Asia Focus

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Credit Bureaus in Asia

Rising personal income levels and increasingly competitive lending markets have led to rapidly growing consumer credit in Asian economies during the past decade. However, in many cases this expansion of credit outstripped financial institutions' ability to manage the associated increase in credit risk. The rising number of credit card defaults and subsequent personal bankruptcies in economies including South Korea, Hong Kong, and Taiwan in the early- to mid-2000s demonstrated the need for Asian lending institutions to employ more robust credit risk management tools.[1] Credit bureaus, which collect information about an individual's credit history and existing financial obligations, have served as one such tool and helped reduce credit risk and the number of defaults and bankruptcies. This Asia Focus report examines the development of credit bureaus in Asia, focusing on their purpose and function, ownership structure, and the scope of information they provide. The report also explores the legal and regulatory environments in which the credit bureaus operate.

The Need for Credit Bureaus

Many Asian economies have grown robustly during the past two decades, leading to substantial increases in the living standards and incomes of their populations. Average GDP growth in Southeast and Northeast Asia was 7.7% and 3.4%, respectively between 1990 and 1995. Although growth rates were somewhat lower during the following five years (1995-2000) due in part to the 1997-98 Asian Financial Crisis, they began to recover from 2000 to 2005. On a per capita basis, the overall effect of this economic expansion on living standards and incomes becomes clear. On average, between 1990 and 2005 per capita GDP in Southeast Asia rose from USD 809 to USD 1,331, a 65% increase. At the individual country level, this income growth is also remarkable. In Hong Kong, GDP per capita grew by 49% during this period, by 54% in Indonesia, by around 80% in India and Singapore, and by 103% in Korea. Rising personal incomes allowed many people in Asia to qualify for the first time for consumer credit products including home mortgages, auto loans, and credit cards. Banks in the region responded by expanding their retail finance operations and seeking out these potential new customers.

These developments helped lead to the creation of consumer credit boom and bust cycles in some Asian economies during the first half of the last decade (2000-2005).[5] Hong Kong, South Korea and Taiwan all experienced high levels of delinquencies or bankruptcies during the past decade as a result of expanded consumer lending and the accompanying increase in credit risk. In Hong Kong, credit card balances as a percentage of GDP grew

Figure 1 - Economic Growth in Asia

	90-95	95-00	00-05	2008	1990	1995	2000	2005	2008
	GDP Growth (%)				Per Capita GDP (1990 USD)				
South Asia[2]	4.3	4.8	6.0	5.3	574	640	739	910	1,063
Northeast Asia[3]	3.4	2.7	3.7	3.4	2,838	3,183	3,487	4,043	4,579
Southeast Asia[4]	7.7	2.5	4.8	4.6	809	1,072	1,125	1,331	1,512
Europe	1.3	2.9	1.8	0.9	13,710	14,456	16,630	17,963	19,093
North America	2.4	4.1	2.3	1.1	22,439	23,809	27,458	29,267	30,152
World	2.2	3.4	2.8	2.2	4,208	4,343	4,786	5,159	5,500
	GDP Growth (%)				Per Capita GDP (1990 USD)				
China	12.3	8.6	9.6	9.0	354	596	861	1,313	1,772
Hong Kong, China	5.2	2.6	4.1	2.4	13,479	15,957	16,894	20,038	23,029
India	3.1	4.0	5.4	5.8	379	441	534	690	847
Indonesia	7.8	0.7	4.7	6.0	709	957	926	1,092	1,253
Japan	1.5	1.0	1.3	0.4	24,501	25,947	26,971	28,607	30,055
Singapore	9.0	6.4	4.3	1.1	12,234	16,318	19,272	22,451	24,516
Republic of Korea	7.8	4.4	4.5	2.2	6,397	8,970	10,686	12,993	14,504
Malaysia	9.5	4.8	4.7	4.5	2,525	3,490	3,903	4,467	4,984

Source: United Nations Economic and Social Commission for Asia and the Pacific's "Statistical Yearbook for Asia and the Pacific 2009.

from 3% in 1998 to 5% in 2001; in Korea this measure rose from 4% in 1999 to 15% in 2002; and in Taiwan it increased from 5% in 2002 to 9% in 2005.[6] Each of these growth periods was followed by a spike in credit card delinquencies. Hong Kong's delinquency rate peaked at 14.6% during the third quarter of 2002, while Korea's topped 10% in December 2003.[7] Hong Kong also experienced a surge in personal bankruptcies—from around 9,000 in 2002 to around 25,000 in 2003 and 2004—that was associated with these delinquencies.[8] And although credit card balances typically account for a relatively small share of total consumer credit—less than 10% for most Asian economies—household credit in many countries also grew rapidly during the first part of the 2000s. In South Korea, for example, household credit grew by 24.7% (year-on-year) in 2000, by 28.0% in 2001, and by 28.5% in 2003. In Taiwan, annual household credit growth rates climbed from 4.1% in 2002 to 13.5% in 2003, and had reached 18.4% in the first half of 2004 alone. Other Asian economies, including China, Malaysia, Singapore, and Thailand, also experienced double digit yearly increases in household credit growth during the first half of the decade.[9]

This rapid growth of consumer credit, and the credit card crises in Hong Kong, Korea, and Taiwan, underscored the need for lenders to employ stronger risk management practices in their retail lending activities. It is perhaps no coincidence that it was during the first half of the last decade that many Asian economies chose to establish new credit bureaus or strengthen existing credit bureaus so that their reporting more effectively captured retail lending risks. Singapore established its first credit bureau in late 2002, around the same time that Malaysia expanded the scope of information provided by its existing credit bureau. Hong Kong's credit bureau, which had been established in the early 1980s, also expanded its offering of information in mid-2003 following a revision to Hong Kong's privacy laws.[10] In mid-2005, Thailand merged its two existing credit bureaus to improve efficiency and help create a more complete and unified source of credit information. Korea established a third credit bureau in early 2006, which increased the amount of credit information offered by the two existing agencies that had been formed several years prior.[11] These developments are part of a broader trend in the region to expand both credit bureaus' coverage of potential borrowers and the type of information provided, as discussed below.

The Function of Credit Bureaus

A credit bureau's primary function is to expand the information available to a lender to improve loan decisions. While potential borrowers may be fully aware of their ability and intent to repay a loan, they have an incentive to withhold adverse information from a lender to improve the appearance of creditworthiness and increase their chances of receiving a loan. Credit bureaus provide a valuable service to lenders because they specialize in collecting data on a borrower's debt history, bill paying habits, and other pertinent information from multiple financial institutions. Such information improves the lender's ability to make sound lending decisions, and can reduce potential credit risk and future losses. Indeed, a 2001-2002 survey of bankers conducted by the World Bank in 34 countries with operating credit registries suggested that access to credit information can lower default rates by 25%. [12]

Credit bureaus may also provide other benefits for both borrowers and lenders. For example, if borrowers know that lenders have access to their credit histories, they may have a greater incentive to repay loans to maintain access to credit in the future. A 2010 World Bank study indicates that half of all customers would be more likely to pay their bills on time if they knew that those payments were reported to credit bureaus.[13] Further, borrowers who have established a good credit record with a credit bureau may gain bargaining power for the terms of credit. For lenders, credit bureaus' collection and transformation of borrower information into a credit score can also reduce transaction costs associated with lending by providing a standardized benchmark that a lender may use to judge a borrower's creditworthiness. In some cases, lenders may choose to automate lending decisions for individuals based on these scores.[14]

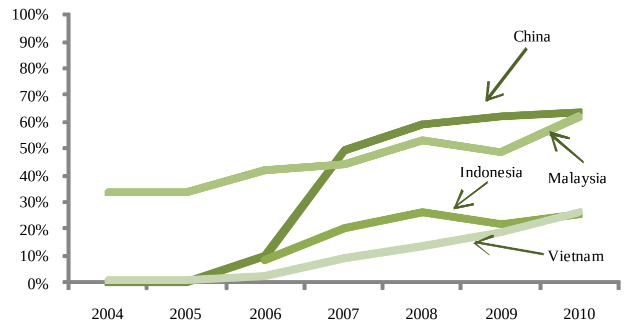
Frameworks for Credit Bureaus

While credit bureaus' general functions vary little across most Asian economies, ownership structures and the scope of reported information may differ. In part, these characteristics are determined by the local financial market's level of development and by the credit bureau's available resources.

Ownership Structure: Public vs. Private

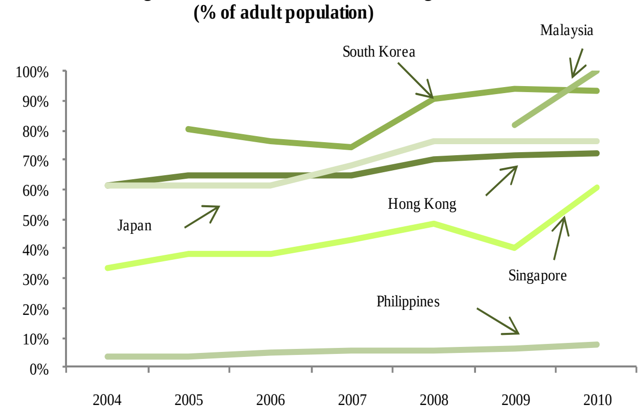
Credit bureaus may be either publicly or privately owned. Public sector credit bureaus are credit databases managed by the public sector—usually the central bank—that collect information on the creditworthiness of borrowers and facilitate the exchange of credit information among financial institutions.[15] Public credit bureaus in Asia include China's National Consumer Credit Bureau, Vietnam's Credit Information Center, Malaysia's Central Credit Information Corporation, and Indonesia's Credit Information Bureau. All of these credit bureaus are owned and managed by the economy's central bank. Private credit bureaus perform much the same function as their public counterparts but are owned by a private firm or nonprofit organization.[16] Some private credit bureaus are partially or fully owned by financial institutions and trade associations from which the bureau collects data. Such privately owned credit bureaus in Asia include: India's High Marks Credit Information Services, owned by Microfinance Institution Network and High Mark Credit Information Services Ltd.; Tai-

Figure 2: Public Credit Bureau Coverage
(% of adult population)



Source: World Bank

Figure 3: Private Credit Bureau Coverage
(% of adult population)



Source: World Bank

wan's Joint Credit Information Center, initially established by the Taipei Bankers Association and later converted into a non-profit organization; the Korea Credit Bureau, owned by 19 financial institutions; and the Credit Bureau Singapore, owned by the Association of Banks of Singapore and DBIS Holdings Pte. Ltd.

Public credit bureaus have some advantages over their private counterparts. For example, the government authority or the central bank may make participation by all supervised financial institutions mandatory.[17] Depending on the scope of the data institutions are required to submit, this can result in a much broader pool of credit information than under a system in which lenders voluntarily submit data, which is more common among private credit bureaus. Another advantage of public credit bureaus is evident in poorer, developing economies, where there may be little economic incentive for the establishment of private bureaus.[18] Thus, public credit bureaus can provide a valuable service to lenders and borrowers, helping to expand the allocation of credit and thereby potentially contributing to economic growth in these countries.

Although public credit bureaus might be able to capture information from more financial institutions through mandatory participation requirements, private credit bureaus can often provide a much richer pool of credit information. In part this is because public registries were usually established to support banking supervision and monitor systemic risk. They therefore often collect data only above a minimum threshold since smaller loans generally do not affect banking sector solvency.[19] This is reflected historically in the worldwide average minimum loan size for which information is collected by credit bureaus. A 2004 World Bank report noted that the average minimum threshold for public bureaus was USD 30,000, while that of private bureaus was around USD 450.[20] Accordingly, smaller lenders who typically face greater resource constraints in obtaining borrower information tend to benefit more from private bureaus because of these lower reporting thresholds.[21] That also means that private credit bureaus tend to collect information from a larger number of borrowers: on average in 2004, they covered 321 out of every 1,000 borrowers, while public credit bureaus average 40 borrowers per 1,000.[22] Private credit bureaus may also collect relevant information from sources other than supervised financial institutions. These sources include documents such as court records, collateral registries, and land title registries, as well as institutions such as utilities companies and insurance agencies.[23] This wider coverage is also evident from more recent data which measures credit bureau coverage as a percentage of the adult population (*Figures 2 & 3*). Thus, private credit bureaus' more detailed credit reports and greater coverage—of both loans and borrowers—typically allow lenders to assess credit risk with better accuracy than the less thorough reports issued by public credit bureaus.

Scope of Credit Bureau Information

Credit information reporting can be broadly categorized as negative reporting, positive reporting, and combined reporting. Negative reporting is limited to the collection of adverse account events which indicate past payment patterns. This might include information on delinquencies or defaults, collections or bankruptcies. Positive reporting includes the collection of information that helps determine a borrower's ability to repay a loan based on current debt levels and financial condition. Such information includes the borrower's loans outstanding, assets owned, sources of income, and other pertinent financial information. Under negative reporting alone, a borrower already in substantial debt might continue to obtain credit and accumulate excessive debt; if the borrower was not delinquent and had not defaulted, he or she would likely escape detection by lenders even if a new loan was obtained to pay off existing debt. This was the experience in Hong Kong and South Korea in 2002 and 2003 when many banks had no adverse information on borrowers with no previous defaults, but who were accumulating excessive credit card debt.

Because negative reporting alone does not provide the full assessment of a borrower's creditworthiness, Asian economies have increased the combined use of both negative and positive reporting. For example, after seeing banks experience increased credit card loan write-offs, the Hong Kong Monetary Authority in 2003 began recommending that all authorized institutions[24] share both positive and negative credit information of individual customers. Most Asian economies' credit bureaus currently provide combined reporting information (*Figure 4*).[25] According to one study using U.S. borrower data, the default rate from lending to borrowers based solely on negative information was 3.35%. However, if combined reporting had been used for the same loan sample, the default rate would have dropped by almost half to 1.9%.[26]

Legal and Regulatory Framework

In a successful credit bureau system, borrowers and lenders must have confidence in the accuracy and security of the information collected. A strong legal and regulatory framework can help maintain data integrity and protect a borrower's right to privacy by limiting the type of information collected and restricting access to lending transactions.

To improve the accuracy of credit information, laws and regulations can allow borrowers the right to access their own information. This enables a borrower to verify the data and dispute any inaccuracies. The legal and regulatory framework should also ensure that any genuine errors are corrected in a timely manner. For example, Thailand's Credit Information Business Act B.E. 2545 (2002) allows individuals to report data inaccuracies and requires credit bureaus to examine the potential mistakes within 30 days of notification. Credit bureaus must report any corrected information to every credit institution that received the inaccurate information.[28] Laws and regulations can further ensure accuracy by prohibiting deliberate falsification of data by its providers and users. India's 2005 Credit Information Companies Regulation Act, for example, imposes a fine of up to INR10,000,000 (USD 200,000) on any credit bureau or credit institution that knowingly provides false information. Such rules benefit both the borrower, by improving access to credit, as well as the lender, by identifying potential customers who may have been mistakenly denied credit.

Protecting the privacy of borrowers is also an important function of laws and regulations. One way to achieve this is to restrict the types of information credit bureaus may collect to that which is relevant for determining a borrower's capacity to repay a credit. In Hong Kong, for example, the Personal Data (Privacy) Ordinance requires that personal data may only be collected for a lawful purpose where the user of the data has a legitimate reason for collecting the data. The Ordinance also specifies that the detail of the data collected should not exceed the purpose.[29] China has sought to achieve a similar goal in its 2009 Draft Regulation on Credit Reference Management, which bans credit bureaus from collecting and reporting personal information that may be used in an unfairly discriminatory manner, such as a borrower's genetic data, health history, blood type, ethnicity, religious belief, and political affiliation.[30]

Figure 4 – Major Credit Bureaus in Asia

Country	Credit Bureau	Ownership	Combined Reporting[27]
China	National Consumer Credit Bureau (NCCB)	Public	Yes
	Shanghai Credit Information Services	Private	Yes
Hong Kong	Credit Reference Agency (CRA)	Private	Since 2003
	Transunion Ltd.	Private	Since 2003
India	Credit Information Bureau of India	Private/Public	Since 2005
	Experian Credit Information Company of India	Private	Yes
	Equifax Credit Information Services	Private	Yes
	High Mark Credit Information Services	Private	Yes
Indonesia	Credit Information Bureau	Public	Yes
Japan	Personal Credit Information Center	Private	Yes
	Japan Credit Information Reference Center Corp. (JICC)	Private	Yes
	Credit Information Center Corp. (CIC)	Private	Yes
Singapore	Credit Bureau Singapore	Private	Since 2002
	Dun and Bradstreet CreditScan	Private	Since 2011
	DP Credit Bureau	Private	Yes
S. Korea	National Information & Credit Evaluation (NICE)	Private	Since 2002
	Korea Credit Bureau (KCB)	Private	Since 2002
Malaysia	Central Credit Reference Information Corporation	Public	Yes
	RAM Credit Information	Private	Yes
Taiwan	Joint Credit Information Center (JCIC)	Private	Since 1994
Thailand	National Credit Bureau (NCB)	Private/Public	Yes

Source: Credit bureau websites.

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Finally, laws and regulations can prevent the misuse of personal credit information by ensuring that only credible lenders have access to borrowers' data. Such measures may entail restrictions on data access and sharing, or even monetary or criminal penalties for misuse of data. India's Credit Information Companies Regulation Act of 2005, for example, contains privacy principles that apply to the collection, processing, collating, recording, preservation, secrecy, sharing, and use of credit information which all credit bureaus and credit institutions must follow.[31] It also imposes a fine of up to INR 100,000 (USD 2,000) for each offense where any person obtains unauthorized access to credit information.

Conclusion

Over the last decade, credit bureaus in Asia have played an increasingly important role in helping banks identify borrowers' creditworthiness. According to a World Bank study in 2011 three Asian economies, Malaysia, Hong Kong, and Singapore, ranked among the top ten in the world in terms of ease of getting credit, partly due to the depth of credit information coverage.[32] In particular, Malaysia received the highest possible score in the "depth of credit information index" with its private credit bureau covering 100% of the country's adult population.[33]

The study also suggested that economies that rank high on the ease of getting credit typically have credit bureaus that share both positive and negative credit information obtained from financial institutions, retailers and utility providers. This bodes well for Asia as many credit bureaus have gradually moved toward collecting both positive and negative credit information, which provides lenders more complete assessments of the borrowers' credit history and standing.

While some Asian economies have impressive coverage of credit information, the study showed that the average depth of credit information coverage of Asia economies still lags behind other regions in the world. This is an indication that Asian economies are in different stages of developing credit bureaus. Overall, however, credit bureaus have contributed to more robust credit risk management practices, which will help promote the safety and soundness of the banking system in Asia.

Endnotes:

1. International Finance Corporation. "Credit Bureau Knowledge Guide." 2006.

2. South Asia includes: Afghanistan, Bangladesh, Bhutan, India, Iran, the Maldives, Nepal, Pakistan, Sri Lanka, and Turkey.

3. Northeast Asia includes: China, DPR Korea, Hong Kong (China), Japan, Macau (China), Mongolia, and the Republic of Korea.

4. Southeast Asia includes: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam.

5. Other factors that might have contributed to the consumer credit boom in these economies include: lower costs for retail finance due to technological developments; increased competition from new market entrants as a result of financial deregulation; banks' need to compensate for a decline in corporate loan demand following the 1997-98 Asian Financial Crisis; and easier monetary policies as central banks in the region reacted to the Crisis. (See, for example, Kang, Tae Soo and Guonan Ma. "Recent episodes of credit card disasters in Asia." BIS Quarterly Review, June 2007.)

6. Kang, Tae Soo and Guonan Ma. "Recent episodes of credit card disasters in Asia." BIS Quarterly Review, June 2007.

7. Fitch Ratings. "Managing Growth – The Challenge of Consumer Lending in Asia." March 7, 2006.

8. Data are from Hong Kong Monetary Authority.

9. He, Dong, Effie Yao, and Kim-hung Li. "The Growth of Consumer Credit in Asia." Hong Kong Monetary Authority. March 2005. Original data are from CEIC, Bank Negara Malaysia, Bank of Thailand and authors' estimates.

10. Chakravarti, Rita and Beng-Hai Chea. "The Evolution of Credit Bureaus in Asia-Pacific." August 2005.

11. Federal Reserve Bank of San Francisco. "Asia Focus: Korea's Maturing Credit Business." January 2006.

12. Margaret J. Miller. "Credit Reporting Systems around the Globe: The State of the Art in Public Credit Registries and Private Credit Reporting Firms" in Credit Reporting Systems and the International Economy. Cambridge, MIT Press. 2003. Cited in the World Bank report, "Credit Bureau Development in South Asia" dated September 26, 2004.

13. World Bank. "Doing Business 2010." 2010.

14. World Bank. "Credit Bureau Development in South Asia." September 26, 2004.

15. Getting Credit Methodology, International Finance Corporation, Djankov, McLiesh and Shleifer (2007)

16. *Ibid*.

17. World Bank. "Credit Bureau Development in South Asia." September 26, 2004.

18. World Bank. Doing Business in 2004: Understanding Regulation." 2004.

19. Discussion Paper on Credit Information Sharing, OECD (date not indicated; report available at:
http://www.oecd.org/dataoecd/37/1/45370071.pdf

20. World Bank. Doing Business in 2004: Understanding Regulation." 2004.

21. *Ibid*.

22. World Bank. "Doing Business in 2004: Understanding Regulation." 2004.

23. World Bank. "Credit Bureau Development in South Asia." September 26, 2004.

24. Authorized institutions are defined in the Hong Kong Banking Ordinance as licensed banks, restricted license banks, and deposit taking companies.

25. According to the World Bank, 86% of the major credit bureaus in Asian economies provide combined information, 16 percentage points higher than the 70% world average as of 2004. (World Bank. "Doing Business in 2004: Understanding Regulation." 2004.)

26. Barron, J.M. and Michael Staten. "The Value of Comprehensive Credit Reports: Lessons from the US Experience." 2003.

27. Where available, the year that the credit bureau began to provide positive reporting is indicated.

28. Thailand Credit Information Business Act B.E. 2545 (2002), Section 19.

29. Office of the Privacy Commissioner for Personal Data, Hong Kong. http://www.pcpd.org.hk/english/ordinance/ordglance.html

30. Draft Regulation on Credit Reference Management (征信管理条例).

31. India Credit Information Companies Regulation Act 2005 – Chapter VI, Information Privacy Principles and Furnishing of Credit Information

32. World Bank. "Doing Business 2011." Rankings based on the sum of the strength of legal rights index and the depth of credit information index.

33. World Bank. "Doing Business 2011: East Asia and Pacific." Depth of credit information index ranges from 0-6, with 6 being the highest.