

## **R Gandhi: Recent policy initiatives in credit information sharing**

Keynote address by Mr R Gandhi, Deputy Governor of the Reserve Bank of India, at the Seventh Annual CIBIL TransUnion Credit Information Conference, Mumbai, 3 March 2015.

\* \* \*

*Assistance provided by Shri Rajesh Jai Kanth is gratefully acknowledged.*

1. Shri M.V.Nair, Chairman, CIBIL; Ms. Arundhati Bhattacharya, Chairman, SBI; Shri T.M. Bhasin, Chairman, IBA; Shri Arun Thukral, Managing Director, CIBIL; delegates to the Conference; ladies and gentlemen! It is a pleasure for me to be present here this morning to deliver the keynote address at the Seventh Annual CIBIL TransUnion Credit Information Conference.

### **Background**

2. Consequent to the recommendations of the “Working Group to explore the possibilities of setting up a Credit Information Bureau in India” (Chairman: N.H. Siddiqui) set up by the Reserve Bank in 1999, in which I had the privilege of being a member, credit information companies (CIC) were established – CIBIL was the first to come on the scene and the Credit Information Companies (Regulation) Act (CICRA) was enacted in 2005.

3. By early 2013, Credit Information industry in India had seen more than ten years of operation of CIBIL and more than three years of operation by the other three Credit Information Companies (CICs). There was, however, a need to strengthen the infrastructure for credit information sharing involving credit institutions and the CICs. Particular areas where changes were considered necessary included increasing depth and width of the credit information, harmonising the reporting formats across CICs, rationalising the classification of accounts and their nomenclature based on payment history, and putting in place best practices for CICs and credit institutions. Against this backdrop, RBI in March 2013 constituted a Committee under the chairmanship of Shri Aditya Puri, MD, HDFC Bank to examine reporting formats used by CICs and other related issues. The Committee submitted its report on January 31, 2014.

### **Recent policy initiatives**

4. Based on the Aditya Puri Committee recommendations, a number of policy instructions have been issued by RBI.

- a) Major policy changes made vide the guidelines on June 27, 2014 are as follows:
  - (i) data formats for reporting corporate, consumer and MFI data by all credit institutions have been standardised thereby streamlining the process of data submission by credit institutions to CICs
  - (ii) a Technical Working Group comprising of representatives from various categories of banks, CICs, NBFCs, HFCs, IBA and MFIN has been constituted to institutionalize a continuing mechanism for reviewing / modifying data formats, and
  - (iii) certain best practices for credit institutions and CICs have been prescribed to improve the working of the credit institutions and CICs and redressal of consumer complaints.
- b) Further, the banks and All-India notified financial institutions have been instructed to report non-suit filed accounts in respect of wilful defaulters (₹25 lakh and above) and defaulters (₹1 crore and above) to the CICs for the period ending December 31, 2014. CICs will disseminate this information to all the stakeholders.

- c) In terms of Section 15 of CICRA, every credit institution has to become member of at least one CIC. Since four CICs are functional, there is the consequent issue of data existing in silos. As of now, when enquiry is made with one CIC about a certain borrower or prospective borrower, only the information that has been provided to the CIC by its own members would be available at that CIC. The information from the credit institutions from whom the borrower may have availed a credit facility but who are not members of that particular CIC may not be included in the credit information. To mitigate this problem, all credit Institutions have been directed on January 15, 2015 to become members of all the CICs and submit current and historical data to them. CICs and credit institutions have been also directed to keep the credit information collected and maintained by them, updated regularly on a monthly basis or at such shorter intervals as may be mutually agreed upon between them. To help credit institutions make transition from one / two bureau membership to all bureau membership, the one-time membership fee charged by the CICs, for CIs to become their members, shall not exceed ₹10,000 each. The annual fees charged by the CICs to CIs shall not exceed ₹5000 each.

### **Work in progress**

5. Though we have implemented most of the recommendations of the Aditya Puri Committee, let me mention a few recommendations of the committee, still being examined in RBI:

- (a) Introducing a Common Credit Information Report on the lines of the tri-bureau report available in the USA, in consultation with all CICs and in a manner customised to the credit information infrastructure existing in the country.
- (b) Including information relating to Commercial Paper in the data format of CICs for collecting credit information from credit institutions.
- (c) Reporting information on derivatives of clients e.g. unhedged foreign currency exposures by credit institutions in the commercial data format.
- (d) Examining pricing related aspects of Credit Information Reports and providing on an annual basis a base level consumer CIR free of cost to each customer of a credit institution by each CIC.
- (e) Evolving a suitable mechanism for providing a fast and cheap redressal of customer grievances vis-a-vis CICs, including expanding the scope of the Banking Ombudsman Scheme.
- (f) NBFCs, UCBs, RRBs, SFCs, HFCs may also report data on wilful default to all the CICs.

### **Benefits of access to credit information**

6. Global Financial Development Report<sup>1</sup> inter alia states, “ensuring equitable and transparent access to credit information allows customers to use their credit histories as reputational collateral, strengthens credit market competition, and enhances access to finance”. In this context, let me highlight the major benefits of credit information for the different stake holders in the system:

- (a) Consumers – Credit information empowers consumers to obtain loan products based on their credit history and promote them to maintain credit discipline and repay debts timely. Competition in the credit market is enhanced as even positive

---

<sup>1</sup> Global Financial Development Report 2014: Financial Inclusion. Washington, DC: World Bank.

information on borrowers becomes available to other lenders thereby benefiting the deserving and better borrowers to obtain loans on easier terms and lower interest rates.

- (b) Credit Institutions – Information sharing assists in screening of borrowers as well as monitoring of credit risks. This reduces cost of intermediation and allows credit institutions to effectively price, target, and monitor loans. It facilitates realistic, transparent and judicious risk based lending. By leveraging information from CICs, lenders can obtain a holistic overview of their customer relationships. At present, different product offerings of CICs viz. credit information report, credit score, watch lists, alerts and triggers, portfolio reviews, are increasingly being used by the lenders to improve their portfolio quality, control NPAs and increase profitability. These solutions enable risk mitigation and optimize performance at every stage of the customer lifecycle- acquisition, portfolio management, collections and recoveries.
- (c) Economy – Risk based pricing environment would improve transparency and soundness in the lending process. Borrowers with a good credit history will be rewarded for their discipline while delinquent borrowers will no longer be subsidized by lower-risk consumers. In the aggregate, lending is increased, leading to greater economic growth, rising productivity and greater financial inclusion. Reduction of default rates and average interest rates, facilitated by increased credit information sharing, leads to increased lending. Research has shown that sharing of credit information results in deepening of credit markets. Borrowers are incentivised to maintain a good credit record, thus leading to a reduction of NPAs, better quality of credit portfolio, higher capital adequacy ratios and consequently increased lending by credit institutions.
- (d) Bank supervisors – By accessing credit information from CICs, supervisors can assess and monitor build-up of systemic risks more effectively, especially regarding high exposure to certain sensitive sectors by highly interconnected and systemically important financial institutions.

7. The scope of “credit information” is really very vast; much larger than what the CICs in India are actually collecting and disseminating. I would like to describe about a few initiatives in this area, initiatives taken by entities other than the CICs.

### **Central Repository of Information on Large Credits (CRILC)**

8. First is the CRILC. Last year, the Reserve Bank has set up a Central Repository of Information on Large Credits (CRILC) in order to collect, store and disseminate information on large credits (₹50 million and above) of banks, systemically important non-banking financial companies (NBFC-SI) and NBFC-Factors. The avowed objectives of the CRILC includes reduction of information asymmetry for improved credit risk assessment and improve recovery climate. Although the CRILC has been set up essentially to help banks and other financial institutions in improving their credit administration, it is also expected to provide vital inputs in supervisory risk assessment in terms of build-up of risk concentration and emerging asset quality related vulnerabilities.

9. I would like to be candid here. Ideally, the CRILC should have been thought about and built by the CICs. The fact that we as the regulator had to take this step indicates that the credit information industry needs to develop much more. It is also a pity that our credit institutions do not feel the necessity to voluntarily share credit information among themselves through, of course, the CICs, when they all do want to receive, from the CICs, credit information about their constituents – whether current or prospective. I look forward to the CICs themselves building and managing such a repository going forward.

## **Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)**

10. Another related development is CERSAI. Transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions as defined under the SARFAESI Act are to be registered in the Central Registry. All NBFCs have also been advised to file and register the records of all equitable mortgages created in their favour with the Central Registry. Under the Factoring Act, 2011, every factor is under obligation to file the particulars of every transaction of assignment of receivables in his favour with the Central Registry.

11. The records maintained by the Central Registry can be searched by any lender or any other person desirous of dealing in property on payment of fees prescribed under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Central Registry) Rules, 2011.

12. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property. While the Central Registry addresses the encumbrance status of a property, at present Central Registry is not able to check the genuineness of the title of a property. With land being a state subject governed by respective state laws, there is a need for the Central Registry to enter into arrangements with the state registries for information sharing. This will be beneficial for the Central Registry, State governments and the lenders by way of providing information on the existence of the property and genuineness of the title.

### **Challenges facing credit information sharing**

13. **Data Quality:** The efficiency and effectiveness of any credit bureau depends on the quality of data collected in its database. We have time and again issued circulars for submission of timely, accurate and error free data to the bureau. However, it is learnt that the data submitted to the CICs by member credit institutions is not regular or accurate. There are many instances of junk values, incorrect data and incomplete identifier field information being submitted to the bureaus. It becomes imperative for credit institutions to ensure the quality and timeliness of data submitted to the CICs.

14. **Consumer education and awareness:** It is vital for consumers to understand the importance of maintaining financial discipline and paying their loan EMIs and credit card dues regularly. CICs have an important role to play in this regard. Increased awareness by individuals, SMEs and MFI borrowers on consequences of default in repayment of loans leading to lowering of their credit scores and possibly denial of new loans would lead to better credit discipline and also prevent deterioration in the asset quality of banks. I am aware that CIBIL and other CICs are working on several consumer education programs to drive awareness amongst consumers on concepts relate to credit information. I also understand that CICs have been partnering with the consumer education cells of banks and other credit institutions. This partnership will be highly effective in reaching out to consumers across geographies and sensitizing them on the necessity of maintaining good credit discipline. I would like to urge the CICs that such an awareness campaign needs to be specifically focussed on new generation, even before they enter into a credit relationship, about the long lasting effect and consequences of credit history. In terms of developing a credit culture amongst the future generation, the most important financial product is the education loan. With an NPA percentage of over 7.54% (for loans below ₹4 lakh) as on 31st March 2014, it is clear that the borrowers are oblivious of the consequences of non-repayment on their credit track record. Can the CICs and banks look at a “catch ‘em young” policy for credit counselling and developing a credit culture? Can the CICs provide a periodic non-chargeable credit report to the student loanees?

15. **Speedier and transparent dispute resolution mechanism:** Good customer service through speedier and transparent dispute resolution mechanism has been the thrust of the Reserve Bank. Of late, we have been receiving many disputes from consumers related to their credit information reports. I would urge CIBIL and other CICs to invest in processes and technologies for speedier resolution of customer disputes. Another aspect about these disputes actually relates to the banks. These disputes are related to non-updation of data and/ or incorrect submission of data by member banks. In many of these cases, the CIC has not been able to receive timely response from the banks even after following up regularly. This causes significant delay in redressing the customers' disputes. Therefore, I would remind the credit institutions to put in place a proper system for consumer complaint redressal at their end as well.

16. **Reporting of data on corporates including MSME borrowers:** While the CICs have a rich database in respect of consumer segment i.e. retail borrowers, they have largely neglected the corporates including MSME borrowers. I have already stated that vide our guidelines dated June 27, 2014 we had advised the CICs to collect and provide credit data in respect of this segment but the process has been rather tardy in this regard. However, I am happy to learn that CIBIL has made some progress on this count. I believe CIBIL today has 20 million records in respect of corporates. I would urge the various lending institutions to furnish data in respect of their corporate borrowers to the CICs and start utilising the various solutions such as commercial triggers that CICs presently offer to mitigate the risks associated with changes in credit profile in commercial lending.

17. **Bridging asymmetry of information:** MSME units in general, and Micro units among them in particular lack adequate information about credit reporting process and the consequences thereof. It is essential that lending organizations build structured pre-credit counselling sessions to Micro borrowers educating them about the long term consequences of non-repayment & default. Counselling currently is provided only when the account is NPA or near NPA. This has to be done at the time of sanctioning the loan. This may also give the borrower an opportunity to review whether the quantum sought for is in excess of repayment capacity. 90% of the micro units have no access to organized credit. They are dependent on a plethora of diversified last mile sources for their financing. This would involve MFIs, NBFCS, PACs, Money lenders (both registered and un- registered) etc. Can the credit information companies be innovative enough to bring this credit history also into the ambit of credit reporting?

### Further ideas

18. While India has fallen by 2 ranks from 140 in 2014 to 142 in 2015 in the Ease of Doing Business Rank<sup>2</sup> in respect of depth of credit information, it performs quite high scoring 7 out of a total of 8 score. Where we did not score was, in respect of our Retailers / Utilities companies not distributing the data to the CICs.

19. Potential benefits of including electric and telecom data in the database of CICs are:

- (a) Positive data from telecom companies and electric utilities would help in assessing credit worthiness of small and medium borrowers in rural, hilly and tribal areas presently not having access to banking credit and thereby extend penetration of banking in India.
- (b) Alternate data also improves the performance of analytical models that help lenders better predict the "ability to pay", as a means of guarding against consumer over-indebtedness.

---

<sup>2</sup> Doing Business 2015, World Bank

- (c) Globally, Electric Utilities and Telecom companies that report payment records to credit bureaus have evidenced improved consumer payment behavior with regard to their bills.
- (d) Would help in widening and deepening the database of CICs on individuals for the purpose of “Know your customers” verification by financial institutions.

20. FICCI, BCG and IBA in their paper on Digital Banking<sup>3</sup> have inter alia stated that introduction of periodic utility bill payments (electricity, telecom) and periodic insurance premium payments information into information bureau records would increase the bureau coverage from current 20 per cent to almost 70 per cent and would be a major boost to credit eligibility of low ticket borrowers who are largely self-employed or in the unorganised sector. Reserve Bank has introduced positive data sharing in India which allows good repayment behaviour in one product to be of use in predicting behaviour of the consumer in other areas. Telecom / Utilities positive data is hence likely to help support making credit worthiness decisions on the segment of the population that does not have access to banking credit.

21. The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Chairman: Dr. Nachiket Mor) has recommended that Reserve Bank should constitute a Working Group involving the various stake holders such as TRAI, CERC and CICs to develop a framework for sharing of data between telecom companies, electrical utilities, and credit information companies. The underlying acts, rules and regulations governing credit information companies, electric and telecom sectors need to be examined to make suitable legislative and regulatory changes for this purpose. We, in consultation with various stakeholders, are examining the feasibility of incorporating alternative data sources, viz. electric and telecom data of consumers, within the purview of credit information.

22. Another area which requires attention is the need for populating member level data of Self Help Groups (SHGs) and Joint Liability Groups (JLGs) in the database of CICs. Aditya Puri Committee deliberating on this issue considered the practical problems faced by banks in gathering individual borrower level information of SHGs as loans under the SHG Bank Linkage Program was given by the banks directly to the SHGs and not individually to its members. The disbursement of loan funds is done at a member level only within a SHG (by the SHG internally) and the respective quantum / tenors of the same is decided by the group, from time to time. This financial flexibility provided to the group is an inherent feature of the SHG structure. However, the Committee has emphasized that to assess the ability of individual members to repay, it is necessary to consider their prior borrowings, else it might result in their becoming over-indebted and consequent default in repayment of loans. It therefore recommended that banks may be required within a reasonable period of, say, eighteen months, to arrange for capturing the required data from SHGs for reporting to CICs.

23. The present regulatory framework only mandates NBFC-MFIs to share their clients' data with CICs. NGO-MFIs which include section 25 companies, societies, trusts, etc. play a significant role in the micro finance sector, however they are not yet mandated to share their data with credit bureaus, though some NGO-MFIs are voluntarily participating. Some study shows sizable overlaps between SHG Bank linkage and MFI clients. This indicates the severity of over-indebtedness / ghost borrowing, asymmetric information, moral hazard, etc.

24. Another prospective area where credit information can help is in respect of those companies that supply vehicles and equipment on operating lease to users (lessees) on payment of a periodical rent by them. The lessee in case of a vehicle lease has to pay a fixed monthly cost and can use the vehicle for a defined period and mileage and has to return the vehicle to the company at the end of the contract. Since the company providing such a

---

<sup>3</sup> Digital Banking – Opportunity for extraordinary gains in reach, service and productivity in the next 5 years, September 2014.

facility to its clients takes a credit risk on them at the time of entering into such a contract till the time the lease is in vogue, it needs to assess the credit worthiness of the lessee. Presently such vehicle leasing companies are not being regulated by RBI or a financial regulator in India. We would examine whether such leasing companies can be specified under the Credit Information Regulations, 2006 for the purpose of obtaining and providing credit information from / to the CIC.

25. To conclude, let me say that the credit information business has played a significant role in improving credit offtake and management of credit risk by the credit institutions. An enormous responsibility has been cast on the four Credit Information Companies to see that there is qualitative improvement in credit information. RBI would take suitable regulatory and supervisory measures to make the credit information system safe, efficient, reliable and customer-friendly. I once again thank CIBIL for providing me this opportunity to share my thoughts with all of you.

26. Thank you!