# Brian Wynter: Improving credit conditions and the role of credit bureaus

Speech by Mr Brian Wynter, Governor of the Bank of Jamaica, at the Jamaica Employers Federation's CEO breakfast, Kingston, 16 November 2010.

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Ladies and Gentlemen,

Thank you for inviting me to speak at one of the Jamaica Employers Federation's CEO Breakfast. As is well known but perhaps not sufficiently emphasised, the Jamaican economy is in the middle of implementing a comprehensive set of policy reforms. As the transformation unfolds, economic agents will be called on to make changes in the way we do business. Accordingly, this morning I want to speak to you on an initiative that has gained increasing importance in the world at large and on which Jamaica is about to embark. Specifically, I would like to share with you some thoughts on how to improve credit conditions and the role of credit bureaus in doing so.

In recent months there have been loud cries for commercial banks to lower their lending rates. These calls have come against the background of the Central Bank lowering its 30-day signal rate fairly sharply over the past nine months (most recently by half a percentage point to 7.50% last week Friday). Also, there have been steady and substantial declines in the market-determined yields on Government instruments. Successful completion of the Jamaica Debt Exchange heralded an era of low interest rates for the Jamaican economy and interest rates in the money market are currently at the lowest they have been in over two decades. Not surprisingly, while economic agents are willing to accept these lower rates on their financial investments, they would also like to access loan funds at lower costs.

The Bank of Jamaica would also like to see a reduction in lending rates but as the supervisor of deposit-taking institutions, we have a responsibility to ensure that the institutions we supervise operate their businesses in such a way that the stability of the financial system is not compromised. It is in this vein that I will speak to you this morning on one initiative that will improve the efficiency of the market for credit while at the same time lowering costs to borrowers.

The subject of my remarks today was also motivated by the recent release of the report "Doing Business 2011: Making a Difference for Entrepreneurs" by the World Bank and the International Finance Corporation. In the report, Jamaica was ranked 81st out of 183 countries that were surveyed. At a more granular level, we were ranked 89th in the area of "Getting Credit" and this ranking was in part associated with Jamaica not having a credit bureau or credit registry. Well, Jamaica is now at an advanced stage in setting up a credit reporting system so there are good reasons to believe that by the time the next report is released the existence of the new system will contribute to an improvement in our ranking and that you will all see a difference through its impact on your businesses.

In line with international best practices, Jamaica enacted legislation in August 2010 in order to facilitate the sharing of credit information. The Credit Reporting Act, which came into effect on 1 October 2010, provides the legal framework for a credit reporting regime in Jamaica and is designed to improve credit assessment processes and facilitate enhanced risk management and loan pricing strategies throughout the financial sector. The Act prescribes or specifies such matters as:

– licensing of persons who wish to offer credit reporting services;

– eligible credit information providers;

– the nature of credit information;

– the use of credit information;

– persons who can request a credit report;

– access by customers to their own credit information;

– the handling of customer complaints; and

– supervisory oversight by the regulatory authority, that is, Bank of Jamaica.

On 2 November 2010, the Credit Reporting Regulations were affirmed by the House of Representatives and, a few days later, the Senate began its deliberations on the matter. The regulations prescribe such operational matters as the licence application process, forms and fees. The Bank of Jamaica having been designated as the supervisor of credit bureaus is now preparing to take up its oversight responsibilities. This includes:

1. ***Public education*** to make consumers aware of the objectives and benefits of credit reporting and the mechanics of the regime. This involves:

– media features (during February 2010, the Bank published an item under its "Central Banking 101 feature" titled "Credit Bureau Explained" as part of public sensitisation exercises);

– pamphlets with "Frequently Asked Questions" (FAQs) – which will shortly be made available; and

– a dedicated webpage on the Bank of Jamaica website, once official copies of the Act and the Regulations are made available to the Bank for posting on the site along with a set of frequently asked questions and other useful information (such as the procedures for filing complaints about how your credit information has been handled).

The Bank also published a helpful article on "Credit Bureaus and the Efficiency of Credit Markets" in its latest Quarterly Monetary Policy Report released on 10 November 2010.

2. ***Licensing***

The Bank will be taking similar approaches and using similar methodologies to those applied in the review of applications for licences under deposit-taking legislation. These will include:

– "fit and proper" reviews of principals (that is, prospective owners, directors and managers);

– assessments of financial capacity and the source and adequacy of capital;

– reviews of business plans and feasibility studies including an assessment of the proposed governance structure and a review of operational projections inclusive of proposed staffing levels;

– assessments of proposed IT infrastructure and control system to assess the capacity and controls that must be in place in order to ensure the security and integrity of credit information; and

– an assessment of procedures that will be put in place for handling complaints from the public.

The Bank is anticipating that licensing will take place in two phases. The first phase will result in ***conditional approval*** being granted where an applicant has satisfactorily met the required criteria with the exception of having fully in place the necessary IT and operational infrastructure. The second phase which will lead to the actual ***granting of the licence*** on the establishment of IT and operational systems and when all the relevant requirements pertaining to capacity, flexibility, security and integrity of information will be met.

Discussions with other jurisdictions which have a credit reporting regime in place reveal that from a practical standpoint, the establishment of operations can take in excess of a year given the IT infrastructure and the database of information required in order to commence services.

The introduction of credit bureaus is aimed at addressing the problem that banks and other creditors have in not having sufficient information on their borrowers that is readily available and reliable; in other words, the inability to assess the risk of the borrower properly. Where there is a lack of reliable information, high risk borrowers sometimes obtain loans where they otherwise might not while those with low risk may be denied loans or may face higher costs than necessary.

Credit information sharing will help loan officers to assess objectively the creditworthiness of borrowers. With credit bureaus, a credit history where repayment patterns can be observed will be developed for borrowers. This will ***improve access to credit and the terms for loan repayment***. The transparency afforded by the availability of credit information will also allow greater access to loans by individuals as well as small and medium-sized enterprises. As you will know, in the context of information gaps, banks tend to protect themselves by lending to larger companies which often are able to be more transparent than smaller companies and individuals.

Credit bureaus will reduce the informational advantage currently enjoyed by large banks leading to ***greater competition and lower spreads***. In such an environment, all institutions will be able to compete for "good" borrowers while borrowers, armed with their credit history, will be able to shop around for the best terms. Lending will therefore not be left solely to the qualitative judgement of the loan officer as there will be objective criteria on which clients can be assessed.

Potential clients will be able to challenge an assessment as ***this information will also be available to them***. In fact, in countries where credit information includes the payment of utility bills, the incentives for a greater volume of lending to small and medium-sized borrowers has been observed to increase significantly. We hope, therefore, that in the next stage of development, utility companies in Jamaica will be encouraged to participate in credit bureaus.

The laws and regulations that are being put in place by the Government are aimed at generating trust in the system – trust that the ***information is stored in a secure manner*** and that it will remain secret and confidential. Permission will have to be given by borrowers if their information is to be shared with a financial institution. It is quite clear that the benefits to be derived from the establishment of credit bureaus will be eroded if there is no trust in the system.

In conclusion, I would urge all of you to prepare to list your information in a credit bureau and to encourage others to do so. This will provide borrowers with greater negotiating tools with regard to the cost of loans and more desirable repayment periods. For lending institutions, there will be significant cost savings, both in processing time and loan preparation. Putting in place the infrastructure and policies to facilitate lower interest margins represents one more critical step in the process of securing the foundation for higher levels of growth and greater prosperity for Jamaica.

Thank you.