



**Financial Sector Working Group
Banking and Financial Services Regulations
Issues for consideration at the 2019 Lao Business Forum**

**Policy note on
Credit information sharing**

Lao National Chamber of Commerce and Industry

21 May 2019



Introduction and background

The Lao Business Forum (LBF) is a platform to facilitate dialogue between the public and private sector aimed at promoting consistent enforcement of laws & regulations and remove barriers that businesses face.

The latest LBF was held in July 2018 and was widely recognized by both government and private sector as one of the most effective high level policy dialogue to address specific issues affecting private sector in Laos. The next LBF is scheduled to take place in October 2019.

Through discussions within the LBF financial sector working group, the LBF secretariat has collected issues for further discussion. These issues were investigated and prioritized after a round of interview meetings with banks and financial sector stakeholders in April - May.

One of the key issues raised by the financial sector community is around credit information sharing as there are concerns about the coverage, scope of services and quality of customer credit information provided by the Credit Information Center (CIC).

A draft policy proposal was discussed in a workshop held on May 15 at the offices of the LNCCI to seek feedback from the banking sector on the proposed recommendations to improve credit information sharing.

The workshop agreed on a number of policy recommendations and requests the financial sector working group to take forward these next steps to the LBF Steering Committee¹ for further consideration in order to finalize the forum agenda and agree on key forum inputs.

¹ The LBF Steering Committee consists of representatives from line Ministries/agencies (department management level) and heads of private sector working groups. The committee is chaired by the MoIC Minister and co-chaired by LNCCI President.

Current situation

Credit information sharing has a positive impact on easing financing constraints. Public and private credit registries exist to improve the information available on borrowing firms and individuals. The information they make available – from a borrower’s total number of current loans, repayment history, previous bankruptcies, etc. – can allow lenders to extend greater credit at more favourable interest rates.

Under Decision 928 from the Bank of the Lao PDR dated 20 September 2012, a Credit Information Center (CIC) was established as the place for accumulating the credit information from commercial banks and financial institutions in Lao and to provide information to commercial banks and financial institutions to be used as reference in the consideration of extending credit. The CIC was established under the responsibility of the Bank of Laos and is 100% owned by the Bank of Laos. Commercial banks and financial institutions taking deposits or providing credit **must** be members of the CIC.

In the World Bank Group’s Doing Business Report, which compares business regulations for domestic firms in 190 Economies, the sharing of credit information is assessed as one of its indicators on the “getting credit” business topic. The depth of the credit information index measures the coverage, scope and accessibility of credit information available through a credit registry or a credit bureau.

Lao scores quite well in the World Bank survey in terms of depth of information coverage because the CIC includes both firms and individuals, positive and negative credit data, provides online access and contains more than two years of historical data. However, the number of individuals and firms covered by the CIC is only 14.5% of the adult population is lower than the East Asia & Pacific region average.

Getting Credit - Lao PDR

Indicator	Lao PDR	East Asia & Pacific	OECD high income
Depth of credit information index (0-8)	6	4.2	6.7
Credit registry coverage (% of adults)	14.5	16.9	21.8
Credit bureau coverage (% of adults)	0	23.0	65.3

Source: World Bank Doing Business Report for Lao PDR. January 2019

Lao does not have a credit bureau. Credit bureaus have a greater impact on improving the credit environment than a public credit registry, especially for smaller firms². A private

² IFC presentation on their global credit reporting program (2015). Love and Mylenko, Credit Reporting and Financing Constraints. World Bank Policy Research Working Paper (2003)



credit bureau can either be a completely independent for-profit entity or a consortium between lenders operated on either a profit or non-profit basis. Independent entities are usually considered to be the optimal structure for private credit bureaus. A credit bureau would offer value added services such as credit scoring, lowering lenders operational costs and improving profitability. A credit bureau would typically also include data from retailers and utility companies. Increasingly credit bureaus also cover alternative data from for example from public records, mobile phone data and social media.

Credit information sharing has been raised as an issue before at the 10th Lao Business Forum in 2017. It was pointed out that the database of the CIC has limited coverage and a request was made to the public sector to enhance the capabilities of the CIC.

A response provided at the time by the Bank of Laos on behalf of the public sector stated that the CIC has been updating the database with the assistance of a foreign organization and was upgrading the system so that it can be accessed.

In a meeting on 8 May 2019, CIC representatives from the IT Department of the BoL gave an update on the current status and further development plans:

- The CIC is taking various initiatives to improve the current service, by including data from utility companies and from various ministries, such as the MoIC/Ministry of Finance for company financials, Home Office on national ID and the Ministry of National Resources and Environment for land titles and encumbrances
- The procurement of a new IT platform is foreseen, as the current system is encountering capacity constraints. Business requirements are being analysed and various development scenarios are being studied. The CIC also looks at the experience gained with credit bureaus in other regional countries such as Thailand and Vietnam
- The CIC will be established as a separate legal entity over the next six months

Problem statement

Through the LBF financial sector working group and during the interview round, the financial sector community voiced concerns about the information coverage, scope of services and quality of customer credit information provided by the Credit Information Center (CIC).

In a survey conducted by the CIC of its members in mid-2018, 47% responded that the information provided by CIC is insufficient and 68% said that the information does not meet business requirements³.

Information coverage

The CIC only collects data from its members. Although both firms and individuals are covered and positive and negative credit data are distributed, the CIC does not cover data from retailers or utilities.

The CIC is not linked to external information sources, such as the national ID system, company register, the Courts and land title register.

Data quality

Quality issues include:

- Difficulty in identifying of personal and family records based on name/national ID number/date of birth, because of incorrect name spelling, use of nicknames and multiple records
- Loan records missing because members have not (or are late in) submitting data
- Loan repayments not taken into account showing incorrect loan balance
- Customer late payments not reported showing incorrect customer grading (A,B,C scale)
- Data relationships missing, eg. linking husband and spouse, companies owned by one and the same individual

Banks usually only find out about data omissions when comparing records from new loan applicants to CIC data. They then have to contact the CIC to make corrections to the system records. In the CIC survey, only 28% of participants said the response times of the CIC are adequate.

The CIC information is not considered reliable and accurate, because of the lack of frequent updates, errors in manual uploads and lack of rigorous data validation and membership rules enforcement:

³ A total of 16 financial institutions provided survey responses



- Members are required to upload data to the system once a month, within ten days after month-end. Upload is done online in a browser interface through which data are manually entered into the CIC system via screen input. This is prone to human error
- There seems to be some limited data validation done at the CIC, but because the CIC only captures data from its members and is not linked to external databases such as a national ID system, company register or land title register, there is no systematic cross validation
- Enforcement of the membership rules on data sharing and the obligation to provide accurate data seems limited. The enforcement role is actually performed by the commercial bank and NBF (Non-bank Financial Institutions) supervision departments of the BoL.

Searches and reporting

Searched on the CIC database can be conducted through a browser interface on a combination of ID number, name and date of birth. A standard search report shows the customer amount borrowed, security collateral, the grade class, the name of the institution that provided the financing and any late payments.

The system does not provide for any other automated standard reports other than the search report. In the recent survey conducted by the CIC, the members expressed the need for improved reporting and data presentation.

Value added services

The CIC does not provide value added services such as credit scoring, credit trend reports, bespoke reporting of sectoral data, historical evolution of credit grades etc.

Scope of participating institutions

The Decision on the Activities Regarding Credit Information No. 928/BoL, from 2012, states that all commercial banks and financial institutions that accept deposits or provide credit **must** be members of the CIC. In practice this is not the case, but the financial sector coverage has been significantly improved over the past years where the CIC membership now covers almost the entire financial sector, with the exception of smaller microfinance institutions (MFIs) and smaller leasing companies. The different databases that used to exist for MFIs and leasing companies are now merged with the commercial banks, so all members get to see the same information.

The CIC currently has 43 participating banks, which is 100% coverage of the commercial bank sector. The largest leasing companies have already joined and the Microfinance Association encourages its members to join, although many MFIs see the CIC reporting as a burden with limited added value. Currently there are 65 members from the microfinance and leasing sectors, which is about a 40% coverage of the total number of institutions.



Village banks are not regulated financial institutions and therefore not required by Law to participate.

Membership and usage fees⁴

CIC charges a sign-up membership fee of LAK 4 million for commercial banks, LAK 1.5 million for Deposit taking MFIs and leasing companies, and LAK 1 million for Non-deposit taking MFIs and saving and credit unions.

Members also pay an annual maintenance fee:

- For commercial banks: LAK 2.5 million
- For Deposit-taking MFIs and leasing companies: LAK 1 million
- For Non-deposit taking MFIs, and saving and credit unions: LAK 500,000

Usage fee (debited monthly) is charged per search conducted:

- For commercial banks: LAK 50,000 (new search), or LAK 20,000 (repeat customer search)
- For all MFIs under supervision of the BoL: LAK 10,000

Individuals and legal entities can request for their own credit information with CIC at costs LAK 30,000 for individuals and LAK 50,000 for legal entities.

Similarly, non-members (individuals and legal entities) have the possibility to obtain a search report of third party credit information at a cost of LAK 50,000 (for individuals) and LAK 100,000 (for legal entities) provided that they obtain letter of consent from the parties whose information they wish to obtain (According to article 5 of the Agreement no. 03/BoL).

Members believe a search based fee model is not optimal, as it does not encourage active use of the system and often multiple searches need to be run to get a match and obtain a complete picture of family or company relationships.

⁴ Fees based on Agreement no. 03/ BoL, dated 2 January 2018 on the Access to Credit Information

Proposed recommendations

Four recommendations were presented and discussed in the workshop of 15 May:

1. The CIC should endeavour to include data from utility companies and from various other Government institutions, such as the Ministry of Industry and Commerce, the Ministry of Finance, Home Office and the Ministry of National Resources and Environment. It should also consider including economic data (for example from the NERI: the National Economic Research Institute) and information from the Courts on company dissolutions. Best practice experience on providing value added services from credit bureaus in regional countries should be incorporated. An upgrade and release planning should be made available
2. Data validation should be improved and there should be better enforcement of compliance with accurate data reporting standards by the supervision departments of the BoL
3. A dialogue should be organized by the CIC to regularly update the membership on new developments underway through newsletters and communication sessions. Many members do not seem aware of the system enhancement plans of the CIC. The Lao Business Forum, with support of the Lao Bankers Association and the Microfinance Association could play a role here
4. The CIC should make every effort to consult the sector on the business requirements and development of the future new system:
 - a. Involvement of the user community in business requirements gathering through process-, documentation- and data analysis, workshops, focus groups and membership surveys
 - b. Include user community representatives in project governance over business requirements validation, approval and sign-off
 - c. The user community should participate the vendor selection workshops, prototyping, pilots and user acceptance testing
 - d. Consultation on data migration planning and system conversion



Agreed next steps

The workshop agreed on the need for the CIC to expand the information coverage by including data from utility providers and establishing links to other sources of Government information such as Court records, company records and the land registry. At 14.5%, the coverage of the adult population is low and integrating other sources of information will improve the coverage (which is one of the World Bank's Doing Business report indicators).

The workshop also agreed on the need to improve reporting and reference was made to the example of reports produced by the credit bureau in Cambodia.

When the CIC was established in 2012, membership of financial institutions of the CIC became compulsory because the CIC is based on the principle of reciprocity in the exchange of information for the mutual benefit of the entire financial sector. The membership has been expanded over the years and now covers almost the entire financial sector. Adherence to the membership rules in terms of timely reporting and full disclosure of borrower information is seen as crucial in the success of a credit registry. The workshop agrees that there is a role for improved enforcement by the supervisory departments of the BoL. However, several participants also stated the role for the sector itself in improving its own reporting discipline and cooperation with the CIC. This last point is seen as very important before the public sector is being asked to take additional enforcement measures.

The workshop agreed that there is a need for improved communication and dialogue with the CIC about business requirements and development plans. There is a role here for the two associations – the Lao Bankers Association and the Microfinance Association – in furthering this dialogue. A meeting will take place later this month between the Lao Bankers Association and the CIC. The workshop participants would like to see proposals from the associations as to how they can support future dialogue with the CIC on behalf of the financial sector.

The workshop took note of the plans to establish the CIC as a separate legal entity over the next six months. The BoL is generally seen as cooperative in supporting the further development of the credit registry. Consideration should be given to private sector participation in the further evolution of the CIC towards a fully-fledged credit bureau. The private sector participation could for example take the form of a capital participation and/or involvement in the governance of the CIC. In support of this, the public sector is requested to consider enabling legislation for the establishment of a public-privately owned credit information sharing entity/platform.

The LBF financial sector working group is requested to take forward the above steps in preparation for submission of a proposal to the public sector at the next LBF.



ANNEX

References

Decision on the Activities Regarding Credit Information No. 928/BoL, dated 20 September 2012:

<http://www.laoservicesportal.gov.la/index.php?r=site%2Fdisplaylegal&id=133>

Decision on the Membership Fee and Service Charge for Credit Information No. 927/BoL, dated 20 September 2012:

<http://www.laoservicesportal.gov.la/index.php?r=site%2Fdisplaylegal&id=126>

(Updated in January 2018, English version not yet available)



Overview of the Lao Business Forum⁵

The Lao Business Forum was launched in March 2005 as a joint initiative between the International Finance Corporation (IFC) and the Ministry of Planning and Investment (MPI). The IFC staffed the LBF Secretariat from 2005 until its exit in 2010. Since then, LNCCI performs Secretariat functions for the LBF and is responsible for overall coordination and facilitation. In mid-2015, the Ministry of Industry and Commerce (MOIC) was assigned to act as coordinating body for the public sector to facilitate dialogue process on behalf of the government by taking over the role from MPI. Since May 2016, the Lao Business Forum received technical support from the Second Trade Development Facility – TDF II to resume the public private dialogue process with a full functional secretariat set up under LNCCI and a Focal Point for the public sector established under the Department of Planning and Cooperation at the Ministry of Industry and Commerce responsible for overall oversight and follow-up.

The objectives of the LBF are to: 1) facilitate public and private sector dialogue, including participation by the broadest range of private sector companies, from domestic SMEs to foreign investors; 2) ensure consistent enforcement and transparent interpretation of laws and regulations; 3) remove the bureaucratic impediments that businesses encounter in entry and exit processes and provide feedback on business-related policies, laws and regulations that impact the private sector ; and 4) provide feedback on draft government laws and regulations that could potentially impact the business community and assist the Lao government in private sector-related policy development.

The LBF is organized at four levels:

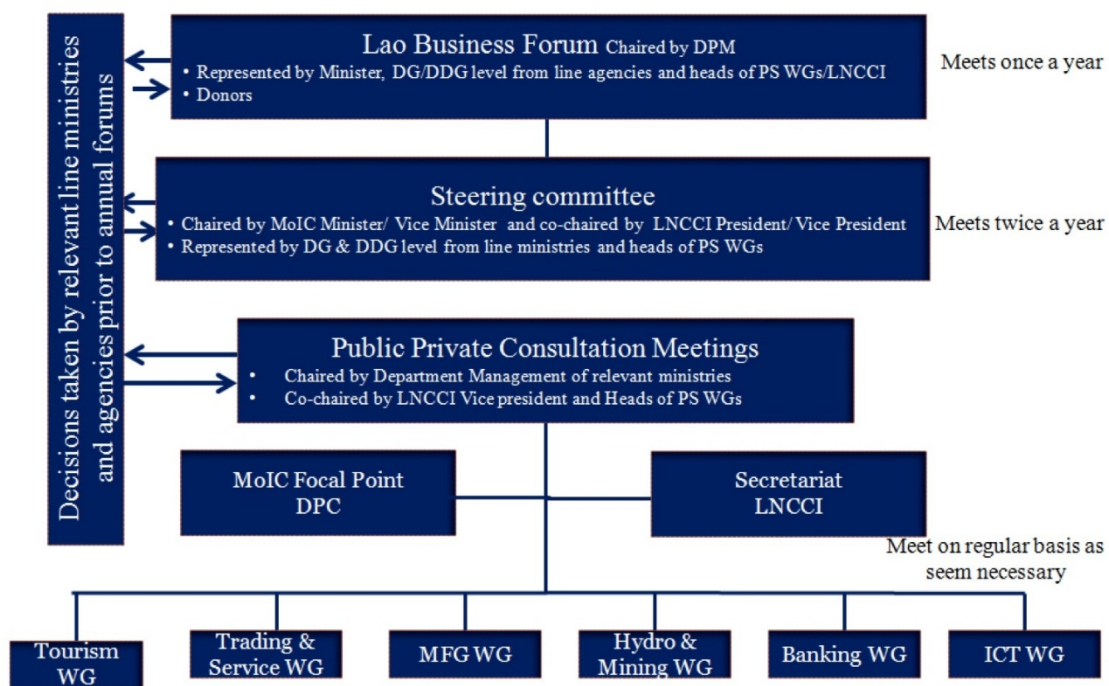
- Annual Forum. The Annual Lao Business Forum is held once annually and is chaired by the Prime Minister or Deputy Prime Minister in charge of economic affairs. The forum provides an opportunity for Private Sector Working Groups and key business associations in Lao PDR to inform top-level government officials about their achievements during their regular meetings and to identify unresolved issues.
- Steering Committee (SC). SC meetings are convened twice a year in advance of the Annual Forum in order to review progress, finalize the forum agenda and agree on key forum inputs. Membership of the SC consists of representatives from line Ministries/agencies (department management level) and heads of private sector working groups. The committee is chaired by MoIC Minister and co-chaired by LNCCI President. Based on the advice of the Secretariat, the SC meeting will consider priority business reforms and decide on remedial measures or refer issues to relevant government entities. These steps ensure that priority actions are fully vetted prior to presentation during the Forum
- Public Private Consultation (PPC). PPC meetings occur prior to the bi-annual SC meetings. PPC meetings for specific Working Groups occur as regularly as required

⁵ Source: <https://lncci.la/about-lbf/>

between the six-month period between SC meetings. Each meeting is co-chaired by LNCCI Vice President and DG/DDG of relevant department of government Ministries and participated by key members of respected PS WGs.

- Private Sector Working Groups (PSWG). There are currently 16 Private Sector Working Groups (PSWG) in the LBF. Meetings are open to private sector members of the PSWG as well as any other companies that are interested in attending. The LBF Secretariat assists the PSWGs in formulating their policy ideas prior to PPC meetings. Sectoral working groups: ICT, Manufacturing, Trade, Services, Agro-processing; Handicrafts; Transportation & Logistics; Construction; Mining; Tourism; Banking & Insurance; Hydropower. Other working groups: Cross-Cutting, State-owned Enterprises (SoEs), SMEs, Businesswomen.

LBF Structure chart:



PS WGs are primarily formed based on existing BMOs on voluntary basis. They only participate at the dialogue when they have specific policy related issues that affect competitiveness of their sector .