

QUESTIONS & ANSWERS TO INTERVIEW QUESTION

1. How can you explain credit report and what you are doing to a layman?

ANS: A credit report is a statement or a report that provides a detailed view of an individual or a business's credit exposure and history, which will provide a complete perspective of the indebtedness either as a borrower or a guarantor. It is also a statement of one's credit activities across board, i.e. not just with banks but any financial institutions on non-bank lending institutions. These institutions include banks, microfinance banks, mortgage banks, specialized financial institutions, telecommunications companies, leasing companies, insurance companies, public utilities such as Water Corporation, electricity companies, courts, etc. The set of information on a credit report includes demographics/firmographics, means of identification, inquiries made on the subject, address details, credit facility details, including returned cheques information, judgments on financial issues, etc.

What a credit bureau does is to help lenders make informed decisions. A credit bureau collects information about borrowers from lending institutions and merges them to produce a credit information report and sometimes, a credit score. It encourages information sharing among lenders. To the layman, that would mean we are trying to help demystify the borrower. The long term aim of the credit bureau is to help the economy. It helps to make life easy for everyone if a large number of individual and businesses are granted credit on the strength of their character and not requiring collateral security.

2. For a country like Nigeria, how many credit bureaus should be enough to service its financially included population? Are credit bureaus regulated by CBN?

ANS: At the moment, there are three private licensed credit bureaus and I believe that is a good number for now. A lot of jurisdictions have only one or

two credit bureaus. Presently in Nigeria, credit bureaus are licensed and regulated by the Central Bank. In the future, it is expected that there will be an enabling law passed by the parliament to support the operations of the credit bureau in view of the sensitive nature of our operations.

3. What is your assessment of the progress made so far by banks regarding cash-less policy?

ANS: A high level of progress has been made, especially the ones that are beginning to push their ATM and mobile platform solutions. There are now a lot of ATM machines around the country in various places including the malls. Many businesses now have the point of sale (POS) machines. Virtually all bank customers now carry the ATM cards and can withdraw cash anywhere including outside the country; people also make payments with their cards. The funds transfer platforms of many banks make it easy for their customers to effect all manner of payment settlements from the comfort of their homes once they have access to a computer and the internet services. The onus is now on the general population to begin to embrace and abduct the opportunities presented by these products the banks are rolling out. In several ways, there are a lot of positives. It has been able to curb the habit of carrying cash around, which has significantly curbed crime rate. It has helped the financial institutions in reducing cost of cash transactions and also boosts their bottomline; it has created a new sub-industry around the banking industry space, i.e. income generation for people outside direct banking industry. It is indeed a very positive and laudable development.

4. What is this biometric registering of customers all about and how does it concern CRC Credit Bureau.

ANS: The biometric registration of bank customers is an initiative of the Bankers Committee to produce a financial ID. It is about giving the individual bank customer a unique identification across all the financial institutions. With this, every customer of the banking industry has only one unique identification which describes you. Now, there is no one means of identifying persons who transact business with the financial services industry as you have with the registered businesses. This is why it is convenient for fraudsters to open accounts in several banks with different names, addresses and means of identification. The new scheme will address the challenge.

One of the challenges that confront us as repository of borrowers' information as a credit bureau is the daunting challenge of merging people's information from data collected from various sources. When all these information are collected, the credit bureau relay them in such a way that you are looking at what is called a "credit report" for an individual, you are seeing information that cuts across all institutions for that individual. The reason for the challenge is that, there is no unifying factor that ties an individual together across the institutions. There are names that occur with various variations, in dates of birth and addresses in particular as some customers give differing information to different institutions. However, a single identification would address this issue, it would allow for that unique factor to connect the individual across and therefore the credit bureau can do an aggregation better.

The financial ID project makes it easy for us to merge the data we collect from various sources on individuals; it makes it easy for our system to efficiently assemble the information from various sources on an individual and merge the information. It also makes it easy for the users of our platform to type in a person's unique number and obtains the information on such a person rather than struggling with searching with the name, date of birth, address information, etc.

5. Will you be registering customers for banks in the biometric registering exercise?

ANS: The biometric registration would not be done at the credit bureau, but at the financial institutions. Once that information is available at the financial institutions, the credit bureau would collect the information and use it as a basis for connecting the individuals together across various engagements they have across the financial industry space.

6. Bearing in mind that Credit bureaus do not generate income for the consortium of banks that own it, can you describe its usefulness to these institutions and to their clients.

ANS: A credit bureau is a credit infrastructure and a business. As an infrastructure, we enable our users to access critical information for their business decisions to avoid haphazard selection. We provide a solution to address the challenge of lending in the dark for the country. We enable lenders manage their portfolio more efficiently by having very critical information at their disposal. We also enhance their turn-around time in processing credit applications as some of them are now migrating to automation of their credit process. We also provide solution to the challenge of information asymmetry that they have been grappling with for decades. It is also instructive that our platform now provides incentives for banks and other lenders to develop new products especially for consumers or individuals and small businesses who have been finding it difficult to obtain funds.

However, we are also a for-profit company and it is a wrong notion to say the credit bureau does not generate income for our shareholders. The credit bureau is a business and like all businesses, we are in the business of making money. We are generating income for the consortium of institutions that own it. Whereas, it has been a difficult first couple of

years, which is in the nature of the business but we have overcome the challenges of data integrity and low patronage.

A credit bureau is like a road infrastructure that is tolled or a property that is constructed to provide rental income. The initial capital outlay is always huge and the gestation period is long and it can take a while to break even. But once traffic is gained unto the site, revenue is assured. Investors in the credit bureau business are very much aware of this.

- 7. Since the establishment of CRC Credit Bureau, do you have information as to how many serial debtors the banks have been able to stop from borrowing through your advice?**

ANS: I am not in a position to provide you with specific industry statistics now, but we have cases in point, we have testimonies from financial institutions and other institutions that are members of the credit bureau of how they have been saved from entering into some bad transactions as a result of the information made available by the credit bureau. Also what should begin to happen and hopefully is that the results of financial institution would begin to show that their ratio of their non-performing loans should also begin to be impacted upon/decline as a result of credit bureau activities, because loan losses typically would come from activities of customers who borrow money from the institution and refuse to pay. Since there is better information available for institutions, then the likelihood of these issues should begin to reduce and therefore begin to appear in their results. In addition, customers themselves are beginning to jealously watch and guard their transactions. Nobody wants to be refused access to finance on account of bad credit information.

- 8. With all security system put in place, there is still rising cases of fraud in the banking industry. Are the banks not getting it right?**

ANS: Fraud is a different case and fraud cuts across a very wide spectrum. Typically, attempted fraud is always rampant in a technology driven environment. But in the specific area of loan disbursement and loan management, we hope that credit bureau's activities are helping to reduce the possibility. But like they say, fraud is perpetrated by people and therefore even where a system is in place to ensure that loan practices are properly executed, if there is an intention to defraud, then there is very little such a system can do. Most financial institutions would have to enhance their staff recruitment process to minimize recruiting wrong people, and also strengthen the security around their information technology and communication platforms.

The availability of credit bureau and credible means of identification would assist to stem the tide. In addition, there is the need to do a lot on customer education on how to protect one's password, etc.

- 9. Do you agree with those who argue that CRR increase will lead to falling revenue for banks and result to job cut?**

ANS: I think in the medium term, in the very immediate term, for banks who have excessive reliance on government deposits, it may create some level of problems for them because they don't have a long time to be able to restructure their portfolio. It may lead to serious strain on their liquidity and create liquidity challenges for them. However, that is expected to be short termed because by nature of banking management, I see them moving all around to be able to solve this problems and move on to stability. For the period of time this would be happening, it may lead to some level of reduction in revenue because there may not be free or loanable funds. In the process of looking for other sources of deposit to cushion it up or cover the gap, that may eventually lead to high cost of funds for them because they would now begin to attract deposit with high interest rates thereby pushing up deposit rate, and eventually lending rate. I really don't see it resulting to job cut or laying off staff. I

believe there would be some level of adjustment in the medium term to ensure that they are in business and they are aggressively pursuing their mandate of financial intermediation.

10. If you look at sources of income to the banks, you discover that they have challenges. Do you sympathize with those that complain about over regulation?

ANS: I know quite a lot of significant measures have been taken by the regulators to protect the customers especially on issues relating to arbitrary charges and charges without any evidence of value provided to the customers. I also know that with the establishment of the Consumer Protection Department in the Central Bank, a voice has been provided for the customers. Moving forward, I think banks are going to be more creative in bringing out products and at the end of the day, it is going to be very beneficial to the bank customers generally, then it would become obvious how bank can creatively make money by providing legitimate services by giving products that are value adding to their various customers.

I do not see overregulation of the Nigeria banks. The banking system plays a crucial role in the management of the country's monetary policy and economic stability. In the management of interest rate, foreign exchange rate and the price level, that is, inflation, the banking system is very central. The banking system also needs to be supervised to avoid bank failure and systematic collapse of the financial industry. Given what we have seen in recent years in Nigeria and, indeed, in most part of the world, regulations are being tightened around banks. Nigeria cannot be an exception.

11. Looking at what has happened so far in the banking industry, what do you think should be the first and second main attributes that should guide the choice of the next CBN governor?

ANS: Nigeria is in a democracy, and we are also a factor driven economy, when you have a factor driven economy, there are always challenges with the foreign exchange rate and interest rate. These two have implication for inflation rate, so a very experienced and strong governor is needed in managing the monetary policy of the government because that is what the central bank is all about. We have seen in the last few years that it has been very properly managed and we don't have a burst in the inflation rate. The exchange rate also has been managed to a very tolerable manner, although it has been very difficult and of course the interest rate has been tamed to a large extent. So the central bank needs someone who can continue along this path of the three areas that are so difficult to manage i.e. Inflation, this has to do with the price level, exchange rate, which has to do with reserves and foreign earnings and of course the interest rate which has to do with the cost of borrowing money and deposits. It is also important to have someone who would be able to work with the executive arm of the government, whose responsibility is in managing the fiscal policy, because it is one thing to manage the monetary policy, the fiscal policy should also be able to have some level of positive linkage and handshake with the monetary policy, so a very strong personality is needed, who would be able to deal with the ministry of finance, the presidency and all other arms of government that has to do with funding especially revenue generation and reporting, etc. Also an individual with a high level of independent mindedness is important, an individual who won't be succumbing to pressure from the other arms of government. That is why the preservation of the independence of the central bank is very important for our economy to really make progress and move to the next level. Also one who understands sufficiently our banking, i.e. the financial system, because as it is today, the banking system still occupies a very strategic place in the overall management of our monetary policy. We need an individual that really understands the workings, because that is the only way he can make the central bank the

engine of growth and development it should be and to propel them towards systemic stability and not systemic failure.