Credit Reporting and Access to Finance

Global Credit Reporting Program (GCRP)

IFC Advisory Services

January 2013

The background

Firm level

Approx. **300m MSMEs** (70% of all) are unserved and the total need for credit exceeds **$2 trillion***

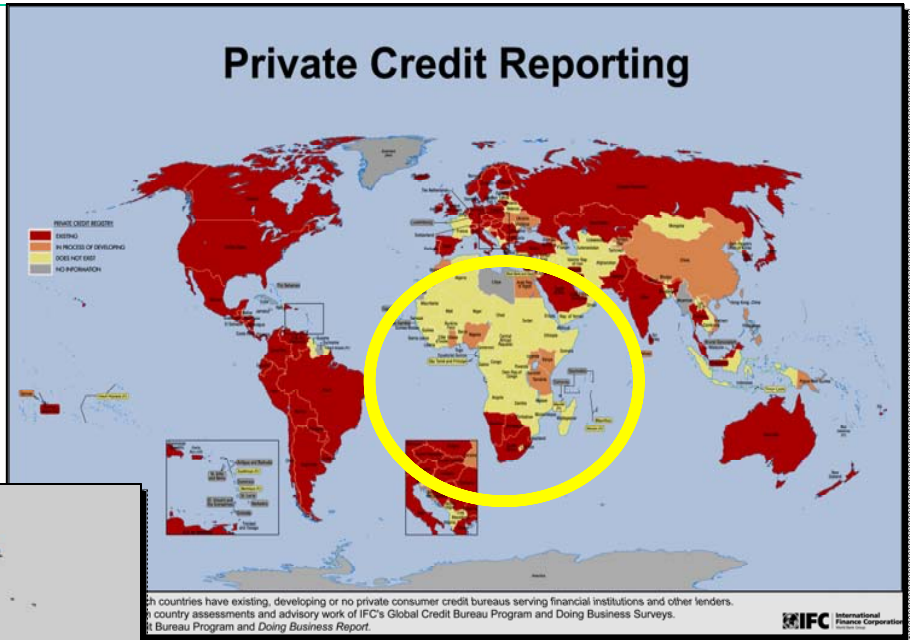
Household Level

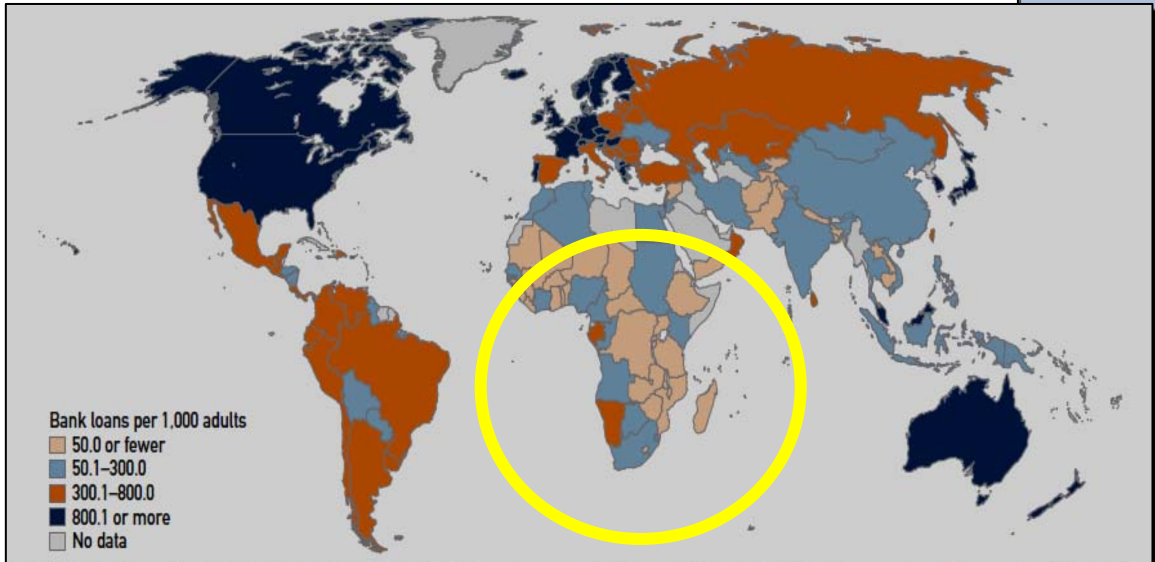
Over **60%** of people remain unbanked and underserved in emerging markets* and only **50% of adults** worldwide have an account at a formal financial institution*

***Sources: (i) IFC & McKinsey & Co. (2010) (ii) CGAP and World Bank Group,** *Financial Access 2010 (iii) Global Findex (2011)*

Credit reporting systems go hand in hand with access to finance

Countries without private credit bureaus are mainly the same….



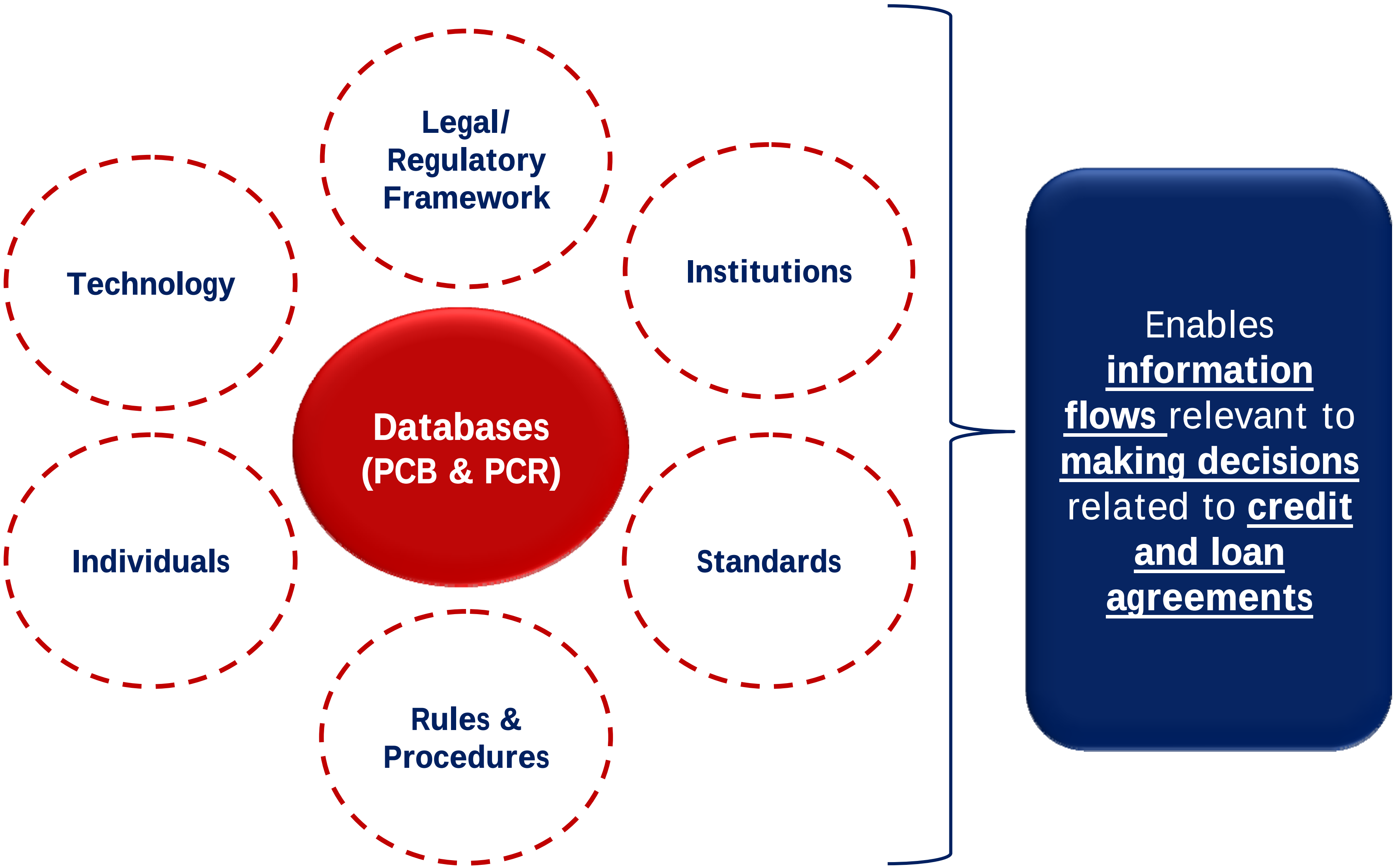


Note: Estimates for countries that did not report the number of bank loans were generated from a statistical model that uses income per capita and various features of the financial system—such as the number of bank branches per 100,000 adults and the value of deposits per adult—to predict the number 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.

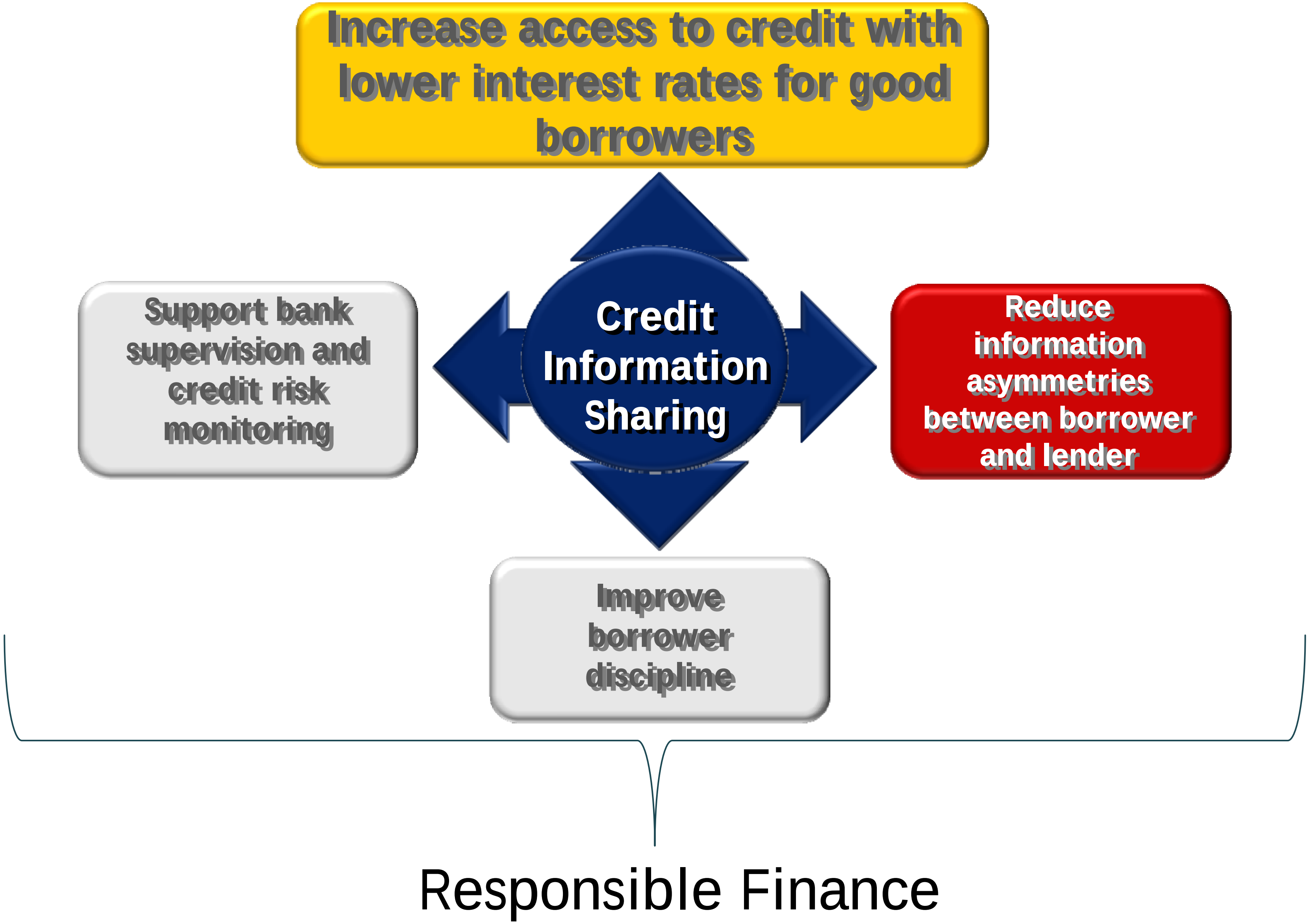
Source: Financial Access database.

…. as where access to credit is more difficult

What is a Credit Reporting System?



Why does credit information matter ?



Benefits of Credit Reporting Service Providers in Financial Markets

- Enables lenders to more accurately evaluate risks and improve portfolio quality
- Eases adverse selection problem and lowers the costs of credit for a good borrower
- Increases credit volume/improves access to credit
- Supports introduction of credit scoring and automated underwriting, lowers lender operational costs and improves profitability

Credit Bureaus can have significant development impact in emerging markets...

	Current		Potential		
... by facilitating billions of dollars in financing...	$812 billion	+	$1,256 billion	=	$2 trillion
...touching millions of people...	396 million	+	613 million	=	1 billion

...and reducing transaction costs by 30 to 40%.

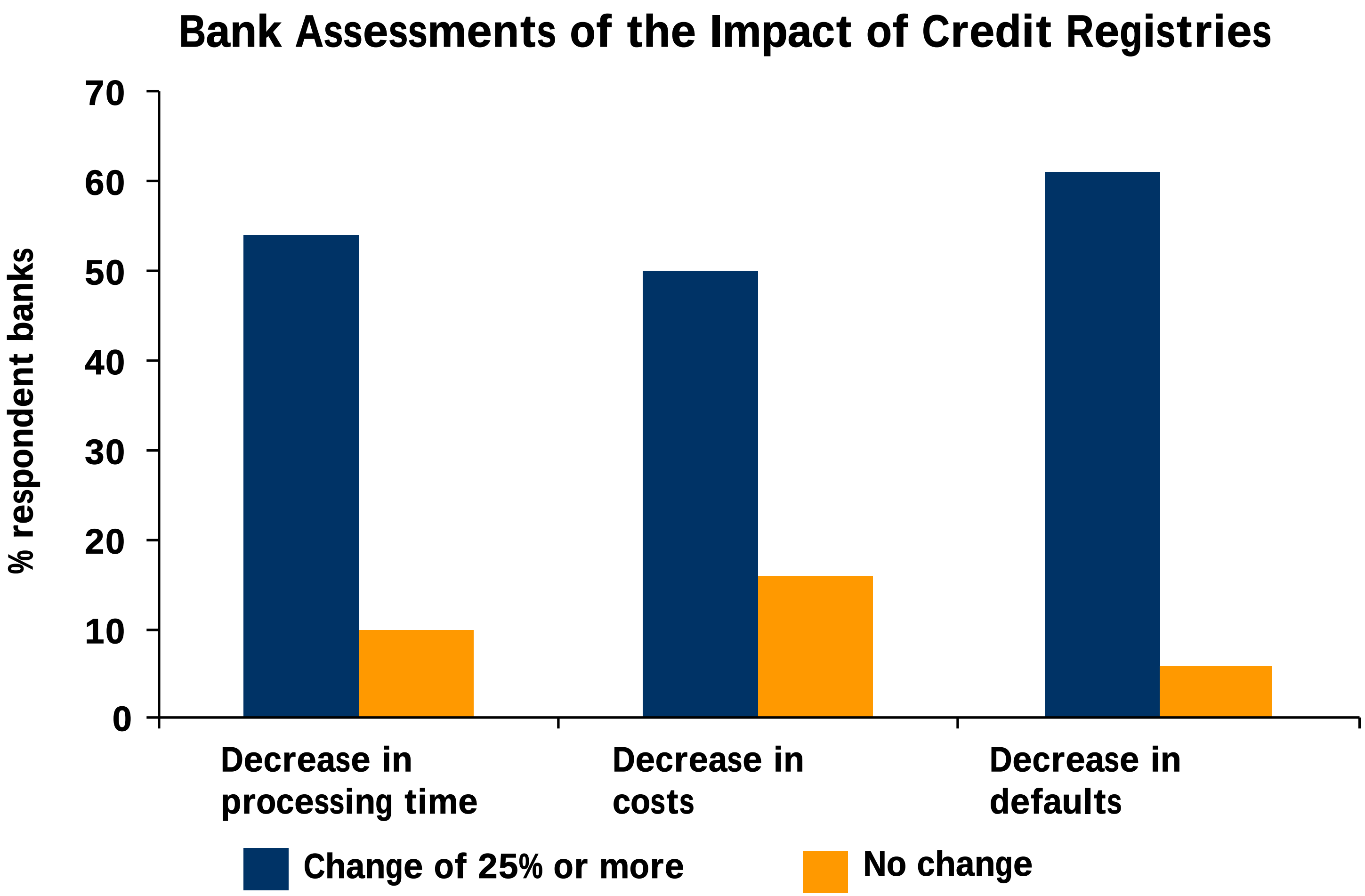
Note: Estimates have been developed by the World Bank/International Finance Corporation Financial Infrastructure Group. Current estimates are based on available survey data from countries with credit bureaus. Potential estimates include growth in current markets and impact from development of credit bureau infrastructure in markets without credit bureaus.

Comprehensive information sharing gives best results

Sources of Information \ *Types of Information*	**Positive & Negative Information**	**Negative Information**
"Full" (information shared by banks, retailers, NBFIs)	**High Predictiveness (e.g. U.S., UK, India)**	**Lower Predictiveness (e.g. Swaziland)**
"Fragmented" (e.g. information shared among banks only or retail only)	**Lower Predictiveness (e.g. Mexico, Kuwait)**	**Lowest Predictiveness (e.g. Malaysia, Botswana)**

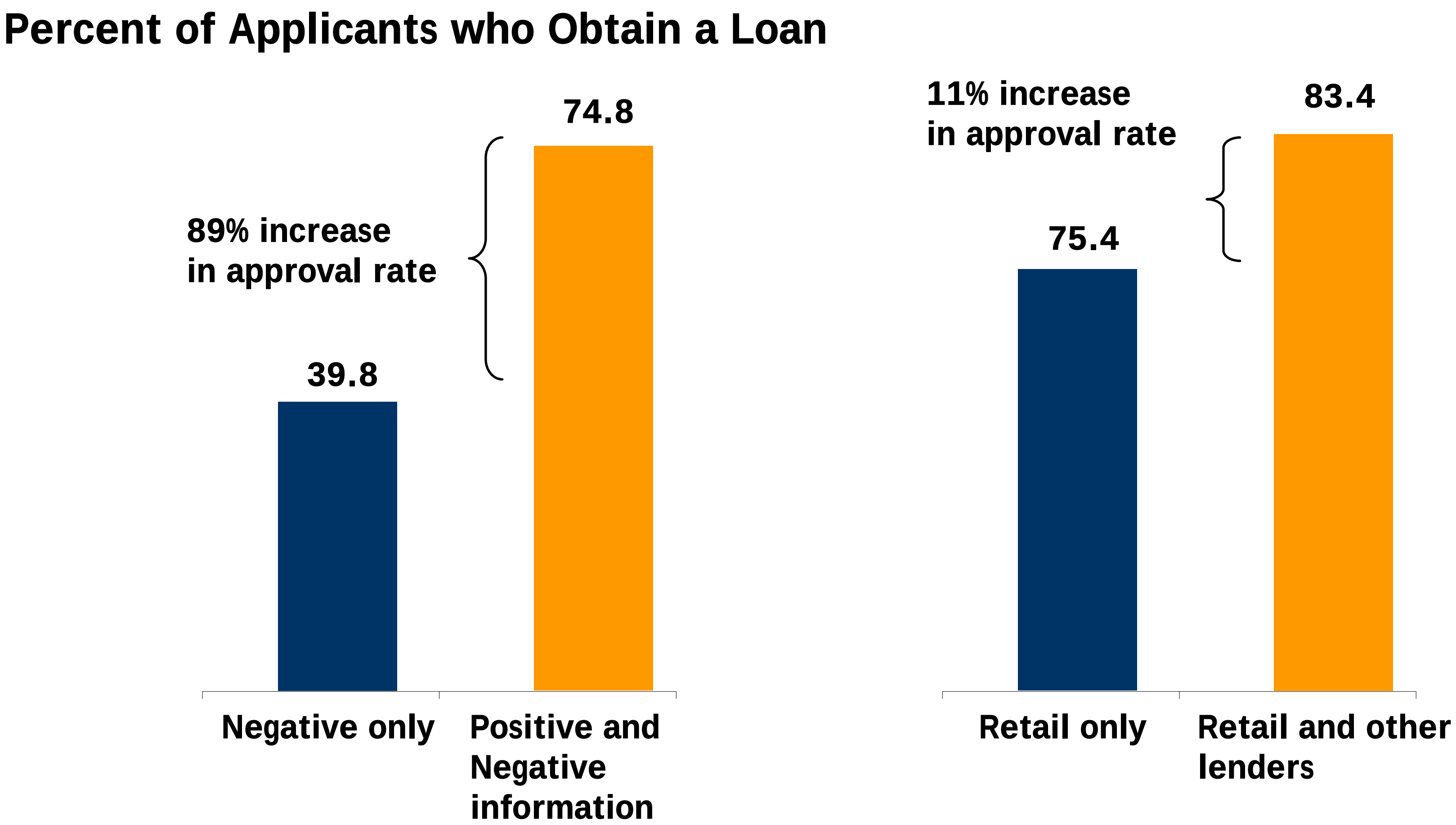
Source: IFC Credit Reporting Knowledge Guide (2012)

Full information sharing improves credit granting



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

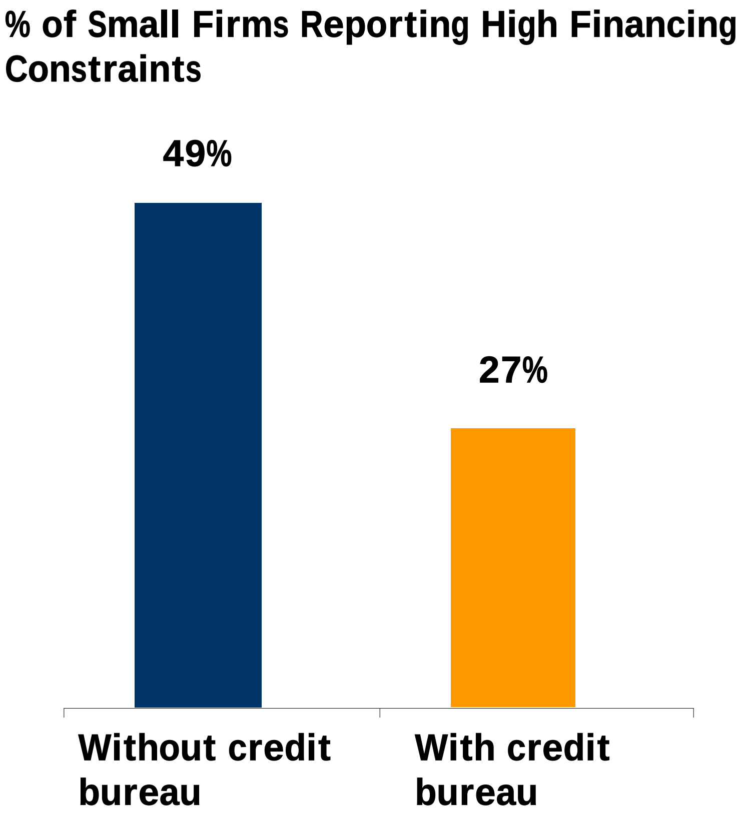
Broader information sharing helps more people and businesses access credit

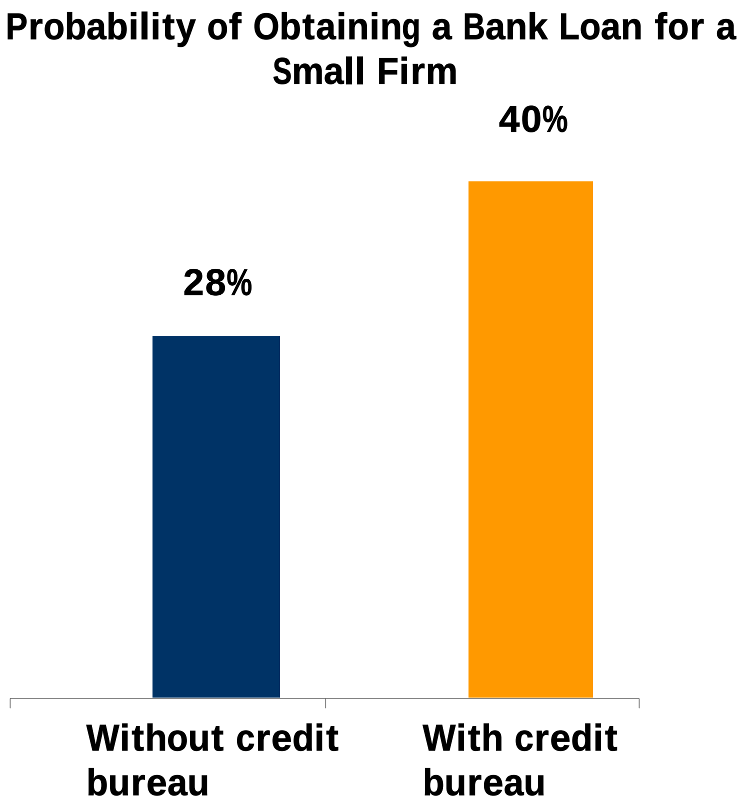


Source: Barron and Staten (2000). Figure shows the simulated credit availability assuming a target default rate of 3%.

Small firms benefit from credit bureaus

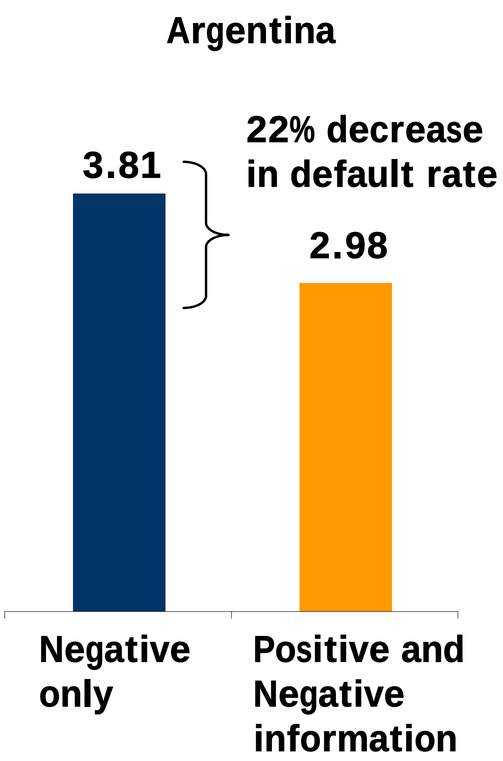
Estimates based on data on 5000 firms in 51 countries

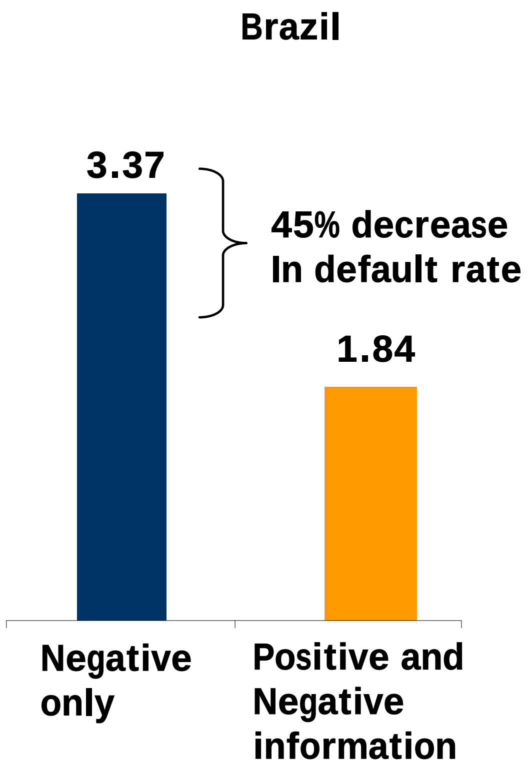




Source: Love & Mylenko (2003).

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.

The Limits of Traditional Financial Data

"*Traditional" Data*" (i.e. Bank loans, Mortgages, Automobiles, Revolving credit, Installment loans, Personal loans, Retail credit)

- **Works ONLY for borrowers already in the credit reporting system**
- **While THE REST are faced with catch-22**

Problem of:

- **How to extend credit to those without collateral (or valued collateral)?**
- **How to provide access to those in the informal sector (often large share of the population)**

Simply - the excluded remain excluded

Source: PERC and IFC (2012)

A Promising Solution…

"*Alternative*" or "*Non-Traditional*" Data

What type of data is this?

Non-financial information that also helps assess reputation

- **Many forms of post payment**
  - **Energy and Water Utility Payments**
  - **Landline and wireless phone bills**
  - **Auto liability insurance payments**
  - **Rental payments (especially apartments)**
- **But also**
  - **Remittance payments and stored value cards**
  - **Prepayment**
    - **Cell phones**
    - **Education expenses**

What is Alternative Data Being Used to Predict?

- **The probability of a serious delinquency on a loan (above 60 or above 90 days beyond term)**
- **Creditworthiness, credit capacity, and credit risk (e.g., income stability)**

Source: PERC and IFC (2012)

What is credit scoring?

Credit scoring is a method that assigns a number of points (score) to an individual.

→ The score is calculated based on the individual's profile and historical payment behavior; predicts probable future behavior.

Credit scoring is based on statistical models that optimize the use of available information.

Client variables included in the model may be quantitative or qualitative.

SOLID DECISION-MAKING

Credit, commercial, collections

Learn from the past — Understand the present — Anticipate the future

Source: Accion

Key Benefits of Credit Scoring

- **Increased Credit Availability** => the use of credit scores gives lenders a much better understanding of risk.
- **Lower Credit Rates** => with more credit available the cost of credit for borrowers has decreased.
- **Fairer Credit Decisions** => credit scoring is an automated mathematical process that utilizes technology to determine suitability for loans.
- **Faster Credit Decisions** => technology that utilizes scoring systems allows lenders to make instant credit decisions.
- **Opportunities to Improve Credit Rating.**

Source: AFSA

IFC 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.

IFC 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 private credit bureaus and public credit registries

•Feasibility studies, assessments, operational support, "honest broker" role, encourage international best practices

Egypt (i-Score), Central America (TUCA), 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)

Additional resources

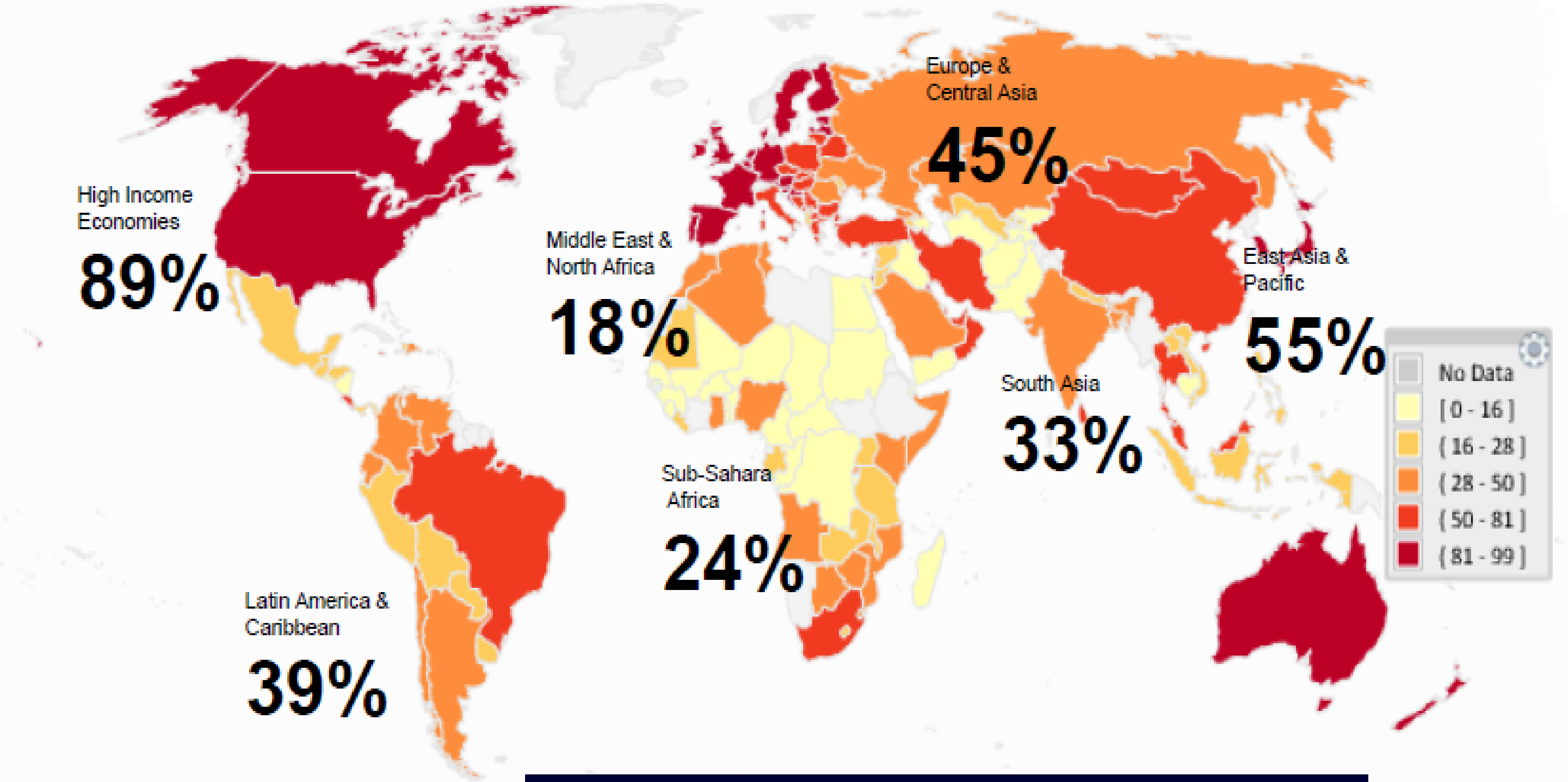
Relevant & Useful Resources on Credit Reporting

- IFC- Financial Infrastructure Web Site
- Global Credit Reporting Program Presentation
- 2nd edition of Credit Reporting Knowledge Guide
- Global Standards for Credit Reporting
- Credit Reporting at the Base of the Pyramid - Key Issues and Success Factors (IFC/CGAP)
- SME Finance Policy Guide (p.31-36 refer to the role of Credit Bureaus in SME Finance)
- Private Credit Bureaus Around the World
- Doing Business

Source: IFC Global Credit Reporting Program (2012)

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