

Marzunisham Omar: Credit reporting and risk management

Welcoming remarks by Mr Marzunisham Omar, Assistant Governor of the Central Bank of Malaysia, at the BNM-IFC 4th Credit Reporting and Risk Management Training, Central Bank of Malaysia, 9 November 2012.

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It is my great pleasure to welcome you to Malaysia and to the fourth series of the “Credit Reporting and Risk Management Training”, jointly organised by the International Finance Corporation (IFC) and Bank Negara Malaysia. This annual workshop aims to support an exchange of views and experiences amongst experts and practitioners on the latest development in credit reporting methodologies and the role of credit registries in preserving financial stability, enhancing access to finance and promoting more inclusive financial systems.

Bank Negara Malaysia actively supports the promotion of greater regional and international collaboration in central banking and financial services. We believe that experience sharing amongst policymakers and practitioners is a very effective way of building capacity in organisations. Since 2008, more than 3,500 officials from 88 countries have participated in the various knowledge sharing programmes organised or hosted by the Bank.

This particular workshop led by the IFC, is of special interest. It aims to provide participants better understanding of a key infrastructure in enabling well informed credit decisions to be made based on borrowers’ repayment track records.

Credit information sharing is an important element in the financial system and has important consequences on the functioning of the credit market, financial intermediation, financial stability and overall economic development of a nation. The sharing of credit information reduces asymmetries of information and search costs, thereby enhancing access to financing to a broader spectrum of the population. It also allows for more effective risk-based pricing, which could lower the cost of financing for borrowers with good credit background and history. With the availability of non-traditional data provided by credit reporting agencies, borrowers demonstrating strong financial characters are able to leverage on such “reputational collateral” to obtain borrowings at favorable terms and rates.

For lenders, credit information helps to strengthen the entire chain of credit evaluation and credit risk management. The availability of a wide range of credit information on a real-time basis facilitates advancements in risk and decision-making analysis, thus contributing towards institutional soundness. For regulators, this will enhance the stability of the overall financial system. Additionally, from a social perspective, the sharing of credit information contributes towards inculcating financial discipline and avoiding incidences of imprudent and excessive borrowings among borrowers. All these, combined, would definitely enhance the overall credit culture in an economy.

The benefits of having a well functioning credit reporting infrastructure are evidenced in Malaysia. The Central Credit Reference Information System, or better known as CCRIS, which is owned and operated by Bank Negara Malaysia, 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. The system contains more than 22 million outstanding credit accounts and 7.9 million borrower records. The comprehensive nature of the information facilitates the development and validation of credit scoring models by the banking institutions, leading to more robust credit decisions. Information provided through CCRIS allows financial institutions to look beyond collateral and cash flow statements, to understand the borrowers’ track record in making payments. This undoubtedly contributes to higher loan growth and better asset quality. Since the inception of CCRIS in 2001, loan outstanding 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% currently. The World Bank, in its Doing Business Report, has ranked Malaysia No. 1 for five consecutive years in the category of “Getting Credit”.

Another example is the Credit Bureau Malaysia (CBM) which was established to assist SMEs build credible credit records from transactions outside the regulated banking system such as transactions with suppliers and utility companies. With this credible credit record, SMEs that utilise the formal banking system for the first time will be able to more effectively obtain access to finance. CBM also has a comprehensive credit scoring methodology which helps banking institutions assess the credit worthiness of potential customers. Further, CBM plays an important role in educating SMEs on how credit scores are calculated and how borrowers can improve their business operations and transaction conduct to improve their credit scores. At end-September 2012, CBM has 28,337 SME members and had produced 707,164 credit reports.

The development and growth of credit information registries needs to be supported by a robust regulatory and supervisory framework. As the recovery in the global economy continues to be weighed down by uncertainties, greater attention is being focused on the role and scope of shadow banking entities in transmitting risks to the overall financial system. Such entities include those outside the regulated banking system that are involved in the extension of credit to borrowers or facilitate the credit intermediation process. Whilst credit information registries are not directly involved in the provision of credit, it plays a significant role in facilitating and enabling the expansion and outreach of credit intermediation by making available credit information to lenders. If the infrastructure is not well-managed and not subjected to appropriate oversight, it could inadvertently result in significant build up in leverage in the economy.

In addition, the legislative framework is also critical in facilitating cross-border data flow, an area that I foresee will be the next, if not already, major area of discussion in the credit reporting industry. With globalisation and the increasing ease of movement of human capital and businesses across borders, we cannot deny that there will be an increase in the amount of credit extended across borders as well. It may be worthwhile, as we discuss on current matters during the course of this training, to bear in mind and have foresight on the potential challenges that may surface from cross-border sharing of information, including the differences in legislative frameworks across different countries, confidentiality of information and network integration.

Therefore, I note with interest that this workshop will also discuss the legal framework surrounding the credit reporting industry. In Malaysia, the Credit Reporting Agencies Act was gazetted in 2010, and is in the midst of being operationalised. The Act allows for the sharing of credit information in a regulated environment, primarily seeking to strike a balance between providing lenders with information for risk management purposes, and protecting borrowers’ rights to privacy. A Registrar has been set-up to oversee the implementation of the Act. The Office of the Registrar has regular engagements with credit reporting agencies to effectively implement the Act and ensure minimal disruption to the entire operations of the industry.

While the benefits of a sound credit registry infrastructure are evident, it is critical to educate consumers on how to use their credit reports and to manage their level of debt. Financial education is, therefore, an important pillar which complements the work being done in enhancing credit information reporting. Proficiency in financial knowledge will contribute towards greater empowerment and competent financial decisions on the part of consumers, and also result in improved financial services by financial institutions. In Malaysia, financial education for adults is implemented through financial capability programmes, such as the POWER! Programme, which focuses on specific life events targeting identified groups such as young adults, low income households and public sector officials. For example, one specific programme which was launched last month in collaboration with the Government

aims to reach out to 120,000 individuals from low income households by 2015. The Central Bank also has a customer service centre for the general public to walk-in or call-in if they have inquiries, or need to print their credit report. The CCRIS kiosks use bio-metric identification embedded within the national Identification Card, and the report is produced in less than a minute without any charge.

I believe that a holistic approach, combining credit information infrastructure with appropriate financial education interventions and avenues of outreach to consumers, will lead to more prudent financial management behaviours.

I would like to take this opportunity to thank the International Finance Corporation for its leadership in the area of credit information reporting, and look forward to continuing to build on our long working relationship. I trust that we will have a productive exchange of ideas to further enhance the roles of credit reporting agencies in the area of risk management and to advance the credit reporting industry as a whole. On that note, I wish you a successful and productive programme, and a pleasant stay in Kuala Lumpur.