

Regulatory Approaches to Credit Reporting Systems: The Chilean Case

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Agenda

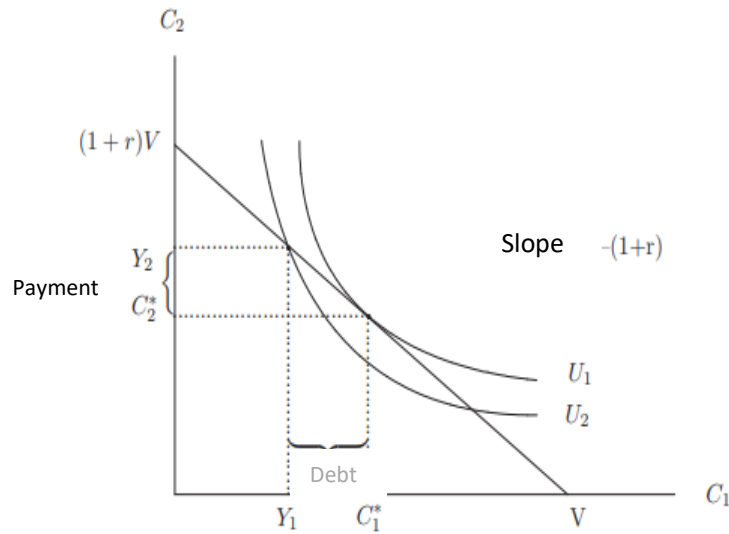
- Objectives of the Credit Report Systems
- Chilean Experience
- Final Remarks

Objectives of the Credit Report Systems

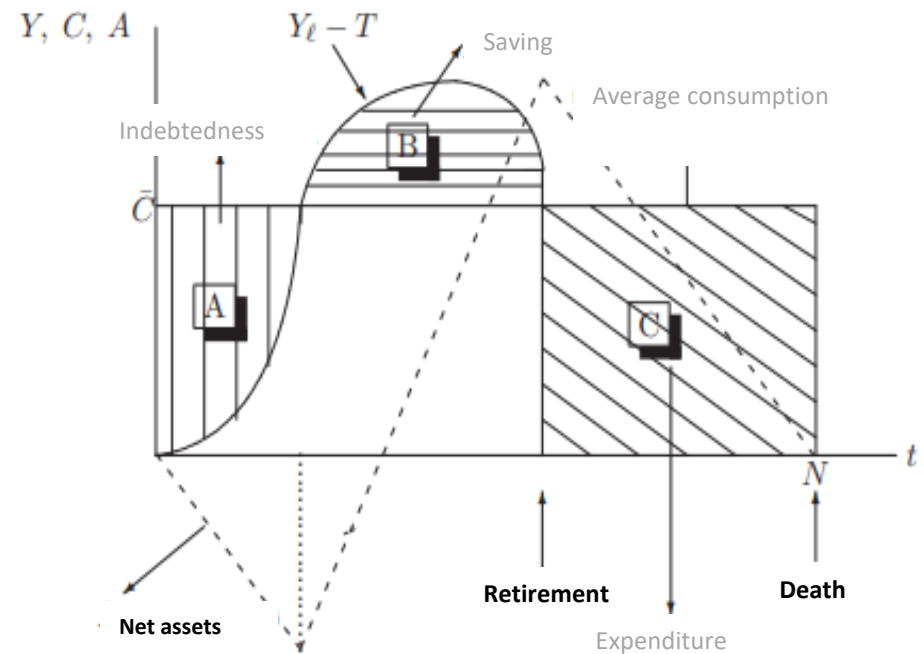
Benefit of Debt

Credit can increase the welfare of economic agents by facilitating the **intertemporal allocation of resources**. The stabilization of consumption throughout the **life cycle** and the acquisition of durable consumer goods are some of the most intuitive benefits.

Intertemporal Consumption



Life Cycle



Cost of Debt

Credit may become a problem at micro and macro level, when debt goes beyond a sustainable threshold (**over-indebtedness**).



Role of CIS

Commercial Information Systems (CIS) are fundamental pieces of a economy's financial infrastructure that help mitigate market failures caused by lack of information (adverse selection problem, moral hazard and negative external effects).

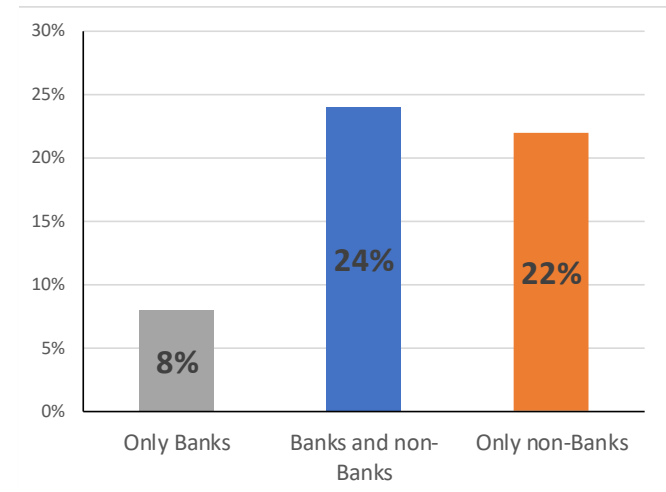
Main functions of CIS

- Generate incentives for the payment of obligations
- Contribute to avoid over-indebtedness
- Generate inputs for credit management
- Generate inputs for regulation and supervision
- Contribute to financial inclusion

Source: CMF.

NPL by Type of Debt

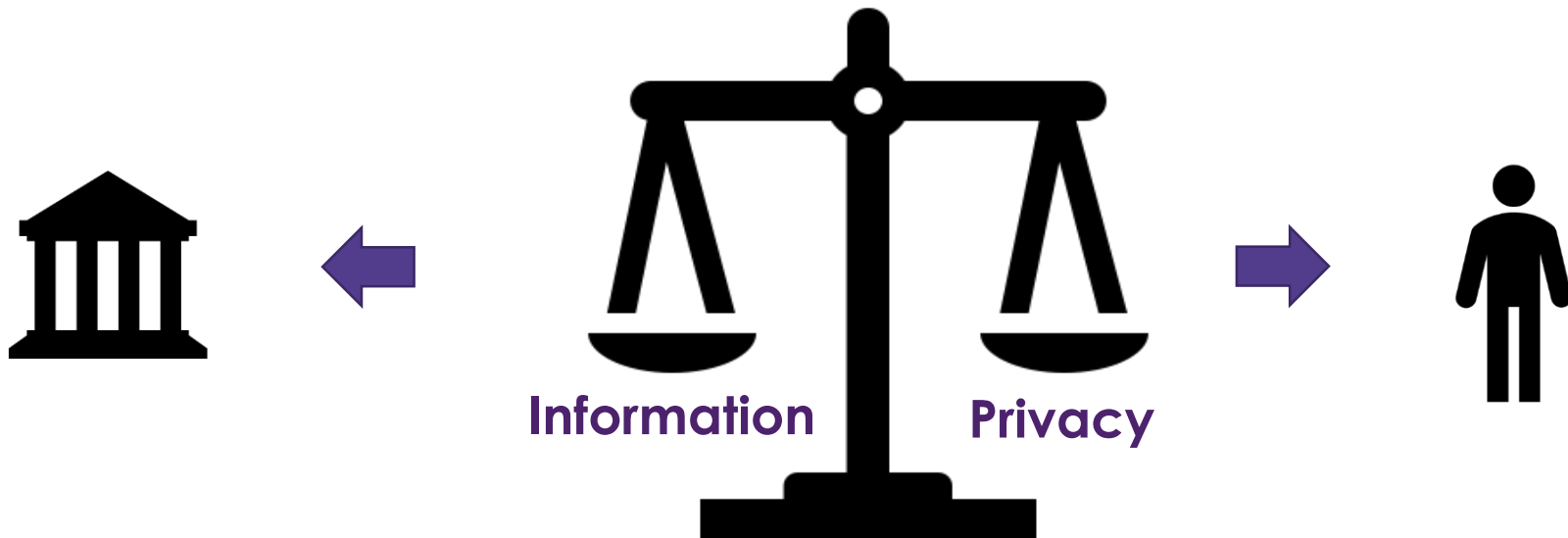
(% of households of each type of debt)



Source: Financial Household Survey 2017.

Challenge:

Balance between information for better risk management and privacy at a prudential / legal level.



What is the optimal detailed level of debt?
What is the potential use of that information?

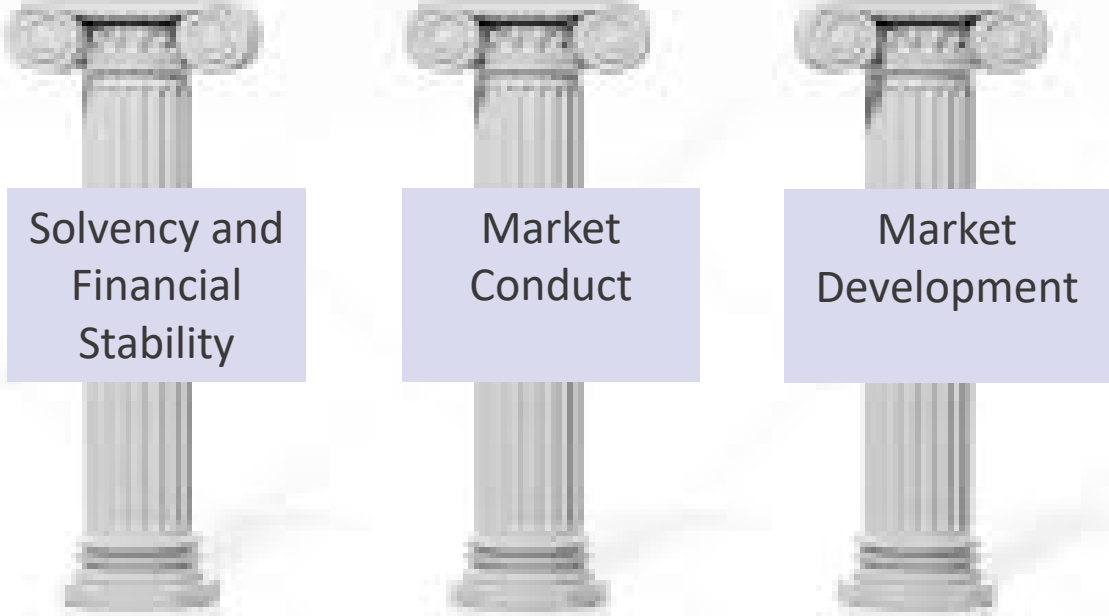
Chilean Experience

Financial Market Commission

Mandate

The CMF has as its main objectives to safeguard the proper functioning, development and stability of the financial market, facilitating the participation of market agents and promoting the care of public faith.

In general terms the oversight perimeter comprises banks, securities and insurance



Solvency and
Financial
Stability

Market
Conduct

Market
Development

In this context is important to reduce information asymmetry for decision-making

CMF Debt Report

The CMF has two outputs, one for financial institutions and the other for individuals

Element	Consolidated Debt File	Debt Report
RECIPIENTS OF INFORMATION	Financial institutions	Debtors
GENERAL SCOPE	Database with information of each debtor of the system	Report with information of the requesting debtor
CREDITORS OF INFORMED OBLIGATIONS	Banks, cooperatives and y banking activities support companies	Banks, cooperatives and y banking activities support companies
CREDITORS INDIVIDUALIZATION	Only for delinquent credits	Yes
TYPE OF DEBT	Effective credits, contingent credits, and leasing	Effective credits, contingent credits, and leasing
TEMPORARY OFFSET OF INFORMATION	Two months	Two months
TYPES OF DEBTORS	Direct and indirect	Direct and indirect
STATUS OF THE OBLIGATION (current and delinquent)	Yes (greater breakdown in reported tranches of default)	Yes
DISAGGREGATION BY TYPE OF PORTFOLIO (consumption, commercial and housing)	Yes	Non

Debt Report CMF

The private credit bureau (Chamber of Commerce) has a lower coverage than the one exhibited by the OECD economies and has significant scope limitations associated with the history and lack of positive information of the debtors.

Scope of credit information in Chile (private and public)

	Credit Bureau (Commercial Bulletin)	Credit Record (GBA)
1) Information of people and companies	Yes	Yes
2) Positive and negative information	No	Yes
3) Obligations in services companies and financial institutions	Yes	No
4) Historical information (at least two years)	No	No
5) Obligations of less than 1% of per capita income	Yes	Yes
6) Right to inspect data (borrowers)	Yes	Yes
7) Online information for financial institutions	Yes	Yes
8) Value-added services (scoring)	Yes	No

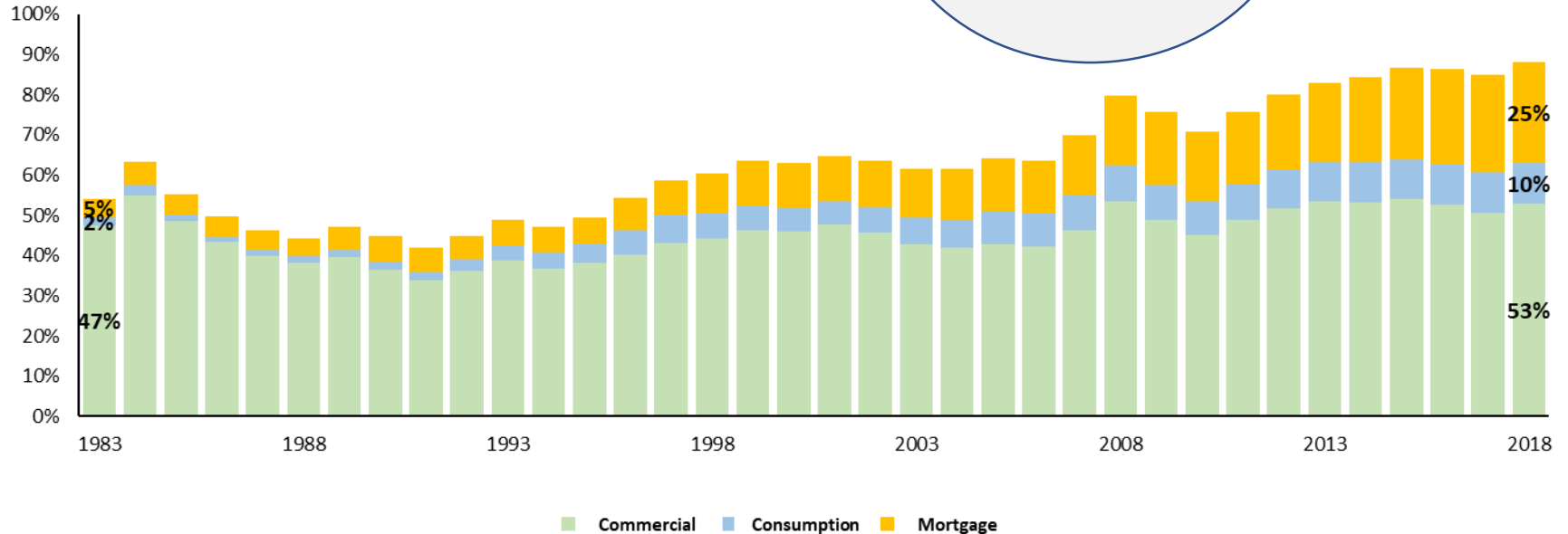
Evolution of Debt

A greater depth of the financial system generates inclusion spaces for new segments of the population.

Evolution of bank loans' stock in Chile
(% of GDP)

1983-2018
Market Depth
54% of GDP → 88% of GDP

Household financing
7% of GDP → 35% of GDP



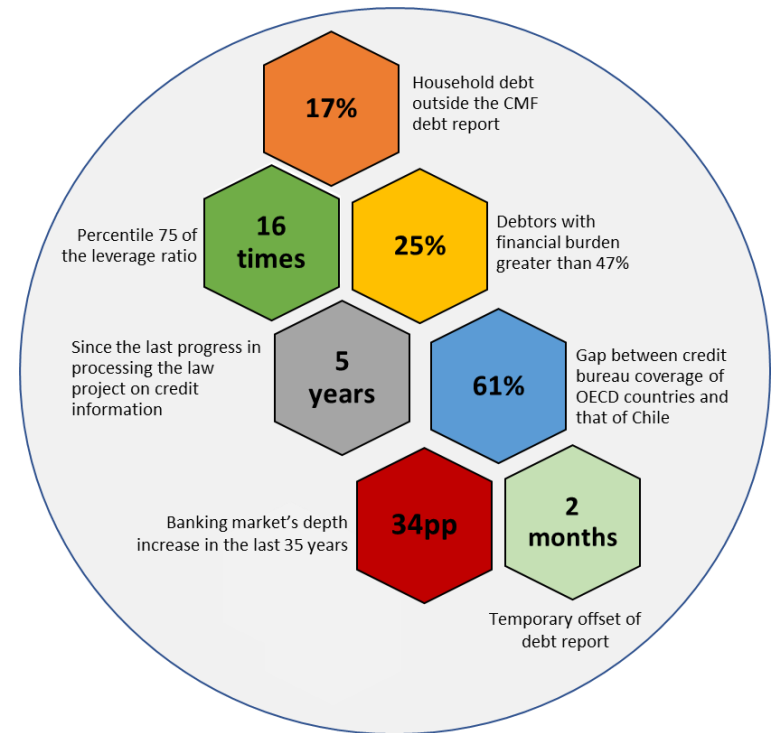
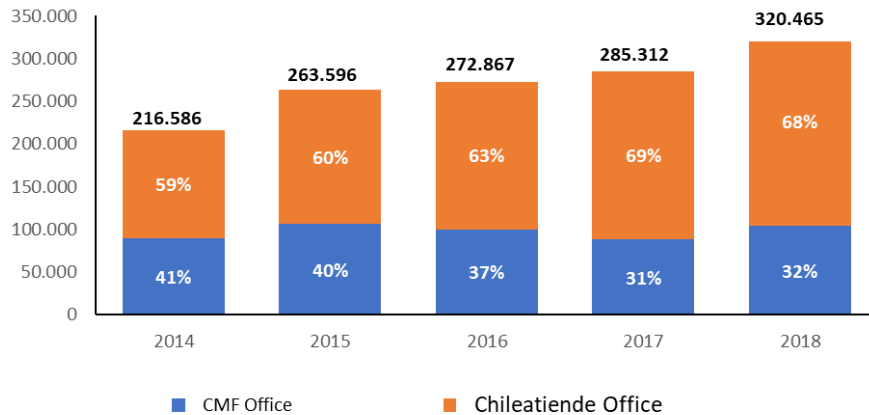
Individual balance sheets.

Source: CMF based on data from the IMF and the Central Bank of Chile.

Debt Report CMF

The compiled information fulfills relevant functions for households, financial institutions and the financial supervisor

Issuance of Debt Reports (number of reports per year)

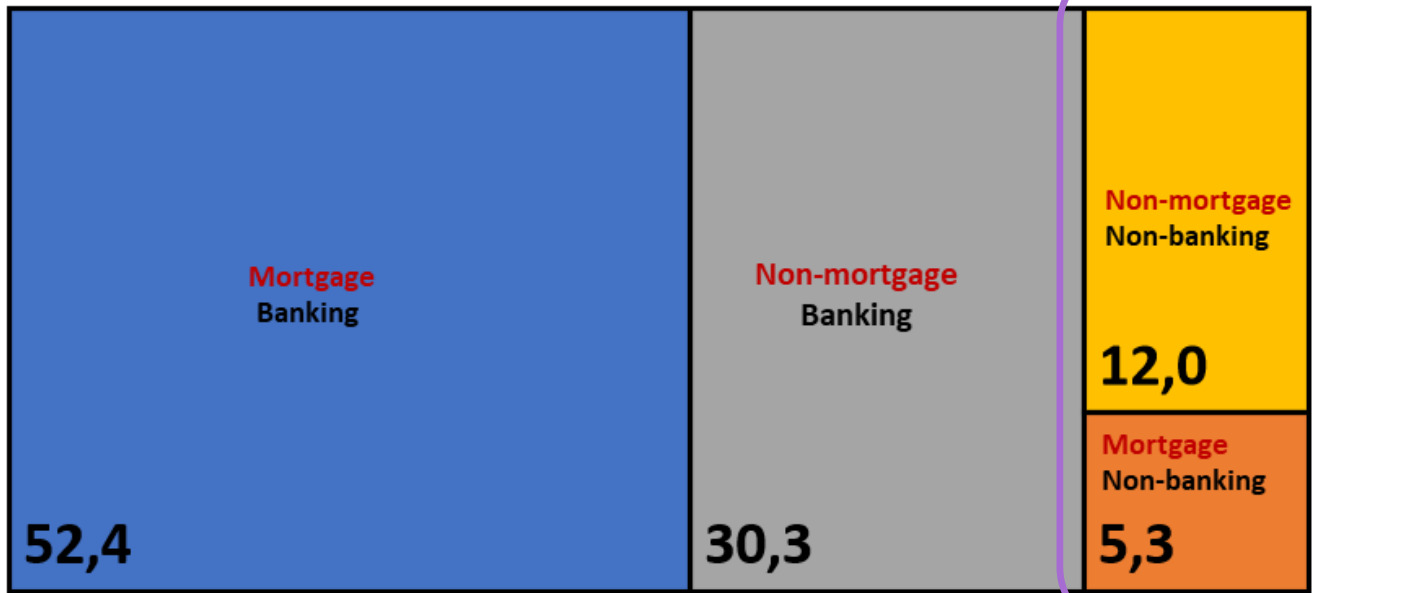


Source: CMF.

Coverage of CMF's Debt Report

A relevant proportion of household debt is outside the debtor registry.

Household debt: participation by type of debt (% of total)



Transparency
Gap

Notes: Mortgage debt includes home mortgage loans provided by banks, insurance companies, mutual companies, credit unions, and securitized mortgage debt; non-mortgage debt includes consumer loans provided by banks, credit card issuers, insurance companies, clearinghouses and automotive financing entities. Also included are university credits (banks, Corfo and Fisco) and other people's obligations (central government, and Fonasa, among others); the data refers to 2018:IV.

Final Remarks

Final Remarks

- Industry and supervisors must have more and better information mainly for efficiency and **financial stability**..
- An information system with **broader coverage**, scope and opportunity is required.
- It is required to **include positive information**; this constitutes a reputational asset that can favor debtors with good behavior.
- It is necessary to protect **the rights of the holders of the information**: purpose, control mechanisms and assistance.
- Chile needs to advance in SOE (credit bureau), the legal initiative that seeks to improve the CRS.

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