

Thematic Workshop on: “Credit Bureau System for SHG Data Reporting”

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Supported by:
PSIG: A SIDBI-DFID Project

Organized by:
ACCESS-ASSIST

Bhubaneswar, Odisha

Summary of Proceedings

Background: Small Industries Development Bank of India (SIDBI) in partnership with Department for International Development (DFID), UK, is implementing a bilateral project titled “Poorest States Inclusive Growth (PSIG)” programme. The programme aims at to facilitate better access to financial services by the poor and to promote pro-poor investments in India’s four poor states of Bihar, Odisha, Uttar Pradesh and Madhya Pradesh. The key mandate of the programme as earlier said is to improve access to both financial as well as non-credit services (savings, credit, insurance, pension, remittance, mobile banking, BCs etc) for poor people and to strengthen the institutional framework so as to help the poor in improving their income and quality of life.

ACCESS-ASSIST has been assigned by PSIG to coordinate the initiatives on policy advocacy in the above four states as well as at the National level. As a part of the programme mandate, *ACCESS-ASSIST* has been organizing various thematic workshops, roundtable discussions, consultative meetings etc at both national and state levels, involving different key stakeholders and facilitating constructive and forward looking discussions to strengthen the sector and expand financial inclusion for poor.

The second thematic workshop under PSIG initiatives in Odisha was organized at Bhubaneswar on 20th April 2015. The key theme of the workshop was “Credit Bureau System and SHG Data Reporting”. The workshop was well attended by stakeholders such as the officials from Banks & SLBC, representatives from MFIs, delegates from CRIF High Mark (Credit Bureau), DFID, SIDBI-PSIG, Sa-Dhan and *ACCESS-ASSIST*. A list of participants is provided as ***Annexure 1***.

1. Context and Objectives

One of the key mandates of the DFID's policy advocacy agenda is to ensure that all legal forms and institutions providing or facilitating financial services to the under banked are part of the regulatory purview. It envisages for creating an enabling environment for better implementation and compliance of existing regulatory guidelines, programmes and policies through better sensitization of various actors and convergence among them, both at state and national levels. There has been substantial progress in the enabling policy environment for Financial Inclusion (FI) in India, especially in the recent past. The PMJDY-national mission on FI programme is very high on agenda of the government; recent revisions in RBI guidelines for NBFC MFIs, launch of MUDRA Bank within 5 weeks of announcement in the budget etc. are some examples. All these developments will imply that clients will have good supply of credit from a diversity of financial institutions in future. This will however lead to a risk of maintaining good credit culture in absence of well integrated credit data reporting mechanisms. It is therefore very critical to extend credit bureau (CB) to institutions and models beyond MFIs, particularly to SHGs to capture their member level data through the CB systems.

In India the banks as well as other financial institutions have been using a comprehensive credit bureau system, known as the "Credit Information Bureau (India) Limited (CIBIL)". Of late, the microfinance sector too developed and started using credit bureaus to better manage the portfolio under the MFI channel through informed credit decision making. Despite its large scale portfolio under the SHG-BLP, the SHG channel has not yet been integrated into the mainstream credit bureau system. Increasing NPAs of bank loans to SHGs has been an issue. Experience indicates that multiple financing is one among the major reasons of the high default rates in SHGs. The issue has been given special focus under the PSIG program. A separate small study on the particular issue has also been undertaken last year. For comprehensive discussion on the issue and identify possible suggestive measures, PSIG decided to organize a workshop on "Credit Bureau Systems for SHG Data Reporting" in Odisha.

The main objectives of the workshop were:

- Share the experiences and lessons learnt from microfinance credit reporting by MFIs
- Facilitate deliberations on the feasibility & challenges of capturing SHG data by Credit Bureau
- Solicit suggestions for way forward to integrate or create a Credit Bureau system of SHGs

2. Overview on the Credit Bureau Systems

The input sessions of the workshop were facilitated by CRIF-High Mark, one of the leading credit bureau agencies in the sector with 1200+ members, having the largest database of individuals in India: 520 mn records with MSME and 19mn loan records in Commercial database. Starting the session, High Mark shared some of the study findings and on the importance of data sharing. Their study findings revealed that use of the credit bureau system has helped MFIs substantially in making an informed and objective credit decision, minimizing adverse selection, deterring concurrent borrowings & serial defaulters, improving asset quality and reducing NPAs, increasing market penetration etc. It is also understood that financial literacy plays a big role in building an on-time repayment habit of the clients; clients running loss making petty businesses gradually tend to become defaulters; and clients with three or more loans are for more likely to default and be insolvent. From the comparative study it was found that the quality of data after the use of credit bureau systems has been improved significantly.

Besides, High Mark elaborated on the benefits of incorporating the Credit Bureau systems for SHG data reporting. Though they are yet to have the SHG data management experience (with banks), but from their vast ambit of microfinance (mostly JLG) database, they could help the MFIs in data-backed continuous monitoring mechanism, improving efficiency by reducing paper work, reducing multiple financing which results in reduction in default rate thereby improving the portfolio quality. Over the years, the credit bureau has invested a significant effort in up-grading the technology which can help in curbing several issues of KYC compliance.

The key findings of the High Mark study on the coverage of credit bureau and data sharing by various organizations in Odisha were also shared:

- 28.5lakh borrowers have ever taken a micro finance loan, only 10.9 lakh are actively servicing a loan.
- It is noticed that only 38% i.e. about 10.9 lakh borrowers were active in the year 2013. In the districts of Bargarh, Ganjam, Rayagada, Khordha, Koraput, Nayagarh and Kalahandi, more than 65% of borrowers have turned inactive
- An encouraging observation is the relatively little concentration of borrowers in a handful of Taluk's – something that was observed in the other PSIG states. In fact the top 20 taluks constitute only 30% of the total borrowers. Amongst the top 5 districts, maximum concentration was observed in Balangir, where 3 Taluk's contribute to 85% of all borrowers
- 2.6 lakh new borrowers in 2013;largest increase in Ganjam. Amongst most penetrated districts, only Sonepur saw increase of more than 5%.
- Rate of borrower exit has slowed down in 2012 & 2013
- Increase in ticket size in 2013 vs 2012 in almost all Top 20 districts
- Overall compliance to code of conduct is good

The summary of the study report will be shared separately.

3. Challenges of Data Capturing

As per the directives of RBI, banks are now advised to report SHG data to credit bureau, based on which most banks have started submitting SHG credit information to CIBIL. However, while CIBIL has the most secured and advanced systems of data capturing, its system invariably rejects microfinance client data because data of MFI clients/SHG members is fragmented and not fully validated (names, addresses, Pin Codes etc). In view of that the microfinance sector had to develop its own mechanisms to have credit bureau systems and verifying and triangulating diversity of data. However, unlike the banking and MFI channels, no SHG data are being systematically captured and processed by any established credit bureau systems yet. Functioning as a repository of credit information-both current and historical data on existing and potential borrowers, it is assumed, that a dedicated credit bureau system for SHGs can help minimize their NPAs and mitigate the credit risk involved in bank lending to SHGs.

During the course of discussion, SBI briefed that the bank is sharing the data of the SHGs financed by them with Odisha Livelihoods Mission (OLM). The grading of SHGs which is done currently is a combined exercise of SBI as well as OLM. There are issues of multiple financing in the last 4-5 years, but feasibility of credit bureau for SHGs may take some more times to get operationalized;

Reporting of SHG data to credit bureaus has the following challenges:

- Lack of individual members' record in the banks - As per the current practice, most of the banks maintains the SHG data as a group and the individual details of the members are not captured. KYC details of only two office bearers of the SHG are collected.
- Diversity of KYC information: Many forms of KYC/ID or address proofs are used and accepted which may lead to duplicate identities or credit records. To overcome this problem, High Mark is undertaking a voter-id validation exercise which has been completed in some states. Covering the entire country will however take a long time. Besides, other publicly available sources of IDs like AADHAAR are being accessed to cross-check the client credentials.
- Shortage of staff at bank branches and competing demands and priorities limits their ability to undertake the cumbersome task of collecting and reporting on individual member level data.
- The SHG bank linkage programme is over two decades old and tracking and reporting historic data will be a herculean task. Also this has risk of exclusion of poor individual SHG members from credit in future owing to default history of SHG loans at group level. Therefore, it may be better to integrate credit bureau reporting for SHGs for fresh financing from banks.
- Cost of data collection and reporting: For SHPIs to support the process of member level data tracking and reporting for credit bureaus, they will need financial support to cover the additional costs. On the other hand, the government has always directed the PSU banks to lend to SHGs at lowest possible interest rates, which makes it difficult for banks to subsume these costs by increasing the interest rates on SHG loans.

4. Current Initiatives from the Field

From the discussion it is understood that there are other independent initiatives on SHG data sharing under pilot stage in the country.

Sa-Dhan Initiative: Sa-Dhan in partnership with Planet Finance is working on a project called "Inclusive Credit Information Bureau" to facilitate the upload of SHG member level data with the Credit Bureaus. The organizations have partnered with 6 SHPIs in Maharashtra to kick-start the process and then achieve the desired objective in the process. The project primarily aiming at mainstreaming the SHG data with CIBs in a collective and partnership model with Banks, SHPIs, NRLM, NABARD, IBA and RBI- for policy directions.

Dhan Foundation Experience: Dhan Foundation has established an in-house software to capture individual level data of SHG members under its SHG-BLP supported by PSU banks including SBI. The system keeps a track of member saving; individual member repayment history while giving bank loan, keeping a track on the purpose of loan taken is the USP of the software. This has helped the organization in controlling the default rate to near zero. The organization emphasized on having partnership with Banks, SHPIs, CIBs and support agencies like PSIG to establish credit bureau system for SHGs. As the cost implication is very high it should be shared among various stakeholders with financial assistance for grassroots level SHPIs.

NABARD's Digitization Scheme for Women SHGs: Under its Digitization of Women SHGs project, NABARD has identified 10 districts in India to capture detailed data of SHGs. The apex bank has taken this step to address the issues and constraints faced by different stakeholders of the SHG-BLP, such as need for improving the quality of interface between SHG members and banks, timely credit linkage of SHGs, challenges in book keeping by low literate clients and convergence with pro-poor Government program can be merged effectively. It is expected that the digitization will bring in transparency, credibility to operations

of SHGs through inbuilt grading MIS and thereby increasing the comfort of bankers in credit appraisal, disbursement and monitoring. In Odisha, the district of Jagatsinghpur has been selected for the program. It was reported that NABARD has already initiated collecting individual members' data in the district in close collaboration with all the banks operating in the district (*Source: NABARD Website*).

5. Way Forward

The following suggestions for further facilitating the process of SHG credit data reporting to credit bureau were made in the consultation. These will be pursued by PSIG with support from other stakeholders.

- The established credit bureaus should provide an information template to various agencies to understand the data requirements.
- Credit bureaus in consultation with their clients should provide an estimate of likely costs of transitioning the data to a platform which can report to credit bureaus. This will help in advocating for a scheme either with NABARD or NRLM to provide financial support to SHPIs/Banks for submission of data to credit bureaus.
- Pursue with SLBC to include in its agenda the SHG loans disbursed by banks and reported that to Credit Bureaus. SLBC should advise individual banks to report it on the portfolio of SHGs covered under CB reporting and track the progress.
- Carry out dialogues with banks at the corporate level and explore for the provision of incentives to SHPIs/BCs/intermediaries for facilitating SHG-member level data reporting to CBs.
- Advocate with Govt. and policy makers on the importance of microcredit (MFI, SHG, PACS) data reporting to credit bureaus as it would substantially help rolling out of the Overdraft facility to be provided under PMJDY.
- Explore collaborative efforts with OLM/NRLM for possible data integration with credit bureau. As a part of its SHG validation and strengthening process OLM/NRLM has been capturing both the group as well as individual level data.

Annexure:1 – List of Participants

Sl. No	Name	Organization
1	Mr. Venkatesh G. Hegde, DGM	State Bank of India
2	Mr. A. K. Biswal, AGM	State Bank of India
3	Mr. Rabinarayan Behera, CM	Bank of India
4	Mr. Deepak Pati, AGM	IDBI
5	Mr. Sambit Das	Central Bank of India
6	Mr. Ugrasen Jagada, CM	SLBC, UCO Bank
7	Mr. F. M. Mohanty, GM	OSCB
8	Ms. Chanda Kumari	Corporation Bank
9	Mr. Tusharkanta Behera,AM	Indian Bank
10	Mr. Biren Kumar	YES bank
11	Mr. Parshuram Nayak, Whole Time Director	SMCS
12	Mr. Sudarshan Mohanty	SMCS
13	Ms. Nayana Mohanty, CEO	SMSL
14	Mr. Manas Pani, Head	Dhanei KGFS
15	Mr. Priyabrata Dixit, State Head	L&T Finance
16	Mr. Parijat Garg, VP	CRIF High Mark
17	Mr. Mahammad Yakub	CRIF High Mark
18	Mr. Lingaraj Sahoo	Adhikar
19	Mr. Manoj Ekka	Sambandh Finserve
20	Mr. Devarshi Negi, Director-Finance	Mahashakti Foundation
21	Mr. Jyoti Ranjan Mohapatra	Mahashakti Foundation
22	Mr. Rakesh Meher, State Head	SKS Microfinance
23	Mr. S. K. Jena	SKS Microfinance
24	Mr. Anurag Panda	GUFSP
25	Mr. Ajit Kumar Swain	GUFSP
26	Mr. Gyana Ranjan Dash	Dhan Foundation
27	Ms. Prabhat Nalini Tripathy	SAHAJ e-Village Ltd
28	Ms. Ragini Chaudhary, Advisor-Private Sector Development	DFID India
29	Mr. Rajesh Kumar, State Director	PSIG-SIDBI
30	Mr. Pravanjan Mohapatra, Theme Leader	PSIG-SIDBI
31	Ms. Radhika Agashe, Executive Director	Access-Assist
32	Mr. Narendra Nayak, Associate Director	Access-Assist
33	Mr. Arjun Pagal, Sr. Project Coordinator	Access-Assist
34	Mr. Rabi Tripathy, Project Officer	Access-Assist
35	Mr. Rashmيرانjan Swain, Manager-Finance	Access-Assist