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Business Information Industry Association

**BIIA (Business Information Industry Association) Contribution to Meeting of The
Advisory Group on APEC Financial System Capacity Building
Kuala Lumpur Malaysia, May 22nd, 2012; Item 5: Financial Inclusion**

Introduction:

BIIA thanks the organizers of this conference for their invitation. Our members find the topics of discussion highly relevant in eliminating information asymmetries, improving transparency and facilitate economic growth through information.

BIIA is a trade organization representing business information suppliers, many of which are in what is broadly described as credit risk management solutions:

- Consumer and commercial credit information
- Analytical and decisioning systems
- Credit Rating (Corporates and SMEs)
- Credit management platforms

BIIA's members fully support the recommendations of the Advisory Group to intensify and broaden capacity building, particularly in the areas of credit information sharing, public sector information (PSI) and private sector / public sector partnerships.

BIIA Commentary:

Apart from the APAC Advisory Group efforts BIIA members also appreciate the progress made by the IFC (World Bank Group) in assisting countries in infrastructure enhancements in the area of credit information, collateral registers and payment systems. We sincerely hope that this program can be accelerated through effective public sector / private sector partnerships.

In regard to financial inclusion for ***Micro, Small and Medium Size Enterprises (MSMEs)*** BIIA believes that significant impediments still exist which prevent access to credit for this segment. We briefly outline some of them:

- Trade credit is the largest source for short term capital (potentially larger than unsecured loans from financial institutions). Trade credit however is dependent on accurate, reliable and timely credit information, which is not universally available. Therefore, APEC should include this important segment in their current scope of infrastructure building in addition to focusing on the financial services sector.

- Infrastructure constraints, lack of regulatory frameworks, absence of mandatory and voluntary disclosure retard the process of building effective commercial credit information services. The inhibitors and potential solutions are outlined below.
- **Negative attitudes** towards disclosure are the biggest inhibitor in providing accurate, reliable and timely credit information on **Micro, Small & Medium Size** enterprises. A concerted effort in creating public awareness, financial and information literacy, especially a broader based mandatory disclosure and compliance mechanisms will be necessary to overcome these impediments

Success factors in building effective commercial credit information services:

Some time ago BIIA conducted a survey of credit information suppliers on behalf of the World Bank to determine the success factors in building effective commercial credit information services. The feedback from over 80 information companies was as follows:

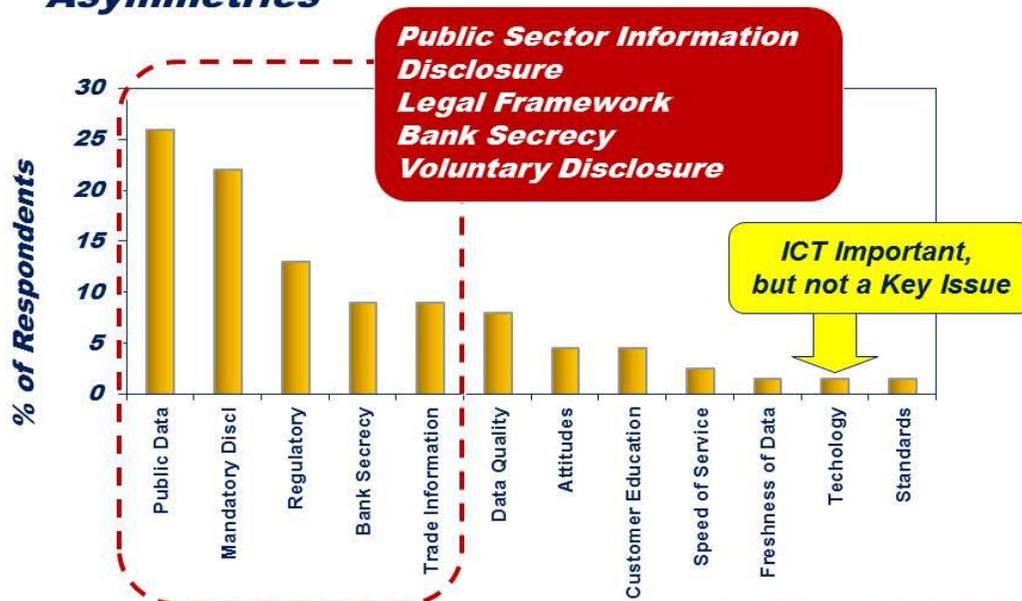
Five of the most important success factors turned out to be;

- Availability, Quality, Access and Reuse of Public Sector Data
- Mandatory Disclosure & Compliance
- Regulatory Framework for Data Sharing
 - For example access to consumer credit information on proprietors and directors of companies
- Access to bank information (loan performance data)
- Availability of Trade Information (Sourced from Suppliers)

Please note: The most critical success factors for providing accurate, reliable and timely commercial credit information are outside the control of commercial credit information companies (See chart on page 3).

BIIA was asked by UNCTAD (United Nations Conference on Trade and Development) in 2006 how important technology was in providing effective credit information systems. Our response was that IT was no longer an issue for our industry because of advances in database management and communication systems. However underdeveloped public sector information (PSI) was the biggest problem. Accordingly UNCTAD issued a statement encouraging its members to make the necessary infrastructure improvements.

Success Factors in Eliminating Information Asymmetries



Source: BIIA & World Bank Survey of Commercial Credit Information 2006

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Within this context BIIA would like to offer additional comments:

Availability, Quality, Access and Reuse of Public Sector Data:

The survey revealed that in many instances

- Public sector information providers were hostile towards information companies.
- Accuracy, reliability and timeliness was questionable
- Lack of efficient access, i.e. data transfer
- High cost of data and the collection thereof was an inhibiting factor
 - The European Union (EU) has taken a different route: Public sector data is part of infrastructure and should therefore be provided free. Only where special services in data transfer were required the public sector could charge for such service

- Public sector data to be provided to information companies for reuse of the data and to add value

Mandatory Disclosure and Compliance

- If there is no mandatory disclosure one cannot expect voluntary disclosure. This is one of the greatest inhibitors for eliminating asymmetries in information
- The EU's fourth directive is a good role model in this regard. It has taken member countries to the European Court to enforce compliance

Regulatory Framework for Data Sharing

- Access to consumer credit information on proprietors and directors of companies
 - Privacy laws restrict the use of information on Proprietors, management and directors
 - Privacy laws prevent access to credit bureaus for members of the credit grantors information companies which are outside the financial services sector
 - A business owner, manager, partner, and a director of a company are part of the legal registration process and their names are thus in the public domain. Information in how they discharge their private financial obligations should be disclosed to credit grantors with a permissible purpose (granting of trade credit or trade finance for instance)

Access to bank information (loan performance data)

- The absence of data on loan performances in commercial credit information is seen by the credit management profession as a particular impediment for granting trade credit
- The lack of transparency regarding bank credit and lines of credit was seen as a major source of losses and write-downs of accounts receivable during the financial crisis. Companies became insolvent, without warning, because of the sudden cancellation of existing lines of credit by their banks. The credit management community regards this as a major deficiency in transparency

Availability of Trade Information (Sourced from Suppliers)

- Trade Information from suppliers (similar to trade lines reported by financial institutions to credit bureaus) is shared with credit information companies. This has become a common practice in North America and Europe
- Sharing of trade information, where practiced, has contributed much to transparency, the extension of credit and loss prevention
- The reluctance of sharing trade information in developing nations stems from past practices where creditors would disclose information to a supplier on a one-to-one basis, but never to a third party, for example a credit information supplier.
- A concerted effort by APEC, small business development agencies and industry associations will be necessary to overcome this impediment. The Singapore SME Credit Bureau is a good example.

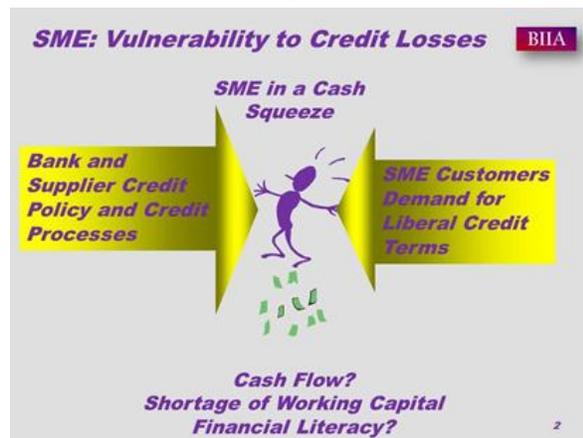
Financial Literacy / Information Literacy Considerations

Within the overall framework of transparency BIIA stresses two other aspects:

1. **Financial Literacy:** Micro, Small and Medium Size Enterprises (MSMEs) need to be financially competent to manage their short-term – long-term financial affairs. Providing credit alone is not the answer: MSMEs require assistance in balancing the extension of trade credit to clients as well as maintaining their credit standing with suppliers and financial institutions.

MSMEs often find themselves in a cash squeeze: On one side they are confronted with sophisticated credit management systems of suppliers and financial institutions.

On the other side MSMEs are confronted with their own shortcomings in credit and accounts receivables management and are therefore vulnerable to credit losses.



2. **Information Literacy:** This is an issue of how MSMEs present themselves in their dealings with suppliers and financial institutions. They believe that financial disclosure and regular communication are requirements for large enterprises and that such practices do not apply to them. On the contrary, small and medium size enterprises should adopt disclosure and communications policies for their own good.

MSMEs require the competence of managing information in their own business decision making processes: From marketing to the cash flow cycle. The business information industry today can offer substantial support in this regard.

Information and decision support services can be applied throughout the entire business transaction cycle.

Role of Information in the Business Decision Cycle



Particular emphasis should be given to appropriate training and support mechanisms.

Conclusion:

The work of the Advisory Group is commendable and BIIA appreciates its inclusion in the discussions. The dialogue with the public sector and regulatory bodies is an important element in balancing the interests of the general public, business community, regulators, the financial and information sectors, thus permitting a greater degree of transparency, risk taking thus leading to access to finance. Unfortunately we observe from time to time that opinions in this regard are still diverging rather than converging. We still have a long way to go and it is hoped that a joint effort of the parties involved will lead to a common ground, greater transparency and economic growth.

Focusing on the financial infrastructure and related credit information systems (credit bureaus) is one cornerstone of financial inclusion. Trade credit is another corner stone. The commercial credit management community and BIIA's members are of the opinion that trade credit as the largest source of short term capital, will have a greater impact on economic growth than relying on the financial sector alone. The remaining cornerstones are the public information sector (PSI) and appropriate legal frameworks.

It can be assumed that Micro businesses are currently conducting business with suppliers on a cash basis. Bringing them in to the trade credit sphere would be more economical (no interest payments). We venture to say that providing trade credit to Micro and small businesses are as equally important as to obtaining lines of credit from financial institutions.

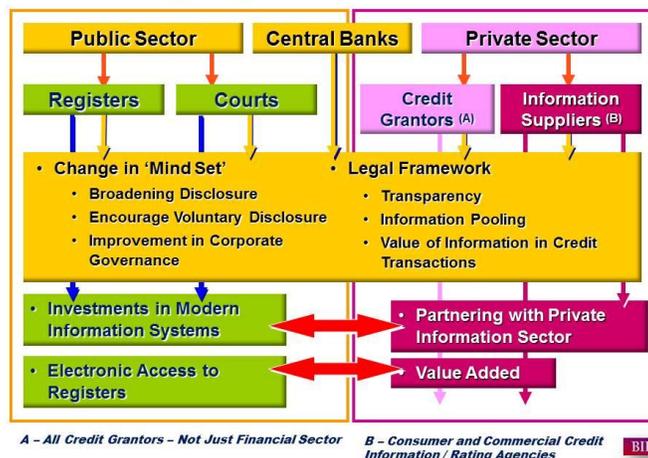
A greater reliance on trade credit and alternative financing such as trade finance, factoring and securitization of trade receivables would also relieve the pressure on the financial systems as a primary source of finance.

As we described in the beginning of this document trade credit owes its existence to the availability of accurate, reliable and timely information. Therefore trade credit grantors (suppliers) must have access to the same information which was heretofore reserved only for the financial services sector.

Commercial credit information will only be complete if it has access to reliable and up-to-date public sector information and is permitted to reuse it.

Last but not least one needs to overcome the negative attitudes of the business community towards mandatory and voluntary disclosure. It is hoped that the work of the **Advisory Group** will create more public awareness of this issue and will achieve a change in mind set in this regard.

Eliminating Asymmetries in Information



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About BIIA:

BIIA (Business Information Industry Association) is a trade association representing a wide range of business information providers. Approximately 50% of BIIA members provide consumer and commercial credit information, credit ratings, analytics, credit scoring, software and risk management platforms. BIIA was launched in 2005 as a regional organization, however in the meantime its membership spans the globe. BIIA's website www.biiia.com has become a reference site for our industry, users and regulators.

The mission of BIIA is:

- To provide a neutral open forum for its members to debate and resolve common issues with users, regulators, government and the public information sector.
- To promote the business information industry by demonstrating the value of information for users and national economies as a whole.
- To inform the industry members, users and the general public by serving as a resource on standards, trends, technological developments, and policies.
- To work with regulators to advocate a legal regulatory environment that benefits our industry and users of information services.

BIIA participation in standards setting: BIIA took part in the World Bank taskforce on principles for credit reporting. BIIA participates on a regular basis in international regional and local forums concerning the role of information in business processes, credit and investment decisions.

BIIA's position on financial inclusion: BIIA welcomes the discussion on financial inclusion especially the aspect of bringing the private sector and public sector together in making improvements in regulatory frameworks, infrastructure, and the public sector information (corporate and collateral registers / access to liens, judgments etc.). BIIA is an advocate of removing existing barriers which inhibit transparency and economic growth.

Within the context of financial inclusion BIIA has started two new initiatives:

- **The MSME Forum** is a neutral network and information source for **Micro, Small and Medium Size enterprises (MSMEs)** related to subjects of financial inclusion, financial literacy, information literacy, sharing of information, best demonstrated business practices and government assistance programs.

- The mission of the MSME Forum is, either through a [new website](#) or through special conferences, to educate and inform Micro, Small and Medium Size Enterprises in the use of business information in business decisions.
- A second consideration is the role of information in financial inclusion and access to finance. Mandatory and voluntary disclosures are one important aspect. Consistent, timely and comprehensive financial reporting are equally important guiding factors leading to financial inclusion and access to finance. How creditworthiness is perceived by credit grantors and lending institutions depends on how MSMEs discharge their financial obligations and how their credit performance is reported by credit bureaus, credit information and credit rating companies. In essence it is our mission to take the myth out of credit reporting and credit rating.
- The MSME Forum is a not-for-profit institution. It is owned and managed by BIIA.

- **The Asia Pacific Consumer Credit Information Services Association (APCCIS)**

APCCIS is a neutral network and information source for **Consumers and Micro Enterprises** concerned with the subjects of financial inclusion, financial literacy, information literacy and the concepts of Credit Bureaus and Credit Information companies.

APCCIS is a not-for-profit institution. It is owned and managed by the Business Information Industry Association (BIIA).