THE RELEVANCE OF CREDIT REFERENCE BUREAU AND ITS EFFECT ON THE FINANCIAL INDUSTRY IN GHANA

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A Thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfilment of the requirements for the degree of

COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS ADMINISTRATION

Institute of Distance Learning

JULY 20I2

DECLARATION

I hereby declare that this submission is my own work towards the Executive Masters of Business Administration and that, to the best to my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to my wife Obaahemaa Juliet Osei Dankwah and my daughter Nana Serwaah Brakatu Dankwah for their unyielding support and prayers during this course.

ACKNOWLEDGEMENT

My strength and inspiration comes from above from whom I have sought comfort and peace when times are difficult. My greatest thanks go to the Almighty God.

I would like to acknowledge my Supervisor, Mr George Boateng, Branch Manager of Agricultural Development Bank (ADB), Makola Branch. To me, he was more than a supervisor and for his patience and good counsel. I hereby express my deepest gratitude. The wealth of knowledge he has imparted to me is appreciated and I shall forever be indebted to him.

I would also like to recognise the assistance of Mrs Rosemary Hansen, Head of Business Development, Dun and Bradstreet Credit Bureau Limited, Mr George Ahiafor, Chief Executive Officer of XDS Data, Christiana Asante of Prudential Bank Ltd and not forgetting my CEMBA Group Members.

I must also acknowledge with gratitude the support I received from the various managers and credit officers of the various Banks using Credit Reference Bureau.

Finally to all who helped in diverse ways and have not been mentioned, I extend my dearest appreciation.

ABSTRACT

The study examined the relevance of Credit Reference Bureau and its effect on the financial institution in Ghana. The specific objectives were: to investigate the loans and overdraft approval situations in Ghana; to find out consumers perceptions about CRB's; to ascertain the kind of information provided by CRB's; and to determine the possible effect CRB's have on the access to credit by consumers in Ghana. The study adopted a quantitative research approach in answering research questions and used primary data in the analysis. The field survey was conducted in May 2012 by utilizing a questionnaire designed to collect data regarding the relevance of credit reference bureau and its effect on the financial industry in Ghana. One hundred questionnaires were issued to respondents (consumers) who were selected at random at the Banking Halls of ten Banks. Another ten questionnaires were issued to ten financial institutions which included commercial banks and other financial institutions that had used rating decisions from the credit reference bureaus. The research findings showed that most financial consumers do finance their personal projects through their personal funds or savings, family funds, money from friends and other means; very few actually do tend to the Bank. Organisations in Ghana mostly secure credit funds from the Bank for their projects. Again, a little over half of consumers within the financial industry had applied for loans or overdraft facility from their Banks. Others also stayed away because they simply were not interested. The research also established that most Ghanaian consumers do not know about the existence of Credit Reference Bureaus (CRBs). Again, data inputs required by the CRBs to generate reports on potential borrower(s) are provided by the lending institutions. The analysis of the data revealed that the major challenges facing

consumers in accessing loans or overdrafts facilities from the financial institutions were high interest rates, lack of security or collateral, insufficient funds, personnel reasons and lack of experience board and management personnel for organizations. The findings of the research also established that consumers and lenders find the CRBs useful in the financial industry in Ghana which will lead to a bigger credit market, lower default and interest rate, improved profitability for the financial institutions, increase price competitiveness of credit facilities, instil good credit behaviour among lenders, improve pool of borrowers, expansion of lending and help improve access to credit in Ghana.

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CHAPTER ONE

Introduction

1.1 Background of Study

Lending is a challenging proposition in any setting particularly in the developing world, where legal/judicial enforcement is weak, where information about the ability and willingness to repay of applicants is not readily available and where many of the prospective lenders are from a poor household/ firms; many of whom have never before borrowed and cannot pledge collateral to guarantee repayment (Gonzalez-Vega, 2003; Conning and Udry, 2007). Lending in Ghana is a direct juxtapose of the prevailing factors in developing countries enumerated above.

The Bank of Ghana issued a credit reference bureau licences to XDS Data Ghana, Hudson Price Data Solutions and Dun and Bradstreet Ghana in other to bring lending discipline in the financial sector. However, prior to the establishment of these credit reference bureau, there were urgent calls by the industry players for credit information sharing among financial institutions due to high loans or overdraft defaults rates; the government responded on April 13, 2007 and signed into law the Credit Reporting Act, 2007 (Act 726) which has facilitated the establishment of these credit reference bureaux. In spite of that most industry watchers have attributed the emergence of the bureau a natural financial growth and sophistication process currently taking shape in Ghana.

A Credit Reference Agency or Credit Bureau (Credit Reporting Agency in the USA) is an organization that collects and collates personal financial data on individuals, from financial institutions with which they have a relationship with. The data is aggregated and the resulting information (in the form of credit reports) is made available on request to contributing companies for the purposes of credit assessment and rating (Wikipedia, 2011). Standard and Poor's (S&P), one of the world's leading credit rating agencies, defines credit rating as "a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation. The opinion evaluates the obligor's capacity and willingness to meet its financial commitments" In other words credit report is an accumulation of information about how you pay your bills and repays loans, how much credit you have available, what your monthly debts are, and other types of information that can help a potential lender decide whether you are a good credit risk or a bad credit risk (Obringer, 2005).

The report itself does not say whether you are a good or bad credit risk; it provides lenders with the data, which allows them to take the decision themselves. Lenders make their decisions based on their risk-reward trade-off. Having all the needed information helps the lenders ensure that they are making the right decision with regards to the assessment of the borrower's creditworthiness. Basically, the credit report would reflect the reputation collateral of that customer in some sense (Miller, 2003).

The logic underlying the existence of credit reference bureaux (CRBs) is to solve the problem of the informative asymmetry between lenders and borrowers regarding the creditworthiness of the latter. Issuers with lower credit ratings pay higher interest rates embodying larger risk premiums than higher rated issuers (Millon and Thakor, 1985).

Again, recent research based on information from several countries across the globe (Singapore, Iraq, China, Romania, Vietnam, Cambodia, Brazil, Hong Kong etc.) show that the existence of credit registries is associated with increased lending volume, growth of consumer lending, improved access to financing and a more stable banking sector (Larrain, Reisen, and von Maltzan, 1997; Reisen and von Maltzan, 1997).

1.2 Problem Statement

The issuance of credit reference bureau licences by the Bank of Ghana to XDS Data Ghana, Hudson, Price Data Solutions and Dun and Bradstreet Ghana has heightened general interest in the credit rating industry in the country. Many have begun asking who the industry's firms are; what they do; how they do it; and what the consequences of their actions would have on the players and consumers within the financial industry in Ghana.

Even though many conducted researches outside the jurisdiction of Africa to suggest that the existence of credit reference bureau (CRB) leads to a bigger credit market, lower default and interest rates, improved profitability and increased competitiveness within the industry, none of the studies have critically examined the relevance of the CRBs and its effect on the financial industry in Ghana. This research work will therefore attempt to fill this noticeable gap in literature.

1.3 Research Objectives

The study has a general objective of establishing the relevance of credit reference bureau and the effect on the financial industry in Ghana. Specifically, the study has the following objectives:

1. To investigate the loans and overdrafts approval situations in Ghana.

2. To find out consumers perceptions about CRB’s.
3. To ascertain the kind of information provided by CRB’s.
4. To determine the possible effect CRB’s have on the access to credit by consumers in Ghana.

1.4 Research Questions

Evolving from the problem statement discussed above, the study aims at providing answers to the following questions:

1. What are the loans and overdraft approval situations in Ghana?
2. How do consumers perceive the Credit Reference Bureaus?
3. Is the kind of information disclosed by the CRBs to their clients sufficient for taking credit decisions?
4. What effect does the CRB’s have on consumer’s ability to access credit facilities in Ghana?

1.5 Relevance of the Research

The Monetary Policy Committee’s (MPC’s) efforts at signalling the banks the need to reduce their interest rates to reflect the MPCs downward trend has not yielded the desired results. Banks have continuously cited structural rigidities as impeding their wish to lower interest rates. With the launch of credit bureau, it is anticipated that Banks will pass the accruing benefits to the Ghanaian public through appropriate reductions in the cost of credit. Considering that, the current level of interest rates is a combination of costs (information search costs), risk premium; most of it on realized goes to profits. High interest rates increase the level of default risks. With good credit track records, the risk premiums and search costs imposed on customers will ideally shrink. In this regard, CRBs is expected to instil good credit behaviour that will attract competitive pricing of credit facilities.

Credit by the banking sector in Ghana has to a large extent been underwritten by physical collateral such as land and buildings and costs of evaluating that collateral – with inappropriate definition of property rights. Borrowers without access to such collateral have been constrained from accessing credit. Credit information sharing through CRBs will thus enable borrowers to build a track record (reputational capital) that they can use to access credit. This will especially be pertinent to those borrowers in the informal and Small and Medium Enterprises (SMEs) who have a track record and good performance to use their reputational capital to access credit.

Several experts have recommended the credit reference bureau technology as a possible remedy for the lenders in any situation to harness the benefits in the financial sector (McIntosh, et al. 2005). This thesis explores the relevance the CRBs will have on the stakeholders in the financial sector in Ghana under the current prevailing conditions.

1.6 Scope of Research

With an anticipated accrued benefits of increased lending volume, growth of consumer lending, improved access to financing and a more stable banking sector; the promises of the

CRBs are enormous. Therefore, a study into the relevance of credit reference bureau and its effect on the financial industry in Ghana will be extremely relevant.

Furthermore, the study involves evaluating the credits reports generated by the credit reference bureau for financial institutions to run checks on their customers to help them make better credit decisions. The study utilized a questionnaire designed to collect data from selected financial institutions using credit reports from the credit reference bureau.

1.7 Methodology

The research design adopted was the quantitative research method. This choice was justified because of the anticipated large amount of data expected and also because it is concise. The research population was defined as all consumers within the Banking industry since they are all susceptible to apply for loans or credit facilities. From the a purposive random sampling frame, one hundred (100) existing customers of the financial institutions already using the CRBs to run credit checks were randomly selected to constitute the final sample size for this study. The research was carried out at banks or financial institutions in Accra (names provided in Appendix one) with a total of 10 respondents' banks that were already using the product CRB in Ghana. The research instrument used for the data collection was the use of research questionnaires. Two types of questionnaires were administered; the first was designed for the consumers of the financial products and the second questionnaire was designed and administered to lenders who had used the products or ratings of the CRBs. Credit officers at the banks were issued with the second questionnaires. The first questionnaire on the other hand, was administered to consumers in the premises of the financial institutions visited. One hundred questionnaires (see Appendix two) were issued to the consumers of those Banks or financial institutions using the ratings from the CRBs i.e. Individuals and Organization. And 10 questionnaires were issued to the Credit officers or Managers of the financial institutions. All the questionnaires were answered and returned giving 100% response rate. Data analysis tools were used to analyse the data obtained.

1.8 Limitations of the study

The study was limited to only ten financial institutions that had already used the CRBs ratings or methodology to grant or deny loan applications. Again, there was another limitation in the number of consumer respondents. The researcher was aware of these limitations and therefore took adequate steps to avoid any hasty generalisations of the conclusions that came out of this research.

1.9 Synopsis of the Chapters

Chapter one: The framework of this piece of study has been structured to gain insights into the above purpose and thus includes five chapters namely the literature review, methodology, presentation of results, analysis and discussion and then finally conclusion and recommendation. A brief outline of each of them is given below:

Chapter two: the literature review which relates to the study of the previous secondary data available on this topic are detailed here. This chapter primarily includes; the structure and performance of the Financial Sector in Ghana, Supporting Institutions, Evolution in Ghana's Financial Industry, Credit Risk, Default Risk, Credit Bureaus, A brief history of the credit ratings industry , Contents of credit reporting agency records, Credit account information, Public records and collection agency actions, Credit Scores, Ratings processes, The demand for ratings services, Bank of Ghana Regulation for the Credit Reference Bureau, Borrowers and Lenders Act No. 773 of 2008.

Chapter three: establishes the method to be adopted to carry out this study and thus it talks about the appropriateness of quantitative research. Also the use of questionnaire survey has been reasoned in this chapter. Apart from this the criterion for the selection of the sample size is disclosed.

Chapter four: reveals the analysis and interpretation of the responses which were collected during the interviews. A wide range of sub-topics under this theme has been touched upon; some of the results are consistent with the literature review and some opposing.

Chapter five: is related to the final conclusion where all the findings from the research has been summarized. The limitations that were faced while conducting this research, this chapter also states an extensive area appropriate for future research and finally divulge the managerial implication which would facilitate in a better management of the subject area.

CHAPTER TWO

Literature review

2.1 Introduction

Chapter one focused on the introduction to the research. It introduced the background and justification for the research in preventing disputes on construction projects. This chapter reviewed the meaning of credit reference bureau, financial institutions in Ghana, how the information shearing in the financial sector.

2.1.1 A Review of the Ghanaian Banking Industry (2008-2011)

The four year period from 2008 to 2011 has witnessed significant changes in the Banking Industry.

This review of developments in the industry covers the following areas:

- Competition in the Industry;
- Regulatory Developments;
- Technological developments
- Financial results

2.1.2 Competition in the Industry

At the start of 2008, there were 24 Banks with 665 branches in operation in Ghana. There are currently 28 Banks with over 700 branches in operation.

Competition in the Industry continues to be intense with Banks offering rival products and services in a bid to attract good customers.

The Industry is also up against keen competition from the Non-Bank Financial Institutions in the area of deposit mobilization and credit delivery in the small and medium scale sector of the economy.

2.1.3 Regulatory Developments

In line with the process of financial sector reforms to modernize Banking services and strengthen the industry, the Bank of Ghana introduced the following in the period from 2008 to 2011:

- Anti-money Laundering Act, 2008 (Act 749);
- Home Mortgage Finance Act, 2008 (Act 770);
- Borrowers and Lenders Act, 2008 (Act 773);
- Non-Bank Financial Institutions Act, 2008 (Act 774);
- Adoption of the IFRS reporting framework for preparing financial statements starting from the year ending 31st December 2008;
- The minimum capital requirement for Banks was revised in February 2008 to GH¢60m. Locally owned Banks were required to comply in two stages – GH¢25m by the end of 2010 and GH¢60m by the end of 2012. Foreign owned Banks were to meet the requirement by the end of 2009.
- In 2010, the guidelines for licensing and operations of credit bureau under the Credit Reporting Act 2007 (Act 726) were published by the Bank of Ghana. The activities permitted are expected to support the credit risk management of the industry.
- The implementation of the regulatory requirements of Basel II was deferred to the end of 2012.

- The operating rules and guidelines for microfinance institutions were published in July 2011

2.1.4 Technological Developments

The technological developments during the period 2008 to 2011 included the following:

- The common electronic platform, E-Zwich was launched in April 2008 to further develop the payment and electronic system;
- The Cheque Codeline Clearing System was introduced in September 2009 to clear all cedi denominated cheques throughout the country within two days instead of the previous three to ten days period;
- A further addition to the Cheque Codeline Clearing System was introduced during 2011 to manage non-cheque inter-bank transfers through an Automated Clearing House System;
- Most Banks have now introduced internet banking to provide easily accessible and convenient services for their customers;
- The process to migrate to a National Switch Platform which will enable interoperability of Banks ATM cards has already commenced and is expected to be introduced in the first quarter of 2012.
- There are currently 11 out of 27 Banks offering VISA/MasterCard services with a further 4 banks in the process of implementing the VISA/MasterCard platform.

2.2 Financial Performance

The financial performance review of the Banking Industry covers the following key areas:

2.2.1 Total Assets

The Banking Industry Balance Sheet witnessed significant increases in Total Assets from 2008 through to 2011.Total Assets of Banks increased from GH¢8.5 billion at the end of June 2008 to GH¢19.4 billion at the end of June 2011, an increase of 129.4% over the 4 year period. The share of Net Loans and Advances increased from 51.4% of Assets in 2008 to 53.2% in

2009 and then progressively declined to 35% in 2011. The proportion of Investments decreased from 16% of assets in 2008 to 14% in 2009 and then increased to 25% in 2010 and 31% in June 2011.

2.2.2 Deposits

On the funding side, Deposit liabilities increased from GH¢5.5 billion in June 2008 through to GH¢13.6 billion as shown in Figure 5 below. Deposits accounted for 69.9% of liabilities in

2011 compared to 64.4% in 2008.

2.2.3 Profitability

The Banking sector's profit before tax in terms of year on year growth improved significantly over the four year period as shown in Figure 6 below. Profit before Tax however dipped from GH¢211.5m at the end of June 2009 to GH¢195.2m at the end of June 2010, a percentage decrease of 7.7% and then rose by 69.9% to GH¢331.7 at the end of June 2011. The increase in the year on year growth between 2010 and 2011 was mainly as a result of an increase in Commissions & Fees and a reduction in interest expense. Commissions and Fees increased by 55% from GH¢173.9m at the end of June 2010 to GH¢270.6m at the end of June 2011. Interest expense decreased by 19.5% to GH¢367m at the end of June 2011 from GH¢455.8m at the end of June 2010. The Banking Industry's Return on Equity and Return on Assets mirrored the trend in the Profit Before Tax growth and increased between 2008 and 2009 to 15.9% and 1.5% from 12.2% and 1% respectively but dipped at the end of June 2010.

2.3 The Financial Services Industry in Ghana

The finance services industry encompasses a broad range of organizations that deal with the management of money. In Ghana, the financial services industry is categorized into three main sectors (GIPC, 2009):

• Banking and Finance (including Non-Bank Financial Services and Forex Bureau)

• Insurance and

• Financial market/capital markets

The operating institutions include both foreign and local major banks, Rural and Community Banks (RCBs), Savings and Loans Companies (SLCs) and other finance and leasing companies. Through the implementation of the Financial Sector Strategic Plan (FINSSP) the Government of Ghana intends to promote the evolution of a financial sector which is appropriate for the needs of a country moving towards middle income status. The vision is one of a financial sector which is responsive to the needs of the 21st century, particularly given the prospect of greater international and regional competition and opportunity for Ghanaian financial market participants (GIPC, 2009).

2.3.1 Key players

Key players in the industry include banks and supporting institutions. The operating institutions include both foreign and local major banks, Rural and Community Banks (RCBs), Savings and Loans Companies (SLCs) and other finance and leasing companies. The number of institutions existing in the various categories at the end of April 2008 was as follows (GIPC, 2009):

Organization	**Number**
Banks	26
Rural and Community Banks	129
Non-Bank Financial Institutions	44
Forex Bureau	273
Insurance Companies	17
Re-insurance Companies	2
Insurance Brokers	35

GSE Listed Companies	35
GSE Licensed Stockbrokers	16

2.4 Banks

The banks currently operating in Ghana are; Access Bank, Energy Bank, Sahel-Sahara Bank (BSIC), Standard Chartered Bank Ghana Limited; Ghana Commercial Bank Limited; SG-SSB Limited; Ecobank Ghana Limited; UT Bank, International Commercial Bank Limited; UniBank Ghana Ltd; National Investment Bank Ltd; Agricultural Development Bank Limited; Prudential Bank Ltd; Merchant Bank (Ghana) Limited; CAL Bank Limited; HFC Bank Ltd; United Bank for Africa (Ghana) Ltd.; Stanbic Bank Ghana Ltd; Bank of Baroda (Ghana) Limited; Zenith Bank (Ghana) Limited; Guaranty Trust Bank (Ghana) Limited; Fidelity Bank; First Atlantic Merchant Bank Ltd; Bank Of Africa (Ghana); Barclays Bank of Ghana Ltd.; ARB Apex Bank; Citibank N.A. Ghana Rep. Office; Ghana International Bank plc.

2.5 Supporting Institutions

The following are the supporting institutions;

Bank of Ghana; Securities and Exchange Commission; ARB Apex Rural Bank; National Insurance Commission; Association of Rural Banks; Ghana Cooperative Credit Unions Association; the Ghana Microfinance Institutions Network

2.6 The Market

Developments in the banking system as of January 2008 show a continuous surge in asset growth resulting mainly from credit expansion. Banks' deposits and borrowings were used to fund the growth in assets. Total assets of the banking industry grew on an annual basis by 46.2 per cent to GH¢7,807.0 million as of January 2008, compared with 38.1 per cent growth for same period in 2007. As of January 2008 net loans and advances had reached GH¢3,868.7 million, recording an annual growth of 59.2 per cent compared with growth of 37.6 per cent a year earlier. Banks' investments reached GH¢1,363.1 million in January 2008 recording a year-on-year deceleration of 0.4 per cent compared with 37.5 per cent in the 12-month period to January 2007. The growth in banks' foreign assets picked up in January 2008 reaching 54.7 per cent compared with the 20.7 per cent recorded during the same period in 2007. `Credit-deposit ratio increased to 81.5 per cent as of January 2008 from 73.4 per cent in the same period in 2007.

2.7 Credit Risk

"Would you lend your money to this?" This hoary question has been asked by loan providers, investors, and credit analysts all over the world as an assessment of the commitment of the one (Ganguin, 2004). Every business face credit risk as it exists whenever payment or performance to a contractual agreement by another entity is expected, and it is the likelihood of a loss arising from default or failure of another entity. Credit risk is defined as the " potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms" (BIS 1999; Reto 2003; Banks 2004).

In particular, financial institutions generally have considerable credit exposure due to their prominence on lending and trading (Horcher, 2005), and the international interbank market is not an exception. According to Aikman (2008), interbank markets are subject to types of risk i.e. borrower default and market risk, which will be discussed in details below (Aikman (2008).

According to Anson et al. (2004) credit risk is specified as three types of risk i.e. default, downgrade and credit risk (Anson et al. (2004).

2.7.1 Default Risk

Horcher (2005) stresses that, traditionally, credit risk is associated with lending, investing, and credit granting activities and concerns the return of borrowed money. However, a great source of credit risk in financial markets arises from the performance of counterparties in contractual agreements e.g. given a financial obligation, which is not fully discharged, either due to the counterparty disability to fulfil his or her obligations which may result in a loss. In the literature, these credit risks are referred to as counterparty risks since they arise from transactions with counterparties (Horcher, 2005). Yet, according to Anson et al. (2004) counterparty risk is defined as default risk, where the issues of a bond or the debtor on a loan would not replay the outstanding debt in full. Default risk can be complete given that no amount of the bond or loan would be repaid or partial, given that some part of the original debt would be recovered (Anson et al. 2004). The likelihood of the default occurring is recognised as the probability of default. The likelihood of a recovery depends on several factors as well as the legal status of the creditor, hence if an institution fails due to large outstanding obligations or losses, later collections may be difficult or impossible (Horcher, 2005).

2.8 Credit Reference Bureaus

A credit bureau (U.S.) or credit reference agency (UK) is a company (typically called a "consumer reporting agency" or CRA) that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. This helps lenders assess credit worthiness, the ability to pay back a loan that can affect the interest rate and other terms of a loan. Interest rates are not the same for everyone, but instead can be based on risk-based pricing, a form of price discrimination based on the different expected risks of different borrowers, as set out in their credit rating or credit score. Consumers with poor credit repayment histories or court adjudicated debt obligations like tax liens or bankruptcies will pay a higher annual interest rate than consumers who don't have these factors.

In the U.S., credit bureaus collect and collate personal information, financial data, and alternative data on individuals from a variety of sources called data furnishers with which the bureaus have a relationship. Data furnishers are typically creditors, lenders, utilities, debt collection agencies and the courts (i.e. public records) that a consumer has had a relationship or experience with. Data furnishers report their payment experience with the consumer to the credit bureaus. The data provided by the furnishers as well as collected by the bureaus are then aggregated into the credit bureau's data repository or files. The resulting information is made available on request to customers of the credit bureau for the purposes of credit assessment, credit scoring or for other purposes such as employment consideration or leasing an apartment.

2.9 A brief history of the credit ratings industry

Historically, CRBs developed from mercantile credit agencies that supported business and trade creditors. The first of these agencies was The Mercantile Agency, established in 1841, followed by R.G. Dun and Company in 1859, which became Dun and Bradstreet, Inc., the owner of Moody's until 2001 (Sinclair, 2005). The first individual to focus on debt issuers was Henry Poor in his History of Railroads and Canals of the United States. Poor's Publishing Company later merged with the Standard Statistics Bureau (founded 1906) in 1941. The only other suppliers of debt ratings information were Fitch Publishing Company, established in 1924 and Duff and Phelps Credit Rating Co., which specialised in public utilities. Duff and Phelps merged with Fitch in 2000. Fitch had previously acquired some smaller CRBs that attempted to challenge Moody's and S&P, such as IBCA in 1992 and Thomson Bank Watch in 2000 (Sinclair, 2005).

2.10 Contents of credit reporting agency records

Credit reporting agencies gather information on the experiences of individuals with credit, leases, non-credit-related bills, monetary-related public records, and enquiries and compile it in a credit record. Credit reporting agencies attempt to collect comprehensive information on all lending to individuals in the country in which they operate.

2.11 Credit Account Information

Credit account records contain a wide range of details about each account. This information generally falls into five broad categories: account identification, account dates, account balances, account description, and payment performance. Each credit account record includes an account number, a unique identifier for each credit provider, and account ownership status (in particular, single or joint account or authorised user). Pertinent date information includes the date the account was established; the date it was closed or transferred (to collection or other major change in status); the date the account balance was paid down to zero; and the date when information was last reported to the credit reporting agency. The account records also provide current balance information, the largest amount ever owed on the account, the size of any credit limit applicable to the account and any amount past due. Credit account records include a variety of account descriptive information, including identification of the type of account (e.g. a closed-end loan mortgage or instalment or open-end loan revolving, non-revolving, or cheque credit) and the nature or purpose of the account (e.g. credit card, charge account, automobile loan, or student loan). Finally, the credit account record provides information on the extent of current and historical payment delinquencies extending back months as well as information on other account derogatory. Payment delinquency information is recorded in four classes of increasing severity 30 to 59 days, 60 to 89 days, 90 to 119 days, and 120 or more days past due. Other derogatories refer to accounts that have been charged off or are in collection, or those associated with a judgment, bankruptcy, foreclosure or repossession. Typically, accounts that are 120 or more days past due and accounts with other derogatories are grouped together and termed "major derogatories" or "seriously delinquent". Accounts with less severe delinquencies are typically termed "minor delinquencies".

2.12 Public records and collection agency actions

In addition to personal characteristics and credit account information, credit reporting agency data include information derived from monetary-related public records and reports from collection agencies (Avery, et al. 2004). Credit evaluators typically consider public records and collection agency actions to be adverse information on a par with credit account major derogatories when assessing the credit quality of individuals. The importance of these items is significant. Over one half of the individuals in our sample with at least one major derogatory (historical or current) did not have any credit account major derogatories; the only major derogatory items they had were collection agency actions or adverse public records.

Public record information includes records of bankruptcy filings, liens, judgments, and some foreclosures and lawsuits (Avery, et al. 2004). The data distinguish (albeit imperfectly) between federal, state, and local tax liens and other liens. Otherwise, unlike credit account data, the public record data do not provide a classification code for the type of creditor or plaintiff (Avery, et al. 2004). Although public records include some details about the action, such as the date filed, the information available is much narrower in scope than that available on credit accounts. Credit reporting agency records also include information on non-credit-related bills in collection that are reported by collection agencies. In some cases, collections on credit-related accounts also are reported by collection agencies rather than by the original creditor. In this case, the information is grouped with the collection actions on non-credit-related bills rather than with the credit account information. The most common types of collection actions reported involved unpaid bills for medical or utility services. Collection agency records include only limited details about the action, including the date acquired by the collection agency, the original collection balance, and an indicator of whether the collection has been paid in full. There is no code indicating the type of original creditor (Avery, et al. 2004).

2.13 Credit Scores

A credit score is a numerical expression based on a statistical analysis of a person's credit files, to represent the creditworthiness of that person. The term "credit reputation" can either be used synonymous to credit history or to credit score. A credit score is a numerical expression based on a statistical analysis of a person's credit files, to represent the creditworthiness of that person. A credit score is primarily based on credit report information typically sourced from credit bureaus (Sinclair, 2005).

The factors which may influence a person's credit rating are:

- ability to pay a loan
- interest
- amount of credit used

- saving patterns
- spending patterns
- debt

Given the large number of consumer borrowers, these credit scores tend to be mechanistic. To simplify the analytical process for their customers, the different credit bureaus can apply a mathematical algorithm to provide a score the customer can use to more rapidly assess the likelihood that an individual will repay a given debt given the frequency that other individuals in similar situations have defaulted. This means there is no one credits score, but several (or more): each credit bureau creates their own credit score for each individual (Sinclair, 2005).

Most credit scores go up to about 800, with anything over 700 being a pretty good score. While there are different methods of calculating credit scores, FICO is the most widely known type of credit score. FICO is a credit score developed by Fair Isaac Corporation. It is used by many mortgage lenders that use a risk-based system to determine the possibility that the borrower may default on financial obligations to the mortgage lender. The credit bureaus all have their own credit scores: Equifax's Score Power, Experian's PLUS score, and TransUnion's credit score, and each also sells the Vantage Score credit score. In addition, many large lenders, including the major credit card issuers, have developed their own proprietary scoring models (Sinclair, 2005).

2.14 Ratings processes

The processes used by individual CRAs vary considerably. It is important to distinguish between two types of rating. Solicited ratings occur where the issuer has invited the CRA to rate it, usually for a fee, or has at least participated in the rating. Unsolicited ratings are undertaken by the CRA without reference to the company's management. Such unsolicited ratings are usually carried out by CRAs to improve market coverage of their ratings, or as a marketing device to encourage the company to commission a rating (Sinclair, 2005).

At the start of the rating, a lead analyst is appointed by the CRA. The lead analyst requests information from the issuer and collects other available sources of information to undertake an assessment of the issuer's industry and economic environment. The lead analyst will meet with the company's management and visit its offices and production facilities. A rating is usually based on an assessment of quantitative and qualitative indicators, which are reported to a ratings committee. Individual CRAs have their own methodologies, which they disclose to a greater or lesser degree to the public via their websites. The ratings committee usually consists of the lead analyst, senior managers at the CRA and junior analysts who work on the rating. The final decision is made by a ratings committee, not by a sole individual. A report is then prepared with a draft recommendation. Issuers are allowed to comment on the report to ensure the information collated by the lead analyst is correct. If the CRA has relied on incorrect information or is able to present new evidence, the CRA may reconsider its decision (Sinclair, 2005).

2.14.1 The demand for ratings services

Issuers seeking to market a debt issue commission the services of a CRA to grade their securities. This is undertaken primarily for five reasons, described below:

- To define investment eligibility, as many investment organizations will have policies which specifically prohibit investment in non- investment grade bonds. Therefore, the value of ratings has become institutionalized into organizational practice. Without an appropriate rating, investor appetite for an issue will be thin. Consequently, some commentators (Langohr, 2006) suggest CRAs provide a gate-keeping function to enter global capital markets, where the rating provides the ticket for entry.

- To reduce the information asymmetry effects (Myers and Majluf, 1984) between the issuer and investors. In undertaking an independent review of the probability of default of a debt issue, the CRA is able to provide objective and independent information to the market about the issuer's future prospects. Furthermore, the CRA have access to the company's management and is able to access information about the organisation's future strategy and prospects not available to the market. Therefore, the information gap between issuers and investors is reduced. The effect of reducing this information asymmetry is to reduce the risk premium associated with a debt issue, lowering the margin payable on the issue and reducing the organisation's overall cost of capital.

- CRAs are able to provide an advisory role to management, offering feedback about the long-term effects of their approach to risk. CRAs can advise management of the effect of changes in strategy to their perceived risk profile, and the effect such a change would have on their credit rating, and consequently cost of capital.

- Ratings are used by regulators, for example, the Committee of European Banking Regulators in the European Union (EU) and the Securities and Exchange Commission in the United States (US) to assess capital adequacy and permitted investments for regulatory purposes. As well as providing information upon which investors can base investment decisions, ratings are used to evaluate trading partners, financial counterparties, for example, in financial instruments such as swaps, and business partners, for example, where an organisation enters into a joint venture agreement or strategic alliance.
- For internal treasury purposes, such as assessing counterparty risk. Typically a corporate will have an internal policy which will set absolute and relative limits to the amount that can be invested with one of the counterparty. This limit may vary according to the nature of counterparty, with higher limits applying to counterparty with higher credit ratings.

2.15 The Effect of Information Sharing on Lending and Defaults

Recent theoretical research suggests a threefold effect of lenders' exchanging information on the credit history of borrowers. First, credit bureaus improve banks' knowledge about applicants' characteristics and permit more accurate prediction of repayment probability. This allows lenders to target and price their loans better, easing adverse selection problems. In this respect the benefit of establishing a credit bureau is greatest where each bank is confronted by a large number of customers on which it has no previous information, i.e., where borrowers are very mobile.

Second, credit bureaus reduce the informational rents that banks could otherwise extract from their customers. They tend to level the informational playing field within the credit market and force lenders to price loans more competitively. Lower interest rates increase borrowers' net return and augment their incentive to perform. Third, credit bureaus work as a borrower discipline device: every borrower knows that if he defaults his reputation with all other potential lenders is ruined, cutting him off from credit or making it much more expensive. This mechanism also heightens borrowers' incentive to repay, reducing moral hazard.

In the adverse selection model developed by Pagano and Jappelli (1993), information sharing improves the pool of borrowers, decreases defaults and reduces interest rates. It can also lead to an expansion of lending. When banks are local monopolists, however, in some cases lending diminishes, because the exchange of information increases the banks' possibility of price discrimination between safe and risky borrowers and the increase in lending to safe borrowers does not fully compensate for the reduction in that too risky types.

When credit markets are contestable, lending activity is more likely to increase: competition limits the banks' ability to extract rents from their customers, and information sharing increases banking competition. Moral hazard models also imply that information sharing should reduce default rates and interest rates and increase lending, either because credit bureaus foster competition by reducing informational rents (Padilla and Pagano, 1996) or because they discipline borrowers (Padilla and Pagano, 1997). In extreme cases, information exchange may make lending feasible in markets where no credit would be extended otherwise. In these models, whenever banks choose to communicate they bring about a Pareto improvement by raising customers' welfare along with their own profits. Padilla and Pagano (1997) point out that the disciplinary effect of credit bureaus arises only from the exchange of black information. Information about past defaults generates fear of social stigma. Sharing white information, i.e. data on borrowers' characteristics, while attenuating adverse selection effects, may actually reduce the disciplinary effect of information sharing. Therefore, the comparative benefit of sharing black and white information depends on the relative importance of moral hazard and adverse selection problems in the market.

One way to check these predictions is to relate total lending or default rates to measures of the development of credit bureaus, such as their presence, the quality of information, the population covered, the number of reports issued and the number of years they have been in operation. Performing this exercise poses several data problems. First, missing values and non-responses have limited the number of countries for which we have data on information sharing. Second, data on lending and especially defaults are hard to collect and compare internationally. Third, one must control for legal and institutional variables that are only available for a few countries.

2.16 Bank of Ghana Regulation for the Credit Reference Bureau

Credit Reporting Act No. 726 of 2007 is the main law governing credit bureaus and establishes the conditions for credit reporting in Ghana. The act aims to set up a credit reporting system to reduce the risks of lending and share data on the debt profile and repayment history of borrowers while protecting borrowers' rights as far as possible.

The Acts restricts the access to credit reports and contains numerous provisions on data protection. Financial institutions shall not report customer's information to a licensed credit bureau unless the prior consent in writing of the borrower has been obtained for the submission of the information to the credit bureau and the storage, processing and dissemination of the information by the credit bureau in accordance with the act. Only financial institutions who submit credit information to a credit bureau and who show evidence of the customer's prior written consent to the issuance of a credit report will be eligible to access a credit bureau's data. Consumers have the right to inspect and challenge their own file in the act; All credit bureaus are required to establish an Inquiry Service Unit that shall attend to persons affected by information contained in the database of the credit bureau and who challenge the information on the grounds that it is illegal, inaccurate, erroneous or out-dated.

Complaints shall be submitted to the Bank of Ghana which shall investigate the matter and settle the dispute to the satisfaction of the parties in accordance with the provisions in the act. A person dissatisfied with a decision of the Bank of Ghana may appeal to the High Court; and

A person who suffers harm arising from the supply of inaccurate or incomplete information about the person is entitled to commence an action in court.

The act covers the following topics:

- Supervisory and regulatory role of the Bank of Ghana;
- Licensing and regulation of credit bureau operations;

- Operation of credit bureau;
- Data protection provisions including:
  - Submission of information to credit bureau;
  - Information to be provided by financial institution with consent of borrower;
  - Offence of disclosure of confidential information;
  - Other sources of information for credit bureau;
  - Retention period of credit information database;
  - Dissemination and usage of credit information by credit bureau;
  - Payment for the provision of credit information and credit report services;
  - Privacy and secrecy requirements;
  - Duties of a data provider in relation to consent obtained;
- Consumers rights related to credit records and information;
- Complaints, redress and penalties;
- Investigation, inspection and court orders;
- Miscellaneous matters including:
  - Liquidation of credit bureau;
  - Database in event of liquidation, suspension or revocation of a license;

- Technical and financial audit; and
- Bank of Ghana annual report on licensed credit bureaus.

For instance, the Bank of Ghana (BOG) under section one of the Credit Reporting Act, 2007 (Act 726), has the following supervisory and regulatory roles;

1. The Bank of Ghana shall have overall supervisory and regulatory authority to:

a. Register, license and regulate credit bureaus, data providers and credit information recipients and their agents;
b. Control and supervise activities of the credit bureaus, data providers, credit information recipients and their agents;
c. Maintain proper standards of conduct and acceptable credit reporting practices under the scheme;
d. Make regulations and rules for institutions under this Act;
e. Take measures to protect the interests of credit information subjects;
f. Protect the integrity of the credit reporting system against abuses;
g. Impose penalties for contravention of this Act;
h. Undertake other activities necessary or expedient to give full effect to the provisions of this Act; and
i. Perform other functions specified under this Act.

Amongst other things the Bank of Ghana has also established the following guidelines for the licensing of credit reference bureau in Ghana (BOG, 2009):

2.16.1 Restricting Eligibility to Corporate Bodies

According to the act, no person other than a body corporate incorporated in Ghana shall be eligible to apply for a licence to engage solely in credit reference bureau activities in Ghana.

Again, no person(s) shall engage in credit reference bureau activities in Ghana except by or under the authority of licence issued in accordance with the Credit Reporting Act, 2007 (Act 726). No licence would be granted for the operation of a credit reference bureau, if a financial institution or a debt collection agency has ten (10) per cent or more of the voting rights in the proposed credit reference bureau.

2.16.2 Application for Licence

An application for a licence to operate a credit reference bureau in Ghana shall be made in writing to the BOG and accompanied by the following:

i. Certified true copies of the Regulations, and certificate of incorporation or other Instrument relating to the proposed business.

ii. Documents that support the value of applicant's capital base as well as sources of funds

iii. A feasibility study by the applicant's company that shows the business plan, organisational structure, and internal monitoring procedures of the company and information on the following:

a. Mission statement and goals

b. Market analysis

c. Ownership structure

d. Governance structure

e. Management structure

f. A description of projected investments

g. Projected financial statements for a minimum of three years

h. Analysis of profitability

i. Business Continuity Plan

iv. Details of applicant's shareholder(s), directors and other officers

v. A description of the applicant's premises and suitability for credit reference bureau activities

vi. Particulars of the directors and key management personnel concerned with the management of the banking business, including their educational and professional background

vii. Information necessary for assessing the trustworthiness of applicant

viii. An overview of operations including a description of systems, design of data collection and dissemination and management processes including:

- The development schedule of the software required for operation
- Characteristics of products and services to be provided to users
- Policy on service provision

- ❖ Proposed security and control measures to prevent improper access to information
- ❖ Proposed security and control measures to prevent improper access to management of information
- ❖ Operational manuals designed to ensure accuracy of information contained in the database and its update, and
- ❖ The proposed fee and cost structure of products

Ix. In addition to the above, applicants may also collect personal questionnaire forms for Directors of the proposed credit bureau for completion and submission to the Bank of Ghana, and any

x. Such other particulars as the Central Bank may require

2.16.3 Permissible Activities of Credit Reference Bureau

A credit reference bureau shall be permitted to carry on any of the following activities: *(a)* Gather and maintain data for the formation of credit histories *(b)* Process credit related data *(c)* Deliver credit reports based partly or fully on information not in the public domain.

2.16.4 Capitalisation

Again, the Act states that credit reference bureau is required to have a minimum paid-up capital of GH¢500,000.00

2.16.5 Issuance of Credit Reference Bureau Licence

The Bank of Ghana is the mandated institution under the Act to grant a licence to carry on the business of credit reference bureau after the Bank of Ghana is satisfied that the proposed entity: (a) has the human, financial and operational resources to enable it function efficiently and perform its functions effectively in accordance with the Credit Reporting Act, 2007 (Act 726) (b) proposed credit reference bureau office premises is suitable for the intended lines of business (c) has put in place adequate security systems to protect data (d) presents plans to adopt mechanisms to gather, input, integrate, update, validate and provide adequate security for data (e) presents a credible plan to develop and adopt procedures to ensure that: questions, concerns and complaints of credit information subjects, or data providers are treated equitably and consistently in a timely and efficient manner.

2.16.6 Refusal of licence

The Bank of Ghana may refuse an application for a licence to carry on credit reference bureau business where (a) an applicant fails to pay the stipulated fees (b) there is an error in the application, or (c) an applicant fails to satisfy any pre-condition for the granting of the licence The Bank of Ghana shall within three months after receiving the application, notify the applicant to rectify the situation within thirty (30) days after the receipt of notification. Where the applicant fails to rectify the situation, BOG shall not process the application. BOG shall state the reasons for the refusal in the notice of refusal to the applicant.

2.16.7 Time limit for decision on application

The Bank of Ghana shall communicate its decision on an application for a credit reference bureau licence within three months from the date of receipt of application.

2.17 Borrowers and Lenders Act No. 773 of 2008

Borrowers and Lenders Act No. 773 of 2008 provides a legal framework for the provision of credit in Ghana including standards of disclosure and provisions for the establishment of a collateral registry. The act provides a detailed description of rights and obligations of borrowers and credit providers.

Supervision lies with the Bank of Ghana, which ensures compliance with the act through investigation and monitoring, and receives written complaints about alleged interventions of the act. The Bank of Ghana may impose an administrative fine in case of non-compliance.

The act contains various provisions on consumer protection, including the following:

- Clauses 13-17 provides for borrowers' rights. The rights include the right to apply for credit, protection against discrimination in respect of credit on grounds of race, sex and ethnicity. Other rights include the rights of political affiliation, the right to receive documents, and the protection of borrower credit rights and confidentiality, personal information and borrower credit record. A person aggrieved by a decision of a lender may make a complaint to the Bank of Ghana.

- Clause 18 states that a lender has to provide a prospective borrower with a pre-agreement statement and quotation in the form of a schedule specified in the act. The schedule can be found on the last page of the act.

- Clause 19 specifies the use of marketing to induce a person to apply for or obtain credit.

- Bank of Ghana is required to submit an annual report to the Minister of Finance within six months after the expiration of each financial year. The report must include information on violations and remedial action, volumes of different types of credit products and proposals for on-going improvement for the effective implementation of the act.

CHAPTER THREE

Research Methodology

3.1 Introduction

This chapter presents the methodology adopted and used for the study which has been discussed. These include the research design, sampling, data collection and analysis techniques among others.

3.2 Research Design

This research was an exploratory study based on the following research questions;

- What are the loans and overdraft approval situations in Ghana?
- How do consumers perceive the operations of CRB's?
- Is the kind of information disclosed by the CRB's to their clients sufficient for taking credit decisions?
- What effect does the CRBs have on consumers ability to access to credit in Ghana?

Quantitative research emphasizes "the measurement and analysis of causal relationships between variables, not processes" (Denzin & Lincoln, 2000, p. 8). Quantitative study design states a hypothesis and collects data through highly structured methods such as questionnaires, surveys, and structured observation and uses closed-ended format for questions and interviews. The choice of quantitative methodology is justified based on the fact that it is concise and samples are usually representative of a large population (Yin, 1994).

3.3. Sampling and Sample Size Determination

The research population was defined as all consumers within the Banking industry since they are all susceptible to apply for loans or credit facilities. From the a purposive random sampling frame, one hundred (100) existing customers of the financial institutions already using the CRBs to run credit checks were randomly selected to constitute the final sample size for this study. The choice of the sample was informed by a review of some previous global research carried out on credit reference bureaus or agencies in the banking industry. Researchers have used large sample sizes ranging from about 100 to 1000 respondents (Bailey 1999; White 2001).

3.4 Data Collection

The research was carried out at banks or financial institutions in Accra (names provided in Appendix one) with a total of 10 respondents' banks that were already using the product CRB in Ghana. The research instrument used for the data collection was the use of research questionnaires. Two types of questionnaires were administered; the first design for the consumers of the financial products and the second questionnaire was design and administered to lenders who had used the products or ratings of the CRBs. Credit officers at the banks were issued with the second questionnaires. The first questionnaire on the other hand, was administered to consumers in the premises of the financial institutions visited.

One hundred questionnaires (see Appendix one) were issued to the consumers of those Banks or financial institutions using the ratings from the CRBs i.e. Individuals and organization. All the questionnaires were answered and returned giving 100% response rate.

3.5 Method of Analysis

Frequency tables, tabulations and cross tabulations were used to analyse the data obtained with results presentation in the chapter four.

CHAPTER FOUR

Data Presentation and Analysis

4.1 Introduction

This chapter will provide the presentation of empirical data findings. It will also provide the reader with a discussion and analysis of findings.

4.2 Descriptive Presentation of Survey Questions

This field survey was conducted in May 2012. The survey utilized a questionnaire designed to collect data regarding the relevance of credit reference bureau and its effect on the financial industry in Ghana.

One hundred (100) questionnaires were issued to respondents (Consumers) who were selected at random at the Banking Halls of ten (10) Banks (names provided in the Appendix one). Another ten (10) questionnaires were issued to ten financial institutions which included commercial banks and other financial institutions.

All the questions on the questionnaires were designed specifically to respond to each objective.

Table 4.1 - Categories of Respondents of Borrowers

Consumer(s)	**Number**
Organisation	20
Individual	80

4.3 Responses from the Borrowers

The table 4.1 above presents the categories of the respondents. The two categories were an individual and organisation. The respondents were asked by the researcher if they had come to transact business in the Banking Halls for their own behalf or on the behalf of their organisations. They were then asked to tick and answer appropriately. Twenty (20) respondents answered the questions on behalf of their firms (Organisation) while a further Eighty (80) answered the questions for their own behalf (Individuals). The only demographic question asked for this research was gender. However, there were no variations in views. Therefore the presentation of the results was not gendered. Again, all the respondents chosen were above mandatory legal age of eighteen (18) needed to qualify for credit.

Table 4.2 – A Table showing the responses on whether respondents have ever applied to borrow money from a Bank or Financial Institutions

Respondents	Applied to Borrow	Never Applied to Borrow
Individual	39	41
Organisation	16	4

Figure 4.1 - A Pie Chart Showing whether respondent(s) have ever applied to borrow money from a Bank or Financial Institution

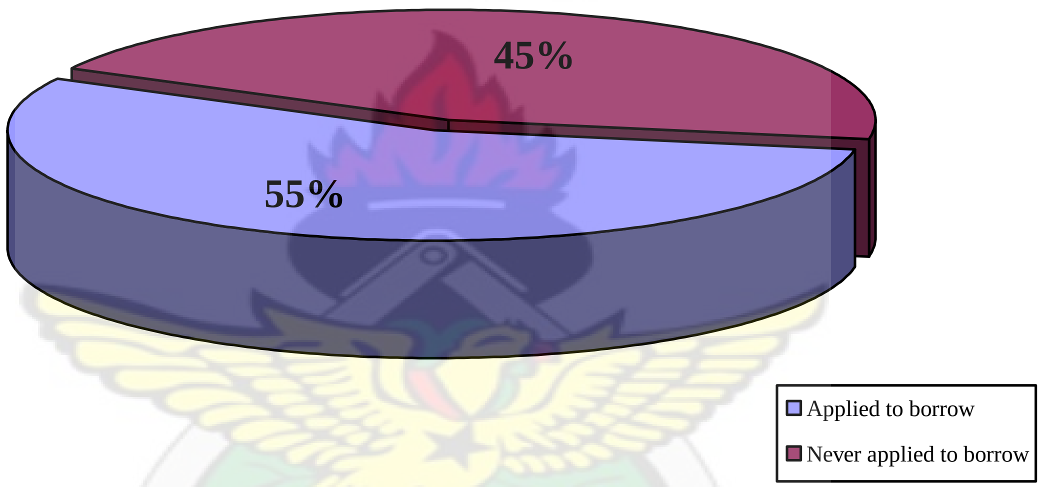
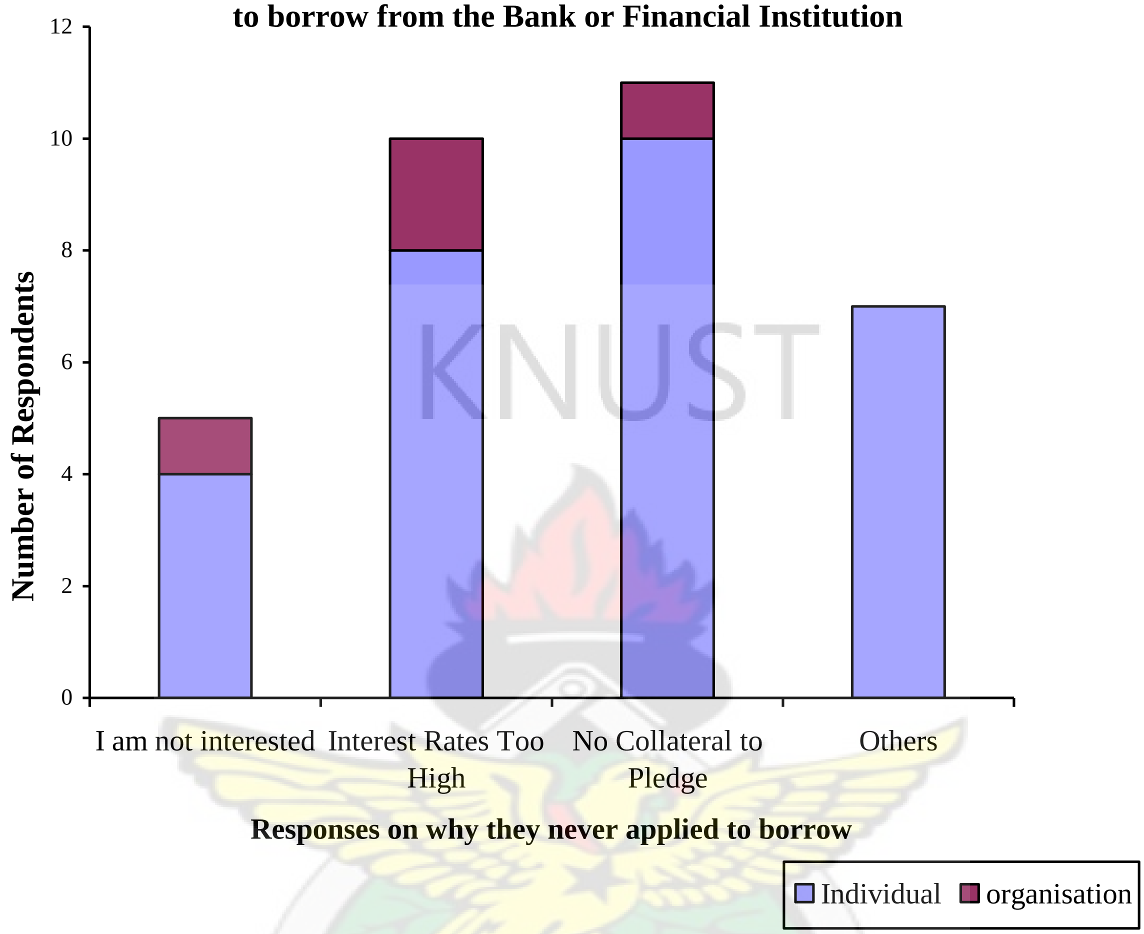


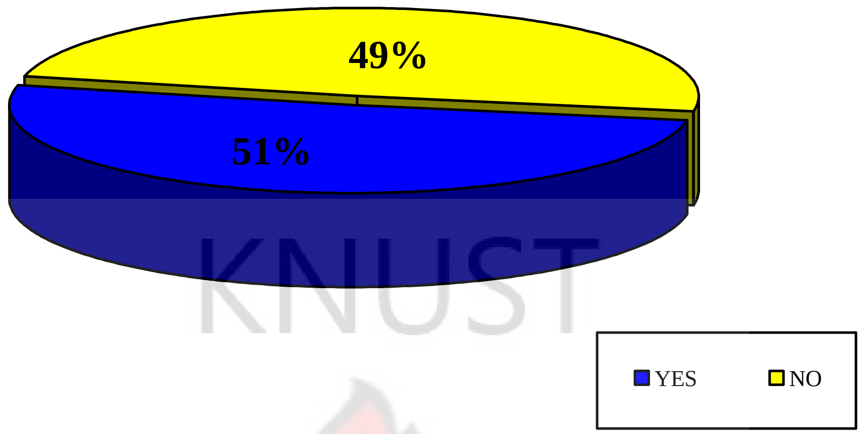
Table 4.2 and figure 4.1 above present the responses on whether the respondents had applied for a loan or overdraft facility from the Bank or Financial Institution before. Out of the hundred (100) respondents, 55% said they had applied for loans before, while 45% said they have never applied for a loan or overdraft facility before. Again, from the results, 80% of the organisation respondents said that they had applied for a loan or an overdraft facility from the Bank or the Financial Institution.

Figure 4.2 - A Bar Chart showing why respondents never applied to borrow from the Bank or Financial Institution



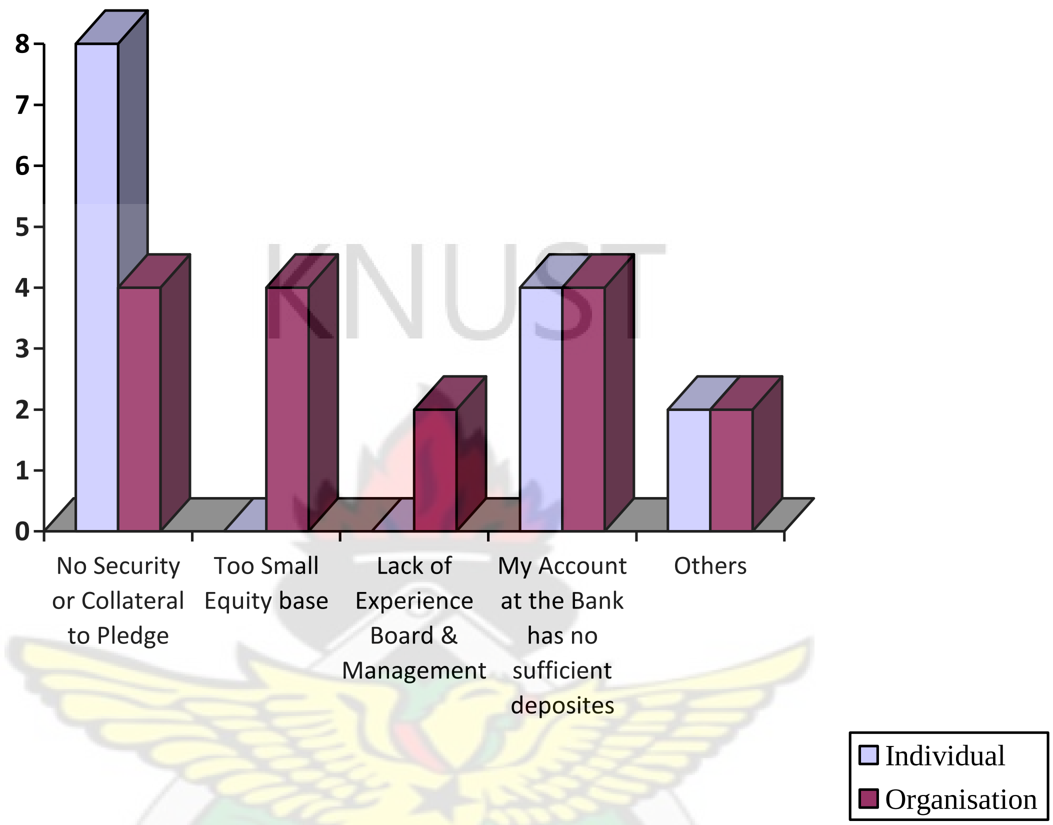
The figure 4.2 presents the responses on why 45 respondents said they had never applied for a loan or overdraft facility from the Bank or Financial Institution before. Out of that number respondents, 5 people said they had not applied for the loans because they were not interested, ten respondents said that they had not applied for the loans because they find the interest rates quoted by the Banks too high. Again, a further 11 respondents said that they had not applied for the loan or overdraft facility because they had no collateral to pledge. While seven respondents said they had not applied because of other reasons that were not provided.

Figure 4.3 - A Pie Chart Showing whether respondents who have ever applied to borrow have been denied before



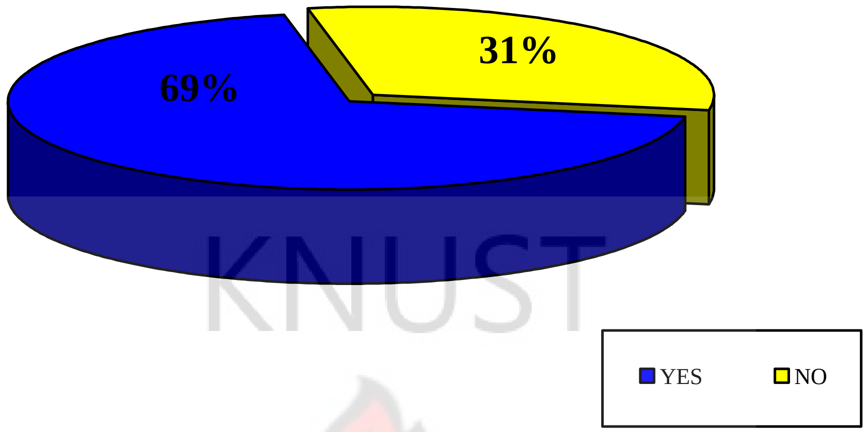
The figure 4.3 above shows the responses on whether those who said they have applied for loans or overdraft facility had ever been denied. Out of the 55 respondents who have ever applied for loans from their Banks or Financial Institutions before, 51% said that their applications have been denied before while 49% said their application had always been successful.

Figure 4.4 - A Bar Chart showing reasons why respondents who applied to borrow were denied



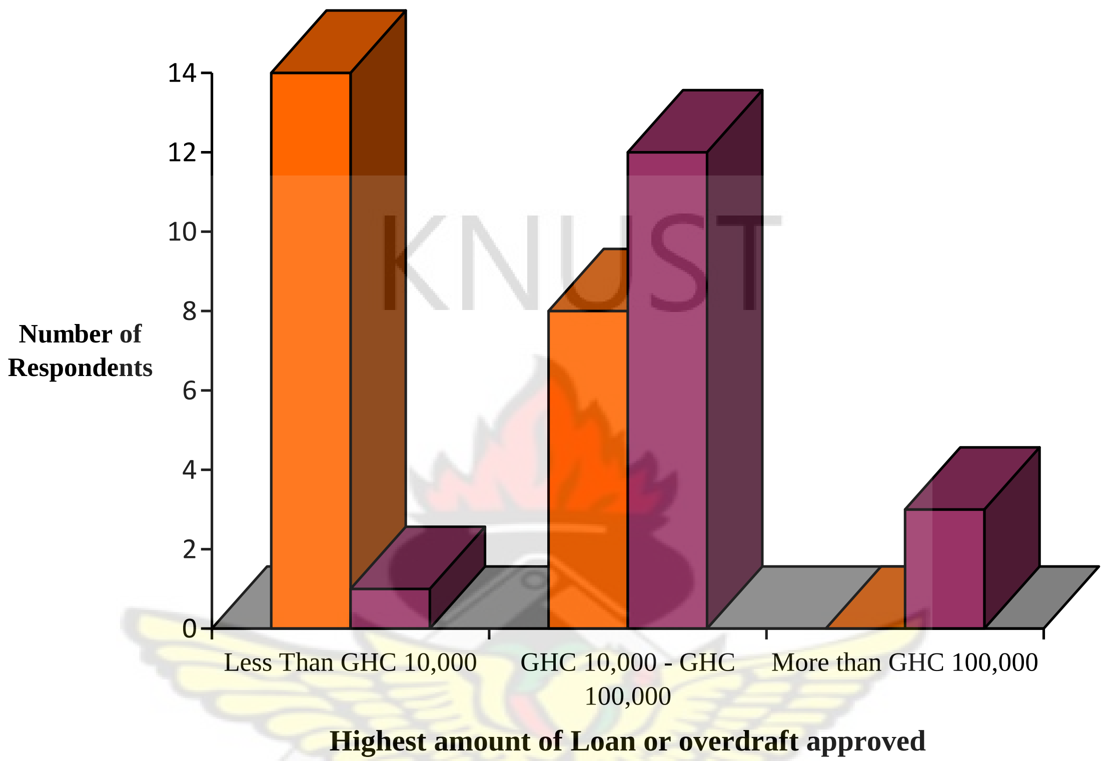
The figure 4.4 presents the responses on why respondents have had their loans or overdraft applications turn down by the Bank or Financial Institution. Out of the 28 respondents 8 individuals and 4 organisations said they were denied because they had no security or collateral to pledge. Again, 4 organisations said that they were denied access to credit because they had too small equity base. Also 2 other organisations said they were denied credit facility because they lack experience board and management. Four each of Individual and Organisation respondents said that their account at the Bank has no sufficient deposits therefore they were denied a loan or credit facility.

Figure 4.5 - A Pie Chart Showing whether respondents have ever been approved to borrow from any Financial Institition



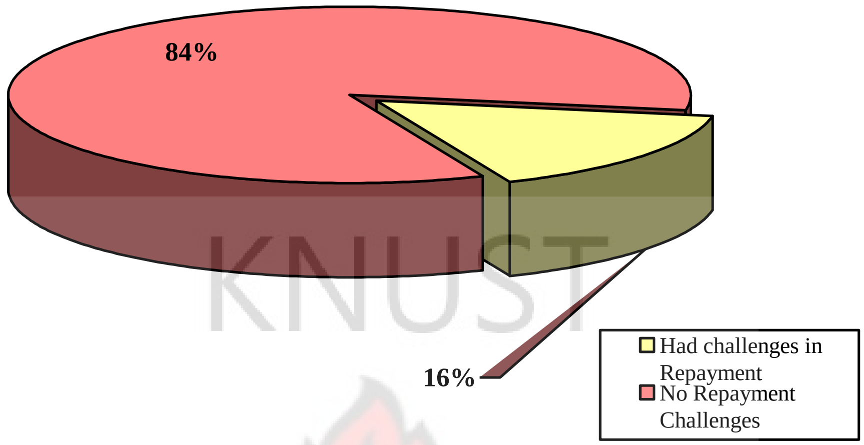
The figure 4.5 above shows whether respondents have ever been approved to borrow from any Bank or Financial Institution. Out of the 55 respondents who have ever applied for loans before, 69% of the respondents have had their credit facility approved. Only 31% of those numbers have never received a loan facility approved.

Figure 4.6 - A Bar Chart showing the highest amount loans or overdraft the Bank or the Financial Institution has approved and disburse to me or my organisation



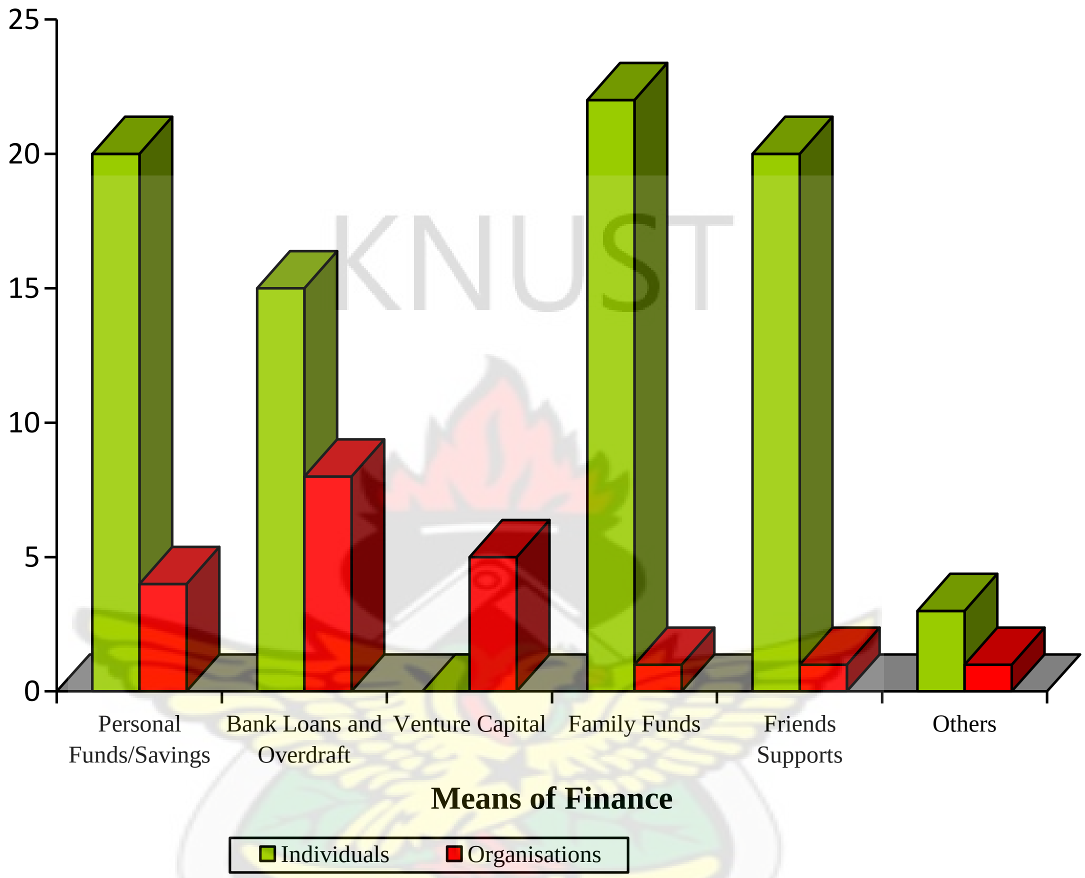
The figure 4.6 presents the responses on the highest amount loans or overdraft the Banks have released to the respondents. Out of the 38 respondents 14 individuals and 1 organisation said they had received a loan or credit facility of less than GHC 10,000, while other 8 individuals and 12 organisations said they had received credit facility ranging from GHC10, 000 – GHC 100,000. A further 3 organisations said they had received more than GHC100, 000 credit from the Bank.

Figure 4.7 - A Pie Chart Showing whether respondents who have received loans or overdraft facility have had problems in the repayment of their loans and overdraft



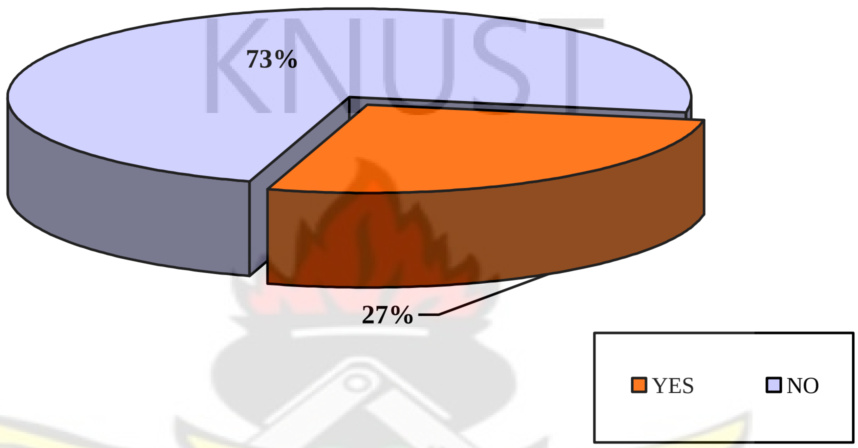
The figure 4.7 above also shows whether respondents who have received credit from a Bank have had repayment problems. Out of the 38 respondents who had received an approved Loans or Credit, 84% said they had challenges in their repayment and only 16% said they had no challenge whatsoever.

Figure 4.8 - A Bar Chart showing how respondents have been financing their personal projects and organisational operartions.



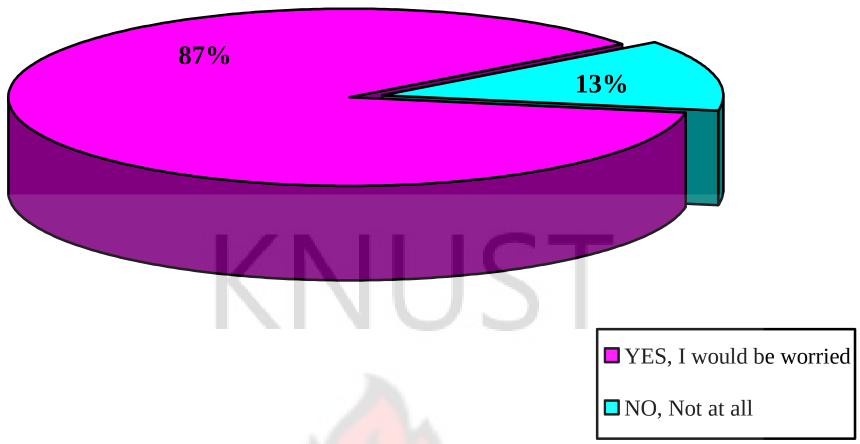
The figure 4.8 presents the responses on how respondents have been financing their personal project and organisational operations. Out the total number of 100 respondents, 20 individuals and 4 organisations said they finance their projects with their personal funds/savings. Again, 15 individual and 8 organisations said they finance their projects through Bank Loans and Overdraft. Five (5) organisations said they finance through venture capital. Another 22 individuals and 1 organisation said they finance their projects by Family Funds. A further 20 individuals and 1 organisation had financed their projects through friends support. Another 3 individuals and 1 organisation had financed their projects through other means.

Figure 4.9 - A Pie Chart Showing whether respondents knew of the existance of the Credit Reference Bereaus in Ghana.



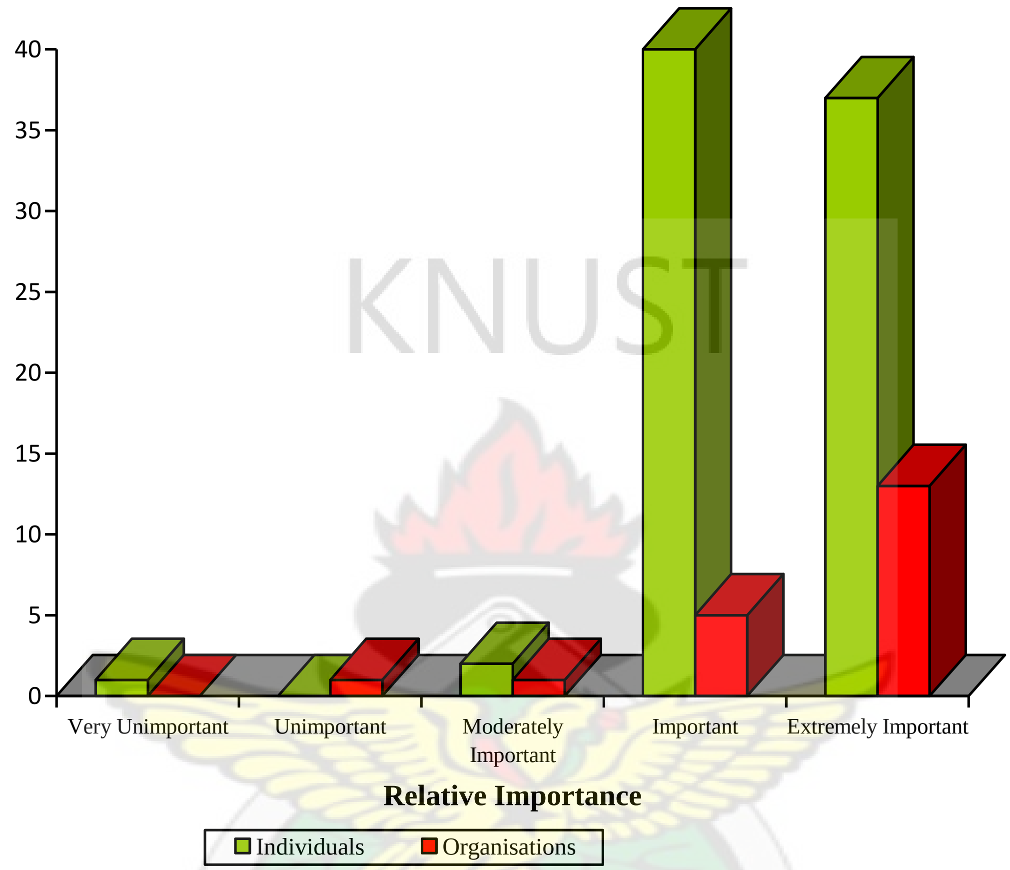
The figure 4.9 above shows whether respondents' know about the existence of Credit Reference Bureaus. About 73% of the respondents said they did not know about the existence of the credit reference bureaus. Only 27% said they are aware of the existence of the Credit Reference Agencies or Bureaus.

Figure 4.10 - A Pie Chart Showing whether respondents would be worried if their financial records are made available to a third party to assess their credit worthiness



The figure 4.10 above shows whether respondents' would give their consent to their lenders (Bank) to perform creditworthiness and/or suitability assessments with a third party (Credit bureau) before granting consumer and business loans. 87% of the total respondents of 100 said they would be worried if their Banks pass on their details to a third party. However, only thirteen (13%) said they would not be worried if their Lenders give their financial details to a third party for credit rating.

Figure 4.11 - A Bar Chart showing how respondents rated the importance of accessing a loan from a commercial Bank without collateral

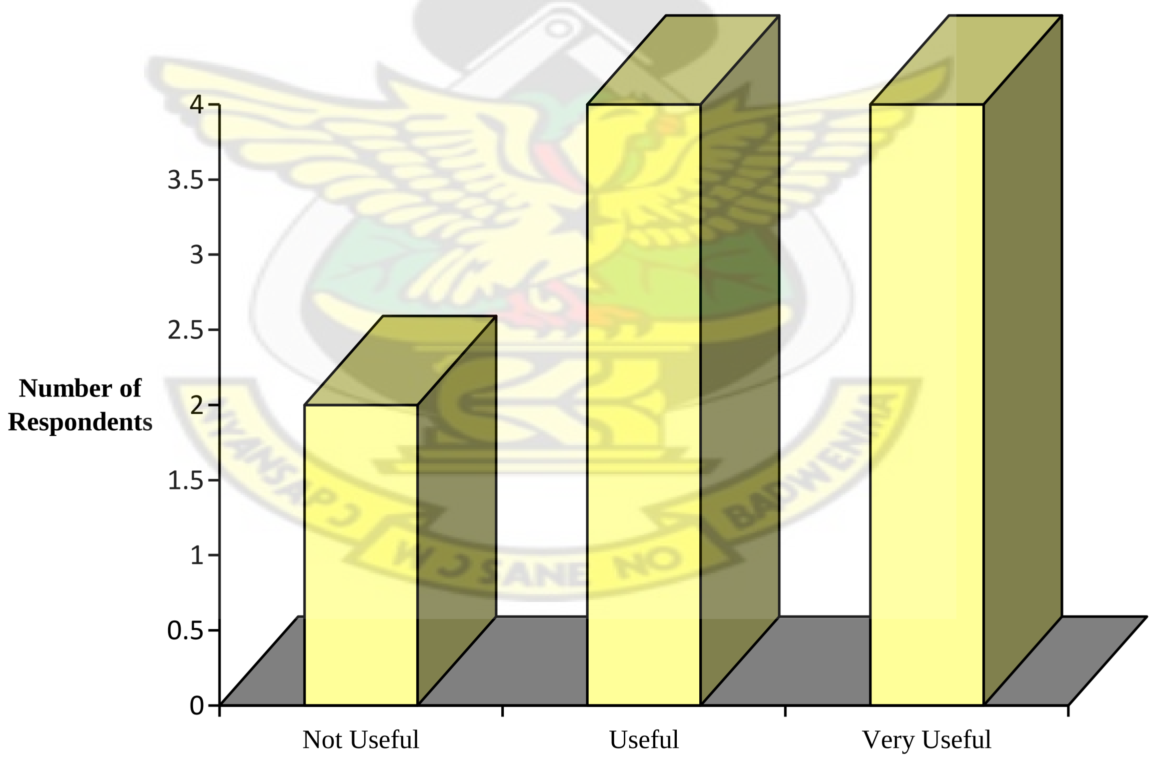


The figure 4.11 shows how respondents rated the importance of accessing a loan or credit facility from a Bank or Lenders in Ghana without collateral. Out the total number of 100 respondents, only 2% of the respondents had said that the CRBs are very unimportant or unimportant. Majority of 98% had either said that the CRBs are moderately important, important or extremely important.

4.4 Responses from the Lenders

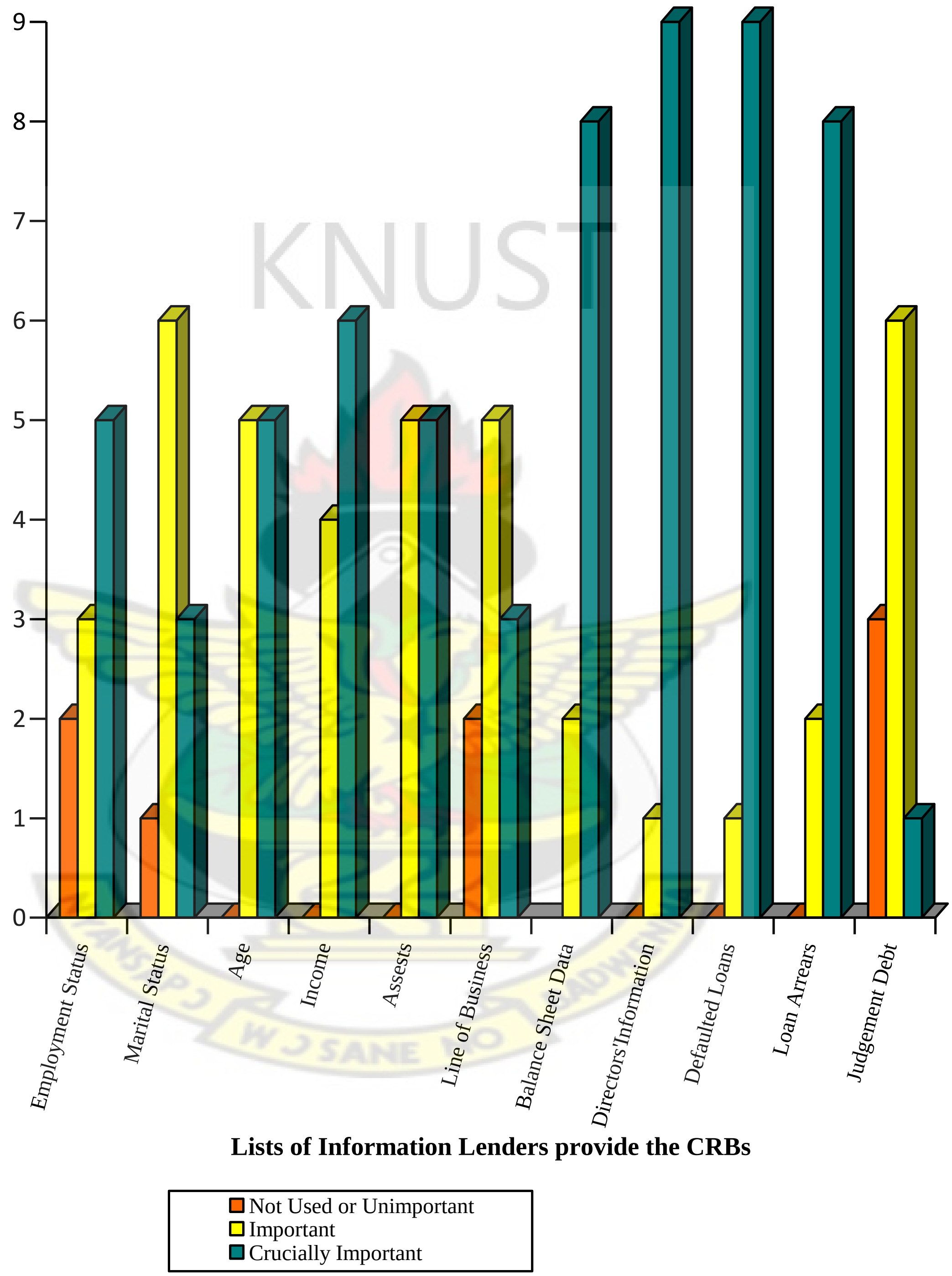
Responses were also collected from 10 Lenders which comprised of 5 commercial banks, 2 savings and loans institutions and 3 microfinance institutions in Accra (names are provided in the appendix two of this research) the only prequalified asked was whether those lenders had used the CRBs products before. Their responses are presented in the figures below:

Figure 4.12 - A Bar Chart showing the usefulness or otherwise of the Credit Reference Bureaus (CRBs) to Lenders in Ghana



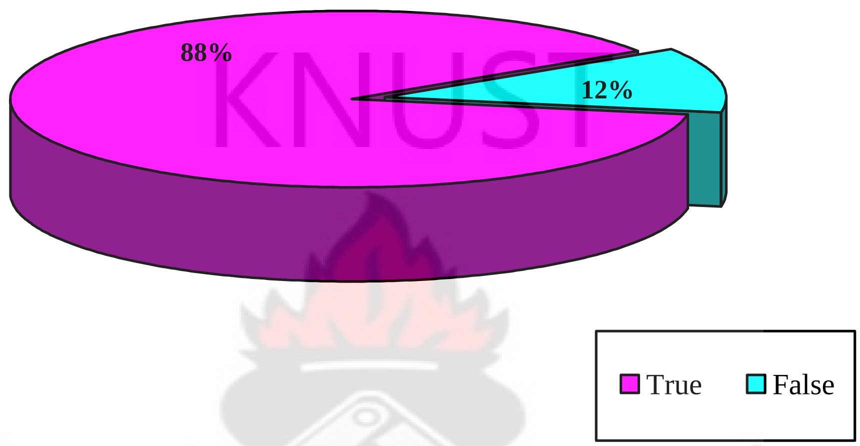
The figure 4.12 above shows the usefulness or otherwise of the Credit Reference Bureaus (CRBs) to lenders in Ghana. The Bar chart show that 2 out of the ten respondents find the CRBs as not useful while 4 apiece thought that the CRBs were useful and very useful.

Figure 4.13 - A histogram showing a the relative importance of the information provided by Lenders in Ghana to the Credit ReferenceAgencies or Bureaus (CRBs)



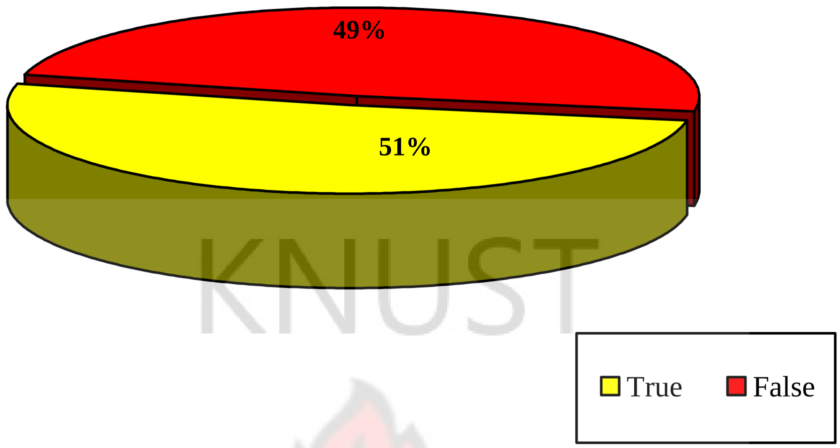
The figure 4.13 above shows the relative importance of the information provided by lenders to the CRBs. Out of the ten (10) respondents only 2 lending institutions said that their employment status is unimportant information provided to the CRBs. Again, 3 lenders found the employment information provided as important. Five (5) lenders said that the employment information provided is crucially important. Again, only 1 lending institutions said that the marital status is unimportant information provided to the CRBs. Six (6) lenders found the marital information provided as important. Three (3) lenders said that marital information provided is crucially important. Furthermore, none of the lending institutions said that age of the prospective borrower(s) is unimportant information provided to the CRBs. Five (5) lenders found the age information provided as important. Yet another 5 lenders said that the age of the applicant provided is crucially important. Moreover, none of the lending institutions said that the household income of the prospective borrower(s) is unimportant information provided to the CRBs. Four (4) lenders found the household income of the prospective borrower(s) provided as important. A further 6 lenders said that the household income of the prospective borrower(s) is crucially important. Again, none of the lending institutions said that the information regarding the assets of the prospective borrower(s) was unimportant. Five (5) lenders found information regarding the assets of the prospective borrower(s) as important. Another 5 lenders said that the information regarding the assets of the prospective borrower(s) is crucially important. Moreover, 2 of the lending institutions said that the information regarding the line of business of the prospective borrower(s) was unimportant. Five (5) lenders found information regarding the line of business of the prospective borrower(s) as important. Another 3 lenders said that information regarding the line of business of the prospective borrower(s) was crucially important. Finally, most of the lenders found Balance Sheet information, Director's information, Defaulted Loans, Loans Arrears and Judgement Debt as crucially important.

Figure 4.14 - A Pie Chart Showing responses on whether the CRBs publishes all assumptions and methods relevant to its decisions to lenders



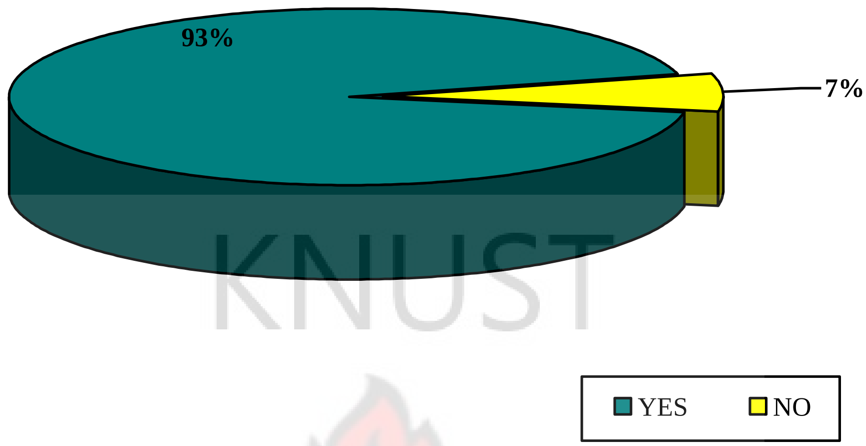
The figure 4.14 above shows responses on whether the CRBs publish all assumptions and methods relevant to its decisions to lenders. About 88% of the lending institutions said that the assumptions and methods generated by the CRBs are relevant to the loan or credit approval decisions by lenders. Only 12% said the information provided by the lenders are not relevant to lenders approval or disapproval of the loan or credit application of a prospective borrower.

Figure 4.15 - A Pie Chart Showing responses on whether the CRBs allows issuers a 'right of appeal' to correct factual errors and misrepresentation



The figure 4.15 above shows responses on whether the CRBs allow issuers a right of appeal to correct factual errors and misrepresentation. About 51% of the lending institutions said the CRBs allows right of appeal to loan applicants who are dissatisfied with some factual errors or misrepresentations. However, 49% said that the CRBs have not allowed the right of appeal to customers who might feel factual errors and misrepresentation.

Figure 4.16 - A Pie Chart Showing responses on whether Lenders (Banks) think CRBs would improve access to credit in Ghana



The figure 4.16 above shows responses on whether lenders thought the presence of the CRBs would address the issue of low access to credit in Ghana. Majority of 93% said the CRBs could help improve access to credit in Ghana. Only 7% said “no”.

4.5 Discussion on the Findings Presented above

The presentations of the results above shows that majority of individuals have financed their personal projects through their personal funds or savings, family funds, money from friends and other means. However, most organisations had secured funding through loans and credit facility to finance their organisational projects with few using funds from other sources. The inference could be drawn from the fact that project or operational budgets for firms or organisations are far bigger than individual personal projects.

Again, when asked if respondents had applied for a loan or overdraft facility from their bankers' before, majority of 55% said they had done so. Most of that majority had come from the organisational respondents because they require large capital base for their operations or their activities. However, majority of people who said they had not applied for loans before said so because they did not have the needed collateral to cover their requested amount. Others also said they would rather not apply because of high interest rates, other personal reasons or because they were simply not interested.

The number of unsuccessful loan applications was also presented the results especially in figure 4.3. Only 49% of the respondents who had applied for loans have ever been successful. The reasons ascribed to the high unsuccessful loan application rate have been no security or collateral to pledge, too small equity base especially for organisations. Also, the lack experience board and management was one of the reasons organisational respondents were denied credit facility. Lastly, most of the respondents also said no sufficient deposits were enough justification by the bank of financial institution to deny them access to credit.

Most importantly, 84% of the respondents (individuals or organisations) said that they have had challenges at some point about their loan repayment. This re-echoes the conclusions made by Ganguin (2004) that every business face credit risks. Because of this, financial institutions generally have considerable credit exposure (Horcher, 2005).

Consumers in Ghana generally do not know about the existence of Credit Reference Bureaus (CRBs). This was shown in the figure 4.9 which presented the views of respondents on the discussion. About 73% of the respondents said they did not know about the existence of the credit reference bureaus. Only 27% said they are aware of the existence of the Credit

Reference Agencies or Bureaus (CRBs). This could be blamed on the fact the CRBs are fairly new in the Ghanaian financial industry. Langohr (2006) suggest CRAs provide a gate-keeping function for access to credit. Furthermore, Pagano and Jappelli (1993) suggested that information sharing through the CRBs improves the pool of borrowers, decreases defaults and reduces interest rates and can also lead to an expansion of lending.

Information or data inputs required by the CRBs to generate reports on potential borrower(s) are provided by the lending institutions. The lending institutions needs to provide the CRBs certain information about the customer that includes employment status of the individual borrower, marital status of borrower, ages of borrower(s), household income of the borrower(s), information regarding the assets of the prospective borrower(s), information regarding the line of business of the prospective borrower(s), Balance sheet information if the borrower(s) is an organisation, Director's information, Defaulted Loans, Loans Arrears and Judgement Debt as crucially important.

Personal characteristics, credit account information and other information derived from monetary-related public records and reports are the much needed information the CRBs need to work with. Credit evaluators typically consider public records and collection agency actions to be adverse information on a par with credit account major derogatories when assessing the credit quality of individuals. The importance of these items is significant (Avery, et al. 2004).

Public record information includes records of bankruptcy filings, judgments, and some foreclosures and lawsuits (Avery, et al. 2004). Although public records include some details about the action, such as the date filed, the information available is much narrower in scope than that available on credit accounts. Credit reporting agency records also include information on non-credit-related bills in collection that are reported by collection agencies. In some cases, collections on credit-related accounts also are reported by collection agencies rather than by the original creditor. In this case, the information is grouped with the collection actions on non-credit-related bills rather than with the credit account information. The most common types of collection actions reported involved unpaid bills for medical or utility services. Collection agency records include only limited details about the action, including the date acquired by the collection agency, the original collection balance, and an indicator of whether the collection has been paid in full (Avery, et al. 2004).

According to Sinclair (2005) the factors which may influence a person's credit rating include ability to pay a loan, interest, amount of credit used, saving patterns, spending patterns and debt.

The responses also established that 51% of the lending institutions said the CRBs allows right of appeal to loan applicants who are dissatisfied with some factual errors or misrepresentations. However, 49% said that the CRBs have not allowed the right of appeal to customers who might feel factual errors and misrepresentation. According to the Credit Reporting Act No. 726 of 2007 which is the main law governing credit bureaus establishes the conditions for credit reporting in Ghana. The Act states that all credit bureaus are required to establish an Inquiry Service Unit that shall attend to persons affected by information contained in the database of the credit bureau and who challenge the information on the grounds that it is illegal, inaccurate, erroneous or out-dated.

Again, figure 4.10 above shows that 87% consumers said they would be worried if their Banks pass on their details to a third party to assess their credit worthiness. According to the Credit Reporting Act No. 726, the Acts restricts the access to credit reports and contains numerous provisions on data protection. Financial institutions shall not report customer's information to a licensed credit bureau unless the prior consent in writing of the borrower has been obtained for the submission of the information to the credit bureau and the storage, processing and dissemination of the information by the credit bureau in accordance with the act. Only financial institutions who submit credit information to a credit bureau and who show evidence of the customer's prior written consent to the issuance of a credit report will be eligible to access a credit bureau's data. Consumers have the right to inspect and challenge their own file in the act.

Majority of the lenders respondents said that the CRBs were useful or very useful in the financial industry in Ghana. Again when asked whether the CRBs' published assumptions and methods were relevant to the lending decisions of Banks or Financial Institutions, about 88% of the lending institutions said that the assumptions and methods generated by the CRBs are relevant to the loan or credit approval decisions by lenders. Again, majority of lenders said that the CRBs could help improve access to credit in Ghana. These conclusions were in line with the findings of Pagano and Jappelli (1993) which suggested that, information sharing through the CRBs improves the pool of borrowers, decreases defaults and reduces interest rates. It can also lead to an expansion of lending.

Chapter Five

Research Conclusions and Recommendations

5.1 Conclusion

The following are the conclusions the researcher made as per the objectives of the research..

5.1.1 To investigate the loans or overdrafts approval situations in Ghana

The findings of this research showed that most financial consumers do finance their personal projects through their personal funds or savings, family funds, money from friends and other means; very few actually do tend to the Bank. With regards to the organisations, they secure credit funds mostly from the Banks or Financial institutions in Ghana. Again, a little over half of all the consumer respondents had applied for loans or overdraft facility from their Banks. Majority of consumers in had stayed away from loans because of they did not have the needed collateral to cover their requested amount, higher interest rates and other personal reasons. Other also stayed away because they simply did not were not interested. In spite low numbers of loan applicant in the financial industry in Ghana, there is a higher number of unsuccessful loan applications. The reasons ascribed to the high unsuccessful loan application rate have been no security or collateral to pledge, too small equity base especially for organisations. Also, the lack experience board and management was one of the reasons organisational respondents were denied credit facility. Lastly, most of the respondents also said no sufficient deposits were enough justification by the bank of financial institution to deny them access to credit. Most importantly, majority of the respondents (individuals or organisations) said that they have had challenges at some point about their loan repayment.

5.1.2 To find out consumers' perceptions of CRBs

Most people in Ghana consumers alike do not know about the existence of Credit Reference Bureaus (CRBs). The findings of the research showed was found in the about 73% of the respondents said they did not know about the existence of the credit reference bureaus. Only 27% said they are aware of the existence of the Credit Reference Agencies or Bureaus (CRBs). This could be blamed on the fact the CRBs are fairly new in the Ghanaian financial industry

5.1.3 To ascertain whether the kind of information disclosed by the CRB's is sufficient in making credit decisions.

The research also established that data inputs required by the CRBs to generate reports on potential borrower(s) are provided by the financial institutions. These information included employment status of the borrower(s) if an individual, marital status of borrower, ages of borrower(s), household income of the borrower(s), information regarding the assets of the prospective borrower(s), information regarding the line of business of the prospective borrower(s), Balance sheet information if the borrower(s) is an organisation, Director's information, Defaulted Loans, Loans Arrears and Judgement Debt as crucially important.

The research also found out that not all the lending institutions thought that the CRBs provided a 'right of appeal' opportunity to the customers who disagree with the results and ratings of the CRBs. This findings was not in consonance with the Credit Reporting Act No. 726 of 2007 which states that all credit bureaus are required to establish an Inquiry Service Unit that shall attend to persons affected by information contained in the database of the credit bureau and who challenge the information on the grounds that it is illegal, inaccurate, erroneous or out-dated. The research also established that, large majority of consumers in Ghana said they would not be happy if their bankers turnover their personal details to a third party in the name of assessing their credit worthiness.

5.1.4 To determine the effect CRBs have on access to credit by consumers in Ghana.

The findings of the research also established that lenders find the CRBs very useful in the financial industry in Ghana. And that they have concluded that the CRBs could help improve access to credit in Ghana.

5.2 Recommendations

This research found out about the relevance of credit reference bureaus which cannot be over-emphasized within the financial industry in Ghana. The researcher finds it expedient to make the following suggestions after the findings and recommendations

To help customers understand the importance of Credit Reference Bureau, financial institutions must make it as part of their duty to educate customers about the functions of the bureau and how it will help in addressing the problem of the informative asymmetry between lenders and borrowers regarding the creditworthiness of the latter**.**

Financial institutions must try to encourage customers without the needed collateral to use their cash deposits as security to apply for credit facilities leading to a bigger credit market and improved profits**.**

Financial institutions should also offer business advice to organizations lacking experience board and management personnel who can help streamline their operations to enable them access credit facilities.

There should be constant collaboration and sharing of information between the financial institutions and the credit reference bureau. This is to improve the reports provided by credit reference bureau to the financial institutions

To help customers understand and appreciate the work of the Credit Reference Bureau, the CRB's must develop a credible plan and adopt procedures to ensure that: questions, concerns and complaints of customers or financial institutions are treated equitably and consistently in a timely and efficient manner

Finally a lot of education and sensitization should also be done by the already established credit reference bureau organizations in the country to make consumers aware of their role in improving good credit behaviour among consumers, lowering default rates and increasing price competitiveness' of credit facilities.

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SELECTED BANKS

1. Prudential Bank Limited
2. Cal Bank Limited
3. Unibank Ghana Limited
4. HFC Bank Limited
5. Agricultural Development Bank
6. United Bank for Africa
7. Zenith Bank Ghana Limited
8. Oak Financial Services
9. Jislah Financial Services
10. Fidelity Bank Limited

Research Questionnaire for Borrowers

My name is Eric Dankwah a CEMBA student at KNUST. I am undertaking a research on "The relevance of credit reference bureau in Ghana and its effect on the financial industry" as my final year thesis work. This questionnaire would be very useful in the study of the use of the credit bureaus being as a reference point in taking lending decisions in Ghana. Please spare a few minutes and fill it up. The questionnaire consists of 4 sections. All four sections need to be filled except when specifically redirected to other question(s). Please make sure you read all questions and answer them appropriately. The researcher carrying out this project guarantees you a complete confidentiality in the use of the data collected in the survey. Data and results based on the survey will always be presented in tabular form and at a level of aggregation that will safeguard the confidentiality of individual banks.
* Required

* Q1. Which category of financial consumer(s) do you belong?

- Organisation
- Individual

Sample Question 2 * Q2. Have you or your organisation (company) ever applied to borrow money from a Bank or a financial institution?

**** If you answer this question please skip the others and continue from Q.12. ****** Q3. If your answer to Q2 is NO why?

- Personally Bank Loan or overdraft has never been an option for me or my organisation
- Interest Rate too high
- No collateral to pledge
- Other:

Q4. If your answer to Q2 is YES have you ever been refused or denied to borrow money from a bank or a financial institution?

Q5. If your answer to Q2 is YES have you ever been refused or denied to borrow money from a bank or a financial institution?

Q6. What was the main reason your Bankers refused offering you loan?

- ☐ No Security or Collateral to pledge
- ☐ Too small equity base
- ☐ Lack of experienced Board & Management
- ☐ My Account at the bank has no sufficient deposits
- ☐ Other: ______

Q7. Have bank or a financial institution ever granted your loan or overdraft request?

Q8. What was the main reason your Bankers granted your loan?

- ☐ I had enough Security or Collateral to cover the loan
- ☐ I had a strong equity base
- ☐ I had very experienced Board & Management
- ☐ My Account at the bank had been there for years and statement showed stronger inflows
- ☐ Other: ______

Q9. What was the highest amount your company ever borrowed from a Bank?

- ☐ Less than GHC 10,000
- ☐ Between GHC 10,000 - 100,000
- ☐ More than GHC 100,000
- ☐ Other: ______

Q10. Have you ever had problem repaying a Bank loan?

Q11. If YES, what created the problem?

* Q12. Is financing really a set back to the growth of your organization?

* Q13. How have you been financing the operations of the organization?

- ☐ Personal funds/ savings
- ☐ Bank loans and overdrafts
- ☐ Venture Capital
- ☐ Family funds
- ☐ Friends Support
- ☐ Other: ____

* Q14. Does your organization have a good business relationship with your bankers?

* Q15. Do you know about the existence of the credit reference bureaus?

* Q16. Would mind if your bankers give your financial details to a third party in other to rate your credit worthiness?

* Q16. How important would rate accessing loans in Ghana without using collateral as a security?

	1	2	3	4	5	
Very unimportant	○	○	○	○	○	Extremely important

Research Questionnaire Lenders

My name is Eric Dankwah a CEMBA student at KNUST. I am undertaking a research on **"The relevance of credit reference bureau in Ghana and its effect on the financial industry**" as my final year thesis work. This questionnaire would be very useful in the study of the use of the credit bureaus being as a reference point in taking lending decisions in Ghana. Please spare a few minutes and fill it up. The questionnaire consists of 4 sections. All four sections need to be filled except when specifically redirected to other question(s). Please make sure you read all questions and answer them appropriately. The researcher carrying out this project guarantees you a complete confidentiality in the use of the data collected in the survey. Data and results based on the survey will always be presented in tabular form and at a level of aggregation that will safeguard the confidentiality of individual banks.

* Required
SECTION ONE - DESCRIPTION OF YOUR CREDIT BUREAU * Q1. The credit bureau is owned by:

- ☐ A group of banks
- ☐ A group of other financial intermediaries
- ☐ Individual share-holders
- ☐ Foreign-owned (majority stake foreign-owned)

Q2. The credit bureau is

- ☐ a company run for profit other (please indicate)
- ☐ a cooperative enterprise or consortium of lenders
- ☐ a semi-public institution
- ☐ Other: ______

SECTION TWO - SOURCES OF INFORMATION * Q4. Please rank the importance of the following as sources of information about Individual / Person for his / her credit rating.

	Not used or rather unimportant	Important	Crucially important.
Banks	○	○	○
Other financial institutions	○	○	○
Credit card companies	○	○	○
Central Credit Register	○	○	○

	Not used or rather unimportant	Important	Crucially important.
Public records			
Tax files			
Other: (please indicate)			
Banks			
Other financial institutions			
Credit card companies			
Central Credit Register			
Public records			
Tax files			
Other: (please indicate)			

SECTION THREE - DATA SUPPLIED TO THE CREDIT BUREAU * Q6. Which type of data are provided by lenders to your credit bureau?

	Not used or rather unimportant	Important	Crucially important.
Banks			
Other financial institutions			
Credit card companies			
Central Credit Register			
Public records			
Tax files			
Other: (please indicate)			

SECTION THREE - DATA SUPPLIED TO THE CREDIT BUREAU * Q6. Which type of data are provided by lenders to your credit bureau?

	Personal / Individual	Business
employment status		

	Personal / Individual	Business
marital status	○	○
Age	○	○
Income	○	○
Assets	○	○
line of business	○	○
balance sheet data	○	○
personal information about directors	○	○
share-ownership structure	○	○
Defaulted loans	○	○
Arrears	○	○
Total loan exposure	○	○
Judgement Debt	○	○

SECTION FOUR - DATA PROTECTION AND RECIPROCITY * Q7. Do you apply a principle of reciprocity with your clients (i.e., do you supply information only to those who supply it to you)?

* Q8. If yes, is there an explicit agreement between you and lenders to exchange information?

* Q9. What happens if lenders do not comply with the reciprocity agreement (i.e. supply late or incorrect information)?

****Please answer if you are a LENDER**** Q10. How useful are the information provided by credit bureau in making credit decision?

	1	2	3	
Not Useful	○	○	○	Very Useful

****Please answer if you are a LENDER**** Q11. The Credit bureau publishes all assumptions and methods relevant to its decisions to lenders?

Q12. The Credit bureau allows issuers a ‘right of appeal’ to correct factual errors and misrepresentations
****Please answer if you are a credit consumer***** Q13. Would you give your consent to your lenders (Bank) to your perform creditworthiness and/or suitability assessments with a third party (Credit bureau) before granting consumer and business loans
* Q14. Do you think the credit bureau would improve access to credit in Ghana?