Knowledge Page

Public Credit Registry

The current banking scenario in India shows deep stress in the banking system with the Gross NPA (GNPA) as on March 2018 at 11.6% of total advances. The results of the Macro-stress tests published in the Financial Stability Report1 of the RBI on 28 June 2018 indicates that Scheduled Commercial Banks' GNPA may rise further to 12.2% by March 2019. Additionally it was reported that Public Sector Banks have a disproportionate share of frauds (>85%) compared to their relative share in credit (>65%).

Actions such as the implementation of PCA framework, Insolvency and Bankruptcy Code and recapitalization of PSBs, aims towards improving the health of these banks and clean up their books. However this essentially is geared towards solving the current problem of stressed balance sheet and but does not present a solution to prevent such problems from occurring in future. Credit appraisal process within current framework remains very complex as credit information is highly fragmented with multiple agencies involved.

A Public Credit Registry (PCR) provides a solution to this challenge by simplifying the process in which credit information is stored and shared thus reducing information asymmetry within the system. Dr Viral Acharya (RBI Deputy Governor) talked about a Public Credit Registry in India in his speech at the 11th Statistics Day Conference in July 2017. The RBI has also constituted a High-level Task Force on Public Credit Registry (HFT). The HFT came out with its report3 on 6th June 2018.

What is a Public Credit Registry?

A Public Credit Registry is an institutional mechanism to create a repository of comprehensive credit information on all the borrowers encompassing all types of credit. Its most important function is to improve the lender's operational risk management capabilities by providing extensive credit information on borrowing entities and aid them in taking more prudent credit decisions. PCR in most countries are maintained by the respective central banks. Sharing of timely and accurate data with PCR by all lenders is generally mandatory to ensure full coverage and the authority entrusted with maintaining this registry is given enforcement powers to ensure the quality and timeliness of credit data.

The architecture of a PCR is developed in such a way that it can share and source data from other agencies such as credit card issuers, utilities (phone, electricity, water etc.) and exchange regulators (SEBI). The lending institutions have access to the information of prospective borrower with the identification of the lenders masked until such consent is received from the borrower.

Several countries across the world have implemented the PCR mechanism. Some of the countries with the highest PCR coverage being Portugal (100.0%), Belgium (96.3%) and China (89.5%). A PCR can be operated by a Central Bank such as the Portuguese Central Credit Register (CCR) maintained by the Banco de Portugal or private entities such as Deals can by Thomson Reuters in the USA.

An instance of the effectiveness of PCR was seen in the aftermath of the collapse of Lehman Brothers in September 2008 when the credit growth in bank loans seemed robust but a deeper analysis of the Deals can data (Deals can tracks credit origination data instead of credit disbursement data) revealed that the origination of new loans had indeed dried up and the supposed credit growth was driven by the corporates drawing down on the existing credit lines.

Existing Credit Information Systems in India

Institutions	Source of Information	Type of Data Collected	Users	Purpose	Frequency of Data
CRILC(RBI)	All SCBs	All borrower's with exposure over INR 5 Cr	• RBI • Lenders	To capture and monitor high exposure risk	Quarterly
BSR-1(RBI)	All SCBs (Including RRBs)	All loan data (Without borrower information)	• RBI • Lenders	For Statistical purposes including credit growth and distribution	Weekly
CRA	Borrowers	Financial Information including statements	• Public	To provide a credit rating for debt instruments of issuers	No fixed frequency
CIC	All lenders and credit card companies	Loan data with borrower information	• Lenders • Credit Card Companies • Other utilities • Public	Credit scores for individual and commercial borrowers (e.g. CIBIL score)	No fixed frequency
MCA	All companies under The Companies Act	Financial Statements	• Regulators • Public	To maintain financial information of companies	Quarterly
PCR	All lenders	Data includes credit quantum, type of credit facility, borrower details , repayment status, other transactional information like utility bill payments	• RBI • Lenders • Other Regulators • Borrowers (Limited to their own information)	Single point repository for all credit appraisal requirements	Real Time

Table 1

The Current system of accumulating credit information consists of multiple agencies such as Credit Information Companies, CERSAI, RBI, SEBI and MCA among others. All these institutions maintain credit data for different purposes. This difference of purpose leads to them maintaining data in multiple formats and for different classes of borrowers as described in Table 1.

This fragmentation of data across multiple agencies for multiple categories of borrowers makes it very difficult to provide a snapshot of the total indebtedness for a borrower to enable the lenders to take objective decision on lending.

Another type of credit appraisal method for corporate credit is the credit rating which is given out by Credit Rating Agencies (CRA). There are 7 CRAs in India registered with RBI and SEBI. The most popular ones are CRISIL, ICRA and Care Ratings. These CRAs assess borrowers on various parameters and provide a credit rating on different types of debt instruments as per their credit rating methodologies.

Public Credit Registry in India

Currently, segregated credit data flows to different agencies from selected lenders which limits the coverage and makes it difficult to form a comprehensive picture on a particular borrower. With a PCR in place, all the credit data from all lenders will flow to one agency in a standard form. This would reduce duplication of effort and simplify the information flow. Various data visualization tools can then be deployed to prepare a comprehensive report on borrowers.

RBI would be ideal to create and maintain the PCR so that it has a direct regulatory oversight on the system. PCR can have a data sharing mechanism with other regulators such as SEBI, Income Tax, and MCA etc. RBI can also mandate the banks to share the data on real time basis so that the potential cases of fraud or default can be identified early and mitigating actions can be taken by lenders.

There are several challenges in the implementation of such a comprehensive credit repository. The major challenge is at the data privacy and protection front. Any data from PCR must only be used for authorized purpose and data sharing must strictly be on need only basis. Borrower consent must also be taken before any such data is shared with a PCR or by PCR to other agencies.

Another challenge arises from within the architectural design. PCR architecture must allow for fluid sharing of data across lending institutions, regulatory authority and information utilities. This challenge is accentuated due to the need to consolidate the existing data across multiple datasets to capture into a common format. PCR mechanism must also be backed by relevant legal frameworks. An example can be made from the case of Portugal, which set up data channels from all the current sources and passed a Data Protection law which protected all the data and streamlined the process of credit data requisition on a need to know basis and later expanded its scope to further details and design systems for smooth flow of information

Impact of PCR on Economy

The inherent information asymmetry under the current system leads to a lack of proper risk assessment for a borrowing entity. This leads to lenders calculating risk on the entire portfolio of advances which results in averaging of risk across all borrowers. In this situation, a good borrower is over charged and a bad borrower in under charged. This problem is termed as Adverse Selection. A comprehensive credit repository would lead to differentiation between a good borrower and a bad borrower. A good borrower will have access to cheaper credit.

Greater transparency in credit information would help MSME borrowers to differentiate themselves as low risk borrowers. Integration of data from MCA, GSTN and other databases with PCR will enable new borrowers with no formal credit history to avail bank credit instead of going to loan sharks. This would reduce the borrowing cost for such borrowers and help promote financial inclusion.

Public Credit Registry is also a component in the evaluation of Ease of Doing Business survey of World Bank. Currently due to absence of such a system, India scores zero under this component. After the implementation of the PCR, India's ranking in Ease of Doing business could improve enabling more investments by Indian and foreign businesses. This will also have a deep impact on jobs creation and acceleration of economic growth.

PCR would also enable a real time monitoring of credit growth and distribution pattern which will help in assessment of policy transmission and any challenges can be identified with better accuracy and addressed accordingly.

Conclusion

Credit off-take and growth constitutes an important component of economic growth. With banks facing acute stress and credit growth for Start-ups and MSMEs slowing down, PCR can aid in bringing transparency in credit appraisal process and incentivize borrowers with strong credit culture. Mandatory reporting of credit information will result in 100% coverage with real time data which will make early identification of advances under risk and proactive decision making for regulators and lenders possible. Extensive credit dataset will enable lenders to move towards risk-based credit pricing which will help the credit flow towards disciplined borrowers.