FABRIZIO FRABONI
UNCITRAL
Colloquium on microfinance
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FABRIZIO FRABONI
Responsible Finance – The Counter Balance

- More than 2.7 billion people and over 400 million businesses still lack basic financial services in the developing world

- Enormous growth in the financial sector, especially microcredit

  Versus

- Over-indebtedness and coercive credit collections (India, Bosnia, etc)

- Ongoing Financial Crises in Europe and the importance of transparency and accountability
Globally, half of all working-age adults are unbanked.

77% of the poor unbanked

Adults with account at formal financial institution, (average in %)

SOURCE: Global Findex Database, World Bank 2012
Where does credit reporting need for starts from?

Countries without Credit Bureaus are generally the same...

...where access to credit is more difficult!
Is there a standard, efficient, cost-effective, solution to mitigate these problems?

- Credit Bureaus in the last 50 years proved an effective answer in over 100 countries
- Credit bureaus are mushrooming worldwide
- They can serve a responsible credit expansion in MENA as well
Private Credit Bureaus: commercial, private, for-profit, organizations that generally are:
- regulated by specific regulations/laws
- licensed and/or supervised by central authorities
- operated by leading international reputed providers or good local ventures
- required to comply with data privacy norms and borrower’s rights to access/correct data

1. Collect at least monthly all credit data (positive and negative) on all consumer credit, micro, SME loans from all lenders (information providers)
2. Process the data, includes other data sources (e.g. public) and adds value to the data through technology and experience
3. Sell back the information to the lenders/users as credit reports and other services (e.g. bureau scores)
**What is an effective Credit Bureau?**

- CR collect debt information only (loans) (no deposits, no savings), these are not important to detect risk.
- Information can be negative (arrears) and positive (monthly payment history, credit limit).
- Quality depends from completeness of information and responsibility for it rests with the banks not the registry.

<table>
<thead>
<tr>
<th>TYPE OF INFORMATION</th>
<th>Positive &amp; Negative Information</th>
<th>Negative Information only</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>“Full”</strong> (information shared by all sectors: banks, retailers, NBFIs, MFIs, Mobile Telcos, etc)</td>
<td>High Predictiveness (e.g. UK, India, Ecuador)</td>
<td>Lower Predictiveness (e.g. Australia, Swaziland)</td>
</tr>
<tr>
<td><strong>“Fragmented”</strong> (information shared among one lending sector only – e.g. banks)</td>
<td>Lower Predictiveness (e.g. Romania, Kuwait)</td>
<td>Lowest Predictiveness (e.g. Botswana)</td>
</tr>
</tbody>
</table>
Who owns / operates PCBs?

- Majority of PCBs are owned by technical providers (i.e. Transunion, CRIF, Experian, D&B, etc.)
- Another share of PCBs is owned by technical providers with financial institutions
- The third model, though not extremely diffused, is ownership by industry associations
- Partial / full government ownership of PCBs is rare and not really best practice
Laws regulating Private Credit Bureaus

Data Protection laws are most common due to a rising use of data sharing and increasing importance of regulating data sharing.

Bank secrecy laws persist with 50% countries reporting that credit information data cannot be shared with NBFIs.

72% of bureaus report that banks can share credit information with private firms outside the industry, with borrower’s consent.

Source: Doing Business 2010. According to survey data for 70 countries with PCBs.
• Percent increase of good applicants who obtain a loan

- **Negative only**: 39.8%
- **Credit bureau (positive and negative data)**: 74.8%
  - 89% increase in approval rate
- **PCR (Banks only)**: 75.4%
  - 11% increase in approval rate
- **PCB (Banks, retailers, MFIs, etc.)**: 83.4%
  - Out of 100,000 Applicants 35,000 potential good customers are lost if assessment is based on negative data only.
  - Out of 100,000 Applicants 11,000 potential good customers are lost if assessment is based on one lending sector info only.

Source: Barron and Staten (2000). Figure shows the simulated credit availability assuming a target default rate of 3%.
Positive credit information reduces default rates

Note: Estimates are based on information on large loans from public credit registries in Argentina and Brazil. Graph represents predicted default rates at 60% approval rate. Based on Majnoni, Miller, Mylenko and Powell (2003) “Public Credit Information Systems: Evaluating Available Information”, World Bank.
Small firms benefit from credit bureaus

Estimates based on data on 5000 firms in 51 countries

% of Small Firms Reporting High Financing Constraints

- Without credit bureau: 49%
- With credit bureau: 27%

Probability of Obtaining a Bank Loan for a Small Firm

- Without credit bureau: 28%
- With credit bureau: 40%

Bank Assessments of the Impact of Credit Registries

**Egypt: increased credit access**

<table>
<thead>
<tr>
<th></th>
<th>Jun-08</th>
<th>Jun-09</th>
<th>Dec-09</th>
<th>Mar-10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Loans in (LE mn)</strong></td>
<td>78,332</td>
<td>84,588</td>
<td>88,924</td>
<td>89,419</td>
</tr>
</tbody>
</table>

**Consumer Loans growth in (LE mn)**

![Graph showing the growth of consumer loans from Jun-08 to Mar-10](image-url)
Egypt: decreased Non Performing loans

**ASSET CLASSIFICATION ACCOUNTS**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>Mar-10</th>
<th>Improved % 2009 vs. 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) PERFORMING</td>
<td>91.0</td>
<td>92.5</td>
<td>2%</td>
</tr>
<tr>
<td>B) SUB_STANDARD (30-90 DPD)</td>
<td>3.6</td>
<td>3.2</td>
<td>-11%</td>
</tr>
<tr>
<td>C) DOUBTFUL (90+ DPD)</td>
<td>1.2</td>
<td>0.6</td>
<td>-50%</td>
</tr>
<tr>
<td>D) BAD **</td>
<td>4.2</td>
<td>3.7</td>
<td>-12%</td>
</tr>
</tbody>
</table>

**Note:** 150+ DPD (Days Past Due) for loans and 180+ for Cards.
Palestine: increased access to credit, reduced NPL, reduced provisions

- # of Credit files up by 33%
- # of Borrowers up by 35% & # of Guarantors up by 155%
- Provisions down by 61%
- Non-performing loans down by 66%
- Banks & MFIs portfolio growth up by 52%
- # of Inquiries & Open records
- Hit Ratio up by 18%

- Banks & MFIs portfolio growth: 52%
- Non-performing loans: down by 66%
- Provisions: down by 61%
- Hit Ratio: up by 18%
- # of Inquiries & Open records: increasing
- # of Credit files: up by 33%
- # of Borrowers & Guarantors: up by 35% & 155%

Palestine: increased access to credit, reduced NPL, reduced provisions.
Lebanon: despite the crisis... increased access to credit, and reduced NPL.
Ecuador - the results after PCBs establishment

Banks portfolio growth

Provisions % decrease

MFI portfolio growth

NPL % decrease

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Sep-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMM. BANKS</td>
<td>7.9%</td>
<td>6.4%</td>
<td>4.9%</td>
<td>4.0%</td>
<td>3.58%</td>
<td>3.49%</td>
<td>4.75%</td>
</tr>
<tr>
<td>PUBLIC BANKS</td>
<td>17.9%</td>
<td>15.3%</td>
<td>10.4%</td>
<td>8.0%</td>
<td>7.32%</td>
<td>7.76%</td>
<td>8.12%</td>
</tr>
</tbody>
</table>

US$ bn

<table>
<thead>
<tr>
<th>Year</th>
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<th>2007</th>
<th>2008</th>
<th>Sep-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMM. BANKS</td>
<td>3.3</td>
<td>4.3</td>
<td>5.4</td>
<td>6.0</td>
<td>7.1</td>
<td>9.1</td>
<td>8.4</td>
</tr>
<tr>
<td>PUBLIC BANKS</td>
<td>22.2</td>
<td>16.8</td>
<td>12.0</td>
<td>11.0</td>
<td>8.5</td>
<td>6.6</td>
<td>6.5</td>
</tr>
</tbody>
</table>

almost 10 times the credit volume in 6 years
• Real case of a country in MENA where a PCB is operational
• MFIs in Egypt have been unwilling to share data with the PCB
• IFC proposed a cross-tabulation analysis between 3 major MFIs data and PCB data (banks)
• MFIs discovered that:
  • many clients also had loans with banks (red cylinder)
  • That banks credit lines to same customers were nearly thrice as larger
• MFIs immediately signed an agreement to share data with the PCB
• This would not have been possible with a public credit registry collecting only banks’ data

### PCB benefits (3):

**reduced cross-lending / over-indebtedness**

<table>
<thead>
<tr>
<th>Credit limit details</th>
<th>Micro Finance Companies</th>
<th>PCB</th>
<th>Other MF. Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit limit details</td>
<td>285,891,972</td>
<td>736,654,086</td>
<td>8,650,222</td>
</tr>
</tbody>
</table>
PCB benefits (4): more credit for SME
(using PCB personal loans data to assess the SME)

• Background:
  • In 1994 Wells Fargo started Business Direct (new SME division)
  • Average client profile: sales <US$ 325,000 year; employ <5 people
  • Average loan amount US$15,000; max loan amount US$ 100,000

• Results:
  • 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;
  • No collateral required (about 94% of loans unsecured)
  • Decision based on owner personal loans data in the PCB
  • Fully automated decisions (70%) PCB + bureau scores + WF scoring
  • Lower processing costs (US$ 30)
  • Lower processing time (15 minutes) to underwrite a loan
LAC continues to lead while ECA, EAP and MENA are big reformers demonstrating significant leaps in improving the coverage of private credit bureaus.

Source: Doing Business 2012

What has changed in 7 years?
Year to year the steady growth of private credit bureaus can be seen.
The World Bank uses two basic parameters to rate CBs worldwide, every year:

a) **Credit Information Sharing Index** (score 0-6 based on the following parameters)
   1. Both firms and individuals are listed
   2. Both positive and negative information are stored
   3. Retailers, NBFI, utilities, etc. share data
   4. Consumer right to inspect data is guaranteed by law
   5. Loans above 1% GNI per capita are stored
   6. 5 or more years of historical data is held

b) **Percent of population covered by credit bureaus**
General Principles on Credit Reporting

I. Data
   - Data collection and retention

II. Security & Efficiency
   - Security Measures
   - Reliability & Efficiency of Data

III. Governance & Risk Management
   - Accountability
   - Transparency
   - Effectiveness
   - Fair Access

IV. Legal & Regulatory Framework
   - Clarity & Predictability
   - Non-Discrimination
   - Proportionality
   - Consumer rights and data protection
   - Dispute resolution

V. Cross-border Data Flows
   - Pre-conditions
   - Requirements
Thank you!

Fabrizio Fraboni
ffraboni@ifc.org

Credit Bureau Knowledge Guide

http://advisoryservices.ifc.org/go/doc
details.aspx?mid=1&mde=b&id=1137