

Oversight of Credit Information Systems

What Role for Authorities in Credit Information System?

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Oversight on Credit Information Systems

Presentation structure

- ◆ Rationale for Oversight on Credit Information Systems
- ◆ Objectives and Instruments of Oversight
- ◆ The Scope of Oversight
- ◆ Cooperative Framework
- ◆ Recommendations for emerging economies
- ◆ Challenges

Oversight on Credit Information - Framework

Rationale for Oversight

The Oversight of a Credit Information systems is justified since:

- ' The smoothness and reliability of information flow and sharing mechanisms affect the efficiency of the real economy and the financial markets.*
- ' They also have an impact on access to credit by different segments of the population and firms.*
- ' Market forces alone may not be able to achieve the objectives of efficiency and reliability of the credit reporting systems since participants and operators may not have adequate incentives to share the information on creditors.*
- ' The institutional structure of the credit reporting systems may not provide incentives or mechanisms for efficient design and operation.*

Oversight on Credit Information - Framework

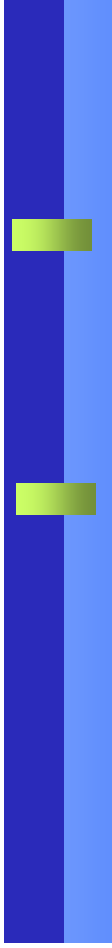
Factors that have made Oversight on Financial Infrastructure more important

A. Technological development:

- Faster systems and with much larger capacity
- Virtual: less relevance of physical presence complicates surveillance, enforcement, crisis management via traditional methods and channels
- Cross border: transcending physical, market, and jurisdictional boundaries
- Technological failures
- Industry transformation: more competition and innovation, but also more risk; unregulated institutions and non-financial institution

Oversight on Credit Information - Framework

Factors that have made Oversight on Financial Infrastructure more important

- 
- B.** Financial liberalization
 - C.** Increasing role of the private sector

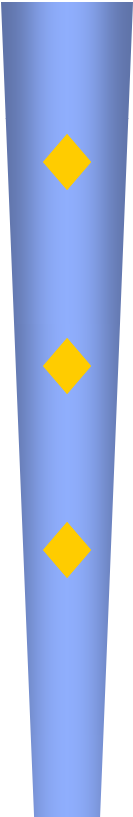
Oversight on Credit Information - Framework

Role of the Overseer:

- Develop principles and rules
- Assess/enforce rules compliance
- Promote/coordinate individual and collective actions
- Ensure system functioning
- Promote system development

Oversight on Credit Information - Objectives

Ultimate Objectives of Oversight

- 
- ◆ Economic Development
 - ◆ Access to Finance
 - ◆ Financial Stability

Oversight on Credit Information - Objectives

Operational Objectives of Oversight

- ◆ Developing efficient, safe and reliable credit information systems
- ◆ Fostering efficiency of relevant private and public databases
- ◆ Protecting privacy
- ◆ Preventing Frauds and Abuse

Oversight on Credit Information - Objectives

Intermediate Objectives of Oversight

- ◆ Competitive Market Conditions
- ◆ Cooperation
- ◆ Sound Legal Foundations
- ◆ Consumer Protection

Oversight on Credit Information - Instruments

Instruments of Oversight

⌘ Regulations and Incentives

Appropriate balance between privacy concerns and coverage of credit information systems

Define appropriate requirements for licensing

Facilitate links with public databases

Oversight on Credit Information - Instruments

Instruments of Oversight

⌘ Policy Dialogue (under the traditional activity of moral suasion)

To secure a fair representation of the public and private interests and to create consensus for policy choices.

At times, formalized in structured cooperative bodies

Oversight on Credit Information - Instruments

Instruments of Oversight

- ⌘ Monitoring (through collection of information, on site inspections, etc.)
- ⌘ Governance Structure of the system
- ⌘ Direct Provision of Credit Information Systems

Oversight on Credit Information - Targets

Targets of Oversight Activity

- ◆ Access
- ◆ Risk Control
- ◆ Information Transparency
- ◆ Pricing
- ◆ System Reliability
- ◆ System Development
- ◆ Privacy

Oversight on Credit Information - Scope

The Scope of Oversight



A broad scope of oversight on credit information systems could help achieve all objectives in a more consistent way



Therefore, all systems (public registries, credit bureaus and other relevant databases) should be subject to the same oversight framework, in particular in emerging economies, where there might be the need for a more proactive approach by the authorities

Oversight on Credit Information - Scope

The Scope of Oversight

- Credit Bureaus should be regulated and overseen in their status of auxiliary institutions of the financial system
- Public registries are important not only for banking supervision, but also to develop the entire industry of credit information. As such they have to be overseen in this context. In some cases the overseer is the operator of these systems

Oversight on Credit Information - Actions

Types of Action



Structural

Routine

Crisis Management

Antitrust

R&D

TA Resource Mobilization

Oversight on Credit Information - Staffing

Adequate Technical and Human Resources must be devoted to this Function which requires excellent timing, continuous contacts with the market and a full understanding of the mechanics of the system

COOPERATION IN CREDIT INFORMATION

- It might be appropriate that an authority assume the role of primary overseer, e.g. the Banking Supervisor

- However, the oversight role will have to be performed in cooperation with other authorities (e.g., Central Bank, the Governmen, Anti-trust agencies)


- Formal arrangements are preferable to avoid conflicts among regulators

COOPERATION IN CREDIT INFORMATION

- Cooperation between the Overseer and all stakeholders is essential to achieve the oversight objectives

- Ad hoc Cooperative bodies (e.g. National Credit Information System Committee) could be formed to guarantee this cooperation

COOPERATION IN CREDIT INFORMATION



Cooperation between market participants (e.g. through Bankers' Associations, operators, users groups, etc.) is equally important to achieve the oversight objectives

Credit Information Oversight - Recommendations

Recommendations for Emerging Economies

- 1) Well functioning credit information systems need a strong oversight underpinning
- 2) The overseer should create a specific CIO function (legally based and supported with all necessary skills)
- 3) The overseer should set a cooperative framework with all the institutions involved in the credit information business
- 4) CIO strategies and policies should be transparent
- 5) The overseer should make sure all the systems are safe and efficient, including those operated by the overseer itself

Credit Information Oversight - Recommendations

Recommendations for Emerging Economies

- 5) CIO must be based on incentive-compatible strategies: the overseer should engage the private sector and work with the markets
- 6) To the extent possible, market for credit information services should be competitive/contestable
- 7) The scope of CIO should be as broad as possible
- 8) The CIO should devote particular attention to adequate protection of privacy, without hampering the coverage and depth of credit information systems
- 9) Overseers should invest more in credit information research and policy issues

Credit Information Oversight - Challenges

Issues for Discussion

- ❖ Appropriate legal and regulatory framework
- ❖ Cooperation vs. Competition
- ❖ Privacy vs. Sharing of Information (coverage)
- ❖ Public versus Private credit information systems
- ❖ Appropriate division of roles among regulators and supervisors

Establishing an effective CIO is not easy,
but it is a worthwhile effort!!!