

Development of Credit Reporting Around the World

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Agenda

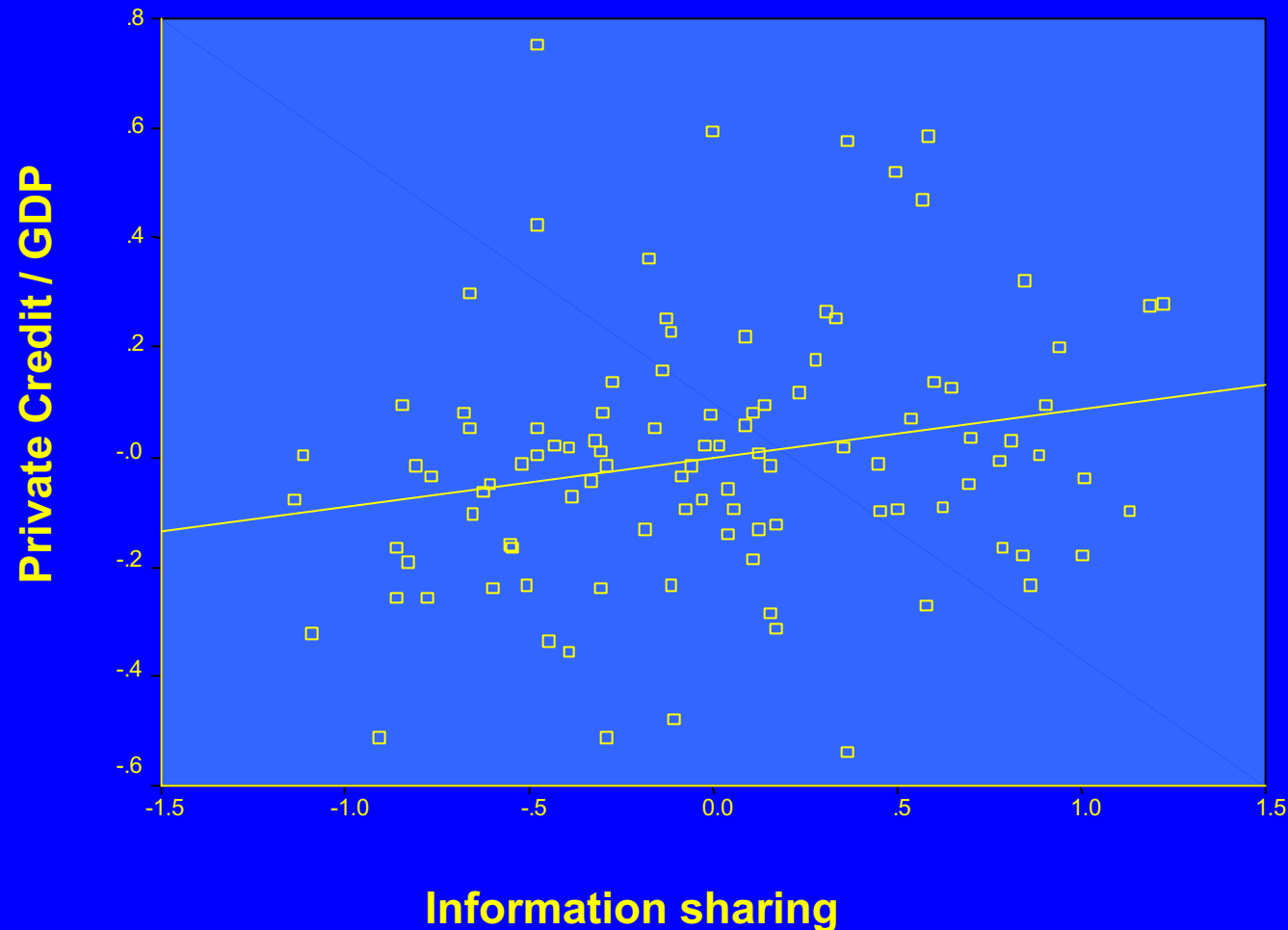
- Why is credit reporting important? How does it effect credit markets?
- What is the difference between public and private credit registries?
- Privacy & credit information sharing: what are the key elements of effective legal and regulatory framework?

Role of Credit Registries in Financial Markets

To summarize, Credit Information Registries...

- Decrease information asymmetries between borrowers and lenders
- Allow lenders to more accurately evaluate risks and improve portfolio quality
- Ease adverse selection problems and lower the cost of credit for good borrowers
- Increase credit volume
- Create “Reputational Collateral”

Macro view: Credit information sharing expands lending

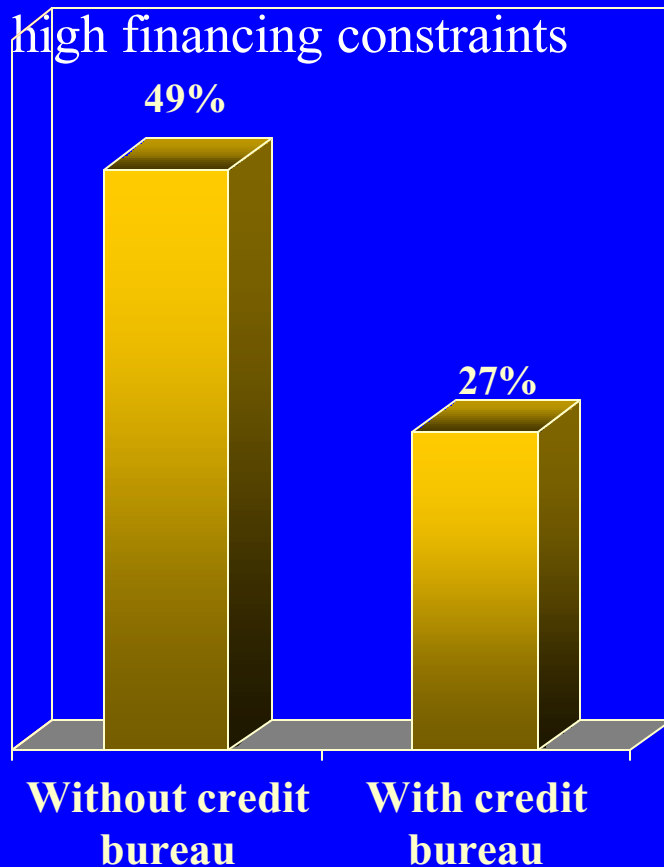


Note: Charts are partial scatterplots controlling for GNI, growth, inflation, rule of law, legal origin. Relationships are statistically significant at 5% level. Source: Doing Business project, International Financial Statistics

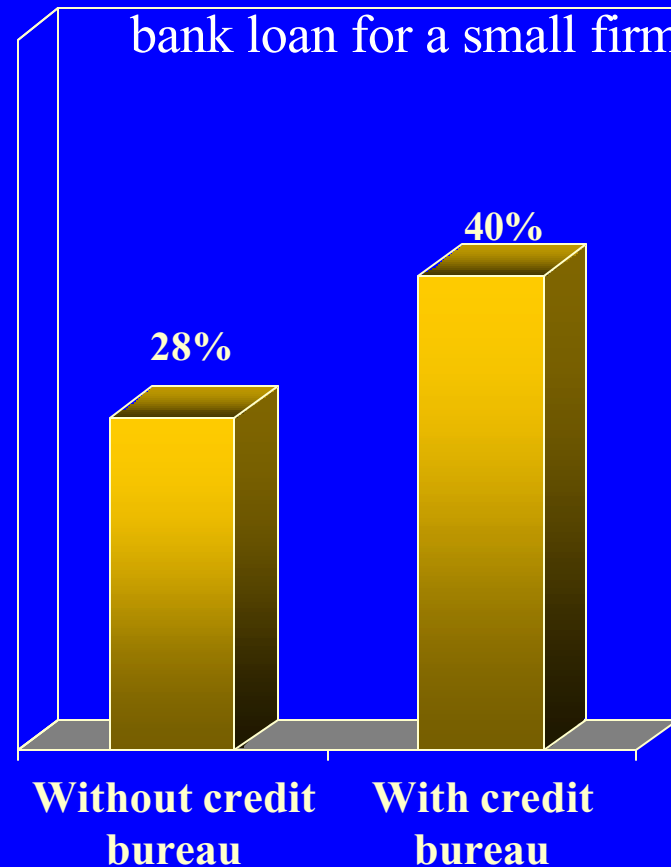
Firms: Private credit registries reduce financing constraints

Estimates based on data on 5000 firms in 51 countries

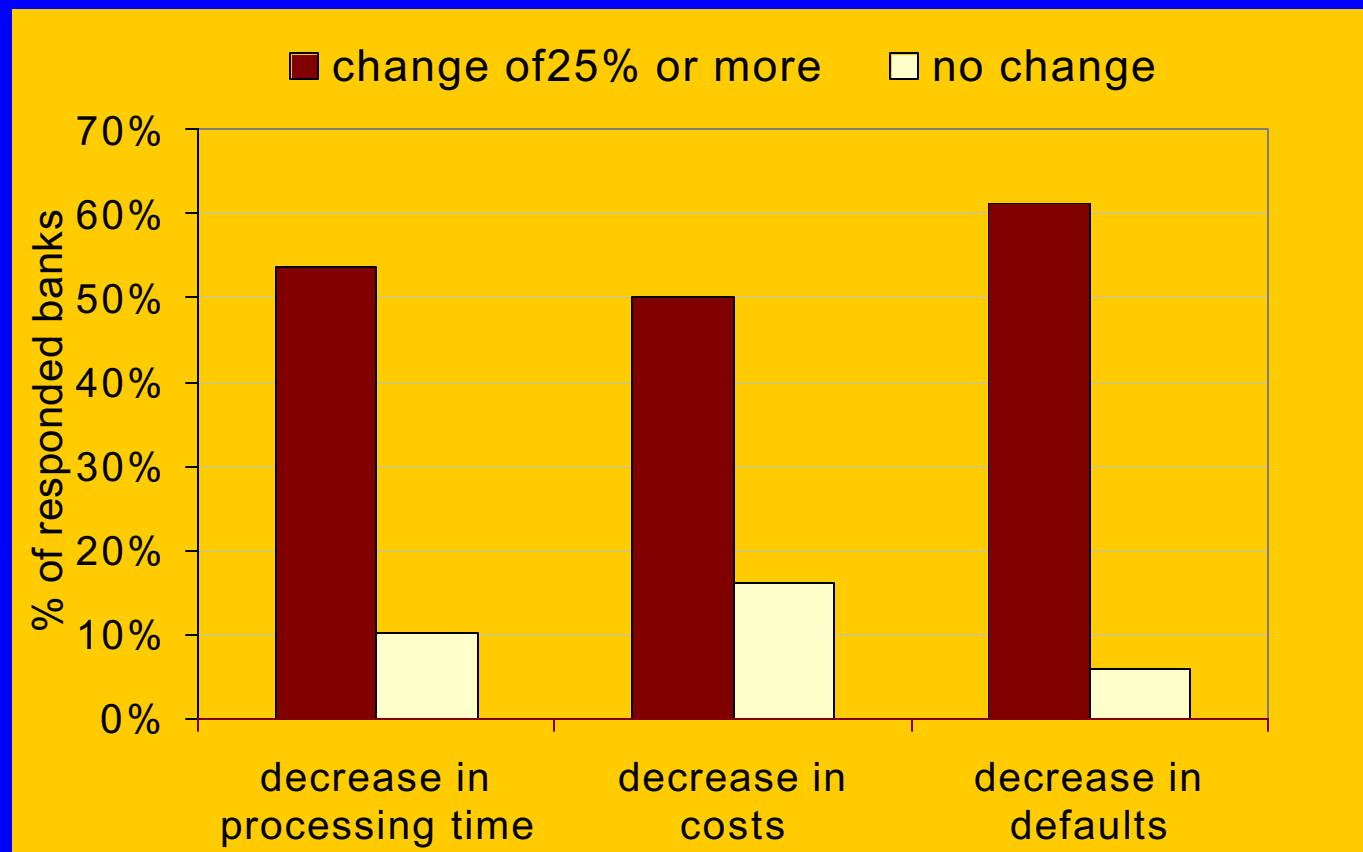
% of small firms reporting high financing constraints



Probability of obtaining a bank loan for a small firm

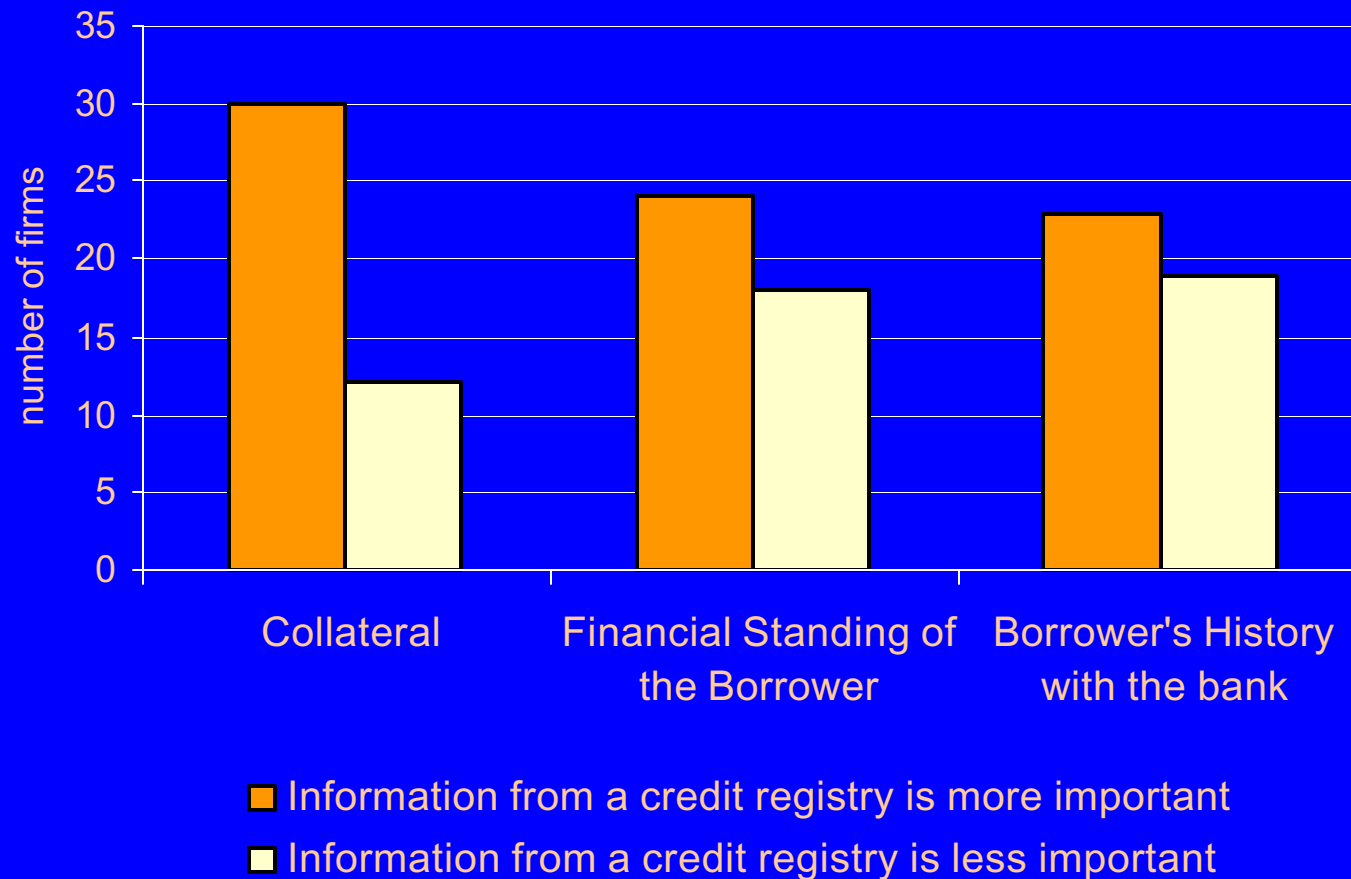


Banks: Efficiency gains from using credit registry information



Based on the results of 2001-2002 survey of banks in 34 countries, World Bank

Banks: importance attached to credit reporting



**Based on survey of banks in Latin America 1999-2000, World Bank*

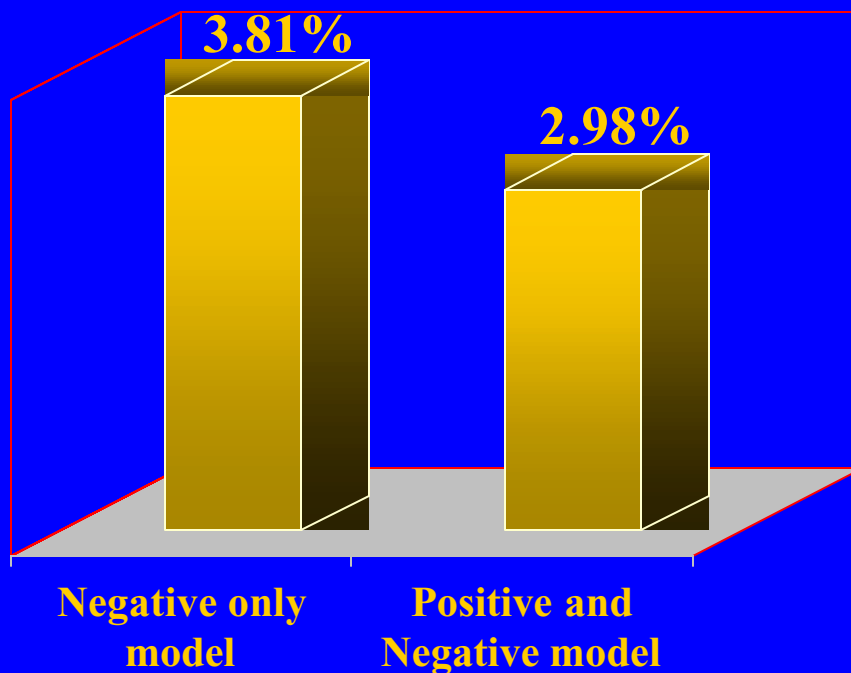
Banks: Cost and time savings from credit reports and credit scoring

Some case studies:

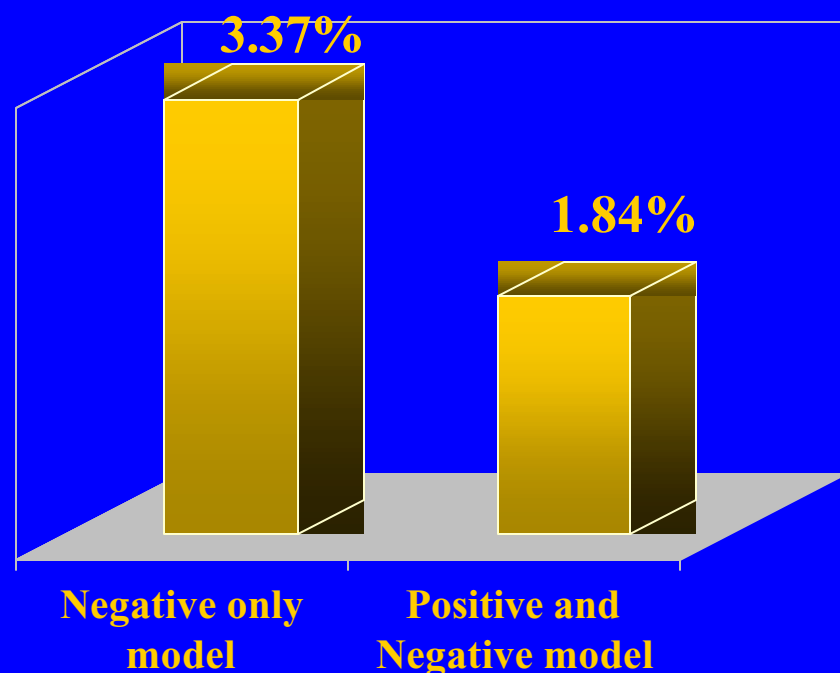
- A bank in Canada: processing time decreased from 9 days to 3 days, in 18 month since scoring was implemented
- A bank in US: processing time decreased from 3-4 weeks to a few hours.
- A bank in Netherlands: processing time decreased from 8-10 hours to 15 minutes for existing clients and 45 minutes for new clients
- A bank in the US: average cost of processing a small business loan decreased from \$250 to \$100 after implementing scoring system

Banks: Use of positive information results in lower default rates

Argentina



Brazil

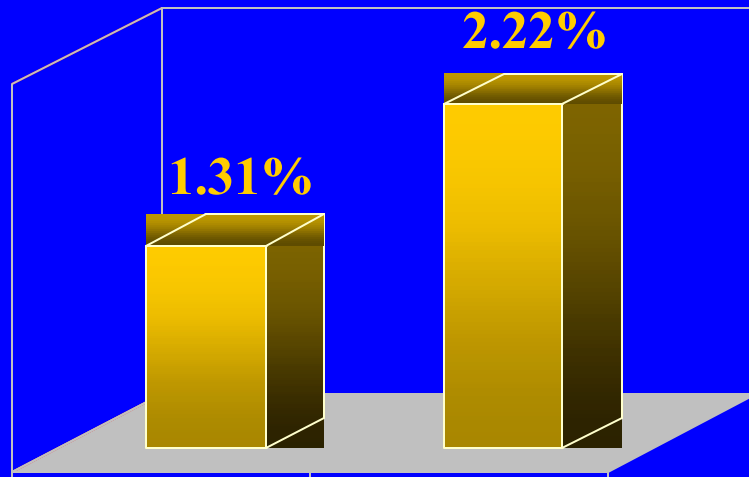


Estimates are based on information on large loans from public credit registries in Argentina and Brazil. Graph represents predicted default rates at 60% approval rate. Based on Majnoni, Miller, Mylenko and Powell (2003) "Public Credit Information Systems: Evaluating Available Information", World Bank

Banks: Using information from credit bureau helps reducing default rates

Argentina

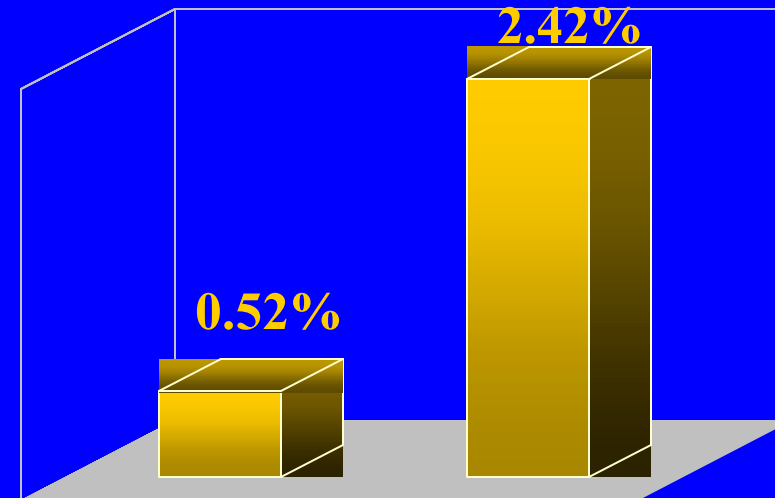
Large Bank



Information from registry

Model with individual bank information only

Small Bank



Information from registry

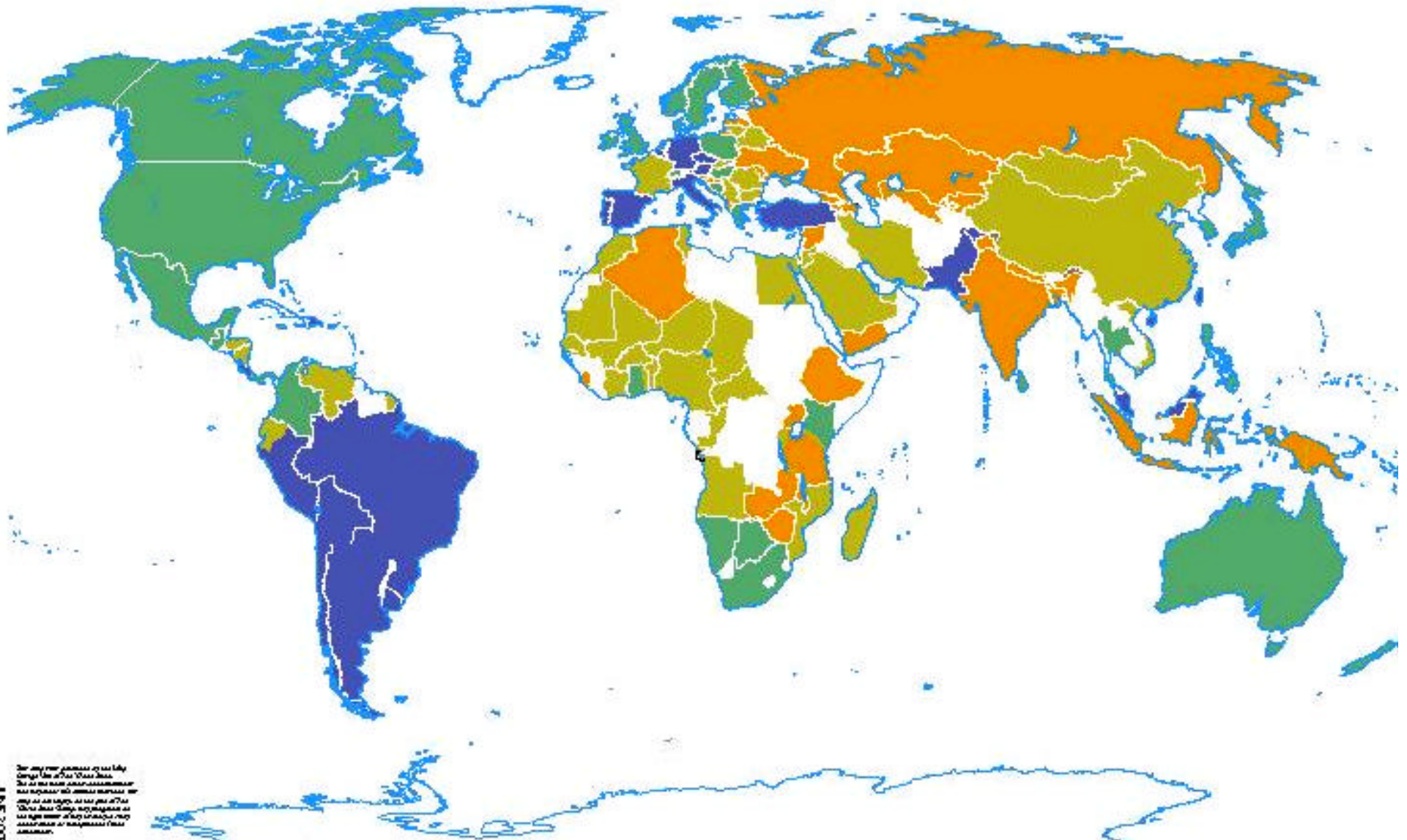
Model with individual bank information only

Estimates are based on information on large loans from public credit registry in Argentina for a selected large and a small bank. Graph represents predicted default rates at 40% approval rate. Based on Majnoni, Miller, Mylenko and Powell (2003) "Public Credit Information Systems: Evaluating Available Information", World Bank

Public (PCR) & Private Credit Registries

PRESENCE OF CREDIT REGISTRIES

- BOTH PCR AND PRIVATE CREDIT REGISTRY EXIST
- ONLY PCR EXISTS
- ONLY PRIVATE REGISTRY EXISTS
- NO PCR OR PRIVATE REGISTRY EXISTS
- NOT IN THE DOING BUSINESS SAMPLE



For any more information, please contact the Doing Business team at the World Bank. We are the world's leading authority on the economic and financial performance of countries. We provide data, analysis, and advice to help governments and businesses improve their performance. We are the world's leading authority on the economic and financial performance of countries. We provide data, analysis, and advice to help governments and businesses improve their performance.

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Public Credit Registries (PCRs)

- Seven of the first 15 European Union countries have public credit registries:
Austria, Belgium, France, Germany, Italy, Portugal and Spain
- All first-wave EU countries, with the exception of France, also have private credit reporting firms

Public Credit Registries (PCRs)

- Government motivation for creating PCRs
 - To promote exchange of credit information in the financial system
 - To improve private credit reporting activities
 - To overcome legal problems with sharing credit information
 - To strengthen supervision of regulated financial institutions

Private sector led credit reporting systems

- Countries with only private sector credit reporting include the United States, Canada, United Kingdom and Nordic countries
- U.S. has approximately 240 credit bureaus, most local or regional in scope, which provide data, in turn, to the big three credit bureaus (Equifax, Experian and Trans Union)
- Government role in these countries focused on protecting the consumer

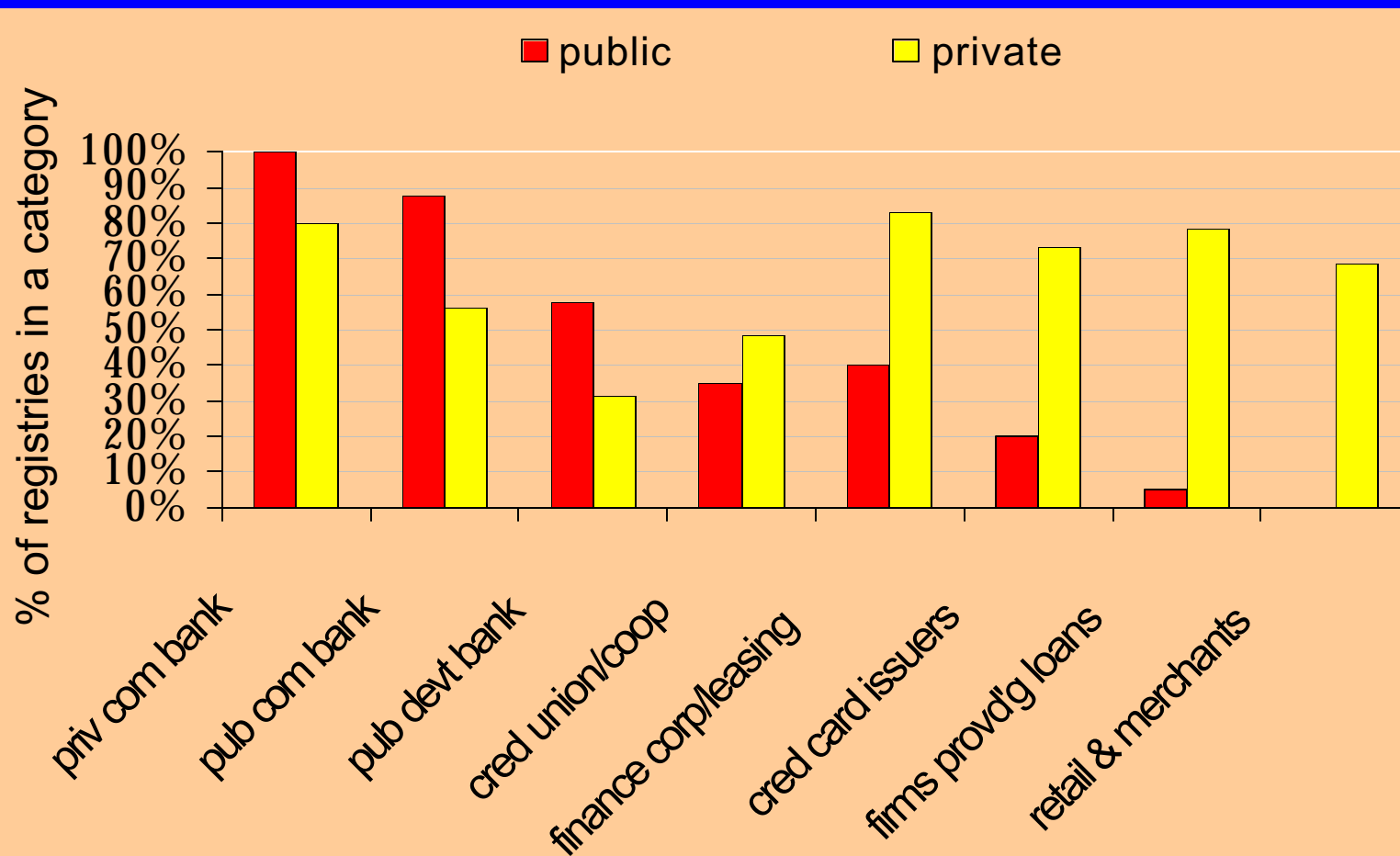
Institutional Arrangements for Private Credit Registries

Institutional Type	Pros	Cons
Private firm w/no bank ownership	All types of data, independence	No automatic access to data
Private firm w/ bank ownership	All types of data, Special access to bank data	Independence may be questioned
Bank association	Access to bank data Integrity	Only bank data, only bank access
Chamber of Commerce	Retail & non-bank data, broad cover, historical record	No bank data, Limited funds for modernization
Commercial & Credit insurance firms	In-depth data on commercial sector	Limited coverage, High cost per entry

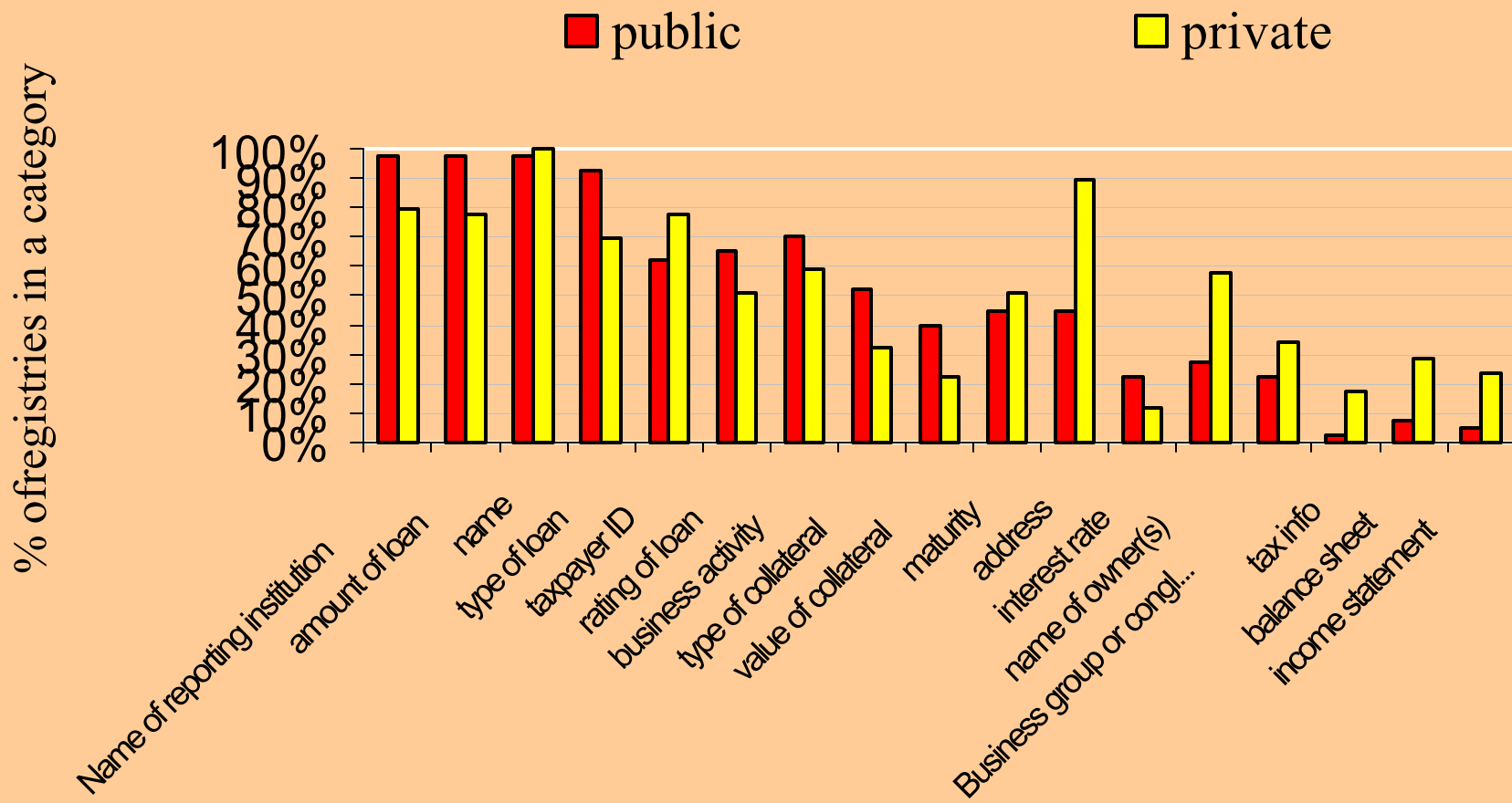
Public vs. Private Credit Registries

<u>Feature</u>	<u>Public</u>	<u>Private</u>
Purpose	Bank supervision & credit checks for lenders	Credit checks for lenders
Source of information	Supervised institutions (banks)	Varied sources (banks, retailers, telecoms)
Participation mandatory?	Yes	No
Positive Info?	Yes	In some cases
Minimum loan size	In some countries	No
Fee for service	No charge or minimal charge	Yes
Basis for operations	Government Regulation	Contract

Who submits information to public and private registries?



Firm data collected by public and private registries



“Good Practice”

Emerging elements of “Good Practice”: Public Credit Registry (PCR)

- Complement, not compete, with private firms
- Provide customer service if data is distributed to financial system
- Supervisors include financial institution’s use of credit information as part of inspections
- Encourage all financial institutions to participate in credit reporting

Additional “Good Practices”

- Maintain data for a reasonable time frame – 5 years minimum
- Access to detailed information preferable
- Open system, not closed network
 - Allow non-bank creditors to join
- Integrity and transparency are paramount
 - special standing of any group, including owners or government, will discourage participation
- Restrictions to prevent “cherry-picking”

Government role in establishing or strengthening credit reporting

- Chile – PCR provides information to private sector reporting firm
- Argentina – PCR provides data to private reporting firms and banks
- Belgium – PCR on full cost-recovery basis with financial institutions
- Mexico – Government promoted creation of private credit bureau owned by the banks which became a monopoly – new law addresses problem
- Thailand – Government promoted creation of private credit bureau but legal problems continue to limit functions
- Armenia – Central Bank to establish credit bureau which will later be privatized

Privacy & credit information sharing:
What are the key elements of effective legal
and regulatory framework?

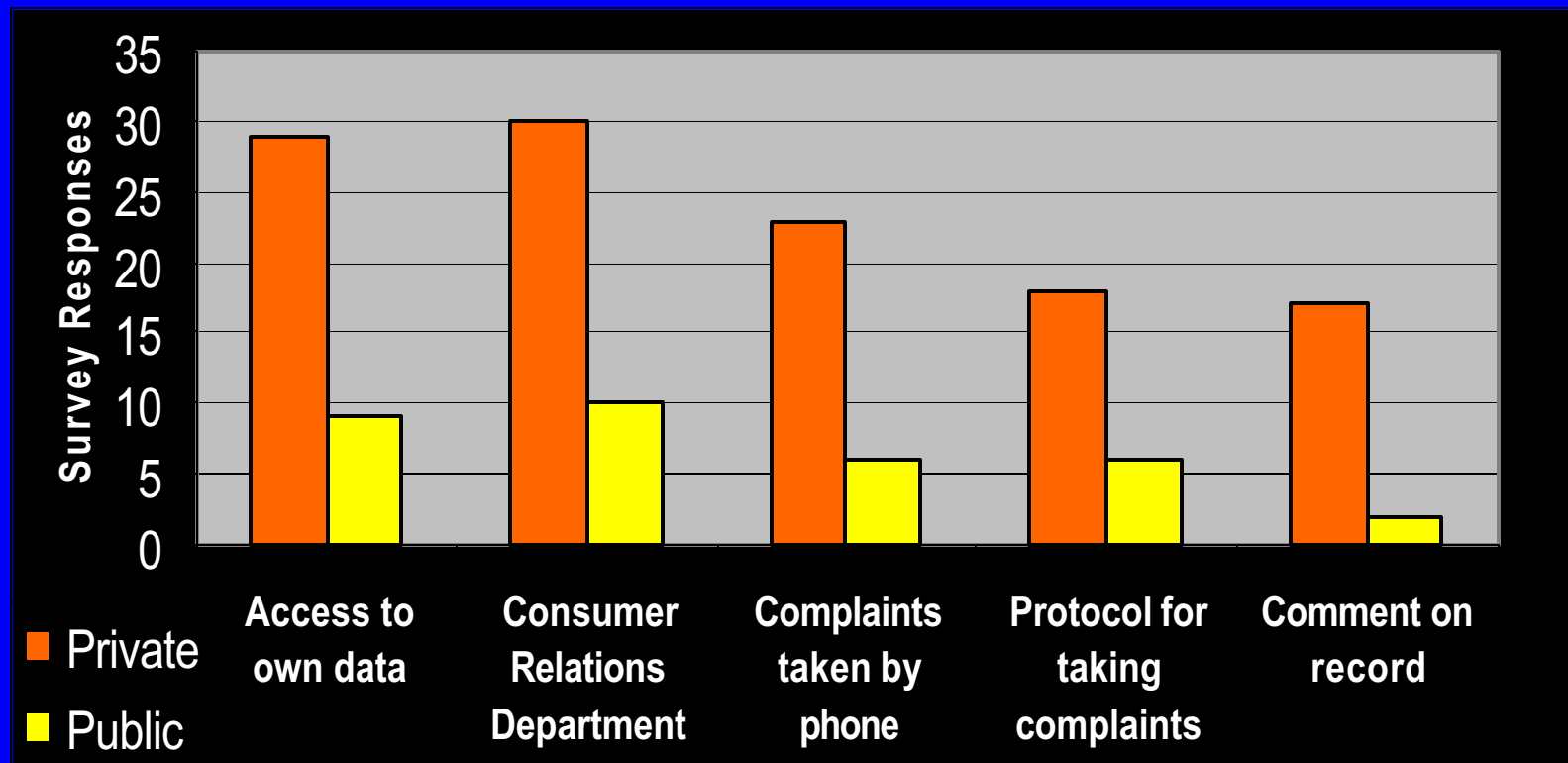
Laws and Regulations: Creating an enabling environment

- Legal framework should encourage information sharing among lenders
 - review bank secrecy laws which can constrict information flows
- Regulations should offer consumer protection
 - restrictions on access to information: permissible purpose, consent
 - fair credit granting and consumer credit regulations
 - borrowers should have access to their own credit reports
 - procedures in place to challenge erroneous information in reasonable time frame; consumers should have ability to bring complaints outside judicial system

Privacy Concerns: What data is collected

- Credit information registries should include objective information relevant for assessing creditworthiness and suitability for other commercial transactions
- Credit registries should not collect highly sensitive information such as political or religious affiliation, race or ethnicity, etc. (Other identifying information, such as gender, should be evaluated more carefully)
- Credit information registries may include data from public records such as corporate registries, court records, etc.

Consumer Attention: Comparing Private and Public Registries



World Bank Credit Reporting Systems Project

- Legal reform
 - bank secrecy, privacy and data protection, consumer rights
- Regulatory Reform
- Establishment and enhancement of credit bureaus
 - special emphasis on SME and micro-finance credit reporting
- Public Database Modernization
- Education and Outreach
 - consumers, judiciary

http://econ.worldbank.org/programs/credit_reporting/

Main messages

1. Credit reports greatly reduce the time and cost of providing credit
2. Public credit registries and private credit reporting firms are not substitutes – they can compliment one another
3. Maximize the completeness of credit histories; make data available to open user group (non-bank creditors)
4. Establish regulatory framework for consumer protection and educate consumers as to their rights

Thank you!

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