

Malaysia's experience in managing the credit registers

Rosnizam bin Saari¹

Introduction

The credit reporting institutions play an important role in the area of credit risk management and the promotion of a sound credit culture in the financial system of the country. It is recognised globally that a matured and developed financial sector must have effective and efficient systems to manage credit risks in order to sustain the surveillance and financial needs of the government, regulatory authorities, industries and consumers. This explains why more and more developing economies have taken the cue from the developed economies in establishing credit reporting institutions.

Based on World Bank survey over 185 countries via Doing Business 2013, 145 countries are having credit reporting institutions. It can be a Public Credit Registry (PCR) which is owned and operated by a government agency, mostly by the central bank, or a Private Credit Bureau (PCB) which is owned and operated by a commercial enterprise or a combination of both. In Malaysia's case, the credit reporting landscape has evolved over the last 30 years from the PCR operated by Bank Negara Malaysia (the Bank) as the sole credit reporting institution in the country to more PCBs operated by a few other agencies.

Public Credit Registry (PCR) operation in Malaysia

PCR in Malaysia is established under the Central Bank of Malaysia Act 2009 and it has been in operation since 1982 as the first credit reporting institution in Malaysia. The Act empowers the Bank to collect customers' credit information from lending institutions and furnishes the information back to the institutions for credit assessment, to the customers for verification of data accuracy reported by the lending institutions and to the registered credit reporting agencies for credit assessment services. The operation of PCR by the Bank is well supported by an on-line system known as the Central Credit Reference Information System (CCRIS) which is the key enabler for efficient and reliable data collection and dissemination of credit information. Since the implementation of CCRIS in 2001, it has enabled real time access to both positive and negative credit information of the borrowers. The system contains about 7.9 million customer profiles, which cover individual and non-individual borrowers, with more than 22 million active credit accounts. Figure 1 illustrates the development of PCR support systems in Malaysia since 1982.

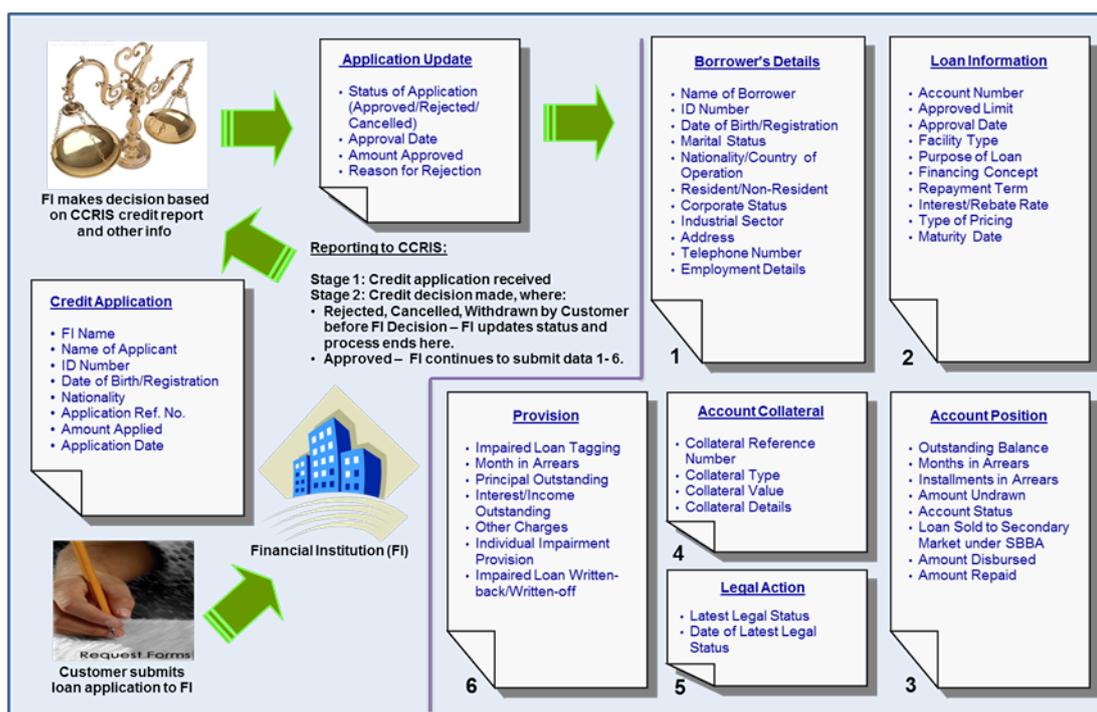
¹ Statistical Services Department, Bank Negara Malaysia, rosnizam@bnm.gov.my.

Period	Mode of Data Submission	Mode of Data Dissemination	Reporting Threshold
1982	Hardcopy	Hardcopy	Minimum threshold 1 million ringgit for banks and ½ million ringgit for finance companies of loan outstanding
1988	Diskette	Hardcopy	
1994	Computerised batch submission	Hardcopy	
1999	Computerised on-line and batch submission	Batch on-line	No minimum threshold
Since Oct 2001	Real-time on-line and batch submission with implementation of CCRIS	Financial institutions access to real-time on-line enquiry for credit reports	

The comprehensive nature of the information facilitates the development and validation of credit scoring models by the lending institutions, leading to more robust credit decisions and responsible lending culture. The detailed information provided through CCRIS allows lending institutions to look beyond collateral and cash flow statements to understand the borrower’s track record in making payments and predict future payment pattern. This undoubtedly contributes to higher loan growth and better asset quality. The positive contributions can be seen as outstanding loans grew at an annual average rate of 8.9%, while the overall impairment ratio showed a significant decline from its peak of 16.2% in 2001 to 2.2% in 2012. Figure 2 illustrates the reporting stages in CCRIS and the data involved in each stage.

Reporting stages and data involved

Figure 2



In the early stages of its operation, the participation in PCR was limited to banking institutions supervised by the Bank, mainly for regulatory purposes to support the Bank's role as regulator. However, for better analysis and credit decision making, the coverage has been extended to non-bank financial institutions such as hire purchase, leasing and cards companies as well as non-financial institution such as government agencies which provide credit for specific purpose, with participation in the CCRIS on a voluntary basis. Since the latter two types of institutions are not governed by the Bank, selected preset conditions are imposed on them to ensure that data quality and accuracy is well preserved in CCRIS. To date, there are 78 reporting institutions participating in the Malaysia's PCR. These include 27 Commercial Banks, 16 Islamic Banks, 13 Investment Banks, 11 Development Financial Institutions, 4 Insurance Companies, 3 Payment Systems Operators and 4 Other Financial Institutions.

Information collected from all lending institutions is summarised in the form of credit reports which are accessible via CCRIS with minimal charges, depending on the types of report. As for the public, the credit report can be obtained directly from the Bank with no charge via its centralised contact centres at the Bank's headquarter and 5 nationwide offices. In 2011, the Bank launched its mobile customer service coach which complements the existing channels of contact centre to provide greater access and opportunity to the public in semi-urban and rural areas to retrieve credit report.

Development of Private Credit Bureau (PCB)

Compared to PCR, PCBs are a relatively recent development. Although PCBs have existed in Germany, Sweden and the United States for nearly a century, they emerged in many other high-income countries, including France, Italy, and Spain, as recently as the 1990s (World Bank, 2013). In Malaysia, the credit reporting landscape entered a new chapter when the first PCB was established in 1990 to provide another source of information for lending institutions in accessing customers' credit worthiness. There was no specific provision to govern the operation of the PCBs until 2010 when the Credit Reporting Agencies Act was enacted by Parliament of Malaysia to regulate those institutions that conduct credit reporting business. To date, there are 4 PCBs in Malaysia that are supervised by the Registrar Office of Credit Reporting Agencies (RCRA), a division under the Ministry of Finance.

The Act specifies the requirement to preserve customers' privacy. PCBs are required to notify the customers that their information are being collected and PCBs are required to obtain the consent of the customers on disclosure of information to third parties. As data accuracy and security are among the key elements in the Act, PCBs are required to take reasonable steps to ensure that information held are accurate, complete, not misleading and up-to-date. PCBs are also obligated to put in place the necessary safeguards, in term of systems, procedures and processes, to ensure the security and safety of information. To protect consumer rights, the Act has given the privilege to the customers to access their own credit information collected by the PCBs. No charge is imposed on the customer for correcting any information that is inaccurate, incomplete or misleading.

While PCR is focused on borrowings mainly from banking institutions and other selected non-bank financial institutions for macro-prudential and other policy purposes, PCBs offer additional credit information collected from a wide variety of

financial and non-financial entities as well as other sources such as published information to facilitate accurate credit decision making by the lending Institutions. Apart from credit information collected from various sources, including the data from CCRIS, credit scoring and rating are the value added information offered by the PCBs in their reports which differentiate the services provided by PCBs from PCR. The access to the report are chargeable and rates are varies from one PCB to another, depending on the services provided by the PCBs.

Conclusion

Over the past three decades, credit reporting institutions play a vital role in supporting financial stability and promoting credit market efficiency in Malaysia. It is proven that through effective credit reporting systems guided by overall legal and regulatory framework and support received from the market players, the allocation of new credit is increasing year after year while the default risk is reducing. Contribution and collaboration between PCR and PCBs has improved the depth of credit market transactions and broaden access to finances. This was reflected by Malaysia's number one ranking for five consecutive years in term of Ease of Getting Credit in the Doing Business Report, published jointly by the International Finance Corporation and the World Bank. Information sharing among the market players contributes to the responsible credit culture by discouraging excessive debt and rewarding responsible borrowing and repayment.

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