

Bank of Uganda opens Credit Reference Bureau (CRB) market

Bank of Uganda has opened the CRB market in Uganda. Executive Director Supervision Mrs Justine Bagyenda explains the significance of this development.

Question: What is the reason behind BoU's move to open the Credit Reference Bureau market and why now?

Answer: When the CRB was established in 2008, the market was considered small hence it was necessary to license only one CRB (Compuscan CRB Limited). Compuscan CRB Limited was allowed to operate under exclusivity for a period of 3years, and to operate both CRB services and also to set up an identification system for borrowers, the Financial Card System (FCS). The exclusivity period is coming to an end on September 30, 2012 and thereafter the market will be opened up to competition to allow other CRB providers into the market. We as BOU are now confident that there is a reasonably bigger market to support more than one CRB. Moreover, competition fosters innovation and allows for choice in the sector. Uganda's economy is market driven hence it is necessary to open up the market to competition.

Has Compuscan CRB lived up to the expectations of Bank of Uganda in line with the license/agreement during the exclusivity period?

Since Compuscan came on the Ugandan Market in 2008, many achievements have been made in the financial sector namely:

- The CRB has enabled supervised financial institutions to share credit information on borrowers and make informed decisions on whether to extend credit or not which was hitherto not possible.
- 544 branches of financial Institutions and MDIs are connected to the FCS and can access the CRB system.
- A unique identification system was introduced in

the financial sector and currently over 750,000 customers are registered on the FCS and have Financial cards.

- Over 40,000 credit enquiries are made on a monthly basis for new credit for applicants.
- Data submission to the CRB and credit report generation has been made possible across the Commercial banks, Credit Institutions and Microfinance Deposit taking Institutions.
- The CRB system has helped these institutions to have good Know Your Customer information on their customers
- Most important, the CRB is gradually improving on the credit culture in this country, most people now appreciate how important it is to repay your loan obligations.

One of the Central Bank's expectations during the launch of the CRB in December 2008 was an increase in private sector credit uptake arising from reduced information asymmetries between lenders and borrowers. Has this come to pass?

It is true the CRB has reduced information asymmetry between lenders and borrowers as was envisaged at the inception of the project. Indeed Private sector credit has grown from Shs 3,977bn as at December 2009 to Shs 7,463bn as at June 2012. This is a significant increase of Shs 3,490bn or 88%. From the figures, it is evident that this country has registered significant increase in private sector credit following establishment of the CRB.



Mrs. Justine Bagyenda Executive Director Supervision

Has the introduction of CRB services checked multiple borrowing in the financial sector?

Multiple borrowing is not prohibited as long as one has demonstrated capacity to repay his debts. However, for defaulters the CRB has checked on multiple borrowing by providing information to financial institutions for appropriate decision making.

The launch of the CRB was expected to contribute to the reduction of the cost of borrowing (lending rates)

on account of better information on borrowers' risk profiles and informed lending decisions. Has this expectation been met?

Lending rates are determined by many factors and not only the credit standing of the borrower. Other factors include the cost of funds and risk assessment, among others. The country experienced macroeconomic instability arising out of food inflation and imported inflation during 2011, leading to contraction in the projected levels of economic growth and an increase in lending rates. The situation is gradually easing with the drop in inflation while lending rates are also reducing.

Are Ugandan borrowers now able to use their positive credit history as "collateral" to access loans at better rates from other institutions?

The CRB has been operational for a relatively short time to expect borrowers' positive credit history to be considered as collateral. The benefits

of having a CRB in place are still being appreciated and as they continue to be realised, borrowers will be able to use their good credit standing as "reputational collateral" to access loans at better rates from lenders.

What have been the challenges the BoU has encountered in rolling out the Credit Reference Bureau Services? Are there any unmet expectations?

- The CRB system requires precise addresses of borrowers such as Plot numbers, Street names, postal addresses etc. However, most Ugandans do not have such information. Such information needs to be updated regularly at the CRB for accurate reporting.
- Slow response by clients with running credit facilities to update their information held at financial institutions for reporting to the CRB
- Limited internet connectivity especially for the upcountry branches leading instabilities in connectivity.
- Absence of a reliable unique identification system for companies, Non Government Organisations, schools Churches and dioceses. This has remained a challenge.
- Some forms of collateral are not centrally registered. These include bibanja, chattels. Reporting on such collateral remains a challenge.

Are there plans to have credit reference bureau services broadened beyond the Bank of Uganda regulated sector to increase information sharing between various providers of credit?

BOU has embarked on the process of opening up the Credit Reference Bureau market by October 1, 2012. The current legal framework is under review to allow non-regulated financial institutions to access CRB services. Once this is achieved, the information contained in credit reports on borrowers will be more comprehensive to allow informed decision making on lending.