

GHANA BEGINS CREDIT REPORTING

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Giving money to people, with the expectation that they will pay back the money with interest is an old business. It can be good business, but it is also a very risky business.

The banks and other lending institutions understand these matters quite well. They have listened to many nice stories from people who wanted to borrow from them. Some of those borrowers have been given the money and have paid back subsequently. Others have been given the money and have since been playing hide-and-seek with the banks.

PLAYING IT SAFE

Unfortunately, banks and other lenders cannot tell from the looks of people's faces whether they are good borrowers or bad borrowers.

As a result, the banks are very careful who they give their money to. They are so careful that, sometimes, even good people who otherwise would have paid back their loans (or credit) are denied the opportunity. Or, where they would give you the credit, they want you to bring some property as collateral or security. So, if you are somebody who doesn't have any property, you might never be able to get any substantial credit facility.

This is not good for the country and our economy. It is individuals who must invest and create wealth from the natural resources of this country. To do that, they need money, and it is the banks and other financial institutions that should give this money. Therefore, if they are not giving enough money to potentially good borrowers, then there is a problem.

THE CONCERNS

Some people will tell you that the banks are over-protecting themselves; that they are thinking so much about profit that they don't care about people and don't want to trust anybody.

But the banks and other lenders disagree. If you go to their offices, they would show you a long list of people who they trusted, gave money to, but who disappeared immediately thereafter. They admit that, sometimes, potentially good borrowers may be denied loans or assistance, but they put the blame on bad borrowers. As the saying goes, once bitten, twice shy.

CREDIT REPORTING ACT

It is to deal with these concerns of the borrowing public and the lending institutions that the Credit Reporting Act, 2007 (Act 729) has been passed. It was passed about three months ago. It is a fantastic law!

It allows for the establishment of both public and private companies (called credit bureaus) that would keep information on people for the purpose of assessing their credit-worthiness. This data could include name, residential address, date of birth, taxpayer identification number, employment details and information held by banks and lenders.

The database could further include certain kinds of information held by state institutions such as the courts, the police and government agencies; information that is ordinarily available to the public.

That is to say, if you go and get a loan from a bank and you are not able to pay or you just disappear, the bank, whether they can find you or not, would give that information to the credit bureaus. If you are able to pay too, they give the information to the credit bureaus. So the next time you attempt to borrow from any financial institution or try to access any service on credit, they would ask the credit bureaus for information about you.

In fact, the way this credit reporting is done elsewhere, even if you apply for a loan or credit and you are denied, the information would be registered in the database of the credit bureaus. Or, if you fail to pay your electricity or water bill over a long period, it could also be captured by the credit bureaus.

The good thing though is that you can write to any credit bureau and ask (at a fee) for a copy of all the information they hold about you.

In short, a credit bureau (per the new law) has been given license to keep data that would help banks and creditors to assess risks and make the right decisions on loan and credit applications from members of the public.

IDENTITY ISSUES

Some people may think that they can have a bad credit history in the records of the credit bureaus, and then change their identity later on and have a fresh slate.

I have my doubts: the banks and institutions that would be supplying information to the credit bureaus would verify your identity when they deal with you. These days, when you show your electoral ID in seeking for a loan, they even check with the Electoral Commission to be sure that it is not fake.

In any case, with the commencement of the National Identification Scheme, your National ID would contain biometric information (such as your finger prints) which you cannot change.

COVERAGE

Will every Ghanaian resident or citizen have their details in the database of credit bureaus? Not exactly. There could be people who may not have any credit history at all because they would not have had any contact with lenders or acquired anything on credit from any formal institution.

But of course, if they are Ghanaians or Ghanaian residents, their residential addresses and some details may be available in the National Identification Register which credit bureaus may have access to.

If a credit applicant does not have a credit history, the bank or lending institution would be making their decision without it. Elsewhere, when they do not have sufficient information about you the applicant, they give you something small as a start. As you pay back what they give you, you begin to have some good credit history; and then you could be considered for something higher.

BANK OF GHANA

The authority mandated by the law to supervise and regulate the licensing and operations of credit bureaus is the Bank of Ghana. The BoG would ensure that the credit bureaus do what they are supposed to do, and avoid what they are not supposed to do. If you want more details, please get a copy of the law.

No doubt that the new credit reporting regime we are going to have is very good. It would differentiate good borrowers from bad borrowers and minimise the hide-and-seek in loan administration. It has served several countries well, and I am sure it will serve Ghana too well.