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Harnessing the power of credit reporting systems

UNCITRAL
Colloquium on microfinance

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Responsible Finance – The Counter Balance

- More than <u>2.7 billion</u> people and over <u>400 million</u> 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

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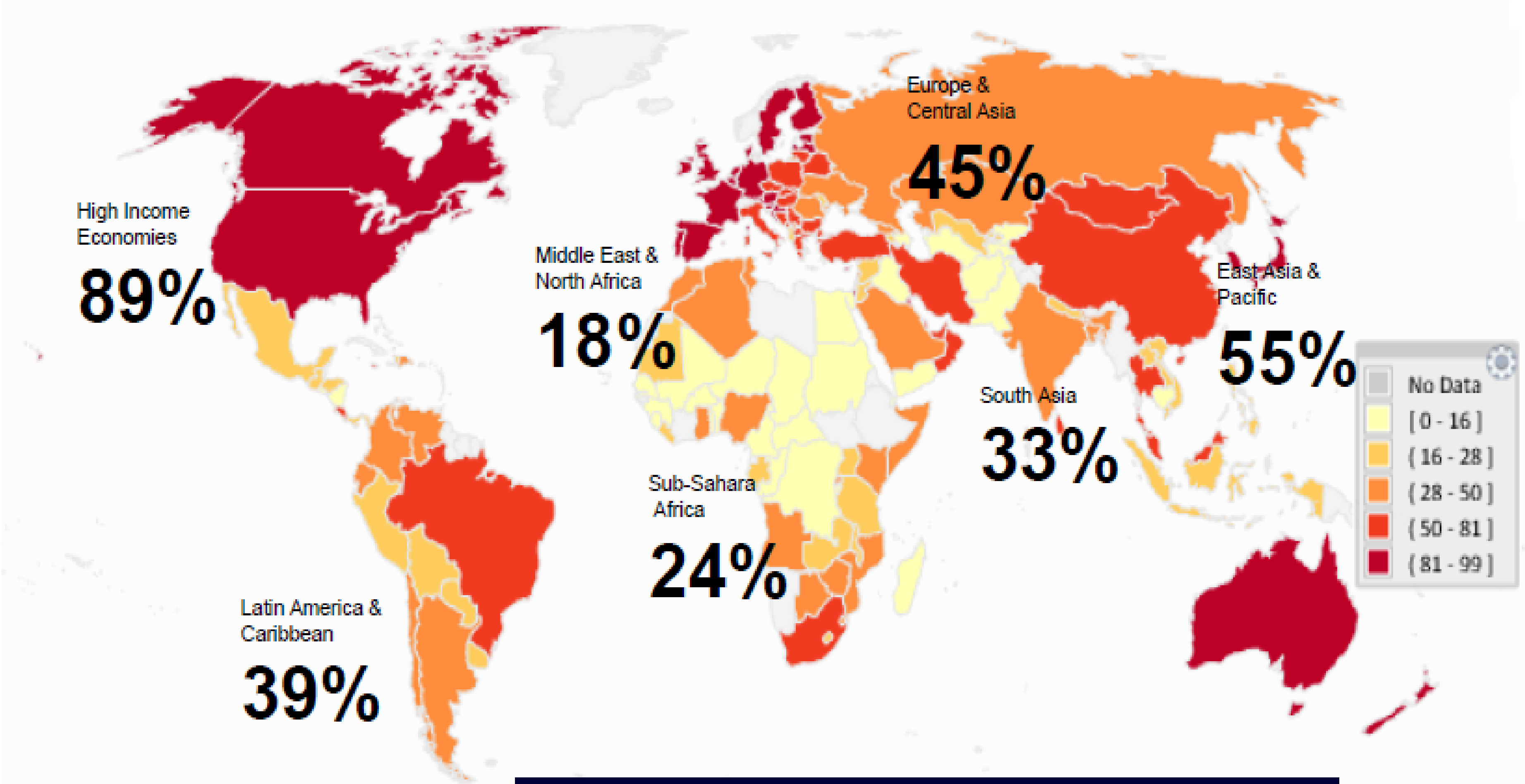
Globally, half of all working-age adults are unbanked

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



77% of the poor unbanked

SOURCE: Global Findex Database, World Bank 2012

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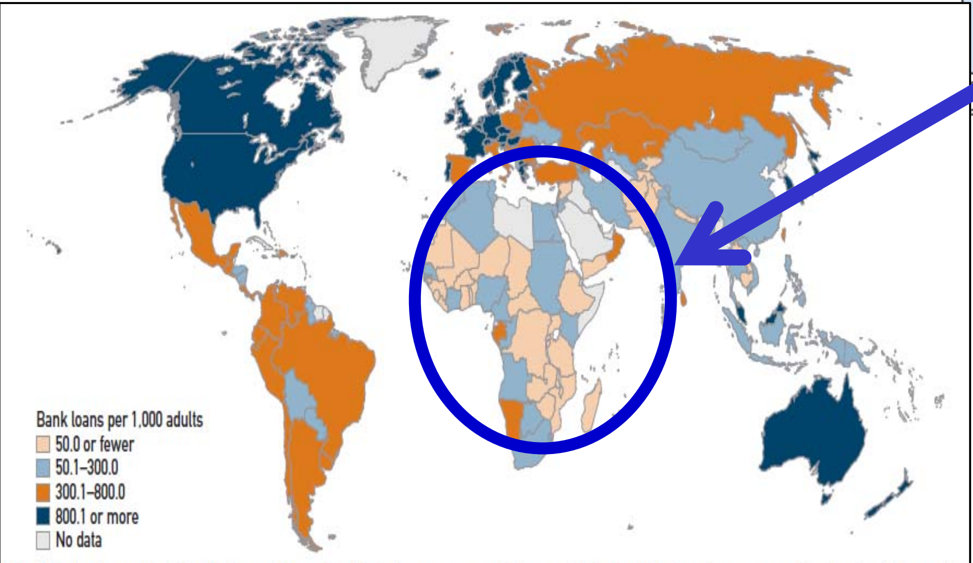
Where does credit reporting need for starts from?

Countries without Credit Bureaus are generally the same…

The map shows which countries have existing, developing or no private consumer credit bureaus serving financial institutions and other lenders. The data comes from country assessments and advisory work of IFC's Global Credit Bureau Program and Doing Business Surveys.
urce: Source: Global Credit Bureau Program and *Doing Business Report*.

<u>…where access to credit is more difficult!</u>



Note: Estimates for countries that did not report the number of bank loans were generated from a statistical model that uses income per capita and various features of the financial system—such as the number of bank branches per 100,000 adults and the value of deposits per adult—to predict the number of commercial bank loans. Where the number of loans in nonbanks was not reported, an attempt was made to fill in data from other sources. The estimates for bank and nonbank categories were summed by country to estimate the total number of loans in each country. See the methodology appendix for more details.
Source: Financial Access database.

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A fundamental question…

Is there a standard, efficient, cost-effective, solution to mitigate these problems?

- Credit Bureaus in the last 50years proved an effective answer in over 100 countries
- Credit bureaus are mushrooming worldwide
- They can serve a responsible credit expansion in MENA as well

What is a Private Credit Bureau?

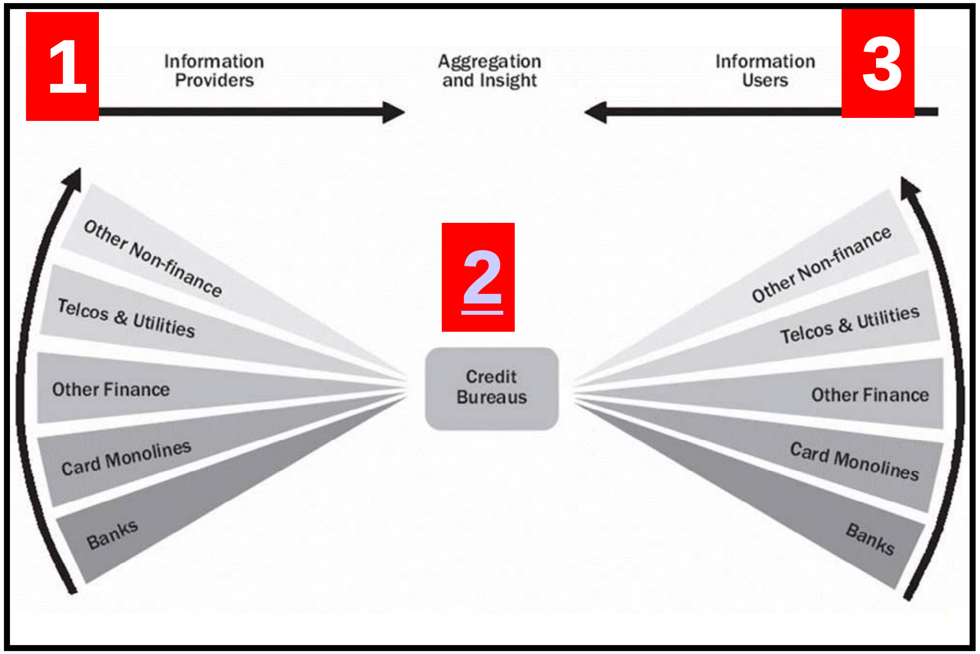
Private Credit Bureaus: commercial, private, for-profit, organizations that generally are:

- **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)



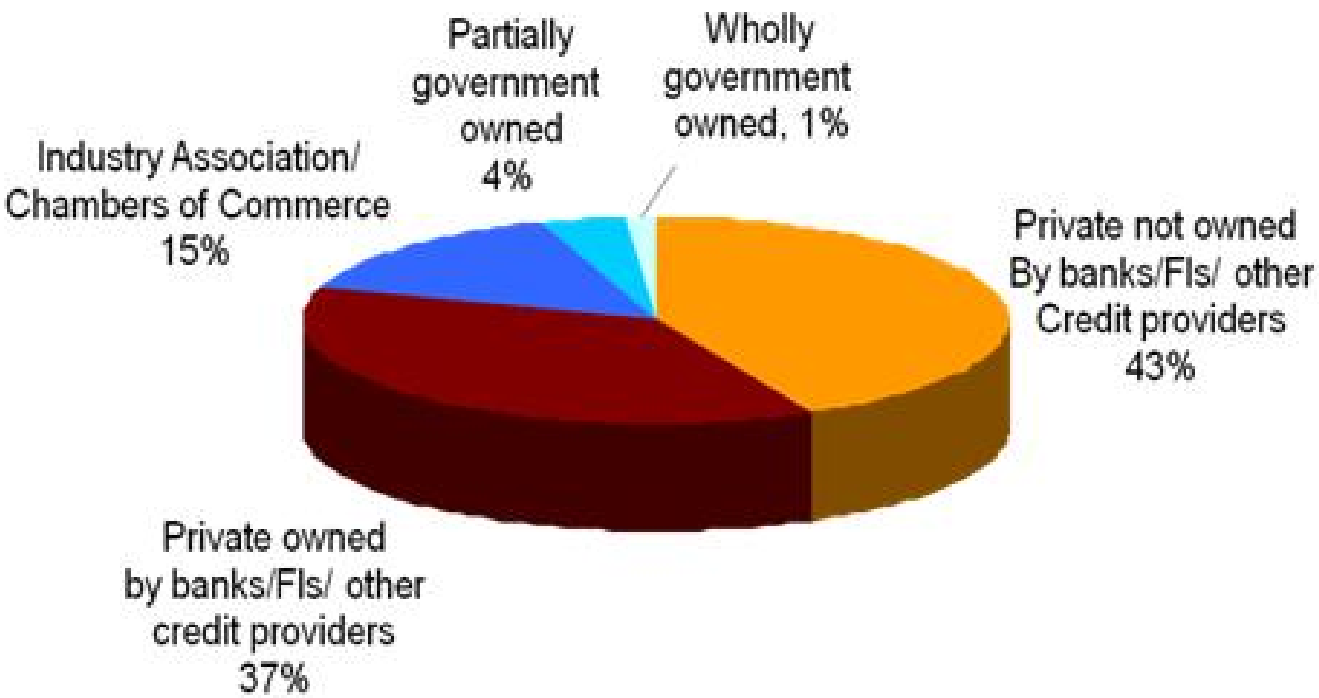
What is an effective Credit Bureau?

- 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

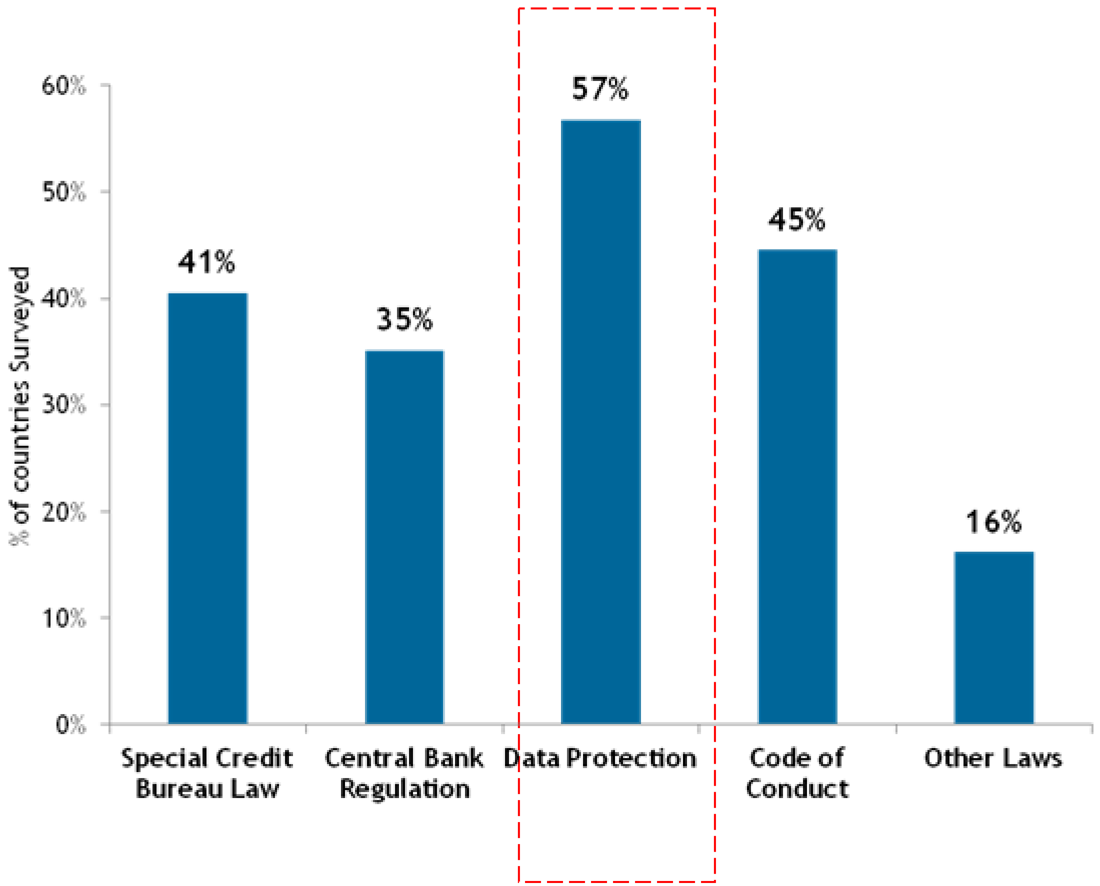
SOURCE OF INFORMATION \ TYPE OF INFORMATION	Positive & Negative Information	Negative Information only
"Full" (information shared by all sectors: banks, retailers, NBFIs., MFIs, Mobile Telcos, etc)	High Predictiveness (e.g. UK, India, Ecuador)	Lower Predictiveness (e.g. Australia, Swaziland)
"Fragmented" (information shared among one lending sector only – e.g. banks)	Lower Predictiveness (e.g. Romania, Kuwait)	Lowest Predictiveness (e.g. Botswana)

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.

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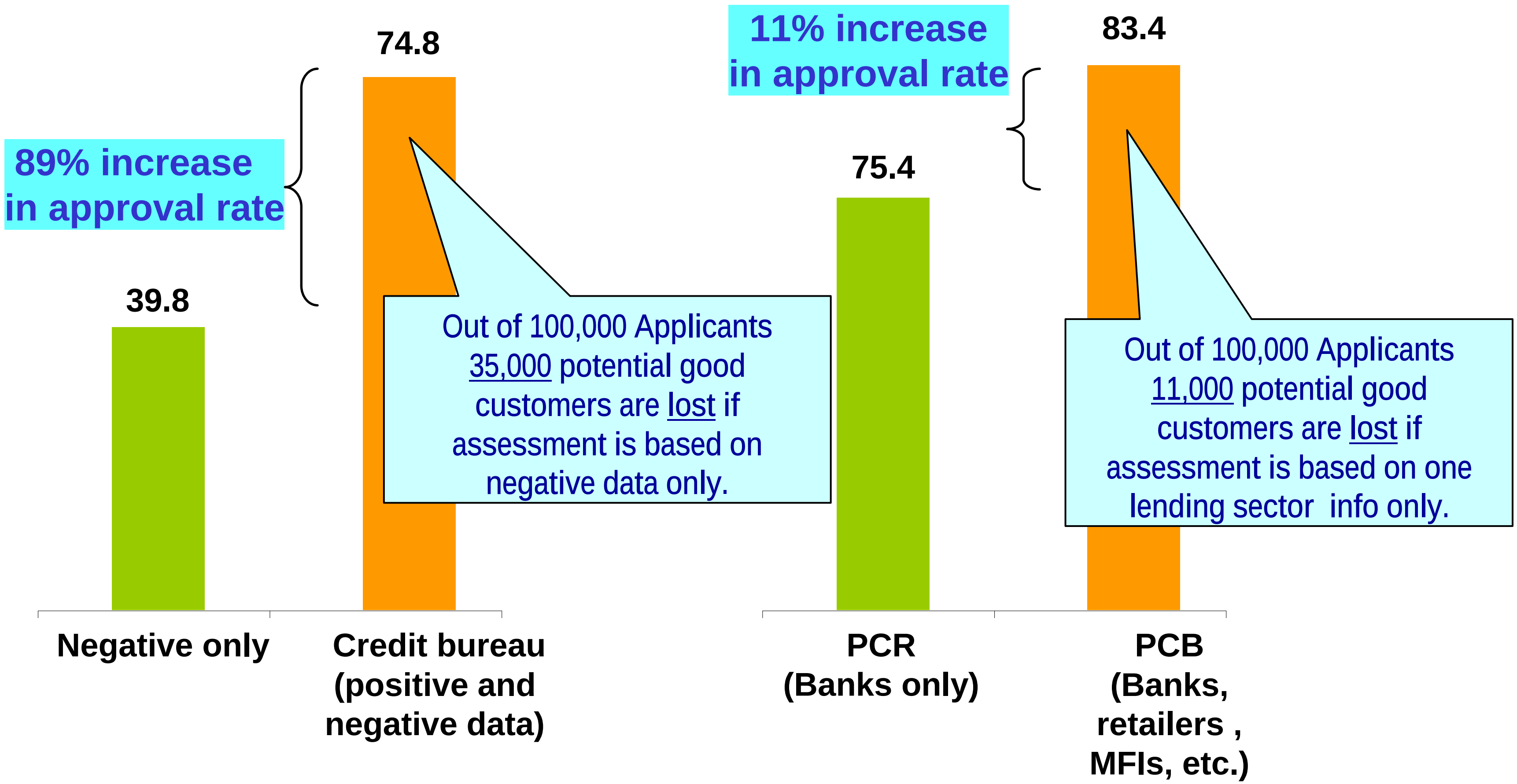
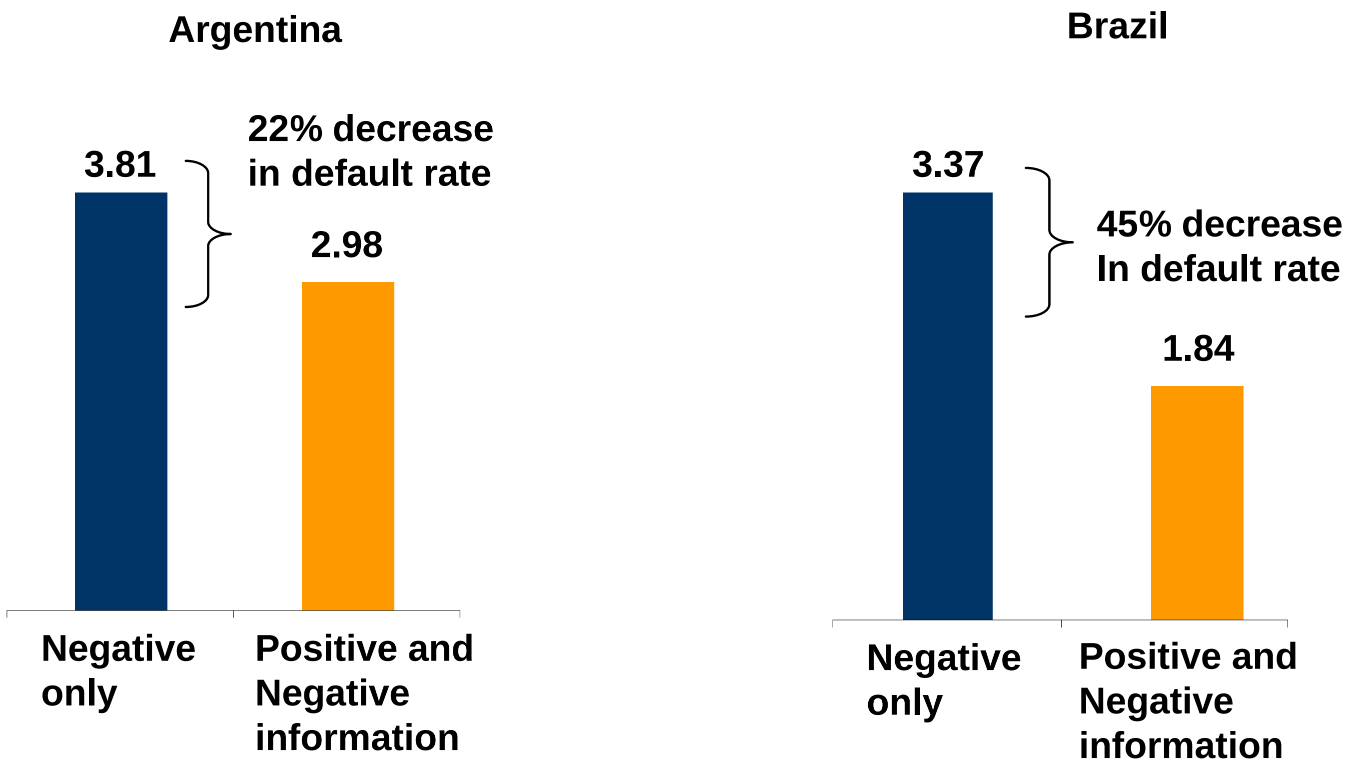
PCB benefits (1): increased access to credit

•Percent increase of good applicants who obtain a loan



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

Positive credit information reduces default rates

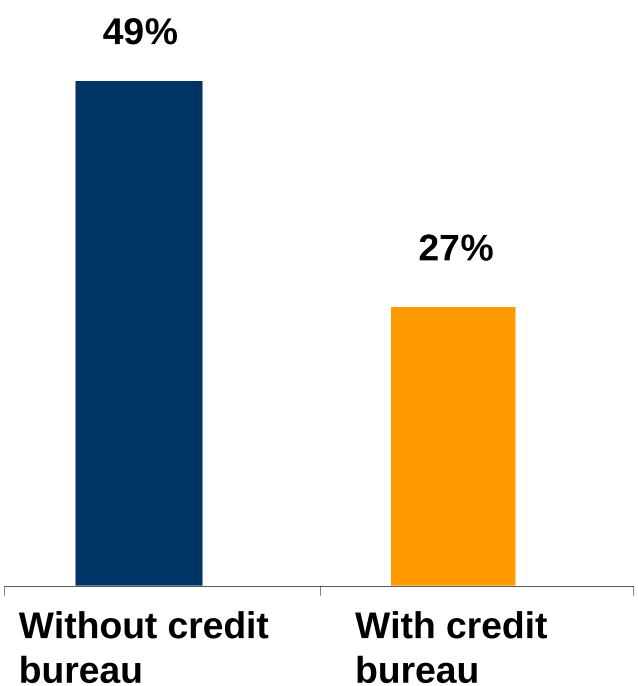


Note: Estimates are based on information on large loans from public credit registries in Argentina and Brazil. Graph represents predicted default rates at 60% approval rate. Based on Majnoni, Miller, Mylenko and Powell (2003) “Public Credit Information Systems: Evaluating Available Information”, World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

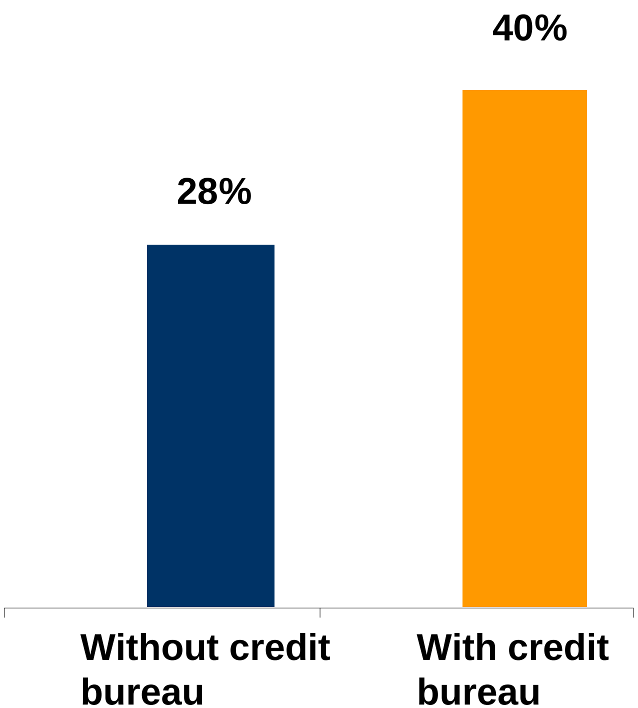
Small firms benefit from credit bureaus

Estimates based on data on 5000 firms in 51 countries

% of Small Firms Reporting High Financing Constraints

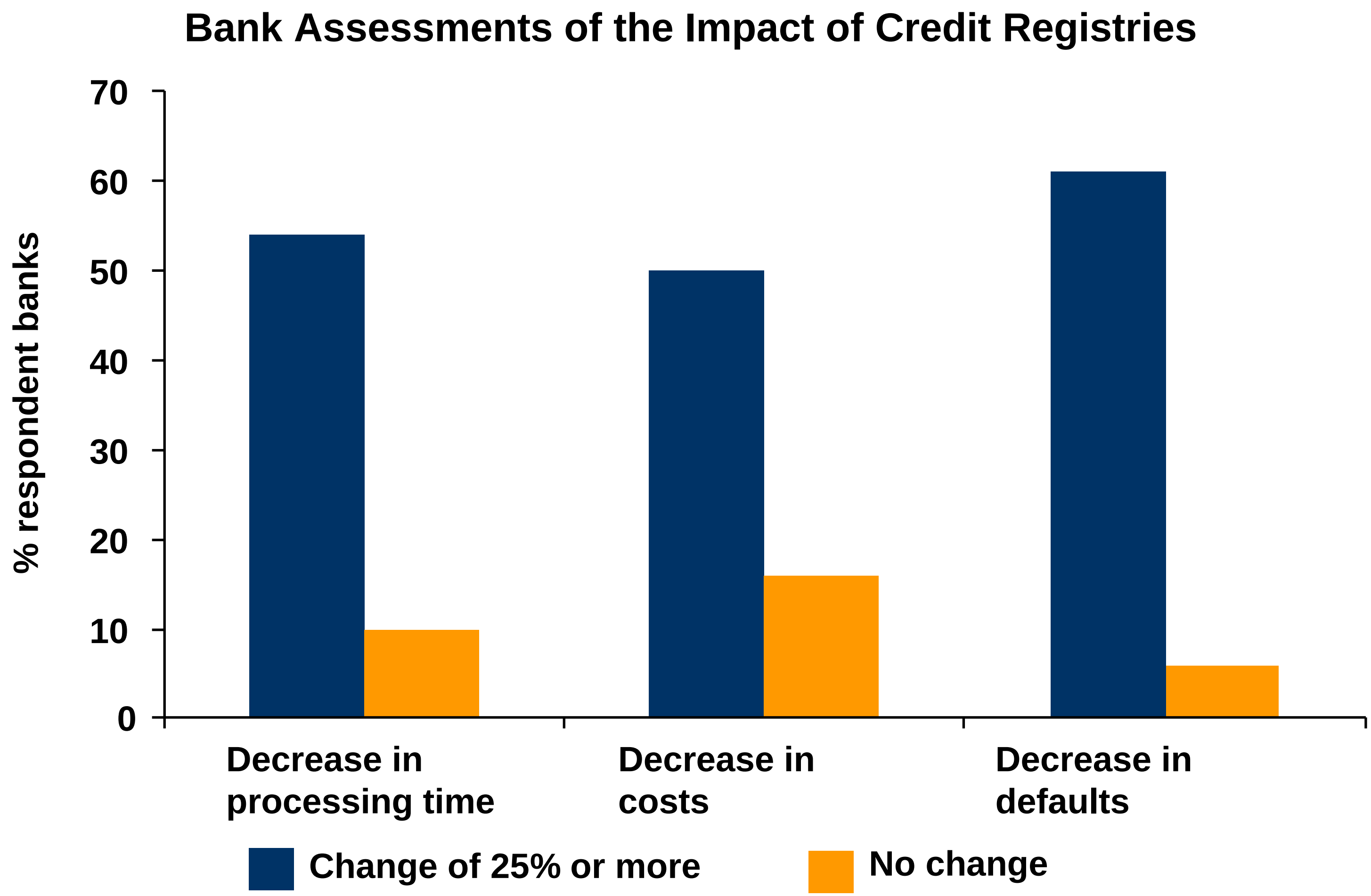


Probability of Obtaining a Bank Loan for a Small Firm



Source: Love & Mylenko (2003).

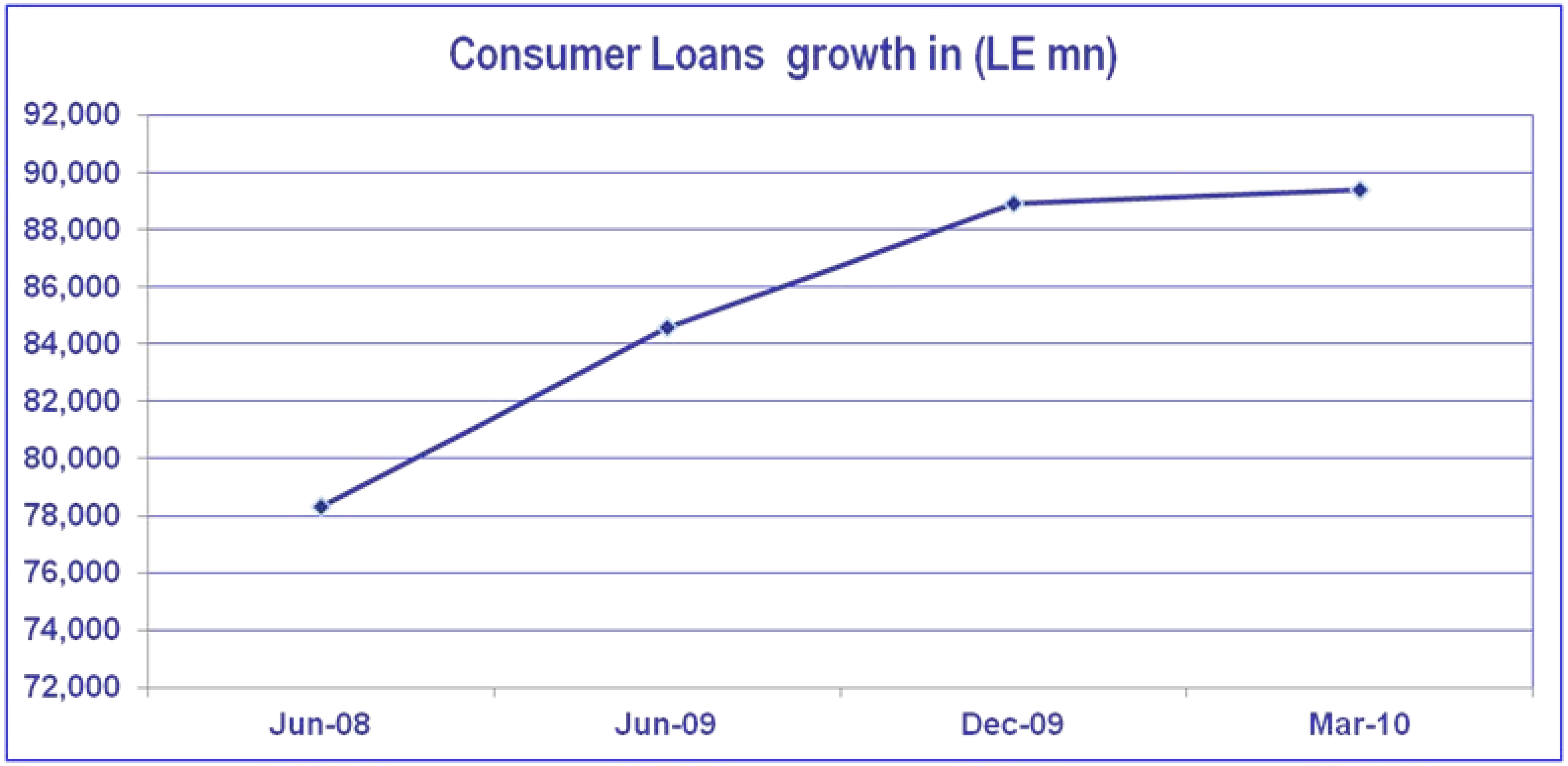
Full information sharing improves credit granting



Source: Doing Business in 2004, based on World Bank surveys of banks in 34 countries in 2001-2002.

Egypt: increased credit access

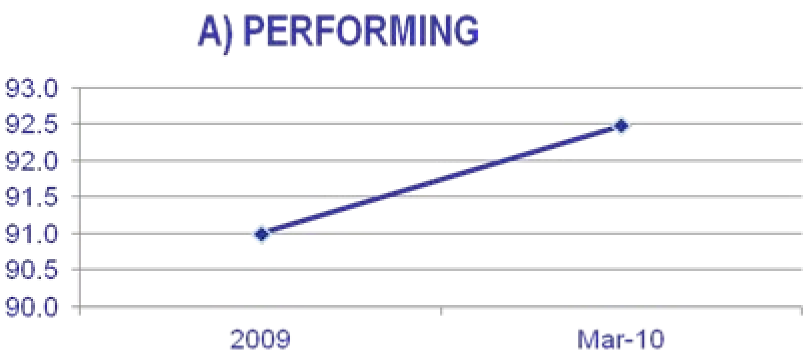
	Jun-08	Jun-09	Dec-09	Mar-10
Consumer Loans in (LE mn)	78,332	84,588	88,924	89,419

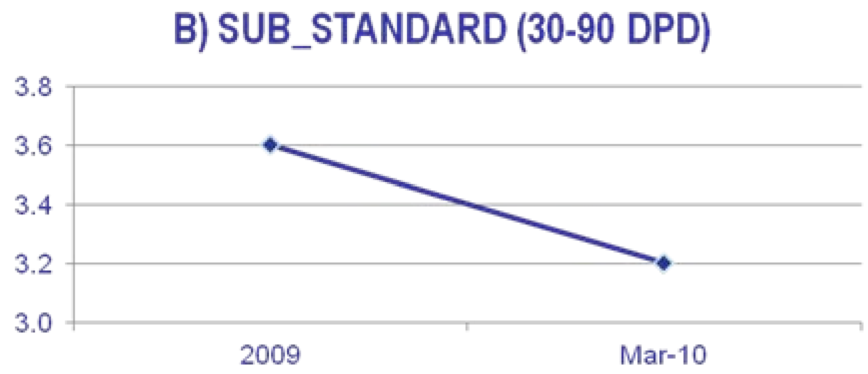


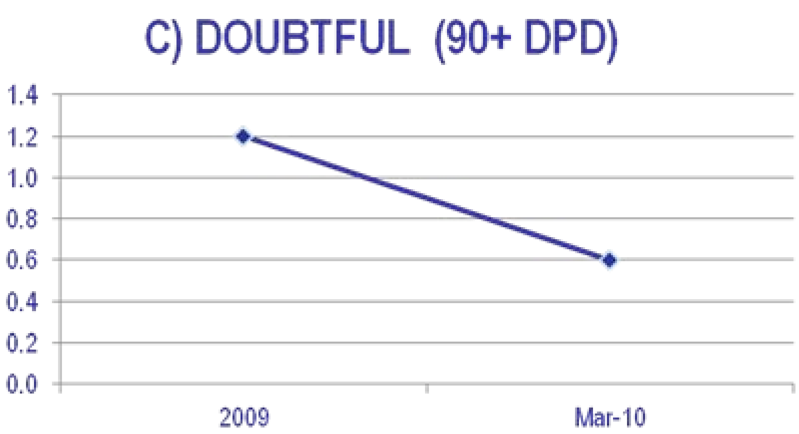
Egypt: decreased Non Performing loans

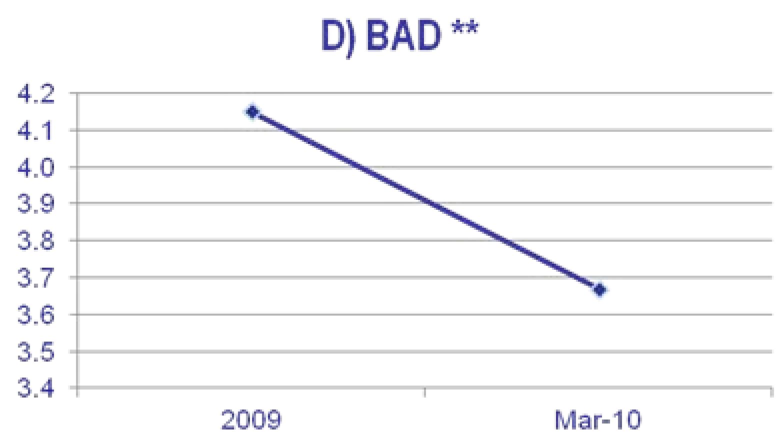
ASSET CLASSIFICATION ACCOUNTS %	2009	Mar-10	Improved % 2009 vs. 2010
A) PERFORMING	91.0	92.5	2%
B) SUB_STANDARD (30-90 DPD)	3.6	3.2	-11%
C) DOUBTFUL (90+ DPD)	1.2	0.6	-50%
D) BAD **	4.2	3.7	-12%

** 150+ DPD (Days Past Due) for loans and 180+ for Cards.

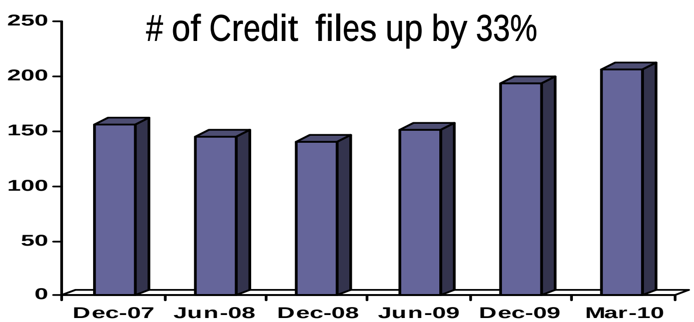


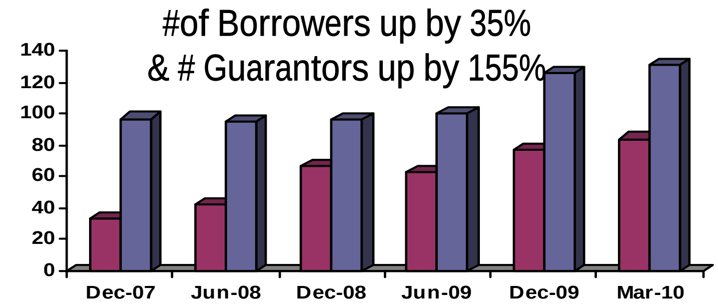


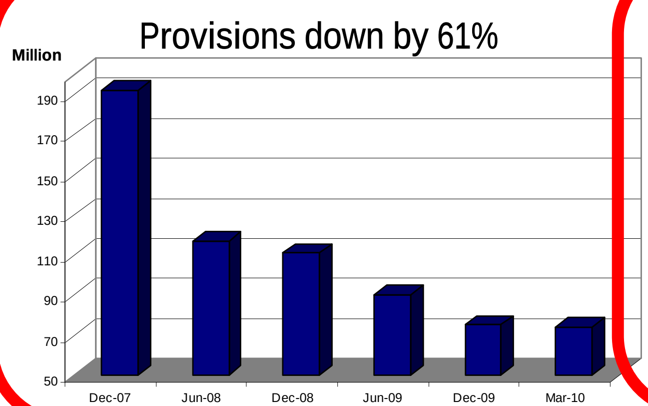


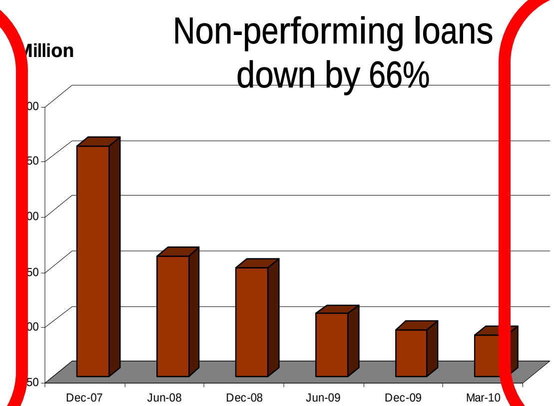


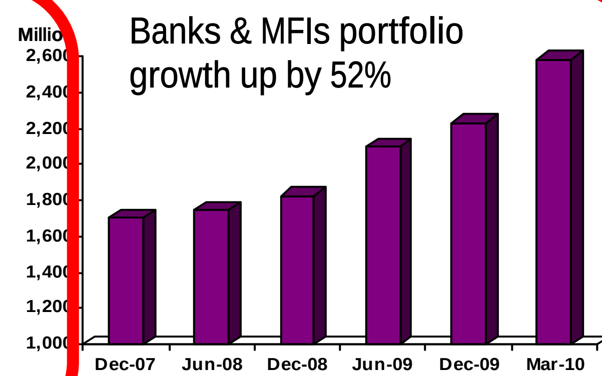
Palestine: increased access to credit, reduced NPL, reduced provisions

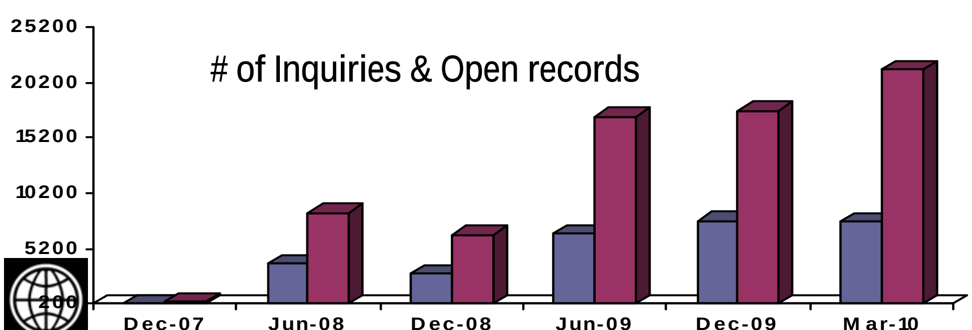


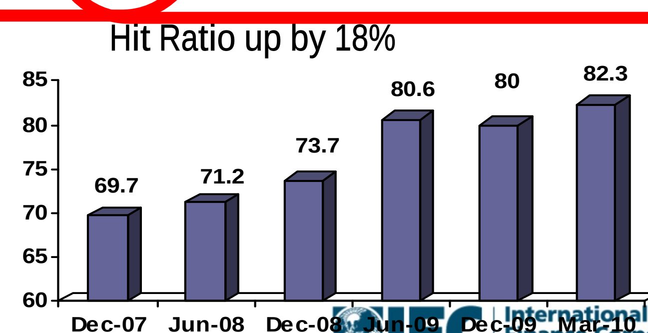












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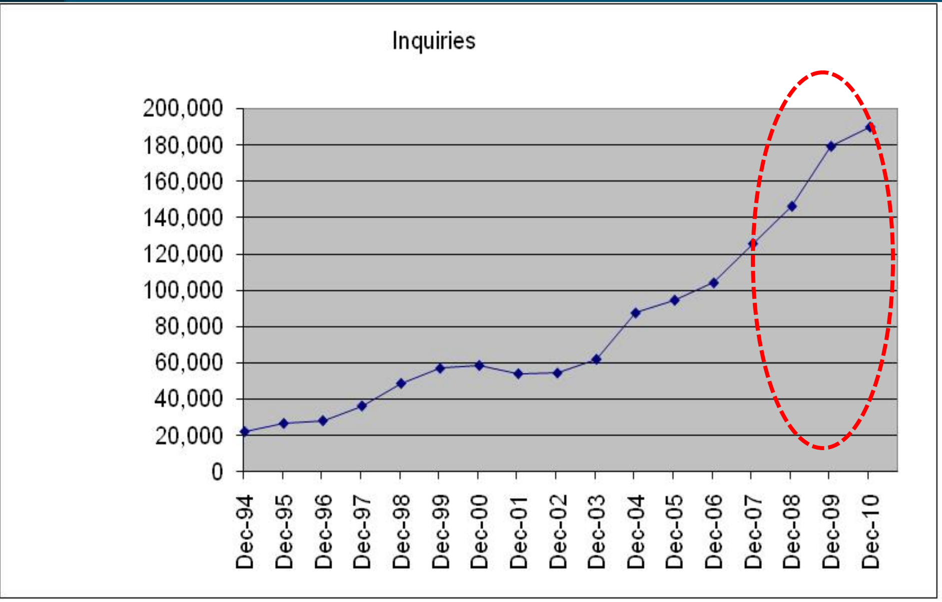
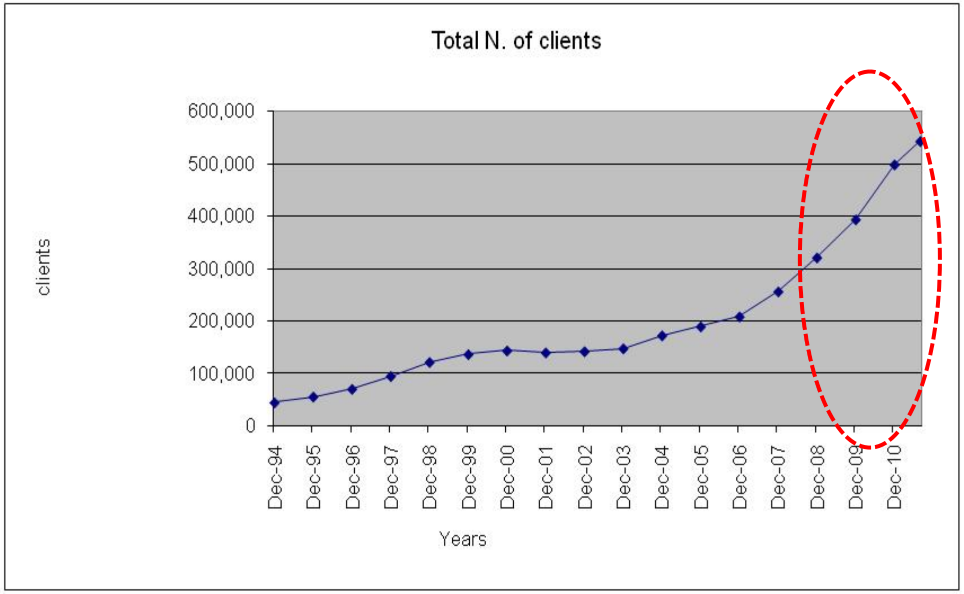
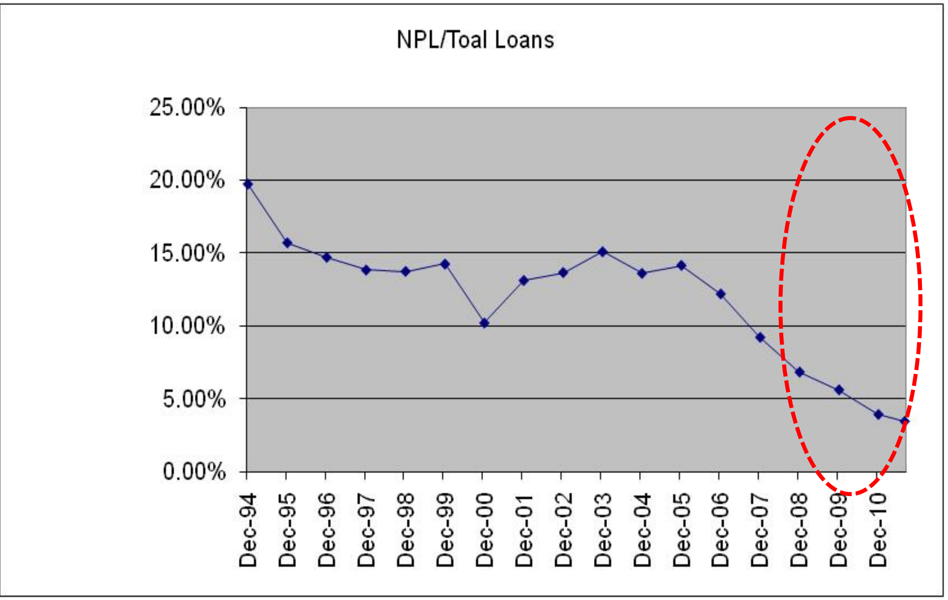
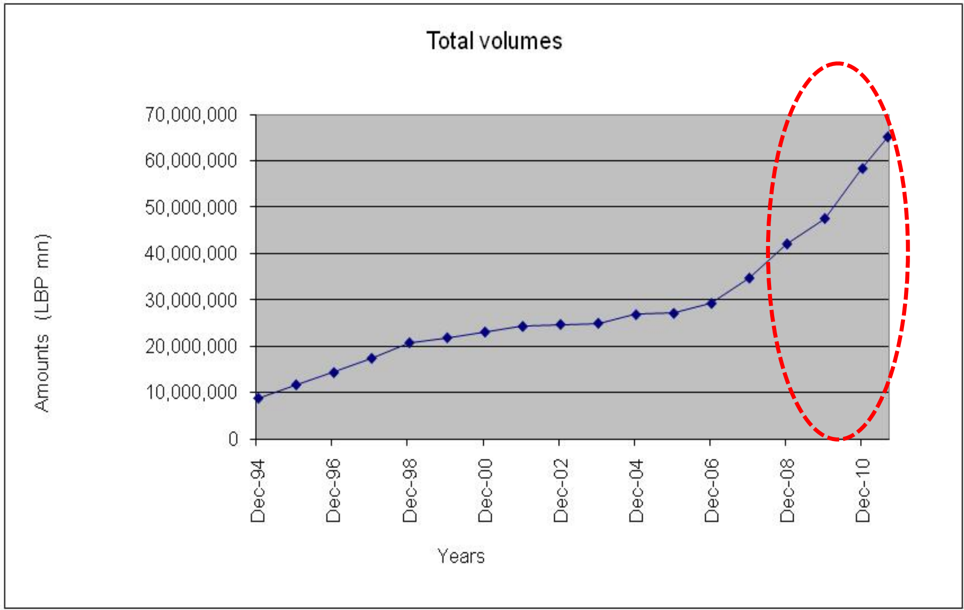
Lebanon: despite the crisis… increased access to credit, and reduced NPL,









Ecuador -
the results after PCBs establishment

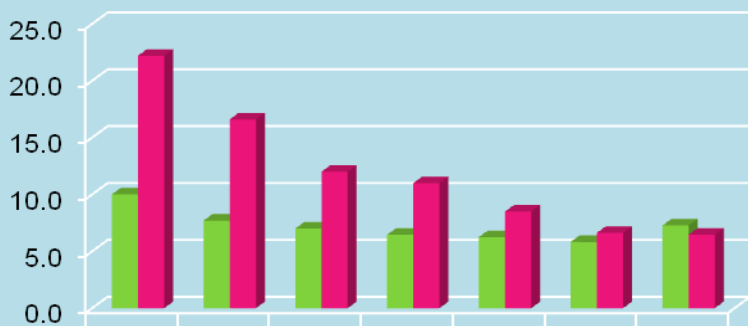
Banks portfolio growth

	2003	2004	2005	2006	2007	2008	Sep-09
US$ bn	3.3	4.3	5.4	6.0	7.1	9.1	8.4

NPL % decrease

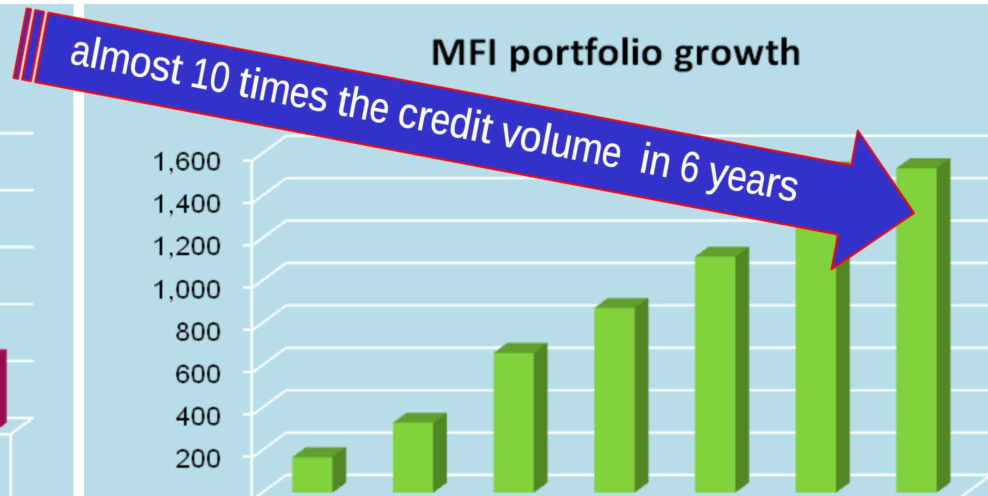
	2003	2004	2005	2006	2007	2008	Sep-09
COMM. BANKS	7.90%	6.40%	4.90%	4.01%	3.58%	3.49%	4.75%
PUBLIC BANKS	17.90%	15.30%	10.40%	8.0%	7.32%	7.76%	8.12%

Provisions % decrease



	2003	2004	2005	2006	2007	2008	Aug-09
COMN. BANKS	10.0	7.7	7.0	6.5	6.3	5.8	7.3
PUBLIC BANKS	22.2	16.6	12.0	11.0	8.5	6.6	6.5

MFI portfolio growth



	2003	2004	2005	2006	2007	2008	Sep-09
US$ m n	167	330	659	871	1,113	1,514	1,530

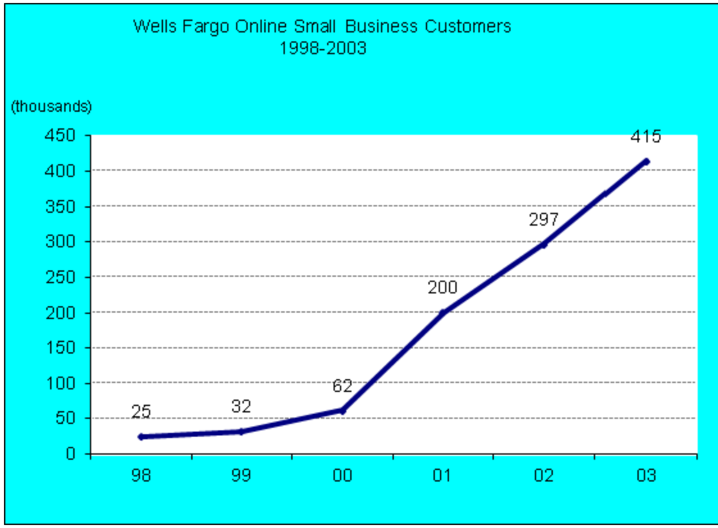
PCB benefits (3): reduced cross-lending /over-indebtedness

- 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

	Micro Finance Companies	PCB	Other MF. Companies
Credit limit details	285,891,972	736,654,086	8,650,222

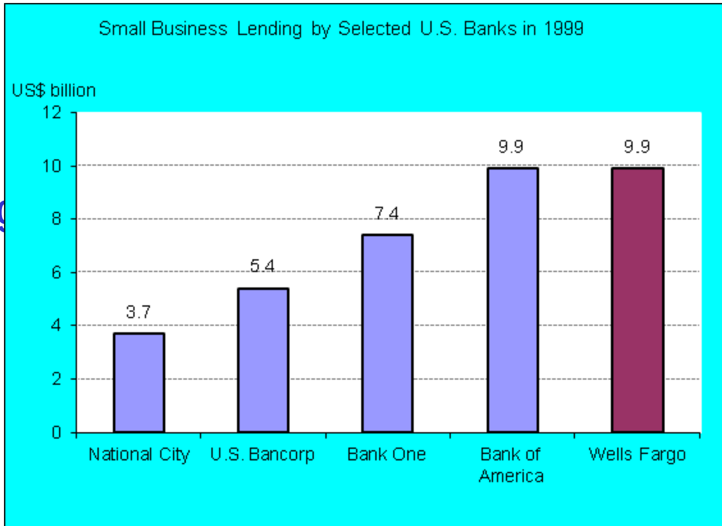
PCB benefits (4): more credit for SME (using PCB personal loans data to assess the SME)

- 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



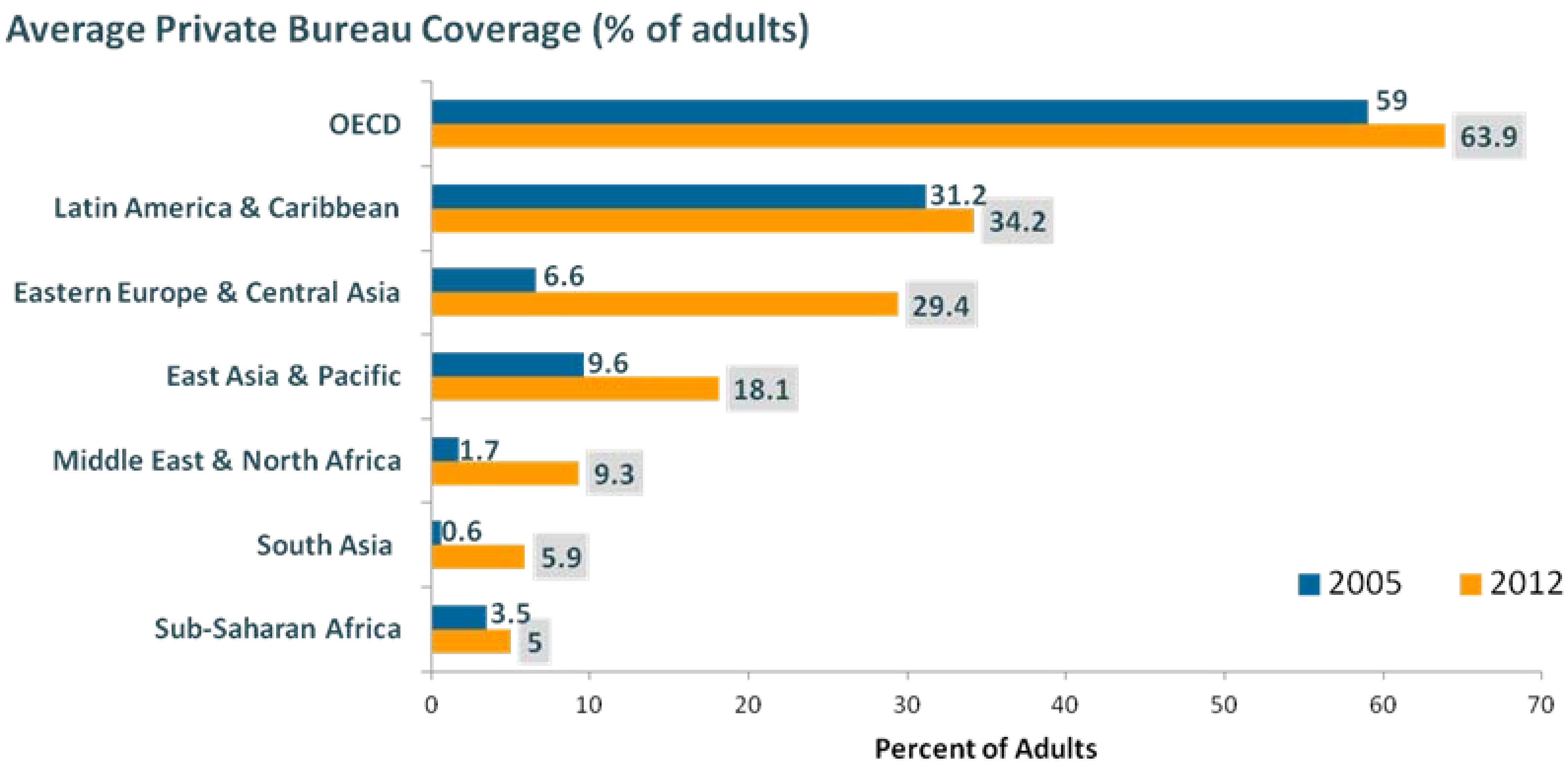
- Results:
  - Portfolio: by 1999 US$ 9.9 billion; by 2003 US$ 15bn
  - In 2002 WF rated number 1 SME lender in the USA

- 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 (15minutes) to underwrite a loan



Private Credit Bureau Coverage Across Regions
LAC continues to lead other emerging markets

What has changed in 7 years?



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

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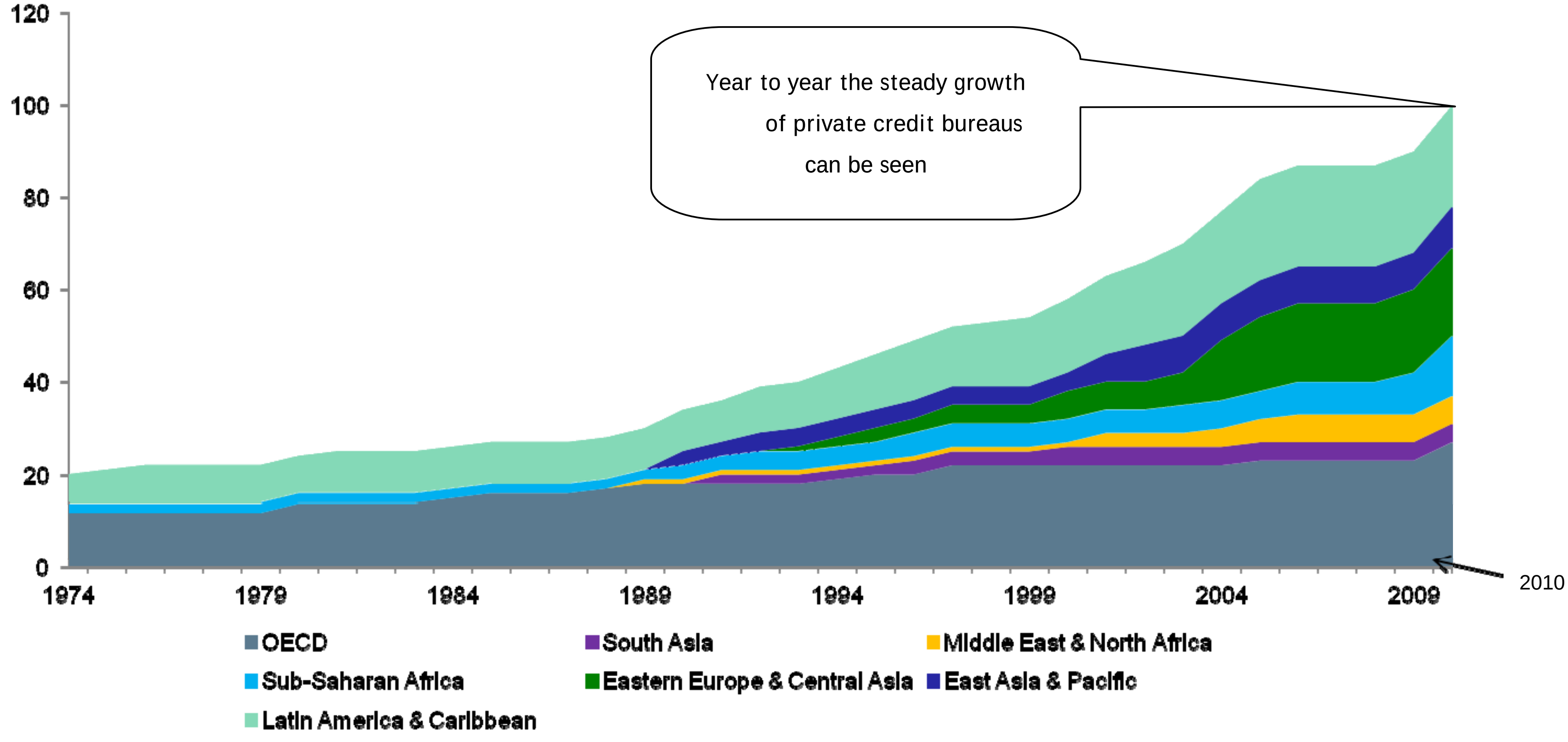
Growth of Private Credit Bureaus



Source: Doing Business 2006 – 2011 and GCBP team knowledge

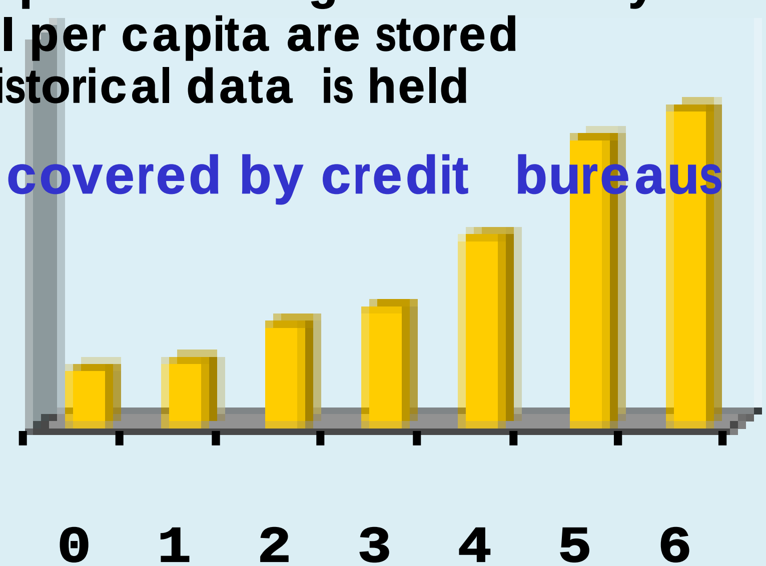
How is quality of PCBs rated?

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

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Thank you!

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Credit Bureau Knowledge Guide

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

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