Panel 7: Improving the Availability of Credit Information in the Pacific

Session Synopsis
Credit bureaus are a recent introduction to financial markets in several Pacific Island countries. These institutions can play an important role in the provision of credit, responsible lending and banking supervision. With an increase in the availability of credit information in the Pacific, attention is turning to the opportunity of introducing credit bureaus to other Pacific Island countries and how credit bureaus can engage effectively with financial services and other credit providers.

**Overview of Credit Bureaus in the Pacific**

Credit bureaus are a relatively recent addition in the Pacific, having been established in Tonga, Papua New Guinea, Fiji, Vanuatu, Solomon Islands in the last few years with a sixth planned for Samoa. Fiji’s credit bureau began operating in 2001 with shareholders comprising several financial institutions and a New Zealand based partner. The bureau had a slow start, a key challenge being attracting members. However, developments in technology, the internet and partnerships with other bureaus enabled it to become a viable operation. Today it comprises 200 members, most of whom are financial and related institutions.

In the case of Tonga, until a few years ago, the banks used a credit check system developed amongst themselves. More recently, legal reforms such as the personal property security registry, and facility to allow new companies and businesses to register online, have made it easier for companies to launch and do business in the country. This coincides with an increase in the number of commercial banks. As a consequence of this heightened activity, credit checks became more complicated and took more time to turn around. In 2011, Tonga established their own credit bureau to streamline the process, but to date uptake by the banks has been slow.

The recent introduction of a credit bureau in the Solomon Islands has been a catalyst for the banks to update their credit check procedures, and has led to more discipline in how records of both borrowers and lenders are updated.

Credit bureaus do not provide members with a statement about whether or not a person or entity is credit worthy. Rather, the purpose of a bureau is to raise flags, provide a central source of information to facilitate a credit decision, or prompt the credit provider to make further enquiries or conduct more detailed discussions with the prospective borrower.
The focus of bureaus in the Pacific at the moment is on ‘thin file’ or negative reporting, but as credit systems gain acceptance and bureau capacity builds, positive or full file reporting will be introduced.

A key challenge is identification of the borrower. In many instances in the Pacific clients have no credit history or other identification, making it difficult for lenders to know they’re dealing with the right person. A common identifier is used in some countries - the National Provident Fund number in Solomon Islands, or National Identity Card in Tonga. Where there is no common identifier, lenders are encouraged to obtain as much basic information as possible, such as date of birth, address, phone number. Another challenge in finding a common identifier is that some people have and use different names. In Fiji the bureau is working with water and electricity companies to trigger a search of the bureau’s database with each new account application.

**Future Directions**

It is early days for credit bureaus in the Pacific with participation by more financial institutions and other credit providers expected to increase.

The next phase for existing bureaus in the Pacific is to work with telecommunications and utility companies to collect information to further validate identity, as the more information the system contains, the more effective it becomes. Legislation mandating use of bureaus is also likely, but will take time so as to ensure proper provisions are made around disclosure of data by both financial institutions providing information and the bureau. Regulators are likely to encourage greater use of credit bureaus as an effective means of minimizing indebtedness.

Bureaus also have plans to raise awareness of the role of bureaus with customers, such as what it means to have an adverse report and what clients can do about it. Programs will be prepared in local languages in rural communities where English is not well understood. In Tonga terms and conditions are provided in Tongan and also explained verbally to ensure customers understand the benefits and obligations when they apply for credit. While credit bureaus are developing and delivering programs to support consumer awareness, other stakeholders from both the private sector and government need to contribute for these programs to be effective.

The reality is that credit bureaus are a recent addition to the financial system in the Pacific. Further, bureaus are relatively new to banks and other credit providers, the market in each country is relatively small, and credit and credit history are new cultural phenomena and require patient consumer education. It will take time for bureaus to build up capability, membership and their databases, and build awareness and trust with borrowers, but ultimately bureaus will benefit both lenders and borrowers.
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