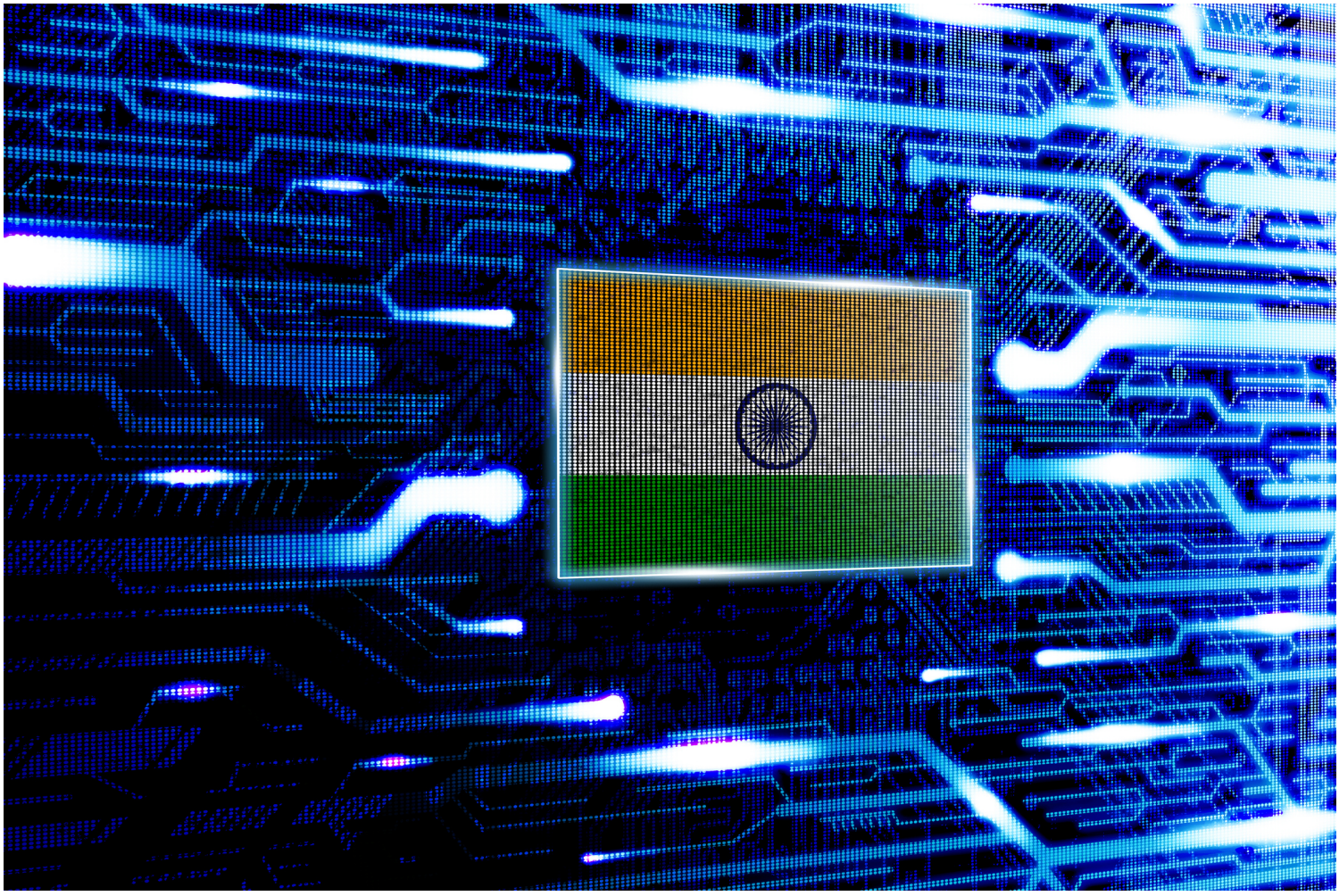
Reply to the HTF Report on Building a PCR in India



White Paper

By the Asia-Pacific Credit Coalition

September 2018

PERC

RESULTS AND SOLUTIONS

Asia-Pacific Credit Coalition

PERC

Table of Contents

Acknowledgements **3**

Note to Readers **4**

Abstract **5**

Section 1: Key Findings **6**

1.1 Points of Agreement with HTF Report **6**

1.2 Points of Concern with HTF Report **7**

1.3 Suggestions for Path Forward **8**

Section 2: Introduction and Current Situation **9**

Section 3: Reconsidering the Evidence **12**

3.1 What the HTF Gets Right 12

3.1.1 PCR Helps Prudential Regulation by Centralizing Data 12

3.1.2 PCR Can Improve Financial Inclusion 16

3.1.3 Proposed PCR Best Implemented in Phases 18

3.2 What the HTF Report Overlooks/Downplays **19**

3.2.1 The HTF Report Overlooks Evidence from March 2018 PERC Report 19

3.2.2 Report Overlooks Key International Best Practices 20

3.3 HTF Report Likely Chilling Planned Investment in CIS Industry **21**

3.4 Report diminishes Challenges of Implementation **22**

3.4.1 The HTF Report Downplays Data Quality Challenges 23

3.4.2 The HTF Report Downplays Authorized/Unauthorized Consumer Access Issues 24

3.4.3 The HTF Report Downplays User Credentialing/Auditing Challenges 25

3.4.4 The HTF Report Overlooks Downsides of Single Mega-Repository 25

Section 4: A Simple Path Forward **27**

Acknowledgements

The authors of this paper benefited greatly from our discussions with key stakeholders and issue area experts to better understand the rationale undergirding the desire for a public credit registry (PCR) in India, as well as the Reserve Bank of India's (RBI's) vision for a PCR. Different views on the role of the PCR, when and how it would be implemented, and a range of likely impacts were discussed with industry leaders in India, as well as several prominent policymakers and regulators. While some persons spoke with PERC on a condition of anonymity, others did so openly. Consequently, in addition to our anonymous sources, we wish to thank:

Mr. N. S. Vishwanathan, Deputy Governor, RBI
Mr. Sudarshan Sen, Executive Director, RBI
Dr. M. D. Patra, Executive Director, RBI, and Mr. Anujit Mitra, Advisor, RBI
Mr. V.G. Kannan, Chief Executive, India Banks Association (IBA)

Note to Readers

This PERC Reply is neither intended as a criticism of the HTF Report on the proposed public credit registry (PCR), nor of the views of any specific members of the HTF. In fact, PERC recognizes the benefits of the Indian government actively working to improve data availability to the government for regulatory, oversight, and monitoring purposes, and the benefits to the Indian financial system and economy as a whole. Further, we also recognize the wisdom and experience contained within the HTF and the many merits of the HTF Report.

Instead, the PERC Reply should be interpreted as a *supplement to the March 2018 PERC Report* on the concept of a PCR in India. At the time, very little was known about the justifications for a PCR, the functions of a proposed PCR, and how the PCR would interact with existing players within the Indian financial services sector. With the release of the HTF report in June of 2018, many insights were offered publicly for the first time. As such, this supplemental report from PERC offers an alternative viewpoint on several critical specifics relating directly to the creation and implementation of a PCR in India. At its core, the PERC Reply is a solutions-oriented report designed to be a resource to the RBI and other stakeholders as they consider the details of implementing a PCR and improving data sharing in India.

Abstract

This paper is a response to the April 4, 2018 report of the High Level Task Force (HTF) of the Reserve Bank of India (RBI) on the proposed public credit registry (PCR), which was released to the public on June 6, 2018 (hereafter "HTF Report" or the "Report"). The PERC Reply argues in support of a PCR and agrees with most of the reasons put forward in the HTF report to justify the creation of a PCR, namely the need for expanding access and use of data and the range of potential benefits to the Indian financial services sector. However, the PERC Reply also describes how a PCR implemented as initially proposed could have a damaging impact on the Indian credit information sharing sector, the Indian financial services sector, and ultimately the economy. As with most initial proposals written at a high level, we assume that important details and logistics will be worked through pragmatically, relying upon realities on the ground, within the economy, from current industry specifics, and feedback from a broad group of stakeholders. As such, the PERC Reply offers some suggestions that would entirely address the key concerns identified, and does so in a way that would enable the social and economic benefits described in the HTF Report while minimizing the scope and magnitude of unintended harms.

Section 1: Key Findings

1.1 Points of Agreement with HTF Report

An Indian PCR makes sense: It is clear that a nation's financial services sector would benefit from the presence of a traditional public credit registry focused upon supervision, oversight, enforcement, regulation, statistics, and economics. The financial crisis of 2008 highlighted the need for national regulators to access different data assets and more granular data to understand exposures, potential risk, and vulnerabilities in order to proactively take informed policy decisions.

Expanded data sharing and use would benefit India: Beyond the collection of data for regulator/oversight purposes, the HTF is correct that the Indian economy would benefit from increased and improved data sharing and use. Given that effective private credit bureaus already exist in the Indian market, this can be achieved efficiently by: expanding data that is required or permitted to be reported to the existing bureaus; by otherwise encourage data furnishing; or by removing reporting barriers. Data use can further develop by expanding the activities that permit credit data use. Some expanded data uses can work to improve competition in key markets, such as lending, for instance by allowing "pre-screening" to enable lenders to more effectively compete over customers.

Significant room to improve credit data sharing: It is inarguable that India's current credit information sharing system is imperfect, and suffers from gaps in coverage, data quality, and integrity, and could be dramatically improved to the benefit of borrowers, lenders, and regulators among others. It is also highly likely that a PCR could help close some of these data gaps and could bring further order to the nascent but rapidly developing Indian credit information services marketplace. There remain, however, open questions about the optimal approach for achieving these objectives. In particular, the notion of a single and central data repository for all germane data (the proposed PCR model) versus building upon existing and proven elements within the system to permit a PCR and a distributed credit data sharing ecosystem (any of the various PCR/PCB hybrid approaches successful in other countries).

Proposed PCR best implemented in phases: The HTF rightly supports a phased implementation of the PCR. The scope of the proposed data to be collected, and from the multiple sources envisioned, will be *extremely* challenging. For instance, the EU's AnaCredit, a project initially launched in 2011, which *just* focuses on data about SMEs for regulatory/oversight purposes, nonetheless has encountered (and is continuing to encounter) implementation challenges. If creating an Indian PCR is deemed desirable and such a project moves forward, it would appear logical to initially focus on government data and large lender data. These data would seem to comprise the low hanging fruit in terms of relative ease of data collection and value for oversight and lending monitoring purposes.

1.2 Points of Concern with HTF Report

HTF Report Has Blind Spots:
The HTF report, of course, largely reflects the views and perspectives of the task force members—namely banks, IT firms, and FinTech. These are, undoubtedly, important perspectives, and the HTF report contains much that is encouraging and helpful. Many crucial details concerning the myriad functions private credit bureaus perform (and would need to be performed by the proposed PCR) have yet to be taken into account. However, it is precisely these details that enable a credit bureau to operate and add value. A credit bureau is not just a database. Furthermore, we think the notion that the topic of a PCR naturally conflicts with the interests of private credit bureaus is incorrect. In fact, there are many instances around the globe of private credit bureaus working effectively with PCRs and regulators. In the parlance of economics, PCRs and PCBs are complementary to one another, and are not substitutes. Given this, there is a natural harmony of interest between these two important actors. Implementing a PCR in collaboration with existing private credit bureaus—to the mutual benefit of both—offers the optimal path forward for the Indian economy, Indian borrowers, lenders, and regulators.

Details of HTF PCR Proposal Likely Already Discouraging Investors: Already, the HTF Report is affecting boardroom conversations at Indian consumer and commercial credit bureaus. Executives are facing the uneasy prospect of taking a massive near-term revenue hit. This dramatically changes their investment calculus. It is not a stretch to imagine that some, if not all Indian consumer and commercial credit bureaus may be considering altering their credit bureau operations. This could present a huge, unnecessary risk if the proposed PCR does not perform as envisioned (which should be considered a very real possibility since the proposed PCR is unprecedented), resulting in a stunted, undercapitalized private credit sharing environment unable to make up for potential deficiencies in the PCR.

HTF PCR As Proposed May Hinder Innovation, Reduce Competition Among Lenders: Innovations in information sharing have occurred not only with value-added services, but also with the types and quality of data collected and shared, and *how* that data is collected and shared. The most advanced information sharing markets are where they are today because of past innovations, typically driven by private sector actors. Given the explosion in data being created, being made available to be shared, and ways to share that data, it is surprising that the HTF is proposing what would essentially be a government "takeover" of a well-performing private sector-operated information sharing network. This will likely act to hinder innovation, resulting in reduced credit access and reduced lending competition relative to what is possible.

1.3 Suggestions for Path Forward

Include PCBs in Development of PCR Implementation Approach: While not formally included in the HTF Report on the proposed PCR, the views of private credit bureaus were heard and understood by the RBI. By including PCBs in the implementation task force, and viewing PCBs as complements to a PCR and not substitutes for one, room may be created for a productive engagement. It is possible that such an engagement would yield mutually beneficial outcomes where PCBs help solve some of the problems correctly identified by the HTF and the RBI—including data gaps, dramatically different data formats, and insufficient data for the PCR to supervise, oversee, and monitor the financial services sector. Similarly, such collaboration could also help overcome PCB fears and result in a PCR that advances broader interests while protecting those of existing stakeholders.

Very Simple Fix to Proposed PCR: The stated aims of a PCR could be achieved while reducing risks and downsides by not having the proposed PCR compete directly with the private sector (selling/providing credit reports and data). The PCR could utilize private sector infrastructure where possible, create new infrastructure that could be used by the private sector, enable/require new data furnishing, create standards where needed, and the like. That is, the same data can be made available to the government and the private sector via the private sector with gaps filled in by government action as needed. This would avoid hobbling the private sector, innovation, and investment in a key market segment of the Indian economy. The implementation challenges of dealing with consumers, data users, record matching, data quality, and risks associated with creating such a large unprecedented database, would be circumvented. This would also allow a PCR to be developed and deployed more rapidly, aiding the Indian economy sooner, clearly focused on the desired aims and outcomes instead of a particular way to achieve them.

Existing Databases and Bureaus Should Not be Discarded: If the RBI does move forward with a PCR that competes directly with private credit bureaus—and for the record, PERC believes such competition would be harmful and serves no obvious beneficial purpose—then they should take measures to ensure a level playing field. Given their ability to mandate regulated entities to report to a PCR, and their privileged access to other government-owned databases, "competition" with private credit bureaus would be in name only, as the PCR would quickly drive out private bureaus from credit reporting and likely the repository business. However, if the RBI continues the mandated reporting to the bureaus (or grants all licensed private credit bureaus direct access to their database) then private credit bureaus could continue to maintain repositories and could undertake their own list hygiene, matching, and other data quality practices. They could still compete with a PCR by offering enhanced credit reports and additional predictive data elements not contained in the PCR (e.g. proven payment data tradelines including energy utility, rent, telecoms, and other media). PCBs could then bundle their credit reports with other value-added services and have viability (albeit limited) as competitors to a greatly advantaged PCR. *Importantly,* this would not risk losing or degrading the existing databases that have *crucial historic depth and data breadth*, which could take a PCR many years to build up.

Section 2: Introduction and Current Situation

On June 6th, the High Level Task Force (HTF) of the Reserve Bank of India (RBI) released their report on the proposed public credit registry in India.[1] By all indications the Reserve Bank of India (RBI) is fast-tracking the implementation of a public credit registry (PCR) in India.[2]

What is unclear is which of the HTF's recommendations the RBI will take up. On the one hand, should the RBI follow a roadmap laid out by the World Bank,[3] and one based upon lessons learned from international experience, a PCR in India could have immediate and positive impacts across the entire financial services sector. This path limits the *direct* uses and activities of a PCR to regulation, supervision, statistics, and economic monitoring and research. In other words, a PCR in India would be functionally a traditional one, though it would be leading-edge in terms of executing these functions by

[1] For a downloadable version of the HTF Report, see https://rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=895#ABB

[2] 20 August 2018 speech of Deputy Governor Acharya at the Annual Global Banking Conference—FIBAC 2018—organized by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Indian Bank's Association (IBA) in Mumbai. The full speech is available online at https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1061

[3] Powell, Andrew, Nataliya Mylenko, Margaret Miller, and Givoanni Magnoni. "Improving Credit Information, Bank Regulation and Supervision: On the Role and Design of Public Credit Registries." The World Bank. Washington, DC. World Bank Policy Research Paper 3443. November 2004. Downloaded at: http://documents.worldbank.org/curated/en/958501468779185412/Improving-credit-information-bank-regulation-and-supervision-on-the-role-and-design-of-public-credit-registries See also, Girault, Matias Guitiérrez and Jane Hwang. "Public Credit Registries as a Tool for Bank Regulation and Supervision." Policy Research Working Paper 5489. Washington, DC. The World Bank. December 2010. Downloaded at: http://documents.worldbank.org/curated/en/934021468177872103/pdf/WPS5489.pdf

accessing diverse data assets in a timely manner. Under this scenario, the Indian PCR would co-exist in a complementary role with the current financial infrastructure. These established and well-performing consumer and commercial credit bureaus have played a vital role in enabling the decade-long growth and dramatically improved performance of the Indian financial services sector. The PCR could act as a hub through which private credit bureaus access some data. And the PCR could, in turn, access some data from private credit bureaus. For payment data not currently reported to private credit bureaus, such as telecom or utility payment data, the PCR could push this to be furnished directly to the private credit bureaus or to the PCR (which could make it available to the private credit bureaus). In this way, the PCR can have access to all the data it needs to fulfill the regulatory/oversight aims of the HTF, and make new data/datasets available to the private sector to fulfill the credit access, inclusion, and efficiency aims of the HTF.

As a result, all aims can be achieved without unduly disrupting the private sector, introducing unneeded risks, and hobbling investment and innovation. Value-added service use and competition could be promoted directly by advocating for their greater use or simply by requiring their greater use in areas where they would improve oversight and financial system transparency, and enable more efficient stress testing (all well within the traditional purview of regulators). Regulators could make clear that firms looking to create and market value-added services should have reasonable access to necessary data and should not be excluded from the market (this again is something that regulators in other markets have done).

"Should the RBI follow a roadmap laid out by the World Bank, and one based upon lessons learned from international experience, a PCR in India could have immediate and positive impacts across the entire financial services sector."

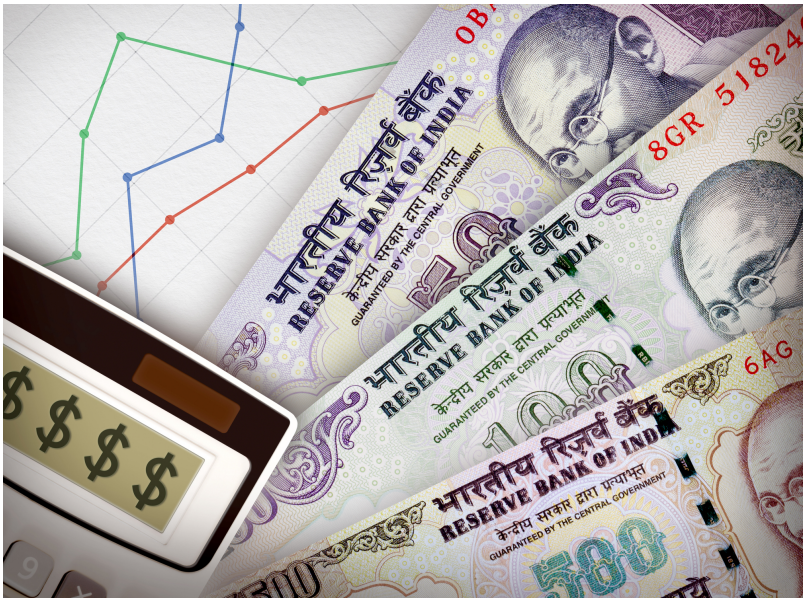
On the other hand, should the RBI accept the full range of recommendations in the HTF Report, the resulting PCR could potentially have harmful unintended consequences for the financial services sector and the entire Indian economy. The PCR described in the HTF report, if implemented as proposed, will likely distort the credit information services market in India, with possible anti-competitive consequences downstream. The complexity of the proposed PCR will make it cumbersome, unruly, and with tremendous challenges in terms of compliance issues, consumer relations, business-customer relations, and the many operational details. In the medium-term, the HTF's proposed PCR may diminish competition among lenders as private credit bureaus alter their roles and private sector investment in information sharing is reduced. The hope that more vigorous competition over value-added services would materialize is likely far too optimistic. Typically, credit bureaus (and the overall credit information sharing ecosystem) evolve with revenues generated from more traditional credit bureau activities being reinvested in value-added services. While IT developments have driven down the costs of creating such products and services as credit scores and automated decisioning engines, these also continually evolve and become more complex. However, the costlier aspect of value-added services is

advertising, marketing, customer relations, and the like. That is, getting lenders and other potential users to actually *use* the value-added services. It is unclear how a PCR can help with this.

While the HTF report is not an RBI publication, and expressly reflects the views of the members of the HTF, the HTF membership included several RBI staff members and the report was synthesized by an RBI staff member.[4] Consequently, it is not a leap to assume that some RBI staff may share the views expressed in the Report. As such, the recommendations contained in the HFT Report must be given serious weight by all interested parties.

[4] For a description of the members of the High Level Task Force on the proposed PCR, see: https://indianexpress.com/article/business/banking-and-finance/rbi-sets-up-task-force-for-india-public-credit-registry-4903413/

Section 3: Reconsidering the Evidence



To reiterate, the PERC Reply to the June 6 HTF Report must be understood as a supplement to the March 2018 PERC Report.[5] In that initial report, we put forward abundant evidence from both theoretical and empirical economic literature on public credit registries and private credit bureaus. We also went to great lengths to deliver this report to the members of the HTF, though we fear we may have been a little late in delivering our content, as many of the HTF subgroups had already met and were advanced in their efforts to write their individual reports.

We encourage all interested parties to read our March 2018 report, which is freely available on our web site at http://www.perc.net/wp-content/uploads/2018/03/India_PCR.pdf

While we do not rehash all the evidence and findings from our earlier report here, the following subsections do draw upon some of the key evidence to address core claims made in the June 6 HTF Report. What follows is a point-by-point reply to issues raised and positions taken in the HTF Report.

3.1 What the HTF Report Gets Right

3.1.1. PCR Helps Prudential Regulation by Centralizing Data

Over the course of the past decade, and in the aftermath of the 2008 global financial crisis, central banks have been implementing measures to improve their ability to undertake prudential regulation. This is the most recent iteration of a process that began with the Latin American debt crisis in the early 1980s and continued with the East Asian financial

[5] Turner, Michael A. and Patrick Walker. *The Case for a Public Credit Registry in India: Additional Evidence for Consideration*. Durham: The Policy and Economic Research Council, 2018. Downloadable at: http://www.perc.net/wp-content/uploads/2018/03/India_PCR.pdf

crisis in the 1990s. After each of these crises, regulators responded by improving their data collection in an effort to improve macroprudential oversight.[6]

In a recent speech, Jaime Caruana, the General Manager of the Bank of International Settlements, recognizes the tremendous progress made by central banks around the world to enhance existing data collection programs in order to better identify systemic risks earlier, to mitigate them and minimize losses. He cites recent measures as to the 2008-09 global financial crisis as evidence of the trend in improved data collection including the G20's "Data Gaps Initiative," the collection of locational banking statistics by the BIS and many central banks, and the creation of a "global data hub" hosted at the BIS that includes bank-level data from global systemically important banks.[7] This permits identification of inter-linkages among global systemically important banks, widely perceived to have been a blind-spot in the lead up to the Great Financial Crisis of 2008-2009. In addition, Caruana cites improvements in the frequency of reporting (from quarterly to monthly or even weekly) as another improvement in data collection by many central banks and the BIS.

In both his July 2017 and August 2018 speeches on the need for a public credit registry in India, Deputy Governor Acharya cites several deficiencies with the current Indian credit information sharing network—fragmented databases, different reporting formats, data quality, data gaps—as justifications for a PCR.[8]

"As of today, information on borrowings from banks, non-banking financial companies (NBFCs), corporate bonds or debentures from the market, external commercial borrowings (ECBs), foreign currency convertible bonds (FCCBs), Masala bonds, and inter-corporate borrowings are not available in a single data repository. The main objective of the PCR is to fill this lacuna and capture all the relevant information about a borrower, across different borrowing products, in one place."[9]

Deputy Governor Acharya cites recent prudential regulation challenges confronted by the RBI associated with corporate non-performing assets (NPA). He states that the RBI could not assess "…the quality of the credit portfolio of banks' large borrowers at an aggregate level. The data are simply not being reported with integrity and full coverage in case of large corporate borrowers."[10]

While private consumer credit bureaus do not collect data on corporate borrowers, large or small, such information is generally maintained either by private commercial repositories such as Dun and Bradstreet or Thomson Reuters, or by government agencies, as is the case in India. When the RBI launched the Central Repository of Information on Large Credits (CRILC) in 2014, their ability to assess a bank's non-performing assets with respect to large

[6] Caruana, Jaime. "Keynote speech on the occasion of the launch of the book *Alexandre Lamfalussy: Selected Essays.* National Bank of Belgium, Brussels, 6 February 2017. Full text available at: https://www.bis.org/speeches/sp170206.pdf
[7] Op. Cit. Pg. 6.
[8] Acharya, V.V., July 4, 2017 and August 20, 2018.
[9] *Op. Cit.* August 2018.
[10] *Op. Cit.* August 2018.

corporate borrowers was dramatically improved. Deputy Governor Acharya also credits CRILC data for the successful 2015 Asset Quality Review (AQR) that led to the cleansing of non-performing assets (NPAs) saddling some banks.[11]

Deputy Governor Acharya correctly argues that the Indian "…credit information system, as a whole, has many such gaps, which leave much scope for improvement." In both his July 2017 and August 2018 speeches, as an example of how data helps regulators correctly interpret systemic risk, he cites the aftermath of the collapse of Lehman Brothers in September 2008. At that time, some economists incorrectly argued the flow of credit in the US had been unaffected by the mortgage crisis. They arrived at this errant conclusion by citing growth in credit. However, by analyzing Thomson Reuters Dealscan data it was revealed that "…the credit growth in the US was almost entirely attributable to the corporates drawing down on the existing credit lines (a form of a 'bank run'). The origination of new loans had, in fact, dried up."[12] Clearly, macroprudential regulation benefits when more useful data is available.

To further make this point, Deputy Governor Acharya cited another piece of research, Lima and Drumond (2015).[13] In this report, two deputy directors from the Bank of Portugal discuss how the use of a network of existing independent micro-databases has improved the central bank's ability to assess financial stability and respond to ad hoc demands for statistics, for the express purpose of monitoring inter-linkages between the financial sector and non-financial sectors domestically and abroad.[14] The Lima and Drumond report offers much of interest to central bankers in India and globally. For instance:

"… *we came to the conclusion that it makes sense to exploit the largely unused statistical potential of the available micro-databases covering different areas of the economy and the financial markets. Once statistically edited, these micro-data might play an important role in enhancing the efficiency of central banks' statistical systems. The granular nature of this information, together with an almost full coverage of the relevant population, offers increased flexibility as regards the compilation of new statistics and a more rapid response to ad hoc data requirements from the users. In general, this approach is technically easy to implement and with relatively low costs associated*."[15]

Lima and Drumond clarify that the Bank of Portugal uses integrated micro-databases for statistical purposes, as well as other areas within the central banks' competencies including monetary policy, financial stability, and supervision. Some of the primary micro-databases used by the Bank of Portugal include the Central Credit Register (CCR is Portugal's public credit registry, as there is no private credit bureau of significance, and includes borrower

[11] *Op. Cit.* July 2017.
[12] *Op. Cit.* August 2018.
[13] Lima, Filipa and Ines Drumond. "How to keep statistics' customers happy? Use micro-databases?" IFC workshop on "Combining micro and macro statistical data for financial stability analysis. Experiences, opportunities, and challenges." Warsaw, Poland. 14-15 December, 2015. Downloadable at: https://www.bis.org/ifc/publ/ifcb41k.pdf
[14] *Op. Cit.* Pg. 1.
[15] *Op. Cit.* Pg. 2.

and loan level data), the Central Balance Sheet Database (accounting and financial information on non-financial corporations), and the Securities Statistics Integrated System (a security-by-security and investor-by-investor system of both securities holdings and issuances).[16]

The authors go on to describe how the systems architecture of the single data warehouse is based upon the principle of business intelligence—namely that the right information is delivered to the right people at the right time in order to make good decisions and improve organizational performance.[17] The authors conclude by discussing the central bank's future plans to expand the use of micro-databases to statistics, supervision, oversight, and prudential regulation. Deputy Governor Acharya argues that India "… can bring in a similar level of sophistication to its economic research through the careful access to near-real-time and comprehensive credit data that a PCR would capture."[18]

On this point, PERC wholeheartedly agrees with both the Deputy Governor and the HTF report—which in various places makes similar arguments to justify the need for a PCR in India. It is clear that a nation's financial services sector would benefit from the presence of a traditional public credit registry focused upon supervision, oversight, enforcement, regulation, statistics, and economics. The financial crisis of 2008 highlighted the need for national regulators to access different data assets and more granular data to understand exposures, potential risk, and vulnerabilities in order to proactively take informed policy decisions.

"It is clear that a nation's financial services sector would benefit from the presence of a traditional public credit registry focused upon supervision, oversight, enforcement, regulation, statistics, and economics."

To whit, we absolutely support the notion that the Indian government should have *better* access to data and access to *more* data. This is not controversial and is being pursued by governments (and the private sector) across the world. The value of information is obvious to all. Of course, the main issues here involve privacy concerns, consumer rights, and yet to be determined policies on data access and use among others. But it is clear that India, like all governments, could benefit from better data use and access (for regulation, oversight, monitoring, program impact analysis, and general analysis purposes). Of course, the RBI's PCR must develop analytical tools to use all of this data for statistics, economics, oversight, and supervision—the core functions of any PCR worldwide.

[16] *Op. Cit.* Pg. 6.
[17] *Op. Cit.* Pg. 5.
[18] Acharya. (August 2018).

Core to this is rationalizing and making useful data already collected by the government. Ideally, and as discussed above, this should go beyond a few databases maintained by the central government and regulators and include a wider range of government data, including state and local government data—more micro-databases. In addition to better access and use of data already in the hands of government (at some level), more data should be accessibly as well, such as utility and telecom payment data. This, however, does not mean that government (PCR) would need to collect this additional data, though it could, given enabling legislation and commensurate comporting regulations.

Improved data access is necessary but not sufficient to realizing the benefits of the data. It is also necessary to have the resources to analyze the data. No doubt much analysis would be carried out internally, though anonymized datasets could also be made available to academics and private sector actors.

3.1.2. PCR Can Improve Financial Inclusion

We also support the notion that the private sector, and the credit underserved, would benefit from more data being made available to the private sector. With a low-level use of formal credit, India would benefit greatly with credit data collection that goes beyond "traditional" credit data of bank loans and the like. The only way to achieve a high coverage rate for the Indian consumer credit market would be to collect and use so-called "alternative data," which includes the proven payment data of utility and telecom payments. This would boost credit inclusion. PERC has conducted much research showing the value of alternative data (proven payment data in this case) for boosting credit inclusion.[19] We have found that adding new types of alternative data to the underwriting

[19] See Turner, Michael A., and Robin Varghese. *The Economic Consequences of Consumer Credit Information Sharing: Efficiency, Inclusion, and Privacy*. Chapel Hill: The Policy and Economic Research Council, 2010. Downloadable at: http://www.perc.net/wp-content/uploads/2013/09/OECD-Info-Sharing-White-Paper-FINAL_rv_110210.pdf; see also Michael A. Turner et al., *A New Pathway to Financial Inclusion: Alternative Data, Credit Building, and Responsible Lending in the Wake of the Great Recession*. Chapel Hill: Policy & Economic Research Council, 2012. Downloadable at: http://www.perc.net/wp-content/uploads/2013/09/WEB-file-ADI5-layout1.pdf; see also Michael A. Turner et al. *Research Consensus Confirms Benefits of Alternative Data.* Durham: The Policy and Economic Research Council, 2015. Downloadable at: http://www.perc.net/wp-

process can improve credit underwriting and credit access dramatically, particularly among those traditionally excluded from mainstream lenders. That said, proven payment data in India need not be collected by a proposed PCR, as it could easily be collected by the existing credit bureaus.

In addition to proven payment data, the testing and collection of more exotic data elements are underway around the world. Other than setting privacy standards, basic consumer rights and protections, and the like, governments are tending to take a light touch in this area, setting up sandboxes and letting the market experiment. This area could hold great promise for credit access and inclusion. (The risk of a government entity becoming the primary institution of data gathering and sharing is that this cutting edge area could become stunted relative to other markets). Data sharing is not a static, unchanging industry.

For example, the January 2018 PERC report "The Impact of Credit Reporting and Credit Scoring on the MFI Sector," used actual data on hundreds of thousands of MFI loans from India.[20] This report found that while traditional credit bureau data was important in assessing risk of MFI loans, potentially equally or more important was some of the more "exotic" data elements captured in the MFI "application data." This report also found that data quality (of course) is crucial, as was the willingness of lenders to utilize a more data-driven lending process. Credit bureaus around the world are working on collecting new types of data for such MFI lending as well as developing data driven credit underwriting tools for MFI lenders to use with bureau data in conjunction with other datasets, including their own internal data.

The HTF Report could have gone further as noted in PERC's March 2018 report, in advocating for expanded permissible uses of credit data.[21] For instance, credit pre-screening could increase lending competition, thus benefiting consumers/borrowers. And, as noted in that report, uses could also be "expanded for purposes seen in other markets, including tenant and employment screening, FinTech (including peer-to-peer lending), and risk screening by other non-bank/non-creditor entities." This would leverage already collected data to be used for more purposes.

---

content/uploads/2015/03/ResearchConsensus.pdf; see also Michael A. Turner and Patrick Walker. *Predicting Financial Account Delinquencies with Utility and Telecom Payment Data.* Durham: The Policy and Economic Research Council, 2015. Downloadable at: http://www.perc.net/wp-content/uploads/2015/05/Alt-Data-and-Traditional-Accounts.pdf.

[20] Michael A. Turner and Patrick Walker. *The Impact of Credit Reporting and Credit Scoring on the Microfinance Sector.* Durham: The Policy and Economic Research Council, 2018. Downloadable at: http://www.perc.net/wp-content/uploads/2018/01/MFI-Report.pdf

[21] Turner & Walker, *The Case of a Public Credit Registry in India*.

3.1.3. Proposed PCR Best Implemented in Phases

The HTF report advocates for a phased implementation of the PCR.[22] This sentiment was echoed by several senior RBI staffers with whom PERC met during March 2018.[23] Similar proclamations have been made subsequently by various senior RBI officers to industry executives familiar with the process.

There are good reasons for proceeding incrementally. First, the scope of the proposed data to be collected, and from the multiple sources envisioned, will be *extremely* challenging. For instance, the EU's AnaCredit (Analytical Credit Dataset), a project initially launched in 2011, which *just* focuses on data about SMEs for regulatory/oversight purposes, nonetheless has encountered (and is continuing to encounter) implementation challenges.[24] Among the chief challenges being experienced by the European System of Central Banks (ESCB) in the efforts to implement AnaCredit are: (1) the availability of data; (2) the quality of available data; (3) coping with different IT systems and data collection and formatting processes; and (4) reconciling compliance requirements across multiple jurisdictions governing the various underlying data assets.

If creating an Indian PCR is deemed desirable and such a project moves forward, it would appear logical to initially focus on government data and large lender data. These data would seem to comprise the proverbial "low hanging fruit" in terms of relative ease of data collection and value for oversight and lending monitoring purposes. Even assuming an RBI PCR can overcome the types of challenges experienced by European central banks in their efforts to increase data sharing, there remains the issue of leveraging the data for purposes of improved analytics. Given that the proposed PCR seeks to use this data for both traditional functions (prudential oversight, statistics, economics) and non-traditional functions (providing credit reports, aiding with credit risk decisioning on individual borrowers), equal emphasis must be placed on developing commensurate analytical solutions to enable this broad range of applications. This, too, requires time and reinforces the need for the process to be step-wise.

[22] High-Level Task Force, *Report of the High Level Task Force on Public Credit Registry for India*, p.32
[23] PERC visits with Indian financial services stakeholders including bank executives, credit bureau executives, and RBI senior officers and consultants. Mumbai. March 12-16, 2018.
[24] Anjani, Kumar. Principle FS Compliance Consultant, Infosys Ltd. "AnaCredit: Implementation challenges and lessons for future stages." *FinExtra*. 20 June 2018. Downloadable at: https://www.finextra.com/blogposting/15493/anacredit---implementation-challenges-and-lessons-for-the-future-stages

3.2 What the HTF Report Overlooks/Downplays

Perhaps what is most notable about the HTF Report is not what it includes—as many of the conclusions are wholly uncontroversial, including the core recommendation to proceed with a PCR—but rather the evidence and key details that were either ignored or otherwise not considered. However, since the HTF did not include representatives from India's credit bureaus this is not too surprising. What follows immediately below is and in the following sections are what we believe are important omissions from the HTF Report.

3.2.1. The HTF Report Overlooks Evidence from March 2018 PERC Report

This section should be clearly understood as a supplement to PERC's earlier report The Case for a Public Credit Registry in India.[25] The purpose of the earlier PERC report was to offer suggestions in support of the development of an Indian PCR based upon past experiences in other countries and global best practices. In the March PERC report, decades of evidence and research were synthesized and presented in support of policy recommendations. The evidence, findings, and recommendations in that report remain valid today and warrant full consideration. For the benefit of the reader, just the evidence-based findings are summarized.

- **PCRs underperform relative to PCBs:** In a study of 129 countries, Djankov, McLiesh, and Shleifer found that private bureaus increased annual lending to the private sector by 21 percent of GDP, whereas public registries only increased lending by 7 percent. When only lower-income economies were used, the same trend surfaced, with private bureaus leading to an increase of 14.5 percent and public credit registries only increasing lending by 10.3 percent.[26]
- **Relationship between PCBs and growth in lending strongly and positively correlated:** A 2007 study by PERC found that 100 percent coverage of credit-eligible adults in a full-file private credit bureau is associated with increased private sector lending by upwards of 60 percent of a nation's GDP.[27]
- **PCR coverage unrelated to growth in lending to private sector:** Perhaps the key argument offered in support of the PCR described in the HTF report, is that a PCR will (eventually) offer comprehensive data with universal coverage, thereby driving financial inclusion. There is simply no evidence to support this conclusion. Importantly, a statistically significant relationship between coverage of public credit registries and private sector lending was not found in the same PERC study of 129 nations.[28]

---

[25] Turner & Walker, *The Case of a Public Credit Registry in India*.
[26] Djankov, S. et al. 2005. Private credit in 129 countries. *NBER Working Paper No. 11078.* www.nber.org/papers/w11078
[27] Turner, Michael A., and Robin Varghese. *Economic impacts of payment reporting participation in Latin America*. Chapel Hill, NC: Political and Economic Research Council, 2007. Downloadable at http://www.perc.net/wp-content/uploads/2014/10/FF_Impacts.pdf
[28] Op. Cit.

- **PCRs operate best as complement to PCBs, not as substitute**: This debate, which raged in the 1990s and early 2000s in the field of theoretical and then empirical economic literature, was settled with the excellent work done by World Bank senior economist Dr. Margaret Miller.[29] The takeaway from this debate is that while there is no reason, in theory, why PCRs cannot perform the same functions as PCBs, all available evidence suggests that in reality they do not—and it's not even close. For whatever reason(s), PCRs performing tasks normally undertaken by PCBs dramatically underperform relative to PCBs by a wide margin. Consequently, and based upon decades of evidence from dozens and dozens of countries, it was concluded that PCRs and PCBs are not substitutes for one another, but are rather complementary.[30]

3.2.2. Report Overlooks Key International Best Practices

While going to great lengths to cite World Bank reports, and acknowledging input from IFC experts, the HTF Report tends to only identify the best practices that support their position, while not considering other best practices from the very same documents. For example, every document from the World Bank and/or IFC on public credit registries endorses traditional PCRs. That is, the World Bank advises nations setting up a PCR, or reforming their existing PCR, to restrict the functions of a PCR to regulation, supervision, oversight, statistics, and economics. Not once do they encourage PCRs to offer credit reports directly in competition with existing private credit bureaus. Instances in which they have supported PCRs with expanded functionality are limited to those countries lacking private credit bureaus. In fact, the World Bank has defunded credit information sharing projects in countries where the PCR has over-reached and distorted the private credit bureau industry. Simply put, the HTF's proposed PCR for India—unmodified—is inconsistent with all established international best practices concerning the relationship between PCRs and existing PCBs.

---

[29] Jappelli, Tullio, & Marco Pagano, "Information Sharing, Lending, and Defaults: Cross-Country Evidence." *Journal of Banking & Finance* 26, 2002: p.2018. Downloaded at: https://www.sciencedirect.com/science/article/pii/S0378426601001856; see also Powell et al., "Improving Credit Information, Bank Regulation and Supervision: On the Role and Design of Public Credit Registries."; see also Miller, Margaret M., *Credit Reporting Systems and the International Economy.* Cambridge: The MIT Press. 2003. On the complementarity between PCRs and PCBs, see also: Powell, Andrew and Nataliya Mylenko, Margaret Miller, and Giovani Majnoni. "Improving Credit Information, Bank Regulation, and Supervision: On the Role and Design of Public Credit Registries." Policy Working Paper; No. 3443. World Bank. Washington, DC. Downloadable at: https://openknowledge.worldbank.org/handle/10986/14194

[30] Jappelli, Tullio, and Marco Pagano. "Role and Effects of Credit Information Sharing". In: Bertola, Giuseppe, Richard Disney and Charles Grant (Eds.), *The Economic of Consumer Credit.* MIT Press, Cambridge (2006) Pages 347-371. Available for purchase at: https://mitpress.mit.edu/books/economics-consumer-credit

3.3 HTF Report Likely Chilling Planned Investment in CIS Industry

At varying points in their report, the HTF is careful to point out that their recommended approach to implementing a PCR in India was designed to be minimally disruptive. As evidence of this, they discuss a phased process and state that the PCR will not compete with private credit bureaus in the offering of "subjective" value-added services such as credit risk scores, consulting, fraud detection/prevention, anti-money laundering, and other services. No mention, however, is made of the massive disruption to the consumer credit information market that will occur when the RBI's new PCR effectively co-opts the entire credit reporting industry (and other private information sharing industries). In their life-cycle, credit bureaus rely heavily on revenue from the sale of credit reports until the market is ready for more advanced services, which can take several years, as lenders need to thoroughly test these products and invest in infrastructure to maximize usage of these services. Credit bureaus in India are 10 or 15 years of age—relatively young. If they are denied this critical credit report revenue stream, they cannot invest resources for research and development, and help lenders test these services and then migrate to them.

Investment decisions today and in the next few years will take this into account. This is ironic given India's strong private sector position in IT. Regulators in the US, China, and other nations hoping to foster leading global positions in the information/digital economy are taking a decidedly light touch with regard to regulations, distortions, and interference with the private sector in this space. They recognize that this area is crucial to the economy and future growth and changes in this area are so rapid that the private sector should take the lead. Given the exponential explosion of data, collection of new types of data, new ways of sharing data, and new uses for data, which will form the bedrock of future economies, it is extremely surprising that there is a serious proposal to essentially have the government take over the core of financial information sharing in India. What makes it ever more so potentially disastrous is that there appears to be no limits to the super database. Why would a company or entrepreneur bother to collect, create, and market new data or a novel new way to share data? If it turned out to be useful and valuable to lenders, insurers, investors, or the government, it would no doubt be added to the list of elements to be collected in the super-database.

PCRs are typically a response to a market failure in credit information sharing and an absence of credit bureaus. Establishing a PCR in a well-functioning private information sharing market is unprecedented. However, previous Indian experiences with nationalizations or government take overs have not worked out as intended, with banks currently facing a non-performing asset crisis, and Air India's sale receiving zero offers.[31] The history of nationalization in India, in banking, airlines, and coal mining, does not bode

[31] Vardan, Harsh. "Thinking Beyond the Non-Performing Assets." *LiveMint*, 16 July 2018. Accessed 17 August 2018, at https://www.livemint.com/Opinion/dLEZzXpWNkiBB99OBQhIRM/Thinking-beyond-the-nonperforming-assets.html; see also Shah, Aditi. "Air India Sale Gets No Bid, Exposes Hurdles for Modi's Divestment Drive." *Reuters*, 31 May 2018. Accessed 17 August 2018, at https://www.reuters.com/article/us-air-india-divestment/air-india-sale-gets-no-bid-exposes-hurdles-for-modis-divestment-drive-idUSKCN1IW1HP

well for the RBI's undertaking and the broader Indian economy should its PCR compete directly with PCBs.[32]

The HTF Report also describes spinning off the PCR so that it can achieve autonomy, move with the evolving environment, and cater to changing demands. It is unclear what is meant by that statement as it lacks additional clarification, but this sounds an awful lot like how one would describe a private credit bureau meeting the needs of private sector end users. If so, it is odd that what is being proposed is a government take over of a competitive private market by a government entity, that may later be made a more independent monopoly.

3.4 Report Diminishes Challenges of Implementation

It is inarguable that the PCR described in the HTF Report is ambitious. PERC would even go so far as to say that such a far-reaching PCR is unprecedented. It would also be disingenuous to argue that it can't be done—we would never contest the prowess of an Indian IT sector that has become a world leader in a single generation. However, the real question is should it be done? And, is this the most efficient and effective way?

[32] Bandyoopadhyay, Tamal. "Life of Banks After Five Decades of Nationalization." *Livemint*, 16 July 2018. Accessed 17 August 2018, at https://www.livemint.com/Opinion/kIecdkX8V2rERYPXCIjMiO/Life-of-banks-after-five-decades-of-nationalization.html; see also Gupta, Padmesh. "Padmesh Gupta on Coal Mines Allocation and Privatization." *The Times of India*, 13 August 2018. Accessed 17 August 2018, at https://timesofindia.indiatimes.com/business/india-business/padmesh-gupta-on-coal-mines-allocation-and-privatization/articleshow/65384822.cms

Creating information sharing databases can be challenging. For example, AnaCredit, which is gathering a more limited scope of data from EU banks for oversight purposes, has itself faced major challenges.[33] Add to this the issue that the proposed Indian PCR will also need to *share* data for it to be valuable for credit access, and the associated challenges likely to be experienced during the PCR implementation increases manifold. Will a small MFI or small FinTech business lender be able to access the PCR? If so, the PCR will have a giant task of credentialing, monitoring and auditing data users. In April it was reported that Aadhaar was denying access to the database among smaller non-bank financial service providers, apparently out of a concern for privacy.[34] Could this happen to a PCR too if there was a data breach? And if so, what would be the consequences in the credit market for smaller lenders and their customers?

3.4.1 The HTF Report Downplays Data Quality Challenges

This narrow view overlooks the fact that credit bureaus work with data furnishers on the quality of data they furnish, making sure it is coded and transmitted properly, and monitors and audits this. Again, under the HTF proposal this would need to be a PCR task. Then there are crucial data elements that originate at the credit bureau, namely inquiry data. The PCR would also need to be responsible for this.

Section 1.8 notes, "The authority in charge of a PCR is generally endowed with the enforcement powers to ensure data quality (dealing with inaccurate data or missing data). Failure to maintain desired level of data quality can result in sanctions to the reporting institutions." In addition recommendation R5 notes, "Data quality of information reported to PCR will be the responsibility of the reporting entities. The authority in charge of the PCR may be endowed with appropriate enforcement power to take action against any violation of rules and regulation."

This appears to be a simplistic view of the necessary consumer dispute and resolution process that may have resulted from not having more credit bureau input in the report. The envisioned PCR seems to be a technical exercise that interacts only minimally with

[33] Kumar, Anjani. "AnaCredit – Implementation Challenges and Lessons for the Future Stages." *Finextra*. 20 June 2018. Accessed 14 August 2018, at https://www.finextra.com/blogposting/15493/anacredit---implementation-challenges-and-lessons-for-the-future-stages; see also EY. "Analytical Credit Dataset (AnaCredit) What You Need to Know." *Banking Capital Markets Regulatory Update*. 2016. Accessed 14 August 2018, at https://www.ey.com/Publication/vwLUAssets/EY-analytical-credit-dataset-anacredit-what-you-need-to-know/%24FILE/EY-analytical-credit-dataset-anacredit-what-you-need-to-know.pdf; see also PwC Netherlands. "AnaCredit – Entering a New World of Regulatory Reporting." *AnaCredit Benchmark Study*. March 2017. Accessed 14 August 2018, at https://www.pwc.nl/en/publicaties/anacredit-benchmark-study.html; see also SIA Partners. "AnaCredit: Burden or Blessing." 23 April 2018. Accessed 14 August 2018, at http://en.finance.sia-partners.com/20180423/anacredit-burden-or-blessing

[34] Bhakta, Pratik. "Aadhar Access Ban is the New Heartburn for FinTech." *The Economic Times.* 5 April 2018. Accessed 14 August 2018, at https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/aadhaar-access-ban-is-the-new-heartburn-for-fintech/articleshow/63621844.cms

consumers. The PCR would have the *key* task of merging individual accounts to credit consumer records (files). This task has never been performed perfectly anywhere. There are always tradeoffs. Names change, initials are used, addresses change, account numbers change, furnishers go out of business, information gets recorded imperfectly, there are imperfections in biometrics. Credit bureaus need to make decisions on how to match records (match logic) and how to dedupe records (remove duplications). Perfection is never achieved. Sometimes records are incorrectly merged, sometimes they are incorrectly not merged (fragmented files). This is all very dynamic and bureaus have cultivated this art and science over the decades of experience from a vast array of countries. This is something else a PCR will need to do.

Errors originating from the PCR, including matching errors, are not addressed. Is it assumed that there will be no such errors? (This is actually a large issue with advanced bureaus.) What about when ID theft results in multiple accounts opened in their name? Is the consumer tasked with tracking down all fraud and contacting the data furnishers individually? And what about synthetic identities? For some data elements, such as hard inquiries, the PCR could be thought of as a data furnisher. What about disputing/correcting data that does not come from a large advanced lender with instant updating capabilities? That is, what is missing is a comprehensive plan for disputing and correcting data, and interacting with consumers in a more unified, coherent, and comprehensive manner.

"Perhaps what is most notable about the HTF Report is not what it includes, but rather the evidence and key details that were either ignored or otherwise not considered."

3.4.2 The HTF Report Downplays Consumer Access Issues

If the proposed PCR will become the main consumer credit repository, then consumers will need to access it. As such, there would need to be an entire department dedicated to this. When consumers need to dispute many items on their credit report (for instance emanating from fraud), the consumer will find it easier to contact the PCR directly than going to each data furnisher. In advanced markets, consumers have access to their data through mail, phone, computer, and many other applications, directly or via third parties. This has become a very important way to educate consumers about their credit profiles and how they may improve them. A PCR would have to manage this and become a consumer-facing and interacting entity.

As important as enabling direct consumer access is preventing unauthorized access. This is a challenge even for the most data security-savvy organization, and has been especially challenging for government-operated databases. The US government's highly touted, supposedly cutting-edge perimeter cybersecurity system Einstein 3 was easily hacked by a cyber-adversary (allegedly China), resulting in the breach of over 4 million personnel files

and the theft of classified defense IP.[35] More locally, Aadhar, India's national biometric personal identification database, has been repeatedly hacked since its inception. While it is unclear whether the biometric data has been exfiltrated, the breach of names, addresses, email addresses, phone numbers, and photographs of millions of Indians, has been confirmed.[36]

Given the relative ease with which massive government databases of sensitive personal identifying information, classified intellectual property, and documents of national security interest have been hacked, it is critically important that an RBI PCR focus as much on data protection as data collection—and from the onset. Anything less will result in hackers accessing Aadhar data and combining it with breached credit data—a potentially lethal combination that could wreak havoc in consumer and commercial credit markets.

3.4.3 The HTF Report Downplays User Credentialing/Auditing Challenges

This is another major task of credit bureaus around the world. If a small bank, microlender, FinTech and the like want to access the PCR's data, they will need to be examined and permitted by the PCR. Part of making the data widely available to users and consumers (i.e. making it useful) means enabling many pipes and access points in and out. This, of course, presents many challenges, including IT security challenges. This will put any concerns on too restrictive or permissive access and insecure access (data breaches) squarely in the hands of the regulator / government that operates the PCR. It would need to credential users, conduct audits, monitor for fraud, defend against cyber attacks, among other things. This would be a huge task in and of itself. The government / regulators will be in the uncomfortable position of not just regulating and overseeing this credit reporting space, but operating it.

More minor is that in advanced data sharing markets, consumers are often given the benefit of the doubt in disputes, so a consumer may dispute a balance and some of the balance may be removed from credit reports. But the same data might need to be reported for regulation purposes differently (the bank did suffer a $500 loss but for the consumer it may only report as $250). There are usually different standards depending on how the data is used. This gets to the basic tenant of data protection regimes seen in the US, EU, OECD, UN, and APEC, that all data (for obvious reasons) should not be treated the same, depending on the type, use, and source of data (data protection rules are often proportional and not one size fits all). Will a PCR accommodate this or not? For instance, a local court may require bureaucratic documentation to update a tax lien, but a credit bureau may simply accept a check receipt. So, would a super database act in a procrustean way

[35] Durden, Tyler. "'Einstein' Fooled by 'Chinese' Hackers in Massive Government Data Breach." *Zerohedge.* 6 June 2015. Downloaded at: https://www.zerohedge.com/news/2015-06-06/einstein-fooled-chinese-hackers-massive-government-data-breach

[36] Malhotra, Ashish. "The World's Largest Biometric ID System Keeps Getting Hacked: The personal data on many of India's citizens is for sale on Whatsapp for $10." *Motherboard*. 8 January 2018. Downloaded at: https://motherboard.vice.com/en_us/article/43q4jp/aadhaar-hack-insecure-biometric-id-system

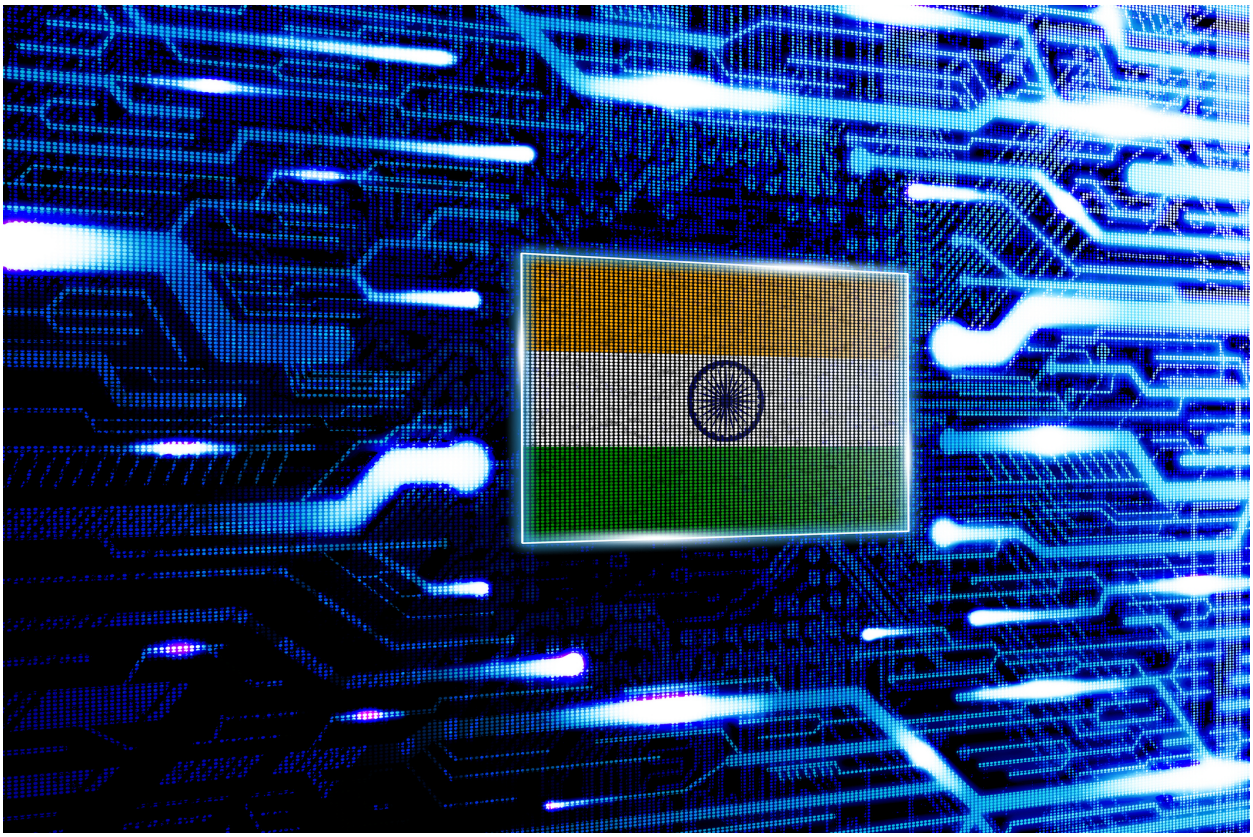
ensuring all data is consistent, or be flexible and afford consumers and the system optimal data protections?

3.4.4 The HTF Report Overlooks Downsides of Single Mega-Repository

Different types of data for different uses are typically housed in different databases for very good reasons. Different rules may govern data differently depending on use, and the quality of data is relative to use. Income data reported to a tax authority needs to be very exact, income data reported to a lender needs to be approximately accurate (such as reporting $45,000 a year instead of $44,830), and income data used in marketing need only be a rough estimate of value. The data quality of any particular individual is unimportant if regulators are looking at data at the institutional level. If a lender is making a loan to an individual, however, the quality of that individual's data is important. As noted above, sometimes, depending on data use, there are different thresholds for maintaining negative data. It may time off differently for tax agencies, versus regulators, versus credit reports. And a consumer may work out an arrangement with a lender not to report a payment late on a credit report if they enter into a payment plan, but the late payment may still need to be reported to regulators by law/rules.

In short, the proposed PCR is not simply an IT project to create a database. It will need to account for a staggering array of different types of data which aims to be unprecedented. It will need to deal with small unsophisticated data furnishers, messy data, data matching issues, other data quality issues, interactions with consumers, interactions with data users, credentialing data users, and auditing data users. It will need to be a large operation with many, many connections to service lending and other needs. It will also become one of the biggest cyber targets in the world that will need to maintain constantly improving and vigilant data security (consider the regular threats to PayPal and the like). The biggest concerns of the largest, most advanced credit bureaus around the world deal with these many complex issues (interacting with consumers, dispute handing, data security, data access).

Section 4: Proposed Path Forward



PERC shares the views of the HTF that a public credit registry would be of great value to regulators, lenders, borrowers, and the economy. We find much of the evidence put forward by the HTF in support of a PCR compelling and uncontroversial. Where we differ from the HTF can be distilled down to four points:

(1) that the PCR not compete with established private credit bureaus (consumer and commercial);
(2) that the credit reporting mandate remain untouched, and that the PCR could receive granular payment history information from PCBs with no threshold;
(3) that a broader public interest be served by prioritizing the promotion of competition among lenders through the use of PCR and PCB data; and,
(4) that the PCR be operated as an enterprise by an experienced information services firm that is not a licensed credit bureau.

PERC believes that with these adjustments to the proposed PCR described in the HTF Report, the Indian financial services sector and the entire Indian economy are most likely to benefit from the implementation of a PCR. Regulators will be equipped with higher quality and more granular data from a diverse range of sources that will help them better understand systemic risk and make informed policy decisions more rapidly. Similarly, the RBI will be better able to perform the vital traditional functions regarding regulation,

oversight, supervision, and the publication of statistics. The RBI can also help with financial inclusion by being a champion for access to data assets that would increase individual and MSME access to affordable sources of mainstream credit. Data assets that are currently excluded from the existing national credit information sharing network include proven payment data such as energy utility payments, telecoms payments, media payments (cable TV, satellite TV, broadband), and rent, among others.

By stark contrast, PERC argues that failure to make these simple modifications could result in negative consequences. Indeed, current investment decision-making by existing private credit bureaus are no doubt being negatively impacted by the HTF Report and uncertainty around the RBI's position on the scale and scope of a PCR in India. Business uncertainty has been heightened by rumors that the PCR is being fast-tracked and that the RBI has set up another High Level Task Force for overseeing the implementation of the PCR—and has excluded private credit bureaus, multilateral organizations, and trusted and disinterested third-party subject matter experts such as academics or think tank officers who could offer the task force considerable insights on designing, implementing, and maintaining a credit data repository.

In summary, PERC offers the following five recommendations in light of the June 6 HTF Report:

Protect and Enhance CIS Markets: A few times in the HTF Report the authors state that they intend to implement a PCR in such a manner as to not disrupt the existing national credit information sharing network comprised of private consumer and commercial credit bureaus, ratings agencies, and other niche public and private sector repositories. With their next breath, they go on to say that among other things, the proposed PCR will provide lenders, individuals, government agencies, and other qualified parties with unlimited access to data maintained by the PCR. In other words, the PCR will be in the business of providing credit reports to individuals, lenders, and others. By stripping the single largest line of business from the four existing private consumer credit bureaus, the effect of the PCR will be devastating.

The PCR—if implemented as proposed—will disrupt and possibly displace private credit bureaus in India. It is perhaps overly optimistic to presume that for-profit enterprises will instantly change their business model (from a full-service credit bureau to an analytics-only firm). The proposed approach would be justifiable were it the case that existing PCBs were ineffective in performing their core functions—but this is simply not the case in India. The past decade has witnessed a dynamic financial services sector with robust growth in lending and far better-performing bank loan portfolios. While it is true that the entire economy has been growing during this time, it is more than coincidental that such growth and improved performance occurred with the advent of private credit bureaus in India (accounting for a lag).

Given the total lack of a market failure argument for a PCR to compete directly with already established private credit bureaus, and given that all evidence suggests that private credit bureaus have had a strong net positive impact on lending in India, there seems to be no justification for the proposed government take over of this line of business—particularly in light of the likely harms to competition and economic growth.

Preserve and Support Data at Private Credit Bureaus: The private credit bureaus in India contain internally consistent data going back many years. This historic data is invaluable when it comes to creating value-added services. But this data can also be crucial in risk management and oversight. That is, it is crucial to have a long-term view of past loan and portfolio performances (such as over entire business cycles, which can be a decade or more) to perform stress testing and the like. If a PCR results in some large lenders no longer reporting to the private credit bureaus, this data history stops and its usefulness will rapidly diminish. On the other hand, if a PCR starts collecting very granular data moving forward, or on only a subset of potential data furnishers, it will lack historic depth and necessary breadth. It could be many, many years, perhaps a decade or more, before a depth and breadth of data equal to that of the current PCBs is collected. There could be a multiyear period where the PCB data is stale (if the PCB is still in operation) and the PCR data lacks depth.

As discussed previously, there is also the very real possibility that the PCR never performs as envisioned but the PCBs nonetheless become hobbled. In either case, the PCR, paradoxically, could result (at least for some period of time) in a diminished ability to carry out risk management and oversight. As such, the PCBs should be supported in India, and not undercut. The PCBs should continue to operate and collect data to add to their historic record to benefit all stakeholders of the Indian financial system.

Preserve the Existing Credit Reporting Mandate: The HTF Report recommends that banks and regulated financial services institutions must report to the PCR, but need not report to any licensed private credit bureau. Assuming the PCR upholds the recommendation of the HTF report to not disrupt and distort existing ecosystem stakeholders—for example, should the PCR be prohibited from directly competing with private credit bureaus in the provision of credit reports—then the logic behind mandating reporting to a PCR but not licensed PCBs is hard to follow.

In any event, it would be far easier for the PCR to receive aggregate data from existing PCBs than for every individual bank to connect to a PCR. Existing licensed private credit bureaus already receive data from regulated lenders, and specialize in data hygiene, data quality and integrity, and data formatting. The PCR can still achieve their objectives of comprehensive and universal coverage with this approach, and it will be far less disruptive to the status quo. Banks would be asked to do nothing that they're not already doing. The PCR is made better off—the plan to simply superimpose data quality and consumer dispute responsibilities onto the data furnisher is fraught with difficulties and will yield increased costs to lenders—and no other parties are made worse off. This is, in economic vernacular, a Pareto superior outcome. This is an instance where theory and practice align, and India would do well to continue along this path.

Serve Broad Public Interest by Promoting Competition Among Lenders and Use of Alternative Data: On paper, the Indian banking sector appears modestly competitive, and has recently been demonstrating characteristics consistent with a competitive market. However, in reality, the 21 nationalized banks account for more than 75% of all consumer and commercial lending in India. And while FinTech, traditional private sector lenders, and foreign lenders have increased their market share over the past decade (thanks in some measure to the growth and co-evolution of private credit bureaus in India), this toe-hold is tenuous and could easily be reversed should the nascent private credit reporting industry be quashed or otherwise disrupted by a PCR.

To help promote a broad public interest, PERC recommends that the RBI consider permitting lenders to use credit file data to market firm offers of credit to individuals. Whether the data is collected first in a central repository (the proposed PCR), or through existing arrangements (from PCBs to a PCR), PCBs should be permitted to work with lenders to use credit file data to promote competition among lenders. This will end a longstanding and unfair cross-subsidy of high risk individuals by lower risk persons, and will result in an overall reduction in the price of credit, as well as a transfer from banks to borrowers, all while dramatically increasing financial inclusion via a more dynamic and competitive financial services sector.

In addition to permitting prescreening, another way that the RBI can promote financial inclusion within the context of a PCR is by championing access to proven payment data, such as energy utility (gas, water, electric), rent, mobile telephone data, wireline telephone payment data, cable TV, broadband, satellite TV, and other credit-like payment information. This data is currently not collected, owing either to specific government prohibitions, or a lack of market incentives for the data to be shared with third parties such as private credit bureaus. As a leading source of subject matter expertise on fair lending and financial inclusion, the RBI is uniquely positioned to serve as the foremost champion for accessing these various proven payment data assets.

Outsource Administration of PCR and Operate as For-profit Entity: The HTF recommends that the PCR at some point become autonomous, self-sufficient, and perhaps a non-profit. While we agree that a degree of autonomy is beneficial, and self-sufficiency desirable, we are unsure how this would be done without disrupting the current credit information market. Running a PCR will be an expensive undertaking. Apart from the set-up costs, and costs associated with maintaining a central repository, especially as it grows and evolves, there are considerable costs associated with dispute resolution, systems upgrades, compliance, and operations.

If this won't be covered by the government budget (presumably from the RBI), then the PCR will have need a revenue stream or streams. Giving away credit reports for free or at cost won't generate much revenue. It's hard to see what other options exist unless the autonomous, independent PCR begins selling value-added services in direct competition with private credit bureaus. Though, given the revenue hit the private credit bureaus will

take when the RBI offers credit reports for free or at cost, there may not be any private credit bureaus operating repositories in India after a few years.

Given the tremendous potential value of a traditional PCR to Indian regulators, as well as the financial services sector, and the fact that "connecting the data is as important as collecting the data," it stands to reason that the RBI could benefit from outsourcing the operation of a PCR to a firm with experience in this space. By doing so, the PCR could more quickly travel down the learning curve, and deal with the myriad issues associated with not only building a repository, but also the analytic platforms necessary to extract maximum possible value from the data collected.

About PERC

Founded in New York City in 2002, PERC is the only non-profit public policy research and development organization exclusively dedicated to the relationship between financial inclusion and access to/the use of information and information solutions. Our mission is to stamp out Credit Invisibility worldwide, and drive financial inclusion, through the responsible use of information and information solutions. PERC has undertaken projects in more than 25 countries on 6 continents, including our operations in Canada, which house the Asia-Pacific Credit Coalition. PERC has been retained as consultants to the US Department of Treasury, the US Department of Housing and Urban Development, The World Bank, The International Finance Corporation (IFC), the Inter-American Development Bank (IDB), and the Organization for Economic Cooperation and Development (OECD). PERC serves as "Sherpa" to the APEC Business Advisory Council (ABAC) on all matters relating to credit information sharing. PERC CEO and founder Dr. Turner was appointed and served on the inaugural Data Privacy and Integrity Advisory Committee of the US Department of Homeland Security (DHS), and has testified before Congress and in federal courts on numerous occasions. Dr. Turner was also a campaign advisor to Barack Obama. PERC has co-published reports on credit reporting with the OECD, the IFC, the Brookings Institution among others. To date, our research and outreach has helped change national policy in dozens of countries, and has resulted in helping more than 1 billion people build or rebuild a positive credit history. To learn more about PERC, see www.perc.net and PERC Canada at www.perccanada.ca

About the Asia-Pacific Credit Coalition

Founded in 2007, the APCC have been promoting principles for consumer and commercial credit information sharing among the 21 members of the Asia Pacific Economic Cooperation (APEC). The APCC have been designated as "Sherpas" for the APEC Business Advisory Council (ABAC), and have worked with ABAC on credit reporting issues since 2007. More recently, the members of the APCC have provided guidance to ABAC for the Asia Pacific Financial Forum (APFF) and the Financial Infrastructure Development Initiative (FIDN) concerning credit information sharing policy. To date, working with ABAC and APEC, the APCC have served as a resource on credit information sharing policy to more than half of all APEC member economies (Australia, Canada, Chile, China, Indonesia, Mexico, New Zealand, the Philippines, Singapore, Thailand, the United States, Vietnam). For more about the APCC, visit www.apeccredit.org

PERC
6409 Fayetteville Road., Suite 120-240
Durham, NC 27713USA
www.perc.net

The Policy & Economic Research Council (PERC) is a tax-exempt 501(c)(3) incorporated in the State of North Carolina.