

Chapter I: Introduction

Importance of Credit Information

1.1 Availability of adequate and reliable information on the prospective borrower is vital for taking decisions in relation to sanctioning of credit. In the case of lending by banks, the basis for the credit decision is the information furnished by borrowers; for a corporate customer, availability of audited balance sheet, income and expenditure and other audited financial statements bestow certain amount of authenticity to the information furnished, which facilitate an objective and commercial decision with regard to sanctioning of credit facilities. In the case of retail customers such as, small retail traders, individuals, professionals, etc. the information available are often inadequate and may be difficult to validate, save for certain documents such as, salary certificates, income tax returns, etc. These data have, however, well defined shortcomings.

1.2 Absence of reliable information on the existing as also the prospective borrowers has often been cited as one of the major causes for financial crises. With the financial sector becoming more complex and with the blurring of distinction between various financial intermediaries, the need for adequate, full and reliable information has been felt by credit institutions. The desirability of setting up of an institution which will provide adequate and reliable information to the credit institutions has been recognised by many expert committees. The Banking Commission (1972) under the Chairmanship of Shri R.G.Saraiya, recommended setting up of a Credit Intelligence Bureau as a statutory body which would furnish adequate and reliable credit information to banks and other financial institutions.

1.3 Chapter III A of the Reserve Bank of India Act, 1934, empowers the Reserve Bank to collect, in such manner as it may think fit, credit information from banking companies and furnish such information to any banking company in accordance with the provisions of Section 45 D of the Act. Section 45 D provides that a banking company may make an application to the Reserve Bank of India in such form as the Bank may specify, requesting it to furnish the applicant with such credit information and on receipt of an application, furnish the applicant with such credit information relating to the matters specified in the application, as may be in its possession, provided that the information so furnished shall not disclose the names of the banking companies which had submitted the information to the RBI.

1.4 Credit Information Scheme thus evolved by the Bank in 1962 was discontinued in 1995 for the following reasons:

- ❑ Inordinate delay in submission of the information by banks;
- ❑ The information furnished by the banks was often outdated and incomplete;
- ❑ The demand for such information from banks was very insignificant.

The RBI has subsequently evolved schemes to collect details of borrowers of banks and financial institutions with outstanding aggregating Rs.1 crore and above, which are classified as 'doubtful' or 'loss', as on 31st March and 30th September every year, for circulation among banks and financial institutions. The RBI also publishes a list of borrowers (with outstanding aggregating

Rs.1 crore and above) against whom suits have been filed by banks/financial institutions as on 31st March every year. The Bank has also evolved a scheme of circulating all cases of 'wilful' defaulters of Rs.25 lakh and above with effect from April 1, 1999. These information are negative in nature and pertain only to non-performing advances. While these information would no doubt be of use for taking decisions in regard to sanctioning of fresh loans by banks and financial institutions, it needs to be recognised that what is of importance, is the availability of positive data on borrowers.

1.5 Presently, there is no institutional mechanism for sharing of information between banks and financial institutions. The bankers' opinion sought by the intending lending bank, is often found to be inadequate and does not facilitate making a commercial judgement on the prospective borrower. Furthermore, such sharing of information is practically non-existent in the case of consumer loans or borrowers falling under the category of small traders, professionals, etc.

1.6 Recognising the need for putting in place an institutional mechanism for collecting and furnishing on request, information on both the existing and prospective borrowers of banks and other institutions which will go a long way in arresting the growth of non-performing advances of banks and financial institutions, the Reserve Bank of India constituted a Working Group to examine the possibilities of setting up of a Credit Information Bureau in India. The composition of the Working Group and its terms of reference are given in Annexure I.

The Methodology

1.7 The Group had six sittings and deliberated upon the various issues involved. The modalities for setting up a Credit Information Bureau, needs to be looked into in detail, taking into account the experiences of other countries. Many of the countries where Credit Information Bureaus are functioning, had enacted special statutes for the establishment and operations of Credit Information Bureaus. Therefore, the Group collected materials extensively from the Credit Bureaus operating in other countries.

1.8 The terms of reference of the Working Group being technical in nature, sub-groups were formed to examine in depth, each of the specific terms of reference assigned to the Working Group. The details of the Sub-Groups thus formed are indicated in Annexure II.

1.9 The Credit Information Bureau proposed to be set up, should cover over a period of time, institutions like Primary Co-operative Banks, and also look at the exposure of the corporate borrowers in the forex market. Accordingly, representatives from the Exchange Control Department and the Urban Banks Department were invited during the deliberations of the Working Group. Further, representatives from credit rating agencies like CARE and ICRA were also invited. The list of invitees to the deliberations of the Working Group is given in Annexure III.

1.10 The Group held extensive discussions with the Chairman, Indian Banks' Association and CMDs of a few public sector banks. The Group also had the benefit of views of Shri M.S.Verma, Hon. Adviser to RBI, and Shri G.P. Gupta, Chairman, IDBI.

1.11 Presentations were made for the benefit of the Working Group by inter-national information bureaus on their experiences of setting up of Credit Information Bureaus in other countries. The presentations were made by the following International Bureaus:

- ❑ M/s. Dun and Bradstreet Information Services India Pvt., Ltd.,
- ❑ M/s. Equifax Venture Infotek,
- ❑ M/s. Experian.
- ❑ M/s. London Bridge Software (ASPAC) Pte.,Ltd

The efforts already made in setting up of an information bureau in the country were shared by M/s.HDFC Ltd. M/s. Satyam Computer Services Ltd., also made presentation to the Group on the credit information services provided by it. The list of Information Bureaus which made presentations to the Group along with their representatives is given in Annexure IV.

Acknowledgement

The Group would like to express its gratitude to the valuable suggestions and guidance received by it from Deputy Governors (Shri S.P.Talwar and Dr. Y. V. Reddy). The Group is indebted to the valuable guidance and suggestions received from Dr.A.Vasudevan, Executive Director, Shri Khizer Ahmed, Executive Director and Shri A. Ghosh, CGM-in-Charge, DBOD. The Group expresses its gratitude to Shri M.S.Verma, Hon.Adviser to RBI, Shri G.P.Gupta, Chairman, IDBI, Shri A.T.Panner Selvam, Chairman and Managing Director, Union Bank of India, Shri Rashid Jilani, CMD, Punjab National Bank, Shri P.N.Venkatachalam, Dy.Managing Director, SBI, Shri T.S.Raghavan, CMD, Indian Bank, Shri Harbhajan Singh, CMD, Allahabad Bank, Shri Sharda Singh, CMD, UCO Bank, who have spared their valuable time to discuss the various issues relating to setting up of a Credit Information Bureau. No less important was the insight provided by the presentations made by the international Information Bureaus and the Group expresses its gratitude to Mr. Joachim Bartels, Senior Vice President, Dun & Bradstreet, USA, Mr.Larry K.Howell, President, Asia/Pacific Business Development, Trans Union, USA, Mr.John Hadlow, Senior Business Development Executive, Experian, U.K., Mr. Ariff Sultan, London Bridge Software (ASPAC) Pte.,Ltd., Singapore, Shri Satish Mehta, HDFC Ltd., and Shri N.Vasudevan, Vice President, Satyam Computer Services Ltd., Chennai for coming over to Mumbai for making the presentations and for sharing with the Group their experiences in setting up of Credit Information Bureaus in other parts of the world.

The Group would like to place on record its deep sense of appreciation for the assistance provided by Shri M.P.Kothari, Member-Secretary and the Secretariat team comprising S/Shri Arnab Roy and S.P.Padgaonkar, Deputy General Managers and S/Shri Kishore Pariyar, R.V.Sangvai and Dr.T.K.Karthykeyan, Managers, who have provided able and valuable support. It would not have been possible to complete the assignment within the time frame assigned but for the dedication of the Secretariat team. Shri P.R.Parameswaran did most of the typing and the Group would also like to express its appreciation of the services rendered by him.