



Tanzania Housing Finance Course

Credit Information Sharing

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Wachira Ndege
CEO, CRBAfrica

Topical Issues

- ❑ What is a credit reference bureau?
- ❑ What is the role of credit bureau in an economy?
- ❑ What are the types of credit bureaus?
- ❑ What are the classification of credit bureaus?
- ❑ What are the data sources of credit bureaus?
- ❑ What is a Credit Score?
- ❑ How do credit bureaus support mortgage lending?
- ❑ What is the state of development of credit bureaus in Africa?

What is a Credit Reference Bureau?



- ❑ A credit bureau compiles factual information provided by credit grantors on borrowers payment performance.
- ❑ The credit bureau uses this information to create credit reports and scores to demonstrate the credit worthiness of a borrower.
- ❑ Credit grantors can then obtain credit reports about borrowers who wish to open or continue maintaining credit accounts with them.
- ❑ Borrowers can access their own credit reports to ensure their accuracy and correctness.

The Role Of Credit Bureau

- ❑ Bridge between lenders and borrowers – addresses information asymmetry
- ❑ Protects financial institutions and other lenders against bad debt
- ❑ Protects consumers by assisting lenders and borrowers to ration credit within capacities to pay – responsible lending
- ❑ Facilitates large volume access to credit without security by assisting evaluations of the ability to pay and payment diligence
- ❑ Supports risk controlled consumer spending and the expansion of the economy and employment

Types of Credit Bureaus – Public Registries versus Private CRB



Public Credit Registries:

- Operated by Central Bank or Supervisory Institution
- Covers supervised institutions only
- Mandatory reporting of credit exposures,

Private Credit Bureaus:

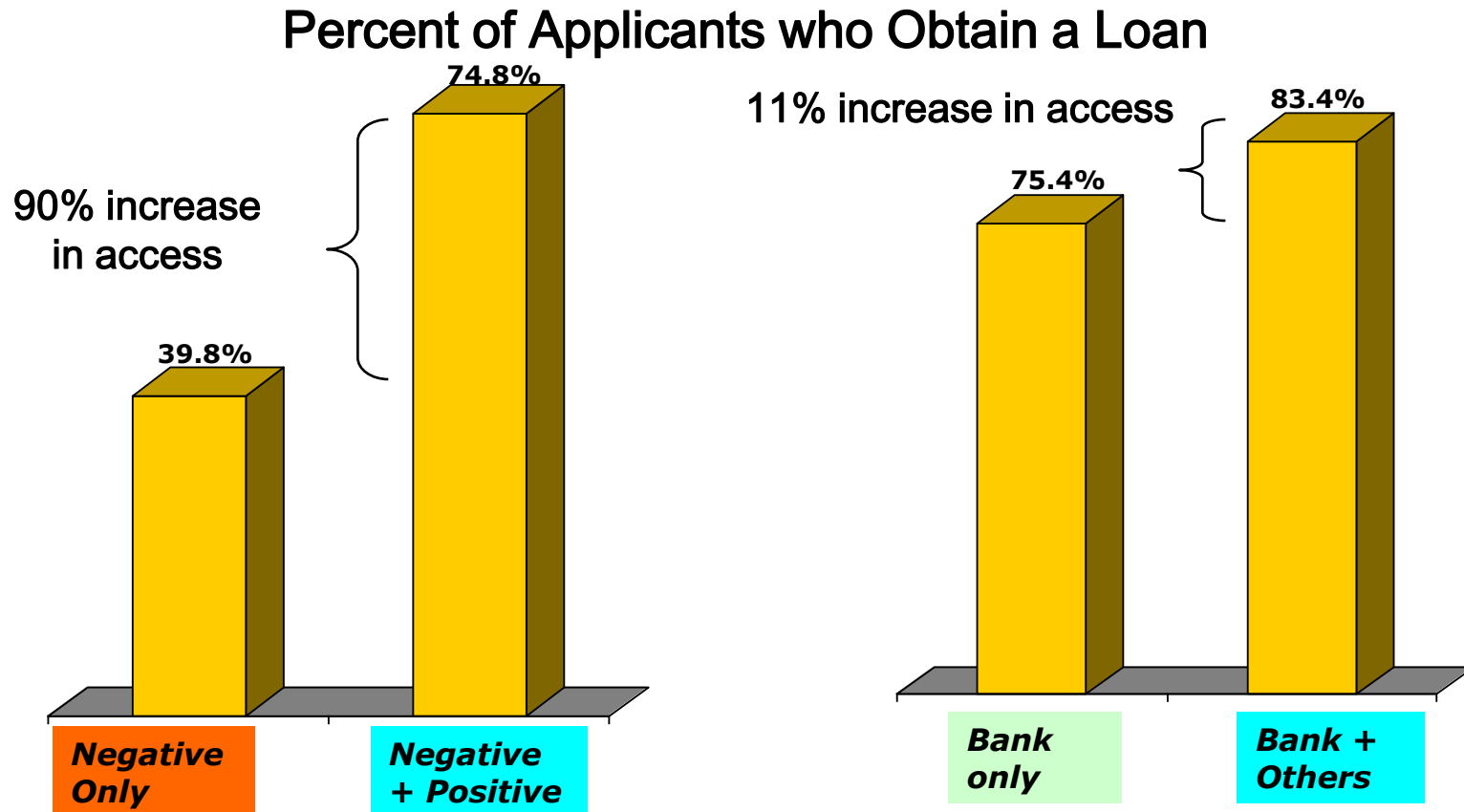
- Collect credit and payment information on individuals and small businesses
- Data driven: regular reporting from a number of lenders (banks, credit card, retail lenders, utilities, mobile phone companies) on their portfolio
- Key focus is to capture all relevant entities with exposure to a large number of individuals and businesses (not just banks)

Classification of CRBs

Types of information Sources of information	“Positive & negative”	“Negative only”
“Full” (information shared by banks, retailers, NBFIs, mobile operators, utilities, etc)	High predictiveness (e.g. South Africa)	Lower predictiveness (e.g. Ghana)
“Fragmented” (e.g. information shared among banks only)	Lower predictiveness (e.g. Uganda)	Lowest predictiveness (e.g. Kenya)

Broad information sharing expands credit!

(Empirical studies source WBG)



(Barron and Staten (2000). Note: Figure shows the simulated credit availability assuming a target default rate of 3%)

The Credit Score

(Source: Fair Isaac Corporation FICO)

- Standard measure for consumer credit risk.
- Gives a snapshot of a person's financial standing at a particular point in time.
- Scoring system awards points for each factor that can help predict the likelihood of a person repaying debts on time.
- Total number of points -- the Credit Score -- predicts how creditworthy a person is.
- The higher a credit score, the lower the risk i.e. more likely a person is to be approved and receive favorable interest rates and vice versa
- Scores are calculated from a lot of different credit data on the Credit Report and are dynamic.



Require Positive and Broad Data Reporting!

Challenges for the Banking & Financial Industry

(In Emerging & Transition Markets: source WBG)

- **Historically:**
 - limited competition, banks not under pressure to target the underserved
- **Today:**
 - growing competition, banks have incentive to tap new markets,
 - but, lack strategies & skills to tackle impediments associated with the consumer and small business market



Application in Mortgage Lending and Portfolio Management

...in pre-screening

- To identify bad borrowers up-front
- To offer better conditions to good borrowers
- To reduce cost in offering credit

...in credit underwriting

- To price risk accordingly
- To allow use of automated / semi-automated underwriting tools like credit scoring
- To expand reach to new market segments

...in portfolio management

- To identify deterioration of existing borrowers
- To avoid aggregation of bad debt among a number of financial institutions
- To collect most risky debt first

Credit Information and Mortgage lending

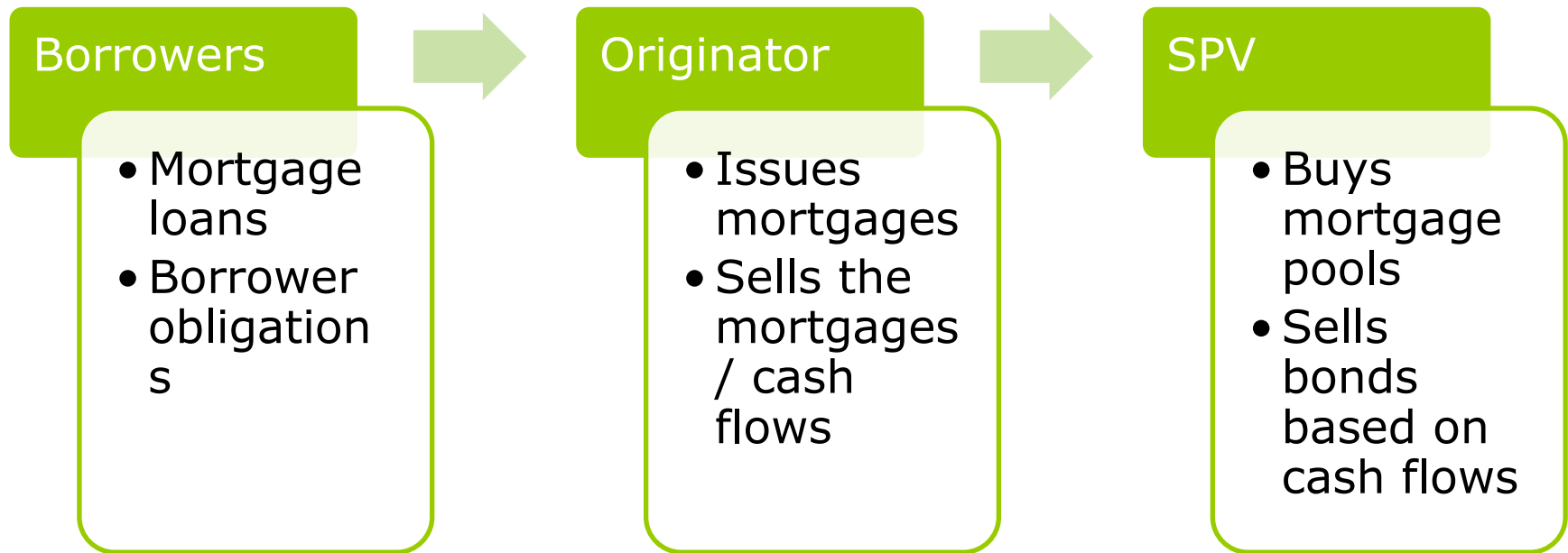


- ❑ Credit Information improves:
 - the efficiency of the credit process
 - risk assessment
- ❑ It gives the lender a better picture of whether the loan will be repaid, based entirely on how the consumer has handled loans in the past.
- ❑ For the consumer - it takes out a lot of the factors that would be considered discriminatory and brings more equitable treatment.
- ❑ Credit Information enables the introduction of more credit products to consumers that would have been otherwise turned down as too risky.
- ❑ Credit information allows the accurate pricing of risk when credit underwriting based on a borrowers risk profile

Future benefits – Securitization

- ❑ Securitization: process of bundling large pools of consumer loans (e.g. mortgages, credit card loans or asset finance loans) and selling them as securities to investors.
- ❑ Investors who purchase the securities buy a share of the stream of revenue that flows as loans are repaid. This allows the lender to get the loans "off their books" and shift the risk to outside investors.
- ❑ Credit Scored portfolios allow the investors to get a more accurate assessment of the underlying risk on the consumer loans portfolio.
- ❑ Securitization creates liquidity for the mortgage lender that can then be made available for on lending in the consumer credit market.
- ❑ This has the additional effect of lowering the price of credit (the interest rates) to the consumer and makes credit more widely available.

Securitization – Snap shot



Africa Credit Information Sharing Map



Private

Public

Development Hurdles in Africa



- ❑ Restrictive legal environment for CRB operations:
 - Segmentation and exclusion of other key economic sectors
 - Regulator rather than market driven
- ❑ Data quality:
 - Non uniform ID criteria
 - Gaps in electronic data at reporting institutions
- ❑ Relative size of credit markets:
 - Escalates cost of service to the market
 - Necessitates hub and spoke CRB infrastructure model to minimize cost to the end user for small economies
- ❑ Market awareness on CRB:
 - Low user and customer awareness on value and impact
 - Necessitates extensive public awareness

Lessons learnt – Keys to Success

- **Legal environment (from the outset):**
 - Envisage comprehensive reporting – positive and negative
 - Allow cross-sector information sharing
 - Preferably stand-alone act under the Central Bank or specific regulator
 - Mandate information sharing (*and access = responsible lending!*)

- **Capacity building:**
 - Regulatory:
 - CRB licensing, supervision and compliance
 - Use of CRB Data for enhancing supervision and general trends
 - Users:
 - value of CRB data in credit process
 - technical assistance on data quality and reporting: e.g. unique IDs

- **Consumer awareness:**
 - Inform and educate the consumer on need for sharing their data
 - Consumer rights under CRB law and operations – right of access, right to dispute, right to have corrected, etc
 - Robust dispute resolution and complaints process

- ***Continuous regulatory oversight of all players necessary to ensure smooth implementation and application!***

About CRBAfrica



- ❑ Pioneering credit referencing bureau in sub-Saharan Africa
- ❑ Set up over 15 years ago in Kenya
- ❑ Experience in multiple sub-Saharan countries to promote adoption of credit information sharing
- ❑ Group operations in 8 countries with bank sector CRBs under establishment in 5: Kenya, Zambia, Botswana, Rwanda, Malawi
- ❑ Now part of the global TransUnion brand
- ❑ www.crbafrica.com

Thank You!



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