



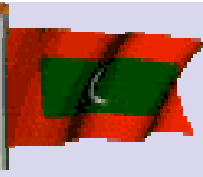
CREDIT INFORMATION SHARING ENVIRONMENT IN THE

MALDIVES

Presented by

Aishath Zahira- *Maldives Monetary Authority*

Nadiya Hassan- *Bank of Maldives Plc*



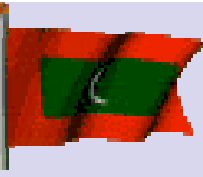
MALDIVES - BRIEF OVERVIEW

- A chain of approximately 1190 low-lying coral islands out of which about 200 islands are inhabited.
- Stretches over an area of 90,000 sq kms of the Indian Ocean.
- Capital Male' is 684 kilometers west of Sri Lanka. The land area of Male' is about 2.5 sq kms.
- Population is around 270,000, a quarter of which is concentrated in the capital Male'. 71 % of the rest of the 200 inhabited islands have less than 1000 inhabitants.
- Maldives has a relatively young population with 41% under 15 years of age and around 3% over 65 years of age.



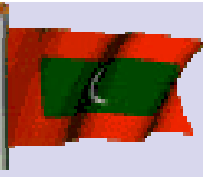
MALDIVES - BREIF OVERVIEW

- The economy is heavily dependent on fisheries and tourism. Both sectors together make up 40% of GDP.
- GDP US\$ 590.12 mln.
- Per Capita Income US\$ 2,107
- Literacy rate is 98%.
- Unit of currency is Maldivian Rufiyaa.
- Exchange Rate is 12.85 to a US Dollar



THE FINANCIAL SECTOR

- Financial sector is very narrow and dominated by the banking sector.
- Organised capital market functioning from 14th April 2002.



FINANCIAL INSTITUTIONS

- **One locally owned bank**
 - **The Bank of Maldives Plc (BML)**
 - **BML has 14 branches and 5 mobile banking units**
- **Branches of four foreign owned commercial banks**
 - **State Bank of India**
 - **Habib Bank Limited**
 - **Bank of Ceylon**
 - **Hong Kong and Shanghai Banking Corporation**



NON – BANK FINANCIAL INSTITUTIONS

- **Government Employees Provident Fund.**
- **Two insurance companies**
 - **Allied Insurance Company.**
 - **Sri Lanka Insurance Corporation.**
- **One Finance Leasing Company**
 - **Maldives Financial Leasing Company Pvt. Ltd.**
- **The Housing Development Financing Corporation. (HDFC)**



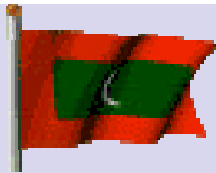
BANKING SECTOR

- Commercial banks are the principal institutions in mobilizing savings and for providing credit to the private sector.
- Total deposits stood at around 55% of GDP at end of 2003.
- Stock of credit extended by banks reflected 29% of GDP (2003).
- Major portion of commercial bank loans given to the tourism sector - about 56 percent , commerce 21.9 percent, construction 6.5 percent and fishing 6.8 percent
- As a prudential measure single customer exposure limit is set at 15% of capital



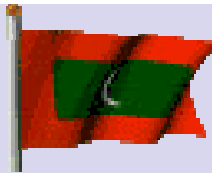
INFORMATION SHARING AMONG BANKS

- *Maldives does not have a credit information bureau.*
- **In the absence of such an institution how do we get credit information?**



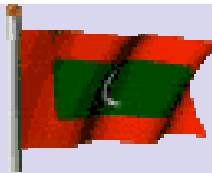
INFORMATION SHARING AMONG BANKS & OTHER FINANCIAL INSTITUTIONS

- Currently there exists a system by which credit information is shared among the commercial banks, financial institutions and the regulatory authorities.
- Before a credit proposal is considered, information related to the customer is exchanged in the form of a “confidential opinion report”.



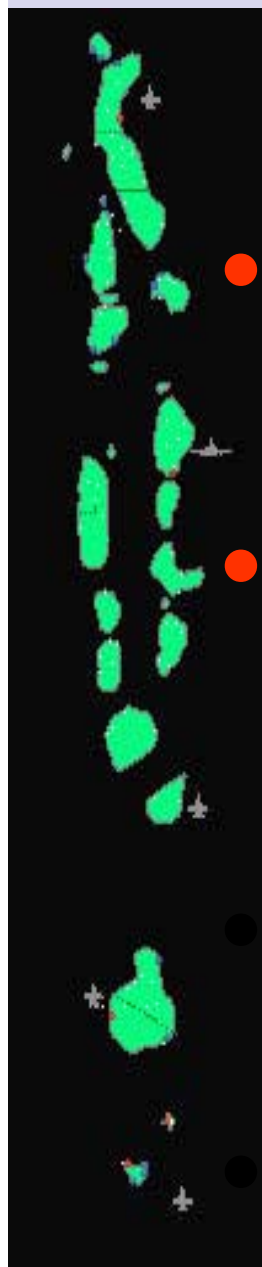
INFORMATION SHARING AMONG BANKS & OTHER FINANCIAL INSTITUTIONS

- Information is obtained from the following institutions:
 - State Bank of India
 - Habib Bank Limited
 - Bank of Ceylon
 - Hong Kong Shanghai Banking Corporation
 - Maldives finance leasing company
 - Maldives Monetary Authority (information on BCCI liabilities)
 - Ministry of Finance and Treasury (information on housing loans to civil servants)
- Recently incorporated.
● Housing Development Finance Corporation which is yet to be included to the list.



INFORMATION SHARING AMONG BANKS & OTHER FINANCIAL INSTITUTIONS

- As there is no system of information sharing on-line , considerable time is involved in sending out requests and waiting for responses from each one of these institutions.
- The commercial banks have a Bankers Forum which meets once a month . A periodical list of non-performing loans to customers are exchanged among the banks.
- Non-performing loans – 6% of total loans, experts say that between 6% to 7% is not an alarming rate for a small country like Maldives.
- Non – performing loans are not many but a few of high volume.





REGULATORY AUTHORITY OF THE FINANCIAL SECTOR

- The Maldives Monetary Authority (MMA) is the regulatory authority of the financial sector.
- MMA undertakes regular supervision of the banking sector to ensure financial soundness of the banking system.
 - Reporting of credit information by banks to the MMA is done on a consolidated basis (not on individual borrowers).
- All other financial institutions are also regulated by MMA.



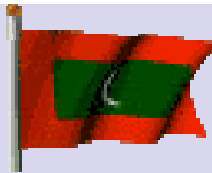
LEGAL AND REGULATORY CONSTRAINTS

- There are certain inherent legal and regulatory constraints in obtaining credit information.
- There is no law or regulation which prohibits private creditors from lending, hence the much needed credit information required by banks is not available.
- Credit schemes are undertaken by state-owned enterprises like the State Trading Organization to government employees.
- Credit schemes to acquire Motor Bikes is a popular scheme in the Maldives which is provided by few private firms.
- There is no limit or restriction on offshore borrowing by Maldivian businesses.
- Information is limited to the extent the customer is willing to provide to the commercial bank



LEGAL AND REGULATORY CONSTRAINTS

- Audited financial statements (from only a handful of larger companies) are obtained with considerable delay as such up to date information is not available.
- Ready data is not available from the courts which delays the loan appraisal process.



BORROWING FROM THE COMMERCIAL BANKS IS MAINLY COLLATERAL-BASED

- Main forms of collateral include residential buildings, resorts, and vessels like boats etc.
- If a loan is defaulted law enforcement is a difficult and slow process and therefore hinders timely seizure of the collateral.
- The amendments to the existing Land Law at end of April 2004 will be a welcome aspect in solving the banks myriad problems relating to land and residential buildings taken as collateral for non – performing loans.
- At present reputational collateral eg: timely payment of cell phone bills and utility bills is not considered when appraising a loan proposal.



CONCLUSION

- The availability of timely credit information helps in strengthening of the credit sector and processing of loans becomes faster.
- Do we need a Credit Information Bureau?
- As credit is a major determinant of growth and development it is an opportune moment for the Maldives to initially set up a modest credit information bureau so that a large proportion of the population gets a chance to be considered creditworthy.



THANK YOU

