UNIVERSITY OF GHANA

THE IMPACT OF CREDIT INFORMATION SHARING ON THE LOAN PORTFOLIO
QUALITY OF SAVINGS AND LOANS COMPANIES IN GHANA

BY

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(ID: 10701060)

A THESIS SUBMITTED TO THE UNIVERSITY OF GHANA LEGON, IN PARTIAL
FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF A DEGREE IN MSc.
DEVELOPMENT FINANCE DEGREE

JULY 2019
DECLARATION

I, the undersigned, hereby declare to the best of my knowledge that this work has not been previously submitted to any other university or institution of higher learning except the University of Ghana Business School (UGBS) as explicitly stated in the study.

SIGNED: .............................................        DATE: ..........................................

ENOCK NII BLABIE ZOLI

(STUDENT ID: 10701060)
CERTIFICATION

I hereby certify that this thesis was supervised in accordance with procedures of the University of Ghana.

SIGNED: ................................. DATE: ............................... 

DR. ELIKPLIMI KOMLA AGBLOYOR

(SUPERVISOR)
DEDICATION

I humbly dedicate this work to the Almighty God and also my family for their unwavering support during my study. Secondly, I dedicate this work to my course mates at the Business School for making such an intense programme very interesting.
ACKNOWLEDGEMENT

I foremost like to thank the Almighty Father for the gift of life, without which none of this would have been possible. His grace and guidance carried me through my study.

Secondly, I say a big thank you to my supervisor, Dr. Elipklimi Komla Agbloyor, for the immense contribution, technical guidance and criticism to improve this work.

I also like to thank my family and friends for their various contribution and support to this study. Finally, I say a big thank you to all the staff of the Savings and Loans Companies that assisted in completing my questionnaire and the Credit Reference Bureaus for the feedback.
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<th>Description</th>
</tr>
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<tr>
<td>ASSFIN</td>
<td>Association of Financial Non-Governmental Organisation</td>
</tr>
<tr>
<td>BoG</td>
<td>Bank of Ghana</td>
</tr>
<tr>
<td>CIS</td>
<td>Credit Information Sharing</td>
</tr>
<tr>
<td>CRB</td>
<td>Credit Reference Bureaus</td>
</tr>
<tr>
<td>CUA</td>
<td>Credit Union Association</td>
</tr>
<tr>
<td>GHAMFIN</td>
<td>Ghana Microfinance Institutions Network</td>
</tr>
<tr>
<td>GHASALC</td>
<td>Ghana Association of Savings and Loans Companies</td>
</tr>
<tr>
<td>GCSCA</td>
<td>Ghana Corporative Susu Collectors Association</td>
</tr>
<tr>
<td>LPM</td>
<td>Loan Portfolio Management</td>
</tr>
<tr>
<td>MFIs</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>NBFIs</td>
<td>Non-Bank Financial Institutions</td>
</tr>
<tr>
<td>NPLs</td>
<td>No-Performing Loans</td>
</tr>
<tr>
<td>MCAG</td>
<td>Micro Credit Association of Ghana</td>
</tr>
<tr>
<td>PAR</td>
<td>Portfolio at Risk</td>
</tr>
<tr>
<td>S&amp;Ls</td>
<td>Savings and Loans Companies</td>
</tr>
<tr>
<td>SDIs</td>
<td>Specialized Deposit-Taking Institutions</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
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</table>
ABSTRACT

According to the 2018 Banking Sector Report, the financial sector crises were attributed to two main causes which are bad corporate governance practices on the path of the board and senior management persons, and high non-performing loans (NPLs) due to equally high default rate. Despite the reforms by the central bank to sanitise the banking sector, Non-Performing Loans (NPLs) hit a new record as it shot up from GH¢7.1bn as at end of April 2017 to GH¢8.63bn in April 2018. The Credit Reporting System however was established in Ghana to mitigate or minimise the risk of bad loans by dealing with moral hazard and adverse selection through the provision of the credit history on prospective clients of financial institutions.

The study therefore seeks to analyse if the credit information or score furnished to the Banks and SDIs by the credit referencing bureaus are having any impact on credit appraisal and delivery, non-performing loans, hence their loan portfolio quality. The study employed the qualitative research approach in its analyses. Data collection was done using questionnaire and also interviewing key personnel from the S&Ls. A total of 50 questionnaires were issues to staff from the credit and compliance departments. Senior management persons from the credit reference bureaus were interviewed. The research findings showed that credit information sharing often results in a number of benefits in terms of loan portfolio quality. Some of the benefits include ascertaining the borrower’s character: the borrower’s ability to repay, which translates into lower cost of credit; encouraging timely payment; improving access to credit; improving loan appraisal processes; reducing adverse selection and moral hazard; all of which result in an improvement in the loan portfolio quality. The study further suggested that Savings and Loans Companies and the credit reference bureaus have some challenges affecting the quality of data that are submitted.
Furthermore, the credit reference bureaus also mentioned that some of the financial institutions are not fully compliant to the Credit Reporting Act, 2007 (Act 726).

The study recommend that Bank of Ghana should tighten the supervision, by making sure all companies comply with the Act, 2007 (Act 726). The study also recommends that the regulator engages the various stakeholders i.e. the Bank and Non-Bank Financial Institutions to iron out the various issues to enhance credit reporting.
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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study
Savings and Loans Companies (S&Ls) over the years have played a critical role in the delivery of transformational financial services to improve the livelihood of the rural poor. The Bank of Ghana (BoG) issues an operational license to S&Ls they regulated under the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930). These financial institutions are very important within the economy as the industry occupies a huge gap between the top tier financial institutions with a capitalisation of GHS400million i.e. banks and the lower tier microfinance institutions with a capitalisation of GHs2million i.e. microfinance companies. According to the Ghana Association of Savings and Loans Companies (GHASALC), the sector has been providing financial intermediation serving micro, small and medium enterprises for nearly three decades. The basic permissible activities for S&Ls are loans, deposit, and investments. Some, however, provide other added-on services such as remittances, leasing, and mobile money.

As at September 2018, the number of S&Ls operating in Ghana stood at 37. 32 representing 86% are headquartered in the Greater Accra Region and 5 representing 14% headquartered in the Ashanti Region. According to a report released by GHASALC the 37 Savings and Loans Companies as at October 2017 had Total Asset base of GHs7.7 billion, a loan portfolio of GHs 2.5 billion and total deposits of GHs 4.9 billion, and a total number of branches and agencies throughout the country being 641.
The Savings and Loans Sector due to the nature of business and target clients is hampered by several challenges including high interest, low public confidence. However, a major challenge facing the sector is high default rate caused by multiple borrowing. This challenge is as a result of lack of information on client’s financial history especially within the informal sector, which has impaired and eroded the bottom-line of quite a number of companies over a period. Studies have further indicated that multiple borrowing is largely due to the lack of consistent information on borrower’s history (Lahkar, Pingali & Sadhu, 2012).

The S&L sector has been very instrumental in reducing or alleviating poverty over the years because of its focus on SMEs. To provide a more favourable environment for these financial institutions to offer the needed services the Bank of Ghana had to find a solution to the high default rate. Therefore, it became very necessary for the Central Banks to strengthen the financial sector by making it more competitive and robust. A study by Pagan (2014) emphasised more on using the Information Sharing System facilitated by Credit Bureaus to check information asymmetry within the financial sector, which can in a large extent reduce the high default rate if done properly.

As part of a mitigation process, the first Credit Reference Bureau was established and became operational in Ghana in the year 2004. Currently, three institutions have been able to meet the requirements under the Credit Reporting Act, 2007 (Act 726) and therefore been licensed by the Bank of Ghana.

The Credit Reference Bureaus consolidates information on the credit history of clients collected from regulated financial institutions and makes it available on-demand to mitigate the risk of bad loans. Credit Information Sharing also helps to reduce adverse selection by
reducing information asymmetry and the financial institution’s knowledge of its credit applicants or prospective borrowers (Houston, Lin & Ma, 2010).

According to the Credit Reporting Act, 2007 (Act 726) S&Ls are authorised by the Bank of Ghana to submit information on borrowers to all three licensed Credit Reference Bureaus.

The Act 726 again indicates that this information must be submitted within 72 hours (3days) from the time the client is processed for a loan and must be updated by the financial institution on monthly basis. According to 2018 Banking Sector Report, financial institutions in 2017 made a total of 2,222,311 searches and enquiries from the Credit Bureau Bureaus as compared to the 2016 figure of 1,662,740 representing a 34% increment. The increase in the number of searches over the stated period can be attributed to intense advocacy and monitoring of the financial institution.

Credit reporting systems have played a key role in sanitising the financial space of the country. However, there are some setbacks, which include the quality of data supplied to the credit bureaus by the financial institution, the inconsistencies of data, and low usage of credit report (Bank of Ghana, 2017).

1.2 Research Problem
The 2018 Banking Sector Report in Ghana pointed out that failure by some senior management and board members to implement a good risk management system and high non-performing loans caused by a high default rate led to the liquidity crises.

As a solution to the identified weaknesses in the existing corporate governance structure Bank of Ghana made a provision in Section 55(1) of the Banks and Special Deposit-Takings Institutions Act, 2016 (Act 930) refers to as the “Fit and Proper” directive. This directive is to
ensure that all board members and staff in senior management positions have the required skills and competences. As part of the same directive board members of licensed financial institutions are to undergo a mandatory annual certification course either at the National Banking College or any other institutions recognised by the Bank of Ghana.

This research, however, lays more emphases on the second most popular attribute of the crises which are the high non-performing loans (NPLs) that affected the liquidity levels of some institutions over a period. The loan portfolios of some financial institutions were impaired and led to insolvency. The question is, can the Bank of Ghana rely on the Credit Referencing Information to deal with high non-performing loans recorded in 2018? It is very interesting to note that despite the support by the three licensed Credit Reference Bureaus through the facilitation of information sharing, the banking sector was hit by a record high non-performing loans of GHs8.63bn as at April 2018 (Bank of Ghana, 2018). The report on the banking sector again mentioned that the high non-performing loans are a major factor that eroded the capital of the five banks that had to be consolidated in 2018.

There have been many valuable studies on the importance of credit information sharing to the financial sector. These studies include the impact of credit information sharing on loan portfolio of commercial banks in Kenya (Plycap, 2015; Odiwuor 2016); the relevance of credit reference bureaus and its effect on the financial industry of Ghana (Dankwah, 2012).

Other detailed studies on Africa also indicated how information sharing if done well impacts on the financial sector. For instance, Kusi et al. (2017) conducted a study to examine the effect of credit information sharing on the credit risk of banks in low and high-income countries in Africa. The study however concluded information sharing helps in dealing with bank credit risk. Ideally, information sharing amongst banks, in the long run, reduces bad loans and
therefore increases banks profitability. In view of this, Kusi et al. (2016) in its study stressed that when banks in Ghana access information or reports from the credit reference bureaus it increases their profitability levels. The above-mentioned studies have provided valuable insight into the effect of information sharing on universal banks in Ghana and African. However, not many studies have been conducted on the impact of credit information sharing on the non-bank financial sector of Ghana.

It is therefore in line with the gap identified in existing research that the researcher seeks to examine the impact of credit information sharing on the loan portfolio quality of the Savings and Loans Companies in Ghana.

1.3 Research Purpose
The purpose of the study is to examine the how the information provided by the credit reference bureaus help Savings and Loans Companies to develop a good risk profile for its current and prospective clients to reduce their non-performing loans and at the end maintain a quality loan portfolio.

1.4 Research Objectives
The broad research objective is to determine the impact of credit information sharing on the loan portfolio quality of the Savings and Loans Companies in Ghana. However, the specific objectives are as follows;

i. To examine the impact of credit information sharing on loan appraisal processes of Savings and Loans Companies in Ghana.
To examine the impact of credit information sharing on the lending rates of Savings and Loans Companies in Ghana.

To examine the challenges Savings and Loans Companies face in accessing data from Credit Reference Bureaus in Ghana.

1.5 Research Questions
The following are the research questions that this study seeks to address;

i. How reliable is the information provided by the Credit Reference Bureaus during loan appraisal of current and prospective clients of Savings and Loans Companies in Ghana?

ii. What are the factors influencing the lending rates of Savings and Loans Companies in Ghana?

iii. What are the challenges faced by Savings and Loans Companies in accessing data from Credit Reference Bureaus?

1.6 Significance of the Research
This study is very significant as it will assist Bank of Ghana to know the level of compliance of Savings and Loans Companies to the Credit Report Act and therefore take the necessary action and reforms if need to help in the fight against high non-performing loans recorded in 2018.

This study will also be of interest to both Banks and Non-Bank Financial Institutions, which are the players within the financial space. Non-performing assets/loans are the main threat to these financial institutions as it influences negatively on their capital. Again, institutions that
are compliant can compel the regulator to sanction those that do not submit data to the credit bureaus.

Furthermore, this study will improve transparency as it will assist investors and the general public to better understand the basis for the interest rate charges by S&Ls. This in the long run will assist stakeholder in their investment decision. This study will also be available to be used as a reference for academicians and researchers who may conduct further studies in a similar area.

Apex bodies/associations play a complementary role in assisting the regulator to execute its mandate. This study will also help the national association of S&Ls (GHASALC) in its engagement with the Credit Reference Bureaus (CRB) to implement programs that will build the capacity of the institutions in reporting. This study will also inform the Association as well as the CRBs on what needs to be done differently to improve information sharing among S&Ls.

1.7 Research Methodology

The research employed both quantitative and qualitative method to examine the impact of credit information sharing on loan portfolio quality of Savings and Loans Companies in Ghana. This approach was very effective in obtaining the desired information from the compliance and credit departments for the study. The researcher focused mainly on qualitative method for the analysis by conduction a case study and interviewing key respondents from the Savings and Loans Companies with head office in Greater Accra.

According to the Bank of Ghana, there are currently thirty-eight (38) Savings and Loans Companies in Ghana. Thirty-three (33) are headquartered in Greater Accra and the remaining five (5) have their head offices in the Ashanti Region. The population for the study was based
on the Savings and Loans Companies headquartered in the Greater Accra Region. Fifty (50) Staff from the Compliance and Credit departments of twenty (20) Savings and Loans Companies will be used for this research.

Primary data will be collected through the administration of questionnaire. The researcher will also conduct interviews and case studies of key respondents within Savings and Loans sector.

Furthermore, the researcher visited the offices of the three licensed credit reference bureaus and the Association of Savings and Loans Companies conducted interviews and reviewed relevant reports to assist the study.

1.8 Research Limitations
The researcher is constrained by the following limitations:

- A case study of selected key respondents was used for the study due to limited time and resources to visit all the companies throughout the country.
- Some of the targeted respondents hold senior management positions and therefore may not be available to assist with the data due to their tight schedule.
- There is also the probability that not all the administered questionnaires will be completed and returned to the researcher within the required timeframe.

1.9 Chapter Outline
The chapter one of this research takes into consideration the background of the study, the research problem being addressed, the purpose for conducting the study, objectives and the research questions to be answered, the researches relevance, scope and constraint of the researcher.
In chapter two, the researcher focuses on literature available on credit information sharing and portfolio quality of the savings and loans sector. This chapter also covers an overview of the Savings and Loans Sector of Ghana.

Chapter three takes into consideration the methodology to be used in conducting the study. This includes the research design, the research population as well as sample size to help the researcher in arriving at a reliable conclusion.

Chapter four focuses on data presentation and analyses. In this chapter, the researcher describes the research findings taking into considerations the research objectives and questions.

Chapter five focuses on the summary of the research, conclusion deduced from the research findings and the recommendations.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction
This chapter critically examines existing information from several sources, which includes publications, journals, and reports with relevant information. This chapter looks at the Non-Bank Financial Sector of Ghana of which the Savings and Loans Companies are major players, the existing legal and regulatory framework with its challenges and implications. In addition, it will consider Loan portfolio management, which is the main asset of lending institutions, and finally the mandates of Credit Reference Bureaus in effective credit administration.

2.1 Overview of the Savings and Loans in Ghana
In Ghana, Savings and Loans Companies are a key player in the financial sector and provide microfinance services to mostly the informal sector. Before the formal categorisation and definition of Savings and Loans Companies by the Central Bank under the Non-Banking Law 1993 (PNDCL 328), Susu and Money Lending enterprises were predominant as it was the most popular form of savings amongst the rural communities.

Over the years, Savings and Loans Sector has become more visible within the financial sector of Ghana, with a growth in the numbers from 9 in 2003 to 38 as at December 2018 with a total of about 641 branches and agencies throughout the country. The rise in number is because of new companies acquiring operational licenses from the Bank of Ghana after meeting all requirements, and the upward recapitalisation of some Microfinance Companies into a Savings and Loans Companies. The Bank of Ghana has also introduced some major reforms within the
Savings and Loans Sector in terms of capitalisation and the number of permissible activities. The minimum capital requirement for the sector however which was initially GHs7million was revised upwards to the current GHs15million by Bank of Ghana (www.bog.gov.gh)

Undoubtedly, in most developing countries, access to financial services by the informal sector has been identified as one of the solutions for reducing poverty and ensuring rapid economic growth (Rahman, 2009; Chakrabarty, 2011). Nirmala & Yepthomi (2014) also reiterated that financial intermediation in the form of savings, microloans and insurance have very instrumental in the fight against poverty for developing countries. With the informal sector in perspective, these financial services are mostly provided by the non-bank financial institutions due to its structure and business models which appears to be more friendly and favourable to micro borrowers and MSMEs (Steel and Andah, 2003). Steel and Ander (2003) explained further that Savings and Loans Companies mobilises deposits using the “Susu” methodology which given out as loans to its clients for short periods usually 3 to 6 months.

Savings and Loans Companies that are major players within the microfinance sector are mostly predominant in developing countries with limited access to the formal financial system (Robinson, 1998). A report by the Centre for Financial Inclusion (2011) detailed out countries where microfinance practices have been very successful and still working effectively and include India, Bangladesh, Bolivia, Cambodia, Indonesia, and the Philippines. In Africa however, some of the countries with improving microfinance sectors are Egypt, South Africa, Kenya, Ghana, and Nigeria.

Gine (2003) considers the mode of operation as the main difference between traditional banks and non-banking financial institutions. He further explained that traditional banks do corporate
banking and mostly target high earning clients. Microfinance institutions on the other hand mostly practice joint liability and group lending methodology due to its advantages in dealing with the risk of losing the entire loan amount in as in the case of individual lending.

2.2 Regulation and Supervision of Non-Bank Financial Sector
The institution that is entrusted with the regulatory and supervisory responsibility of the financial space is the Bank of Ghana. Therefore, it is therefore mandated to ensure a robust and efficient banking system to protect the institutions and their respective clients.

All financial institutions are required to operate within a regulatory and legal framework as provided by the central bank. The following laws regulate non-bank financial institutions:

- Bank of Ghana Act 2002, (Act 612);
- Banking Act, 2004 (Act 673) as amended;
- Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930);
- Anti-Money Laundering Act, 2008 (Act 749);
- Non-Bank Financial Institutions Act, 2008 (Act 774);
- Ghana Companies Code 1963 (Act 179);
- Bank of Ghana Notices /Directives / Circulars / Regulations;
- Data Protection Act, 2012 (Act 843);
- Bank of Ghana Operating Rules and Guidelines for Microfinance Institutions
The supervisory arm of the Bank of Ghana also plays a critical role in promoting a stable financial sector throughout the country. The Banking Act, 2002 (Act 612) and Act, 2004 (Act 673), contains the duties and responsibilities of the Bank of Ghana and includes the following:

- To regulate, supervise and direct the banking system and credit system to ensure the smooth operation of a safe and sound banking system,
- To appoint an officer designated as the head of Banking Supervision Department, who shall be appointed by the Board,
- To consider and propose reforms of the laws relating to banking business.

Regulation and supervision of Non-Banking Financial Institutions across the globe are still evolving despite it being widely accepted as a key factor in the fight against poverty for most developing countries (Gallardo, 2002). According to Abraham and Balogun (2012) and Kazi and Leonard (2012), most studies within the microfinance space focuses largely on the impact of the microfinance intervention on the rural community and clientele generally, with little attention on the regulatory framework in which the microfinance institutions operate. With Grameen Bank’s recognisable impact on the poor, a reference to the Bangladesh Financial Institution Act, 1993 for regulation and supervision of NBFIs in Bangladesh is very relevant and worth mentioning. According to the Central Bank of Bangladesh (2018), the current start-up capital required for NBFIs Bangladesh is Taka 1.0 billion as outlined in the country’s Financial Institution Regulation, 1994.

In African however, microfinance in Kenya has also been developing since the 1990s. The Central Bank of Kenya regulates and supervises its microfinance institutions under the

Table 1. The Non-Bank Financial Sector of Ghana.

<table>
<thead>
<tr>
<th>Tier</th>
<th>Type of Institution</th>
<th>No. Fully Licensed</th>
<th>Minimum Capital</th>
<th>Permissible Activities</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>Savings &amp; Loans Companies</td>
<td>38</td>
<td>15 Million</td>
<td>Credit Provision, Investments &amp; Retail Deposit</td>
<td>Licensed and regulated by BoG under the B&amp;SDI Act, 2016 (Act 930)</td>
</tr>
<tr>
<td></td>
<td>Finance House</td>
<td>24</td>
<td>15 Million</td>
<td>Credit Provision &amp; Investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rural &amp; Community Banks</td>
<td>144</td>
<td>1 Million</td>
<td>Credit Provision, Investments &amp; Retail Deposit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Microfinance Companies</td>
<td>330</td>
<td>2 Million</td>
<td>Credit Provision, Investments and Retail Deposit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Credit Unions</td>
<td>537</td>
<td>Not Available</td>
<td>Deposit Taking and Credit Provision among Members only</td>
<td>Regulated under CUA Bill.</td>
</tr>
<tr>
<td>Tier 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 3</td>
<td>Micro Credit Companies</td>
<td>68</td>
<td>2 Million</td>
<td>Credit Provision</td>
<td>Licensed &amp; regulated by BoG. Require membership in MCAG</td>
</tr>
<tr>
<td></td>
<td>Financial NGOs</td>
<td>11</td>
<td>300,000</td>
<td>Credit Provision</td>
<td>Licensed &amp; regulated by BoG. Require membership in ASSFIN</td>
</tr>
<tr>
<td></td>
<td>Individual Susu Collectors</td>
<td>504</td>
<td>Not Available</td>
<td>Susu Deposit</td>
<td>Require registration with BoG &amp; GCSCA</td>
</tr>
<tr>
<td></td>
<td>Individual Micro Creditors</td>
<td>545</td>
<td>Not Available</td>
<td>Credit Provision</td>
<td>Require License from BoG through MCAG</td>
</tr>
</tbody>
</table>

Source: GHAMFIN Website (2018).
2.3 Effect of Regulation and Supervision on the Savings and Loans

The Central Bank of Ghana has had to strengthen the financial sector from time to time through the introduction of new directives. The various directives as introduced are to address specific gaps and arbitrages identified within the existing Act. As a response to the current challenges faced by banks and other financial institutions, the Bank of Ghana introduced some directives to ensure that the sector is well-governed, well-managed, and better supervised to build a more robust and sustainable sector.

In 2016, the government of Ghana enacted the current Banks and Specialised Deposit-Taking Institutions Act 2016 (Act 930) to regulate institutions that carry out deposit-taking business. The objectives of the Act 930 are as follow;

- Bring all deposit-taking institutions under one law;
- Put in place more rigorous criteria for licensing, mergers and change in control;
- Prescribe more rigorous procedures for dealing with unauthorised deposit taking activities;
- Apply consolidated supervision to banks, banking groups or holding companies;
- Enable the Central Bank to take prompt and corrective actions based on capital adequacy deficiency/shortfall triggers;
- Detail out recovery and failure resolution framework of banks / Specialised Deposit-Taking Institutions;
- Allow the imposition of monetary penalties without any recourse to the court conviction and make provision for accounting for unclaimed funds in the banking industry.

As microfinance operations continuously change to meet the diverse and changing needs of clients, so too must the level of government involvement improve over the period. Government
through its central bank is required to create a more enabling and sustainable environment by eliminating unfair competition from public institutions, introducing regulatory reforms through directives, and improvement of the business environment (CGAP, 2003b). In addition, through these reforms, the government can ensure transparency in the operations of financial institutions.

Savings and Loans Companies over the years have been very vital in a global attempt to reduce poverty through the provision of extended financial services aimed at improving the standard of living of the poor and vulnerable (Tadele and Rao, 2014). Due to its critical role, microfinance sectors all over the world have witnessed various reforms in regulatory and supervisory interventions by the relevant governing bodies (Central Banks) to harmonise and improve the governance structure of the players within the microfinance industry (Hartarska & Mersland, 2012). Ahmed et al. (2013) have also maintained the fact that microfinance institutions are of great importance to economic development and therefore would not be allowed to operate in a space without the involvement of the government.

Financial institutions are regulated and supervised put in place by governments through their respective regulatory bodies to prevent systemic failure, which can lead to full-blown financial crises. A ripple effect of the failure of some financial institutions is a run on other banks as well due to the uncertainty and panic of clients and the public. Heffernan (2009) critically examined the impact of the failure of several banks in the United States of America from 1980 to 1994, which eroded banks assets to the tune of $923 billion. In an economy, which is bank-based it is very critical for the government to put in place stringent regulatory and supervisory measures prevent Bank failures which will have a negative impact on economic growth as it creates instability the financial systems. Without a robust regulatory framework in place
financial institutions are more likely to fail as in the case of major economies such as Japan (1990s); Germany (1931; 1974 & 1983); Spain (1978-1983 & 1993); Sweden (1990s) as listed in a report by BIS (2004).

2.4 Credit Reference Bureaus

Lending institutions over the years have relied heavily on collateral to serve as a security for the loans and credits extended to individuals as well as businesses. Due to an intense competition within the financial systems especially in most developing countries with majority of the population being informal, these lending institutions have been forced to forego in certain instances collateral-based lending in other to increase their clientele base and remain profitable (Beck, T., Demirguc-Kunt, A. & Maksimovic, V., 2014). According to Ibtissem & Bouri, (2013), the competitive financial environment coupled with relaxed credit appraisal policies by lending institutions resulted in borrowers taking loans or credits from multiple sources. This practice by the lending institutions especially microfinance institutions resulted in a very significant increment in multiple borrowing (Ibtissem and Bouri, 2013), which was mainly because institutions have very scanty or no information on borrowers credit history (Charles and Mori, 2016). Over-indebtedness which is a ripple effect of multiple borrowing necessitated the establishment of institutions to facilitate information sharing on borrowers (Pagan, 2014).

Credit Reference Bureaus or Agencies compile information received from financial institutions on the credit history of their clients and make it readily available to potential lending institutions for decision-making on borrowers’ credit application. The customer’s credit information is submitted to the bureaus by the various regulated lending institutions. Despite private credit reference registries being established in over 100 countries worldwide (Kallberg
& Udell, 2013), each registry is peculiar and varies from country to country, with the early countries to have established credit information registries being Germany and France in 1934 and 1946 respectively (Klein, 2012). Due to the availability of credit information on borrowers developed continents such as Europe and the Americas have far more advance reporting systems as compared to other continents as indicated by Jappelli, Pagano & Bianco (2015). In Africa however, some of the earlier countries to establish public rating agencies currently include South Africa, Egypt, Tunisia and Morocco. According to Tumusiime-Mutebile (2011), other African countries that have utilised the services of private credit bureaus within the last decade include Tanzania, Uganda, Ghana and Kenya.

2.5 Credit Reference Bureaus in Ghana
As part of the many reforms adopted to support and grow the financial sector of Ghana, the government empowered the Bank of Ghana which has the overall supervisory and regulatory responsibility by enacted the Credit Reporting Act, 2007 (Act 762) to provide the framework for credit reporting by licensed financial institutions on their clients (Bank of Ghana, 2008). Even though enacted in 2007 the Act 762 became fully operational in 2010 with XDS Data Limited being the first licenced credit reference bureau by the Bank of Ghana. Ghana currently has three licensed credit reference bureaus with Hudson Price Data Solutions Limited and Dan & Bradstreet Credit Bureau Limited joining subsequently.

The establishment of the credit referencing bureaus was basically to facilitate the sharing of borrower’s credit information amongst industry players as a means to curtail the high default rates caused by multiple borrowing. The credit reference bureaus aggregate all financial data on borrower’s credit history submitted by regulated lending institutions into a report which can
be accessed by both financial and non-financial institutions upon request to make an informed decision. Dankwah (2012) also shares the view that the credit report enhances the knowledge of the financial industry players on the borrowing patterns of prospective clients to reduce the adverse selection to its barest minimum.

The financial sector of Ghana has improved in terms of credit delivery after the establishment of the three credit reference bureaus with the number of financial institutions submitting data and requesting data increasing on an annual basis. The Bank of Ghana indicated in its 2017 sector report there was a 34% increment in financial services enquiries made on credit reports between 2016 and 2017. Credit reference bureaus recorded 2,222,311 enquiries in 2017 as compared to 1,662,740 in 2016, which simply indicates that more financial institutions are becoming compliant. The success can be attributed to a collective effort by credit reference bureaus and developmental partners like the World Bank through sensitisation, and Bank of Ghana through improvements in monitoring and supervision.

2.6 Challenges and Way Forward
Credit reference bureaus can only be more effective in an environment where financial institutions are ready and willing to share credit information on their clients (Jappelli et al, 2015). Therefore, a credit report can only be as credible and accurate as the data submitted by the financial institutions consistently. According to the 2017 Credit Referencing Activity Annual Report, credit reference bureau operations are hampered by challenges with quality and consistency of data submitted by the financial institutions as well as the usage of the credit reports.
Interestingly these challenges are mostly identified within the microfinance industry, which serves a greater percentage of the informal sector of the economy (Abor & Quartey, 2010).

There is, therefore, an urgent need for Bank of Ghana to do more sensitisation, especially within the non-bank financial institutions space to bridge the knowledge gap to improve on the number of submissions to the credit reference bureaus. Regulated financial institutions are mandated to submit credit information to all three-credit reference bureaus within 72 hours of entering into credit agreement according to the Credit Reporting Act, 2007 (Act 762). The Bank of Ghana must, therefore, apply the appropriate sanctions to non-complaint institutions.

2.7 Credit Report
A credit report is a comprehensive report of a borrower’s credit history prepared by a credit reference bureau. The credit bureaus after collecting and organising the data create a report for each borrower that contains the records of his or her credit history. According to Black & Strahan (2012), a credit report shows the credit scores of borrowers to assist financial institutions in assessing and categorising creditworthiness and risk levels during credit appraisals.

A credit report must capture the following relevant information on a client:

- Personal information such as name, date of birth, Social Security Number, recent home addresses, and recent employers.
- Payment history on credit accounts.
- A list of creditors (companies or individuals) who have recently requested copies of your report.
Public records, such as bankruptcy, foreclosure, and court judgments (including housing court judgments for non-payment of rent).

A good credit report ensures better access to credit for borrowers and vice versa. It is therefore important that credit reference bureaus, as well as the lending institutions, educate borrowers to understand their credit reports and ratings.

2.8 Credit scoring
According to Abdou and Pointon, (2011) Credit scoring is used by lenders to assess the risk of both potential and existing customers by converting relevant client data into scores with the help of statistical models. These models are a programme or a system that defines a borrower’s probability of repaying a loan and is represented by a score usually between 300 and 850. Ducket B (2001) also argues that credit scoring aids lender institutions to analyse the credit risks of potential and existing clients to secure the maximum profit and on their loan portfolio.

A credit score, which is sometimes referred to as a scorecard, is processed by the credit bureaus using information from several data sources. Information used in the computation of the credit score may include number and types of accounts, number of active credits, age of the accounts and any outstanding debts.
2.9 Loan Portfolio
A Loan portfolio is made up of loans extended to borrowers and being held for repayment. According to Adamu, I., Asongo, A.I. & Nyor, N. (2014), the profitability and sustainability of any lending institution depends fundamentally on how it manages its interest-bearing asset, which is its loan portfolio efficiently and effectively. It is evident that a substantial amount of a financial institution’s income is generated by its loan portfolio, and therefore comes with a greatest source of risk for the institutions. Lending institutions therefore continuously put in more effort to manage and maintain a healthy loan portfolio, which is fundamental to its safety and soundness.

Loan Portfolio Management (LPM) is simply managing and controlling the inherent risks associated with the credit processes. Karekaho (2009) conducted a study on loan portfolio management within the Microfinance sector in Uganda, and his study concluded that the most important determinant of an MFIs portfolio performance is loan monitoring which will contribute to controlling the loan portfolio effectively.

Nkuah (2015) recommended that for loan portfolio quality to have a positive impact on performance, universal banks in Ghana must put in the right structures in terms of policies and procedures to monitor and improve loans and profitability.

2.10 Determinants to Loan Portfolio Quality

2.10.1 Non-Performing Loans (NPLs)
The loans portfolio is the largest asset of any bank or non-bank financial institutions, which generates a greater percentage of its revenue. Loans and advances are therefore considered non-performing after it fails to generate revenue over a specified period. Non-performing loans (NPLs) erode or impair the profitability of financial institution and often leads to its collapse
or failure. Michael et al (2006) in his study also reiterated the fact that NPLs erode the bottom line of the bank and in the end, its liquidity and solvency levels.

The problem of NPLs is widespread among the microfinance industries of most developing countries. The Central Bank of Kenya in its 2016 annual supervision report mentioned that NPLs within the MFIs have increased over the last decade and has adversely affected the sector’s loan portfolio performance in terms of its revenue generation and profitability. Another notable incident is the case of Rwanda where its National Bank reported NPLs within its microfinance sector being $3.6billion in 2010 and $6.8billion in 2011 representing a whopping 93.2% increment. Other countries with high NPLs include Bangladesh (Lata, 2014), Nigeria (Abioye, 2015).

According to the World Bank report on the banking sector Ghana from 2008 to 2017, NPLs on average for the period was 14.61% with a minimum of 7.8% recorded in 2008. The maximum, however, was recorded in 2017 at 21.57%. These percentages reflect the efficiency of the banking sector and in the case of Ghana high NPLs have resulted in liquidity challenges and has led some banks into distress. According to the performance monitoring and benchmarking of MFIs published by GHAMFIN (2008), the sector NPLs was 6% in 2004, 9% in 2006. Some of the most common causes of NPLs are the lack of effective monitoring and supervision by financial institutions, weaknesses within the legal framework, and lack of effective credit recovery strategies (HANEFF; RIAZ, 2012).
2.10.2 Portfolio at Risk (PAR)

The loan portfolio is a major interest-bearing asset of Bank and NBFIs and as such, its growth or success depends largely on the effective management of credit risk to accomplish the desired performance. The bigger a financial institution’s loan portfolio the more revenue it is likely to generate as interest income over a period.

With every loan granted, there is an element of risk due to the probability of receiving only a portion of the loan or in some instances, lose the whole amount. Portfolio at risk is simply the value or amount of loans that past due and as such the institutions are at risk of not recovering that loan. It is expressed as a percentage of the total loan portfolio that is outstanding currently. Due to the negative impact of PAR on the performance of financial institutions, the regulator as part of its supervision performs Asset Quality Test (AQT) of the sector periodically. The governor of the Bank of Ghana revealed in 2017 that some Banks and NBFIs were not compliant with the directive for proper loan classification, which is part of the measures implemented to deal with PAR and to a large extent the rising non-performing loans.

2.11 Loan Classification and Provisioning

According to the Non-Bank Financial Institutions business rules released by the Bank of Ghana, every financial institution that gives out credit is required to monitor its portfolio or credit asset from time to time and make the necessary reviews once a quarter. Loans or credit asset for the review is classified into four main classes as follows; (i) Standard Asset; (ii) Sub-standard Asset; (iii) Doubtful Assets; (iv) Loss Asset.
2.12 Loan Provision

Based on the loan classifications listed above the Bank of Ghana requires NBFI to make the necessary provisions for delinquent assets according to the number of days the loans are outstanding. The current provisions as prescribed by the Bank of Ghana are as follows:

<table>
<thead>
<tr>
<th>Number of days Overdue</th>
<th>Rate of Provisioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 30 days</td>
<td>5%</td>
</tr>
<tr>
<td>31-59 days</td>
<td>20%</td>
</tr>
<tr>
<td>60-89 days</td>
<td>40%</td>
</tr>
<tr>
<td>90-119 days</td>
<td>60%</td>
</tr>
<tr>
<td>120-149 days</td>
<td>80%</td>
</tr>
<tr>
<td>150 days and above</td>
<td>100%</td>
</tr>
</tbody>
</table>
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter three discusses the methodology used during the process of collecting and analysing the data during the study and explains how the research would be carried out to accomplish the objectives stated in the introductory chapter. This chapter begins by discussing the research design, sampling, data collection instruments, method of analysis, model specification and the methods employed to analyse the data for the study and lastly, ethical considerations are taken into account during the study.

3.1 Research Design

Singh (2006) described the design of research as the skeleton to the entire study. He viewed it as a strategy for mapping out the research strategy that is dependent on the technique used for sampling. Malhotra and Birks (2004) also defined a research design as the occurrence of an event or the degree to which two variables differ. For this study, the researcher intends to examine the impact of credit information sharing on the loan portfolio quality of Savings and Loans Companies in Ghana. This is achieved by adopting a descriptive research design, which explains a phenomenon void of any influence, to investigate the relationship between credit information sharing and loan appraisal process. This research strategy was considered appropriate because it explains what is currently happening in this case, and it is intended to report pertaining to the impact of CRB on the Credit Appraisal Process in the financial sector. Qualitative and quantitative designs are employed to respectively qualify gathered views from
the respondent.

3.2 Population & Sampling

According to Saunders et al., (2009), a population refers to the aggregate group from which a certain inference be made. The total population considered under this research is the staff and management of the 38 Savings and Loans Companies currently operating in the country. A sampling frame refers to the absolute list upon which all modules of the research are itemised once. (Welman & Kruger, 2001) The sample frame for this study comprises credit, compliance and operations units in Savings and Loans companies, which are considered most pertinent to the study. To derive a more profound perspective to the research, deliberate and purposive sampling techniques are used during the study. The sampling approach is to targets the exact group of respondents relevant to the study. This method of sampling is often used in generating a management sample comprising the manager and the operations manager. To represent the sample size, 50 respondents will be questioned and interviewed from 20 of the 38 Savings and Loans companies with operations in the Country.

3.3 Data Collection

Saunders et al. (2009) noted two important data sources, which are namely, primary and secondary data sources. The first used to gather first-hand information and a secondary source often refer is already available and published data used as a source of information. Both data sources are employed in the study. As primary data sourced through questionnaires and interviews whereas the secondary source entails material that will be from journals, financial statements and other relevant information obtained from the licensed Credit Reference Bureaus in Ghana.
In spite of the ability of researchers to be able to use any of these instruments, some of the instruments are more appropriate for precise research strategies. (Easterby-Smith et al 2012). In addition, questionnaires and structured interviews are administered to staff of Savings and Loans in this study. These questionnaires will be designed to entail open ended as well as close-ended questions in line with the objectives of the research. The instrument i.e. questionnaire is selected based on its flexibility in the process of collecting data as it is able to produce information that makes it easy to code for the purposes of analysis an interpretation. Open-ended and closed-ended questions will be used for the study to ease the respondent’s responses and help save time. However, the likely challenges for using this kind of data collection approach that, the data collected might include invalid and zero responses. In addition, there is a chance some respondent might lose the questionnaires. Furthermore, the confidentiality of the data collection will be stated as the header section of the questionnaires circulated stating ‘the responses provided are meant for academic purposes on and will only be used in that regard’. Data would be collected from respondents who volunteer willingly to participate to ensure compliance and reliability of data collected and inputted. Data collected would lead the researcher to identify the frequency of the use of credit reference data in the loan appraisal process. The items on the questionnaire are measured on a 5-point like scale. A total 50 questionnaires were administered.

3.4 Method of Analysis

Data analysis comprises reducing the raw data into a manageable size, developing summaries and applying statistical references (Saunders et al., 2007). To ensure consistency in the responses, the first step taken in analysing the data was to detect and correct possible errors
and omissions that were likely to occur. The data was then coded to enable grouping of the respondents into a limited number of categories. In order to make sense of the data acquired from the field survey, the Stata statistical tool is used. The rationale for selecting this software is due to ease of use and robustness in the process of analysing data. It is considered one of the most reliable analytical software. Descriptive statistics are used to present data on the demographics of the respondents as well as performed to ascertain the means and standard deviation of the concepts examined, which will assist in drawing inferences from the sample data for the entire population. The means scores of items are used to understand the extent that these constructs affect the credit appraisal process.

3.5 Validity and Reliability

Initial reliability that can be explained as the degree to which a phenomenon is consistent and can be depended on, as well as the validity test, is relevant to this study to examine the credibility of the data acquired from the survey. Cronbach’s alpha tests were conducted to check for the reliability of the data gathered from the survey. For the purposes of this study, criteria of alpha of 0.7 and above were considered acceptable. The alpha value obtained would serve as the basis to judge the reliability of acquired data. Face and Content validity is employed to ascertain the credibility of data. A pilot study was conducted by the researcher using a small number of staff and managers of the companies considered within the sample. Their responses from the pilot study will provide direction as to re-structuring of the questionnaire if need be. The questionnaire will be further revised and submitted to supervisor for review and final approval.
3.6 Ethical Consideration

A number of procedures were employed to guarantee the research satisfies the required ethical standards. Authorisation was requested from the Human Resource Department as well Management of the Savings & Loans Companies considered for the study for their endorsement and consent. Management and staff were assured of their extreme confidentiality as respondents, concerning the information they provided. Participants were not coerced or asked to partake, unless it is of their own free will. The researcher exercised a considerable amount of objectivity and circumspection throughout the research period.
CHAPTER FOUR

PRESENTATION OF DATA, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

In this Chapter, the findings and its analysis are presented on the impact of credit information sharing on loan portfolio quality in Savings & Loans companies in Ghana. This chapter seeks to analyse the perceptions of the staff of Savings & Loans companies on credit information sharing and how it influences the quality of loans in their organisation. The data was collected mainly through the distribution of questionnaires and the output of the analysed data is presented below.

4.1 Demographic Data

The total number of respondents from which usable data was collated is 50. The demographic characteristics of the respondents discussed in this chapter are department of respondents, position held by respondents and their years of experience as presented in the tables below.

4.1.1 Position held by Respondents

Table 3: Respondent’s Position

<table>
<thead>
<tr>
<th>Positions Held</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officer</td>
<td>29</td>
<td>58</td>
</tr>
<tr>
<td>Manager</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
The researcher intended to ascertain the positions held by the respondents within the organisation considered under this study. This information would provide us basis as to the credibility of the data collected. The data analyses indicated that 58% representing the majority of the staff considered for the study were Officers, 26% were Managers whereas 16% of the total respondents, being the least, were Senior Managers.

4.1.2 Respondent’s Department within the Institution.

Table 4: Respondent’s Department

<table>
<thead>
<tr>
<th>Respondent’s</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Risk</td>
<td>24</td>
<td>48</td>
</tr>
<tr>
<td>Credit Recovery</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Compliance</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>IT</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The respondents were asked the departments under which they are currently working within the organisation. This information would justify as to the relevance of the opinion offered by the respondents. The analysed data indicated that, 48% of the total respondents are currently working within the credit risk department of their organisation. This number constituted the majority of respondents considered under the study. Furthermore, 24%, 20% and 8% worked Credit Recovery, Compliance, and IT departments respectively.
4.1.3 Experience of Respondents

Table 5: Experience of Respondents

<table>
<thead>
<tr>
<th>Experience of Respondents</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–5</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>6 – 10</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>More than 10</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The respondents were asked the number of years they have been working in the financial industry. This information would justify as to the relevance of the opinion offered by the respondents. The analysed data indicated that 25 respondents representing 50% of the respondents had been working within the Savings and Loans Sector between the years of 6 to 10. The minority of the respondents which is 8 out of 50 had the most experience being more than 10 years. The remaining 17 respondents have worked within the industry between 1 to 5 years representing 34%.

4.2 Type of Loan Products offered

The respondents were questioned on the type of loans their institution offered. The output of the data suggested that SME loans were pre-dominantly among the Savings & Loans Companies considered under the study. Other loan products offered include Consumer Loans, Micro Loans and Group Loans. Agricultural loans were the least of the loan product source by the respondents considered under the study due to the complexity and risk involved.

4.3 Impact of CRB Searches on Loan Portfolio

The objective of this section is to determine the respondent’s perspective as to the implication credit information sharing bears on the quality of loans disbursed their
institutions. Based on the existing literature on the subject, the researcher considered following key implications; borrower’s character, borrower’s ability to repay, cost of credit, timely payment, access to credit, loan appraisal process, adverse selection and moral hazard. The results are presented below.

4.4. CRB Searches help in determining borrower’s Credit Worthiness

Table 6: borrower’s Credit Worthiness:

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Neutral</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>26</td>
<td>52</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

The views of the staff were sought to ascertain the implications of credit bureau searches in determining borrower’s credit worthiness. From Table above, it can be noted that majority of the respondents being 52% strongly agree that, effectively utilising credit bureau searches helps in determining the borrower’s credit worthiness during the loan appraisal process. 26% of the respondents only agree to this assertion, whereas 16% expressed their indifference on the assertion. Only 6% of the respondents disagreed to the assertion that credit bureau searches help in determining borrower’s credit worthiness.

4.5 CRB Searches assists in establishing borrower’s ability to repay the loan.

As part of this study, staff of the Savings & Loans companies were asked on their views regarding credit bureau searches and its impact on assessing the borrower’s repayment ability.
The respondents were asked the extent to which they agreed with the statement “Credit bureau searches assists in establishing the borrower’s ability to repay the loan”.

Table 7: Borrower’s Ability to Repay

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Neutral</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

From table (7) above, it is evident that about 36% of the respondents strongly agreed to the fact that credit bureau searches help in determining the ability of the borrower to repay. While about 8% of the respondents took a neutral stance, about 28% of them agreed to the above-mentioned assertion. 16% and 12% of them strongly disagreed and disagreed respectively.

4.6 The savings arising from sharing of credit information translates to the low cost of credit

Low cost of credit is a relevant construct to this research; this is because it is considered a by-product of credit bureau searches. Given this, the staff were asked within a range of ‘strongly disagree’ to ‘strongly agree’ with the statement “credit information sharing translates into low cost of credit to the borrower”
Table 8: Cost of Credit

<table>
<thead>
<tr>
<th>Likert</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Neutral</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Agree</td>
<td>21</td>
<td>42</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

From Table (8) above, it can be seen that about 42% of the respondents, who happen to characterise the highest representation, agree to the fact that savings arise from sharing of credit information, which translates into lower cost of credit to the borrower. 28% of the respondents expressed their indifference about the assertion. The respondents who only disagreed were 10%, whereas those who strongly agreed and strongly disagreed were 14% and 6% respectively.

4.7 Credit information sharing compels borrowers to pay the loans according to schedule

As part of this study, the staff were asked if they believed Credit information sharing compels borrowers to pay the loans according to schedule. It is noteworthy that majority of the staff agreed that credit information sharing does compel borrowers to pay.

Table 9: Repayment According to Schedule

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Neutral</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
From Table (9) above, it can be noted that majority of the respondents being 44% agree that, credit information sharing compels borrowers to pay the loans according to schedule. 24% of the respondents strongly agree to this assertion, whereas 14% expressed their indifference on the assertion. Only 6% and 12% of the respondents strongly disagreed and disagreed respectively with the assertion that credit information sharing compels borrowers to pay the loans according to schedule.

4.8 CIS has led to a more robust and transparent loan appraisal process.

The respondents were asked the extent to which they agreed with the statement “Credit information sharing has led to a more robust and transparent loan appraisal process.

Table 10: Robust and Transparent Loan Appraisal Process

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Neutral</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

From Table (10) above, it is evident that about 36% of the respondents strongly agreed to a more robust and transparent loan appraisal process being a likely benefit of credit information sharing. While about 8% of the respondents took a neutral stance, about 28% of them agreed to the above-mentioned assertion. 12% of respondents disagreed whereas about 16% of strongly disagreed respectively.
4.9 Credit Information sharing enhancing borrowers’ access to credit

As part of evaluating the perceptions of the informants as to the likely advantage of credit information sharing, respondents are given option to choose the answers from a ranged from disagreeing to strongly agreeing to the assertion that “Credit Information sharing enhancing borrowers’ access to credit.

Table 11: Borrower’s Access to Credit

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Neutral</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>TOTAL</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Table (11) shows that majority of the staff representing 44% of the total respondents agreed that credit information likely to lead enhancing the borrower’s chances of accessing credit whereas the least representation being 12% disagreed to this assertion. While 12% of the respondents did not take a stance, 32% of the respondents strongly agreed to the assertion.

4.10 Credit Information Sharing helps to check the adverse selection

The respondents were asked the extent to which they agreed with the statement ‘Credit Information Sharing helps to check adverse selection’. In view of this, the responses show that majority of the respondent strongly agree to the fact that credit information sharing helps to check adverse selection, with the least number of respondents disagreeing to this assertion.
Table 12: Adverse Selection

<table>
<thead>
<tr>
<th>Likert Scale</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Neutral</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

From Table (12), it is evident that about 36% of the respondents strongly agreed to the assertion that credit information sharing help in reducing adverse selection, a likely benefit of credit information sharing. While about 8% of the respondents took a neutral stance, about 28% of respondents agreed to the above-mentioned assertion. 12% of the respondents disagreed to this claim whereas 16% strongly or totally disagreed.

4.11 Credit Information Sharing reduces moral hazard.

Reducing moral hazard is a relevant construct to this research, as it is considered a by-product of credit information sharing. In view of this, respondents were asked on the extent to which ‘Credit Information Sharing helps to reduce moral hazard. The results reveal that majority of the respondents agree to the assertion.

Table 13: Moral Hazard

<table>
<thead>
<tr>
<th>Likert</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Neutral</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Agree</td>
<td>21</td>
<td>42</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
From Table (13), it can be seen that about 42% of the respondents who happen to characterise the highest representation, agree to the fact that credit information sharing reduces moral hazard associated with a loan facility that is granted by their institution. About 28% of the respondents expressed their indifference about this assertion. The respondents who disagreed were 10% whereas those who strongly agreed and strongly disagreed were 14% and 6% respectively.

4.12 Challenges faced by Savings and Loans Companies in accessing data from Credit Reference Bureaus.

Respondents indicated some challenges faced in both the submission of credit information of their clients as well as in accessing the credit report from the credit reference bureaus. Some of the major challenges in submitting data to the CRBs are as follows;

- Submitting data to multiple credit reference bureaus to be fully compliant.
- The data format required by the CRB is not compatible with some of the banking software (not user friendly)

Some challenges faced by respondents in subscribing information from the CRBs are as follows;

- Inaccurate data which leads to misunderstanding between the company and clients
- The cost involved per search was also a challenge for some institutions.
- The data received are sometimes not updated and therefore unreliable.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

The main purpose of this study was to examine and determine the extent to which credit information sharing impacts the loan portfolio quality. Specifically, there was more focus on both the staff of the institutions’ perspective by evaluating their outlooks and opinions of credit informing sharing. To collect relevant data to fulfil the purpose of the study, the primary and secondary source of data was employed to gather more information. The data was collected from key informants being the staff the company using structured questionnaires to collect useful information that can be analysed. The questions asked during the research were in relation to the type of loans products offered, the level of compliance with the credit reporting and the impact of credit bureau searches on loan portfolio quality.

From the data that was gathered and analysed, the demographics revealed that majority of the institutions were between four and seven years and had between six and ten branches. In order to ascertain the extent to which we can trust the opinions of the staff, there was the need to know the various positions occupied by the respondents within the organisation, departments within which they currently work as well as their years of experience. In this case, majority of the respondents stated that they were officers whereas the smaller representation constituted senior managers staff. In addition, the majority of the staff worked within the credit risk department and have between six and ten years of experience. SME loans were pre-dominantly the loan product offered by the majority of the Savings & Loans institutions considered under the study. Other loan products
offered include Consumer Loans, Micro Loans and Group Loans. Agricultural loans were the least of the loan products sourced by the respondents considered under the study.

Views from the respondents revealed that all the institutions considered under the study had dealings with credit reference bureaus. XDS Data was the most popular among the three credit bureaus licensed by the Central Bank. Dan & Bradstreet and Hudson Price are the other 2 credit reference bureaus. The Savings & Loans Companies were able to access positive and negative information, which is considered relevant during the credit appraisal process. It was also found that not all the Savings & Loans Companies are compliant with the Credit Reporting Act which mandates the submission of credit information on clients to all three credit reference bureaus in Ghana.

Although a smaller percentage of the respondents unsure what exact implications that could be derived from credit information, it is noteworthy that majority of the respondents on the other hand agreed to the fact that the credit information sharing often results in a number of benefits in terms of loan portfolio quality. Some of these benefits include, ascertain the borrower’s character, the borrower’s ability to repay, translate into lower cost of credit, encourage timely payment, improve access to credit, improve loan appraisal process, reduce adverse selection and moral hazard, all of which results in an improvement in the loan portfolio quality. The mean and standard deviation scores suggest that the above-stated benefits are likely to be derived from credit information sharing. This is, therefore, evidence that credit information sharing has a positive impact of the loan portfolio establishments considered under this study.
Respondents also indicated that even though credit information sharing has been very helpful in the loan appraisal process by reducing the time involved, credit information sharing has very little impact on the lending rate charges by the institutions. Other very important determinants are the collateral provided, the loan amount requested, inflation and economic conditions of the clients.

Comments and feedback from respondents also showed that both the Savings and Loans Companies and the credit reference bureaus have some challenges affecting the quality of data that are submitted. Furthermore, the credit reference bureaus also mentioned that some of the financial institutions are not fully compliant as they submit data to only one and not all the bureaus as mandated by the Credit Reporting Act.

5.2 Conclusion

The study revealed that some institutions are not fully compliant with the Credit Reporting Act, 2007 (Act 726) because data is submitted to just one or two credit reference bureau(s). Bank of Ghana through the Act mandates Banks and Specialised Deposit-Taking Institutions to submit the credit information to all three credit reference bureaus to aid in the credit delivery processes in the country.

A critical analysis of the findings, therefore, revealed the various perceptions about credit information sharing and loan portfolio quality according to the views of the employees of the institution. In general most of their views shared implied that the credit information sharing often results in a number of benefits in terms of loan portfolio quality, some of which includes, ascertain the borrower’s character, the borrower’s ability to repay, translate into lower cost of credit,
encourage timely payment, improve access to credit, improve loan appraisal process, reduce adverse selection and moral hazard.

The quality of loans disbursed by the institutions was discovered by a survey to be greatly influenced by the sharing of credit information. The aforementioned survey also showed that Savings & Loans Companies were aided by CIS to lend pragmatically that goes to improve the overall quality of the portfolio.

The empirical findings and result credit information sharing has a positive impact on the loan portfolio establishments considered under this study. Other findings of the study noted that the routine of reviewing a client’s CRB report in the course of the process of loan appraisal was imperative and had led to a drop in the number of non-performing loans (NPL). This is also consistent with studies that have predicted a positive relationship between credit information sharing and loan portfolio quality. (Luoto, McIntosh, & Wydick 2007; Abdou and Pointon, 2011; Tumusiime-Mutebile, 2011; Dankwah, 2012).

The study also concluded that credit information sharing if done effectively goes a long way to help institutions in the granting of loan facilities due to the availability of concrete information on current and prospective clients. However, it does not have a strong determinant of the lending rates charged by the institutions. Other relevant factors considered are the availability of collateral, the loan amount requested, inflation and economic conditions of the clients.
5.3 Recommendations

The study established the usefulness of the credit information sharing to the loan appraisal processes. However, for it to be very effective all financial institutions that grant loans must be fully compliant by submitting to all the credit reference bureaus. Until this level is achieved some clients within the banking and non-banking sector will still not be captured in the system and therefore will undermine the integrity of the credit bureau system. As a recommendation, the Bank of Ghana must tighten the supervision by making sure all companies comply with the Act, 2007 (Act 726). The appropriate sanctions must be applied to compel to report its data to build a holistic credit reporting system in Ghana.

The study has established that loan portfolio quality and CIS are indeed related. It also deduces that sharing of credit information helps establish the character of the customer, capability of a customer to repay the loan thereby reducing adverse selection and moral hazard, which results in improving the overall quality of the portfolio. The regulators must liaise with the credit reference bureaus to intensify the advocacy for institutions to submit accurate data to the credit reference bureaus. The education should also be extended to the general public on the implications of being negatively listed in credit reports.

Credit bureaus and NBFIs have genuine concerns and challenges in data submission and subscription which over the years have also affected the data quality and integrity. The study, therefore, recommends that the regulator engages the various stakeholders to iron out the issues to enhance credit reporting.
Finally, this study focused on the impact of credit information sharing on the Savings and Loans Companies in Ghana. Further studies can be conducted on the other players within the Non-Banking Sector, which include the Rural and Community Banks and Microfinance Companies.
REFERENCES


Tumusiime-Mutebile, E. (2013). Introducing innovative services to meet credit needs in Uganda.


APPENDIX

RESEARCH QUESTIONNAIRE

INTRODUCTION

I am Enock Nii Zoli, an MSc Development Finance Student from the University of Ghana Business School. My research is on “The Impact of Credit Information Sharing on Loan Portfolio Quality of Savings and Loans Companies” to address the research objective and question of the study. I will be very grateful if could assist me by filling out this questionnaire. Please note that the information you provide will be used for the above stated purpose and will also be treated with extreme confidentiality. Thank you.

A. DEMOGRAPHY OF RESPONDENTS (Please tick only one in this section)

1. Name of Savings and Loans Company
(Optional)……………………………………………………………………………………………………

2. Institution’s number of years of operation?

   3 and below [ ] 4 – 7 [ ] 8 – 10 [ ] above 10 [ ]

3. Number of branches of institution?

   5 and below [ ] 6 – 10 [ ] 11 – 20 [ ] above 20 [ ]

4. Job title of respondent?

   Officer [ ] Manager [ ] Senior Manager [ ]
5. Which Department do you currently work with in your institution?

Credit Risk [ ]   Credit Recovery [ ]   Compliance [ ]

Other (please specify) [ ] ..............................................

6. How long have you been working within the Savings and Loans Industry?

Below 5 years [ ]   6 – 10 years [ ]   More than 10 years [ ]

7. Loan product(s) offered by your institution?

Consumer [ ]   SME [ ]   Micro-Loans [ ]

Group Loans [ ]   Agriculture [ ]

Others (please specify) [ ] ..............................................

B. ASSESSING THE IMPACT OF CREDIT INFORMATION SHARING ON LOAN APPRAISALS BY S&Ls.

Kindly indicate by ticking your level of agreement with the following set of questions with a scale of 1 – 5. (5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly Disagree)

<table>
<thead>
<tr>
<th>CIS impact on Loan Appraisal Processes.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>12. CRB reports are reliable and assists to establish borrower’s ability to repay the loan.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
13. An institution’s lending decision depends largely on the CRB report.

14. Credit Information sharing has enhanced access to credit overtime due to a reduction in the demands for physical collateral before granting loans.

15. CRB offers S&Ls access to a large database on borrowing behaviour, thereby significantly reducing the screening process for granting of loans.

16) In your own opinion, do you think Credit Information Sharing has helped improve the loan appraisal processes of Savings and Loans Companies?

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C. ASSESSING THE IMPACT OF CREDIT INFORMATION SHARING ON LENDING RATES OF S&Ls

Kindly indicate by ticking your level of agreement with the following set of questions with a scale of 1 – 5. (5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly Disagree)
<table>
<thead>
<tr>
<th>CIS impact on Lending rates.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>17. Credit information sharing among institutions over a period translates to low cost of credit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Clients with good credit scores are granted loans with lower interest rates relatively.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. The cost of credit bureau searches is factored into the interest rates computation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

20. In your own opinion, what should be the top 5 determinants of interest rate charged on a loan facility?

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........................................................................................................................................................................
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........................................................................................................................................................................
E. CHALLENGES S&Ls FACE IN ACCESSING DATA FROM THE CREDIT REFERENCE BUREAUS IN GHANA.

21. What challenges have you experienced over the years in submitting data to the credit reference bureau?

………………………………………………………………………………………………………
………………………………………………………………………………………………………
………………………………………………………………………………………………………
………………………………………………………………………………………………………

22. What challenges have you experienced over the years in subscribing credit reports from the credit reference bureau?

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………………………………………………………………………………………………………

23. In your opinion, what do you think should be done to improve the credit reporting system in Ghana?

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………………………………………………………………………………………………………
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