



# Philippine Credit Information Study



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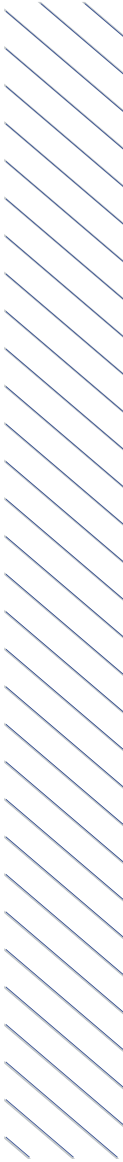

## UPGRADING THE PHILIPPINE CREDIT INFORMATION SYSTEM

### ***Introduction***

This study is a joint project of the Makati Business Club (MBC) and the Policy and Economic Research Council (PERC), a think-tank based in the United States that offers economic research and solutions development to various economies and organizations.

The goal of the study is to present broad recommendations and possible ways to amend the Credit Information Systems Act (CISA), with the aim of improving and modernizing the Philippine credit information system. This report seeks to provide useful information to all stakeholder groups across the Philippine credit information ecosystem, in order to guide their decision-making in ways that will optimize the value of credit reporting and associated value-added services (e.g. credit scores) to the financial sector and the broader economy.

In order to develop recommendations, the performance of the Credit Information Corporation (CIC) as a public credit registry and as a body exercising regulatory functions were assessed against the objectives of the law by gathering insights, experiences, and observations from key stakeholders in the credit information ecosystem. The study took note of the prevailing issues in the current setup of the credit information system, as well as policy insights from the relevant players. Reference was likewise made to international best practices and the experience of other jurisdictions.



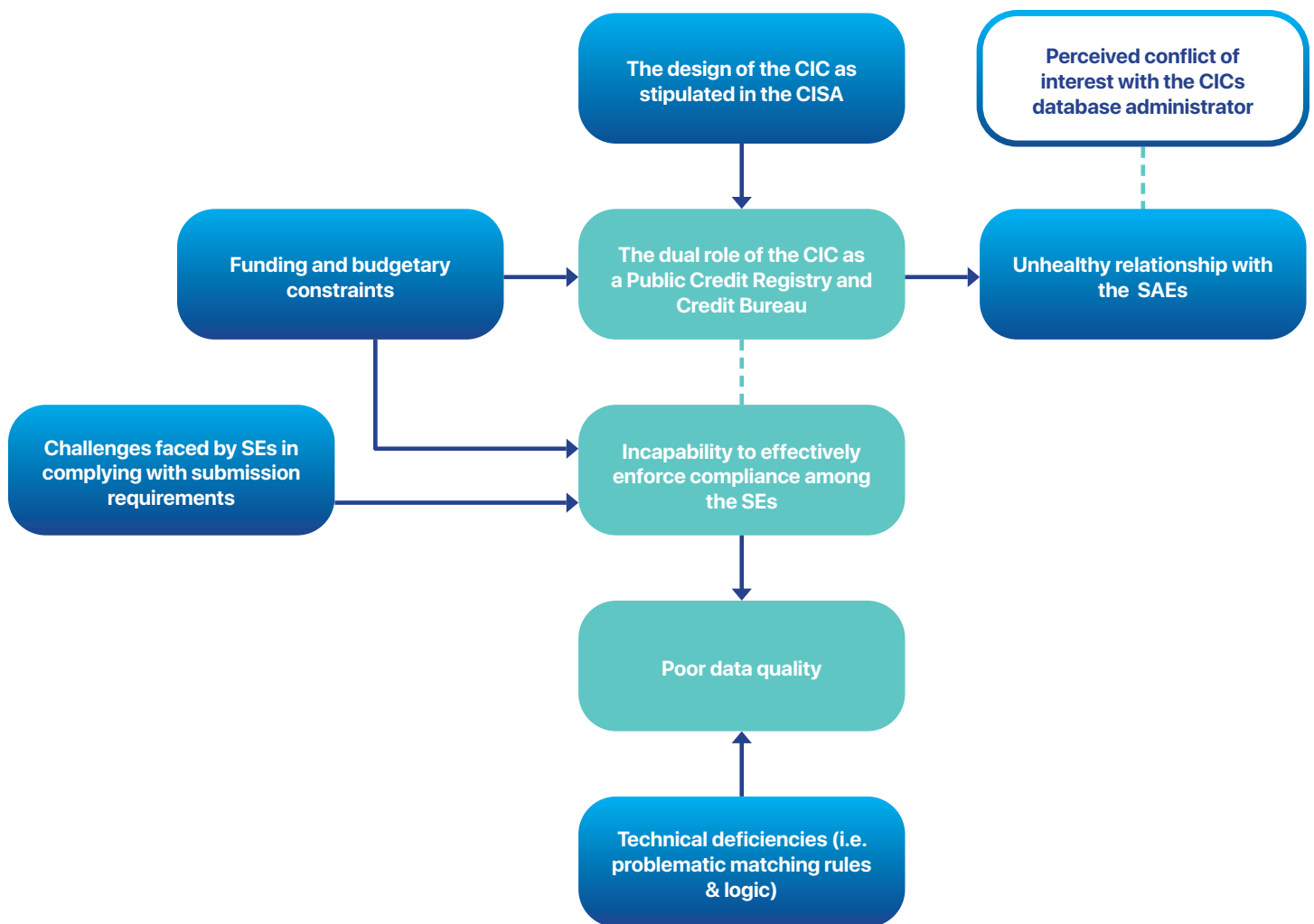
## SUMMARY OF ISSUES, SOLUTIONS, AND RECOMMENDATIONS

ISSUES	SOLUTIONS	RECOMMENDATIONS
<p>1. CISA Created a Dual Role of the CIC in the Credit Reporting Ecosystem – the CIC as a body with regulatory functions and as a data services provider:</p> <p>a. The Special Accessing Entities (SAEs) and other private credit bureaus' perception of the CIC as competition.</p> <p>b. The dual role of the CIC.</p> <p>c. The need for the CIC to generate revenue.</p>	<p>1.1 Clearly define the CIC's mission, vision, and mandate.</p> <p>1.2 Substantially increase CIC's budget allocation to eliminate its burden to generate income.</p> <p>1.3 Concentrate CIC's focus and efforts on its functions as a Public Credit Registry (PCR).</p>	<p>1.2.1 Justify to Congress the need for a substantial increase in the CIC's budget allocation by highlighting the problems encountered in having a dual role in the credit information ecosystem, and how it has hindered CIC's optimal performance as a PCR.</p> <p>1.3.1 Craft a structural model in which the CIC's focus is on its role as a PCR with some regulatory functions.</p> <p>1.3.2 Consider the transfer of the CIC to the Bangko Sentral ng Pilipinas (BSP).</p>
<p>2. Difficulty in enforcing compliance among Submitting Entities (SEs) due to:</p> <p>a. Different data formats and excessive data requirements;</p> <p>b. Software and programming differences among credit bureaus;</p> <p>c. CIC lacking sufficient monitoring staff. This contributes to its failure to impose sanctions; and</p> <p>d. Frequent service interruptions due to internet connectivity in the Philippines.</p>	<p>2.1. Assign the compliance and regulatory functions to a new dedicated unit to effectively monitor compliance by working closely with the Credit Information System (CIS) group (i.e. the CIC's I.T. team) ensuring data quality. Any underreporting and missing fields should be flagged and result in penalties if not addressed.</p> <p>2.2. Continue conducting technical training sessions and workshops for the SEs.</p> <p>2.3. Require that a uniform data format be observed and standardize data requirements.</p>	<p><b>Immediate Action Plan:</b></p> <p>2.1.1. Create a new dedicated unit to monitor and enforce compliance. This includes a more aggressive approach in imposing sanctions for non-complying entities.</p> <p>2.1.2 Collaborate with the BSP to crosscheck data from lending institutions to monitor if there is underreporting, and to prevent such a practice from occurring.</p> <p>2.2.1. Ensure the year-round availability of training to ease the use of process of submission for SEs.</p> <p>2.3.1. Continue collaboration with both the SAEs and SEs to monitor data requirements that are identified as usual sources of file rejection (i.e. the ID Tagging System of the CIC was born out of the difficulty of the microfinance sector to provide TIN, SSS, GSIS, and the usual IDs available in the Philippines. This data requirement was resolved due to the collaboration between CIC and its SEs).</p>



		<p><b>Future Action Plan:</b></p> <p>2.2.5. Congress may review the synergies of different countries who have PCRs under their central banks. The CIC having a regulator with greater oversight powers may help in boosting the compliance of SEs (this is in line with <b>Recommendation 1.3.2</b>).</p>
<p>3. Data quality is deemed poor by both the SAEs and several Accessing Entities (AEs) due to the following:</p> <p>a. Data is incomplete in terms of data fields and records.</p> <p>b. Data is insufficient, such as:</p> <ul style="list-style-type: none"> <li>• Energy/utilities payment data;</li> <li>• Telecom payment data;</li> <li>• MFI loan repayment data; and</li> <li>• Agricultural loans repayment data.</li> </ul>	<p>3.1 Outsource the function of ensuring data quality to the SAEs/ licensed Private Credit Bureaus (PCBs).</p> <p>3.2 Require that a uniform data format be observed and standardize data requirements.</p>	<p>3.1.1. SAEs/licensed PCBs should have access to raw furnished data to allow them to carry out matching and have a more direct relationship with SEs or be able to flag issues that the CIC can pursue. Thus, a change to the Implementing Rules and Regulations (IRR) of the CISA, particularly with Rule 6, regarding the confidentiality of credit information, may be introduced.</p> <p>3.1.2 Revisit and revise the terms and conditions underlying the accreditation of SAEs (SEC Memorandum 2015-07), particularly their rights to access the CIC database.</p>
<p>4. Dual role of CRIF as the database administrator and an SAE raises conflict of interest issues.</p>	<p>4.1 Avoid a scenario where an SAE has internal information/data or undue advantage or the appearance of an advantage due to its position as the CIC's software provider and trouble shooter.</p>	<p>4.1.1 Institute a prohibition on SAEs concurrently being database administrator. This may be done through a CIC board resolution.</p>

## DIAGRAM OF ISSUES: CAUSES AND CONSEQUENCES









## KEY FINDINGS

- Revisions to the CISA Are Needed** – A financial infrastructure as vital as the national credit information system cannot be permitted to continue to underperform relative to where it should be 12 years after the enactment of the CISA. It is normal for complex legislation to be revised and improved after observing how it fares following implementation. The CISA is no exception. Failure to do so will dampen competition and innovation in the financial sector (e.g. under-development of FinTech), resulting in higher priced credit, more systemic risk, and less credit available overall to borrowers and MSMEs. The net result is a broken credit information system that stymies lending to the private sector. This, in turn, dampens overall economic growth and performance.
- The CISA Inadvertently Produced a CIC with an “Identity Crisis:” this Must be Fixed** – Stakeholders across the credit information ecosystem noted the “multiple roles” of the CIC as a body with regulatory functions, a PCR, and as a competitor to private credit bureaus/SAEs. This increases business uncertainty and results in an unfocused CIC. The multiple roles of the CIC, which may be causing systemic harm to the credit information sharing market, is due in large part to its efforts to cover operating expenses.
- Government Should Boost Funding for the CIC** – One of CIC’s biggest challenges is its need to earn revenues and cover operating expenses. CIC has faced continual budget shortfalls which have required its leadership to spend considerable time raising revenue from outside sources rather than advancing the CIC’s mission, growth, and development. As a result, CIC leadership was forced to put the CIC in direct competition with nascent SAEs in the credit reporting market—the primary means by which early-stage credit bureaus earn revenue. The result of this market distortion has been detrimental, including under-investment by all SAEs and the exit from the Philippine market by the world’s largest credit bureau. The value of an optimally structured, well-functioning credit information sharing system to the national economy is in the (hundreds) of billions of pesos (e.g. up to a 45% increase in lending) each year.<sup>1</sup> Given this upside, the government of the Philippines would be well-justified in covering the cost of maintaining an effective traditional PCR, which CIC puts at more than Php 150 million per year.<sup>2</sup>
- Data Quality Needs to Be Improved** – The CIC’s achievements with regard to consolidating credit data from a diverse set of contributors from across all sectors of the financial system within the last five (5) years, and ultimately becoming the largest and most comprehensive credit database in the Philippines is deserving of merit. However, the SAEs and some of the largest SEs are not satisfied with the quality of its data, something not uncommon in developing markets. A possible solution to address this is to effectively offload some of the challenges of data matching and data quality to the private sector, i.e. the SAEs/PCBs. SAEs would then compete on data quality, and the dynamic of a competitive market would greatly improve this situation to the direct benefit of the financial sector and the Philippine economy.

<sup>1</sup>Turner, Michael and Varghese, Robin. “Economic Impacts of Payment Reporting in Latin America.” May 2007, [www.perc.net/wp-content/uploads/2013/09/Latin\\_America.pdf](http://www.perc.net/wp-content/uploads/2013/09/Latin_America.pdf)

<sup>2</sup> According to the Corporate Operating Budgets (COBs) submitted to the Department of Budget and Management (DBM) for fiscal years (FYs) 2015-2019, the CIC’s proposed annual budgets have not fallen below Php 150 million.



The SAEs could report on the quality and completeness of SE data to the CIC, which could then work to ensure data furnishing compliance. However, this would require further study on its feasibility. In addition, the CISA is very specific in defining particular data elements that must be reported. It is likely better for a regulator to have greater flexibility in this regard as what should be reported may change over time and may need to be adjusted across different data furnishers and account types.

- **CIC is Best as a Traditional PCR** - The CIC should focus on gathering consumer credit payment data for use in micro- and macro-prudential oversight and regulation, generating and publishing statistics, informing policy (monetary), and helping to ensure the safety and soundness of the Philippine financial sector, in addition to helping close data gaps in the overall information sharing market.
- **BSP may be a Better Regulator of the CIC** - The SEC has limited regulatory authority in the context of credit reporting and has been an arm's length supervisor of the CIC over the years—in some measure owing to a lack of clear oversight authority in the CISA. This arrangement is also inconsistent with well-established international best practices which overwhelmingly involves housing the PCR squarely within a nation's central bank. The reasons for this are straightforward—the central bank's primary functions are enhanced by data gathered and maintained by a public credit registry. In the case of the Philippines, the BSP also collects data from regulated lenders that can be used for cross-referencing with the CIC's data to ensure broader and more robust compliance with CISA—something the SEC cannot do. The BSP also appears interested in pursuing a commercial credit database for SMEs. Since CIC already collects such data, unneeded, redundant data collection efforts should be minimized (this should be the case regardless of where the CIC is housed).
- **CIC Adding Value Despite Real Constraints** - Despite the CIC's current identity crisis and myriad other challenges (some of which have nothing to do with the CIC and are more the product of non-compliance by SEs, and pressure on the CIC to raise revenue to cover operating costs), the CIC has notched some notable accomplishments. Firstly, the volume of data submitted to the CIC for use in credit reports and value-added services has increased steadily overall and dramatically of late.<sup>3</sup> This outcome seems highly unlikely but for the dedication and effort of a mission-oriented CIC leadership and staff. Secondly, the use of CIC data, while still relatively low compared to an

<sup>3</sup>The number of unique data subjects in the CIC's database has risen from 9 million (year-end of 2019) to 21 million as of October 2020 (CIC, personal communication, October 20, 2020).

# I. PHILIPPINE CREDIT INFORMATION SHARING ECOSYSTEM

## *A Brief Overview of the Philippine Credit Information Sharing Ecosystem*

A credit information reporting and sharing ecosystem comprises the institutions, individuals, rules, procedures, standards, and technology that facilitate the flow of information relevant to credit agreement decision making. It involves different key players depending on the existing conditions in a particular jurisdiction. In the case of the Philippines, some of the key players in the ecosystem are:

1. the Public Credit Registry (PCR) or the Credit Information Corporation (CIC);
2. the Private Credit Bureaus (PCBs), some of which are authorized Special Accessing Entities (SAEs)<sup>4</sup>,
3. the Regulator of the PCR and PCBs or the Securities and Exchange Commission (SEC);
4. Submitting Entities (SEs)<sup>5</sup> or the Lenders who, by virtue of their regular submission to the CIC, are also Accessing Entities (AEs) (note that not all SEs are AEs); and
5. the Borrowers, who are the data subjects of credit information.

The SEC is the principal implementing agency of the Credit Information Systems Act (CISA) of 2008 or Republic Act No. 9510; it exercises regulatory or supervisory powers over the CIC, but only in terms of access (i.e. who can access the CIC) and pricing (i.e. the price at which the CIC sells their credit reports). The CIC was established by virtue of the CISA, and its main function is to be the central repository of credit information in the country. The data on borrowers (private individuals) it stores is supplied by the SEs. Borrowers may access their data via the purchase of a credit report—either from the CIC itself or through any of the authorized SAEs (also known as Credit Reporting Service Providers or CRSPs). Likewise, SEs may, at their discretion, access credit data either from the CIC, one or more of the SAEs, and/or other PCBs not accredited by the CIC.

The relationship among the aforementioned stakeholders in the Philippine credit information system and the flow of credit information among these entities is illustrated in Figure 1.0 (pre-CISA) and Figure 1.1 (post-CISA).

<sup>4</sup> As of October 11, 2020, there are three (3) SAEs, namely: CRIF Philippines, TransUnion Philippines, and CIBI Information, Inc.

<sup>5</sup> As stipulated in Rule 4.1 of the CISA's Implementing Rules and Regulations (IRR), the financial institutions classified as SEs and mandated to submit credit data to the CIC are: universal, commercial, and thrift banks, including their trust departments, rural banks and entities with a quasi-banking license issued by the BSP, including their subsidiaries and/or affiliates that are engaged in the business of providing credit; life insurance companies, mutual benefit associations, and other similar entities supervised by the Insurance Commission (IC); credit card companies; financing companies; trust entities; investment houses with a quasi-banking license; non-governmental organizations engaged in the micro-financing business; government lending institutions, both government financial institutions (GFIs) and government-owned and controlled corporations (GOCCs) engaged primarily in lending; cooperatives engaged in lending activities such as credit cooperatives or financial services cooperatives; and such other entities that may be considered eligible as a submitting entity by the CIC from time to time. As of October 11, 2020, there are 534 SEs in production.

### *The Philippines Credit Information Sharing Ecosystem Pre-CISA*

Before the enactment of the CISA in 2008, there already existed a functioning, but disorganized and underdeveloped, credit information reporting and sharing system in the country.<sup>6</sup>

In 1982, CIBI Information, Inc. (CIBI), formerly known as the Credit Information Exchange System, was established by the Bangko Sentral ng Pilipinas (BSP), SEC, and the Financial Executives Institute of the Philippines (FINEX) as the Philippines' first credit reporting agency; then-President Ferdinand E. Marcos issued Letter of Instructions No. 1107 compelling the central bank to create CIBI "...in the wake of failures of corporate borrowers in 1981." However, it did not become the competent and suitable credit bureau it was intended to be, as it was not compulsory for financial institutions to submit data under the law supporting its mandate, i.e. Presidential Decree No. 1941 (Recognizing and Supporting the Credit Information Bureau, Inc.).<sup>7</sup> In 1990, the Bankers Association of the Philippines (BAP) established the BAP-Credit Bureau, Inc. (now known as BAP-Data Exchange, Inc. or BAP-DX) to facilitate the exchange of credit information among member-banks.

The creation of such organizations makes clear that there were efforts to facilitate adequate reporting and sharing of credit information. Nonetheless, the flow of information wasn't effectively streamlined because, to reiterate, financial institutions could choose not to share their data with CIBI. As a result, certain institutions had information on borrowers that others couldn't gain access to (as was/is the case with BAP-DX, for example, whose services are only available to member-banks); this silo-mentality, coupled with bank secrecy laws,<sup>8</sup> only further impaired any effort made by existing legislation to strengthen the pre-CISA Philippine credit information system.<sup>9</sup>

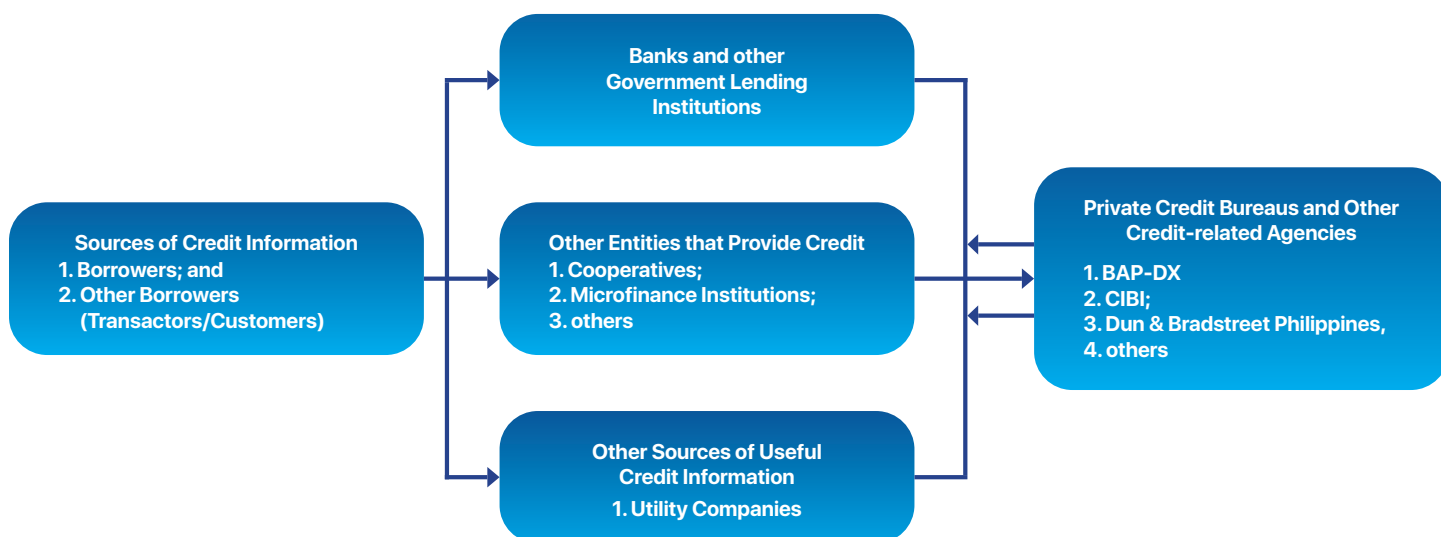
<sup>6</sup> Asuncion, Ruben Carlo. "Credit Bureau Creation and Development in the Philippines." Oct. 2015. ResearchGate, doi: 10.13140/RG.2.1.1653.3207. Accessed 8 Oct. 2020.

<sup>7</sup> Ibid.

<sup>8</sup> The General Banking Law of 2000 or R.A. No. 8791; The Law on Secrecy of Bank Deposits or R.A. No. 1405 (qtd. in Asuncion, "Credit Bureau Creation and Development in the Philippines").

<sup>9</sup> Supra note 7.

**FIGURE 1.0<sup>10</sup>**  
**The Flow of Credit Information Pre-CISA**



#### *The Philippines Credit Information Sharing Ecosystem Post-CISA*

Financial institutions, ranging from universal banks and credit card companies to cooperatives and microfinancing institutions, were mandated to submit credit data to a central repository or database with the passing of the CISA in 2008. The addition of this provision<sup>11</sup> in the law addressed the failure of P.D. 1941 to effectively consolidate credit data within the Philippine financial system. However, the mandate of the CISA goes beyond addressing the faults of the pre-CISA Philippine credit information system; not only does it seek to mitigate the effects of information asymmetry from the point of view of lending institutions to prevent massive default and fraud, but it also supposedly gives borrowers a clear view of how lenders see and evaluate and them in terms of their creditworthiness.<sup>12</sup>

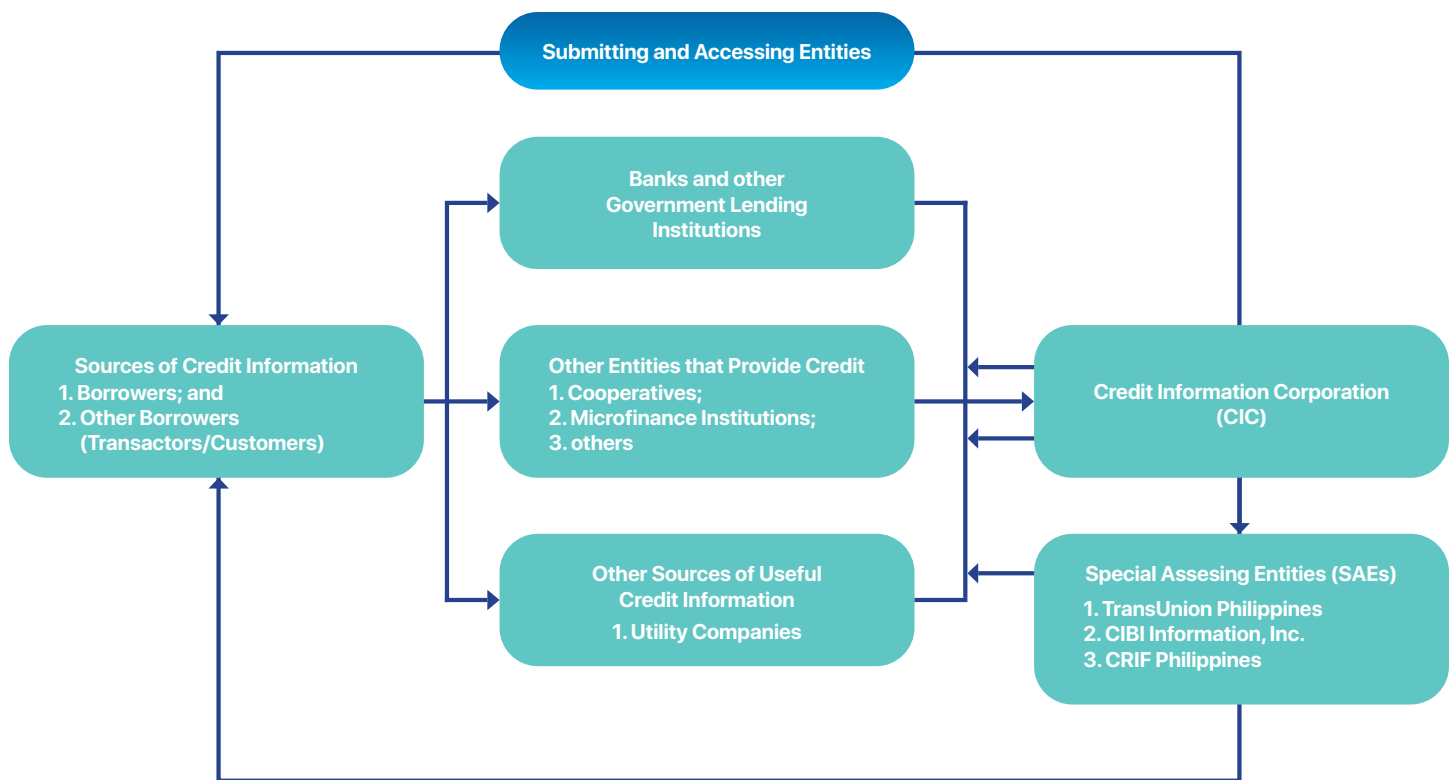
<sup>10</sup> Ibid.

<sup>11</sup> R.A. 9510, Sec. 4 (a).

<sup>12</sup> J. Garchitorea, personal communication, July 15, 2020.



**FIGURE 1.1<sup>13</sup>**  
**The Flow of Credit Information Post-CISA**



<sup>13</sup> Supra note 10; adapted from Figure 4.2 in Asuncion's "Credit Bureau Creation and Development in the Philippines."

## II. CHALLENGES, ANALYSES, AND RECOMMENDATIONS

### CHAPTER 1

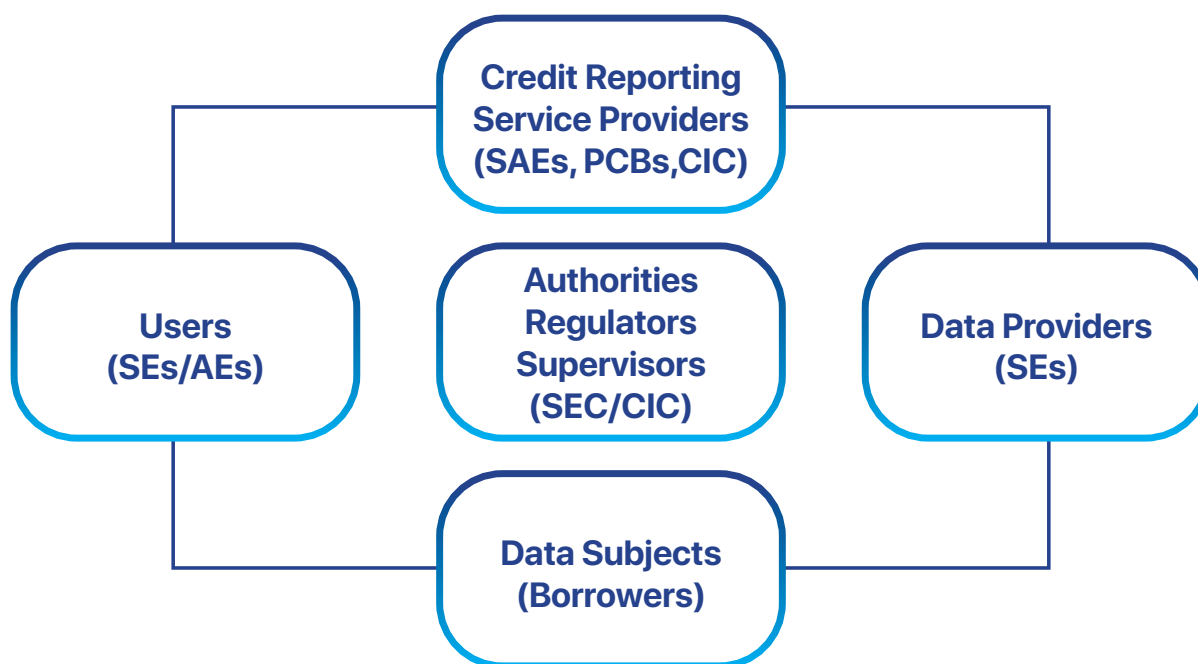
#### THE CIC AS A PUBLIC CREDIT REGISTRY WITH REGULATORY FUNCTIONS AND A CREDIT BUREAU

##### Framing the Issue

Credit reporting systems consist of the following actors: credit reporting service providers (CRSPs),<sup>14</sup> data providers,<sup>15</sup> data subjects (consumers, MSMES, and large businesses/firms), users of credit data, and regulators. The key players in the Philippine credit information reporting and sharing ecosystem (p. 7) and the roles they play are indicated in Figure 1.2 below.<sup>16</sup>

**FIGURE 1.2**

Key Stakeholders in a Credit Reporting System



<sup>14</sup> "Credit reporting service providers (CRSPs) are institutions that collect information on a borrower's credit history from creditors and available public sources" (World Bank 4). "CRSPs compile information on individuals and/or small firms, including credit repayment records, court judgments, and bankruptcies, and creates a comprehensive credit report that it then sells to credit providers" (World Bank 4).

<sup>15</sup> In the Philippines, the data providers are the SEs. "Traditional data providers include commercial banks, other financial institutions, and credit card issuers; non-traditional data sources include retailers and utility providers, and, in addition, all private and public entities that collect information on consumers are potential data sources for CRSPs" (World Bank 5).

<sup>16</sup> World Bank Group. "Credit Reporting Knowledge Guide 2019." The World Bank Group, 2019, pp. 4-6, [documents1.worldbank.org/curated/en/262691559115855583/pdf/Credit-Reporting-Knowledge-Guide-2019.pdf](https://documents1.worldbank.org/curated/en/262691559115855583/pdf/Credit-Reporting-Knowledge-Guide-2019.pdf)

Based on its design provided in the CISA and its Implementing Rules and Regulations (IRR), the CIC performs the functions of a body empowered to exercise regulatory powers and two types of credit reporting service providers: a credit registry and a credit bureau. This setup has been characterized as confusing and problematic by the SAEs and several SEs who participated in the study, and has resulted in the following issues:

**a. As a body performing regulatory functions and an institution engaged in a business similar to the SAEs', the CIC is perceived to be competing with the SAEs and private credit bureaus, while at the same time, regulating them.**

Due to the CIC being both a body with regulatory functions and an institution that does business, it is perceived to be competing with SAEs and private credit bureaus, while at the same time, monitoring their compliance with regard to their accreditation. The SAEs have expressed the common sentiment that the CIC appears to be a competitor that enjoys an unfair advantage because it is, after all, a government entity with the features of a private enterprise. SAEs and private credit bureaus voiced concerns about: 1) banks acquiring credit reports from the CIC for free/below market cost and greatly eroding this vital revenue stream; 2) the CIC offering value-added services (triggers, scores) in direct competition with SAEs, private credit bureaus, and value-added service providers such as FICO; 3) banks being partial to the CIC as it will be less likely to promote competition among lenders.

The CIC, however, does not consider this to be an accurate representation of its place in the ecosystem. CIC board members interviewed recognized the existence of competition between the CIC and SAEs/private credit bureaus, but argued that this is not problematic. To their mind, SAEs will receive largely the same data from the CIC, and can compete in value-added services and in the acquisition of "other" data, such as alternative data including non-financial payment information like energy utility, telecoms, media, and rent payments.

The study believes that the concerns voiced by the SAEs and other private credit bureaus should not be dismissed. It is well documented that private credit bureaus are more heavily reliant upon revenue from basic service while in their infancy/early stages of development.<sup>17</sup> SAEs in the Philippines are relatively young, and are heavily dependent upon selling credit reports to lenders for revenue. The CIC could be seen as a legitimate threat to this important revenue stream at this stage of development. Perhaps in 15 or 20 years, after robust competition among the SAEs, then revenue splits from value-added services and consulting will be more significant relative to selling credit reports, but the credit reporting industry in the Philippines is not even close to that stage of development in 2020.

Ultimately, the concern of the SAEs boils down to the apparent confusion with regard to the mission of the CIC. Responses to surveys and views shared during interviews demonstrate that the CIC's dual role has created confusion as to what CIC is and what it is trying to achieve.

<sup>17</sup> M. Turner, personal communication, November 17, 2020.

Questions such as: *“is the CIC primarily to serve the traditional functions of a public credit registry focused on gathering data for micro- and macro-prudential regulation, statistics, and economic policy?”*, and *“is the CIC gathering data primarily to meet the market needs of lenders in terms of credit risk management?”* are consistently being raised.

Both the SAEs and several SEs who participated in the study have pointed out the need to clarify CIC’s role in the ecosystem. This lack of clarity appears to be a significant consideration for players in the ecosystem, as an SAE shared that this problem caused a considerable investment in the development of a competitive credit bureau to be withheld. In addition, according to the SAEs, the CIC’s dual role has also prevented it from giving due protection to their business interests (the SAEs expressed that the CIC’s added service of offering credit reports may adversely affect their business operations; more on this is discussed in Chapter 3 on p. 31).

*In Private Credit in 129 Countries*,<sup>18</sup> Djankov, McLiesh, & Shliefer (299–329) analyzed the impact of institutions on private credit markets. They 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 credit bureaus leading to an increase of 14.5 percent and public credit registries only increasing lending by 10.3 percent. PERC research found that every 10 percent rise in coverage of a nation’s population in a full-file PCB is associated with a 4.5 percent increase in private sector lending as a share of GDP.<sup>19</sup>

While the CIC was created in response to a market failure in the Philippines, its competition with the SAEs it monitors cannot help but distract it from its mission to increase lending to the private sector. The return on investment of an optimally structured, well-functioning credit information sharing system to the national economy is estimated at billions of pesos each year; thus, the stakes of getting it right or wrong are considerable, and can affect the growth and development trajectory of the national financial sector and the entire economy by extension.

Furthermore, some respondents expressed an extreme view that the CIC’s mandate is redundant because many of the SEs are already required to submit data to the BSP; again, this reinforces the fact that the dual role of the CIC has caused confusion in the credit information sharing ecosystem.

<sup>18</sup> Djankov, Simeon, McLiesh, Caralee, & Shliefer, Andrei. “Private Credit in 129 Countries.” *Journal of Financial Economics*, vol. 84, no. 2, May 2007, pp. 299–329. ScienceDirect, [https://scholar.harvard.edu/files/shliefer/files/priv\\_credit\\_jfe.pdf](https://scholar.harvard.edu/files/shliefer/files/priv_credit_jfe.pdf)

<sup>19</sup> Turner, Michael, Varghese, Robin, & Walker, Patrick. “On the Impact of Credit Payment Reporting on the Financial Sector and Overall Economic Performance in Japan.” Mar. 2007, [www.perc.net/wp-content/uploads/2013/09/Japan.pdf](http://www.perc.net/wp-content/uploads/2013/09/Japan.pdf)



Lastly, there is a pending bill that was introduced by Rep. Salceda in October 2020, House Bill (H.B.) No. 7863 or the “Fair and Inclusive Credit Information and Scoring Act.” It seeks to empower the government to halt the production use of a consumer credit risk model deemed to be discriminatory or otherwise inappropriate.<sup>20</sup> This may affect the CIC’s functions insofar as it empowers another government agency to exercise authority over activities related to credit.

**b. The need for the CIC to generate revenue is not only due to its nature as a GOCC, but also because it has continuously received limited funding from the National Government.**

Yes, it is true that the CISA envisioned the CIC as a revenue-generating entity. However, it must be noted that the CIC’s decision to provide credit reports at this early stage in the development of the CIS ecosystem within the Philippines (and likely to the direct detriment of the fledgling SAEs and private credit bureaus) and to consider doing other business in competition with private sector actors stems from another issue: its limited funding. This suggests that the dual role of the CIC, which may be causing systemic harms, is due in large part to its efforts to cover their operating expenses directly owing to chronic under-funding.

Because the CIC is a GOCC,<sup>21</sup> it receives funding in the form of a subsidy from the National Government (NG). Its operations adjust depending on the amount of money it is provided (Table 1.1). As such, the CIC communicated that they were constrained by resorting to all available tools to earn money to close budget gaps and sustain its core operations. For example, the contractual costs owed CRIF Philippines as database administrator exceeds the funds allocated to the CIC every year. Consequently, the CIC President has had to spend considerable time soliciting from a variety of public sector and private sector funders simply to meet basic operational expenses. This explains why the CIC had to engage in the sale of credit reports and provide other services on the market, despite knowing full well the potential ramifications from doing so.

<sup>20</sup> House Bill No. 7863, Sec 9.

<sup>21</sup> According to P.D. 2029, a GOCC is “a stock or a non-stock corporation, whether performing governmental or proprietary functions, which is directly chartered by special law or, if organized under the general corporation law, is owned or controlled by the government directly or indirectly through a parent corporation or subsidiary corporation, the extent of at least a majority of its outstanding capital stock or of its outstanding voting capital stock.” EO No. 64 of 1993 expanded the definition as follows: “...a corporation created by special law or incorporated and organized under the Corporation Code and in which the government, directly or indirectly, has ownership of the majority of the capital stock. Any subsidiary of a GOCC shall be deemed a GOCC. Likewise, it is also a corporation, which is explicitly intended under the law and government policy for ultimate transfer to private ownership under certain specified conditions, shall be considered a GOCC until it is transferred to private ownership and control.”

Furthermore, in relation to the issue of funding, the CISA also provides for the CIC to be privatized within five (5) years from the law's enactment. The CIC pointed out that this provision vis-à-vis its nature as a GOCC, an independent self-sustaining body, created an impression within the Philippine government that the CIC had enough funds to operate without need of external help. CIC stated emphatically that this is not presently the case, nor has it ever been so.

**TABLE 1.1****Comparative Analysis of Budget Approved, Disbursed, and Utilized**

YEAR	Approved Budget fro. NG <sup>22</sup>	Disbursed fro. NG <sup>23</sup>	Vari- ance	Approved COB	Actual Expendi- tures	Vari- ance
2015	138,268,000	11,250,000	-92%	188,263,000	111,782,294	-41%
2016	196,018,000	93,268,000	-52%	147,347,000	64,033,725	-56%
2017	115,545,000	47,574,000	-59%	164,536,000	67,625,385	-59%
2018	174,327,000	67,971,000	-61%	176,661,000	104,569,077	-41%
2019	164,226,000	142,024,019	-14%	182,372,000	106,977,230	-41%

Source: Annual Corporate Operating Budgets and COA Audited Financial Reports from 2015-2019

<sup>22</sup> NG subsidy submitted (by the CIC, after approval from its board) to and approved by the Department of Budget and Management (DBM). This differs from what is actually approved by Congress and indicated in the General Appropriations Act (GAA) for a particular fiscal year.

<sup>23</sup> Approved per the GAA for a particular fiscal year.

 **TABLE 1.2**

Comparative Analysis of Approved Budget and Actual Expenditures for PS, MOOE, and CO

	Personnel Services (PS)		Maintenance and Other Operating Expenses (MOOE)		Capital Outlay (CO)	
YEAR	Approved	Actual	Approved	Actual	Approved	Actual
2015	25,610,000	9,860,842	43,256,000	28,274,643	119,397,000	73,646,809
2016	44,235,000	13,915,780	50,519,000	27,233,822	52,593,000	22,844,123
2017	30,081,000	19,489,103	79,034,000	29,302,011	55,421,000	18,834,271
2018	44,407,000	25,136,260	91,034,000	66,907,990	41,220,000	12,524,827
2019	45,125,000	33,703,465	89,534,000	64,361,102	47,713,000	8,912,663

Source: Annual Corporate Operating Budgets and COA Audited Financial Reports from 2015-2019

**TABLE 1.3**  
Revenue, Net Income/Deficient, and Net Cash Flow

	2015	2016	2017	2018	2019
Revenue (R)	1,775,198	4,141,167	7,484,469	5,435,677	6,742,124
Net Income/ Deficit (NI/D)	(31,479,028)	37,278,706	(63,741,645)	(102,120,923)	(123,616,168)
Net Cash Flow (NCF)	(27,746,665)	56,920,447	429,164	(15,099,687)	53,043,802

Source: Annual Corporate Operating Budgets and COA Audited Financial Reports from 2015-2019

At first, it seems the CIC is underutilizing their annual corporate budget year-on-year (Table 1.2). However, if you take into account their drastic budget cuts<sup>24</sup> (Table 1.1) and how insufficient their revenue generation is in covering operating costs<sup>25</sup> (Table 1.3), budget underutilization is expected. Not only was it a consequence of a lack of funding from the NG, but underfunding of the CIC placed other constraints on its performance, including:

- the CIC was unable to attract qualified persons for vacant positions due to their uncompetitive salaries (SSL III Tranche IV);<sup>26</sup> it was only in October 2017 that the CIC, by virtue of Executive Order (EO) No. 36, adopted SSL IV Tranche I;
- "high-level plantilla positions remain unfilled due to the non-qualification of applicants to required standards";<sup>27</sup> and
- "high turnover rate of transfer of employees to other agencies" — in 2019, the turnover rate was at 24 percent.<sup>28</sup>

Moving forward, there is a greater need for sufficient funding to cover the CIC's overhead, operations, and staffing costs—particularly the fees they have to pay to maintain the security and integrity of its growing database. In fact, Atty. Aileen Amor-Bautista, the CIC's Senior Vice President for Business Development and Communication, wrote Representative Joey Salceda, Chair of the House Committee on Ways and Means,

<sup>24</sup> Since 2015, the CIC's annual approved budget from the NG has been drastically cut, with more than a 50% decrease year-on-year (except for FY 2019).

<sup>25</sup> According to the Annual Corporate Operating Budgets approved by the DBM, the CIC's only sources of funding are: 1) corporate funds; and 2) support in the form of subsidy from the NG. Corporate funds refer to corporate receipts (i.e. revenue generation) or authorized corporate borrowings.

<sup>26</sup> Republic Act No. 11466, An Act Modifying the Salary Schedule for Civilian Government Personnel and Authorizing the Grant of Additional Benefits, and for Other Purposes [otherwise known as "Salary Standardization Law of 2019"], 22 July 2019, Sec. 7.

\*SSL III Tranche IV (ranges from Php 14,678 to 15,486)

<sup>27</sup> Commission on Audit. "Annual Audit Report on the Credit Information Corporation for the years ended December 31, 2018 and 2017." 2018, [www.dropbox.com/s/rdzspv72n7k0hml/CIC%20EFPS%20and%20Annual%20Audit%20Report%202017%20and%202018.pdf?dl=0](https://www.dropbox.com/s/rdzspv72n7k0hml/CIC%20EFPS%20and%20Annual%20Audit%20Report%202017%20and%202018.pdf?dl=0)

<sup>28</sup> Ibid.



that the CIC would require a Php 90 million subsidy to cover its operating expenses, particularly that of maintaining the security of the CIC database, for FY 2021.<sup>29</sup> Anything lesser than the aforementioned amount will "...jeopardize our operational viability and the security of the CIC database."<sup>30</sup>

## Analysis and Solutions

### **1. Clearly define the CIC's mission, vision, and mandate.**

Under the CISA, the CIC's mandate includes exercising powers and functions necessary to receive and consolidate basic credit data, to act as a central registry or central repository of credit information, and to provide access to reliable, standardized information on credit history and financial condition of borrowers.

It endeavors to be a profitable organization providing internationally accepted credit data, while protecting consumer rights. Finally, it aims to efficiently and effectively collect and provide accurate credit data through a reliable and comprehensive centralized credit information system, using state-of-the-art technology and facilities thereby contributing to improved access to credit.

A scrutiny of the CIC's mandate, mission, and vision makes it apparent that it seeks to accomplish the following: collect and collate data; monitor an industry; and earn profit.

While it is not unusual for government entities to undertake multiple roles, there is a strong sentiment gathered from communications with key players in the credit information ecosystem that the CIC might have been forced to accomplish too much, and consequently has been rendered unable to do much of anything well.

In an interview with an officer from an entity that was instrumental in crafting the original design of the CIC when it was first introduced in the House of Representatives, it was remarked that the CIC's mandate was so comprehensive that it was set to fail from the start.

The interview highlighted the notion that a public-private entity, such as the CIC, is a flawed concept that deviates too far from the classic model observed in almost all jurisdictions of a public registry or credit bureau.

<sup>29</sup> "PRESS RELEASE: CIC reiterates plea for P90M subsidy as House opens plenary deliberation for 2021 budget." Credit Information Corporation, 1 Oct. 2020, [www.creditinfo.gov.ph/press-release-cic-reiterates-plea-p90m-subsidy-house-opens-plenary-deliberation-2021-budget](http://www.creditinfo.gov.ph/press-release-cic-reiterates-plea-p90m-subsidy-house-opens-plenary-deliberation-2021-budget)

<sup>30</sup> Ibid.

This unique setup of the CIC could account for the lack of understanding of its role and purpose among key stakeholders in the credit information and financial ecosystems, within the general public, and among policymakers. This confusion also may explain, to a degree, the prejudice held by many regarding the efficacy of the CIC in carrying out its mandate. Given so many different understandings of the role of the CIC, it would be impossible for it to be seen as effective overall (some may view CIC as being effective as regulator but not as public credit registry, while others view CIC as effective in collecting data but not in collating the same data and toothless as a regulator). Others have also raised that the CIC is not at all a regulator due to the fact that it was not empowered nor mentioned under the CISA. Admittedly, this may be the case; however, a reading of the law, in particular Sec. 8 (f) and (g), would show that it is in fact empowered to exercise some regulatory functions such as imposition of fines and granting of licenses to SAEs. Finally, key players in the field also acknowledge CIC's regulatory functions. In sum, it seems likely that with a clearer mission and reduced uncertainty around their role, the CIC could benefit more the entire ecosystem.

## **2. Substantially increase CIC's budget allocation to eliminate its burden to generate income.**

In reviewing the global landscape, it can be seen that PCRs in general are government agencies housed under the central bank that act as a repository of data. They are developed to support the state's role as a supervisor of financial institutions.<sup>31</sup> Credit registries are tasked to monitor loans made by regulated financial institutions in order to assess systemic risk and protect the safety and soundness of the financial sector.<sup>32</sup> While the data collected by a PCR is generally used for micro- and macro-prudential regulation, it is also used for publishing statistics and for guiding economic policies including the interest rate banks are charged for government loans. It is almost never charged with earning revenue and is most often fully funded by a government agency, typically a central bank.

In the Philippines, by contrast, the CIC is a GOCC and is expected to generate revenue in order to be self-sustaining. This setup may explain why the budget allocation of CIC has been reduced every year as seen in Table 1.1. Figures show that while the overhead costs of the CIC increases per year (Table 1.2), budget allocation is still cut, and the revenue the CIC is generating is insufficient to cover such costs (Table 1.3). The difference in the approved budget and the actual disbursement is also worth noting. This decrease in the budget for CIC forced it to engage in business to cover operating expenses steadily increasing each year.

CIC's burden of generating income has exacerbated the problem of not only having to deal with issues on its dual role in the ecosystem, but also contributed to the perceived competition in providing services to the public by the SAEs. The remedy to these issues is to substantially increase the budget allocations for the CIC in order to enable it to carry-out its functions as a PCR without the compelling need to generate their own revenue just to cover basic operating costs including staffing and contractual fees to CRIF as advisors to the database administrator.

<sup>31</sup> World Bank. "Credit Registry." World Bank, [www.worldbank.org/en/publication/gfdr/gfdr-2016/background/credit-registry](http://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/credit-registry)

<sup>32</sup> Ibid.

### 3. Concentrate CIC's focus and efforts on its functions as a Public Credit Registry.

It bears emphasis that under the CISA, the main role of the CIC is to be the central repository of data. Being forced to cover budget shortfalls by allocating resources to generate credit reports and similar products already offered by the SAEs distracts the CIC from performing its core functions and may subsequently harm the market.

More evidence of the poor view of the CIC's database was found in the private sector. Out of 534 submitting entities, only 76 entities access the CIC's database.<sup>33</sup> If the market considered the CIC to possess high-quality, predictive data, it would reflect more uptake as measured by greater use by SEs. This can be attributed to perceived subpar data quality, a view that was consistently communicated by the survey respondents and interviewed parties, some of whom even suggested that the CIC should just focus on its functions as a PCR and/or ensure clean and high-quality data. However, one must be careful about reading too much into the lack of use of CIC data, as this would require further study given the many other potential factors affecting the rate of access (please see p. 36 in Chapter 3).

## Recommendations

### 1. Craft a structural model in which the CIC's focus is on its role as a PCR with some regulatory functions.

To sharpen and clarify the CIC's role in the CIS system, it should focus on the core activities for which it is best suited and which are most needed.

The first is closing data gaps that may result from non- or under-reporting by data furnishers. For more discussion on this, please refer to the Recommendations in Chapter 3 (p. 37).

The second activity that should be the focus of the CIC is the role of a traditional PCR. The CIC should focus on gathering consumer credit payment data for use in micro- and macro-prudential oversight and regulation, generating and publishing statistics, informing policy (monetary), and helping to ensure the safety and soundness of the Philippine financial sector.

To carry out these two core activities, the CIC ought to be under the central bank rather than with the SEC. The SEC has limited regulatory authority in the context of credit reporting, and has been an arm's length supervisor of the CIC over the years—in some measure owing to a lack of clear oversight authority in the CISA. This arrangement is also inconsistent with well-established international best practices, which overwhelmingly involves housing the Public Credit Registry squarely within the rubric of a nation's central bank. The reasons for this are straightforward—the central bank's primary functions are enhanced by data gathered and maintained by a public credit registry.

<sup>33</sup> Credit Information Corporation. "List of Accessing Entities (AEs)." [www.creditinfo.gov.ph/list-accessing-entities-aes](http://www.creditinfo.gov.ph/list-accessing-entities-aes). Accessed 11 Oct.

## **2. Justify to Congress the need for a substantial increase in the CIC's budget allocation by highlighting the problems encountered in having a dual role in the CIS ecosystem, and how it has hindered CIC's optimal performance as a PCR.**

If the CIC remains underfunded and burdened with generating revenue, it is likely to be stuck in a confusing dual role out of necessity.

On the other hand, a less market-focused and more regulatory and public policy-centered roles for the CIC necessitates that it be sufficiently funded. While the CIC could earn fees, it should not be considered a primary line of business. Evidence and logic both demonstrate quite clearly one of the most harmful outcomes of the CISA is the need for the CIC to earn revenue to cover operating expenses. CIC has faced continual budget shortfalls which have required its leadership spending considerable time raising funds from outside sources rather than advancing the CIC's mission, growth, and development. Worse still, CIC leadership was forced to put the CIC in direct competition with nascent SAEs in the credit reporting market—the primary means by which early-stage credit bureaus earn revenue. The result of this market distortion—a government agency competing with private sector companies—has been disastrous and includes under-investment in innovation by all SAEs and the exit from the Philippine market by the world's largest credit bureau. The value of an optimally structured, well-functioning credit information sharing system to the national economy is many billions of dollars (e.g. up to 45% annual growth in lending to the private sector) each year. Given this upside, the government of the Philippines is well justified in covering several millions of dollars of operating costs necessary to implement and maintain an effective traditional PCR.

## **3. Consider the transfer of the CIC to the Bangko Sentral ng Pilipinas (BSP).**

Regulators in a Credit Reporting System have the “authority with statutory powers of supervision over credit reporting activities and services.”<sup>34</sup> Statutory powers may include: “power to issue licenses and create operational rules and regulations.”<sup>35</sup> The division of responsibilities among authorities for regulating and overseeing credit reporting systems varies across jurisdictions depending on the state of their ecosystem as well as the legal framework in place. Once a CRSP is fully operational, the regulator's role is to monitor compliance; this is called direct regulation.<sup>36</sup>

<sup>34</sup> Supra note 16.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

A majority of the countries assign regulation of, and authority over their PCR to their central bank.<sup>37</sup> In the Philippines, the supervisor of the CIC is the SEC. It was designated as the principal government agency to implement and enforce the CISA.<sup>38</sup> The CISA also granted it authority to undertake the following:

1. to prepare the qualifications and accreditation standards of the SAEs;<sup>39</sup>
2. formulation of the IRR of the CISA;<sup>40</sup> and
3. to prescribe, pass upon, and review qualifications and disqualifications of individuals elected or appointed directors of the corporation (i.e. the CIC) and disqualify those who are unfit pursuant to the “fit and proper” rule.<sup>41</sup>

Having said that, the usual oversight powers are not given to it, but it only acts on two issue areas: pricing and the regulation of access of SAEs and AEs. Hence, its supposed role based on the CISA and on international best practices is not covered. At this juncture, it is important to clarify that the regulator being discussed is the regulator of the CIC. This is different for the regulatory functions of the CIC over SAEs and AEs.

In the case of the Philippines, the BSP also collects data from regulated lenders that can be used for cross-referencing with the CIC’s data (or these efforts could be consolidated) to ensure broader and more robust compliance with CISA—something the SEC cannot do. Moving the CIC to the BSP and clarifying the BSP’s supervisory powers would serve to enhance the overall value of the CIC to the credit information sharing ecosystem, increase SE compliance with the CISA to the benefit of the financial sector and the economy, and would reduce business uncertainty in the credit reporting and credit scoring markets, also to the benefit of the financial sector and broader Philippine economy. It is the proverbial win-win outcome, or in the parlance of economics, a Pareto optimal outcome.<sup>42</sup>

Hence, the current set up points to an arrangement that is inconsistent with the international best practices. A well-established credit information system would entail having the core PCR functions under the purview of a central bank. The rationale for this can be summarized into three points: 1) The central bank of the Philippines is already collecting and maintaining data from most of the covered entities—and is actively seeking to expand their data access in ways that seemingly overlap with data already collected by the CIC; 2) the data collected by the BSP can be used for cross-referencing CIC’s collected data to ensure compliance and data quality; and 3) a clear definition of the supervisory powers of the BSP would more likely result in a better performing CIC within the credit information sharing ecosystem because it would strengthen the CIC as a PCR, increase SE compliance with CISA because of the trust already reposed to BSP, and reduce business uncertainty in credit reporting and credit scoring markets.

<sup>37</sup> Ibid.

<sup>38</sup> R.A. No. 9510, Sec. 14.

<sup>39</sup> R.A. No. 9510, Sec. 2 (b) and (i).

<sup>40</sup> R.A. No. 9510, Sec. 8.

<sup>41</sup> R.A. No. 9510, Sec. 5 (g).

<sup>42</sup> Mock, William B.T. “Pareto Optimality.” *Encyclopedia of Global Justice*, Chatterjee, Dean K., 2011 edition, Springer, Dordrecht, doi.org/10.1007/978-1-4020-9160-5\_341





## CHAPTER 2

### ENFORCING COMPLIANCE

#### Framing the Issue

“Information is at the core of credit reporting activities; therefore, high data quality is the basic building block of an effective credit reporting environment” (“General Principles of Credit Reporting” 26). Inaccuracies in data in the mitigation of credit risk can result in harm to both lenders and borrowers – either credit is extended to borrowers who will become delinquent (likely resulting in a default), it is withheld from creditworthy borrowers, and/or the cost of credit (i.e. high interest rates, dependence on collateral, others) increases. Therefore, “appropriate rules or other enforcement tools should be in place to promote compliance with the applicable standards on data collection and distribution, especially with regard to incorrect, incomplete or inaccurate data” (“General Principles of Credit Reporting” 26).

The capability of the CIC to enforce compliance among SEs, the sources of data on borrowers, is essential for it to effectively implement its mandate, which is to act as a central registry or central repository responsible for the collection and distribution of credit information. Based on conducted interviews with CIC officials and other key stakeholders, the study has identified the following reasons why compliance from SEs is currently an issue for the CIC:

1. Some respondents, especially those representing smaller lenders (non-banks, such as microfinance NGOs and cooperatives), aired their concerns regarding the data requirements for submission to the CIC and the format in which they must be submitted. The following were highlighted:
  - a. Certain data fields required for submission cannot be supplied by those in the microfinance sector (MiDAS, a credit bureau for microfinance institutions (MFIs), only requires its members to submit between 15-18 fields, while the CIC requires more than 100 fields); and
  - b. Many Filipinos still do not have a Primary Identification Number (PID); according to Ernesto M. Pernia, the National Economic Development Authority (NEDA) Socioeconomic Planning Secretary, 14% of Filipinos are denied government and financial other services due to a lack of proper identification documents.<sup>43</sup>

*“The problem for small lenders as well as those in microfinance is to provide the necessary IDs. As you know farmers do not have TIN or SSS, so we often get our data returned because of these*

<sup>43</sup> National Economic and Development Authority. “NATIONAL ID SYSTEM TO EASE ACCESS TO SERVICES AND OPEN UP MORE OPPORTUNITIES TO ALL.” National Economic and Development Authority, 16 Mar. 2018, [www.neda.gov.ph/national-id-system-to-ease-access-to-services-and-open-up-more-opportunities-to-all/](http://www.neda.gov.ph/national-id-system-to-ease-access-to-services-and-open-up-more-opportunities-to-all/)



*"CIC should only focus on the data fields or data requirements that the banks need for credit decisioning. They are requiring so much data that are not necessary. Compliance becomes burdensome because of these added requirements."*

*"The data format required by the CIC is different from what is used in the banking industry. So, we had to learn how to do that by attending the seminars/trainings that CIC has provided. But it's hard for us since the BSP requires a different format, the banks, TransUnion, and as mentioned CIC have different data format, software, and data requirements."*

2. Even if the CISA provides that the CIC has the power to sanction/penalize and fine non-compliant SEs for not supplying data or for supplying data with significant errors,<sup>44</sup> it [the CIC] cannot do so because it currently does not have the manpower to monitor and investigate non-complying entities
3. Submission to the CIC requires a stable Internet connection, and this poses a challenge for many SEs, especially those based in rural areas; many regions in the Philippines suffer from poor Internet connectivity. In addition, because submission is to be made online, some respondents also pointed out that smaller lenders have limited technological capacity (i.e. the digital infrastructure and trained personnel), which, again, hinders their efforts to comply.

*"These small lenders we're talking about are the co-ops, rural banks, thrift banks. Number one issue with them is automation. They're very paper-based and for them to align with the data format for the contribution file for the CIC is a struggle. Problem is it's a web-based solution. This would assume a very stable Internet connection. This is not the case for those operating outside Manila."*

*"The usual problem of the microfinance sector is uploading their data to the CIC. As you know, the Internet connectivity in the far-flung areas or just those regions outside Metro Manila is very poor. So, uploading is very challenging."*

In sum, the problem with compliance stems from interrelated issues starting from the budget constraints of CIC as was discussed in detail under Chapter 1. Should it have enough funds, the CIC can hire additional manpower to boost its capability to enforce compliance. There is also the sentiment of some respondents that the submission requirements of the CIC are quite challenging to fulfill. It should be noted that many reporting requirements, such as fields to report, come from the CISA. Therefore, revising CISA may also be a necessary to improve data quality and reporting compliance.

<sup>44</sup> RA. No. 9510, Sec. 11 and RA. No. 9150 IRR, Rule 11.

### Analysis and Solutions

Regarding the concerns on compliance and enforcement discussed prior, the CIC shared the following existing measures it has already implemented to address them, namely:

1. The CIC has strengthened their compliance and regulatory function, previously handled by one (1) lawyer (who was not even initially hired to monitor compliance), <sup>45</sup> by adding several assistants who have the task of monitoring system outputs. However, all of the added staff have other duties apart from monitoring compliance.
2. The CIC linked its Compliance and Monitoring Tool to a system output from its Credit Information System (CIS) which gives real-time information on who has submitted, how much data is submitted, and if submission of data is continuous. <sup>46</sup>
3. The CIC built a dashboard that provides an overview of what the compliance ratios are.
4. The CIC has developed a PID number tagging system that enables data subjects who do not have a primary ID (i.e. TIN, SSS, and GSIS) to be uploaded into the database (the CIC does not consider this a permanent solution, however).

Note that these initiatives were actually in response to the data quality concerns raised by the SAEs (ensuring data quality is a function dependent on the CIC's capability to enforce compliance). Given this, it appears then that issues with data quality stem from the SEs and their varied capacity to upload or submit data to the CIC, aggravated by the difficulties the CIC faces in securing adequate funding to strengthen its compliance and regulatory group. This is in stark contrast with the sentiments of the SAEs, who are imploring the CIC to rethink its priorities and to focus on its responsibilities as a traditional PCR (i.e. to aggregate data and ensure its quality and availability for end users). The concerns of the SAEs on data quality are discussed in more detail in Chapter 3.

However, if the blame is solely on the SEs for CIC data quality being subpar, the largest contributors of data to the CIC database do not share this view. Similar to what was shared with the research team by the SAEs and several AEs, the top two (2) largest SEs' reasons for not accessing CIC data are shown in the following table.

SE	Reasons for Not Accessing the CIC
SE 1	<ul style="list-style-type: none"> <li>• Perceives no need to access CIC data</li> </ul>
SE 2	<ul style="list-style-type: none"> <li>• Stopped accessing the CIC in 2019</li> <li>• There is no value in the report</li> <li>• We're not getting the quality we need (information is incomplete, and the format is not of use)</li> </ul>

Source: Interviews with the top two (2) SEs

<sup>45</sup> CIC, personal communication, August 18, 2020.

<sup>46</sup> CIC Letter Circular No. 2018-01.

Before proceeding with further analysis, it must be noted that the CIC only opened registration for SEs to become AEs in July 2019; thus, it seems the sentiment of SE 2 in the table above refers to its experience with the CIC's quality of data during its Beta Test Access Launch in 2017.

It is odd that these SEs, who are expected to submit accurate, complete, and up to date data to the CIC due to their capacity and resources, perceive no value in accessing the CIC database. Put differently, why would a fully compliant top SE stop access altogether due to data quality concerns when data from their own firms cover a majority<sup>47</sup> of files found in the system? One potential explanation to this is that there may be underreporting on the part of these SEs and other large lending institutions. An alternative explanation to this is that larger financial institutions simply have larger internal databases, may see relatively less value in third-party databases, and accessing such third-party databases adds no value from a cost-benefit perspective (the relationship between access rate, compliance, and data quality is further discussed on pp. 36-37).

Credit information sharing reduces adverse selection<sup>48</sup> in bank lending, mitigates the costs of information asymmetry between lenders and borrowers, lowers lending rates<sup>49</sup> for good borrowers, and so forth (Pagano and Japelli 10). Despite these benefits, it may not always be in the best interest of lenders to share all information regarding their borrowers. Pagano and Japelli (qtd. in Organization for Economic Co-operation and Development 6) posit that lenders are more incentivized to share information on their borrowers when the borrowers are dissimilar and there is limited competition between lenders. On the other hand, credit information sharing in a competitive market where the cost to a new entrant is low would result in competition for the most profitable lenders and a reduced level of profit overall. It is possible, then, for lenders as large as the top universal and commercial banks in the Philippines to underreport, for they would not want information on their best borrowers to be accessed by a competitor<sup>50</sup> via the CIC. PERC staff attest to this phenomenon globally and have witnessed many instances of underreporting in markets around the world. Just because it may be a common practice, however, does not mean it should be tolerated. However, BAP asserts that banks, several of which are its members, are fully compliant with the CISA.

<sup>47</sup> CIC, personal communication, September 25, 2020.

<sup>48</sup> Either 1) extending credit to a "bad" or delinquent borrower (likely resulting in a default); or 2) the application for credit from a "good" or creditworthy borrower is rejected.

<sup>49</sup> Refers to the interest rate on loans (i.e. the cost of a loan).

<sup>50</sup> By virtue of their compliance in submission, SEs will be granted access to the CIC (albeit on a per-inquiry basis only) (R.A. No. 9510 IRR, Rule 4.7).

It must be emphasized that the study does not conclude that large SEs are indeed underreporting. Again, SEs not accessing the CIC may simply be caused by the fact that they have their own internal databases and/or perceive no value in accessing a third-party database from a cost-benefit perspective. Nonetheless, measures such as having it under the BSP (pp. 20-22) may ensure that such a practice is prevented in the future whether or not it is occurring now. Rule 4.4 in the IRR of the CISA states that every participating entity shall submit to the CIC basic credit data on all data subjects. There are mechanisms in place in the CIS to ensure that data fields are populated,<sup>51</sup> but there is no way for the system to verify if all accounts are being duly reported; nor does it stipulate in the IRR that a mandated number of data subjects and accounts representative of the Philippine lending environment are to be loaded by all SEs. Hence, the research team proposes the following solutions to further augment the CIC's efforts to improve its capability to enforce compliance among SEs:

1. require that all SEs observe and use a uniform, standard data format for submission;
2. continue conducting technical trainings on how to upload data into the CIC; and
3. assign the compliance and regulatory function to a new dedicated unit to effectively monitor compliance by working closely with the CIS group (i.e. the CIC's I.T. team) ensuring data quality. Any underreporting and missing fields would entail penalties.

#### *Data Formatting, Data Requirements, and Service Interruptions*

Many respondents have aired their concerns regarding data format and data requirements for submission. In addition, many areas in the Philippines suffer from poor Internet connectivity.

While service interruptions due to poor Internet connectivity is an issue that the study cannot address, respondents coming from the microfinance sector and cooperatives operating in such areas have relayed that it contributes to their difficulties in complying with submission requirements. This was also raised by an SAE (whose target market includes microfinance institutions, cooperatives, rural banks, and thrift banks).

As for data format and data requirements, it must be emphasized that an ecosystem without a uniform data format results in further fragmentation, non-compliance on the side of users, and higher costs on users for accessing quality data as users are forced to go after different CRSPs for cross-checking and validation. This does not mean that all SEs and all accounts (traditional bank loan, micro loan, telecom account) would or should necessarily have all the same required fields.

Unlike in other jurisdictions, there is no law or policy that provides for one uniform and standard finance document, coding rules, data format, or report structure in the Philippines, except for the standard format required by the BSP for financial reporting. As a result, data requirements and data formats vary from financial institution to financial institution.<sup>52</sup>

<sup>51</sup> CIC, personal communication, August 14, 2020.

<sup>52</sup>As was mentioned prior, MiDAS requires its members to submit 15-18 fields per record, while the CIC requires more than 100. Another example would be Loandex, a service provided by BAP-DX, which requires only 43 fields per record (according to Mr. Consing during the virtual forum Driving Credit Information as a Strategy for Recovery and Inclusion on November 25, 2020).

Several SEs cited this as one of the causes behind why it is difficult for them to comply with submission requirements. Even if a simple policy change can be introduced to address the problem of varying data formats, it must be acknowledged that it is not an easy feat due to the fact that all financial institutions will be affected by such a change. Nonetheless, the study sees that the introduction of a law requiring that one format be used for all participating entities in the Philippines' the financial system could be beneficial. Standardization unifies various enterprises and financial industries in coding rules, data format, report structure, and other aspects, which can improve the efficiency of financial markets and curtail transaction costs.<sup>53</sup>

This is similar to the Standard Financial Regulation of Documents in other jurisdictions. "Financial intermediation and financial services industries have undergone many changes in the past two decades due to deregulation, technological advances and globalization. The framework for regulating finance has seen many changes as well, with approaches adapting to new issues arising in specific groups of countries or globally."<sup>54</sup> A modernized regulatory framework is needed to develop a financial sector that is stable yet efficient and has harmonized rules across services and products, within markets and globally.<sup>55</sup>

The particulars can be hashed out via collaboration efforts among the SAEs, other private credit bureaus, SEs, the CIC (optional), and other institutions and organizations (e.g. BSP, SEC, IFC, others). This will not only address the localized problem of compliance, but it will also pave the way for a much more open playing field for the fintech industry in the future.

### *Enforcement and Monitoring by the CIC*

As was previously mentioned, the CIC experiences compliance enforcement issues partly because of their lack of manpower to conduct investigations and monitor the compliance of SEs. This is aggravated by the CIC's funding issues, because, as it stands, it cannot increase its manpower without sufficient budget (please see pp. 14-17). If the CIC's budgetary constraints are duly addressed, it will greatly benefit from having a dedicated unit performing duties of enforcement and monitoring.

<sup>53</sup> Claessens, Stijn. "Current Challenges in Financial Regulation." World Bank Policy Research Working Paper, no. WPS 4103. World Bank, Dec. 2006, documents1.worldbank.org/curated/en/862801468340223067/pdf/wps4103.pdf. Accessed 5 Nov. 2020.

<sup>54</sup> Ibid.

<sup>55</sup> Ibid.

## Recommendations

To improve the CIC's capability to enforce compliance from its SEs, the following concretized actions plans are proposed (based on the analysis and solutions discussed on pp. 25-28):

### 1. Immediate Action Plan:

- a. Create a new dedicated unit to monitor SEs and enforce compliance; this recommendation also includes implementing a more aggressive approach in imposing sanctions for non-complying entities.
- b. Collaborate with the BSP to crosscheck data from lending institutions to monitor if there is underreporting, and to prevent such a practice from occurring.
- c. Ensure the year-round availability of training to ease the use of process of submission for SEs.
- d. Continue collaboration with both the SAEs and SEs to monitor data requirements that are identified as usual sources of file rejection (i.e. the ID Tagging System of the CIC was born out of the difficulty of the microfinance sector to provide TIN, SSS, GSIS, and the usual IDs available in the Philippines. This data requirement was resolved due to the collaboration between CIC and its SEs).

### 2. Future Action Plan:

- a. Congress may review the synergies of different countries who have PCRs under their central bank. The CIC having a regulator with greater oversight powers may help in boosting the compliance of SEs.

The immediate action plan is geared towards addressing the challenges the CIC faces with enforcing compliance and closing data gaps that may result from non- or under-reporting by data furnishers. The CIC's authority to mandate payment reporting to a broad range of organizations is a very useful tool to enable financial inclusion. As such, aggressive monitoring as well as imposition of sanctions and penalties would greatly help resolve noncompliance problems.







## CHAPTER 3

### DATA QUALITY

#### Framing the Issue

The previous discussions on the dual role of the CIC as both as a PCR exercising some regulatory functions, an entity offering value-added services like a PCB (in particular, how its need to generate revenue and income is reinforced by the fact that it is inadequately funded), and its mandate to enforce compliance among SEs have shed light on the topic of data quality. The proper management of data quality is crucial in developing an effective credit reporting system ("Credit Reporting Knowledge Guide 2019" 62), and information quality is the basic building block of an effective credit reporting environment.<sup>56</sup> According to General Principle No. 1 for Credit Reporting,<sup>57</sup>

*"Credit reporting systems should have relevant, accurate, timely and sufficient data—including positive—collected on a systematic basis from all reliable, appropriate and available sources, and should retain this information for a sufficient amount of time."*

For data to be considered accurate, it must consistently be "free from error, truthful, complete, and up to date."<sup>58</sup> Because the mismanagement of data can cause harm to both lenders and borrowers (p. 23), data quality must be prioritized by the CIC. Not only does ensuring high quality data prevent adverse selection, the increase in lending rates, others, but it also enables the CIC to effectively implement its mandate and contribute to a more financially inclusive ecosystem in the Philippines. Evidence of whether it has been doing so or not is presented below.

The SAEs claim that the quality of data stored in the CIC database is not of sufficient quality, citing the following:

#### 1. Data is incomplete (i.e. there are data fields missing);

*"...the CIC is like a warehouse. All the information is there, but it's not organized. And because of certain kinks, we're not getting the quality that we need. So, if we find more than 90% of the information that we get is not useful, why should we continue getting this? ...[Our] experience is when we do an inquiry, the information is either incomplete [or] the format is just not of use."*

#### 2. Inconsistencies in historic payment data (e.g. lack of 24-months of continuous payment history); and

<sup>56</sup> The International Bank for Reconstruction and Development/World Bank. "General Principles of Credit Reporting." Financial Infrastructure Series, Credit Reporting Policy and Research, The World Bank, Sep. 2011, p. 4, 16, documents1.worldbank.org/curated/fr/662161468147557554/pdf/70193-2014-CR-General-Principles-Web-Ready.pdf

<sup>57</sup> Ibid.

<sup>58</sup> Ibid.

*"So, for us to develop...a score or a value-added solution, we will need 24-months of consistent payment history for a particular individual. So, we had issues with that with [the] CIC because the most recent analysis shows that out of their entire database only 7 percent of subjects had at least 12-months of consistent credit payment history...[this] will not allow us to create a score or other value-added services, because our minimum requirement is 24-months for any particular subject."*

### 3. Duplicate data.

To be accredited as an SAE is costly; according to SEC Memorandum No. 2015-07, the paid-up capital requirement for a corporation seeking accreditation as an SAE is Php 60 million. In addition, the SAEs also cannot access the CIC database as a whole – their access is on a per-inquiry basis only,<sup>59</sup> and this adds an additional layer of cost.<sup>60</sup>

Considering the large investment each had made when they were all duly accredited in 2016, the SAEs expressed their dissatisfaction at the state of the quality of data in the CIC, and claimed that CIC data was not usable for them. As a result, the SAEs do not perceive the CIC as a resource, and even went as far as saying that the CIC does not safeguard their business interests.<sup>61</sup>

The claims of the SAEs regarding data quality were further corroborated by the research team's interviews with certain lenders and the results of an online survey/questionnaire disseminated to the AEs. In spite of the strengths of the CIC regarding data pointed out by the AEs, several of these entities share similar sentiments with the SAEs on data quality. The AEs have also shared what data they think is missing from the CIC database that would add the most value to their credit decision-making processes (please see Table 1.4).<sup>62</sup>

<sup>59</sup> Only the CIC has direct access to the database (Credit Information Corporation 23).

<sup>60</sup> The SAEs have to pay Php 10.00 for every inquiry (i.e. avail of a CIC credit report) they make on behalf of a client, such as a bank; thus, their access is limited to a per-inquiry basis only. Initially, a CIC credit report was priced at Php 55.00 until the SEC en banc granted the CIC's request to price each credit report at Php 10.00 (inclusive of VAT) in September 2019 (Credit Information Corporation 23). They are permitted to access as long as the data is anonymized (A. Amor-Bautista, personal communication, November 5, 2020).

<sup>61</sup> The tension between the CIC and the SAEs was first mentioned in Chapter 1 (p. 12).

<sup>62</sup> From the online survey sent to the 76 AEs on October 27, 2020.

**TABLE 1.4****The AEs on the CIC's Top Three (3) Strengths, Deficiencies, and Missing Data Types**

Strengths	Deficiencies	Missing Data Types
<ul style="list-style-type: none"> <li>• Deep historic payment data</li> <li>• Comprehensiveness of data (multi-sectoral)</li> <li>• Data quality/integrity</li> </ul>	<ul style="list-style-type: none"> <li>• Data is incomplete</li> <li>• Duplicate data</li> <li>• Data is not standardized, inconsistent historic payment data, limited coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Energy utility payment data</li> <li>• Broadband, Cable TV, Satellite TV, Wireline Telecoms.</li> <li>• Wireless telecoms installment loan repayment data</li> </ul>

Given the information gathered from both the interviews conducted by the research team and the responses to the online survey/questionnaire, the SAEs and several AEs have an issue with the accuracy of the data in the CIC database; this may be caused by the CIC's credit information system's (CIS) matching logic and rules. One of the SAEs gave the following the example:

*"I have a client in Bulacan. They asked us to test data from the CIC. They gave us 100 or 200 records. We uploaded it into CIC. Now, the idea is it goes into the production environment of the CIC and provided the CIC was able to collect some data in that same area, when returned, it ought to have been enriched.<sup>63</sup> So, for example, out of the 100 inquiries they had 200 trade lines.<sup>64</sup> The same 100 records uploaded, when returned to us after we inquired, were diminished in terms of the number of trade lines. At best, the number of trade lines ought to have been the same. If they had 200 trade lines, it still should have been 200 when the data was returned to us. Okay, no value was added, it might be incomplete. But incomplete and further diminished? How did that happen? I uploaded 200; when it was returned, it was less than 200? That's a red flag. There's something wrong, because even their matching rules<sup>65</sup> are not working."*

In addition to the concern on data accuracy, the answers of the AEs in Table 1.4 also point to the issue of data sufficiency, a critical feature of which is that information is gathered from as many data providers and other data sources as possible, within the limits established by law.<sup>66</sup>

<sup>63</sup> "A credit reporting service provider should have a method for consolidating data into uniform formats. If information is incomplete, the provider should have a method for matching and merging separate pieces of data to construct a complete file on a data subject" ("Credit Reporting Knowledge Guide" 63). In other words, the system should be able to bring together data from different sources into one consolidated output (i.e. a credit report).

<sup>64</sup> "A tradeline is a term used by credit reporting agencies to describe credit accounts listed on your credit report. For each account you have, there is a separate tradeline, which includes information about the creditor and the debt" (Luthi, "What Are Tradelines and How Do They Affect You?").

<sup>65</sup> Supra note 67.

<sup>66</sup> Supra note 60.

The CIC cannot compel its existing SEs to submit the missing data types stipulated in Table 1.4 because such data can only be supplied by certain companies (e.g. Meralco, PLDT, Globe Telecom, SMART Communications, others). However, under the CISA, these types of companies may be required to submit data even if they do not engage in the business of credit (Rule 4.1, CISA IRR). In 2016, the CIC released Circular No. 2016-01 compelling telecommunications companies to submit data by March 2017. Globe Telecom had already started to submit the basic credit data of their subscribers by this time (qtd. in Camus, "Privacy assured as telco complies with Credit Info Systems Act"); but, to date, there are no telecommunication companies listed as SEs in production on the CIC's official website. The reason for this is that telecommunication companies are still in the process of fixing their submissions as they collect different types of data on their subscribers versus what is being currently submitted by SEs.<sup>67</sup>

In conclusion, there is a need for the CIC to further improve the quality of its data (as expressed particularly by the SAEs and several AEs) in terms of accuracy (completeness) and sufficiency. To understand how and why the issue of data quality occurred, an analysis of the qualitative and quantitative data gathered is presented in the succeeding section.

### Analysis and Solutions

The CIC acknowledged that data quality would be an issue for the SAEs given the circumstances<sup>68</sup> surrounding the setting up of the CIC's system leading up to the initial onboarding of data from SEs in 2015. As stipulated in CIC Circular No. 2015-02, SEs were required to submit all the credit data in their possession for the last five (5) years prior to the effectivity of the Circular. The CIC implemented a phased-in approach for credit data submission<sup>69</sup> due to the varied capacity of SEs to upload credit data into the system.

The CIC expected all submitting entities to have successfully uploaded their current data by the end of 2016; however, this was not the case. For certain lending institutions, namely the GOCCs,<sup>70</sup> large and medium cooperatives,<sup>71</sup> financing companies,<sup>72</sup> and insurance companies,<sup>73</sup> the deadline for submission had to be extended in response to concerns these institutions had with submission requirements and events that affected their ability to submit on time. This approach, along with the five-year historical data requirement,<sup>74</sup> ultimately resulted in gaps in reporting, which might have

<sup>67</sup> A. Amor-Bautista, personal communication, November 5, 2020.

<sup>68</sup> The development of the CIC from the time the CISA had been passed was characterized by several respondents, especially the SAEs, as unnecessarily slow. However, it must be noted that the CISA's IRR mandated Submitting Entities to start uploading their data into the CIC's system 60 days after its [the IRR's] approval on May 27, 2009. According to Mr. Garchitorena (personal communication, July 15, 2020), this requirement was unrealistic as there were more than 1,000 financial institutions who had to familiarize themselves with the technical requirements of submission. Not only that, but the corporation itself had not yet acquired a vendor/data administrator. It was only six (6) years after the approval of the IRR when the credit information system (CIS) had been delivered by CRIF Italy.

<sup>69</sup> R.A. No. 9510 IRR, Rule 4.1; CIC Circular No. 2015-02.

<sup>70</sup> CIC Circular No. 2016-04.

<sup>71</sup> CIC Circular No. 2016-03.

<sup>72</sup> CIC Circular No. 2017-01.

<sup>73</sup> CIC Circular No. 2017-02.

<sup>74</sup> Supra note 73; CIC Circular No. 2016-02.

<sup>75</sup> CIC, personal communication, August 18, 2020..

Per an interview conducted with a CIC board member, how SEs maximized the Beta Test Access Launch of the CIC's system in 2017 also had an effect on the quality of data. The CIC allowed SEs free but conditional access to their credit information system's live data (Credit Information Corporation 22). During this period, SEs could test the data's relevance to their loan origination activities and if the system was operating as it should.<sup>76</sup> Unfortunately, however, access to the CIC during this phase was erratic and minimal.<sup>77</sup> If the mechanics during this free access phase had been more formalized and more SEs accessed it to validate whether or not the data was reliable and usable before the system went live, the issue of subpar data quality could have been mitigated, because contributors themselves could have pointed out what needed to be improved.<sup>78</sup>

Recall the measures being implemented by the CIC to address data quality and how all (albeit the ODRP) concern compliance as a function to ensure data quality (p. 25). Despite these existing protocols, the SAEs believe that more can be done to address the issue of data quality. **They acknowledged that there has been an improvement in the quantity of data available in the database** due to these system enhancements:<sup>79</sup>

1. the PID Number Tagging system (p. 25);<sup>80</sup> with the implementation of this solution, the CIC database grew from 11 million unique data subjects in July 2020 to 18.5 million in August 2020;<sup>81</sup>
2. the submission of the mother's maiden full name in a single field (i.e. the Mother's Maiden Last Name field); "will give further aid in matching the records";<sup>82</sup> and
3. "the CIC's matching rules placed additional weight to [the Middle Name field] as well as the Mother's Maiden Full Name field such that in the event when there is no PID submitted, the CIS will still be able to match records across the entire CIC database."<sup>83</sup>

<sup>76</sup> CIC, personal communication, July 13, 2020; CIC, personal communication, July 21, 2020.

<sup>77</sup> CIC, personal communication, July 21, 2020.

<sup>78</sup> Ibid.

<sup>79</sup> CIC Circular No. 2020-05.

<sup>80</sup> This number tagging system enables data subjects who do not have a primary ID (i.e. TIN, SSS, and GSIS) to be uploaded into the database; it also enables the CIS to now accept any of the following IDs: Philhealth Card, Senior Citizen card, UMID, SEC registration number, DTI registration number, CDA registration number, Cooperative ID, Driver's License, Voter's ID Number (VIN), Passport ID, and PRC ID. If any of the aforementioned IDs cannot be provided, the CIS shall assign a unique number in order to load the record (CIC Circular No. 2020-05).

<sup>81</sup> CIC, personal communication, August 18, 2020.

<sup>82</sup> Supra note 83.

<sup>83</sup> Ibid.

According to Ms. Bernadette Bautista, Acting Senior Vice President of the CIC's Credit Information Management (CIMS) Systems Group (personal communication, September 25, 2020), the introduction of the aforementioned system enhancements has lowered the rejection rate of submissions from certain SEs.

*"Before the system enhancement on June 30, 2020, the usual data field...causing the rejection [of submissions] in the CIC system is the missing Primary ID (TIN/SSS/GSIS). There are SEs who do not really have the required Primary ID so their rejection rate is almost 90%. After the system enhancement where the CIC incorporated the Tagging Number, this rejection has been addressed...the other field that is causing the rejection of the record is the missing contact numbers, [but] this is not as big as the missing ID."*

Per data collected by the CIC from the submissions of various SEs to determine whether or not it was the lack of PIDs causing rejections, it was discovered that larger financial institutions (e.g. universal banks) had a 40% rejection rate; on the other hand, specialized and smaller lenders had a rejection rate of 95%.<sup>84</sup>

*"...the SEs that have the highest error rate in submission [are] the microfinance [institutions] due to the missing Primary ID. But, since this was addressed already, the errors now are minimal, which resulted in the significant increase in the [number of] data subjects [in] the CIC [database]."*

Such a result can be expected; recall that the CIC had to accommodate certain lending institutions due to the difficulties they experienced in fulfilling submission requirements (p. 23–24). Not only is this evidenced in several Circulars they issued in 2016 and 2017 wherein they extended the deadline for submission,<sup>85</sup> but it is also corroborated by the fact that they pushed for initiatives<sup>86</sup> that will result in SEs (especially those engaged in microfinance) being less burdened in complying with the mandate of the law.

Furthermore, there have also been efforts to address this initiated by certain stakeholders. For example, one of the SAEs developed a system wherein they provide small lenders (i.e. cooperatives, thrift banks, rural banks, others) an Excel file for them to input their data; this initiative was in response to the struggle of certain lenders in automating their submissions. This SAE will then be the one to organize the data. Organizations such as NATCCO and MiDAS, who serve cooperatives and microfinancing institutions, respectively, have also assisted their members in complying with CIC submission requirements, especially when it comes to the use of technology, development of digital infrastructure, and training. NATCCO has developed a web interface for their member cooperatives to submit credit data to the CIC electronically; according to CEO Sylvia Paraguya, if this interface had not been developed, it would have been difficult for several cooperatives to comply with the CIC's mandate. For

<sup>84</sup> Ibid.

<sup>85</sup> CIC Circular Nos. 2016-03, 2016-04, 2017-01, and 2017-02.

<sup>86</sup> The Primary ID Tagging System of the CIC that would allow data subjects to be uploaded into the database without a TIN, SSS, or GSIS number and their discussions with the BIR in deputizing institutions, such as cooperatives, to issue TINs for their members/borrowers.

In spite of an increase in the number of unique data subjects in the CIC database, there is still the concern of data continuity, among others regarding data quality. Regarding the lack of consistent and continuous payment history data mentioned previously (pp. 30-31), the CIC responded by saying that it is still possible for the SAEs to create products using 12-month or 18-month data. This, coupled with the challenges the CIC faces regarding funding and manpower (please see Chapters 1 and 2), is behind their insistence that as much as they have to adapt to the business needs of the SAEs, the SAEs in turn must adapt to the CIC and the environmental needs of the market.

The data quality concerns of the SAEs go beyond the lack of adherence to the “golden standard” of having 24-months of data, but the response of the CIC on this matter reinforces the sentiment of the SAEs that the CIC is not safeguarding their business interests. Again, more on this dynamic between the CIC and SAEs is discussed in Chapter 1.

In reality, tension between the SAEs and the CIC should not exist—SAEs forced to create value-added services on less robust data and compete with the CIC, and the CIC to operate with a shoestring compliance budget (resulting in their need to generate revenue). Instead, both SAEs and the CIC should have aligned interests with the goal being the development of an optimal credit information sharing ecosystem in the Philippines.

#### *On the Access of Submitting Entities and its Relation to Data Quality*

Recall the brief mention on the access rate and how this may be reflective of subpar data quality (p. 19). Aside from being due to data quality, another explanation as to why the largest SEs are not accessing CIC data is because there is no incentive to access data from a cost-benefit perspective, as the format by which data can be accessed by SEs is of seemingly little to no value. One of the top three (3) SEs gave the following instance: “...you get 20 pages, for example, of individual promissory notes and it’s very hard to use. That information can be processed to make it useful for us...” SEs are provided the following access options (Credit Information Corporation 22):

1. Access through the SAEs for:
  - a. Web Portal Access
  - b. Batch Access
  - c. Application to Application
2. Direct access from the CIC for:
  - a. Web Portal Access in PDF format
  - b. Batch Access in PDF format



Some lenders report there is minimal value in directly accessing the CIC given that the only differences between the two (2) access options are format and application to application access via the SAEs. The SE in the example above pulls credit reports from TransUnion and CRIF, both of which are SAEs. They do not buy data directly from the CIC because, even if the data in the CIC is complete, it is not yet easy to use owing to the format. Improving data quality is partially hinged on the willingness of SEs to access CIC data, for it would encourage these institutions to ensure that their submissions are of quality. Therefore, factors discouraging access, such as how accessed data is formatted, also need to be addressed.

It must also be noted that the disparity in the number of entities accessing the CIC versus the number of entities submitting in production can also be the result of the following: 1) the CIC only opened registration for SEs to become AEs on July 1, 2019;<sup>87</sup> and 2) for an SE to successfully apply for access, it must have been submitting data to the CIC continuously for at least six (6) months reckoned from the start date of access.<sup>88</sup> Therefore, it may be too premature to conclude that the low rate of access is

## Recommendations

### 1. Outsource Some of the Role of Ensuring Data Quality to the SAEs or licensed PCBS.

To address the issue of subpar data quality, the first step is to close data gaps that may result from non- or under-reporting by data furnishers (p. 19). The CIC was born in large part owing to such market failures, namely that many lenders would not share customer payment data with the existing private credit bureau. The CIC's authority to mandate payment reporting to a broad range of organizations is an extremely useful tool to enable financial inclusion.

But instead of mandating SEs to report data only to the CIC, whereupon the CIC standardizes the data, matches, improves the data quality, and then reports data back out to the SAEs/PCBs, the CIC has better options. One is that SEs fully report account data to the SAEs and/or licensed PCBs according to financial institution type (e.g. MiDAS for the MFIs)<sup>89</sup> instead of the CIC, which will then effectively offload the challenge of data matching and managing data quality to the private sector. Another option is that SEs still fully report account data directly to the CIC, but the responsibility of ensuring data quality will be that of all licensed SAEs/PCBs who could access raw, underlying data.

<sup>87</sup> CIC Circular No. 2020-01.

<sup>88</sup> Ibid.

<sup>89</sup> In fact, they are already performing this function by providing support to MFIs in complying with CIC submission requirements. According to one of the respondents, a microfinance NGO, they do not interact with the CIC directly at all when it comes to submission, except through MiDAS.

Recall that there have been efforts initiated by the CIC, SAEs, and other relevant organizations in the credit information sharing ecosystem to ease the process of submission for SEs, especially those of a smaller-scale and with limited resources (e.g. cooperatives, rural banks, others) (please see pp. 35-36). Because there are organizations or associations in the Philippines that serve the needs of certain financial institutions,<sup>90</sup> each SAE services a specific target market, and several SEs have shared with the research team that they do access other organizations/associations for data (especially the member-banks of BAP, who frequently avail of the services of BAP-DX), the SAEs/PCBs/quasi-PCBs would presumably be in a more ideal position to address the issue of subpar data quality resulting in non- or under-reporting by data furnishers and challenges experienced by the SEs in complying with submission requirements.

Under these models, licensed PCBs (including the existing SAEs) would then compete on data quality, and the dynamic of a competitive market would greatly improve this situation to the direct benefit of the financial sector and the Philippine economy. The licensed PCBs (including the existing SAEs) should have a more direct relationship with the SEs (and the underlying raw data submitted) and be able to flag data quality issues identified for regulators. This way, some data quality issues may be resolved with the SEs directly, and those that cannot will be left to the regulators in their interactions with the SEs.

Solution	Pros	Cons
<ul style="list-style-type: none"> <li>Model A: SEs fully report account data to the SAEs/licensed PCBs and the role of the CIC becomes that of purely a regulator.</li> </ul>	<ul style="list-style-type: none"> <li>Because there is a level of trust already established between SEs and certain organizations/associations and SAEs, noncompliance may be mitigated.</li> <li>Competition on data quality will arise among the SAEs and licensed PCBs to the benefit of the financial sector and Philippine economy.</li> </ul>	<ul style="list-style-type: none"> <li>The SAEs have made it clear that they believe ensuring data quality is a role the CIC should take; they may not embrace this model.</li> <li>Taking on the responsibility of managing data quality will add to their operational costs (in terms of investment in digital infrastructure and the hiring of personnel).</li> <li>If submission were to be according to financial institution type, information silos may be created.</li> </ul>
<ul style="list-style-type: none"> <li>Model B: SEs fully report account data to the CIC, but the responsibility of managing data quality will fall on the SAEs/licensed PCBs. The role of the CIC will still be that of purely a regulator.</li> </ul>	<ul style="list-style-type: none"> <li>Please refer to Model A. Pros.</li> <li>This model would be relatively easier to implement than Model A, for it only requires a change in the way the SAEs are permitted to access the CIC database (from piecemeal access to having access to the raw data that was furnished, i.e. whole database access).</li> </ul>	<ul style="list-style-type: none"> <li>Please refer to Model B. Cons.</li> </ul>

<sup>90</sup> IBAP for banks, the Rural Bankers Association of the Philippines (RBAP) for rural banks, the Chamber of Thrift Banks (CTB) for thrift banks, MiDAS for microfinancing institutions, the National Confederation of Cooperatives (NATCCO) for cooperatives, etc.

This model's feasibility and viability needs to be assessed, especially when it comes to the possibility of information silos (similar to what happened in the 1980s; please see p. 8) being created. If this were to happen, it would defeat the purpose of the CIC working towards nurturing a financially-inclusive ecosystem for private individuals and enterprises. Hence, further study is required. Nonetheless, if this model were to be pursued, the following action steps may be recommended:

1. Introduce a change to the IRR of the CISA, particularly with Rule 6, regarding the confidentiality of credit information. This may be done through a proposal originating from the SEC and would be reviewed (and approved, should it be the case) by a congressional oversight committee.
2. Revisit and revise the terms and conditions underlying the accreditation of SAEs (SEC Memorandum 2015-07), particularly their rights to access the CIC database. Revisions may be implemented via the issuance of another memorandum.

Lastly, to reiterate, not only is data quality determined by the robustness of the CIC's system (i.e. their software and technology), but it also hinges on its ability to enforce compliance among SEs. It must be noted that the research team cannot recommend a solution pertaining to the software of the CIS itself as it is beyond the scope of the study; further research would need to be conducted to assess the technology of the CIC. Therefore, the recommended solutions and action plans in the study to improve the quality of data in the CIC hinge on compliance and enforcement, which was discussed extensively in Chapters 1 and 2.

## CHAPTER 4

### CONFLICT OF INTEREST WITH CRIF AS BOTH SAE AND DATABASE ADMINISTRATOR

#### Framing the Issue

In different interviews with SAEs, a consistent concern that was raised was the apparent dual role of CRIF as database administrator of the CIC, and as a Special Accessing Entity. Some SAEs expressed apprehension that this unique status of CRIF demonstrates conflict of interest, as it is placed in an unduly advantageous position over the other SAEs. It was asserted that the firewalls between the two firms are nominal and are at any rate superseded by the common ownership structure. Further, it was alleged that CRIF Philippines has leveraged CRIF Italy's access to privileged information by strategically spreading disinformation to competing SAEs to diminish competition in the SAE sector. Proponents of reform argue that the conflict of interest can be remedied by prohibiting the CIC's database administrator advisory firm (the provider of the CIC's platform) from also operating as an SAE/private credit bureau.

When asked about this issue, CRIF strongly denied the existence of any conflict of interest or of any competitive advantage in its seemingly twofold role as data custodian and special accessing entity. CRIF gave further assurance that the safeguards and firewalls put in place are ample to preclude unwarranted access on their part.

When asked about this matter, the CIC argued that any concerns about a potential conflict of interest may be allayed by a proper understanding of the relationship between CRIF and CIC. In an interview with the IT and Data team of the CIC, it was clarified that CRIF's scope of work is governed by a maintenance agreement and that at this stage in the evolution of the CIC CRIF's scope of work only includes the repair of minor patches and resolution of technical issues via consulting.

During that interview, it was emphasized that it is the CIC that fully assumed the workload as data custodian since CRIF turned over the system in 2014. It was clarified that CRIF has no access to the database and can only operate when a "ticket" is raised, that is, when a technical problem is encountered. In such cases, CRIF's remote access is enabled, but is only limited to the application layer for which CRIF is provided a unique username and password.

In short, the CIC's contention is that it is the CIC, and not CRIF, that undertakes all technical responsibilities relating to the database aspect, such as storage and backup. It is CIC's data controllers and operators that take charge of processing the data, from onboarding, to processing, to loading. Finally, it is CIC that maintains the firewall logs and setups.

Despite these clarifications, SAEs point out that CIC is unique in having a data administrator who is also an SAE, and remain concerned that CRIF may have an undue advantage and this concern affects their trust in and use of the system.

### **Analysis and Solution**

#### **1. Avoid a scenario where an SAE has internal information or undue advantage or perceived advantage due to its position as the CIC's software provider and trouble-shooter.**

The CIC may institute guidelines and safeguards to prevent a situation in which a possible conflict of interest is present. Through a board resolution, a prohibition on SAEs from participating in subsequent bids to be consultants and/or service providers to the CIC in their capacity as database administrator may be instituted.

### **Recommendation**

#### **1. Institute a prohibition on SAEs concurrently being database administrator or consultants/service providers to the CIC as database administrator.**

Once CRIF's contract as database administrator or trouble-shooter has lapsed, it is recommended that the CIC engage an entity other than an existing SAE and prohibit SAEs from participating in the bid for a new database administrator.



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## Conclusion

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The general recommendations presented are aimed to help improve the functioning of the Credit Information Corporation (CIC) as a public credit registry and as a regulatory body. Properly addressing the shortcomings of the current structure of credit information sharing would help foster a much more robust ecosystem.

The next steps should be to operationalize the more general recommendations herein to produce specific, implementable reforms and legislation.

We urge national decision makers to act upon the insights and counsel contained herein. Recognizing that an omnibus solution is politically challenging, it is the position of the authors of this report that a piece-meal approach to addressing the concerns identified in this report is unlikely to succeed given the degree of interaction and inter-relatedness among the issues (e.g. chronic underfunding causes understaffing, forced competition with private sector to cover operating expenses leading to under-investment by private sector, others). The most important step, as we see it, is to reform the 12-year-old CISA relying on the insights gathered following its implementation.

We urge Congress to take up reform comprehensively and immediately for the good of the Philippine economy, consumers, and micro- and small-businesses.

## APPENDIX

### History of the Credit Information Systems Act (CISA)

In 2008, during the presidency of Gloria Macapagal Arroyo, Republic Act No. 9510 or the Credit Information System Act (CISA) was enacted.<sup>91</sup> The principal authors of the law were Senator Juan Edgardo “Sonny” Angara, Senator Juan Miguel Zubiri, Rep. Jaime Lopez, Rep. Ma. Amelita Villarosa, Rep. Arthur Defensor, Sr., and Rep. Edcel Lagman.<sup>92</sup>

The purpose of the law was to address the need for a comprehensive and centralized credit information system for the collection and dissemination of fair and accurate information relevant to, or arising from, credit and credit-related activities of all entities participating in the financial system.<sup>93</sup> A credit information system will directly address the need for reliable credit information concerning the credit standing and track record of borrowers.<sup>94</sup>

The law sought to create a credit information system with the aim to improve the overall availability of credit especially to micro, small and medium-scale enterprises, provide mechanisms to make credit more cost-effective, and reduce the excessive dependence on collateral to secure credit facilities.<sup>95</sup>

With this, credit information will be provided at the least cost to all participants while protecting consumer rights and ensuring the existence of fair competition in the industry at all times.<sup>96</sup> An efficient credit information system will also enable financial institutions to reduce their overall credit risk, contributing to a healthier and more stable financial system.<sup>97</sup>

To ensure the law’s effective execution and to carry out its mandate, the Credit Information Corporation (CIC) was created to act as the central repository of credit information, receiving and collating both positive and negative credit data from submitting entities such as banks, quasi-banks, investment houses, cooperatives, micro-financing organizations, credit card companies, insurance firms and government lending institutions.<sup>98</sup>

Subsequently, the law’s Implementing Rules and Regulations (IRR) was approved on May 27, 2009.<sup>99</sup>

In 2011, the CIC Board of Directors was constituted, and in 2012, the Governance Commission for GOCCs (GCG) recommended some reorganization for the CIC was necessary to enable it to perform its functions and fulfil its mandate under R.A. No. 9510.<sup>100</sup>

<sup>91</sup> Republic Act No. 9510, An Act Establishing the Credit Information System, And For Other Purposes [Philippines], [herein referred to as R.A. No. 9510], 31 Oct. 2008, [www.creditinfo.gov.ph/sites/default/files/Credit%20Information%20Corporation%20Republic%20Act%20No.%209510.pdf](http://www.creditinfo.gov.ph/sites/default/files/Credit%20Information%20Corporation%20Republic%20Act%20No.%209510.pdf)

<sup>92</sup> Official Gazette. “Speech of President Arroyo during the Signing Ceremony of Republic Act 9510 or the Credit Information System Act.” 31 Oct. 2008, [www.officialgazette.gov.ph/2008/10/31/speech-of-president-arroyo-during-the-signing-ceremony-of-republic-act-9510-or-the-credit-information-system-act/](http://www.officialgazette.gov.ph/2008/10/31/speech-of-president-arroyo-during-the-signing-ceremony-of-republic-act-9510-or-the-credit-information-system-act/)

<sup>93</sup> R.A. No. 9510, Sec. 2.

<sup>94</sup> Ibid.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid.

<sup>97</sup> Ibid.

<sup>98</sup> RA No. 9510, Sec. 6.

<sup>99</sup> Implementing Rules and Regulations of the Credit Information System Act (CISA) RA No. 9510 [herein referred to as R.A. No. 9510 IRR], 2009, [www.creditinfo.gov.ph/sites/default/files/Implementing%20Rules%20and%20Regulations%20of%20the%20Credit%20Information%20System%20Act%28CISA%29.pdf](http://www.creditinfo.gov.ph/sites/default/files/Implementing%20Rules%20and%20Regulations%20of%20the%20Credit%20Information%20System%20Act%28CISA%29.pdf)

<sup>100</sup> Ibid.

### Credit Information Corporation

CIC is the public registry of credit information and credit related data in the Philippines. Its primary purpose is to “receive and consolidate basic credit data, to act as a central registry or central repository of credit information, and to provide access to reliable, standardized information on credit history and financial condition of borrowers.”<sup>101</sup>

In May 2011, the first set of board of directors, including the President and CEO of the CIC were appointed.<sup>102</sup> In the succeeding year, the Governance Commission for the GOCCs (GCG) identified that a reorganization of the CIC is necessary to enable it to perform its functions and mandate under R.A. No. 9510.<sup>103</sup> This is pursuant to Sec. 5 (a) of the GOCC Governance Act of 2011 or R.A. No. 10149, wherein the GCG is mandated to “evaluate the performance and determine the relevance of the GOCC, to ascertain whether such GOCC should be reorganized, merged, streamlined, abolished, or privatized in consultation with the department or agency to which a GOCC is attached.” This development was likewise in accordance with Secs. 6 and 8 (e) of Executive Order No. 43, as well as the Philippine Development Plan 2011-2016.<sup>104</sup>

With this reorganization, the CIC saw the following changes:

1. Increase in regular plantilla positions by 30 from their existing 10;
2. Creation of organizational structure with organizational units;
3. New salary rates for the 40 approved positions.

It was in 2015 when the database for the Bureau was delivered.<sup>105</sup> At this point, the CIC began operating and enforcing its mandate. It was able to onboard four SAEs in 2016. Currently, aside from performing its duties as a central repository of credit information, it has also started offering credit reports to the general public.

In 2017, the Beta Test Access was launched, and in 2018, the Consumer Report Validation phase was undertaken.

In 2019, the CIC’s database went live, receiving over three million requests for credit reports from financial firms.<sup>106</sup> The CIC also made credit reports available to the public, and instituted a CIC Online Appointment Scheduler, and Online Dispute Resolution Process.

Finally, in September 2020, there was a change in leadership in the CIC Board that saw the appointment of Atty. Ben Joshua A. Baltazar as President and CEO, replacing Mr. Jaime Garchitorea.

<sup>101</sup> R.A. No. 9510, Sec. 5.

<sup>102</sup> Credit Information Corporation. “Milestones.” [www.creditinfo.gov.ph/milestones](http://www.creditinfo.gov.ph/milestones). Accessed 18 Sep. 2020

<sup>103</sup> Governance Commission for the GOCCs. “Reorganization of the Credit Information Corporation, Memorandum Order No. 2014-12.” Credit Information Corporation, 2014, [www.creditinfo.gov.ph/sites/default/files/GCG%20Memo%202014-02%20CIC%20Organizational%20Structure.pdf](http://www.creditinfo.gov.ph/sites/default/files/GCG%20Memo%202014-02%20CIC%20Organizational%20Structure.pdf)

<sup>104</sup> Ibid.

<sup>105</sup> Supra note 106.

<sup>106</sup> Ibid.

## METHODOLOGY

This report relies on both primary and secondary sources of information, giving weight to the primary sourced information including that which was obtained from a series of structured interviews. The subjects interviewed represented a diverse range of key stakeholders from throughout the CIS ecosystem. Roundtable discussions with narrower subgroups of stakeholders and survey instruments customized for each stakeholder group (e.g. regulators, submitting entities, special accessing entities/ credit bureaus, the CIC, others) were also utilized.

To obtain an accurate sense of the performance of the CISA in relation to its objectives, the study relied on interviews, surveys, and discussions with the following persons and entities involved in the credit information sharing ecosystem:

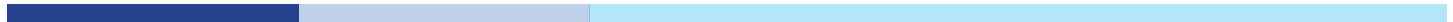
1. Sen. Juan Edgardo "Sonny" Angara
2. Credit Information Corporation (CIC)
3. Securities and Exchange Commission (SEC)
4. Bangko Sentral ng Pilipinas (BSP)
5. CRIF Philippines
6. CIBI Information Inc.
7. TransUnion Philippines
8. Experian Compuscan
9. International Finance Corporation (IFC)
10. Asia Pacific Finance Forum
11. SB Corporation
12. BDO Unibank, Inc.
13. Bank of the Philippine Islands
14. Metropolitan Bank and Trust Company
15. Development Bank of the Philippines
16. UnionBank Philippines
17. Bankers Association of the Philippines (BAP)
18. Microfinance Information Data Sharing Inc.
19. National Confederation of Cooperatives (NATCCO)
20. Rural Bankers Association of the Philippines
21. Quezon Capital Rural Bank
22. Alalay Sa Kaunlaran Inc. (ASKI)
23. Philippine National Bank

Roundtable discussions were held with the SAEs, during which they were asked to identify their main concerns with the state of the credit information sharing ecosystem. After this, a consultation with the CIC was held, bringing to their attention the identified issues, and giving an opportunity to respond and propose remedial measures.

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