PRIORITIES IN CREDIT INFORMATION REGULATION & APPLICATION IN BANK SUPERVISION

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BANQUE CENTRALE DES ETATS
DE L'AFRIQUE DE L'OUEST

Great Promise

Value for Banks

Value for Supervisors

Risks

Priorities

Promise:
Credit Information Sharing = Oil for Financial System

1. **Credit growth ⇨ financial inclusion ⇨ economic growth ⇨ employment creation**

2. **Better bank credit quality ⇨ Better bank credit risk management ⇨ Lower risk of bank failure**

   (a) **Improve bank / NBFI loan approval + credit risk management**

   (b) Limit over-indebtedness

3. **Valuable tool for supervisors**

   (a) Information source for bank monitoring, for detection of high risk banks

   (b) Financial Stability: Statistics to monitor credit market ⇨ growth, trends, risk, bubbles

   (c) **BANK SUPERVISION = REDUCE RISK OF BANK FAILURE, WARNING OF HIGH RISK BANKS**

OBJECTIVE:
MATURE CREDIT INFORMATION MARKET

Suppliers of Credit Information

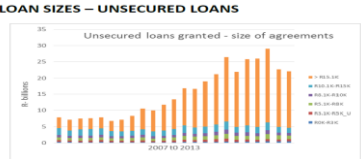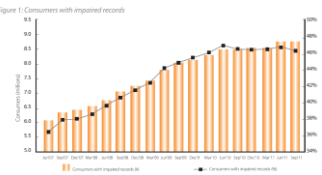| Banks	MFIs Retailers Other debts & defaults	Judgements	Public Registers ID Register Deeds, Vehicles Fraud database	Utilities, Telcos,

Individual Credit Report

Payment behaviour over time

Figure 1: Consumers with impaired records

LOAN SIZES – UNSECURED LOANS

Unsecured loans granted - size of agreements

- ❖ **Client identification (KYC)**
- ❖ **Repayment history**
- ❖ **Probability of default**
- ❖ **Portfolio risk management**
- ❖ **Early warning signals**
- ❖ **Market monitoring**

- ❖ **Credit Institutions**
  = improve client selection & risk management

- ❖ **Regulators**
  = monitor market + support supervision

Impact of Credit Reporting in leading Credit Markets

CHINA: *Increased consumer credit + MSME Credit + Investments; GDP Growth; Job Creation*

19 mil companies / 839 mil individuals = USD 10 trillion credit

USA: *Credit files on 200 million consumers, 113 million credit agreements originated, 36 billion updates to consumer files per year, 3 billion reports issue. USD 3.8 trillion consumer credit outstanding*

South Africa: *USD128bn Retail Credit market (50 mil population); Market monitoring; reckless lending rules.*

100 mil enquiries per month, on 83 mil agreements

Kenya: *3 x Credit Bureaus; Rapid credit expansion, including digital, rural & SME*
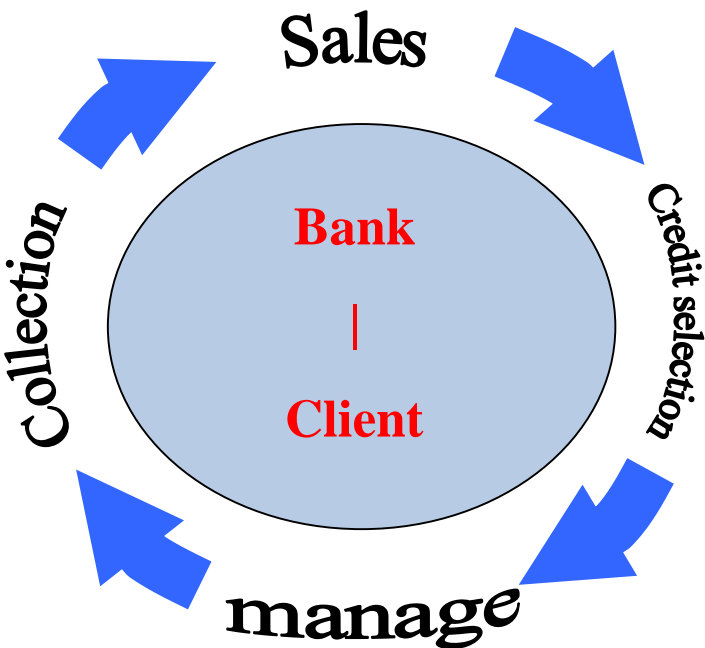
298,000 enquiries per month

Morocco: *Progressing from 1 to multi-bureau system in competitive structure ... supporting one of the most advanced credit markets in Africa*

The Impact of the **Credit Reporting System** in China — WORLD BANK GROUP

$39.5 Billion — Increase in consumption loans (avg. per year)

4.3% — CRS contributed to GDP growth in 2012

Loan approval time decreased

$175 Billion — In additional loans for MSMEs (2011-2012)

Economy

$74 Billion — In investment in 2011-2012

1.4 Million — New jobs created in 2012 alone

Default rate on loans decreased

Impact of the Credit Reporting System

Financial System

Additional 40% — Individuals & companies added to the system (2008-2012)

$22 Billion — In loans for vulnerable groups like farmers & students (2009-2012)

Society

Better financial awareness and transparency

Civil service recruitment checks

*Amounts in US Dollars.

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This infographic is based on an impact study conducted by the Tsinghua University, China. The study was supervised by the People's Bank of China with inputs from the IFC. The data is as of 2012-2013.
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Value for Banks & NBFIs
in client selection, credit approval & risk management

- KYC + Fraud detection

- Pre-scoring, targeting, early rejection

- Portfolio risk monitoring

- Risk management support

- Customized Scorecards for banks and FIs

- Client risk notification – early warning

- Training + risk management products for banks

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Value of credit information in prudential regulation of banks, oversight over non-banks

❑ **Improve risk management in banks**

❑ **Market monitoring (off-site)**
- Identify high risk banks / MFIs
  - Not doing enquires ~ reckless or relationship lending?
  - Trends in bank credit risk profile
- Identify risk of debt bubbles and asset bubbles
- Identify segments of the market with increasing risk

❑ **On-site inspections**
- Identify compliance issues to assess in on-site inspections
- Identify areas of risk to assess in on-site inspections
- Utilise credit bureau reports in loan portfolio reviews
- Benchmarks for specific and general provisions

❑ **Sensitivity analysis & stress testing**
- Sensitivity of loan portfolio to external shocks, variances in key risk indicators
- *(require special credit bureau reporting)*

❑ **Reporting to Financial Stability Committee**
- Trends in aggregate credit market indicators
- ***Early warning signals for bank risk and for systemic risk***

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BUT: Challenges

Based on International experience, common challenges in nearly all markets:

- ❑ Low level of data submission by banks and NBFIs
- ❑ Low quality data submission = data incomplete and inaccurate
- ❑ Low level and selective credit bureau enquiries in loan approval
- ❑ Limited application of credit bureau data in portfolio risk management or in early warning indicators
- ❑ Low priority for supervisors, either in enforcement or in own utilisation of credit bureau data in bank supervision

RESULT: Despite the huge potential, the benefits of credit information sharing in very often not realised

Regulation & Compliance

1 – Leading banks and MFIs must
- implement specific policies and procedures for credit information
- invest in new technology and develop staff capacity and training
- BUT – this will create risk for slow / traditional institutions, which must be monitored.

2 – Bank supervisors must
- include credit information in on-site supervision and loan portfolio review = adjust bank risk ratings
- evaluate compliance, policies, application of credit information
- utilise credit information in monitoring of institutions and market trends

Pro-active action by both regulators and credit institutions are critical in successful adaption of credit information in new markets

Huge opportunities, but also risks

Risks

❑ Slow adoption, weak and incomplete data = low value for data users = reduce commitment from both data suppliers and data users

❑ Unsustainable credit growth, particularly in areas such as payroll based lending, credit cards etc, undetected credit risk and bank failures

❑ Over-indebtedness + high cost of credit = public & political concern = political interventions and prescriptions

❑ Slow adoption by domestic institutions, providing huge advantage ti new entrants that apply advanced technology … eg Kenyan banks entering neighbouring countries

High level of commitment by both institutions and regulators, differentiates successful markets from markets that are unsuccessful in implementing credit information sharing

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