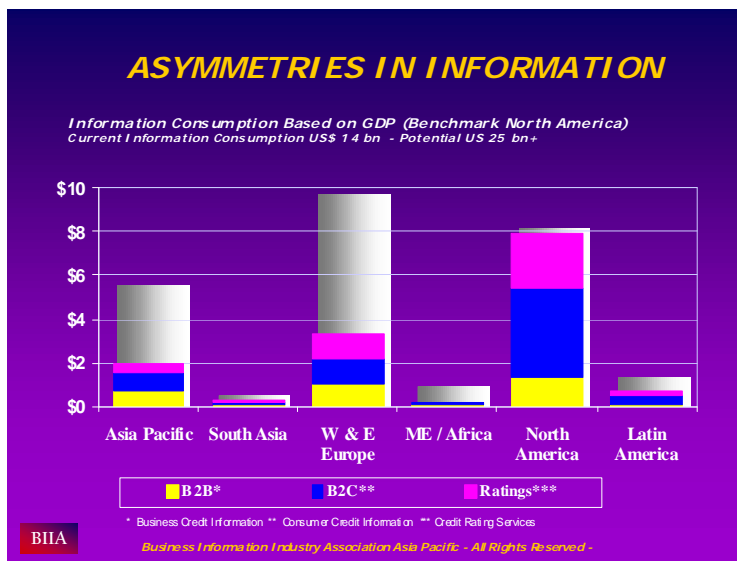


ELIMINATING INFORMATION ASYMMETRIES

“Imperfect Information Makes Imperfect Markets”

Since its foundation BIIA has actively pursued the objective to mobilize the financial community and public institutions to create awareness as to the causes of information asymmetries and to build an effective alliance to combat the causes of information asymmetries. BIIA presented its case at institutions such as UNCTAD (United Nations Conference on Trade and Development), IFC (World Bank Group), the FCIB, and is engaged in discussions with ICISA (International Credit Insurance and Surety Association).



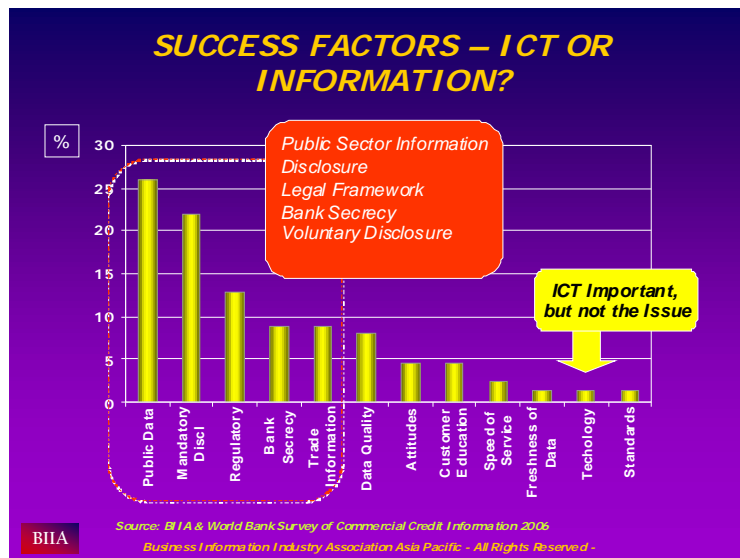
North America has one of the best developed financial markets and information infrastructure where in a true sense credit and information are fully intertwined. In using GDP as a benchmark it is quickly evident that in other world markets credit information is not as intensely used in business decisions as it is in North America. The colored bars indicate the current consumption of consumer and commercial credit information and rating services, while the white columns in the background indicated what it

should be. Based on a survey conducted by BIIA, on behalf of the World Bank, the total consumption of credit information and rating services was estimated to be US\$ 14bn (2005). Industry experts believe it should be twice as much.

In its *Information Economy Report 2005* UNCTAD addresses, amongst other important topics on pages 118 / 119, the issue of **information asymmetries** and the importance of credit and e-credit information. The report states that the relative high level of information asymmetry in credit – borrower relations in the developing countries can be explained by weak credit information infrastructures, ineffective public records, lack of credit management skills and underdeveloped financial intermediation. A generally restrictive and cumbersome regulatory environment and a large informal cash-based economy, make matters worse. Those and other obstacles make it difficult for financial intermediaries to build up objective and verifiable databases on credit risks.

BIIA presents at UNCTAD: Five key factors drive availability, accuracy, reliability and timeliness of credit information and they are not in the control of information companies. - ICT is no longer a key issue

In 2006 BIIA participated on two panels with the topic “*The Impact of ICTs on Business Sectors*” and presented on the subject of “*Trade Finance: The Case of e-Credit Information*”. The BIIA’s presentation touched upon the key issue of public sector information, which is dysfunctional in many developing countries, thus impacting negatively the creation of accurate, reliable and timely credit information. While UNCTAD is placing great emphasis on eliminating **asymmetries in credit information** through Information and communication technologies (ITC), BIIA argued that ICT was only part of the equation. It has to be recognized that *Public Sector Information* was part of the value chain in commercial lending and its impact on the quality of credit information has not been given proper credence.



BIIA quoted from a 2006 World Bank survey in which information executives clearly expressed the view that five major factors determine the availability of accurate, reliable and timely credit information. **These five factors are: a) access to accurate and reliable public sector information (registers), b) mandatory disclosure and the filing of financial statements, c) a regulatory framework that permitted information pooling d) access to bank information e) voluntary disclosure (trade information) and they are all**

outside the control of information companies. Information executives also express the opinion ICT was no longer the most important element. The survey brought to the forefront the relative poor performance of the public sector information in many countries, impacting negatively the availability to provide accurate, reliable and timely credit information.

BIIA presented the case of Thailand, where a partnership between the public and private sectors was responsible for the elimination of asymmetries in credit information. It is a highly successful role model and can be applied elsewhere. BIIA also presented an overview of the new Singapore *SME Credit Bureau*, which has become fully functional with the help of ICT partners and data contributors. Credit grantors (banks, trade credit providers) are now able to evaluate the creditworthiness of SMEs expeditiously leading to better access to credit for SMEs.

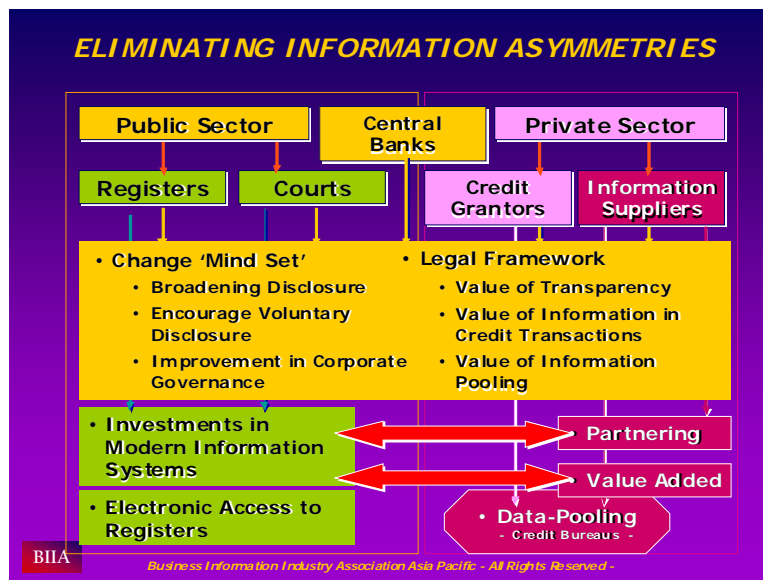
Eliminating information asymmetries

BIIA is of the opinion that a concerted effort was required to be able to eliminate information asymmetries. With the key factors of public sector information, disclosure, regulatory frameworks, bank secrecy and voluntary disclosure being outside the control of information companies it will require a significant effort by the user community, public institutions, governments and regulators to eliminate the causes of information asymmetries.

First of all it is all about changing **Mind Set** towards the acceptance of greater transparency in credit transactions, reversing the negative perceptions about mandatory and voluntary disclosure as well as information pooling. Governments have to be persuaded to create a **Legal Framework**

that governs disclosure, compliance and enforcement. This will lead to voluntary disclosure and much improved corporate governance.

Financial regulators need to encourage the pooling of credit information in the interest of greater transparency. Governments had to invest in public sector information infrastructure as a basis for economic growth. Public sector / private sector partnerships can lead to more effective public sector information utilities with the



private sector adding value added elements to the information.

To bring about such changes it will require a concerted effort involving institutions, such as the World Bank Group, UNCTAD, Central Banks, Public Sector Information, Financial Services Sector, Trade Finance and Trade Credit providers and the information industry.

The BIIA presentation at the December 2006 UNCTAD Expert Meeting is posted in the library section of the BIIA website: www.biiia.com (title 'UNCTAD and BIIA: IMPACT of ICT on e-Credit Information').

At the close of the December 2006 Expert Meeting, UNCTAD issued a protocol which contains the paragraph on the subject of *"The Impact of ICTs on Business Sectors"*. The full text of the proceedings is available on www.unctad.org/ecommerce.

The UNCTAD protocol: The case for e-credit information

24. *The case of e-credit information was a further illustration of how ICT are enablers of economic growth, but not the whole answer to development problems. Issues pertaining to public policy (such as the existence of, and the accessibility to reliable public records or the aspects of the regulatory regime like bank secrecy), cultural attitudes towards credit information among borrowers and the general public, or the existence of standards were at least as important factors of success for efficient trade finance as technology. Having said this, bridging the digital divide in this public sector would greatly help to achieve lower levels of imperfect information and hence reduce the number of imperfect decisions. Partnership between the private and the public sector was crucial in order to address problems in the sphere of the legal and regulatory framework and in the mindsets affecting credit information. There was also a need to invest in modern information systems and in the provision of electronic access to the relevant registries. The result would be greater availability of trade finance, particularly for small businesses. This was the experience of two developing countries, Thailand and Singapore, whose cases were presented as examples.*

UNCTAD Background

UNCTAD (United Nations Conference on Trade and Development) was established in 1964. UNCTAD promotes the development-friendly integration of developing countries into the world economy. UNCTAD has progressively evolved into an authoritative knowledge-based institution whose work aims to help shape current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development. 192 nations are members of UNCTAD.



In 2005 UNCTAD issued its '*Information Economy Report 2005*'. A second edition was issued in November of 2006. UNCTAD holds expert meetings on a regular basis in support of the implementation and follow-up of recommendations contained in the '*Information Economy Report*'. The *Information Economy Report* addresses, amongst other important topics on pages 118/119, the issue of **information asymmetries** and the importance of credit and e-credit information.

BIIA supports the work of UNCTAD in eliminating **information asymmetries** and participates in its expert meetings.