



**International
Finance Corporation**
World Bank Group



INTRODUCTION TO CREDIT REPORTING

Overview & Current Status

Shalini Sankaranarayanan, Global Product Leader,
Global Credit Reporting Program
Belize City - April 18, 2013

Content

I. Overview of IFC Global Credit Reporting Program

II. Financial Inclusion and Access to Credit

III. Credit Reporting: Overview & Benefits

IV. Global Trends in Credit Reporting

V. Looking Ahead

Global Credit Reporting Program at a glance

- Provided Advisory Services in over 60 countries in FY12
- Created or significantly improved credit reporting service providers in over 20 countries (Bangladesh, Bosnia, Bulgaria, Cambodia, Cape Verde, Costa Rica, China, Egypt, Ethiopia, Guatemala, Honduras, India, Jamaica, Lao PDR, Maldives, Morocco, Nicaragua, Nigeria, Panama, Pakistan, Papua New Guinea, Samoa, South Africa, Tanzania, Tonga, Vanuatu, and Vietnam).
- 31.2 million* credit bureau inquiries in those countries in 2010.
- 183 countries covered under Doing Business Report for credit reporting
- Drafted or contributed to drafting 32 new laws/regulations to date
- Supported 145 events in over 90 countries** including roundtables, seminars, conferences, and other outreach events:
- Key contributions to developing *General Principles of Credit Reporting*.

Excluding China.

**Reflects documented events to date, counting key events / workshops per country.

Program scope and deliverables

- **Develop credit information sharing environments**
Advice and support to government authorities, review legal and regulatory frameworks, outreach and awareness raising, standards setting
Brazil, China, Morocco, Panama, Romania, Vietnam, Algeria, Cambodia
- **Direct support to develop new or improve existing credit bureaus and credit registries**
Feasibility studies, assessments, operational support, “honest broker” role, encourage international best practices
Egypt (i-Score), Romania (Biroul de Credit), Algeria (Bank of Algeria), Bangladesh (CIB), Ethiopia
- **Enhance existing private credit bureaus**
Positive information sharing, value-added services, commercial solutions
South Africa (CompuScan), Pakistan (Datacheck)

Content

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II. The Issue: Financial Inclusion and Access to Credit

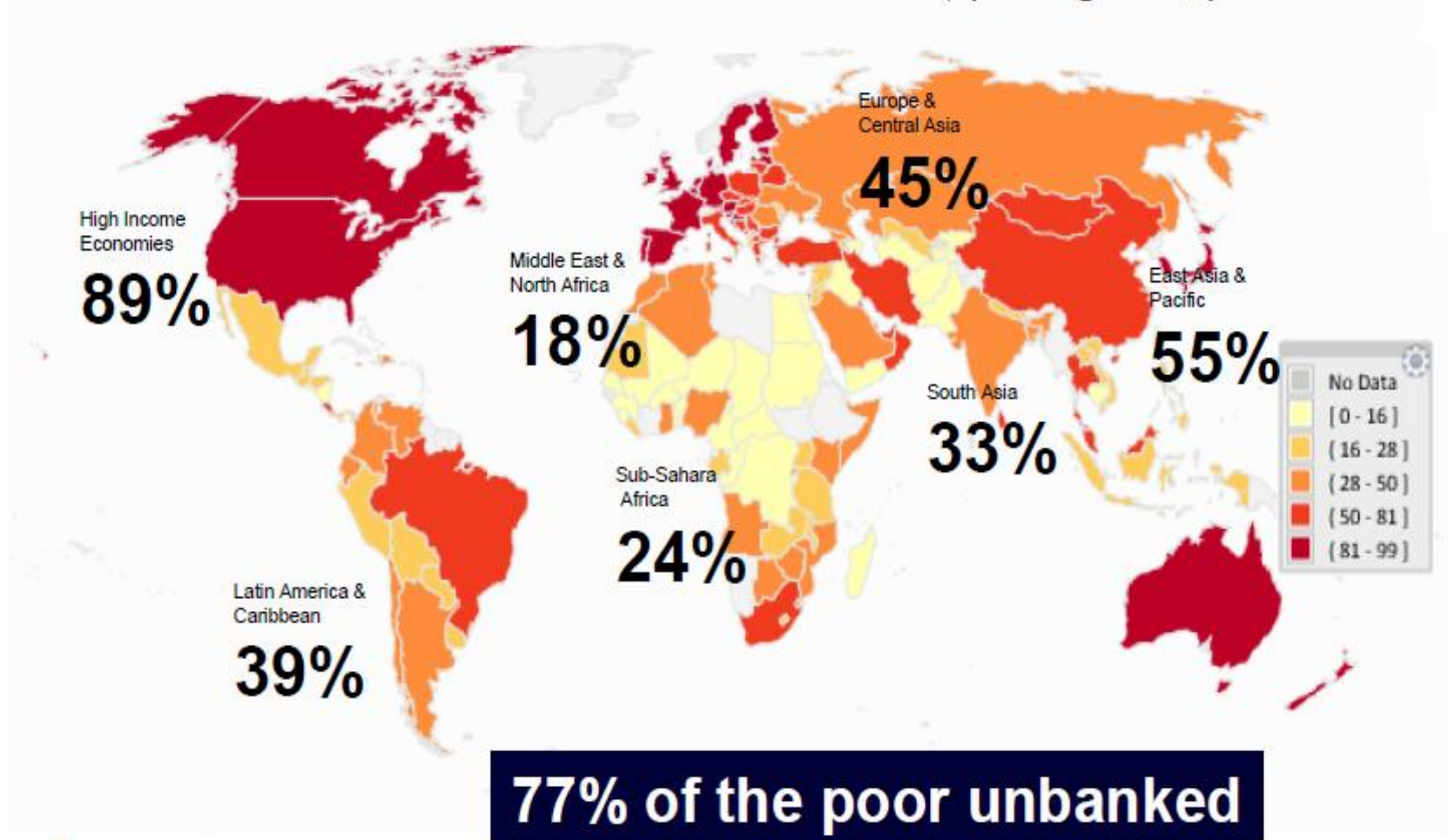
III. Credit Reporting: Overview & Benefits

IV. Global Trends in Credit Reporting

V. Looking Ahead

Globally, half of all working-age adults are unbanked

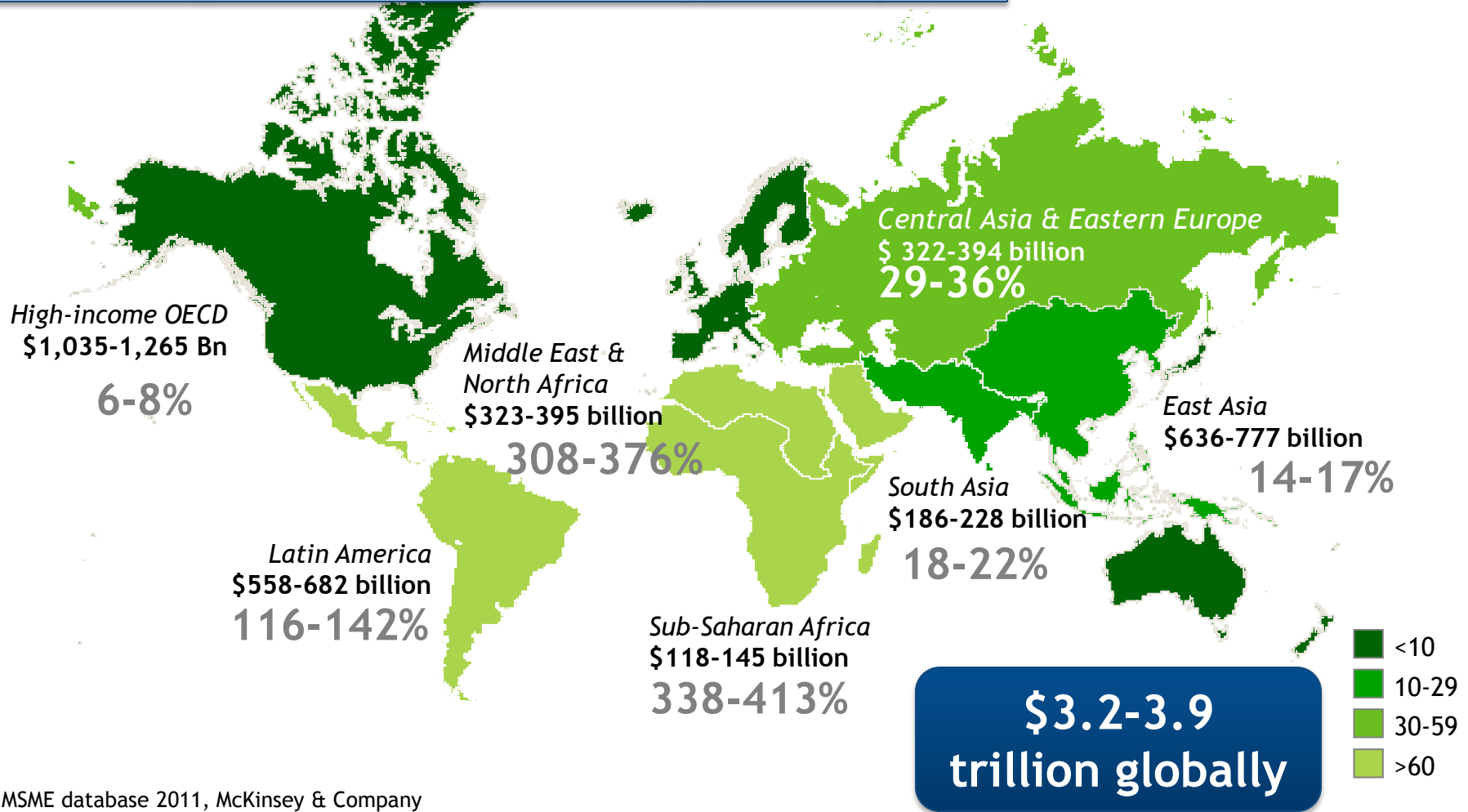
Adults with account at formal financial institution, (average in %)



SOURCE: Global Findex Database, World Bank 2012

55-68% of MSMEs in emerging markets are either unserved or underserved

Percentage of unmet credit needs
(Smaller type refers to the total value of the gap in each region)



Source: MSME database 2011, McKinsey & Company

At the crux of the problem

**“In God we trust...
All others must have data.”**

Content

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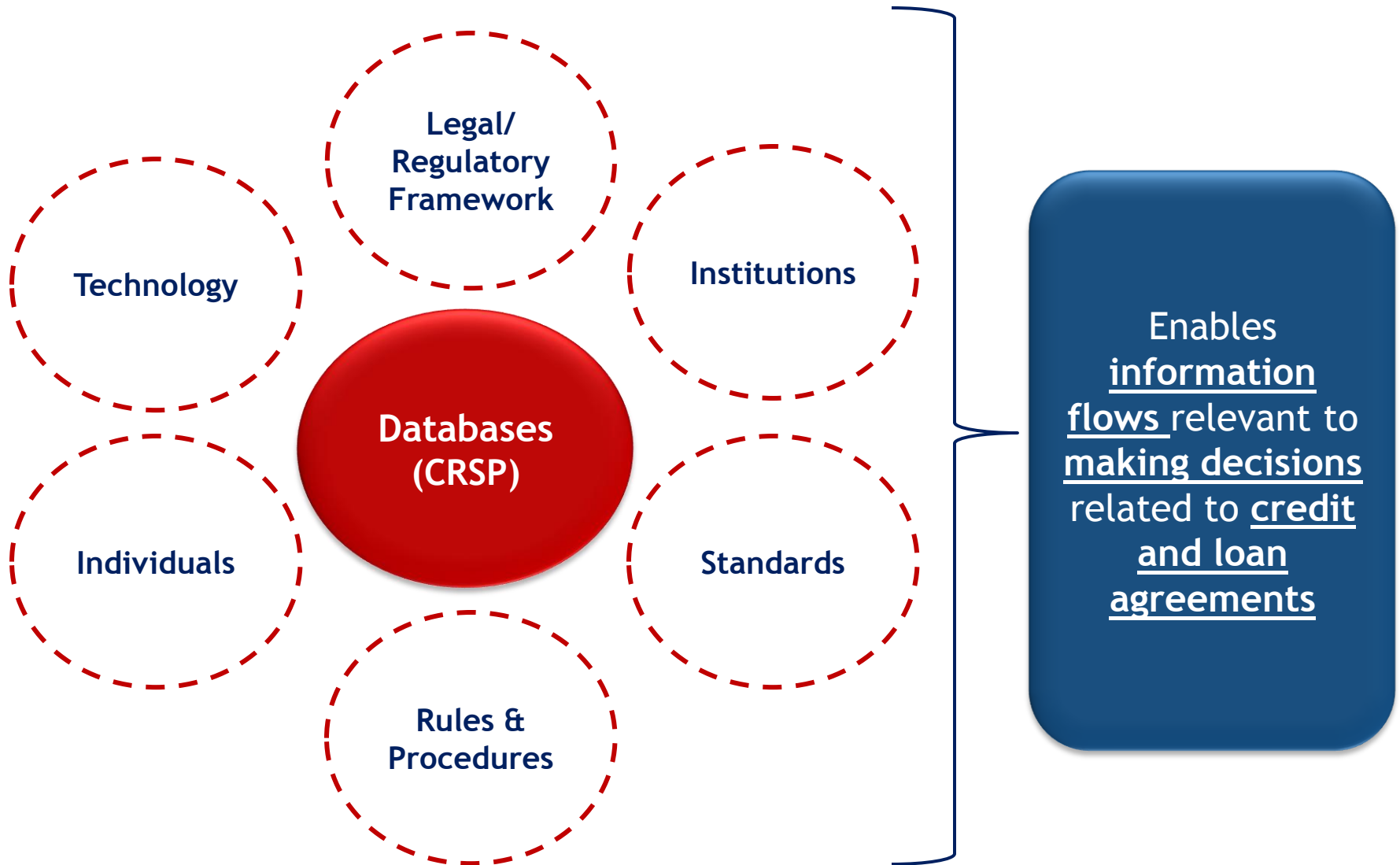
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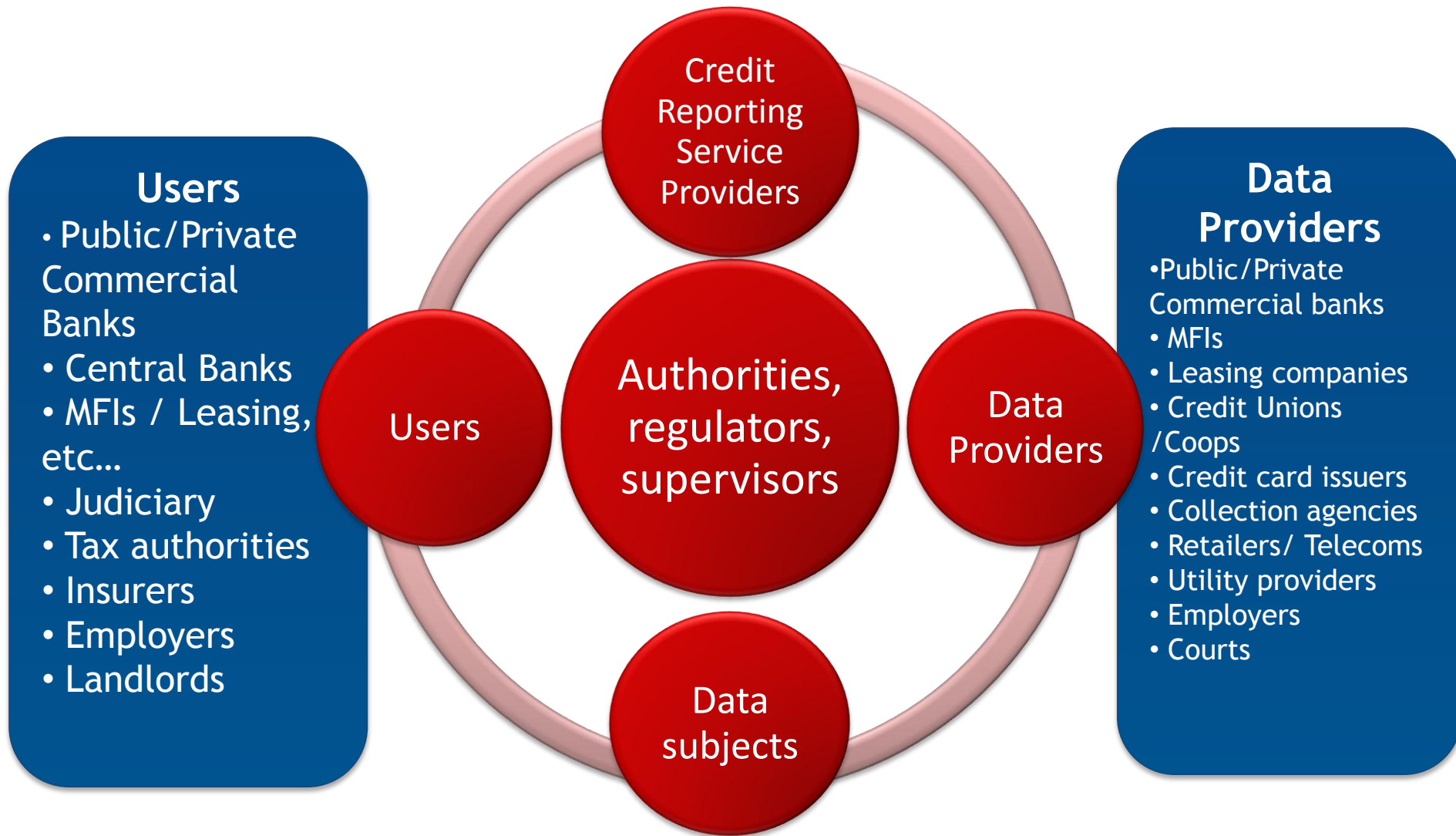
IV. Global Trends in Credit Reporting

V. Looking Ahead

What is a Credit Reporting System (CRS)?



Who participates in a Credit Reporting System?



Role of Credit Reporting in financial markets

- **Broader and fairer access to credit:**
 - Decrease information asymmetries between borrowers and lenders; expand access to credit and lower the costs of credit for good borrowers
- **Better performing loans:**
 - Allow lenders to accurately evaluate risks and improve portfolio quality
- **Prevent over-indebtedness:**
 - Allow lenders to assess an applicant's total indebtedness and thereby calculate a borrowers capacity to service debt (with 'positive data')
- **Improve profitability:**
 - Support introduction of credit scoring and automated underwriting; lower lenders' operational costs in retail & SME lending, improve their margins, capital adequacy, and provisioning requirements ; diversification of credit portfolio
- **Stability in the financial sector:**
 - Positive economy wide effects; supports banks supervision and systemic risk monitoring; Increased competition; responsible financial practices

Full-File or Comprehensive Credit Reporting

Examples of negative data

- Delinquencies: non-payment of a debt
- County Court Judgements
- Bankruptcies
- Charge-offs: a debt that is written off
- Arrears
- Late payments

Examples of positive data

- Total amount and type of loans
- Accounts currently open and active
- Balances
- Credit limits
- Details relating to credit card commitments
 - how much is spent on the card each month
 - how much is repaid each month
- How much cash has been taken out
- Recent changes to borrowing limits

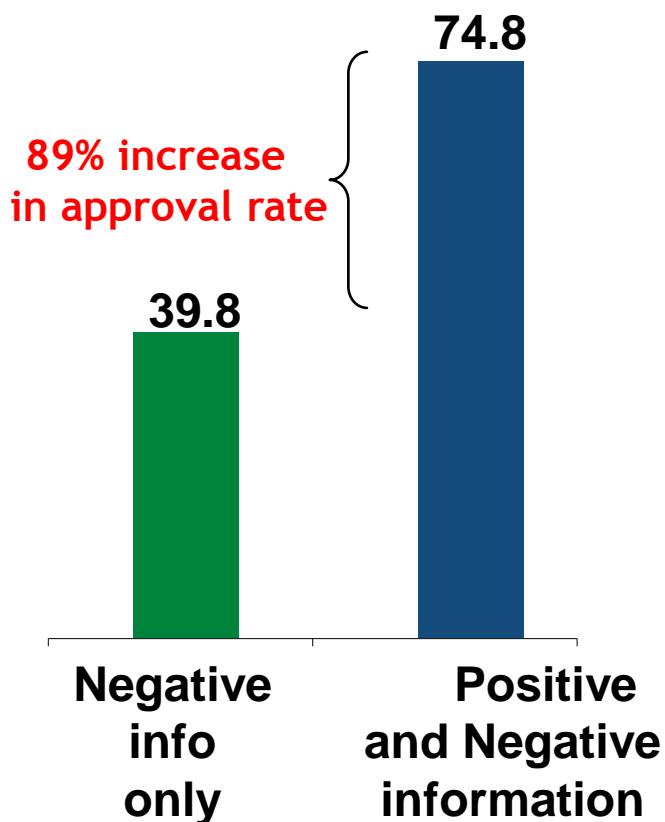
Examples Full File Credit Reporting

delinquencies (non-payment of a debt); court judgments, bankruptcies, charge-offs(debt write off); arrears (debt accrued after missing a payment); and late payments, total amount and type of loans; accounts currently open & active; balances; credit limits; details relating to card commitments (how much is spent and repaid every month)

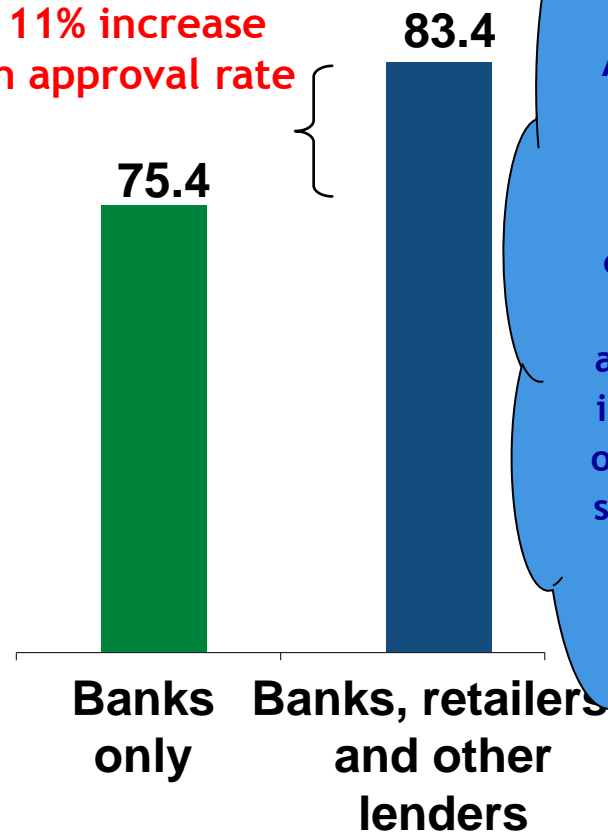
Access to both types of information gives a significantly more complete picture of a customer's financial commitments

Credit bureaus increase access to credit

% of applicants who obtain a loan



11% increase in approval rate



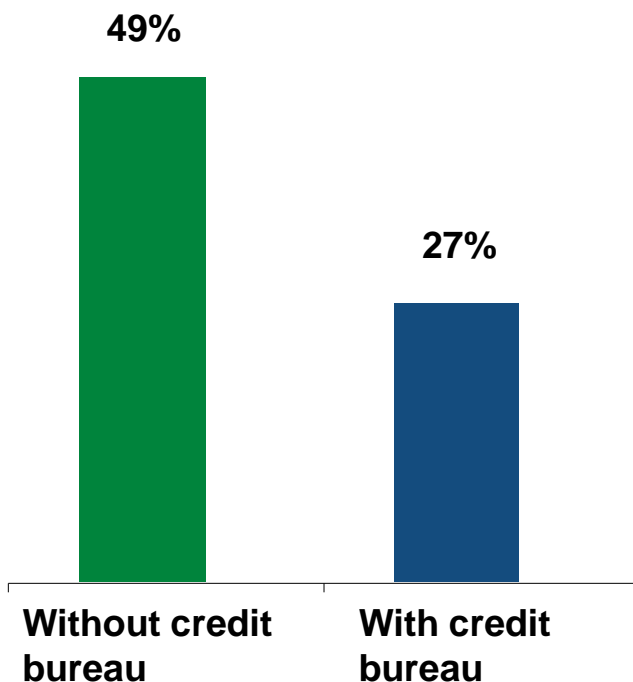
Out of 100,000 Applicants 11,000 potential good customers are lost if assessment is based on one lending sector info only.

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

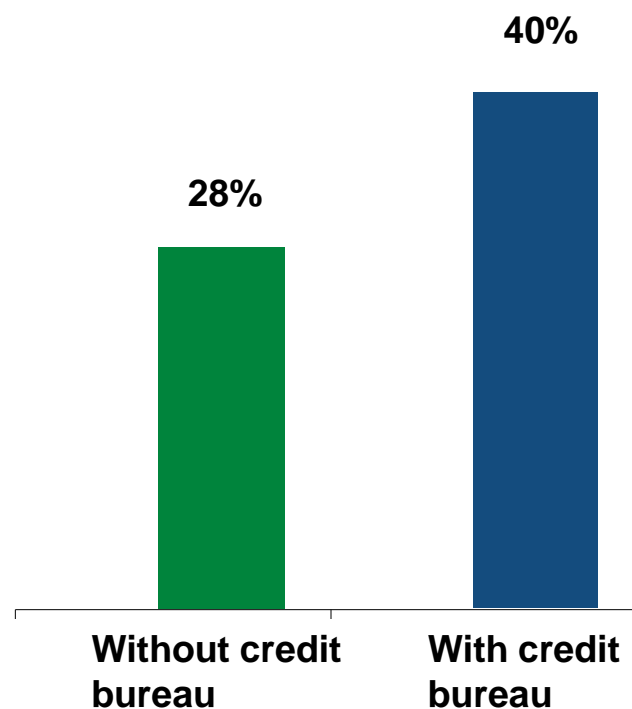
Small firms benefit from credit bureaus

Estimates based on data on 5000 firms in 51 countries

% of Small Firms Reporting High Financing Constraints



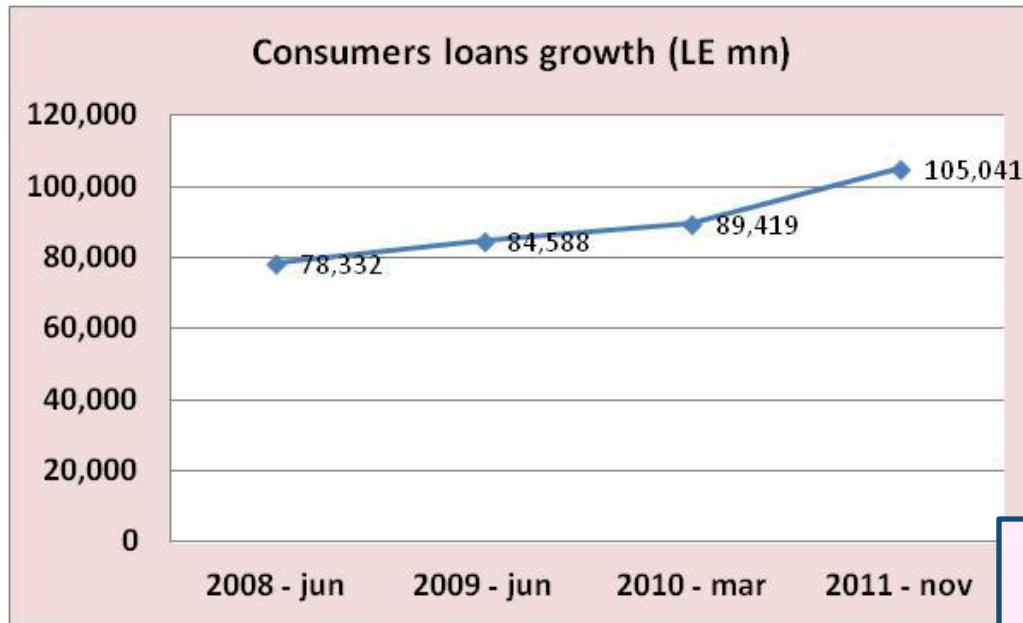
Probability of Obtaining a Bank Loan for a Small Firm



Source: Love & Mylenko (2003).

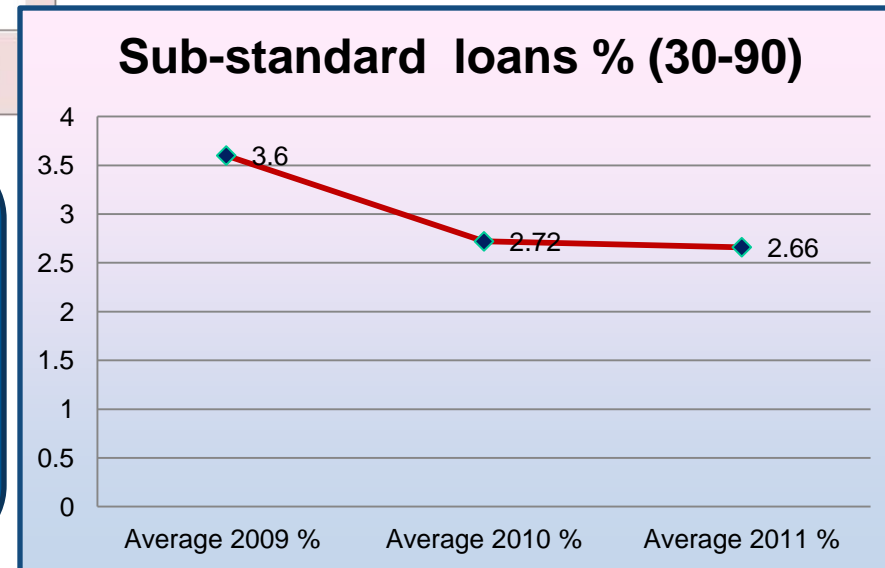
Benefits: Increased Access, Better Performance

Ex. 1



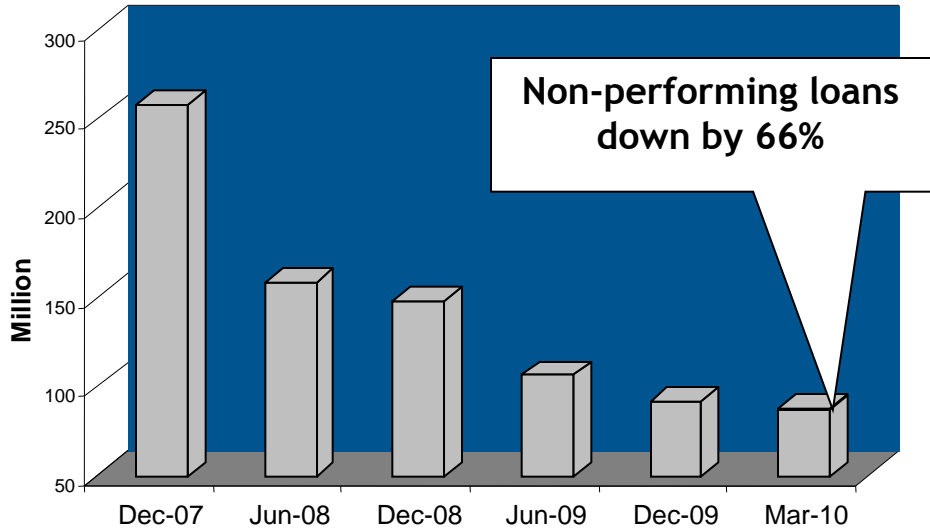
EGYPT

- A consortium of Egyptian banks led the establishment and registration of iScore, the country's first private credit bureau, owned in equal shares by 34 Egyptian banks.
 - ✓ The project is now focusing on integrating Egyptian MFIs into the bureau



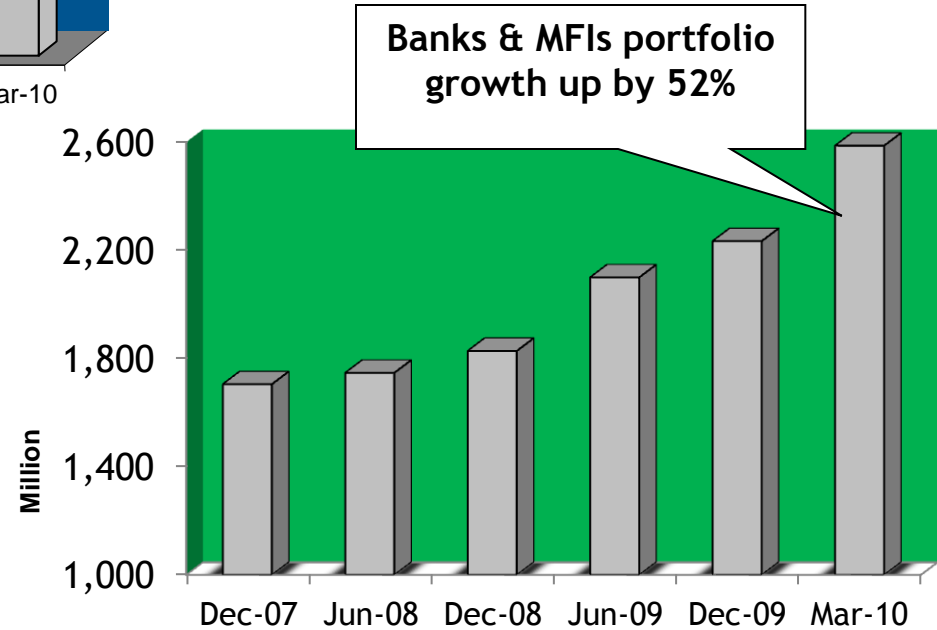
Benefits: Reduced Default Rates / NPLs

Ex. 2



PALESTINE

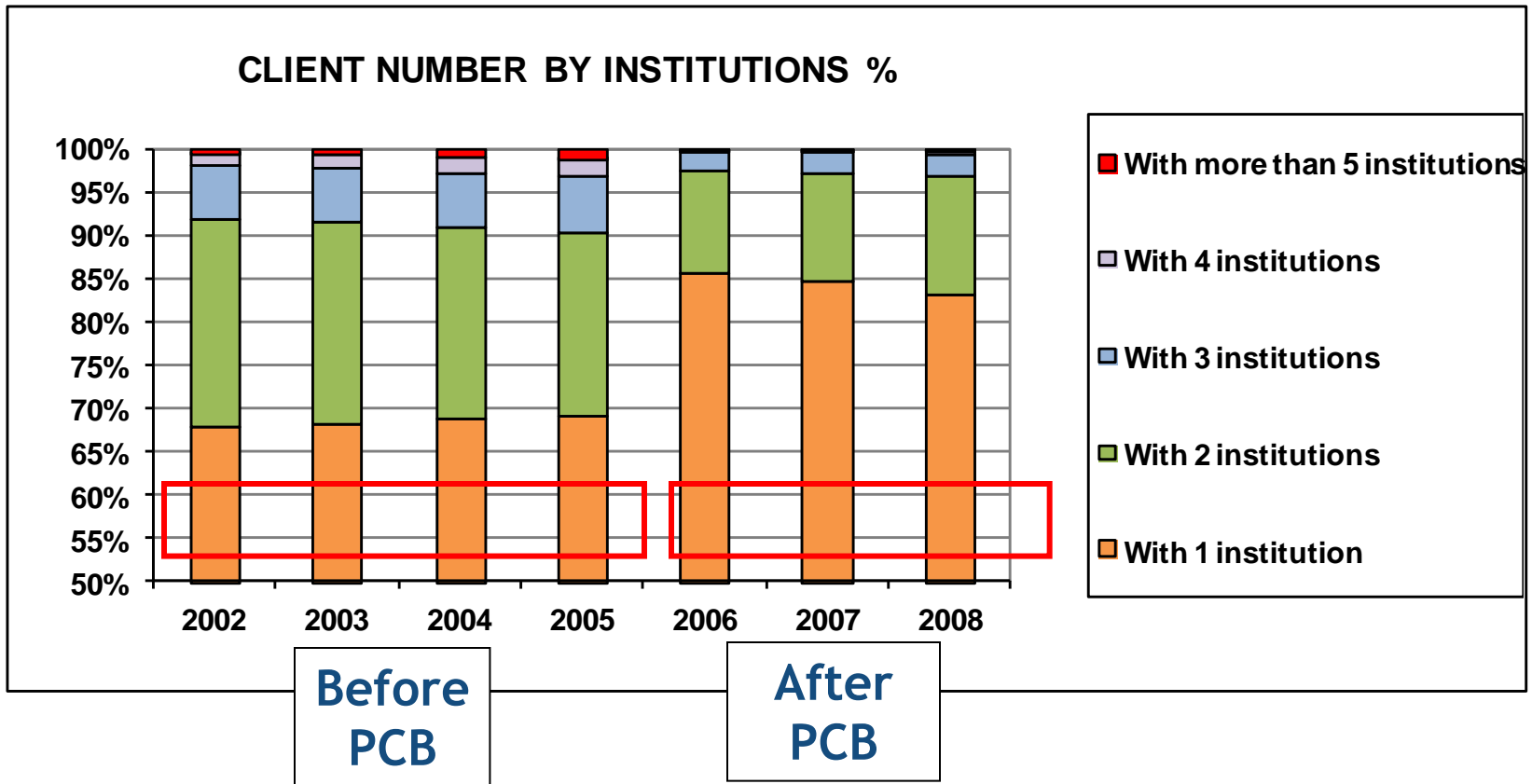
Bad debt rate decreases with a higher % of positive information



Benefits: Reduction in Cross Lending

Ex. 3

LATIN AMERICA:
How MFIS reduced credit shopping, multiple lending, and over indebtedness



Content

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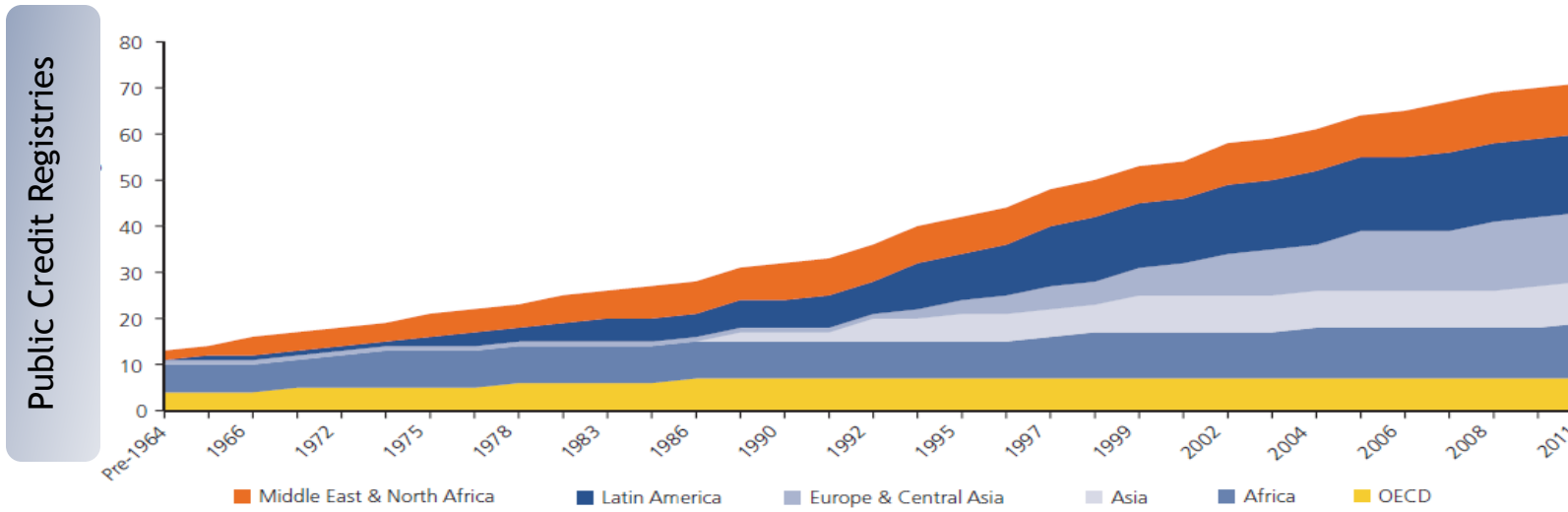
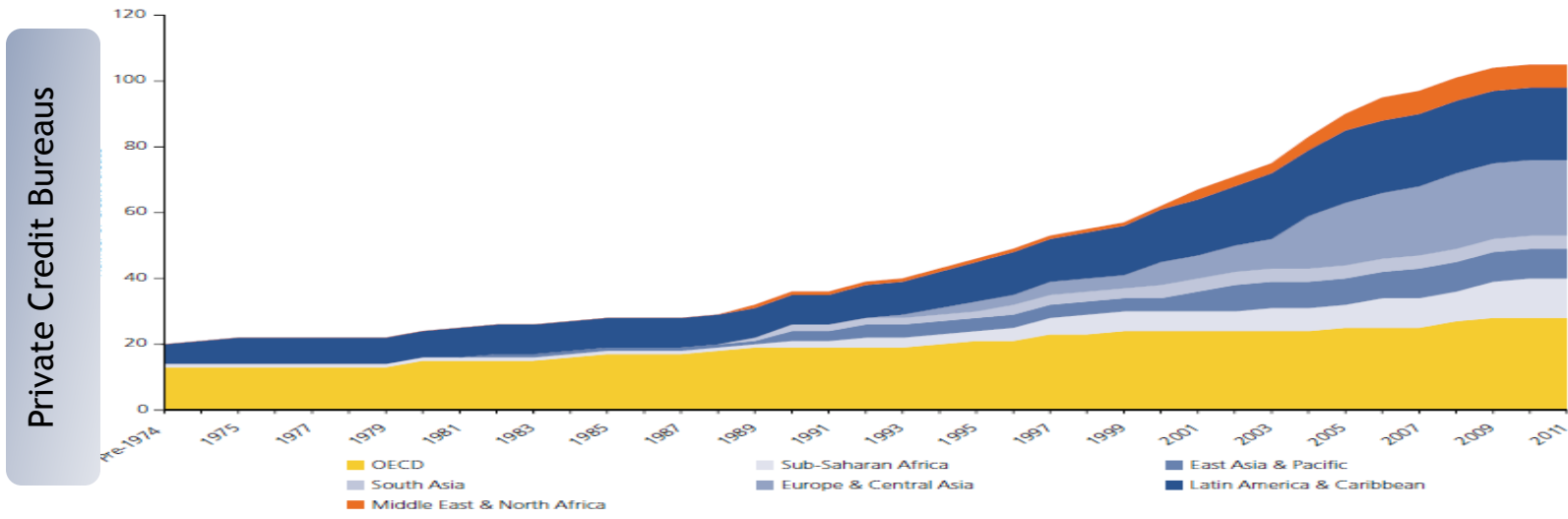
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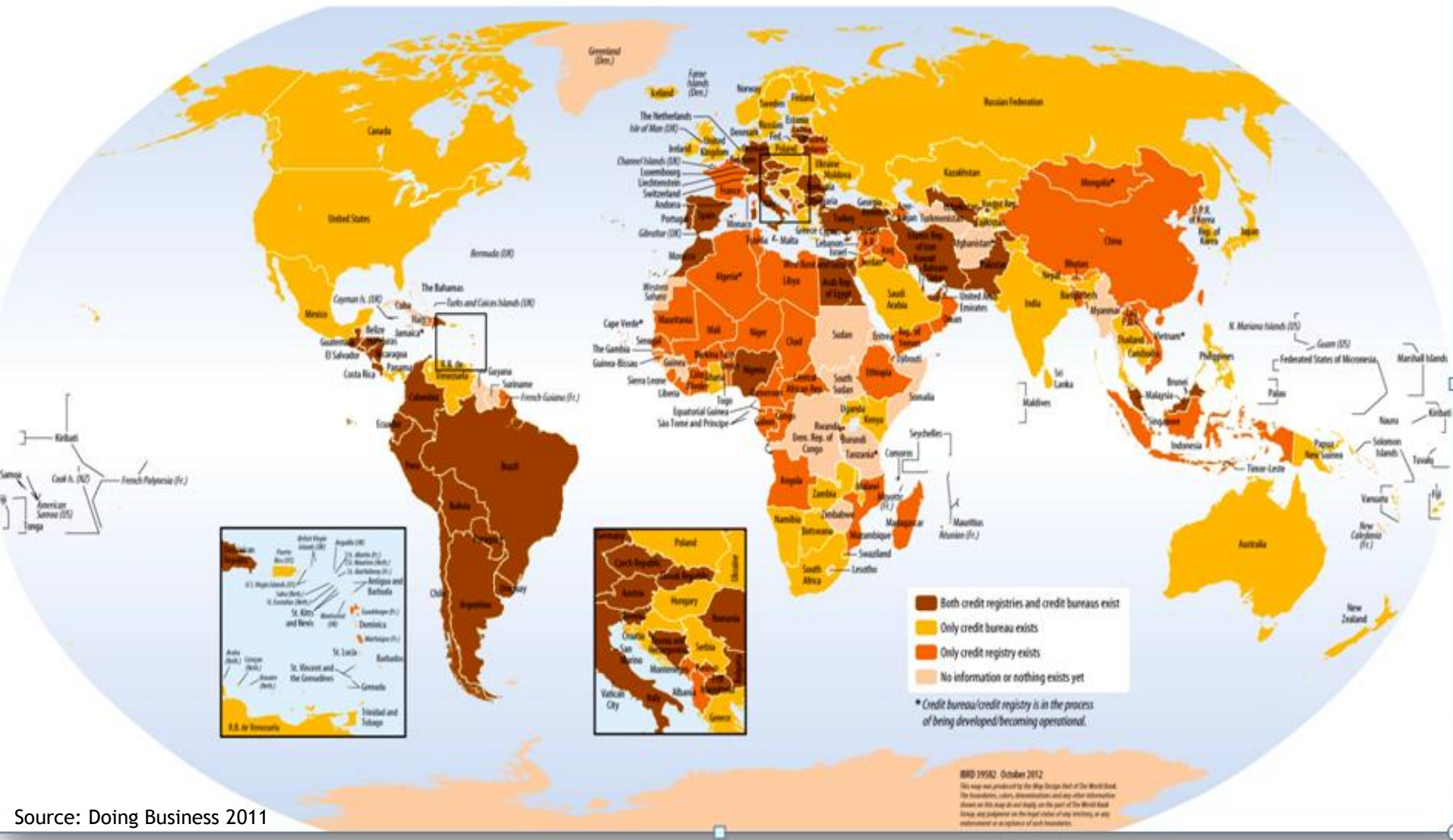
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Growth of credit reporting systems



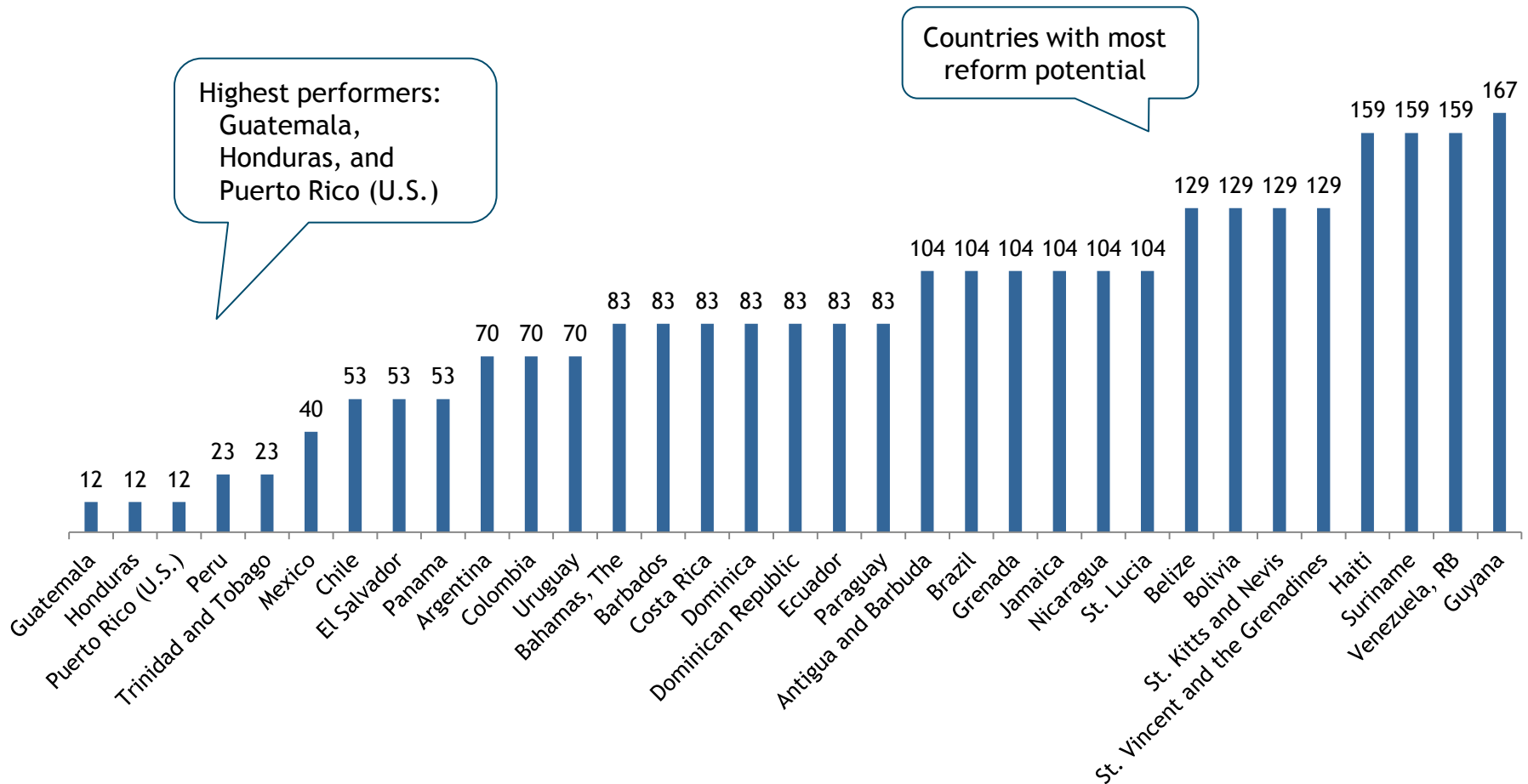
International coverage expanding



Source: Doing Business 2011

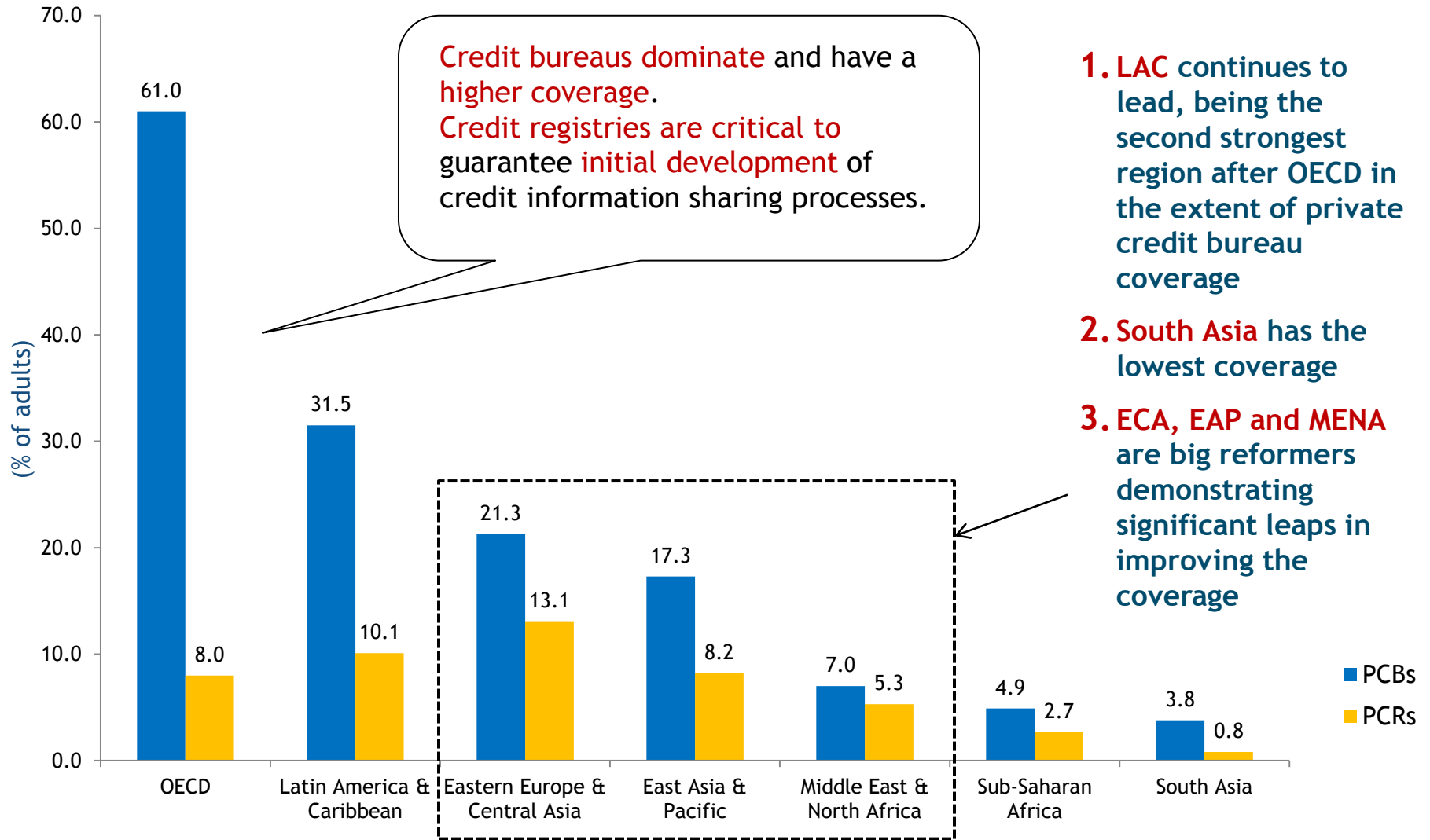
Latin America & Caribbean Country Rankings (DB13)

“GETTING CREDIT” COUNTRY RANKINGS (OUT OF 185)

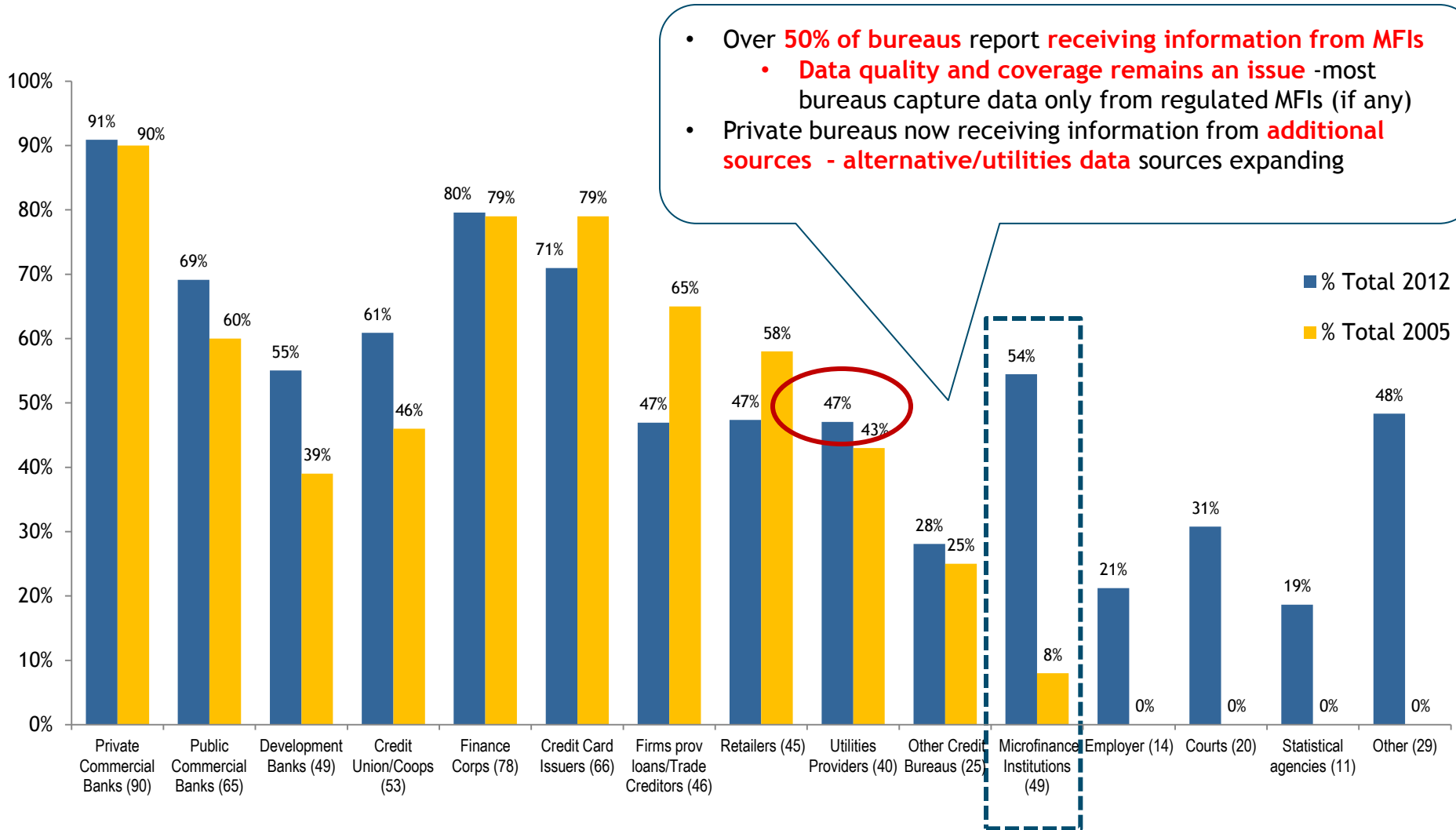


Source: Doing Business 2013

Across regions, private bureaus dominate

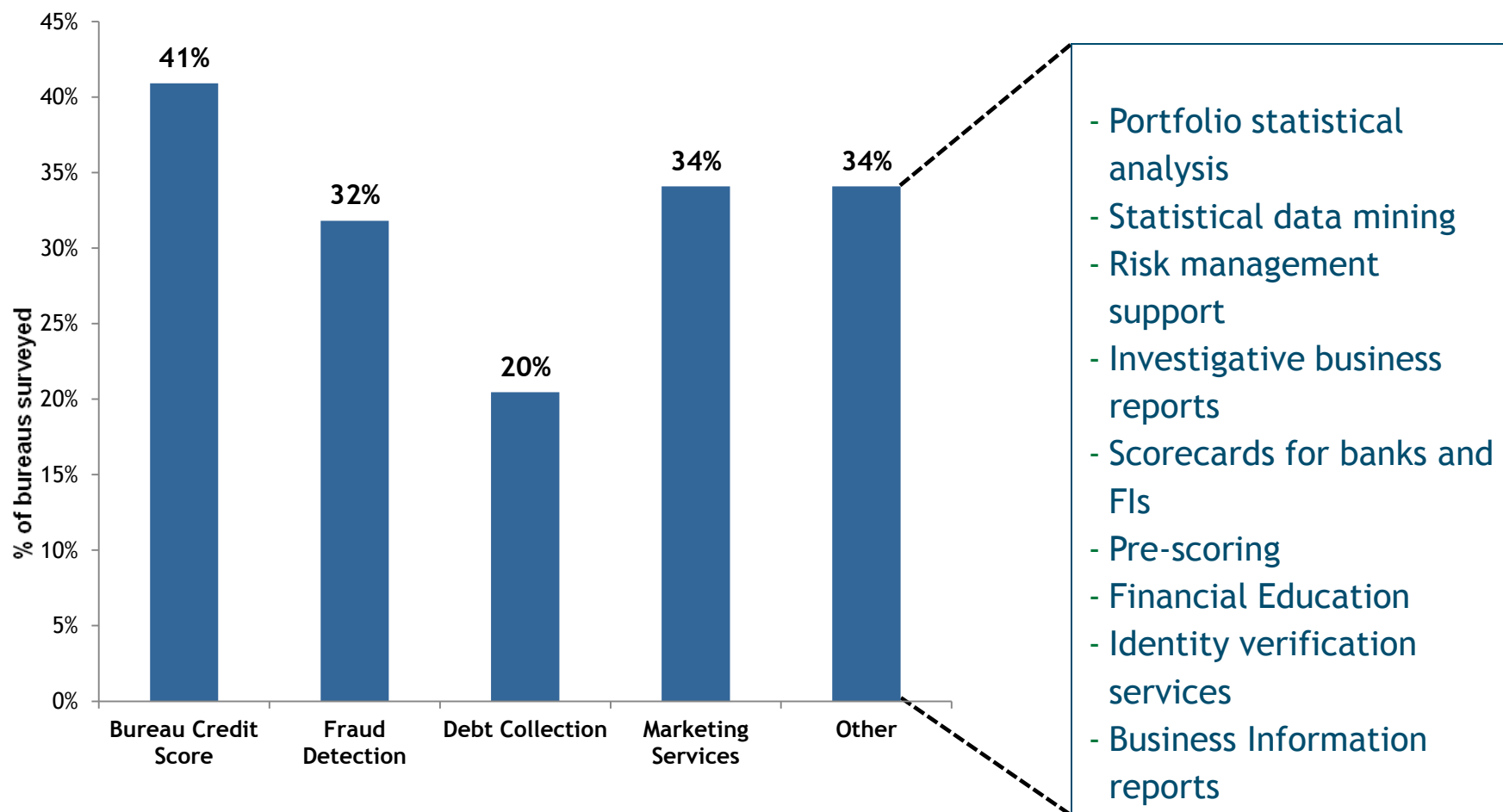


Global trends driving expanded data sources



Source: Doing Business 2012

Value added services increasingly important offering



Source: Doing Business 2010

Continued challenges

- Reluctance/resistance by lenders to share positive data
- Lack of capacity/ appreciation of the value of credit bureau data for risk management
- Data quality issues
- Lack of enabling environment - legal and regulatory framework
- Lack of enforcement of credit reporting regime by regulator/self-regulation by industry
- Weak consumer protection

Content

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General Principles on Credit Reporting

Data

- Data collection and retention

Security & Efficiency

- Security Measures
- Reliability & Efficiency of Data

Governance & Risk Management

- Accountability
- Transparency
- Effectiveness
- Fair Access

Legal & Regulatory Framework

- Clarity & Predictability
- Non-Discrimination
- Proportionality
- Consumer rights and data protection
- Dispute resolution

Cross-border Data Flows

- Pre-conditions
- Requirements

General Principles for Credit Reporting

September 2011

THE WORLD BANK

Available at:

http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Credit_Reporting_text.pdf

The G20 SME Finance Initiative

G20 Leaders create: Financial Inclusion Experts Group (2009)

Two primary roles:

1. Support innovative modes of financial service delivery aimed at the poor
2. Scaling up models of SME finance

Converted into: Global Partnership for Financial Inclusion (2010)

- IFC designated as one of the implementing partners
- SME Finance Forum and SME Finance Initiative (2012)

SME Finance Policy Guide (2011)

- A refined roadmap for FI strategies and SME Finance action plans covering all sub-groups*
- Role of credit reporting in SME Finance

Scaling-Up SME Access to Financial Services (2011)

- Role of SMEs in economic development
- Non financial barriers to SME development
- Access to finance as a key constraint to SME development
- SME finance models
- Suggested actions and policy Recommendations
- Credit reporting case studies (p.61-66)



*(i) i.e. focal areas: women-owned SMEs, SMEs in the agricultural sector, SMEs in LDCs (ii) Mix of private (4) and public (6) examples from EAP contributions

Implications for Credit reporting

Section 5.1, Recommendations for Policymakers

‘Establishing a solid financial infrastructure should be a priority in the financial development agenda of most developing countries.’

‘The aim should be to develop a comprehensive credit reporting system that covers both personal and commercial credit information positive as well as negative From all relevant players.’

Credit Reporting and Responsible Finance

CRSPs have an active role to play. They can:

- Help financial institutions understand the need and benefits of educating their clients
- Support financial institutions in educating their clients through curricula and targeted programs
- Borrower education
 - Basics of credit. Several credit bureaus have dedicated websites on borrower education
 - Educating borrowers on importance of verifying data, using perhaps free annual credit reports
 - Leveraging direct sales and services to consumers with consumer education
- Take a broader direct role in financial education initiatives in their home countries

Thank you!



What would a blended Credit Bureau look like?

