



**CREDIT BUREAUS AND FINANCIAL  
CO-OPERATIVES:  
TIME TO JOIN THE BANDWAGON?**



**COMPUSCAN**

CONFIDENCE IN CREDIT

## Agenda

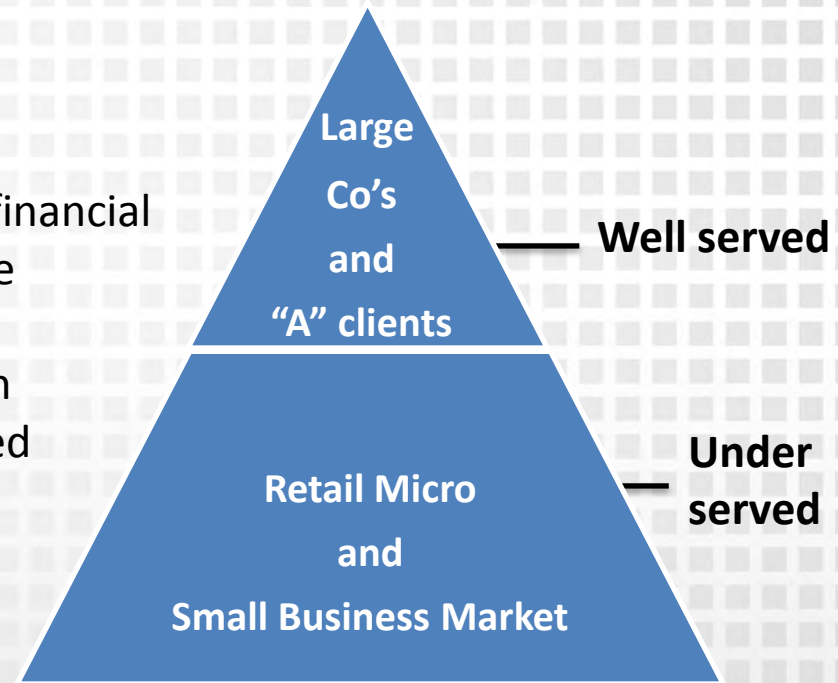
- Introduction
- Role of credit bureaus
- Definition of a credit bureau
- Solving the challenge of asymmetric information
- Contributors of data to private credit bureaus
- Effect on default rates of increasing number of information sources
- Classification of credit information
- Effect on approvals of including positive information
- Effect on default rates of including positive information
- More info sharing = more credit, higher growth
- Credit reporting in South Africa
- Credit life cycle of members
- Basic bureau operation principles
- What will make credit information sharing work
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## Introduction

- Credit bureaus form part of the financial infrastructure of a country
- Poor financial infrastructure poses a considerable constraint to financial institutions to expand offerings of finance
- The inadequate availability of credit is a serious handicap to the development of poor target groups
- Improving the range of financial services on offer would be an important development
- Credit gives purchasing power to people to grow and develop
- By adding missing financial infrastructure in the form of credit bureau services to the cooperatives sector, it will help facilitate cooperatives to grow and develop, and thus grow and develop the members of cooperatives

## Role of Credit Bureaus

- Credit bureaus are essential elements in the financial infrastructure that facilitates access to finance
- Financial services penetration of 5% to 25% in developing market vs 70% to 90% in developed markets
- Lenders tend to focus on large commercial clients and top retail clients
- Credit bureau technologies enable lenders to move from a subjective judgmental credit granting process to a more automated and quantitative process
- This enables lenders to deliver financial services at reduced costs and to expand credit to a broader segment of the economy



## Definition of a Credit Bureau

- Collects information from creditors and available public sources on a borrower's credit history
- Compiles information on individuals and small firms, such as information on credit repayment records, court judgments, and bankruptcies, and then creates a comprehensive credit report that is sold to creditors
- Creditors consider information held by these systems a primary factor when they evaluate the creditworthiness of borrowers
- This information flow enables credit markets to function more efficiently and at lower cost than would otherwise be possible
- Credit providers pay credit bureaus per enquiry that they conduct



## Solving the Challenge of Asymmetric Information

- Debtors are more informed about their financial standing than the creditor as they do not always disclose all information
- Creditors, therefore, are often limited in their ability to assess credit risk
- Credit bureaus reduce information asymmetries by making a debtor's credit history available to potential creditors
- Credit bureaus provide objective data, which favours segments of the population that may have been denied credit in the past due to prejudice
- An effective tool in mitigating issues of adverse selection and moral hazard
- Credit reporting systems also serve to discipline debtor behaviour - debtors are motivated to make payments on time so as to continue to have access to credit

## The effect of sharing data on affordability studies

- During the acquisition phase the National Credit Act requires credit providers conduct affordability studies
- Affordability studies take into consideration all the credit commitments of a borrower to determine if the borrower can afford the repayments of the credit extended
- This ensures that the borrower does not commit to credit he/she cannot afford to repay and find themselves over-indebted
- Credit bureaus help to prevent the borrower from becoming over-indebted by providing the credit provider with a complete overview of all of the borrowers commitments
- Thorough affordability studies thus protect the borrower from becoming over-indebted

## The benefit of thorough affordability studies for cooperative members

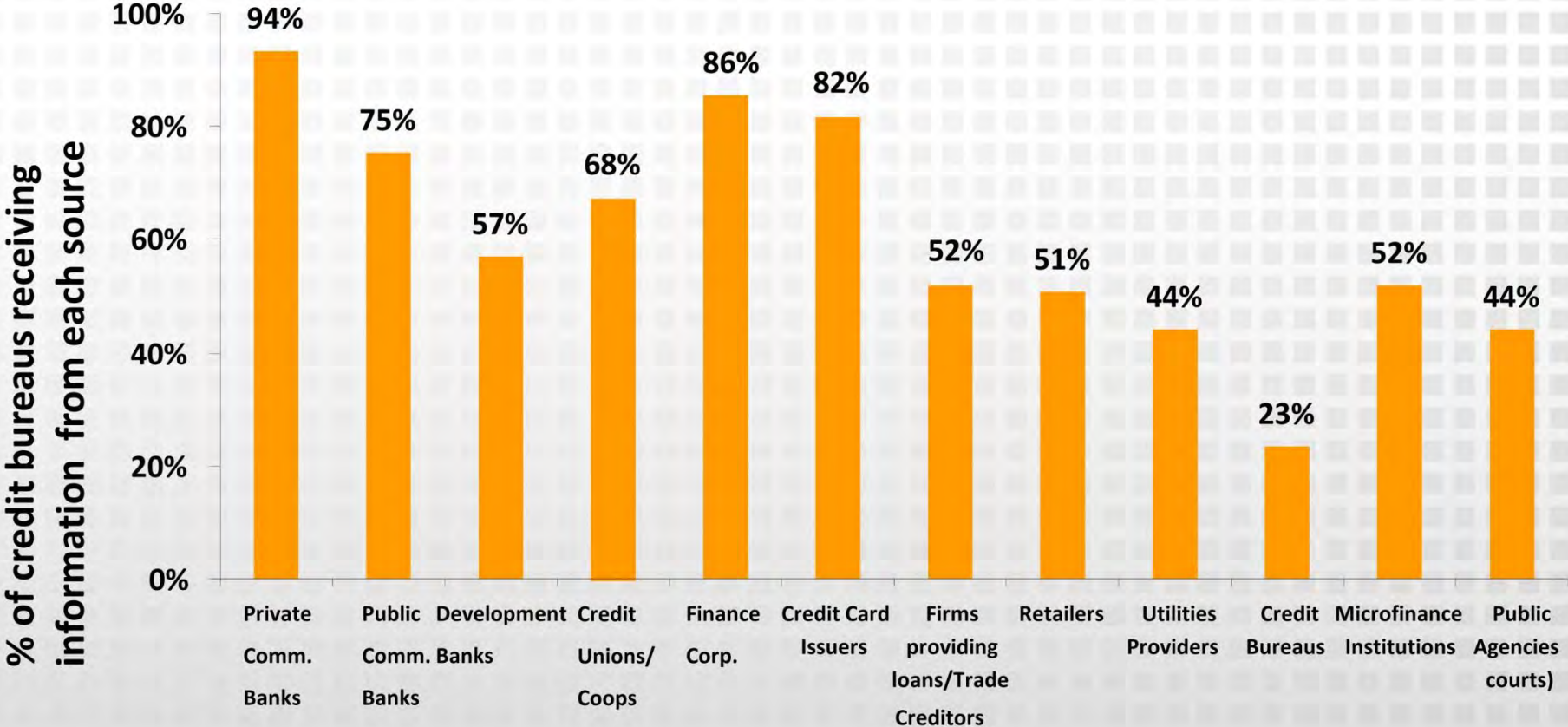
- To ensure that cooperative members are protected from over-indebtedness it is to their benefit that data of all their commitments be shared with credit providers
- This ensures that credit providers can make an informed decision when granting credit
- Cooperative members frequently apply for loans from cooperatives for debt consolidation purposes
- If data on these loans is not shared with credit providers they may not have sufficient information to determine affordability which may lead to the cooperative member being granted credit which he/she cannot afford and becoming over-indebted
- It is thus to the benefit of cooperative members that cooperative data be shared with credit bureaus and credit providers



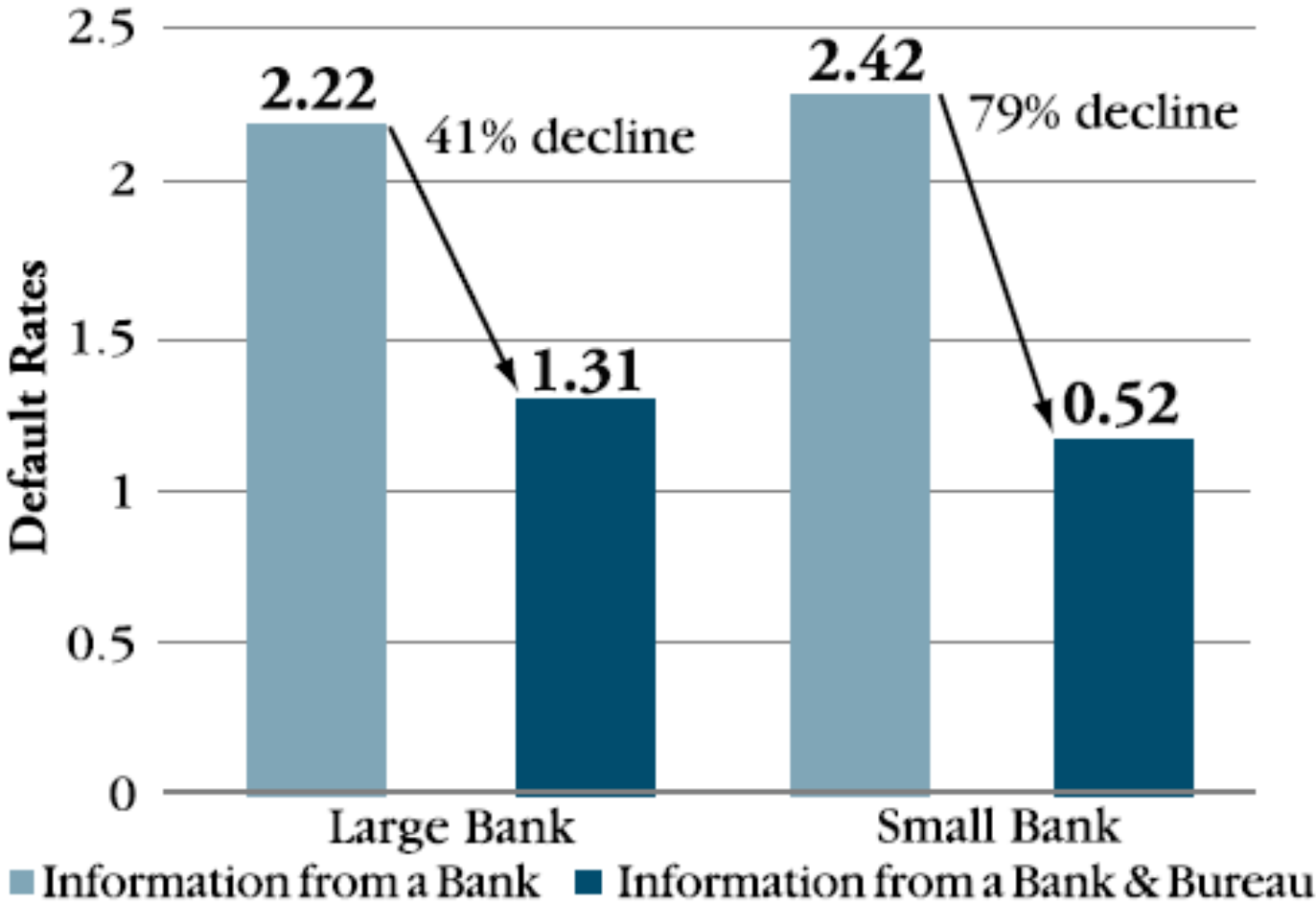
## The benefit of information sharing for cooperatives

- In most areas of co-operative finance limited access to funding is a considerable concern
- For investors funding in an environment of limited information is often seen as risky business
- As investors struggle to assess market risk and opportunity with precision, they often shift their sights to investments with more easily determined risks
- If cooperatives could show more complete data on their members and thus prove they have a healthier member portfolio with a lower risk it can stimulate increased investment

# Contributors of data to Private Credit Bureaus



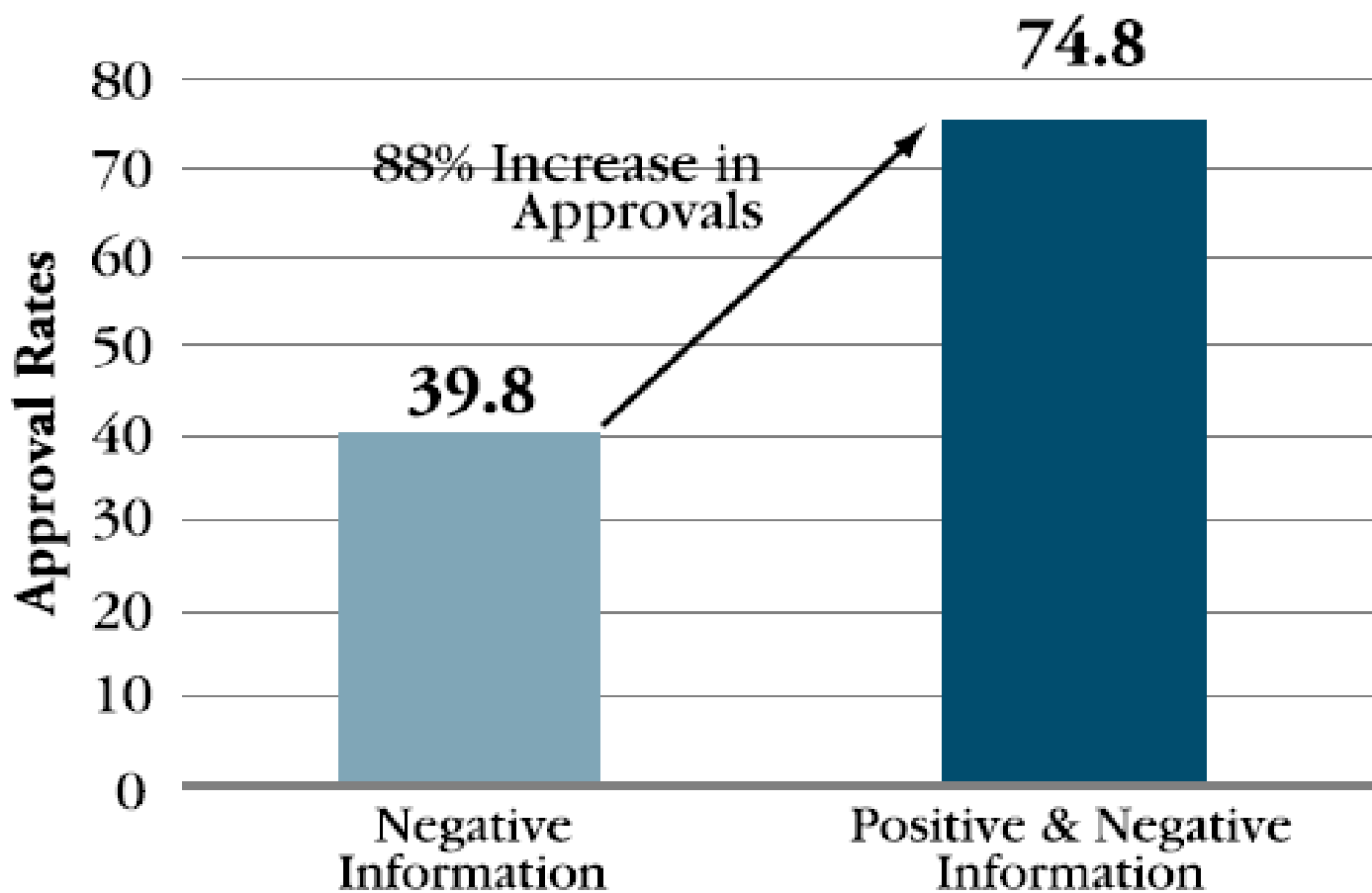
# Effect on Default Rates of Increasing Number of Information Sources



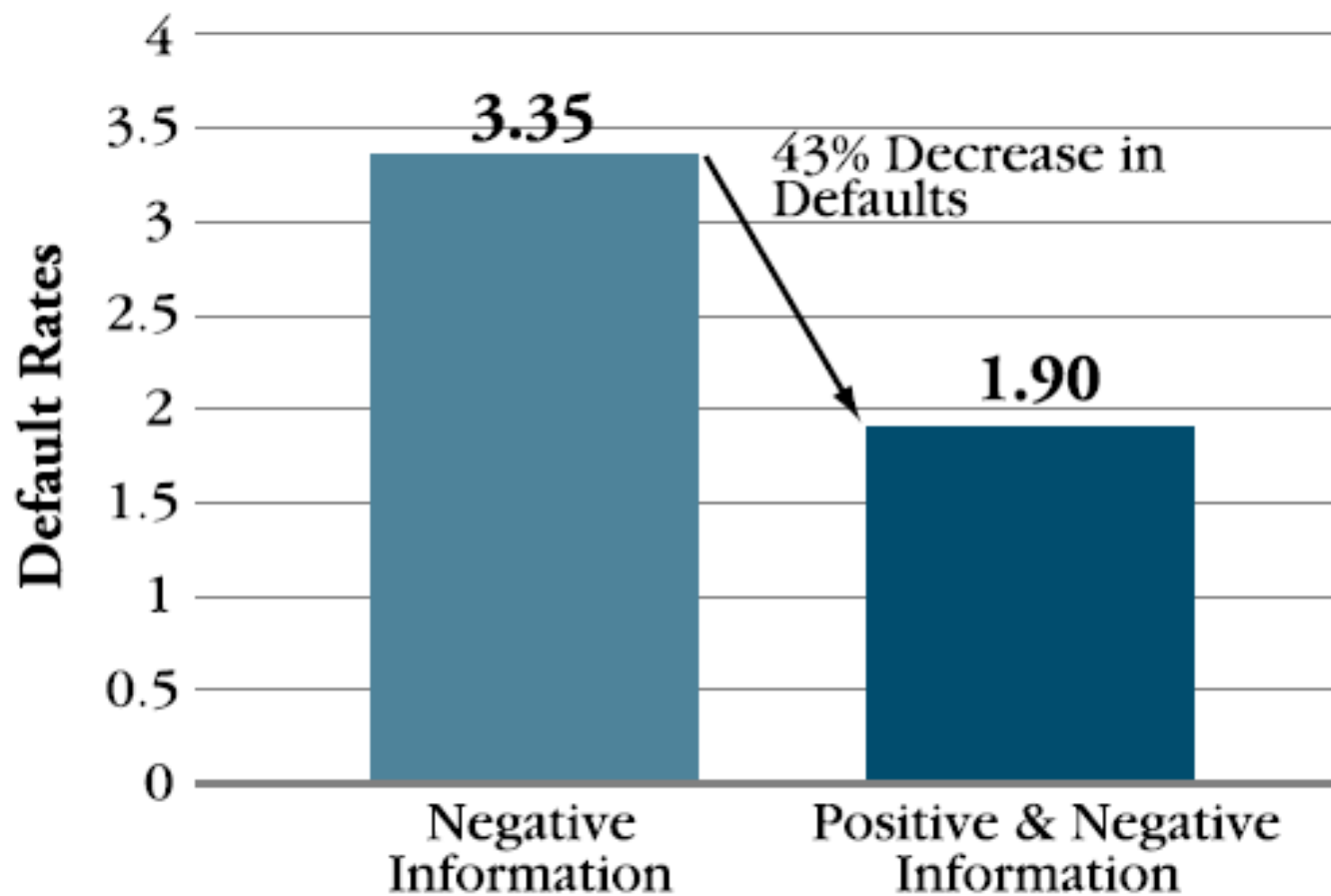
## Classification of Credit Information

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

## Effect on Approvals of Including Positive Information



## Effect on Default Rates of Including Positive Information



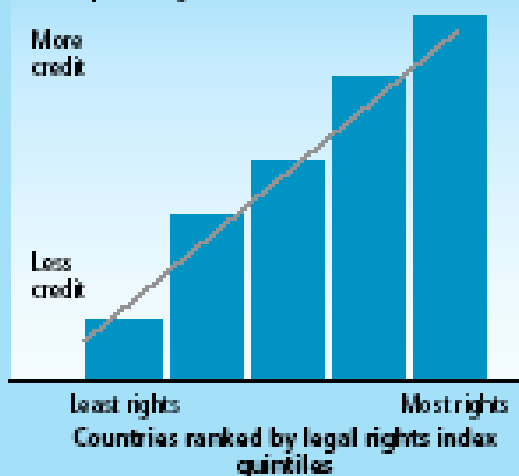
## More information sharing = more credit, higher growth

A WB analysis of credit markets, over the last 25 years shows that:

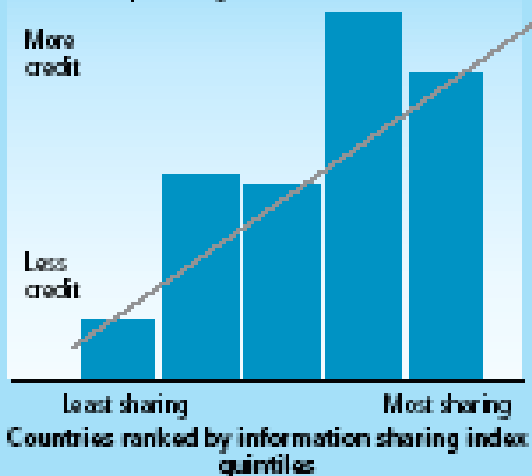
1. Broader info sharing & stringent bankruptcy rights expand credit and reduce non-performing loans
2. SME are 40% more likely to get a bank loan in countries with credit registries
3. Loans are cheaper, due to risk based pricing
4. Ratings of financial systems are higher
5. Increasing the quality/reach of information sharing is strictly associated with GDP growth

### Better legal protections and more credit information lead to higher growth

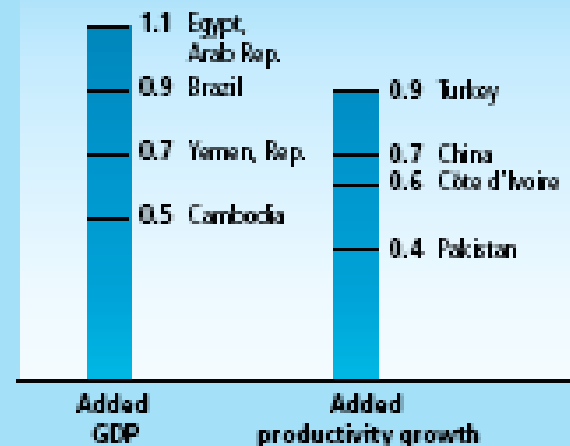
**Stronger legal rights, more credit**  
(Credit as a percentage of GDP)



**More Information sharing, more credit**  
(Credit as a percentage of GDP)



**More credit, higher growth**  
(percentage points)



Note: The relationships are significant at the 1% level and remain so at the 5% level when controlling for income per capita.  
Sources: Doing Business database and King and Levine (1993).

Note: Based on implied growth from increasing the legal rights score to the 75th percentile.

## Credit Reporting in South Africa

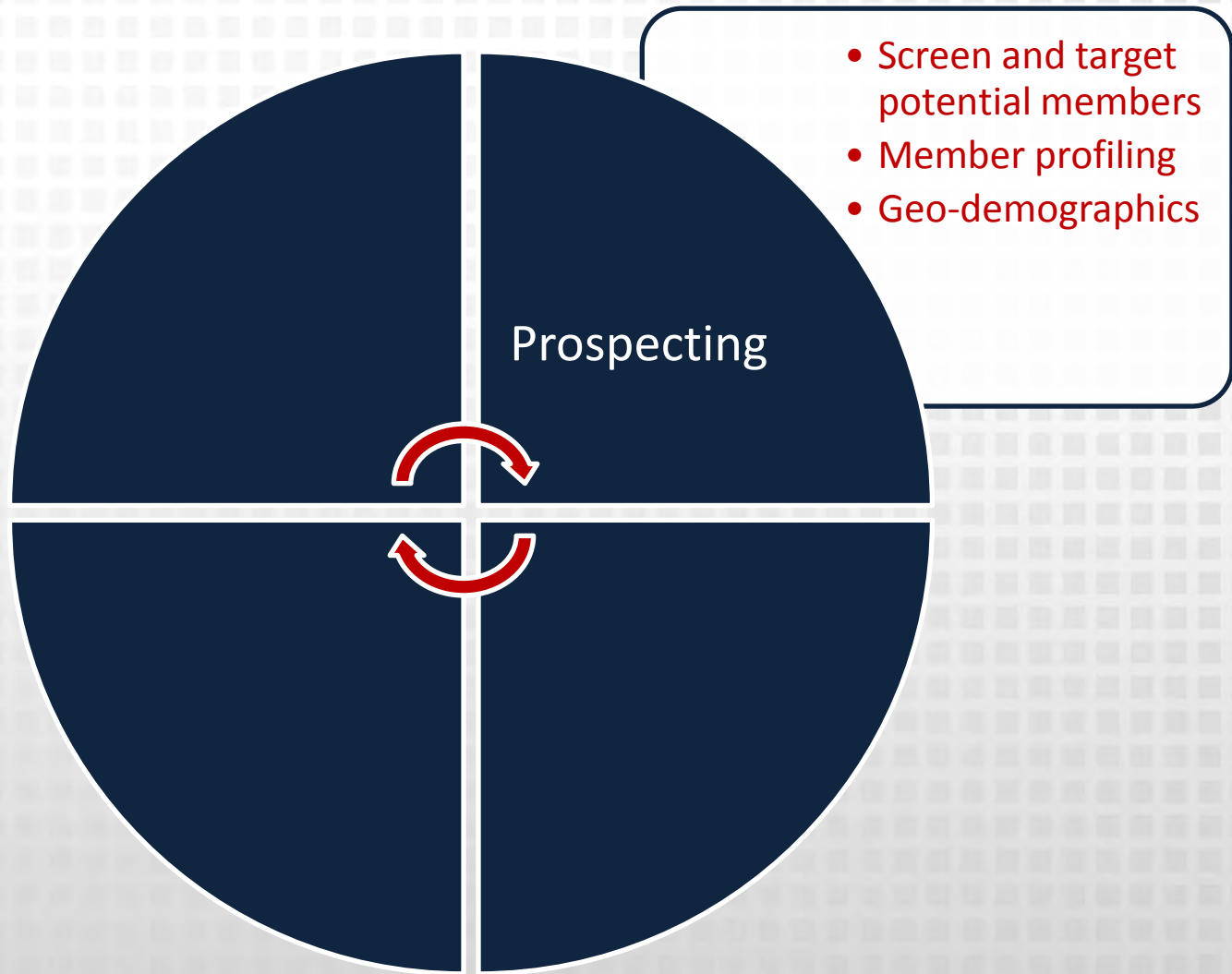
- South Africa has 4 major credit bureaus, with consumer and business credit information
- South Africa is ranked 1st in the world in terms of ease of getting access to credit, based on the strength of legal rights and the depth of credit information
- About 50% of the population is registered on the credit bureaus
- Data contributors include banks, credit driven retailers, credit card companies, microlenders, telecommunication and insurance companies, courts, debt counsellors, debt collectors
- There are about 68 million accounts on the bureaus
- To increase coverage to the rest of our population we need MFIs, cooperatives, SMMEs, and others to become data contributors and bureau users



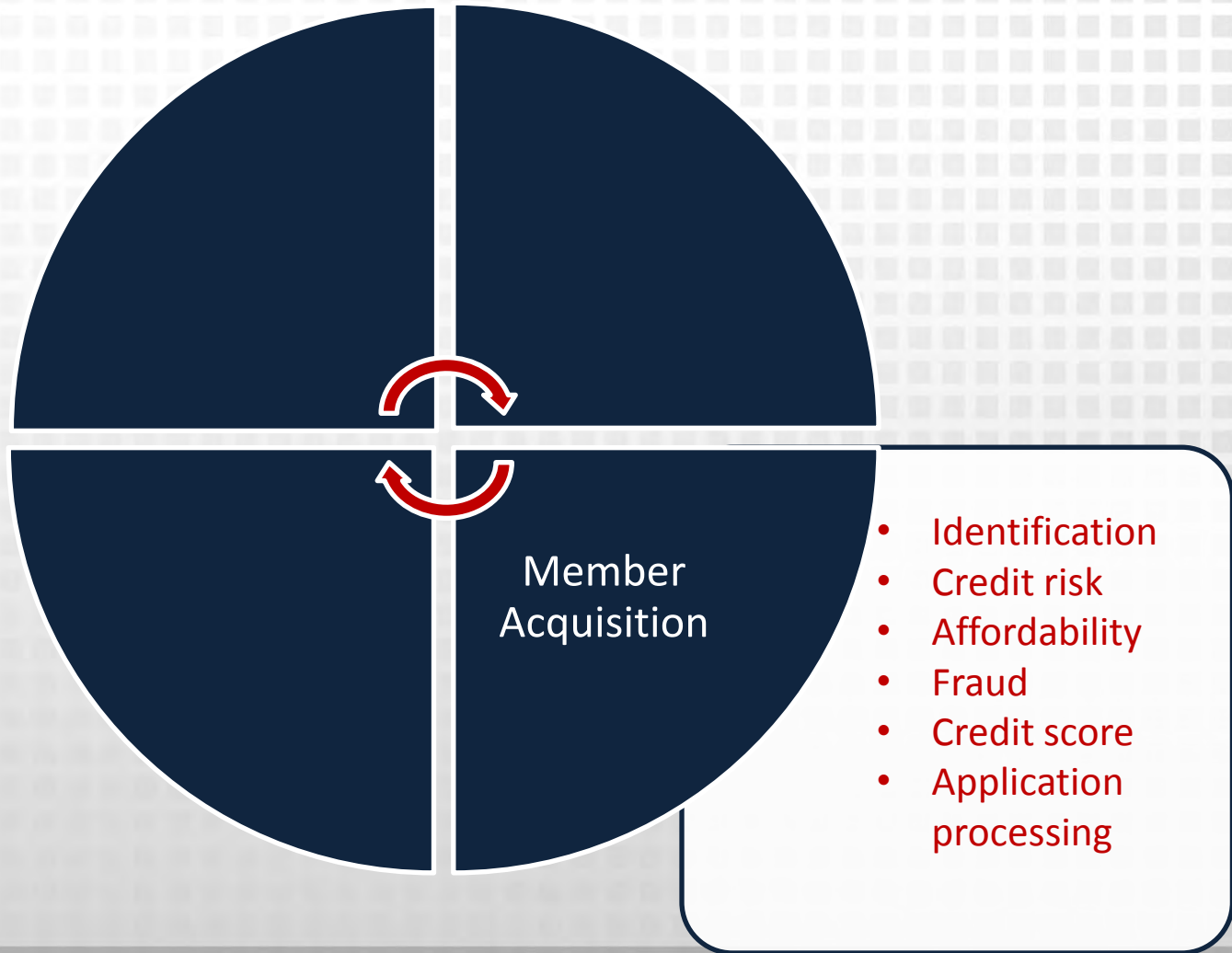
## Credit Life Cycle of Members



## Prospecting Phase



## Member Acquisition Phase



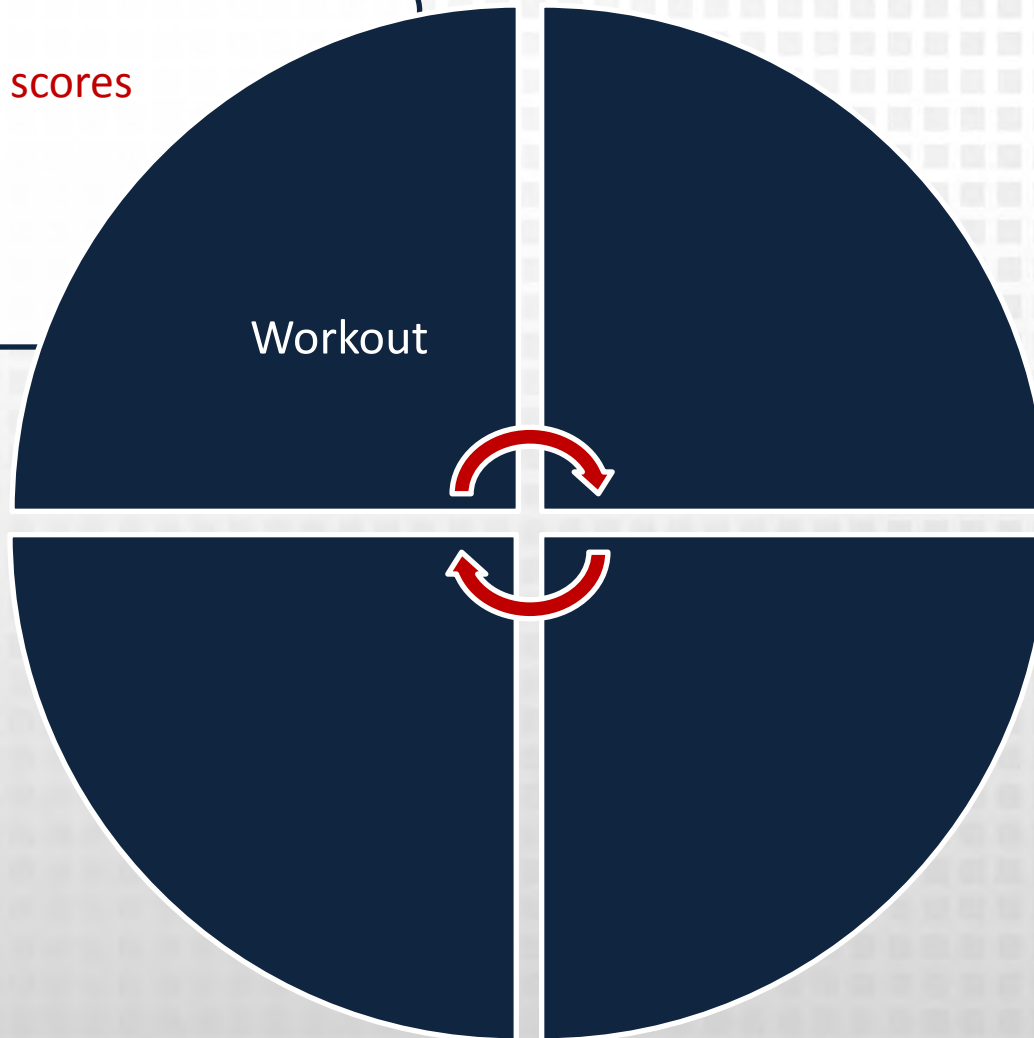
## Member Management Phase



- Triggers and alters
- Batch services
- Benchmarking
- Behaviour scores

## Workout Phase

- Tracing
- Collection scores



## The Basic Bureau Operation Principles

The basic bureau operation principles include:

1. Reciprocity - The requirement that all members provide data in order to obtain access to the information in the bureau
2. Data Format - The specification of the format in which data is submitted and distributed
3. Frequency - The schedule for data submission and updates.
4. Quality - The requirement that the information be accurate, complete, current, and provided on time



## Data Retention Periods

As of 1 December 2006, credit information is held for the following time periods:

Category of Consumer Credit information	Maximum period on the credit bureau
Details and results of disputes lodged by consumers	18 months
Credit enquiries (Link to enquiries)	2 years
Payment Profile (Link to enquiries)	5 years
Adverse classifications of consumer behaviour (e.g. Default, Slow payer, Cheque account misconduct)	1 year
Adverse classifications of enforcement action(e.g. Handed over; Write-off; Repossession)	2 years
Debt Restructuring	Until a clearance certificate is issued
Civil Court judgments	The earlier of 5 years or until the judgment is rescinded by a court or abandoned by the credit provider
Administration Orders	The earlier of 10 years or until order is rescinded by a court
Sequestrations	The earlier of 10 years or until rehabilitation order is granted
Liquidations	Unlimited period
Rehabilitation Orders	5 years
Other information e.g. Collections	2 years

## What will make credit information sharing work?



- Willingness and commitment of participating institutions
- Working with a effective and experienced credit bureau operator
- Accurate, complete and comprehensive credit information is key to the success of any credit bureau
- The required data must be received accurately, timely, regularly and complete, in accordance with regulatory requirements
- Participate with all other data suppliers or closed users group?



# About Compuscan



## Compuscan's Experience, Knowledge and Abilities

- Started out in 1994 = 18 years experience in the credit industry
- We are a recognised market leader in developing markets
- Comprehensive credit databases, scoring expertise and in-house developed software to bring the credit industry an all-embracing solution
- Does not employ a “one-size-fits-all” approach
- Experience in dealing with the needs of different types of member institutions: main stream banks, microfinance institutions, microlenders, utility companies
- Extensive involvement in the credit information industry.  
NCA accredited

## Compuscan's Support and Training

- Provide clients with the necessary support & training to make the most effective use of credit information
- Use an outcomes-based approach so subscribers know how to use the system and can effectively combine it with their own systems
- Training is provided through a network of representatives in each region in South Africa
- Able to provide on-site training and support
- Check in with clients every six weeks
- Call centre is open six days a week



## Compuscan Academy

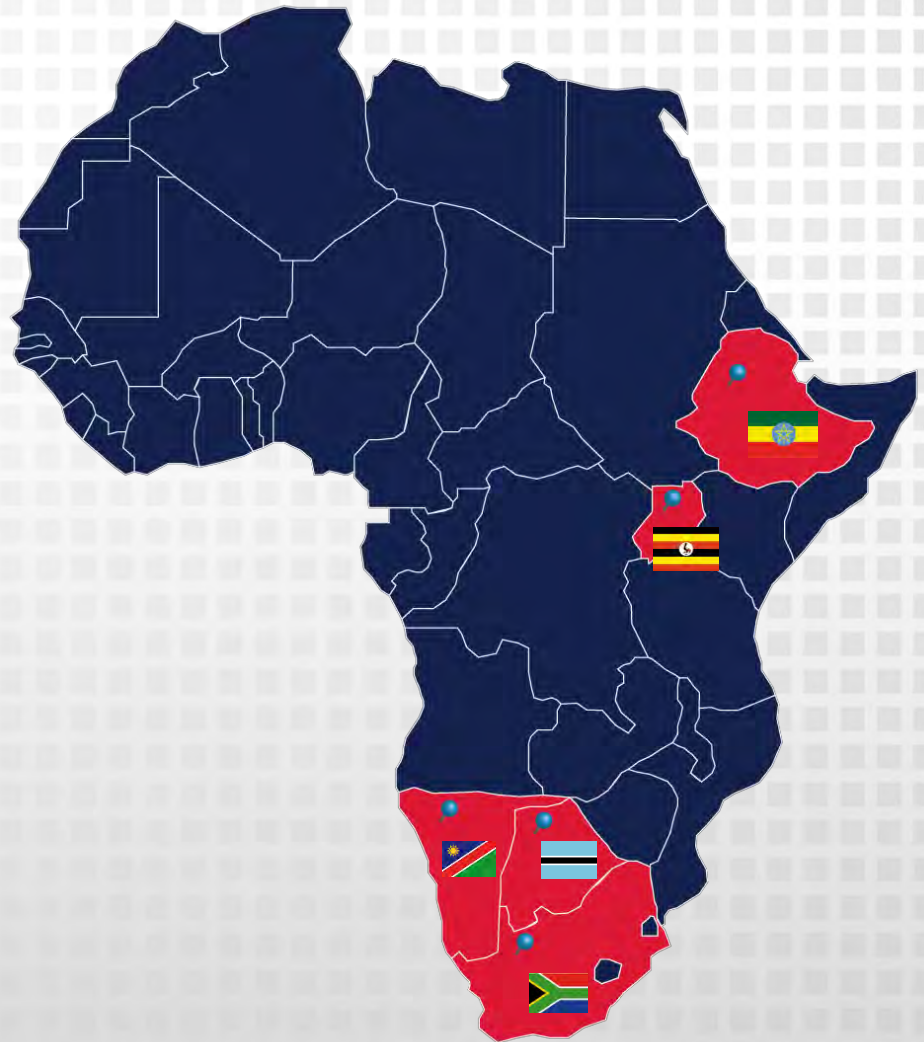
- Sister company Compuscan Academy provides formal skills training & development to the credit industry
- Compuscan Academy is BANKSETA, ICM and NCR accredited
- Delivers national qualifications and various registered skills programmes and short courses to the credit and corporate industry
- Develops all course material in-house – can be customised
- Consultancy services



**COMPUSCAN ACADEMY**  
SETTING YOU ON COURSE

## Compuscan's Markets

- Compuscan currently services more than 3500 lending outlets in SA
- Full credit bureau services in South Africa, Namibia, Botswana & Uganda and Ethiopia



## Compuscan's Key to Success



- Industry knowledge and exposure – aware of global trends, legal requirements & developments in the industry
- Commitment to service delivery excellence
- Talented individuals are recruited & continuous skills and management improvement is maintained
- Solutions converge into a full credit management capability - covering the entire credit granting life cycle
- Compuscan Academy empowers individuals with skills to run successful credit granting businesses
- Information technology infrastructure and capabilities relating to staff, servers, databases, software applications and bandwidth are of an international standard

# Thank you for your time & we are happy to help!

Any questions?

**Frank Lenisa**

+2782 920 0455

[frank@compuscan.co.za](mailto:frank@compuscan.co.za)

[www.compuscan.co.za](http://www.compuscan.co.za)



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