AN ASSESSMENT OF THE STATUS OF THE NATIONAL CREDIT REPORTING SYSTEM IN OMAN

December 2010
## ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ACRI</td>
<td>Arab Credit Reporting Initiative</td>
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<tr>
<td>AMF</td>
<td>Arab Monetary Fund</td>
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<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>ARPU</td>
<td>Average Revenue Per User</td>
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<tr>
<td>BCSB</td>
<td>Bank Credit and Statistical Bureau (System)</td>
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<tr>
<td>CBO</td>
<td>Central Bank of Oman</td>
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<tr>
<td>CMA</td>
<td>Capital Market Authority</td>
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<tr>
<td>COC</td>
<td>Code of Conduct</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<td>CRWG</td>
<td>Credit Reporting Working Group</td>
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<tr>
<td>FLC</td>
<td>Finance and Leasing Company</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GCBP</td>
<td>Global Credit Bureau Program</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MNE</td>
<td>Ministry of National Economy</td>
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<td>MOI</td>
<td>Ministry of Interiors</td>
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<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprise</td>
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<tr>
<td>NBCI</td>
<td>National Bureau of Commercial Information</td>
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<td>NBFI</td>
<td>Non Banking Financial Institution</td>
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<tr>
<td>NID</td>
<td>National Identification</td>
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<tr>
<td>NPL</td>
<td>Non Performing Loans</td>
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<td>PAR</td>
<td>Portfolio at Risk</td>
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<td>PCB</td>
<td>Private Credit Bureau</td>
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<tr>
<td>PCR</td>
<td>Public Credit Registry</td>
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<tr>
<td>POS</td>
<td>Point of Sale</td>
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<tr>
<td>RO</td>
<td>Rial Omani</td>
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<td>ROP</td>
<td>Royal Oman Police</td>
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<tr>
<td>SME</td>
<td>Small Medium Enterprise</td>
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<td>TRA</td>
<td>Telecommunications Regulatory Authority</td>
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<td>WB</td>
<td>World Bank</td>
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</tbody>
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# TABLE OF CONTENTS

**FOREWORD** .................................................................................................................................................. 4

1. MACROECONOMICS AND DEMOGRAPHICS .......................................................................................... 5
   1.1 COUNTRY PROFILE AND ECONOMIC OVERVIEW ........................................................................... 5
   1.2 DEMOGRAPHICS AND POPULATION TRENDS ............................................................................... 8

2. STATUS OF CREDIT AND FINANCIAL MARKETS ............................................................................. 10
   2.1 ACCESS TO FINANCE ....................................................................................................................... 10
   2.2 MARKET PLAYERS ............................................................................................................................ 15
       2.2.1 BANKS ....................................................................................................................................... 15
       2.2.2 MICROFINANCE INSTITUTIONS ............................................................................................... 22
       2.2.3 FINANCE AND LEASING COMPANIES ................................................................................. 22
       2.2.4 MONEY EXCHANGE COMPANIES ......................................................................................... 24
       2.2.5 MOBILE TELEPHONE COMPANIES ...................................................................................... 24
       2.2.6 OTHER LENDING INSTITUTIONS ............................................................................................ 25
       2.2.7 CENTRAL BANK OF OMAN .................................................................................................... 25
   2.3 CREDIT RISK MANAGEMENT & CREDIT ACCESS CONSTRAINTS ................................................... 27
       2.3.1 COLLATERAL, NON PERFORMING LOANS, REJECTION RATES ........................................ 27
       2.3.1.1 COLLATERAL AND GUARANTEES .................................................................................. 27
       2.3.1.2 NON PERFORMING LOANS ............................................................................................ 28
       2.3.1.3 REJECTION RATES ............................................................................................................ 29
       2.3.2 CREDIT UNDERWRITING & PORTFOLIO MANAGEMENT TECHNIQUES .......................... 29

STATUS OF CREDIT REPORTING IN OMAN ......................................................................................... 32
   3.0 OVERVIEW .......................................................................................................................................... 32
   3.1 THE PUBLIC CREDIT REGISTRY OF THE CBO ............................................................................. 34
   3.2 PRIVATE INFORMATION PROVIDERS ............................................................................................. 37
   3.3 CREDIT REPORTING: INTERNATIONAL BEST PRACTICE ............................................................ 40
   3.4 IMPROVING THE NATIONAL CREDIT REPORTING OF OMAN .................................................. 47
   3.5 PUBLIC INFORMATION SOURCES .................................................................................................. 51
   3.6 OTHER STAKEHOLDERS .................................................................................................................. 51
       3.6.1 MINISTRY OF FINANCE ........................................................................................................... 51
       3.6.2 OMAN BANKERS ASSOCIATION ........................................................................................... 52
       3.6.3 COLLATERAL REGISTRY ......................................................................................................... 52

ANNEXES ...................................................................................................................................................... 53
FOREWORD

Credit information sharing is essential to facilitate financial markets intermediation and to broaden the depth and breadth of financial service offerings. Sharing the credit history of potential individual and business borrowers allows lenders to determine borrower creditworthiness and decrease transaction costs associated with lending. This information exchange also facilitates lenders’ outreach to underserved populations, who in the absence of credit information sharing may be marginalized - either due to the excessively high costs of determining their creditworthiness, or as a result of the impossibility to offer solid guarantees.

Within this context, International Finance Corporation (IFC) and the Arab Monetary Fund (AMF) have established the Arab Credit Reporting Initiative (ACRI) aimed at promoting the development of credit information sharing in the Middle East and North Africa (MENA) region. ACRI leverages IFC’s global expertise in developing credit information services\(^1\) and AMF’s regional network of financial market regulators to:

i) assess the credit information infrastructure in select MENA markets,
ii) promote reforms that support best practice credit information sharing,
iii) raise awareness about the importance of credit information sharing, and
iv) support regulators, government bodies and financial institutions within MENA region to establish/enhance credit reporting systems.

ACRI undertakes a number of activities, including confidential in-depth credit market assessments, which are presented to financial market regulators. Non-confidential overviews are made public to facilitate exchange of information and ideas, and annual conferences are undertaken focusing on issues of particular interest in the credit reporting field. With a similar goal of sharing knowledge, ACRI has established a knowledge portal (www.acri-mena.org) to share its results and other relevant information pertaining to credit information sharing.

This report on Oman is one in a series of credit market assessments. It has been prepared by ACRI specialists, with thanks to the Central Bank of Oman, the lending community and several governmental agencies for their incessant support and cooperation. More information about IFC is available at http://www.ifc.org, while information about AMF is available at http://www.amf.org.ae.

Oscar Madeddu  
Credit Bureau and Risk  
Management Advisor  
International Finance Corporation

Mohammed Taha Rafi  
MENA Credit Bureau Program  
International Finance Corporation

Hafid Oubrik  
Payment Systems  
Specialist  
Arab Monetary Fund

\(^1\) IFC has extensive experience in developing credit information systems for emerging markets. Since 2001, IFC’s Global Credit Bureau Program has helped create and/or significantly improve 13 credit bureaus, contributed to drafting credit information laws in 21 countries, and organized over 100 credit information sharing outreach events in 40 countries. IFC, jointly with the World Bank, surveys the status of information sharing in 183 countries with the annual Doing Business report.
1. MACROECONOMICS AND DEMOGRAPHICS

1.1 COUNTRY PROFILE AND ECONOMIC OVERVIEW

Sultanate of Oman is a Gulf monarchy with an estimated total population of 3.108 million inhabitants. The country is divided into 61 districts (wilayats) and 9 administrative regions (Governorates) - Muscat being the main Governate. Oman, with a total area of 309,500 sq. km, is bordered by the Republic of Yemen to its South-West, by the Kingdom of Saudi Arabia to its West and by the UAE to the North-West. The Omani coastline stretches for 3,165 km.

At the national level, the Omani political body is represented by the executive branch headed by Sultan Qaboos bin Said, the legislative branch (bicameral Majlis Oman) comprising of the appointed State Council and elected Consultative Council, and judicial branch, where courts are divided into four departments, namely, criminal courts, Shari'a (Islamic law) courts, commercial courts and labor courts. The Sultan also assumes responsibilities of the Prime Minister, Minister of Defense, Minister of Foreign Affairs, and the Minister of Finance. The Sultan balances tribal, regional, and ethnic interests when composing the national administration. The Council of Ministers, which functions as a cabinet, consists of 30 ministers directly appointed by the Sultan. Majlis Oman is mandated to review legislation pertaining to economic development and social services prior to it becoming the law. The elected Consultative Council serves as a conduit of information between the people and the government ministries. It is empowered to review drafts of and provide recommendations on economic and social legislation prepared by service ministries, such as communications and housing, and to approve state financial plans.

Oman’s ranking was enhanced by three places to 41st in the Global Economic Competitiveness in 2009-2010; making it the 7th among the top Arab countries. The country has performed various efforts towards strengthening its institutions and infrastructure, in addition to enhancing macroeconomic stability and achieving significant developments in the area of health and primary education. Oman has also developed a good training and higher education system in addition to an efficient labor market.

Oman’s macroeconomic performance in 2009 was adversely affected primarily because of the global recession and sharp decline in crude oil prices in the international markets. Nominal GDP of Oman contracted

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2 Population Reference Bureau - [http://www.prb.org/]
3 The Global Competitiveness Report 2009-2010, World Economic Forum
by 23.5% in 2009 as against an impressive growth for five consecutive years since 2004 which were driven by the boom in oil prices. Despite a 7.1% increase in crude oil production, contraction of nominal GDP directly originating from petroleum activities was higher at 38% in 2009 compared to 7.4% decline in case of non-petroleum GDP⁴.

Real GDP growth slowed to 3.6% in 2009, from 12.3% the previous year - as a result of relatively restrained government consumption and investment (Figure 2). The fall in growth is also attributed to the decline in export revenue in 2009, following low international oil prices. Furthermore, owing to a shortage of natural gas for domestic consumption, the Sultanate had to reduce gas exports - thereby curbing real GDP growth. Expected growth estimated for 2010 was 3.8%, with a rise to 4.1% in 2011 owing to stronger domestic demand and government investment.⁵

Given the importance of hydrocarbons (oil and gas accounted for just over 50% of GDP in 2008) the Omani economy will remain vulnerable to any downturn in domestic oil production and to fluctuations in oil and gas export prices. The government, realizing the importance of diversification, is developing its tourism industry. Oman’s two main airports, Muscat International Airport and Salalah International Airport, will also undergo expansion to accommodate the expected increase in tourism.

Consumer price inflation fell to an annual average of 3.5% in 2009, owing to the decline in oil and non-oil commodity prices. Although this is significantly lower than the previous year (when inflation reached a record high of 12.4%), it remains high by historical standards. Inflation is forecasted to fall further in 2010 and 2011, estimated at 2.8% and 1.5%, respectively. However domestic consumption is expected to rise modestly. Consumer prices will also remain constrained by the government’s extensive subsidy system, which holds in check the prices of a range of core goods and services (Figure 2).

According to recent data⁶, Oman’s per capita GDP has increased from US$ 21,639 in 2006 to the estimated US$ 24,914 in 2009 (Figure 3). Per capita GDP has increased by 15.13% during the last 4 years.

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⁴ Central Bank of Oman, Annual Report 2009
⁵ Economist Intelligence Unit, Oman Country Report June 2010
⁶ Economist Intelligence Unit, Oman Country Report June 2010
The medium-term outlook seems positive, but downside risks remain. The economy should perform well over the medium-term, supported by public investment in the hydrocarbon sector, infrastructure, and other strategic projects. Downside risks to this outlook include a decline in oil prices, a lackluster global recovery, and spillovers from additional unexpected adverse financial developments in the region. Sans the discovery of new hydrocarbon reserves or significant advances in exploration or extraction technology, maintaining the current standard of living for future generations, would require increased public savings and the successful implementation of a job-creating growth and diversification strategy.

The government will continue to pursue reforms that lead to diversification away from a reliance on oil and that promote trade and tourism. The recovery of oil prices in 2010 could provide the government more latitude to invest in developing the non-oil economy. However, increasing demand for gas by industrial projects will lead to shortages and may cause some projects to be delayed. Uncertainty over the availability of gas has caused some investors to hesitate before committing themselves to energy projects. The government is also pushing ahead with renewable energy initiatives, although these are in the very early stages of development. Tourism will play a key role in diversifying revenue. Efforts to increase private sector participation in large-scale projects and development of the tourism sector will be key in diversifying revenue. Oman is financially well positioned to withstand a fall in oil prices, as its 2010 budget is based on a price of US$50/barrel, well below the forecast of US$80/barrel in 2010.
1.2 DEMOGRAPHICS AND POPULATION TRENDS

Oman’s population has a large portion in the middle-age category. 29% is less than 15 years old, while the population over 65 years represents only 2% of the total. The average annual rate of increase in urban population during the last 5 years is estimated to be 2%. 29% of the population currently lives up-country and in rural areas. Muscat, Al Batinah, Al Sharqiyah and Al Dakhiliyah are the largest cities with a population of 0.84 million, 0.76 million, 0.37 million, and 0.31 million respectively in 2008.

Major demographic variations are expected, as the population is estimated to increase by 71% by 2050 to 5.33 million. Figures 4 and 5 depict a major increase for those between the ages of 15 and 50 years. This will have some implications on the job market, creation of new wealth and households, additional housing requirements and the increased demand for durable and semi-durable consumer goods (cars, furniture, appliances, technology, etc). In turn, this will require a shift in focus to increased credit availability to meet the credit needs of individuals, micro, small and medium sized businesses.

Literacy rate for the adult population is roughly 81.4%, with a strong male preponderance - 86.8%. Primary education accounts for roughly 51.21% of the total enrolled population while secondary and tertiary education students represent 45.55% and 3.24%, respectively.

Oman’s workforce - 920,000 people as of end of December 2008 is mainly employed in services, industry and agriculture, accounting for almost 29.6% of the total population. The market labor is distinctly split into a formal sector, characterized by a swollen public sector administration, which represents the largest employer, and a private sector mainly composed by a limited number of private companies. The unemployment rate was almost 15% in 2008.


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While the employment of Omanis in the public sector increased by 5.5%\(^{13}\), that of expatriates declined marginally by 0.8% in 2008 over the previous year- indicating steady progress of Omanization in the country.

Employment of Omanis in the private sector rose by 7.6% to 158,315 in 2009, compared to an increase of 11.7% in the previous year. In 2009, there was a modest deceleration in the employment of expatriates in the private sector which rose by 10% compared to an unprecedented annual average increase of 23.2% during the previous three years.

\(^{13}\) Central Bank of Oman, Annual Report 2009.
2. STATUS OF CREDIT AND FINANCIAL MARKETS

2.1. ACCESS TO FINANCE

Oman’s monetary and financial conditions in 2009 were characterized by gradual deceleration in the growth of broad money as well as bank credit mainly due to weakness in demand arising out of contraction of nominal GDP. Economic activities, particularly in the private sector, were on hold following a sharp decline in oil prices during the early part of 2009.

The liquidity condition in the banking system remained comfortable - ensuring orderly functioning of the markets, preserving financial stability and providing growth stimulus, through appropriate monetary and fiscal policy measures pursued by the CBO since the last quarter of 2008.

Consequently, credit conditions did not operate as a constraint to growth and loan volumes grew with a modest cyclical increase in non-performing loans. Despite larger provisioning requirements, commercial banks maintained growth in 2009, reflecting resilience of the Omani banking system. Banks in Oman remained largely insulated from adverse international developments associated with the global financial crisis as there was no direct exposure to toxic assets such as complex derivative products. Credit is mostly provided by regulated financial institutions and banks, with the share of non-regulated entities making up a negligible portion.

Commercial banks’ liabilities, estimated to RO 14,198.9 million (USD 36,928.50 million), are dominated by customer deposits (64%) followed by core capital and reserves (14%). On the assets side, credit accounted for 70% of total assets at the end of 2009, reaching an outstanding amount of RO 9,834.4 million (USD 25,576.27 million), with an average growth of 27% during the last four years and an increase of 6.24% since 2008. Credit to GDP ratio was 55.5% and credit to non-oil GDP ratio stood at 90.5%.

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1 RO = 2.6008 USD as of 2009. This rate has been used in the whole document. Annual Report 2009 of the CBO.
The growth in credit was witnessed mainly under personal loans, while credit to the corporate sector did not show any significant expansion during the year. This could be attributed partly to risk-averse behavior of banks - which is often the case in times of cyclical downturn - and partly due to slowdown in deposit growth.

In order to improve competitiveness of the financial sector, strengthen the transmission mechanism of monetary policy, and to improve efficiency in the allocation of resources through better price discovery, interest rates in Oman have been deregulated, except with regard to the personal loan segment for which both quantum and interest rates are regulated.

Personal loans inclusive of residential housing loans provided by the financial sector reached RO 4,009.8 million (USD 10,428.68 million) at the end of 2009, representing almost 40.7% of the total credit during this period and an annual growth of 12.35%.

Coverage provided by Banks branch network is largely sufficient and ranks amongst the countries with more than 20 branches per 1000 adults - one of the best in MENA region (Figure 6). Looking at the geographic distribution of bank branches in Oman (Figure 7), it is evident that this is skewed to major urban centers. Commercial banks operated in Oman with a network of 451 branches in 2009, with an increase of 34 branches over the previous year.

Of the 17 commercial banks licensed in Oman, two specialized banks, Oman Housing Bank (OHB), and Oman Development Bank (ODB) are also operating in the real estate sector; the former offering subsidized and non-subsidized mortgage schemes to the population, particularly to low income segments, and the second one fostering project development in the country.

The financial sector counts six Finance and Leasing Companies (FLCs), regulated by the CBO, and dedicated to leasing, consumer credit and factoring. They compete with banks, particularly in the car financing sector. The loan and lease portfolio of the 6 Non Banking Financial Institutions (NBFIs) has grown almost three-fold from 2005 (RO 228 million) to 2009 (RO 535.2 million).

Non-regulated entities (e.g. retailers that finance customers directly) are not yet operational in the credit granting process in Oman. However, the retailing sector has seen relevant international players with a reputation for consumer lending (e.g. Carrefour). This will, in the medium term start to represent a massive new channel of credit for consumers, and non salaried-people. As for other lending sectors, namely non-regulated micro credit, microfinance institutions and Islamic Banks are not exceedingly popular in Oman.

The mobile telephone industry has two operators developing an increasingly competitive and vibrant market. The success of the mobile telephony industry in Oman is evident and confirmed by widespread utilization made by consumers. The number of mobile post-paid customers as of December 2009 totals 358,744\(^{17}\), while the number of prepaid subscribers reaches 3,611,819, hence providing a penetration rate of 138%. The potential of the information possessed by telecoms cannot go unnoticed; not only do they systematically cover the total adult population, but also hold the largest database with consumer credit information – as opposed to the banking sector.

The number of active loans granted in Oman\(^{18}\) by the regulated entities (commercial banks, NBFI, specialized banks) totaled 450,513, as of end 2009. Interestingly, this figure shows both an enormous business potential still untouched by the lenders, and an immense necessity of increasing access to credit. In fact, the number of loans granted, corresponds to 14.5% of the total population - all ages included. If the active population is considered instead, (between 20-69 years as indicated in Figure 4) the loan penetration grows slightly to 25.8% (or 25.8 loans per 100 people). However, it is still significantly low, with massive potential for development. Furthermore, it has to be considered that if the number of borrowers registered in the CBO credit registry records is considered in place of the number of loans, this ratio decreases significantly, since more loans are generally granted to the same customer.

Although access to credit in Oman is growing, it remains burdensome, difficult, and limited- particularly for consumers. Unsecured portfolios are very infrequent in the Omani credit industry, even when personal and consumer loans are considered, and typically guarantees and/or guarantors are requested by the banks. The credit market is highly concentrated with few borrowers and banks carrying significant excess liquidity.

The major impediments to the expansion of credit are:

- Utilization of collateral that limits the eligibility of potential customers particularly in the informal economy.
- Cumbersome policies and documentation imposed by lenders.
- Predominantly manual subjective decisions.
- A traditional credit culture among consumers and some of the lenders.
- Lack of advanced risk management tools (e.g. scoring).

\(^{17}\) Telecommunications Regulatory Authority of Oman, Meeting with ACRI team, 20th January 2010
\(^{18}\) Central Bank of Oman, Public Credit Registry.
• Conventional products offered and low utilization (car loans, personal loans and housing credit, revolving credit cards penetration is not significant as yet, and estimated by the CBO at nearly 120,000 or 0.35 cards per person).
• Cap on interest rates still capped (this represents the major barrier to competition among banks for granting loans, based on borrowers personal risk profile).

Though credit lines are generally backed by collateral, Non Performing Loans (NPL) showed signs of deterioration during 2009, despite being recipients of consistent improvement in the past few years. The gross NPL of commercial banks recorded an increase of 54.13% in 2009, compared to 2008. The gross NPLs accounted for 3.5% of gross loans at the end of 2009 compared to 2.1% in the previous year. Despite the increase, NPL value remains one of the lowest amongst the countries in the region. This NPL ratio - when considered in light of considerable selectivity in customer acquisition and high rejection rates (between 40-50%) - is significantly elevated.

In the case of Non-Banking Financial Institutions (NBFI), underwriting procedures can be even more cumbersome and taxing. More documentation is generally requested (e.g. bank account statements for the last 3 months) as well as more guarantees (e.g. 12, 24, 36 post dated checks, or a salary deduction operated directly by the employer before paying the monthly salary). Before granting credit, lenders also evaluate the financial standing of the employer. This is an anomalous customization of factoring practices to consumer credit. On the contrary, it is quite difficult to obtain credit unless a formal source of income can be demonstrated, or if no collateral can be provided.

Furthermore, it must be noted that enforcing guarantees is not an effortless task; with lenders claiming that creditor’s rights offer an average protection, and enforcing guarantee is not easy, quick or inexpensive. Efforts shall be made by the banking sector to reduce the need for collateral, particularly for individual, small, private loans in general, by utilizing more advanced underwriting procedures, and to better protect creditors’ rights when collateral is unavoidable.

Risk management techniques adopted by the banks, particularly for retail credit, are still quite traditional. Credit underwriting is generally marked by subjective manual decisions, low decentralization, high utilization of paper and supporting documents, lack of full automation, conventional risk underwriting techniques, excessive reliance on collateral, and lack of full detailed, reliable information. Unsecured portfolios are very infrequent (rather absent) and, regardless of the smaller tickets, personal loans and retail credit typically require a guarantee to be presented and processed. In the absence of strong creditor’s rights and a generally weak legal framework, banks are known to have used up to 130% collateralization. Alternatively, expensive credit terms are used to compensate for the high level of risk.

Credit scoring utilization is mostly absent or at best in its infancy, including inside the most progressive and retail focused lenders, regardless of the lender being a bank or a NBFI and being international or local. Behavioral scoring models and automated account management systems have yet to be introduced.
As a significant part of the CBO payment strategy, the implementation of ATM/POS National Switch will help the utilization of electronic banking services to be enlarged to many segments of the population, though the number of credit cards is still limited.

Rates of interest have been capped with the goal of protecting consumers, resulting in the average lending rate at system level being 7.44% (6.47% if foreign currency lending is also considered) in 2009\(^\text{19}\). However, one consequence of inflexible interest rates is that the cost of credit is quite static, homogeneous, and without too much divergence - regardless of the lender of the product or the customer typology (e.g. individual or small business). Only large or “A” type individual customers are able to negotiate rates.

This is another strong indicator that completeness of information is lacking. Between the maximum lending rates allowed by regulators and the funding costs, spreads do not allow sufficient room to use indicative and relevant risk profile, which prevents market competition. Banks do not utilize individual risks as a parameter to define rates for individual customers, thereby individual customer risk is not reflected.

Going forward, consumer and SME credit segments are expected to register a significant growth - in terms of number of loans granted and customers reached. This expansion can significantly contribute to strong profitability of the credit industry, given the adoption of advanced automated risk management tools (e.g. credit scoring), and availability of complete credit histories (from all lenders). The increased volumes will require enhanced supervision, making it imperative for CBO to improve the monitoring techniques and tools - particularly in the presence of reasonable flows of liquidity. Significant savings could be achieved and passed on to the borrowers in the form of cheaper credit.

These tools will enable financial institutions to better assess credit risk, thus enlarging access to credit, particularly for those applicants currently considered “not-bankable”. Collateral will be progressively replaced by “reputational collateral”, based on historical payment performances registered in the individual credit histories. In addition, complete, reliable, non-fragmented credit information will help lenders to reduce moral hazard and information asymmetry, maintain NPL under control, decrease operational time and costs, particularly in the segment of small ticket loans. It will also allow the utilization of automated decision making.

Rates will start to be based on individual risk, detected through the usage of full credit information. A less rigid and more “democratic” interest rates system can be applied with wider spreads, to differentiate between good and bad customers.

Therefore, the establishment and utilization of a full-file, non-fragmented effective credit reporting infrastructure will become a vital prerequisite for responsible and reliable credit granting. This objective should be pursued by the regulators, and by the lenders’ community, that have shown interest in an advanced credit information system.

2.2 MARKET PLAYERS

2.2.1 BANKS

The banking sector in Oman has evolved over the years with new dynamics, brought about by on-going regulatory and supervisory initiatives, liberalization, globalization and technological innovations. The banking industry has witnessed significant growth in recent years, mainly due to sustained revenues generated from oil prices, efforts to diversify the economy, and growing emphasis on the private sector.

Notwithstanding the growing financial integration and globalization, Oman’s banking system had no direct exposure to any of the toxic financial products and to any of the distressed international institutions. The banking system continues to be resilient—drawing necessary support from the fiscal policy and supportive domestic liquidity conditions.

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<thead>
<tr>
<th>Table 1: List of Banks operating in Oman (End of 2009)</th>
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<tr>
<td><strong>LOCAL BANKS</strong></td>
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<tr>
<td>1. NATIONAL BANK OF OMAN</td>
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<td>2. OMAN ARAB BANK</td>
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<td>3. OMAN INTERNATIONAL BANK</td>
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<td>4. BANK MUSCAT</td>
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<td>5. BANK DHOFAR</td>
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<td>6. AL AHLI BANK</td>
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<td>7. BANK SOHAR</td>
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<tr>
<td><strong>FOREIGN BANKS</strong></td>
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<tr>
<td>8. HSBC BANK MIDDLE EAST</td>
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<td>9. STANDARD CHARTERED BANK</td>
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<td>10. HABIB BANK LTD.</td>
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<td>11. BANK MELLI IRAN</td>
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<td>12. NATIONAL BANK OF ABU DHABI</td>
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<td>13. BANK SADERAT IRAN</td>
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<td>14. BANK OF BARODA</td>
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<td>15. STATE BANK OF INDIA</td>
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<td>16. BANK OF BEIRUT</td>
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<td>17. QATAR NATIONAL BANK</td>
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<td><strong>SPECIALISED BANKS</strong></td>
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<td>18. OMAN HOUSING BANK</td>
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<td>19. OMAN DEVELOPMENT BANK</td>
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<tr>
<th>Bank</th>
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<td>NATIONAL BANK OF OMAN</td>
<td>1973</td>
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<td>OMAN ARAB BANK</td>
<td>1973</td>
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<tr>
<td>OMAN INTERNATIONAL BANK</td>
<td>1975</td>
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<tr>
<td>BANK MUSCAT</td>
<td>1981</td>
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<tr>
<td>BANK DHOFAR</td>
<td>1990</td>
</tr>
<tr>
<td>AL AHLI BANK</td>
<td>1997</td>
</tr>
<tr>
<td>BANK SOHAR</td>
<td>2007</td>
</tr>
<tr>
<td>HSBC BANK MIDDLE EAST</td>
<td>1948</td>
</tr>
<tr>
<td>STANDARD CHARTERED BANK</td>
<td>1968</td>
</tr>
<tr>
<td>HABIB BANK LTD.</td>
<td>1972</td>
</tr>
<tr>
<td>BANK MELLI IRAN</td>
<td>1974</td>
</tr>
<tr>
<td>NATIONAL BANK OF ABU DHABI</td>
<td>1976</td>
</tr>
<tr>
<td>BANK SADERAT IRAN</td>
<td>1976</td>
</tr>
<tr>
<td>BANK OF BARODA</td>
<td>1976</td>
</tr>
<tr>
<td>STATE BANK OF INDIA</td>
<td>2004</td>
</tr>
<tr>
<td>BANK OF BEIRUT</td>
<td>2006</td>
</tr>
<tr>
<td>QATAR NATIONAL BANK</td>
<td>2007</td>
</tr>
<tr>
<td>OMAN HOUSING BANK</td>
<td>1977</td>
</tr>
<tr>
<td>OMAN DEVELOPMENT BANK</td>
<td>1977</td>
</tr>
</tbody>
</table>
Over the years, more effective regulation and sound financial management by CBO, has increased transparency, encouraged foreign banks investment and fostered the growth of the lending industry. New financial entities have been licensed, and the commercial banking sector currently comprises 19 credit granting entities -seventeen commercial banks and two specialized ones (Table 2). Of the seven local banks, six are listed at the Muscat Securities Market (MSM).

Table 2: Combined Balance Sheet of Central Bank

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>% change 2009/2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposits with CBO</td>
<td>140.3</td>
<td>248.9</td>
<td>666.7</td>
<td>1430.4</td>
<td>779.4</td>
<td>-45.5</td>
</tr>
<tr>
<td>Due from banks abroad</td>
<td>741.3</td>
<td>1209.6</td>
<td>1350.2</td>
<td>1604.6</td>
<td>1393.5</td>
<td>-13.2</td>
</tr>
<tr>
<td><strong>Total Credit</strong></td>
<td>3896.4</td>
<td>4703.0</td>
<td>6505.4</td>
<td>9256.7</td>
<td>9834.4</td>
<td>6.2</td>
</tr>
<tr>
<td>a) Credit to Private Sector</td>
<td>3658.6</td>
<td>4397.0</td>
<td>6101.2</td>
<td>8759.4</td>
<td>9185.0</td>
<td>4.9</td>
</tr>
<tr>
<td>b) Credit to public enterprises</td>
<td>111.8</td>
<td>195.8</td>
<td>364.8</td>
<td>469.1</td>
<td>577.6</td>
<td>23.1</td>
</tr>
<tr>
<td>c) Credit to Government</td>
<td>126.0</td>
<td>110.2</td>
<td>39.5</td>
<td>28.2</td>
<td>71.6</td>
<td>154.6</td>
</tr>
<tr>
<td><strong>Securities</strong></td>
<td>597.6</td>
<td>723.1</td>
<td>1401.5</td>
<td>996.9</td>
<td>1814.9</td>
<td>82.1</td>
</tr>
<tr>
<td>a) Treasury Bills</td>
<td>6.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>b) Government Bonds</td>
<td>122.1</td>
<td>118.4</td>
<td>112</td>
<td>133.3</td>
<td>144.2</td>
<td>8.2</td>
</tr>
<tr>
<td>c) Other domestic securities</td>
<td>44.4</td>
<td>51.6</td>
<td>87.1</td>
<td>96.8</td>
<td>95.5</td>
<td>-1.3</td>
</tr>
<tr>
<td>d) Foreign securities</td>
<td>154.8</td>
<td>302.5</td>
<td>92.6</td>
<td>347.6</td>
<td>140.8</td>
<td>-59.5</td>
</tr>
<tr>
<td>e) Others*</td>
<td>270.2</td>
<td>250.6</td>
<td>1109.8</td>
<td>419.2</td>
<td>1434.4</td>
<td>242.2</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>37.4</td>
<td>36.5</td>
<td>73.8</td>
<td>99.2</td>
<td>110.5</td>
<td>11.4</td>
</tr>
<tr>
<td>Other assets</td>
<td>217</td>
<td>330.9</td>
<td>338</td>
<td>390.6</td>
<td>266.2</td>
<td>-31.8</td>
</tr>
<tr>
<td><strong>Total assets/liabilities</strong></td>
<td>5629.9</td>
<td>7251.9</td>
<td>10335.7</td>
<td>13778.4</td>
<td>14198.9</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Total Deposits</strong></td>
<td>3761.5</td>
<td>4684.9</td>
<td>6491.4</td>
<td>8579.2</td>
<td>9090.7</td>
<td>6</td>
</tr>
<tr>
<td>a) Government deposits</td>
<td>543.5</td>
<td>676.5</td>
<td>907.2</td>
<td>1696.6</td>
<td>1833.1</td>
<td>8</td>
</tr>
<tr>
<td>b) Deposits of public enterprises</td>
<td>137.9</td>
<td>144.4</td>
<td>275.2</td>
<td>527.8</td>
<td>724.2</td>
<td>37.2</td>
</tr>
<tr>
<td>c) Deposits of private sector</td>
<td>3080.1</td>
<td>3864.0</td>
<td>5309</td>
<td>6354.8</td>
<td>6533.4</td>
<td>2.8</td>
</tr>
<tr>
<td>i) Demand</td>
<td>854.1</td>
<td>894.3</td>
<td>1542.9</td>
<td>1547.5</td>
<td>1721.9</td>
<td>11.3</td>
</tr>
<tr>
<td>ii) Savings</td>
<td>876.7</td>
<td>1035.4</td>
<td>1449.3</td>
<td>1687.5</td>
<td>1863</td>
<td>10.4</td>
</tr>
<tr>
<td>iii) Time</td>
<td>1349.3</td>
<td>1934.3</td>
<td>2316.8</td>
<td>3119.8</td>
<td>2948.5</td>
<td>-5.5</td>
</tr>
<tr>
<td>(of which in foreign currency)</td>
<td>(748.9)</td>
<td>(1191.4)</td>
<td>(862.0)</td>
<td>(778.8)</td>
<td>(532.1)</td>
<td>-31.6</td>
</tr>
<tr>
<td>Due to banks abroad</td>
<td>194.7</td>
<td>539.6</td>
<td>1110.5</td>
<td>1920.3</td>
<td>1767.9</td>
<td>-7.9</td>
</tr>
<tr>
<td>Core Capital and Reserves</td>
<td>781.7</td>
<td>900</td>
<td>1458.2</td>
<td>1801</td>
<td>1906.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Supplementary Capital</td>
<td>119.2</td>
<td>122.8</td>
<td>282.7</td>
<td>333.7</td>
<td>444.9</td>
<td>33.3</td>
</tr>
<tr>
<td>(of which general provisions)</td>
<td>(46.9)</td>
<td>(60.5)</td>
<td>(87.0)</td>
<td>(124.3)</td>
<td>(129.1)</td>
<td>3.9</td>
</tr>
<tr>
<td>Specific provisions and reserves interest</td>
<td>278.1</td>
<td>255.9</td>
<td>216.7</td>
<td>226.2</td>
<td>281.8</td>
<td>24.6</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>494.7</td>
<td>748.6</td>
<td>776.2</td>
<td>918.1</td>
<td>707.1</td>
<td>-23</td>
</tr>
</tbody>
</table>

* Includes investment in CDs issued by CBO

Source: Central Bank of Oman
The licensing, since 2004, of three new banks, with new ideas, strategies and best practices, has helped to:

- Enhance culture and expertise of the industry, improving quality and choice of services (e.g. revolving credit cards are not a product commonly used by customers);
- reduce the overall risk of the banks’ portfolio;
- reduce the ubiquitous need of collateral, (real or virtual guarantees are generally requested to grant credit) moving towards less secured portfolios, which will require greater expertise and a more advanced risk management culture;
- reduce lenders’ operational costs and minimize the time-intensive bureaucratic underwriting processes, procedures and policies, particularly of the public banks;
- introduce risk-based rates of interest that will trigger real competition among financial institutions.

Commercial banks in Oman exhibited very strong balance sheet expansion during the period 2005 to 2008, owing to the favorable oil price cycle and high economic growth. In 2009, with the slowdown of the Omani economy emanating from the fallout of the global financial and economic crisis, banking indicators in the Sultanate witnessed decelerated growth (Figure 8).

Total assets/liabilities of commercial banks at the end of 2009, stood at RO 14,198.9 million (USD 36,928.50 million) compared to RO 13778.4 million (USD 35,834.86 million) a year ago - representing an increase of just 3.1% over the year as against a significant increase of 33% a year earlier. Commercial banks’ assets in the form of cash and deposits with the CBO, stood lower at RO 779.4 million (USD 2,027.06 million) at the end of December 2009, compared to RO 1,430.4 million (USD 3,720.18 million) in December 2008.

The outstanding balance of loans granted by the banking sector to the economy, came to almost RO 9,834.4 million (USD 25,576.27 million) at the end of 2009; up from RO 9,256.7 million (USD 24,074.82 million) in 2008. This reflected an increase of 6.24% vs. 42.29% a year earlier (Figure 8). Credit to Deposits was almost 108.2%.

The share of foreign banks in the total banking system assets was relatively small at around 11%. The banking system remained fairly concentrated with the three largest banks accounting for 64% of total assets, 66% of total credit, and 58% of total deposits at the end of 2009. Commercial banks’ liabilities continued to be dominated by customer deposits accounting for 64%, followed by core capital and reserves at 14%.

CBO does not set any targets for bank lending to different sectors other than setting a quantum ceiling on credit extension for personal loans and non-resident lending. Given the excessive demand for consumer loans, particularly from the young households, a regulatory limit has been set at a reasonably high level of 40% of total credit, for non-housing personal loans and 10% for residential housing loans, keeping in view credit requirements in the rest of the economy.
The classification of sector-wise credit by banks is not precise, because there could be borrowers engaged in multiple activities spread across diverse industrial or occupational groups. Therefore, with partnerships and proprietorship business, the line between business and personal transactions tends to be blurred.

Personal loans, which include residential housing loans, maintained its major share of total credit at the end of December 2009, hence representing mainly 70% of the credit granted in the country. Its value moved from RO 3569 million in 2008, to RO 4009.8 million (USD 10,428.68 million) in 2009 - with an annual growth of 12.35% (Figure 9).

Residential Housing Loans represent almost 14% of total personal loans and 5.8% of the total credit extended by the banking sector in 2009. The largest share of personal loans segment, concerns the loans for consumer durables, with a share of 70%.

Of total credit extended in 2009, the leading segments are personal loans (40.8%), construction (9.1%), services (8.16%) manufacturing (7.80%), and residential housing sectors (Figure 10).

The major increase during 2009 stemmed from wholesale and retail credit, with a growth rate of 37.32% in 2009 over 2008 - followed by the services sector with an incremental increase of 13.47% during the same period.

Off-take of credit towards the construction sector during the year amounted to RO 86.4 million. Non-resident lending to corporate outside Oman, recorded a marginal increase of RO 0.3 million to reach RO 188.7 million, as at the end of 2009.
The banking sector has granted nearly 93.40% to the private sector in 2009 (Figure 11). In the same period, public enterprise credit increased to 5.87% of the total banking sector credit, increasing by 23.13% over 2008, while private sector credit has seen a minor decrease in 2009, representing 94.63% in 2008 and 93.40% in 2009 of the total outstanding loans.

The share of this total, granted to the Government, has increased by 154.61% in 2009 (Figure 12), though its value remains very low with RO 71.8 million in 2009 (USD 186.73 million) equivalent to 0.73% of the total credit in 2009.

In the last 5 years, bank deposits have increased at a compounded rate of approximately 25%, reaching RO 9,091 million (USD 23,643.87 million) at the end of 2009 (Figure 13). Bank deposits to GDP represent approximately 51.3% in 2009.

Private sector deposits represent almost 72% of total deposits (Figure 14), with a value of RO 6,533 million (USD 16,992 million). Of this, time deposits (RO 2,948.5 million) represent the largest part with 45.13% of the private sector total deposits (Figure 15).

While government and public enterprise deposits have grown at 8% and 37% respectively, there was a notable deceleration in the growth of private sector deposits; growing by only 2.8% in 2009. In terms of the tenor of deposits, while both private sector demand and saving deposits registered growth of 11.3% and 10.4% respectively, time deposits witnessed a decline of 5.5%. Core capital and reserves of commercial
banks increased by 5.9% and reached RO 1906.5 million, as of end of December 2009. At the same time, the Basel II capital adequacy ratio for banks in Oman averaging 15.5%, which is an excellent achievement compared to the value of 10% mandated by the Central Bank.

Two specialized banks (Oman Housing Bank and Oman Development Bank) owned by the Government, are operating in Oman, with a network of 22 branches. Oman Housing Bank (OHB) provides long-term soft housing loans to all segments of Omani society. Mortgage loans stood at RO 177.5 million (USD 461.64 million) at the end of 2009, with an increase of 13.6% compared to the value of RO 156.3 million a year ago. Despite this modest increase, the number of loans currently active totaled only 12,679, representing a very small portion of the population (0.4%). The average loan amount is RO 22,000 (USD 57,217.16), while the maximum amount granted can be RO 150,000 (USD 390,120). Incidentally, OHB’s rejection rates are extremely high (40% in 2009 and 60% in 2008), and 1 in 2 applicants is systematically rejected in spite of collateral being requested (100% of loans) in this asset based loan typology. More complete and reliable credit information could dramatically increase credit penetration in the country.

Oman Development Bank is mainly engaged in providing loans for development projects, including agriculture, fisheries, health, tourism, professional activities and traditional craftsmanship. The total net loans and advances including staff housing loans stood at RO 78.4 million (USD 203.90 million) in 2009, compared to RO 58.3 million (USD 151.63 million) in the previous year - registering a significant rise of 34.5%.

The banking sector has one of the best branch network coverage in MENA region, comprising of 451\(^{20}\) branches. This is an average of 14.51 branches for every 100,000 people, when the average in developing countries is 8-9 branches (11.6 in Morocco, 29.8 in Lebanon)\(^{21}\). The branches are concentrated in 2 districts, namely Muscat and Al-Batinah (159 and 91 branches respectively). The largest number of branches is located in the city of Bowsher with 58 branches. Bank Muscat and Oman International Bank, have the largest branch network with 126 and 83 branches respectively, followed by National Bank of Oman with 64 branches (Figure 16). Moreover, local banks have the largest number of branches with 398 branches, representing 88.25%, while foreign banks have 31 branches (6.87%). The lean and less tasking regulatory regime for branch opening has helped increase coverage.

The wide-spread use of ATM, credit and debit cards, smart cards, phone and internet banking, electronic payment for virtually all government services, have added depth and provided greater inclusion and thrust to the financial system. Though, there are no official figures on the number of cards and card transactions, it seems that revolving credit cards penetration is not significant yet, as estimated by the CBO at nearly 120,000

or 0.35 cards per person.

Partly influenced by the impact of the global and regional economic downturn, gross non-performing loans (NPL) of commercial banks recorded an increase\(^2\) to 3.5% (December 2009) from 2.1% at the end of the previous year. The gross NPL of commercial banks recorded an increase of 54.13%, from RO 293.9 million (USD 764.37 million) in December 2008, to RO 453 million (USD 1,178.16 million) in December 2009. This increase was observed in both local and overseas exposures. Despite this increase in NPL, the ratio remains one of the lowest in the region.

Net profits of commercial banks stood lower at RO 191 million (USD 496.75 million) in 2009, compared to RO 234 million (USD 608.58 million) in the previous year, which could be largely attributed to higher level of provisioning made against the NPLs.

As a critical element of the financial sector reforms, the CBO initiated the process of deregulation of interest rates in 1993, first in the deposit rates, followed quickly by lending rates. However, this has been a limited deregulation with interest rates ceilings in place for personal and consumer lending.

Personal loan ceiling to protect borrowers from higher interest rates of 13% per annum as charged by banks in 1999 has been reduced to 8% in June 2008. Although banks are free to charge competitive rates on personal loans below the prescribed ceiling, most of these loans during the recent period have been extended at or near the ceiling rate.

Despite sluggish demand for bank credit from the corporate sector, the weighted average lending rate increased from 6.277% in December 2008, to 6.475% in December 2009, (Table 3) suggesting risk-averse behavior of banks amidst cyclical downturn of the economy.

\[^{22}\] NPL ratio is computed net of reserve interest (for Oman operations).

<table>
<thead>
<tr>
<th>End of Period</th>
<th>Total Ro Deposits</th>
<th>Total Fcy Deposits</th>
<th>Total Deposits (RO+Fcy)</th>
<th>Total Ro Deposits</th>
<th>Total Fcy Deposits</th>
<th>Total Deposits (RO+Fcy)</th>
<th>Spread</th>
<th>Spread</th>
<th>Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-07</td>
<td>1.816</td>
<td>4.23</td>
<td>2.454</td>
<td>7.393</td>
<td>5.914</td>
<td>7.076</td>
<td>5.577</td>
<td>1.675</td>
<td>4.622</td>
</tr>
<tr>
<td>Jun-07</td>
<td>1.916</td>
<td>4.418</td>
<td>2.507</td>
<td>7.368</td>
<td>6.057</td>
<td>7.102</td>
<td>5.471</td>
<td>1.638</td>
<td>4.595</td>
</tr>
<tr>
<td>Sep-07</td>
<td>1.995</td>
<td>4.363</td>
<td>2.545</td>
<td>7.338</td>
<td>6.037</td>
<td>7.063</td>
<td>5.343</td>
<td>1.675</td>
<td>4.517</td>
</tr>
<tr>
<td>Dec-07</td>
<td>2.065</td>
<td>3.788</td>
<td>2.363</td>
<td>7.29</td>
<td>5.946</td>
<td>6.973</td>
<td>5.225</td>
<td>2.157</td>
<td>4.61</td>
</tr>
<tr>
<td>Mar-08</td>
<td>1.729</td>
<td>2.606</td>
<td>1.862</td>
<td>6.916</td>
<td>4.266</td>
<td>6.296</td>
<td>5.188</td>
<td>1.661</td>
<td>4.434</td>
</tr>
<tr>
<td>Jun-08</td>
<td>1.721</td>
<td>2.346</td>
<td>1.813</td>
<td>6.663</td>
<td>2.886</td>
<td>5.826</td>
<td>4.942</td>
<td>0.54</td>
<td>4.013</td>
</tr>
<tr>
<td>Sep-08</td>
<td>1.98</td>
<td>2.458</td>
<td>2.052</td>
<td>6.657</td>
<td>2.802</td>
<td>5.79</td>
<td>4.677</td>
<td>0.344</td>
<td>4.333</td>
</tr>
<tr>
<td>Dec-08</td>
<td>2.512</td>
<td>2.407</td>
<td>2.496</td>
<td>7.099</td>
<td>3.206</td>
<td>6.277</td>
<td>4.588</td>
<td>0.799</td>
<td>3.781</td>
</tr>
</tbody>
</table>
An analysis of lending rates in terms of Rial Omani and foreign currency, gives contrasting position during 2009. While weighted average lending rate in Rial Omani went up considerably from 7.099% in December 2008 to 7.442% in December 2009 that of foreign currency declined noticeably from 3.206% to 2.869% during the same period (Table 4).

<table>
<thead>
<tr>
<th>Rate of Interest (% per annum)</th>
<th>Amount in RO Million</th>
<th>% Share</th>
<th>Amount in RO Million</th>
<th>% Share</th>
<th>Amount in RO Million</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 5%</td>
<td>446</td>
<td>9</td>
<td>524.3</td>
<td>7.2</td>
<td>507.6</td>
<td>6.5</td>
</tr>
<tr>
<td>Over 5% to 7%</td>
<td>1450.5</td>
<td>29.2</td>
<td>2164.3</td>
<td>29.6</td>
<td>1369.3</td>
<td>17.7</td>
</tr>
<tr>
<td>Over 7% to 8%</td>
<td>702</td>
<td>14.1</td>
<td>2585.5</td>
<td>35.4</td>
<td>3282.1</td>
<td>42.3</td>
</tr>
<tr>
<td>Over 8% to 9%</td>
<td>1867.9</td>
<td>37.6</td>
<td>1568.9</td>
<td>21.5</td>
<td>1974.8</td>
<td>25.5</td>
</tr>
<tr>
<td>Over 9% to 10%</td>
<td>248.6</td>
<td>5</td>
<td>223.6</td>
<td>3.1</td>
<td>339.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Over 10% to 11%</td>
<td>94.7</td>
<td>1.9</td>
<td>94.2</td>
<td>1.3</td>
<td>96.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Over 11% to 12%</td>
<td>57.2</td>
<td>1.2</td>
<td>46.1</td>
<td>0.6</td>
<td>44.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Over 12% to 13%</td>
<td>55.3</td>
<td>1.1</td>
<td>36.9</td>
<td>0.5</td>
<td>32.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Over 13%</td>
<td>47</td>
<td>0.9</td>
<td>57.9</td>
<td>0.8</td>
<td>108.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Total</td>
<td>4,969.20</td>
<td>100.00</td>
<td>7,301.70</td>
<td>100.00</td>
<td>7,754.40</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Weighted average interest rate (%) | 7.29 | 7.099 | 7.442

2.2.2 MICROFINANCE INSTITUTIONS

Micro credit business is not exceedingly popular in Oman and no microfinance institution exists in the country.

2.2.3 FINANCE AND LEASING COMPANIES

There are currently six finance and leasing companies with a branch network of 33, operating under the license of the CBO. They mainly operate in three market segments, namely, retail financing where the financing is to individual customers for purchase of automotive and electronic goods; equipment leasing where the financing is to small and medium enterprises (SMEs) for expansion, modernization and replacement requirements; and factoring and working capital financing to SMEs for cross border or domestic trade, or for the execution for projects, usually against the assignment of receivables.

In line with the slowdown of the economy, the total asset base of FLCs contracted by around 10% in 2009, as against 38% growth witnessed in the previous year (Table 5). Combined assets of finance and leasing companies stood at RO 553.8 million (USD 1,440.32 million) as at the end of December 2009, compared to RO 611 million (USD 1,589.08 million) in the prior year.
Total outstanding credit extended in the form of hire purchase, lease financing and factoring declined by 9.7% to RO 535.2 million (USD 1,391.95 million) in 2009, from RO 592.4 million (USD 1,540.71 million) in 2008.

Asset quality in terms of the loan portfolio reflected deterioration during 2009 with gross NPL increasing to RO 52.8 million or 9.9% of the gross loan portfolio, compared to RO 24.5 million or 4.1% of gross loans in 2008. Contraction in the size of the loan portfolio and the narrowing of interest spread due to the higher cost of funds, had an adverse impact on net interest income and profits of FLCs. Net profit after provisions and taxes of FLCs dropped to RO 13.9 million (USD 36.15 million) in 2009, as against RO 17.2 million (USD 44.73 million) in the previous year - reflecting a decline of 19.2%.

On the liabilities side, the FLCs have steadily increased their paid up capital over the years, to be in line with the minimum required level of RO 20 million to be achieved before the end of June 2012. At the aggregate level, the paid up capital of FLCs reached RO 81.1 million (USD 210.92 million) in 2009, an increase of 10.6% over the previous year.

The consolidated capital and reserves of the FLCs, rose to RO 136.9 million (USD 356.05 million) at the end of 2009, compared to RO 123.1 million (USD 320.16 million) a year ago. Borrowings from banks and other
financial institutions - which is the main source of funding for the non-bank finance and leasing sector - declined from RO 325.8 million (USD 847.34 million) in 2008, to RO 276.7 million (USD 719.64 million) in 2009. The weighted average rate of interest per annum, remained more or less unchanged at 11.1% in 2009, compared to 11% in the previous year.

2.2.4 MONEY EXCHANGE COMPANIES

Two types of institutions carry out money exchange in Oman, namely money changers - engaged in money exchange only, and exchange establishments – conducting both money exchange and remittance business. In 2009, there were 24 money exchange firms and 16 exchange establishments, operating under the license of money changing and draft issuance business.

The exchange establishments, with a network of 149 branches, are annually examined by the CBO to ensure that they keep proper books and records, and comply with the regulations. Their total assets reached RO 30.8 million (December 2009) compared to RO 29 million in the previous year, an increase of 6.2%. The asset profile mainly included cash on hand of RO 9.6 million and balances held with banks, amounting to RO 15.6 million.

The total capital and reserves of these companies as at December 2009 were RO 15.4 million compared to RO 14.2 million a year ago.

2.2.5 MOBILE TELEPHONE COMPANIES

The mobile telephone industry is reasonably competitive, with two operators - the private sector Nawras and the public sector operator Oman Mobile. The mobile telephone industry in Oman has achieved a penetration of 128%, one of the highest worldwide.

Mobile phone subscription continues to rise (Figure 17), and the total mobile subscribers base reached 3,970,563 in the last quarter of 2009 - representing a quarterly increase of 5.07%. Mobile phone subscribers saw an annual increase of 615,417 subscribers in the past year.

Prepaid subscribers constitute the majority of the mobile market, totaling 3,611,819. However, this share (91%) has recently reduced due to an increase in the postpaid subscribers (9%) reaching 358,744 subscribers.

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23 All the figures presented in this section are from the TRA’ Statistics Report, 4th Quarter 2009.
24 30% of capital of Oman Mobile was transferred to the private sector since 2001. The company, linked to Omantel, is listed in the Muscat Securities Market.
Mobile subscribers generated 1,096.21 million minutes during the fourth quarter of 2009 - an increase of 8.6% over the previous quarter. The average revenue per user also increased 3.7%, to RO 9.14/month in December 2009.

Nawras, the newest operator licensed in 2009, offers fixed lines in addition to being a major service provider in the mobile market.

Fixed line subscription decreased throughout the 2009 (Figure 18), where total subscriptions fell to 267,317 subscribers - a reduction of 1.05% from 2008. This trend is mainly due to fixed line subscribers migrating to mobile services due to affordability and convenience. Post paid fixed lines have faced a similar downward trend. The number of postpaid fixed lines (212,624 in 2009) has decreased by 2,406 lines (1.12%). Also, total fixed internet subscribers reached 78,135 by the end of 2009 as reported by Omantel - representing an increase of 4.51%.

The number of active post-paid contracts totals 358,744. Since these are like lines of credit, they could become a crucial source for credit information. The potential of the information possessed by the telecoms, covers the adult population and is necessary to predict the risk of potential borrowers, even for traditional credit. It is relevant to note that mobile telecom operators are increasingly contributing information to credit reporting systems globally, as credit markets are viewed beyond traditional channels.

### 2.2.6 OTHER LENDING INSTITUTIONS

American Express operating in Oman is providing credit cards to almost 12,800 customers. In 2009, there were almost 15,000 cards including both charge and credit revolving cards. However, due to risk management policy, this number has been decreased to 13,000 by the end of 2009. Their credit policy and procedures require cash collateral, while rejection rate remains relatively high - estimated at 9-10%.

### 2.2.7 CENTRAL BANK OF OMAN

The establishment of the Central Bank of Oman in the beginning of 1974 was part of the evolution of the monetary system in the Sultanate of Oman, coupled with the prospects of the vast economic developments in the country. Until 1970, there was no national authority responsible for the supervision of the incipient banking...
system. The number of banks was small and the banking activities were limited in scale. The CBO was created under the Banking Law of 1974 (which has subsequently been amended vide Royal Decree No. 114/2000).

The general superintendence and direction of the CBO's affairs is vested in the Board of Governors. The Board has full authority to perform all acts required for the management and operations of the Central Bank and supervision of the banking business in the Sultanate.

The Board of Governors consists of seven members and is vested with a wide range of powers, including the issuance of regulations pertinent to the proper implementation of the Banking Law, regulations regarding setting the discount rate, rediscount of commercial papers, capital adequacy, appointment of Bank personnel and description of jobs and other regulations deemed necessary.

In addition to regulating financial and credit markets in Oman, CBO carries out all the functions of a normal central bank with the paramount objectives of conducting monetary policy to preserve price stability and promote investment and economic growth. The headquarters of the CBO are in Muscat, while branches are operational in Salalah and Sohar.

The functions of the CBO are clearly summarized on the website as follows:

- The CBO acts as the depository agency for the Government of the Sultanate of Oman.
- It is also the regulator of the Oman's commercial banks, specialized banks and finance and leasing companies. Money exchange houses also are regulated by the CBO.
- It makes advance payments to the Government in respect to temporary deficiencies in recurrent revenues and manages loans on behalf of the Government.
- It maintains, at all times, a part of the Sultanate's foreign assets as cover for the currency in circulation at prescribed ratios.
- It accepts deposits from banks operating in the Sultanate and from other foreign Central Banks, International Monetary and Financial Institutions.
- It advances credit to local banks and engages in investment activities through the purchase and sale of financial instruments.
- It determines discount and rediscount rates.
- It provides clearing house services for all member banks.
- It issues the national currency, supervises its circulation, preserves its value and manages foreign assets.
- In addition to the above mentioned traditional functions, the Central Bank of Oman also acts as the advisor of the Government in economic matters in general and monetary and financial matters in particular.

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2.3 CREDIT RISK MANAGEMENT & CREDIT ACCESS CONSTRAINTS

2.3.1 COLLATERAL, NON PERFORMING LOANS, REJECTION RATES

2.3.1.1 COLLATERAL AND GUARANTEES

The requirement of collateral and guarantees is a leading factor limiting access to credit and preventing faster expansion by making the Omani credit system highly selective and expensive. In addition, it is an indicator of insufficient availability of credit information. In Oman, collateral is a general prerequisite of disbursement for loans granted by the financial system. This includes physical collateral (assets, real estate, securities) or personal guarantees (co-signor, cash deposit, salary pledges).

To qualify for credit, consumers must meet the eligibility requirements of:

- being an existing customer of the bank;
- having a current account with the bank (or an operational account in the case of OHB);
- showing no negative records in the credit registry or in the unpaid checks databases;
- demonstrating a valid source of income (salary);
- approving the direct credit of salary payment to that bank account (domiciliation);
- providing a direct debit order for the payment of the monthly installment;
- salary domiciliation at least until the expiration or complete repayment of the loan;
- providing additional guarantees depending on the loan type/amount - if requested by the lender.

When seeking credit from NBFIs, the underwriting procedures can be even more cumbersome and taxing. More documentation is generally requested (e.g. bank account statements for the last 3 months), as well as more guarantees (e.g. 12, 24, 36 post dated checks, or a salary deduction operated directly by the employer before paying the monthly salary).

It is quite difficult to obtain credit unless a formal source of income can be demonstrated, or if no collateral can be provided. Currently the average collateral requirement is 112% of the loan value (Figure 19). The establishment of a complete, integrated information sharing system can reduce the cost of and approval time for granting credit while improving quality of service and promoting greater access to credit. Such a tool would enable financial institutions to better assess credit risk, particularly for consumers and those applicants currently considered “not-bankable”. This includes informal economy entrepreneurs, who cannot provide collateral or give proof of a steady, regular flow of income, thus remaining excluded from traditional credit channels.

![Fig 19: Collateral Value as % of Most Recent Loan value](image-url)
In this scenario, the need for and dependence on collateral would be significantly reduced, particularly for small ticket loans (retail and small business customers) being progressively replaced by “Reputational collateral”, based on historical payment performances registered in the individual credit histories. In addition, credit information would help lenders to reduce moral hazard and information asymmetry, maintain better control over NPL, decrease operational time and costs, and allow the utilization of statistical risk assessment and automated decision making. Table 7 shows a summary of credit policies and collateral/guarantees requirement applied by one of the largest lenders in Oman as described in the response to the ACRI’s business/risk survey. Of note is the requirement for guarantees (assets or salary) to be considered eligible for credit.

Guarantees/collateral requirements seem to be the foundation of and the most common tool for risk mitigation used by banks in Oman. This can be best addressed through the introduction of a complete and comprehensive credit information sharing system with all regulated and non-regulated lending institutions, as well as retailers reporting consumer and SME loan data and credit histories.

### BOX 2: REPUTATIONAL COLLATERAL VS. COLLATERAL

Borrowers, particularly the most vulnerable segments (individual borrowers, micro-entrepreneurs and the informal sector), are often unable to provide guarantees. With a lack of comprehensive and reliable credit information, lenders are unable to distinguish good from bad customers. In turn, they adopt two options to protect their portfolio: either increase disproportionately the interest rate applied, or more frequently, reject an applicant rather than take a potential risk. “Reputational collateral” allows a significant diminution of collateral requirements and helps to improve access to credit. It is generated by the historical payment performances, i.e. credit history data, both positive and negative, especially at the consumers’ level. Accessing this data about all borrowers is reliable, free and easy and it is much more effective than real collateral for small ticket loans.

<table>
<thead>
<tr>
<th>Type of Credit Product</th>
<th>Collateral Required (Yes/No)</th>
<th>% of Credit Accounts for which collateral is required</th>
<th>Other Type of guarantee if requested (Specify Type)</th>
<th>Notes/Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Cards</td>
<td>No</td>
<td>0%</td>
<td>Salary Assignment</td>
<td></td>
</tr>
<tr>
<td>Personal Loans</td>
<td>No</td>
<td>0%</td>
<td>Salary Assignment</td>
<td></td>
</tr>
<tr>
<td>Car Loans</td>
<td>Yes</td>
<td>100%</td>
<td>Salary Assignment</td>
<td></td>
</tr>
<tr>
<td>Mortgages</td>
<td>Yes</td>
<td>100%</td>
<td>Salary Assignment</td>
<td></td>
</tr>
<tr>
<td>Over Draft</td>
<td>No</td>
<td>10%</td>
<td>Salary Assignment, Lien in Cash/FD</td>
<td></td>
</tr>
<tr>
<td>Micro Credit Loans</td>
<td>Yes</td>
<td>100%</td>
<td>Payment Assignment, Lien in Cash/FD</td>
<td></td>
</tr>
<tr>
<td>SME Loans</td>
<td>Yes</td>
<td>100%</td>
<td>Payment Assignment, Lien in Cash/FD</td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Guarantees/collateral requirements seem to be the foundation of and the most common tool for risk mitigation used by banks in Oman. This can be best addressed through the introduction of a complete and comprehensive credit information sharing system with all regulated and non-regulated lending institutions, as well as retailers reporting consumer and SME loan data and credit histories.

#### 2.3.1.2 NON PERFORMING LOANS

NPLs (account > 90 days late) of the banking sector remain under control at systemic level and remain one of the lowest in the region despite a minor deterioration in 2009. The NPL ratio moved from 2.1% in 2008 to 3.5% in 2009, mainly influenced by the impact of the global and regional economic downturn. The number of defaulting customers ranges between 2.87% and 7.11%.

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27 The name of the bank is not mentioned here for confidentiality reasons. The products left unticked are unavailable at the bank.

28 As per the existing banking regulation in Oman.

29 Questionnaires filled by major Omani lenders for ACRI mission, January 2010.
acquisition and high rejection rates to credit requests, the NPL ratio has increased recently.

As indicated in the responses to ACRI’s business/risk survey, NPLs remain relatively high particularly in some credit segments, like SME and housing. According to the data gathered in meetings with financial institutions, it seems that NPLs amongst the personal loans segment are very low, whereas they average 3-5% for consumer and housing loans.

### 2.3.1.3 REJECTION RATES

Although precise data for rejection rates was not reported by all financial institutions, the following is a summary of respondent answers to the ACRI business/risk survey:

i. Rejection rates from the self-generated applicant pool, range from 2.8% - 60%, with the highest percentage observed in the case of a NBFI that is aggressively pursuing greater market share in retail credit\(^{30}\). However, this percentage is related to only those applications whose cases and application are presented for assessment to different levels of decision makers.

ii. Since a large number of credit applications are screened prior to being raised before the credit committee, it would be reasonable to expect an increase in the rejection rate, if all applications are considered.

iii. Finally, the fact that Omani credit market is highly collateralized may also indicate that only the top-tier customers are brought to decision level, and the motivation of potential borrowers to file a credit application through the traditional channels may be low and/or not encouraged by traditional lenders.

Meetings with financial institutions emphasized: i) insufficient income, ii) lack of information, and iii) not meeting the company criteria, as the main reasons for rejection of credit applications. Rejection rates and the need for subjective judgments can be significantly reduced if credit information coupled with advanced underwriting tools (e.g. scoring) is made available.

### 2.3.2 CREDIT UNDERWRITING & PORTFOLIO MANAGEMENT TECHNIQUES

Risk management techniques adopted by banks, particularly for retail credit, are still quite traditional. Credit underwriting in Oman is generally marked by subjective manual decisions, low decentralization, high utilization of paper and supporting documents, lack of full automation, conventional risk underwriting techniques, excessive reliance on collateral, lack of advanced risk management tools, and lack of full, detailed, reliable information. Unsecured portfolios are very infrequent (rather absent) and regardless of the smaller tickets, personal loans and retail credit typically require a guarantee to be presented and processed.

Credit scoring is mostly absent, or at best, in its infancy, even amongst the most progressive and retail focused lenders, regardless of whether it is a bank, NBFI, international or local institution. Among the first 5

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\(^{30}\) Questionnaires filled by major Omani lenders for ACRI mission, January 2010.
major lenders surveyed, representing a market concentration of nearly 90%, there seems to be a limited appreciation of the benefits that credit scoring may produce. Out of the five surveyed lenders, application scoring model is utilized only by one bank; however, it is an internally built generic scoring system. Custom scoring systems built through the utilization of the lenders’ own data, and by an international scoring consultancy company (e.g. Fair Isaac or Experian, or CRIF) are yet to be introduced.

Behavioral scoring models and automated account management systems are yet to be introduced. With the growth of revolving consumers’ portfolio (e.g. credit cards), an immediate introduction of this methodology would be advisable. It is clear that scorecard monitoring systems are inexistent since they are considered a consequence of the scoring card utilization which is not being fully used.

Full automated credit application processing is not present yet, therefore, most credit application processing and decisions are semi-automated.

A typical information verification process workflow normally entails: i) two inquiries to the CBO’s Public Credit Registry (PCR) and classified data, and ii) one inquiry to the CBO’s unpaid checks database. These procedures are often not fully integrated in the lenders’ main loans acquisition systems, and have to be triggered centrally, delaying processing time and increasing operational costs. These costs are ultimately paid for by consumers with fee and higher interests.

Additional complexity and transaction costs are added through credit applications being reviewed by and requiring the approval of different departments/officers. Generally, and regardless of the loan amounts and typologies, approval/rejection decisions are taken subjectively and manually by officers or managers, and are not delegated to the system. Tables 8 & 9 illustrate the procedures (length of approval and decisional flow) applied by some major lenders interviewed. This underwriting process shows the length of the process and the involvement of several staff. It is of note that inquiries to the CBO PCR are not mentioned in the process. One major lender constitutes an exception as it has put in place a decisional system allowing automated decisions to be taken by the system, though apparently based only on internal policy rules - since it does not use the scoring system as yet. Some lenders have in place decisional delegation matrixes, allowing branches to take decisions for smaller loans.

Even in the case of private banks, the process is long, involving many departments and decision makers, and despite the utilization of on-line databases, is quite cumbersome. The objective of small ticket loans underwriting should instead be automated decisions, and instant credit. This can only be achieved if complete information, bureau scores and custom scores are in place and integrated, in a fully automated decision system.
<table>
<thead>
<tr>
<th>Type of Credit Product</th>
<th>Hours to approve/reject an applicant (from application to decision)</th>
<th>Days to approve/reject an applicant (from application to decision)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Cards</td>
<td>10-14</td>
<td>10-14</td>
</tr>
<tr>
<td>Personal Loans</td>
<td>4-6</td>
<td>4-6</td>
</tr>
<tr>
<td>Car Loans</td>
<td>N.A</td>
<td>N.A</td>
</tr>
<tr>
<td>Mortgages</td>
<td>20-30</td>
<td>20-30</td>
</tr>
<tr>
<td>Over Draft</td>
<td>10-20</td>
<td>10-20</td>
</tr>
<tr>
<td>Micro Credit Loans</td>
<td>10-20</td>
<td>10-20</td>
</tr>
<tr>
<td>SME Loans</td>
<td>10-20</td>
<td>10-20</td>
</tr>
</tbody>
</table>

**Table 9: Retail Credit – Underwriting Process**

1. Customer approached the customer service representative (CSR) for loan.
2. Customer fills out the application & submits all documents
3. CSR scans the application in GWIS System.
4. Pre-processing verification of documents calculation of DBR, STL ETC and re-scan document if it’s unclear.
5. Verification of the employer, if deemed necessary
6. Network Service Centre (NSC) captures data & books of the loan in APPS4 System
7. If the proposed loan is outside the policy, NSC will refer this to Credit Risk Management (CRM)
8. If it’s approved by CRM, NSC will approve the loan and permit drawdown. If the proposal is declined, NSC will inform the concerned branch
3.0 OVERVIEW

According to the Doing Business\textsuperscript{31} Report 2010, Oman Credit Information Sharing Index scores a low 2 out of 6, with no improvement since 2008. This highlights an urgent need for transformation of credit information which is one of the fundamental tools for maintaining the systemic risk of the credit industry.

Oman slipped in the overall Doing Business ranking from 60 in 2009 to 65 in 2010, and particularly from position 125 to 127 in the Getting Credit area (Table 10). The coverage of the population offered by the current credit reporting system (which is the PCR of the CBO) is very minimal, and decreased from 23.4% of the population in 2009 to the current 17% in 2010.

<table>
<thead>
<tr>
<th>Year</th>
<th>Doing Business Rank</th>
<th>Legal rights index (0-10)</th>
<th>Credit information index (0-6)</th>
<th>PCR (% of adults)</th>
<th>PCB (% of adults)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>60</td>
<td>4</td>
<td>2</td>
<td>12.4</td>
<td>0</td>
</tr>
<tr>
<td>2009</td>
<td>60</td>
<td>4</td>
<td>2</td>
<td>23.4</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>65</td>
<td>4</td>
<td>2</td>
<td>17</td>
<td>0</td>
</tr>
</tbody>
</table>

Though positive credit information is shared among lenders, it is still at an aggregated level, with no detailed information about arrears, no historical data, no tradelines, and is limited to regulated entities. Detailed credit information at account level, 3-5 years long and complete credit histories on consumers for underwriting purposes are not yet available. Private credit information providers, such as Private Credit Bureaus (PCB) are not yet operational, though an experiment that should become operational National Bureau of Commercial Information (NBCI) is in place and on the verge of starting.

Oman is also lagging behind in the region on the depth of credit information (Figure 20). This may be attributed to:

i) The underperformance of the PCR. Although being revamped, it will always remain limited to gathering information provided only by regulated entities - hence limiting Oman from achieving the highest score. Egypt and KSA are scoring very high (the maximum).

\textsuperscript{31} World Bank / IFC: \url{www.doingbusiness.org} – Section Getting Credit
because they are able to gather the information not only from the regulated entities but from all the entities.

ii) The absence of an operational, non-fragmented, and advanced PCB.

iii) The absence of a bespoke, tailored legal framework for credit reporting.

As indicated above, neither PCB nor other private information providers of any type are operating a credit reporting system in Oman. However a PCB, namely NBCI – National Bureau of Commercial Information, is present in the market. NBCI was established in 2009 by local entrepreneurs, with the participation of banks as shareholders/users of the PCB. NBCI has been granted a license to operate by the CMA (Capital Market Authority), which has also been appointed supervisor of PCBs in Oman (a role generally played by the banking supervisor in most countries). However, it is not yet in the position to proceed to collect data and disseminate information services.

As a result of some issues related to harmonizing bank secrecy and information sharing, NBCI has not been able to start operations as yet, despite the advanced technology which it has configured to provide reliable and qualitative credit reporting services. It is noteworthy that the establishment of a PCB, such as NBCI, would represent a significant reform for the country, and a considerable jump in the Doing Business ranking. As is the case of Morocco, with the launch of a PCB the country’s overall ranking improved from position 131 to 87.

The only additional information available to lenders is represented by:

a) the customary references, informally exchanged among the lending community, on a case by case basis, and without any apparent regulation and protection for the borrowers’ privacy or rights, or

b) the paper statements of accounts requested to credit applicants.

Therefore, apart from the CBO’s PCR, lenders have no available source for credit information.

There is strong interest in the banking and non-banking financial community to initiate full positive credit information sharing. Financial institutions are very focused on the new PCR project, and are accompanying CBO efforts to give the country a first class PCR. These institutions have committed resources towards synchronizing their operating systems and procedures with that of the PCR. This is being done with a view to fully automate credit decisions, reduce operational times and costs, and realize greater efficiency and cost cutting. Banks have been providing data and making inquiries to the PCR for a number of years now, and some of them have even pioneered the establishment of NBCI - acquiring minority shares in its capital.

Financial institutions have been using partial, limited, and aggregated information for decades. The new PCR system will change the way they assess credit, their underwriting processes, their credit policy, and even the credit culture inside the credit institutions. The CBO, with the support of the technical provider, will have to supply considerable guidance to financial institutions about the usage of credit reporting services to ensure that lenders can maximize the benefits of full information sharing. Financial institutions
should gradually provide their staff with training to enable full appreciation of the new services and adopt the necessary technical, policy, and process changes to make the best use of it.

This process can be critical as the lack of familiarity with new risk technologies and information services of risk managers in existing banks, coupled with the partially automated systems and processes of the lenders, may impact the operations of a first class credit registry negatively and undermine the advantages that credit reporting may bring. Banks are currently reacting to a market need for which they will have to fine-tune their credit policies and portfolio strategies. Training and awareness raising will prove critical in the development of lending. Substantial training and skill development will be required on advanced risk management techniques. Improving these skills would bring immense positive results, and support the expansion of access to finance for potentially good customers.

Finally, the role and the leadership of the CBO are recognized by all lenders. The CBO is seen as the natural, neutral and independent institution with sufficient authority to guarantee the success of any information sharing scheme, either public or private. Hence, strong effort by CBO to establish an effective PCR is crucial to obtaining the commitment and the cooperation from regulated institutions for sharing data. However, this should be considered as the preparatory work that lays the ground for a future delegation of this task to a PCB.

3.1 THE PUBLIC CREDIT REGISTRY OF THE CBO

In the last decade, the CBO has made significant progress in the development, operations, and upgrade of the PCR. The CBO has pioneered credit reporting in the country and educated lenders on the necessity and importance of sharing credit data.

The CBO established the first PCR system in 1978 to achieve two fundamental goals: i) collecting credit information from financial institutions to support CBO’s supervision mandate, and ii) supplying lenders with consolidated information for credit underwriting purposes. In 1996, the CBO initiated the first major revamp with a view to automate the PCR processes.

More recently, in 2007, through regulation BM/REG/52/11/2007, the foundations of the new Bank Credit and Statistical Bureau System (BCSB) have been laid. The CBO, clearly conscious of the limits of an aging system (insufficient to meet needs of a rapidly changing market), has contracted one of the leading international PCB operators to build a new, state-of-the-art PCR. The new system is expected to be operational by 2010, and will have the most advanced credit reporting services available to the lending community. However, as with any PCR, the new system will capture and report on credit information from only the regulated financial entities; non-regulated entities data will not be supplied to the BCSB. The BCSB is currently being tested and not operational yet.
All the 25 regulated entities (19 banks and 6 NBFI) are mandated to supply the existing PCR with all credit information on all borrowers. Information is stored at customer level. As of January 2010, the number of borrower accounts provided to the PCR was 450,513 (Table 11). Of these, roughly 5% (20,654) are business firms’ accounts with the vast majority being individual consumers.

<table>
<thead>
<tr>
<th>Account Type</th>
<th>No. of Accounts</th>
<th>No. of Inq</th>
<th>Funded</th>
<th>N on Funded</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>429,859.00</td>
<td>136,945.00</td>
<td>5,282,255,382.00</td>
<td>42,138,271.00</td>
<td>5,324,393,653.00</td>
</tr>
<tr>
<td>Firms</td>
<td>20,654.00</td>
<td>39,939.00</td>
<td>5,262,438,323.00</td>
<td>2,783,843,641.00</td>
<td>8,046,281,964.00</td>
</tr>
<tr>
<td>Total</td>
<td>450,513.00</td>
<td>176,884.00</td>
<td>10,544,693,705.00</td>
<td>2,825,981,912.00</td>
<td>13,370,675,617.00</td>
</tr>
</tbody>
</table>

The volume of inquiries looks rather low (176,884). In countries where credit is developed, this number is much higher. For example, Italy has a population of roughly 60 million, and 35 million borrowers registered in the database. The local Credit Bureau receives 22 million inquiries online per year, and 50 million batch inquiries - with two PCBs operating in the country. Although lenders in Oman are not mandated to make inquiries from the PCR before granting credit, the low number of inquiries is an indicator of the low volumes of new customer acquisition. However, this can also be viewed as significant market potential in the country.

The main features of the existing PCR are:

a. The database contains positive and negative information.
b. Information is provided on both business firms and individual borrowers.
c. No threshold is applied and all loans provided by regulated financial institutions are included.
d. The system is paperless, automated, and online.
e. Regulated financial institutions are mandated to provide data.
f. Updates are transmitted and consolidated by the PCR within the first ten days, following the end of the preceding month.
g. It takes less than a week to run a complete update.
h. Two main files are available in the PCR:
   - Consolidated data concerning the exposure of each customer across all financial institutions;
   - Classification of each loan granted by the lenders - based on the CBO’s prudential regulations.
i. Consolidated data is transferred online, and once classified, is available monthly on a CD-Rom.
j. Though inquiries and updates can be generated online, access points are limited and each lender may utilize only one access point for its entire network.
k. PCR files are not integrated; two different searches are necessary for each credit application (credit report and loans classification report). This goes up to three searches if the unpaid cheques file, operated by the CBO, is consulted.
l. The majority of lenders assigned some of their staff to make inquiries for loans a separate step/functionality of the acquisition and underwriting process.
m. Lenders bear the operational costs of the CBO PCR.
Credit reports supplied by the existing PCR are similar in format for business firms, as well as individual borrowers, in that they do not contain a lot of information and are not sufficiently different in composition based on the typology of credit or borrower. Very basic aggregated financial information is shown for total current exposures only. The system does not show historical payment performance, nor arrears, or the list of the previous searches.

One of the available reports is the BCSB System’s *Classified Loan Report*. It is based on the loan risk classification determined by lenders, according to the CBO instructions to classify the current situation of NPL and write-offs (Table 12).

<table>
<thead>
<tr>
<th>Table 12: BCSB SYSTEM CLASSIFIED LOANS REPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Borrower Type</strong> : I</td>
</tr>
<tr>
<td><strong>Borrower ID-No.</strong> : 0001/0012150</td>
</tr>
<tr>
<td><strong>Borrower Name</strong> :</td>
</tr>
<tr>
<td><strong>Inquiry Date</strong> : 2009 - December</td>
</tr>
<tr>
<td><strong>Banks</strong></td>
</tr>
<tr>
<td><strong>Substandard</strong></td>
</tr>
<tr>
<td>ABC</td>
</tr>
<tr>
<td>DEF</td>
</tr>
<tr>
<td>GHI</td>
</tr>
</tbody>
</table>

The second report is the *List of Consolidated Declaration*. Table 13 shows a real example of this report. It is evident that the financial information is quite scarce and insufficient to support a dependable assessment of customer risk, particularly in the case of retail small business credit.

<table>
<thead>
<tr>
<th>Table 13: List of Consolidated Declarations of 0001/0171951 Dec’2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NAME</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td><strong>Adv/CD</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Going forward, it is reasonable to see retailers, supermarkets, furniture and appliances merchants, mobile telephone companies, and other similar segments progressively enter the credit market, and acquire an increasing share of consumer credit. With this change, these stakeholders must be considered eligible to participate with full rights, to a private credit reporting scheme on a reciprocity basis. This is a crucial issue, since capacity to predict risk is given by data completeness (including both negative and positive data), and by the participation of all lending sectors, whether regulated or non-regulated. The CBO should...
encourage the set-up of an effective private credit reporting system, designed and tailored to include non-regulated entities.

In conclusion, the CBO should consider the PCR as an important transitional tool, in a medium-term strategy towards the development of a PCB in Oman. International experience shows that, while PCRs main purpose is primarily to support bank supervision and prudential regulation, they can also have an important preparatory role in facilitating the development of the private credit reporting industry. This role can be accomplished by a) promoting the establishment of complete, efficient and reliable PCBs, b) enabling a friendly legal framework, c) creating awareness among lenders and social responsibility among borrowers, and d) enhancing the confidence of consumers through direct involvement in solving complaints related to credit reporting activities.

3.2 PRIVATE INFORMATION PROVIDERS

In the last five years, the number of PCBs has significantly increased globally, particularly in countries where credit information sharing is less developed (Figure 21). In countries with large populations like India, Russia, Vietnam, and Brazil, or in the smallest geographies like Iceland, regulators and policy makers have tried to dispose off existing legal obstacles, and fostered the establishment of PCBs.

Fundamentally, regulators have understood the need to have a complementary risk management tool that can help to better maintain and control systemic risks, including those of the lending sectors not directly supervised.

Out the countries surveyed by Doing Business, 101 operate a PCR and in 93 of these, a PCB is also present\(^\text{32}\). Empirical evidence shows that PCBs and PCRs normally co-exist and complement each other in covering areas of credit risk; consumer, retail, MFIs, and SME credit for PCBs, and large exposures and major business borrowers for PCRs. In some countries, the Central Bank has closed the PCR to lender inquiries, using it only for supervision and monitoring of the banking system, and it has promoted the use of the established PCBs for credit reports.

In many markets, the Central Bank is sponsors the establishment of PCBs (e.g. Honduras, Saudi Arabia, Morocco, Egypt, Nicaragua, Bolivia, India, Ghana, and Ecuador) - often enforcing regulations mandating lenders to both share data and to make inquiries to PCBs. In some cases, PCRs supply information directly to PCBs. In these cases, the Central Bank either mandates lenders to report all the information

\(^{32}\text{Doing Business Survey 2010}\)
considered relevant, directly to the PCB (e.g. Egypt, Kuwait, India, Russia, Kazakhstan), or the Central Bank collects the credit information directly from regulated lenders, consolidates the database, and subsequently supplies the same database directly to all the licensed PCBs (e.g. Morocco)\(^{33}\). Data flows in the case of both mandatory and voluntary credit information sharing models, are shown in Figures 22 and 23.

Oman may soon join the ranks of countries that have a functioning credit bureau. On June 23, 2008, an experiment of private information sharing was officially launched in Muscat. A group of local private entrepreneurs backed by banks, (many of which are also minority shareholders), lay the foundation stone for private credit reporting. At the end of 2009, NBCI (National Bureau of Commercial Information) was ready for operation. NBCI is a full-fledged PCB and might, (if all the conditions to start functioning are set), be able to provide value added services, in parallel with the new PCR. The major issues preventing the start of NBCI operations can be recapped as follows:

a. A specific credit reporting regulation, which, while establishing the basic rules and norms for private credit reporting, is not fully customized and exhaustive, and should be strengthened and better tailored. (CMA’s regulation – Part V – Credit rating Companies – Chapter I – General provisions and section II Credit Bureaus).

b. An extremely conservative interpretation of the existing jurisprudence concerning bank secrecy, that has set difficult constraints on the lenders, hence preventing them from sharing data with the PCB. It is noteworthy that after a thorough revision, during the ACRI mission, it appears that this will no longer be an obstacle to the provision of data from lenders to NBCI.

c. Though a fundamental vehicle to pioneer the PCB venture in Oman, the shareholding pattern requires further strengthening, and needs to be institutionalized and aligned with international best practice. Currently, no technical providers own any capital share of NBCI. Banks and financial institutions, including the major ones, own 30% of the shares; restrictions to financial entities’ investments apply in Oman. The remaining 70% of the paid capital belongs to local private entrepreneurs. Since credit reporting is a business built on transparency and trust, this shareholding pattern should be reviewed and reinforced by strengthening the presence of institutional

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\(^{33}\) This is a common scheme in LAC where regulators (e.g. in Ecuador, Bolivia, and Peru) share information directly with PCBs.
shareholders (e.g. financial entities), and diluting the share capital of the private entrepreneur shareholders, (while maintaining minority ownership in the venture).

d. The vast majority of PCBs worldwide (83%) are owned and operated by the same international providers who have built and developed the credit bureaus, sometimes in joint-ventures with lenders. Globally, financial institutions are increasingly participating in PCBs (39% of cases) not only as users/data providers but also as shareholders. In some cases, when the technological provider is not interested in making a direct investment in a country (e.g. Oman), banks may even get majority of the capital (Figure 24).

e. Finally there is the risk for any PCB, opening in Oman, that the new PCR with its state-of-the-art system can become an unintentional competitor. Should PCB operations be delayed, the lending community might get the wrong idea that the new challenges characterizing the future credit and financial markets can be addressed forever, and simply with a pool of information provided and shared, only among regulated entities.

It may be noted that the current situation in Oman’s credit information market could have significant negative impacts. The various financial crises triggered during the 90s in South Asia and Latin America all had a common denominator; significant liquidity flows in the financial markets, transformed by the banks into consumer loans without complete and sufficient information or risk management tools as no PCBs were present.

BOX 3: Hong Kong and Korea Case Studies

It is worth illustrating the experience of Hong Kong and Korea, which in the past decade have experienced a period of major increase in retail credit defaults, in an unfortunate combination of reckless lending and unavailability of information. Both countries had only negative and fragmented credit information registries (not all lending sectors participated). As competition in the credit card market increased, and credit cards were marketed aggressively, many consumers accumulated multiple cards. Borrowers would typically use the maximum credit line available in their credit card account and then open another one to pay off the debt accumulated on the first one. This was unsustainable and resulted in a large number of credit card defaults. For instance, in Hong Kong, the average bankrupts owed 42 times their monthly income in unsecured debt, compared with 21 times in the United States where banks supplied and used all available information. Since that crisis, Hong Kong’s PCBs have now migrated to a positive/negative non-fragmented credit reporting system. In Korea, credit card issuance rose from a little over

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http://www.bangkokpost.net/mckinsey/Mckinsey110803.html.
40 million to approximately 90 million between 1998 and 2003. Between 2002 and 2003 alone, the delinquency ratio on credit cards rose from 12.8% to 43.3%. Following the crash of the credit card market, credit delinquents accounted for a staggering 16.7% of the economically active population, at the end of 2003. Personal delinquency was a serious social issue, as delinquents were concentrated in the most fragile sector of the economy, including youth, women and lower income population. These crises could have been avoided, if the lenders had had access to complete Private Credit Bureaus, and had been more conservative in their lending practices.

3.3 CREDIT REPORTING: INTERNATIONAL BEST PRACTICE

PCRs and PCBs complement each other, though they have different objectives and responsibilities and play unique roles inside the credit systems.

a. A PCR is generally managed by the public sector. Normally it is the Central Bank’s database. It is usually operated on a non-profit basis, and collects information on creditworthiness of firms or individuals, which is generally supplied by regulated entities on a periodical and typically compulsory basis. A threshold is often applied.

b. A PCB is defined as a private, for-profit, commercial firm that maintains a database on the creditworthiness of borrowers (both on businesses and individuals), directly facilitating the exchange of credit information among banks, financial institutions and non-regulated lenders.

PCRs are often the initial tool identified by the authorities to foster local credit reporting system operations and culture. Occasionally, the lack of a reasonable solution provided by the private sector, may trigger the need for a more active PCR role, in sharing information with lenders. In these cases, the authorities must consider the risk that an excessive PCR role may limit the incentive for PCBs to be established. Therefore, PCRs are not considered a replacement for PCBs; rather they must be considered an initial, transitional solution for a national credit reporting system.

The quality of a superior credit reporting system (Figure 25) is determined by two key parameters: i) all data (positive & negative) must be contributed, and ii) all lending sectors must provide it.

One of the fundamental reasons for PCBs uniqueness (and why in the long term PCR can no longer surrogate them), is that PCB collects the data originating from non-regulated entities as well (telecoms, MFI, retailers, utilities, NBFI, etc), while PCR data
is generally limited to regulated entities (banks). The benefits offered by complete, non-fragmented credit reporting (mitigation of moral hazard and adverse selection issues; reduced NPL and, particularly, increased access to credit), are supported by copious empirical evidence\textsuperscript{35}.

Establishing separate registries for separate lending categories or sub-sectors (e.g. regulated entities vs. non-regulated, or banks vs. retailers) is not the most advisable solution, and that would dilute the efficacy of full information, fragmenting the financial profile and credit history of borrowers, particularly consumers. In brief, by sharing both positive and negative information across different market sectors, lenders can make better lending decisions, use risk-based pricing methods more effectively, actively manage credit lines, collect debt more successfully, and reduce fraud. Borrowers with good credit histories can borrow to more equitable limits, with lower interest rates, and get access to more products.

BOX 4: THE IMPORTANCE OF NON-REGULATED DATA FOR BANKS AND OTHER NON REGULATED ENTITIES

Incidentally, other important lending sectors collect information from a population larger than the current banking population. For one, the mobile telephone companies already operating in Oman are in need of credit reporting (for post paid customers risk assessment, collections, etc.), and are naturally willing to participate to a full private, information sharing scheme. It is worth noting, that this information (telephone, utilities, and retailers) is definitely important to reduce banks’ risk and increase banks’ business. The percentage of new loans opened (percentage with new accounts) increases from 42.21\% (all borrowers) to 48.73\% (borrowers with telecom data) to 50.92\% (borrowers with all utilities data)\textsuperscript{36} (Table 14). Interestingly, the growth is sky-high if the non-bankable customers are considered\textsuperscript{37} While the validation sample shows an acceptance rate of only 4.61\%, the ratio increases significantly to over 16\% if utilities and telecom information is considered.

The other important benefit for all lenders that contribute to a pooled non-fragmented informational database (shared by all sectors) is the decrease of Non Performing Loans. Contrary to popular belief; the beneficiaries are also regulated lenders. An acceptance rate of 60\% NPL can be reduced dramatically (Table 15) if data sourcing from non-regulated entities is included (from 4.2\% to 3\% in the case of utilities and from 10.10\% to 7.40\% with telecom data).


\textsuperscript{36} PERC/ The Brooking Institution Urban Market Initiative, Give credit where credit is due, 2007 - www.perc.org

\textsuperscript{37} Thin-file borrowers or those whose credit history is very short, lean, or nonexistent
Table 14: New Credit Accounts Opened February 2005 to January 2006

<table>
<thead>
<tr>
<th></th>
<th>All Borrowers</th>
<th>Consumers with Utility Trades (#1)</th>
<th>Consumers with Telecom Trades (#2)</th>
<th>Validation Sample (#3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pct with new accounts</td>
<td>50.92%</td>
<td>48.73%</td>
<td>42.21%</td>
<td>16.44%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>16.42%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.61%</td>
</tr>
<tr>
<td>Ave. no. trades opened</td>
<td>1.14</td>
<td>1.07</td>
<td>0.93</td>
<td>0.27</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.26</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.05</td>
</tr>
<tr>
<td>Total outstanding balance</td>
<td>+$3956</td>
<td>+$1466</td>
<td>+$8489</td>
<td>+$1972</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$891</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-$402</td>
</tr>
<tr>
<td>Total available credit</td>
<td>+$6973</td>
<td>+$3192</td>
<td>+12309</td>
<td>+$2466</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$1094</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-$382</td>
</tr>
<tr>
<td>Sample size</td>
<td>6,211,323</td>
<td>504,481</td>
<td>3,785,681</td>
<td>1,036,369</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>113,240</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,030,357</td>
</tr>
</tbody>
</table>

Table 15: Serious Delinquencies by Target Acceptance Rates: % Score Model

<table>
<thead>
<tr>
<th>Acceptance Rate</th>
<th>Consumers with Utility Trade</th>
<th>Consumers with Telecom Telecommunications Trades</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Including Utilities (#1)</td>
<td>Excluding Utilities (#2)</td>
</tr>
<tr>
<td>30%</td>
<td>0.90%</td>
<td>1.10%</td>
</tr>
<tr>
<td>40%</td>
<td>1.20%</td>
<td>1.50%</td>
</tr>
<tr>
<td>50%</td>
<td>1.80%</td>
<td>2.30%</td>
</tr>
<tr>
<td>60%</td>
<td>3.00%</td>
<td>4.20%</td>
</tr>
<tr>
<td>70%</td>
<td>5.40%</td>
<td>8.10%</td>
</tr>
<tr>
<td>80%</td>
<td>9.50%</td>
<td>13.80%</td>
</tr>
<tr>
<td>90%</td>
<td>13.80%</td>
<td>17.70%</td>
</tr>
</tbody>
</table>

Table 16 recaps the main features of PCB and PCR systems. It is worth mentioning that the benefits generated by PCBs for banking supervisors can be significant. PCBs, by playing the role of the credit industry information provider, will alleviate the Central Bank’s financial and operational burdens, by providing high quality information services in the market, and by sharing credit information directly with the lenders/users.

Table 16: Main Features of PCB and PCR

<table>
<thead>
<tr>
<th></th>
<th>Public Credit Registry</th>
<th>Private Credit Bureau</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Central bank/ supervisory authority</td>
<td>Private enterprises</td>
</tr>
<tr>
<td>Data Objective</td>
<td>System supervision, monetary policy</td>
<td>Pure information services</td>
</tr>
<tr>
<td>Type of Date</td>
<td>Commercial, corporate, SME loans</td>
<td>Consumer credit, SME, microcredit</td>
</tr>
<tr>
<td>Contributors</td>
<td>Banks and other regulated credit and financial entities</td>
<td>Banks, retailers, credit cards, utilities, telcos, MFIs, regulated and not</td>
</tr>
<tr>
<td>Contribution</td>
<td>Compulsory regulates by bank’s law</td>
<td>Voluntary (but can be mandatory)</td>
</tr>
<tr>
<td>Ticket size</td>
<td>Large (thresholds on low amounts)</td>
<td>Micro, small, medium</td>
</tr>
<tr>
<td>Access</td>
<td>Restricted (aggregate data only)</td>
<td>Open on “reciprocity” principle</td>
</tr>
<tr>
<td>End Users</td>
<td>Regulated entities (no consumers)</td>
<td>All contributors (yes consumers)</td>
</tr>
<tr>
<td>Data Accuracy</td>
<td>Controlled by supervisor</td>
<td>Regulated by Code of Conduct</td>
</tr>
<tr>
<td>Consumers’ Protection</td>
<td>Low- borrowers not always are granted rights on own data</td>
<td>High- Borrowers have access/ rights and many challenge own wrong data</td>
</tr>
</tbody>
</table>
Longstanding empirical evidence, coupled with analyses carried out by the World Bank and IFC, show that PCBs are better equipped to serve the market and normally perform better than PCRs. While theoretically, PCRs and PCBs may perform the identical function of providing lenders with data for credit risk assessment purposes, PCBs prove more effective in assessing credit risk and in broadening access to finance, particularly in the private sector (Figure 26).

One of the major assets of PCBs is that they collect all data from and distribute all data to any lending sector. In fact, the only sources that PCRs have in common with PCBs (Figures 27 and 28) are the supervised financial entities (mainly banks). PCBs on the other hand also collect data from other sectors. For instance, not many PCRs collect information on MSME, credit cards, cooperatives, credit unions, etc. Not only is the data quantity contained by PCBs larger, but its quality is superior, since consumers are generally granted the right to check/correct their own data, thereby improving the final quality of the database. The owners of information verifying the accuracy of data still remains the most effective way to ensure data quality. This possibility granted by PCBs makes the database more robust and reliable. As a result of the openness of the PCBs procedures, it fosters a positive consumer’ sentiment towards information sharing. This is not always the case with PCRs, since banking laws generally neglect consumers’ rights to see the data contained in the PCRs.
Furthermore, with substantial investments and economies of scale, PCBs spearhead the technical evolution of credit reporting (data integrity, security, storage) bringing quality, efficiency, industry standards and services that can be utilized by all lenders, regardless of the credit sectors and the geographies, worldwide. This allows for the servicing of every type of user; regulated or non-regulated, commercial or financial, with a breadth and depth of information that is not possible for PCRs that generally operate locally, with limited data, for a restricted gamut of data providers, and with relatively less know-how about data processing for risk detection purposes.

Finally, PCBs have incentives to provide better value, increasing the quality and range of their services, in order to increase their revenues. Consequently, they constantly and significantly invest in providing Value Added Services derived from data (bureau scores, antifraud services, application processing etc.) that improve lenders’ assessment capacity, and are generally unheard of in PCRs environments. These services become fundamental in a “second phase”, when lenders become acquainted with raw information, and credit reports utilization and require more sophisticated decision systems derived from information processing.

Moreover, the technical development of a credit reporting mechanism for consumer and small business credit nowadays, does not present extremely serious hurdles. However, many “hidden” issues must be considered while planning operations of any information sharing system. Difficulties may arise when it comes to operationally managing the information, processing it, and particularly adding value to the data, so that it can be transformed into credit reports and other tools and services, which are able to predict credit risk with reasonable efficacy. A proper structure needs to be in place to solve the innumerable issues implied with the provision of qualitative information sharing. In addition, a significant impact will originate from the legal requirement associated with borrowers’ rights.

Eventually, this may prove to be an insurmountable problem for an institutional body like a Central Bank, whose skills, infrastructure, responsibility, expertise, financial resources, and personnel profiles are focused on different objectives. It may therefore become extremely cumbersome and expensive to manage issues linked with day-to-day management of a modern consumer credit database, and with its natural evolution. This encompasses tasks and related issues like:

- Obtaining, managing and disseminating data contributions from non-regulated financial institutions like MFIs, NBFIIs, etc. Technical / legal problems may hamper the possibility to obtain this data;
• Obtaining, managing, and disseminating contributions of data from non-regulated, commercial, non-financial institutions (retailers, mobile Telecoms) which will become fundamental to assess the complete financial profile of a borrower;
• Monitoring the quality of data contributed by (sometimes hundreds) of data providers, while assuring consistency;
• Processing huge volumes of information. This includes processing millions of accounts of small ticket loans with hundreds of millions, sometimes billions of records, and ensuring fast response times;
• Monitoring compliance with laws of all supervised, and non-supervised entities;
• Supplying hundreds of thousands of free consumers’ reports;
• Managing consumers rights, discussing challenged data, correcting incorrect files, and compulsorily responding to consumers’ requests within legal deadlines;
• Tackling the paramount problem of security and integrity of information and issues that are strictly linked to the confidentiality or sensitivity of information, with upgrades and enhancement that require substantial investments;
• Developing indispensable Value Added Services (e.g. bureau scores, anti-fraud systems, credit shopping alerts, portfolio monitoring software) that any Private Credit Bureau normally offers. The power of information is not in raw data itself, but in the way that the data is processed, adapted and transformed into services through statistics and automation;
• Continuously boost investments, resources, and staff proportionally, with increase of volumes, users and inquiries;
• Building specific internal skills, generally absent but necessary, for running a sophisticated operation like a credit registry.

The above managerial and operational issues, more than the initial technical set-up, represent the most serious challenges, but also the underlying principle for which PCRs usually focus themselves on supervision objectives. The task of collecting and distributing retail credit information instead is left to PCBs which generally become entities that are supervised by the Central Banks, and at the same time, are a comprehensive source of “powerful” information for the banking Supervisor.
Granting credit to potential bad payers is a serious error for financial institutions. Rejecting potential good customers is certainly worse. At the onset of 2005, that was the portrait of the Moroccan lending industry’s practices topped with massive rejection rates, red tape culture for firms/VIP consumers, insufficient access to credit for the remaining vast segments of potential customers and, last but not least omnipresent collateral requirement. Scarce, outdated, unreliable and incomplete credit information completed the picture, making it impossible for lenders to grant credit in a broader, more responsible, and reliable manner even if inclined to do so. Banks’ lending strategies were proving highly unsuccessful and counterproductive. Predictably, and in spite of the stiff pre-selection of credit applicants, soaring NPLs started to haunt the credit community, generating the uneasiness of the Central Bank – Bank Al-Maghrib (BAM). In fact, contrary to popular belief, bank’s favorite customers (those with the highest income >MAD 20,000 as shown in the table) showed the highest NPL level while the vast middle income customers segment (MAD 4,000 to MAD 9,000) was neglected by banks despite representing the best risk (lowest NPL level). It was a typical case of asymmetric information usage, generating phenomena of “moral hazard” and “adverse selection”, evidently and widely present in the Moroccan consumer credit market. In 2006, BAM took the decision to delegate information provisions to the private sector and the development of a full, non-fragmented PCB was triggered. The initial solutions considered by the lending community however, were, if at all possible, pejorative. Banks, MFIs, NBFIs, were contemplating the creation of three separate informational databases, one for each sector. The obvious result - a fragmented, partial information credit reporting system - would never allow lenders to check the complete financial profile of credit applicants.

Difficult challenges nonetheless, can generate visionary reforms. BAM decided to put a halt to the three separate projects, and led an alternative one adopting an innovative and effective information sharing scheme operated in Latin America (Ecuador, Bolivia, Peru), which not only consolidates the information of the three regulated lending sectors, but also allows non-regulated entities to be part of the PCB. The project which entailed the fine-tuning of the existing BAM’s PCR, proved extremely valuable in its operational simplicity:

- It is mandatory for all supervised entities (Banks, MFIs, NBFIs) to provide BAM with all data on all loans on a monthly basis.
- BAM’s PCR consolidates all data and provides all licensed PCBs with the same, complete information base.
- Non-supervised lenders can adhere and share data directly with PCBs. Borrower’s consent is required.
- It is mandatory for lenders to make inquiries from the PCB before granting credit.
- After the first PCB is rolled-out, BAM’s PCR will be closed to lender’s inquiries. 38
- BAM is the only supervising/licensing authority for PCBs.
- Regulatory amendments are introduced through BAM’s simple regulations.
- BAM can access any PCBs database for supervision/systemic risk prevention purposes.

This ground-breaking information sharing system in MENA has many undeniable merits, since it allows to:

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38 Experian, the first PCB in Morocco started operations in October 2009.
• Build a first class, transparent, information sharing infrastructure.
• Assemble a complete, non-fragmented, full-file credit reporting database and avoid industry fragmentation.
• Allow supervised and non-supervised/non-financial lenders to be users.
• Supply all lending sectors with the complete “financial profile” of borrowers.
• Avoid any reluctance from lenders to share information with PCBs.
• Ensure free flows of information, thus protecting (in particular) the less powerful lending sectors (e.g. MFIs).
• Avoid information sharing monopolies which proved deleterious in other countries.
• Build an open market, foster competitive pricing, promote the development of a range of new Value Added Services.
• Provide BAM with additional information, e.g. non-supervised entities data, (at no cost) for BAM’s supervision duties.
• Establish clear borrower’s rights, as well as lenders/PCBs’ responsibilities / deadlines to enforce them.
• Should they fulfill requirements, allow Banks, MFIs, and NBFIs, to apply for a PCB license alone or with provider.
• Give BAM a key role (supervising and licensing authority), while disposing of other less imperative burdens (legal, development, technical, security, investment, capacity building, etc.)

3.4 IMPROVING THE NATIONAL CREDIT REPORTING OF OMAN

International experience has proven that the lack of a strategic approach to solve financial infrastructure issues not only negatively influences the success of individual projects underway, but also affects the overall financial infrastructure and, at the end, the economy. Where common strategies between the public and the private sector are not defined and agreed, credit reporting systems may show the uncertain result of separate efforts, lacking the necessary breadth and the depth indispensable to achieve an overall national objective. Therefore, the scope and difficulty of developing and carrying out a successful strategy for credit reporting systems modernization should not be underestimated. Credit reporting systems involve
a broad spectrum of public and private players. For this reason, a credit reporting reform agenda should take into account the wide variety of players from those concerned with consumer protection to providers of information in the private and public sectors, and bank supervisors.

A consensus on a strategic and collaborative approach is crucial and allows developing a holistic view of all aspects of the nation’s credit reporting system needs, and the possibility to satisfy them in an orderly and cost-efficient manner. The inputs given by service providers, users, private technology providers, legal experts, as well as a well-structured collaborative approach, will create synergy, stimulate learning and provide a basis for optimizing benefits through cooperation and consensus building.

The Oman national credit reporting system has been marked by important events in recent years, among which the most visible ones are probably the restructuring and enhancement of the BCSB implemented by the Central Bank, and the implementation of the first PCB. The BCSB is becoming an indispensable tool for the evaluation and management of credit risks in regulated financial institutions. However, despite the positive impact of the above-mentioned developments, the financial sector does not seem to be fully exploiting all the benefits that stem from a fully fledged credit reporting industry.

In fact, many symptoms of a market where flows of information are not fully effective and complete are present; pervasive utilization of guarantees/collateral, low credit penetration, relatively high NPL at some lenders, though under control at the system level, high rejection rates, uniform interest rates not based on risk, manual decisions, conventional risk management procedures, and low level competition among lenders. These symptoms are generally behind the rationale for the establishment of PCBs.

Oman therefore remains one of the few countries without private information sharing. The obstacles to the full expansion of PCBs can be eradicated by the authorities through; the enforcement of a friendly, flexible, legal environment of a customary credit information culture among borrowers/lenders, the availability of a critical mass of information available to form the PCB’s initial database and, with unrestricted support of regulators.

International experience shows that Banking Supervisory Authorities can play a key role in facilitating the full development of a strong and efficient private credit reporting system. The CBO is well positioned to serve as the coordinator for a reform agenda due to its unique supervisory position for the financial sector, which provides the core of the payment history data. CBO should be concerned with monitoring/controlling how the PCB processes and uses the data received from the regulated entities. The CBO also understands the role of credit information sharing in the financial sector and generally in the economy. Its interest in this topic, complemented with access to more and better credit data required for risk-based supervision, makes it the crucial stakeholder for the creation of an exhaustive national credit reporting system, and makes it the unique, appropriate supervisor for Private Credit Bureaus. Furthermore, all lenders identify the CBO as the most reputed, skilled and independent institution with the ability to drive
this set-up. Through their contribution in the paid capital of the NBCI, lenders manifest their backing for the CBO to play the important role of supervising the PCB’s work.

The milestones for a possible strategy that regulators could design in order to establish an effectively functioning information sharing system in Oman are succinctly summarized below:

i. Develop a National credit reporting strategy. Begin working together with the lending community, NBCI, and other stakeholders, towards the establishment of a complete and effective national credit reporting infrastructure that will become a vital prerequisite for responsible and reliable credit granting in the future. The appropriate forum to shape this strategy and to prepare the document could be a Credit Reporting Working Group (CRWG).

ii. Enforce a new regulation for credit reporting. Encourage the drafting and enforcement of a new, thorough, bespoke regulation or law, based on best practice, establishing a crystal-clear, and friendly legal framework for credit reporting in Oman, to replace the existing separate regulations issued by different authorities (Royal Decrees, CBO’s regulations, CMA’s regulations) which cannot be easily harmonized, and appear one of the major stumbling blocks for the development of effective credit reporting.

iii. Transfer supervisory responsibilities over PCBs, from Capital Market Authority to CBO. The new law should consider shifting the supervision responsibility from CMA to CBO, as indicated by best practice - generally adopted in most countries where PCBs are licensed and supervised by the Central Banks. The oversight effort would be enormously facilitated by the fact that CBO is already the supervisor of lenders, and has large authority over them; an authority which the CMA is currently not empowered with. This will also allow the CMA to concentrate on its institutional and customary duties. It is worth noting, that there are not really other geographies in the region, and probably worldwide, where CMA is responsible for supervising organizations like PCBs which are rationally a part of the credit community. The role of the CBO in respect of credit reporting would be more crucial, and qualitatively of greater magnitude. In fact, rather than becoming a dispenser of information to the lenders, the CBO should represent the authority delegated to grant licenses, regulate and supervise PCBs with a particular inclination to the protection of borrowers’ rights; while overseeing that the sharing and dissemination of the information comply with existing legislations and norms. Therefore, the CBO would become the preeminent and ultimate authority to settle disputes between consumers (borrowers), the PCBs, and the PCBs’ users/ data providers - ultimately the lenders.

iv. Mandate lenders to collect borrowers’ consent. The issue concerning the efficacy and validity of the consent clause has been clarified with the legal department of the CBO, and it is evident that the borrowers’ consent collected by the lender with the credit agreement is valid and sufficient to share data, and make inquiries from a PCB along the life of the loan. Therefore, it would be well advised that CBO instructs lenders to make the consent clause mandatory, with immediate effect, for each new loan granted by the regulated entities. Furthermore, the same identical clause should be incorporated in all the credit contracts/applications by all lenders, without exception, and with
immediate effect.

v. Strengthen NBCI institutional image. The shareholding pattern of NBCI should undergo a momentous revision, with the preferable option of the technological provider becoming the major shareholder, while the next alternative would be having the financial entities overtaking NBCI majority of the share capital - while maintaining the private entrepreneurs within the company as minority shareholders. This would allow NBCI to become a more transparent, independent, trusted organization; in line with best practice, more acceptable by consumers, encouraged by lenders, and more easily controlled by CBO.

vi. Approve new shareholders. It would be advisable that once a new shareholding pattern has been defined, CBO is requested to approve the inclusion of new shareholders, in order to confer an even higher standing to NBCI.

vii. Mandate usage of PCBs. It would be advisable, that in order to facilitate the creation of a complete credit reporting database, the CBO mandates lenders to: i) share information with PCB/s, and ii) make inquiries to PCB/s before granting credit; always with borrower’s consent, and to share data and inquiry with third party agencies mentioned previously.

viii. Shift focus from data dissemination to supervision. However, the CBO should continue to collect information on all loans in order to perform its primary responsibilities; supervision of the credit system, monetary policies, production of statistics, international commitments, etc. The PCBs should instead play their natural role of credit information providers in the market, relieving the CBO from heavy operational burdens, i.e. financial, legal, staffing, which will increase exponentially with the increase of credit accounts. These are linked to supplying retail credit information and becoming a supporting tool for the activity of the CBO (e.g. BASEL II).

ix. Facilitation of all possible information exchange. PCBs full database should be constantly available to CBO, not only for audit purposes, but also for its primary objectives of supervision, monetary policy, statistics production etc. The transmission of BCSB historical data to the PCBs should be considered with the objective of making it legally possible.

x. Avoid monopoly. The presence of more than one PCB should be encouraged to avoid the existence of an inefficient monopolistic information industry, trigger competition among PCBs based on quality and range of services, completeness of information, food ratio price/quality, and continuous investment in advanced security and technological upgrades.

xi. Encourage financial education. Finally, CBO should encourage lenders to robustly invest in internal training programs, building internal capacity on new risk management and state-of-the-art portfolio monitoring solutions (credit bureaus, credit scoring, scoring monitoring, etc.). To complement this, financial education should be extended to consumers with the goal of nurturing a deeper understanding of credit, credit products, credit concepts, credit information, and last but most important, consumer’s rights on privacy of information.
The above conditions would represent the essential pillars of an initial enabling environment, on the basis of which the establishment of PCBs should be possible. However, the revision of the legal framework will give authorities the effective tools to exert an easier, guiding, and supervisory role.

### 3.5 PUBLIC INFORMATION SOURCES

With regards to public information sources, it would be imperative to mention the high quality data available via the civil registry and the National Identification system developed by the Royal Oman Police (ROP). The latter is a state-of-the-art informational system, and sets standards in the region, which can be adopted by many MENA countries.

In this identification system, all civil status information concerning all Omani citizens is stored electronically by the ROP. A unique and definitive National Identification Number (NID) is tagged to all citizens since birth. This includes expatriates who are an important component of the Omani population - though with a unique set of numbers. The NID is a crucial asset for the development of enhanced credit reporting systems, both public and private, and an excellent base to build a reliable and homogeneous database.

The CBO has signed an agreement to connect the PCR with the ROP, to verify and match information provided by the lending community with the public information stored in the ROP’s database. All the credit registries (public and private) that currently operate or will operate in Oman should also be allowed to utilize this database under strict rules and procedures, as it will confer solidity and reliability to the information, rendering a better service to borrowers, lenders, and to the community.

The ROP’s effective National Identification system consolidates all the civil status data to which they have recently added two components of the NID technology; an e-purse (chip driven) and biometrics features. Citizens can now dispose of cash to settle any payment with the administration, and their fingerprint represents a much faster and uncomplicated method of identification without the need for a different PIN. This is particularly uncomplicated for the less literate population.

Public information (e.g. electoral roll, civil registry data, telephone directories, and utilities data), enriches the quantity of the database information. It is also quite effective to complement information provided by the credit industry, and allows better harmonization of data collected from different sources, as well as a more reliable identification of borrowers.

### 3.6 OTHER STAKEHOLDERS

#### 3.6.1 MINISTRY OF FINANCE

The Ministry of Finance (MoF) is the authority responsible for formulating policies and strategies concerning all financial government undertakings and all credit institutions that are fully or partially owned
by the government. Among the key objectives of the MoF is the effort to offer broader access to credit for the Omani population.

3.6.2 OMAN BANKERS ASSOCIATION

No Bankers Association has been set up in Oman as yet.

3.6.3 COLLATERAL REGISTRY

No Collateral Registry is currently operating in Oman. This is a further weakness of the national information system. While a PCB helps to replace collateral with credit histories (creating “reputational collateral”) for most consumer, micro and small business clients, a collateral registry, containing data concerning movable and immovable properties, if utilized, would help lenders to expand the types of acceptable collateral and consequently, enlarge access to credit for medium and business/clients.

Due to this limitation, certain types of collateral (e.g. land, or real property) cannot be exploited. Business firms cannot utilize most of their movable assets (equipment inventory, accounts receivable) as collateral to obtain financing. This is a gap that would definitely need to be filled.
ANNEXES
ANNEX I
WORLD BANK CREDIT REPORTING PRINCIPLES

CREDIT INFORMATION SYSTEMS

A modern credit-based economy requires access to complete, accurate and reliable information concerning borrowers’ payment histories. Key features of a credit information system should address the following:

a. **Legal framework.** The legal environment should not impede and, ideally should provide the framework for, the creation and operation of effective credit information systems. Libel and similar laws have the potential of chilling good faith reporting by credit information systems. While the accuracy of information reported is an important value, credit information systems should be afforded legal protection sufficient to encourage their activities without eliminating incentives to maintain high levels of accuracy.

b. **Operations.** Permissible uses of information from credit information systems should be clearly circumscribed, especially regarding information about individuals. Measures should be employed to safeguard information contained in the credit information system. Incentives should exist to maintain the integrity of the database. The legal system should create incentives for credit information services to collect and maintain a broad range of information on a significant part of the population.

c. **Public policy.** Legal controls on the type of information collected and distributed by credit information systems can be used to advance public policies. Legal controls on the type of information collected and distributed by credit information systems may be used to combat certain types of societal discrimination, such as discrimination based on race, gender, national origin, marital status, political affiliation, or union membership. There may be public policy reasons to restrict the ability of credit information services to report negative information beyond a certain period of time, e.g., five or seven years.

d. **Privacy.** Subjects of information in credit information systems should be made aware of the existence of such systems and, in particular, should be notified when information from such systems is used to made adverse decisions about them. Subjects of information in credit information systems should be able to access information maintained in the credit information service about them. Subjects of information in credit information systems should be able to dispute inaccurate or incomplete information and mechanisms should exist to have such disputes investigated and have errors corrected.

e. **Enforcement/Supervision.** One benefit of the establishment of a credit information system is to permit regulators to assess an institution’s risk exposure, thus giving the institution the tools and incentives to do it itself. Enforcement systems should provide efficient, inexpensive, transparent and predictable methods for resolving disputes concerning the operation of credit information systems. Both non-judicial and judicial enforcement methods should be considered. Sanctions for
violations of laws regulating credit information systems should be sufficiently stringent to encourage compliance but not so stringent as to discourage operations of such systems.

A modern credit-based economy requires access to complete, accurate and reliable information concerning borrowers’ payment history. Key features of a credit information system should address the following. An effective credit information system can be integral to the operation of modern financial systems. Credit information systems can include a number of functions, including collecting, analyzing, and distributing information about how consumers and businesses, large and small, handle their credit obligations. This type of information has proven to be an effective tool for a variety of purposes, including assessing the risk faced by creditors, as past payment experience is a strong predictor of future performance. Credit information systems also make it possible to empirically assess, in the form of credit scoring tools, which factors are most predictive, permitting finely tuned credit decisions. As a result, creditors can more intelligently assess consumer and business lending decisions, thus promoting the extension of credit and economic development in the countries in which they operate. Also, creditors are in a better position to develop numerous credit offerings tailored to the risk presented by borrowers’ unique credit histories. Credit information systems promote competition among lenders, thus reducing the cost of credit. In fact, such systems can also increase the ability to attract foreign investment capital by providing foreign creditors a rational basis on which to evaluate credit risk. This regionalization and globalization of credit granting is further enhanced if consistent or at least transparent information collection standards are employed.

LEGAL FRAMEWORK

Basis for Operation of Credit Information Systems. The legal environment should not impede and, ideally should provide the framework for, the creation and operation of effective credit information systems. Establishment and operation of credit information systems may be impeded or prevented by legal prohibitions or uncertainties concerning the application of laws relating to the collection, disclosure and use of financial information. For instance, bank secrecy laws may be perceived to prohibit banks from sharing information about their customers’ accounts and payment history with a credit information system. The existence of such laws can chill the creation or operation of credit information systems.

Enabling legislation is not required for the development of credit information systems. Many credit information systems have developed organically so long as laws did not prevent their operation. Nonetheless, concerns about fair use of information have led to passage of legislation authorizing and regulating the existence of credit information systems. Passage of such legislation removes doubt about the legal viability of such entities and by creating greater regulatory certainty may encourage entrants into the credit information systems marketplace.

Liability Protections. Libel and similar laws have the potential of chilling good faith reporting by credit information systems. While the accuracy of information reported is an important value,
credit information systems should be afforded legal protection sufficient to encourage their activities without eliminating incentives to maintain high levels of accuracy. There are a number of potential legal impediments to the development of credit information systems. One of the most significant is the existence of libel laws, laws that permit legal actions based on false publications that damage a person's reputation. The information maintained in a credit information system is of the type likely to damage a person's or company's reputation if publicly known. This may include failure to pay bills or filing bankruptcy.

While credit information systems should be encouraged to maintain high standards of accuracy, potential exposure to libel actions -- even as a result of inadvertent mistakes -- could discourage their operation or make them unwilling to report information unless there was no question about its accuracy. Even with the best intentions, it can be difficult to develop certainty concerning the accuracy of information being reported. Accordingly, some protection from libel or similar actions can be critical to the existence of comprehensive credit information systems. Such protections should not relieve credit information systems from the responsibility to provide reasonably accurate information. Instead, standards more geared to the challenges of operating a credit information system should be substituted.

**OPERATIONS**

**Use Restrictions.** Permissible uses of information from credit information systems should be clearly circumscribed, especially regarding information about individuals. Credit information systems collect a wealth of information about individuals and businesses. Much of that information could have a serious impact on reputations and financial standing. The information could be used in negative and potentially harmful ways, such as for purposes of blackmail or referrals to criminal authorities for tax evasion. On the other hand, if the information is used for legitimate, beneficial purposes, the existence of the credit information system is likely to receive public acceptance. Legally imposed use restrictions can address these concerns.

**Data Security.** Measures should be employed to safeguard information contained in the credit information system. To the extent information in credit information systems is sensitive, and to avoid undermining use restrictions, such systems should employ reasonable methods to protect the security of such information. As appropriate, these methods may include physical, electronic and procedural safeguards to protect against improper data access.

Credit information services can provide valuable information for assessing repayment risk, likely profitability of accounts, debt collection, marketing, employment screening, tenant screening, claims analysis, insurance underwriting, market research, and economic trends. A sound environment for managing credit and insolvency risk requires reasonable access to accurate, reliable and current credit information on borrowers that affords adequate protection and safeguards for the privacy of borrowers and that is governed by general rules of due process.
The legal environment should provide a transparent procedure that contains incentives for gathering and dispensing information. Access should be provided to firms engaged in credit activities and not limited to particular types of entities, e.g., banks. While there may be arguments to limit access to firms that furnish information to the credit information service, this could unduly limit potentially beneficial users, especially firms that are just starting up and may not yet have significant amounts of information to contribute.

Transparency and good corporate governance are the cornerstones of a strong lending system and corporate sector. Transparency exists when information is assembled and made readily available to other parties and, when combined with the good behavior of “corporate citizens,” creates an informed and communicative environment conducive to greater cooperation among all parties. Transparency and corporate governance are especially important in emerging markets, which are more sensitive to volatility from external factors. Without transparency, there is a greater likelihood that loan pricing will not reflect underlying risks, leading to higher interest rates and other charges.

**Data Integrity.** Incentives should exist to maintain the integrity of the database. Credit information systems can be used in a variety of ways. Some uses, such as evaluating credit risk, rely on a database containing historical data on as large a number of potential borrowers as possible. Other uses may not require that data be maintained for extended periods of time. One such use can be as a means of collecting past due obligations by encouraging repayment to have one’s name removed from the list. In that context, it might make sense to remove a debtor’s name from the database when the obligation has been satisfied. However, if the database is also to be used to make future risk assessments, removal of that information might encourage payment of the particular debt at issue, but it would undermine the ability to identify borrowers who have fallen behind in their payments in the past. If a database is to be used, even in part for credit risk assessment, there should be incentives in place to keep data in the system even after that particular creditor’s loans have been repaid.

**Scope of Data.** The legal system should create incentives for credit information services to collect and maintain a broad range of information on a significant part of the population. Credit information systems are most effective and enhance risk prediction if they contain data on a large segment of the population. The more ubiquitous their coverage, the better they can serve financial institutions in evaluating applicants for credit. Many existing credit systems work effectively through voluntary contribution of data by creditors who recognize it is in their self-interest to contribute information on their customers. If voluntary contributions are ineffective in creating a robust credit information system, legal requirements to report information could be imposed on creditors. Such requirements could avoid the problem that large incumbent creditors may choose not to contribute information due to the concern that reporting will facilitate creditors’ competing for their existing customers.
There is strong empirical evidence that systems that collect both positive and negative payment histories permit more accurate risk assessments. Those same systems present the potential of financial institutions identifying their best customers to competitors, thus discouraging participation in the system. Alternatives exist to reduce the risk of losing customers, such as not allowing credit information systems to be used to target specific financial institution’s customers. However, it should be noted that these alternatives do potentially reduce some of the beneficial competition that results from increased access to credit information.

One means of increasing demand for credit information services would be if creditors, both consumer and commercial, were expected as part of due diligence on extending credit to consider the borrower’s credit history. This would serve the dual purpose of improving those firm’s risk controls and creating a necessary market for credit information systems.

PUBLIC POLICY

Collection and Use Restrictions. Legal controls on the type of information collected and distributed by credit information systems can be used to advance public policies. Control of the use of information collected by credit information systems, or even controls over the type of information such systems are permitted to collect, can be used to advance public policy goals. These public policy goals may often be in tension with the risk assessment functions of credit information systems. In theory, those systems collect the maximum information they can efficiently collect and use it to predict risk. If they were not permitted to use certain types of information, due to public policy concerns, the ability to predict risk based on the available data could be diminished. There are often public policy judgments made to sacrifice the predictive value of the data in favor of advancing other social or economic goals.

Anti-discrimination. Legal controls on the type of information collected and distributed by credit information systems may be used to combat certain types of societal discrimination, such as discrimination based on race, gender, national origin, marital status, political affiliation, or union membership. There are often legitimate societal values that call for assessment of credit risk, either individual or business, based solely on prior credit experience, as a method of equalizing treatment of borrowers. In some cases, this could result in a prohibition on collecting certain types of information, such as demographic or other data about borrowers that goes beyond their prior loan payment experience, including gender, marital status, or race. The absence of such data collection and use restrictions might well enhance the ability to predict risk, such as by concluding that men pose a greater credit risk than women, or foreigners are more credit worthy than citizens of a country. However, there may be strongly held societal values calling for equal treatment regardless of certain characteristics. These values may be deemed worth the economic costs of reducing the ability to predict risk based on credit information system data. This may result in prohibitions on collecting or using certain information about borrowers, e.g., race, gender, etc.
Ironically, there is another approach to combating discrimination that is directly at odds with reducing the collection of information. Rather than excluding information concerning protected characteristics, in some cases, lenders may be required to collect such data. The data is collected not for its predictive value but instead to use as a basis for evaluating whether the financial institution is making decisions based on prohibited characteristics.

**Obsolescence.** There may be public policy reasons to restrict the ability of credit information services to report negative information beyond a certain period of time, e.g., five or seven years. Certain types of information in a credit file have the potential of seriously impeding a business’ or individual’s ability to get credit. One such example is the filing of a bankruptcy petition; another is a series of loan defaults. The knowledge that an individual or company was forced to resort to bankruptcy because their obligations exceeded their assets could lead future creditors to decline to extend them credit. While this is quite rational, the consequence can be the lifetime of economic destruction for an individual or company. In such cases, the government might find itself burdened with providing assistance.

Yet, in many cases, late payments or even bankruptcy filings are precipitated by causes beyond an individual's control, such as a natural disaster, unexpected medical costs, or loss of employment or a contract. It may not signify a permanent inability to manage financial affairs. As a result, there can be a desire to allow borrowers who have at one time failed to fulfill their financial obligation to rebuild their credit histories through subsequent good behavior. A credit information service could undermine this goal by continuing to report the existence of the negative information indefinitely. As a result, there may be important policy reasons to prevent the reporting of certain types of negative information, e.g., late payments, court judgments, tax liens and bankruptcies, beyond a reasonable period of time, such as five to seven years. By contrast, there might be other types of negative information, e.g., convictions of serious crimes that are in society's interest to report for longer periods of time or even indefinitely. It is possible to craft regulation of reporting practices by credit information services to address and balance these policy concerns.

**PRIVACY**

**Notice.** Subjects of information in credit information systems should be made aware of the existence of such systems and, in particular, should be notified when information from such systems is used to made adverse decisions about them. Citizens in a country are often troubled by the existence of secret, hidden databases that contain information about them, regardless of whether those databases are maintained by the government or private firms. The legitimacy of credit information systems will be enhanced, and public apprehension reduced, if there is transparency concerning their existence and operations.

Aside from a general awareness of the existence of such systems, it can be critical to inform data subjects that information from those systems was used to make adverse decisions about the
subject. It is impossible for databases containing thousands, if not millions, of files from numerous sources, public and private, to maintain current accurate information about a population that may have similar or identical identifiers, who do not use their personal identifiers in a consistent manner in all their interactions, who change identifiers over time (e.g., by getting married), and who move frequently. If erroneous data from those systems is used to made adverse decisions about individuals or companies, and the subject is not notified of the source of the data that led to the adverse decision, the subject will have no opportunity to correct the misinformation. As a result, the subject will continue to face rejections based on incorrect credit information system data. Not only is that unfair to the subject, it cast doubts on the operation of the system. It also means that users of the system will continue to be provided inaccurate data that will lead to incorrect risk assessments.

Notifying subjects that adverse action was taken based on credit information service data can also be a tool in policing anti-discrimination laws. If data subjects are permitted access to their information (see below), they can assess whether there are legitimate, non-discriminatory grounds for the denial. For example, if they have comparable credit standing to other borrowers who were granted credit, and the only difference between the applicants is gender or race, they might be able to establish that discrimination has occurred.

It would also be possible to structure a credit information system to only collect or use information with the consent of the data subject. However, giving data subjects control over their inclusion in the database, as opposed to process rights over the use of their data, risks allowing individuals or businesses with poor credit to exclude themselves or limit access to their complete credit history. These are the very people or entities creditors most need risk information about.

Access. Subjects of information in credit information systems should be able to access information maintained in the credit information service about them. Access to data by subjects can serve a number of important purposes. First, greater transparency about how the database operates and the type of information maintained can enhance public confidence. Second, only with access can data subjects who have had adverse action taken against them based on data in the service, determine whether that data is erroneous. Third, in the case of distressed enterprises, it can be helpful to have clear laws and procedures that require disclosure of, or access to, timely and accurate financial information on the distressed enterprise. This can encourage lending to, investment in or recapitalization of viable distressed enterprises. It also helps support a broad range of restructuring activities, such as debt write-offs, rescheduling, restructurings and debt-equity conversions; and provide favorable or neutral tax treatment for restructurings.

In addition, the Principles and Guidelines for Effective Insolvency and Creditor Rights Systems call for laws that require the provision of relevant information on the debtor that could be accomplished by a credit information service. In addition, those Principles state that corporate workouts and restructurings should be supported by an enabling environment that encourages participants to
engage in consensual arrangements designed to restore an enterprise to financial viability. An enabling environment includes laws and procedures that require disclosure of, or ensure access to, timely, reliable and accurate financial information on the distressed enterprise; encourage lending to, investment in or recapitalization of viable financially distressed enterprises; support a broad range of restructuring activities, such as debt write-offs, rescheduling, restructurings and debt-equity conversions; and provide favorable or neutral tax treatment for restructurings. A viable credit information service can advance these goals.

Dispute Rights. Subjects of information in credit information systems should be able to dispute inaccurate or incomplete information and mechanisms should exist to have such disputes investigated and have errors corrected. It is of limited value to simply make data subjects aware that erroneous information from a credit information service served as the basis for an adverse action concerning them. In order to make that information useful, there must be mechanisms in place, either voluntary or mandated, to have such disputes investigated and, if information turns out to be erroneous, have the information corrected.

There are often timeliness concerns about resolving information disputes, perhaps because a business needs a financial commitment in order to sign a lease or a consumer wishes to purchase a new home that will go to another potential buyer if funding cannot be arranged. Thus, some requirement of timely consideration of disputes may often be critical to making the dispute right meaningful.

Similarly, a cursory review of a dispute, with no real effort to investigate and learn the correct information, can serve to make dispute rights meaningless. In some cases, the error may be apparent on its face, such as a date of birth of an infant belonging to a senior citizen. In others, there may be a need to contact the furnisher of the information to verify its accuracy. Oftentimes the extent of the investigation will be determined by the nature of the dispute.

ENFORCEMENT/SUPERVISION

Supervisory Function. One benefit of the establishment of a credit information system is to permit regulators to assess an institution’s risk exposure, thus giving the institution the tools and incentives to do it itself. While the principle focus of credit information systems is to permit financial institutions to gauge the risk posed by borrowers, those systems provide valuable tools for regulatory agencies to supervise institutions under their jurisdiction. Credit information systems permit efficient systematic analysis of a financial institution’s loan portfolio, including its size, diversity, and risk levels over time.

Effective Enforcement Systems. Enforcement systems should provide efficient, inexpensive, transparent and predictable methods for resolving disputes concerning the operation of credit information systems. Both non-judicial and judicial enforcement methods should be considered. In light of the important financial and privacy interests involved in reporting credit information, there is
a need for a mechanism to resolve disputes relating to accuracy and proper disclosure. This mechanism can exist in the courts, through administrative processes, government oversight, or self-regulatory organizations.

**Proportional Penalties.** Sanctions for violations of laws regulating credit information systems should be sufficiently stringent to encourage compliance but not so stringent as to discourage operations of such systems. While compliance incentives serve a valuable role in maintaining the integrity of a credit information system, there is a risk of over-deterring conduct by making the penalties for violations too costly. At the extreme, this could deter operations of such services.
ANNEX II
CORPORATE GOVERNANCE AND CREDIT REPORTING SYSTEMS

One of the key ingredients for the development of a successful credit reporting environment is good corporate governance since credit reporting is a business built on trust and transparency. Lenders are understandably reluctant about providing details on their customers to any third party, regardless of whether it is a private bureau, a public registry, or a government agency. Consumers are hypersensitive about any issue concerning the violation of data confidentiality on their data. All stakeholders must have absolute confidence in a credit reporting system that provides a secure, appropriate, legitimate management of information, ensures data will be processed in an appropriate and secure fashion, and will not be released for unauthorized purposes or to providers that do not have a permissible purpose for inquiring the registry.

In the private credit reporting industry, the Board of Directors (“BOD”) is the body generally responsible for corporate governance. A dependable BOD ensures that shareholders’ interest are protected, the company’s objectives achieved, the best quality of service administered to the end-users, and consumers’ right enforced and respected by promoting best practices, respecting the existing regulations, and particularly the privacy and confidentiality of data.

The BOD is generally appointed by the shareholders to run the affairs of the company and is composed by a number of directors that may range from 7 to 13. The BOD shall include two management members (e.g. the Managing Director and the Operations Director or representative of the technical partner). The BOD shall nominate one of their members to be Chairman of the Board.

Reputed, independent, external directors (e.g. industry experts) or observers, that increase the impartiality of the BOD and the fairness of the decisions, should be allowed to be part of the BOD as this reinforces the governance of the company.

Meetings should take place at least once every three months. Extraordinary meetings, as well as and the reasons why these meetings will take place shall be defined in the bylaws of the company. Meetings minutes should be prepared, stored, distributed among the stakeholders in reasonable time.

Among the objectives of the BOD of a Private Credit Bureau, the following should generally be present (not an exhaustive list).

- Compliance with existing legislation and full respect of all the contractual agreements undertaken by the PCB (clients, suppliers, outsourcers, employees).
- Employee training regarding the compliance with the security policy is encouraged. The BOD must supervise that sufficient resources are planned.
• Equality among subscribers: the BOD must provide fair and equal protection to all stakeholders regardless of the volumes of information provided or information retrieved. The BOD shall ensure that no “closed user groups” are created and that flow of information is free and not restricted by these groups, or avoid that some data is not shared with all of the users, or that Value Added Services are provided only to specific members.

• Transparency: policies on security, integrity of data, consumer protection, Code of Conducts, and other similar material and documents should be published and available to all shareholders and/or the public.

• Proactive engagement with the consumer community should be one of the goals to be promoted by the BOD (publication of brochures to build awareness, illustrate consumers’ right and procedures to enforce them, building bridges with the consumer associations).

• Collaboration with authorities and supervisory entities.

Clear guidelines should be established to avoid conflicts of interest concerning individual Board Members (e.g. a Board Member could be part of a financial holding and influence the decision making favoring his group’s interests). Conflicts of interests may exist; they should be clearly identified and resolved (e.g. restrictions to be appointed as a Board Director).

Ownership of PCB may vary from country to country. However, international best practice shows that, generally, the ownership structure of a credit bureau falls into one of the following categories:

• **For-profit credit bureaus** owned and operated by a specialized, reputed provider with no shares possessed by lending organizations.

• **For-profit credit bureaus** where **banks and/or other lenders** are either majority or minority shareholders, together with the technical provider.

• **Non-commercial** credit bureaus.

For-profit PCB tend to be the most desirable ones as they can promote innovation, investments, technological changes, offer economies of scale, a higher quality of services, and the best data security. Credit reporting is the core business of such companies and the shareholders’ main objective is to maximize the value of the credit bureau by expanding its operations and providing new services. Continuous and massive investment at world level and cross-country, allow these organizations to develop Value Added Services.

Experience with non-profit bureaus indicates that they are generally less innovative, lack the ability to deliver top quality services and tend to be bogged down with bureaucratic procedures. While lenders’ associations or Chambers of Commerce may be a good platform to begin the discussions on the need of sharing information and build the consensus among the potential bureau members, it is advisable that the bureau is a commercial entity.
The fact that lenders own the bureau may also cause them to less likely use the services of an independent bureau, thus increasing barriers to entry in the credit information provider market. In cases when only a few banks are shareholders but several other banks are members of the bureau, it is possible that shareholding banks will influence the pricing policy in a manner that it may penalize non-shareholder members.

Sometime, within the commercial (for profit) structure, the participation of the users/lenders to the shareholding pattern may create unpleasant conflicts of interest (e.g. try to block the entry of new subscribers seen as competitors) and undermine the governance of the company. Limiting the ownership that lenders and their subsidiaries, either individually or as a pool may acquire in a PCB39, allows the creation of a healthier and more competitive market, besides strengthening governance. Refraining lenders from acquiring majority of the PCB permits to better represent the general interest of the PCB rather than the apparent or vested interest of the lenders.

Annual audits shall be conducted by the supervising authorities on the PCB. The focal point of the audit shall be the compliance of the PCBs’ status and activities with the situation stated by the organizations when filing for the license, as well as the operational compliance with enforced legislation. Several items require a specific know-how (e.g. security policies and procedures, consumer protection, etc. Items to consider are:

- Analysis of the documentation:
  - Company registration requirements
  - Business plan
  - Staffing
  - Board of Directors minutes examination
  - Contract with employees (regarding the inclusion of a confidentiality clause)
  - Contracts with subscribers
  - Outsourcing contracts or service level agreements
  - Code of Conduct
  - Internal procedures on consumer protection, security measures, rules of function
  - Examination of layouts and consistency with the files sent by the subscribers
  - Pricing policy and respect of prices for consumers’ reports
  - Disaster Recovery Plan

- On-site inspections both in the Private Credit Bureau premises and at the user premises:
  - Where data is kept
  - How data is received/loaded and stored

39 In Morocco lenders cannot own individually more than 5% of the share capital and not more than 30% as a pool.

In Ecuador lenders cannot possess any shares of a PCB.
• Who can access the data (check the access logs)
• Procedures to transmit data
• Security procedures to enter the database site
• Security procedure to avoid data is stolen (e.g. laptops, CD-ROM, UBS keys, etc).
• Back-up system
• Disaster Recovery Plan procedures enforcement
• Fire alarms, procedures enforced in case of fire

• Credit reporting system tests to measure response times, quality of the service, data accuracy:
  • Inquiry on an individual, consumer,
  • Check consent existence, and that data provider is able to provide proof of written consent.
  • Inquiry on a business firm
  • Challenge the system with different enquiries based on name, ID number, address, etc
  • Review the process that allows a consumer to challenge data
  • Examine a sample of disputes concluded
  • Examine a sample of pending disputes
  • Verify the process with the user (terms, procedures, way of sending confirmation)
  • Check compliance of data with retention periods (e.g. 5 years).

• Tests regarding the compliance on security procedures (recommended to be performed by an IT specialist)
  • Back up procedures, firewalls, access controls, user profiles, encryption, passwords
  • Employees’ interviews regarding their operational responsibilities, and their role in regards of data processing (e.g. check if a confidentiality clause exists and how is monitored)
  • Verify the validation process
  • Verify emergency processes
  • Verify the audit layout
  • Verify alarms, servers, etc.

• In case of a service provider (outsourcer or similar) analogous tests should be run at their premises.
ANNEX III
GLOSSARY

i. Code of Conduct:
The regulatory framework allowing governing the relationships between Private Credit Bureaus, the data providers, the users, the borrowers, the other bureaus, and the supervisory authority. It specifies, among other things, policies and procedures of resolving conflicts and borrower complaints.

ii. Consent:
A written clause signed by the borrower or legal designee explicitly giving consent to:

- Sending his data to a credit reporting company
- Inquiring about his information and data
- Consent may or may not be necessary for institutions (depending on local legal/social norms or requirements).

iii. Credit bureau:
Such info providers that build up credit files by compiling, retaining, processing and analyzing personal and credit data relating to the credit positions of borrower of banks and non bank financial institutions, Telecoms, retailers of goods and services which provide credit. CB provides users with credit reports and other credit reporting and scoring services while not giving any recommendations on credit provision.

iv. Credit data:
This includes among others:

- Gross amount of loan or credit facility
- Outstanding balance
- Type of facility
- Currency of facility
- Due date of facility
- Due payments
- Pledged collaterals
- Any other data that serves the purposes of the credit reporting company.

v. Credit file:
Credit reporting companies compile, retain, and process information about borrowers in credit files.

vi. Credit file inquiry data:
This includes: Name of User, Activity of User and Date of Inquiry.
vii. **Credit registry:**
   A database of personal and credit information maintained by the Central Bank.

viii. **Credit report:**
   A paper or electronic report produced by the credit reporting company containing some or all of the data in the credit file of a borrower or a summary thereof.

ix. **Credit Scoring:**
   Modeling technique that uses the information contained in the credit file of a credit applicant to arrive at a relative score according to statistical principles applied uniformly to all borrowers. The relative score is meant to predict the likelihood (odds) that the applicant will become a good or poor risk customer in the future.

x. **Customers/borrowers (data subjects):** Individuals or institutions that apply for credit. Their pertinent information and data are compiled in credit files at the credit reporting company and can be shared in accordance with either the relevant legislations or the rules in the Code of Conduct.

xi. **Database:**
   An electronic archive containing the credit files of borrowers as compiled from data providers and retained and processed by the credit reporting company.

xii. **Data providers/contributors:**
   All institutions that provide any form of credit as well as all institutions that have identification data, credit data or otherwise any information or data that relate to the payment habits of borrowers. All such institutions are able to provide the credit bureau with information and data in accordance with the legislation or rules set out in a Code of Conduct.

xiii. **Data sources:**
   One or all of the sources which are legally or consensually allowed to provide data to credit reporting company. These could be:
   - Banks
   - The Credit Registry System at the Central Bank
   - National ID registry
   - Mortgage companies
   - Leasing companies / factoring companies
   - Insurance companies
   - Institutions providing credit to micro, small and medium enterprises
   - Money market companies
   - Retailers of goods and services that sell in installments
   - Credit reporting companies
iv. **Public records:** Civil Registry, Voters Roll, Property Registry, Court records, etc.

v. **Any other institutions in possession of information or data that can serve the purposes of the credit bureau.**

xiv. **Data provider information:**
Including name, main activity, and address of provider.

xv. **Disaster recovery site:**
A location that is physically separate from the site of the credit bureau and sufficiently away to be immune of potential physical threats to the site of bureau. The disaster recovery site would house a continuously updated copy of all databases of the bureau.

xvi. **ID (National):**
A unique, definitive national identifier for all national citizens, which never changes.

xvii. **Identification data:**
For **individuals** these include:
- Name
- Nationality
- Date of birth
- Place of birth
- Identity credentials
- Current home address
- Home address/s of past 3 years
- Occupation
- Current work address
- Work address/s of past 3 years
- Name of spouse
- Any other data that serves the purposes of the credit reporting company

For **institutions** these include:
- Name
- Legal form
- Shareholders with more than 10% of paid-in capital
- Commercial registration number / commercial registration date
- Address
- Main activity
- Secondary activities
- Data on the financial position of the institution
- And any other data that serves the purposes of the credit reporting company.
xviii. **Negative information:**
Information on the failure of borrowers to fulfill their financial obligations on time. This includes
- Delays
- Irregular payments
- Bounced checks
- Default
- Reschedules
- Court orders, foreclosures, “protests” and bankruptcies/liquidations.

xix. **Payment performance data:**
This is historical information that generally goes back 5 years and reflects the commitment level of borrower to pay on time.

xx. **Positive information:**
Information on the timely payment of borrowers.

xxi. **Public records data:**
Data available in public records such as those in the civil registry, commercial registry, property registry, national ID and court records.

xxii. **Permissible purpose:**
The user should have a limited, clear, permissible, purpose to make an enquiry and get a credit report. Permissible purposes could be:
- An authorization through a court order
- Considering the provision of credit at the request of a borrower whether it is for the first time, a credit increase, credit renewal, or a change in credit terms
- Considering the acceptance of any form of guarantee to a credit application
- Getting a credit score for the credit applicant
- Having a written consent from the borrower or legal designee.

xxiii. **Reciprocity:**
Basic principle of information sharing determining that users may use and see only the same type of information they share with the other parties.

xxiv. **Reporting threshold:**
Minimum credit facility above which banks/lenders are obligated to report credit data of borrowers to the credit bureau.
xxv. **Users:**

Institutions having a contractual relationship with credit reporting company to request credit files and other services for permissible purposes. Also borrowers about whom the credit bureau retains credit files. Credit bureaus are prohibited from providing individual users with information about others. Individual users, however, can enquire about their own information and data in accordance with the rules set out in any legislated self enquiry process or Code of Conduct.