

Emmanuel Tumusiime-Mutebile: Uganda's new Credit Reference Bureau

Speech by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the launch of the Credit Reference Bureau, Bank of Uganda, Kampala, 3 December 2008.

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H.E. Mr. Reinhard Buchholz the Ambassador of the Federal Republic of Germany,
H.E. Mr. Anders Johnson The Ambassador of Sweden,
H.E. Mr. Thanduyise Chilliza The High Commissioner of the Republic of South African,
Members of The Committee on National Economy, Parliament of Uganda,
Members of the Board of Directors, Bank of Uganda,
The Chief Executive Officers of Commercial Banks,
Credit Institutions and Microfinance Deposit-taking Institutions, Managing Director
Compuscan Information Technologies of South Africa,
Managing Director Credit Reference Bureau B Ltd.,
Distinguished Guests,
Ladies and Gentlemen.

It is my pleasure and honor to welcome you all to this auspicious occasion when we are launching the Credit Reference Bureau (CRB) and the associated Financial Card System (FCS). This is a major initiative by Bank of Uganda and Government of Uganda through the Ministry of Finance Planning and Economic Development towards improvement of credit risk management in the financial sector. The establishment of the CRB is an important milestone in the development of Uganda's financial sector.

The absence of a CRB in Uganda has been a major bottleneck to the expansion of the volume of private sector credit. Indeed, Ugandan firms - large, small and medium enterprises consistently cite limited access to credit as one of the greatest barriers to their operations. Up to now, the infrastructure for information sharing and unique borrower identification has been non-existent. The Participating Institutions (PIs) (Commercial Banks, Credit Institutions and Microfinance Deposit-taking Institutions) had no way of checking and sharing information on the credit history of borrowers. Therefore, PIs have continuously been exposed to high credit risk on account of inadequate information on borrowers' creditworthiness. This has inevitably resulted in increased cost of borrowing, thereby making credit more expensive than it would otherwise have been.

As a step in the right direction, the Parliament of Uganda passed the Microfinance Deposit-taking Institutions Act 2003 (MDI Act) and the Financial Institutions Act 2004 (FIA), which propelled the process of establishing a Credit Reference Bureau in the country.

The FIA mandates the Central Bank or its appointed agent or any other person authorized by the Central Bank to establish CRB for the purpose of disseminating credit information among financial institutions. Similarly, the MDI Act mandates MDIs to report non-performing loans to the CRB. Subsequently, the Credit Reference Bureau Regulations for licensing and operations were also gazetted.

The introduction of Credit Reference Bureau services opens a new chapter in the credit appraisal process. The PI's will submit both positive and negative information on a customer credit profile to the CRB. The CRB will create a comprehensive credit report, which will be available for use by PI's to support their lending function and risk management functions. The CRB will initially focus on facilitating information sharing among regulated financial institutions.

In the absence of a National Identification System, it was also deemed necessary for the CRB provider to develop a Financial Card System (FCS) to uniquely identify borrowers using a biometric system. The FC is embedded with a memory chip. The chip is readable using a card reader supplied by the CRB. All borrowers shall be required to carry a financial card

containing the photo, name, a unique number and biometric information. A borrower can register on the FCS at any PI branch. Through the unique identification system, PIs will be able to share information on borrowers' credit profiles, which hitherto, has been difficult to acquire.

Ladies and gentlemen, allow me to reiterate the benefits of the CRB to the financial sector, which are as follows:

- The CRB is expected to improve the performance of the Uganda's financial sector and stimulate economic development by making lending and borrowing easier faster, and ultimately cheaper.
- Borrowers can use their positive credit history as "collateral" to access loans at better rates and seek more competitive terms from different lending institutions
- By addressing the problem of information asymmetries, the CRB supports an increasing level of trust between lenders and borrowers – resulting in an increased volume of credit in the economy. This trust also will increase transparency and competition between lenders.
- Timely and accurate information on borrowers' debt profiles and repayment history enables PIs to make more informed lending decisions
- As the data on the system is built up, the information available will enable loan processing to become simpler and faster, collateral requirements to be streamlined, default rates to be reduced and, ultimately we believe loans shall become cheaper.
- Participating Institutions (PIs) will, therefore, be able to offer new products and offer competitive interest rates due to availability of information on customers' credit risk profiles.

BOU in its mandated responsibility will supervise the operations of the CRB and FCS to ensure that the information collected is managed securely and responsively at all times and in accordance with the agreement which we have signed with Compuscan. BOU has already issued Guidelines for the operation of the CRB. The Guidelines specify the standards that the CRB shall implement in order to ensure a reliable mechanism to process data.

The Bank of Uganda conducted education and sensitization campaigns in 21 districts in order to:

- deepen the understanding of key stakeholders of the CRB, the FCS; and the accruing benefits of the CRB.
- create a favourable public opinion and perception about credit reference services, through the careful and strategic deployment of available media and communication resources.

The Public awareness campaigns shall continue in order to encourage borrowers register on the FCS and to address the concerns of specific target groups, to allay fears of borrowers regarding the sharing of confidential information and to assure all stakeholders of the integrity and security of the system.

I wish to assure the general public that we consider confidentiality and privacy of information paramount. Bank of Uganda, PIs and Compuscan CRB Ltd. will ensure that confidentiality and privacy are adhered to at all times.

I wish to thank the German Development Cooperation, the people of Germany and the Government and the people of Sweden for the financial and technical support accorded to Bank of Uganda for this project. I also want thank the World Bank for the role they have played towards the successful establishment of the CRB and the FCS.

I thank you very much for joining Bank of Uganda on this memorable occasion. It is now my honor and pleasure to invite the Chief Guest, H. E. Reinhard Buchholz the Ambassador of the Federal Republic of Germany to give his remarks.