

The Bahamas Credit Bureau Project



Governor Wendy Craigg

**Accountants Week Seminar
November 12, 2014**



Bahamas Credit Bureau Project

Overarching Goal

To establish a legal, regulatory and technical framework for a national credit reporting system in The Bahamas, which can support a credit bureau.

IFC Project

Part of a 5-year IFC project for credit bureau development in the Caribbean

Business and Technical Assessments

Undertaken in 2010 to determine:

- state of credit reporting
- lenders capacity and willingness to provide data
- required changes to legislation
- optimal model for the market

Market Response

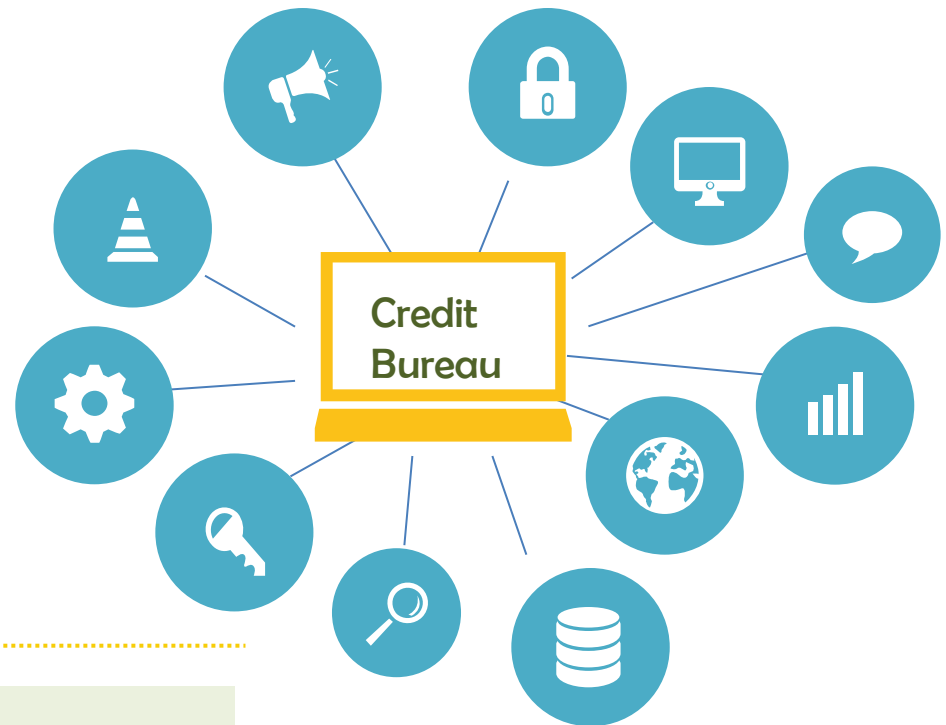
Keen interest in a credit bureau to enable more informed lending decisions



Credit Bureau

...basically an information sharing arrangement

- Collects information from lenders and other sources on a borrowers' credit and bill paying history
 - Validates, compiles credit details
 - Develops specialized fee-based products and services
-
- Most bureaus are privately owned
 - Bureau enters into subscriber agreements with main data providers for data to be exchanged in a systematic manner
-



Draft Legislation

- **Consumer consent not required for lenders to provide data to the credit bureau**



Credit Bureau Services

BASIC

■ Credit Report

- Identity info: name, NIB#, date of birth, current/previous address, telephone #; current/previous employer
- Credit Info: accounts by type, date opened; limits; outstanding balances; timeliness of payments
- Public records: bankruptcies; tax liens; judgments
- Inquiries: inquiries authorized by consumer

VALUE ADDED

■ Credit Score

- Numeric (300 to 850) based on info in credit file
- Shows how likely you are to repay a loan
- Higher the score the less risk you represent

■ Portfolio Monitoring

- Tracking how a borrower is maintaining loan obligations

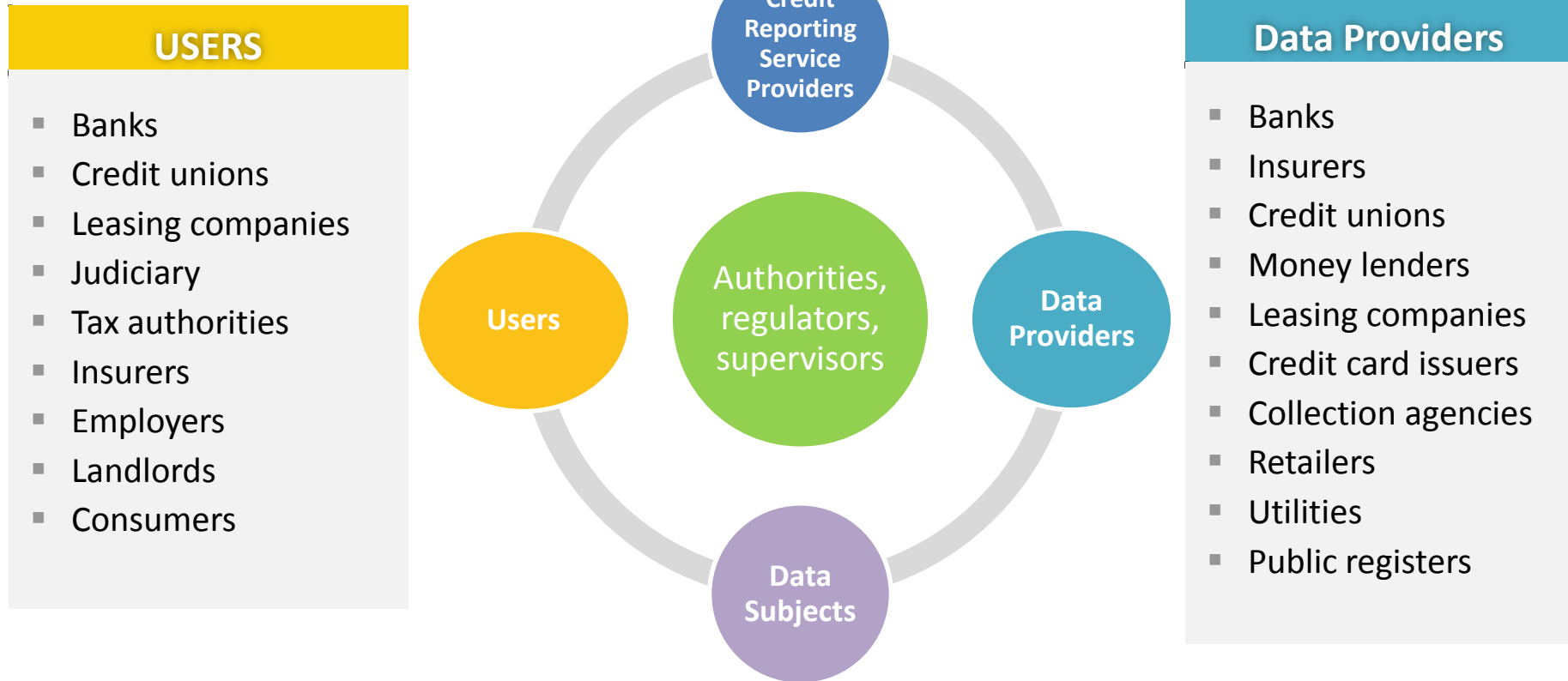
■ Fraud Alert

- Any unusual activity on the borrowers' credit arrangements





Typical Participants in Credit Reporting System



... involves a broad spectrum of public and private sector players.



The Case For Credit Bureaus

Problematic: Asymmetric Information

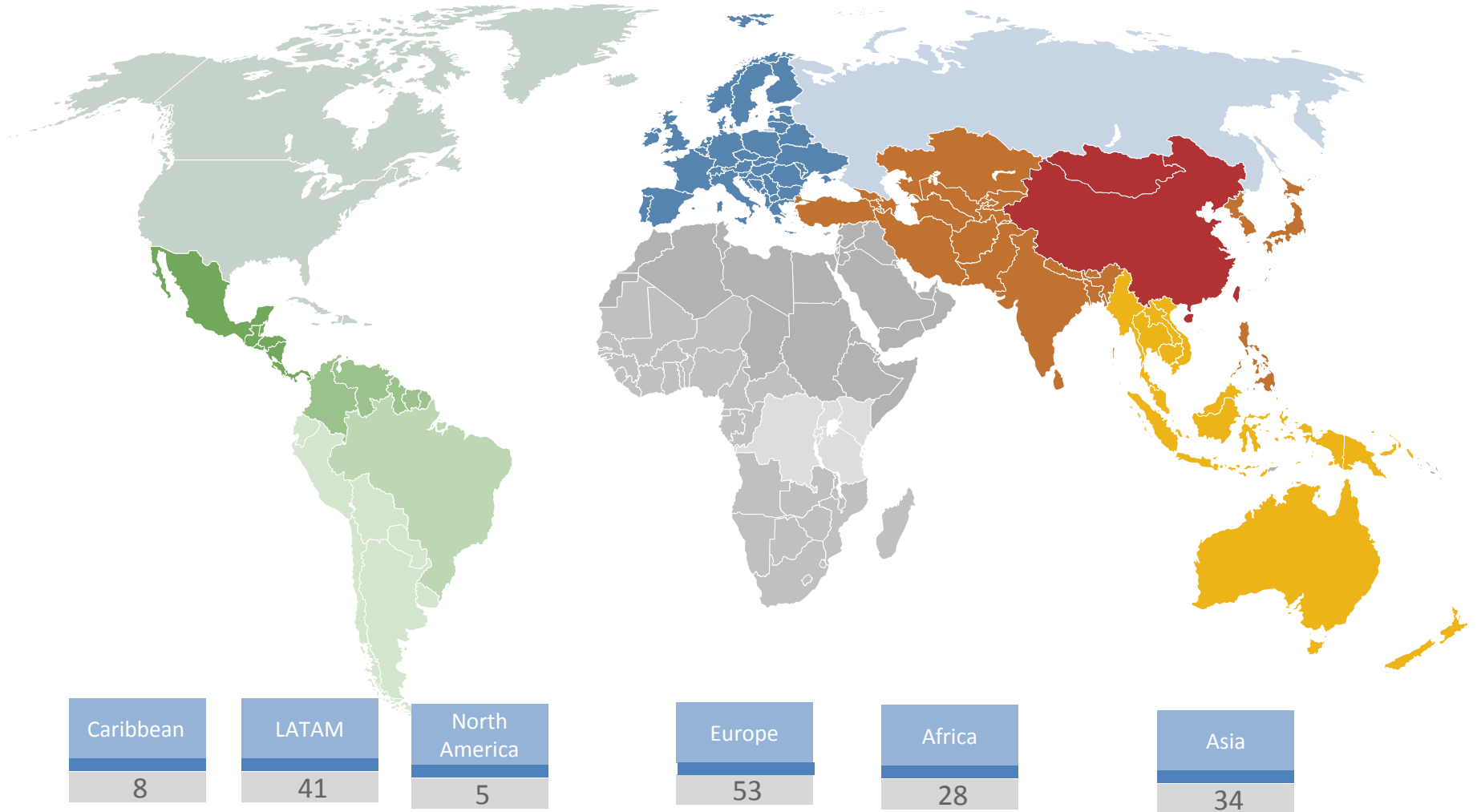
- Borrowers know the odds of repaying their debt much better than lenders
- Leads to adverse selection and moral hazard:
 - giving loans to debtors who are most likely to produce undesirable outcomes
 - having debtors enter into contracts with no intention of honoring them

Credit
Bureau

- Better knowledge of borrowers' characteristics leads to safer lending and lower defaults
- Promotes healthier credit culture
 - Eliminates incentives to over borrow
- Lenders are better able to price for risk
- Contains the potential adverse financial and economic effects of high levels of bad debt



Private Credit Bureaus





Benefits to Borrowers and Lenders

Borrowers

- Motivated to improve credit and payment behaviour
- Faster credit decisions
- Protects consumers against problems of over-indebtedness
- Rewarded through lower collateral requirements and lower interest rates

Lenders

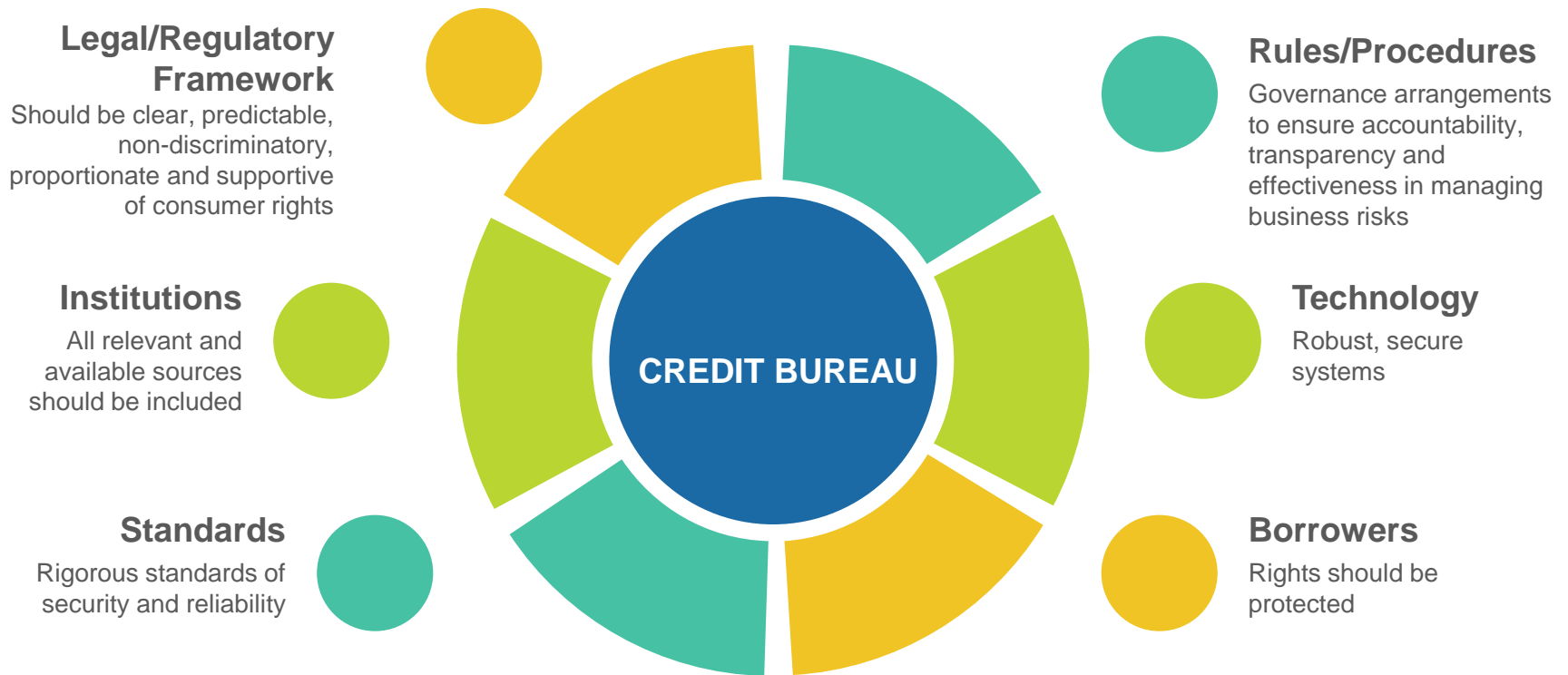
- Better assessment of true creditworthiness
- Streamlined credit decision making process
- Lower exposure to risky loans could curtail operational costs; less demands on capital
- Able to offer risk-based pricing to customers



Supports Central Bank's financial stability objective and economic growth



Components of Credit Reporting System





Proposed Legislative Framework

...Credit reporting framework should be clear, predictable, non-discriminatory

- Facilitate the effective supervision of the credit reporting sector and the efficient operation of a credit bureau —provides for confidence in the system
- Establish the rights and obligations of the credit bureau, its users, the credit information providers and consumers
 - Comprehensive information sharing (positive and negative information)
 - Protection of consumer rights
 - Consumers’ right to challenge incorrect information
 - Obligations of data providers to confirm information accuracy and correct wrong information
- Promote safe, secure, efficient and reliable mechanisms for information sharing
- Ensure the equal treatment of all stakeholders
- Provide clear guidelines on the kinds of data that can be collected
- Indicate how long data can be retained—to allow borrowers a “fresh start”



Credit Information Providers

...Draft legislation provided for mandatory and non-mandatory data providers

Mandatory

- Domestic commercial banks
- Insurance companies—which fall within the definition of “credit provider”
- Financial and Corporate Service Providers—which fall within the definition of “credit provider”
- Credit unions
- Bahamas Mortgage Corporation
- Bahamas Development Bank
- Any other person the Central Bank may designate, if considered in best interest of public.

By Regulation

- Licensees of the Utilities Regulation and Competition Authority (e.g.)
 - Bahamas Telecommunications Company
 - Cable Bahamas Ltd.
- Public Utilities
 - Water & Sewerage Corporation
 - Bahamas Electricity Corporation
- Hire purchase entities
- Public registers
 - Supreme Court
 - National Insurance Board
 - Companies

The more extensive the sources/sectors from which the credit bureau receives information, the greater the ability of creditors to assess and monitor credit risk, creditworthiness and credit capacity



Kinds of Information Shared



- Late Payments
- Arrears
- Defaults
- Outstanding adverse court judgments
- Bankruptcies
- Debt write-offs

Negative info will not fully cover the risk

- Account balances/type/limits
- Total amount /type of loans
- Credit card commitments
 - Monthly utilization
 - Monthly repayments
 - Cash withdrawals
- Changes to borrowing limits
- Guarantees
- Nature of collateral
- Debt write-offs

Without positive info, lenders will have no idea of the number of loans a consumer may have

- **Greater predictability**
- **More balanced view of customers' credit exposures**

Draft Legislation

- **Provides for the collection of both positive and negative info.**



Credit Information: Permissible Use Purposes

**Consumer consent
necessary
for accessing
information from
credit bureau,
except where a
court order is
issued**

- Credit application/offer to act as guarantor for a credit applicant
- Purchase or collection of a debt
- New/renewal of a tenancy agreement
- Assessing applications for insurance
- Business or credit transaction involving the consumer
- Employment assessment
- Periodic portfolio monitoring and risk assessment purposes, collection and skip tracing
- Any other permissible purpose, as may be specified by Central Bank
- Court Order.



Consumer Rights

...accorded high priority in credit reporting framework

- Know their information being kept by the credit bureau
- Access credit reports free of charge in the following instances:
 - one free credit report each year, upon request
 - where a credit bureau has corrected credit or personal information
 - where credit has been denied, based on info contained in a credit report (credit provider must inform the consumer)
- Access credit reports, in all other instances, for a fee
- Dispute the accuracy of information produced in a credit report
- Right to have information perceived to be inaccurate, misleading, incomplete or outdated, corrected in a timely manner



Credit Bureau Activities/Obligations

Activities

- Collect, store, manage, evaluate, synthesize, update and disseminate data subject information
- Issue credit reports **for permissible purposes**
- Carry out market and statistical research
- Develop and provide value added products and services

- Bureau can only disclose information to subscribers (e.g. banks, credit unions) that certify information will only be used for permissible purposes, and will be properly disposed of.
- For non-subscribers (e.g. prospective landlord), bureau must verify identity of the customer and user, and verify that consent was given; and use reasonable and secure means to transmit info.

Obligations

- Capture positive and negative information
- Prohibited from collecting information on race, creed, color, medical status, ancestry, ethnic origin or political affiliation
- Data must be current, authentic, legitimate, reliable, accurate and comprehensive
- Ensure data management and quality control
- Institute adequate security and control measures, including use of subscriber agreements
- Credit information cannot be disclosed for longer than five (5) years after a loan has been settled or terminated



Oversight and Regulation

- Central Bank to supervise credit bureau
 - Licensing—against established fit and proper criteria
 - Issuing standards and guidelines , to ensure adequacy of safety and security measures
 - On-site inspections and periodic reporting regime. Central Bank can revoke/suspend license, under appropriate circumstances and can levy sanctions and penalties
- Central Bank can enter into agreements with any similar regulatory authority outside of The Bahamas to enforce the Act
- Central Bank must preserve confidentiality of any information obtained through audits or inspection
- Upon winding up/liquidation/surrender of licence, responsibility for databases vests in the Central Bank, until new credit bureau operator appointed. Otherwise, cannot have access to consumer information

Draft legislation and regulation establish strict requirements and high standards for licensing of credit bureau and clear oversight role/responsibilities for the Central Bank



Credit Information Providers Duties

- Take reasonable measures to satisfy themselves that consumer information is reliable, accurate and current
- Inform consumers of the name and address of the credit bureau from which information about the consumer is being obtained
- Use info only for permissible purposes
- Secure info obtained from the credit bureau
- Instruct the credit bureau, within five (5) working days, of discovery, to delete inaccurate information and replace it with accurate information

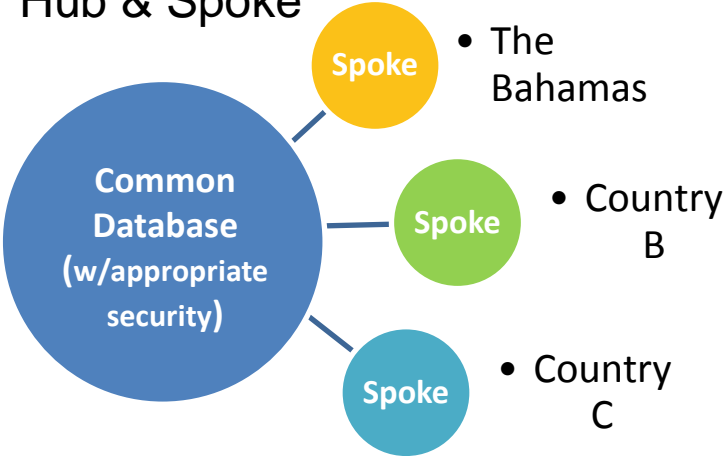
... entities required to ensure rigorous standards of security and reliability regarding consumers' information.



Recommended Model

Clause 31 of the Credit Reporting Bill will permit a credit bureau to be hosted off-shore

Hub & Spoke



- Market size a key determinant of approach
- Bureau would need a minimum of 250,000 inquiries annually to break even.
- Where not available, hub/spoke hosting arrangement recommended
- Regional examples : Jamaica and Guyana (Creditinfo)

Key Benefits

- **Cost Effective**
Lower development costs, due to redundancy of infrastructure, equipment, capital etc.
- **Shorter Start-up time**
Short time to market (avg. of 12- 15 months)
- **Experienced Service Provider**
Ability to leverage world class security, products and services upgrades, etc.



Historical Data

- Generally, the credit bureau will not be able to include in a credit report any information about a borrower's credit history that relates to loans that the borrower would have obtained prior to the Credit Reporting Act coming into effect
 - The only exception is that the credit bureau may share information about judgments against the borrower, but only if the judgment creditor confirms in writing that the judgment debt remains outstanding, in whole or in part, and the confirmation is retained by the credit bureau in the borrower's credit file
The confirmation is also required to set out:
 - the amount of the judgment;
 - date of the judgment; and
 - the name and, if available, the address of the judgment creditor or the agent of the judgment creditor at the date of entry of the judgment



Dispute/Appeal Process

Credit Bureau

Investigates Consumer Disputes

- Investigates disputes lodged by consumers; must render a decision within 15 working days from date of receipt of notice of dispute
 - Where info is correct, must attach consumer statement of dispute to credit report and provide to users accessing report within past 6 months
 - Where info is incorrect, must correct and notify user who accessed reports within past 6 months
 - Must inform consumer of right of review by Credit Reporting Review Commission (CRRC)
-



Dispute/Appeal Process (Cont'd)

Credit Reporting Review Commission (CRRC)

[Comprised of the Data Protection Commissioner (Chair), the Consumer Protection Commission and a nominee of the MoF]

- Consumer request a review of the Bureau's actions/decisions/conduct
- The Bureau request a review of the Central Bank's actions/decisions
- CRRC must issue a decision within 28 days of application

Supreme Court

- Consumer/Bureau/Central Bank not satisfied with an order or decision of the CRRC
- Application for appeal must be brought within 28 days of the date of the CRRC's decision

Court of Appeal

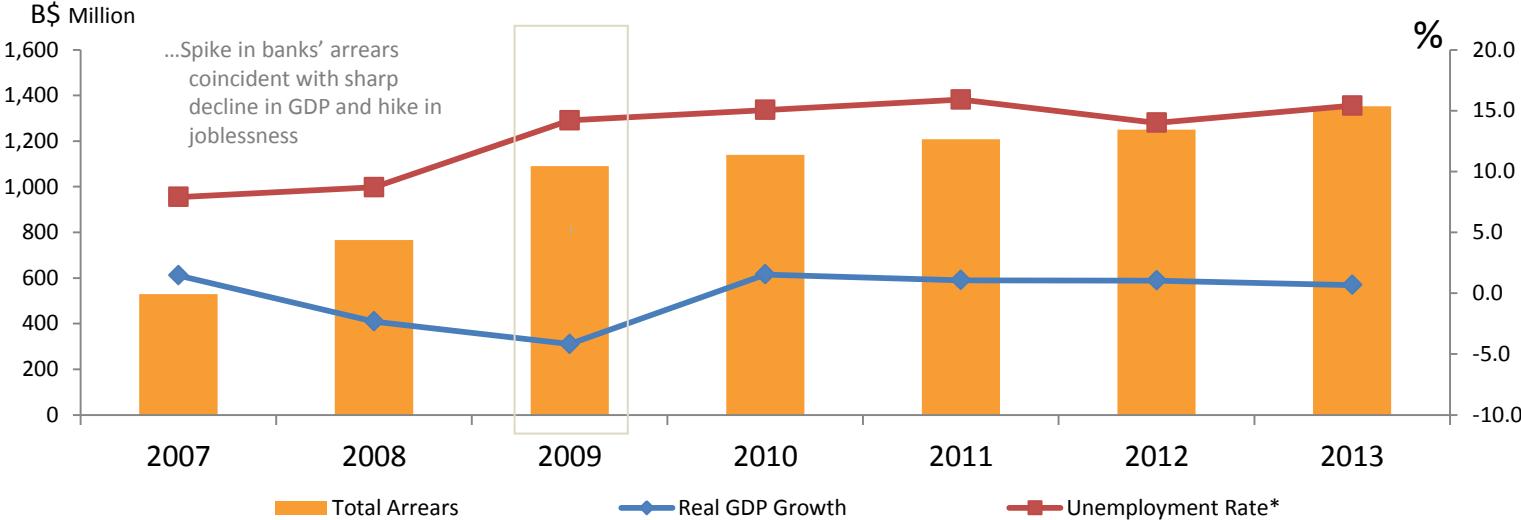
- Consumer/Bureau/Central Bank not satisfied with decision of the Supreme Court.
- Applications on point of law only; must be submitted within 28 days of the decision of the Supreme Court



Domestic Lending

Commercial Banks' Credit Quality

At end-Sept, 2014: Arrears rate of 22.5%; NPL rate of 17.2%;



Private sector loans (end-June, 2014)

- 8 Commercial Bank: \$6,113.5m
- 7 Credit Unions: \$222.9m
- 1 Mortgage Corp: \$190.3m
- 1 Development Bank: \$38.4m
- 14 FCSP Money Lenders ??
- 2 Insurance Co's (mortgages) \$195.9m

Between 2009 and 2013, commercial banks:

- restructured loans: \$778.8 million or 12.6% of total private sector credit at end-Dec 2013
- wrote-off: \$462.7 million
- recovered: \$82.3 million
- provisioned: \$442.7 million



Looking Ahead

..considerable work involved in the establishment of a credit bureau

Public Consultation

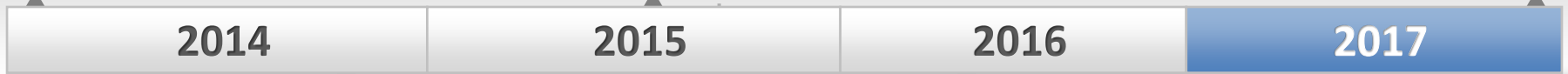
90-day period, followed by review of comments and finalization of legislation.

SEPT - DEC

Credit Bureau Licensed

Operational framework established.
Bureau will take at least 12 to 18 months, before operational; engaged in data gathering, cleansing etc.

APR '15 – JUN '17



OCT '14 - MAR '15

Request for Solution

Issuance to potential service providers; evaluation of proposals; shortlisting and submission of applicant for licensing.

Dec '17

Project Kickoff

Credit bureau issuing credit reports



Thank You