Credit Information Sharing Practices and Financial Performance of Commercial Banks in Kenya

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ABSTRACT

The banking sector in Kenya suffered increased non-performing credits which prompted collapse of certain banks with an upsurge of loan defaulters. This was mainly attributed to the continued information asymmetry in the industry because of absence of a credit data sharing component. Commercial banks in Kenya have continued to encounter a number of challenges in obtaining information on customers’ payment history that helps guide on determining their ability to access and re-pay loan advancements. This has made more commercial banks to subscribe to credit reference bureaus since its establishment in 2008. As a result, commercial banks in Kenya have been experiencing high rates of Non-Performing Loans advanced to customers. The general objective of the study was to determine the effect of credit information sharing practices on financial performance of commercial bank in Kenya. The study specific objectives were to determine the effect of information accuracy, volume of lending and customer credit reports on financial performance of commercial bank in Kenya. The study was anchored by adverse selection theory, moral hazard theory and asymmetry theory. The researcher used a descriptive research design. The target population was five banks within Nairobi County including KCB, Equity Bank, Family Bank, Cooperative Bank and Barclays Bank. Primary data was collected using questionnaires and secondary data using financial statements of the commercial banks performance for the past 5 years. Data was analysed using descriptive statistics and inferential statistics. The study found that information accuracy, volume of lending and customer credit reports were positively and significantly related to the financial performance of the commercial banks. The study concludes that information accuracy increases the banks’ understanding of the applicants’ features and allows a more precise forecast of their probabilities of repayment, it decreases the information rents that banks could otherwise obtain from their clients and it can function as a borrower discipline tool. Lending volume enhances business banks’ enhanced operations, which in turn leads to banks’ enhanced economic results. Sharing of credit information has made commercial banks grant more loans on the basis of their reputation to deserving clients, thereby improving their profitability. When extensive consumer credit history information are easily accessible, it considerably decreases the cost of entering loan markets for fresh lenders, enhances competition and lowers credit rates. The research recommends that for enhanced results, all financial institutions in Kenya need to protect the precision of their platforms for data sharing. Regular site visits should offer credibility to the precision of the borrowers’ data. The data supplied by CRB should be used efficiently by commercial banks to lend to prospective borrowers. Only borrowers with a strong history of credit should be permitted access to the loans. The research also proposes that Kenya’s commercial banks should base credit awards on the borrowers’ reputational assets, ensuring that the loan default rate is small, thus enhancing commercial bank performance.

Key Words: Information Accuracy, Volume of Lending, Customer Credit Reports, Credit Information Sharing Practices, Financial Performance of Commercial Banks in Kenya

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1. Introduction

Commercial banks play a great job in the economic improvement by mobilizing deposits from surplus units to deficit units. The surplus is channeled to deficiency units through loaning which is the center action of commercial banks in Kenya (Kwambai, 2013). This activity however has not been devoid of challenges. Schreiner (2001) demonstrates that financial organizations are confronting a colossal danger of non-performing credits, taking note of that bigger advances have more serious hazard introduction, so the variable expense per dollar is higher. On the off chance that money lenders don't take additional consideration, there could be more credit defaults. To conquer this test, an organization is required to screen the conduct of borrowers. Collins and Wanjau (2011) indicate that the financial institutions in United Kingdom (UK) facilitate mobilization of savings, diversification and pooling of risks and allocation of resources. According to Pagano and Jappelli (2013), lenders (bank, finance companies, credit card companies, retailers, suppliers, extending trade credit) routinely share information on the creditworthiness of their borrowers through credit bureaus, information brokers that in some case are set up and owned by the lenders themselves and in others operated independently for profit by a third party.

Brown and Zehnder (2017) observe that the lending market would collapse due to credit risk in the absence of information sharing institution and reputational banking in the financial performance of commercial banks in South Africa. The author showed that an information sharing institution positively impacted the credit market in the following ways: Without credit reference bureaus, borrowers had a tendency to repay loans only when they planned to maintain their current lending relationship. However, in economies with a credit information institution, borrowers had a higher chance of repaying their loans regardless of whether they were planning to continue their current lending relationship or not. Numerous banks in Kenya have been encountering poor performance financially. The greater part of these financial issues emerges from absence of credit data on the advance candidates which at that point influence their capacity to recuperate both the standard and the intrigue. There have been endeavors by the Central Bank of Kenya to propel credit data sharing on advance candidates among business banks in order to decrease the default rates among advance recipients. Kenya’s banks cooperate with the administrative and premium gatherings to expand access to credit through formal financial administrations (Sayedi, 2013). The thought basic data sharing is, "The best future indicator behavior is past behavior. By and by, it is a plan by which moneylenders contribute data about their clients to a typical pool which is available to all banks that contribute.

Accordingly, setting up Credit Reference Bureau (CRB) was considered so as to empower financial foundations to decide credit value of their borrowers and along these lines diminish the advance default hazard. In such manner credit Reference Bureau aids first sharing data on default among money related establishments, also, wiping out degenerate borrowers – those with the point of getting from various monetary organizations with the point of defaulting, thirdly to upgrade performance financially of the financial organizations (Mombo, 2013). Kolapo, Ayeni and Oke (2012) observe that credit reference bureau takes into consideration credit data sharing among the money related foundations. Credit data sharing plays asymmetry that exists between financial
institutions and borrowers. The major benefit that financial institutions receive from credit Reference Bureau is that they can get credit data on forthcoming borrowers that will encourage appraisal of credit solicitations to moderate dangers of bad obligations.

Credit information sharing is where acknowledge suppliers, (for example, banks, microfinance establishments, Saccos trade data on their remarkable advances and advances through authorized Credit Reference Bureaus (CRBs) (Ezeoha 2009). It empowers the banks to know how borrowers reimburse their credits. Kerage and Jagongo (2014) measured credit information sharing using non-performing loans, operational cost, level of interest and volume of lending. Banks are at the centre of credit intermediation process between borrowers and lenders. They facilitate the transfer of resources from unproductive to productive users. To undertake these function commercial banks need efficient information flow from lenders to borrowers. Information accuracy relates to the correctness of the output information. It is one of the elements of intrinsic data quality (Garcia-Smith, & Effken, 2013). Mekler, Rühlmann, Tuch and Opwis (2017) indicate that Commercial banks in Kenya are currently sharing clients' credit data using CRB, which has turned into an essential part in advance preparing. As per the Kenya brokers’ affiliation report of 2016, every single business bank have embraced the utilization of CRB and this has decreased the non-execution of advances. The pattern is to such an extent that clients with poor records as a consumer can't get to any credits from any loaning establishment in the nation.

Lending decisions are made under the environment of uncertainty; informational asymmetry is the key challenge that leaves credit practitioners with a lenders puzzle when appraising application for credit administration (Bennardo, Pagano & Piccolo, 2016). According to Chen (2017) lenders do not know either the historical behavior or the characters of the borrowers. This challenge creates moral hazard as the lenders are forced to make lending decision based on the general market behavior and not the specific characteristics of the borrower. The Credit Report is a detailed account of a customer’s borrowing with all current credit providers and their performance. The Credit Report lists all the credit accounts (both past and present) and the repayment history of each account (Petersen & Rajan, 2015). The Credit Report is used by the commercial banks to determine whether to approve credit facilities. Ramakrishnan and Thakor (2014) indicate that the primary objective of most credit registries is to support banking supervision and to provide data to regulated financial institutions to enable them to better manage credit risk and improve the quality of their credit portfolios.

Financial performance is firm’s ability to generate resources, from its daily procedures, for a certain time period. Financial performance may also refer to the firm’s ability to make good use their resources in an effective and efficient manner for achievement of the firm’s objectives and goals (Warsame, 2016). According to Kagoyire and Shukla (2016) financial performance is the firm’s ability to efficiently operate, be more profitable, to grow and survive for a long period of time. All organizations strive to utilize it resources effectively to achieve a high performance level especially in financial terms. Thus, financial performance is the outcome of any of many different activities undertaken by an organization. The financial performance is a term used in relation to the capacity of financial institution to generate sustainable profitability. For any financial institution to be successful in its operations, managers must weigh complex trade-offs between growths, return and risk, favouring the adoption of risk-adjusted metrics (Albertazzi & Gambacorta, 2011). According to Agbada and Osuji (2013) the Return on Assets (ROA) is a key proxy measure frequently used in the literature of bank financial performance and reflects the management’s ability and efficiency to utilize banks’ financial and real investment resources to
generate profits. The author further indicates that the ROA depends on the bank’s policy decisions as well as on uncontrollable factors relating to the economy and government regulations. Financial ratio analysis is favourable in measuring bank performance because it is effective in distinguishing high performing banks from others, tends to compensate for disparities and controls for any size effect on the financial variables being studied (Samad, 2014). In addition Kumbirai and Webb (2016) observe that financial ratios enable identification of unique bank strength and weaknesses which in itself inform bank profitability, liquidity and credit quality. Financial performance is normally measured by the gearing ratios, profitability ratios and the liquidity ratios. Alfred (2017) argue that profitability ratios of any business entity portrays the picture of how well an entity has employed the resources efficiently, liquidity ratios deals with the capacity of business entities to accomplish the short term obligations and the gearing ratios indicates the extent of debt employment by the companies.

Credit information sharing reduces chances of information asymmetry and gives lenders visibility that enables them to know about customers before they engage them on credit. This happens through countering cases of adverse selection by availing the historical account of borrowers hence ensuring that only the safe borrowers are given credit (Pagano & Jappelli, 2013). This will include the borrowers who are good but previously have been presumed bad hence Commercial Banks in Kenya enables banks to grow their businesses by expanding their acceptance criterion. According to Bennardo, Pagano and Piccolo (2015) sharing of credit information generally leads to reduction of over-indebtedness of the borrower which is one of the contributors to default. Information sharing enables the credit markets to make lending and borrowing decisions from an informed point of view. This creates an imbalance of power in transactions, which can sometimes cause the transactions to go awry (Yun, 2015). Lin et al. (2017) who noted that there was no effect on the net interest income of the banks. Concerning the privacy protection the author established that the rights of customers should be protected. This means credit information sharing is a strong determinant of financial performance in Commercial banks in Kenya. Credit Reference Bureaus have been introduced in the Kenyan banking sector to facilitate the concept of credit information sharing, to mitigate information asymmetry and credit risk. Various studies in Kenya have focused on how the Credit Reference Bureaus and information sharing have influenced the financial performance. For instance, Mugwe and Oliweny (2015) found that credit information sharing positively and significantly influenced banks’ profitability. As noted by Moro and Fink (2016) efficiency in information gathering has intensified credit sharing amongst financial institutions which has eventually result in higher performance and lowers the credit risks. Furthermore, firms with strong information gathering techniques are positively related to the size of the credit market. Gaitho (2013) contends that shared information allows a lender to better assess the risk profile of a potential borrower and introduce incentives to have a borrower pay on time in the form limiting a borrower’s future ability to access credit from other credit suppliers. To take appropriate measures for these problems, knowing the factors associated with the problems is a precondition for a well stated is half solved. Reduced default rates are further achieved as borrowers seek to protect their reputation collateral by meeting their obligations in a timely manner. With the presence of a CRB, there is strong motivation for clients to repay their loans.

CBK controls all the Kenyan financial establishments notwithstanding other small scale money related associations as accommodated by Kenya standards and guidelines under the bank demonstration. Commercial banks appear to be the main titans in the country’s fund framework and they are altogether investigated by controllers to warrant that they are in reliable with
following the laws and headings. The Kenyan banking industry contains 43 banks enrolled absolute net resources of Ksh. 2.7 trillion as at 31st December 2013, (CBK 2013). The order of banks in Kenya is in three distinct levels relying upon a weighted composite list of their benefits, profitability, assets and capitals just as other financial angles, (CBK, 2015). Credit Information Sharing ended up operational in Kenya from 31st July 2010. It is done through authorized credit reference departments (CRBs) by the CBK. The Banking (Credit Reference Bureau) Regulations, 2008 gives that the data to be shared among the banks is any client data concerning their client's Non-Performing Loans (NPLs) and furthermore some other unfriendly data identifying with a client (negative data). Authorized CRBs are required under the CRB guidelines to hold data on non-performing credits submitted to them by banks for somewhere around 7 years after the date of conclusive settlement of the sum in default (Central Bank of Kenya, Supervision Annual Report, 2010).

In Kenya, as per the Credit Reference Bureau Regulations 2013, commercial and microfinance banks are mandated to share information on their entire loan books, meaning both up to date and late (overdue) repayment details of a borrower are shared. This data is submitted electronically on a monthly basis to the CRBs (Migwi, 2013). The credit information sharing association has been established with the vision of facilitating the generation and use of accurate credit information for the benefit of all participants in the credit market. Further the report states cumulatively, a total of 2.3 million and 28,733 credit reports had been requested by banks and customers respectively from the two licensed CRBs as at 31st December 2016. The credit reports requested by banks stabilized during the year ended 31st December 2017 at 1,015,327 in comparison to 1,021,717 reports in the year ended 31st December 2016. On the other hand, credit report requests by customers increased by 305% from 5,607 in the year 2017 to 22,692 in the year 2018. The increased subsequently offer competitive terms of borrowing to customers with a good credit track record (CBK, 2018).

2. Statement of the Problem

Numerous banks in Kenya have been encountering poor performance financially. According to Adu-AsareIdun and Aboagye (2014) the performance of commercial banks and other financial sector players globally has faced a drastic decline over the last 10 years due to global financial crisis, unfavourable government policies. Mumi (2014) on the hand indicates that in Kenya the situation is worse with most banks closing up their branch network, reducing their services and product range and some being declared insolvent due to interest capping policy, fraud, money laundering and above all limited credit information leading to high default rate among borrowers. There have been endeavors to propel credit data sharing on advance candidates among business banks to diminish the default rates among advance recipients. In this manner, it is imperative to comprehend the impact that credit data sharing has on execution of business banks. Munee (2013) study examined the effect of Credit Information sharing on the Financial Performance of Commercial banks in Kenya and that failure to share credit information increases credit risk, which in turn reduces banks” performance in financial perspective. However, exploratory research was used which utilizes small sample sizes and, thus, findings are typically not generalizable to the population at large. Jagongo and Kerage (2015) study explored the effects of credit information sharing and performance of Commercial Banks in Kenya and established that credit information sharing led to improved financial performance of commercial banks in Kenya. However, the study used a case study which does not facilitate assessment of cause and effect relationships.

A study carried out by Otete, Muturi and Mogwambo (2016) evaluated the influence of credit information sharing on the performance and revealed that the overall volume of lending in the
banks has increased due to information sharing. However, the study context was commercial banks operating in Kisii County, Kenya. Omar and Makori (2018) study examined the relationship between credit information sharing and financial performance of commercial banks in Kenya found that that competitive information sharing, volume of lending, operating costs and the level of interest rate all had positive and significant influence on financial performance of commercial banks. However, the study used a cross-sectional research design in which the results are static and time bound. None of the above studies have critically examined the relevance of credit information sharing practices and its effect on financial performance of financial institutions in Kenya. This research work attempts to fill this noticeable gap in literature and bring light on the effect of credit information sharing practices on financial performance of commercial bank in Kenya. In view of the above, there is need for reinforcing the current credit information sharing industry thus, this research seeks to fill the gap by focusing in detail the effect of credit information sharing practices on financial performance of commercial banks in Kenya.

3. Objectives of the Study

The general objective of the study was to investigate the effect of credit information sharing practices on financial performance of commercial bank in Kenya.

Specific objectives are:

i. To determine the effect of information accuracy on financial performance of commercial bank in Kenya.

ii. To establish the effect of volume of lending on financial performance of commercial bank in Kenya.

iii. To find out the effect of customer credit reports on financial performance of commercial bank in Kenya.

4. Theoretical Review

In an attempt to establish the effect of credit information sharing practices on the financial performance of commercial bank in Kenya, this study was guided by adverse selection theory, moral hazard theory and credit rationing theory.

4.1 Adverse Selection Theory

This theory was championed by Akerlof in 1970 and states that in the event that one party has information over the other, the one advantaged capitalizes on the information thus resulting into market imbalance (Akerlof, 1970). It refers largely to compromised assessment process that leads to selection of unqualified persons being granted credit due to insufficient information about the client loan repayment history while denying genuine deserving clients credit. This in the long run increases the level of NPLs that adversely affects performance of such financial institutions (Koskela et al., 2013). Adverse Selection Hypothesis is appropriate in this investigation as it indicates how credit valuation should be possible utilizing data that is exact and intensely shared as it would be significant amid the credit examination process thus emphatically affecting the execution of business establishments like the instance of commercial banks working in Kenya. Balakrishnan and Koza (2013) observe that many companies look for funding from the bank that has to select, given its limited resources. Screening is a useful technique to solve this problem. Adverse selection arises with asymmetric information and is of particular relevance in the areas of contractual relationships, such as in the definition of optimal contracts between principals agents.
The role of bank is to intermediate between players who are in financial deficit and those experiencing a surplus in order to match their need and invest. Therefore, the theory will inform the study in establishing the role information accuracy practices play in minimizing credit risks.

4.2 Moral Hazard Theory

Moral Hazard theory was created by Mirrlees in (1999) and it contends that a borrower has the motivating force to default except if there are ramifications for his future applications for credit. This outcome from the trouble loan specialists have in evaluating the dimension of riches borrowers will have amassed by the date on which the obligation must be reimbursed, and not right now of utilization. On the off chance that banks can't survey the borrowers' riches, the last will be enticed to default on the acquiring. Thwarting this, loan specialists will expand rates, driving inevitably to the breakdown of the market (Alary & Goller, 2001). As per Klein (1992) credit data sharing inspires borrowers to respect their legally binding commitments. Borrowers will probably respect their advance commitments since they know whether they default, they will be contrarily recorded which basically suggests that they will be rejected from formal acquiring in future. According to Klein (1992) credit information sharing motivates borrowers to honor their contractual obligations. Borrowers will likely honor their loans obligations since they know if they default, they will be negatively listed which essentially implies that they will be excluded from formal borrowing in future. Both cases demonstrate that default attract heavy penalty in terms of interest rates or exclusion from future borrowing hence information sharing is a mechanism that helps to overcome the moral hazard challenges postured by borrowers (Padilla & Pagano, 2013). This study in anchored on this theory as it encourages the gathering of accurate and credible information, during the assessment of the credit process so as to reduce credit risks and increase financial performance of financial institutions.

4.3 Asymmetry Theory

The asymmetric information theory was developed by Akerlof in 1970. The hypothesis hypothesizes that purchasers depend on market measurements to decide the estimation of merchandise. In the obligation advertise, data asymmetry emerges when the purchaser has got data with respect to the market dependent on the fundamental dangers and rates of profitability ventures. Then again, doesn't have enough data with respect to the client. At the point when business banks are doing credit evaluation appropriate examination ought to be led so as to accumulate enough and solid data with respect to the client either from CBK or other source (Bichanga, 2016). Both subjective and quantitative methods is basic in completing an evaluation of the borrower albeit somewhere in the range of few difficulties can be uncounted particularly in utilizing subjective methodology since it is emotional in nature. Borrowers' mentalities are analyzed by utilization of subjective methodology that is doled out numbers. This strategy is critical in that it diminishes the preparing costs and the abstract decisions which may prompt inclination. The information required to assess the competence and commitment of the entrepreneur, and the prospects of the business is either not available, uneconomic to obtain or difficult to interpret. Thus, creates two types of risks for the Banker (Deakins & Hussain, 1999). Information asymmetry theory is applicable in this study as it shows how credit valuation can be done using information that is accurate and competively shared as it would be relevant during the credit appraisal process hence positively influencing the performance of commercial institutions like the case of commercial banks operating in Kenya. This theory was also relevant since it emphasis heavily on the essence of accurate and reliable information of a given customer and this help in minimizing information sharing costs.
5. Empirical Review

A study carried out by Bukenya (2014) assessed the quality of accounting information and financial performance of Uganda’s public sector. The researcher adopted a blend of cross-sectional and descriptive research designs and stratified random sampling. T-tests and ratio analysis revealed that the reporting units where financial accounting information was perceived of high quality reflected higher levels of financial performance. Regression and correlation analyses revealed a significant positive relationship with approximately 58% of the financial performance levels attributed to financial information quality. However, the study used exploratory research design which disallows making inferences. Odero (2014) study examined the effect of accounting information system quality on financial performance. Primary data was collected from a sample of 50 business enterprises in diverse sectors in the county. A self-administered questionnaire was used through a drop and pick module. Information was sought majorly from top manager, owners and accountants to enhance reliability. The major finding of the study was that most enterprises had a high linkage of financial performance as measured by the change in ROI being heavily influenced by the nature of records and reports, nature of the accounting system adopted the extent of knowledge and usage of accounting information and the extent of regulation in place. However, the study context was SMEs in Nairobi County, Kenya. Al-Dmour, Abbod and Al-Balqa (2018) study examined the impact of the quality of financial reporting on non-financial business performance. The data for this research were collected through self-administered questionnaire of 239 respondents from public listed companies in Stock Amman Market database (2017). The results showed that that the components of the quality of financial reporting are significantly influence the non-financial business performance and the variations of the quality of financial reporting among these companies were significantly found to be related to their size and experience and not to their type of business, which they belong to. However, the study used cluster random sampling technique which is prone to biasness and higher sampling error.

Mwangi (2014) study investigated the effect of lending interest rates on financial performance. The study involved collecting secondary data from Central Bank of Kenya, individual Deposit Taking Microfinance Institutions and the Association of Microfinance Institutions in Kenya. Consequently data for nine DTMs was analyzed for five years (2009-2013) using multivariate regression model. The study found out that a strong relationship exists between lending interest rates and financial performance of DTMs. However, the study focused on deposit taking micro finance institutions in Kenya. Kirimi (2015) did a study on the effect of lending interest rates on financial performance of Commercial Banks in Kenya. The study utilized descriptive research design. The study used a census where all the 43 Commercial Banks operating in Kenya and registered by Central Bank of Kenya were selected. The study entailed the use of secondary data. The data collected was analyzed using the multiple regression analysis models. The study established that lending rates has a positive influence on the financial performance of financial institution because it is the main determinant of interest income. A study by Dondi and Ouma (2017) focused on the relationship between volume of mortgage lending and financial performance of Commercial Banks Quoted in Nairobi Securities Exchange. Secondary data was reviewed from CBK and NSE reports, between January 2006 and December 2014, giving 99 data points. The inferential analysis indicated a significant negative correlation at 95% interval level between the financial performance variables (ROE, ROA and NIM) and the main independent variable (Mortgage volume), that is-0.326, -0.2591 and-0.208 respectively. This helped to show that there are no any serial correlations. This implied that there was a weak negative relationship between
ROE, ROA and NIM and Mortgage volume. However, Cross-sectional research design was used which involves a small sample size and findings cannot be conclusive.

Gatuhu (2013) study investigated the effect of customer credit reports on the financial performance of microfinance institutions in Kenya. A census study was used to carry out the research. Primary data was collected using questionnaires where all the issues on the questionnaire were addressed. Descriptive statistics were used to analyze data. The study established that there was strong relationship between financial performance of MFIs and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of MFIs in Kenya. However, the study was qualitative in nature which does not allow making of inferences. Juma, Otuya and Kibati (2018) study assessed the effects of Customer Credit Reports on the Financial Performance. The study employed descriptive research design. The target population of the study was 220 employees of the selected SACCOs in Nakuru Town. A stratified random sample of 74 employees was used in the study. Data was obtained through questionnaires administered to employees. Both descriptive and inferential statistics were used in analyzing data. The regression results showed that credit standard and debt recovery had a positive and significant effect on the financial performance. However, the study context was Deposit Taking Savings and Cooperative Societies in Nakuru Town, Kenya. Kagoyire and Shukla (2016) study investigated the effect of customer credit reports on performance of Commercial Banks in Rwanda: A Case Study of Equity Bank Rwanda Ltd. Primary data was collected using questionnaires which were administered to the respondents by the researcher. Descriptive and inferential statistics were used to analyze data. The study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. However, purposive sampling was used which is a non-sampling method.

6. Conceptual Framework
   Independent Variables
7. Research Methodology

The researcher used a descriptive research design that incorporated both qualitative and quantitative approaches of data collection in order to determine whether a relationship exists between two or more variables. Saunders, Lewis and Thornhill (2011) assert that the descriptive design is a process of collecting data in order to test hypothesis or to answer the questions of the current status of the subject under study. This type of research design was preferred due to the fact its findings can be used to generalize to the entire population. In addition, it allowed for analysis of relationships of variables in the study. Target population refers to “the total respondents in a research study that have met the required standard set by the researcher” (Burns, 2003). In this study, the target population was five banks within Nairobi County including Kenya Commercial Bank, Equity Bank, Family Bank, Cooperative Bank and Barclays Bank. In each of the five banks selected the researcher targeted the Branch managers, finance manager, operational manager, customer relationship manager and credit manager. To ensure adequate gathering of information, simple random sampling design was used to select the sample. The study used stratified sampling method to ensure that all cases are well represented and respondents are selected using simple random sampling method. Taro Yamane’s sample size formula (1967) assuming a 5% error term was used. A sample size was 189 respondents representing a 52.5% of the target population. A factor of 0.525 was used to obtain the proportionate sample size distribution.

Questionnaires were used as data collection instruments which were administered to all the respondents. The organization management was contacted to permit the research to carry out the study within the organization. The researcher personally administered the questionnaires to the
support staff. The respondents were given two weeks for filling in the questionnaires. The researcher made a visit to the respondents to remind them on the importance of filling the questionnaires so as to ensure high response rate. Primary data from the field was edited to eliminate errors that could have been made by the respondents. Coding was done to translate question responses into specific categories so as to organize and reduce research data into manageable summaries. Quantitative data was analyzed using descriptive statistics such as mean and standard deviation and presented in form of tables, pie-charts and bar-graphs where applicable with the aid of Statistical Package for Social Sciences (SPSS) version 20.0. Inferential statistics such as multiple regressions was used to determine the relationship between variables.

8. Data Analysis Results

Inferential statistics including correlation analysis and regression analysis was done to reach conclusions about associations between variables. They results are presented as follows:

**Table 1: Correlation Analysis**

<table>
<thead>
<tr>
<th></th>
<th>Information accuracy</th>
<th>Volume of lending</th>
<th>Customer credit reports</th>
<th>Financial performance</th>
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</thead>
<tbody>
<tr>
<td><strong>Information accuracy</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.290**</td>
<td>.392**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.004</td>
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<td></td>
<td>N</td>
<td>181</td>
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<tr>
<td><strong>Volume of lending</strong></td>
<td>Pearson Correlation</td>
<td>.290**</td>
<td>1</td>
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<td></td>
<td>Sig. (2-tailed)</td>
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<td></td>
<td>N</td>
<td>181</td>
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<td><strong>Customer credit reports</strong></td>
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<td>.392**</td>
<td>.500**</td>
<td>1</td>
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<td></td>
<td>Sig. (2-tailed)</td>
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<tr>
<td></td>
<td>N</td>
<td>181</td>
<td>181</td>
<td>181</td>
</tr>
<tr>
<td><strong>Financial performance</strong></td>
<td>Pearson Correlation</td>
<td>.214**</td>
<td>.530**</td>
<td>.625**</td>
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<tr>
<td></td>
<td>Sig. (2-tailed)</td>
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<td>.000</td>
<td>.000</td>
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<td></td>
<td>N</td>
<td>181</td>
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**Source: Survey Data (2019)**

The results in Table 1 show that the Pearson’s r for the correlation between volume of lending and customer credit reports variables is 0.500 and vice versa is high with a significant value of 0.00 which is less than 0.05. This shows a strong relationship meaning that changes in one variable are strongly correlated with changes in the second variable. According to Chen (2017) lenders do not know either the historical behavior or the characters of the borrowers and that the Credit Report lists all the credit accounts (both past and present) and the repayment history of each account (Petersen & Rajan, 2015). Table also shows that customer credit reports is strongly related to the financial performance of commercial banks (r=0.625, p<0.05) which means that increase in
customer credit reports leads to increase in financial performance of commercial banks. Mekler, Rühlmann, Tuch and Opwis (2017) indicate that Commercial banks in Kenya are currently sharing clients' credit data using CRB, which has turned into an essential part in advance preparing. According to Bennardo, Pagano and Piccolo (2015) sharing of credit information generally leads to reduction of over-indebtedness of the borrower which is one of the contributors to default.

Table 2: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
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</thead>
<tbody>
<tr>
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<td></td>
</tr>
<tr>
<td>1</td>
<td>.676 4</td>
<td>.458</td>
<td>.748</td>
<td>.739</td>
<td>.458</td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

The results in Table 2 show that 0.748 (74.8%) as the value of adjusted R square on the financial performance which is determined by information accuracy, volume of lending and customer credit reports. Therefore, the remaining percentage (25.2%) should be studied to determine how other factors affect the financial performance of commercial banks in Kenya.

Table 3: Analysis of Variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>28.757</td>
<td>3</td>
<td>9.586</td>
<td>49.764</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>34.094</td>
<td>177</td>
<td>.193</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>62.851</td>
<td>180</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

The value 0.000 4 shows the significance level is less than 0.05 showing a statistical significance of the model on how information accuracy, volume of lending and customer credit reports studied influenced the financial performance variable. The results in Table 8 also indicate that F calculated value is greater than the value of F tabulated (49.764 > 9.586) at 5% significance level confirming the significance of the model.

Table 4: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>0.659</td>
<td>.321</td>
<td>4.236</td>
</tr>
<tr>
<td></td>
<td>Information accuracy</td>
<td>0.710</td>
<td>.062</td>
<td>4.069</td>
</tr>
<tr>
<td></td>
<td>Volume of lending</td>
<td>0.821</td>
<td>.047</td>
<td>2.299</td>
</tr>
<tr>
<td></td>
<td>Customer credit reports</td>
<td>0.862</td>
<td>.075</td>
<td>3.503</td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

The findings in Table 4 revealed that holding independent variables constant (information accuracy, volume of lending and customer credit reports) to a constant zero, the financial performance of commercial banks would be at 0.659 factor, a unit increase in information accuracy
would lead to increase in the financial performance of commercial banks by a factor of 0.710, a unit increase in volume of lending would lead to increase the financial performance of commercial banks by factor of 0.821 and a unit increase customer credit reports would lead to increase in the financial performance of commercial banks by a factor of 0.862. It was established that regression equation was \( Y = 0.659 + 0.710X_1 + 0.821X_2 + 0.862X_3 \). Therefore, the financial performance of commercial banks = 0.659 + (0.710 x information accuracy) + (0.821 x volume of lending) + (0.862 x customer credit reports). It can be deduced that customer credit reports contributed more (0.862) to the financial performance of commercial banks in Kenya. At 5% level of significance, information accuracy had a p-value of 0.001; volume of lending and customer credit reports had a p-value of 0.001 respectively. The findings are supported by the Mugwe and Oliweny (2015) found that credit information sharing positively and significantly influenced banks’ profitability. As noted by Moro and Fink (2016) efficiency in information gathering has intensified credit sharing amongst financial institutions which has eventually resulted in higher performance and lowers the credit risks.

9. Conclusions

The study has made a number of conclusions which are based by the study objectives and findings: Information accuracy increases the banks' understanding of the applicants' features and allows a more precise forecast of their probabilities of repayment, it decreases the information rents that banks could otherwise obtain from their clients and it can function as a borrower discipline tool. Lending volume enhances business banks' enhanced operations, which in turn leads to banks' enhanced economic results. Sharing of credit information has made commercial banks grant more loans on the basis of their reputation to deserving clients, thereby improving their profitability. Banks will lend cash to companies on the grounds of an appropriate return on their investment, to represent default hazards and to cover administrative expenses. When extensive consumer credit history information are easily accessible, it considerably decreases the cost of entering loan markets for fresh lenders, enhances competition and lowers credit rates. By using client credit reports, commercial banks can price their credit products well and decrease client default rates, thus enhancing the bank’s general performance.

10. Recommendations

The research proposes that for enhanced results, all financial institutions in Kenya need to protect the precision of their platforms for data sharing. Regular site visits should offer credibility to the precision of the borrowers' data. The data supplied by CRB should be used efficiently by commercial banks to lend to prospective borrowers. Only borrowers with a strong history of credit should be permitted access to the loans. Commercial banks should guarantee strong collateral for credit borrowers to guarantee banks recover the loan from defaulters. The research also proposes that Kenya's commercial banks should base credit awards on the borrowers’ reputational assets, ensuring that the loan default rate is small, thus enhancing commercial bank efficiency. Kenya's central bank should monitor carefully the credit reference offices to guarantee accuracy of the data provided to commercial banks.

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