



Guiding Principles on Strengthening Risk Management in the Credit Information Industry in the Arab Countries

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Preface

The Coronavirus pandemic has presented economic policymakers with unprecedented challenges to maintain economic, financial, and social stability. As the pandemic inflicted heavy costs on global economies represented in the tremendous pressure on health systems and government subsidy programs to address the decline in cash flow of companies and individuals, and the development of plans to deal with the resulting unemployment and corporate bankruptcies.

The pandemic also posed a major challenge to the credit information industry, especially in how to deal with good customers whose cash flow were negatively affected by the pandemic. With respect to negative credit information, two visions have emerged regarding processing the delayed payment of dues arising from the pandemic. Either to cease or suspend the reporting of such information during the crisis or report it regardless of the customer's rating. Proponents of the first visions argue that the delay in loan repayment is caused by circumstances beyond customers' control, and not due to the borrower's own choice. Hence, negative credit information should not reflect in their records. Proponents of this vision suggest suspending the reporting of credit information of good customers for a specified period to avoid damaging their credit rating. As for the second vision, it is represented in reporting negative information even if it is due to circumstances beyond the control of good customers, as the information related to the delayed payment of due instalments must be declared in a manner that considers the good customer's conditions. For example, it is possible to reschedule facilities provided to good customers or present additional warranties. They also consider it necessary for credit reporting systems to reflect the

customers' accurate and real position, while putting in place the necessary measures during crises to protect good borrowers.

The interest in the credit information industry stems from its role in enhancing risk management, helping banks make credit decisions based on accurate customer evaluation, and promoting access to credit. The importance of this industry is also highlighted in supporting the efforts of commercial banks in implementing Basel (III) requirements, the International Financial Reporting Standard 9 (IFRS 9), conducting stress tests, and building early warning systems.

On another note, since the end of 2020, many countries around the world have started national vaccination campaigns that will contribute to accelerating the pace of economic recovery, regardless of the time frame. Especially with the partial reopening of some economies and the mitigating the general lock down measures associated with the emerging Coronavirus pandemic.

In this context, the current crisis revealed the clear effects on the credit information industry and how to deal with the credit data of bank customers. Therefore, an interest has emerged in the necessity of considering the reflections of the lessons learned from the current pandemic on the credit information industry, whether during regular or crisis periods.

In light of the above, and emanating from the interest of the Arab Monetary Fund for its member states to keep pace with the economic, financial and monetary reforms aimed at enhancing financial stability in the Arab region, and based on the discussions held during the meetings of the Arab Credit Information Committee, and in recognition of the participation of the committee's secretariat general in the meetings of the International Credit Information Committee, and based on consultation with the central banks and Arab monetary institutions; the

following guiding principles have been issued to **Strengthen Risk Management in the Credit Information Industry in the Arab Countries**, noting that the application of such principles is subject to the state of each Central Bank, the objectives contained in the Articles of Association thereof, and the governing financial system of each country.

Guiding principles on Strengthening Risk Management in the Credit Information Industry in the Arab Countries

Principle (1)

It is important for credit reporting systems to reflect the accurate and real position of the customers at all times, to enhance their credibility by continuously promoting the full accurate inclusion of credit information, including reporting negative credit data, whether during regular or crisis periods¹.

Principle (2)

Adopting appropriate mechanisms to reduce the negative impact of crises on the credit record of good customers whose cash flow has been affected by the Coronavirus pandemic, as well as studying the relevant mitigating solutions to the negative impact on their creditworthiness, and the extent to which this can be considered in their credit reports.

Principle (3)

It is possible to direct good customers during crises towards communicating with their banks to negotiate rescheduling facilities. It is also possible to indicate the failure reasons of a good customer in the credit report.

Principle (4)

It is appropriate for the Central Bank to issue instructions on the relevant period of keeping negative data of the financial sector customers in their credit reports.

¹The word crisis in the principles herein, does not necessarily refer to the current emerging coronavirus pandemic, but rather covers any economic or financial crisis in general.

Principle (5)

Encouraging the digitization of accessing credit reports process to ensure that the right of access to credit reports is not affected during the crisis, and creating appropriate mechanisms to deal with complaints and disputes arising during the crisis due to the potential increase in complaints and disputes. It is also appropriate to encourage the utilization information technology in receiving complaints and resolving disputes.

Principle (6)

Establishing standards and principles on how to deal with and use alternative data and coordinate with other official bodies while considering the balance between the advantages of using alternative data² and its level of risks.

Principle (7)

With the continuous need to develop the credit information databases for credit information companies and bureaus, it is also important to continue efforts to develop the public credit registry system, as the integration of these two bases has a positive impact and enhances the effectiveness of risk management of the financial institutions, and the public credit registry system is also an important source of studying the systemic risks of the banking sector.

²Alternative data can be defined as additional data or information about the customers that is not obtained from traditional credit reports but rather obtained from other reliable sources, as this data is considered complementary to the credit information and aid to credit decision-making. For more information, kindly refer to the “Guiding Policies on the Use of Alternative Data and How to Coordinate with Other Official Entities” issued by and published on the website of the Arab Monetary Fund in 2020.

Principle (8)

Work gradually to expand the credit database to include all financial sector institutions and relevant official institutions (such as: Land and Survey Authorities, Vehicle and Driver Licensing (Traffic) Departments, Water, Electricity, and Telecommunication Companies, Income Tax Authorities, Courts concerned with financial issues) and seeking appropriate ways to achieve this by utilizing Fintech to enhance the efficiency and comprehensiveness of credit information systems.

Principle (9)

The collection of corporate financial data within the credit information database to provides an enhanced tool for assessing credit risk and a clearer and more comprehensive view of the companies' ability to fulfil their obligations.

Principle (10)

Consultation between the Central Bank and credit information companies to study ways of including the data on bounced checks in the credit database, in addition to creating an appropriate mechanism to include the data of financial derivative contracts that are unlisted in the financial market in the credit information database.

Principle (11)

Strengthening the legislative system in a manner that preserves the privacy of financial sector customers' data, cybersecurity and maintains financial consumer protection.

Principle (12)

Holding continuous consultative meetings between the Central Bank, commercial banks, and credit information companies, to discuss how to deal with the possibility of high default rates due to the withdrawal of support packages implemented during the crisis phase.

Principle (13)

Recognizing all the lessons learned from the crises by the Central Bank as well as the future implications on the aspects of the credit information industry.

Principle (14)

The Central Bank should set clear mechanisms on how to deal with inaccurate credit data that may appear in the credit report, and clarify the manner and procedures of credit information bureaus and companies in dealing with inaccurate data as well as the required period for correction.

Principle (15)

Strengthening the office and field supervision of the Central Bank on credit information companies, and setting up annual plans for inspection of credit information companies, and requesting appropriate periodic reports that achieve the purposes of regulating and supervising the activities of these companies.

Principle (16)

The Central Bank legislation of the regulations related to corporate governance and credit information bureaus and effective tools and policies to verify the extent of compliance with the principles, and legislation of governance within the regulation framework and obligating all credit information companies and bureaus to adhere to the principles of governance.

Principle (17)

Building the capacity of employees in credit information bureaus and companies and keeping pace with the best practices of the credit information industry.

Principle (18)

Study the possibility of adopting Psychometric-Based Credit Scoring in conjunction with conventional credit evaluation, including the risks and challenges associated with using this type of evaluation.

Principle (19)

Consider the Central Bank coordination with the official authorities to proceed with legislating a law of guarantees for movable assets, and to adopt effective implementation mechanisms for it through the development of a central electronic registry to record such guarantees.

Principle (20)

Enhancing the utilization of Fintech in the credit information industry, such as cloud computing, blockchain, artificial intelligence, digital identity, and eKYC models, and reviewing the legislation governing the work of credit information companies and developing them in a way that enhances the opportunities for innovation in the credit information industry.

Principle (21)

The importance of having continuous plans for credit information companies and providing secure and advanced information technology systems and continuously upgrading them, to always ensure the success of the credit information companies' conduct.

Principle (22)

The Central Bank monitors and evaluates business continuity plans at credit information bureaus and companies and risk management policies on an ongoing basis, and conducts on-site and in-office checks to verify the existence of plans and policies approved by the bureau or company's board of directors, which considers how to effectively deal with the repercussions of natural disasters or crisis to ensure the continuation of the implementation of activities and operations of issuing credit reports when crises or natural disasters occur.

Principle (23)

Enhancing public awareness of the role of credit information bureaus and companies and how to obtain credit reports, including preparing and distributing awareness leaflets through financial institutions.

Principle (24)

Considering central banks studying legal frameworks for cooperation in Cross-border credit information exchange and signing memoranda of understanding in this regard.