Credit Information Sharing in APEC:
A Roadmap for Transitioning

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Introduction:
Considerations for a Transition

Benefits of positive, comprehensive reporting well established:
• Studies (statistical, simulations)
• Experience (cases)

IFC’s *Credit Bureau Knowledge Guide* provides a vast wealth of information on credit bureaus, policy, and technical considerations.

Missing:
• What to expect in the transition?
• How to prepare for transition?
Lesson 1: Changes in lending patterns, yes, but first the “valley of transition”.

Expected Changes as Monitoring Devices

Wider access & fair distribution are indicators of a better functioning lending system, resulting from information sharing...

...in the long run

Short run may involve potential surprises
Sometimes information sharing is followed by a contraction of credit access, i.e., it “gets worse before it gets better.” Logic:
- When only negative information is shared, overextensions are hard to observe when borrowers utilize multiple lenders to service debt.
- Only negatives reported here means over-indebtedness is NOT observed.

Information sharing shows overextended customers.

Potential consequences:
- Banks reduce lending because of uncertainty about the risk associated with the borrower.
- Banks reduce lending because of the need to cover defaults resulting from withdrawal of credit (can no longer rely on credit to service debt).

The Valley of Transition: Hong Kong and Others

Hong Kong: information sharing a response to rising credit card bankruptcies
- Opened credit bureau with positive information in 2002.
- Info sharing reveals large numbers servicing debt with debt.
- Bankruptcies spiked as lenders became increasingly aware of borrowers using loans to service other loans.
- Two-year recovery time—but lending is now broader, deeper, and more sound.

BUT not seen in Brazil or Russia
- Possibly used awareness to educate lenders
  - Quickly reoriented lending to those NOT overextended
  - Made adjustments to prepare for possibility (reserves, risk-based price)
The Valley of Transition: How to Prepare

Lenders should be prepared for these contingencies

- Near-term credit contraction should not be a “surprise”
- Unhealthy lending results from extending more and more accounts to existing borrowers
- Lenders should consider lending to under-served but low-risk segments of consumers.

Lesson 2: Gradually change most of the time, but not on all dimensions
Gradual v. Rapid apply to at least two dimensions of credit report contents:

- First-- breadth and depth of positive information that is collected.
  - List of positive data fields is extensive (loan amount, outstanding balance, interest rate, type of collateral, value of collateral, loan rating, maturity)
  - Few economies collect all of these fields
  - Inclusion of “timeliness of payment” sufficient to be “full-file”
- Second-- scope of sectors that report to credit bureau
  - Data may not be collected from all types of credit providers (segmented into retail, bank, money lenders--e.g. Japan)
  - Data may not be collected for all credit instruments (in many economies mortgage payment data not collected).

Examples of Gradual v. Rapid

<table>
<thead>
<tr>
<th>Inclusion of Sectors</th>
<th>Gradual</th>
<th>Rapid</th>
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<tbody>
<tr>
<td>I (US, EU, Aus, Brazil, Japan, South Africa)</td>
<td>II (India, Indonesia)</td>
<td></td>
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<tr>
<td>III (Sri Lanka)</td>
<td>IV (Colombia)</td>
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At a practical level, almost all expansion is gradual—larger furnishers in sophisticated sectors come in first—except when reporting is mandated.
Lesson 3: Building Regulatory Framework that Reflects Societal Consensus

The Importance of the Legal & Regulatory Framework

Laws and regulations over procedures:

- What are the rights of data subjects?;
  - Access, notification, dispute resolution, redress
- What information can be collected?;
- What are acceptable uses of information sharing?;
- What are the data security requirements?; and,
- Obligations of credit bureaus, data furnishers, and data users?
  - Data quality, data verification, notification of adverse action, ID theft
The Importance of the Legal & Regulatory Framework

They reflect a societal consensus about the underlying rationale for credit reporting

- Important for stability of system in the eyes of the public at large
- Consensus necessary for future changes in regulations that may arise owing to changes in practices
  - E.g. expansion of reporting to new categories of information, new permissible purposes, or the inclusion of new sectors.

The Importance of Education to Build a Societal Consensus

Education should occur at an institutional level

- Draft legislation should be vetted through the appropriate venues
- Quality and depth of consumer education will impact probability of success of regime change
  - Credit reporting to affect individual behavior
  - Negative-only regimes have poor public perception
  - Data furnishers must be educated to explain how implementation will affect their operations
- Goal of education to provide tools to stakeholders to implement operational changes in order to facilitate smooth transition.
Next Steps

ABAC Action Items:
- Region-wide survey
  - Best practices/Lessons learned
  - Success stories—e.g. How to educate stakeholders?
  - Rankings (which are ready for reform?)
- Data portability analysis
  - Measure potential impact on commerce
- Micro-finance—credit access experiments
  - Financial identity (1 of 6 policy issues)
  - Facilitate experiments within APEC