



# Central Bank of The Bahamas Celebrating 40 Years



## THE BAHAMAS' CREDIT BUREAU PROJECT

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

**Bahamas Development Bank and Bahamas Mortgage Corporation**  
**Credit Reporting Bill Seminar**  
**11 February, 2015**

# PROJECT HISTORY

...renewed momentum after joining the IFC Caribbean Credit Bureau Project

## Govt Approval

CBOB obtained Gov't's no objection to proceed with preparatory work for establishing a credit bureau. Credit Bureau Committee established.

2003

2008

## World Bank Study

Feasibility study undertaken on lenders' exchange as first step; exercise started in 2005, report finalized in 2006.

## IFC Project

Bahamas beneficiary of assistance under IFC's 5 yr. credit bureau project for the Caribbean. Assessments undertaken of market, legal and regulatory and business and technical frameworks

2011 - 2014

## BCB Project

Guided by findings, new working teams established; Central Bank, in consultation with the IFC, developed draft legislation; extensive discussions with key stakeholders.

## Public Consultation

Draft Credit Reporting Bill and Regulations issued for public consultation.

Sept, 2014

# Objectives of the Proposed Legislative Framework

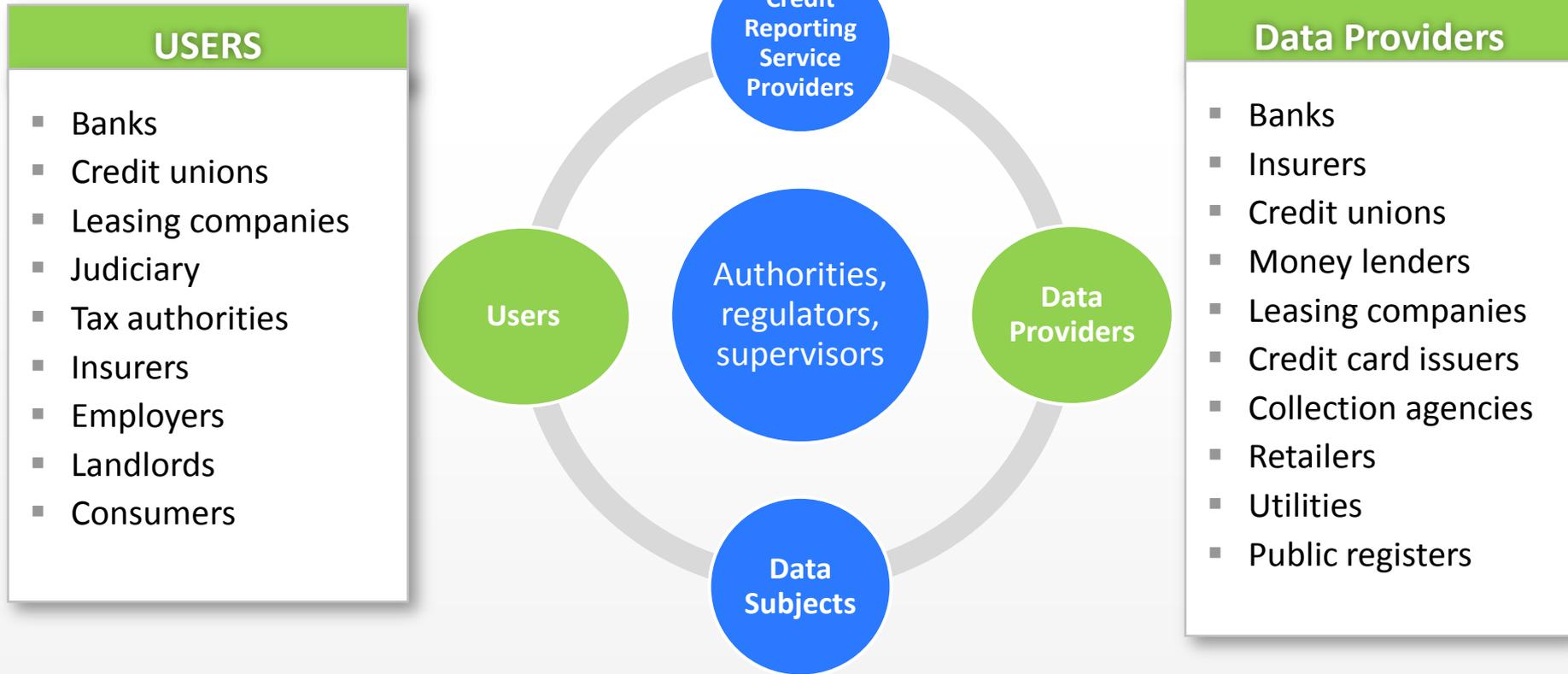
- Facilitate the effective supervision of the credit reporting sector and the efficient operation of a credit bureau —provides for confidence in the system.
- Establish the rights and obligations of the credit bureau, its users, the credit information providers and consumers.
  - Comprehensive information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



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

# Typical Participants in the Credit Reporting System

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



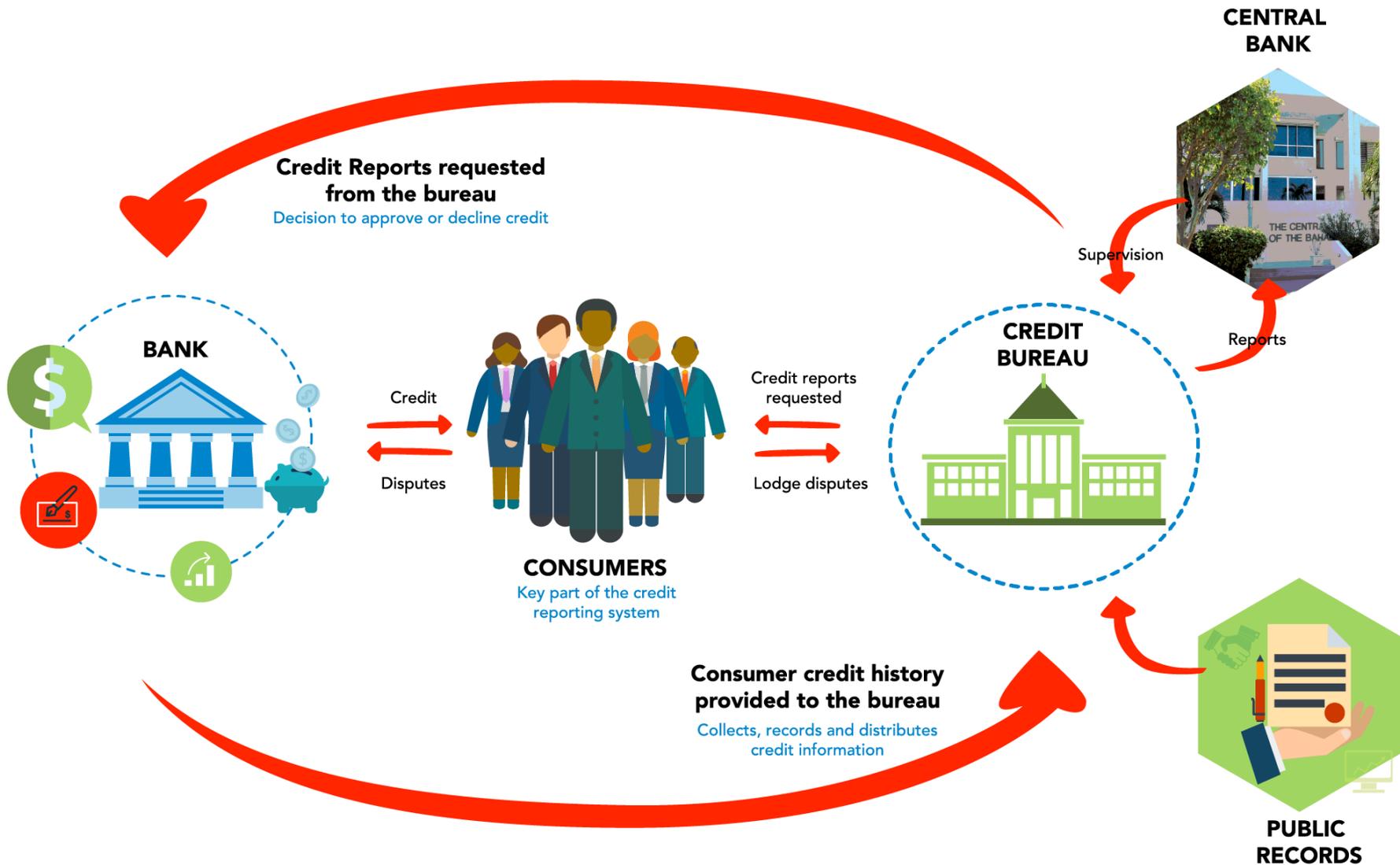
# What is a Credit Bureau?



- **Company collects information from lenders and other sources about a consumers' borrowing and bill-paying history.**
  - Credit history is compiled in a credit report.
  - Credit reports used by prospective lenders and other users (e.g. employers) to help assess credit worthiness of consumer.
    - How likely the consumer is to repay the loan/make payments when due.
    - Can impact the interest rate or other terms of a loan.
- **Offers other value added services**
  - Credit scoring
  - Portfolio monitoring
  - Fraud alert
- **Credit Bureau may:**
  - charge fees for credit reports (except free annual report) and other value-added products.
  - no charge for investigating disputes/correcting disputed information.



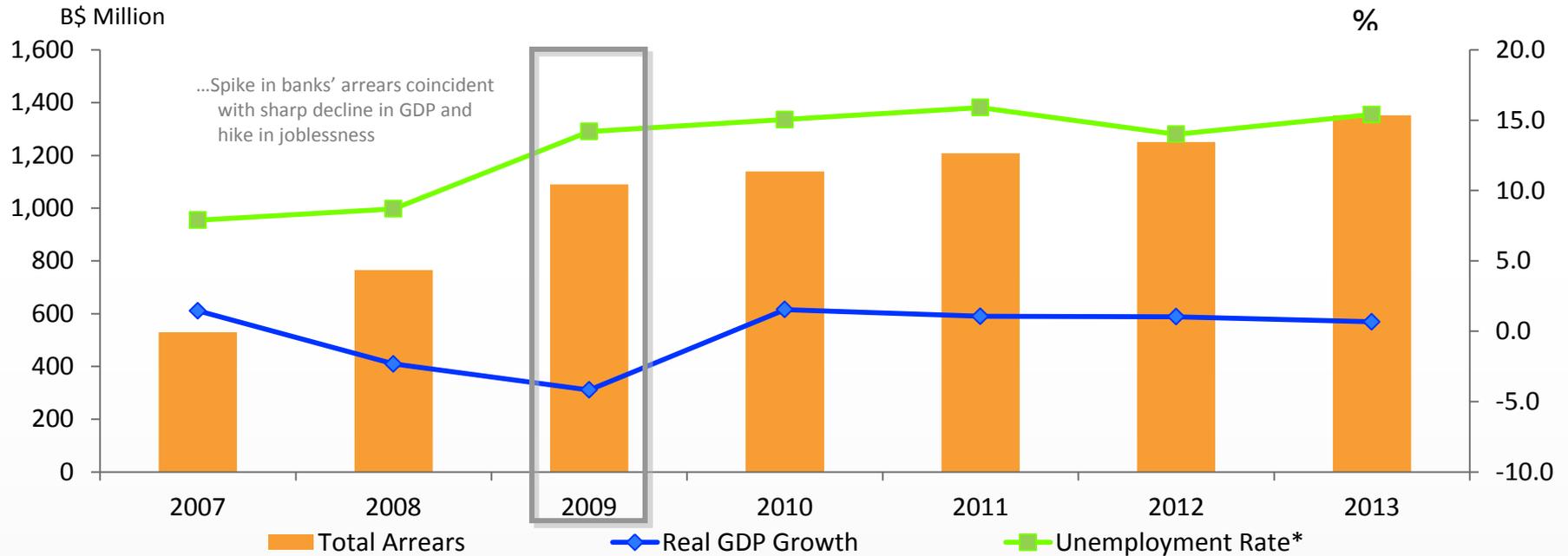
# The Operations of a Credit Bureau



# Why Do We Need a Credit Bureau?

- Presently, lenders are not able to accurately assess the credit worthiness of potential clients, due to a lack of comprehensive information on their outstanding debt obligations.
- **CHALLENGES POSED:**
  - Can lead to consumers taking on too much debt, given their income and level of assets.
  - If customers unable to service debts, then repossessions and foreclosures can occur.
  - Financial institutions will be adversely affected if a significant number of clients are unable to meet their debt obligations.
    - More risky loans impact banking sector stability; high levels of bad debt → higher provisions and write-offs. Greater claims on capital tends to reduce lending activity.
  - Problems in the banking sector present challenges for overall economic growth and financial stability.

# Domestic Credit Quality Conditions



## Commercial Banks' remediation activities

Between 2009 and 2013:

- Restructured loans: **\$778.8** million or 12.6% of total private sector credit at end-Dec 2013
- Write-offs: **\$462.7** million
- Recoveries: **\$82.3** million
- Provisions: **\$442.7** million

# Credit Bureau: Benefits to Borrowers and Lenders

## Borrowers

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

## Lenders

- Increased access to accurate/comprehensive information about borrowers' credit history and payment habits enables better assessment of true creditworthiness.
- Streamlined credit decision making process.
- Lower exposure to risky loans could reduce operational costs, improve capital adequacy and reduce provisioning requirements.
- Able to offer risk-based pricing to customers.



**Supports Central Bank's financial stability objective and economic growth**

# Recommended Approach for Credit Bureau

## ... market size a key determinant of approach

**Bureau would need a minimum of 250,000 annual inquiries to break even.**

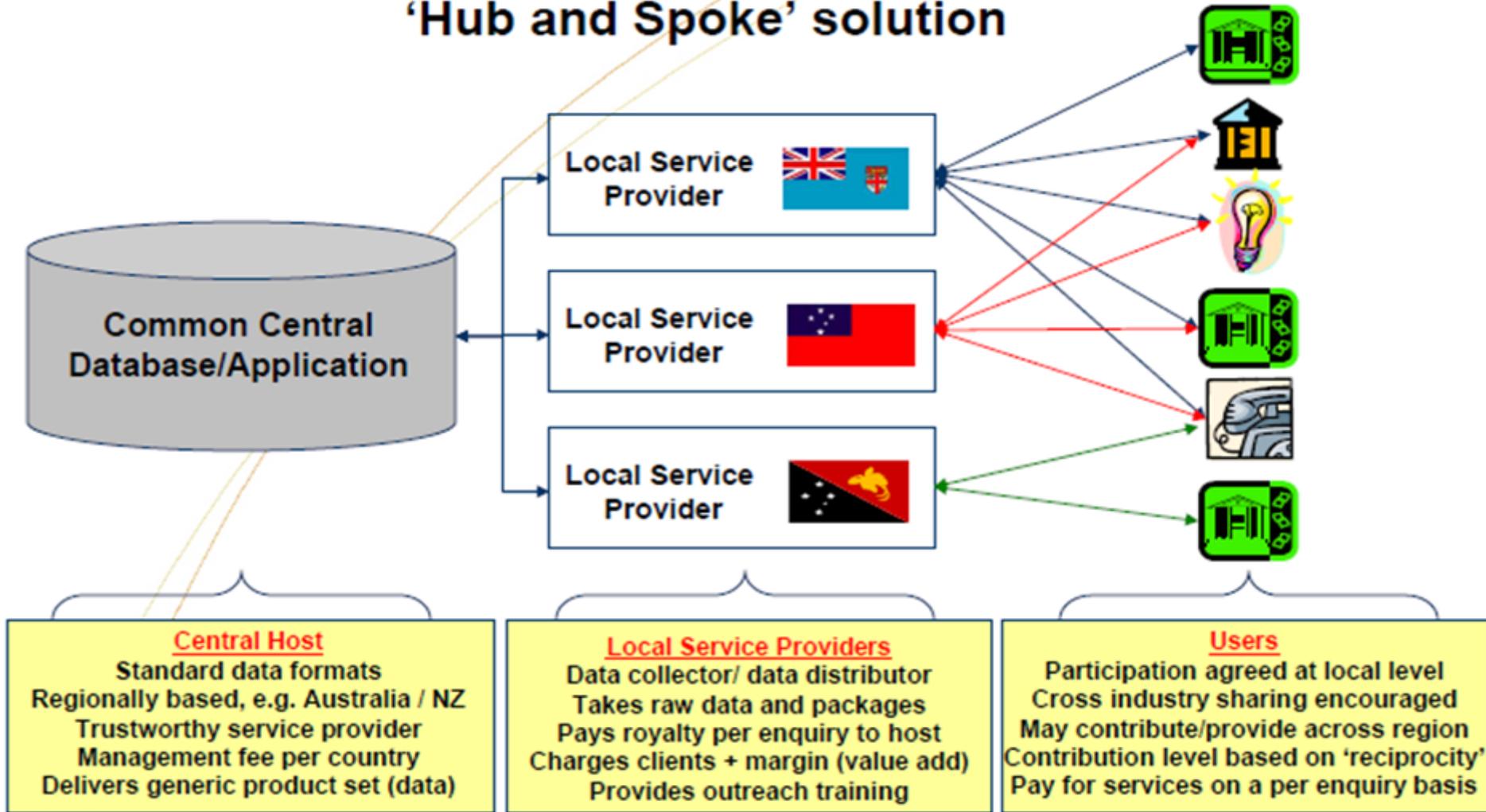
- Given market size in The Bahamas, the IFC recommends an off-shore/hub and spoke hosting arrangement, where an existing service provider would leverage its systems (hub) to service operations in The Bahamas (spoke).

### **Benefits include:**

- Lower development costs, due to redundancy of infrastructure, equipment, capital etc.;
- Access to an experienced bureau operator, and ability to leverage world class security, products and services, upgrades, etc.; and
- Shorter time to market (average of 12-15 months).
- Clause 31 of the Credit Reporting Bill will permit a credit bureau to be hosted off-shore.

# Illustrative example

## 'Hub and Spoke' solution



# Kinds of Information to be Used for Credit Reporting

...apart from personal info to identify customer, credit info to appear on credit reports.

## Negative Data

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



...negative info will not fully cover the risk!

## Positive Data

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



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



**Better and more balanced view of customers' credit situation**

# Historical Data in the Credit Report

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

# Credit Bureau's Credit Reporting Activities

## The Permissible Purposes for which a credit report may be disclosed include:

- For consideration of an application for credit/offer to act as guarantor for a credit applicant;
- In connection with
  - the purchase or collection of a debt;
  - a new/renewal of a tenancy agreement;
  - the underwriting of insurance involving the consumer;
- In connection with a business or credit transaction involving the consumer;
- Employment assessment;
- Periodic portfolio monitoring and risk assessment purposes, collection and skip tracing;
- For any other permissible purpose, as the Central Bank may from time to time, specify by Regulations; and
- In response to a Court Order.



# Credit Information Providers

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

## Mandatory

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

## By Designation

- Licensees of the Utilities Regulation and Competition Authority (e.g.)
  - Bahamas Telecommunications Company
  - Cable Bahamas Ltd.
- Public Utilities
  - Water & Sewerage Corporation
  - Bahamas Electricity Corporation
- Any person carrying on business of selling goods, pursuant to a hire purchase agreement, credit sale agreement or conditional sale agreement (pursuant to the Hire Purchase Act)
- Public registers
  - Supreme Court
  - National Insurance Board
  - Companies

# Credit Information Provider Duties

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

## The Draft Credit Reporting Regulations require credit information providers to:

- take reasonable measures to satisfy themselves that consumer information is reliable, accurate and current.
- inform consumers of the name and address of the credit bureau from which information about the consumer is being obtained; and
- in the event of inaccurate information, instruct the credit bureau, within five (5) working days, to delete such inaccurate information and replace it with accurate information.

# Consumer Rights

...accorded high priority in credit reporting framework



## Consumers will have the right to:

- Know what information, on them, is held by the bureau and access such information.
- Access credit reports free of charge in the following instances:
  - one free credit report each year, upon request;
  - in any case where a credit bureau has corrected credit or personal information relating to the consumer; or
  - where a consumer has been denied credit.
- Access credit reports, in all other instances, for a fee.
- Dispute the accuracy of information produced in a credit report; and
- Have information held by the credit bureau that they perceive to be inaccurate, misleading, incomplete or out-of-date, corrected in a timely manner.

# Consumer Access to Credit Reports

## REQUEST FOR CREDIT REPORTS



Consumers may provide written request to credit bureau for a credit report.

## DETAILED DISCLOSURES



Credit report shall clearly and accurately disclose the following to the consumer:

- the nature and substance of all information in the credit bureau's file regarding the consumer, at the time of the request;
- the sources of such information;
- the names of all persons to whom a credit report regarding the consumer has been provided within the previous twelve months; and
- the contents of any written credit report regarding the consumer, made to any other person.

## DISCLOSURE FOR CREDIT DENIALS



If a consumer is denied credit, the credit provider must inform the consumer of the credit bureau which furnished the consumer's credit report.

# CONSENT

...strict rules on the disclosure of consumer information by the credit bureau

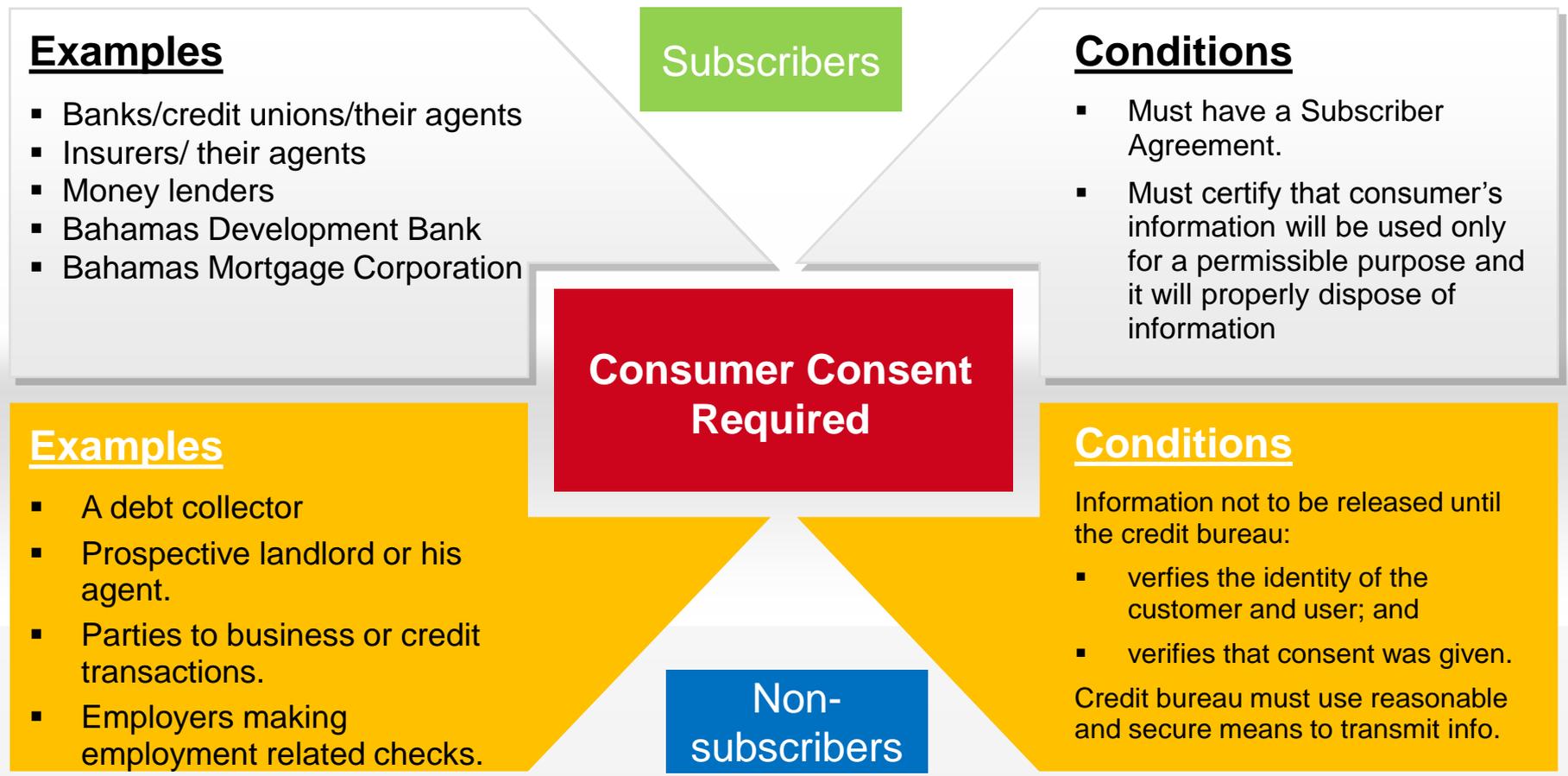
**Consumer must agree for information to be disclosed!!!!**



- Credit bureau cannot release consumer information without the consumer's consent.
  - Consent can be obtained by electronic means or any other means that provides evidence.
- Consent is not required in response to a Court Order.
- Consent is valid for the life of a credit agreement.
- Accessing credit information without valid consent amounts to an offence.

# Disclosure of Information

...Credit bureau can only disclose information to users



# Oversight and Regulation

*..establish strict requirements and high standards for licensing of credit bureau and clear oversight role/responsibilities for the Central Bank*



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

# Dispute/Appeal Process

## 1 Credit Bureau

- Investigates when a consumer disputes the accuracy of information in a credit report; must make a notation in the credit report within 5 working days.
- Where information is correct, credit bureau must advise consumer of their right to have a statement of dispute attached to their credit report and also provided to users accessing report within past 6 months.
- Where information is incorrect, must correct and notify the consumer and users accessing report within past 6 months, unless consumer directs otherwise.

## 2 Credit Reporting Review Commission

- Comprises the Data Protection Commissioner (the Chair), the Consumer Protection Commissioner and nominee of the Minister of Finance.
- Consumer may request a review of the Bureau's actions/decisions/conduct.
- The Bureau may request a review of the Central Bank's actions/decisions.
- CRRC must issue a decision within 28 days of application.

## 3 Supreme Court

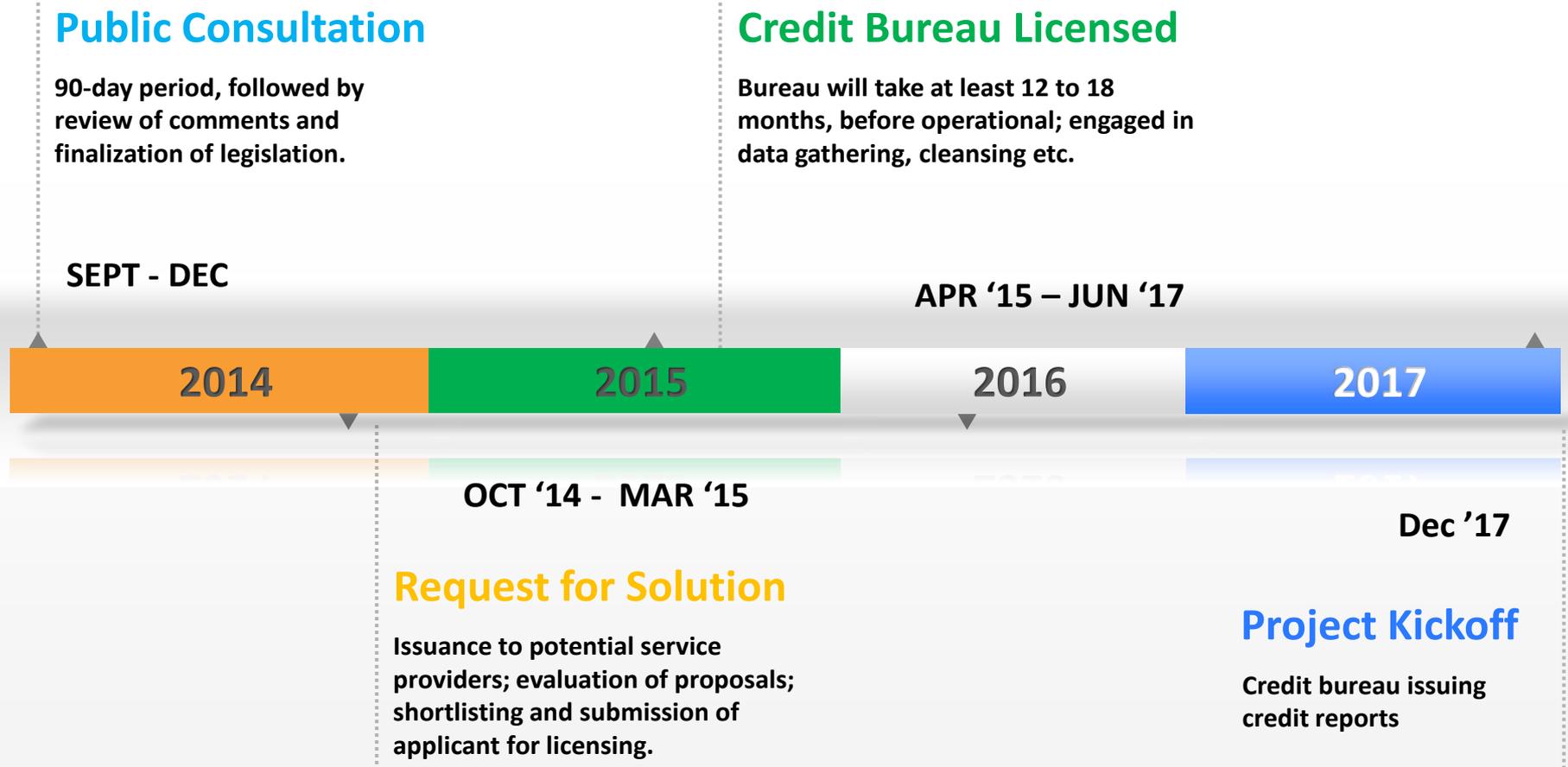
- Consumer/Bureau/Central Bank not satisfied with an order or decision of the CRRC.
- Application for appeal must be brought within 28 days of the date of the CRRC's decision.

## 4 Court of Appeal

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

# Looking Ahead

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



# Preparing for the Credit Bureau

If your credit history is in need of repair:



- 1. Start paying your bills on time**
  - Loans; utilities etc.
- 2. Halt the increase in new debt**
  - Stop applying for new credit.
  - Pay off debt rather than moving around.
  - Stop unnecessary use of credit cards:
    - Charge only what you can afford to repay!!
    - keep balances low; and
    - pay off balances ahead of time.
- 3. Keep payments current**
  - Missed or late with payments? Get and stay current.
- 4. Renegotiate**
  - Speak to your lender
  - Restructure debt to improve your ability to meet obligations.



# Contact Information

Visit our website at [WWW.CENTRALBANKBAHAMAS.COM](http://WWW.CENTRALBANKBAHAMAS.COM) for updates on

*The Bahamas' Credit Bureau Project*

or

Email your comments and questions to us at

[LGL@CENTRALBANKBAHAMAS.COM](mailto:LGL@CENTRALBANKBAHAMAS.COM)

