



Korea's Maturing Credit Bureaus

As Korean financial institutions look towards consumer credit again as a potential growth area, efforts to build a Korean credit bureau infrastructure are intensifying. A well-connected new player is officially joining two growing incumbents, and some of the most important potential beneficiaries of a stronger credit bureau system are taking the lead in constructing the bureau infrastructure. The maturing industry's success – or failure – to provide accurate information and useful analysis will help determine the rate of growth in consumer credit, the health of domestic consumption and Korean banks' ability to manage credit risk.

NEW CREDIT BUREAU

The entrance of a new player, the Korea Credit Bureau (KCB), February of this year promises to introduce fundamental changes to the local credit bureau industry. Until KCB was established, Korea Information Service (KIS) and National Information and Credit Evaluation (NICE) formed a duopoly operating with similar structures. Though having some banks as minority shareholders, both firms are independent of major financial institutions, and both derive most of their revenues from debt collection and credit consulting. KIS and NICE have offered these services since the mid-1980s and opened credit bureau sections only in 2002. Newly established KCB, on the other hand, counts Kookmin Bank, Woori Financial Holdings, LG Card, Samsung Card and seven other major financial institutions as founding shareholders, and focuses solely on credit bureau activities. Its distinctive shareholding structure indicates that KCB could take a differing approach to credit bureau operations from KIS and NICE.

KIS and NICE argue that their independence enables them to provide the most comprehensive data to their financial institution customers. Because they maintain no exclusive affiliation with local lenders, KIS and NICE claim that they face no conflicts of interest in gathering information from as many sources as possible and in distributing it to all who contribute data. A credit bureau affiliated with major banks, they argue, will be tempted to withhold information from rival lenders outside the bureau's network of shareholders.

KCB, on the other hand, has a distinct advantage over

KIS and NICE in the breadth of information it can offer. KCB's founders account for a significant portion of financial system assets. They can provide KCB access to a much broader set of data that encompasses a majority of system credits. If KCB analyzes the data effectively and offers its services without bias beyond its shareholding base, it could add significantly to the credit information now available to Korean financial institutions.

MORE COMPREHENSIVE DATA NEEDED

Regardless of which agencies gather and disseminate credit information, the data collected needs to be broadened. Much of the data used in the past and present is a snapshot of current borrower status, rather than a time series profiling historical credit servicing patterns. As well, the focus on negative data detailing defaults but neglecting positive information on successful credit servicing detracts from current credit information collection. So far, banks have proven reluctant to share information on their best borrowers to competitors. Clearly, additional steps need to be taken to encourage greater disclosure.

POSITIVE DEVELOPMENT

These challenges notwithstanding, KCB's entrance bodes well for the financial industry. Regardless of which credit bureau emerges on top, intensified competition appears likely to improve the data and services offered. Banks and credit card firms have largely recovered from the 2002-2003 credit card bust, and improved consumer confidence numbers indicate that a new round of consumer lending could be in the offing. If KCB, KIS and NICE succeed in raising the quality of Korean credit bureau services to international standards, credit risk could decline, and financial institutions could feel more confident about increasing their consumer lending. Korea might then enjoy faster – and more sustainable – consumer credit growth.

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