



Bank Of Zambia

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

January 8, 2014

To : CHIEF EXECUTIVES OF COMMERCIAL BANKS AND NON-BANK FINANCIAL INSTITUTIONS PROVIDING CREDIT

GUIDANCE NOTE No.1 of 2014 - UTILISATION OF THE CREDIT REPORTING SYSTEM

1. Background

The credit reference system in Zambia was implemented on 30 March 2006 with the gazetting of the *Credit Reference Services (Licensing) Guidelines and the Credit Data (Privacy) Code*, and subsequent licensing of Credit Reference Bureau Africa Limited (CRBAL), trading as TransUnion in 2006. The introduction of the credit reporting system was motivated by, *inter alia*, the objective to enhance positive credit culture and address the problem of persistently high cost of and low access to credit by minimising information asymmetries in the credit market.

In order to enhance utilisation of Credit Reference Agency (CRA) services, the Bank of Zambia (BoZ) issued the "*Banking and Financial Services (Provision of Credit Data and Utilisation of Credit Reference Services) Directives*" on 10 December 2008, making it mandatory that all credit providers use this service as a sound practice in credit standard and approval. As a result of this and other recent developments in the credit reporting system, the BoZ has seen it fit to issue the following guidance to all credit providers.

2. Interpretation of Negative Credit Reports

Clause 2.5 of the Credit Data (Privacy) Code requires credit providers to provide both positive and negative (default) data to CRAs. However, the Code does not prescribe the nature of the decision to be made in respect of extension of a credit facility. Neither does a CRA recommend granting or refusal to extend credit facilities to a borrower. The decision to extend a credit facility to a borrower, whether or not that person has a negative credit report, is the preserve of the credit provider, using credit information held by a CRA, additional information provided by the borrower and its internal processes.

Credit providers are, therefore, reminded that the credit reporting system is not a blacklisting system and that negative credit reports are not meant to lock out those listed but to ensure full disclosure to potential lenders by minimising information asymmetry on borrowers. The use of credit reports is part of the credit appraisal process, which inculcates credit discipline on the part of borrowers.

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3. Notification to Customers by Credit Providers

Clause 2.1 of the Credit Data (Privacy) Code mandates a credit provider to notify a borrower in respect of submission of credit data to a CRA. Where the credit provider has provided credit to a person and the account is subsequently in default, clause 2.3 of the Code regarding *Notification upon default* requires a credit provider to issue a written notice of intention to a defaulter, within 30 days from date of default, that unless the amount in default is fully repaid before the expiry of 60 days from the date of the default, the negative account data shall be availed to a CRA and retained for a period of 7 years from the date of final settlement of the amount in default.

Credit providers are hereby reminded to give to their borrowers in default a written notification as prescribed in clause 2.3 in order to minimise complaints received on the veracity of the data and to promote a good credit culture.

4. Utilisation of the Credit Reporting System

In accordance with the *Banking and financial Services (Provision of Credit Data and Utilisation of Credit Reference Services) Directives*, all credit providers are mandated to:

- i) as part of the credit evaluation process, conduct a search for credit information on the borrower from a CRA, and
 - ii) submit both positive and negative information on the repayment behaviour of every borrower.
5. This Guidance Note is issued with the purpose of apprising institutions on their obligations with regard to compliance with the *Credit Data (Privacy) Code* and the *Provision of Data and Utilisation of Credit Reference Services Directives*. Credit providers are reminded that an omission or failure to adhere to or comply with the Code or the Directives constitutes an unsafe and unsound practice and may attract Supervisory Actions in terms of Section 77 of the Banking and Financial Services Act.

Kindly be advised accordingly.



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