

THE SOUTH AFRICAN CREDIT INFORMATION SYSTEM

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INTRODUCTION

SOUTH AFRICA HAS A MATURE AND SOPHISTICATED CREDIT INFORMATION SYSTEM WITH THE FOLLOWING CHARACTERISTICS:

1. Extensive voluntary information sharing
2. Application of the Principle of Reciprocity
3. Use of sophisticated Scoring Models
4. Full –File Credit Reporting:-both positive and negative information is recorded
5. Fixed and Reasonable Data Retention Periods
6. A legitimate and non-judicial dispute resolution mechanism that resolves disputes between consumers and Credit Bureaux or their subscribers
7. Credit bureaux operate within the parameters of a Code of Conduct

ROLE – PLAYERS WITHIN THE SOUTH

AFRICAN CREDIT INFORMATION SYSTEM:

1. Private Credit Bureaux
2. Subscribers to the Credit Bureaux
3. Credit Bureaux Association (CBA)
4. Consumer Credit Association (CCA)
5. The Credit Information Ombud
6. The Micro Finance Regulatory Council

FUNCTIONS OF THE SOUTH AFRICAN CREDIT INFORMATION SYSTEM:

1. Improves risk management .
2. Enables lenders to increase the amount of lending.
3. Reduces default rates by acting as a “borrowers default mechanism”.
4. Enables borrowers to develop credit profiles.
5. Prevents borrowers from becoming overindebted.

UNDERSTANDING HOW THE SYSTEM OPERATES:

SCOPE OF INFORMATION INCLUDED IN THE DATABASES OF CREDIT BUREAUX:-

Credit Bureau in South Africa make available comprehensive information on the credit status of borrowers sourced from public records and private records/credit account details , in an effort to assist lenders identify good borrowers:

PUBLIC INFORMATION:

(Sourced from court records)

1. Civil judgments
2. Liquidation Orders
3. Sequestration Orders
4. Rehabilitation Orders
5. Administration Orders and Rescission of Administration Orders

PRIVATE INFORMATION:

(Sourced from the retail, banking and financial, Micro Finance and Debt collection industries, as well as Telecommunications and Cellular Phone Companies, and the South African Fraud Prevention Unit), include:

1. Header or Identifying Information
2. Account payment profile details

Information recorded is relevant only to assessment of creditworthiness and excludes sensitive information like race , ethnicity, sexual orientation, political or religious beliefs etc.

VOLUNTARY INFORMATION SHARING

Credit Bureaux in South Africa enable the voluntary exchange of information between lenders/credit grantors which allows lenders to supplement their own information with the information of other lenders. Lenders within a closed user group (the CCA) share both positive and negative information with each other. The membership of the CCA is extensive and includes the following sectors: retail, banking and financial, debt collectors, telecommunications, cellular telephone companies etc. Information from microlenders is shared with the CCA through the Microfinance Regulatory Council.

THE PRINCIPLE OF RECIPROCITY

Credit Bureaux in South Africa operate on a Principle of Reciprocity – information supplied by members of CCA is collated and a credit report is compiled which can be accessed by CCA members. Members in this closed user group regularly supply full –file credit information which is required to be accurate, up to date and relevant and can access full-file credit reports. An agreement between Credit Bureaux and the CCA provide for the application of the Principle of Reciprocity i.e. those who provide information to the Credit Bureaux are able to access that information.

ROLE OF THE CREDIT BUREAUX IN HOSTING DATA:

1. Members of the CCA form a closed user group the information which is supplied by them, is hosted by the Credit Bureaux on a private domain and not a public domain
2. The data provided by the CCA is maintained in accordance with instructions given by the CCA to the Credit Bureaux
3. Data received by the Credit Bureaux is first validated , then captured and the information is used to compile a complete report.
4. The Credit Bureaux is responsible for ensuring that data is:
 - a. Accurate;
 - b. Up to Date; and
 - c. Complete .
5. Further credit bureaux safeguard data by effective data security systems.
6. Once a report is compiled scoring techniques are applied to derive a credit score.

ROLE OF THE CREDIT BUREAUX IN PROVIDING CREDIT SCORE

Two types of score cards :

1. Credit Bureaux score –derived from Credit Bureaux data only;
2. Customised score-derived from a combination of Credit Bureaux data and the data of the particular customer/subscriber.

Functions of Credit Scoring:-

- a. Categorises credit applicants according to risk classes.
- b. Prevents lenders from making bad decisions or turning away profitable business.
- c. Assists lenders in assessing the probability of payment thereby enabling the lender to determine the “cut –off level”.

FIXED DATA RETENTION PERIODS

In South Africa data retention periods correspond with the predictive power of the information.

The rationale behind fixed data retention periods is as follows:

a. If negative information is retained indefinitely there is no incentive for borrowers to rehabilitate themselves;

and,

b. If negative information is prematurely removed once the debt is paid or the problem resolved then this will detract from the predictive power of the information.

CONSUMER PROTECTION

The Credit information Ombud was established as an independent body to address complaints that pertain to :

- a. Inaccurate or incorrect default information;
- b. Insufficient or incomplete credit information;
- c. Out –dated credit information;
- d. Obligation of the subscriber to supply accurate credit information;
- e. Obligation of the subscriber to properly inform the credit receiver prior to adversely listing them;
- f. Obligation of the subscriber to obtain consent from the credit receiver to supply their information to a Credit Bureaux and to access their credit reports;
- g. Cases where a person defaults through no fault of their own and subsequently rehabilitates themselves;
- h. Duplicate/double listings in respect of the same debt;
- i. Listings in respect of prescribed debts;

In addition the Credit Information Industry Code of Conduct specifies the duties of Credit Bureaux and their subscribers in relation to the data subject in the process of collecting, processing, maintaining, safeguarding and using private information. This Code is enforced by the Credit Information Ombud.

CONCLUSION

In conclusion these are the principles characteristic of a well functioning Credit Information System:

1. Collection of data from various sources to allow for cross-checking and accuracy.
2. Voluntary extensive full-file information sharing
3. Scoring systems which categorise credit applicants into risk classes
4. The Principle of Reciprocity
5. Full –File credit reporting
6. Ensuring that Credit Bureaux operate within a clearly defined framework of “good practice” principles.
7. The presence of mature private credit bureaus not subject to statutory limitations as is the case with public credit registries.