Building Inclusive Credit Information Bureaus
A Project to Make Financial Inclusion More Transparent & Meaningful

Must Read for EVERY BANKER who wants to make REAL Financial Inclusion Happen!

Introduction
World Bank's report envisages, “Credit reporting systems are very important in today's financial system. Creditors consider information held by these systems a primary factor when they evaluate the creditworthiness of data subjects and monitor the credit circumstances of consumers. This information flow enables credit markets to function more efficiently and at lower cost than would otherwise be possible.”

As per Census 2011, out of 246.7 million households 101.9 million (41.3%) households don't have access to banking services. Microfinance being one of the crucial instrument for financial inclusion needs to be extra careful as it deals with almost 30 million clients routing through MFI channel (BMR 2014); additionally 4.19 million (NABARD 2014) credit linked Self Help Groups-SHGs and average 13 members in each SHG, 54.5 million (NABARD) clients through SBLP model. The clients of microfinance are either in borderline poverty or in Below Poverty Line.

Further, Prime Minister's Jan Dhan Yojana (PMJDY) was launched with great fanfare this year and reportedly more than 72.5 million banking accounts have been opened by 10th Nov 2014 (Source: pmindia.gov.in). Also, RBI has mandated banks to open 25% of all branches in rural unbanked villages. However, field surveys – CGAP/CAB, MicroSave, InterMedia all show more than half of the basic savings bank accounts opened in the past for inclusion lie dormant. Hence, adding more accounts may not be the solution to Financial Inclusion. Last mile challenges like activation & usage of accounts, making sure there is no over supply of credit or subsidy and encouraging savings, insurance and right credit to the needy can be real solution for Financial Inclusion.

Rationale Of The Project
In Indian financial architecture to reach to the last mile there are different players e.g. NBFC-MFIs, SHPIs (SHG Promoting Institutions), Cooperatives, Banks etc.

According to ENABLE Study in 2012, out of 1942 sample SHGs, 30% of them have completed and up-to-date financial information; the data shows that of the total 1942 SHGs, two-third of SHGs have loan outstanding with 1-3 credit agencies (outstanding to one agency (52.8%). A dip stick study of Sa-Dhan, 2013, is showing that in Alwar, Rajasthan, 38% members have taken loans from other sources. In the past the over lending/over borrowing led to catastrophic situation and halted the industry for prolonged time.

RBI has come up with certain regulation, it has mandated NBFC-MFIs to upload client level data on CIBs however the major flaw in regulation, is not encompassing the other routes of financing the clients especially the SHGs. The major challenge visibly is to upload the information of the Self Help Groups members which consists of 64% of market by means of client.

There is also a possible probability of positive correlation between the non transparency and NPA which is eventually increasing at alarming rate.

RBI Committee’s report (Report of the Committee to Recommend Data Format for Furnishing of Credit Information to Credit Information Companies Reserve Bank, known as Aditya Puri Committee) also echoing: “Banks may within a reasonable period arrange for capturing data on individual borrowers from SHGs for reporting to Credit Information Companies (CICs) Credit Information on individual members of SHGs is critical to establish their credit history which would in turn foster growth of credit to the sector. The Committee recommends that banks may be required within a reasonable period of, say, eighteen months, to arrange for capturing the required data from SHGs for reporting to CICs.”

Looking at these important unresolved issues, this project aims to build the relevance and importance of uploading member data of all Bank-SHG into the Credit Bureaus by working with both banks and Self Help Partner Institutions (SHPIs) and clients. The ultimate aim being to bring transparency in usage of financial services of 54.5 million (NABARD) individuals at BOP serviced under the Bank-SHG Linkage program.

1 General Principles for Credit Reporting; World Bank, 2011
2 Bharat Microfinance Report 2013
Who Is Really Being Served Under The Bank-SHG Program?
Funds are flowing to BOP from major authorities like Government with its program like PMJDY, National Rural Employment Guarantee Act (NREGA), National Rural Livelihood Mission (NRLM), plus Rs. 429.27 billion loan by Banks to SHGs & Rs. 306.41 billion loan by NBFC MFIs to BOP as per Bharat Microfinance Report 2013. The question submitted is while these funds being dispersed to the BOP where is the transparency with regard to who receives how much of funds from various schemes and how is the same being utilized and repaid.

Choice of Banks and SHPI Partners
To identify partner institutions that have a large number of SHGs affiliated to their institutions, as also have their data sets in place to upload into the credit bureaus.

Data Capture Template & Gap Analysis
Capture the key aspects of data sets of SHG members required by credit bureaus through a data gap analysis through interaction with members, banks, technology service providers and other stakeholders. The aim is to understand the quality of data captured by the SHG vis-à-vis the requirements of the Credit Bureaus.

Technology and Technology Service Providers Overview
Evaluate the current status of the technologies that are used in the NBFC-MFI domain for on-boarding data into the credit bureaus as well as other existing systems used by SHPIs and being developed by technical providers. Address and remove the constraints in its deployment.

Cost Assessment
Understand the consolidated cost structure involved and allocation of the cost for information collection and sharing, of technology.

To ascertain and understand what is the inclination status of Banks & SHPIs to upload this data. This will require orientation, capacity building. Create interfaces between the SHPIs and Credit Bureaus.

Project Benefits and Results
1. Bringing Transparency & Accountability to the Rs. 429.27 billion Banks-SHG Linkage Program. This project will bring meaning and clarity to all these efforts being done under the name of Financial Inclusion by making this data transparent and addressing the important question who are the beneficiaries and do they really require these loans?
2. Escalating the creditworthiness of the clients. The project is envisioned to build up the case for the creditworthy clients having efficient and comprehensive credit history. The clients who could not repay for justified reasons can also be catered in discretion of the lending agency.
3. Reduction in NPA Levels. The project will help ascertain the credit worthiness of the borrower at BOP and shall help banks to make informed decisions on repayment propensity thus reducing their NPA levels.
4. Client Protection. Lowers delinquency and over-indebtedness will curb multiple lending as it helps lenders identify good borrowers, thus reducing the incidence of adverse selection. Helps institutions to offer services responsibly and helps integrate low-income microfinance customers into the formal financial sector.

Addressing the Following Lacuna:
• Catering the right prospective clients by MFIs with proper check with documentation
• Reduction of the over lending and help clients not to over borrow
• Cases of loans given to non-existent borrowers on the basis of fictitious documentation
• Lack of quality internal controls on part of MFIs Loan officer issues loans to "ghost" or non-existent clients
• Loan officer issues 2nd or 3rd loan to delinquent clients to facilitate repayment-top-up or greening of loans
• Loan officer provides bulk money to agents for onward disbursement. (Source: Outlook Money Ramesh Arunachalam)

Conclusion: Bringing transparency to Financial Inclusion envisages including Bank-SHG Linkage data into the credit bureaus where Rs. 429.27 billion cannot be ignored whilst the entire nation continues in its pursuit towards 100% Financial Inclusion.

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