

‘Risk-based loan pricing will take some time’

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From nowhere to 500 million accounts in little more than a decade is a big achievement for India

Risk-based pricing for loans is yet to kick off in India, despite the fact that the credit bureaus have been in existence in India for more than a decade. In a free-wheeling chat, Muthukumar K spoke to Harshala Chandorkar, COO, CIBIL, on a range of issues concerning the credit bureaus, including that of risk-based pricing. Edited excerpts:

Why aren’t higher credit scores leading to lower interest rates for customers in India?

We are at a nascent stage right now — the credit bureau industry is just about a decade long. Implementing risk-based pricing will take time as it requires to completely change the way the banks are currently operating.

But I think a beginning has been made. Regulators are talking about it and some banks like Bank of Baroda are already using risk-based pricing. I have heard of banking customers saying that they have got better (lower) interest rates for their loans or that the processing fee got waived because of higher credit scores.

But US banks are already using the risk-based pricing model.

The credit bureau industry in the US is about 120 years old; in South Africa it’s 100 years; in the UK, it’s 60-70 years and in Hong Kong it’s 50 years. India has been a late entrant and even countries like Pakistan and Bangladesh have a longer history of running credit bureaus than us. Having said that, our growth has also been phenomenal; from nowhere to 500 million accounts in little more than a decade is a big achievement.

Till recently, CIBIL had a charge of Rs. 550 for a credit report whereas it is given free in the US.

The operational costs for servicing the request are high in India. First of all, we have to authenticate the customer, since we have never dealt with him or her before. And often the engagement with our customers stretches to 7-8 interactions over phone calls, which adds up to our costs. In the US, the credit bureau industry is much more mature.

India is reaping the demographic dividend with rapid influx of younger workforce. They don’t have a credit history to avail loan...

About 30 per cent of loans given by banks are to the new-to-credit customers. And banks aren’t wary of lending to them today like earlier. We are also working on a model to arrive at a credit score for such new customers based on demographic factors such as age, place of work and so on. It will take us 6-9 months to come out with a solution to rate these customers.

Currently there are algorithmic models for those who don’t have a credit history. It typically looks at data from social media to arrive at their credit score; however, its authenticity is questionable. A credit-based scoring model, in contrast, is much more established and authentic.

Could you talk about the trends in creditworthiness of customers?

Customer profiles today are much different from those that existed during the crisis times of 2007-08. During the pre-crisis years, it was more of surrogate lending.

One customer was approached by 5-6 banks which, in turn, created problems of leverage. Today, the customer is much more diversified and banks are also going to new geographical areas to expand credit. We are not yet seeing the bubbles of the crisis years.

What can a customer do if his or her loan is rejected?

A customer can ask the bank why his loan application has been rejected. If it is based on the credit report, you could ask for the credit report.

And if you find any discrepancies, you should approach them, so that it is corrected and your revised scores are reflected on your report. It is possible that your auto loan would have been fully repaid, but not yet reflecting in the books. Or a default, where a part payment has been made, is not yet reflecting in the books. Rectifying such errors could help improve your credit score.

How do you arrive at a credit score?

It involves looking at multiple data points, including debt, type of loan taken (unsecured or secured), default status, how many times he or she has defaulted, when was the last default made, and such other data.

The credit score communicates the probability of default of the individual over the next 12 months. While the scores are typically in the range of 300-900, a score of 750-plus is generally considered a good score.

How can we improve our credit score?

Your credit report is like your reputation collateral. If you have taken loan or have a credit card, make payments on time. It will have maximum impact on your credit score (for the better). And if you have defaulted, start making repayments for 5-6 months — which will help you build a positive credit history.

For instance, if you have credit card dues, speak to the bank and convert it into a personal loan. Moreover, ensure you pay EMIs on that personal loan on time. This would help build a better credit history.

If your credit history gets better, credit score improves automatically.

In the US, the credit bureau also has access to alternative source of data — such as telecom spends, payment of insurance premiums, court cases pending against the individual, his departmental store spends and so on. Usage of such credit scores also goes beyond just giving credit; for instance, it could be used by house owners to decide whether or not their house should be given on rent.

What kind of data do credit bureaus handle?

All the credit bureaus (including CIBIL) have access to data from the 2,000-odd members, including scheduled commercial banks, NBFCs, housing finance companies, cooperative banks and rural banks, amongst others. These members share data of about 500 million individual accounts and 27 million non-individual accounts with us. This, in turn, is updated on a monthly basis and sent to us in a standard format.

Typically, for an individual, it includes data on loans and credit card. So we capture demographic data (address, name, telephone number), all loans that he or she has taken till date, quantum of loans, loan type, including details such as last payment made, and complete default history. CIBIL started operations in 2004 and has data of individuals even prior to that.

In the case of a corporate database, in addition to individual data of a company's partners and directors, details regarding security of the loans, its guarantors and similar data are also captured.

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