

An Assessment of the Attitudes of Blacklisted Bank Clients on Their Bank Use: A Case of Blacklisted National Bank Clients in Nakuru

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Abstract: *Blacklisting is the practice of gathering bank client's names in a data base and closely monitoring their credit status; this is a way of assessing risks and mitigating future risks. However with the introduction of credit reference bureaus, importance has been placed on this system as a means of protecting bank from losses as a result of clients who default. However the perspective of the bank users has never been looked at. This study thus proposed to perform an assessment of the attitudes of blacklisted bank clients on their bank use. The study was carried out in Nakuru's National bank (NBK). Descriptive research design was used. The target population for the study comprised of individuals who have ever been blacklisted by CRB. Credit loans officers also formed part of the target population. A sample size of 127 was used alongside four credit officers. Simple random sampling technique was employed. Questionnaires and interview guide were used as research instruments of the study. Data was analyzed using Statistical Package for Social Scientists (SPSS) both descriptive and correlation analysis were employed. The findings of the study revealed that attitudes of bank clients on use of banks had not changed even after being blacklisted $r = .074$, $p = .463 > \alpha (0.05)$. The study concluded that attitudes of blacklisted bank clients do not affect bank use in any way as majority of them were still willing to use banks despite the fact that they had been blacklisted. It is recommended that relationship management should be given priority when dealing with bank clients.*

Keywords: Bank use, Blacklisting, Credit Reference Bureau

1. Introduction

Banks are a necessity to modern life. Blacklisting of bank clients is a phenomenon that is gaining prominence in the world today. This is where banks gather customers' names in a data base and their credit status is usually closely monitored, to check whether their credit records are considered right by the bank. Credit information sharing has its roots on a cooperative venture operated by a group of English tailors in London in early 19th century [1]. Upon discovering that individuals who used their services were not paying for them, they would purchase a suit but never paid; this trend continued leading to the tailors forming the mutual communication society of London to share data on bad debts and on people who had defaulted. Sharing of information was recognized for its value and profitability that it brought not only to one tailor but all.

Credit reference bureau was introduced in Kenya in 2008 in order to access the financial histories of bank clients and offer collateral credit substitutes to clients; however these bureaus are used as debt collection tools by lenders to curtail loan defaulters. Banks have different credit information and histories of their clients, this at times was seen as a loophole as a client could borrow from more than one bank and still access loans regardless of failure to at times pay [2]. The central bank of Kenya and Kenya bankers association saw a need for information asymmetry hence the credit information sharing was introduced. This is a process where banks and other lenders submit information about borrowers to a credit reference bureau so that it can be circulated to other credit providers in order to curtail loan defaulting. This enables one to know how borrowers have been paying loans through use

of a credit report. This report captures on detailed information of the borrower credit history, borrowers identity, credit facilities, bankruptcy and late payment. There are many reasons as to why a client can be blacklisted by the CRB; this includes the following categories: the first one is None performing loans or credit default or late payment on all types of facilities or claims, the second one is disowner of other than for technical reasons cheques meant for settlement of credit in favor of the institutions, thirdly accounts compulsory closed other than for administrative reasons, fourth is proven cases of fraud and forgeries, fifth being proven cases of cheques kitting, sixth is false declarations and statements, seven receivership, bankruptcies and liquidations, eight is tendering of false securities and lastly is misapplication of borrowed funds.

There have been complaints too in Kenya by blacklisted bank clients that has necessitated the central bank of Kenya to come up with proposals in regard to giving information to credit information sharing by banks [3]. This proposal include cutting the blacklisted period from seven to five years while requiring banks to give bad borrowers a one months' notice before listing them. There have been allegations that Kenyan banks use negative reports as a threat to those falling behind in repayment of their loans [4]. Those who are already blacklisted are usually locked out of accessing credit. According to blacklisted clients, at times the credit information given is considered not to be true, there are individuals who have found themselves blacklisted yet they consider themselves not to have any outstanding loans, this further creates a strained relationship between the clients and the bank.

With new development in information sharing by the CRB there were amendments in regulations in 2013 which are seen to be better than the 2008 regulations. To this effect the central bank through the cabinet secretary national treasurer issued a banking circular number 1 of 2014 requesting all financial institutions through the statutes of banking and microfinance Act requiring credit and information sharing through licensed credit reference bureaus. The CBK act further has been amended, requiring banks to share not only negative but also positive information of their customers through CRB. This amendment aims to harmonize credit information sharing (CIS) framework in order to enhance the robustness of existing CIS mechanism and facilitate full file reporting by commercial banks and micro finance banks. Through this amendment, the CBK and Kenya credit information sharing initiatives (KCISI) have undertaken the revision of the data specifications documents and the standard manual for data in order to facilitate sharing of full file credit information as well as incorporating micro finance banks into the mechanism. Nevertheless, with these amendments bank clients still do not trust CRB as they deem it in a negative way. Blacklisting of bank clients leads to a change on their use of banks. It is upon this backdrop that the study wished to establish the effects of blacklisting bank clients on their bank use.

1.1 Statement of the Problem

With the introduction of CRB, bank clients have been shut from the mainstreaming banking system which has proved to be inconveniencing as bank accounts are a necessity in modern life, there are alternatives that bank clients can use however this has proved to be time consuming and costly. When a client is blacklisted by CRB, the banks interest is usually given first priority and all efforts possible are made to ensure that their money is recovered. The client is seen as a threat to the lending business whose only obligation is to pay for the money given. In its loan recovery measures, the bank in association with CRB lists names of bad debtors and this prevents them from gaining access to credit and even job opportunities. Listing of clients names has changed their perceptions on the use of banks, clients considers many lost opportunities that come with the listing yet some of these clients do not consider themselves as intentional loan defaulters, many have argued that if given time they would be able to repay their loans. With listing their lives definitely have to change as access to credit becomes problematic. Many clients have managed to pay the bank its money after their names have been listed however their names are never automatically put in the clean records of the bank; the customers have their names listed for seven years even after completion of paying banks their money. Listing of clients has led to court processes where clients justify they have paid their loans yet there are still considered to have bad loan repayment records shutting them from accessing financial benefits from their banks. This thus becomes a problem as blacklisted clients feel stigmatized hence this changes their perceptions on banking and their overall saving culture which can be detrimental to the development of financial markets and banking cultures in a nation if a lot of bank clients are blacklisted.

1.2 Research Question

What are the attitudes of blacklisted bank clients on bank use?

1.3 Scope of the Study

This study was carried out in Nakuru National bank. By April 2011 there were 213,000 individuals who had been listed by the CRB in Kenya. The study was carried out between Augusts to October 2014. The study aimed to look at the effects of blacklisting bank clients by CRB on the customers bank use. The independent variables for the study included attitudes of blacklisted bank clients, role of financial literacy and effects of reputation system. The dependent variable on the other hand was customer's bank use. The two variables acted as a guide for this study.

1.4 Limitation of the study

The study being on the effects of blacklisted bank clients on the bank use resulted to the researcher experiencing a hard time during data collection. Most the respondents were not willing to be part of the study as they considered blacklisting very private thus it was necessary for the research to ensure them that the study was only for academic purpose. Some individuals who have been blacklisted had kept their financial status as a secret hence they thought the study would expose them. The researcher had to constantly make follow up in order to get the required data.

2. Literature Review

Borrowing and repayment of loans is mostly looked at the ability of a client to comply with given conditions. A customer who pays without delay is considered a good client and eligible for other loan offers in future [3]. Blacklisted bank clients on the other hand might even be barred from accessing loans in future impacting on formed attitudes towards overall banking use. The national credit act of 2010 granted amnesty to all qualifying blacklisted customers. This amnesty aims increase access to credit, however with Credit information bureau, credit is provided basing on the credit record of clients hence careful thought ways have to be used to ensure an even leveled playing ground.

The impact of credit amnesty was very small yet its scope was quite wide [5]. Customers who are blacklisted are usually bared form accessing loans for a period of time. On realizing that their personal banking are closely being monitored, negative perceptions are usually formed hence this can at times have an impact on how customers use the banking facility. This explains why there have been demands by individuals for banks to change the amount of information being monitored by CRB [6].

Bank customers are usually caught by surprise when rejected by other banks [7]. This implies that the information asymmetry is still new and the public lack knowledge about it hence are surprised when their information has been used and distributed to other financial institutions that barer them from accessing any credit facility. In modern economic times

access to bank accounts is essential to economic empowerment of individuals, households and communities hence blacklisting impedes the consumer ability to become self-sufficient hence hampering their abilities to save for their future. Access to a bank account is a prerequisite to making financial investments and engages in sound money management [8]. Blacklisting bank client thus means one is disempowering them hence their attitudes towards banking becomes clouded and they generally develop low fundamental concepts on financial investment which is critical in asset building. Savings provide economic security, help households avoid the steep costs of short-term credit, and are stepping stones to investment.

It has been thought that low income families have little to save hence a perception that when given a loan they are never able to pay due to their meager finances. Michael in his work banking for the poor provides examples of low saving patterns, to him the very poor actually save larger shares of their income than the less poor [9]. Bank clients have the feeling that by their names being in the data base of CRB, it implies that they are considered as a credit risk. To them this treatment is disproportionate punishment compared to the fact that they have been account holders with the bank, they thus consider the issue very trivial to be blacklisted [11]. Banks have total discretion on how they blacklist the clients; these can range from fraud to failing to pay overdraft charges within an allocated time. Thus banks have employed the CRB to as a pretext to eliminate their lower tier or unwanted clients [7]. There is further an assertion that no firm action to guarantee that the banking industry has not abused the ChexSystem has ever been undertaken. Thus little regulation and oversight is taken to look at the public welfare. Credit worthiness of clients should not only be based on the information provided by reference bureaus.

Credit checks have been extended to cover employee details, However little is known on what credit checks reveal to employees. It has been argued that credit reports were not designed as an employment screening tool. According to credit reports past loan histories, student loans, medical bill, balances and credit limits are checked which an invasion of the privacy of bank clients.

2.1 Theoretical Framework

This study adopted prospect theory by Kahneman and Tversky in trying to explain effects of blacklisted bank clients on their bank use. This theory is very important in financial economics. It is a descriptive model of decision making under risk in which it presents a critique of utility theory. Their research is started by investigation irregularities and contradictions of human behaviors. When subjects are offered a choice that is formulated in one way might show risk aversion but when offered the same choice displayed in a different way they then display risk seeking behavior.

The people's attitudes towards risks that concerns gains may be quite different from attitudes towards risks concerning losses. People will choose certainty over uncertainty. Decisions are usually made based on potential value of losses

and gains rather than the final outcome. Real life rather than optimal choices have been modeled by this theory.

While undertaking financial decisions such as loans, individuals do not look at the risks involved rather they look at either the gains or losses they stand to bear. Similarly when banks are giving out loans to individuals they use the same principles of probability theory looking at the interests they would gain, job security for the financial manager who will seem to be meeting deadlines thus gains and losses come into play in all decisions made. People's risk seeking or risk aversion will depend on what is to be gained. Thus this explained why individuals would take up loans and later end up being blacklisted as a result of failure to pay.

3. Methodology

The study adopted descriptive research design, this was appropriate as it could reveal information on people's attitudes, opinions and habits hence the opinions of blacklisted bank clients on bank their use was captured by this type of research design. Target population for the study was individuals who had been blacklisted by CRB from National Bank Nakuru's branch. There were 200 blacklisted bank customers in Nakuru's NBK according to the latest CRB Africa and CRB Metropol report of 2014. Credit officers were also part of the target population. The sampling frame consisted of all the names of blacklisted NBKs bank clients in Nakuru town branch. Simple random technique to pick the respondents was used. This sampling technique provided a deep analysis on the effects of blacklisted bank clients on their bank use. The sample size was calculated using computing software, with 95% confidence level and 5% confidence interval bringing the sample size to 127. Additionally, 4 credit officers were used as part of the study. Structured questionnaires which were informed of a likert scale were best suited to depict the attitudes of the respondents.

The questionnaire was administered to blacklisted bank clients while the interview guide was used to get information from loans officers at National Bank. Questionnaires were chosen as they enabled the researcher collect the needed information with ease. On the other hand, the interview guide was able to obtain information from loans officers who were in charge of client's loan facility. A pilot test was conducted to check on the reliability of the research instrument. A cronbach alpha test indicated a value of 0.725 which implied the questionnaire was very reliable. Analysis was undertaken using Statistical package for Social Scientist (SPSS) where both descriptive and inferential statistics were carried out. Data from the interview with loans officers was transcribed, research memos were written and analysis was undertaken through identifying common themes.

4. Findings

4.1 Back Ground Information

The questionnaire return rate was 79%. The both male and female gender were represented by the study with the number of female being high than males. Majority of the respondents

(55%) had a college education. On age, majority of the respondents were between the ages of 26-33 which was represented by 51%.

4.2 Attitudes of Blacklisted Bank Clients on Their Bank Use

The study sought to establish the attitude of blacklisted bank clients on their bank use; statements were given on a five point likert scale which was inclined towards determining different elements of attitude. Table 1 indicate that CRB has helped me to be responsible when it comes to financial matters (Mean 3.99) giving an implication that after being blacklisted bank clients strive to ensure that they settle their financial dues to avoid being blacklisted again, this had a standard deviation of 1.124 which implied the variations were not widely dispersed from the mean. With a mean of 3.62, it was further revealed that bank clients still save their money in a bank despite being blacklisted. This indicates that their attitude towards use of bank has not changed despite contrary belief. It further affirms that access to bank account is a prerequisite to making financial investments and engaging in sound money management thus even with blacklisting; bank use still remains an important element in lives of bank clients[8]. Further bank clients indicated that they could still consider borrowing money from a bank despite being blacklisted (Mean 3.55). With means that ranged on a smaller extent, it was revealed that banks intentionally abuse the use of CRB (2.85) which implied that CRB was not viewed as a very bad intervention by bank users however, respondents did not think that the system the bank uses to evaluate credit worthiness of customers is the best (Mean 2.64). The standard deviations were 1 point away which implied the deviations from the means were not widely dispersed. These findings thus imply that despite being blacklisted, bank clients still considers bank use as very important and use main stream banking services and not alternative for their day to day financial use. However there was a feeling that the systems used evaluate credit worthiness of customers is not the best.

Table 1: Descriptive Statistics for Attitudes of Blacklisted Bank Clients on Their Bank Use

	Mean	Std. Deviation
CRB has helped me to be responsible when it comes to financial matters	3.99	1.124
I still save my money in a bank despite being blacklisted	3.62	1.187
I can still consider borrowing money from a bank even if my credit record has been tainted.	3.55	1.067
I have chosen to manage my financial life outside the main stream bank as a result of being blacklisted	2.38	1.080
I feel my name being in CRB is a punishment and unfair	3.14	1.363
Banks intentionally abuse the use of CRB	2.85	1.366
The system that the bank uses to evaluate credit worthiness of customers is the best.	2.64	1.299

To check the relationship between attitudes of blacklisted bank clients and their bank use, a correlation analysis was undertaken to this regard this is presented in Table 2.

Table 2: Correlation between Attitudes of Blacklisted Bank Clients and Bank Use

		Attitudes of Blacklisted Clients	Bank Use
Attitudes of Blacklisted Clients	Pearson Correlation	1	.074
	Sig. (2-tailed)		.463
	N	100	100

The findings in Table 2 show $r = .074$ implying there was no correlation between attitudes of blacklisted bank clients and their bank use. Further the relationship is not significant at $p = .463 > \alpha (0.05)$ thus it was concluded that attitudes of blacklisted bank clients do not affect bank use in any way. The finding serve to agree with the descriptive findings that indicated that bank clients were still willing to save money in banks despite them being blacklisted and further they could consider borrowing money despite the fact that they had been blacklisted.

The loans officer felt that blacklisted bank clients had a negative attitude towards banking as they feel aggrieved to be in CRB and given a chance they would leave the banks. This however differs with sentiments by the bank clients. Bank clients were surprised of the circumstances that leads to their blacklisting as some felt overdrawing their banks even with as little as 50 shillings can result to black listing. It was revealed that customers have tried to pay however the arrears pile up leading to a misunderstanding on their loan status.

5. Conclusion and Recommendation

5.1 Conclusion

Basing on the findings of the study, it is concluded that attitudes of blacklisted bank clients do not affect bank use in any way as majority of them were still willing to use banks despite the fact that they had been blacklisted.

5.2 Recommendation

It was therefore recommended that Relationship management should be given priority when dealing with bank clients. Under this system of management, follow up can be undertaken, and suitable responses crafted in order to forge a good relationship between banks and their clients. Through communication with a relationship manager, customers can be updated of their credit status. Arrears can be discussed with a relationships manager leading an understanding of customer’s needs. With this system of management, follow up is undertaken and banks can work closely with their clients by giving them a list before submitting to CRB to check their portfolio and ascertain the position of CRB status before blacklisting clients.

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