



Credit registry: RBI Act May Need Tweak

Recently, the Reserve Bank of India (RBI) deputy governor Viral Acharya stated that there is a need to enact a new law to bring the public credit registry (PCR), that is being currently set up, under the purview of the RBI.

What is the Public Credit Registry?

- A public credit registry refers to an extensive database of credit information of borrowers that is accessible to all lending and credit decision-making institutions.
- Typically, the registry is managed by a public authority like the central bank of the country, and reporting of loan details to the registry by lenders and/or borrowers is mandated by the law.
- In 2017, a high-level task force was set up under the chairmanship of Y.M. Deosthalee, which recommended the setting up of PCR by RBI in a phased and modular manner.

Present Scenario on Storage of Credit Data

- Currently, India has multiple entities storing credit data, such as four private Credit Information Companies that include: TransUnion CIBIL; Equifax; Experian and CRIF High Mark.
- Entities within the RBI include Central Repository of Information on Large Credits and the Basic Statistical Return-1 that record loans larger than five crore rupees, and credit across various sectors.
- Information Utilities which store financial credit data to help establish defaults by borrowers.

Challenges with Current Scenario

- Data stored is incomprehensive, and fragmented across different entities, for example, data on borrowings from banks, inter-corporate and overseas borrowings, are not available in a single repository
- Reliance on self-disclosure by the borrower
- Time lags and discrepancies between multiple data sources
- Increased reporting burden on credit institutions from having to report to multiple entities.
- The information asymmetry and fragmented nature of credit reporting lead to the following inefficiencies in the credit market:
 - Since lending institutions do not have complete credit information on all borrowers, all borrowers pay similar interests irrespective of their risk or credit ratings
 - Lenders may pick up clients who have a history of delinquency that is unknown to all lenders and thereby face greater overall credit risk
 - It prevents credit supply to some subsections of the market, for example, small and medium industries are perceived as risky by default, and often denied timely credit due to lack of adequate credit history.

Benefits of a Public Credit Registry

- A credit repository will help banks distinguish between a bad and a good borrower and accordingly offer attractive interest rates to good borrowers and higher interest rates to bad borrowers.

- Its main benefit would be to provide lenders with a 360-degree view of the borrower's outstanding credits and past performance.
- It would allow better screening at the time of providing credit and superior monitoring during the life of the borrowing.
- The public credit repository will address information asymmetry, improve access to credit and strengthen the credit culture among consumers.
- It can also go a long way toward addressing the bad loans problem facing the banking system, as corporate borrowers will be unable to borrow from multiple banks without disclosing their existing debt.
- Setting up the public credit registry will help improve India's rankings in the World Bank's ease of doing business index.

What are the challenges it faces?

- There are several legal challenges around setting up a PCR, which would require the amendment of a slew of legislation.
- While the PCR is initially being set up within the existing RBI infrastructure, the fact is that the RBI as a statutory corporation can only engage in those activities that are permitted by the RBI Act, or other relevant legislation.
- Since no financing activity is contemplated for the proposed PCR, it might be difficult to label PCR as a 'financial institution'. This takes it out of the purview of the Reserve Bank of India Act, 1934.
- Also, PCR being a "consent-based architecture" will require consent from different sources for sharing information. This will entail amending legislations separately, allowing an exemption to sharing of information.

Way Forward

- The Reserve Bank of India Act, 1934, can be suitably amended conferring the Reserve Bank powers to conduct the business of PCR.
- Also, the idea of PCR is to collect information, including credit information, from regulated entities. This is an important aspect of the RBI's regulatory and supervisory functions and hence such an activity could be done by setting up a subsidiary or a department.
- The PCR can also be linked with other databases so that it reduces information asymmetry, allowing better decision-making by banks and other financial institutions. Corporate Identification Number and GSTN could also be integrated with PCR to aggregate data about borrowers from multiple sources.

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