wish to transfer their account to another bank, the current bank should ensure this is done as efficiently and professionally as possible.

This may require the current bank to coordinate the transfer by engaging the new bank directly.

Bank customers are advised to give their bank adequate notice as some bank to bank account transfers may require time, and in some cases fees may apply based on the Terms and Conditions of the account.

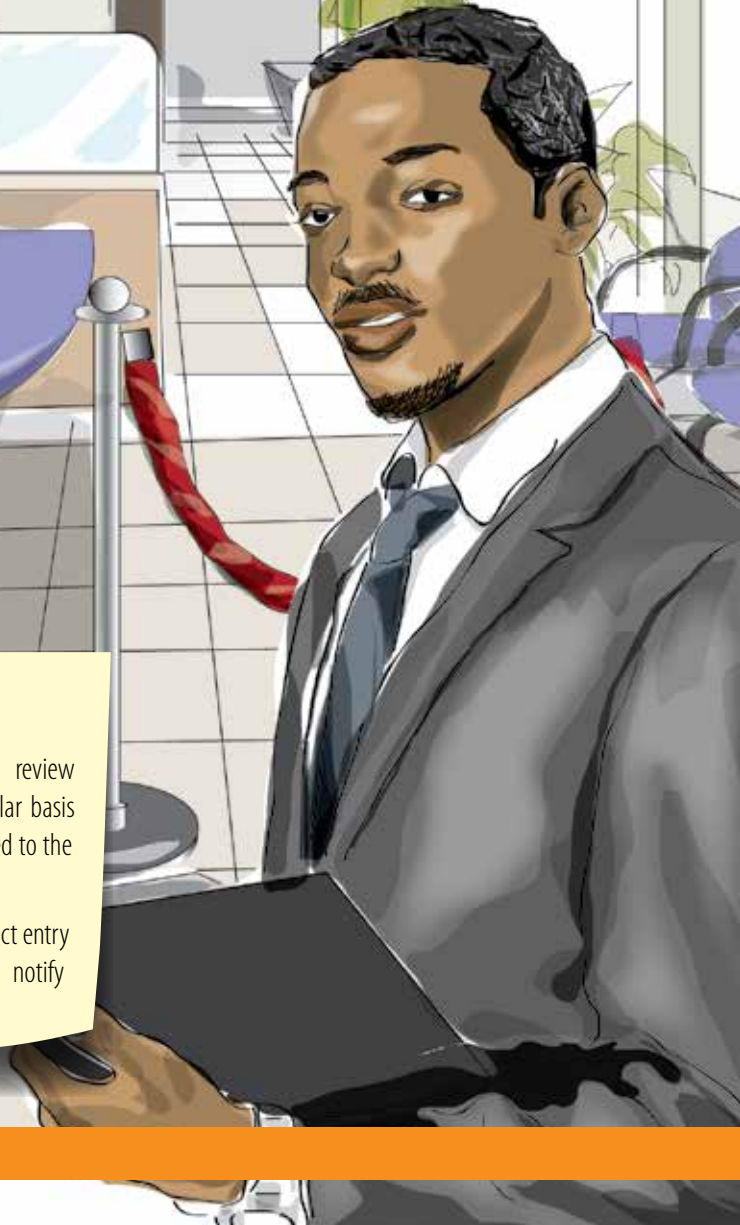
Section 4



Consumer Tip

It is important to review account statements on a regular basis to ensure entries that are posted to the account are accurate.

If there is an irregular or incorrect entry on your account, you should notify your bank promptly.



OPERATING YOUR ACCOUNT

The following section covers basic information you would need to understand once you have signed up and start operating your bank account.

4.1 Your Account Details

It is important that your bank has your accurate and up to date contact information at all times. In order to communicate with you about your account, a bank should have your basic contacts, including telephone number, cell phone number, email, post office box and residential address.

4.2 Statements

Banks issue account statements to help the account holder to manage their account. The statement may be issued every month, every three months or, in any case, at least once a year. The frequency of statements varies from bank to bank or customer specifications so customers should be informed about the schedule and also about modalities of its transmission.

Customers should be made aware of the fact that banks may charge the customer a fee for printing additional statements.

Between receipt of official statements, customers can view their account activity via mini statements accessible at bank Automated Teller Machines. Also most banks offer mobile, internet and phone account access for customers to review their transactions.

4.3 Cheques

Over the years, the Kenya Bankers Association has invested in enhancing the efficiency and security features of the cheques that banks issue to their customers. Today, cheques have state-of-the-art features which enable automated screening, reading and clearing.



Did you know?

Depending on the account, banks will issue a cheque book in the account holder's name. Once you receive your cheque book you should ensure that the account details are correct.

It is also good to look at each cheque leaf to ensure that the serial numbers are accurate, complete and in sequential order.

4.4 Cards and PINs

ATM, Credit and Debit cards are a convenient way for bank customers to transact and/or access their funds.

Typically banks will issue a card directly to the customer at a bank branch. At this time the customer would activate the card by selecting a secure Personal Identification Number (PIN), and the bank

KENYA BANKERS ASSOCIATION

A typical Cheque Truncation process

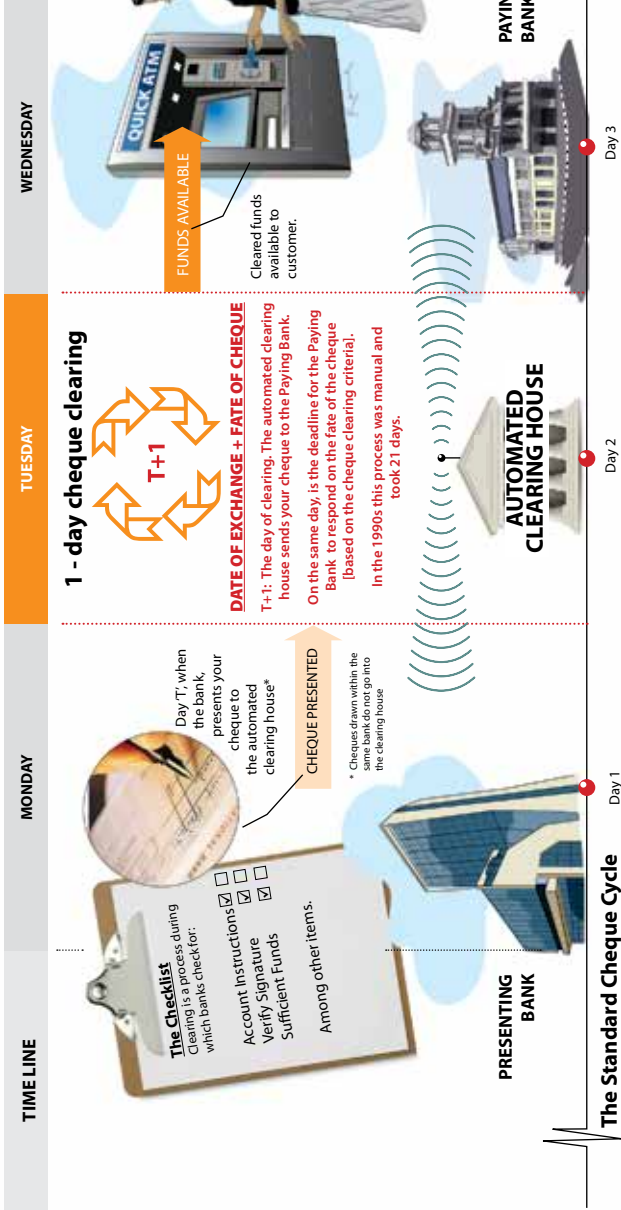
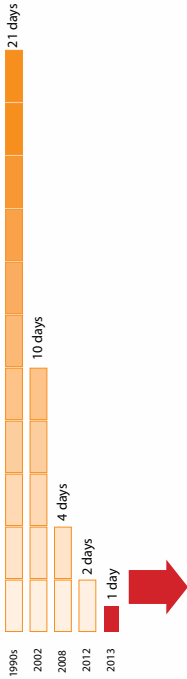
Cheque Truncation is the process of clearing cheques between banks using the image of the cheque and associated electronic information. This process takes place at the Automated Clearing House which is owned by the Kenya Bankers Association (KBA) and regulated by the Central Bank of Kenya (CBK).

Through the use of technology, the process is much faster and more efficient, leading to savings in time (from a high of 21 days in the 1990s). As a result, customers can now enjoy the benefit of this reduction in time.

Why does it take longer than 1 day to access the funds?

The cycle starts when a bank receives a cheque. If the cheque is from another bank, the Presenting Bank sends it to the Paying Bank via the Clearing House (see illustration). The cycle ends when payment is made for the cheque is returned. The full cycle -- including the day the cheque is presented to the Clearing House -- should be factored in estimating when funds would be available.

How long it takes banks in the Clearing House (also known as cheque clearing)



The Standard Cheque Cycle

Day 1

Day 2

Day 3



Card Security Tips

- ✓ When activating your card, you should select a PIN that is secure but also easy to remember.
- ✓ You should not entrust anyone, including spouses or relatives, with your PIN Details.
- ✓ If you lose your card, notify the bank immediately to suspend the card immediately and visit the nearest branch to complete a card replacement form.

- ✓ It is better to confirm the transactions made on the card since the time it was lost to ensure that there are no unauthorised transactions.
- ✓ Bank employees should not ask you for your card PIN, they should verify your account by asking you for your National Identification Number, bank account number, and postal address. You may also have a Security Question they would ask you.

staff would brief the customer on how and where to use the card and the importance of keeping the card and security password safe (without sharing with anyone else).

4.5 Foreign Exchange Services

Customers can purchase and sell foreign currency at a bank or at a foreign exchange bureau.

At a bank, foreign exchange transactions are typically provided to bank account holders. There are banks which also offer this service to the general public albeit at a different exchange rate. During the process a bank should:

- give details of the exchange rate; and
- explain before the transaction the charges which apply.

4.6 International Transfers

If you want to transfer money abroad, a bank can provide this service, including through account to account transfer, wire transfer such as SWIFT, or through third party service providers like Western Union or Moneygram.

Because you have different options which vary in service delivery and cost, a bank should:

- explain all costs and fees associated with the various options;
- give details of when the money will be sent, and when it should be expected;
- explain the exchange rate, noting any loss/gain in value; and
- advise if the person receiving the money will have to pay (be deducted) any fees.

BANK LOANS AND OTHER CREDIT

When deciding whether or not to access credit from a bank, it is important that a customer knows about the application process, the requirements for the facility, and the associated costs and obligations. This information is critical and can determine whether or not a loan is actually needed.

There are different reasons why people apply for a loan. While personal needs vary, in general it is always advisable when accessing long term credit to utilise the facility on purchases that will increase in value over time. Under Islamic Banking this is known as financing facilities.

5.1 Defining Credit

There are various forms of credit which a customer can access through formal channels such as banks, micro finance institutions, savings and credit co-operative societies (SACCOs) or informal avenues including small investment groups (chamas).

The credit that banks provide can be short or long term and may include unsecured loans, mortgages and hire purchase (HP) loans, or credit facilities such as credit cards, overdraft facilities and letters of credit.

In Islamic Banking, credit can be extended via various Islamic finance modes; this includes various profit and loss (as opposed to interest-based) avenues:

they are Mudarabaha, Musharaka, Diminishing Musharaka and Ijarah.

5.2 Types of Loans and Interest Rates

When extending credit to a customer, a bank will charge a cost known as a loan interest rate which mainly depends on the type of loan and the credit risk profile of the customer.

There are mainly two types of loan interest rates, either:

- Fixed rate – where the interest is negotiated and locked in for either a period or the duration of the loan; or
- Variable rate – where the interest rate changes according to the terms and conditions of the loan.

When interest rates in the market change, loans calculated based on fixed rate usually do not get affected, while loans on a variable rate are subject to re-pricing based on the bank's position and operating costs.

As there are different types of loans, banks use different methods to calculate a customer's loan payment. These methods typically have the loan on an amortisation schedule (i.e. monthly payments that reduce the debt over time).



A credit analyst is guided by facts, bank policy and intuition.

5.3 What do banks look for when giving a loan?

When lending, banks seek to ensure that advances (loans) they extend are repaid; and more so they prefer the repayment be done according to the formal agreement (loan contract).

When initiating a loan, both parties – the customer and the bank – go through a decision making process.

On the bank's side, the credit analyst will assess the probability of full repayment as stipulated in the contract. This process is called risk analysis

and it includes assessing 1) actual facts about the customer, 2) Bank position and policy, as well as 3) 'gut feel' or intuition aspects which the analyst will consider based on experience.

For personal loans, the credit analyst will be guided by:

- **Facts:**
 1. the banking and credit history (to determine repayment capacity)
 2. the customer's stake (how much of the risk is being taken up by the customer vis a vis the lender)

- **Intuition:**

1. the customer's character and integrity in previous decision making
2. the skills that the individual or organisation has to adequately execute the proposal
3. the fall back position for the customer in case the original plan fails

For commercial/business loans, the credit analyst will be guided by:

- **Facts:**

1. business financials (balance sheet and income statement to determine repayment ability)
2. the business's stake (how much of the risk is being taken up by the business vis a vis the lender)
3. management structure, governance succession plans

- **Intuition:**

1. commitment to the business, ethical business practice
2. the skills that the individual or organization has to adequately execute the proposal
3. The fall back position for the business in case the original plan fails

In addition to assessing the customer, the credit analyst will gauge how the loan/credit facility will impact on the bank's profits and losses (also known as P&L). This is to determine if the interest earned on the facility matches or exceeds the risk the bank is taking by giving out the loan. They also will review if the loan is in line with the bank's policies and the Central Bank of Kenya (CBK) Prudential Guidelines.

NOTE: In addition to the above, Islamic banks have a duty to ensure that they are not financing activities that contravene the Shari'ah.



Loan Tips

- ✓ Avoid over commitment and taking loans for things you do not need
- ✓ Always strive to live within your means, therefore loans should be used for income generation or assets that appreciate over time
- ✓ Be honest in indicating your other loan commitments

- ✓ **Don't shy away** from talking with your banker -- especially if you are likely to default on your loan, many banks will restructure the loan agreement before the loan falls into default (it is more complicated to negotiate with the bank after you have defaulted on some payments)

5.4 Securing the facility

In exchange for the loan, a bank will require a customer to 'secure' the facility. This means that the bank will hold the customer's asset for the duration of the loan repayment. The most common assets banks will hold are residential or commercial title deeds, motor vehicles and equipment titles or cash that is tied to a fixed deposit account with the bank. There are times when a bank will secure a business loan with the value of that business (i.e. assets on the balance sheet).

When assessing the value of the security, the bank will check to see if:

- the value appropriately compensates for the risk
- it fits in the bank's criteria/policies
- it is easy to realise/liquidate to recover costs (in the case of default)

Note: Banks also offer unsecured loan products.

5.5 Guarantees

Other than an asset, a bank can accept a guarantee as a form of security. In this case the bank may need to disclose to your guarantor and their legal advisor confidential information about your finances.

When guaranteeing someone's liability (debt), it is always advised that the guarantor:

- take independent legal advice to make sure that they understand their commitment and the possible consequences of their decision; and
- is fully aware that by giving the guarantee or other security, they may become liable instead of, or as well as, the customer who is applying for the loan.

5.6 Loan costs you should expect to incur

A customer applying for a loan should be familiar with the various fees and costs associated with the facility. Some of these costs are upfront, others are recurring (like the loan repayment) while others may come at the end of the loan repayment, depending on the contract.

There are other costs independent of the loan interest such as Stamp Duty and Valuation Fees in the case of mortgages.

General Costs

- Application fees
- Negotiation fee or commission / Processing fee / Arrangement fee
- Interest rate charge
- Delayed penalty or penal interest
- Commitment fee [on overdrafts]
- Option fee [applicable for certain bank products]

Product Specific Costs – Mortgages and Real Estate Financing

- Appraisal/Valuation fees
- Legal costs
- Stamp Duty
- Property Insurance
- Life Insurance



Ask About the Total Cost of Credit

Total Cost of Credit refers to the total cost of a loan, including all bank fees and charges, and estimated third party costs such as legal fees, and valuation and stamp duty payable to the Kenya Revenue Authority in the case of loans secured by a physical asset.

Before signing a loan agreement, a customer should request the bank to provide them with a Total Cost of Credit breakdown. This estimate will not only empower the customer to make an informed decision, but also will enable the customer to compare the fees and charges within the market.

NOTE: Visit www.kba.co.ke to download a Total Cost of Credit template which you can use to compare charges and fees.

Note: Previously, banks would charge a fee or additional interest for early termination of a loan contract. Under Section 62 (1) Consumer Protection Act 2012, a borrower is now entitled to pre-pay the loan at any time without any charge or penalty.

Example – Total Cost of Credit Summary

Loan Type	Mortgage
Loan Amount	5,000,000.00
Type of Interest Rate	Reducing Balance Method
Interest Rate Period	Annually
Standard Interest Rate	14.00%
Fixed or Variable Interest Rate	Fixed
Loan Period Time	Years
Loan Period	5.00

Additional Charges:

- Application & Processing Fee
- Monthly Service Fee

Third Party Costs:

- Brokerage Fees
- Attorney & Notary Fees
- Total Credit Life Insurance
- Other Insurance Specific to Taking out Credit
- Government Levies
- Valuation

CREDIT INFORMATION SHARING

Many borrowers make a lot of effort to repay their loans, but previously did not get rewarded for it because this good repayment history was not made available to other loan providers. With the introduction of Credit Information Sharing within the banking industry, banks can now better distinguish between good borrowers and defaulters.

This means borrowers with a “Good Credit Report” or “Good Credit History” are able to negotiate more favourable loan interest rates based on their credit track record.

Key goals of Credit Information Sharing:

- To make it easier for customers to get credit using their “track record”, rather than physical security such as land, vehicles, shares, household items and others;
- To lower interest rates as customers can use their “track record” to negotiate favourable credit terms; and
- To help maintain good repayment behaviour and good borrowing practices.

6.1 Building your credit history

A “Credit History” is an official record of the advances (loans/credit) you have repaid over time. This history is used by your banker (credit analyst) in loan risk assessment. In future, other credit providers like the SACCOs, microfinance institutions, telecoms and utility companies may provide and access this information as well.

One of the key components of your Credit History is a “Credit Report”. A “Credit Report” is generated by a licensed Credit Reference Bureau and contains detailed information on credit accounts and loans, bankruptcies and late payments, and recent inquiries by credit providers (banks, deposit-taking microfinance institutions, etc).

Within the Report is a “Credit Score”, which is a measure of credit risk calculated using a standardised formula. A positive score is characterised by frequently paid bills; lack of defaults on outstanding balances; maintaining steady employment; and the use of no more than 25% of a customer’s available credit. On the other hand, a negative credit score is characterised by late payments; bankruptcy; fraud charges; liens or foreclosures; and loss of employment.

6.2 Your rights to accurate reporting & confidentiality

Customers have the right to dispute any inaccurate information published by a Credit Reference Bureau, including incomplete or inaccurate information; and there are laws and regulations on how to settle these disputes.

If a dispute is not settled within a specified period, the disputed information will have to be removed from the databases of all Credit Reference Bureaus.

For more information on Credit Information Sharing, visit the Association of Kenya Credit Providers Web site (<http://ciskenya.co.ke/>).



Did you know?

- ✓ Your Credit Report should only be obtained by prospective lenders or credit providers only when they have permissible reason as defined by law (basically to determine your creditworthiness when you apply for a loan)
 - ✓ Your bank should advise you via registered post mail/letter if they will be adversely reporting you to a Credit Reference Bureau (i.e. if they will be listing you as a defaulter)
- ✓ The law requires Credit Reference Bureaus to supply you with one free credit report per year, and a free credit report whenever a bank makes an adverse decision about you using information obtained from a credit report
 - ✓ You should therefore take advantage of the legal requirement to obtain a free credit report every year



Section 7

CONSUMER PROTECTION

Article 46 of the Constitution of Kenya (2010) sets out laws and acceptable practices that the providers of goods and services should adopt when engaging consumers. In addition to the Constitution, the Consumer Protection Act 2012 prevents unfair business practices in consumer transactions.

Both banks as well as their customers should familiarise themselves with these laws.

Visit the Consumer Federation of Kenya Web site to access the complete Consumer Protection Act 2012 (www.cofek.co.ke).

Section 8

BANK PRUDENTIAL GUIDELINES

Kenya has been recognised internationally for having one of the most progressive, stable and innovative banking sectors in Africa. In fact, Kenya has been envisaged as East Africa's Financial Services Hub. This achievement has been realised over time through collective effort of banks operating in a supportive regulatory environment.

Banks are licensed and regulated by the Central Bank of Kenya (CBK). To oversee the banking sector, the CBK enforces various laws as directed by the Banking Act of Kenya; and ensures that banks abide by its regulations as stipulated in the CBK Risk Management and Prudential Guidelines.

These Guidelines cover, among other areas:

- Governance and Risk Management
- Financial Reporting Requirements, including performance ratios for both publicly listed and privately held banks
- Business Continuity Management
- Bank services, including Agency Banking
- Bank data reporting, including Credit Information Sharing

In addition to the CBK Guidelines, banks through the Kenya Bankers Association promote self-regulation through the various processes and initiatives that are overseen by the Association.

Section 9

CONSUMER RESOURCES

Banks educate their customers in numerous ways, including through day to day interactions, customer awareness campaigns and across multiple channels including the internet.

Customers are always encouraged to contact their bank directly for information about the services provided.

Other information resources include:

1. Banking industry information:

Kenya Bankers Association

Address correspondence to:

Consumer Guide

Kenya Bankers Association

P.O. Box 73100 – 00200, Nairobi, Kenya

Web site: www.kba.co.ke

Email: consumerguide@kba.co.ke

2. Credit Reference Bureau information:

Association of Kenya Credit Providers

(Formerly Kenya Credit Information Sharing Initiative)

P.O. Box 65041 – 00618, Nairobi

Web site: <http://ciskenya.co.ke/>

Email: info@kenyacreditinfo.com

3. Central Bank of Kenya

Email: comms@centralbank.go.ke

Web site: www.centralbank.go.ke

9.1 Complaint Handling and Dispute Resolution

Bank customers are always encouraged to establish a direct and long term relationship with their financial service provider. This is especially helpful should an issue arise.

Recognising that from time to time disputes may arise between a customer and their bank, the Kenya Bankers Association advocates an internal process through which the bank and the customer can reach an amicable agreement.

A customer's first port of call in any dispute should be their bank relationship manager, branch manager or bank customer service department. External dispute resolution support (mediation or arbitration) can be sought by the customer/bank once all internal efforts have been exhausted.

The Kenya Bankers Association has developed the Industry Standard for Complaint Handling and Dispute Resolution, which promotes the use of Alternative Dispute Resolution (ADR) and is informed by the CBK Prudential Guidelines and Consumer Protection Act 2012.

Customers should be familiar with the KBA Industry Standard and allow their bank this window to review and respond to the issue.

Banking Industry Standard on Complaint Handling & Dispute Resolution

1

DAY ONE

Complaint made by Customer

Bank to Provide Customer with a Case/Reference Number

WITHIN 2 WORKING DAYS

Bank to Acknowledge Receipt of Complaint in Writing [can be electronic] and advise timeline for response

2

BY DAY 5

Bank to inform the customer in writing what the bank position/policy is based on investigation of the case.

If investigation of complaint has not been completed, the bank should write to the customer and:

- List the procedure of how complaint will be handled
- Reference Case/Reference No.
- Provide a Central Contact [dedicated dispute resolution staff/unit]

3

BY DAY 15

If complaint has not been resolved: Bank should update Customer on the case and inform them about Internal Dispute Resolution Process [can be Service Council/Tribunal through which case is settled through negotiation and mediation]

4

BY DAY 20

If the dispute has not been resolved, the bank should:

- Advise customer on next steps
- Discuss with Customer the Alternative Dispute Resolution (ADR) options available; Kenya Bankers Association advocates for 3rd party Mediation and Arbitration in lieu of litigation.

5

Section 10

GLOSSARY

These definitions explain the meaning of frequently used bank terms. They are not precise, legal or technical.

Bank Statement

A summary of transactions posted to a specific bank account. It includes debits (withdrawals) and credits (deposits).

Base Rate

The minimum rate at which a bank pays on a deposit or a loan. This rate factors in the bank's cost of operations, target income, credit risk and external influences which are mainly macroeconomic factors (such as inflation). Not all banks use the base rate pricing method.

Card

A general term for any plastic which a customer may use to pay for goods and services or to withdraw cash.

Cash Machine

An automated teller machine (ATM) or free-standing machine, in which a customer can use their card for cash, information and other services.

CBR or Central Bank Rate

A monetary tool that the Central Bank of Kenya uses to signal to the market the direction in which the

cost of money should go. Banks include the CBR and other factors when calculating their deposit and loan rates. Therefore the CBR is not an exclusive factor that influences rates.

Compound Interest

A calculation where accumulated interest is added back to the principle amount. Interest is then earned from the compounded amount.

Contract

A binding agreement between a bank and a customer. It should include terms and conditions of the agreement, including responsibilities of each party.

Credit Provider

An institution that extends credit to a customer. The credit can be monetary (for example a loan or credit card), it can also be service based (for example as in the cases of utilities).

Credit Reference Agencies (Bureaus)

Organisations, which hold credit information about customers, that is useful to lenders. Banks may contact these agencies for information to help them make various decisions, for example, whether or not to provide loans or credit. Banks may also give customer information to the agencies.

Credit Risk

When lending, banks assesses the various factors that affect a customer, business or industry/sector's ability to repay the debt.

Credit Scoring

A system which rates a customer's credit transactions and gives a score of their debt status. Banks use it to help them make decisions about whether a customer has the ability to take on additional credit given their current status. Credit scoring measures the likelihood that a customer will be in a position to repay a loan given their current debts and income.

Discontinued Account

An account which is:

- no longer opened by customers (this could be because it has been withdrawn from sale by the bank or for some other reason); or
- not actively marketed or promoted to customers

Dormant Accounts

Any account in which there has been no transactions by the customer for a period of time, normally two years. Such accounts are treated differently from the normal accounts due to the inactivity.

Fixed Deposit Account

An account which allows a customer to receive income from the bank as long as they guarantee that their funds (deposit) will be with the bank for a negotiated period. This account typically generates

better returns for the customer. There may however be penalties for terminating the contract before the maturity of the agreement.

Fixed Rate

An interest rate, which is guaranteed not to change over a set period of time.

Guarantee

A promise given by a person called 'the guarantor' to pay another person's debts if that person does not pay them.

Interest

Money that a bank will pay for your deposit (cash) or a fee that a bank will charge to loan you money. In Islamic banking, however, interest rates do not apply. In terms of deposits, Interest is income an account holder would generate from the bank; fixed deposit accounts generate higher interest because the bank would negotiate a tenure (term) with you and onward lend the funds based on the term they are guaranteed to hold your funds.

In terms of loans, Interest can be charged at a fixed or flexible/variable rate. Banks have various methods to calculate how much loan interest they would charge you for the loan. This charge takes into account the bank's cost of Funds (deposits), operational costs, income requirements and the risk associated with both the customer and the economic environment.

Islamic Banking

A system of banking or banking activity that is consistent with the principles of Islamic law (Shari'ah). In Kenya there are fully-fledged Islamic banks that solely offer Shari'ah-compliant products; and also main stream banks that provide products that are tailored to be in compliance with Islamic law. Both Muslims and non-Muslims can access Shari'ah-compliant products.

Macro-Economic Environment

Banks are influenced significantly by external factors such as a country's rate of growth (or Gross Domestic Product/GDP), inflation levels, political stability, currency performance, employment/unemployment rates as well as fiscal and monetary policy.

Monetary Policy

The Central Bank of Kenya develops the policy for the money markets. This policy influences the cost of money and availability of money (otherwise known as liquidity). When the CBK needs to reduce the amount of money in circulation (to stem high inflation) it will make money 'scarce' by effecting a 'tightening' stance on its policy; in reverse, when it needs to stimulate growth it will 'ease' its policy and make money 'cheaper' and more accessible.

Mortgages

Secured loans provided exclusively for the purchase or improvement of housing, usually over a period of

at least five years. In some instances, other types of loan can serve the same purpose.

Other Security Information

A selection of personal facts and information (in an order which only the customer knows), which is used for identification when using accounts. This may include a security question.

Out-of-date Cheque

A cheque, which has not been paid because the date written on the cheque is too old, normally older than six months.

PDQ Machine

A hand held devise that a retailer will use to process a Debit/Credit card transaction.

PIN (personal identification number)

A confidential number, which allows customers to authenticate their identity and access services including ATMS and other self-service systems.

POS or Point of Sale

The location where a retail transaction takes place is known as the Point of Sale. In a supermarket, the Point of Sale is the cash register. Most retail outlets have automated their cash registers and use POS machines, including PDQs.

Prudential Guidelines

A set of guidelines issued by the Central Bank of Kenya. The Guidelines include various governance

and risk management requirements a bank must comply with in order to be licensed to operate in Kenya.

Retail Account

A personal account held by an individual (consumer).

Riba

An Islamic Banking term to define Interest. Islamic banking is not based on pricing money and earning interest, but it is a system of trade where goods and services are sold and capital is invested by taking risks to earn Halal profits. Interest free banking is a subset of the Islamic banking concept.

RTGS or Real Time Gross Settlement

An electronic system which local banks use to transfer or process high value payments. Cheques of value equivalent to or higher than Ksh1,000,000.00 (one million) are no longer processed at the Clearing House by banks and therefore customers should request an RTGS transfer for such payments.

Security

A word used to describe valuable items such as title deeds to property, share certificates, life policies and so on, which represent assets used as collateral for a loan. Under a secured loan, the lender has the right to sell the security if the loan is not repaid.

Stale Cheque

A cheque, which has not been paid because the date

written on the cheque is too old. Cheques should be deposited for payment within a set period of time, usually six months.

SWIFT

An electronic system which banks use to receive payments from other countries or send payments internationally.

Total Cost of Credit

Total cost of credit refers to the total amount payable for a loan, including all fees and other charges from the lender, after deducting the original loan amount.

Unpaid Cheque

This is a cheque, which, after being deposited into the account of the person it is written out to, is returned 'unpaid' (bounced) by the bank whose customer issued the cheque. This leaves the person the cheque was written out to without the money in their account. A bank will charge the issuer of the unpaid cheque a penalty fee, so it is advisable to confirm the availability of funds before writing a cheque.

Wholesale Banking

Banks offer various services to individuals as well as companies. For large corporations, the bank will negotiate fees and commissions based on the volume of transactions. In this case, they would offer products and services based on a wholesale pricing model for example loans to corporate customers may be priced at below the Base Rate, in some cases.



KENYA BANKERS
ASSOCIATION

One Industry. Transforming Kenya.

Kenya Bankers Association

13th Floor, International House, Mama Ngina Street

P.O. Box 73100– 00200 NAIROBI

Telephone: 254 20 2221704/2217757/2224014/5

Cell: 0733 812770/0711 562910

Fax: 254 20 2221792

Email: consumerguide@kba.co.ke

Website: www.kba.co.ke