



***Review of
CreditInfo Georgia
and the Georgian Economy***

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The sources used in this report are:

- CreditInfo Georgia's own data
- The Central Bank of Georgia
- The World Bank's annual Doing Business Report

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1 Executive Summary

IRP was engaged to write a report covering the impact of CreditInfo Georgia on the Georgian economy and financial services industry.

The World Bank “Doing Business Report” ranks the Georgian economy very highly in terms of getting credit. The Georgian economy ranks equal 7th of the 190 economies scored globally on this topic by the World Bank and in the regional markets is 1st equal with Romania.

This is in a large part due to the positive credit bureau database held by CreditInfo Georgia where the credit bureau is ranked top in the comparator markets scoring a full 8/8 points on the World Bank’s scoring system.

The credit industry in Georgia has grown continuously since 2004 when CreditInfo Georgia was launched with only a small negative impact from the Global Financial Crisis of 2008. This has been accompanied by a steady rate of delinquency and default. Statistically and anecdotally there is a link between the successful growth of the credit bureau and increased availability of credit with stable delinquency to consumers and to businesses.

Statistically the growth of credit in Georgia can be seen to grow in line with the growth in the data available from CreditInfo Georgia. This correlation is to be expected, however the statistics do not allow the causality to be determined. Does more lending lead to more records on the credit bureau or do more records on the credit bureau lead to more lending? The causality only becomes clear in conversation with the credit providers.

In conversation with CreditInfo Georgia’s banking clients IRP was told that they were only able to extend credit to their customers at the current rates because of the growth in the credit bureau data and the scoring products that have been provided. The availability of good credit data has resulted in the increased ability of the banks to grant credit and not the other way around.

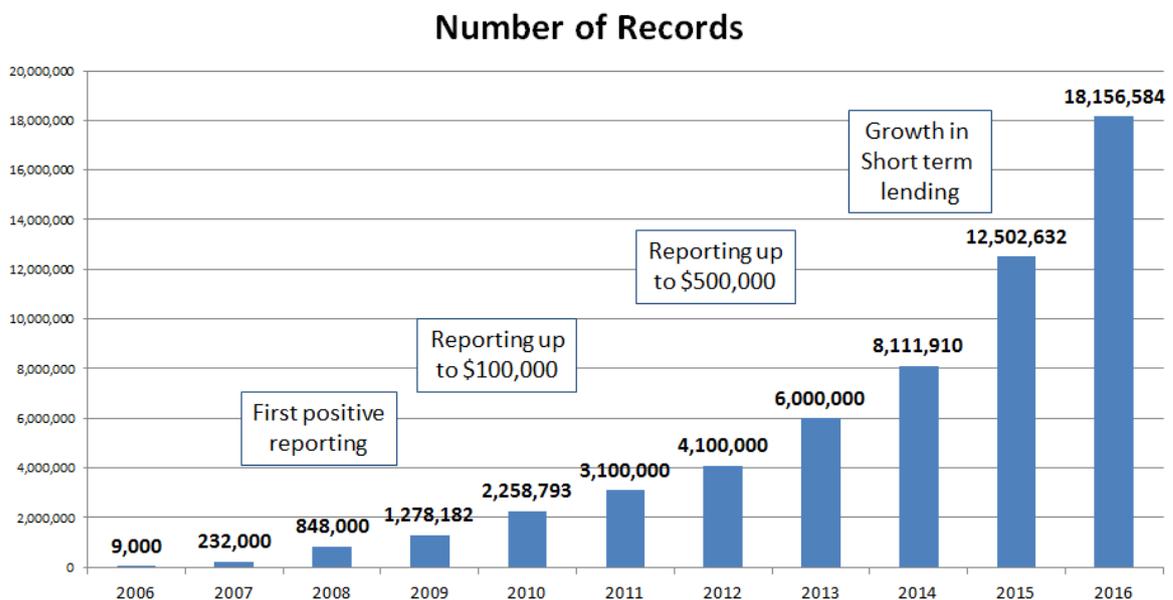
More recently there has been a strong increase in the amount of short term lending in Georgia. Because of the type of applicants that short term lenders attract, the short-term lenders have used CreditInfo Georgia credit bureau reports to ensure that their borrowers did not have defaults. This screens out bad customers, but was not a sophisticated tool for the first market entrants. As the number of short term loans has increased, the value of the data has grown to the short-term lenders and has been key to them improving the quality of their lending.

In conclusion, the growth of the credit bureau and the lenders’ confidence in the data it holds has directly led to good credit availability in the prime market and has been part responsible for growth in the near prime market. Increased frequency of data gathering in the short-term lending market will strengthen the veracity of the short-term lending allowing responsible lending in this segment too.

2 Introduction

CreditInfo Georgia was created in 2005 as a joint venture between CreditInfo and the largest banks in Georgia. These banks recognised that the development of a credit bureau would enable them to expand their credit products and more importantly manage the levels of delinquency and default.

As a country that has a pervasive national identity number system, the development of the initial negative credit bureau was straight forward. The banks then were convinced to provide positive data and did so in stages, lifting the limits that were being reported as they grew more confident in the bureau and the data that it was providing. As a result the credit bureau, with all the major banks sharing accounts up to \$100,000, had about 1 record per head of population, which is far lower than the levels in developed economies.



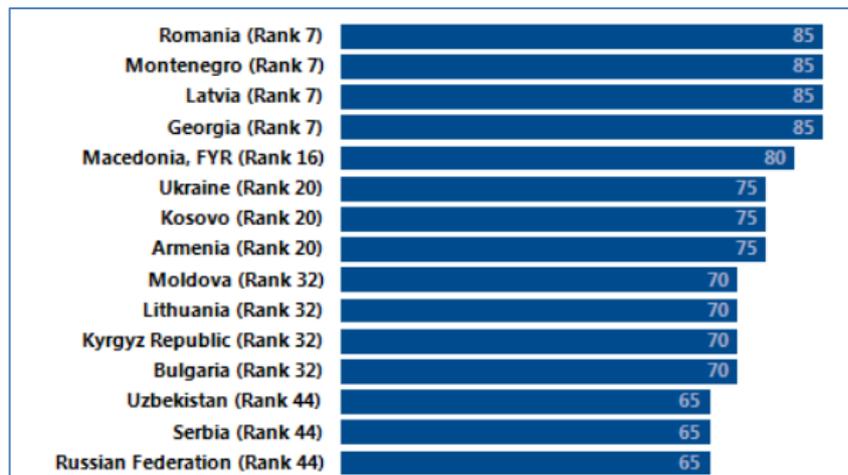
The growth of credit offered by the banks to the prime markets was then followed by a growth in short term and pay day lending in Georgia, a trend that had swept in from Europe led by financial houses based in the Baltics. This led to a strong growth in the number of records being subscribed to the credit bureau and has resulted in the bureau holding about 4½ records per head of population which is in line with most European economies.

3 World Bank Assessment of access to Credit in Georgia

The World Bank “Doing Business Report” is an annual report issued by the World Bank that ranks 190 countries around the world on the ability to do business in that country. One of the key measures is the ease of getting credit for companies and individuals.

3.1 Access to Credit

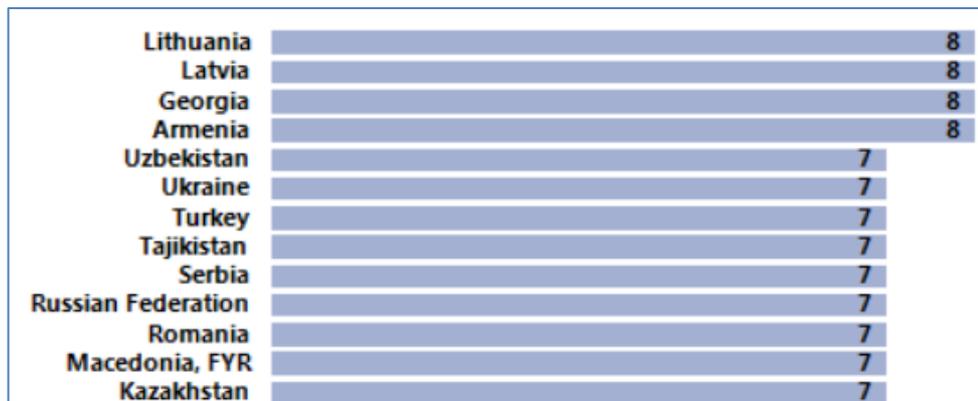
The Georgian economy ranks very highly in terms of getting credit. The Georgian economy ranks equal 7th of the 190 economies scored by the World Bank and in the regional markets (Eastern Europe and central Asia) is 1st equal with Romania, Montenegro and Latvia.



World Bank regional table for access to credit (World rank in brackets)

3.2 Depth of data at the credit bureau

This is in a large part due to the positive credit bureau database held by CreditInfo Georgia where the credit bureau is ranked top in the comparator markets scoring a full 8/8 points on the World Bank’s scoring system.

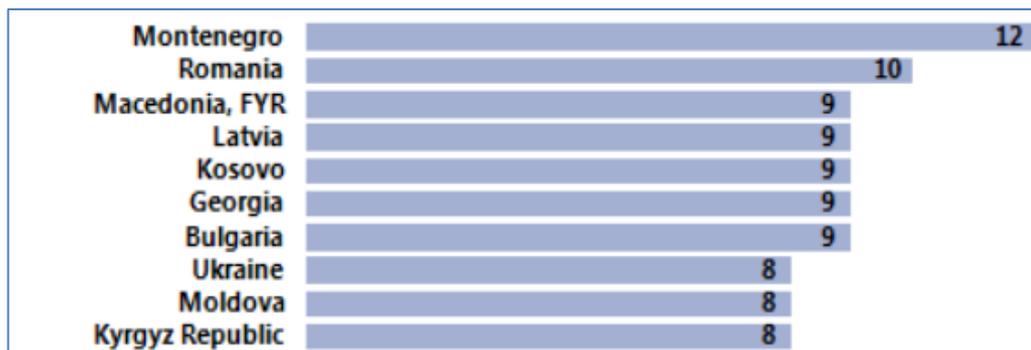


World Bank regional table for depth of consumer data held by credit bureau

The World Bank believes that a strong credit bureau enables responsible lending and puts an emphasis on having complete positive data sharing in the country which can be accessed by all lenders.

3.3 Legal rights of borrowers and lenders

While considering the depth of data held to be important, the World Bank is also focused on the legal rights of the borrowers and lenders and in the region Georgia is among the best ranked countries, although not scoring as well as the leaders. This reflects difficulties in recovering bad debt.



World Bank regional table for Consumer and Lender legal rights

The score has improved in 2017 as the World Bank acknowledged that “*Georgia improved its credit information system by implementing a new law on personal data protection.*” This ensured that Georgia has a full score for legal rights.

The regulation of credit bureaus, the data they hold and the uses made of the data by the clients can be regulated at one of three levels: By commercial contract; by industry body and by Government. Global best practice is to focus on commercial contracts and industry body for regulation, where the understanding of the power of the data is strongest, under an umbrella of data privacy regulation from Government. Where Government takes too strong a control on regulation the effect is frequently to stifle innovation, lending improvement and growth in the economy. In Georgia, IRP believes more could be done by industry groups.

3.4 Resolving Insolvency

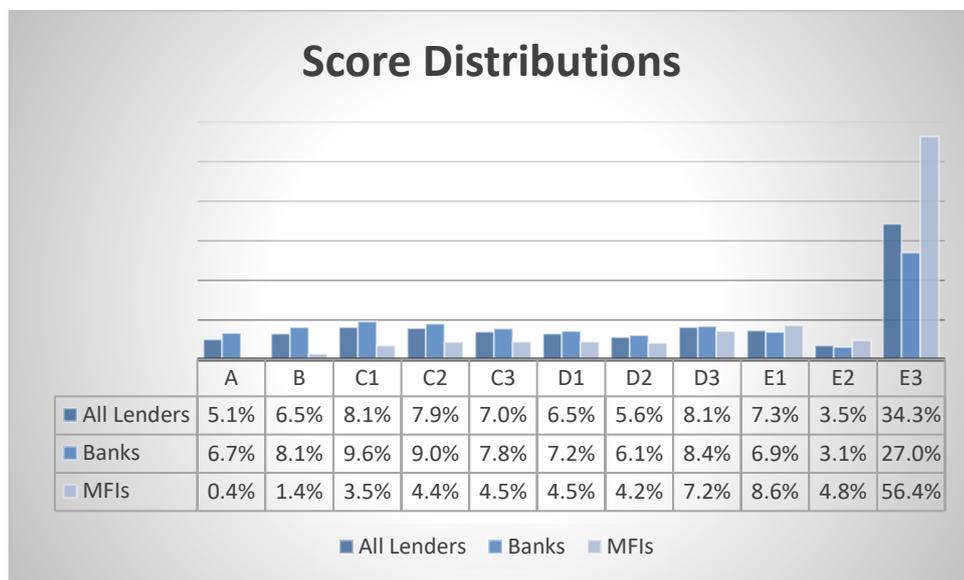
The other key indicator in the World Bank reports where the credit bureau can have an impact is in the ease of resolving insolvency. Georgia performs poorly in this category (worse than Azerbaijan and Armenia) although much of this reflects the courts’ performance. The actual recovery rate is quoted at 39.5% for Georgia compared with the OECD average of 73%. While not a true measure of CreditInfo Georgia’s support for the economy, it is an indicator of one area where CreditInfo Georgia could contribute more to the economy.

4 CreditInfo Georgia contribution to the credit economy

4.1 Introduction of Credit Risk Data and Scoring

CreditInfo Georgia, along with its participating shareholders, have been instrumental in the introduction of world class credit risk management to the Georgian credit market. The growth of data is shown in section 2, with the database of customer records growing from 1 record per head of population in 2011 to around 4.5 records at the end of 2016. This is strong growth and in part reflects the growth of the Georgian credit market and in part the success of the credit bureau.

CreditInfo Georgia has introduced a scoring system meeting international best practice for the individuals and also for SME companies run by entrepreneurs.



Score distributions on the CreditInfo Georgia Scorecard

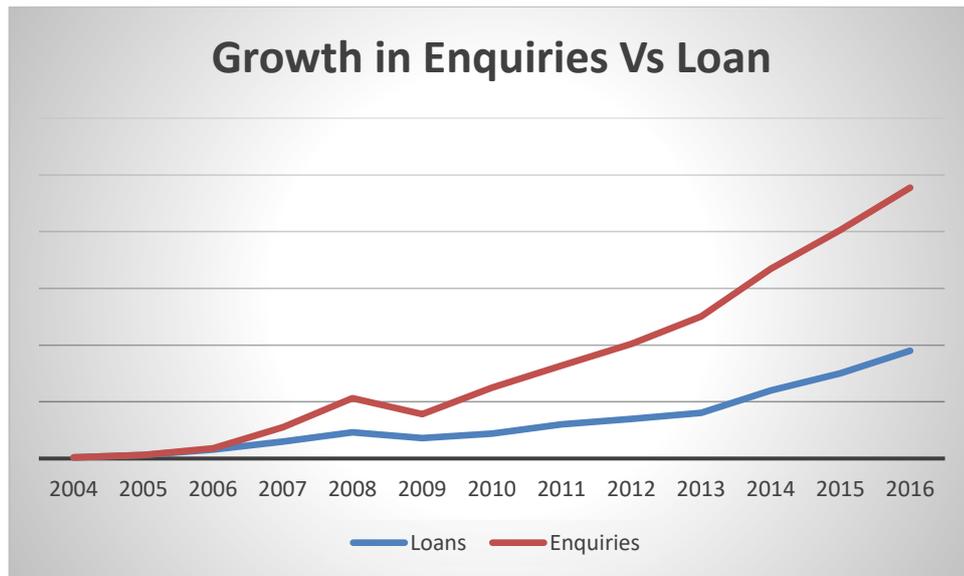
The distributions in the prime segments are very good and have provided the banks and prime lenders with the tools to manage the credit risk and be responsible lenders.

The distribution in the sub-prime segment (E3 in the chart) is less discriminating, but the underlying scores have helped the short term and pay day lenders to identify the lower risk applicants.

For all markets, this discrimination has provided valuable tools for lenders to use in making credit risk decisions.

4.2 Credit growth through full credit risk management

With full credit risk tools available from CreditInfo Georgia, the lenders have been able to increase access to credit in Georgia. When you study the growth in loans in Georgia, the link to the number of searches on the CreditInfo Georgia databases is clear.



Growth in enquiries on the CreditInfo Georgia bureau Vs Loans

Since CreditInfo Georgia started for business there has been a steady growth in loan and a matching growth in the number of enquiries. This demonstrates that the data being returned by CreditInfo Georgia to the lenders is being used in their decisions. What is not clear is the causality. This only comes out in conversation with the lenders.

In conversation with CreditInfo Georgia's banking clients IRP was told that they were only able to extend credit to their customers at the current rates because of the growth in the credit bureau data and the scoring products that have been provided. The credit providers have reached a state where they are now dependent of CreditInfo Georgia for making fast credit decisions and the availability of the bureau has become critical. The availability of good credit data has resulted in the increased ability of the banks to grant credit and not the other way around.

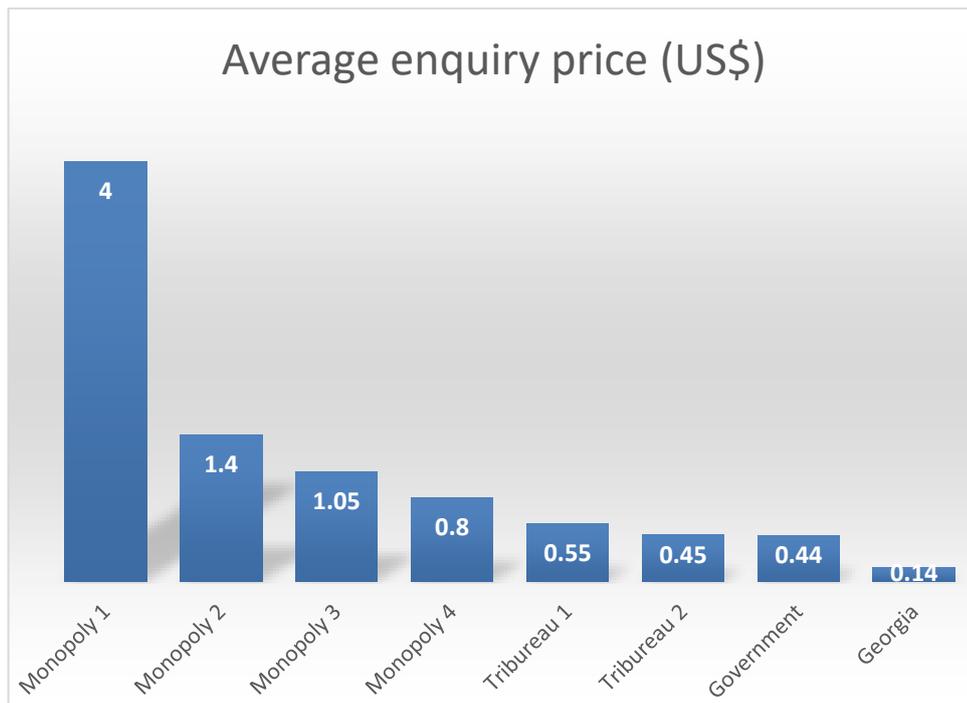
Credit Bureaus are not able to govern the type of credit being offered and the strong growth in short-term lending is a function of the Georgian economy. The short-term lenders have leveraged the existing data assets of CreditInfo Georgia; however, they recognise that they need improved services for this type of lending. They now seek more frequent data to allow them to improve their decisioning so they can maintain the profitability of their businesses with the new legal requirements capping interest rates.

Internationally, IRP has seen short term and payday lenders enter markets with just negative data being available. Such lenders target the near prime and use credit bureau data simply. In this market sector CreditInfo Georgia has been a facilitator, but not the critical enabler that it was for the banks after the GFC.

The credit providers have reached a state where they are now dependent of CreditInfo Georgia for making fast credit decisions and the availability of the bureau has become critical.

4.3 Low cost services to lenders

CreditInfo Georgia's pricing is very low, and compares well with other markets where there are multiple bureaus competing for the credit reference business. It is much better than other monopoly markets (defined here as markets where a credit bureau has 90% market share or more). This is illustrated by the chart below where the CreditInfo Georgia price is lower than both markets where there are three bureaus in aggressive competition and where there is a government bureau operated at a cost-plus basis.

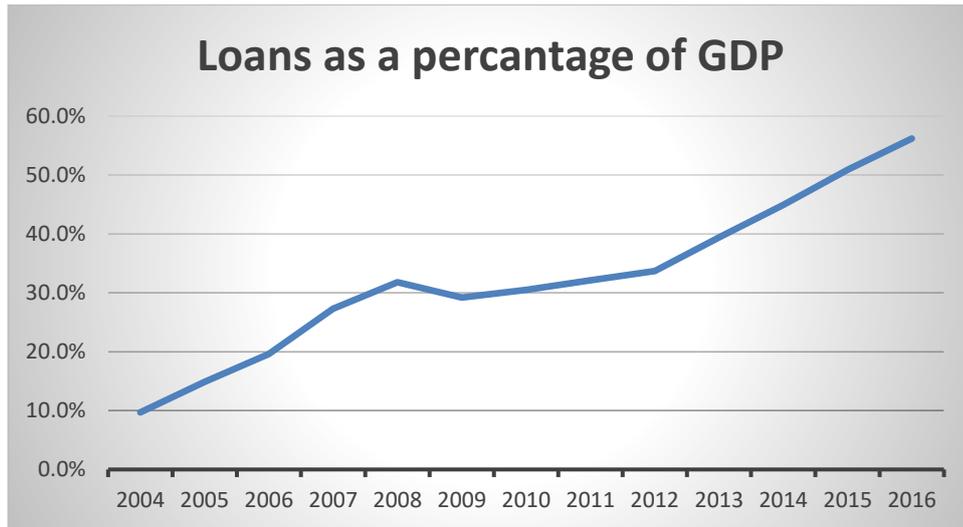


The pricing being paid by the largest customers is lower than the price being paid by companies like Amex in the USA, who process tens of millions of enquiries per year.

The price paid is also out of line with the number of enquiries being made per head of population. An analysis of this shows that CreditInfo Georgia is very active with about 3 enquiries per head of population per year which benchmarks closely with the UK. In the UK, the pricing is three times that of Georgia.

4.4 Increased access to credit

The number of loans in Georgia has been increasing since the GFC and this is closely linked to the enquiries on the credit bureau. The growth as a percentage of GDP shows a steady growth which indicates that the growth in credit is reflecting the growth in the economy and is not running out of control.

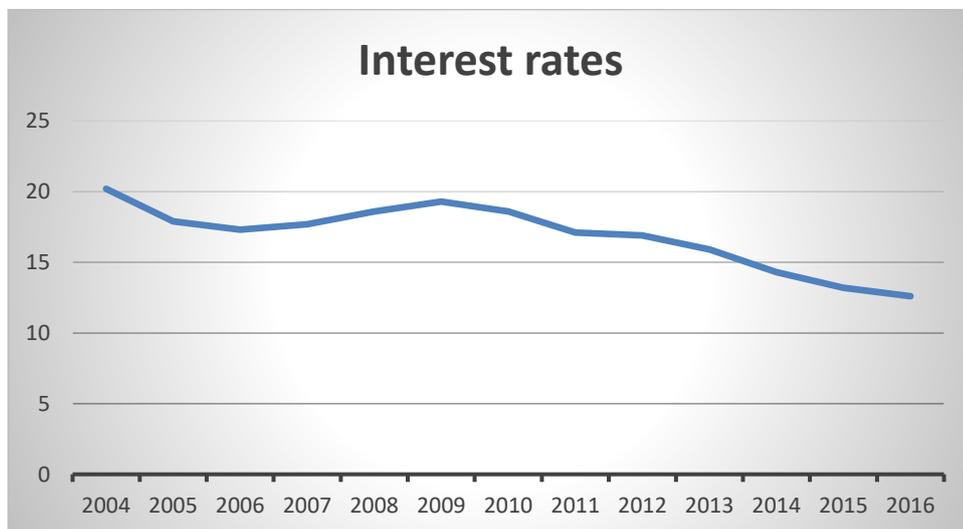


The growth in loans as a percentage of GDP in Georgia

This shows that the majority of lenders are lending responsibly, which is enabled by the CreditInfo Georgia credit risk tools.

4.5 Reduced Interest rates

At the same time as the growth in the number of loans, there has been a reduction in the interest rates being charged. This is to be expected post the General Financial Crisis of 2008.

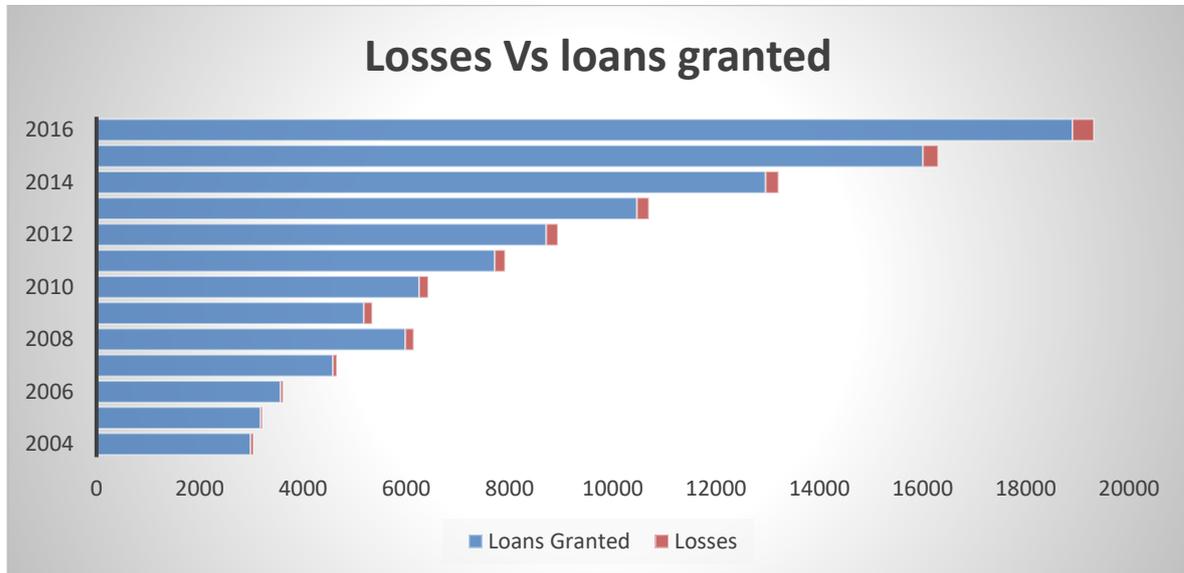


The gradual reduction in average interests being charged in Georgia

The increasing numbers of loans at lower interest rates could mean that the loans are being fuelled by the availability of cheaper credit. An economy driven by cheaper loans would usually see increasing delinquency and defaults driving the cost of borrowing back up. This has not happened in Georgia.

4.6 Financial Stability with acceptable delinquency and default

The increase in loans has not been accompanied by a corresponding increase in delinquency. Instead the delinquency rates have trended downwards from a post GFC peak in 2009 to current levels that are in line with the better developing economies like Georgia.



The levels of losses against the loans granted in Georgia

This is because of the good data-sharing, credit scoring and credit risk decisions being made by CreditInfo Georgia's clients. The adoption of the credit bureau, its tools and services has been beneficial to the economy. While there has been growth in the credit offered to the near-prime and sub-prime sectors, the Central Bank has moved to increase the regulation on this market and this is an example of good control by the Central Bank. The remainder of the market is lending responsibly and there is no need for additional controls.

5 Conclusions

CreditInfo Georgia has been an enabler of the Georgian economy over the last decade and will continue to provide a credit risk platform that will allow responsible credit providers in Georgia to prosper and consumers to access the credit they want to at interest rates that are appropriate to their circumstances.

Recent regulatory changes have improved the rights of the consumers and lenders and provide a stable environment, where there is transparency and consistency in the granting of credit to the consumer.

There is certainly more that can be done to improve the lending to small businesses and start-up enterprises, and the credit bureau should be supported in its efforts to get data and improve company scoring for the banks. This will have a further strengthening effect on the Georgian economy.