



INTERNATIONAL FINANCE CORPORATION
WORLD BANK GROUP

The value of positive credit information sharing

Importance of expanding access to finance,
ensuring financial stability and guaranteeing
data protection: the international experience

Agenda

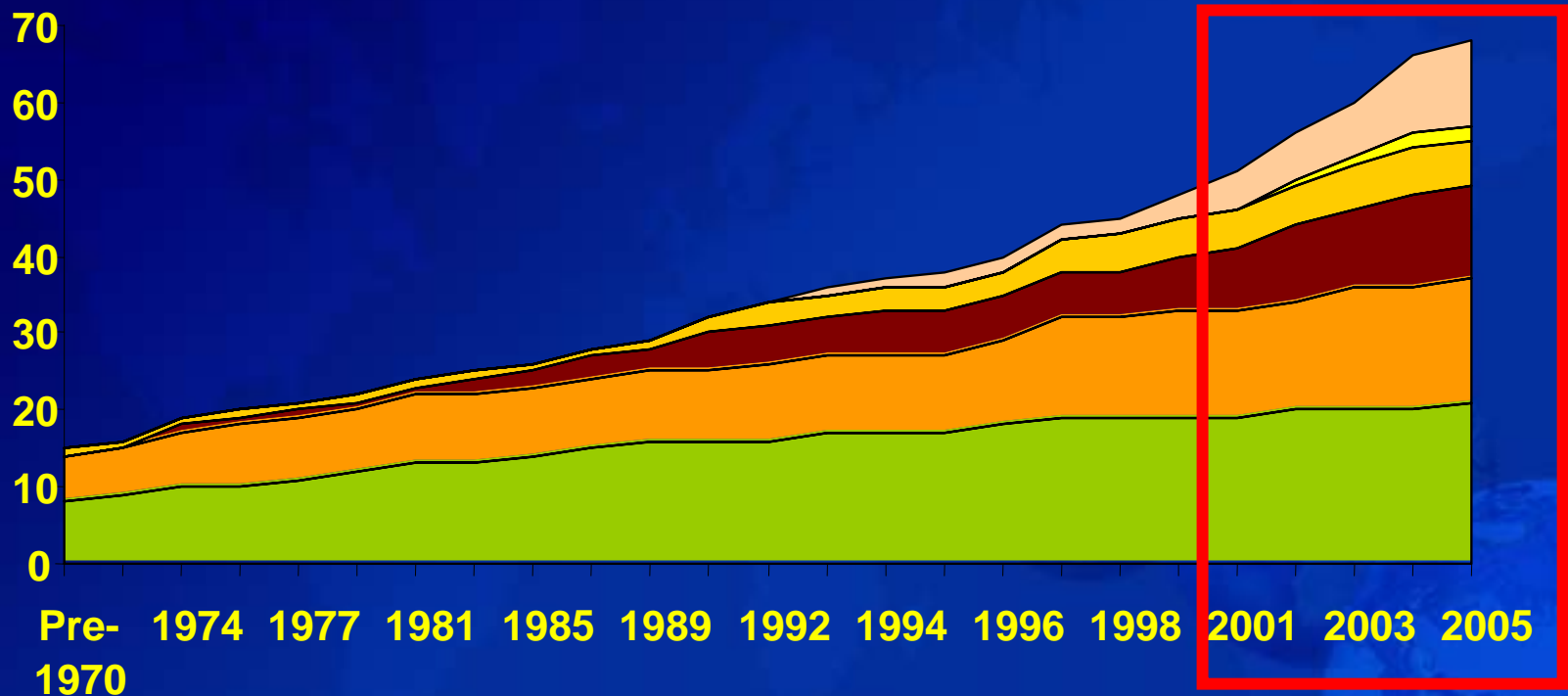
Global credit bureaus status **1**

The benefits of positive information sharing **2**

How can regulators help? International best practice **3**

Private Credit Bureaus continue to grow

- Most of the countries have established some kind of information sharing mechanism
- Most advanced areas remain OECD and Latin America (old info-sharing tradition)
- Asia and Central Europe catching-up fast (2000-2005)
- Sub-Saharan Africa and MENA still a long way to go

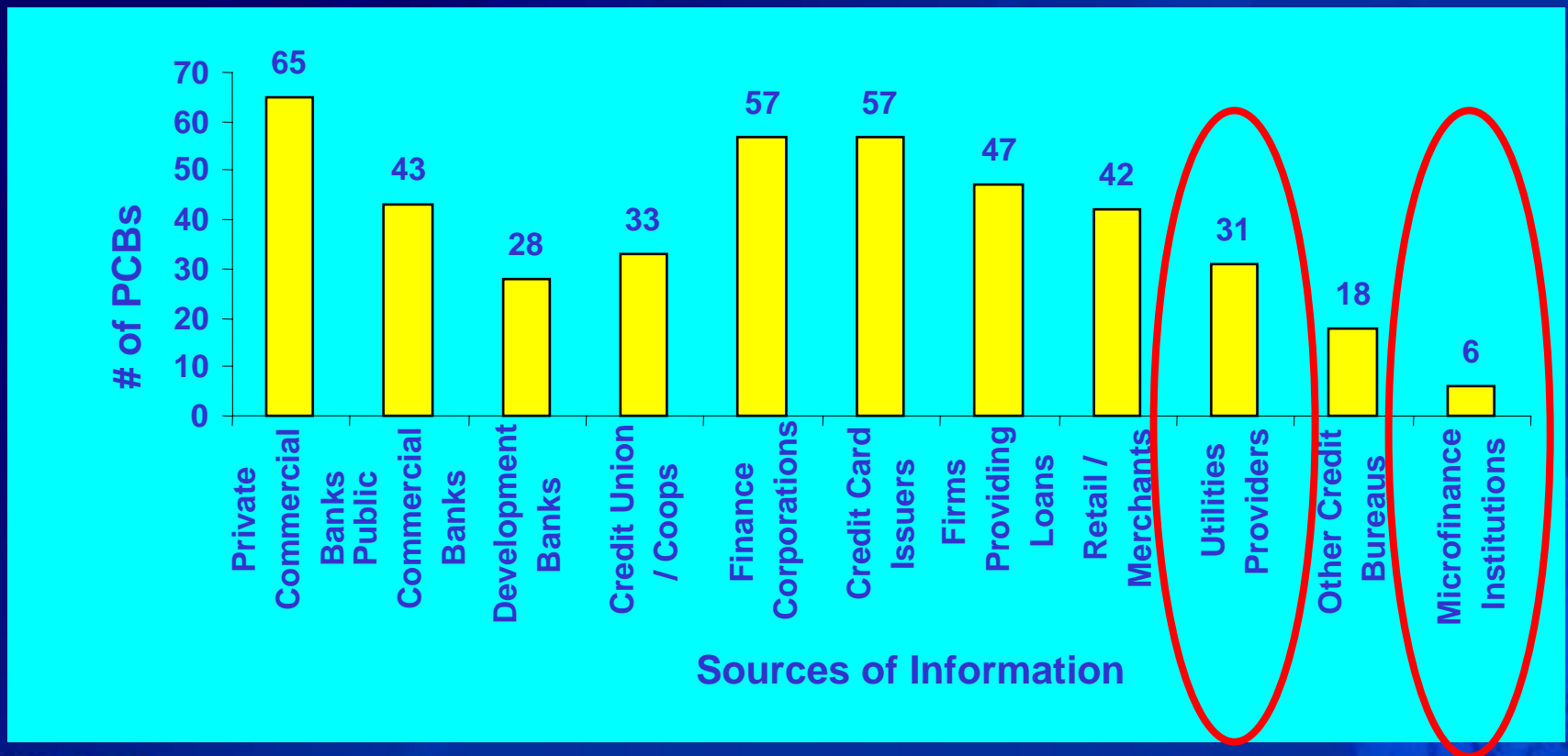


■ OECD ■ Latin America ■ Asia ■ Africa ■ Middle East and North Africa ■ Eastern Europe and Central Asia



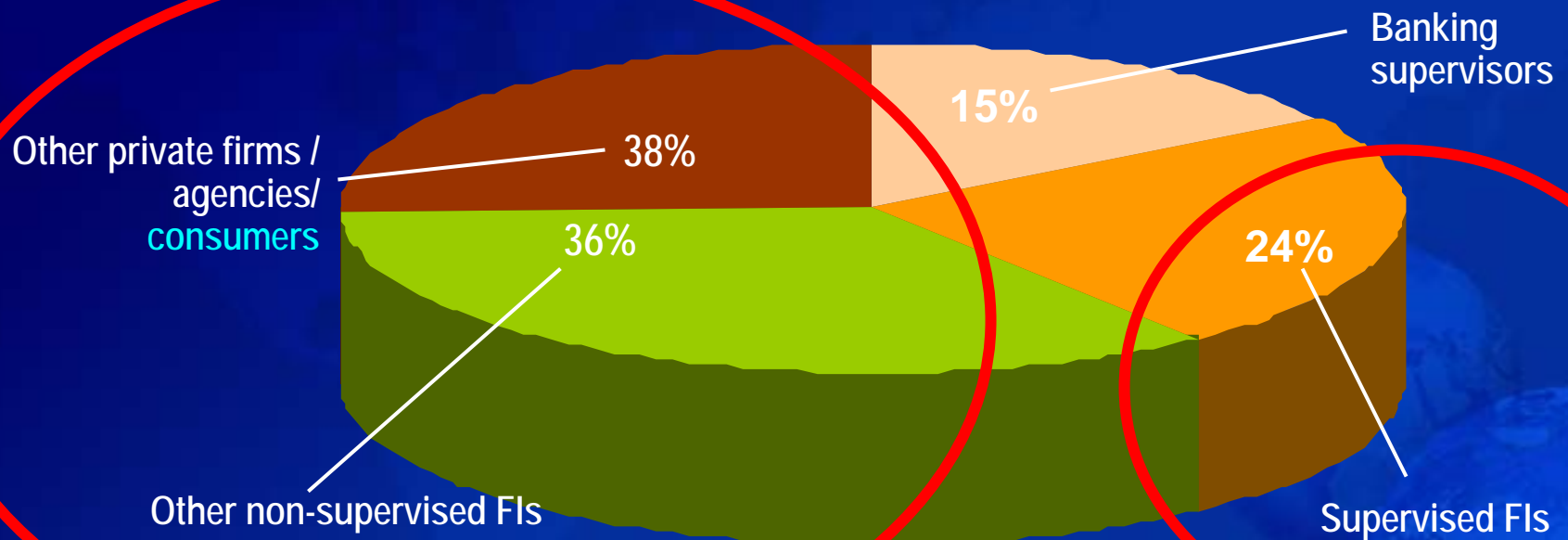
Who contributes data to Private Credit Bureaus?

- All lending sectors do contribute positive information to CBs
- The importance of utilities, telecoms, and microcredit is growing steadily
- This info is tremendously useful for the poor, underserved, and informal economy



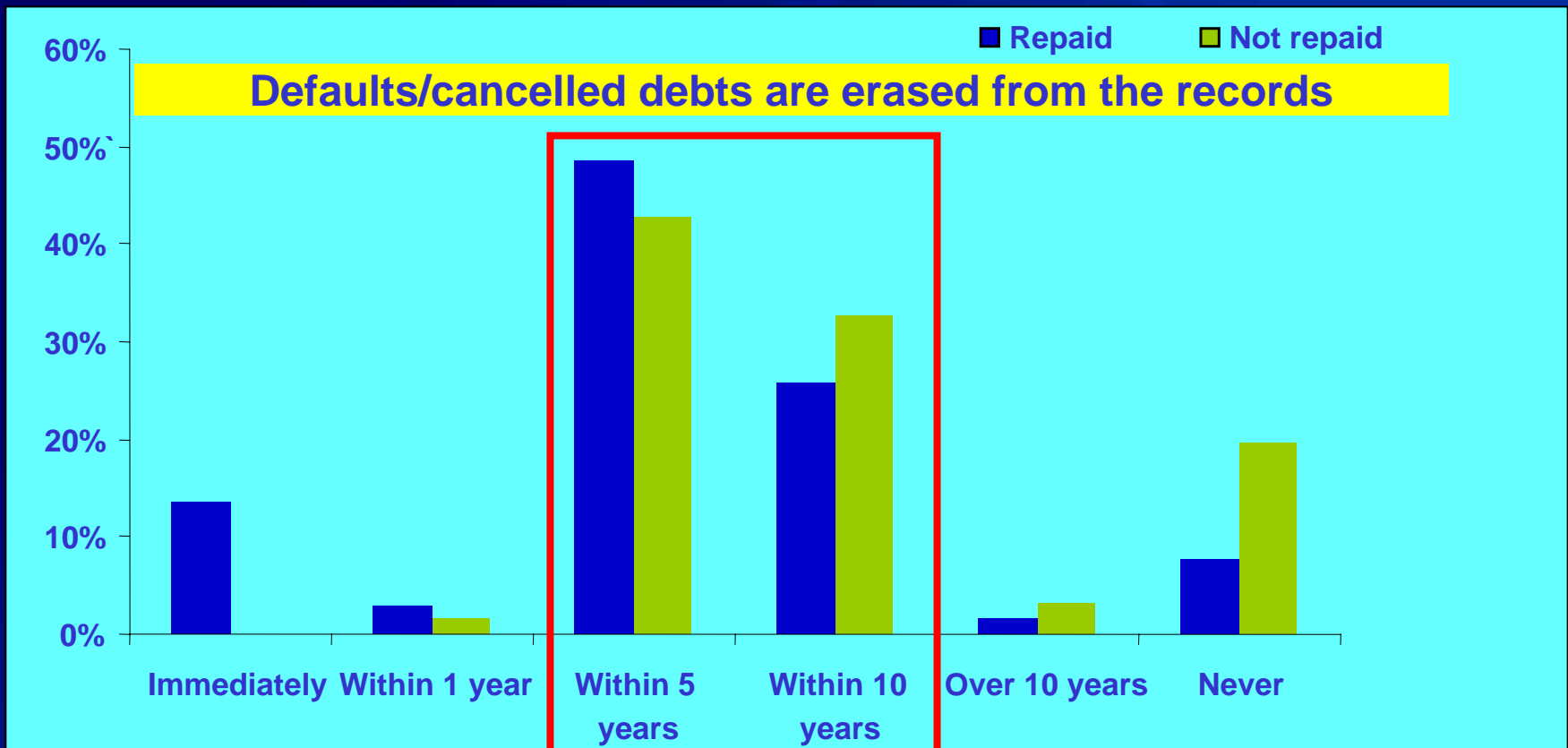
Who are the users of Private Credit Bureaus?

- Non-regulated entities account for 74% of inquiries while regulated only for 24%
- Banks generally concentrate on large business / corporate (volumes)
- Retailers and NBFIs on consumer credit (number of customers)
- Reluctance of banks towards consumer credit, retailers “pioneers” in many countries
- New trend: consumers are becoming “buyers” of information



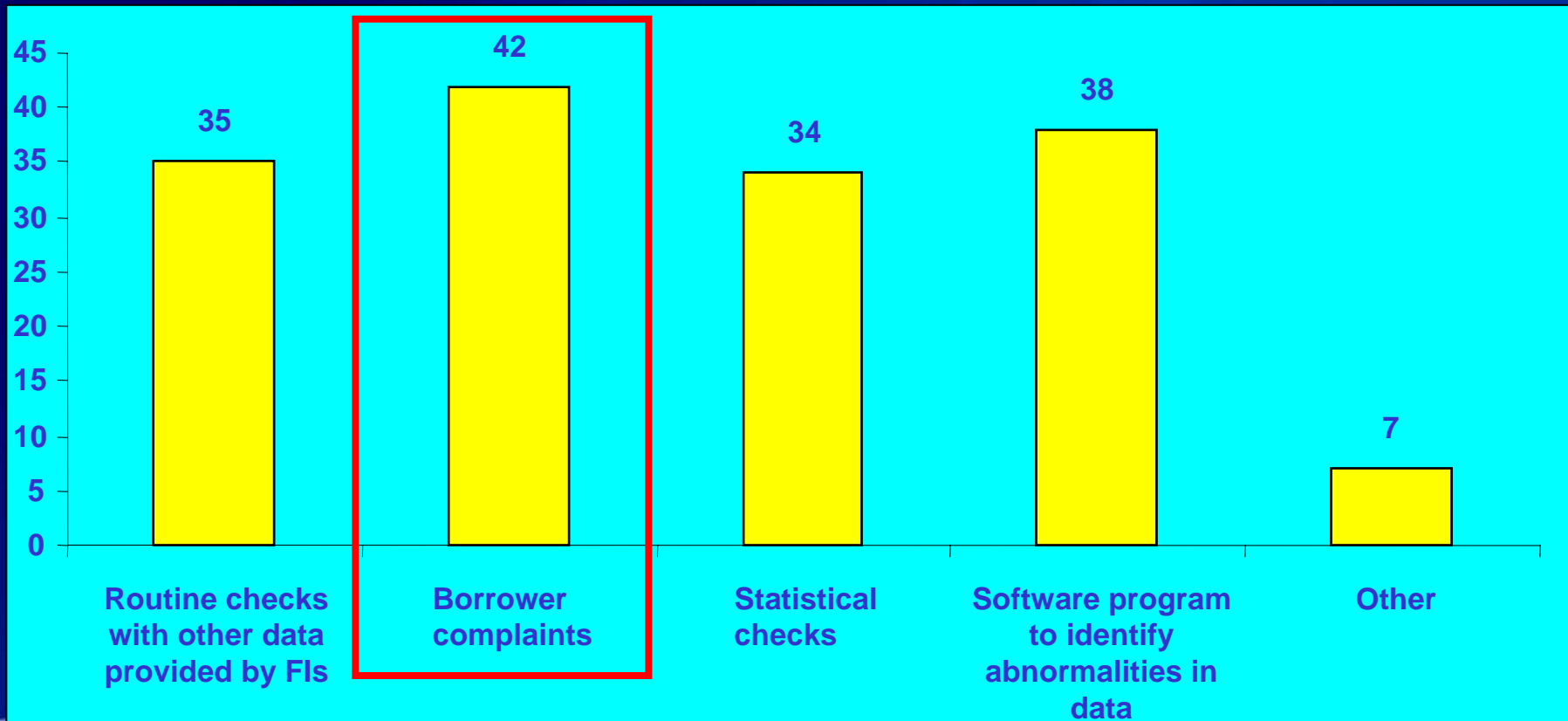
When are records erased from the bureaus?

- Vast majority of countries / bureaus hold data for 5 years or more
- Best protection for good payers



Ensuring data access / right to consumers: a fundamental need

- Consumers's right to be clearly and unmistakably enforced by law / regulation
- Consumers's awareness is key: unknown rights = no rights
- Role of regulators, lenders, and CB is key for the cultural change



Agenda

Global credit bureaus status 1

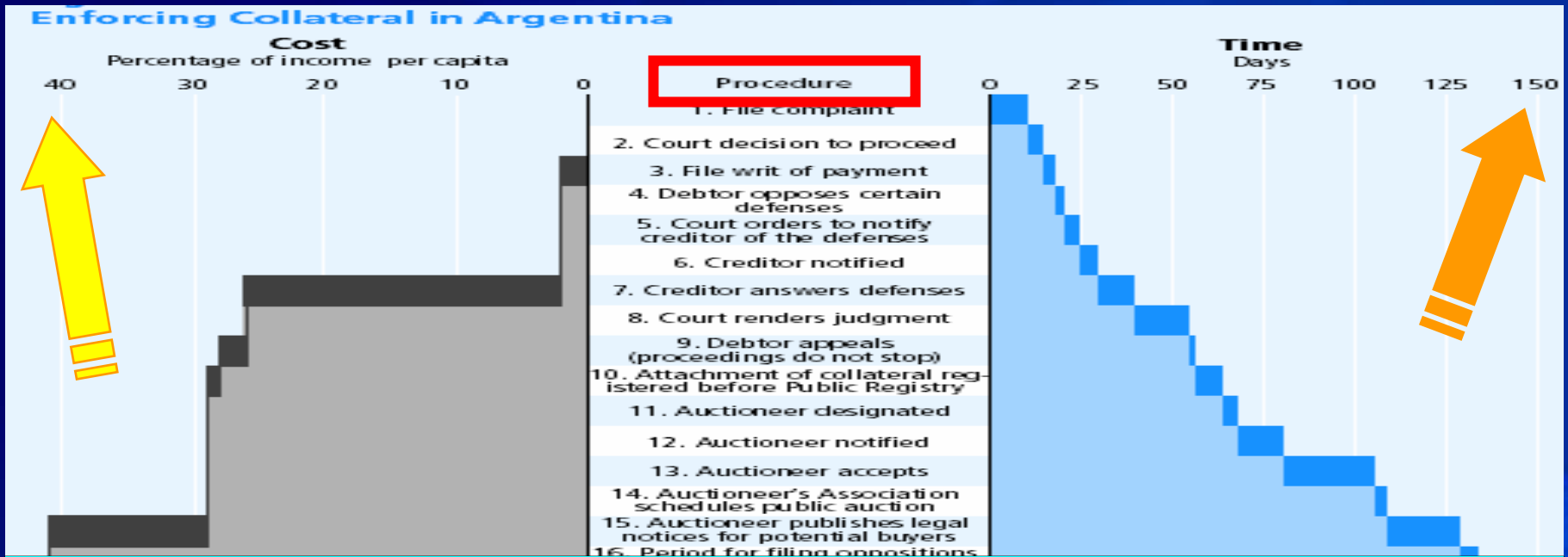
The benefits of positive information sharing 2

How can regulators help? International best practice 3

Credit Bureaus and the “democratization” of credit

The shift from collateral *to* “Reputational collateral”

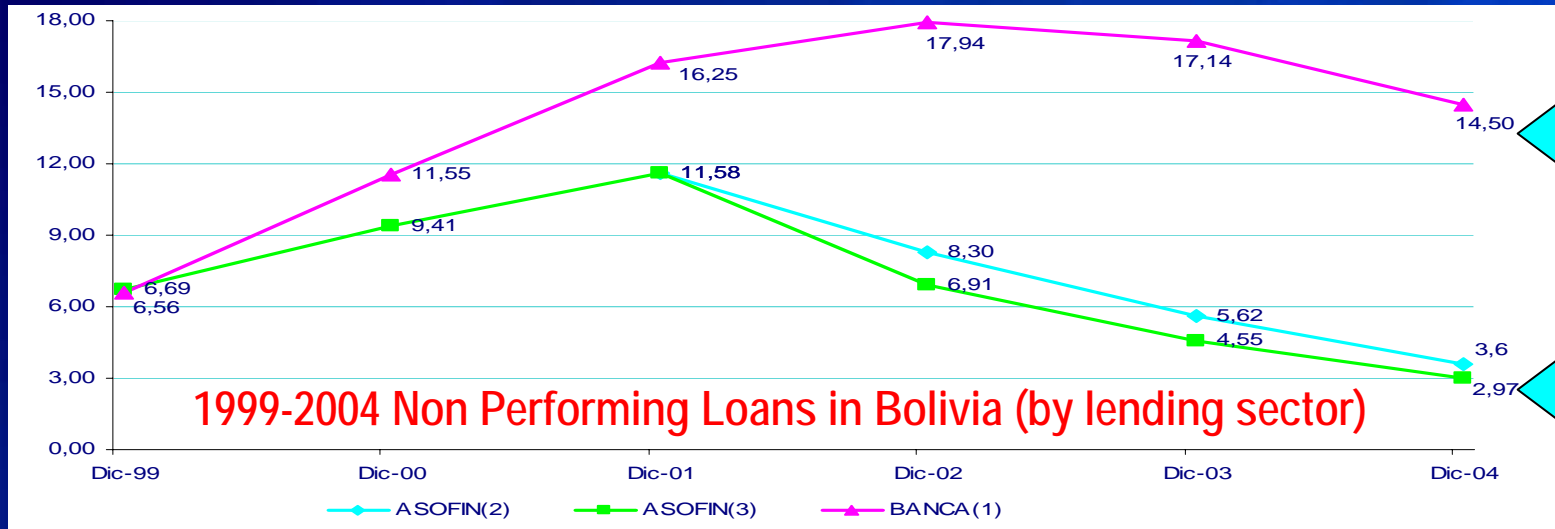
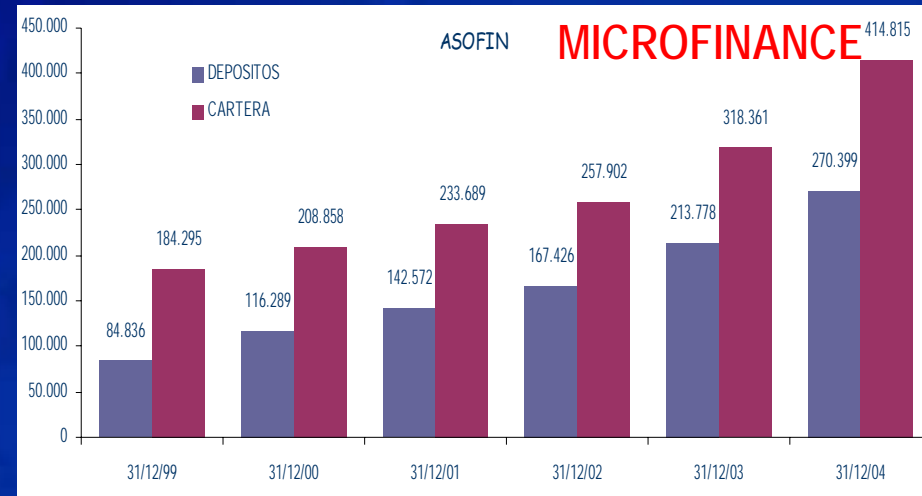
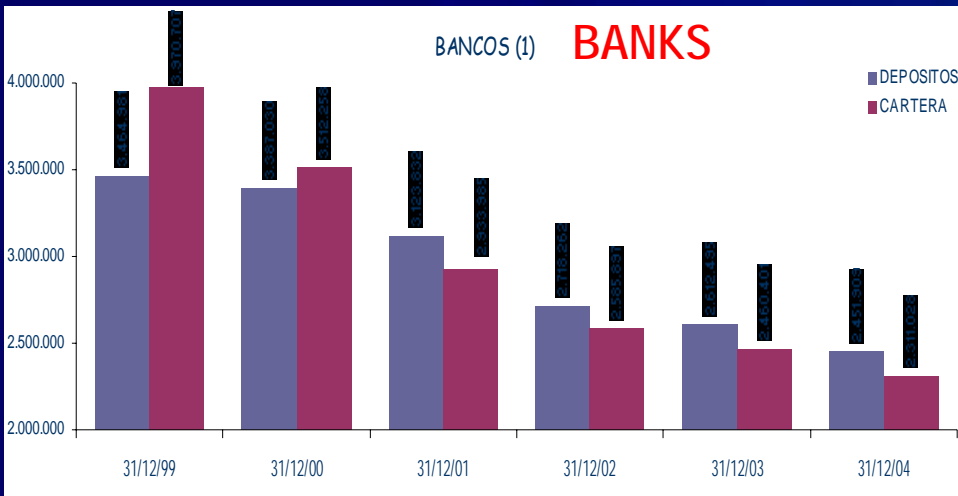
- Credit is linked to some kind collateral, but customers cannot always offer collateral
- Also the value of collateral is proportioned to the insolvency regime efficiency
- In a low protected environment creditors raise prices, collateral, or reject credit



Credit bureaus help to build a “reputational collateral” based on **payment performance** which is more effective than legal rights, it is free for all, protects consumers, allows broader credit access, hence **democratizes** credit lending.

Collateral a real problem or mainly an alibi?

- Credit in Bolivia (1999-2004) - Banks huge decrease (credit mostly with collateral)
- Microcredit rocketed (without collateral)



BANKS

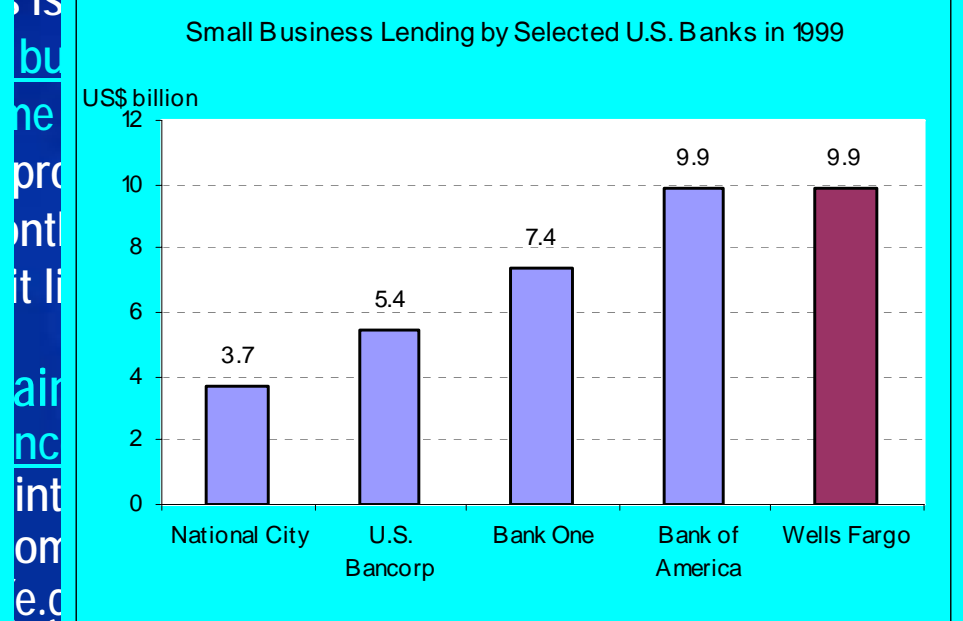
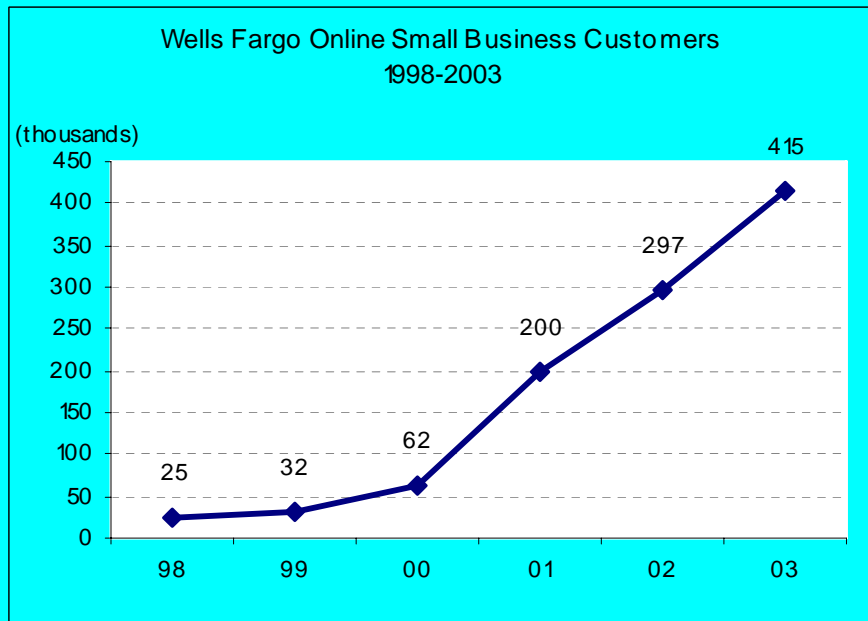
MICROCREDIT



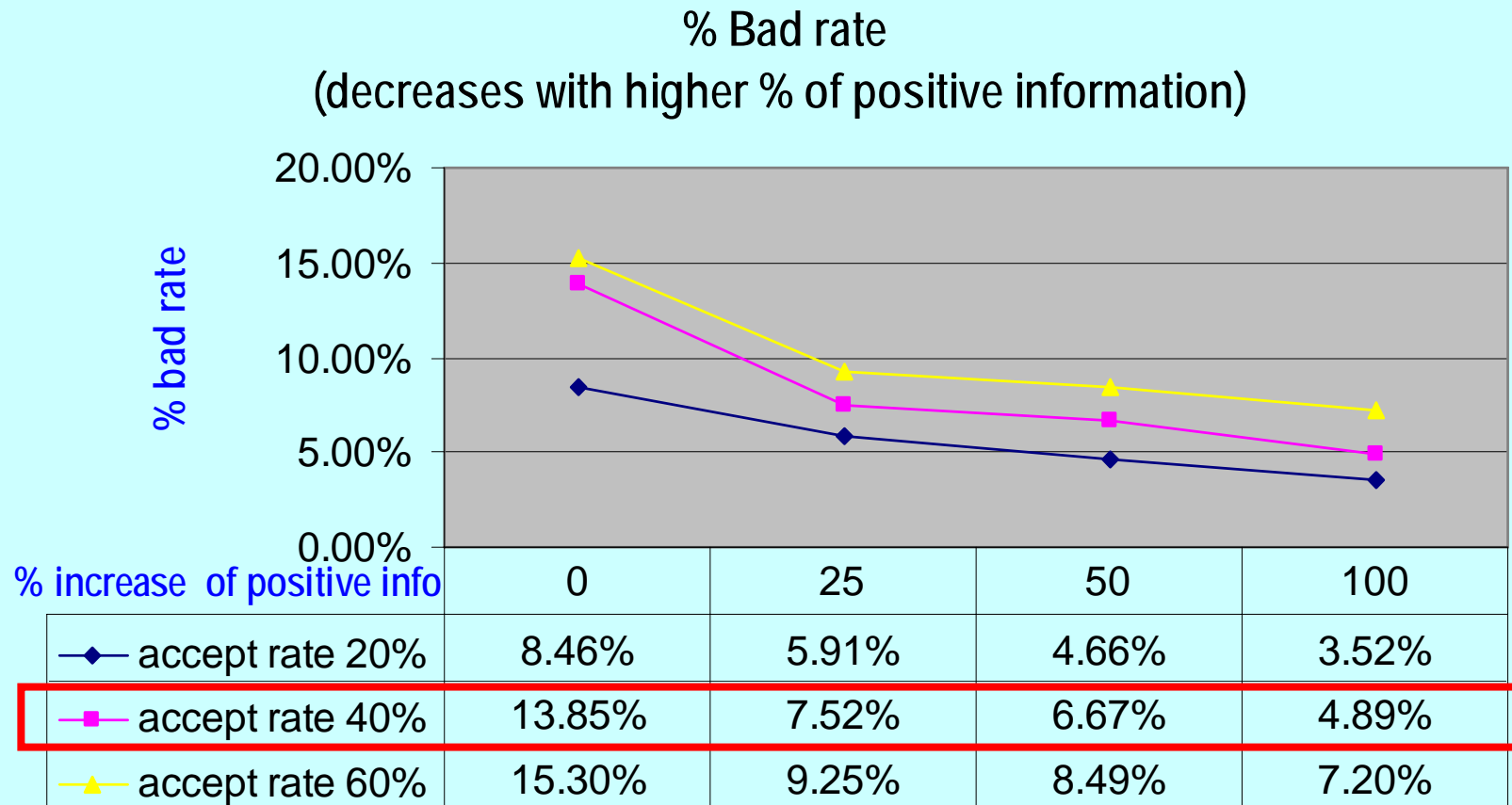
Lending to SME: with reputational collateral and credit card information

- In 1994 Wells Fargo started Business Direct (new SME division)
 - Average customer profile: sales US\$ 325.000 year; employ > 5 people
 - Maximum loan amount US\$ 100.000 average loan amount US\$15.000
 - Portfolio: by 1999 US\$ 9.9 billion; by 2003 US\$ 15bn
 - In 2002 WF rated number 1 SME lender in the USA
- Success factors?
 - Loan applications accepted by Internet, phone, mail (or branch)
 - No tax return or financial / income statements required;

Collateral not required about 94% of loans is

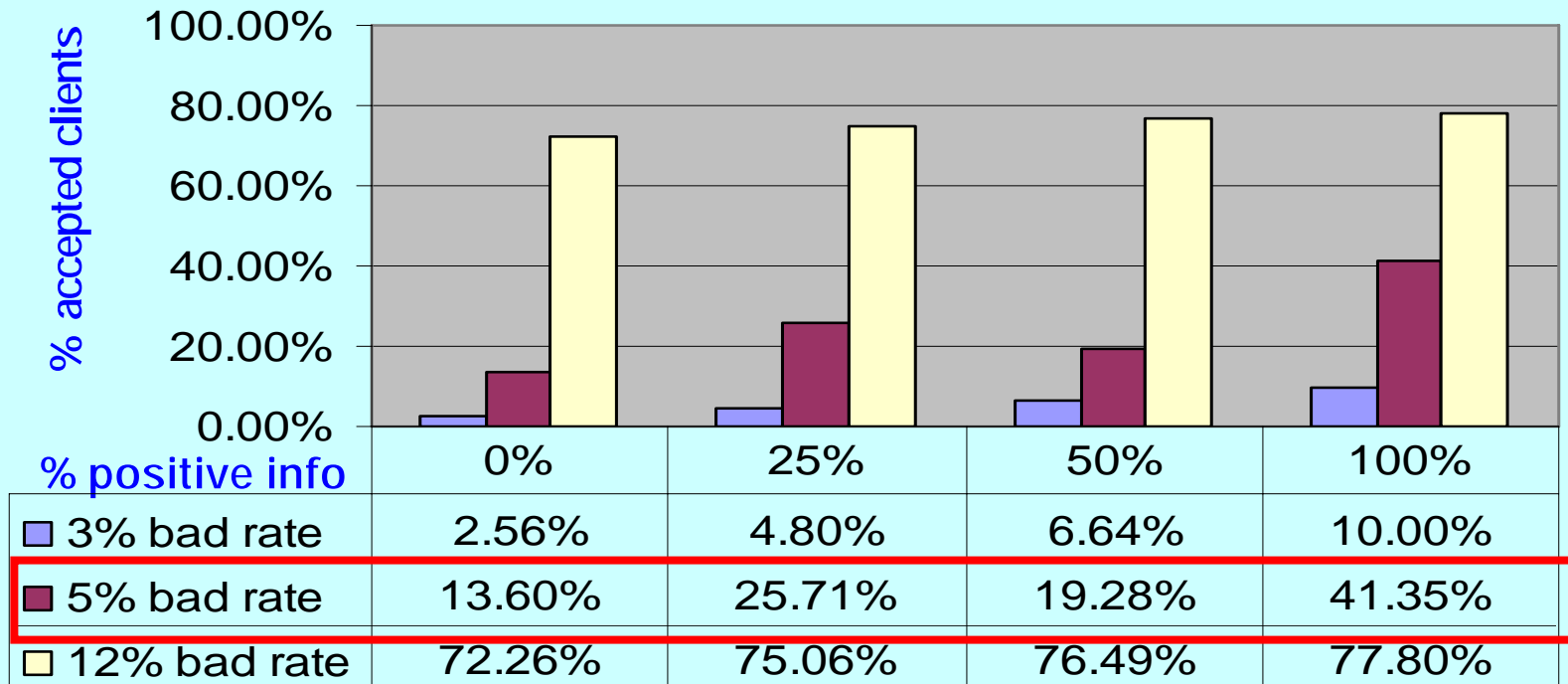


Benefits of full positive information sharing: bad debt reduction



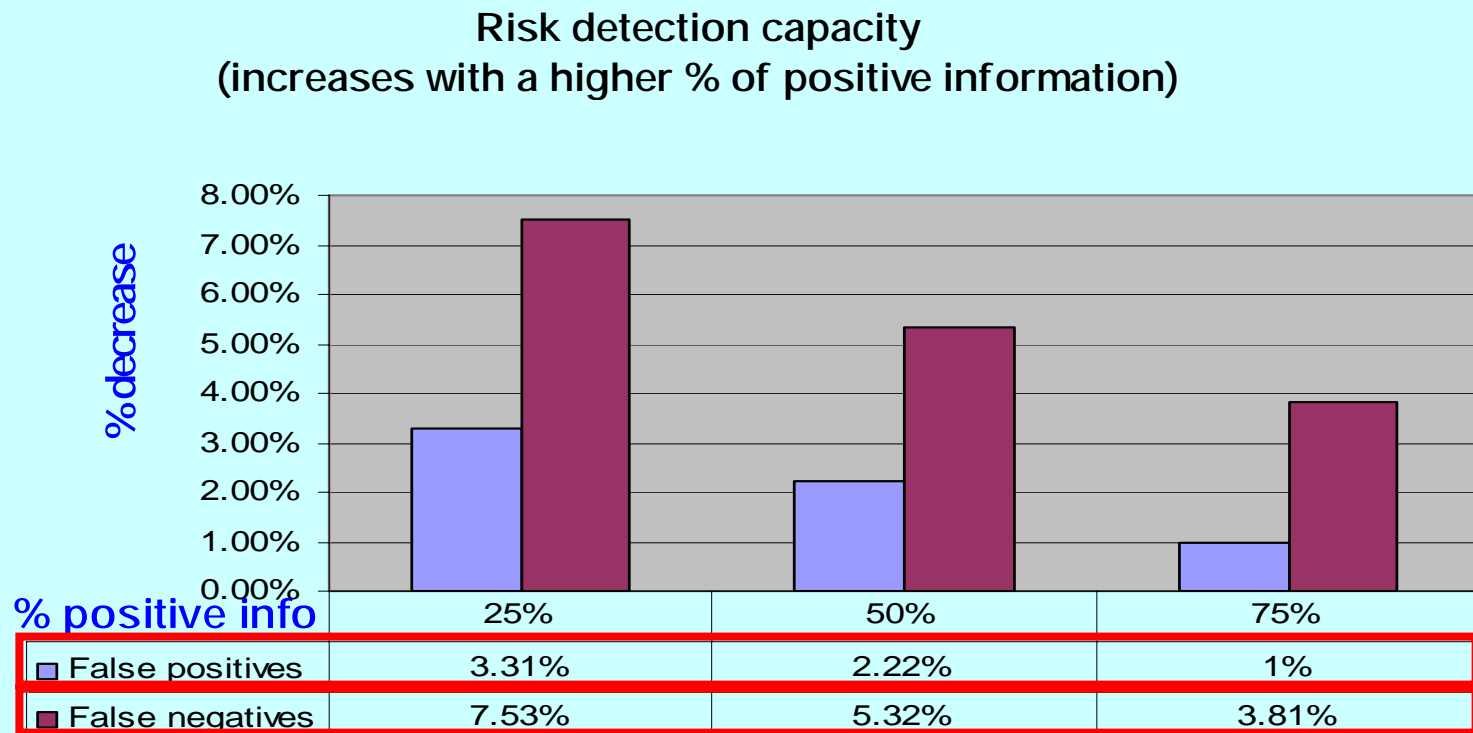
Benefits of full positive information sharing: increased access to credit

% Accepted clients
(increases with a higher % of positive information)



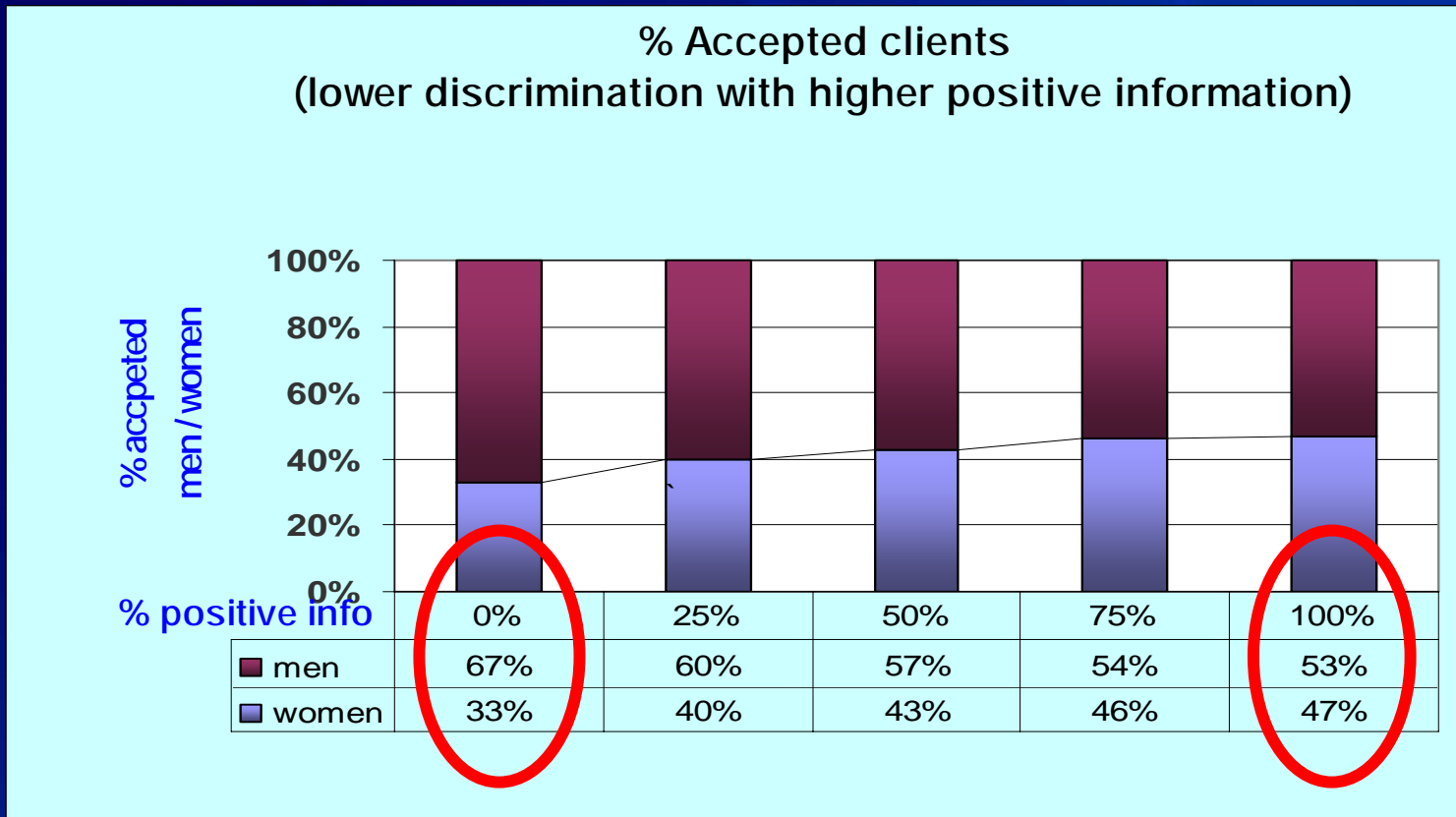
Benefits of full positive information sharing: more responsible decision making

- There are two types of wrong credit decision
 1. Accept bad customers
 2. Refuse good customers



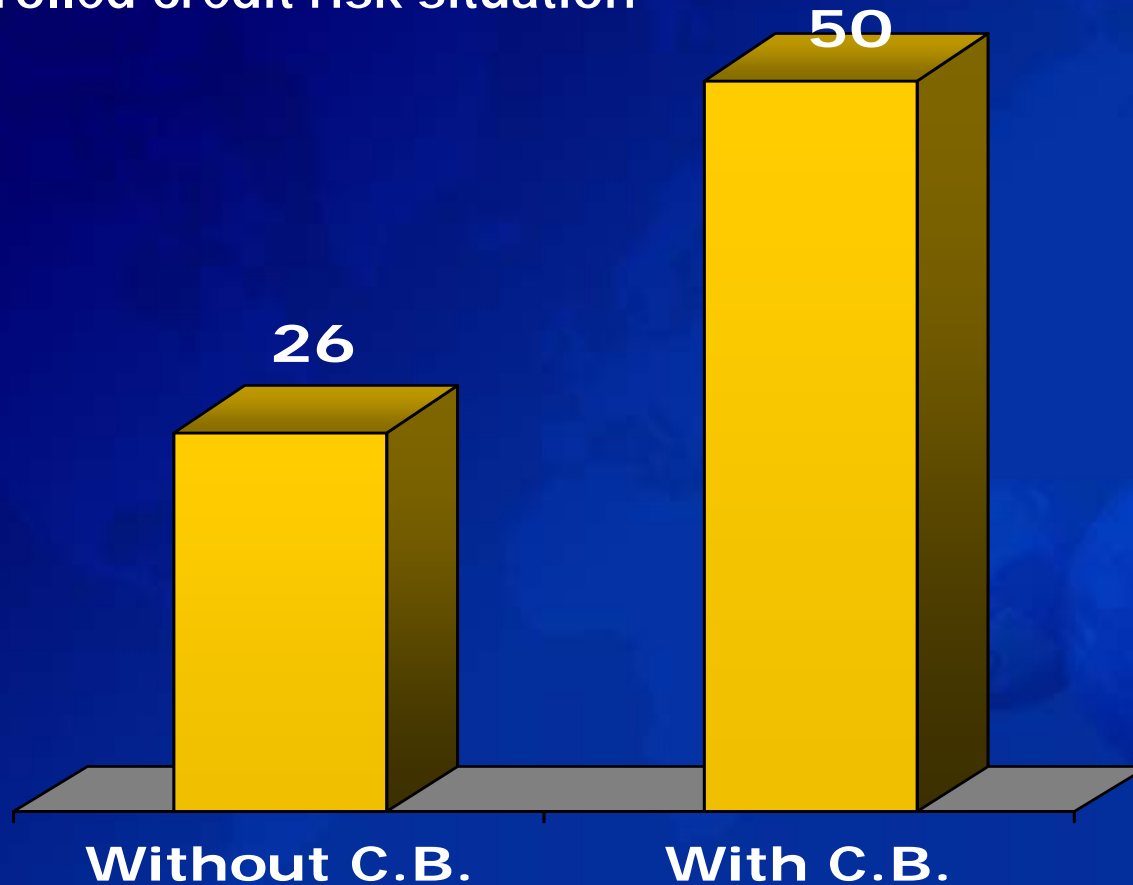
Benefits of full positive information sharing: more responsible decision making

- Responsible lending: the lower the amount of positive information the higher the discrimination



Benefits of full positive information sharing: improved country's financial rating

- Ratings of countries' financial system soundness increases with a more controlled credit risk situation



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Case study 1 – Ecuador, granting credit with no information: a financial Pearl Harbour

Still leaking wounds from over-indebtedness

- In 1992 capital inflows surged from US\$200 mn per year to US\$780 mn in 1994 (5% of GDP).
- Abundance of liquidity relaxed credit constraints for households and enterprises
- This led to a lending boom offered without proper risk assessment and information
- By 1994 bank credit to the private sector expanded at 60% annual rate
- Credit to private sector rose to 30% of GDP, compared to less than 15% (1989-92)
- This gave incentive for moral hazard, excessive risk taking, financial corruption
- Weak regulation after financial liberalisation encouraged financial fragility
- No Credit Bureaus were present at the time

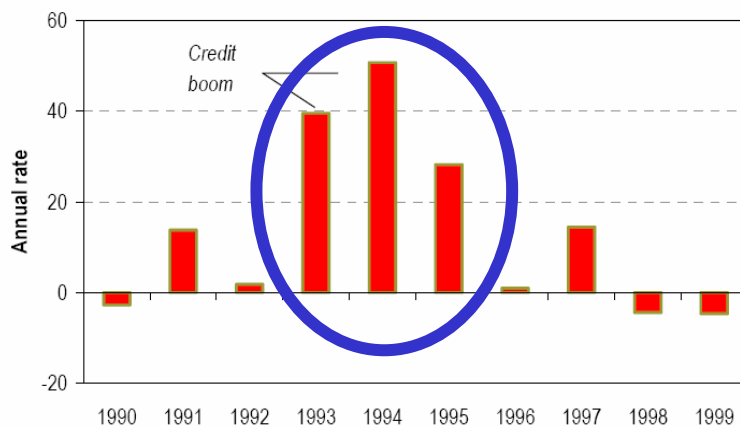
•Consequences

- Financials systems collapsed
- Deposits were frozen
- NBFIs liquidated, 16 banks (out of 40) closed
- GDP fell from US\$ 20Bn (1998) to US\$8 bn (2000)
- 20% of GDP was lost like many other crisis in LAC
 - Debt/GDP ratio went from 81% to 156%

•Solution

- Establishment of positive credit bureaus
 - Project led by the Superintendence
 - 4 CBs existing today
 - All lenders participating

Figure 12. Total Credit Banking System
(Real growth)

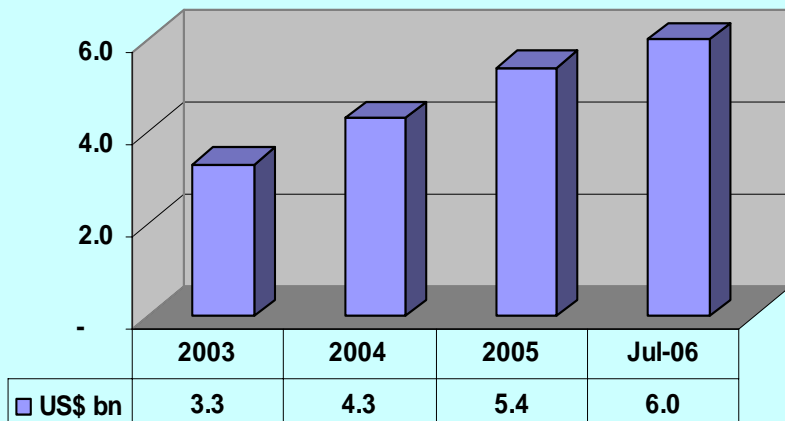


Source: Central Bank of Ecuador

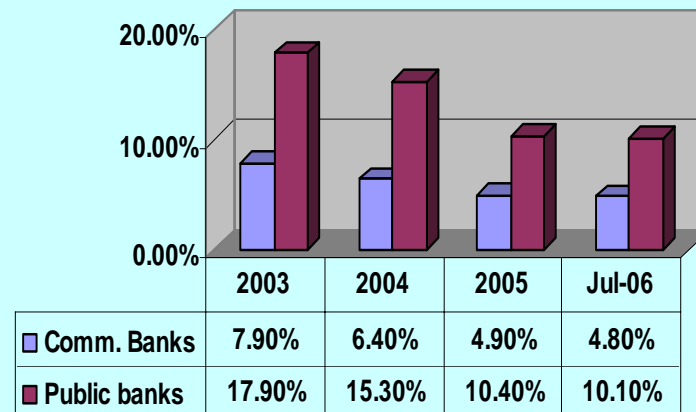
Case study 1 – Ecuador the results



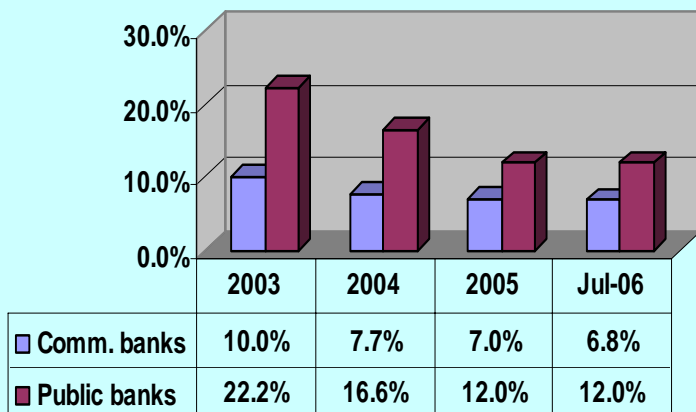
Banks gross portfolio growth



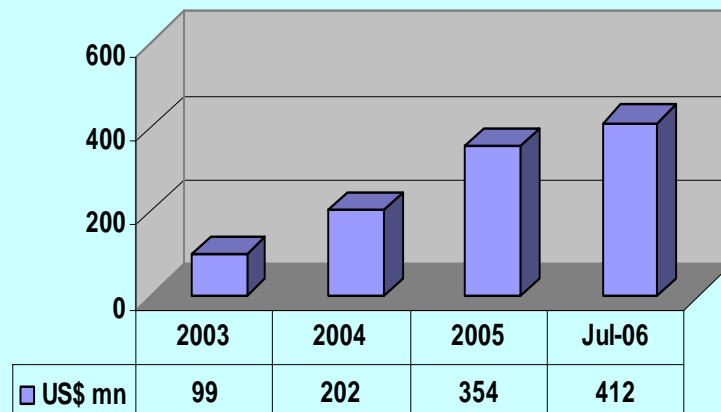
Bad debt decrease year on year



Provisions decrease as a % of gross portfolio



Banks' microcredit portfolio growth



Case study 2 - India the problem

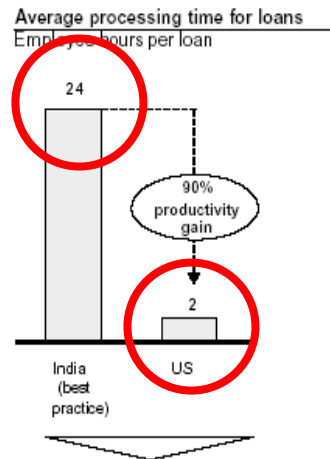


- In 2001 RBI (Central Bank) requested an assessment of retail banking to McKinsey
- Objective: understand why penetration in all retail credit products was very low?
- Particularly: why low penetration in retail credit?

CREDIT RATING INFRASTRUCTURE

Loan processing characteristics

- No credit history for individuals
- Self-employed individuals do not have any authorised certificates that indicate credit worthiness
- Banks do not share credit data and hence do not have a common credit rating pool
- Paper based transactions dominant
 - Payments collected as post-dated cheques
 - Electronic debits not recognised by courts for redressal in case of frauds

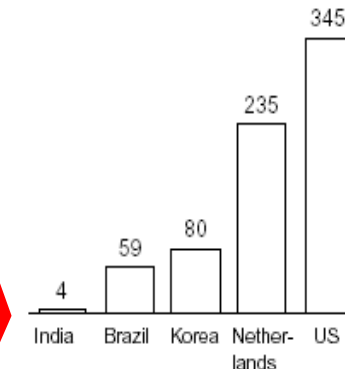


Given that 12% of all jobs are in credit verification, overall productivity can improve by ~10%

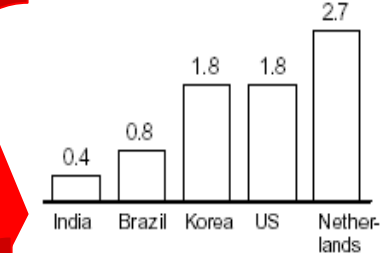
Source: Bank survey; McKinsey analysis

RETAIL BANKING OUTPUT – CROSS COUNTRY COMPARISON

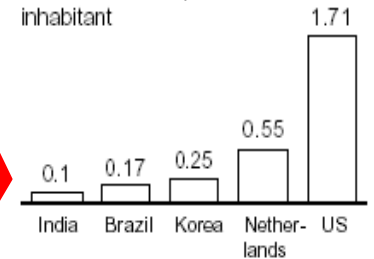
Payment output per capita
Number of payments per year per inhabitant



Deposits output per capita
Number of deposits per inhabitant



Loans output per capita
Number of loans per inhabitant



Source: RBI special statistics; McKinsey analysis

- Findings: low lending volumes and low access to finance was basically a result of lack of information sharing / risk management tools and automation.

Case study 2 – India

the solution: regulators must lead the change



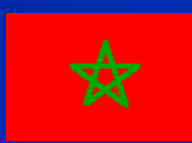
2002 – Centrak Bank led the reforms strongly promoting the start-up of a new CB

- Espousing the concept of a private Credit Bureau and fostering its development
- Following project from planning to implementation
- Leading legislation drafting
- Monitoring consent acquisition: reports to be submitted by banks to RBI
- Obstacle: legal restrictions to disclose credit information among lenders
 - RBI instructed banks to **compulsory** obtain borrowers' consent and share data with CB
 - Consent to be obtained for all **new** and **old** loans to create a critical mass in the DB
 - **Progress report** on consent obtained by banks **to be submitted** to the RBI
 - On April 5, 2004 the first Consumer Bureau (CIBIL) was launched
 - **Penalties** on banks that do not comply with submission of data
 - Other Credit Bureaus are now ready to be licensed in India

2004 – drafted new legislation enforcing that:

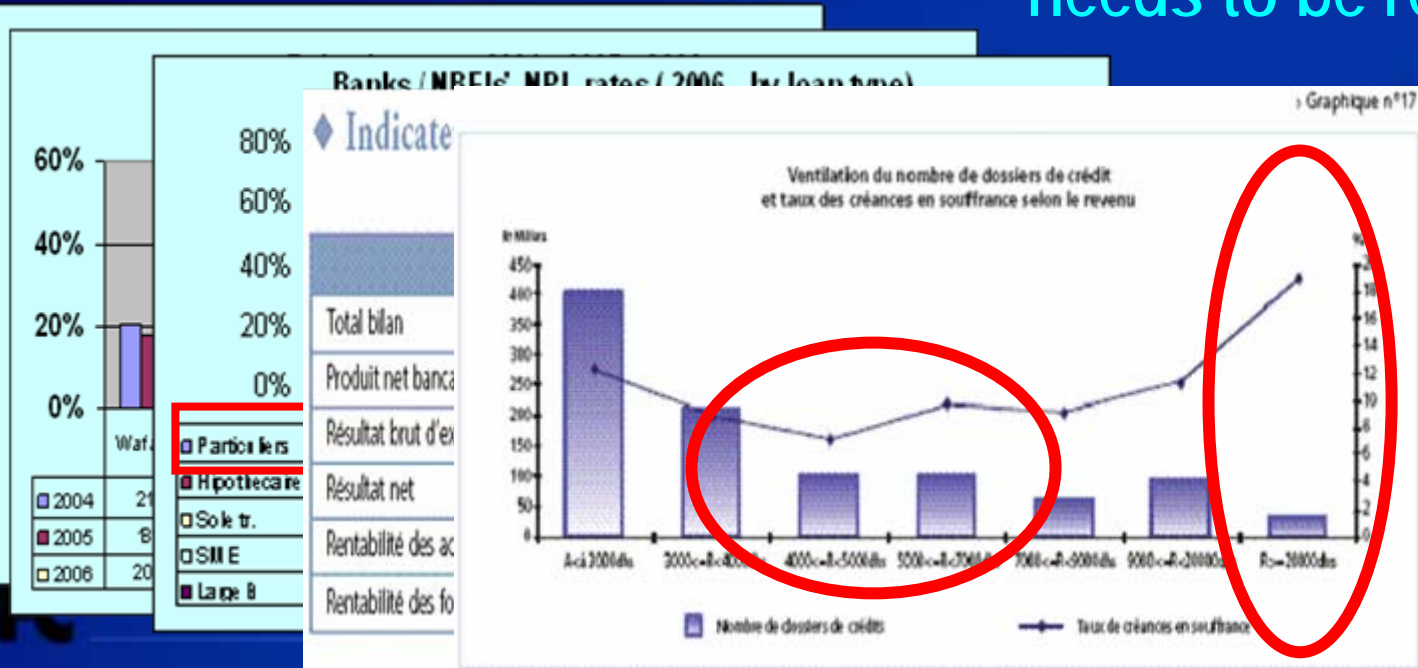
- New regulatory framework for Credit Bureau's operations
- Clear consumers's rights established
- **No borrower's consent necessary** for sharing (only for inquiry)
- Clear financial institutions' rights and obligations

Case study 3 – Morocco a problem for the Central Bank (BAM)



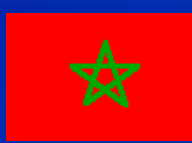
- Credit is limited, collateralized and selective)
- Rejection rates are extremely high
- Nevertheless bad debt rate is outrageous, particularly for consumer credit
- Profitability is weak, risible for public banks, and the systems is vulnerable
- The most affluent customers represent the poorest risk
- While the best customers (medium income) are penalized

Clearly a system that needs to be reinvented!



Case study 3 – Morocco

How was it reinvented? The “Decalogue”

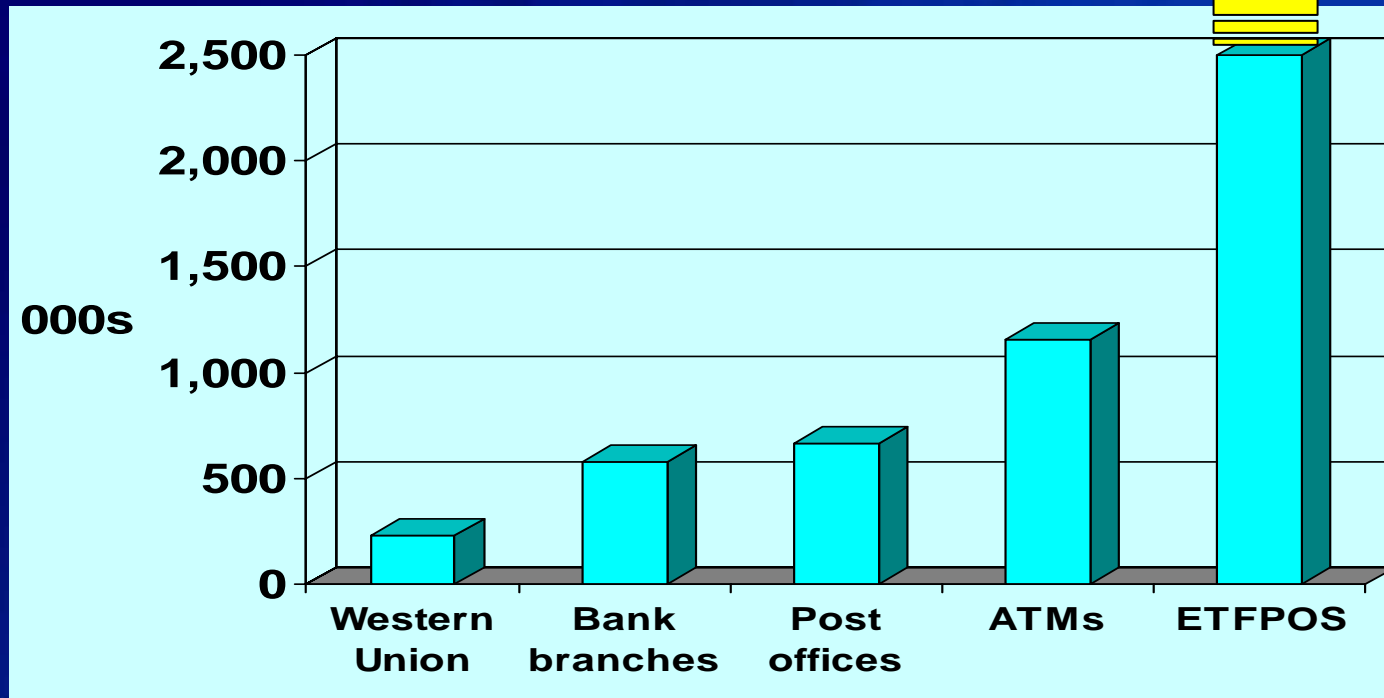


A first class credit bureau systems established

1. Every month, all regulated entities must supply BAM with all information concerning all loans typologies, regardless of the amount (consumer’s consent not required)
2. On a monthly basis BAM
 - consolidates, processes, and updates the data received
 - supplies all the licensed Credit Bureaus with the same information base
3. Historical data must be part of the database (ideally 5 years)
4. Non-regulated lenders allowed to share data with CBS (customer’s consent required)
5. Inquiring a CB before granting credit becomes mandatory for lenders
6. After first CB starts operations lenders no longer allowed to consult BAM’s registry
7. BAM is the only supervising and licensing authority for CBs
8. Code of Conduct and other norms to be enforced through a simple BAM’ regulation
9. Through supervision BAM ensures compliance with legislation and Code of Conduct
10. BAM can access any CB database for supervision/systemic risk prevention purposes

Case study 4 - the importance of information on mobile phones /utilities

Mobile telephones: the revolution!
A payment system mainly in the hands of the poor!



Case study 4 – mobile phones the great leap forward

- US consumers carry mobiles twice as much as cash or credit card
- This proportion is four times among those consumers aged 18-34
- Mobile phone payments will climb from \$ 3.2 to \$37 billion in 2008(*)
- **The two GIANTS:**
 - China: 450 million handsets sold (end 2006)
 - India: 140 million sold (end 2006)
 - In January 2007 India overtook China: 8 million mobiles sold
 - By 2010 more than 1.2 billion handset only in China / India
- **The social / business impact will be dramatic**
 - Cash to start, will be replaced by mobile phones then cards
 - Small shopping, short commuting, entertainment, even remittances, particularly impacted
 - TelCos will be in the virtual position to decide if becoming financiers themselves
 - Traditionally distribution and systems have been controlled by banks/payments systems
 - Speculations are that in a few years we may assist to the biggest payment revolution of all:
 - the death of credit (plastic money) as we know it today

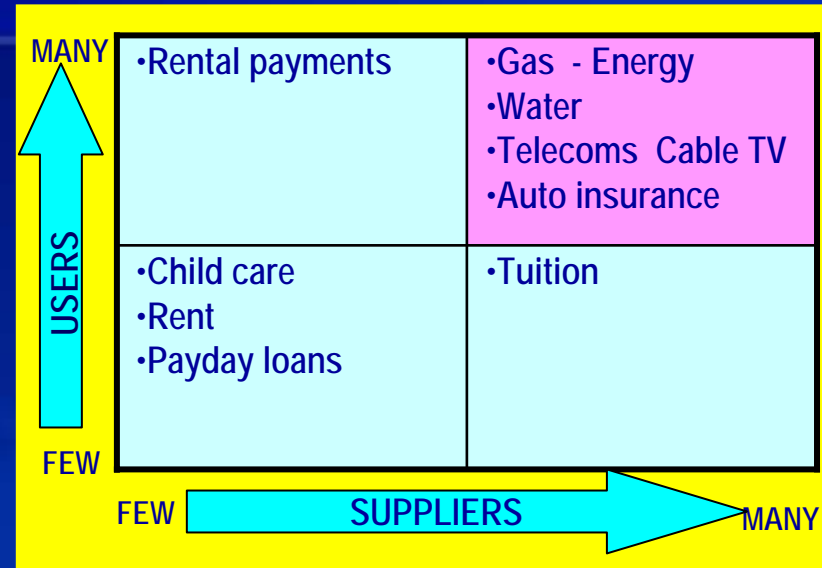


How can this information help to grant more and more
responsible credit?

Case study 4 - score the "unscorable"

•Who are the unscorables?

- Poor consumers, informal economy, micro business
- They pay cash and have no credit history
- They have difficulty in accessing credit
- They have a "thin-credit history" or "no history at all"
- In the US estimated in 35-50 million
- In Mexico up to 50% of the population
- Their transaction are defined as "credit like / cash-like"



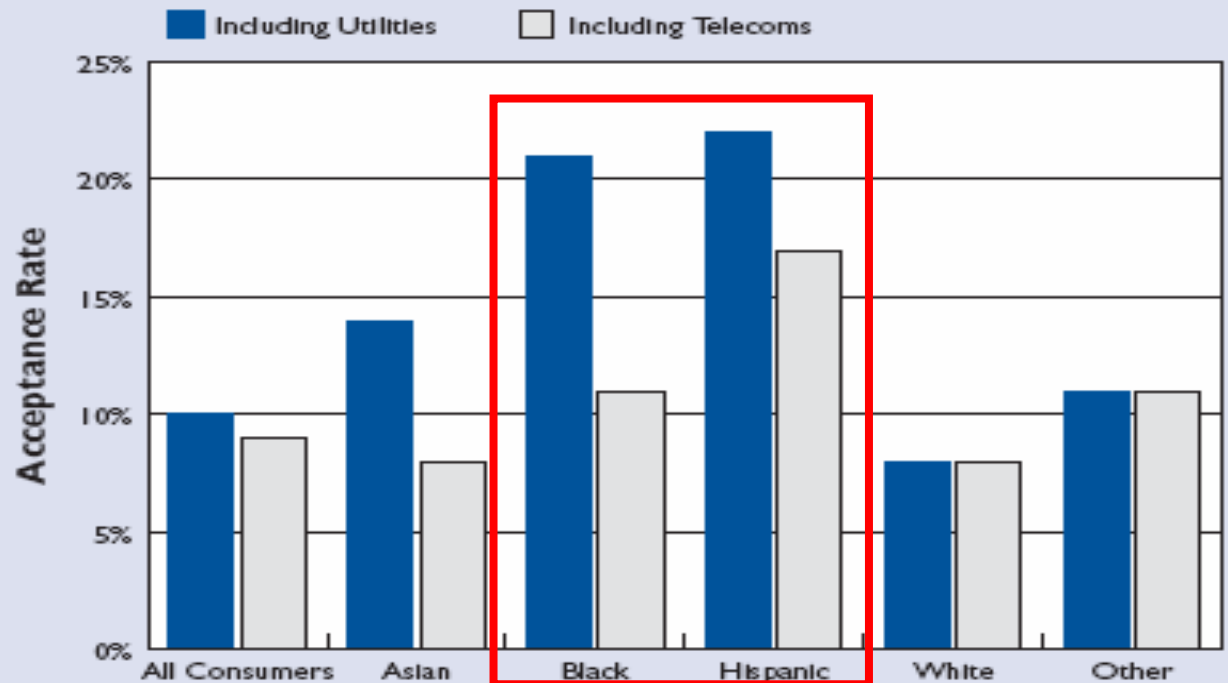
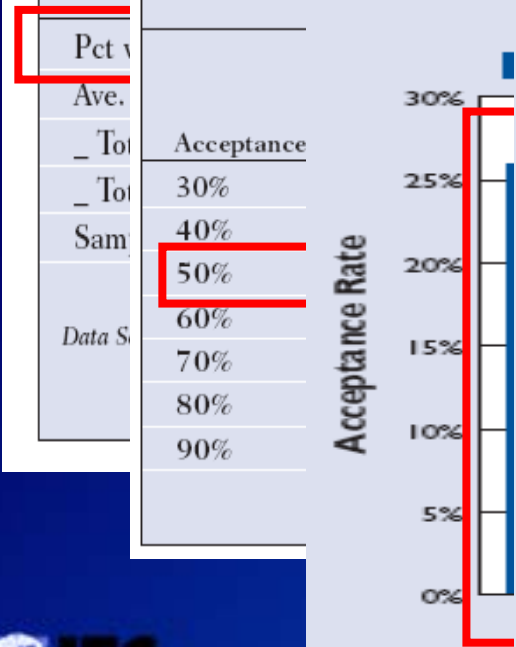
- These include: utilities, rentals, cable TV, pay-day loans, childcare, insurance
- Regularity on these payments is a **strong risk indicator**, and a shortcut to build a credit history
- This data, normally referred as "**non-traditional**" or "**alternative**", is very predictive
- Utilities (public ones in particular), are the most helpful since universal, concentrated, reliable
- However this data rarely reaches the CBs because of regulatory hurdles to share it
- Problem not due to restrictive laws but to lack of legislation regulating its sharing
- In **Panama** the new CB law allows sharing of "non-traditional" data (mainly utilities)
- In **Brazil** the new CB law project (Medida Provisoria) allows the sharing of non traditional data

Case study 4 - Positive impact of alternative data on acceptance rates

- Increases credit access, decreases NPL, reduces discrimination

Table 5.6. Serious Delinquencies by Target Acceptance Rates: VantageScore Model

Figure 6.1a Consumers by Race with Utility Trades (Assumes 3 percent Serious Delinquency Rate)





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Thanks! Questions?

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