



Public Credit Registry

Last Updated: September 2022

For Prelims: Public Credit Registry, Reserve Bank of India (RBI), External Commercial Borrowings (ECBs), Foreign Currency Convertible bonds (FCCBs).

For Mains: Shortcomings in the Current Credit Information System, Public Credit Registry: Advantages, Challenges, Steps that can be taken.

What is Public Credit Registry (PCR)?

- PCR refers to an **extensive database of credit information of borrowers** that is accessible to all lending and credit decision-making institutions.
 - The **Y.M. Deosthalee committee, 2018** set up by the [Reserve Bank of India \(RBI\)](#) recommended the setting up of a PCR.
 - Consequently, the RBI announced plans to establish a PCR as an independent unit within the RBI.
- The PCR will be a **single point of mandatory reporting for all information about each loan**, notwithstanding any threshold in the loan amount or type of borrower.
- PCR will **capture all relevant information about a borrower**, across different borrowing products such as borrowings from banks, non-banking financial companies, corporate bonds, [external commercial borrowings \(ECBs\)](#), [foreign currency convertible bonds \(FCCBs\)](#), [masala bonds](#), and inter-corporate borrowings - in one place.
- Thereby, the PCR will serve as a registry of all credit agreements, duly verified by reporting institutions, **for all lending in India and any lending by an Indian institution to a company incorporated in India.**

What are the Shortcomings in the Current Credit Information System?

- **Lack of comprehensive data** - The Indian credit registry ecosystem is currently quite fragmented with RBI having a database of borrowers with outstanding loans over Rs 5 crore while a number of private credit information providers exist, each with distinctive customers and coverage.
 - Therefore, **lenders may pick up clients who have a history of delinquency that is unknown to them**, and thereby face greater overall credit risk.
- **Dependency on Self Disclosures by borrowers** - Reliance on self-certified data by customers e.g., KYC, income details, financial details (assets & liabilities), net worth, contact numbers, nationality, etc.
- **Authenticity** - Since various portals have to cross verify diverse pieces of information, quite often inaccurate entries are passed on.

- **Reliable Reporting** - Due to multiple inputs and time lag there are difficulties to ascertain the up-to-date information.
- **Paid Portals** - Private credit information companies are paid portals and the lender has to bear the cost of extracting data.
- **Selective Credit** - There is a lack of credit supply to some subsections, like Small and Medium Enterprises (SMEs) which are perceived as risky by default, and often denied credit due to lack of adequate credit history.

What are the Advantages of Public Credit Registry?

- **Reduced Bad Loans** - Verification of a borrower's information and their credit history will help prevent the lending to those with a high risk of default.
- **Financial Inclusion** - By having a registry of all loans, PCR can help bring under ambit those not having access to formal credit, or with limited or no credit history.
 - The resulting increase in credit flow to the [Micro, Small and Medium Enterprises \(MSME\) sector](#) and to the underserved populace could propel the Indian economy to a higher growth path.
- **Regulation** - A PCR will be essential to help regulators map financial trends and assess the health of the banking system.
- **Simplified** - PCR would streamline and consolidate reporting, thereby improving the quality of reporting.
 - Complete information regarding loans, starting from origination of loan till its end at one place.
- **Ease of Doing Business** - With full coverage of credit market ensured by mandatory reporting, the ease in getting credit and in turn the ranking of India in the World Bank's ease of doing business index would also be likely to be improved.
- **Removal of Information Asymmetry** - PCR would lead to fair pricing of loans by distinguishing the 'good' borrowers and rewarding them accordingly.

What are the Challenges in the Creation of PCR?

- **Legal Backing** - To ensure full compliance by reporting entities, an appropriate legal framework will be required to make data submission a statutory obligation which is a time taking process.
- **Confidentiality and Privacy** - Since PCR stores sensitive information, it will be hard to ensure that the strictest measures of privacy and protection are adhered.
- **Single point of reporting** - Ensuring that the reporting of data by credit institutions is in a standard format will be a challenge since it would have to be agreed upon by all stakeholders.
- **No minimum threshold** - Covering all credits regardless of size will generate enormous amount of data which will be difficult to manage and sort.
- **Technical compatibility** - It will be tough to develop a PCR which is compatible with all types of platforms since currently, banking platforms are designed to suit the individual requirements of each bank and may vary across banks.

What can be the Way Forward?

- **Phased Implementation:** A **phased approach** is recommended to be taken for the implementation of PCR.
 - It should be implemented with **minimum disruption to the existing system** and processes.
 - **A Steering committee** of stakeholders and PCR may be constituted to discuss and sort out issues as and when they emerge, and to monitor the objectives and functioning of PCR.
- **Dedicated Authority:** The authority in charge of the PCR may be endowed with appropriate enforcement power to **take action against any violation** of rules and regulation.
- **Information Regarding Loans:** PCR **should capture both positive and negative information for all loans.**
 - The PCR should ensure interoperability and linkages with other information systems, example - the wilful defaulters' list.

[For Mind Map](#)

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