BIIA

Business Information Industry Association

Credit Information in India - Version 2.0

On 22 March, the Reserve Bank of India (RBI) released the Report of the Shri. Aditya Puri led Committee to recommend Data Formats for Furnishing of Credit Information to Credit Information Companies. This report is open for public comments till 30 April. The recommendations listed in the report will have far reaching implications for the consumer, financial services and credit bureaus.

***Satish Mehta**, Founder and Director of Credexpert, has provided his comments for the benefit of BIIA members:*

It has been almost 10 years since the concept of credit information, credit bureaus and scores were introduced into the Indian financial infrastructure. One of the last countries in South Asia and almost 150 years after the first seeds of credit information were sown in the USA, India made rapid strides to play catch up – helped by a supportive regulator (RBI), enabling technology and an urgent need, clearly accelerated by credit risk related adverse developments in the market place.

CIBIL (Credit Information Bureau [India] Limited) started its operations in 2004 and the other Credit Information Companies (CICs) - **Equifax, Experian** and **Highmark** have been into operations for 3 – 4 years now. Although, over the last 10 years, the Indian CIC industry has evolved in its own way with small innovations and developments, a timely review is important to truly understand where the industry is headed. Such a review would facilitate understanding of the challenges associated in the day-to-day operations of the CICs and would help take a focused long-term look at the industry, besides making course corrections based on the experience of the past.

The Second Quarter Review of Monetary Policy 2012-13, (October 2012) of the Reserve Bank of Inida (RBI) and the post-policy meeting further emphasized on the need for standardization of data collection format as well as harmonization among CICs to minimize duplication.

RBI having recognized the need for having an efficient and robust credit information industry, constituted a Committee in March 2013 under the chairmanship of Shri. Aditya Puri - MD of HDFC Bank Ltd.

This Committee was formed to examine reporting formats used by CICs & other related issues and provide a core set of recommendations. The Committee comprised representatives from various stakeholders including the CICs, public and private sector banks, foreign banks, NBFCs, cooperative banks, MFI sector, IBA and Reserve Bank of India.

The Committee has presented its Report to the RBI. The recommendations, if receive a green signal from RBI, would have an impact on various stakeholders involved viz. CICs, credit institutions and the consumer. It is interesting to note that the consumer is one such stakeholder who would be impacted by each of these recommendations. Hence, the interest of the consumer would have to be kept paramount in reviewing them.

Before one can understand and state a view on whether these recommendations are implementable and the impact of the same, here is a graphical representation of the industry. The Committee, in its report has highlighted the associated challenges and has also successfully addressed them with its core set of recommendations.

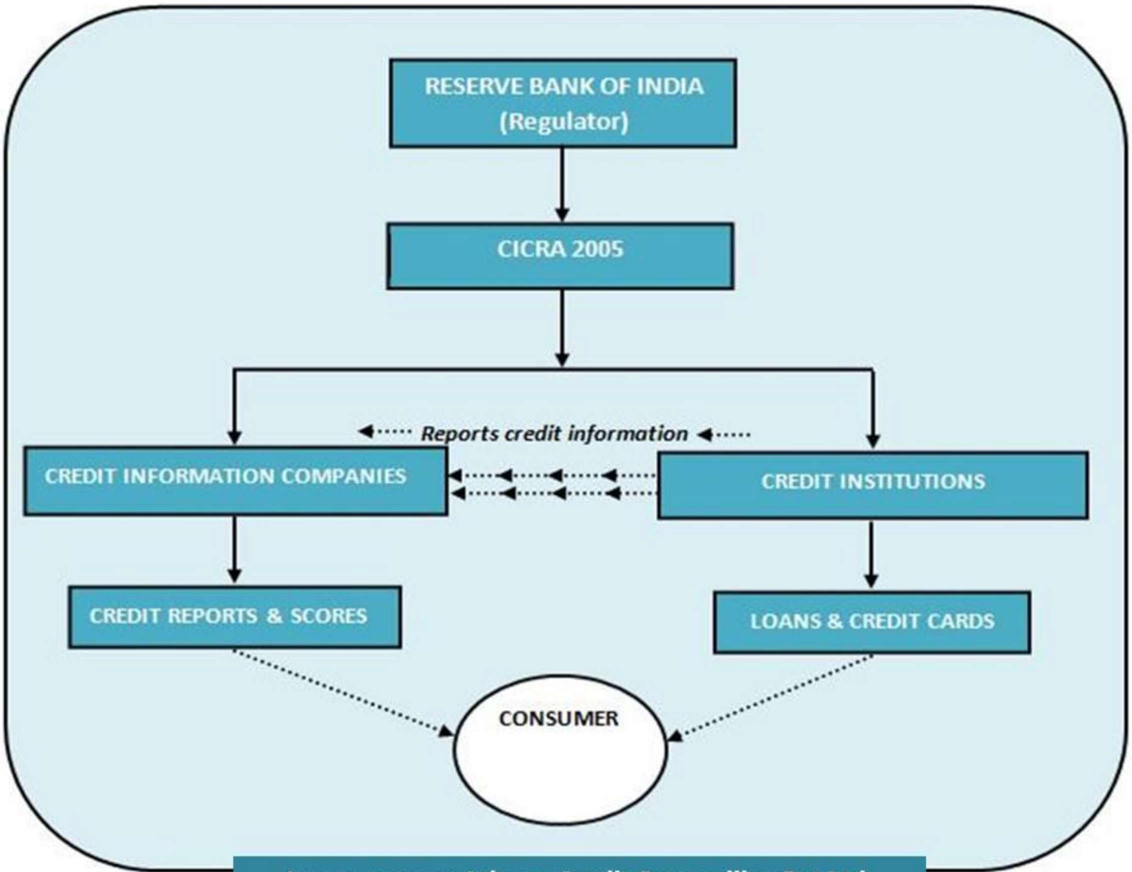

Image source: Athena Credit Counselling Pvt Ltd.

The table below lists the top recommendations that would have an impact on the consumer – the most important stakeholder in this entire system.

Each one of these recommendations is well thought through and will benefit the lender, the borrower and consequently the system.

#	Top Recommendations	Implementable
1	Credit institutions to be mandated to become members of all CICs	☺
2	Credit institutions to furnish credit information to all CICs in a standard format a) CIBIL format for consumer and commercial bureau reporting b) High Mark format for MFI reporting	😐
3	Credit institutions to furnish credit information to CICs on a monthly basis or at shorter intervals	😐
4	One base level consumer CIR free of cost to be provided to each borrower for every financial year by each CIC.	☹
5	Tri-bureau report to be introduced (aggregated report)	☹
6	CICs to provide credit scores in a standard range (CIBIL range of 300 – 900 to be followed)	☹
7	Fast & cheap redressal of customer grievances vis-a-vis CICs to be set up	☺
8	CICs and credit institutions to adhere to timelines stipulated under the CIC Rules (for updation, alteration of credit information, resolution of disputes, etc.)	☺
9	Credit institutions to centralize the system of issuing NOCs to borrowers	😐
10	First time loan applications not to be rejected due to lack of credit history	☺
11	CIC format should mention one bucket overdue in case only one full installment is due	☺

It is important to understand that an efficient credit information system in any country is not about identifying the defaulter – whilst that is definitely one value add – the main purpose is to recognize good behavior by a borrower and ultimately reward through a reduced risk v/s reward play.

It could lead to a positive influence on productive investment spending and also induce positive credit discipline, create awareness about the benefits of having a healthy credit life and the importance of proper management of liabilities amongst others. Also, NPA's will reduce, resulting in an overall systemic improvement in the performance of the banking industry.

As always, the devil is in the detail and the implementation of these recommendations. Some will require changes in the law (The Credit Information Companies [Regulation] Act, 2005) that governs this domain (points 1, 3 and 4 of the table) and some will require technology changes by the CIC/lender (points 5 and 6 of the table)

This will take time, effort and costs and the RBI, in continuation of its proactive responses, should ensure that all the recommendations that it accepts and are implemented immediately.

The Committee has made a host of other recommendations, all of which will make the Indian credit information industry more robust and complete. Some of these are:

- Inclusion of information related to Commercial Paper & Derivatives in the CICs data format
- Linking consumer & commercial reports
- Providing alerts to credit institutions to avoid multiple/fraudulent financing
- Adding new fields in the reporting format

At the core of the credit information system, is the individual - the consumer who is most effected by all that happens. The RBI and the Committee missed out on a few key areas which would have further helped make this excellent report, more effective.

A few examples of the "misses":

- Reduction in the costs for a report and score, accessed by an individual on herself – currently in the Rs 400 + range – too high.
- Treatment to be given if a credit institution sells its portfolio to a non credit institution and an individual thereafter repays any outstanding, that transaction is not reported to any credit bureau, resulting in punishing an individual for no fault of hers.
- Recognition by the credit bureaus of credit counsellors as credit advisors to individuals and their role as facilitators to improve credit life cycles of consumers (widespread in developed countries)
- Recommendation to increase the range of data being taken in by the credit bureaus to include telecom, insurance and non-regulated bodies, thus making credit bureau data more complete.

Surely there are many challenges to mature this industry… surely we have a long way to go … surely we can and should look forward to a credit information system in India - VERSION 3.0.

About the author

Satish Mehta is the Founder and Director of Credexpert - a credit & debt counselling company. Credexpert provides end to end customized counselling to individuals by handholding them through their credit life cycle.

Satish was the founding MD of India's first credit bureau – CIBIL. He was responsible for establishing credit bureaus in several countries in the South Asia and Middle East region. He also consults to the World Bank and IFC.

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