

**THE IMPACT OF INACCURATE CREDIT INFORMATION
ON BANK'S SECURED LENDING**

A Research Report

presented to the

Graduate School of Business Leadership
University of South Africa

In partial fulfilment of the
requirements for the
MASTERS DEGREE IN BUSINESS LEADERSHIP,
UNIVERSITY OF SOUTH AFRICA

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November 2009

ABSTRACT

Credit risk has been identified as the main risk that can result in the failure of a bank due to ineffective credit decisions. It is, therefore, critical for the banks to conduct credit risk assessment on new applicants and existing customers in order to determine the level of affordability and mitigate credit risk. Consumer credit information plays a very important role in credit risk assessment because it can accurately detect and predict default.

The aim of this study was to investigate the consequences of inaccurate credit information on bank's secured lending division. The investigation was conducted using various methods to achieve the objectives of this research. This was done through the exploration of literature review relating to research of the management of consumers credit information in developed and developing countries, and secured lending and inaccurate credit data. A quantitative research methodology was adopted.

It was observed that credit risk is seen as the key risk that banks are faced with. It was found that inaccurate consumer credit data can have a negative impact on bank's operations in terms of consumer's disputes, higher pricing and consumer over-indebtedness. In addition, inaccurate consumer credit data impede access to credit by consumers.

One of the general recommendations of this research is that banks should assist in training the consumers to improve their knowledge of credit report. Further studies in the area of corporate or business clients are also recommended as the focus of this research was on individual bank's clients.

ACKNOWLEDGEMENT

This research report would not have been successful without the moral support, guidance, motivation and encouragement received from my supervisor, family, friends and colleagues during difficult times.

Firstly, I would like to thank God for giving me wisdom and opportunity to complete this research report.

I express my sincere gratitude to Louisa Hetisani for her motivation, constructive comments, editing the document, guidance, patience and personal sacrifices that she made in contributing to this research report.

Finally, I appreciate and acknowledge the moral support and contribution to the success of this report made by my supervisor, Jay Reddy; sister, Tina Matlhabegoane; colleagues, Mbekwa Nhlabathi and George Nel; family; friends; all participants and study group.

I dedicate this research to my daughter, Khwezi Kwenama Mthimkhulu, for helping me to focus all my energies on my studies.

30 November 2009

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CHAPTER 1: ORIENTATION

1.1 Introduction

Banks and other financial institutions exist in order to earn a profit and to ensure that shareholders' value is maximised. The banking sector makes a meaningful contribution to the economic growth of every country. Making credit available to borrowers is one means by which banks contribute to the growth of economies. Credit information plays a crucial role in assessing the credit worthiness of borrowers to determine the cost of credit, and to ensure that borrowers are not over-indebted. Credit providers would normally do an enquiry at the credit bureaux and review a consumer's record before approving an application for credit (National Credit Regulator, 2007:1).

The retail business of the banks is usually divided into secured and unsecured lending businesses. Secured lending is a type of credit that is backed by collateral such as mortgage loans and motor vehicle loans, whereas unsecured lending is a type of credit which is granted to consumers without any kind of security such as micro loans, personal loans and credit cards. Secured lending plays a critical role in investments in developed and emerging market economies as it promotes the extension of credit by providing comfort to banks and acts as a buffer should the borrower default. Ferraris and Watanabe (2008) state that secured loans account for a high percentage of all loans in industrialized countries.

The banking industry is currently faced with a credit crisis due to the subprime market crisis in the United States (US) and the resultant contagion internationally. Poor mortgage lending practices and policies resulted in the failures of major banks, such as Lehman Brothers and Merrill Lynch & Co (Bonorchis, 2008). The consequences of the distress circumstances are the acquisition of major banks, thousands of job losses, liquidation of companies, and global recession and loss of confidence in the banking sector. Most banks worldwide have tightened their lending criteria to mitigate the higher incidences of credit risks. It is, therefore, imperative that banks should obtain accurate credit information as this information contributes to borrower's defaults.

The purpose of this research report is to investigate the impact of inaccurate credit information on bank's secured lending in South Africa. Firstly, a comprehensive literature review is presented on credit information theory and secured lending in order to formulate the basis for the study. Secondly, the data collected is analysed and interpreted to determine the consequences of inaccurate credit information. The outcomes of this study will contribute to existing literature and studies conducted on inaccurate credit information.

1.2 Research objectives

The primary aim of this study is to investigate the effect of inaccurate credit information on the efficiency of credit decision making due to incorrect borrower credit information on the secured lending divisions of banks. Credit information is a key method of credit risk analysis that helps banks to decide whether to grant credit to consumers or not. The poor quality of borrower credit information as a result of among others, duplication, timeliness, completeness, etc may impede a bank's goals and result in losses.

The second objective is to assess the level of difficulty in accessing credit facilities due to incorrect borrower credit information. The study will focus on the level of problems due to the approval of credit to unsuitable applicants, resulting in over-indebtedness for the clients.

The third objective of the study is to evaluate the losses on business as a result of incorrect borrower's credit reports by secured lending business units of the banks.

Recommendations from this study can be communicated to all employees of the bank, credit bureaux, and participants in the credit market and government bodies that regulate the credit registries. This would help the bureaux to improve their systems and the suppliers of information to be committed to updating and providing accurate

consumer information. It will also help government authorities to develop strategies that can protect borrowers.

1.3 Statement of the problem and sub-problems

One of the basic tasks which banks must deal with, in the current competitive and economic downturn, is to mitigate credit risk. Banks need reliable and accurate credit information to determine which applicants will be able to pay back their liabilities.

The main research problem for this study is:

‘What are the consequences of inaccurate credit information for banks secured lending division?’

Sub-problems include the following:

- What is the effect of inaccurate credit information (which leads to the granting of credit to unsuitable applicants) on credit access for suitable consumers?
- Does inaccurate credit information result in higher charges?
- Does inaccurate credit information result in the loss of business within secured lending business units?
- Does an association exist between bank employees’ credit experience and effect of inaccurate credit information on the efficiency of credit decision making?
- Does inaccurate credit information contribute to consumer disputes?

1.4 Limitations of the study

This study focuses on the secured lending business of the South African banks only. The study excludes the consequences of inaccurate information in other countries and all the other users of consumer credit information (e.g. unsecured lending business, retailers, employment agencies and the telecommunication sector).

Another limitation of the research is that, due to time constraints, the questionnaires were sent to participants from the big four banks (Absa Bank, Nedbank, Standard Bank and Firststrand Bank) only. It would have been preferable if all banks with secured lending businesses were represented. However, it is assumed that the sample size will be a representative for the whole population. This can be substantiated by the market share of secured lending transactions that the four banks hold.

Due to the competitive nature and confidentiality of consumer information, banks are not allowed to provide data of their customers. The analysed data is, therefore, of primary in nature.

1.5 Importance of the study

Credit information is an essential means to assess the creditworthiness of applicants. The study will caution credit risk assessors regarding the quality of credit information when conducting affordability assessments. This will benefit credit departments in terms of speed, accuracy and consistency of credit granting decisions. It will also assist in the reduction of bad debts, access to credit by consumers and time required for risk assessment.

The research will also assist the secured lending business to ensure that it complies with the rules and regulations, which govern consumer protection. The consumer is entitled to be compensated by any person who reports incorrect information to a registered credit bureau or to the National Credit Register for the cost of correcting that information (Jordaan, 2007).

This study focuses on inaccurate data used to assess affordability and the possibility that it could lead to a huge increase of impairments to cover losses by the banks, and thus result in the failure of the banks and, ultimately, an unstable and unsound banking system. This can have a negative effect to the economy of the country.

1.6 Definitions

Credit report: The organised presentation of information about the borrower's credit record that a credit reporting agency communicates to those requesting information about the credit history of the borrower (Federal Reserve Bulletin, 2004).

Bank customers: These are all secured lending individual customers who were active as at 30 April 2009. Some were in good standing (account which were current or on which the client had not missed more than one or two instalments, which had no adverse listings and had no judgments.) and others were in bad standing (account were either classified as three or more payments in arrears, or had an "adverse listing", or that reflected a judgment or administration order).

Credit bureaux (CB): These are institutions that collect information from creditors, such as banks, credit card companies, retail lenders, and other non-bank financial institutions and utility companies, on borrower's credit history and create a comprehensive report that is sold to lenders (International Finance Corporation, 2006).

Challenged credit information: Dispute lodged by consumers regarding the incorrectness of their credit information which could be due to, amongst others, outdated information, completeness, duplication, timeliness and incorrect information provided by creditors (National Credit Regulator, 2009).

Risk: This is the perceived uncertainty associated with a particular event. For example, will the customer renew his or her loan? Will deposits and other sources of funds grow

next month? Will the financial firms share price rise and its earnings increase? Are interest rates going to rise or fall next week, and will a bank or other financial institution lose income or value if they do? (Rose and Hudgins, 2005).

Secured lending: Rose and Hudgins (2005) define secured lending in banks as the business where the secured loans have a pledge of some of the borrower's property behind them (such as home or vehicles) as collateral that may have to be sold if the borrower defaults and has no other way to repay the lender.

1.7 Outline of the research report

This research report consists of five chapters and other sections, namely, the list of references and appendixes.

Chapter 1: Orientation

This chapter will provide the introduction of the research topic. The research problem will be introduced and the aim of the study discussed. The limitations of the study and importance of the research will be outlined. This chapter will also explain the key concepts used in the study.

Chapter 2: Literature review and foundation of study

Chapter two will introduce the reader to a theoretical foundation of the role of credit information, credit bureau background, secured lending and collaterals. In this chapter the relevant literature, such as academic journals, reviews, reports etc., will be reviewed. The chapter will be divided into various sections, including the developed and emerging countries' approaches regarding the management of credit information.

Chapter 3: Research methodology

In this chapter, the research methodology used to collect data for this study will be described. The reasons for the chosen methodology will be provided and justified and a complete plan of the research design will be discussed. This includes a description of the populations and sample sizes, sampling methods and measuring instruments to be used.

Chapter 4: Research results

This chapter will focus on the data analysis, and presentation and interpretation of research findings. In this chapter, the analysed data will be presented in the form of various charts, tables and diagrams.

Chapter 5: Discussion, conclusion and recommendations

Chapter 5 will contain a discussion of the results of the data analysis from Chapter 4. Conclusions would be drawn from the analysed data, and the findings will be interpreted. Recommendations based on the results of analysis will be presented in this chapter.

2.1 Introduction

Literature review forms the foundation on which research is based by providing an understanding of relevant previous research conducted. This chapter provides the literature review relating to the study. It is divided into three sections. The first section starts by discussing the secured lending business of the bank and the key risks that banks are exposed to. The second section discusses the role of credit information and explores existing literature in the approach adopted by developed and developing countries regarding the management of credit information. In the third section, literature on inaccurate credit information is explored.

2.2 Secured lending business of banks

Rose and Hudgins (2005) define secured lending in banks as the business where the secured loans have a pledge of some of the borrower's property (such as home or vehicles) behind them as collateral that may have to be sold if the borrower defaults and has no other way to repay the lender.

The purpose of security is to reduce the risk of giving credit by increasing the chances of the lender recovering the amounts that become due to him. Security increases the availability of credit and improves the terms on which credit is available. The offer of security influences the lender's decision whether or not to lend, and it also changes the terms on which he is prepared to lend, typically by increasing the amount of the loan, by extending the period for which the loan is granted and by lowering the interest rate (Norton and Andenas, 1998: 144).

According to De Lucia and Peters (1998), in the banking environment, security is required for the following three reasons:

- to ensure the full commitment of the borrower to its operations,
- to provide protection should the borrower deviate from the planned course of action outlined at the time credit is extended, and
- to provide insurance should the borrower default.

According to The World Bank (2004), mortgage securities can improve housing affordability, increase the flow of funds to the housing sector and better allocate the risks inherent in housing finance. Kallberg and Udell (2003) highlight that lenders experience integrity and reliability problems regarding informational problems, and there have been efforts by economists to explain the solutions to problems, which has led to the modern information-based theory of financial intermediation. The authors further state that economists have provided the theoretical motivation of contractual tools such as security, guarantees, credit conditions and maturity.

The global economy is currently depressed due to the type of lending criteria employed by subprime lenders in the US. This resulted in under-performing of secured lending-business units in both developed and developing countries. Cokayne (2009) state that banks across the board were on average rejecting 60% of all home loan applications outright, which was severely constraining any property market recovery.

2.2.1 Types of Securities

Zeynep and Ugur (1995) state that banks require various forms of guarantees, such as suretyship, pawn, sequestration, insurance and covering bond, from their customers to minimise credit risk. Securities required by the banks can be divided into tangible and intangible securities. Banks prefer tangible securities as those securities can be liquidated fairly and quickly with minimal costs compared to intangible assets.

The following is a summary of the common types of securities, as described by Koch and Hudgins (2005):

Personal property

Lenders often take a security interest in automobiles, furniture and equipment, jewellery, securities, and other forms of personal property which a borrower owns.

Covering mortgage bond

Following a title deed, evaluation and land survey, banks may take a security interest in land or property owned by the borrower and records its claim with a government agency to warn other lenders that the property has already been pledged.

Accounts receivable

The lender takes collateral in the form of a stated percentage of the face amount of accounts receivable shown on a company's balance sheet. When the borrower's credit customers send in cash to retire their debts, these cash payments are applied to the balance of the borrower's loan.

Inventory

The banks may take a security interest against the current amount of inventory of goods or raw materials of a business that borrower owns. Usually the lender will advance only a certain percentage of the estimated market value of a borrower's inventory in order to leave a substantial cushion in case the inventory's value begins to decline. The inventory collateralised may be controlled completely by the borrower using "floating lien approach" or "floor planning".

Personal guarantees

This refers to a pledge of the stock, deposit or other personal assets held by major shareholder of the company that may be required as security to secure a business loan. Guarantees are often sought in lending to smaller businesses or firms that have fallen on difficult times.

Cession of fixed deposit or investment

The ceded investment or fixed deposit could be with the bank (lender) or other financial institution. The market and security is equal to the amount of an investment and can be used to settle the customer's exposure in the event of default.

2.3 Banking risks

A volatile economy and recent credit crisis shows the importance of banks to increase attention on how risks can be measured and kept under control. The following are the key risks that banks are exposed to:

Credit risk - According to Valsamakis, Vivian & Du Toit (2005), credit risk is the risk that a financial contract will not be concluded according to the agreement. It is the risk that the counterparty to an asset will default.

Liquidity risk - Bankers and other financial institutions are concerned about the danger of not having enough cash to meet payment or clearing obligations in a timely and cost effective manner (Rose and Hudgins, 2005).

Market risk - is the current and potential risk to earnings and shareholders' equity resulting from adverse movements in market rates or prices. It arises from interest rate, equity and foreign exchange risk (Koch and Macdonald, 2003).

Operational risk - is the risk of loss resulting from inadequate internal processes, people and systems or from external events (Koch and Macdonald, 2003).

Currency risk - concerns the possible impact which fluctuations in exchange rates may have on the foreign exchange holdings or the commitments payable in foreign currencies by business organisations (Valsamakis, *et al.*, 2005).

Capital or Solvency risk - is not considered a separate risk because all of the risks mentioned above will, in one form or another, affect a bank's capital. It is the risk that a bank may become insolvent and fail (Koch and Macdonald, 2003).

Rose and Hudgins (2005) states that banks are also exposed to:

- Compliance risk,
- Country risk,
- Reputation risk,
- Sovereign risk,
- Strategic risk, and
- Legal and regulatory risks.

2.4 The role of credit information

The Federal Reserve Bulletin (2004) defines a *credit report* as the organized presentation of information about an individual's and/or company's credit record that a credit bureau communicates to those who request information about the credit history of an individual's and/or company's experiences with credit, leases, non-credit-related bills, collection agency actions, monetary-related public records, and inquiries about the individual's credit history. A standard credit report of the individual is presented in Appendix C. According to Ferreti (2007), credit information is usually integrated with data from other sources such as court judgements, electoral rolls and other private information provided by other organisations, which compile additional information referring to a consumer.

The purpose of information sharing is to communicate relationship information from existing lending relationships to outside lenders (Gehrig and Stenbacka, 2007: 78). Hendrikse and Hendrikse (2004) state that creditworthiness means the economic, legal and political risks involved in a particular credit transaction. Credit providers use credit information to conduct credit risk analysis of prospective borrowers in order to mitigate credit risk. Kallberg and Udell (2003) highlight that information sharing is useful both at the origination stage and after credit has been extended. At the origination phase, information sharing reduces the problems of adverse selection. The exchange of credit information improves non-performing loan ratios, leads to fewer losses through write-offs and decreases interest rates for good credit risks (Jentzsch, 2008: 538). Jentzsch (2008) further supports that sharing credit information between lenders intensifies competition and increases access to finance.

Jappelli and Paggano (2005) indicate that credit information sharing results in improved bank's knowledge of applicant's characteristics, easing adverse selection and reduces the informational rents that banks could otherwise extract from their customers. Credit information also acts as a borrower disciplining device, by cutting insolvent debtors off from credit and eliminates or reduces the borrower's incentive to become over-indebted by drawing credit simultaneously from many banks without any of them realizing it. Gehrig and Stenbacka, (2007) highlight that information sharing reduces adverse selection problems and thereby promotes financial stability; it serves as a borrower disciplining device and it reduces the informational rents that banks can extract within the framework of their established customer relationships. According to Khuzwayo (2008), greater information sharing of trade credit data, particularly in the informal sector, could greatly expand credit access for small and medium enterprises.

Barth, Lin, Lin & Song (2008) show that information exchange will assist in minimizing lending corruption in banks by reducing information asymmetry between consumers and lenders, improving the bribery control methods and reducing informational rent, and hence the bargaining power of lenders. The exchange of consumer credit information disciplines borrowers to repay loans because borrowers do not want to damage the

good report which can make it difficult for them to get credit (Swiss National Bank, 2008).

Credit information is also used by banks to assess prospective job candidates to determine whether such candidates are suitable for the jobs they are hired for, especially if the work involves the management of cash. Tighe (2000) proposes that with the increasing concerns over workplace violence and other potential legal claims, checking references and obtaining other background information on potential employees is important. It is also essential that employers understand and comply with the legal requirements regarding the use of such information. Lee, Sorich, Miller & Schneider (2005) support that employers look at the prospective candidates' credit reports as a measurement of maturity and stability.

Singh (2006b) concludes that credit information is confidential information; therefore, a credit bureau must report or release it, to the extent permitted by the National Credit Act or on the written instructions of the consumer.

2.5 Credit Bureaux

Credit bureaux (CB) are institutions that collect information from creditors such as banks, credit card companies and retail lenders, other non-bank financial institutions and utility companies on borrower's credit history. They create a comprehensive report that is sold to lenders (International Finance Corporation, 2006). CBs maintain the records of negative and positive information in their databases. Negative information contains defaults including the amounts of the outstanding at default and the date of last payment. Positive information contains credit history information on current and closed accounts (International Finance Corporation, 2006).

The aim of CB is to promote the sharing of credit information, to help lenders assess risk and to allocate credit more efficiently. The CB also helps entrepreneurs to be free from having to rely on personal connections alone when trying to obtain credit (The

World Bank, 2008). Vercammen (1995) emphasises that CB act as a form of intervention especially in a competitive lending environment where the lenders have to access the consumers' information in order to offer to each borrower the rate that ensures an expected return that is equal to their opportunity cost of funds.

According to Galindo and Miller (2001), CBs have been identified to be of critical importance in both developed and developing countries due to changes in banking systems and advances in technology. Luoto, McIntosh & Wydick (2007: 3) found that credit information systems act as information brokers that increase the transparency of credit markets. However, in many developing countries, credit information systems are still in their infancy, and information sharing between lenders remains weak.

There are two types of CBs, i.e. public and private credit registries. According to Djankov, McLiesh & Shleifer (2007), the public credit registry is a database managed by the Government, usually by the central bank or the bank supervisor that collects information on the creditworthiness of the borrowers from supervised financial institutions and make it available to actual and potential creditors. Kallberg and Udell (2003) describe the formalized ways of sharing credit information sharing as:

- An exchange mechanism imposed by government regulation, or
- A voluntary exchange mechanism.

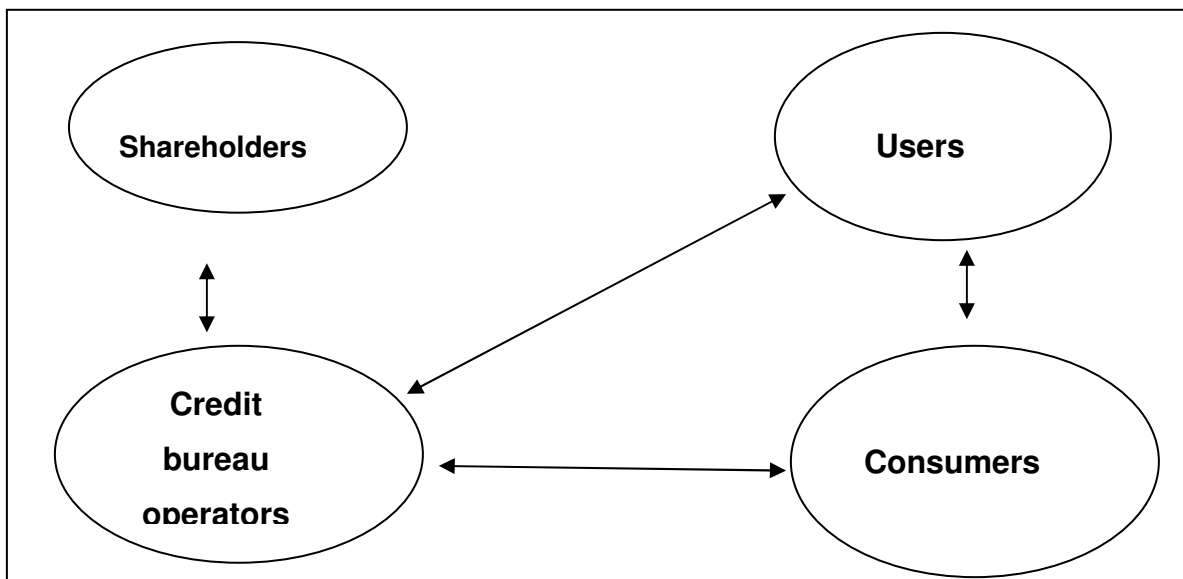
A regulation-imposed exchange mechanisms often take the form of public credit registers managed by central banks. Under these programs, information reporting is compulsory. Voluntary exchange mechanisms can take the form of cooperatives or private information exchanges.

Kallberg and Udell (2003) argue that there are problems in terms of coverage and bias by public and private CBs. The problems may be more severe in voluntary information sharing than where there is government intervention. Ferreti (2007) highlighted that the public CBs are more likely to be introduced in countries where creditors rights are poorly protected, and the private CBs are non-existent.

There are five key stakeholders of CBs, namely

- (1) The shareholders who provide capital to enable the bureaux to acquire assets and to recruit the necessary personnel to manage their operations;
- (2) Banks other financial institutions and non-bank lenders who supply the customer's data to the bureaux on a monthly basis;
- (3) The operators who monitor and manage data on a day-to-day basis;
- (4) The regulator who is responsible for setting guidelines, rules and regulations regarding the management of credit information; and
- (5) Natural and juristic persons on whom lenders wish to assess the risk of default and non-payment before they grant them credit. Schematic presentation of the key CB stakeholders is illustrated in Figure 2.1.

Figure 2.1: Key credit bureau stakeholders



Source: International Finance Corporation (2006)

The World Bank is assisting the implementation of CBs system in those few emerging economies that do not have one. Ferreti (2007) further emphasize that the CBs maintain a full data sharing mechanism based on the collection of information from various credit providers about debtors and issue the consumer credit report for a fee.

2.6 Management of credit information

Studies have been conducted on the management of credit information by emerging and developed economies (The World Bank, 2007). Appendix A shows the global main indicators of credit information index, which include:

- A legal rights Index, which measures the degree to which collateral and bankruptcy laws facilitate lending;
- A credit information index, which measures rules affecting the scope, access, and quality of credit information;
- Public credit registry coverage; and
- Private credit bureau coverage.

2.6.1 Emerging/ developing countries position

Jappelli and Pagano (2005) state that, in the developing countries, if the availability of information is provided by public credit registers, it can effectively induce changes in bank's lending policies: shifting from collateral-based lending policies to information-based ones. Jentzsch (2008) argue that, in developing countries, the public registries can force the institutions to share information, which could be a quicker path, and credit files would be more complete with no duplication of infrastructure.

In some countries, credit is granted based on the person's status, even if the credit record shows bad conduct on accounts. According to Barth, *et al.* (2008), the banking systems in developing and transition countries are susceptible to corruption, which undermines their primary roles to allocate the scarce capital efficiently. These countries lack adequate laws, objective courts, prudential regulations, and other appropriate institutions to combat corruption.

According to Stein (2006), the emerging markets are faced with the following challenges in developing private credit bureaux:

- Data quality and clarity on the role of credit bureaux,
- Support for responsible lending practises,
- Enactment of appropriate laws and regulations to support the growth of private credit registers,
- Changing perception and building awareness, and
- Ensuring viability in smaller countries.

The World Bank (2007) highlights that better credit information is associated with a higher share of long term debt as a proportion of total borrower's debt in both developed and developing countries. According to The World Bank (2007), the market economies with more uncertain legal frameworks are characterized by higher short term debt. Djankov, *et al.*, (2007) agree that developing countries, with poorly functioning legal systems, might be unable to sustain an effective-ending channel based on ex post creditor rights and could depend on information sharing for their credit markets function.

Brazilian Approach

An efficient CB is of critical importance to ensure the smooth sharing of consumer data. Regional fragmentation and the lack of information sharing between various institutions constitute further weaknesses in credit information in Brazil (The World Bank, 2000). Galindo and Miller (2001) find that in Brazil banks are not willing to disclose the client's information, although this assists in the reduction of credit risk. Studies by Castelar and Cabral (2001) and Laeven and Magnoni (2005) highlight that, in Brazil, CB could enhance the availability of credit information, reduce the cost of financial intermediation, and improve access to credit.

The World Bank (2000) further states that Brazil has several public and private data banks on consumers, but most of them contain only the negative information about debtors that have defaulted under any condition. This is an impediment for the credit

providers in terms of decision making, and makes it difficult for good borrowers to access credit. This may result in an unstable financial system for the country. Galindo and Miller (2001) argue that Brazil has a very established CB in which most of the credit providers participate, and the Brazilian Central Bank has established a public CB to collect detailed information on all large loans.

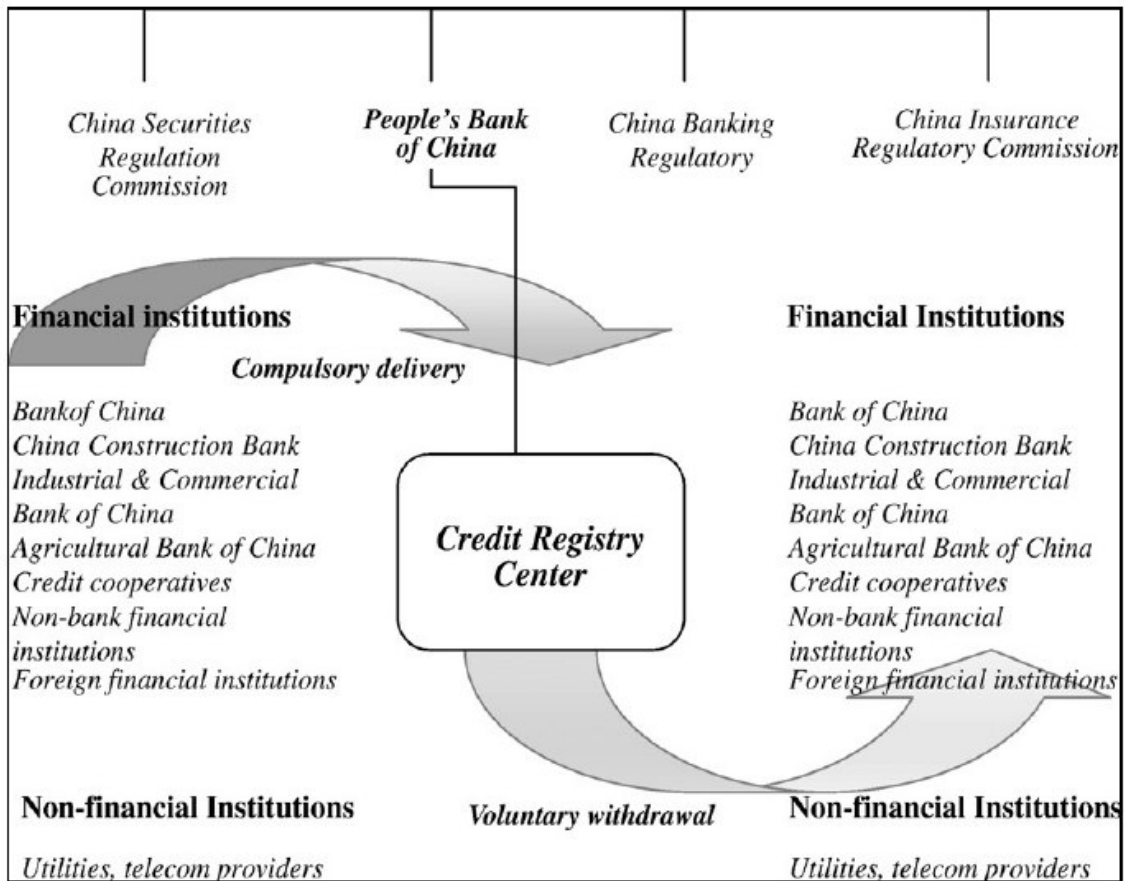
Chinese Approach

Feng, Xiao, Jia-lu, & Lu-hua (2007) state that in China there is no law that governs the collection and use of credit related information. Most of the information is scattered in all governmental departments or other authorised organizations. According to Barth, *et al.* (2008), China has been moving aggressively to address corruption whereby the poor and unconnected individuals with innovative ideas are denied access to funds, even if they have good credit records. Globally, banks obtain the credit reports of borrowers before they grant them credit. He and Wang (2007) emphasize that most developed countries have established credit ratings systems. However, banks in China have chosen a collateral system.

It seems that direct measurement to cost the most, whereas the checking credit ratings the least. Third party guarantees and collateral measurement lie in between, but their usage is narrow. All developed countries have established advanced credit rating systems. This will be a natural evolution in China (He and Wang, 2007: 327). According to He and Wang (2007), Chinese banks also believe that if most applicants can provide enough collateral, the banks may not need to share credit information. If there is little honesty and faith in the culture of information sharing, the approval ratio of credit loans would be low and banks may not have the incentives to establish a credit sharing system.

According to Jentzsch (2008), the Government intervened in the credit market through the monopoly of credit information database (Figure 2.2) due to the fast growth rates in lending to households and high risk associated with that lending.

Figure 2.2: The Chinese credit information monopoly



Source: Jentzsch (2008)

South African Approach

In June 2006, the Government of South Africa (SA) introduced credit legislation in the form of the National Credit Act, which governs the credit market. Singh (2006a) states that the intervention of government was good by regulating all credit bureaus to ensure data accuracy, to legislate a compulsory verification, and removal of data exercise and impose criminal penalties for contraventions to non-complying credit bureaus. The passed legislation stresses that consumers can get a free copy of their credit report once a year (National Credit Regulator, 2007). It is crucial that all active consumers check their credit reports to eliminate the high rate of inaccurate credit information.

According to Finmark Trust (2006), the National Credit Regulator is keen to address the following problems with existing credit bureaux in South Africa (SA):

- The non-sharing or insufficient sharing of credit information between credit bureaux;
- Substantial inaccuracies in existing credit bureaux information;
- Significant public information not being disseminated to the credit providers (e.g. judgements, maintenance and service payments); and
- Problems in matching credit information with the identity of consumers resulting in misclassifications (inconsistent information exchange between bureaux and Department of Home Affairs).

Khuzwayo (2008) states that a National Credit Register and registry of collateral would enable the sharing of small, medium and micro enterprises credit information and minimise the risks assumed by the lenders in SA. The financial infrastructure in SA is more advanced than in many other upper-middle income countries. In many respects, South Africa compares favourably with developed economies, although not across all segments of societies.

According to Finmark Trust (2006), the establishment of a National Credit Register, the database that would store all borrower information and collaterals, is needed in South Africa. Such institutions are well established in many developed countries for similar good reasons. Without a register, it is difficult to see how to overcome the weaknesses in credit information, and how this information base could enable credit providers to objectively determine whether borrowers are over-extended. Furthermore, the National Credit Register will allow good borrowers to build a strong credit history that is accessible to competing lenders.

2.6.2 Developed market economies situation

The issue of introducing credit information systems is more relevant in developing countries, where the role of informal lending is much larger, than in developed countries

(Jappelli and Pagano, 2005). Richer countries may develop more functional systems of bankruptcy, so that creditor power can particularly be important in these countries (Djankov, *et al.*, 2007: 301). According to Vercammen (1995) in most developed markets, the governments intervene through the implementation of mechanisms that restrict the flow of information from borrowers to lenders.

Kallberg and Udell (2003) state that countries with more intense and well established formal information sharing, either via credit registries or voluntary information exchanges, exhibit greater bank lending as scaled by Gross National Product. They also find evidence that credit risk is negatively related to measures of formal information sharing. The World Bank (2007) highlights that market economies with a lower dispersion of firm default probabilities are characterized by a higher ratio of short term to total borrower debt.

European Approach

Generally, there are two credit information system modes in developed countries. One is regarded to be an American Mode in which the credit databases are invested and run by government funded organizations. In most Western European Countries, the central bank or the bank union, which is guided by the government, takes the responsibility of setting up public credit databases (Feng, *et al.*, 2007). He and Wang (2007: 331) maintain that in Europe the credit reporting systems were mostly started by governments. In the European countries, the governments intervene through the regulation of credit reporting activities under the data protection laws that cover CB activities, and all transactions related to the management of data and sharing of information (International Finance Corporation, 2006).

According to Houwen (2008:109), in Europe, to avoid the risk of facilitating coordination of competitive behaviour by revealing the market position or commercial strategy of individual firms, the Court held that it is important that the identity of lenders not to be revealed through the system, directly or indirectly. Houwen (2008) further stresses the importance of lenders to have access and be able to use the credit referencing system

on non-discriminatory terms. Situations where the competitors or potential new entrants to the market were denied access on equal terms could have an adverse impact on competition. Jentsch (2008) states that in Europe dual systems of public CBs and private CBs exist, and the latter are in competition with one another for exchange of information to financial institutions.

United States of America Approach

In the United States of America (USA) the market for exchanging credit information is dominated by one private credit bureau, the Dun & Bradstreet (Kallberg and Udell, 2003). Galindo and Miller (2001) found that the (USA) has the most complete, accessible and open system of credit reporting and a light regulatory approach.

Studies indicate that, over the past 30 years, the number of credit reports supplied by CBs in the United States has increased to an extent of over 3 million reports on a daily basis (Federal Reserve Bank of Philadelphia, 2005; Swiss National Bank, 2008). The credit reporting industry has also shown substantial developments (Swiss National Bank, 2008). This confirms that CBs play a crucial role in the credit market, as they enhance access to credit by borrowers. The studies conducted by Ferretti (2007) and Federal Reserve Bank of Philadelphia (2005) show that consumer credit reporting in the USA is limited to the requirements of the legislation. This is to reveal an attempt to attain in that specific jurisdiction the balance of information exchange against the costs of processing inaccurate personal data resulting in mistakes.

2.7 Inaccurate Credit Information

The Federal Reserve Bulletin (2004) states that, besides the accuracy, completeness and timeliness of information in a given credit record, the consistency of information about the consumer across credit agencies is an issue of concern. The International Finance Corporation (2006) holds that credit information is the main asset of CBs and that it has a value if it is correct and up to date. The information may vary from agency

to agency for several reasons. Credit Bureaux have different validating rules with regard to compiling consumer credit information.

Ferreti (2007) highlights that CBs rely on lenders to voluntarily review and correct erroneous data. Inaccuracy of information not only impedes consumer's access to credit, but also leads to the granting of credit to unsuitable applicants. Due to incorrect information, even though the probability of default is low, banks may initially use short-term lending as a valuable hedge against uncertainty until more information is known about the credit quality of the borrowers, and it becomes safer to commit to long-term loans (The World Bank, 2007).

Federal Reserve Bank of Philadelphia (2005) found that in America, consumer credit reporting industry has a bad reputation in the eyes of many consumers. Few consumers stop to think about the role a credit bureau played in their success to obtaining credit, insurance, or even employment. But when they are denied such things on the basis of information contained in a credit report, the credit bureau often gets the blame. The study further state that given the volume of activity in credit market industry, even a small error rate would result in millions of inaccuracies each year.

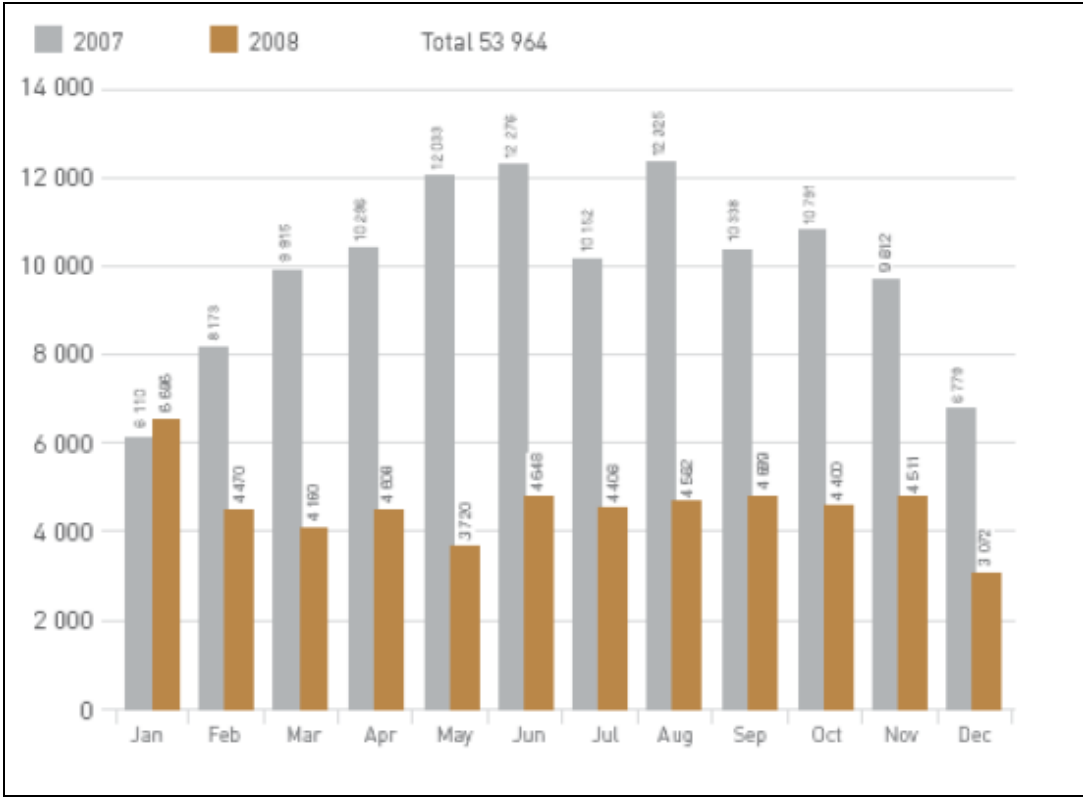
The World Bank (2007) indicates that few countries, including Mozambique, Nigeria and Rwanda, have CBs operated by the central banks. These, however, were primarily established with the purpose of supporting banking supervision. They focus on larger loans, and due to lack of adequate technology and incentives, are not able to provide timely and accurate information.

The inefficiency of CB systems contributes to the bad quality of consumer credit information. Mafu (2006) reports that in SA the leading cause of disputes by consumers is the submission of incorrect information by credit providers to credit bureaux. Although there was a code of conduct on the handling of credit information, it was not legally binding. It is in the best interest of the credit reporting industry to maintain accurate records and be responsive to consumer complaints. An input from consumers is precisely the way that credit bureaux check the reliability of their procedures and

improve the quality of their product (Federal Reserve Bank of Philadelphia, 2005). Furthermore, Federal Reserve Bank of Philadelphia (2005) stress that the frequency of errors committed by credit bureaux is the main focus of the critic's attacks. The credit bureaux are held solely responsible for errors, although it is imperative to realize that many forces are involved in the credit reporting process.

According to Credit information Ombud (2008), a total number of 53 964 disputes were recorded by the credit bureaux for the period from January 2008 to December 2008 (Figure 2.3). This is an average of 4 497 disputes per month. This figure decreased from 119 000 in 2007, resulting in a decrease of 55%. This decrease in disputes is the result of a significant public awareness in 2007 of the National Credit Act and the “amnesty” in 2007. The credit bureaux successfully resolved 97.3% of the complaints; thus, only 2.7% were escalated to Credit Information Ombud office.

Figure 2.3: Disputes received by credit bureaux



Source: Credit Information Ombud (2008)

The Table 2.1 reflects the areas where there was a significant year-to-year changes in statistics of the causes of inaccurate credit information.

Table 2.1: Challenged consumer credit information

Challenged categories	December 2007 (%)	December 2008 (%)
Incomplete Credit Information	1.30	7.75
Non- compliance with NCA	6.03	15.46
Consumer consent	0.11	2.80
Duplication	0.76	3.29
Fraudulent transactions	0.97	2.40
Early removal of consumer information	18.01	11.43

Source: Credit Information Ombud (2008)

These categories are explained as follows.

Category 1: Insufficient or incomplete credit information

This kind of information is listed on the credit receiver’s credit profile. Table 2.1 shows that this type of information increased from 1.3% in December 2007 to 7.75% in December 2008. The reason for this increase was that the credit providers were not updating the monthly payment profile, or they were using the account history with the credit bureaux. In several cases, the payment profile record displays that the account is still in arrears or that money is still owed to the credit provider, but the consumer prove the contrary. The credit providers have 60 days to update the information with the credit bureaux.

Category 2: Non-compliance with NCA

The negative credit information listed on a credit receiver’s credit profile is displayed on a credit bureau for a longer period than is required by the NCA. Table 2.1 reflects a

remarkable increase in this area, from 6.03% in 2007 to 15.46% in 2008. The major problems in this section are rescinded judgments and rehabilitated administration orders that are not captured by the credit bureaux; thus the judgment and administration orders, which should be removed, remains on the credit bureaux for a period longer than the information should be retained.

Category 3: Consumer consent

Table 2.1 shows that the consumer consent category increased from 0.11% in 2007 to 2.80% in 2008. In this category, the problem can be attributed to failure of some cellphone companies to notify consumers before adversely listing them on the credit bureaux. Some of the cellphone companies defend this action with a statement that they are not registered credit providers and, therefore, they have no obligation to notify consumers. This statement seems to be correct, but the cellphone companies are members of the Credit Providers Association (CPA), and the code of conduct of the CPA requires its members to notify consumers before adversely listing them on the credit bureaux. Credit providers are required to give consumers a 20-working-days' notice before adversely listing the consumers on a credit bureau.

Category 4: Duplication

This refers to a situation where the borrower has been listed more than once for the same debt. In Table 2.1, this category has increased from 0.76 in 2007 to 3.29% in 2008. Credit bureaux were responsible for 43.3% and credit providers for 56.7% of the duplications, where consumers had been listed previously for the same debt.

Category 5: Fraudulent transaction

A consumer is listed on a credit bureau due to a fraudulent transaction. There is a noticeable increase from 0.97% in 2007 to 2.40% in 2008 (Table 2.1) in this section as a result of an increase in identity theft, specifically at instances when accounts are opened telephonically.

Category 6: Early removal of consumer information

The Credit Information Ombud added this category in Section 73 of the NCA, where consumers are qualified for early removal of information. There is a significant drop in this category from 18.01% in 2007 to 11.43% in 2008 (Table 2.1) due to the fact that the Section 73 removals were widely publicised in 2007.

2.8 Contribution of the study to the existing body of knowledge

Most studies, which have been conducted on this topic, have focused mainly on the role of credit information and the effects of inaccurate credit information for all credit providers (e.g. banks and retailers). This research focuses on the secured lending business within banks.

The aim of this research is to identify the consequences and negative impact of inaccurate information on secured lending business unit of banks. Anderson (2007) argues that any bank that relies upon data has an obligation not only to itself, but also to people that it serves, to ensure the quality of information being used. Thus, this study will establish the extent to which inaccurate information may affect the borrowers' creditworthiness and access to funding.

The outcomes of this study will contribute to current literature and practical work done on borrower credit information. It is envisaged that this piece of work will make a contribution towards the formation of a framework for the consequences of inaccurate credit information within the bank's secured lending business.

2.9 Conclusion

This chapter highlighted literature relevant to secured lending, the benefits of credit information and key risks faced by banks. The literature demonstrated that there is an essential need for credit risk management as effective credit risk assessment is the tool that contributes to the bank's success and a stable financial system in the country.

The literature shows that developed and developing countries have adopted various approaches regarding the management of credit information by credit bureaux. It has reflected the importance of having the correct information available to banks to ascertain effective credit decision making and promote access to credit by consumers as this contributes to the economic growth of every country. It is also evident that the research on the effects of incorrect consumer data has not been done in most developing countries, particularly South Africa.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

In Chapter 1 a broad study orientation has been given. Chapter 2 presents a literature review on consumer credit information, credit information approach followed by different countries, secured lending and challenged information. This chapter includes the restatement of the research sub-problems on which the formulated hypothesis are based, the general research methodology and design, the population and sample size, the measuring instrument to be used, data collection techniques, data analysis methods and the time-frame of the research.

3.2 Restatement of research sub-problems

The research problem was previously stated in section 1.3 (Chapter 1). The main research problem is to investigate the consequences of customer's credit data on bank's secured lending business. The sub problems are restated for reference purpose.

Sub-problems include the following:

- What is the effect of inaccurate credit information (which leads to the granting of credit to unsuitable applicants) on credit access for suitable consumers?
- Does inaccurate credit information result in higher charges?
- Does inaccurate credit information result in the loss of business within secured lending business units?
- Does an association exist between bank employees' credit experience and effect of inaccurate credit information on the efficiency of credit decision making?
- Does inaccurate credit information contribute to consumer disputes?

3.3 Research design

The research design strategy originates from the research problem. The researcher used the survey method in order to gather primary data. The main aim of a survey was to learn about one or more groups of people by asking them questions and tabulating their answers (Leedy and Omrod, 2005). This method involves the collection of data from a sizable population. The surveys were designed to be as short as possible while still getting maximum response from respondents.

3.4 Population

The population is the totality of entities in which the researcher is interested in, i.e. the collection of individuals, objects or events about which the researcher wants to make inferences (Diamantopoulos and Schlegelmilch, 2006). To collect information to address the research question, data were sourced from the following three populations:

- Bank executives (20 people, from middle-senior management staff),
- Bank credit analysts (40 people), and
- Active secured lending business clients (40 individuals).

3.5 Sampling methodology

The researcher employed probability sampling to specify in advance that each segment of the population to be represented in the sample (Leedy and Omrod, 2005: 199). Samples were randomly selected from the larger population. This sampling method ensures that each member of population has an equal chance of being selected.

3.6 Data collection

A questionnaire in electronic format was sent to the identified sample within the big four banks in South Africa (Absa Bank, Standard Bank, Nedbank and Firstrand Bank) and secured lending customers via electronic mail. The questionnaires were sent to and completed by the bank employees (credit managers and analysts) who are responsible for credit risk management, and bank customers who were in active status as at 30 April 2009.

“A checklist is a list of behaviours, characteristics, or other entities that a researcher is investigating” (Leedy and Ormrod, 2005: 185). The response deadline for the questionnaires was four weeks from the time the questionnaires were sent to the respondents. The objective of the research was explained to all participants. Follow-ups were done twice a week to ensure that the deadline for the return of the completed questionnaires was met and to ensure a sufficient response rate.

3.7 Data analysis methods

Two sets of designed questionnaires were used to collect data. During the first phase, the researcher aimed to determine the impact of inaccurate information on secured lending, and phase two confirmed the respondent’s answers on the questionnaire.

The researcher employed a quantitative research methodology. By using a quantitative methodology, the researcher seeks data, which can statistically be analysed to produce quantified results. While the main objective of a qualitative methodology is to understand other people’s perceptions of various issues in order to gain better insight. The methodology was proposed for the following reasons:

- The researcher would be able to describe the consequences of inaccurate information of a fairly large population through a representative sample size,
- Prepared questions were standard and concise,

- Quantitative studies are cheaper and less time consuming as compared to qualitative study, and
- The focus was specifically to the impact of the inaccuracy of credit information for the secured lending business within banks.

Descriptive and inferential statistics were used to analyse the data obtained from the participants. The statistical data analysis functions within Microsoft Excel were used to analyse the data.

3.8 Reliability and validity

The validity of an instrument is how well it measures what it is supposed to be measuring. Reliability, on the other hand, refers to the accuracy and consistency with which the instrument produces results (Leedy and Ormrod, 2005). The validity of research is determined by the internal and external validity of the research. Internal validity is “the extent to which its design and the data that it yields allow the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data” (Leedy and Ormrod, 2005), and external validity is “the extent to which its results apply to situations beyond the study itself” (Leedy and Ormrod, 2005).

In this study the reliability and validity of the study were not measured because of the following reasons:

- The questions in the study we designed to collect different information regarding the impact of inaccurate information on credit, and
- The source of that inaccurate information were not designed to measure a particular aspect of impact of inaccurate information on credit and the source of inaccurate income as a construct or dimension.

3.9 Timeframe of research

The study was conducted over a period of nine months, from March 2009 to the end of November 2009. This includes the research proposal submission, literature review, data collection, data analysis and the final reporting of results and conclusions.

3.10 Conclusion

This chapter provides the explanation of the investigation in this research report. The research design describes the type of research as quantitative in nature. The research data was obtained from the major big four banks, namely, Absa Bank, Standard Bank, Nedbank and Firstrand Bank in South Africa and active customers within the secure-lending division.

The acquisition of the research data, description of the dataset and the probability sampling method to select the data have been described. The data analysis methodology employed and reliability and validity of the data have also been described in this chapter. Finally, the time-frame of the study is outlined.

CHAPTER 4: RESEARCH RESULTS

4.1 Introduction

In this chapter the results of the primary research conducted are presented and interpreted. The presentation of results will be aligned with the following objectives of the study:

- Investigating the consequences of inaccurate credit information on the loss of businesses due to incorrect borrower credit information on the secured lending divisions of banks.
- Assessing the level of difficulty in accessing credit facilities as result of incorrect borrower credit information.
- Assess efficiency regarding credit decision making.

The research findings can be analysed by three research methodologies depending on the type of the data collected, i.e. qualitative, quantitative or mixed data type. The research data obtained for this was purely quantitative. Therefore, the analysis in this chapter uses only quantitative methods. The first section of this chapter presents the descriptive results of consumers and bank employees (credit managers and analysts). The chapter concludes with the inferential statistics results and interpretation.

4.2 Descriptive and Inferential statistics results

The most crucial aspect of applying statistics consists of analyzing the data in such a way as to obtain a more efficient and comprehensive summary of the overall results. To achieve these goals, statistics is divided into two areas, descriptive and inferential statistics (Coolidge, 2006). Descriptive and inferential analyses were used in this study to describe the data collected and to test the hypothetical statements formulated. The first part of the results focuses on the descriptive analyses, followed by inferential analyses.

4.2.1 Descriptive Analysis

The descriptive analysis was done to provide insight into the nature of the respondents obtained; this was done through the use of tables and charts. Descriptive analysis provides a very useful initial examination of the data even when the ultimate concern of the investigator is the inferential (Diamantopoulos and Schlegelmilch, 2006). The population units of the study were secured lending customers and bank employees (credit managers and analysts) from the major four banks in South Africa, the descriptive results are reported in respect of these groups. The socio-demographic factors (age, gender, race, home language, and income, economic sector, number of years in the banking sector and number of years in credit risk management) and other questions related to the causes of inaccurate credit information for consumer's credit reports and risks faced by the banks will be presented.

Socio-demographic information for customers

The number of participants responded for this instrument was 37 (of the 40 selected customers), which equalled to a response rate of 92.5%. Table 4.1 reflects the demographic information of the bank customers.

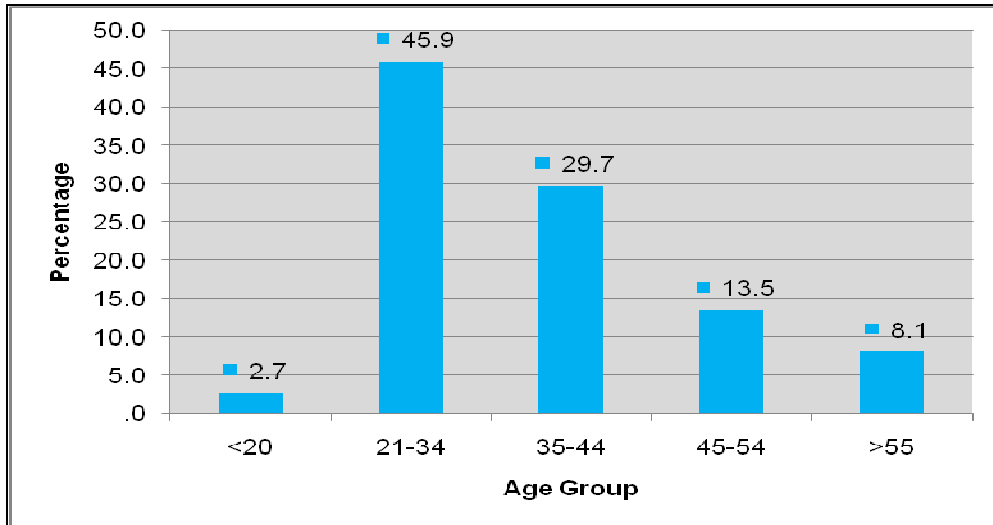
Age distribution

The distribution indicates that 46% of the consumers who responded to the questionnaire were in the age group of 21-34 years, 30% were in the age group of 35-44 years. The other age groups comprise less than 20% of the respondents (Table 4.1 and Figure 4.1).

Table 4.1: Biographic profile of customers

	Group	Frequency	Percent	Valid	Cumulative Percent
Age	<20	1	2.7	2.7	2.7
	21-34	17	45.9	45.9	48.6
	35-44	11	29.7	29.7	78.4
	45-54	5	13.5	13.5	91.9
	>55	3	8.1	8.1	100.0
	Total	37	100.0	100.0	
Gender	Female	20	54.1	54.1	54.1
	Male	17	45.9	45.9	100.0
	Total	37	100.0	100.0	
Race	African	16	43.2	43.2	43.2
	White	9	24.3	24.3	67.6
	Coloured	7	18.9	18.9	86.5
	Indian/ Asian	5	13.5	13.5	100.0
	Total	37	100.0	100.0	
Home Language	Zulu	7	18.9	18.9	18.9
	Afrikaans	7	18.9	18.9	37.8
	English	13	35.1	35.1	73.0
	Sesotho	2	5.4	5.4	78.4
	Setswana	3	8.1	8.1	86.5
	Other	5	13.5	13.5	100.0
	Total	37	100.0	100.0	
Income Band	<R3000	2	5.4	5.4	5.4
	R3000 – R7 500	11	29.7	29.7	35.1
	R7500 – R15 000	9	24.3	24.3	59.5
	>R15 000	15	40.5	40.5	100.0
	Total	37	100.0	100.0	
Economic Sector	Financial/	13	35.1	35.1	35.1
	Agriculture	4	10.8	10.8	45.9
	Transport	3	8.1	8.1	54.1
	Retail	1	2.7	2.7	56.8
	Communication	3	8.1	8.1	64.9
	Construction	4	10.8	10.8	75.7
	Other	9	24.3	24.3	100.0
	Total	37	100.0	100.0	

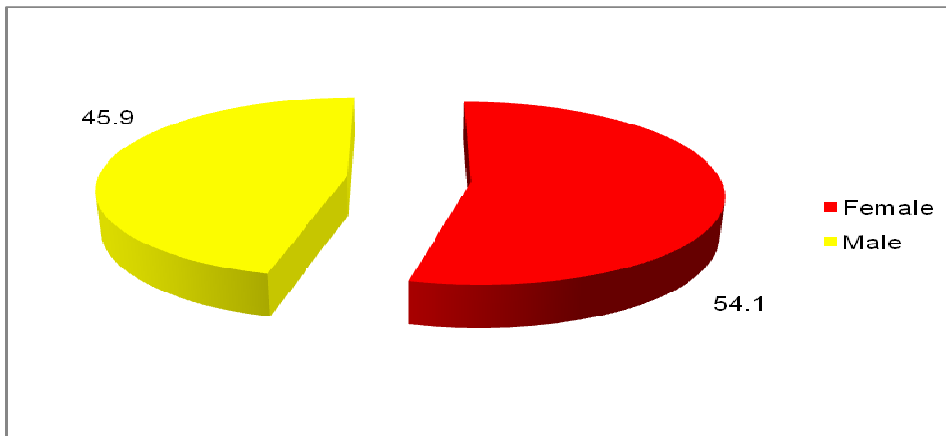
Figure 4.1: Age distribution of customers



Gender distribution of consumers

There were 20 females and 17 males respondents. Figure 4.2 shows the gender distribution of the respondent. The data shows that 54% of the respondents were females, and the rest 46% were males.

Figure 4.2: Gender distribution of consumers



Race Composition

The race distribution of the respondent shows that 43% of the respondents were from the African population, 24% from the White population, 19% from the Coloured population and 14% from the Indians/Asians population group (Table 4.1, on page 36).

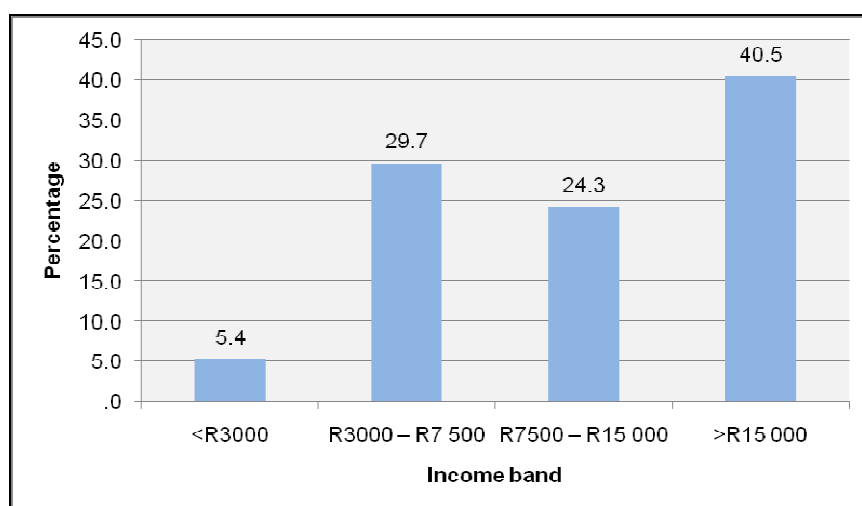
Home Language Composition

Table 4.1 (on page 36) also shows that thirty five percent (35%) of the respondents indicated English as their home language, followed by nineteen percent (19%) of the respondents, who indicated Zulu and Afrikaans as their home language, respectively. The rest of the respondents (27%) indicated Sesotho, Setswana or other as their home language.

Income distribution

Figure 4.3 shows the income distribution of the respondents. The result indicates that 41% of the respondents earn an income band of more than R15 000 per month. More than half of the respondents (54%) earn between R3 000 - R15 000 per month. Only 5% percent of the respondents get an income less than R3 000 per month.

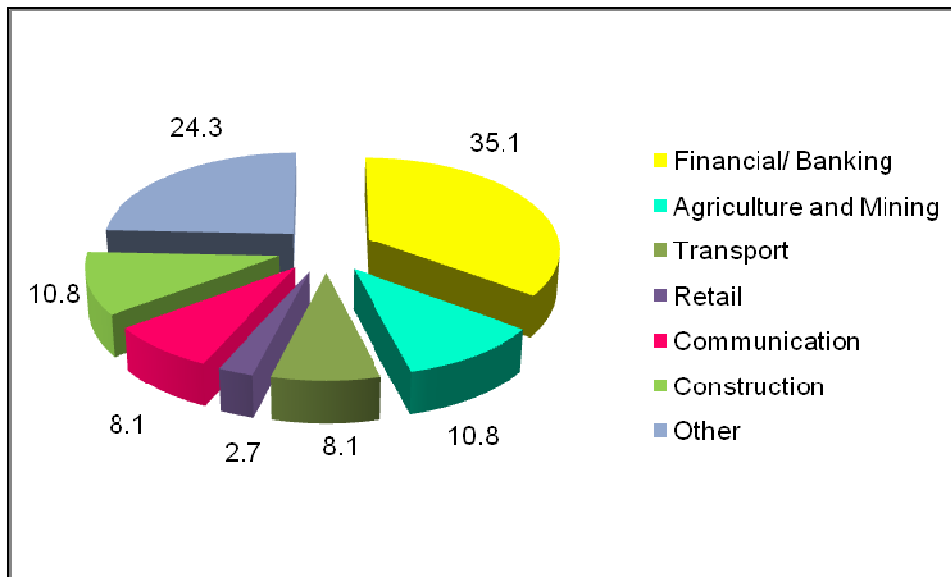
Figure 4.3: Income distribution of the respondent



Economic sector composition

Figure 4.4 shows the economic sector compositions of the respondents. It is quite interesting to notice that the majority of the respondent (35%) is from the financial/banking sector. The number of respondents from other economic sectors stands the second highest (24%) followed by the agriculture and construction sectors each comprising about 11% of the respondents.

Figure 4.4: Economic sector composition



The causes of inaccurate credit information on consumers

Table 4.2 shows the ranked means of the causes of inaccurate credit information. Outdated information is rated as the most frequent cause of inaccurate credit information on consumers, followed by incorrect information supplied by credit providers. Human error, on the other hand, ranks as the least cause of inaccurate credit information.

Table 4.2: Distribution of cause of inaccurate credit information

Causes of inaccurate credit data	Mean
Incorrect information supplied by consumers	2.49
Incorrect information provided by creditors	2.92
Human error	2.08
Duplication	2.43
Completeness	2.41
Timeliness	2.46
Outdated information	3.16
Credit bureaux validating rules	2.14

Socio-demographic information for credit managers

The number of participants responded for this instrument was 16, which equalled to a response rate of 80%. The demographic information of the credit managers is summarised in Table 4.3.

Age distribution

The age-distribution of the credit managers who responded to the questionnaire shows that 50% of them were within the age group of 26-35 years, equally distributed between the age groups 26-30 and 31-35 years (25% in each group) (Table 4.3). Each age group of 21-25 and 51-55 years comprise only 6% of these respondents. Thirty-eight percent (38%) of the managers were of the age between 36 and 45 years (equally distributed in the age groups of 35-40 and 41-45 years, i.e. 19% of the respondents in each age group).

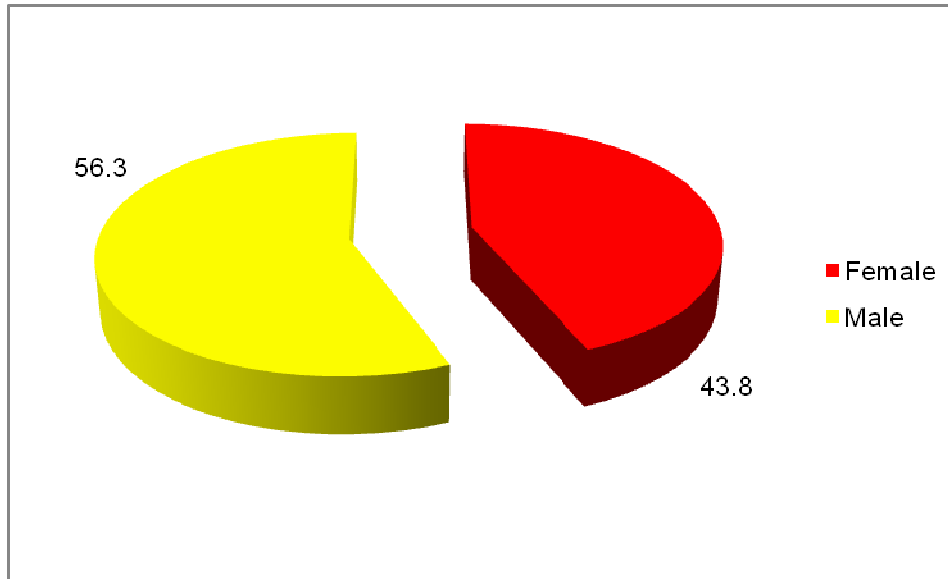
Table 4.3: Biographic profile of credit managers

	Age group	Frequency	Percent	Valid percent	Cumulative percent
Age	21 -25	1	6.3	6.3	6.3
	26 -30	4	25.0	25.0	31.3
	31- 35	4	25.0	25.0	56.3
	36 - 40	3	18.8	18.8	75.0
	41 - 45	3	18.8	18.8	93.8
	51 - 55	1	6.3	6.3	100.0
	Total	16	100.0	100.0	
Gender	Female	7	43.8	43.8	43.8
	Male	9	56.3	56.3	100.0
	Total	16	100.0	100.0	
Employment	Vehicle and Asset	6	37.5	37.5	37.5
	Home Loans	10	62.5	62.5	100.0
	Total	16	100.0	100.0	
Banking experience	1-5 years?	3	18.8	18.8	18.8
	6-10	8	50.0	50.0	68.8
	11-15	4	25.0	25.0	93.8
	>15	1	6.3	6.3	100.0
	Total	16	100.0	100.0	
Credit risk experience	1-4 years?	8	50.0	50.0	50.0
	5-8	4	25.0	25.0	75.0
	8-12	3	18.8	18.8	93.8
	>12	1	6.3	6.3	100.0
	Total	16	100.0	100.0	

Gender Distribution

Figure 4.5 shows the distribution of managers by gender. Fifty-six percent (56%) of the respondents were males, while the rest forty four (44%) were females.

Figure 4.5: Gender distribution



Employment

Table 4.3 (on page 41) shows the distribution of the managers by employment indicator. Thirty-eight percent (38%) of the bank employees who responded to the questionnaire are currently employed in the Vehicle and Asset Finance, while sixty-three percent (62%) are employed in the Home Loan division.

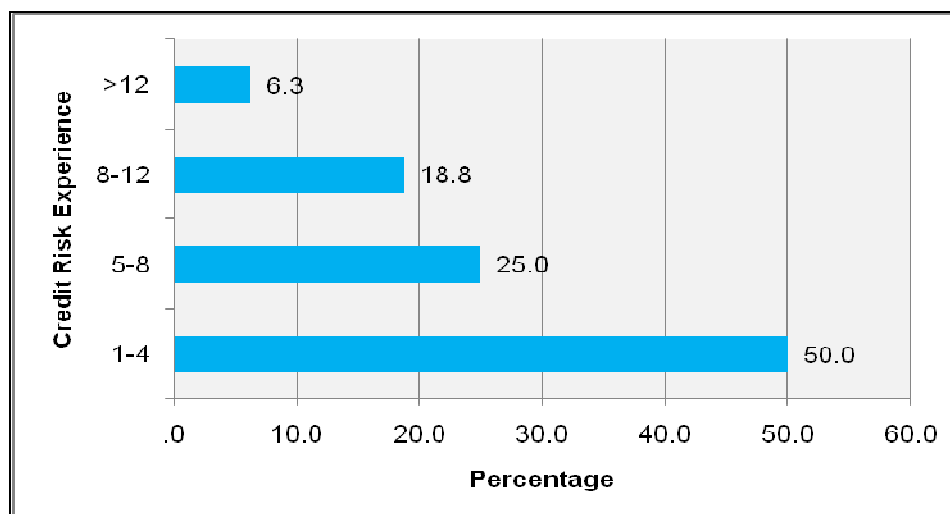
Number of years in the banking sector

Fifty percent (50%) of the respondents have had an experience of 6 to 10 years in the banking sector (Table 4.3). The second largest group (25%) of the respondent recorded a work experience in the range between 11 and 15 years in this sector. The number of respondents who have worked in the banking sector from one to five (1-5) years was three, comprising 18% of the respondents.

Number of years of experience in credit risk management

Fifty percent (50%) of the managers indicated that they have 1-4 years of experience in credit risk management (Figure 4.6). The second larger group (25%) of the managers in the credit risk sector indicated that they have a work experience of 5-8 years in the field. Only 9% of these managers mentioned that they a work experience of more than 12 years.

Figure 4.6: Credit risk experience of respondents



Risks areas faced by the banks

Table 4.4 presents the ranked means of the major risks faced by the banks. The overall data shows there is no a major mean difference among the major risks faced by banks. Credit risk has been ranked the highest risk faced by the banks, followed by liquidity risk. Currency risk, on the other hand, has been rated as a slightly important risk faced by the banks.

Table 4.4: Mean distribution of key risks faced by banks

Type of bank risks	Mean
Credit risk	3.94
Liquidity risk	3.69
Market risk	3.25
Operational risk	3.50
Interest-rate risk	3.25
Currency risk	3.19

Causes of inaccurate credit information for managers

Ranked means of the causes of inaccurate credit information are presented in Table 4.5. Outdated information has been rated as the most frequent causes of inaccurate credit information on consumers, followed by completeness, incorrect data supplied by creditors and timeliness. Credit Bureaux validating rules retains the lowest ranks in causing inaccuracy in credit information.

Table 4.5: Mean distribution of causes of inaccurate credit information

Causes of inaccurate credit information	Mean
Incorrect information supplied by consumers	2.50
Incorrect information provided by creditors	2.94
Human error	1.94
Duplication	2.38
Completeness	2.94
Timeliness	2.88
Outdated information	3.00
Credit Bureaux validating rules	1.63

Socio-demographic information for analysts

Table 4.6 reflects the demographic information of the credit analysts. The number of participants who responded is 27, which equalled to a 67.5% response rate.

Table 4.6: Biographic profile of Credit Analysts

	Group	Frequency	Percent	Valid percent	Cumulative percent
Age	21 -25	3	11.1	11.1	11.1
	26 -30	7	25.9	25.9	37.0
	31- 35	9	33.3	33.3	70.4
	36 - 40	2	7.4	7.4	77.8
	41 - 45	2	7.4	7.4	85.2
	45 - 50	4	14.8	14.8	100.0
	Total	27	100.0	100.0	
Gender	Female	12	44.4	44.4	44.4
	Male	15	55.6	55.6	100.0
	Total	27	100.0	100.0	
Employment	Vehicle and Asset Finance	16	59.3	59.3	59.3
	Home Loans	11	40.7	40.7	100.0
	Total	27	100.0	100.0	
Years in Banking Sector	1-5	11	40.7	40.7	40.7
	6-10	8	29.6	29.6	70.4
	11-15	2	7.4	7.4	77.8
	>15	6	22.2	22.2	100.0
	Total	27	100.0	100.0	
Credit Risk Experience	1-4	17	63.0	63.0	63.0
	5-8	6	22.2	22.2	85.2
	8-12	1	3.7	3.7	88.9
	>12	3	11.1	11.1	100.0
	Total	27	100.1	100.0	

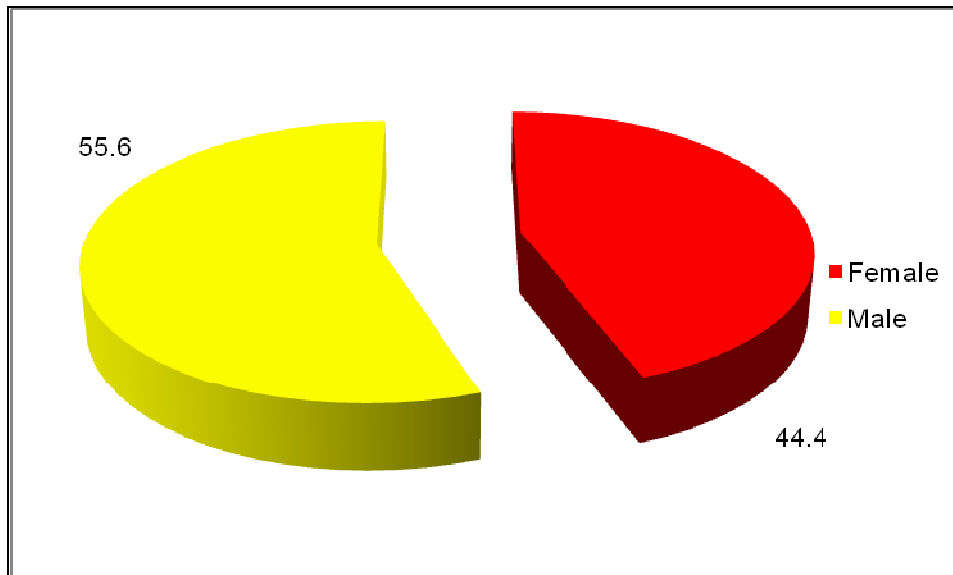
Age distribution

The age group of 31-35 years comprises 33% of the total respondents (Table 4.6). Twenty-six percent were in the age group of 26-30 years. The age groups of 45-50 and 21-25 years are composed of 15 and 11% of the analysts responded, respectively.

Gender distribution

Figure 4.7 shows the gender distribution of credit analysts who responded to the questionnaire. The figure indicates that the number of male respondents was higher (56%) than that of females (44%).

Figure 4.7: Gender distribution of credit analysts



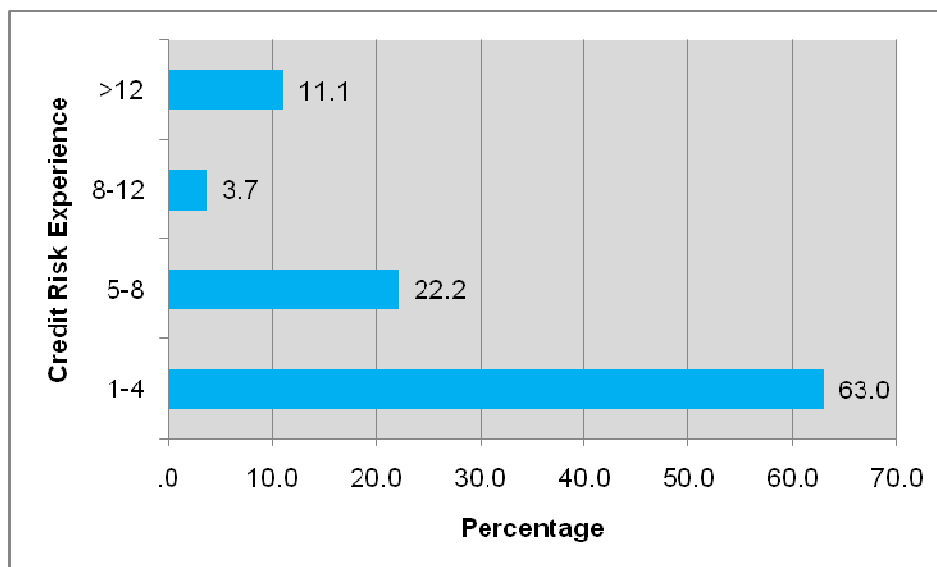
Employment

The data presented in Table 4.6 (on page 45) shows that 59% of the credit analysts who responded to the questionnaire are currently employed in the Vehicle and Asset Finance, while 41% are employed in the Home loan division.

Banking experience

The number of years that the analysts have worked in the banking sector is shown in Table 4.6 (on page 45). Forty-one percent (41%) of the analysts who responded were with less experience in the banking sector (1-5 years). The proportion of managers who have an experience of 6-10 years in the banking sector ranks the second largest group (30%), followed by group of managers with work experience of 11-15 years, comprising 22% of the managers in banking in this research. A close observation to the three first work experience groups, 1-5, 6-10 and 11-15 years highlights that with increase in experience the proportion of managers that belong in the group tended to decrease, the lowest being the number of managers with work experience of 11-15 years (2 individual only, comprising 7%).

Figure 4.8: Credit risk experience of respondents



Number of years experience in credit risk management

Table 4.6 (on page 45) also shows that 63% of the analysts who filled the questionnaire indicated that they have 1-4 years of experience in credit risk management. While 22% mentioned that they have an experience of 5-8 years. Among these respondents, only one credit analyst (4%) recorded that he/she has 8-12 years experience, indicating that the number of experienced people tends to decrease as the number of years of work

experience increases. Eleven percent (11%) of these respondents pointed out that they have over 12 years of experience.

Risks areas faced by the banks

The Table 4.7 shows the ranked means of the risk faced by the banks. The credit risk has been ranked as the very important risk faced by the banks, followed by liquidity and operational risks, while the currency risk has been rated as slightly important risk faced by the bank.

Table 4.7: Mean distribution of key risks faced by banks

Type of bank risk	Mean
Credit risk	4.00
Liquidity risk	3.67
Market risk	3.52
Operational risk	3.67
Interest-rate risk	3.33
Currency risk	3.30

The causes of inaccurate credit information for credit analysts

Ranked means of the causes of inaccurate credit information are presented in Table 4.8. The outdated information has been rated as the most frequent causes of inaccurate credit information on consumers, followed by completeness; while credit bureaux validating rules being the least cause of inaccurate credit information.

Table 4.8: Mean Distribution of causes of inaccurate credit information

Causes of inaccurate credit information	Mean
Incorrect information supplied by consumers	2.63
Incorrect information provided by creditors	2.85
Human error	2.22
Duplication	2.89
Completeness	3.11
Timeliness	2.89
Outdated information	3.15
Credit Bureaux validating rules	2.15

4.2.2 Inferential Analysis

Inferences are used to describe findings from the sample data (means, standard deviation, proportions) to say something about the population from which the sample was drawn (Tustin, Martins & Van Wyk, 2005). A complementary approach to making inferences about the population is via hypothesis-testing (Diamantopoulos and Schlegelmilch, 2006).

Comparative hypothesis testing is used in this study to compare if the bank employees (credit managers and analysts) with different years of credit risk management experience rated the effects of inaccurate credit information on bank's secured lending statements differently, and to see if consumers who earns different income rated the effects of inaccurate credit information on bank's secured lending statements differently.

Hypothesis

A hypothesis is an educated guess about some state of affairs. Research hypothesis is usually what the researcher believes to be true. All researches begin with the null hypothesis (Coolidge, 2006). The null hypothesis for this study states that there is no difference between group's means in terms of location, focusing on the mean as a measure of central tendency; the alternative hypothesis, on the other hand, states that there is a difference between groups in terms of location, focusing on the mean as a measure of central tendency. In this section (research), the term 'group' refers to the different years of credit risk management experience for bank employees and different income earnings for consumers.

The following hypotheses were formulated:

Hypothesis 1

Null hypothesis H_{01} : The mean location for this statement, inaccurate credit information contributes to disputes by consumers is not different between the groups.

Alternative hypothesis H_{11} : The mean location for this statement, inaccurate credit information contributes to disputes by consumers is different between the groups.

Hypothesis 2

H_{02} : The mean location for this statement, inaccurate credit information impedes access to credit is not different between the groups.

H_{22} : The mean location for this statement, inaccurate credit information impedes access to credit is different between the groups.

Hypothesis 3

H₀₃: There is association between years of credit risk management experience and inaccurate credit data in affecting the efficiency of credit decision making.

H₃₃: There is no association between years of credit risk management experience and inaccurate credit data in affecting the efficiency of credit decision making.

Hypothesis 4

H₀₄: The mean location for this statement, inaccurate credit information result in higher charges is not different between the groups.

H₄₄: The mean location for this statement, inaccurate credit information result in higher charges is different between the groups.

Hypothesis 5

H₀₅: The mean location for this statement, inaccurate credit information result in the loss of business in secured lending division is not different between the groups

H₅₆: The mean location for this statement, inaccurate credit information result in the loss of business is different between the groups

Statistical analysis

The Non-parametric test, Kruskal-Wallis test, was used to compare the group's central location. The test focuses on differences in central location and makes assumption that any differences in the distribution of the groups are due to only difference in locations. The null hypothesis tested by the Kruskal-Wallis test is that there is no difference between the groups in terms of location (Diamantopoulos and Schlegelmilch, 2006).

A test of significance is used to determine whether we retain or reject the null hypothesis (Coolidge, 2006). The critical value or the significance level will be set at alpha (α) level of 0.05 or 5% i.e. 95% confidence level. If the p-value (statistic) from the

test is greater than the critical value, the null hypothesis is accepted (not rejected). If the critical value is less than 0.05, however, the null hypothesis is rejected, whereas the alternative hypothesis is accepted.

The Kruskal-Wallis Test results

Bank Customers/ Clients:

Table 4.9 shows the Kruskal –Wallis test results, where the Asymp.Sig is the p-value. All the p-values are not significant for all the shaded statements which are the statement tested via the hypothesis. This implies that the customers who earn different income rated the statements the same way, i.e. They share or hold similar views regarding the hypothetical statements tested.

Table 4.9: Hypothesis test: customers

Test Statistics ^{a,b}			
	Chi-Square	df	Asymp . Sig
In my knowledge inaccurate credit reports impede access to credit by consumers.	2.508	3	.474
I believe that incorrect credit information contributes to consumer over indebtedness.	2.140	3	.544
Consumers are charged higher interest rates due to incorrect information.	5.751	3	.124
I believe that inaccurate information increase disputes by consumers.	6.162	3	.104
Inaccurate consumer data results to loss of business in the secured bank unit .	3.215	3	.360
I believe that consumers need bank's intervention regarding education and awareness on their credit reports	6.090	3	.107
a. Kruskal Wallis Test			
b. Grouping Variable: Income Band			

Bank employees (credit managers and analysts) comparison test results

The Pearson Chi-Square test is used to test the third null hypothesis, because the variable of interest measured is a nominal scale.

The Pearson Chi-square measures if there is relationship or association between rows and columns i.e. between two groups and variables of interest. The p-value value in Table 4.10 is greater than 0.05. Hence, we accept the null hypothesis that there is association between years of credit risk management experience and inaccurate credit data affect the efficiency of credit decision making.

Table 4.10: Chi-Square Tests Results

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.768 ^a	3	.288

Table 4.11 indicates that 91% of the respondent mentioned that inaccurate consumer information results in an ineffective credit decision making, while response of the rest 9% was "No."

Table 4.11: Association between credit experience and inaccurate data

Crosstab

			Number of years experience in credit risk management				Total
			1-4	5-8	8-12	>12	
Does inaccurate consumer data results in ineffective credit decisions making	Yes	Count % within Number of years experience in credit risk management	24 96%	8 80%	3 75%	4 100%	39 90.7 %
	No	Count % within Number of years experience in credit risk management	1 4.0%	2 20%	1 25%	0 .0%	4 9.3%

The Kruskal-Wallis Test Results

Bank Employees: Credit Managers and Analysts

Kruskal–Wallis test results for bank employees have been summarized in Table 12, where the Asymp.Sig is the p-value. All the p-values for the shaded statements are not significant. The shaded statements were used to test the hypothesis. These results imply that credit managers and analysts with different years of credit risk management experience rated the statements the same way, i.e. They share or hold similar views regarding the hypothetical statements tested.

Table 4.12: Hypothesis test: credit managers and analysts

Test Statistics ^{a,b}			
	Chi-Square	df	Asymp. Sig.
My experience is that inaccurate data impede access to credit by consumers.	3.342	3	.342
My observation is that incorrect credit information contributes to consumer over indebtedness	1.645	3	.649
My experience is that consumers are charged higher interest rates due to incorrect credit information.	2.472	3	.480
My experience is that consumer's feel like their rights are violated when their credit information is incorrectly recorded	2.186	3	.535
Inaccurate consumer data results to loss of business in the secured bank unit.	2.653	3	.448
My experience is that inaccurate credit information contributes to customers disputes.	2.162	3	.514
I believe that secured-business unit should intervene with more education and awareness on the clients	1.705	3	.636
a. Kruskal Wallis Test			
b. Grouping Variable: Number of years experience in credit risk management			

4.3 Conclusion

In this chapter the results obtained from the investigation were presented. This was achieved through statistical tests on the sample data. Descriptive and Inferential statistical analysis were used to explore and describe the data.

Hypotheses were formulated based on the research sub-problems. Non-parametric test, Kruskal-Wallis Test, was used to test relationships between characteristic input variables, and the different income of consumers as well as credit risk experience of credit managers and analysts. Significant relationships were found in most of the statements tested.

CHAPTER 5: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter one presented the objectives of the study and it was concluded with a brief discussion on the layout of the study. Chapter two presented the literature review of the study, focusing mainly on the role of credit information, the approach followed by developed and developing countries regarding the management of credit information, banks secured lending business and inaccurate credit information. The research design and methodology were discussed in chapter three. In Chapter 4 the research results were presented and interpreted in order to achieve the objectives of the study.

The main objective of this chapter is to discuss the findings of the investigation, to communicate the recommendations and conclusion, and to suggest areas of further research. This chapter is divided into three parts, the first section outlines and discusses the research findings. The second section of this chapter outlines the recommendations and conclusion. This section intends to prove that the suggested recommendations and conclusion are logically derived from the analysis of the findings. The last section of this chapter presents a list of suggestions for further research.

5.2 Discussion of results

In this section, the findings of the study are integrated with the literature review. The purpose of the study is to investigate the consequences of inaccurate credit information on secured lending divisions of banks. The findings of this study are presented in line with the hypothesis as outlined in Chapter 4.

Based on the formulated hypothesis in chapter 4, the Kruskal Wallis test was carried out to compare if the credit managers and analysts with different years of experience share the similar ideas or views. The test also used to compare views/ideas of consumers who earn different income regarding the effects of inaccurate consumer credit information on the secured lending divisions of banks.

Hypothesis 1

The results from the survey as reflected in Tables 4.9 and 4.12 (Chapter 4) as well as previous studies discussed in literature review support that inaccurate credit information contributes to disputes by consumers. However, the results are not consistent with the findings of Mafu (2006) that, in South Africa, the leading cause of disputes by consumers is that the credit bureaux receive incorrect information from credit providers. The study findings shows that outdated information is the main cause of faulty credit reports as reflected in Table 4.2 (mean, 3.16), Table 4.5 (mean, 3.00) and Table 4.8 (mean, 3.15) of chapter 4. Although there was a code of conduct on the handling of credit information, it was not legally binding. It is in the best interest of the credit reporting industry to maintain accurate records and be responsive to consumer complaints. According to Federal Reserve Bank of Philadelphia (2005) an input from consumers is precisely the way that credit bureaux check the reliability of their procedures and improve the quality of their product. Furthermore, Federal Reserve Bank of Philadelphia (2005) stress that the frequency of errors committed by credit bureaux is the main focus of the critic's attacks. The credit bureaux are held solely responsible for errors, although many other forces are involved in the credit reporting process. The null hypothesis statements were not significant for customers and for bank employees, as their respective p-values are .104 and .514. Hence, the null hypothesis statement is accepted.

Hypothesis 2

The study reveals that the statement inaccurate credit information impedes access to credit is not different between the groups (bank employees and customers). The null hypothesis statements were not significant as reflected in Tables 4.9 and 4.12 (Chapter 4). Hence, the null hypothesis statement is accepted. The results of the study agrees with the findings of various studies conducted by Ferreti (2007), that CBs rely on lenders to voluntarily review and correct erroneous data. Inaccuracy of information not only impedes consumer's access to credit, but also leads to the granting of credit to

unsuitable applicants. According to Khuzwayo (2008), inaccurate trade credit data, particularly in the informal sector, could greatly tighten credit access for small and medium enterprises. Galindo and Miller (2001) found that greater availability of correct information reduces default rates and increases access to credit. This is supported by the study conducted by the Federal Reserve Bank of Philadelphia (2005) that CBs data are used to monitor fraud. The existence of credit bureaus is an inducement to honour one's debts. Information shared through credit bureaus can increase competition among providers of financial services, resulting in more credit offered on better terms. The findings by the Federal Reserve Bank of Philadelphia (2005) further agrees that due to erroneous credit information the cost of not being able to obtain a loan could be higher than the cost to a lender of not being able to make a loan to that person. To the extent that borrowers losses are not fully reflected in bureaus decision making. There could be too many errors and, in particular, too many inefficient credit decisions where credit application is declined based on erroneous information.

Hypothesis 3

Bank employees (credit managers and analysts) experienced that there is association between years of credit risk management experience and inaccurate credit data in affecting the efficiency of credit decision making. The Pearson chi-Square test was done to test if there is an association between years of credit risk management experience and inaccurate credit data, and whether the association affects the efficiency of credit decision making or not. As presented in Table 4.11 (Chapter 4), there is significant association between the number of years that a person worked in credit risk management and inaccurate credit. The majority of the bank employees indicated that inaccurate credit data affects the efficiency of credit decision making.

Hypothesis 4

These research results are consistent with the findings of other researchers that due to inaccurate data customers are overcharged. Jappelli and Pagano (1999) highlight that due to imperfect credit information, lenders may not be able to control the actions that

borrowers take after receiving the loan. A borrower may relax his effort to prevent default or hide the proceeds of his investment to keep from having to repay his debts. Even a solvent borrower may try to avoid repayment if the lender cannot observe or sanction his actions. The consequence is that lenders may ration credit or charge high borrowing rates. Jentzch (2008) found that through better monitoring, moral hazard and credit rationing can be mitigated, and risk-based pricing can be applied through credit-scoring techniques. Failure to fix interest rates leads to greater interest rate differentials in the market. More precise risk assessment improves a bank's portfolio risk management and increases productivity in the banking sector.

Hypothesis 5

The results of this study imply that customers and bank employees have similar views regarding the statement that inaccurate credit information result in the loss of business in secured lending division. This is shown in Tables 4.9 and 4.12 (Chapter 4), where the null hypothesis statements were not significant at an alpha level of 0.05 for both customers and bank employees (with p-values of .360 and .448, respectively). Similarly, Jentzsh (2008) report that accurate consumer credit information improves non-performing loan ratios, leads to less losses through write-offs and decreases interest rates for good credit risks. Bad credit risks, however, have to pay a risk premium. Jappelli and Pagano (2005) supports that there is a trade of between the benefits of reducing adverse selection via full disclosure and reducing moral hazard by reducing by limiting disclosure, which induces borrowers to signal their type by avoiding defaults. The result is more lending at lower interest rates, and with less frequent defaults.

Other research findings

Based on the results, as illustrated in Tables 4.2, 4.5 and 4.8 (Chapter 4), the respondents (credit managers, analysts and customers) rated outdated information as the most frequent cause of inaccurate credit information on credit reports. This contradicts the findings of Federal Reserve Bulletin (2004), which mentions

completeness, timeliness and the validation rules of credit bureaux as the triggers of incorrect data. Credit Information Ombud (2008) rated non compliance with the National Credit Act as the main cause of inaccurate credit information. This is due to the negative credit information listed on a credit receiver's credit profile which is displayed on a credit bureaux for a longer period than is required by the NCA. Table 2.1 reflects a remarkable increase in this area, from 6.03% in 2007 to 15.46% in 2008. This is due to rescinded judgments and rehabilitated administration orders that are not captured by the credit bureaux; thus the judgment and administration orders, which should be removed, remains on the credit bureaux for a period longer than the information should be retained.

Results of this study (Table 4.4 and 4.7) agree with the findings of Rose (2005) that most banks fail because of poorly managed credit risk. According to Barth, *et al.* (2008) due to imperfect credit data, there is significant amount of discretion possessed by the credit officials in terms of lending, such as loan rates, maturities, or type security required. The respondents in this instrument (credit managers and analysts) see credit risk as the main risk that results in the collapse of banks and unstable financial system.

Appendices F and G show the mean values for the hypothetical statements for the respective groups. The mean values close to one (1) indicate relatively low levels of agreement with the statement, while mean values close to 5 indicate relatively high levels of agreement with the statements. Based on Appendices F and G the mean value for the hypothetical statements is close to 5. This indicates that there exists a relatively high level of agreements between statements.

5.3 Conclusions

In conclusion, it is clear from the outcome of the study and analysed data that inaccurate consumer data has a negative effect on the operations and success of secured lending division of banks. This results in ineffective credit decisions making in

the form of overcharging customers, requirement of collaterals, declining suitable credit applicants etc., as the customers are perceived to be high risk.

As discussed in the previous sections of this chapter, the following statements means were close to 5, indicating that the credit managers, analysts and consumers strongly agree on:

- Inaccurate credit information affect the efficiency of credit decision making;
- Inaccurate credit information impedes access to credit;
- Inaccurate credit information result in higher charges;
- Inaccurate credit data results to lose of business in secured lending business unit; and
- Inaccurate credit information result to high level of disputes by consumers.

To improve the quality of credit information, all credit providers must update consumers records with the credit bureaux on monthly basis. This will promote access to credit by consumers, and ensure fair requirements by secured lending business units in terms of interest rates, collateral etc. This will be profitable to the secured lending division. In addition it will reduce disputes by consumers due to incorrect consumer data.

5.4 Recommendations

After close examination and analysis of the research findings, and based on the research hypotheses, the following recommendations are suggested:

General Recommendations

- Customers education and awareness

The bank employees rated the credit risk as the very important risks that the banks are exposed to. It is therefore recommended that banks assist with training customers. This

approach will benefit the consumer's in terms of knowledge about their credit behaviour and promote awareness on their credit reports.

- The reasons of credit application disapproval

It is also recommended that consumers are provided with the reasons that lead to the disapproval of their applications. If the reason is due to credit information, it assists the customers to get the copies of credit record and rectify the incorrect data early. This will be beneficial to both secured lending division and customers in that it will boost the market share of the division and improve access to credit by customers.

- Consumer disputes

Based on the studies conducted on inaccurate credit information and the findings of the study, it is found that the outdated information is one of the causes of incorrect data. This could be due to credit providers not updating the consumers information with CBs on a monthly basis as required by NCR rules and regulations. It is, therefore, recommended that the secured lending business unit supply CBs with updated information on a monthly basis and that the efficient dispute process is implemented. This will reduce the high levels of consumer disputes due to incorrect data.

- Enable credit data validation

Inaccuracies in credit reports can result in serious disadvantages for consumers due to importance of credit reports. Customers should be encouraged to verify their records and relevant stakeholders, namely all credit providers, credit bureaux etc., to amend inconsistencies after verifying claims about incorrect data as required by NCR.

- Government intervention

To improve the quality of credit data, it is of critical importance that the Government intervene through regulation of the whole credit market. This will ensure that credit providers provide the CBs with updates on a monthly basis. Non-compliance with the set rules and regulation should be penalised.

Recommendations for further studies

- Corporate and small and medium clients

The focus of this study was on individual customers, it is, therefore, recommended that a similar study be conducted in a big corporate secured ending, and small and medium business enterprises.

- All South African Bank

It is also suggested that further research to be conducted in all banks with a secured lending business in South Africa.

- Research in other countries

A similar study is also recommended in other countries, particularly with developing economies to compare and benchmark the level of impact of inaccurate data in those countries and South Africa

- Sampling methodology

This study is based on a random sample; hence, further research is suggested to verify the results.

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APPENDICES

Appendix A: Credit information index

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
East Asia & Pacific	5.7	1.9	7.2	14.4
Eastern Europe & Central Asia	6.6	4.0	9.7	19.4
Latin America & Caribbean	5.5	3.3	10.0	33.2
Middle East & North Africa	3.3	3.3	5.0	10.9
OECD	6.8	4.9	8.8	59.6
South Asia	5.3	2.1	0.8	3.3
Sub-Saharan Africa	4.6	1.5	2.4	4.5
Afghanistan	6	0	0.0	0.0
Albania	9	4	9.9	0.0
Algeria	3	2	0.2	0.0
Angola	4	4	2.5	0.0
Antigua and Barbuda	7	0	0.0	0.0
Argentina	4	6	34.3	100.0
Armenia	6	5	4.4	34.5
Australia	9	5	0.0	100.0
Austria	7	6	1.4	39.2
Azerbaijan	8	5	6.9	0.0
Bahamas, the	9	0	0.0	0.0
Bahrain	4	4	0.0	34.9

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Bangladesh	7	2	0.9	0.0
Belarus	2	5	23.4	0.0
Belgium	7	4	56.5	0.0
Belize	8	0	0.0	0.0
Benin	3	1	10.9	0.0
Bhutan	2	0	0.0	0.0
Bolivia	1	6	11.6	33.9
Bosnia and Herzegovina	5	5	23.2	64.3
Botswana	7	4	0.0	51.9
Brazil	3	5	23.7	59.2
Brunei Darussalam	7	0	0.0	0.0
Bulgaria	8	6	34.8	6.2
Burkina Faso	3	1	1.9	0.0
Burundi	2	1	0.2	0.0
Cambodia	8	0	0.0	0.0
Cameroon	3	2	1.8	0.0
Canada	6	6	0.0	100.0
Cape Verde	2	2	23.0	0.0
Central African Republic	3	2	2.1	0.0

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Chad	3	1	0.2	0.0
Chile	4	5	32.9	33.9
China	6	4	62.1	0.0
Colombia	5	5	0.0	60.5
Comoros	3	0	0.0	0.0
Congo, Dem. Rep.	3	0	0.0	0.0
Congo, Rep.	3	2	3.0	0.0
Costa Rica	5	5	24.3	56.0
Côte d'Ivoire	3	1	2.7	0.0
Croatia	6	4	0.0	77.0
Cyprus	9	0	0.0	0.0
Czech Republic	6	5	4.9	73.1
Denmark	9	4	0.0	5.2
Djibouti	1	1	0.2	0.0
Dominica	9	0	0.0	0.0
Dominican Republic	3	6	29.7	46.1
Ecuador	3	5	37.2	46.0
Egypt, Arab Rep.	3	6	2.5	8.2
El Salvador	5	6	21.0	94.6
Equatorial	3	2	3.0	0.0

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Guinea				
Eritrea	2	0	0.0	0.0
Estonia	6	5	0.0	20.6
Ethiopia	4	2	0.1	0.0
Fiji	7	4	0.0	48.6
Finland	7	5	0.0	14.7
France	7	4	32.5	0.0
Gabon	3	2	3.9	0.0
Gambia, the	5	0	0.0	0.0
Georgia	6	6	0.0	12.2
Germany	7	6	0.8	98.3
Ghana	7	0	0.0	0.0
Greece	3	5	0.0	46.9
Grenada	8	0	0.0	0.0
Guatemala	8	6	16.9	28.4
Guinea	3	0	0.0	0.0
Guinea-Bissau	3	1	1.1	0.0
Guyana	4	0	0.0	0.0
Haiti	3	2	0.7	0.0
Honduras	6	6	21.7	58.7
Hong Kong, China	10	4	0.0	71.9

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Hungary	7	5	0.0	10.3
Iceland	7	5	0.0	100.0
India	8	4	0.0	10.2
Indonesia	3	4	22.0	0.0
Iran, Islamic Rep.	4	3	31.3	0.0
Iraq	3	0	0.0	0.0
Ireland	8	5	0.0	100.0
Israel	9	5	0.0	89.8
Italy	3	5	12.2	77.5
Jamaica	8	0	0.0	0.0
Japan	7	6	0.0	76.2
Jordan	4	2	1.0	0.0
Kazakhstan	5	6	0.0	29.5
Kenya	10	4	0.0	2.3
Kiribati	5	0	0.0	0.0
Korea, Rep.	7	6	0.0	93.8
Kosovo	8	3	18.9	0.0
Kuwait	4	4	0.0	30.4
Kyrgyz Republic	10	3	0.0	5.9
Lao PDR	4	0	0.0	0.0
Latvia	9	5	46.5	0.0

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Lebanon	3	5	8.3	0.0
Lesotho	7	0	0.0	0.0
Liberia	4	1	0.3	0.0
Lithuania	5	6	12.1	18.4
Luxembourg	7	0	0.0	0.0
Macedonia, FYR	7	4	28.1	0.0
Madagascar	2	1	0.1	0.0
Malawi	8	0	0.0	0.0
Malaysia	10	6	48.5	82.0
Maldives	4	0	0.0	0.0
Mali	3	1	4.0	0.0
Marshall Islands	4	0	0.0	0.0
Mauritania	3	1	0.2	0.0
Mauritius	5	3	36.8	0.0
Mexico	4	6	0.0	77.5
Micronesia, Fed. Sts.	7	0	0.0	0.0
Moldova	8	0	0.0	0.0
Mongolia	6	3	22.2	0.0
Montenegro	9	2	27.6	0.0
Morocco	3	5	0.0	14.0
Mozambique	2	4	2.3	0.0
Namibia	8	5	0.0	57.7
Nepal	5	2	0.0	0.3
Netherlands	6	5	0.0	83.5
New Zealand	9	5	0.0	100.0

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Nicaragua	3	5	16.0	28.4
Niger	3	1	0.9	0.0
Nigeria	8	0	0.0	0.0
Norway	7	4	0.0	100.0
Oman	4	2	17.0	0.0
Pakistan	6	4	5.6	1.5
Palau	0	0	0.0	0.0
Panama	6	6	0.0	45.9
Papua New Guinea	5	0	0.0	0.0
Paraguay	3	6	10.9	47.4
Peru	7	6	23.0	31.8
Philippines	3	3	0.0	6.1
Poland	9	4	0.0	68.3
Portugal	3	5	81.3	16.4
Puerto Rico	7	5	0.0	73.8
Qatar	3	2	0.0	0.0
Romania	8	5	5.7	30.2
Russian Federation	3	5	0.0	14.3
Rwanda	8	2	0.4	0.0
Samoa	6	0	0.0	0.0

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
São Tomé and Príncipe	3	0	0.0	0.0
Saudi Arabia	4	6	0.0	17.9
Senegal	3	1	4.4	0.0
Serbia	8	6	0.0	94.2
Seychelles	4	0	0.0	0.0
Sierra Leone	6	0	0.0	0.0
Singapore	10	4	0.0	40.3
Slovak Republic	9	4	1.4	44.0
Slovenia	6	2	2.7	0.0
Solomon Islands	3	0	0.0	0.0
South Africa	9	6	0.0	54.7
Spain	6	5	45.3	7.6
Sri Lanka	4	5	0.0	14.3
St. Kitts and Nevis	8	0	0.0	0.0
St. Lucia	8	0	0.0	0.0
St. Vincent and the Grenadines	8	0	0.0	0.0
Sudan	5	0	0.0	0.0
Suriname	5	0	0.0	0.0
Swaziland	6	5	0.0	42.3
Sweden	5	4	0.0	100.0

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Switzerland	8	5	0.0	22.5
Syrian Arab Republic	1	0	0.0	0.0
Taiwan, China	4	5	0.0	63.2
Tajikistan	3	0	0.0	0.0
Tanzania	8	0	0.0	0.0
Thailand	4	5	0.0	32.9
Timor-Leste	1	0	0.0	0.0
Togo	3	1	2.7	0.0
Tonga	7	0	0.0	0.0
Trinidad and Tobago	8	4	0.0	41.7
Tunisia	3	5	19.9	0.0
Turkey	4	5	15.9	42.9
Uganda	7	0	0.0	0.0
Ukraine	9	3	0.0	3.0
United Arab Emirates	4	5	7.3	12.6
United Kingdom	9	6	0.0	100.0
United States	8	6	0.0	100.0
Uruguay	5	6	17.8	97.2
Uzbekistan	2	3	2.6	2.1
Vanuatu	9	0	0.0	0.0

<u>Region or Economy</u>	<u>Strength of legal rights index (0-10)</u>	<u>Depth of credit information index (0-6)</u>	<u>Public registry coverage (% of adults)</u>	<u>Private bureau coverage (% of adults)</u>
Venezuela, R.B.	2	0	0.0	0.0
Vietnam	8	4	19.0	0.0
West Bank and Gaza	0	3	6.5	0.0
Yemen, Rep.	2	2	0.2	0.0
Zambia	9	3	0.0	0.4
Zimbabwe	7	0	0.0	0.0

Source: Doing Business (2009)

Appendix B: Letter to participants



Dear Participant

RESEARCH FOR MASTERS DEGREE IN BUSINESS LEADERSHIP

I'm currently busy with the research component of the Master's Degree in Business Leadership (MBL) at SBL Graduate School of Business Leadership under the supervision of Jay Reddy. Your time is valuable and so your contribution in participating in this survey is appreciated. I thank you in advance. Completing this questionnaire will greatly assist me in completing this research project.

TOPIC: The impact of inaccurate credit information on banks secured lending

I will appreciate your favourable consideration in completing the enclosed questionnaire and assisting me in my research efforts. All information will be kept confidential and anonymity of all participants is guaranteed. Also note that participation is voluntary and you may opt not to partake on this research. In case you need feedback on the outcome of the research, please indicate by filling the required information on the boxes below.

Would you require feedback? Yes No

If, provide contacts Cell Email

The completed questionnaire should be returned to me via electronic mail at the following address zandile.mtimkulu@absa.co.za by 31 August 2009 or it can be faxed to me at 011 350 4500.

Thanking you in advance.

Zandile Mtimkulu

Appendix C: A Standard Credit Report on an Individual

File Number – 64610042 REF 3664-3186

Harrison, Thomas, Ronald, M, M, Kristina

Subject Born – 100850, LIC NO-2421PS

Spouse Born – 250164

Employment – Serviceman, Gazebo Wholesalers PL

Address – 35, Land, Bonnyrigg, NSW

Previous – 48, Gerorge, Dandenong, VIC

Directorship Details

Date

130886 MRT – Gazebo Wholesalers PL (IN LIQ.) CC-64608113

Member Default Reports

Date	Name	AC	Amnt	DF	Ref. No.	DTR paid
140388	STD CHART	L	5431			PD LLR0040LS MRT
040687	FNB	L	7314			R L 1070515135 MRT
260186	Edgars	RM	6448			RL 241174159 T&K

Judgements

Date	Name	Amnt	DF	Plaint. No.	DTR Paid
150487		9037	DJ	15648/86/METN	MRT

Note: Alleged debts(s) may have been paid since recorded, or are possibly disputed. Check with creditors for confirmation.

Credit Enquiries

Date	Name	AC	Amnt	DTR	Ref. No
140688	Citycorp Fin Hurtsville	L	8727	T&K	
131287	AGC Five Dockk	L	8700	T&K	
231087	Jaohn's Motor	HM	7000	T&K	
111186	Westpac Western	CC	0	MRT	

221185	Iticorp Fin Sydney	L	1717	MRT
150685	Permanent Fin Corp	HB	15300	MRT
310784	AGC Five Dock	L	18000	MRT
230484	Esanda Admin	RM	19000	MRT

Key to the initials used in the report

AC – Account Type	L - Lease Account
M - Monthly Account	HM - Hire Purchase Motor Vehicles
T - Terms Account	RM - Real Estate Mortgage
HB - Hire Purchase Boat	CC – Credit Card
AMNT – Amount owing or applied for	DF - Reason for Reporting
PD - Regular Payment Default	R - Repossession
RL - Repossession Loss	DJ - District Court Judgement
LA - Legal Action	DTR – Who is the debtor
MRT – Debtor is Mr. T. Harrison	T&K – Debtors is Thomas and Kristen

Source: Credit Reference Association of Australia Limited (1999)

Appendix D: Questionnaire: Credit managers and Analysts

(Please tick the appropriate boxes)

1. Indicate your age group

1	<=20	
2	21 -25	
3	26 -30	
4	31- 35	
5	36 – 40	
6	41 – 45	
7	45 – 50	
7	51 – 55	
8	>=55	

2. Indicate your gender

1	Female	
2	Male	

3. Indicate where you are currently employed

1	Vehicle and Asset Finance	
2	Home Loans	

The answers to the questions 4 to 7 should be based on your experience in risk management/ credit risk management of banks.

4. Indicate number of years in the banking sector

1	1-5	
2	6-10	
3	11-15	
4	>15	

5. Indicate number of years experience in credit risk management

1	1-4	
2	5-8	
3	8-12	
4	>12	

6. Indicate the importance of the following risk areas for the banks

(1 – not important at all, 2 – only slightly important, 3 – rather important, 4 – very important)

Please tick the appropriate box next to each item

	Risk faced by banks	1	2	3	4
6.1	Credit risk				
6.2	Liquidity risk				
6.3	Market risk				
6.4	Operational risk				
6.5	Interest-rate risk				

6.6	Currency risk				
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7. Indicate the causes of inaccurate credit information on consumers' credit report in respect of your bank

(1 – very low frequency, 2 – only slightly frequent, 3 – rather frequent, 4 – extremely frequent)

Please tick the appropriate box next to each item

	Types of triggers	1	2	3	4
7.1	Incorrect information supplied by consumers				
7.2	Incorrect information provided by creditors				
7.3	Human error				
7.4	Duplication				
7.5	Completeness				
7.6	Timeliness				
7.7	Outdated information				
7.8	Credit Bureaux validating rules				

The answers to questions 8 to 10 should be specifically related to your bank.

8. Does the bad quality of credit information affect the strategic objectives of the secured lending business?

1	Yes	
2	No	

9. Does inaccurate consumer data results in ineffective credit decisions making.

1	Yes	
2	No	

10. The dispute by consumers on their credit information increases the expenses of the bank.

1	Yes	
2	No	

To what extent do you agree with the following statements? Please indicate your answer using the following 5 point Likert scale where:

(1 – strongly disagree, 2 – disagree, 3 – neutral, 4 - agree, 5 – strongly agree)

11. My experience is that inaccurate data does not save time to process credit applications.

1	2	3	4	5
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12. Inaccurate data results in unnecessary additional collateral or deposits requirements if the consumer is seen as a high risk client.

1	2	3	4	5
---	---	---	---	---

13. My experience is that inaccurate credit information results to high rate of defaults, bad debts and write-offs.

1	2	3	4	5
---	---	---	---	---

14. The incorrect consumer data raises high provisions which affect the profits of the secured lending business.

1	2	3	4	5
---	---	---	---	---

15. My experience is that due to incorrect consumer data the secured lending business requires higher pricing of its products.

1	2	3	4	5
---	---	---	---	---

16. In my knowledge, inaccurate credit reports impede access to credit by consumers.

1	2	3	4	5
---	---	---	---	---

17. My observation is that incorrect credit information contributes to consumer over-indebtedness.

1	2	3	4	5
---	---	---	---	---

18. My conclusion is that due to higher pricing consumers move to the competitors of the bank for better cost of credit.

1	2	3	4	5
---	---	---	---	---

19. My experience is that consumer's feel like their rights are violated when their credit information is incorrectly recorded resulting to them being unable to access funds.

1	2	3	4	5
---	---	---	---	---

20. My observation is that due to the fact mentioned in number 19 above, consumers lose confidence in the secured bank unit and withdraw their applications.

1	2	3	4	5
---	---	---	---	---

21. My observation is that secured lending business unit should intervene with more education and awareness on the clients credit reports.

1	2	3	4	5
---	---	---	---	---

Appendix E: Questionnaire: Customers

(Please tick the appropriate boxes)

1. Indicate your age group (in years)

1	<20	
2	21-34	
3	35-44	
4	45-54	
5	>55	

2. Indicate your gender

1	Female	
2	Male	

3. Indicate your race

1	African	
2	White	
3	Coloured	
4	Indian/ Asian	

4. Indicate your home language

1	Zulu	
2	Afrikaans	
3	English	
4	Sesotho	
5	Setswana	
6	Other	

5. Indicate your income band

1	>R3000	
2	R3000 – R7 500	
3	R7500 – R15 000	
4	>R15 000	

6. Indicate the sector where you are currently employed

1	Financial/ Banking	
2	Agriculture and Mining	
3	Manufacturing	
4	Transport	
5	Retail	
6	Communication	
7	Construction	
8	Other	

7. Indicate the triggers of inaccurate credit information on consumers' credit report

(1 – very low severity, 2 – only slightly severity, 3 – severe, 4 – extremely severe)

	Types of triggers	1	2	3	4
1	Incorrect information supplied by consumers				
2	Incorrect information provided by creditors				
3	Human error				
4	Duplication				
5	Completeness				
6.	Timeliness				
7	Outdated information				
8	Credit Bureaux validating rules				

8. To what extent do you agree with the following statements? Please indicate your answer using the following 5 point Likert scale where:

(1 – strongly disagree, 2 – disagree, 3 – neutral, 4 - agree, 5 – strongly agree)

	1	2	3	4	5
8.1 My experience is that inaccurate credit reports hinder consumer's plans.					
1.8.2 Inaccurate data results in unnecessary additional collateral or deposits requirements if the consumer is seen as a high risk client.					
8.3 In my knowledge, inaccurate credit reports impede access to credit by consumers.					
8.4 My observation is that incorrect credit information contributes to consumer over-indebtedness.					
8.5 My experience is that due to incorrect consumer data the secured lending business requires higher interest rates.					
8.6 My conclusion is that due to the above matter in number (7.5) above consumers move to the competitors of the bank for better cost of credit.					
8.7 My experience is that disputes by consumers on their credit information increases the expenses of the bank.					
8.8 My experience is that consumer's feel like their rights are violated when their credit information is incorrectly recorded resulting to them being unable to access funds.					

Appendix F: Mean values: Customers

Comments	Income Band				
	<R3000	R3000 – R7 500	R7500 – R15 000	>R15 000	Total
My experience is that inaccurate credit reports hinder consumer's plans	3.00	3.91	4.56	4.00	4.05
Inaccurate data results in unnecessary additional collateral or deposits requirements if the consumer is seen as a high risk client	4.50	3.73	4.56	4.33	4.22
In my knowledge inaccurate credit reports impede access to credit by consumers	3.00	4.18	4.11	4.20	4.11
My observation is that incorrect credit information contributes to consumer over indebtedness	4.50	3.82	4.33	3.60	3.89
My experience is that due to incorrect consumer data the secured lending business requires higher interest rates	4.50	2.64	3.22	4.00	3.43
Consumers move to the competitors of the bank for better cost of credit	4.50	2.91	3.89	3.60	3.51
I believe that inaccurate credit information contributes to consumer disputes	4.50	2.55	3.33	2.67	2.89
I believe that incorrect credit reports results to loss in business on secured lending business unit	4.00	3.64	4.22	3.87	3.89
My experience is that consumer's feel like their rights are violated when their credit information is incorrectly recorded	4.00	3.00	3.22	2.80	3.03

Comments	Income Band				
	<R3000	R3000 – R7 500	R7500 – R15 000	>R15 000	Total
My experience is that inaccurate credit reports hinder consumer's plans	3.00	3.91	4.56	4.00	4.05
Inaccurate data results in unnecessary additional collateral or deposits requirements if the consumer is seen as a high risk client	4.50	3.73	4.56	4.33	4.22
In my knowledge inaccurate credit reports impede access to credit by consumers	3.00	4.18	4.11	4.20	4.11
My observation is that incorrect credit information contributes to consumer over indebtedness	4.50	3.82	4.33	3.60	3.89
My experience is that due to incorrect consumer data the secured lending business requires higher interest rates	4.50	2.64	3.22	4.00	3.43
Consumers move to the competitors of the bank for better cost of credit	4.50	2.91	3.89	3.60	3.51
I believe that inaccurate credit information contributes to consumer disputes	4.50	2.55	3.33	2.67	2.89
I believe that incorrect credit reports results to loss in business on secured lending business unit	4.00	3.64	4.22	3.87	3.89
My experience is that consumer's feel like their rights are violated when their credit information is incorrectly recorded	4.00	3.00	3.22	2.80	3.03
My observation is that consumers need bank's intervention regarding education and awareness on their credit reports	4.50	4.18	4.89	3.93	4.27

Appendix G: Mean values: Credit managers and Analysts

Comments	Number of years experience in credit risk management				
	1-4	5-8	8-12	>12	Total
My experience is that inaccurate data impede access to credit facilities.	4.52	4.10	4.00	3.75	4.30
Inaccurate data results in unnecessary additional collateral or deposits requirements if the consumer is seen as a high risk	4.48	4.30	4.25	4.50	4.42
My experience is that inaccurate credit information results to high rate of defaults, bad debts and write-offs	4.56	4.10	4.50	4.25	4.42
The incorrect consumer data raises high provisions which affect the profits of the secured lending business	4.36	4.20	4.25	4.25	4.30
My experience is that due to incorrect consumer data the secured lending business requires higher pricing of its products	4.04	4.00	4.50	4.00	4.07
My observation is that incorrect credit information contributes to consumer over indebtedness	4.16	3.60	4.50	4.00	4.05
I believe that incorrect consumer information contributes to disputes within secured lending division.	3.88	3.20	3.75	4.50	3.77
My experience is that consumer's feel like their rights are violated when their credit information is incorrectly recorded	3.72	4.00	3.75	4.50	3.86
My observation is that incorrect information results in loss on secured lending business unit.	2.64	3.40	3.50	3.50	2.98
My observation is that secured lending business unit should intervene with more education and awareness on the clients	3.92	3.90	3.50	4.25	3.91