Jessica Chew Cheng Lian: Credit reporting and risk management training

Welcoming and opening address by Ms Jessica Chew Cheng Lian, Assistant Governor of the Central Bank of Malaysia, at the Third Credit Reporting and Risk Management Training, Kuala Lumpur, 26 September 2011.

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It is my great pleasure to welcome you to Malaysia and to the third series of the Workshop on "Credit Reporting and Risk Management Training", jointly organised by the International Finance Corporation (IFC) and Bank Negara Malaysia. This annual workshop has provided an important platform for experts from the different parts of the world to exchange views and experiences on developments in the credit registry landscape and the role of credit registries in preserving financial stability and in contributing towards economic and social development.

Indeed, centralised credit information registries, or credit bureaus, are a critical part of the infrastructure that facilitates and enables the efficient expansion and outreach of credit intermediation in an economy. This is now well-supported by empirical evidence. A well-functioning credit bureau serves as a lubricant to the intermediation process by overcoming one of the fundamental challenges with any credit market, that is the asymmetry of information between lenders and borrowers. The wider use of credit information can make an important contribution to prudent financial management, not just among borrowers by minimising incidences of excessive borrowings, but also among lenders by encouraging greater discipline during periods of exuberance when lenders may be tempted by rapid rises in asset prices and perverse incentives, to throw caution to the wind. It also has an important role in promoting access to financing for various segments of the society. Borrowers who maintain a good credit history and demonstrate strong financial discipline are able to leverage on such "***reputational collateral***" to secure borrowings at more favourable terms and rates.

Credit registries have also been used extensively to support enhanced banking and financial market supervision. There can be little doubt, particularly after the events of the sub-prime mortgage crisis, that the accumulation of credit that is premised on informed credit decisions, whether taken at an individual, institutional or system-wide level, will contribute to the stability of the overall financial system.

While the collection of credit information on borrowers in Malaysia started many years ago, it was not until the aftermath of the Asian Financial Crisis that a centralised credit information registry was realised. The crisis proved to be a defining moment for Malaysia on several fronts and was instrumental in advancing critical reforms in the development of our financial infrastructure. The Central Credit Reference Information System, or CCRIS, (owned and operated by Bank Negara Malaysia) was established in October 2001 and has since been acknowledged as one of the most comprehensive public registries in the world. The operationalisation of CCRIS expanded the role of the credit information registry beyond a supervisory focus to supporting prudent and more efficient credit and financial management decisions among Malaysian borrowers and financial institutions.

CCRIS enables real time access to both positive and negative credit information on all borrowers in the banking system and of a selected group of non-banks. At present, the system contains more than 21.9 million outstanding credit accounts and 7.6 million borrower records. The system is supported by rigorous controls that protect the integrity of such information, which in turn, enables the Bank and supervisors to perform granular and multi-dimensional analysis and assessments of credit risks and credit-related vulnerabilities in the banking system.

For banking institutions in Malaysia, the ability through CCRIS, to tap into ten years of borrower credit records spanning the entire population of banking institutions has been instrumental in accelerating enhancements to the management of credit risk by banks, in particular the development and validation of credit scoring models. Today, information extracted from CCRIS is used as a key input in banks' credit decisions. The availability of current information has also facilitated more expedient and robust credit decisions. Hence, while banks' exposures to the household sector have been on a strong growth trajectory and account for more than half of banks' lending portfolio, the quality of the portfolio has remained sound, with a net impairment ratio sustained at a low 2%. The banking system's exposures to other retail and small businesses have also grown in the last decade, in part due to the established credit track record captured in CCRIS, which have enabled small and medium sized enterprises (SMEs) and micro enterprises to benefit from improved access to financing. These developments in turn, have resulted in a more balanced and diversified credit portfolio of banking institutions.

In addition to CCRIS, there exist other private sector-owned credit bureaus in Malaysia that specialise in niche areas of value-added information and that offer differentiated risk management products to financial institutions. With the wider use of information provided by these credit bureaus, a priority has been to put in place a structure and framework for the appropriate oversight of their activities. This is essential to provide the necessary safeguards and to protect the privacy of data subjects. It is also equally important to ensure the accuracy, completeness and timeliness of credit information that is used by financial institutions to form credit decisions. Inaccurate, incomplete and dated or delayed information can have damaging effects on individuals in terms of access to financing, while exposing banking institutions to the risk of losses. Two key pieces of legislation that were recently enacted to support these outcomes are the Credit Reporting Agencies Act 2010 and the Personal Data Protection Act 2010. The Credit Reporting Agencies Act 2010 governs the operations of private credit bureaus and provides for the development of a regulated and structured credit information sharing industry. The Personal Data Protection Act 2010 on the other hand regulates the collection, processing and handling of personal information for commercial purposes by data users and provides safeguards for the data subjects against the abuse of such information for improper or unauthorized purposes. The operationalisation of these laws are currently in progress and we look forward to a productive exchange of experience during the course of this workshop which will benefit our own efforts to build a conducive environment for the orderly development of private credit bureaus.

Despite the compelling public benefits provided by credit registries, regulators face considerable challenges in educating consumers to appreciate how credit reports can help enhance their access to credit and improve the terms under which credit is provided. The role of regulators in public outreach is particularly important in the initial stages of building credit reporting systems to promote public confidence and wide participation. A common frustration that has emerged from the more pronounced emphasis on credit reports in lending decisions has been that access to credit increasingly depends on an individual's credit history, and yet, one can only build a credit history if credit is granted. I note with interest that the workshop will discuss potential solutions to this dilemma. It is important that as the credit reporting landscape continues to evolve and assume more prominent roles in influencing borrowing and lending behaviours, appropriate attention is paid to consumer education to mitigate consumer anxiety and ensure that consumers understand and can exercise their legitimate rights.

As uncertainties continue to cloud the global economic outlook at a time when borrowers have become more financially literate, lenders have become more innovative, and financial products have evolved to become more sophisticated and intricate, the need for an effective and efficient financial infrastructure becomes increasingly more critical to ensure the prudent expansion of credit and risk taking. This workshop addresses a key part of that infrastructure that can contribute towards avoiding damaging effects of a financial crisis induced by credit excesses.

Before I end my remarks, allow me to say a few words about this magnificent building, *Sasana Kijang*. Designed to be a nexus for thought leadership and collaboration in central banking, "*Sasana*" is a Sanskrit word that describes a site, centre, building or arena where communities gather for meetings, while the *Kijang* is a small yet very intelligent animal that is depicted in Bank Negara Malaysia's logo. The architectural concept of *Sasana Kijang* is inspired from the shape of the Cowrie shell, a popular form of money in the Malay Peninsula during the 3rd century with its building facade derived from the geometric patterns of traditional Malaysian *songket* motifs, reflecting the hand woven fabric designs. *Sasana Kijang* hosts a learning centre with state-of-the-art training facilities for local and foreign participants and provides opportunities for the exchange of views and experience towards promoting capacity building in central banking. In addition to training facilities, offices and conference halls, *Sasana Kijang* also houses the Bank Negara Malaysia Knowledge Management Centre and the Bank Negara Malaysia's Museum and Art Gallery which is open to the public. I hope all of you will take the opportunity to explore the Bank's collection displayed at the Museum and Art Gallery and to enjoy the activities in the Knowledge Management Centre. As visitors to Malaysia, your stay here is not complete unless you have treated yourself to the variety of food, traditional and modern, that the country has to offer. On that note, I wish you all a productive engagement and a pleasant stay in Kuala Lumpur.