

Chapter 2: Role of Credit Information Bureau

Functions of the Bureau

2.1 Banks and lending institutions have a traditional resistance, because of the confidential nature of banker–customer relationship, to share credit information on the client, not only with each other, but also across sectors. Specialised institutions known as Credit Information Bureaus (CIB) (also known as credit referencing agencies or credit intelligence firms or credit reporting agencies) have therefore, been set up to function as a repository of credit information – both current and historical data on existing and potential borrowers. These institutions maintain data base of credit information – both positive and negative - on the borrower which can be accessed by the intending lending institution.

2.2 The Credit Information Bureau provides a platform for sustainable growth of the Financial Services Sector, helps in Fraud and Loss Prevention and enables the member institutions to achieve higher accuracy in risk prediction. It also facilitates faster decision making in regard to sanction of credit. A credit bureau not only collects but also processes and stores credit information both on the existing borrowers and the potential borrowers with a view to furnishing the information, on request, to the lending institutions which are its members. **The Bureau does not collect information on deposit accounts, current account, chequing account, etc. of the borrower. It collects only credit information from its member banks/institutions.** The Credit Information Bureau of Sri Lanka Act, 1990 (as amended by the Credit Information Bureau of Sri Lanka (Amendment) Act of 1995) elucidates comprehensively the core functions of the Bureau as -

- “(a) to maintain a data bank on borrowers from lending institutions;*
- (b) to collect and collate, trade, credit and financial information on borrowers and prospective borrowers of lending institutions;*
- (c) to store the information so collected;*
- (d) to furnish credit information on request –*
 - (i) in confidence to shareholders of the Bureau;*
 - (ii) by a shareholder of the Bureau, to a borrower or prospective borrower to whom such information relates, subject to such terms and conditions as may be determined by the Bureau, and to prescribe the forms in which such information is to be furnished”;*

A credit bureau is thus a facilitator for credit dispensation and helps mitigate the credit risk involved in lending. It creates a formal credit referral system, which is highly reliable and at the same time, easily accessible to the eligible user group.

Types of Bureaus

2.3 There are three types of Credit Information Bureaus – Basic Credit Bureaus, which collect **past due** or negative information from credit grantors and negative public record data, and disseminate such information to any authorised party who has requested an “enquiry”.

- (1) Basic Credit Bureaus, collecting both ‘past due’ (negative) and ‘non-past-due’ (positive) data.
- (2) World Class Bureaus, which collect both positive and negative data and also provide a mixture of credit products aimed at minimising risks/frauds. They have highly

sophisticated file selection and merge software. These Bureaus are credit consultants to banks for risk control and prediction scoring, and for developing fraud prevention products.

Sources of information for the Bureau

2.4 The Bureau maintains credit information collected from three major sources as under:

- (i) Public domain data (Court judgements, records of the Registrar, published information on firms, corporates, etc.)
- (ii) Negative listing (where credit granters list defaulting payers)
- (iii) Closed user groups where subscribing credit institutions provide full details of their client's payment profile at periodical intervals (i.e., positive and negative data).

Positive & negative data

2.5 The sources of data for a Credit Bureau can be classified into financial sector data and external data. Financial sector data includes data culled from loan applications, loan performance data and data on external obligations. External data is the information culled from public records such as court data, registration data, proprietary information, information on management, ownership/control, corporate structure, trade/market information, information on claims lodged, information obtained through investigations, etc. The information so collected can be either negative or positive. **Negative** financial data includes adverse information on the borrower such as delinquencies, defaults, penalties, frauds or bankruptcies. Adverse public record data would find its way to the negative credit file. **Positive** financial data includes historical record of facilities availed and good and satisfactory performance of loan repayment. Positive data would also include favourable information in the public domain or external data. It is important to note that **the information collected from data sources is in the nature of facts and not opinions.**

Coverage of information

2.6 The coverage of information on corporates collected /furnished by Bureaus are usually in the following format:

- a) Name of the company,
- b) Name/Father's name/Husband's name and address of the Directors,
- c) Name/Father's name/Husband's name and address of the guarantors,
- d) Facilities availed,
- e) Limits sanctioned,
- f) Outstandings in the accounts,
- g) Cumulative disbursements during the reporting period,
- h) Cumulative recoveries during the reporting period,
- i) Purpose of advance,
- j) Details of security offered,
- k) Classification status (unclassified/substandard/doubtful/loss),
- l) Date on which suit has been filed if it is a suit filed account,
- m) Details of Group to which the company belongs to,
- n) Data on the above lines, if associate concerns bank with the reporting bank.

2.7 The format of a consumer credit report furnished by other Credit Information Bureaus usually contains the following information :

- (i) Name of the user bank,
 - (ii) Control number and user reference number,
 - (iii) Name of the consumer,
 - (iv) Date of birth of the consumer,
 - (v) Identification information of the consumer such as, driving licence number, tax identification number, passport number, telephone number, etc.
 - (vi) Residential address/es of the consumer,
 - (vii) Accounts information on the consumer (names of member banks from whom credit facilities have been obtained, account number, date of reporting by the member bank, date of opening of account, limit sanctioned, outstanding balance, late payment history etc.),
- [viii] Names of other banks who have made similar enquiries with the Bureau.

Validation of information

2.8 In order to ensure the accuracy of information collected, the Bureaus perform a variety of quality checks on the data. Data collected from the public records are cross-checked for inconsistencies or errors. The tapes containing data received from credit institutions themselves are checked for quality. In case of inconsistency of data, clarification is sought from the source of information itself. The credit information when it is first submitted, is subjected to series of data integrity tests to seek out errors/inconsistencies. Checks are done to see that the status codes are applied correctly, names/addresses are accurate and consistent.

Infrastructure of the Bureau

2.9 The infrastructure of a Credit Information Bureau consists of credit grantors, a data pool, and a user group, with technological requirements for automatic and manual collection and distribution of data either in the batch mode, on-line or CPU-to-CPU. The technological platform of a Bureau consists of a Central Database server where all the inputs from all local/zonal servers are processed, Wide Area Network (WAN) consisting of a central Hub, local/zonal nodes communicating either through VSAT, leased lines or PSTN (Public Switched Telephone Network) link, and firewall servers, etc. for security. Access to local/zonal servers could be through dial up modem connections or leased lines and router. Appropriate application software forms an essential part of the technological platform.

A Flow Chart indicating flow of data from credit institutions to the Bureau and retrieval of processed information from the Bureau to the user institution is given below:

The Principle of Reciprocity

2.10 A World Class Bureau operates on the principle that the data is owned by the subscribers and sharing of information is done on the principle of reciprocity. The Principles of Reciprocity are a set of rules governing the sharing of credit performance and related data between the credit information bureau and its user group. These principles regulate the sharing of data and promote the usage of data for specified purposes. The general principle of reciprocity observed by the Bureaus is that subscribers of credit performance data are allowed access to the data to the same level of data that they contribute. In other words, institutions which furnish only negative data,

receive from the Bureau, negative data only. Institutions which furnish positive and negative information receive from the Bureau, both positive and negative information. This acts as an incentive to the members to provide full and complete information to the Bureau. Since information is valuable, Bureaus have established a **Code of Conduct**, generally on the following lines:

- (i) Information is shared on the Principle of Reciprocity;
- (ii) Based on this principle, subscribers have the right to determine the way in which their data (positive, delinquent, default and search) is used;
- (iii) Data is shared for the prevention of over-commitment, bad debt, fraud and money-laundering, and to support debt recovery and debtor tracing;
- (iv) Data provided for sharing purposes must meet legal, regulatory and voluntary code of practice requirements;
- (v) The shared data is not to be used beyond or within a group of subscribers outside the scope of the principles;
- (vi) Access for all shared data is restricted or suspended for non-complying subscribers;
- (vii) If the quality of data provided by a subscriber proves unsatisfactory, or if the subscribers fail to provide data, then access to the shared data bases may be withdrawn. Appropriate and timely action should be taken to correct inaccurate or misleading data.

2.11 The operations of a Credit Information Bureau are fully automated. The members of the Bureau provide information either on-line or through magnetic tapes. The computer system of the bureau posts each reported account (including periodical updates thereto) to the respective file in its master data base. Credit reports are obtained by members from the Bureau via computer-to-computer connection either by PCs connected to the credit bureau through network, or off-line in larger batches via magnetic tapes. Manual operations (data collection or retrieval) are done only in exceptional cases. Raw data is processed by a Bureau and converted into 'knowledge'. In some bureaus, data pooling or matching is done for establishing linkages in the data pool. Some of the Bureaus have done this by means of a unique identification number allotted to each borrower under what is known as Data Universal Numbering System (DUNS). Powerful data bases such as CAPS (Credit Application Previous Searches) have been developed by some of the Bureaus which provides a 'footprint' of who has made a search, and enables a credit provider to know who is 'shopping' for credit.

2.12 After effective and accurate data retrieval and matching, a report is sent to the subscriber in both summarised and detailed format. A world class bureau is user friendly, with easy connectivity and easy-to-understand presentation of input and display information. It provides for both simple and complex enquiries.

2.13 The country experiences of setting up of CIBs - the ownership pattern, the functions, legal provisions, the support from the central banks, etc., are given in Annexure V.