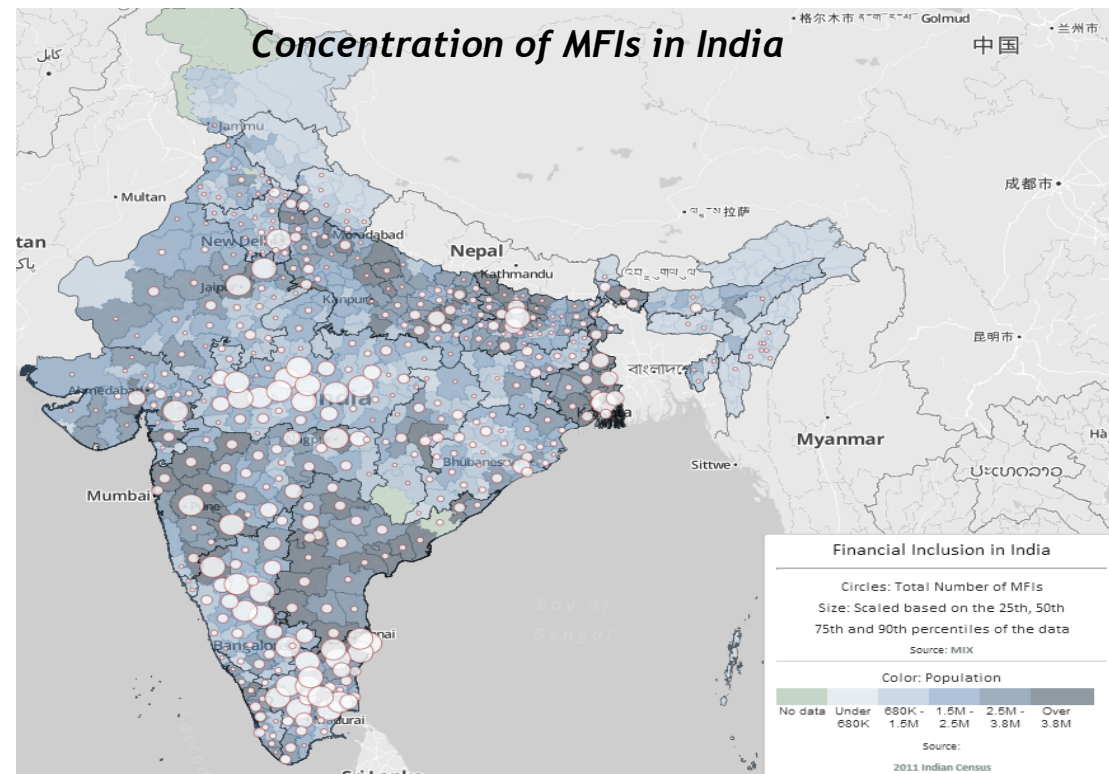


# GOOD CREDIT REPORTING PRACTICES – THE INDIA CASE

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# INDIA MICROFINANCE SNAPSHOT



## INDIAN NBFC-MFIs (as of December 31, 2015)

- *Clients* – 36 million\*
- *GLP* – \$ 8.02 billion\*
- *Average loan amount disbursed* - \$271
- *PAR 90* - <1%

## Borrower Models

Most MF loans extended through Joint liability Group (JLG) or Self-Help Group (SHG) models. JLG and SHG members typically select themselves. If any member(s) defaults, then other group members agree to be liable. SHGs differ from JLGs in that members are not liable to take financial responsibility; some may only save and groups may be linked to loans extended by third party institutions.

## Pricing

- RBI, as regulator of NBFC-MFIs has specified maximum lending rate as lower of the following –
  - ❖ Cost of funds plus 10% for large MFIs and cost for 12% for others
  - ❖ Average base rate of 5 largest banks times 2.75 (around 27%)
- MFIs raise funds through equity and debt. Debt is mostly raised from banks, availed at costs ranging from 12-15%.
- Operating expenses are high due to provision of doorstep service to borrowers

\*include Bandhan – NBFC-MFI recently transformed into a bank

## Suppliers of Microfinance

- In India, MFIs are registered as Non Banking Finance Companies, Not-for-Profit companies, Trusts, Societies and Cooperatives. Most function as NBFC-MFIs (regulated by RBI) to ease raising of equity. MF also provided through banks via the SHG-Bank Linkage program, which forms a large portion of overall MF outreach

## Geographic Distribution

- South India accounts for 35% of the total industry GLP, west for 25%, north for 25% and east for 15%.
- Top five states are Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh and Madhya Pradesh accounting for 59% of GLP.

# WHY CREDIT REPORTING FOR MFIs?

## Broadens Access to Credit

Decreasing information asymmetries

## Improves Credit Quality

More effectively evaluating risks and improving portfolio quality

## Prevents Over-indebtedness

Using “positive data” to calculate repayment capacity

## Improves Profitability

Lower PAR and operational costs, improved margins and capital adequacy,

## Increases Stability

Positive industry wide effect

## Helps Disaggregate the Market

- Isolates attributes/regions performing worse than industry average in MFI's portfolio
- Provides insight into sourcing patterns, risk appetite and collection levels
- Grades customers and their credit histories

# CREDIT BUREAU PRODUCTS FOR MICROFINANCE

## Credit Information Reports



Enables Member to determine credit worthiness of a customer & help meets regulatory compliance - No. of active loans, total outstanding balance across MFIs, past due status

## Portfolio Review



Assessment of portfolio quality & behavior of existing customer across all lenders. A powerful tool for regular monitoring of portfolio accounts for proactive risk management

## FUTURE PRODUCTS- Evolved MFI Bureau Usage

## Portfolio Alerts



Provides a series of credit based triggers to pro-actively determine a set of existing customers which are showing either improvement or deterioration in financial status or are looking for fresh credit in the market

## Industry Reports



Comprehensive report that provides valuable insights on industry trends sliced and diced across various dimensions such as geography, customer profile and other parameters; An effective tool to benchmark current operations and guide future business growth

## Scores



Risk indicators that can be used for quick and accurate decision making which is predictive and objective which reduces the dependence on internal criteria and optimizes implementation of learning from market data.

# FIVE GENERAL PRINCIPLES OF CREDIT REPORTING

## Data

- Credit reporting systems should have accurate, timely and sufficient data - including positive - collected on a systematic basis from all relevant and available sources and should be retained for a sufficient amount of time.

## Security

- Credit reporting systems should have rigorous standards of security and reliability, and be efficient.

## Governance

- The governance arrangements of credit reporting service providers and data providers should ensure accountability, transparency and effectiveness in managing the risks associated with the business and fair access to the information by users

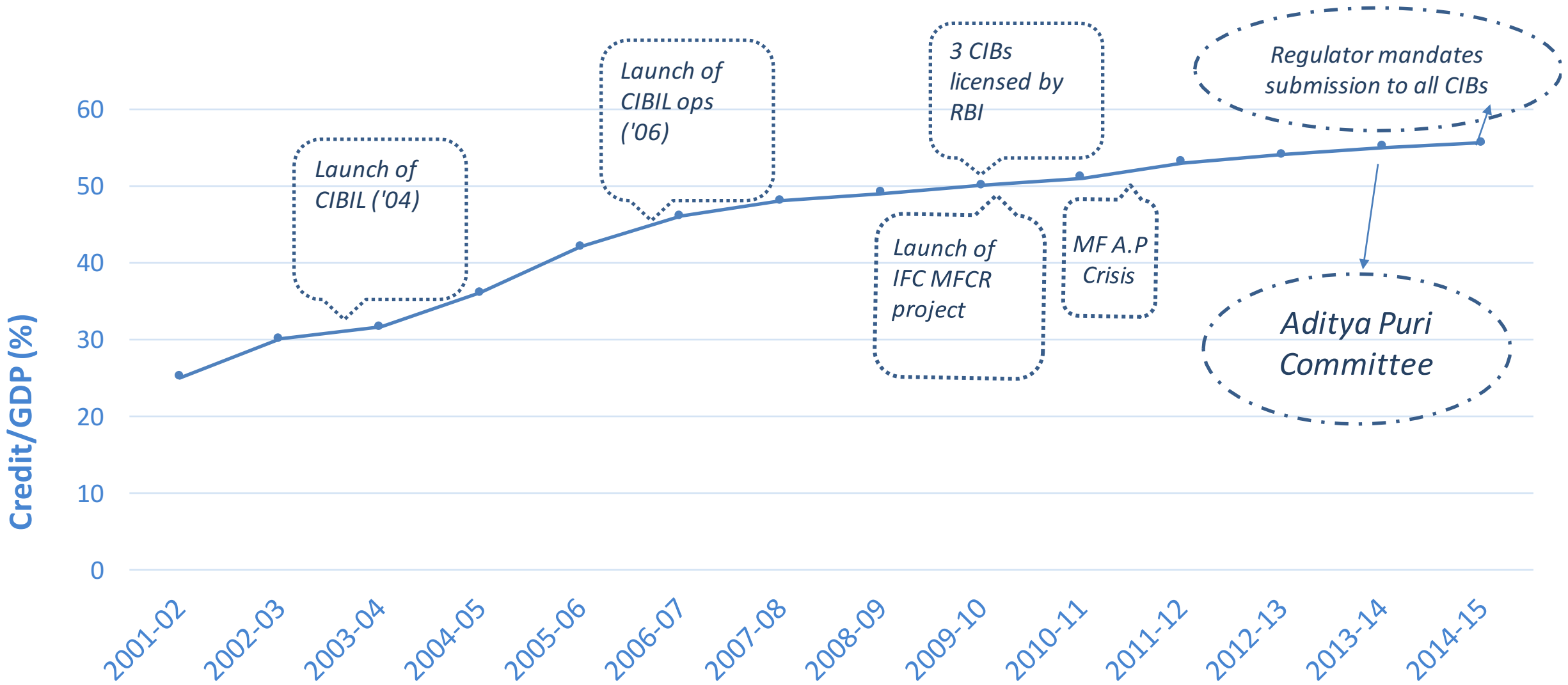
## Legal framework

- The legal and regulatory framework for credit reporting should be clear, predictable, non-discriminatory, proportionate and supportive of data subject and consumer rights. The framework should include effective judicial or extrajudicial dispute resolution mechanisms

## Cross-border

- Cross-border credit data transfers should be facilitated where appropriate, provided that adequate requirements are in place

# INDIA CREDIT BUREAU LANDSCAPE



# PROFILE OF WORLD'S LARGEST MF DATABASE

**30+ Million**  
Active  
Borrowers

**53+ Million**  
Borrowers

**260 Million**  
records

**210** institutions  
Participating

**98%** Industry  
Coverage

**70%+** Hit  
Rate

Trusts/NGOs  
Participate

**99%**  
Women

**>100 mn** credit  
decisions  
supported

# EVOLUTION OF INDIA MICROFINANCE CREDIT REPORTING PROGRAM

2009 - 10

- Concentration and proliferation of MFIs since 2008-09 in a few states gave rise to instances of multiple lending.
- Phase 1 of the WBG MFI CIB program was designed in 2009 to overcome information asymmetries and recognized the pressing need for an efficient information collection. Based on a commissioned study, WBG proposed an implementation roadmap for integrating borrower data.
- The 2010 crisis in Andhra Pradesh was a turning point for the sector as it revealed excess borrowing to the extent of 50% amongst MF borrowers, accounting for almost 40% of the sector's total portfolio.

2010-14

- WBG was in a strong position to broaden the existing CIB engagement into Phase 2 and adapt it to the evolving environment.
- Deliverables were refocused to meet stakeholder demand. It followed a multi stakeholder approach with the project design incorporating advisory support to network associations, credit bureaus (CIBs), microfinance institutions (MFI) and borrowers to address gaps.
- The project linked 299 new MFIs to CIBs and provided individual capacity building to 20 small MFIs in. To address the end borrower, IFC partnered with network association Microfinance Institutions Network (MFIN) and created a CIB awareness toolkit for borrowers for piloting across MFIs.
- The first credit bureau for microfinance started in Dec 2010 and the second in May 2011.

2014 onwards

- Through this project, the 2 largest CIBs reached a combined database of more than 100 million micro-client records, largest repository of such data in the world.
- With sharing of client records with bureaus having become due process by 2014, the team identified further gaps. To enhance quality and accuracy of reports, IFC commissioned research to explore inclusion of individual Self-Help Group (SHG) data in CIBs.
- This has now culminated into a deep engagement with the Reserve Bank of India (RBI) with the WBG and RBI jointly hosting advisory sessions for banks, MFIs and CIBs to facilitate this inclusion.
- Successes of this project helped the sector develop checks on multiple lending, engage with the regulator and project WBG as a thought leader in this space.



# STRUCTURE OF INDIA MICROFINANCE CREDIT REPORTING PROGRAM

Largest microfinance (MF) credit reporting project in IFC, focusing on 3 components –

- Increasing Usage of Credit Bureaus.
- Capacity building of smaller MFIs
- Awareness Raising of borrowers on benefits of on-time payments and maintaining strong repayment history

Project activities evolved and changed as per the sector's needs.

## RESULTS

- CIBs now have a database of over 175+ mn trade-lines for 63+ mn borrowers, with data for 40+ mn loan accounts updated every month and average 4 mn queries per month. Project supported receipt of 45 million incremental enquiries in CIBs since project inception
- CIBs added 299 new MFIs to their client base since inception and 20 small MFIs received in-depth capacity building to use CIBs.

# ROLE OF STAKEHOLDERS

## MFIs

- Realign loan approval and credit appraisal processes to incorporate use of CIR
- Invest in system updates and proactively implement standardization in processes
- Track impact of the CIR tool on default rates, operational efficiencies, borrower disclosure, gains in collections

## Association

- Support sector in developing and improving standards
- Play role of an active coordinating platform and sounding board for members; while acting as a bridge between sector and regulator/bureaus

## Regulator

- Guiding timelines of implementation and providing clarity on do's and don'ts of client data management
- Providing standardized data formats for the industry

## Credit Bureaus

- Enable members to determine borrower's credit worthiness and comply with regulations
- Develop tools that can act as proactive risk management measures
- Create products that generate insights on industry trends across dimensions such as geography, customer profile that guide future business growth

- However, easier said than done!

# ENSURING TIMELY SUBMISSIONS AND USAGE (GP 1: DATA)

## CHALLENGE

- Ensuring data submission to credit bureaus by MFIs in a coordinated and timely manner
  - For example, discipline issues around submitting quality data consistently every month.
  - Lag of upto 45 days in uploading, creating a window for clients to avail loans from other MFIs.
- Ensuring usage of CIB report before taking lending decision.
- Especially challenging given the breadth of the sector, multiplicity of entities and diversity in capacity of MFIs

## MITIGANT

- Leveraging networks of sectoral association MFIN to consolidate messaging to MFIs regarding data formats, borrower identification requirements, frequency of reporting.
- MFIN acted as a key conduit between MFIs and CIBs. Through MFIN, inputs could be provided to bureaus on mandatory fields and strengthening monitoring of compliance.
- A CIB committee consisting of MFIs was set up to draft road maps for weekly data submission, and confirm usage of CIB reports for decision making. This made data submission more uniform and disciplined.

# POOR DATA QUALITY (GP 1: DATA)

## CHALLENGE

- Ensuring accuracy of data submitted to bureaus proved to be extremely challenging given lack of standardization in MIS and KYC requirements.
- Specific data gaps included –
  - Lack of unique identifiers e.g. common names.
  - Lack of location identifiers e.g. duplication of village/street names, especially in rural areas
  - Unavailability of key credit and borrower information (due to highly prevalent unorganized lending)
  - Poor data quality of available information e.g. poor MIS, high data entry errors, data manipulation and frauds
- Another key concern was the inability of MFIs to verify negative bureau matches with each other.

## MITIGANT

- WBG and MFIN commissioned a data quality review to review quality control processes followed by MFIs while collecting /submitting data as well as processes followed by CIBs in collecting and processing submitted data.
  - Recommendations included – standardizing rejection criteria across CIBs and submission formats across MFIs, standardizing KYC processes, identifying categories of inconsistencies to enable MFIs to investigate them.
- MFIs agreed to capturing 7 mandatory fields\*, devised stronger processes and established contact points with other MFIs to gather information on negative bureau matches.
- MFIN was again a key facilitating platform which ensured the CIB committee remained pro-active in devising aforementioned solutions
- Regulator subsequently issued guidelines capping exposure of clients to maximum 2 MFIs, which further streamlined the flow of data and credit.

# CONSTRAINTS OF SMALLER PLAYERS (GP 2: SECURITY AND EFFICIENCY)

## CHALLENGE

- While acknowledging the benefits of CIB usage, smaller MFIs (many non-MFIN members) operating in relatively remote areas with limited competition felt there was a mismatch in costs/efforts involved in using credit bureau services
- Smaller MFIs faced severe capacity constraints such as limited software capabilities, challenges in consolidating branch data and non-availability of critical borrower identification information. Challenges for all MFIs were exacerbated for these institutions.

## MITIGANT

- To address these and ensure that CIB usage prevails across the sector regardless of size, area of operation, individual TA was provided to 20 smaller MFIs.
- The TA covered -
  - Analysis of available data to identify gaps with recommendations on closing them
  - Study of individual software and platforms on which the MFIs were working.
  - Support in consolidating data from branch to MFI level
  - Support in developing a common software capable of extracting a common data format (CDF) to be uploaded by CIBs.

# LIMITED AWARENESS (GP 2: SECURITY AND EFFICIENCY)

## CHALLENGE

- Lack of awareness regarding CIB usage evident at two levels – MFIs and borrowers
- Many MFIs were hesitant to introduce new processes which would involve overhaul of MIS, change in credit appraisal practices and act as a dampener on portfolio growth
- Borrowers were unaware that a separate system could track their repayment history across MFIs and affect their ability to secure credit in future

## MITIGANT

- WBG conducted awareness activities at both levels
- For MFIs, it was critical to initiate activities as early as possible to ensure buy-in and maximize usage of CIRs. A series of workshops were held across India spanning 5 cities, targeting regional MFIs. WBG also conducted two South Asia level workshops\* on the importance of MF credit reporting.
- For borrowers, WBG and MFIN facilitated creation of a communications toolkit reinforcing key messages regarding importance of borrower behavior and CIBs. This toolkit is currently being piloted across individual MFIs

# QUANTIFIABLE BENEFITS TO DATE

- ❑ Saved **US\$13 million** for US\$ 5 billion sector, ~ US\$0.495 (INR 29) per loan-application
- ❑ **50% lower default rates** with use of credit bureau
- ❑ Gains in collections: **54%** of long-overdue loans saw “self-cure collections” when a borrower was denied a loan based on a CR.
- ❑ More control on multiple borrowings: **11-15% applications noncompliant** with regulatory guidelines.
- ❑ Lenders observe significant **high operational efficiencies** since bureau services are being used
- ❑ **Improvement (90%) in borrower disclosure** in loan applications, because of heightened borrower awareness about a credit-bureau database
- ❑ 85% of borrowers now **repay old over-dues** when apply for new credit



# SUMMARIZING GOOD PRACTICES

Relevant, accurate, timely and sufficient data should be collected systematically from reliable sources

Credit reporting systems require rigorous standards of security, reliability and efficiency

Governance of credit reporting service providers must ensure accountability, transparency and effectiveness in managing risks.

Regulatory framework for credit reporting must be clear, predictable, non discriminatory and include effective judicial dispute resolution mechanisms

**THANK YOU!**

# GP 1: DATA

## Accuracy and Quality

- Free of errors, truthful, complete and up to date.
- Consistent application of appropriate data-supplying rules and procedures to all data providers with similar characteristics.

## Timeliness

- Clear and detailed rules for the updating of information.
- Pre-defined schedules and/or specific trigger events.
- Data available to users in a prompt manner to enable them to carry out their functions without unnecessary delays.

## Sufficiency (including positive)

- Credit Reporting Service Providers (CRSPs) should be able to collect and process all the relevant information to fulfill their lawful purposes. Relevant information comprises both negative and positive data.
- Clear rules on minimum data inputs and optional data inputs.

# GP 1: DATA

## Data Collection

- CRSPs should be able to gather information from all relevant data providers, within the limits established by the law.
- CRSPs should be able to access other data sources of relevance, within the limits established by the law.

## Data Retention

- Data collected by credit reporting systems should be available to users for a period of time that is consistent with the purpose for which the data is used.
- Clear rules should be in place regarding the method to determine the specific date or event when distribution of data should be discontinued.

## GP 2: SECURITY AND EFFICIENCY

### Security Measures

- Credit reporting system participants should protect data against any loss, corruption, destruction, misuse or undue access.

### Reliability of Data

- Credit Reporting Service providers should implement appropriate business continuity measures to ensure that their services will be available to users without any significant disruptions.

### Efficiency of Data

- Credit reporting service providers should strive to be efficient both from an operational as well as from a cost perspective, while continuing to meet users' needs and high standards for service levels.