

Microfinance and credit bureaus

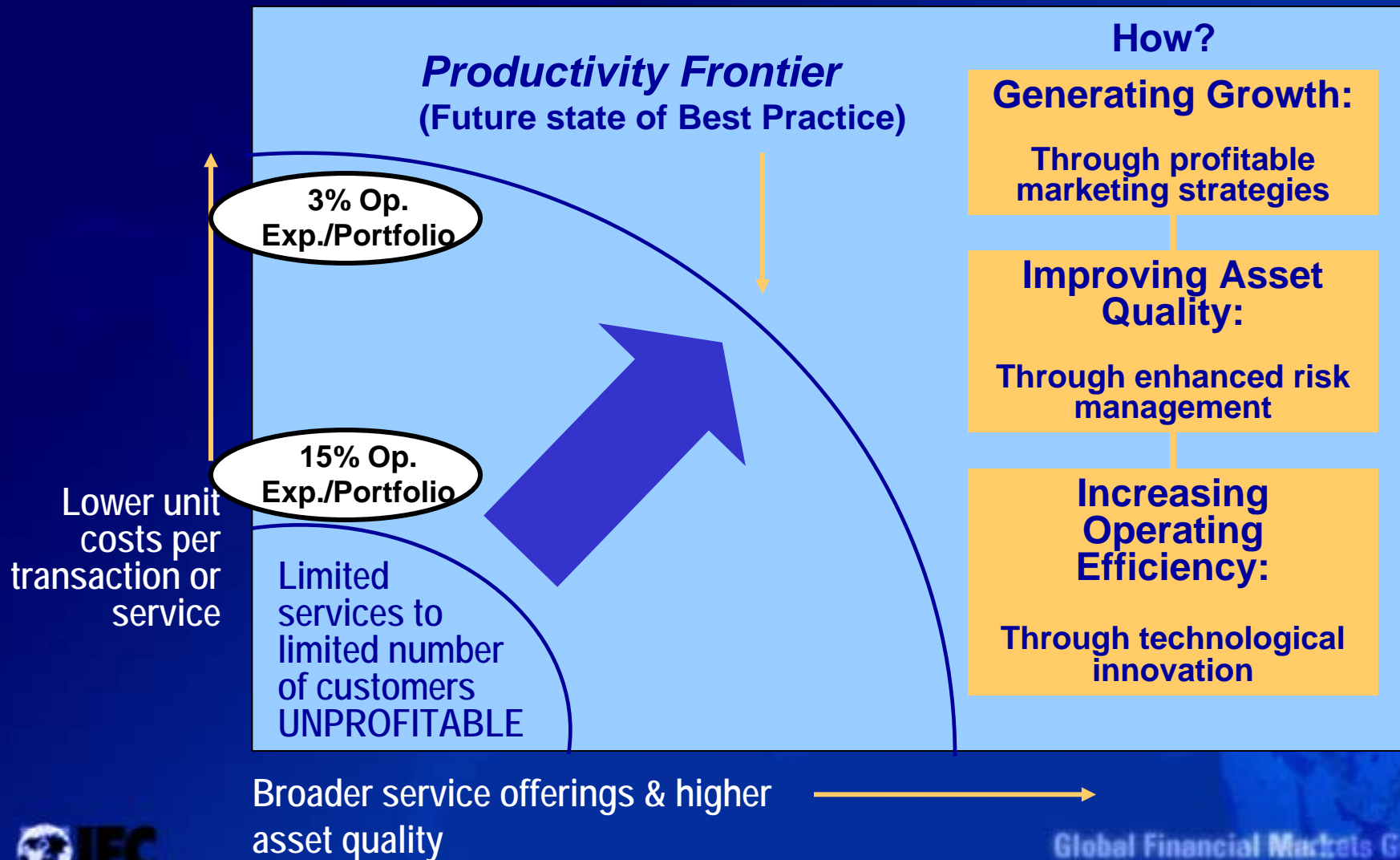
The role of credit information in
microfinance

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July 1, 2004



Shifting the Productivity Frontier



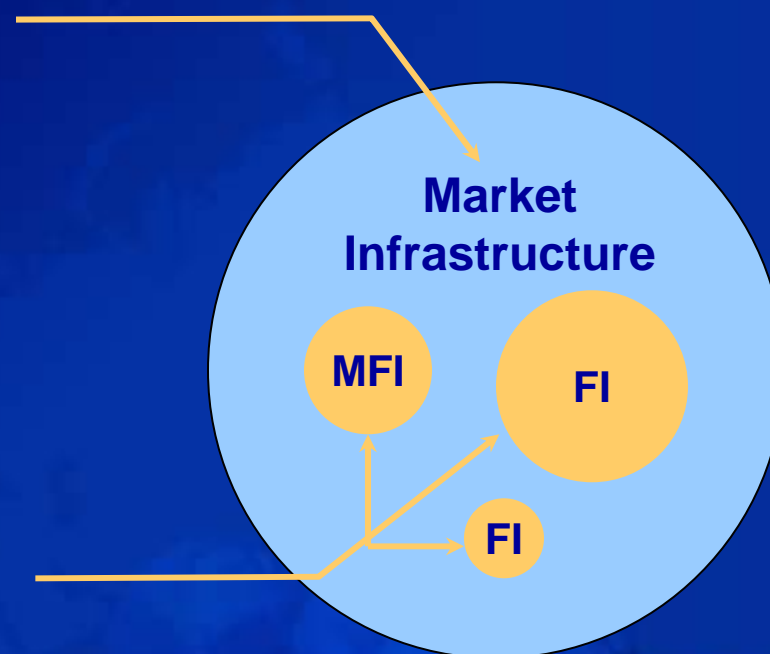
Advancing the Frontier: Two Levels of Intervention

Basic information services & market infrastructure accessible to FIs

- Credit bureaus
- Creditor rights
- Payment systems

Supporting FIs and MFIs through:

- Improved risk management
- New decisioning technologies (e.g. credit scoring)
- Adapted delivery channels



Expanding Access to Finance:

- Depending both on capacity of individual financial institutions and available financial infrastructure, e.g. credit information
- Competition at individual level and cooperation at shared infrastructure level, e.g. credit bureau or shared card processing centers

The need for credit information...

...in pre-screening

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

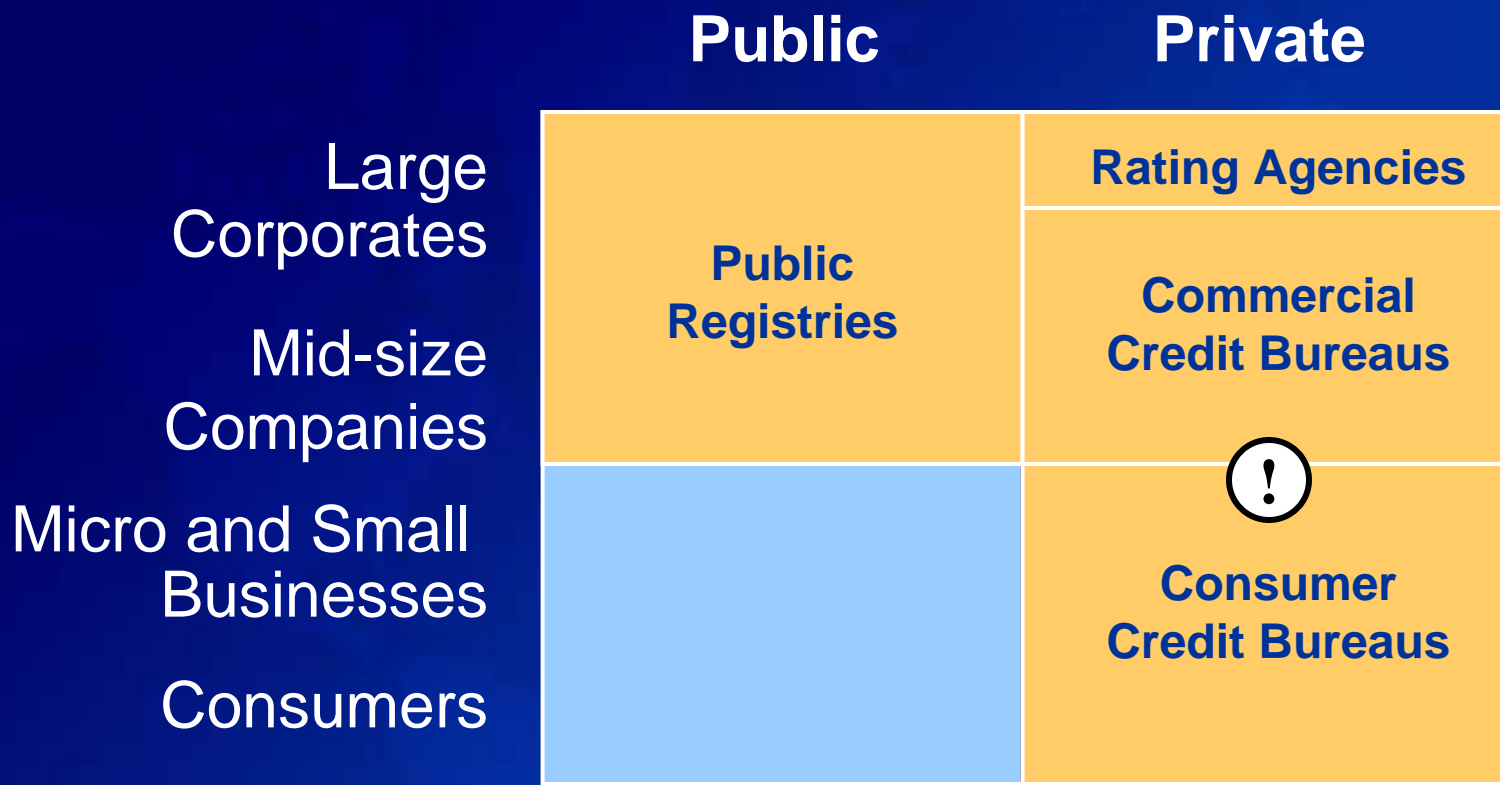
...in credit underwriting

- To identify bad borrowers
- To price risk accordingly
- To use automated / semi-automated underwriting tools like credit scoring

...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 Coverage – The Micro and Small Business Reporting Gap

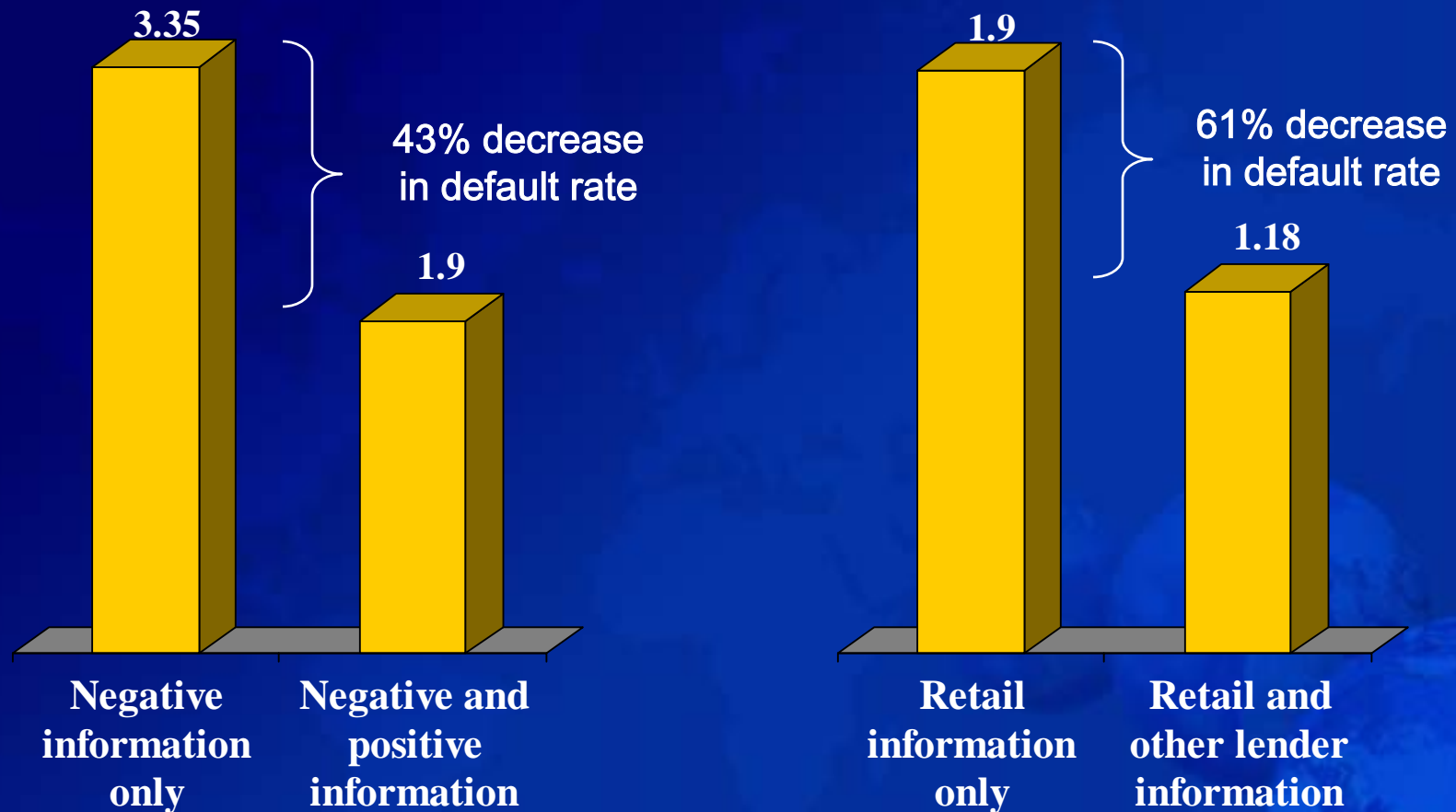


Classification of Consumer Credit Bureaus

Types of Information Sources of Information	“Positive & Negative”	“Negative Only”
“Full” (information shared by banks, retailers, NBFIs, mobile operators)	High predictiveness (e.g. US, UK, Italy, South Africa)	Lower predictiveness (e.g. Australia, Brazil)
“Fragmented” (e.g. information shared among banks only or retail only)	Lower predictiveness (e.g. Poland, Czech Republic)	Lowest predictiveness (e.g. Morocco, South Korea)

Broader information sharing decreases loan losses

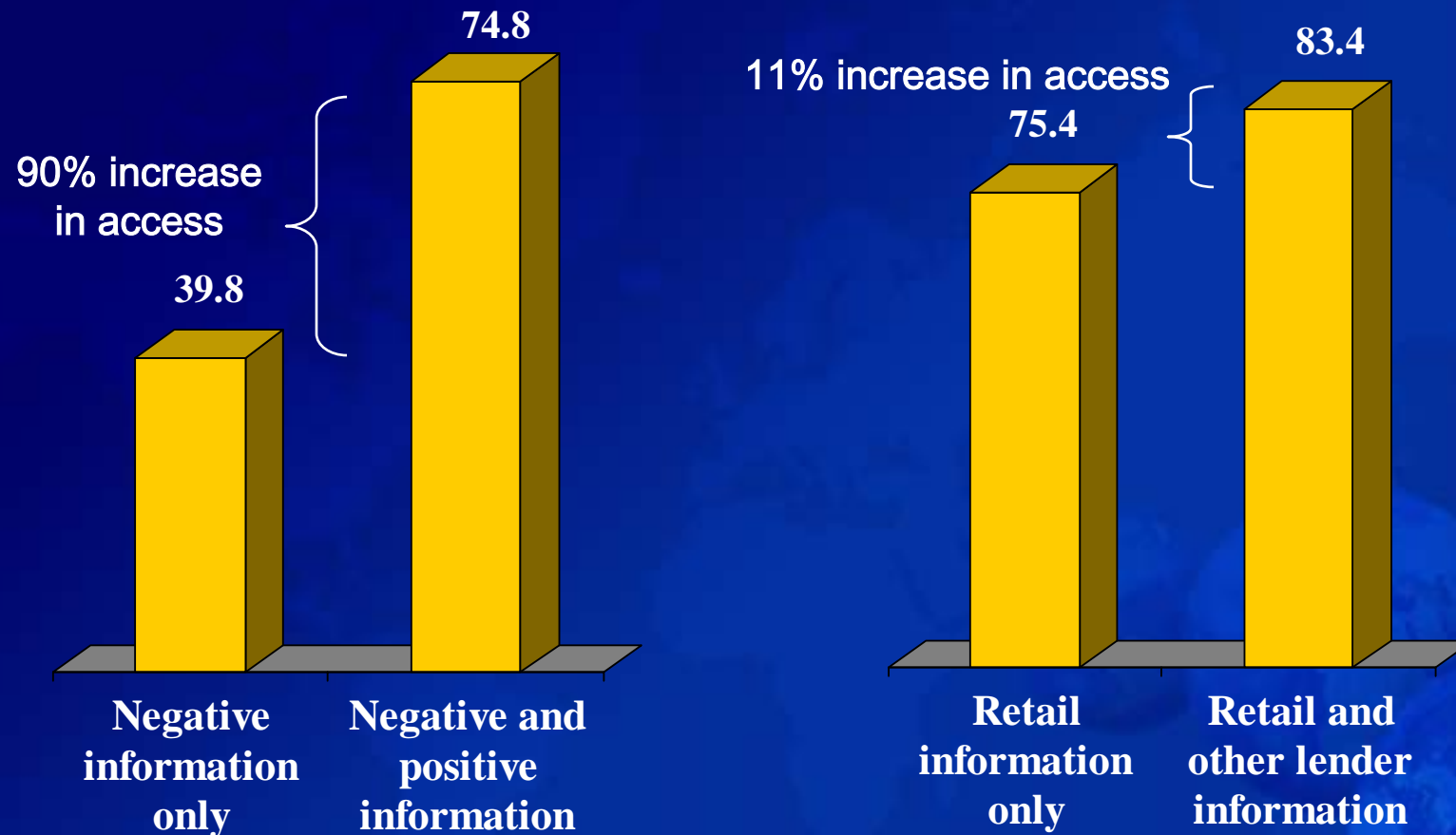
Percent Decrease in Default Rate



Source: Barron and Staten (2000). Note: Figure shows the simulated credit defaults assuming an acceptance rate of 60%

Broader information sharing expands credit

Percent of Applicants who Obtain a Loan



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

Reasons for microfinance institutions to become interested in credit reporting

- Increased or high loan losses (Bolivia)
- Fashionable (India)
- Greater sophistication in underwriting, in particular through the use of credit scoring (Peru)

Key Issue:

Specific requirements of microlenders vs. island solution with limited predictability

Specific requirements of microlenders

- Demographic and geographic coverage (non-banked, informal, often including semi-urban and rural)
- Specific information needs (treatment of defaults in group lending; realtime monitoring of credit requests)
- Technology limitations of MFIs (off-line use of bureaus; limited IT infrastructure for automatic and consistent reporting to the bureau)

Key Issue:

Is the microfinance credit reporting market large enough to attract experienced bureau operators?

Success factors for microfinance credit reporting

- Integrate with reporting of broader financial sector and other lenders, in particular with retail lenders (e.g. use model of closed-user group with outsourcing to existing bureau as first step to full sharing of information)
- Ensure that specific information requirements are met and assess whether institutions are ready for a credit bureau based on their IT systems and credit underwriting processes (support technical scoping studies in preparation of respective bureau projects)
- Work with experienced credit bureau operators and consultants (big three – Trans Union, Experian and Equifax – have indicated support and interest, as have specialized bureaus such as Compuscan)
- Provide support to MFIs about the use of credit reports and value-added services (such as bureau scores), and the respective integration into credit underwriting processes

Key Issue:

How ready are countries for microfinance credit reporting based upon competition, IT systems and credit underwriting processes?