

# White paper summary

## The need for Credit Bureaux



### The issues and opportunities of Credit Bureaux

In many countries around the world lenders have access to database information to help them assess the creditworthiness of an applicant for credit.

The organisations that gather the data and operate these services are known as Credit Bureaux, Credit Information Services, Credit Registries, Credit Reporting Agencies or Consumer Credit Reference Agencies.

Relevant information is gathered from public records, statutory information, identity information, credit applications and credit accounts on the individual consumers and businesses.

The lender accesses the service in the form of a credit report and uses it to assess the application risk prior to underwriting the credit. The credit line may be for anything from a house or a car to a credit card or a mobile telephone account.

The existence of a Credit Bureau in a country assists growth by stimulating the consumer credit economy.

Borrowers can be assessed for risk in an objective way based on credit payment history so credit can be allocated more efficiently. Borrowing

by high risk borrowers is controlled and the market is opened for new low risk borrowers.

Lenders, consumers, businesses, government and central banks all benefit from Credit Bureaux. This is why the World Bank, IFC and USAID organisations are all promoting and facilitating the development of efficient and capable Credit Bureau services around the world.

The effectiveness of a Credit Bureau varies depending on a number of factors including data availability, data quality, operating ability and legislation. Supportive legislation and a sound technical infrastructure are crucial to effective operation.

The service provided by a Credit Bureau always starts with a basic credit report containing all relevant data within the bounds of the prevailing legislation. To keep pace with the developing market, more advanced services such as scoring and fraud prevention need to follow quickly.

#### Want to read more?

This executive summary is taken from the white paper [The need for Credit Bureaux](#)

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# The need for Credit Bureaux

To maintain useful representative data in the Credit Bureau it is important to constantly encourage further data sharing between users of the services. The most important stage in the development of the database is the persuasion of lenders to share not just accounts with poor payment history (negative data) but also those with good payment history (positive data).

The sharing of positive data is a trigger to the development of more advanced and effective products and services that help both lenders and consumers. Consumers with good credit histories can borrow to more equitable limits, receive lower interest rates, and get access to more credit products.

Lenders can make better lending decisions, use risk-based pricing methods more effectively, actively manage credit lines, collect debt more successfully and reduce fraud.

Because the overall level of the consumer's indebtedness can be calculated it is easier to determine the probability of default and the potential loss, both aspects that help in adherence with Basel II.

Credit Bureaux are well positioned to be at the forefront of application fraud prevention. The information held by a Credit Bureau is invaluable to identify fraudulent consumer behaviour at the time of application before any loss is incurred.

It is important to be aware of the warning signs of the need to improve Credit Bureau services in a country. If improvements can be executed in a timely manner then consumer lending can be controlled whilst continuing to stimulate the consumer credit economy.

The establishment of a Credit Bureau represents a significant undertaking and success will be governed by providing simple and efficient access to predictive data.

Consideration should be given to seeking consulting from an organisation with expertise in these matters. Similarly, such organisations can offer software solutions that can be customised to meet local requirements.

The paper is therefore intended for:

- Those interested in establishing a Credit Bureau.
- Those wishing to determine whether improvements are needed to an existing Credit Bureau.
- Those wishing to know where to go for help to achieve either of the above.

The need for Credit Bureaux and what they do is discussed; the paper describes what services they should offer and where help is likely to be needed to establish the services. Credit Bureau services across the world vary greatly in their ability to fulfil the requirements of their market but most ultimately aim to satisfy the same basic requirements regardless of where they are.