



A STUDY ON CREDIT INFORMATION BUREAU (INDIA) LIMITED (CIBIL)

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ABSTRACT

Today bank Loan plays a very crucial role in fulfilling our cherished needs without the worry of financial shortage. Since bank loans are based on reciprocal relationship between lender and the borrower, banks will consider the creditworthiness of the borrower by gathering a Credit Information Report (CIR) of the borrower from Credit Information Bureau (India) Limited which is popularly known as CIBIL. CIBIL is India's first Credit Information Company (CIC) founded in August 2000. CIBIL collects and maintains records of an individual's payments pertaining to loans and credit cards. These records are submitted to CIBIL by member banks and credit institutions, on a monthly basis. This information is then used to create Credit Information Reports (CIR) and credit scores which are provided to credit institutions in order to help evaluate and approve loan applications. This paper is an attempt to analyze the structure and functioning of CIBIL.

KEY WORDS: CIBIL, CIBIL Transunion credit score, Credit Information Report (CIR), Company Credit Report (CCR)

INTRODUCTION

Banking is reputed as a profession of Trust and Confidence. In fact the term 'credit' denotes 'confidence'. Since bank loans are based on reciprocal relationship between lender and the borrower, banks will consider the creditworthiness of the borrower by gathering a Credit Information Report (CIR) of the borrower from Credit Information Bureau (India) Limited which is popularly known as CIBIL. CIBIL is India's first credit information company. It creates immense value for financial institutions by providing objective data and tools to help them manage risk, and devise appropriate lending strategies thus reducing cost and maximizing portfolio profitability. CIBIL benefits both credit grantors and consumers by collecting, analyzing, and delivering information on credit histories of millions of borrowers. It provides its members with

information on both consumer and commercial borrowers, thus enabling them make sound credit decisions across both individuals and businesses. It also provides services and education to consumers to help them better manage their finances. This paper is an attempt to analyze the structure and functioning of CIBIL.

OBJECTIVES OF THE STUDY

1. To examine the relationship between CIBIL score and loan sanctioning of banks.
2. To find out the factors that affect CIBIL credit score and to identify the tips to improve the credit score.

SCOPE AND METHODOLOGY

The study mainly depends upon the secondary data. RBI reports, CIBIL reports, and the website of CIBIL

contribute the major source of the study. Besides these various books, news papers and related websites have been used for the study. Suitable tools like percentages, tables, and figures are also used in this study for the analysis.

CREDIT INFORMATION COMPANIES IN INDIA

Setting up of credit bureaus in Asia really took off only after the Asian crisis of 1997. Even in India there was need for putting in place an institutional mechanism for collecting and furnishing, on request, information on both the existing and prospective borrowers of banks and other institutions. This would go a long way in arresting the growth of non-performing advances of banks and financial institutions. Therefore, a "Working Group to explore the possibilities of setting up a Credit Information Bureau in India" (Chairman: N.H. Siddiqui) was set up in 1999. The Group reaffirmed the urgent need for establishment of a credit bureau in India in its report of November 1999. Accordingly, Credit Information Bureau (India) Ltd. (CIBIL) was incorporated in August 2000. CIBIL launched its credit bureau operations in April 2004 and its commercial bureau operations in May 2006.

The Working Group had also felt that a master legislation should be enacted for facilitating collection and sharing of information by the proposed Bureau. This would take care of the need for making amendments to various banking legislations, the provisions of which prohibited disclosure of information. Accordingly, the Credit Information Companies (Regulation) Act (CICRA) was enacted in the year 2005 with a view to regulate Credit Information Companies and to facilitate efficient distribution of credit. The Rules and Regulations for the implementation of the CICRA were notified on December 14, 2006. Subsequent to the enactment of CICRA 2005, the following three credit information companies (CICs) were given in-principle Certificates of Registration in April 2009 to commence the business of credit information.

- a. Equifax Credit Information Services Pvt. Ltd.
- b. Experian Credit Information Company of India Pvt. Ltd.
- c. High Mark Credit Information Services Pvt. Ltd.

CREDIT INFORMATION BUREAU (INDIA) LTD. (CIBIL)

CIBIL is the highest agency in India providing credit reports and ratings to individuals and businesses. It is the only one of about 1000 companies in the world with an ISO 27001 rating, which is the highest security standard in the world. CIBIL, India's largest credit information bureau, maintains two divisions: Consumer Bureau and Commercial Bureau. The Consumer Bureau

was launched in 2004 with 4 million records, and now maintains more than 460 million records. The Commercial Bureau was launched in 2006 with 0.7 million records, and now maintains more than 22 million records. CIBIL counts TransUnion International and Dun and Bradstreet as its technical partners, both of which are leading global credit agencies.

Credit institutions check an applicant's CIBIL report and CIBIL-TransUnion Score before making lending decisions. Today, banks and credit institutions can lend to consumers confidently based on the information received from CIBIL on the consumer's past credit behavior as well as anticipate likelihood of default based on the CIBIL-TransUnion Score. CIBIL has also benefitted the consumers by helping make access to credit opportunities faster and easier while driving credit penetration.

Shareholding pattern:-

When originally established in year 2001, its share holding was among -

1. SBI-40%
2. HDFC- 40%
3. Dun&Bradstreet-10%
4. Trans Union-10%

The share holding pattern has now been diversified to include the following entities representing varied categories of credit grantors. They are:

1. Trans Union International Inc- 66.1%
2. Bank of Baroda- 5%
3. Union Bank of India- 5%
4. Indian Overseas Bank- 5%
5. Adithya Birla Trustee Company Pvt Ltd- 4%
6. India Alternative Private Equity Fund- 2.9%
7. ICICI Bank-6%
8. Bank of India- 5%
9. India Infoline Finance Ltd-1%

Importance of CIBIL reports:-

A CIBIL report is a highly valued credit report that helps banks and financial institutions analyse a person's credit worthiness based on his/her repayment discipline and borrowing history. Major importance of CIBIL reports are:

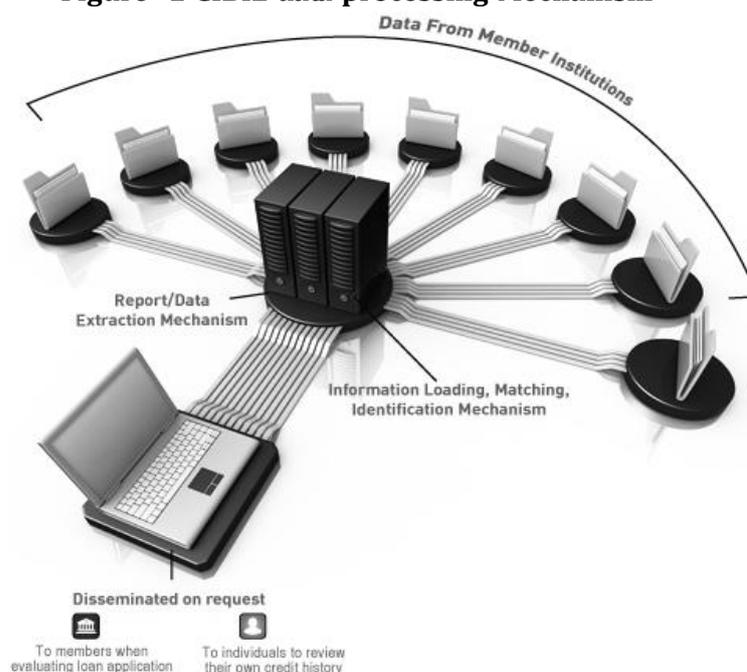
- ☆ A unified report with all your previous and current credit history.
- ☆ CIBIL reports form the basis of releasing loans to a borrower.
- ☆ Helps in staying clear of debt traps.
- ☆ An exhaustive report to help you nurture better financial discipline.
- ☆ Better score on the credit report provides leverage when negotiating interest rates.

Database for CIBIL Information:-

Informational details are submitted to CIBIL by member banks and credit institutions, on a monthly basis. It takes generally 45-60 days from the month-end to update the record in CIBIL's database. All commercial banks, Regional Rural Banks, Local Area Banks and financial institutions, including HFCs and SFCs, Cooperative banks and Non-Banking Finance Companies with an asset base of Rs. 100 crore and above may be

compulsorily required to become member of CIBIL. Others with assets below Rs.100crore may be encouraged to become member of CIBIL. The information collected then processed to create Credit Information Reports (CIR) and credit scores which are provided to credit institutions in order to evaluate and approve loan applications. The following figure shows the data processing mechanism of CIBIL.

Figure- 1 CIBIL data processing Mechanism



Credit institutions check an applicant's CIBIL report and CIBIL-TransUnion Score before making lending decisions. Today, banks and credit institutions can lend to consumers confidently based on the information received from CIBIL on the consumer's past credit behavior as well as anticipate likelihood of default based on the CIBIL-TransUnion Score. CIBIL has also benefitted the consumers by helping make access to credit opportunities faster and easier while driving credit penetration. CIBIL Report and CIBIL TransUnion Score not only determine whether or not a person qualify for a loan, but it may also have an impact on the terms and conditions on which he can avail the loan. The higher the credit score, the better the chances of availing the loan faster and on favorable terms.

CIBIL Report or Credit Information Report (CIR):-

CIBIL report is a highly valued credit report that helps banks and financial institutions analyse a person's credit worthiness based on his/her repayment discipline and borrowing history. Following are the types of credit report of CIBIL

1. Credit Information Report (CIR) – This report is available **for individuals** and contains all their credit history, and a statistically derived figure called **credit score**.

2. Company Credit Report (CCR) -A CCR is a report outlining a **company's credit history**, consolidated from the data forwarded by various banks and financial institutions in India.

Sectional division of Credit Information Report (CIR):-

CIBIL credit information report (CIR) is divided in to six sections;

- 1. CIBIL TransUnion Score-** CIBIL TransUnion Score is a three digit number assigned by the credit bureau based upon the details found in the accounts and enquiry sections of credit information report. The score can range from 300 to 900 in India and Banks in India tend to target customers with a score of 750 or above.

2. **Personal information-** This section includes the borrower’s personal details like name, Date of Birth, sex, proof of identification etc.
3. **Contact information-** It includes the addresses, phone numbers, email id etc.of the borrower
4. **Employment information-** includes occupation and income details
5. **Account information-** include the details of loans and credit cards (recent 36 months report).
6. **Enquiry information-** provides you the details regarding the enquiry made by the lender for your credit application.

sanctioned or not. Against each account, the credit report shows borrower’s payment track record, sanctioned amount, current outstanding balance, date of opening of account, last payment and track record of any delays in paying installments.

CIBIL Transunion Score, on the other hand is a three digit number assigned by the credit bureau based upon all the above information. A credit score is a statistical figure ranging from 300 to 900. It is derived through advanced statistical analysis of a credit report. The score can range from 300 to 900 in India and better the past repayment record, higher the score. More recent credit activity tends to have a higher weightage than that in the past.

A CIBIL Report is an important document. It is referred by financial institutions and recruiters’ to judge how good or bad the person has been in creating a discipline with his credits. Based on it the bank will decide the eligibility to avail loan A highly poor CIBIL Trans union score can become the reason for loan application rejection or the borrower might have to pay a higher interest rates. The following table shows the meaning of CIBIL Trans Union score range.

Difference between CIBIL reports and CIBIL scores:-

CIBIL report is a complete record of all loans and credit cards availed by a person in the past compiled by one of the credit bureaus such as CIBIL, Experian, Equifax or Highmark. The credit report also contains personal information and a record of all loans and creditcards applied irrespective of whether those were

Table -1 Meaning of CIBIL Trans Union Score Range

Range of score	Meaning of score
750 - 900	Excellent score, easy to get credit at low rate of interest
700-750	Fairly good score, likely to get loans at competitive interest rates
550-700	Lower score, lenders may avoid sanctioning you loans except with significant credit check
300-550	Poor score, Extremely difficult to obtain loans from organized lenders

Source: compiled from the Reports of Banks

Calculation of CIBIL Trans union Score:-

CIBIL TransUnion Score is calculated based on the information in the “Accounts” and “Enquiry” section of the CIBIL Report. The score is calculated based on the following factors:

- ☐ Credit Utilization: How much credit is the consumer using?

- ☐ Defaulting/Delinquency: How many accounts are past due and by how many days?
- ☐ Trade Attributes: How old are this consumer’s lines of credit? What type of credit does he have? Does the consumer have a good mix or balance of credit or is it all credit cards

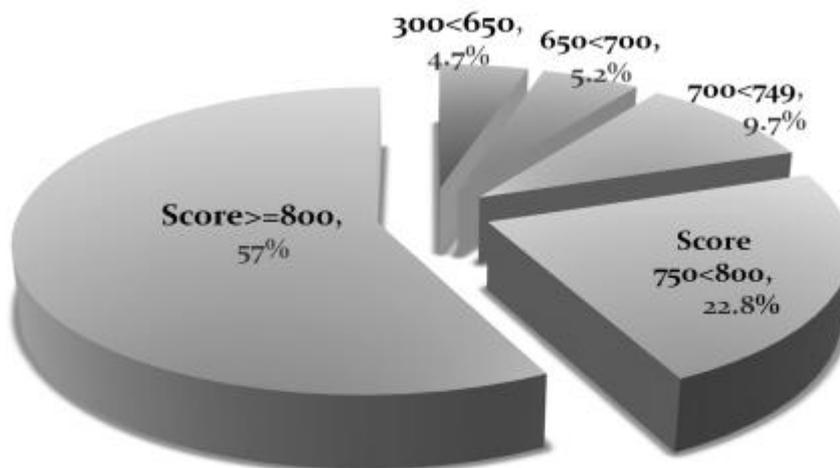


Figure -2 Break up of the various factors that impact the CIBIL Transunion Score



- Past Performance:** Individuals past performance on their debt obligations is the most important criterion and contributes approximately 30 per cent weightage to the score.
 - Credit Type & Duration:** Type of loan availed whether secured or unsecured loan, and the duration of credit history established contributes an additional 25 per cent to the score.
 - Credit Exposure:** The total amount of credit exposure contributes another 25 per cent.
 - Other factors:** Other factors such as credit utilization, recent credit behavior contribute the remaining 20 % to the score.
- The following figure -3 shows the present status of CIBIL Score. From the Figure, it is seen that nearly 79.8% of the customers who check their CIBIL Credit Score come under the Score 750 and above

Figure- 3 Status of CIBIL Tran Union score as on 18/01/2015



Factors that negatively affect CIBIL score:-

- ✘ Late payment of Loans or default in the recent past(Recent 3 years)
- ✘ Utilizing full credit limit of credit cards each month
- ✘ Mix of credit with high percentage of unsecured loans
- ✘ Too much enquiries within a short span of time
- ✘ Short duration of credit history or no credit history
- ✘ settlement of previous loans at concessional rate and run away behaviour
- ✘ Being a guarantor without thought.

Factors that do not impact CIBIL score:-

There are a lot of myths regarding the some factors which do not affect CIBIL Trans Union Score but misinterpreted as CIBIL impact factors. They are;

- Income - Your income has nothing to do with your credit score

2. Age - Whether you are young, old or middle age it hardly matters for your credit score
3. Too Many Credit Cards - What matters to CIBIL is how you use them. Owning too many cards is not negative but utilization of credit limits for so many may be looked suspiciously.
4. Checking Your Report- Many have a myth that checking your credit scores yourself brings the score down. You can check it as number of times you want as it is not a factor for consideration.
5. Name in CIBIL - It's also a myth that name in CIBIL means you are defaulter. CIBIL maintains credit record whether good or bad of all individuals and does not have any categorization of defaulters.
6. working Organization
7. Saving and investment

Methods to improve CIBIL credit score:-

By maintaining a good credit history, one can improve his credit score. In order to improve the credit score, the following points need to be maintained:

- ⇒ Make sure you pay all your debts on time. Late payments are frowned upon by banks.
- ⇒ Try to maintain a healthy combination of credit which includes a healthy mix of secured and unsecured loans.
- ⇒ Opt for new credit in moderation and cautiously.
- ⇒ Monitor your single and joint accounts regularly to ensure no payment is missed by either you or your partner.
- ⇒ Review your credit history from time to time which you can do by purchasing your credit information reports from time to time and rectify errors or issues.
- ⇒ Avoid credit hungry behaviour and applying too much loans in short period of time
- ⇒ Avoid the habit of providing guarantee to less creditworthy persons.
- ⇒ Manage your credit cards well. Use only 30-40% of available credit limit.
- ⇒ Pay your dues in full and never opt for settlement
- ⇒ Whenever you close credit cards then take a NOC from credit card provider.

FINDINGS OF THE STUDY

1. CIBIL report is an important document in judging the credit worthiness of a person and the banks and Financial Institutions make the loan sanctioning decision on the basis of CIBIL report.

2. According to a CIBIL record, 79% of loans approved are of customers with a credit score of 750 or above.
3. Credit demand has witnessed a significant growth during the past five years. CIBIL record also shows that, a growth of 25% in credit demand over the previous financial year was registered in 2014-15.
4. Home loans as well as credit card accounts have witnessed a positive trend in the recent past.
5. According to the CIBIL report, among the top five states which contribute to 55% of credit demand Maharashtra (18%) accounted for most enquiries from lending institutions followed by (10%) and Andrapradesh (9%).

CONCLUSION

CIBIL ratings are becoming increasingly prominent in our financial system. While member institutions, currently, largely comprise banks and credit card issuers and other financial institutions extending credit, it is likely that insurance companies and telecom companies may soon join the fray. Many employers are also leaning towards credit checks as a way to assess new hires, especially in case of high-level recruits. With credit becoming an indispensable part of people's lives, it is essential all individuals make CIBIL Credit Information Reports a part of their financial planning and review process for easy availability of credit to achieve personal financial goals. CIBIL scores are the deciding factor for many banks when it comes to considering your application. The higher the score, the higher the chance your loan application will be reviewed and approved. However, the decision to approve your loan application is completely dependent on the bank; CIBIL as an institution does not play any role here. It is advisable to maintain a good credit history as it is the most important financial report card that can help you avail loans without difficulty.

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