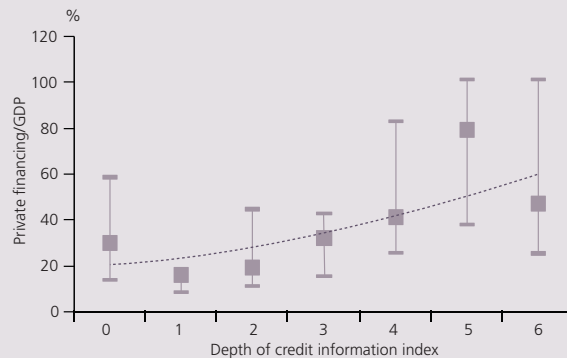


Regulatory Framework for Credit Reporting Agencies in Malaysia

Credit information sharing is an important element in the financial system and has important consequences on the functioning of the credit market, financial stability and economic development of a nation. The sharing of credit information reduces asymmetries of information and search costs, thereby enhancing access to financing to a broader spectrum of the population, through the formal system.

Chart 1
Private Financing/GDP versus Depth of Credit Information



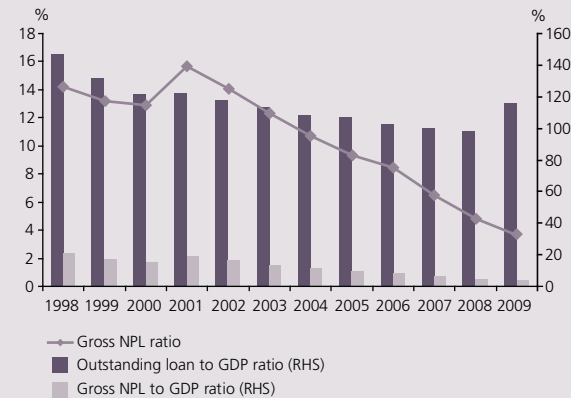
Source: Internal computation based on The World Bank dataset 2007

Such sharing of information also lowers the cost of financing for borrowers with good credit background and history. Advancements in risk and decision-making analysis, and the availability of a wide range of credit information on a real-time, anytime basis have significantly shortened loan processing time. In some instances, it has even facilitated instantaneous decision on application for credit. From a social perspective, the sharing of credit information contributes towards inculcating financial discipline and avoiding incidences of imprudent and excessive borrowings among borrowers. Borrowers demonstrating strong financial characters are able to leverage on such “reputational collateral” to obtain borrowings at favourable terms and rates.

For financial and credit institutions, credit information helps to strengthen the entire chain of credit evaluation and administration of credit risk management. This in turn contributes towards institutional safety and soundness, and stability of the overall system.

In Malaysia, the credit information services industry has been in existence for more than 10 years. At present, such services are being provided by both private and public entities. Consolidated credit information sharing has proven to be beneficial to both borrowers and lenders. Access to shared credit information has contributed towards reducing the duration in the processing of housing loans by banks, from an average of 3.3 days in 2004 to 2.4 days in 2009. The availability of such information has also supported the development and adoption of advanced credit and portfolio risk management tools such as credit scoring and portfolio analysis by financial institutions. These tools not only facilitate more effective credit decisions, but also more robust administration and management of credit risks. Collectively, these have paved the way for continued improvement in the quality of loan portfolio of financial institutions over the past decade, supported by prudent underwriting and credit risk management practices by financial institutions.

Chart 2
Ratios of Outstanding Loans and Gross NPLs to
GDP and Gross NPL Ratio, 1998 - 2009



Source: Bank Negara Malaysia

Given the extensive usage of credit information and its implications for financial stability and potential impact on the general public, it is important for the appropriate safeguards and legislative framework to be in place for credit information to be shared in a responsible manner among the participants and players in the credit reporting industry. The absence of a regulatory framework governing the activities of private credit reporting agencies (CRAs) in Malaysia and inadequate legislative requirements have surfaced several fundamental gaps and weaknesses in the credit reporting industry. These became more evident in the recent years and constrained access to financing of certain borrower segments through the formal channel. Among the concerns that were raised and debated extensively by the public were inaccurate and outdated credit information, incomplete information leading to mistaken identities, excessively long retention period of adverse credit records, absence of consumer rights and redress mechanism – all converging towards the lack of accountability, integrity and standards for consumer care on the part of the private CRAs.

These developments have led to the tabling of the Credit Reporting Agencies Bill 2009 (CRA Bill), which is to be debated in the Parliament in 2010. The CRA Bill is an important legislation that can contribute towards the healthy development of a regulated and structured credit information sharing industry, that would pave the way for better credit culture, improved risk management and overall credit processing time within the country. The CRA Bill was finalised after consultations with the relevant government agencies to strike a balance between consumers’ rights to privacy and protection, and lenders’ rights to information for improvements in credit evaluation and risk management purposes. Among the salient features of the CRA Bill are as follows:

- **Coverage:** In providing protection to both individuals and non-individuals, the CRA Bill will cover credit information relating to both natural persons and other entities, such as corporations, partnerships, cooperatives and other organisations;
- **Regulation of CRAs:** A Registrar of Credit Reporting Agencies (Registrar) will be appointed by the Minister of Finance to regulate and supervise CRAs. CRAs are required to obtain a certificate of registration from the Registrar to undertake credit reporting businesses. The Registrar is also responsible for resolving complaints and disputes between consumers and CRAs;
- **Preserving privacy:** CRAs are required to notify consumers that information on them is being collected. CRAs are also required to obtain the consent of the consumers on disclosures to third parties;
- **Consumer rights:** Consumers are accorded the rights to access own information that is held by CRAs, and shall not be charged for correcting any information that is found to be inaccurate, incomplete or misleading;

- **Accuracy and security of information:** CRAs are required to take reasonable steps to ensure that information held are accurate, complete, not misleading and up-to-date. CRAs are also obligated to put in place the necessary safeguards (e.g. systems, procedures and processes) to ensure the security and safety of the information; and
- **Enforcement mechanism:** Violation of the CRA Bill shall invite penalties ranging between RM50,000 to RM1 million or a six-month to three-year imprisonment or both, depending on the severity of the offence.

The changing structure and dynamics of the financial system, growing consumer activism and deeper financial inclusion will expand the outreach of credit facilities and financial services. These developments will shape the environment surrounding the credit reporting industry that demands for improved transparency for consumers while not neglecting the value added services that are required to support the development of enhanced risk assessment methodologies and adoption of more sophisticated credit decisioning models. The Central Bank of Malaysia Act 2009 and the CRA Bill contain key elements that provide for a balanced platform for the efficient sharing of credit information among lenders and the effective protection of consumer data and privacy rights. Credit information in the Centralised Credit Reference Information System (CCRIS), where necessary, may be made accessible to qualified CRAs within a regulated environment to further enhance the risk management capabilities of lenders, thus promoting stability of the financial system. CRAs can complement the information contained in CCRIS with information from other non-bank sources such as utility companies and trade suppliers and develop specialised risk management models. This will provide more extensive content, coverage and quality of products and services. Collectively, the CRAs can have an important role in contributing to prudent credit expansion in the country, and a well-structured regulatory framework for such agencies will support this development.