

Ranee Jayamaha: The financial performance of the Credit Information Bureau in Sri Lanka during 2005

Speech by Dr Ranee Jayamaha, Deputy Governor of the Central Bank of Sri Lanka, at the Annual General Meeting of the Credit Information Bureau, Colombo, 23 June 2006.

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Members of the Head Table, the Board of Directors, the Shareholders of the CRIB, Chief Executives and Officials of Banks and Financial Institutions, Ladies and Gentlemen.

I am pleased to present to you this evening the Chairperson's report of the CRIB which summarizes the significant growth in business operations and the financial performances of the CRIB during 2005.

Sri Lanka's CRIB is one of the pioneer credit information bureaux in the South Asia region since its establishment in 1990. The year 2006 is a landmark in its history as the CRIB will begin to re-engineer its core business processes with enhancements and upgrades to the technological infrastructure.

As indicated in the Annual Report, during 2005, the CRIB has recorded a remarkable growth in its businesses and achieved its primary objective of collecting, collating and dissemination of aggregate credit information for the use of stakeholder institutions. Reporting of credit information to, and complying with the Bureau's requirements are mandatory and the CRIB has made a conscious effort to educate the member institutions of the reciprocal benefits of providing reliable credit information. Throughout the year, the CRIB has continued follow up work in refreshing and updating the existing credit database.

These measures have resulted in an increase of regular advances by 31% and a reduction of irregular advances by 3% during 2005. In addition to the increase in the number of credit reports disseminated by the CRIB, considerable efforts have been made to improve the quality of credit information through data-cleansing. By making mandatory the inclusion of the NIC number of individuals together with the business registration number, the CRIB has been able to provide more reliable credit reports thus facilitating the lenders' credit decisions.

In addition to the speedy dissemination of quality credit reports, the CRIB lays claim to a number of operational efficiencies achieved during 2005. With the introduction of the web-enabled credit report delivery system, CRIB's operational efficiency has improved significantly while reducing its cost of operations. The one-hour service has been very popular and it has substantially enhanced CRIB's income. Despite limitations and operational weaknesses, the collation of a delinquent credit card holder database was an added facility made available to its members. These witness the high performance of the CRIB during last year and its contribution to financial system stability by safeguarding the financial institutions from credit defaults and inculcating credit discipline among borrowers.

While technological improvements and operational efficiencies are taking place, let us focus for a moment to assess whether the CRIB has been able to meet its public policy objectives and provide social justice for a wider segment of the population, although such objectives are not enshrined explicitly in the CRIB Act. As a service provider, the CRIB should look after its clients, but its action should not lead to social injustice and be detrimental to public policy objectives. As we know, the CRIB was set up at a time during which high credit default rates were posing a threat to the stability of the financial system with the failure of several finance companies. Undoubtedly, the CRIB has been able to prevent the wide-spread credit indiscipline by willful defaulters. However, one needs to weigh the costs and benefits of flagging the defaulting borrowers within the CRIB's network against the resultant denial of access to, or elimination of, certain borrower groups from the formal credit institutions. In this connection, it is important to identify the class, the segment, or the group of defaulting borrowers who have been denied access to the formal credit institutions. According to information available at the CRIB as at 20.06.2006, of the 261,322 loans reported, 67% of borrowers have taken loans less than Rs 1 million. The percentage for those who have borrowed less than Rs 5 million was 95% as at the same date. Loans over Rs 5.0 million was only 5% of the total number of loans reported. However, these figures do not include the regular loans below Rs 500,000/= and irregular loans below Rs 100,000/=. Following the default records forwarded by credit institutions, the CRIB attaches a negative label and that does not allow many of these defaulters to access any credit institution in this country. In other words, these borrowers have been permanently denied of access to formal lending institutions.

There may be others in this group such as the SMEs, the retailers, self-employed and micro borrowers who, for reasons beyond their control, have faced the same fate. Even if a few of them have the potential, in terms of their cash flows or earning capacity, to repay debt at a later time and become honourable customers, the negative label issued by the CRIB would not give them another chance of reaching formal credit institutions. The inevitable result would be to drive them back to the informal sources of borrowing or to seek political redress. There is no doubt that there could be several willful defaulters in this group who deserve to be blacklisted, but among them the influential ones will seek ways and means of getting back into the system.

It is well known that the banks and the credit institutions do not report the full list of borrowers to the CRIB. It is also no secret that the institutions cherry-pick the borrowers according to the former's preference. The affluent borrowers, multi national companies, large corporates, highly connected borrowers and the banks' other preferred customers do not get reported to the CRIB, even if they default altogether. The credit profiles of the affluent customers will continue to have clean records of regular payments which protect their image. The CRIB is totally dependent on these institutions for reliable information and given the objective of looking after its client institutions, the CRIB would fix negative labels on defaulting borrowers. The CRIB is not in a position to verify or go into details of the operations of any credit institution and establish the class, creed or social status of the customer. It only fix labels according to what is reported by the credit institution. On the other hand, the Bank Supervision Dept. and Non-Bank Supervision Dept. of the Central Bank of Sri Lanka, within their own regulatory ambit, can detect the non-reporting by institutions to the CRIB, but these departments are not mandated to share such information with the CRIB or vice versa. Hence, the injustice continues and often some of the deserving borrowers are denied access to credit institutions. In such a situation, how can the CRIB ensure social justice and equity in terms of public policy? The CRIB can be fair only if the credit institutions resolve to report on all defaulting customers with no exceptions.

This situation clearly indicates that the decision to groom, retain or eliminate a customer rests largely with the bank or the credit institution. The injustice begins when the reporting institutions do not report defaults of all segments of borrowers. The extent to which the banks and credit institutions have done a disservice to some of the deserving borrowers, is known only to the banks and credit institutions themselves. It is in this context that small businesses have raised concerns and aired their views to the political and regulatory authorities. It may be relevant to quote a statement made by H.E. the President at a recent meeting with the state banks where he said "*I have seen banks getting tough on small time defaulters, but the same attitude must be there for large scale defaulters too*". When the government policy framework is geared towards enhancing access to credit, we should not leave room to deny access to those who wish to use the formal credit institutions.

That is why I said that it is difficult to assess the performance of a service organization, using only the financial and operational performances. It is important to look at the disservice it has inadvertently inflicted on the society, perhaps due to reasons beyond its control. Of course, the root cause is the defaulting borrowers due to reasons within or beyond their control. For good order and conduct, the credit institutions should report credit profiles of all segments of borrowers and clientele and the reporting formats should clearly indicate the repayment schedule from the beginning up to the reporting time. Until such time the reporting credit institutions make a conscious attempt to send-in reliable credit details of all borrowers, the CRIB will not be able to provide an equitable service. The CRIB on its part should remove the label fixed on defaulters and prepare aggregate credit reports indicating the repayment pattern by borrowers over the reporting period. It should, as planned under the technical enhancement, prepare a "credit scoring" module which will indicate some sort of ranking of borrowers. This would enable the lending institutions to better assess whether the borrower is a willful defaulter from the beginning or whether he has defaulted only on a few instalments. This is how credit bureaux world over provide both positive and negative information of their borrowers.

The CRIB would endeavour to accomplish and provide an equitable service through its business plan which will come into effect from the second half of 2006. Accordingly, it intends to engage in a horizontal expansion in collection of information from multiple sources, i.e. credit granters, utility service providers, insurers, public databases and lenders for SMEs and micro sector borrowers in its new database in a phased manner. I hope that the expansion of customer databases to include their payment schedules for other utility services might help the lending institutions to form a better opinion of the borrower. In addition, using the new technology, the CRIB intends to enable customers to have easy access to their own credit profile and apprise the CRIB of erroneous reporting. With the introduction of the new technology, the reporting institutions as well as the CRIB should work together

to provide positive information of the borrowing clientele, so that their ability to stay in the formal market is made easier.

While embarking on new technology, I appeal to the banks, credit institutions, the stakeholders of the CRIB and all other officials who are present here today to change the attitude of officials working in your organizations and to carry the message that they should establish justice and equity in credit reporting. This would help both the CRIB and the credit institutions to meet their public policy obligations, in addition to the primary objective of safeguarding the financial system stability.

Thank you.