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Circular to Chief Executive Officers of Commercial Banks, Credit Institutions and Microfinance Deposit-taking Institutions

Adequacy of Senior Management Oversight of the Credit Reference Services in Participating Institutions

Bank of Uganda recently held a series of meetings with the Credit Reference Bureaus and CRB Project Managers to evaluate the progress and quality of the credit reference services; discuss challenges in the provision of the services; explore avenues of improving the services and the ongoing arrangements towards a competitive credit information sharing framework, among others.

During the meetings, Bank of Uganda noted with concern that oversight and overall appreciation of the credit reference services by the Chief Executive Officers and senior management in many Participating Institutions was inadequate. In some cases, senior management did not give due attention and critical supervision to the activities of the CRB Project Managers. In addition, the job descriptions and reporting lines of the CRB Project Managers were not clearly described within the organisational structures. As a result, the quality and integrity of data submitted to the Credit Reference Bureaus have remained poor and unreliable leading to numerous customer disputes, among others.

The meetings further revealed that there were high profile borrowers whose credit history and details were not captured on the Credit Reference Bureaus. Furthermore, there were cases of frauds perpetuated by members of staff, which resulted in multiple financial cards being issued to borrowers. In addition, there was the absence of internal audit of the credit reference services. These factors have resulted in difficulties in achieving some of the desired objectives of the credit information sharing system.

Bank of Uganda wishes to underscore the importance of adequate and effective senior management oversight of the credit reference services in order to enhance quality and integrity of data and ensure an effective credit information sharing framework in Participating Institutions.

In this connection, Bank of Uganda **directs** the Board and senior management of Participating Institutions to **immediately** take the following measures:

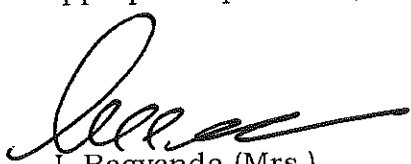
1. The Board must approve appropriate policies and procedures for the proper management of risks inherent in the credit reference activities, including data management. Senior management must ensure that these policies and procedures are reviewed regularly to respond to changes in the activities or in business conditions.
2. Senior management must enhance oversight of the CRB Project Managers and the attendant credit reference activities. CRB Project Managers must generate periodic management reports for discussion at senior management meetings as a key agenda item, with specific focus on the quality of data including a review of the data success rates, rejected records and reasons thereof. Bank of Uganda will henceforth review these reports and the action plans during the onsite examinations.
3. Senior management must ensure that sufficient priority and resources, commensurate with the scope and volume of the credit business in each Participating Institution, are devoted to ensure submission of accurate data to the Credit Reference Bureaus in a timely and effective manner. Participating Institutions must also set up project teams to ensure smooth continuity of credit reference activities in the absence of the Project Manager. Bank of Uganda must be updated on changes of the members of staff handling the credit reference services.
4. The job descriptions and reporting lines of the CRB Project Managers must be clearly defined within the organisational structures of the Participating Institutions. Additionally, given the importance of credit information sharing, a section or unit to handle credit reference services must be included in the organisational structure of Participating Institutions.
5. Senior management must conduct regular staff and public awareness campaigns on credit information sharing mechanisms to educate members of staff and the general public and deepen their understanding on the rationale and benefits of a sound credit information sharing system in the financial sector.
6. Participating Institutions must verify the accuracy of their customers' credit data before submitting it to the Credit Reference Bureaus. **The data must include the required credit history and details of all borrowers including the financial institution's high profile borrowers.** Clear procedures should be put in place with regard to how changes to customers' credit data are captured, verified and transmitted to the Credit Reference Bureaus. In addition, disputes referred to Participating Institutions regarding records on a customer should be responded to in a timely manner.
7. Participating Institutions must conduct a compliance audit at least annually to verify the adequacy of credit data management practices; assess compliance with

the data standardisation documents, internal policies and procedures regarding the sharing and use of credit data.

8. The audit report must be submitted to the Board Audit Committee of the Participating Institution for review. The audit report should assess the overall effectiveness of the data management practices in ensuring compliance with the relevant data specification requirements and should cover other key issues such as; accuracy and completeness of credit data, security breaches or violations, risk classifications, written off loans, management's responses and recommendations for improvement.
9. Participating Institutions must provide appropriate and regular guidance and training to staff who are involved in the sharing and use of credit data through the Credit Reference Bureaus. In particular, staff involved in the handling of credit data and CRB related disputes should familiarise themselves with the Participating Institution's own policies and procedures and the CRB regulations and guidelines.
10. Bank of Uganda strongly considers that using credit data from a Credit Reference Bureau in the credit appraisals and credit reviews is an essential part of a Participating Institution's credit risk management system. Therefore, Participating Institutions must make credit enquiries from the Credit Reference Bureaus before granting and/or reviewing credit facilities.

Please note that Bank of Uganda will continue to enforce the above directives and take into account the extent to which a Participating Institution makes full use of data or credit enquiries in assessing the effectiveness of the Participating Institution's credit risk management framework.

Non-compliance with the above directives by Participating Institutions will attract appropriate penalties, in accordance with the law.



J. Bagyenda (Mrs.)

Executive Director Supervision