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The Effectiveness of Credit Reference Bureaus as a Credit Risk Management Strategy: A Case of Selected Commercial Banks in Kenya

by

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A thesis presented to the School of Business and Economics

of

Daystar University
Nairobi, Kenya

In partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION
in Strategic Management

June 2014

APPROVAL

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In accordance with Daystar University policies, this thesis is presented in partial fulfillment of requirements for the Master of Business Administration degree.

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STUDENT'S DECLARATION

THE EFFECTIVENESS OF CREDIT REFERENCE BUREAUS AS A CREDIT RISK MANAGEMENT STRATEGY: A CASE OF SELECTED COMMERCIAL BANKS IN KENYA

I declare that this thesis is my original work and has not been submitted to any other college or university for academic credit.

Signed: _____ Date: _____

Esther Njeri Kinyanjui
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ACKNOWLEDGEMENTS

I thank the almighty God for giving me the strength and perseverance through this project. To my Supervisor and Reader, Mr. Evans Amata and Dr. Muturi Wachira respectively, I remain grateful for your continuous support and encouragement and without whom this work would not have materialized. May the almighty continue blessing you immensely.

Special thanks to my work colleagues, friends and entire Daystar community who understood and supported me throughout my research. To my research assistant, God bless you for making it easier for me to collect data.

Finally to my beloved family who have been with me continuously encouraging me to keep on; my husband Ben, I owe you for the sleepless nights that you stayed awake while away calling me to ensure that I was alright. Your support has been overwhelming and the pillar of my strength. And, to all those who made this happen, may God bless your endeavors.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK : Central Bank of Kenya

CIS : Credit Information Sharing

CRA : Credit Rating Agency

CRB : Credit Reference Bureau

CRM : Credit Risk Management

FICO : Fair Isaac Corporation

HELB : Higher Education Loans Board

IRB : Internal Rating Base

KBA : Kenya Bankers Association

KRA : Kenya Revenue Authority

LGD : Loss Given Default

NPL : Non-Performing Loan

UK : United Kingdom

US : United States

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ABSTRACT

The objectives of this study were to determine the importance of information provided by credit reference bureaus in managing credit risk, to establish the factors influencing effectiveness of credit reference bureaus as a strategy to credit risk management and to determine the effect of credit reference bureaus as a strategy to credit risk management by the commercial banks in Kenya. This study used descriptive survey research design approach. The target population was 42 commercial banks in Kenya while the respondents (unit of analysis) were 84 credit managers in the banks. Through census, the study reached 84 respondents in all the commercial banks headquarters in Nairobi. The method of data collection was through questionnaires. The collected data was analysed using Statistical Package for Social Sciences (SPSS) and findings presented using descriptive statistical tools namely graphical presentation, ratios, percentages and tabulation. Overall, the study found that CRBs activities had a positive effect towards credit risk management by commercial banks and majority of the banks relied on the information provided. Additionally, the study established that credit information sharing led to a significant reduction in non-performing loans. The recommendations for this study are that CRBs managers must always incorporate the regulations and laws from CBK as regards their operations while ensuring that the right management approaches are applied through continuous training and development.

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