

Emmanuel Tumusiime-Mutebile: Regulatory framework for the exchange and use of credit information in Uganda

Speech by Prof Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Chief Executive Officer (CEO) Executive Breakfast Briefing on “The regulatory framework for credit information exchange and the wider economic importance”, Kampala, 20 October 2010.

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Distinguished Guests
Ladies and Gentlemen

It is my pleasure and honour to address this distinguished gathering of top bankers. My remarks this morning are on the regulatory framework for the exchange and use of credit information; this is a subject which is of great relevance for both the development of the financial sector and customer protection. The interests of both the financial institutions and their customers must be properly balanced.

The nature of financial transactions means that financial markets are information sensitive markets. Market imperfections in financial markets mostly emanate from some sort of informational problem. In extreme cases, lack of adequate information causes markets to fail completely; a phenomenon which has been analysed extensively by economists such as Joseph Stiglitz and George Akerlof, who were awarded Nobel prizes for their work.

Access to credit information on prospective borrowers enables lenders to better evaluate the creditworthiness of the borrowers. This reduces the information costs of lending and hence should allow more credit to be made available at lower interest rates. Better credit information can reduce the extent of credit rationing which is a serious problem in financial markets.

Because credit information helps credit markets to function more smoothly, thereby generating social benefits, such information has some of the characteristics of a public good. The sharing of credit information among all lenders yields social benefits which cannot be realized if each lender were to retain the information which itself has gathered for its own private use. Evidence suggests that information sharing significantly increases the breadth of credit markets, especially where creditors' rights and foreclosure mechanisms are weak, partly compensating for the lack of effective law enforcement.

The social benefits to be derived from the sharing of credit information provide the rationale for a centralized agency to collect data on borrowers and disseminate this data to its members. That is the reason why the Bank of Uganda has promoted the Credit Reference Bureau. In essence the CRB is a tool intended to facilitate the growth of credit markets, improve access to credit and reduce its cost.

The sharing of information on prospective borrowers, however, also carries risks. Such information can be misused by those who have access to it, to the detriment of bank customers. Moreover such misuse would severely damage the trust between banks and their customers, discouraging customers from using the banking system. Consequently, the Credit Reference Bureau must be governed by an enabling legal framework which guarantees the confidentiality and accuracy of the information passed to it and ensures that customers give their consent to any information about them being given to the CRB.

The legal framework in Uganda for the Credit Reference Bureau is the MDI Act of 2003 and the Financial Institutions Act of 2004. The latter mandates the Bank of Uganda to establish a Credit Reference Bureau.

The Bank of Uganda has issued regulations and guidelines to govern the operations of the CRB. These regulations allow information relating to the performance of a borrower to be submitted to the Credit Reference Bureau. The regulations stipulate that the written consent of the borrower must always be obtained in order to submit credit information to the CRB. Moreover, the onus of obtaining and keeping a record of the borrower's consent rests with the lender, which must be able to demonstrate that it had obtained this consent in the event of any dispute.

The Bank of Uganda has issued guidelines to the financial institutions that participate in the CRB to protect the rights of borrowers and to ensure that data are not misused. Financial institutions are required to put in place internal control procedures to ensure that access to the CRB is restricted. They must use this information only in connection with their lending operations and with the borrower's consent. Guidelines have also been issued to enable the borrower to obtain access to his or her credit report held by the CRB, in order to verify whether the data are accurate.

The regulatory framework for the CRB is not yet complete. Within the next year or so we intend to establish a neutral ombudsman who can resolve disputes between customers and the CRB on the veracity of the credit information held by the CRB.

Currently there is no law in Uganda that ensures the protection of personal data. In future, it would be desirable for Uganda to enact a law on credit data protection which would replace the existing CRB guidelines. Data protection legislation could also allow non financial institutions, such as utility companies, to participate in the CRB.

In conclusion, I would like to stress that a good regulatory framework that conforms to international best practice, is essential for the efficient operation of the CRB and to ensure that the CRB commands the confidence of bank customers. The legal framework should deal with data protection, dispute resolution and the timely sharing of data between lenders. We have begun to put this framework in place, but the task is not yet complete.

Thank you.