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An Improved Method for Measuring CIBIL Score

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Abstract

CIBIL is India's first Credit Information Company founded in August 2000. CIBIL collects and maintains records of an individual's payments pertaining to loans and credit cards. These records are submitted to CIBIL by member banks and credit institutions, on a monthly basis. This information is then used to create Credit Information Reports (CIR) and credit scores which are provided to the credit institutions in order to help evaluate and approve loan applications. The existing CIBIL System does not provide any method to calculate score for the new users, whereas, this research is based on the methods to calculate score for both the existing as well as the new users.

Keywords: *CIBIL, CIBIL TransUnion Score, Banks, Credit Information Report*

INTRODUCTION

Banking is reputed as a profession of trust and confidence. Since bank loans are based on reciprocal relationship between lender and borrower, banks will consider the creditworthiness of the borrower by gathering a Credit Information Report (CIR) of the borrower from the Credit Information Bureau (India) Limited which is popularly known as CIBIL. CIBIL is India's first credit information company. It creates immense value for financial institutes by providing objective data and tools to help them manage risk and devise proper lending strategies, thus reducing cost and maximizing portfolio profitability. CIBIL benefits both credit granters and consumers by collecting, analyzing and delivering

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information on credit histories of millions of borrowers. It provides its members with information on both consumer and commercial borrowers, thus enabling them to make sound credit decisions across both individuals and businesses.

It also provides services and education to consumers to better manage their finances. CIBIL calculates credit score of the individuals already registered with some bank but provides no provision to calculate the score of a new user having no past record. This paper is an attempt to analyze this problem and provide a solution to the same.

LITERATURE SURVEY

A. Credit Information Bureau (India) Ltd. (CIBIL):

CIBIL is the highest agency in India providing credit reports and ratings to individuals and businesses. It is the only one of about 1000 companies of the world with an ISO 27001 rating, which is the highest security standard in the world. CIBIL, India's largest credit information bureau, maintains two divisions: Consumer Bureau and Commercial Bureau[1].

The Consumer Bureau was launched in 2004 with 4 million records and now maintains more than 460 million records. The Commercial Bureau was launched in 2006 with 0.7 million records and now maintains more than 22 million records. CIBIL counts TransUnion International and Dun and Bradstreet as its technical partners, both of which are leading global agencies.

Credit institutions check an applicant's CIBIL report and CIBIL TransUnion score before making lending decisions. Today banks and credit institutions can lend to customers confidently based on the information received from CIBIL on the customer's past credit behavior as well as anticipate likelihood of default based on CIBIL TransUnion Score.

CIBIL has also benefited the customers by helping make access to credit opportunities faster and easier while driving credit penetration[3].

B. Credit Information Companies in India:

Setting up of credit bureaus in Asia really took off only after the Asian crisis in 1997. Even in India, there was need of putting in place, an institutional mechanism for collecting and furnishing, on request, information, on both the existing and the prospective borrowers of bank and other

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institutions. This would go a long way in arresting the growth of non-performing advances of banks and financial institutions.

Therefore, a "Working Group to explore the possibilities of setting up a Credit Information Bureau of India" (Chairman N.H. Siddiqui) was set up in 1999.

Accordingly, Credit Information Bureau (India) Ltd (CIBIL) was incorporated in august 2000. CIBIL launched its credit bureau operations in August 2004 and its commercial bureau operations in May 2006[4].

The Working Group had also felt that a master legislation should be enacted for facilitating, collection and sharing of information by proposed Bureau. This would take care of the need of making amendments to various banking legislations, the provisions of which prohibited disclosure of information.

Accordingly, the Credit Information Companies (Regulation) Act (CICRA) was enacted in the year 2005 with a view to regulate credit information companies and to facilitate efficient distribution of credit. The rules and regulations for implementation of CICs were driven in-principle Certificate of Registration in April 2009 to commence the business of credit information[5].

a) Equifax Credit Information Services Pvt. Ltd

b) Experian Credit Information Company of India Pvt. Ltd

c) High Mask Credit Information Services Pvt. Ltd

C. Share Holding Pattern:

When originally established in 2001, its shareholding was among,

1) SBI- 40%
2) HDFC-40%
3) Dun & Bradstreet-10%
4) TransUnion-10%

The share holding pattern has now been diversified to include following entities representing varied categories of credit grantors.

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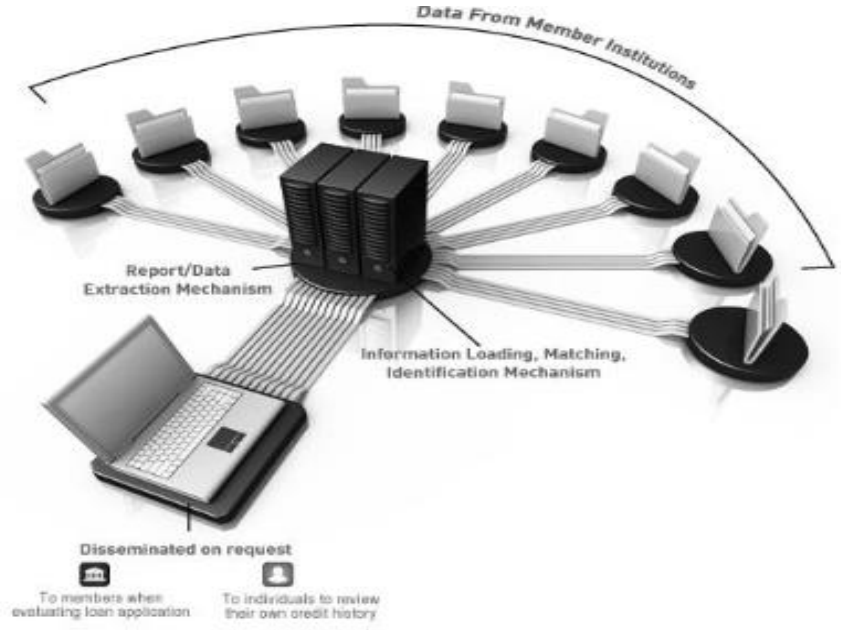


Fig. 1 CIBIL data processing mechanism

They are:

1) TransUnion International Inc.-66.1%
2) Bank of Baroda-5%
3) Union Bank of India-5%
4) Indian Overseas Bank-5%
5) Adithya Birla Trustee Company Pvt. Ltd.-4%
6) India Alternate Private Enquity Fund-2.9%
7) ICICI Bank-6%
8) Bank of India-5%
9) India Infoline Finance Ltd.-1%

OBJECTIVE

The main objective behind this research paper is:

1) To understand the concept of CIBIL Score.
2) To find ways to calculate score for new users along with old users.

METHODOLOGY

The study mainly depends on secondary data, RBI reports, CIBIL reports and the website of CIBIL contribute the major source of study. Besides, these various books, newspapers and related websites have been used for the study. Suitable tools

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like percentages, tables and figures are also used in this study.

In order to calculate CIBIL Score for existing users, actual parameters followed by CIBIL is considered whereas, for the new users, we considered relevant parameters.

A. Calculation of CIBIL Trans Union Score:

CIBIL TransUnion score is calculated on the basis of the information available in the "Accounts" and "Enquiry" section of CIBIL report. The score is calculated based on the following:

1) ***Credit Utilization:*** How much credit is the customer using?

2) ***Defaulting/Delinquency:*** How many accounts are past due and by how many days?

3) ***Trade Attributes:*** How old are this customer's lines of credit? What type of credit does he have? Does the customer have a good mix of credit or is it all credit cards?

B. Factors That Decide CIBIL Score:

Various factors that decide the CIBIL Score are:

1) ***Past Performance:*** Individual's past performance on their debt obligations is the most important criteria and contributes approximately 30 percent weightage to the credit score.

2) ***Credit Type and Duration***: Type of loan availed whether secured or unsecured loan and the duration of credit history availed contributes an additional 25 percent to the score.

3) ***Credit Exposure:*** The total amount of credit exposure contributes another 25 percent.

4) ***Other Factors:*** Other factors such as credit utilization, recent credit behavior contribute another 20 percent to the score.

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Table 1.Parameters considered to calculate Credit Score for existing users

PARAMETERS	WEIGHTAGE
PAYMENT PATTERN OF BORROWER	35%
AMOUNT OF MONEY HE OWES	30%
LENGTH OF CREDIT HISTORY	15%
MIX OF CREDIT	10%
NEW CREDIT APPLICATIONS	10%

PROPOSED WORK

A. CIBIL Score:

1) A Credit Score is a three digit numeric summary of an individual's credit history.

2) The value ranges between 300 to 900. It is derived by using details found in the Accounts and Enquiries section of the borrower's Credit Information Report (CIR).

3) It indicates the probability of default of a borrower based on their credit history.

4) A score of 720 or higher is considered as a good CIBIL score.

The CIBIL System should be able to generate Credit Information Report and provide Credit Score for both the existing as well as the new users. A new user is one, having no past record and is not associated with any bank.

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The existing system does not consider the new users. Our work is an attempt to bridge this gap by calculating score for new users as well. We considered several parameters for this purpose. The parameters we considered are similar to those considered by the CIBIL.

METHODS TO IMPROVE THE CIBIL SCORE

By maintaining a good credit history, one can improve his credit score. In order to improve the credit score, one has to maintain the following points:

- Make sure that you pay all your debts on time. Late payments are frowned upon by banks.
- Try to maintain a healthy combination of credit which includes a healthy combination of secured and in secured loans.
- Opt for new credit in moderation and cautiously.
- Avoid credit hungry behavior and applying for too many loans in short duration of time.
- Avoid the habit of providing guarantee for less creditworthy persons.
- Manage your credit cards well. Use only 30 to 40 percent of available credit limit.
- Pay your dues in full and never opt for settlements.

Table2 Parameters considered to calculate Credit Score for new users

PARAMETERS	**WEIGHTAGE**
Type of Service(Government or Private)	30%
Salary per year	20%
Years of service	50%

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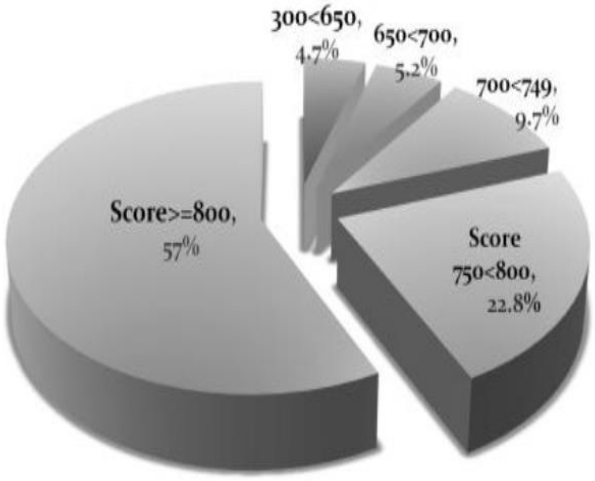


Fig. 2 Status of CIBIL TransUnion Score as on 19/1/2017

CONCLUSION AND DISCUSSION`

CIBIL ratings are becoming increasingly prominent in our financial system. While member institutions, currently, largely comprise banks and credit card issuers and other financial institutions extending credit, it is likely that insurance companies and telecom companies may soon join the fray.

CIBIL score is the deciding factor for many banks when considering one's loan application. The higher the score, greater are the chances that one's loan application will be reviewed and approved.

So, there arise a requirement to consider Credit Score for the existing as well as the new customers of a bank or any other financial institute in order to ensure security by allowing them to get a complete picture of the payment history of the credit applicant or to analyze his/her behavior as an employee, which would help them in loan approval process and also minimize the chances of fraud cases.

However, the approval of one's loan application is completely dependent on bank. CIBIL as an institution does not play any role here. It is advisable to maintain a good credit history as it is the most important financial report that can help a person to avail loans without any difficulty.

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FUTURE WORK

In order to make the system more interactive, a chat mechanism between the user and CIBIL can be incorporated in the system, so that the user can easily view his scores and report to the CIBIL, in case of any discrepancy in score and also apply for improvement in case of low scores by attaching the required documents such as dues clearance bills along with the application and send them directly to CIBIL for verification. This will help the users to avoid the lengthy procedure involved in such cases and save their time as well as money.

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