

ICICI BANK CUSTOMER FIRST SERIES

A consumer education initiative

Credit Bureau Series: Article 1 of 2

TIMES BUSINESS ASSOCIATE COMMUNICATION

Big Brother Is Watching!

Credit History

When Rani wanted a home loan she decided to avoid the bank where she had an overdue and unpaid credit card. But to her consternation, her loan application at another bank too was rejected.

When she contacted them they told her that her credit history was weak. How did they know about the unpaid credit card bill with another bank? Do banks share such information with each other? What else did they know? How many banks already knew about Rani's credit card default?

Who is this?

The answer to Rani's questions lie in understanding the emergence of credit information companies which are to run credit bureaus. These are repositories of information about the credit history of consumers. They are authorized by the Reserve Bank of India to collect credit information about consumers and to provide this information to their members who may be banks and other specified users. Information about a consumer is not given to other entities or individuals.

How do they know?

Credit information bureaus get the information primarily from their members. Every time a loan is disbursed or a credit card given by a member, the information is made available to a credit bureau. Similarly, information about the performance of

these loans or credit facilities is also filed with them. All information is collected and updated regularly. In fact, credit information companies such as Trans Union International and Equifax Inc. which provide this service in the US and other countries access consumer information not only from their members but also from the public domain.

How Good is Your Track Record?

When a loan or credit card application is being processed, the lending institution can check on the credit history of the applicant by seeking information from the credit bureau. The member can access information only if they have contributed to the database. The fact that Rani defaulted on the credit card rest in the bureau as a part of her repayment track record and any lending member can access this information. The credit report of a

consumer gives details of outstanding loans, overdraft usage, repayment record and trail of applications made to member institutions. The information on the repayment track record of a consumer would also be presented by the bureau as a credit score which is basically a mathematical exercise in translating the credit history to a three digit credit score (higher the number better is the credit worthiness). The lending institutions use the credit score along with the credit information report as inputs to decide on a consumer's credit worthiness. Rani's lender would have been unwilling to accept the risk that they saw in lending to her as represented by her credit score and her credit information report and hence refused the home loan.

How am I Judged?

Credit information bureaus provide

credit information reports and credit score for a customer. Once a customer has shown a track record of delinquency it reflects in the credit score as a lower score and also appears in the customer's credit information report. The score can however be improved over time. Rani cannot change her past. But she can be careful with repayment from now on, so her credit score / credit information report gets better. She can then go back for her loan over time.

How does it help the customer?

When information about a borrower is easily available, the process of evaluating a loan application becomes faster and borrowers with good credit scores can expect better borrowing terms. Lenders can use the credit score of a customer to decide the type, amount and rate at which loans can be made available. The service of a credit information company makes it possible for a good borrower to get quicker service and preferential treatment over others whose credit history is not as good.

Is Nothing Private?

What is the information that will be shared and how do credit information bureaus prevent misuse of such information? Primarily, the information that would impact the decision to give a loan will alone be collected and shared by the credit information companies. This would include details such as name, address, pan /passport number, date of birth and credit history such as loans taken, amounts overdue, suits filed, delinquency status reports and applications made by the customer. Information such as income/revenue of the individual, the value of assets and investments,



Don't sanction any loan to him. He has not paid even my laundry bill for the last 4 months!!

GET SET KNOW CONTEST

Question
Who can access data about a borrower from a credit information bureau?

Answer
A. Public Limited Companies
B. Customers
C. Members of the credit bureau

To answer, SMS DISHA A, B or C to 5050 and win a 2N 3D holiday*
Contest open for the day of publication.
* Terms and conditions apply.
Visit www.dishac.org for details and winners.

amounts deposited with the bank and value of assets mortgaged are not included in the credit report. Members who access information are also required to undertake not to share the information with third parties.

Credit information bureaus create a win-win situation for the users and the service providers. Customers like Rani get loans and services on terms that match their credit worthiness. Finance providers and other service providers get to improve the quality of their

DID YOU KNOW?

The first known credit transaction happened in Babylon 3000 years ago and lenders soon began to keep and share credit information.

FAQs

Who owns Credit Information Bureaus?

Credit information companies are usually owned by banks and financial institutions. They are regulated by the Credit Information Companies (Regulations) Act, 2005.

What is a credit information report (CIR)?

A CIR contains information about a consumer's credit history; that is, loans taken, amounts outstanding, defaults, if any and suits filed.

Can anybody access information available with a credit information company?

A credit information bureau provides information only to its members when a member needs to process an application for a loan or other credit services. Members are prohibited from using the information for any other purpose.

business and take credit decisions with adequate information about the borrower. Next week read "What is In It for me?" to know more about credit information bureaus.

Center for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at www.icicibank.com or send us an SMS to 5050. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

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