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Kamran Shehzad terms launch of MF-CIB as significant step towards improving risk management

Muhammad Kamran Shehzad, Deputy Governor, State Bank of Pakistan has termed the launch of pilot Microfinance Credit Information Bureau (MF-CIB) as a significant step towards improved risk management practices and reducing over-indebtedness of low-income clients.

Speaking at the launching ceremony of MF-CIB, which is a joint venture of Pakistan Microfinance Network (PMN), UK's Department for International Development (DFID), Citi-Foundation and the State Bank of Pakistan at a local hotel in Lahore today, Mr. Kamran said that MF-CIB will not only strengthen and expand the microfinance sector, but also create a healthier credit culture, identify credit-worthy borrowers, reduce instances of over-borrowing and fraud. "The Microfinance CIB will also aid policy instruments by providing accurate indebtedness and delinquency information," he added.

SBP Deputy Governor said that this pilot Bureau will provide a valuable opportunity for the microfinance sector to experience the benefits of a fully functional credit bureau. "The benefits include prompt determination of potential borrower's credit worthiness, streamlined credit investigation process, timely repayment due to efficient reporting and reduction of lenders' losses," he said and added that borrowers will also be indirect beneficiary of this facility in the form of increased availability of credit, lower borrowing costs and an incentive to build credit history.

However, Mr. Kamran emphasized that the pilot MF-CIB must ensure impartiality and integrity as its ultimate success will depend on the amount and accuracy of both credit and demographic information contained in the database. "State Bank looks forward to the success and positive outcomes of this grand initiative and would like to congratulate PMN and its collaborators on the launch of pilot MF-CIB, which will go a long way in developing the microfinance sector on sound footing," he added.

Referring to the growth of microfinance sector in the country, Mr. Kamran said that the sector has grown rapidly in recent years as the number of microfinance borrowers increased

from 451,000 in Dec-2004 to 1.83 million in Dec-2009. “This growth was facilitated by several factors, including an enabling policy framework, institutional reforms, technology initiatives, regulatory flexibility, tax incentives and alternative delivery channels,” he said and added that with the entry of new players and scaling-up of the existing institutions, the present growth momentum will further build. Another reason for the expected higher growth momentum is that the demand for microfinance services is high with estimates ranging between 15 and 30 million people of Pakistan, he added.

SBP Deputy Governor said that with the growth on both the demand and supply side and an increasing number of microfinance banks and institutions, Credit Information Bureau (CIB) remains the important piece of financial infrastructure that has been missing so far. A CIB acts as an intermediary between lenders and borrowers and brings many benefits to both the creditor and the debtor, helping to create a credit-conscious culture while reducing the number of delinquencies on loans and facilitating healthier balance sheets of banks, he added. Mr. Kamran said that the Federal Government is reviewing a law which provides a framework for regulating all credit bureaus. “This law will strengthen CIBs, bring transparency, and provide clients’ grievance redressal mechanism,” he added.

Currently, Microfinance Banks (MFBs) regulated by the State Bank have access to SBP’s e-CIB; however, a large number of MF clients (approximately 50%) are served by non-regulated Microfinance Institutions (MFIs) with no credit history of their customers either at SBP or a private CIB. The pilot Bureau will provide an opportunity for the Microfinance Providers (MFPs) to experience real benefits of a fully functional credit bureau as it will provide client’s credit profile, containing demographic information, ensuring proper identification, and including pertinent information relating to the creditworthiness and repayment capacity of an applicant. Initially, the pilot Credit Bureau will contain data only from eleven Microfinance Providers working in Lahore district.
