How Trinidad and Tobago brought credit reform to the Caribbean

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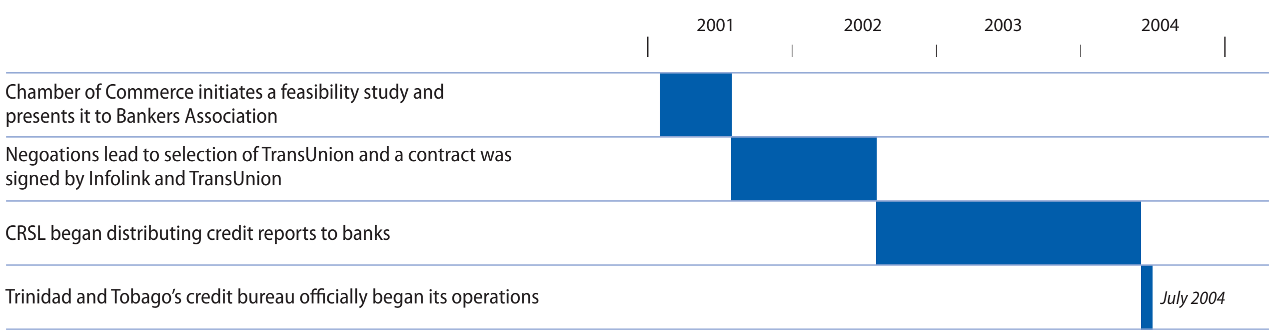
Before Trinidad and Tobago launched its first fully automated credit bureau in 2004, getting comprehensive credit information was a challenge for the islands' lending institutions. Investigations of potential clients were time-consuming and decisions tended to be subjective in the absence of detailed information. Finding positive credit histories was essentially a manual process. Much of the information available came directly from the applicant. As a result, many loans were denied and those that were granted required collateral backing.

But the Bankers Association of Trinidad and Tobago saw an opportunity to innovate and create the first fully automated credit bureau in all of the Caribbean. Infolink Services Limited—a joint venture equally owned by 4 local banks—and the national Chamber of Industry and Commerce joined forces with the Bankers Association for the project. First, the Chamber of Commerce led a feasibility study in 2000 to assess the need for the creation of a credit bureau. In February 2001, the study was completed and presented to the Bankers Association. Next, negotiations with international credit agencies began. Chicago-based TransUnion was selected and a contract was signed by Infolink and TransUnion in 2002. That same year, TransUnion and Infolink set up Credit Reporting Services Limited (CRSL). CRSL began distributing credit reports to banks in mid 2004.In July 2004, Trinidad and Tobago's credit bureau officially began its operations. For the first time, consumers could retrieve and interpret the contents of their own credit histories. Consumers could even initiate corrections where necessary—although these corrections are not guaranteed by law.

FIGURE 1
Timeline of credit reform in Trinidad and Tobago

Source: Doing Business database.



While credit agencies had existed in Trinidad and Tobago for decades, a distinguishing feature of the new credit bureau was its ability to act as an enabler for consumers with good credit histories. This was achieved through the accumulation of "positive" consumer credit histories in a secure, state-of-the-art database, which was made available in real-time to qualified subscribers. Through this innovation, the credit bureau helps lenders give credit where credit is due.

The bureau encountered several challenges at the outset. The first challenge was convincing banks and subscribers that sharing credit information was mutually beneficial. The The project organizers took a top-down approach with the banks. They started by convincing senior bank executives that (1) there was value in sharing, (2) the data was secure and (3) TransUnion was a capable and successful international credit agency. With senior management on board, the rest of the financial organization was mandated to follow.

Another initial difficulty was getting subscribers to submit data in the stipulated format. With the credit bureau up and running, the lack of a legal framework for credit agencies has presented additional challenges. But along with these challenges come opportunities—including the opportunity to help other Caribbean neighbors. Below, we take a closer look at the challenges and opportunities ahead.

Getting stakeholders on board

Information on borrowers is sensitive. Sharing this information requires trust. In Trinidad and Tobago, one of the greatest initial challenges was convincing lenders to join the bureau and share the information they already had in their records. The islands' banks and credit unions didn't have a strong tradition of structured information sharing. In fact, in the early 1990's, financial institutions were wary of sharing ideas and costs to create a common ATM/debit card platform. In addition to the financial institutions' issues, retailers, utilities and telecoms were hesitant to share their data due to the lack of legal framework governing or protecting it.

Yet, slowly but surely, credit unions, large retailers, utilities and telecoms began to share information with the credit bureau. For example, Digicel, one of Trinidad and Tobago's leading mobile companies, signed up right away since they reportedly suffered from high delinquency rates in neighboring countries without effective credit bureaus. Following Digicel's example, more subscribers joined. News about the benefits spread. "The ability to make more informed lending decisions based on an individual's creditworthiness is powerful," said Patrick Tam, general manager of a local credit union. "Not only does it help the lending community to make more informed decisions, but it enables individuals to obtain more credit at the best interest rates possible."

Trinidad and Tobago's credit bureau has increased its coverage of individuals every year since inception. However, it does not currently compile information about companies. A study evaluating the feasibility of including companies revealed that with only a few thousand corporations on the islands, creating a separate database appeared to be too big of an investment to be worthwhile. Instead, when a Trinidadian company applies for a loan, banks might look into the credit history of its individual shareholders or directors. The lending institution might use this personal credit information as a guide to assess, in part, the creditworthiness of the firm.

Initially, the CRSL database included 180,000 consumers with 300,000 trade lines provided by Infolink's 4 founding banks describing credit cards, personal loans, checking account overdrafts and mortgages. CRSL currently has 68 institutional subscribers—including all 8 banks in the Bankers Association (where 65% of the data come from)—as well as retailers, mortgage lenders, car rental agencies, insurers, telecoms and others. The CRSL database now contains over 1 million trade lines and has credit history files on over 440,000 credit lines. The bureau currently delivers an average of 17,000 reports per month to its authorized subscribers. Getting even more subscribers on board continues to be a challenge. Smaller retailers and credit unions may still have manual operations and be wary of information sharing. On the bright side, credit unions have recently moved under the regulatory arm of the nation's Central Bank, which may mean they will start using the credit bureau in their risk management and credit adjudication processes.

Facilitating data sharing

Another initial challenge for the credit bureau was making sure data was transmitted correctly. In Trinidad and Tobago, TransUnion partnered a local information technology (IT) company to create customized software that was compatible with lenders' existing systems. The goal was to ensure that new members could continue to focus on their core businesses instead of allocating resources to convert data for the credit bureau. This was particularly important for smaller subscribers with limited IT resources. The software was a success: it converted disparate subscriber data into the appropriate data format.

The next step was making sure the bureau's subscribers know how to use the information provided. To this end, CRSL worked with subscribers' IT, Risk Management and Operations Departments. When a new subscriber joins the credit bureau today, its functionaries handling credit data must undergo special training.

Setting up the legal framework

Legislation is necessary to safely facilitate and regulate the operations of a credit bureau. At the time of the bureau's launch, there was no legal framework governing credit bureaus' operations in Trinidad and Tobago. A few years ago, the Central Bank began drafting legislation as part of the nation's Secured Transactions Project. However, no law has yet been passed. A draft of the "Consumer Fair Reporting Bill" created in 2006 has established guidelines for consumer consent. It was presented to Parliament and was still under discussion at the time of this report. It is expected to be passed in 2009. A new "Data Protection Bill" has since been introduced and it too could affect governance of the credit bureau.

Legislative reform in this area has faced opposition in Parliament for several years. Opponents of the proposed law have two main problems with it. The first concerns a clause in the bill that allows a credit report to be issued as prescreening for employment. The second issue is that TransUnion enjoys a "qualified privilege." This means that neither CRSL nor its data suppliers are liable for misinformation about an individual, and cannot be sued. TransUnion claims that CRSL is too small to be liable and could be shut down by the cost of being sued. Currently, if there is a mistake in the data, CRSL corrects the error and seeks to cover the inconvenience to the consumer by providing two free reports in the period of one year. However, as a general rule, credit bureaus should be liable for the information they publish.

The initial proposal was for the Central Bank to regulate the new credit bureau. But once it was launched, the Central Bank preferred not to oversee information from non-banking institutions—such as telecom and utility companies. Furthermore, the Central Bank suggested that it lacked the necessary expertise to take on the role of regulator of the credit bureau. However, after some lobbying by key stakeholders, the Central Bank agreed to generate the required expertise within its institution and, once the law passes, to assume the role of regulator of the credit bureaus.

Stepping back, Trinidad and Tobago's Chamber of Commerce originally acted as the executor of a legislative reform project to improve risk assessment mechanisms. Its goal was to create an objective system for accessing credit worthiness. The Inter-American Development Bank's Multilateral Investment Fund sponsored the reform project. Another key objective was to improve access to credit for micro- and small enterprises.

The project recognized that the nation's credit systems relied heavily on subjective risk assessments and asset-based lending. This meant that the cost of delinquency by a few was borne by all in the absence of reliable, objective assessments of an individual's credit repayment history. For this reason, the creation of a better credit reporting agency was made a priority. As a side effect, the credit bureau launched before the nation's laws could fully support and govern operations.

Expanding the reach of the credit bureau

Other Caribbean islands are still back where Trinidad and Tobago was 8 years ago: They have no automated credit bureau, and access to credit is limited. These Caribbean nations could benefit from Trinidad and Tobago's success. Expanding the reach of the credit bureau could leverage economies of scale. But there are obstacles to overcome. First of all, international cooperation is not easy—it entails getting the right software, structures and legal framework in place. Second, setting up a bureau can still be costly, and if the country's population is small, it may be difficult to justify the cost. In fact, of the 33 Small Island and Developing States (SIDS) in the *Doing Business* database, only 8 have credit bureaus. Of the 12 SIDS in the Caribbean, only 3 have them.

At TransUnion in Trinidad, Ramesh Lutchman, Regional General Manager for the Caribbean and Company Secretary, s heading an initiative to expand the bureau to neighboring Caribbean islands. His idea is to have Trinidad and Tobago's credit bureau serve as a hub server for the region. Each country would maintain a separate database within the hub. Barbados and Guyana may be next on board, but their legislations are not yet ready with supporting laws. Guyana has drafted legislation, but several aspects of the draft law are still under debate. Meanwhile, St. Vincent, St. Lucia and St. Kitts and Nevis are also interested; their Central Banks are looking into how to adapt their laws to permit file sharing. Jamaica and the Bahamas are not currently on board because they want credit bureaus on their own islands. (Furthermore, Jamaica's laws prohibit to the export data to another country.)

Many Caribbean islands may be too small to support the investment in credit bureaus on their own. For this reason, sharing the cost of an credit bureau and learning from the infrastructure already in place in a neighboring country makes sense. Setting up the legal framework and allowing a private bureau to be created in the region should help consumers of those countries to have better access to credit.