

## **Summary of Recommendations**

1. Considering the growth of the financial sector and the need for an effective mechanism for mitigating credit risk by enhancing the quality of credit decisions, the Working Group is of the view that there is an imperative need for establishment of a Credit Information Bureau in India (para. 6.1).

### **Legislative Framework for CIB**

2. As the legal prohibitions on disclosure of information enshrined in the various banking Acts would not permit sharing of information with the Bureau, amendments would be required in the following enactments:

Section 44 of SBI Act, 1955,  
Section 52 of SBI (Subsidiary Banks) Act, 1959 and  
Section 13 of the Banking Companies (Acquisition and Transfer of  
Undertakings) Acts, 1970/80. (para. 6.2)

3. Under the existing legal framework, information can be disclosed in respect of the following:

- (i) suit filed accounts;
- (ii) information on the transactions on which the constituent has given consent to the bank to disclose.

Pending legislative amendments, a beginning may be made for setting up a Credit Information Bureau which can operate initially by pooling the above limited information and the related public domain information which could be shared with the user group of credit institutions. Eventually, the Bureau can become a full fledged world class Bureau when the proposed legal framework is put in place to provide adequate protection to the Credit Information Bureau and the credit institutions as well. (para.6.3)

4. To make the Bureau an effective machinery for mitigating the credit risks involved in lending, it should be a repository of both positive and negative information. The Group feels that for this purpose, a master legislation should be enacted for facilitating collection and sharing of information by the proposed Bureau, which would take care of the need for making amendments to the various banking Acts. (para 6.4)

### **Ownership**

5. The Group notes that the central banks in some of the countries have taken a lead in establishing Credit Information Bureaus. The Group is of the view that in spite of the provisions contained in Chapter III A of the RBI Act, 1934 to collect credit information from banking companies and furnish such information to any banking company, it would not be desirable to establish Credit Information Bureau within the Reserve Bank since the Bureau will be required to collect credit information not only from the banking system but also from other sources such as Courts, Registrar of Companies, etc. (para. 6.6)

6. If the Bureau is set up as a separate company by the Reserve Bank, either as wholly owned or jointly with other bank/institutions, the Bureau will not get the protection available to it under Chapter III A of the RBI Act. (para. 6.6)

7. The Group is of the view that the role of the Reserve Bank should be that of a facilitator for putting in place an appropriate legal and regulatory framework. The initiative taken by some of the leading public sector banks like SBI and institutions like DFHI and IBA, which is also examining the legal permissibility to set up a Bureau, should be given a fair trial. (para 6.6)

8. The Group is of the view that the legislation enacted for the purpose could provide for establishing more than one Bureau to cater to the needs of different market segments and the large coverage of geographical area of the country. (para 6.6)

9. The Group suggests that the Credit Information Bureau may be set up as a company, under the Companies Act, 1956 or as a subsidiary company (para.6.6)

10. The equity participants in the Bureau should be the main user groups, viz., commercial banks, FIs and the NBFCs, registered with the Reserve Bank. For setting up of the first Credit Information Bureau in the country and ensuring faster operationalisation of the Bureau, one of the major public sector banks or an institution like DFHI or a term lending institution may take up a major share in the share capital of the Bureau and the balance could be shared by other banks, FIs, NBFCs and the technology partner. This will ensure that the major shareholding entity will provide the initial impetus needed to push the venture forward and will also ensure that it remains accountable for setting up of the Bureau within a definite time frame. Later on, when the Bureau becomes viable, the majority stake can be diluted by public offer or distributed among the shareholders in an agreed manner. (para. 6.7)

11. Entities like telecommunication companies and other credit providers who are neither banks nor FIs could later be included in the user groups of the Bureau but may not be permitted to take up its equity share capital. (para. 6.8)

### **Foreign Technology Partner**

12. The Group is of the view that a foreign technology partner may be included as a collaborator, to benefit from the expertise available with multinational bureaus and/or an equity participant to ensure enhanced commitment, efficiency of operations and upgradation of technology in the Bureau. (para. 6.9)

13. On account of the sensitive nature of credit information, the multinational partner should be permitted to have minority shareholding in the Bureau. Accordingly, it is suggested that a ceiling of 20 per cent of the total equity of the Bureau could be considered for equity participation by foreign technology providers. (para. 6.9)

### **Start up Capital of the Bureau**

14. The Group feels that the Bureau should have state-of-the-art technology and if it is to be set up as a world class Bureau with positive and negative information, a start up capital of a minimum of Rs.50 crore with an authorised capital of Rs.100 crore would be required. (para. 6.10)

## **Collection and Sharing of Credit Information by the Bureau**

**15.** The Group is of the view that the Bureau should collect information relating to credit, trade and financial information including external borrowing -- both negative and positive. The negative information collected may include non-performing advances including suit-filed accounts, references to BIFR, DRTs, suspected frauds, compromise settlements entered into by banks/FIs, etc. The positive information may include all credit facilities which should include not only fund based facilities but also non-fund based facilities like guarantees, stand-by facilities, acceptances, letter of credit, etc. The trade information should include details of suppliers' credit, deferred payments, instalment credits, etc., while financial information should include information on inter-corporate deposits, inter-corporate investments, borrowings from NBFCs, foreign exchange liability, etc. (para.6.11)

**16.** The Group feels that the Bureau may initially collect information from those branches which have already been computerised. As and when more branches of banks are computerised, these can be brought within the ambit of the Bureau. During the transition period, the data in respect of major non-computerised branches could be consolidated at the nodal branches and transmitted to the Bureau on magnetic media. (para.6.12)

**17.** The Group is of the view that the Bureau should collect and share credit information on both corporate and consumer/retail segments. There is, however, a pressing need to have credit information on the retail consumer, such as credit facilities availed of from banks, NBFCs, etc., credit cards held, indebtedness to housing finance companies, mobile phone companies, etc., and the Bureau should, therefore, have two Divisions, one for corporate credit information and the other for consumer credit information, with clear demarcation between the two Divisions. (para.6.13)

## **Sources of Information**

**18.** Ideally, the Bureau should have information collected from both its user groups and from the public domain. Information relating to the informal trade sector and inter corporate deposits would have to be collected from market sources. For this purpose, the Bureau should have an effective market intelligence division with responsibility to track financial information as also validation of information. Initially, the Bureau should collect information from the member banks, FIs and NBFCs, and subsequently enlarge its data base by collecting information on bankruptcy, court judgements, references to DRTs and BIFR, agreements registered with the Registrar of Companies, Stock Exchanges, etc., and from market sources. Information from the market sources is important since information on defaults in ICDs and other corporate investments would not be available from any other source. (para.6.14)

**19.** The information should be shared by the Bureau only among its members. The Bureau and its members should evolve a code of conduct for protection of data and also to regulate the use of the data. (para. 6.15)

### **Cut-off Limit for Collection of Information**

20. Considering the large number of borrowal accounts in the portfolio of banks, financial institutions and NBFCs, and in line with international best practices, the Group feels that the Credit Information Bureau may collect credit information from institutions above a cut-off limit. It may collect credit information relating to borrowers/potential borrowers belonging to trade and industry, above the cut-off limit of Rs.10 lakh. As regards the retail customer, one view expressed was that the Bureau may collect, to start with, credit information on those retail customers of Rs. 1 lakh and above which could be brought down in stages to Rs. 50,000/-. The Group is of the view that the Bureau may decide the limits in such a manner that it meets the twin objective of bringing the maximum number of borrowers under the Bureau, and the capacity of the Bureau to collect and disseminate information on this large segment. (para. 6.16)

### **Updation/Review of Information**

21. The Group recommends that the data base with the Bureau should be updated/reviewed at least every month, if not earlier, by calling for updates/reviews from credit institutions. The Bureau should also be on the look out for material information on borrowers from the public domain which may adversely affect the credit profile of the borrower. (para. 6.17)

### **Technology Aspects**

22. The Bureau should function with the state-of-the-art information technology solutions. The software needed for the Bureau should be capable of creating and maintaining a credible, reliable and efficient database. It should guarantee integrity of data with adequate features for validation and security. The Bureau should use sophisticated software for file selection, merger and search. The technology partner should preferably be one of the reputed international bureaus, which is well experienced in using the information and communication technology in the business of credit information collection and dissemination. The central server of the Bureau may be situated in Mumbai or such other convenient location in India. Operational connectivity could be established through a Wide Area Network (WAN) with other financial centres of the country. (para.6.18)

23. The Group recommends use of INFINET network for transmission of data from registered users of the Bureau located in different cities to the main server at Mumbai and data retrieval in the form of credit reports from the main server by different users across the country. To the extent possible, multiple branches of a bank may be connected to the branch with VSAT through leased lines within a city. Banks may also consider sharing of VSATs by allowing branches of other banks to get connected to their VSATs through leased line links within a city. As and when PSTN link is made available, dial up connection to VSAT can be used. Thus viewed, the usage of VSAT backbone needs to be resorted to only for the inter-city/inter-region/inter-zone traffic. The Group recommends use of the above scheme for transmission of data to the nodal branch for onward transmission to the main server of Credit Information Bureau.(para 6.19)

### **Security of Data**

**24.** The Bureau should build up effective systems to ensure the security of data maintained by it. Standards and specifications are required to ensure security of data interchanged between open systems. The Group recommends that the Bureau should adhere to the Security Standards provided by the Committee on Technology Upgradation in the Banking Sector, for financial applications prescribed by various institutions like Bureau of Indian Standards, International Standardisation Organisation and American National Standards Institute. (para 6.20)

### **Validation of Data**

**25.** The Bureau should restrict access to its data base to institutions accredited by it and evolve an appropriate code for access. The Bureau should have a suitable system to cross check the data collected, particularly in respect of retail customers. The identification could be done by reference to an acceptable benchmark like PAN given by Income Tax Authorities or Voter Identity or Passport or any other acceptable identity. (para.6.21)

### **Management of the Bureau**

**26.** The Bureau has to be a technology-driven and professionally managed company. As manual intervention would be kept to the minimum in the organisation, the Bureau should be a lean and trim outfit. A strong market research group could be organised in the initial or second stage of its operation, which will collect information on the industry profiles, major economic trends, market information including the business/investment plans of individual corporates, etc. A highly selective recruitment process should be put in place by the Bureau to employ only those with the requisite qualifications. The training requirements of the staff could be met by the foreign collaborator. (para.6.22)

### **Viability of the Bureau**

**27.** The fees and charges levied by the Bureau in the initial stages of its operation need to be higher, which could be brought down over a period of time when the Bureau expands its user base as also its information base. In the long run, the cost of such enquiries should be reasonable. (para.6.23)

**28.** As the Credit Information Bureau is a commercial organisation the institutions sponsoring the Bureau should not be required to subsidise its operations. (para. 6.24)

### **The Format for Supply of Information**

**29.** The Bureau should inherit the best international practices with regard to collection of information, processing of data and sharing of information. (para.6.25)

### **Agreements with User Group**

**30.** With a view to preserving the credibility of the data collected, the Bureau should enter into agreements with member banks and other member institutions to provide for sharing of bonafide information with the Bureau, the purposes for which the information collected will be used as also for updating the information at periodical intervals. (para.6.26)

### **Redressal of Grievances**

**31.** It would be necessary to provide for redressal of grievances of the customer. Similarly, the liability of the Bureau on account of misuse of data needs to be addressed. Appropriate safeguards have, therefore, been incorporated in the Draft Bill suggested by the Group. (para. 6.27)

### **Regulation of Credit Information Bureau**

**32.** As credit information is a vital input for taking lending decision by credit institutions, an appropriate regulatory framework for Credit Information Bureaus is necessary. The legislation to be brought in for regulation and functioning of Credit Information Bureaus in India should also include appropriate provisions in relation to data protection, privacy principles, redressal of grievances and the powers of the Regulatory Authority who would administer the provisions of the Act. ( para 6.28)

**33.** The user group of the Bureau would be mainly credit institutions which are under the regulation/supervision of the Reserve Bank of India. The Group is, therefore, of the view that since the Bureaus will be collecting credit information from the institutions which are already under the regulation of RBI, it would be a logical step if regulatory oversight of the Bureaus is also vested with the RBI. ( para 6.28)