

# Policy & Economic Research Council

## Credit Reporting & Sustainable Financial Inclusion: The Promise of Well-Structured Information Sharing



**Asia-Pacific Credit Coalition**

Expanding Financial Access Through Regional  
Public-private Cooperation

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# About APCC

- **The Asia Pacific Credit Coalition, an affiliate of the non-profit Policy and Economic Research Council (PERC), is committed to**
  - The promotion of credit reporting standards within APEC
  - Showing value proposed reporting standards as means of financial inclusion
  
- **In pursuit of goal, APCC conducts**
  - Outreach policy makers, media, and industry execs
  - Research demonstrating need for standard and associated policies

# The Issues in Credit Reporting Reform

- **What information should be reported?**
- **Which sectors should be encouraged to report?**
- **How is the size and distribution of lending affected?**
- **What forms of registry ownership work best?**

# The Principles

The APCC members believe that credit reporting should be based on the following general principles:

1. **Positive and negative payment data** should be reported to private credit bureaus;
2. **Bank, non-bank, and non-financial payment data should be reported;** data should not be segmented by sector
3. **Consumer rights and protections are paramount, as spelt out in OECD Fair Information Principles;**
4. **Private credit bureaus** and public credit registries are complementary; private bureaus focus on making lending efficient;
5. **Reporting of payment data should be voluntary;** and,
6. **Data use should be limited** to well-defined permissible purposes.

# Why Full-File, Comprehensive Credit Information Sharing?

History of and experience with broader information sharing shows:

- **increased lending** to the consumers and SMMEs especially among lower social segments and informal businesses; and,
- **better loan performance**, i.e. more stable lending.

When lenders can use behavior to assess risk, lending is broader and safer

Private sector services previously excluded social segments as borrower history is used to assess risk

Especially true when privately owned credit bureaus are in the market



# Variations in the Structure of Reporting

- **Full-file reporting:** The reporting of both positive payment information and negative information such as delinquencies, collection, bankruptcies, and liens. Late *and* on time payments are reported.

**VS.**

- **Negative-only reporting:** The reporting of only negative information, such as delinquencies, defaults, collection, bankruptcies, and liens.

- 
- **Segmented reporting:** A system of reporting information, whether full-file or negative-only, in which only data from one sector, e.g., retail or banking, are contained in reports.

**VS.**

- **Comprehensive reporting:** A system of in which payment and account information, whether full-file or negative-only, are not restricted by sector, that is, the system contains information from multiple sectors.

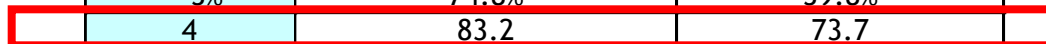


# Full-File vs. Negative-Only (US data)

**Table 1: Acceptance Rates for a Targeted Performance Level using Full-File versus Negative-Only Reporting**

Target default rate (%)	Full-file, comprehensive reporting (%)	Negative-only reporting (%)
3%	74.8%	39.8%
4	83.2	73.7
5	88.9	84.6
6	93.1	90.8
7	95.5	95.0

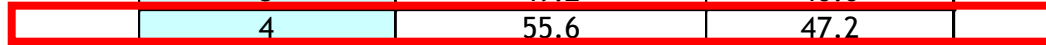
Source: John M. Barron and Michael Staten, "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience," in Margaret M. Miller ed., *Credit Reporting Systems and the International Economy*, 273-310 (Cambridge, MA: MIT Press. 2003).



**Table 2: Acceptance Rates by Targeted Performance Level with Full-File versus Negative-Only Reporting (U.S. Commercial Scoring Models)**

Target default rate (%)	Full-file, comprehensive reporting (%)	Negative-only reporting (%)
2%	41.9%	28.5%
3	49.2	40.0
4	55.6	47.2
5	60.4	55.5
6	63.7	60.4
7	66.4	64.1

Source: Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency, and Opportunity* (Washington, DC: The National Chamber Foundation, June 2003).



# Full-File vs. Negative-Only (Latin American data)

**Table 3: Acceptance Rates by Targeted Performance Level with Full-File versus Negative-Only Reporting (Argentinean Loans in Excess of US\$21,000)**

Target default rate (%)	Full-file model (%)	Negative-only model (%)
3%	60.22%	49.50%
5	76.37	75.76
7	86.02	84.26
9	92.76	91.95
10	95.24	94.71
11	97.50	97.10
12	99.59	99.55

Source: Giovanni Majnoni, Margaret Miller, Nataliya Mylenko and Andrew Powell, "Improving Credit Information, Bank Regulation and Supervision." World Bank Policy Research Working Paper Series, No. 3443 (Washington, DC: World Bank, November 2004).

**Table 4: Acceptance Rates by Targeted Performance Level with Full-File versus Negative-Only Reporting (Brazilian Loans in Excess of US\$300,000)**

Target default rate (%)	Full-file model (%)	Negative-only model (%)
2%	65.08%	49.20%
3	82.27	55.84
4	91.53	84.81
5	96.23	94.36

Source: Giovanni Majnoni, Margaret Miller, Nataliya Mylenko and Andrew Powell, "Improving Credit Information, Bank Regulation and Supervision." World Bank Policy Research Working Paper Series, No. 3443 (Washington, DC: World Bank, November 2004).



# Full-File vs. Negative Only (Colombian data)

**Table 5: Acceptance Rates by Targeted Performance Level with Full-File versus Negative-Only Reporting Using Columbian Data**

Target default rate	Full-file, comprehensive reporting	Negative-only reporting
3%	10.00%	2.56%
5	41.35	5.15
7	58.82	13.60
10	73.06	54.97
12	77.80	72.26

Source: Michael Turner and Robin Varghese, *The Economic Impacts of Payment Reporting in Latin America* (Chapel Hill, NC: Political and Economic Research Council, May 2007), Table 5.

**Includes non-financial trade lines**

# Consequences of Full-file vs. Negative-only for Performance

Percentage Point Change in the Default Rate in Switch from Full-file to Negative-Only (percentage change shown in parentheses)

Acceptance Rate	Barron and Staten, using U.S. files	Turner et al., using U.S. files	Turner and Varghese, using Colombian files (includes non-financial trade lines)	Majnoni et al., using Argentinean files	Majnoni et al., using Brazilian files
20%			4.94 (140%)		
30%		0.8 (62%)	4.94 (120%)		
40%	1.84 (170%)	0.6 (33%)	8.96 (183%)	0.92 (60%)	1.48 (114%)
50%		0.3 (10%)	8.54 (146%)		
60%	1.45 (76%)	0.4 (8%)	8.1 (113%)	0.83 (28%)	1.53 (83%)
70%		0 (0%)			
75%	1.03 (34%)				
80%				0.96 (19%)	0.86 (30%)
100%	0 (0%)	0 (0%)		0 (0%)	0 (0%)

Source: John M. Barron and Michael Staten, "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience," in Margaret M. Miller ed., *Credit Reporting Systems and the International Economy*, 273-310 (Cambridge, MA: MIT Press, 2003). Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency, and Opportunity* (Washington, DC: The National Chamber Foundation, June 2003). Michael Turner and Robin Varghese, *The Economic Impacts of Payment Reporting in Latin America* (Chapel Hill, NC: Political and Economic Research Council, May 2007). Giovanni Majnoni, Margaret Miller, Nataliya Mylenko, and Andrew Powell, "Improving Credit Information, Bank Regulation and Supervision." World Bank Policy Research Working Paper Series, No. 3443 (Washington, DC: World Bank, November 2004).

## Results on loan portfolio performance

- default rates climb as information moves from full-file to negative-only in all cases
  - good risks are confused for bad ones
  - bad risks confused for good ones
- Data sharing
  - improves quality of information for risk provisioning, allowed under Basel II
  - Associated with lower defaults, smaller capital requirements, and lower credit constraints

# Distributional Consequences Of Full-file vs. Negative Only

Effects on Acceptance Rates for a 3 Percent Targeted Default Rate between Full-file Reporting and Negative-only Reporting, by Demographic Characteristics (US Data)

	Negative-only (index = 100)	Full-file (index = 100)
Race-Ethnicity		
Caucasian, Non-Hispanic	100	121.8
African American	100	127.9
Latinos	100	136.8
All Minority	100	135.5
Gender		
Female	100	121.8
Male	100	123.0
Age		
<36	100	147.1
36-45	100	121.8
46-55	100	121.2
56-65	100	119.8
66-75	100	117.9
76+	100	119.9
Household Income (US\$)		
< 15,000	100	135.9
15,000-29,000	100	129.7
30,000-49,000	100	124.2
50,000-99,000	100	120.6
>100,000	100	117.8

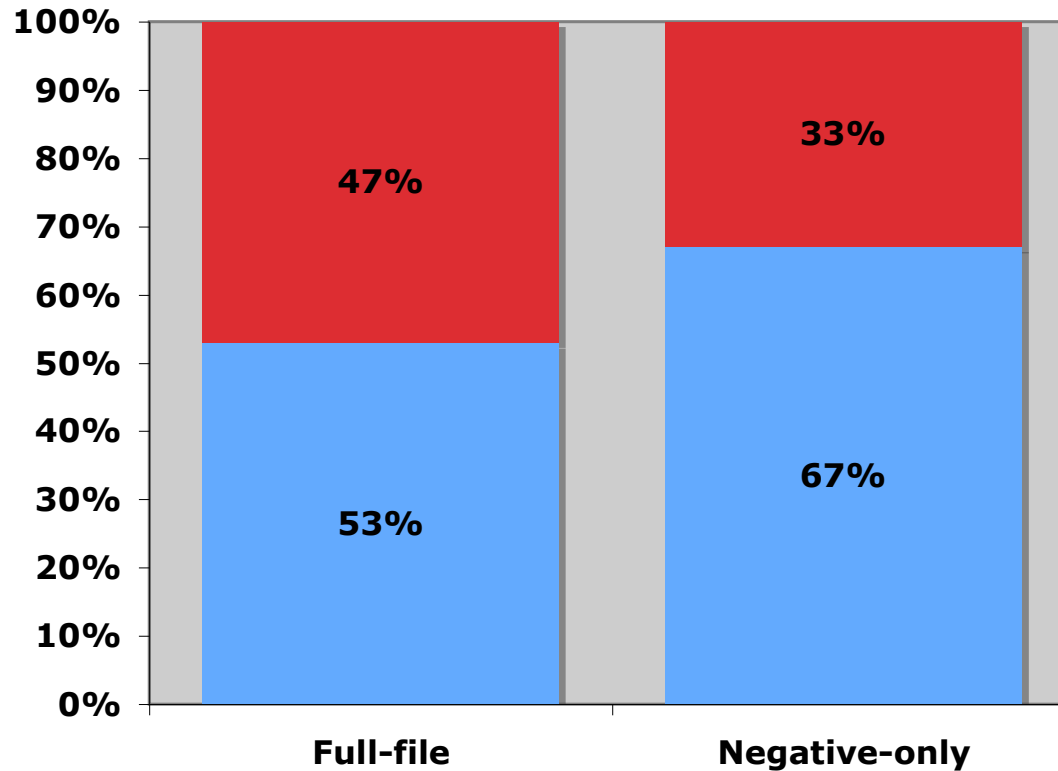
Source: Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency, and Opportunity* (Washington, DC: The National Chamber Foundation, June 2003).

## Results on demography using real credit files

- **disadvantaged social segment gain greater access than others**
  - racial-ethnic minorities
  - young
  - low-income groups
- **Colombian simulations**
  - under negative-only, 33% of acceptances women
  - under full-file, 47% are women

# Distributional Consequences Of Full-file vs. Negative-only (Colombia)

Share of accepted borrowers by gender (for 7% default target)



Male Female

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# Comprehensive vs. Segmented Reporting

**Table 6: Effects of Sector Segmentation in U.S. Markets**

Target default rate	Comprehensive model	Retail-only model	Percentage change in acceptance in switch to full-file
3%	83.4%	75.4%	+10.61%
4	90.6	80.6	+12.41
5	96.3	94.1	+2.34

Source: John M. Barron and Michael Staten, "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience," in Margaret M. Miller ed., *Credit Reporting Systems and the International Economy*, 273-310 (Cambridge, MA: MIT Press, 2003).

**Table 7: Effects of Sector Segmentation using Canadian Data**

Target default rate	Full-file model	Non-bank-only model	Percentage change in acceptance in switch to full-file
0.5%	47.81%	31.32%	+52.65%
1	70.90	62.70	+13.08
2	86.34	79.34	+8.82
3	92.38	83.29	+10.91

Source: Michael Turner, Robin Varghese, and Patrick Walker, *On The Impact of Credit Payment Reporting on the Finance Sector and Overall Economic Performance in Japan* (Chapel Hill, NC: Information Policy Institute, March 2007), Table 5.

# Comprehensive vs. Segmented Reporting

Percentage Point Change in the Default Rate in Switch from Comprehensive to Segmented Reporting (percentage change shown in parentheses)		
Acceptance Rate	Barron and Staten using U.S. files	Turner, using Canadian files
40%	0.57 (108%)	0.18 (43%)
50%		0.19 (36%)
60%	0.72 (61%)	0.24 (35%)
70%		0.26 (27%)
75%	0.84 (39%)	
80%		0.68 (47%)
90%		2.83 (114%)
Source: John M. Barron and Michael Staten, "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience," in Margaret M. Miller ed., <i>Credit Reporting Systems and the International Economy</i> , 273-310 (Cambridge, MA: MIT Press. 2003).		

# Private Full-File Coverage and Private Sector Borrowing

VARIABLE	Models Tested	
	I	II
Constant	-142.40*** (35.31)	-130.80*** (32.20)
Log of GDP per capita (adjusted for PPP)	<b>20.31***</b> <b>(4.65)</b>	<b>16.85***</b> <b>(3.87)</b>
Avg. Change in GDP (1995-2004)	-1.20* (0.70)	
Legal Rights of Creditors (from 0 to 10)	<b>4.55**</b> <b>(2.07)</b>	<b>4.80**</b> <b>(1.97)</b>
Credit Information (from 0 to 6)	-3.87 (2.88)	
<b>PRIVATE FULL-FILE COVERAGE (0 TO 100, AS % OF ADULTS)</b>	<b>0.72***</b> <b>(0.20)</b>	<b>0.67***</b> <b>(0.16)</b>
Private Negative-only Coverage (0 to 100, as % of adults)	-0.02 (0.86)	
Public Full-file Coverage (0 to 100, as % of adults)	-0.11 (0.41)	
Public Negative-only Coverage (0 to 100, as % of adults)	0.16 (0.46)	
R squared	0.7075	0.6883
F-stat (p value)	16.93 (1.88e-012)	44.9 (1.887e-015)
Residual Standard Error	29.45	29.12
N	65	65

High coverage by a private full-file bureau dramatically expands private sector lending.

For a country, going from no adults to having all (100% of) adults with positives and negatives in a private bureau increases private sector lending by more than 60% of GDP.

(Without the US and UK, which have high private sector lending, the estimated increase is still more than 45% of GDP.)

\*p < 0.1, \*\* p < 0.05, \*\*\*p < 0.01. Private full-file bureau captures effects of credit information (strongly correlated). 65 countries were examined. 2 outliers, which were removed, had recently experienced financial crises. As mention removing the US and the UK as outliers, does not alter results significantly.



# The Importance of the Legal & Regulatory Framework

## The benefits are realized in the context of a meaningful framework that answers:

- what information can be collected; but also
- what are the rights of data subjects;
- what are acceptable uses of information sharing;
- what are the data security requirements; and
- what are the obligations of credit bureaus, data furnishers, and data users

These reflect a societal consensus about the underlying rationale for credit reporting

# The Importance of the Legal & Regulatory Framework

**They reflect a societal consensus about the underlying rationale for credit reporting**

- Important for stability of system in the eyes of the public at large
- Consensus necessary for future changes in regulations that may arise owing to changes in practices
  - E.g. expansion of reporting to new categories of information new permissible purposes, or the inclusion of new sectors.



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