

Credit Information and Lending Regulation Transparency: Infrastructure Considerations in the Wake of the Financial Crisis

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Financial System Infrastructure: Some Lessons of the Financial Crisis

- **Critical to create incentives to measure risk, lend accordingly, properly allocate liquidity to good credits**
 - **Troubled loans made possible by**
 - Brokers' incentives – "make any sale"
 - Commissions were on sales, not performance,
 - Abuse of securitization and secondary markets
 - Undercut incentive for proper risk assessment
- **Origins of crisis: NOT the use of information BUT the failure to use information; failure to use risk assessment tools**
- **Key to preventing similar crisis, a robust system of credit information sharing, "decision science", strong practices in underwriting, and regulatory transparency/predictability**
- **Linkage Between Consumer and Commercial Sectors**
 - Consumer Credit Effects Retail Sector and Commercial Growth
 - Commercial Credit Critical for Growth, Employment, Consumer Confidence
 - "Holistic" Approach Needed

Building on Brunei: Where We go from Here

■ Second Meeting of Advisory Group on APEC Financial System Capacity-Building – Brunei, 14 May, 2009

- Toward an APEC Framework for Credit Information Sharing
 - Benefits of Full File, Positive Information vs. “Siloed,” Negative-Only Data
 - Complimentary Role of Public Registries and Private Bureaus
 - Link to Financial Sector Inclusion
- Timing Right for APEC Initiative to Promote Regional Standards
 - Legal/Regulatory Framework; Data Privacy Considerations
 - Requirements around data elements, purging, correction of information
 - Permissible purposes: balancing data subject rights and practical use of data
 - Evolving Issues: Tie-in to APEC PATHFINDER initiative on Data Privacy
- Turner Recommendations
 - Development of Common Reporting Standards
 - Capacity Building for Alternative Bureaus
 - Building Business Case for Full Reporting
- **Internalizing Financial Crisis Learnings in APEC Initiative**
 - Design Credit Bureau Architecture to Advance Decision Science
 - “Holistic” Approach to Initiative to Encompass Commercial Credit Risk Assessment and Promote Growth-Oriented Financial System Infrastructure

Information System Capacity Building as a Growth Enabler

- **Private spending must recover in Asia**
 - Fiscal stimulus not to be sustained over longer term
 - Requires improved domestic demand and SME investment
 - Less import demand from US and most parts of Europe
 - Building new savings and consumption balance domestically and regionally
 - Increase household consumption key
 - BUT important to avoid over-lending
 - Credit reporting systems that enable clear measures of credit capacity and repayment risk are key to improving consumer finance and thereby by growth
 - Consumer reporting helps build SME finance given financing interface between proprietor and firm
- **Leveraging the Consumer/Commercial Interface**
 - Credit Information Systems Should bridge Consumer, SME data
 - Allocate Credit to Responsible Consumers for Domestic Consumption, and Credit Worthy Businesses for Enhancing Investment, Employment
 - Assess Complimentary Legal Infrastructure: Secured Lending Rules, Collateral Perfection Systems, Inventory and other Asset-Based Lending for SMEs to Promote Liquidity

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Summary: Issues For Study in Advancing an APEC Architecture

1. Credit Information: Identity verification

- Many economies in region lack national identifying number
- How can consumers be matched
- Examine solutions in other economies that have overcome the problem of identification
- Examine how to best integrate consumer and SME information to create practical and holistic information systems

2. What standards and best practices allow consumers and small businesses to have the credit data be portable

- Enable portability and protect data, and consumer privacy
- Real need in wake of ever increasing labor mobility throughout Asia
- Real need given shallow histories for consumers who move frequently
- Important for skilled educated labor, and semi-skilled, lower income urban segments, as well as entrepreneurs

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Issues For Study in Advancing an APEC Architecture (con't)

3. How can sensitive public data (e.g., wage and income information from unemployment insurance for income verification, etc.) be accessed and used by credit bureaus?

- What models enable the access of this data via credit bureaus for lenders?
- What consumer protections and permission systems are needed?
- Can bureaus also serve as an access line to public databases?
- How can information from suppliers to informal sector be access given consumer concerns regarding tax authorities?
- Issue for financial inclusion, as this data covers large segments of the population

4. Complimentary Commercial Lending Capacity Building

- Facilitation of Commercial Lending, Particularly for SMEs
- Transparent and Accessible Security Registration and Perfection Systems to Incentivize Asset Based Lending to SMEs
- Study of Innovative Financing and Risk Assessment Tools to Enhance Inclusion for smaller and innovative businesses
- Attracting More Diverse Creditors to Expand Options for SMEs

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