



CODE OF CONDUCT

FOR RESPONSIBLE LENDING

FOR
THE DIGITAL LENDING INSTITUTIONS

TABLE OF CONTENTS

OBJECTIVE

I. THE PHILOSOPHY

II. RESPONSIBILITIES OF THE DLIS

III. RULES FOR GRANTING AND REPAYING DIGITAL LOANS

IV. CONSUMER PROTECTION

V. ADVERTISING AND MARKETING

VI. COOPERATION WITH INTERMEDIARIES

VII. DEBT COLLECTION

VIII. SELF REGULATION AND ENFORCEMENT MECHANISMS

IX. FINAL PROVISIONS

SIGNATURE PAGE

OBJECTIVE

The purpose of the Code is to set acceptable standards of conduct by all Digital Lending Institutions (DLI), aimed at ensuring a high standard of service and the highest possible level of satisfaction for Consumers who have received or plan to receive digital loans under consumer credit. The Code is based on the principles of fair business practice, professional integrity, consumer protection, acting in good faith and in accordance with the best knowledge, experience and responsible lending.

The Code does not replace any provisions of law currently applicable in Kenya, which grant the consumer a very wide scope of rights and protection. Therefore, the content of the Code should be treated as ethical standards that complement the legal provisions and are an expression of self-regulation of the digital loan services industry.

All DLIs, both affiliated and incorporated in the Digital Lenders Association of Kenya (DLAK), are entitled to voluntary application of this Code. DLI application of the same can be communicated by prominent placement websites (i.e. the content, signed version of the Code and/or the reference to this Code). The DLAK Board also ensures that every person who is interested in obtaining a digital loan from DLAK's members can access this Code free of charge.

I. THE PHILOSOPHY

1.1. The basic principles followed by the DLIs which are signatories of the Code are:

- a) Consumer Protection;
- b) Acting in good faith towards both Consumers, employees as well as business partners;
- c) Acting in accordance with business ethics, respecting other participants of the digital loan services market;
- d) Providing services in an innovative manner while respecting the market practices and social norms;
- e) Granting digital loans to Consumers in a safe, transparent and convenient way;
- f) Providing Consumers with complete, honest, understandable and unambiguous information about the cost of the digital loan, including interest and the total amount to be refunded, as well as information about the repayment date along with the repayment schedule, as well as the consequences of late payment or lack thereof;
- g) Conducting, when necessary, educational activity in the area of personal finances emphasizing that the digital loans taken should be spent on improving the quality of life of the borrower or speeding up the realization of consumer goals that otherwise would be unachievable and which would not be achieved without further inconvenience or loss;
- h) Addressing and combating attitudes suggesting that short-term credit commitments can be an effective way to deal with long-term financial problems.

II. RESPONSIBILITIES OF THE DLIS

- 2.1 DLIs commit to apply good market practices, industry customs and other commonly used industry guidelines, as long as they do not conflict with legal provisions and implement the principles of responsible lending and professional trading in the consumer credit market.
- 2.2 DLIs will conduct their activities in accordance with the law, complying with the regulations governing their functioning, established jurisprudence, as well as binding decisions, instructions and guidelines of supervisory institutions such as the Treasury, Communications Authority, Central Bank of Kenya, Competition Authority of Kenya and any other regulator in the Financial Services Sector in Kenya in the scope of duties performed by these institutions.
- 2.3 Applying the Code, the DLIs declare that they are aware that while performing any activities as part of their business, their actions affect the reputation of the remaining signatories of the Code and the entire digital loan industry. Therefore, the DLIs are obliged to refrain from any activities that may have a negative impact on the reputation of other DLIs declaring the application of the Code and other entities from the digital loan industry.
- 2.4 DLIs during each activity related to the conclusion and performance of a digital loan agreement, provide comprehensive information on the rights and obligations of the Consumer, so as to enable him to make a conscious and unhampered decision regarding incurring and fulfilling the obligation.
- 2.5 The DLIs undertake to provide appropriate training to their employees and subcontractors so that employees, subcontractors and other representatives in the business know and apply the provisions of this Code.
- 2.6 The DLIs undertake to inform DLAK of any situation they have identified when the DLI being a signatory of this Code does not comply with its provisions in relation with its Consumers or if the actions of another signatory DLI are wanting and may violate the interests of the Consumers. In this respect, any DLI in whose operations potential irregularities have been detected is required to offer full support and cooperation with DLAK, and will take all actions to adapt their activities to the law and the provisions of this Code.

III. RULES FOR GRANTING AND REPAYING DIGITAL LOANS

- 3.1 In order to ensure that the proposed digital loan corresponds to the Consumer's financial capabilities and to prevent the Consumer from incurring excessive financial obligations, DLIs will use their best knowledge and experience and solutions available on the market to evaluate Consumer's ability to meet their obligations with the repayment of the digital loan.
- 3.2. DLIs as part of responsible lending strive to obtain information on the number of open or frequency of borrowing digital loans by the Consumer requesting a digital loan. In the event of obtaining information about overdue liabilities of the Consumer above Kes 10,000 and 60 days or in the case when the Consumer has made at least 4 new liabilities in the last 3 months and they are unpaid, the DLI should refuse to grant the next digital loan.
- 3.3 DLIs should ensure Consumers have access to clear pricing and are empowered to make informed decisions on the loan product that best meets his or her needs. DLIs should separate key terms such as principle, interest, fees, tenure and other items into separate line items. DLIs should include visual representations (such as calendars) to indicate due date(s) for payment, when past-due periods begin and other key timelines.
- 3.4 Digital lenders should include explicit Terms & Conditions in multiple locations including in the application store and the application itself for the users to access before borrowing and the Terms and Conditions must require the customers to verify that they have read the terms and conditions before applying for a loan.
- 3.5 DLIs ensure that information about refusal to offer a digital loan is communicated to Consumers in a professional manner. The signatories of the Code should maintain a transparent, respectful and open attitude towards Consumers whose digital loan applications have not been positively considered. In such situations, the DLI should report and contribute the negative data to a shared database for the common good of the industry as well as the Consumer.
- 3.6. It is not advisable for a Digital Lender to grant another loan to a Consumer who has not fully paid the previous liability, even if the analysis of his financial situation indicates that he has the appropriate creditworthiness. The above recommendation does not apply to granting a consolidation loan or a top-up.
- 3.7 When assessing the creditworthiness of a potential Consumer, the DLIs are obliged to make efforts to determine his/her actual financial situation, also based on data from external databases.

- 3.8. Samples of contracts, regulations and all other documents that the Consumer receives when concluding a digital loan agreement, via the DLI website, should be presented on the website in a way that allows them to get acquainted with their contents before making a decision about concluding the contract.
- 3.9 DLIs take care to ensure the highest quality of contracts concluded with Consumers, in particular their compliance with the provisions of the current applicable law, in particular they pay special attention to their content, and the volume did not affect transparency and legibility for the average recipient.
- 3.10. Agreements concluded by DLIs may contain only such methods of securing liabilities that are commensurate with the digital loan amount and repayment dates. It is unacceptable to use security measures grossly exceeding the value of the service provided.
- 3.11The DLIs undertake to explain to the Consumer how and through which channels of communication they can contact the DLI, and indicate how and through what means the DLI will contact the Consumer. DLIs should provide the easiest and fastest way to contact the Consumer, in particular, they should not require a written form if such contact is possible in electronic form. The above provisions do not violate the obligation to use the form of declaration of intent required by law.
- 3.12The Consumer should be able to obtain information from the DLI at any time about the amount of the obligation, its components and loan repayment schedule.
- 3.13. DLIs support Consumers in the amicable settlement of overdue liabilities. In the event of a change in the repayment schedule of the overdue loan, every effort should be made to ensure that it responds to the Consumer's financial situation and capabilities. DLIs provide support to Consumers in the event of an application to change the digital loan schedule or restructuring and provide complete and clear information on the risks and costs associated with such a change.

IV. CONSUMER PROTECTION

4.1. DLIs in relations to Consumers should be guided by the following principles:

- a) Presenting clear offers to Consumers;
- b) Avoidance of use of advertising means and methods as well as other financial or insurance products aimed at forcing Consumers to conclude digital loan agreements;
- c) Providing pre-contractual information and content of contracts on dates that allow Consumers to get acquainted with all their terms freely;
- d) Providing information in a non-misleading way;
- e) Providing reliable information, explanations and assistance to Consumers at the stage of applying for a digital loan,
- f) Conclusion of contracts in accordance with the relevant regulations in force at the date of signing the contract;
- g) Transparent, correct and full presentation of digital loan costs to Consumers;
- h) Informing the Consumer about obligations related to borrowing.

4.2. DLIs undertake to:

- a) Keep all information about the Consumer confidential, except in cases where the law allows or obliges the Institution to disclose such information to authorized institutions under the law;
- b) Provide security measures necessary to process and store the Consumer's personal data with full confidentiality and in accordance with applicable law;
- c) Ensure the transfer of Consumer's personal data only to authorized entities.

4.3. Before applying for a digital loan, each Consumer has the right to obtain, without unnecessary delay, the DLI whose offer is interested, all the information necessary for the conscious conclusion of a digital loan agreement, regulated by laws and market practices. For this purpose, the DLI shall:

- a) Provide the Consumer with the information necessary to make a decision on borrowing;

- b) provide the Consumer with clear and unambiguous information on the total cost of the digital loan, the method of repayment of the digital loan, as well as the consequences resulting from a possible failure to fulfill obligations under the digital loan agreement;
- c) at the Consumer's request, provide explanations regarding the provisions contained in the digital loan agreement and other information that will be provided to the Consumer (including information about payments made by the Consumer).

- d) Inform the Consumer about the law, consequences and time limit for withdrawing from the digital loan agreement.

4.5. It is advisable that the DLIs that apply the Code participate in the DLAK activities aimed at promoting professional industry practice and healthy consumer relations.

4.6. In order to protect the interests of its members and their Consumers, DLAK runs a free phone helpline of legal assistance and financial advice, used to obtain impartial information about the digital loan market in Kenya. The Consumer of the DLI is entitled to file a complaint about the activities of the DLIs through the helpline. The number of the free hotline is available on the website of the Association.

4.7. DLIs use solutions that are aimed at counteracting the negative financial consequences associated with the so-called Identity theft. DLIs operate in such a way that persons who are victims of identity theft, whose data were used to obtain a digital loan from a given DLI, received without undue delay and according to clear procedures, all information necessary to clarify the case and not burden the person with any costs associated with the fraudulent digital loan. On the basis of obtained documents and reliable information confirming identity theft, the Institution stops the debt collection activities in relation to the person whose data was stolen.

4.8. DLIs are required to implement procedures and systems aimed at preventing fraud

4.9. DLIs have a legal obligation to know their Consumers and, for this purpose, obtain the necessary information about their identity and financial situation and apply technical solutions to counteract money laundering and terrorism financing. DLIs should refuse to conclude a digital loan agreement with the Consumer in a situation in which they are unable to identify the Consumer in a sufficient manner.

4.10. DLIs are obliged to thoroughly examine Consumer complaints and respond to complaints without undue delay, keeping statutory deadlines, including in particular to investigate possible notices regarding fraud when concluding digital loan agreements.

4.11. Each DLI is required to adopt internal procedures in accordance with applicable law and the principles of this Code regarding the consideration of Consumer complaints. To this end, the DLIs will provide Consumers with all necessary contact details and will clearly display the working hours of a dedicated call center and online addresses and information on the facilities to which the Consumer can go.

4.12. DLIs undertake to provide continuous vocational training and improve the qualifications of employees handling Consumer concerns and complaints.

4.13. DLIs make every effort to ensure that their offer is also available to people with physical disabilities.

V. ADVERTISING AND MARKETING

5.1. DLIs ensure that the digital loan offers and marketing activities advertised by them meet the accepted market standards, in particular they emphasize the readability and quality of the advertising message.

5.2. The DLIs comply with the Code of Good Advertising Practices of the (MSK or an International Advertising professionals body etc)

5.3. DLIs, in particular in the advertising message, cannot intentionally use the lack of knowledge or experience of consumers suggesting that incurring liabilities in a DLI may solve a Consumer's financial problem resulting from excessive debt.

5.4. The advertising message used by the DLIs may not violate the reputation of other entities operating on the market.

5.5. DLIs that use outdoor advertising put emphasis on maintaining the aesthetic balance of the landscape.

5.6. Advertising digital loan messages should, in the most transparent and legible way, present the real offer of the DLI and not infringe on decent customs.

5.7. The advertising text should not contain terms and expressions that could mislead the Consumer, regardless of the form of communication (written, verbal and / or pictorial);

VI. COOPERATION WITH INTERMEDIARIES

6.1. DLIs are obliged to establish cooperation only with such intermediaries where the intermediaries can guarantee that:

- a) They are guided by the good of the Consumers, respect for the obligations arising from honesty, dignity and decency, perform professional activities according to the best knowledge, in a reliable manner and with due diligence.
- b) they do not charge and do not collect from the Consumers an additional commission on digital loans in which they mediate,
- c) the information they provide and advertising are objective, reliable and balanced, in accordance with ethical standards, morality and compliance with applicable laws.
- d) all facts, data and information received from the DLIs and from the Consumer will be kept confidential except in the cases provided for in separate acts.

6.2. DLIs are obliged to establish cooperation with online affiliate networks and publishers, which:

- a) present only current offers and comply with the regulations made available by the DLIs and the affiliate network.
- b) they adhere to good market practices, in particular they do not use methods aimed at extorting commissions, e.g. cookie stuffing (consisting in sending cookies, without actually redirecting to the advertiser's website).
- c) do not mislead the Consumer, in particular as to the advertised functionality of products and services.
- d) comply with the rules contained in the Code of Good Practices for the Consumer Credit Advertising referred to above.

VII. DEBT COLLECTION

7.1. If the Consumer's debt goes into arrears, the DLI should strive for an amicable resolution of the case and should first propose measures and methods of payment that will allow the repayment of outstanding liabilities in the least inconvenient manner for the Consumer.

7.2. When taking action against a Consumer whose claims are in a debt collection procedure or in court proceedings, it must be ensured that the actions taken against the debtor meet ethical standards and are aimed at cooperation and an amicable solution to the problem of non-repayment.

7.3. The DLI places information on its website that a borrower who may have a problem with the repayment of obligations on time should immediately notify the DLI thereof. The Institution indicates the communication channel necessary to carry out such notification.

7.4. If the Consumer is late with the repayment of the digital loan, the DLI contacts him in order to determine the reason for the delay and to indicate possible solutions.

7.5. DLIs choosing the debt collection providers are guided by their best knowledge and professionalism in the market, taking into account that debt collection activities should be conducted in accordance with the standards and customs of this market.

7.6. The DLI supervises the activities of external providers of debt collection services and investigates reported cases of infringement of Consumers' rights as a result of debt collection activities.

7.7. It is forbidden to undertake debt collection activities that may conflict with the principles of this Code. In this regard, the DLIs will make every effort to ensure that the principles of this Code regarding the rules of conduct in relation to Consumers in a difficult financial situation are applied by debt collection companies with which the DLI cooperates.

VIII. SELF-REGULATION AND ENFORCEMENT MECHANISMS

I. General Principle

8.1 To promote compliance with the provisions of this Code, DLAK shall enforce disciplinary measures and penalties and shall further ensure that disciplinary measures follow the principle of objectivity and justice, integrate penalties with education and ensure the implementation of applicable laws and regulations, the Constitution of DLAK, self-regulatory rules and other relevant rules.

8.2 Disciplinary measures and penalties enforced by DLAK may be appealed against by the parties involved.

II. Disciplinary Measures

8.3 Once a member violates the Code of Conduct or where a Complaint is raised by any person in regards to a Members violation of the Code, or where a member is suspected to have violated Laws and Regulations, Regulatory Authorities specifications and notices, applicable standards of ethics or any other violation DLAK may:

1. Issue at the first instance a warning and compliance advisory to the affected Member;
2. In the event the violation is severe or repeated, a warning notice;
3. Issue a direction for the member to undertake compulsory training;
4. Circulate a notice on the violation, expulsion or disciplinary measures taken to the members of the Public and all concerned stakeholders;
5. Issue a public denouncement of the member;
6. Suspend the affected member from membership of DLAK
7. Cancel the membership;

Issue one or more of the above enforcement measures for violation either at the same time or in further enforcement to ensure compliance.

8.4. Where violations of the Code involve a criminal action, DLAK shall report the matter to the relevant Authority.

8.5 Severe disciplinary measures shall be applied to members that meet one of the following conditions:

- 8.5.1 the member is guilty of more than one violation;
- 8.5.2 the member violates the Code for more than once within a year;

8.5.3 the member tries in any way to interfere or compromise investigations against them including interfering with witnesses, conceals or destroys evidence or refuses to allow DLAK to conduct compliance inspection on its business or the member does not cooperate with investigations; and

8.5.4 the member refuses to implement the disciplinary decisions made by DLAK.

8.6 Disciplinary measures could be mitigated or avoided if the affected member meets one of the following conditions:

8.6.1 the violation is of low severity and does not cause any adverse effect, or adverse result is caused but has been remedied or eliminated in a timely manner;

8.6.2 the member voluntarily reports the violation;

8.6.3 the member is cooperative in the investigation of the violation; and

8.6.4 the member redresses the wrongdoings on its own initiative and takes effective measures to prevent or mitigate adverse results.

III. Disciplinary Enforcement Body

10. The Board of DLAK hereby establishes a Disciplinary Committee which shall enforce disciplinary measures against violations of the Code of Conduct. The Disciplinary Committee shall be made up of three Board Members and two Members elected by the Members of DLAK. There is further established a Disciplinary Secretariat team responsible for the day to day operations of the Disciplinary Committee including:

10.1 Handling complaints and cases involving DLAK members;

10.2 Investigations and reviews of violations by members;

10.3 Prepare the relevant files and documents of the complaint to the Disciplinary Committee;

10.4 Prepare disciplinary committee hearings and proceedings; and

10.5 To handle other matters designated by the Disciplinary Committee.

10. Any member of the Disciplinary Committee with any of the following conditions should withdraw from the case and the member's withdrawal could be required by the parties involved and the complaints:

10.1.1 the member or his/her immediate family has a direct interest in the case;

10.1.2 the member and the parties involved work for the same institution, or the member works for the parties involved;

10.1.3there are matters that may influence the justice and fairness of how the case is handled;
and

10.1.4 the above rules also apply to the staff of the Secretariat.

IV. Procedure and Determination of Disciplinary Measures

11.1 A report shall be submitted to the Disciplinary Committee for determination. The report shall contain the complaint, any evidence, statements from the Member and any other previous action taken against the affected Member.

11.2 the Disciplinary Committee, before making disciplinary decisions, shall provide the parties involved with a notice that states the complaint, types of the disciplinary measures to be taken and the reasons and the cited rules for such decisions. The notice should also inform the parties involved of their rights to testify and defend themselves;

11.3 the parties involved could submit to the Disciplinary Committee written statements, defense documents and supporting material within 10 working days upon receiving the notice; the involved parties that do not submit any material within the time limit will be regarded as having waived their rights to testify and defend themselves, and the Disciplinary Committee may make a determination against the affected member;

11.4 the parties involved may, after submitting written statements and defense material, apply to make oral statements and defense to the Disciplinary Committee; and the Disciplinary Committee shall accord the parties a fair hearing as per regulations on Fair Administrative process;

12. The Disciplinary Committee may make the following decisions:

12.1.1 if the member is found to have violated the Code, the Disciplinary Committee may issue any disciplinary measures as laid down in Part II of this Section;

12.1.2 if the member is found not to have committed any violation, or the violation is of low severity, the member may be exempted from disciplinary measures.

13. The Disciplinary Committee decision shall be approved by more than 2/3 of the members of the Committee.

14. After the decision is made, the Disciplinary Committee shall produce a written decision on the disciplinary measures which decision shall be delivered directly to the member, or left at the place of abode of the member, delivered in electronic form, delivered by mail or by notice. The disciplinary measures become effective upon the delivery date.

V. Disciplinary Appeals Body

15. The DLAK shall establish and Adhoc Appeals Committee consisting of members of the DLAK Board and of DLAK who have not served in the affected members disciplinary hearing and the Appeals Committee shall carry out the following functions:

- 15.1 Handle all appeals filed by parties against the decision of the Disciplinary Committee;
- 15.2 Handle complaints about unfair competition of members;
- 15.3 Handle other matters designated to the Appeals Committee.

VI. Procedure and Determination of Appeal

16.1 The Appeals Committee may make the following decisions based on the situation:

16.1.1 to affirm the original decision of the Disciplinary Committee if it is found that the facts based on which the original decision is made are clear, the cited rules are applicable and due process was followed;

16.1.2 revise the original decision if it is found that the principal facts based on which the original decision is made are clear but the secondary facts are unclear or do not hold;

16.1.3 Set aside the original disciplinary decision and make a new decision on reviewing and verifying relevant facts and evidence and finding that the evidence or facts on which the original decision was made are unclear, or the cited rules are not applicable, or due process was not followed, or the disciplinary measures are highly inappropriate;

16.2 Decisions of the Appeals Committee shall be made by $\frac{2}{3}$ of the Appeals Committee Members and must be endorsed by $\frac{2}{3}$ votes of the DLAK Board.

16.3 The Decision by the Appeals Committee shall be made within forty-five (45) days of receiving the Appeal.

16.4 The decision of the Appeals Committee is final and Parties shall not appeal anymore against the same matter.

16.4 The written decision on the appeal should be delivered directly to the parties involved, left at the place of abode, delivered in electronic form, or delivered by mail or by notice.

VII. Supplementary Provisions

17.1 Violations of the members and the disciplinary decisions shall be recorded in the membership management system of DLAK. DLAK should file documents related to the

disciplined members such as the investigation files and decisions on the disciplinary measures, and keep the documents for seven (7) years.

17.2 Members and staff of the Disciplinary Committee and the Appeals Committee should keep all information and proceedings of the Disciplinary Committee and the Appeals Committee confidential and such information should not be used for matters other than disciplinary purposes.

17.3. The Disciplinary Committee and the Appeals Committee may formulate implementation rules for proper function of their roles.

IX FINAL PROVISIONS

18. Any DLIs subscribing to this Code of Conduct for Responsible Lending shall within 2 months from the declaration of application undertake to voluntarily accept and implement the provisions of this document in the practice of business.

19. This Code of Conduct may be varied or amended by the DLAK Board and members agree to be bound by any future amendments or variation.

SIGNATURE PAGE

NAME:

REPRESENTATIVE INSTITUTION:

ROLE:

DATE OF SIGNING: