



Upgrading the Philippine Credit Information System

Nov 24, 2020

About Us

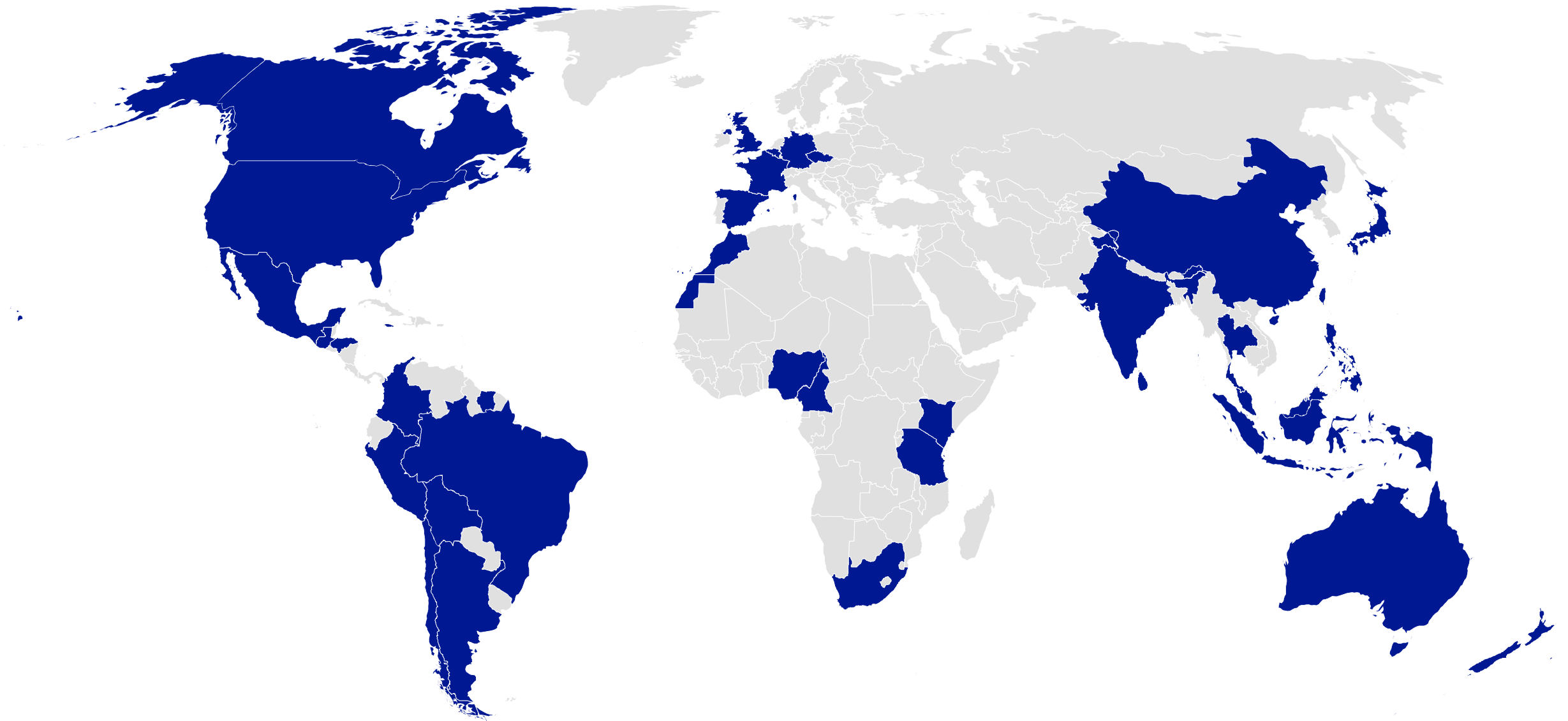


PERC is a non-profit, non-partisan policy research and development institution dedicating to increasing financial inclusion through information solutions

PERC Supporters

Foundations	NGOs	International	U.S.G.	Associations	Industry
    	     	    	   	   	        

Where We Work



2015 Cebu Action Plan

Pillar 1: Promoting Financial Integration

1.A Promote an enabling financing environment for MSMEs, including trade, supply chain & alternative financing mechanisms.

- Establish legal frameworks for credit information systems (CIS) based on World Bank's General Principles of Credit Reporting.

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CIS is Vital Financial Infrastructure

ON THE IMPACT OF CREDIT PAYMENT REPORTING ON THE FINANCIAL SECTOR AND OVERALL ECONOMIC PERFORMANCE IN JAPAN

BY

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Information Policy Institute | March 2007



- Credit information sharing:
 - Reduces information asymmetries
 - Avoids credit rationing
 - Allows risk-based pricing
- Djankov, McLiesh, Shliefer (2007) found that PCRs were not statistically correlated to increased private sector lending
- PERC research found that every 10% rise in coverage of a nation's population in a full-file PCB is associated with a 6% increase in private sector lending as a share of GDP

Philippine Context



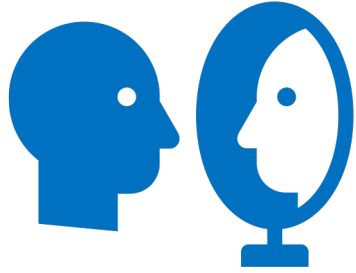
Credit Information Sharing Act

- Passed in 2008
- Legitimate government intervention to market failure
- Previous law permitted (but did not require) entities to report credit data, which created silos
- Created CIC to be central repository of credit information in Philippines

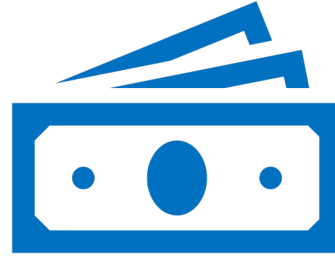
Performance to Date of CIC

- 534 Submitting Entities
- Increase in quantity of data
- Use of CIC data growing
- Direct access consumer portal
- Challenges:
 - CIC in dual role as regulator & competitor
 - Data quality
 - Enforcing compliance
 - Conflict of interest with CRIF

Key Findings



CIC's "identity crisis"
must be fixed



Government should
boost funding for CIC



CIC data quality must
be improved



CIC best as
traditional PCR

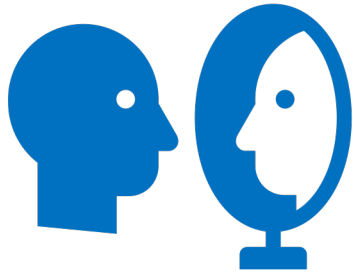


BSP may be better
regulator of CIC



CIC adding value
despite real constraints

Key Findings



CIC's "identity crisis"
must be fixed

- Just what is the CIC?
 - **Public credit bureau?**
 - Offers credit reports to consumers
 - Positioned to offer other value-added services
 - Viewed by SAEs as "effective" competitor
 - **Public credit registry?**
 - Data useful for banking supervision
 - Data useful for economic policy
 - **Regulator?**
 - Authority over SAEs (licensing)
 - Enforce provisions of CISA (reporting mandate)

In markets, perception in everything. Great uncertainty around role of CIC creates confusion and underperformance in markets. Clarification of role of CIC will increase business certainty and market performance.

Key Findings



CIC best as
traditional PCR

- CISA was response to market failure, but role should be redirected
 - **Consumer credit data under-reported in face of strong demand**
 - Mandatory reporting was/is essential in CIS
 - Other models for mandatory reporting
 - **Considerable lift from CIC as traditional PCR**
 - Granular data useful for BSP for prudential regulation
 - Data useful for descriptive statistics (predictive)
 - Data useful for economic policy
 - **Regulatory authority made clearer**
 - BSP has status as regulator with SEs

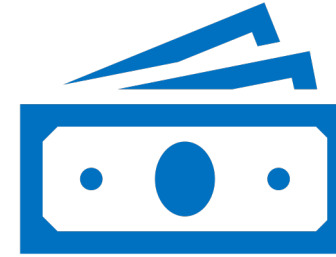
Need for pro-active, robust PCR heightened by 2008 Financial Crisis/Great Recession. PCRs around globe being enhanced as result.

Key Findings



BSP may be better regulator of CIC

- Overwhelming majority of traditional PCRs housed within central bank
- Functions of traditional PCR primarily benefits central bank
- ICCR of IFC/IMF primarily comprised of central banks for 90% of globe



Government should boost funding for CIC

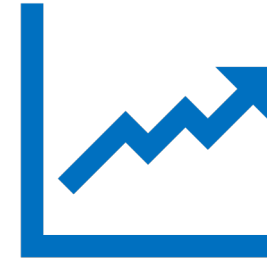
- Need to generate revenue directly linked to perceived competition with SAEs
- Systemic underperformance directly linked to business uncertainty around role of CIC
- Functions of traditional PCR evidently under-developed within Philippines—great boost to CIS ecosystem and financial sector from CIC as PCR
- CIS is critical financial infrastructure—value to economy significant and warrants secure funding

Key Findings



CIC data quality must be improved

- Reported concerns over data quality complex
 - Affecting uptake and use of credit data
 - CIC not totally to blame
 - SEs may be under-reporting
 - CIC cannot really enforce mandate
- Other options
 - Mandate reporting to licensed SAEs
 - CIC under BSP may enhance enforcement



CIC adding value despite real constraints

- Must remember baseline of pre-CIC Philippine CIS
- Dramatic improvements in both quantity of data reported and quality of data reported
- Incremental uptake in use of CIC data by lenders
- Tier 3 lenders now a consideration (e.g. MIDAS)
- Increased public awareness of importance of credit report for access to finance
- CIC design in CISA all but ensured suboptimal outcome (could not be foreseen).

Policy Implications



CISA must be reformed

CIS system cannot be allowed to continue underperforming Filipinos, MSMEs, entire financial sector is affected



Reform must be comprehensive

Issues in CIS are inter-related & interact with each other
Piecemeal approach to fixing system unlikely to succeed



Reform now

Philippines losing out on millions in GDP
Recovery from pandemic is jeopardized