

## **Su Ning: The evolution of a credit information system for China**

Speech by Mr Su Ning, Deputy Governor of the People's Bank of China, at the International Seminar on the Application of Credit Information Products in Managing Credit Risks of Commercial Banks, Tianjing, 20 June 2007.

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Distinguished guests, Ladies and Gentlemen,

Good Morning.

I am very pleased to attend the International Seminar on the Application of Credit Information Products in Managing Credit Risks of Commercial Banks. First, on behalf of the People's Bank of China, I would like to express gratitude to our co-sponsor of this seminar, the International Finance Corporation. Also, I would like to extend warmest welcome and gratitude to experts from abroad countries and delegates presenting here. Taking this opportunity, I would like to share with you my observations on several aspects.

### **I. Credit information services have started to play a role in promoting China's economic and financial development.**

Credit information system serves as a solid foundation for the performance of modern financial system and an indispensable infrastructure for credit market development. In recent years, in order to meet the needs of global credit market development, 122 countries and regions have established credit reporting agencies that provides credit information registration services. The international community has reached a consensus in developing credit information, preventing risks and expanding credit services to promote economic development. Building up a credit information system according to a country's specific circumstances and with reference to international best practice constitutes an important part in improving economic and financial system. At present, while developing countries have started to build credit information systems, some developed countries also steadily improve their credit information systems, in particular on how to establish a centralized credit information registration system to comprehensively collect both positive and negative financial or non-financial information from enterprises and individuals, and protecting the rights of borrowers in legal forms in terms of access to such information and etc.

In recent years, to fulfill the obligation assigned by the State Council of "regulating credit information sector and promoting the construction of a social credit system", the People's Bank of China (PBC) has set up the national unified enterprise and individual credit information databases with joint efforts of banking institutions. The individual credit information database was founded from scratches, while enterprise credit information database was upgraded based on the bank credit registration and consultation system established in 1997. The two databases were officially put into operation in January and July 2006 respectively, which greatly improved China's credit environment. Measured by the benchmark in the Doing Business issued by the World Bank Group, after establishing enterprise and individual credit information databases, China's credit information index rose to 4 from 3 in 2005, comparing with the average level of 1.9 for Asia, 5 for OECD countries and 6 for the United States, which was the highest. Accordingly, China's access to credit ranked among the top 16 countries in the world, higher than the overall improvement of China's business environment in 2006.

The enterprise and individual credit information databases were established based not only on China's own circumstances but also on international best practice, which mainly reflected in the following aspects:

First, they were national unified databases. The databases were established with an aim to fully reflect the credit status of enterprises and individuals. Therefore, as people move from region to region and business of enterprises covers many regions, only when the information collected from all regions across the country are included in the databases, can the credit status of enterprises and individuals be fully recorded. At present, the nationwide database network supports any institution's access from any province, city or county, and it includes the credit data of enterprises and individuals from all over the country.

Second, the database has a wide coverage of institutions. One of the goals to establish such databases was to share information among specialized credit extension institutions. Currently, the two databases have covered commercial banks, non-bank financial institutions, rural credit cooperatives and housing provident fund centers. Efforts are now being made to explore ways of including other institutions such as collateral companies, leasing companies, telecommunication enterprises and public utility enterprises in the databases.

Third, the databases has a wide coverage of data. Over the past two or three years, the databases have set up unified credit files for more than 560 million people and 11.6 million enterprises. The information collected in the database could be divided into several categories: first, basic information of enterprises and individuals, such as ID, address, etc. With the strong support of the Ministry of Public Security and the General Administration of Quality Supervision, Inspection and Quarantine, the online verification of citizens' identity and institutional codes on the counter of commercial banks will be launched in the near term. Through this way, commercial banks could verify individual's identity and enterprise' institutional code online when opening settlement account or conducting credit business, etc. Second, banking credit information, such as information of loan, credit card, collateral, etc. Third, debt information of enterprises and individuals when fulfilling their legal obligations in economic activities outside the banking system, including information on enforcement of civil cases, announced tax arrears, social insurance fees payment, payment of public utility fees such as water, electricity, gas and phone calls, and administrative enforcement information such as environmental protection and quality inspection. At present, credit information collected from financial institutions have already been fully recorded in the database, and the PBC has reached a consensus with relevant departments to include on a pilot basis other information such as tax payment arrears, social security contribution payment and administrative enforcement information on environmental protection, quality inspection in the databases in the near future.

Fourth, the databases have strong social functions. Recording the above mentioned information in the enterprise and individual credit report is conducive to fully reflecting the credit status of enterprises and individuals and helps commercial banks to prevent and manage credit risks. Meanwhile, government departments could effectively spread administration enforcement information through the national information network of the database, which helps to strengthen government enforcement, improve the administrative management and enhance the credit awareness of enterprises and individuals in other fields. For instance, since the information of enterprises' irregularities on environmental protection is included in the databases, some banks have refused to issue loans to such enterprises, which is of great significance to prevent credit risks and improve China's environmental protection.

The databases are widely used after their establishment, and have provided nearly 200 thousand inquiry terminals to the outlets of banking institutions across the country, with daily inquiries averaging 260 thousand and the daily inquiries in April 2007 alone exceeding 340 thousand. Inquiring the credit report of enterprises and individuals has become a formal procedure of examination before financial institutions grant loans. Some banks have also included the database inquiry in the electronic procedure of lending to individuals and small enterprises, and quantitative models are employed to realize quantitative management and pricing of credit risks of individual and small enterprise customers.

Nevertheless, we should be clearly aware that the products and services provided by the individual and enterprise databases are not diversified, since at present the databases only provide credit report. Therefore, how to better use the databases, develop diversified credit information products, improve credit risk management and credit business of commercial banks, and further expand credit market have become important challenges confronting the credit information sector and credit market. According to a research on world credit market by International Finance Corporation in 2004, every improvement in credit information system, such as updating from sharing only negative information to sharing both positive and negative information, could trigger loan extension of financial institutions by 6 percent of GDP; while every increase of credit information index would push up GDP growth by 0.9 percentage points and productivity growth by 0.7 percentage points. The credit information industry in the US and European countries was quite mature. With the development and adoption of value added products such as credit score of individuals as well as small- and medium-sized enterprises, commercial banks and other financial institutions have started to share techniques and skills on credit risk management rather than simply sharing credit information. As China's enterprise and individual credit information databases have already established good framework according to international best practice, credit reporting agencies and commercial banks should make concerted efforts to study how to fully use the database to develop various value added products to strengthen the role of database in promoting commercial bank risk management, credit market development and economic growth.

## **II. Continued efforts should be made to create a favorable environment to ensure sound and sustained development of credit information industry.**

First, measures should be taken to strengthen the credit information legislation. The PBC has always focused on actively promoting credit information legislation based on China's specific circumstances and practice to create a favorable legal environment for the development of credit information industry. The promulgation and implementation of the PBC Decree NO. 3, i.e. the *Provisional Rules on Individual Credit Information Database Management* in 2005 regulates the performance of the database and protects the legitimate rights and interests of individuals and credit information safety, and lays a practical basis for credit information legislation at a higher level. Meanwhile, the PBC has conducted in-depth research on the purpose and principle of credit information legislation, its regulatory scope and major problems to be resolved and solicited comment of experts both at home and abroad. At present, the *Administrative Rules on Credit Information* (Draft) is being revised and improved in order to be released and implemented at an early day.

Second, the overall planning of credit information market should be strengthened. At present, establishing a centralized and unified credit registration system is the development trend of countries' credit information system to fully reflect the credit status of enterprises and individuals. If each area established its own database, the credit status of enterprises and individuals could not be fully reflected, and social resources would be grossly wasted. According to the *Several Guidelines by the General Administration Department of the State Council on the Building of A Social Credit System*, "a nationwide credit reporting institution system with the coexistence of financial credit reporting agencies and social credit reporting agencies that provide diversified services shall be established", and the main responsibility of financial credit reporting agencies all over the country shall be to build up national centralized individual and enterprise credit information databases and "provide convenient, quick and highly efficient credit information services to government departments, financial regulatory departments, financial institutions, enterprises and individuals according to law". Meanwhile, "all regions and departments shall actively support the building and development of financial credit information system and make full use of its credit information resources to strengthen credit building and management".

Third, supervision should be intensified to cultivate and regulate the credit information market development. The effectiveness of legislations and rules will be compromised without an effective law enforcement mechanism. Therefore, the PBC will continue to strengthen the supervision over credit information market to protect legitimate rights and interests of market participants, regulate credit information service market, foster the compliance of credit reporting agencies and create a credit information environment for orderly competition and fair service. In addition, efforts will be made to actively expand the use of credit information products, cultivate market needs for credit information services, and establish an effective mechanism to encourage credit information product innovation and development so as to satisfy the diversified, specialized and multi-layered needs for credit information services. Under the precondition of strict supervision, improved system and safeguarding the safety of information, the credit service market will be opened in a sequenced and appropriate way, and advanced management experience and skills of foreign countries will be introduced.

Fourth, public education of credit information should be enhanced. Enterprise and individual are the main providers of credit information data, and constitute an important part of credit information system building. Strengthening the public education of credit information, enhancing the enterprises and individuals' awareness of credit information system and encouraging their active participation are indispensable for the sound and sustained development of credit information system. With the efforts made in recent years, social awareness of credit information is basically in place, and enterprises and individuals are more aware of abiding by laws, keeping promise, respecting contract and paying debt. Over the past year since the databases were launched, nearly 300 thousand people have inquired their credit reports at their own initiative. About 180 thousand enterprises who have not borrowed from the bank established their own credit files on a voluntary basis, which have enhanced their transparency and broadened their financing channels.

In the future, under the guidance of the State Council, the PBC will actively cooperate with relevant government departments and continue to create a benign external environment so as to promote the sound and sustained development of credit information industry.

### **III. The important role of credit institutions should be brought into full play in the building of a credit information system.**

Credit information system building is a system engineering involving many aspects, and credit extension institutions play a key role in building the system. At present, priorities should be placed in the following aspects.

First, great importance should be attached to the quality of data and related working mechanism should be improved as soon as possible. Relevant institutions should, according to the PBC Decree No 3 (2005), strictly follow the criteria of individual credit information database issued by the PBC and report credit information to the database in an accurate, complete and timely manner to ensure the quality of data in the database, which is key to the success of credit information system building. Enterprise and individual credit information databases serve as a platform for banking institutions to share information. As our foreign colleagues often say "Rubbish in, Rubbish out", you get what have inputted in the database. We hope that the heads of financial institutions and other credit extension institutions highly value this issue, and take concrete steps to improve the quality of data.

Second, efforts should be made to resolve disputes properly and establish a flexible and highly efficient dispute resolution mechanism. Dispute resolution is important to the building and operation of individual credit information database. On the one hand, it helps us to detect mistakes in the database and enhance the quality of the database. Moreover, whether there is an efficient dispute resolution mechanism have a direct bearing on rights protection of parties involved and the public image of the databases and banking institutions. Since the databases were put into use, they have received extensive attention and support from the general public and media, which is a good start for credit information development. However,

we should be fully aware that, without an efficient dispute resolution mechanism, public support to and recognition of the databases and banking system will be definitely weakened, resulting in unnecessary troubles.

Thirdly, credit officers should be well trained to make full use of the information provided by the enterprise and individual credit information database. First, credit officers should be trained to properly understand the information of credit report. Second, credit officers should be trained to make enquiry with the Database in line with the requirements and receive written authorization from the applicant for enquiry in case of application examination. Third, credit officers should be trained to turn down loan applications in a proper manner, to avoid misleading the public to regard the enterprise and individual credit information database as a system of black lists.

Fourthly, wider use of the enterprise and individual credit information database should be encouraged. As shown in the evolution of other countries' credit information industries, there has been an inter-action between the improvement of credit information service and that of loan management of commercial banks. On the one hand, demands of lending institutions drive the development of credit information institutions. On the other hand, new products initiated by credit information institutions help to improve risk management and credit management of lending institutions. We hope that lending institutions and credit information institutions can make concerted efforts to promote development and application of value-added credit information products, which will help to increase consumer loans, boost consumption growth, improve economic structure, and maintain sound and sustainable development of the economy.

#### **IV. Grasp the spirit of *the Property Law* and promote the development of movables-collateralized financing business.**

On March 16 of this year, the National People's Congress promulgated the Property Law. The Law expands the range of assets that can be used as collaterals, ensuring that account receivables can be used in pledge financing, which will be of great significance to ease the small- and medium- enterprises financing difficulties and boost economic growth. *The Property Law stipulates in Article 228 that , As regards the pledge of receivables, the parties concerned shall enter into a written contract, and the pledge right shall be established after the related credit rating institution has handled the registration of the pledge.* Let me take this opportunity to give you some background information.

In the financing structure of China's enterprises, banking loan is one of the main external financing channels for small- and medium-enterprises and lack of collaterals hampers the availability of loans. As estimated by a survey, non-collateralized loans account for 27 percent of loans lending to big-enterprises, compared with only 5 percent in small-enterprises' loans; while small-enterprises' loans need more collaterals support. Account receivables and inventories account for around 60 percent of overall assets of China's small- and medium-enterprises. At the moment, banks and other financial institutions have launched the account receivables financing business in terms of factoring and repro-transfer and so on. According to the statistics of International Factors Group, factoring business accounts for 2 percents of account receivables on average globally, while the percentage in China is less than 1 percent. Therefore, there is a potential and substantial market demand for the development of account receivables-pledged financing business in China. The Property Law has provided a legal basis for such business, and it is conducive to easing the financing difficulties of small- and medium-enterprises.

Account receivables, as a kind of unoccupied and invisible collateral, is prone to be re-pledged in practice, which might hurt the rights and interests of the creditor as well as other third parties. Registration can effectively announce the existence of claims and record the time of pledge, enabling third parties to know all the claims on account receivables immediately, conveniently, and accurately, which is conducive to controlling the re-pledged

risk in account receivables -pledged financing business. At the moment, the PBC is preparing to build a public announcement system for the account receivables pledge registration based on the Internet and will launch it the day when *the Property Law* takes effect on October 1, 2007. All the related institutions should grasp the spirit of movables pledge provision of the *Property Law*, conduct study and develop account receivables-pledged financing in an active manner.

The evolution of China's credit information collecting system has a long way to go. We need to rely on not only our own strength but also international exchanges and co-operation. With the support of the World Bank Group, two international seminars were jointly organized in Beijing and Shanghai in 2004, in addition to several other training and consulting programs. Here I would like to express our sincere appreciation to the World Bank and International Financial Corporation for the help during such a long time.

Finally, I wish the seminar a success and everybody a good time in Tianjin.