STRATEGIC ROLE OF CREDIT REFERENCING BUREAU ON CREDIT RISK MANAGEMENT OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

The need for establishment of CRB services in any financial system arises because of information asymmetry between lenders and borrowers. The study aims to assess the strategic role of credit referencing bureau on credit risk management of commercial banks in Kenya. It was guided by four objectives:
To determine the influence of credit information sharing on the credit risk management of commercial banks in Kenya; To establish the effect of credit scoring on the credit risk management of commercial banks in Kenya; To analyze the role of the reduced moral hazard on the credit risk management of commercial banks in Kenya; To establish the effect of loan portfolio diversification on the credit risk management of commercial banks in Kenya. The study was guided by four theories namely; Theory of Asymmetric Information; Adverse Selection Theory; Moral Hazard Theory; Information Theory of Credit; Power Theory of Credit .The study will adopt a descriptive research design and The researcher targets the 30 locally owned banks to accommodate heterogeneity of the bank functions and the similarity of the credit policy since they are all governed locally by CBK. The study targeted employees in the credit departments and more specifically the employees in the credit administration unit, consumer credit unit, corporate banking, business banking and personal banking of Equity Bank, The Kenya Commercial Bank, Jamii Bora Bank, Equatorial Commercial Bank and the Co-operative bank of Kenya. The sample size for the study was 393 employees. This study adopted Cluster sampling technique. . Both descriptive and inferential statistics was adopted for the study. The quantitative data was analyzed by using descriptive statistics which includes frequency distribution tables and measures of central

tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. The inferential statistics included a regression model which established the relationship between variables. Data will be analyzed by the use of a statistical software SPSS version 20. Data was presented in the form of tables and charts.
Looking at the variables collectively, it’s evident from the table that 59.2% of variance in the credit risk management practices by Commercial banks. 59.2% of the variations in the credit risk management practices by Commercial banks can be explained by the identified independent variables: Credit Information Sharing, Credit Scoring, Reduced Moral Hazard, and Loan Portfolio Diversification.

Keywords***: Credit information sharing; Credit scoring, Moral hazard, Loan portfolio diversification, Risk management***

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