



CREDIT SCORING AND THE ROLE OF CREDIT REFERENCE BUREAUS

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WHAT IS A CREDIT REFERENCE BUREAU?

Discussion

1. What was your **first encounter** with a Credit Reference Bureau?
2. What was your **perception** of the Credit Reference Bureau?
3. When was your **last interaction** with a Credit reference Bureau?

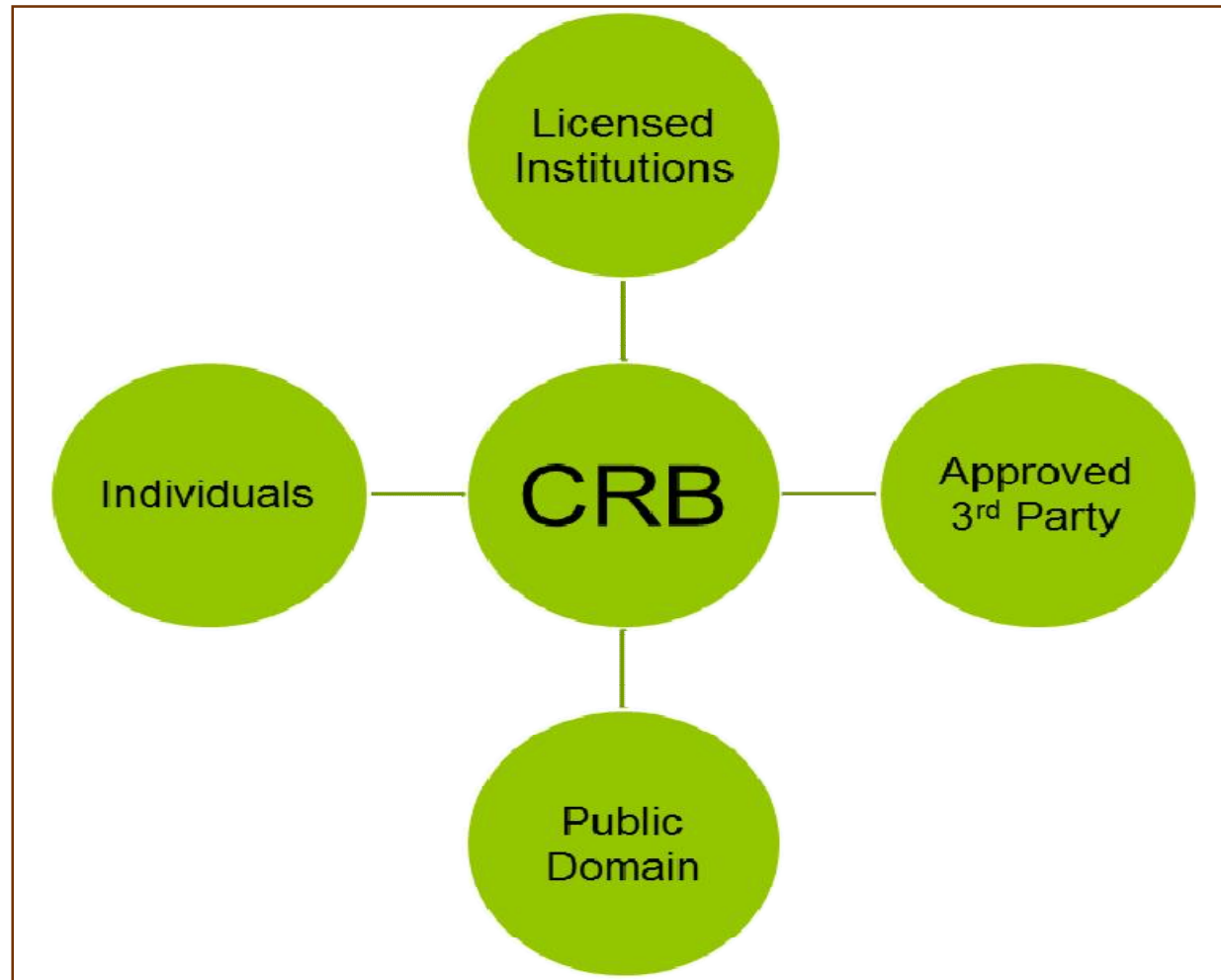
WHAT IS A CREDIT REFERENCE BUREAU?

It is an organization that **collects, processes information** about the credit history of businesses and individuals and makes it available to lending institutions.

CRB uses this information to create **credit reports and scores** to demonstrate the credit worthiness of a borrower.

Lenders check with **CRB** about the customer's credit records to **assess the creditworthiness**.

SOURCES OF DATA FOR CRBS



NATURE & TYPE OF CRB INFORMATION

Nature of CRB Information

- 1. Customer's Identity**
- 2. Customer's credit history**
- 3. Customer's employment details**

Type of CRB Information

- 1. Positive information**
- 2. Negative information**
- 3. Full file information**

INTRODUCTION OF FULL FILE INFO

- 1. Gazettement of CRB regulation 2013 in March 2014**
- 2. Banks and DTMs mandated to share both positive and negative info**
- 3. Full file information to enable rollout of credit scoring and application of risk based pricing.**
- 4. Has more benefit to the borrowers as it shows positive repayment history.**

WHY FULL FILE INFORMATION?

1. According to the World Bank survey,

68% provide Full file information

32% provide only negative

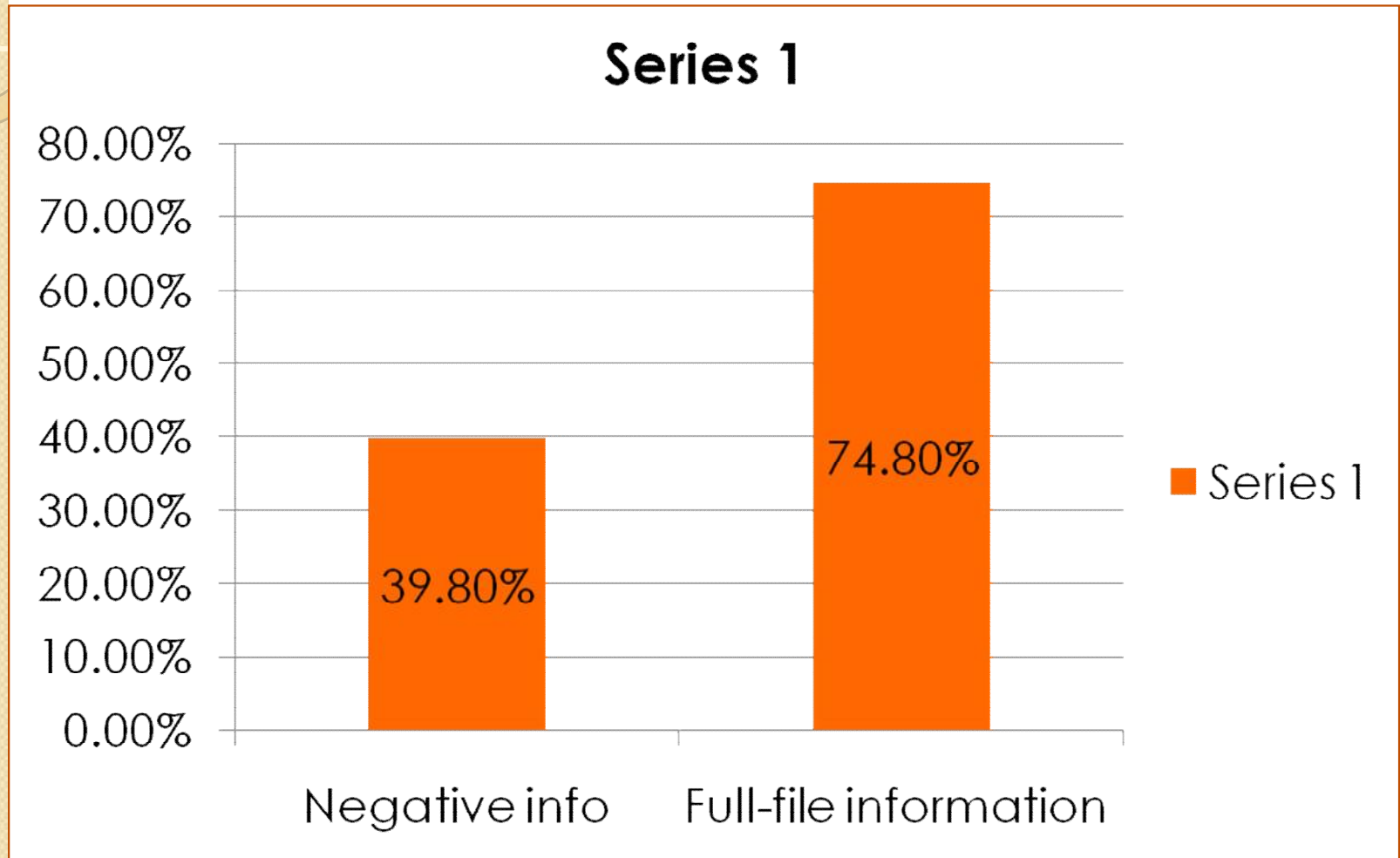
2. CRB with full file information are the **most effective**.

3. Full file info gives an **exhaustive and accurate credit score**.

IMPORTANCE OF FULL FILE INFO

Types of Information / Sources of Information	Positive & Negative info	Negative only
"Full" Information shared by banks, retailers, DFIs, Mobile operators, utility companies)	High Predictiveness (e.g. South Africa)	Lower Predictiveness (e.g. Ghana)
Fragmented (e.g. Information shared among banks only)	Lower Predictiveness (e.g. Uganda)	Lowest Predictiveness (e.g. Kenya)

IMPACT OF FULL FILE ON LOAN APPROVALS



BENEFITS OF CRBS TO CREDITORS

CRB enables creditors to:

- 1. Identify the customer (ID verification)**
- 2. Establish the present credit history of the customer (Credit Report)**
- 3. Predict the future risk of default (Credit Scoring)**
- 4. Manage and monitor the customer (Collection prioritization)**

ESTABLISH THE CREDIT HISTORY

Credit Report

What it reveals to the Creditor

- 1. If you're desperate for credit**
- 2. How much you owe and to whom**
- 3. Your repayment habits**
- 4. Where you work and your contacts**
- 5. If you run away from your debts**

LIMITATIONS OF CREDIT REPORT

- 1. Credit Report only gives you a view of the past Credit History of the customer.**
- 2. It does not provide a decision on whether to grant credit or decline.**
- 3. It does not predict the future risk of default of any customer.**

DISCUSSION

What are the risk of default of the following persons?

- 1. Politicians**
- 2. Lawyers**
- 3. Relatives**
- 4. Debt collectors /auctioneers**
- 5. Bankers**
- 6. Name others**

PREDICT THE FUTURE RISK OF DEFAULT

Using historical data from the Credit Report and statistical techniques, it is easier (using **Credit scoring**) to predict the probability of repayment.

It automates credit decisions and helps in providing consistent and objective decisions.

Credit scoring produces a “score” which ranks customers in terms of risk.

PRINCIPLES OF CREDIT SCORING

Predict
probability of
future behaviour

Evaluates past
or current
behaviour

Objective
decisions based
on statistical
data

Automated
decisions

Converts vast
amounts of data
into a simple tool

Includes
business
strategy

DATA USED IN CREDIT SCORING MODELS

- 1. Demographic information e.g. age**
- 2. Payment History**
- 3. Amount of debt owed**
- 4. Length of Credit History**
- 5. How much new debt you have**
- 6. Type of credit and debt you have**
- 7. Number of credit enquiries in your profile**

BENEFITS OF CREDIT SCORING

- 1. It improves the turnaround times**
- 2. It increases efficiency**
- 3. It ensures objectivity and consistency in decision making**
- 4. It reduces cost of credit appraisal**
- 5. It helps in risk pricing of credit facilities**
- 6. It captures the strategy of the company**

APPLICATION OF CREDIT SCORING

Industries where Credit Scoring is used:

1. Financial (banking)
2. Retail (furniture and clothing)
3. Petroleum (fuel cards)
4. Telecommunication (Post paid services)
5. Property management (Rental)
6. Saccos and hire purchase

AREAS WHERE CREDIT SCORING IS USED

- 1. Customer prospecting /marketing**
- 2. Loan pricing /risk based pricing**
- 3.Account management and loan servicing**
- 4. Collection prioritization**
- 5. Fraud detection**

OUTPUT OF CREDIT SCORING

Band	Min score	Max score	Description
AA	718	999	Low Risk
BB	704	717	Low Risk
CC	681	703	Low-Medium Risk
DD	665	680	Low-Medium Risk
EE	646	664	Medium Risk
FF	635	645	Medium Risk
GG	606	634	Medium-High Risk
HH	583	605	Medium-High Risk
II	509	582	High Risk
JJ	I	508	High Risk

WHAT IS YOUR CREDIT SCORE?

1. Send your Name to 21272

2. Request for your credit report

3. Check your credit score from your credit report

4. Work on how to improve or build your Credit score

CONCLUSION

Did you know

- 1. The statutory deletion of adverse credit information started in 2015?**
- 2. Collapse of your lender does not absolve you from your debt obligation?**
- 3. A write off does not mean that the debt is off your shoulder?**
- 4. Not adjusting your loan repayment amount can lead to adverse listing in CRB?**

THANK YOU



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