IFC International Finance Corporation World Bank Group

IFC Advisory Services in Latin America and the Caribbean
Access to Finance

Volume V, July 2010

Caribbean Panorama

IFC congratulates **Guyana** on the passage of its Credit Bureau legislation! This is a milestone, as Guyana joins Jamaica as the second country in the region with credit bureau legislation. Guyana is working to implement a fully regulated and running credit bureau by the end of the project.

SNAPSHOT

Guyana: IFC is engaged with the Central Bank to draft regulations and guidelines to supplement the credit bureau legislation. In parallel, IFC is working with the Bank of Guyana to define the next steps for the project which will include developing an RFP template, creating documentation for consumer education, and training and technical assistance for the regulator.

Jamaica: The credit reporting legislation has undergone a series of approvals and now a final amended draft is awaiting final approval by the Senate.The regulations issued under the Act will then be sent to Parliament for approval. With all of the appropriate approvals in place, credit bureau licensing applications can then be accepted in accordance with the Act.

Belize: After completing the Legal and Regulatory Assessment in April, IFC recently completed the second component of the Market Assessment, the Business and Technical Assessment in mid-July. Meetings were held with banks, credit unions, retailers, and regulatory authorities that are likely to participate in the upcoming credit bureau.

Bahamas: IFC also completed a Legal and Regulatory Assessment for the Bahamas in April and will complete the Business and Technical Assessment in August. Additionally, the Central Bank of the Bahamas is reviewing documentation for the consumer education element of the project.

Barbados: The Barbados Bankers Association held a meeting to secure the support and commitment of the banks for developing a Credit Bureau using a Code of Conduct.

OECS/ECCB: IFC met with the project team in May, and the ECCB will be scheduling a conference call with the potential data contributors to update them on the progress of theproject and to solicit their input and buy-in. Additionally, Maria Pincetich spoke at the Caribbean Confederation of Credit Unions (CCCU) Conference in St Maarten on reducing information asymmetries through full file data sharing.

*Caribbean Panorama is a quarterly newsletter which tracks the progress on the Caribbean Credit Bureau Project, an initiative supported by the **Canadian International Development Agency (CIDA)**.*

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So, a Credit Bureau is coming to town?

Given the recent successes in the region and the high probability of new bureaus on the horizon, now is a good time to talk about the key features and benefits that all participating stakeholders will enjoy. Specifically, let's look at the three main counterparts in the bureau:

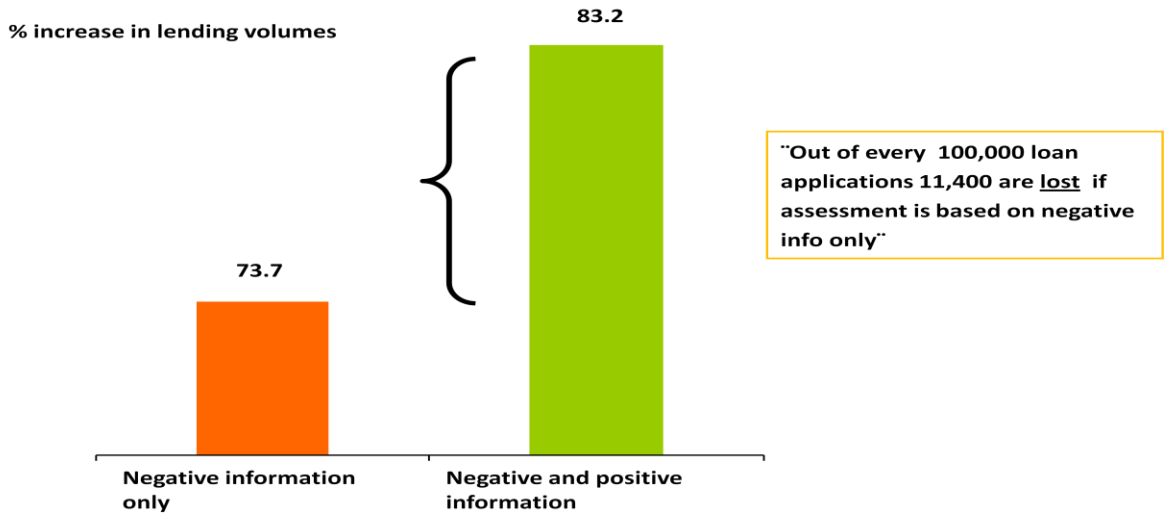
a) the consumers
b) the financial institutions
c) the regulators

Growing the Pie

Although the benefits of having an efficient and well managed credit bureau will be spread to all parties who contribute, the biggest winner is the consumer. A summary of the benefits from the perspective of each participant is provided below:

a) The Consumer

- Fairness: Good paying consumers are not burdened by the "one size fits all" approach to pricing due to the differentiation between good payers and bad payers.
- Good payment behavior recognized and rewarded: When consumers pay their bills on time, don't miss payments, have no bankruptcies or legal rulings under their name, loan size and amount have a much greater chance of increasing.
- Ensured data protection and confidentiality: The consumer's data is confidential and protected by high tech software, hardware, strict regulations and supervision. The only parties that can see this data are those who are authorized.
- More credit options: A credit bureau provides the tool for improved market segmentation so that the financial institutions can design new products to meet newly identified markets and better server the existing ones.



In the figure above provided by Barron and Staten (2000), with a full file credit bureau (sharing both positive and neative information), 11% more loans can be made that would otherwise be declined. Therefore, credit bureaus can facilitate more lending to a greater pool of consumers.

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b) The Backbone: The Financial institutions
(Banks, Credit Unions, Development Institutions, Retailers, Others)

- Cost and time savings: The applicant verification process can be time consuming, and time means money. Having a centralized and verified source for applicant verification streamlines this process and outputs quality data.
- Wider pool of qualified applicants: Due to data contribution from utility companies, retailers, and other financial institutions, the payment behavior of a greater pool of applicants can be verified and potentially be given credit.
- Risk Management: Without clear insight into the indebtedness and payment behavior of applicants, financial institutions must spread risk over the entire portfolio, which results in higher transaction costs and interest rates. With better data on the actual risk profiles of each applicant, this risk can be assigned to the appropriate higher-risk segment.
- More accurate provisioning for reserve requirements: Having more information on the amount of defaults, a bank can set its provisioning more accurately. This type of improved risk assessment also helps to better forecast reserve requirements and avoid gointg to the market for more costly funds.

c) The Regulatory Authorities (Central Banks, Supervisory Authorities)

- Transparency: With a credit bureau, regulators can independently audit or benchmark performance across the credit market. Regulators can also get a holistic view of the credit market, not just from institutions they oversee but also from retailers, utilities, and other parties that report to the bureau. Of course, the regulators would only see aggregated data and not at the customer level.
- Greater oversight: As the regulators of the bureaus, authorities will be able to better monitor and have knowledge of the credit situation in their countries, which could help in making decisions to improve the financial systems.
- Increased access to financing by Small and Medium Enterprises*:* In studies done on 5,000 firms in 51 countries, the percentage of firms reporting constraints to financing declined from 49% to 27% after credit bureaus began operations.

In summary, there is a tri-partite of beneficiaries due to credit bureaus: Consumers will have greater access to credit, and good payers will no longer bear the burden of bad payers. Lending institutions will be able to loan more funds and with less risk. And the financial regulators will have greater transparency and oversight. A win-win-win for all!

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