

Su Ning: Major progress in the building of a credit registry system in China

Speech by Mr Su Ning, Deputy Governor of the People's Bank of China, at the Press Reception on Official Launching of the Individual Credit Information Database, Beijing, 16 January 2006.

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Friends from the press,
Ladies and Gentlemen,

Good afternoon. It is a great pleasure to meet you here. I want to thank you for coming to this press reception, and for your interests in following the development in building a credit registry in China.

As you may know, the personal credit information database, with a network covering all commercial banks and technically ready rural credit cooperatives throughout China, has officially started its operation nationwide since January this year, after being on trial operation for about one year.

I would like to share with you some background information about building a credit registry system in China.

1. The importance of building a credit registry system

A modern market economy is based on credit, where the circulation of commodities and financing are dependent on credit. In the absence of a credit culture, debts can go unrepaid, lenders are troubled by arrears, and the market is swarmed with fake and shoddy goods. As a result, huge risks face enterprises and individuals, affecting the normal functioning of the economy. Therefore, a socialist market economy has to be built on the basis of a proper social credit system.

A credit registry, as a vital part in a social credit system, provides credit information products that enable provider of credit or buyer of a financial product to assess the creditworthiness of the party who applies for a credit or the seller of a financial product for the benefit of preventing credit risks and maintaining financial stability. At the same time, by accurately recognizing corporate and personal identity and recording credit information, the system helps promote enterprises and individuals to value a good credit record. Whether a fully fledged credit registry system is available, is an important signal of whether the financial system is solidly based and market economy is maturing. A credit registry system can be regarded as the corner stone of a modern financial system and the basis of financial stability. It is of far-reaching significance for building a credit society.

An important component in the building of a credit registry is establishing corporate and personal credit information database. Being honest and honouring one's word is not a quality that people are born with, nor is it the result of legal or moral constraint alone. When a person or company's behavior of breaching contract responsibility is not recorded, and the person or company not penalized, this will be a disincentive for those who honor their contractual obligations. A good example is the recently reported incidence of some internationally renowned companies selling sub-standard products and some companies operating without a license. These companies are well behaved in the home country and elsewhere in the world. Why did they do so in China? So, the most important work in building and improving a social credit system modern market economy is to have accurate information of corporate and personal identity, collect and keep their credit record, and use these information in a lawful way, so that contract-breaching behaviors are penalized. Corporate and personal credit information database which is under construction performs the function of collecting and recording credit information of enterprises and natural persons in order to help financial institutions to have knowledge of credit-worthiness of enterprises and natural persons and prevent credit risks, promote of financial stability and development; this will create a better environment for enterprises and individuals with good credit record to grow, encourage corporate and private citizens to value a good credit record, laying a sound foundation for a good credit culture in China.

In recent years, building a social credit system has received attention from all walks of life. The existence of fake and shoddy goods and the behavior of not repaying bank loans have not only affected business operation of enterprises and people's daily life, but also harms further economic growth. People from all walks of life have called for a social credit registry system. NPC deputies and CPPCC members put forward proposals on many occasions to introduce more rapid progress in this

area. There is wide-spread consensus in the society that a credit registry system should be quickly established.

The State Council attaches great importance to this endeavour. The report adopted by the 16th CPC National Congress made it clear that a social credit system should be improved for a modern market economy; the 3rd Plenum of the 16th CPC National Committee has decided to speed up the building of a corporate and individual credit service system based on legislations, that provides specialised services through franchised and commercial operation. According to Premier Wen Jiabao, a social credit system shall start from building a credit registry; a nationwide corporate and personal credit information data base should be established quickly to form a credit information network that covers the whole country; credit legislations should be made available to promote credit registry's growth; specialized credit institutions should be fostered and the credit registry market opened up gradually and in a focused manner; a penal mechanism should be gradually established; credit registry institutions should be regulated and market supervision should be enhanced. Vice Premier Huang Ju has also given important remarks on building corporate and personal credit registry.

In order to strengthen market regulation and promote the establishment of a social credit system, the State Council entrusted the People's Bank of China with the responsibility of promoting the institutional and system arrangements of a social registry system, regulate and promote the sound development of the loan registry industry, and approved the establishment of Credit Information System Bureau to undertake the specific works. The PBC has been working to build a credit registry system since then.

2. Facts about the building of a corporate and personal credit information database

The database, as part of the infrastructure of a credit registry system, is to establish a set of credit information file for companies and individuals. At the beginning, loan, credit transactions and settlement account establishment information of companies and individuals are collected from commercial banks to provide inquiry services for commercial banks to make lending decisions; gradually information will be collected from other sources to provide services to the whole society within the limit permitted by laws and regulations.

1) Formerly, the corporate credit information database was known as bank credit registration and inquiry system, which was established in 1997 and started to operate in early 2002. This system has a three-level database, i.e. at city, provincial and national levels. Enterprises' basic information, their borrowing from financial institutions and guarantees with financial institutions as well as major financial indicators of enterprises were collected by the system for major commercial banks in the country to inquire online. At end November 2005, the system contained information of 4.52 million enterprises with RMB loan outstanding of 17.36 trillion yuan, accounting for 90 percent of the total loan with financial institutions in the country.

When the system was developed in 1997, it connected the city databases across the country to enable cross-region inquiry due to the fact that commercial banks did not have centralized databases. In 2005, the PBC started to build a nationwide corporate credit information database. There is a centralized database and each commercial bank has only one interface with the centralized database through its headquarters. More than 800 categories of data were collected, instead of the some 300 hundred previously. On 15 December 2005, the corporate credit information database was connected with all major commercial banks and started its trial operation. It provided real time inquiry service in Shanghai, Tianjin, Zhejiang and Fujian. We expect that in the first half of this year, all commercial banks and rural credit cooperatives that are technically ready will join the system. The completion of a nationwide corporate credit information database will greatly boost its functions of serving the need in risk prevention, financial supervision and monetary policy.

2) In the beginning of 2004, the People's Bank of China intensified efforts to build an individual credit information database. At end 2004, the system covering 15 state-owned commercial banks and joint stock banks as well as eight city commercial banks started its trial operation in seven cities. In 2005, the system was expanded gradually to the whole country to cover 16 state-owned commercial banks nationwide in June, and cover 115 city commercial banks in August. At the moment, 12 provincial associations of rural credit cooperatives, 55 municipal associations of rural credit cooperatives and 56 urban credit cooperatives are covered by the system. This database collects basic individual information, settlement account information, credit information such as borrowing from financial institutions, credit card transactions and tendering guarantees, and put the credit information of an individual in all commercial banks throughout the country under this person's personal identity number.

The database contains information of 340 million people, with 35 million with credit record. Loan outstanding worth of 2.2 trillion yuan is recorded by the database, accounting for about 97.5 percent in the total consumer loan outstanding in the country.

The individual credit information database is developed by commercial banks, under the auspices of the People's Bank of China. Commercial banks report data monthly to the centralized database and can inquire consolidated information from the database on a real time basis.

3. Enterprise and individual credit information database: important for risk prevention

For many years, the bank loan registration and inquiry system has played an important role in preventing credit risks. Almost every commercial bank has made inquiring through this system part of the pre-lending assessment. Between January and November 2005, the monthly average of inquiries was about 1.44 million. In 2004, about 15,000 loan applications involving 94.1 billion yuan were rejected on the basis of inquiry, accounting for 2.9 percent of the loan application volume. In the first 11 months of 2005, a total of 600,000 loan applications involving 3.607 trillion yuan were handled by banks, out of which 16,000 applications totaling 95.2 billion yuan were rejected, accounting for 2.6 percent of the total application volume. Beginning in 2005, the system strengthened its function of monitoring connected companies' risks, including connected transactions associated with capital contribution, investment and guarantee. In recent years, this system has provided lots of valuable information promptly to authorities in their handling of Tieben Delong and Pricemart cases. The system has become an important instrument in improving financial supervision. At the same time, its data can be used in analysis of economic and financial structure, which serves as a basis for policy making and macro economic adjustment.

Individual credit information database has been playing an increasingly important role in individual credit risk prevention. Since the trial operation of this database in 2005, commercial banks and rural credit cooperatives have joined it one after another, the daily volume of inquiries has also increased from about 1,000 at the beginning of 2005 to the current level of 110,000. Commercial banks and rural credit cooperatives have established a system of individual credit risk assessment based on this system and made reviewing credit report part of the procedure. At the moment, commercial banks and rural credit cooperatives have opened 52,000 inquiry terminals. Peak daily volume of inquiries exceeded 120,000. According to the statistics from some commercial banks, about 10 percent of the loan applications were rejected on the basis of inquiry with the system.

Corporate and individual credit information database have not only helped prevent over-indebtedness of businesses and individuals and credit fraud, reduce non-performing loan ratio, but also played an important role in raising the efficiency of loan application assessment, and making it easier for companies and individuals to borrow. In the western countries, although mortgage, guarantee and insurance can be used to prevent risks, banks still follow the basic principle in credit management that what happened in the past will happen again. If banks know little about the credit history of a company or an individual, a very prudent attitude will be adopted in lending; also, banks are usually willing to lend to companies and individuals that have maintained a good credit history.

In the past year or so, banks were unwilling to provide automobile loans because of the high NPL ratio that occurred as a result of car price drop. Now that the individual credit information database is established and contains information of every loan borrowed by an individual, default on one loan will affect future borrowing. This has served as a strong impetus for prompt repayment of loans, and created a good environment for consumer credit growth in China.

Student loan is a major policy measure taken by the government to improve the higher education financing policy system and a strategic measure that bears on China's future development. However, student loan has a high NPL ratio because banks could not find some of the borrowing students after their graduation. According to a survey covering a certain province done by a PBC branch, at end October 2005, there were 15,075 graduates who were yet to pay off student loans, among which 4,282 people failed to pay interests and principal according to their borrowing agreements, resulting in a default rate of 28.4 percent. After the establishment of the individual credit information database, the basic information of a borrowing student as well as each loan-related transaction will be kept in the database and form a credit history. The credit history will have an impact on this student's future activity and helps to encourage prompt payment. At the same time, when a borrowing student opens a settlement account with a commercial bank, this information shall be collected by the credit information database and helps the lending bank to locate this borrower, and provides an institutional

arrangement for the lending banks to recover any loan arrears. The individual credit information database will help improve university students' credit record and facilitate the implementation of student loan policy.

For companies and individuals, having a good credit history will not only make it easier to get bank loans, but also helps them get loans on favorable terms. The credit history of borrowers that the credit information database keeps helps commercial banks to price loans on the basis of risks. Borrowers with a good credit history are more likely to receive low lending rates; those with a bad credit history are difficult to get loans and are more likely to receive high lending rates.

4. Individual credit information database aims at protecting privacy while enabling information sharing among commercial banks

The credit information database will also ensure information security and protect privacy while enabling information sharing and helping prevent credit risks. The People's Bank of China has strengthened legislation building during the establishment of the database. In order to ensure all use of individual information is legal and protect the legitimate rights and interests of individuals, the People's Bank of China has issued *Provisional Rules on the Management of Individual Credit Information Database*, *Rules on Management of Financial Institution Users of Individual Credit Information Database*, *Rules on Handling Disputes in the Use of Individual Credit Information Database* on the basis of extensive consultation, adopted measures such as authorized inquiry, restricted use, security, inquiry recording and penalty in case of violation, in order to protect information security and privacy. Only with the authorization of the individual concerned, commercial banks can inquire the database for information when assessing loan applications, credit card applications, guarantee offers of individuals, and managing credit risks of consumer loans and credit cards.

Personal credit information database also manages the users who access the system for credit reports. Each user has to sign in to access the system; the computer system automatically records every single inquiry by a user. If a commercial bank gets hold of a credit report in violation of the rules, or puts the inquiry result to uses other than specified by the rules, the bank will be fined and urged to correct the wrong doing; in the case of a criminal offense, the bank will be prosecuted by judicial authorities.

5. Improve public awareness and foster a credit registry market

A credit registry market is an important component of a fully fledged market system. In order to allow the credit registry system to fully play a role, the People's Bank of China has taken measures to actively foster a credit registry market and a credit culture.

Thanks to the cooperation from the education, labour and social securities authorities as well as commercial banks, the People's Bank of China targeted university students, laid-off workers, average borrowers and the public to introduce credit registry and other financial knowledge. A long term mechanism has been established to spread credit registry knowledge to the public.

Improvement of the enterprise and individual credit information database needs support from the whole society, and cooperation from relevant government agencies. We hope that friends from the press will render us a hand in credit registry information promotion; so that consumers and the whole society can understand the importance of a credit registry system, value their credit report, and enjoy quality life that comes from creditworthiness.