

## POLITICAL & ECONOMIC RESEARCH COUNCIL

### Credit Information Sharing in APEC: A Roadmap for Transitioning

by Michael Turner, Ph.D.



Asia-Pacific Credit Coalition

*APEC Business Advisory Committee  
Wellington, New Zealand - February 11, 2009*

### *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”.

3

## *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**

4

## The Valley of Transition

**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 an uncertainty about the risk associated borrower
- *Banks reduce lending* because of the need to cover defaults results 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**

- Bankruptcy filings rose from 893 in 1998 to 4,606 in 2000 to 25,328 in 2002.
- Opened credit bureau with positive information 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.

7

## **Lesson 2: Gradually change most of the time, but not on all dimensions**

8

## Gradual v. Rapid Implementation

### 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).

9

## Gradual v. Rapid Implementation

### Examples of Gradual v. Rapid

		Inclusion of Positive Data	
		Gradual	Rapid
Inclusion of Sectors	Gradual	I (US, EU, Aus, Brazil, Japan, South Africa)	II (India, Indonesia)
	Rapid	III (Sri Lanka)	IV (Colombia)

At a practical level, almost all expansion is gradual—larger furnishers in sophisticated sectors come in first--except when reporting is mandated.

1

10

## 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.

13

## *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.

14

## 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

15

## POLITICAL & ECONOMIC RESEARCH COUNCIL

100 Europa Drive, Suite 403  
Chapel Hill, NC 27517

[www.infopolicy.org](http://www.infopolicy.org)

Phone: +1.919.338.2798



Asia-Pacific Credit Coalition