

Credit Reporting Infrastructure

Respective Risks and Constraints Resulting For the Development of Retail Finance in Emerging Markets

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Challenges for the Financial Industry

In Emerging & Transition Markets:

- Historically:
 - limited competition, banks not under pressure to target the underserved
- Today:
 - growing competition, banks have incentive to tap new markets,
 - but, lack strategies & skills to tackle impediments associated with the consumer and small business market



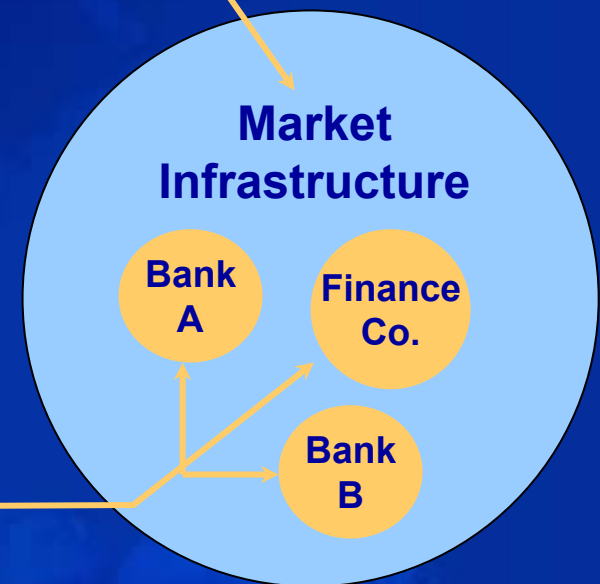
Success in retail finance depends on both bank and market infrastructure

Basic information services & market infrastructure accessible to lenders

- Credit bureaus
- Payment systems
- Enforcing creditor rights

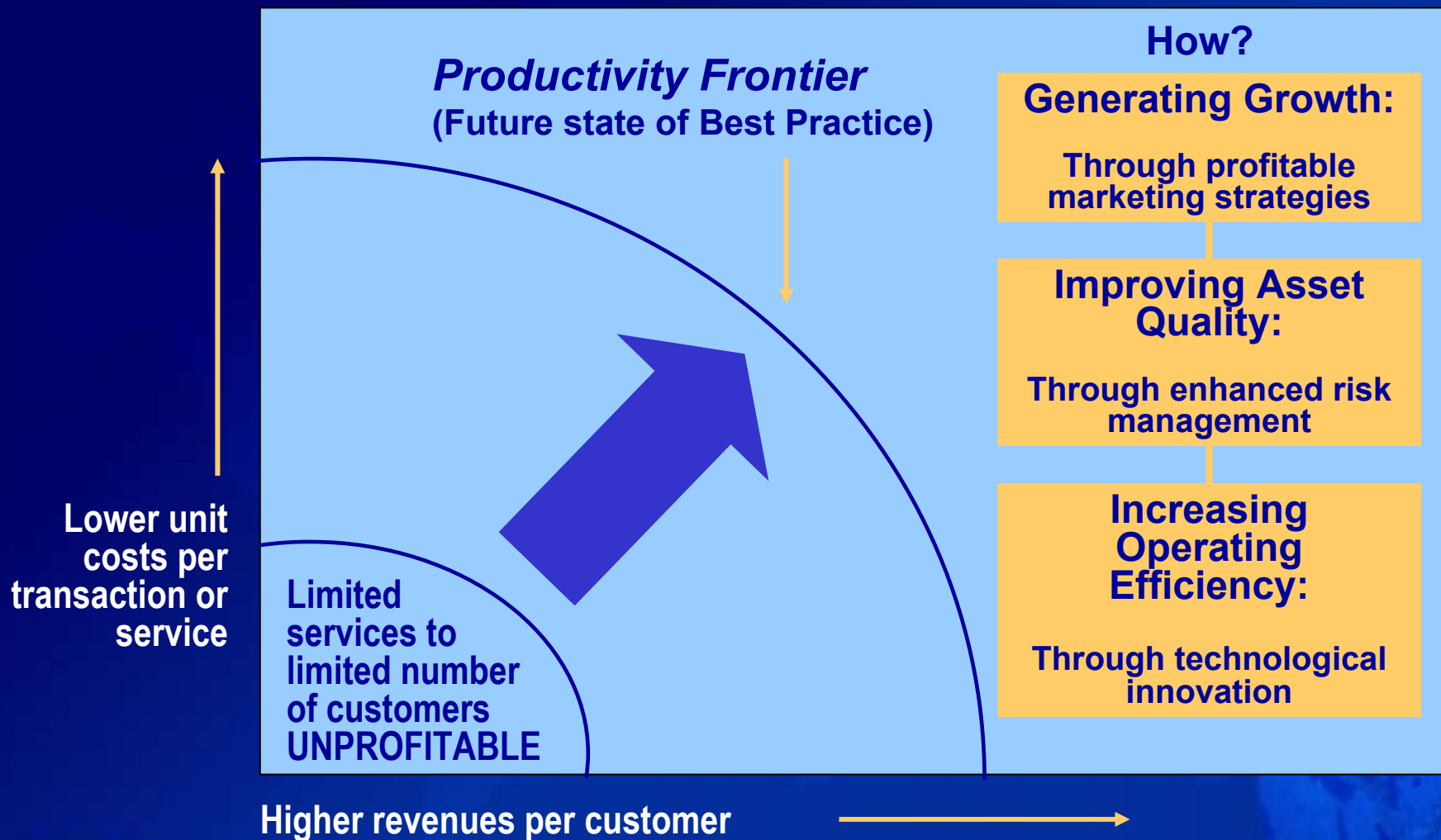
Retail skills and strategy of the financial institution:

- Leadership, experience, and organization
- Products, Delivery Channels, Systems
- Improved risk management (underwriting, portfolio management, collections – using tools like credit scoring)



1. Development of financial infrastructure has long lead times , e.g. more than five years for credit bureaus, which may constrain the development of and impose undue risks on financial institutions.
2. Weak infrastructure and weak institutions can lead to considerable loan losses, e.g. bad Korean credit card debt of US\$15 billion.

Shifting the Productivity Frontier



The need for credit information...

...in pre-screening

- To sort out bad borrowers upfront
- To offer better conditions to good borrowers
- To reduce cost in offering credit

...in credit underwriting

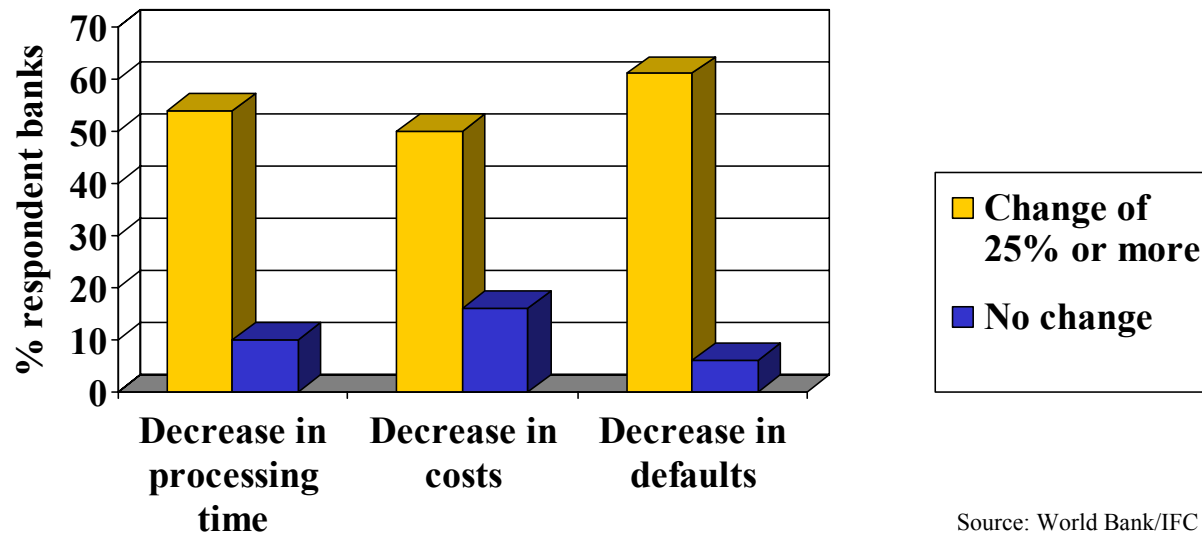
- To identify bad borrowers
- To price risk accordingly
- To use automated / semi-automated underwriting tools like credit scoring

...in portfolio management

- To identify deterioration of existing borrowers
- To avoid aggregation of bad debt among a number of financial institutions
- To collect most risky debt first

Good credit risk management technologies require financial infrastructure

Banks's gains from improved credit reporting



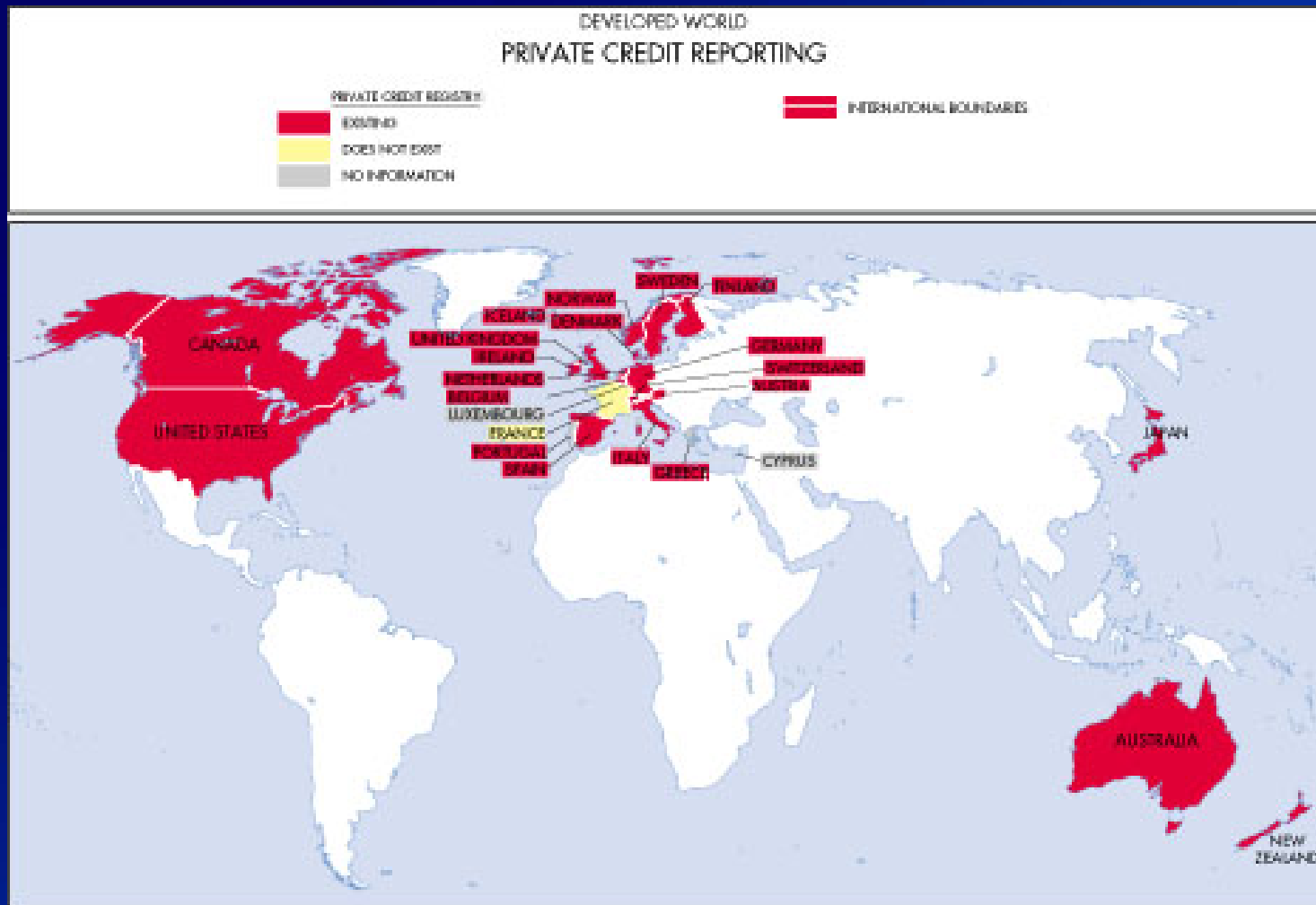
Source: World Bank/IFC

Problem: Credit scoring technologies typically require good credit bureaus (up to 50% of application score predictiveness is derived from bureau information).

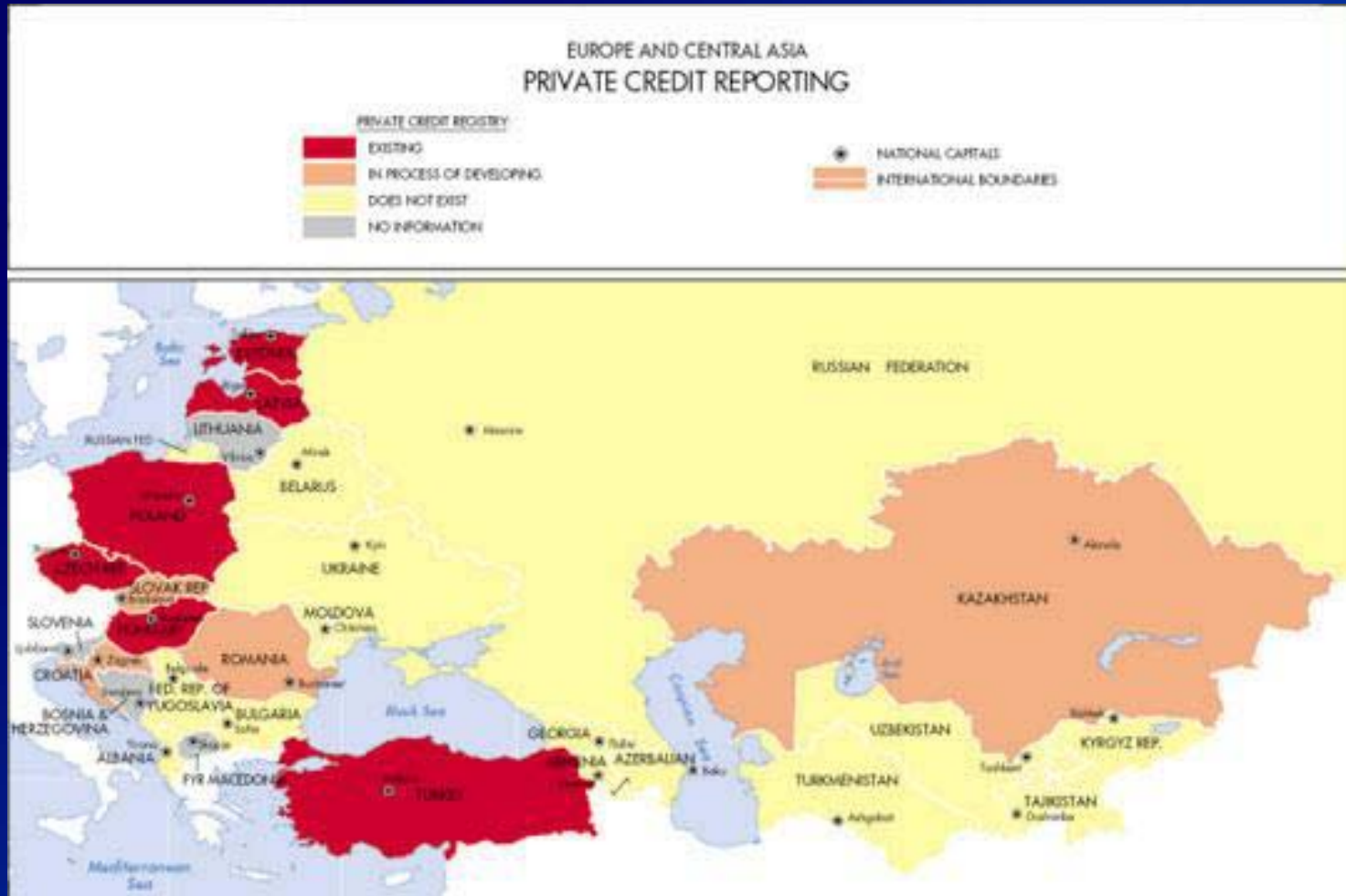
Credit Information Coverage

	Public	Private
Large Corporates	Public Registries	Rating Agencies
Mid-size Companies		Commercial Credit Bureaus
Small Businesses		Consumer Credit Bureaus
Consumers		

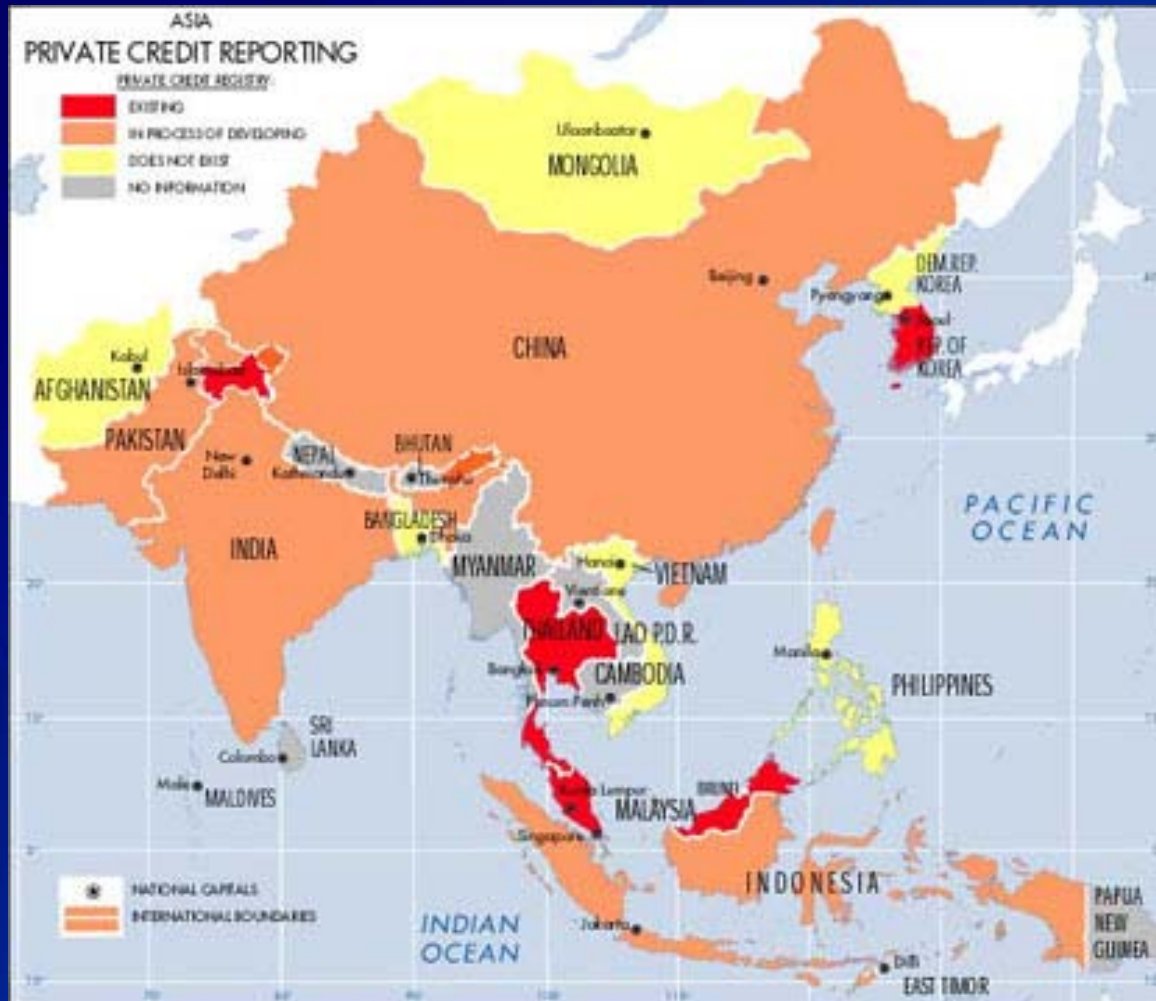
Western Europe, North America, Japan and Australia - Private Credit Registries



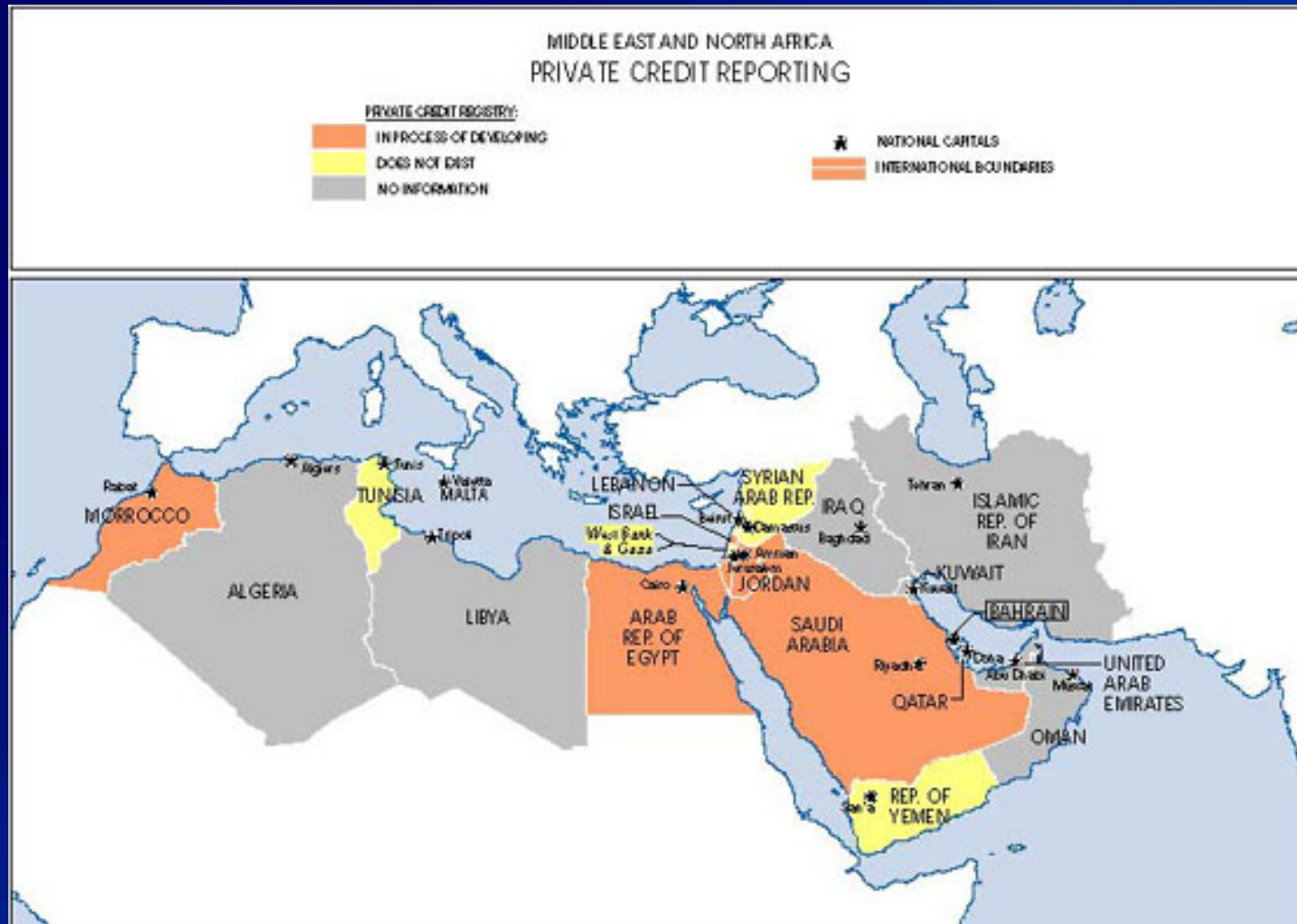
Europe and Central Asia: Private Credit Bureaus



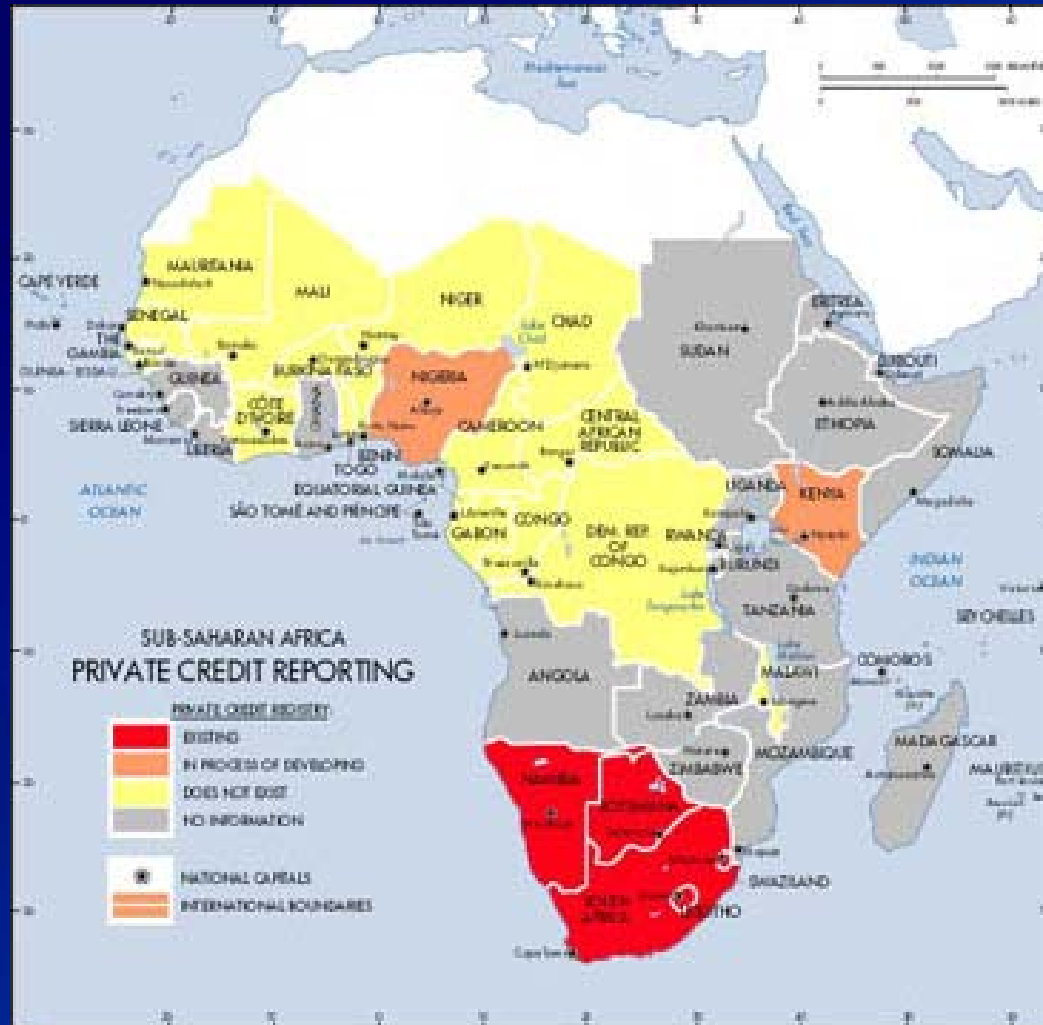
Asia: Private Credit Bureaus



Middle East and North Africa: Private Credit Bureaus



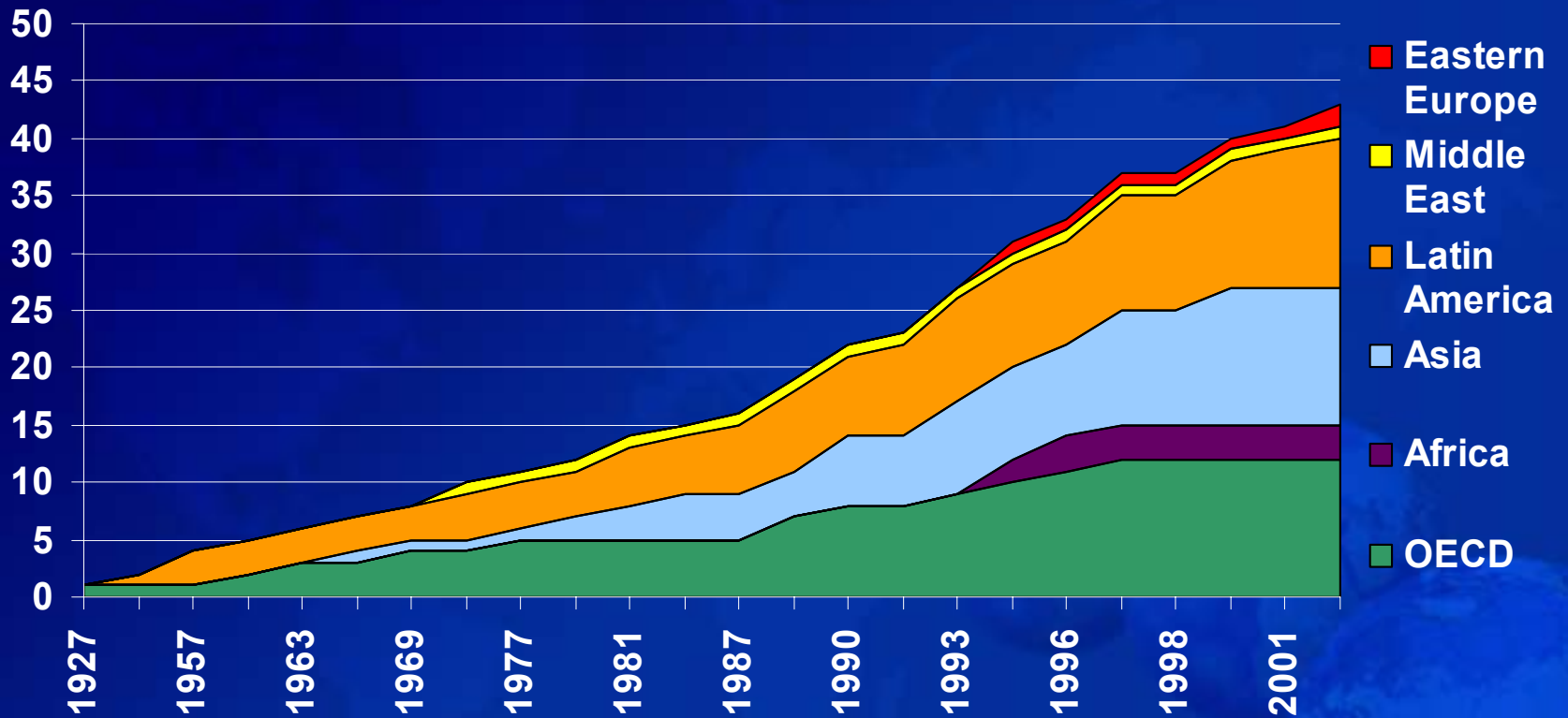
Sub-Saharan Africa: Private Credit Bureaus



Latin America and the Caribbean: Private Credit Bureaus



Private Credit Bureaus have grown rapidly – primarily over the past 10 ys.

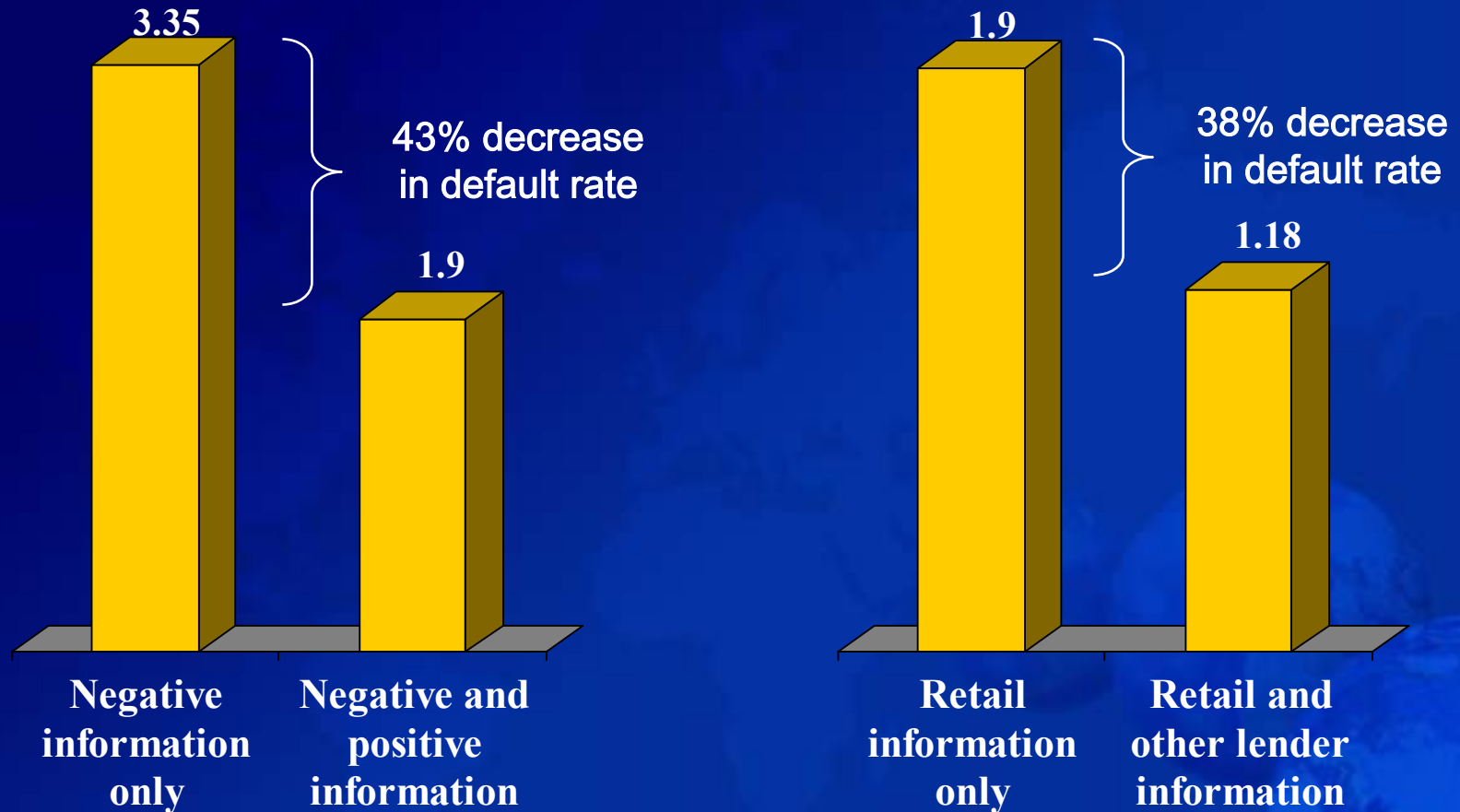


Classification of Consumer Credit Bureaus

Types of Information Sources of Information	“Positive & Negative”	“Negative Only”
“Full” (information shared by banks, retailers, NBFIs, mobile operators)	High predictiveness (e.g. US, UK, Italy, South Africa)	Lower predictiveness (e.g. Australia, Brazil)
“Fragmented” (e.g. information shared among banks only or retail only)	Lower predictiveness (e.g. Poland, Czech Republic)	Lowest predictiveness (e.g. Morocco, South Korea)

Broader information sharing decreases loan losses

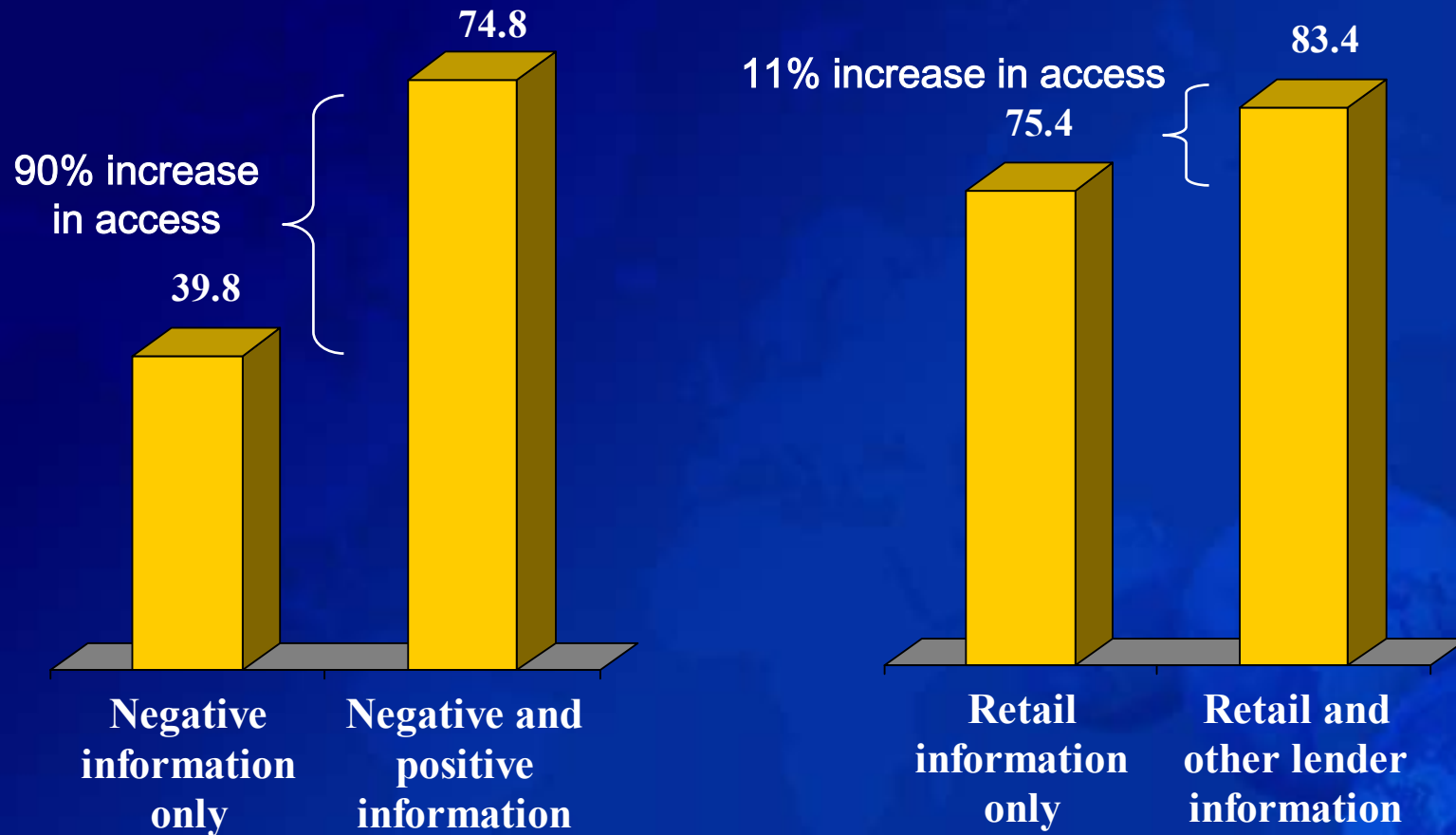
Percent Decrease in Default Rate



Source: Barron and Staten (2000). Note: Figure shows the simulated credit defaults assuming an acceptance rate of 60%

Broader information sharing expands credit

Percent of Applicants who Obtain a Loan



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

Annex

Public Credit Registries

Key Characteristics:

- Operated by Central Bank or Supervisory Institution
- Covers supervised institutions only
- Mandatory reporting of credit exposures
- Typically, above certain minimum amount

Key function:

- Supervision of credit exposure of supervised institutions (aggregate exposure, concentration, risk rating)

Private credit bureau types

Commercial credit bureaus:

- Collect information on businesses
- Largely inquiry driven
- Key focus is on supplier finance relationships (and less on bank lending)

Consumer credit bureaus:

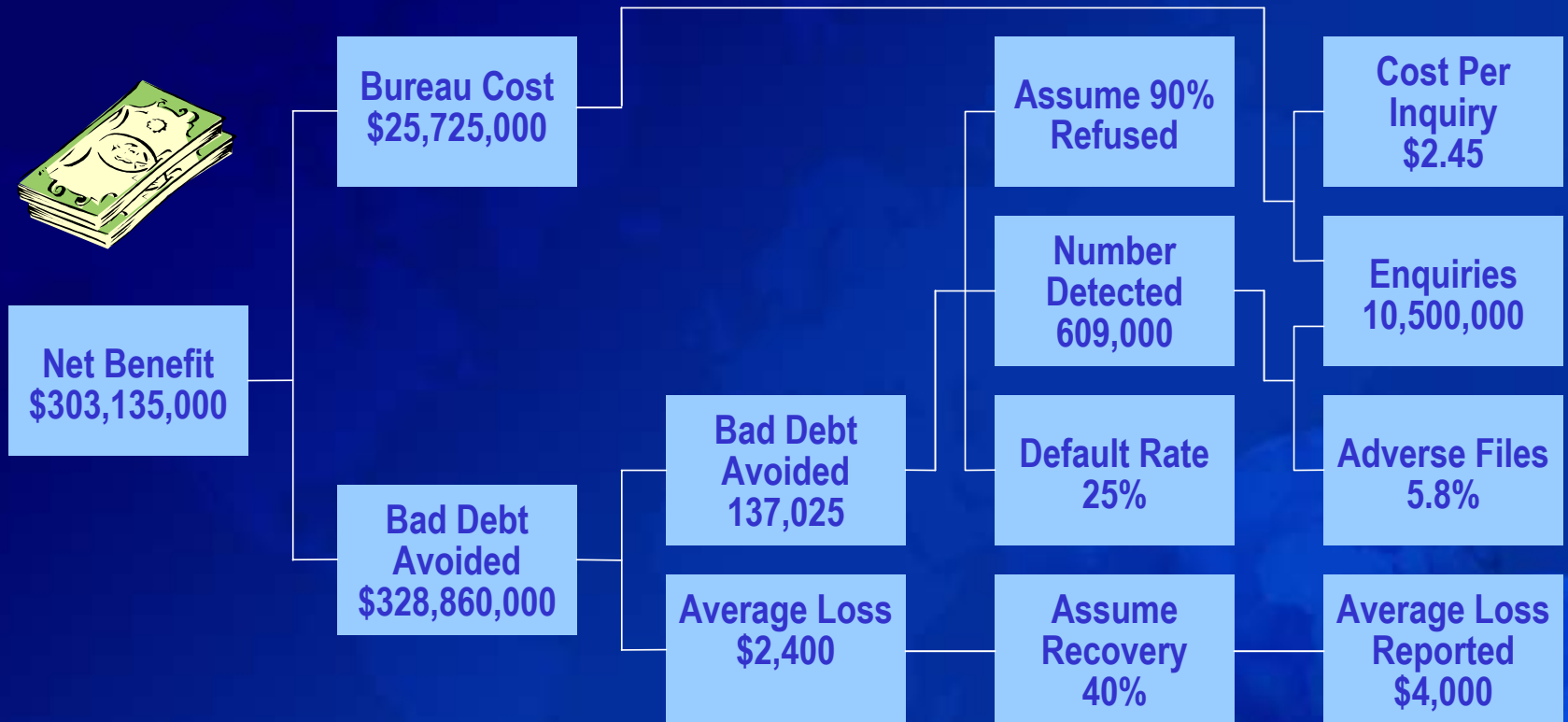
- Collect credit and payment information on individuals and often small businesses
- Data driven: regular reporting from a number of lenders (banks, credit card companies, retail lenders, mobile phone companies) on their portfolio
- Key focus is to capture all relevant entities with exposure to a large number of individuals and businesses (not just banks but also utilities companies etc.)

Critical Issues in Developing Credit Registries

- Public registries fulfill primarily supervisory functions while private credit bureaus cater best to the needs of financial institutions (e.g. see countries with both public and private registries like Germany, Italy, Mexico, Chile)
- Regulators may encourage the sharing of information among financial institutions (e.g. by requiring higher provisioning for loans which have not been checked with a credit report like in Mexico)
- Lawmakers and regulators need to ensure that respective legal and regulatory issues are addressed, including consumer and data protection as well as banking secrecy
- Banks and credit providers need to learn how to use credit information and to adapt their systems respectively

Net Savings in Credit Losses – the Australian Case

Credit Bureaus: The Benefits



Indicative Annual Savings: Consumer Credit