

# Conceptual Framework of CIBIL in India

## Abstract

Over the past decade the loan market in India has changed in leaps and bounds. Compared to old days the purchasing power of the customer has gradually increased for that we can find many reasons out of those reasons important one is easy availability of loans to customer. This would happen with the help of credit score. This paper mainly focuses on the conceptual framework of credit score and the origin of credit score in the world as well as India. Credit score plays a pivotal role in sanctioning of loans from lender to borrower. It shows the financial behavior of prospected borrower, and his loan repayment capacity, his outstanding dues, we can ascertain with the help of studying of a person's credit information report or CIBIL Report.

**Keywords:** Credit Score, Credit Information Report, CIBIL.

## Introduction

Lending and borrowing evolve when human being start his civilization life, but it mainly concerns about lending and borrowing of money. Money acts as life blood of every business organization, and also common people. The sources of money are commercial banks they supply money to public on the basis of debtor and creditor relationship. Banks supply the money to public in the form of loan. At the time of sanctioning of loan bankers have to understand the behavior of a customer regarding borrowing and repayment capacity of the customer. So he has to undergo detailed verification of loan proposal submitted by the borrower. Out of that one of the important documents is CIBIL report. CIBIL report acts as a guide to banker to know the past credit history of the customer with the help of this banker can understand the creditworthiness, repayment capacity, credibility of the customer. This CIBIL report (Credit Information Report (CIR)) generated by credit information bureau India limited, gives the credit information report of every corporate and individual customer. This report contains score (credit score) ranging from 300 to 900. If the customer's score is close to 900 there is greater possibility of getting loan. CIBIL collects, classifies and analyzes information as usable to both lender and borrower.

## Review of Literature

Generally, in the early days lender had to evaluate the credit proposal of prospected borrower by studying credit history, reputation, economic condition. Sometimes they call the information from neighbors, visiting their shops etc. but these are all qualitative factors might not give clear picture about behavior of the borrower.

Eventually the lenders developed a data analytical system called "credit scoring" even though with the help of this lender would find very difficult to know real behavior of the customer towards the repayment capacity.

Later in 1950's 'Bill Fair,' an engineer and 'Earl Isaac', a mathematician created an automated scoring system. But this was initially flop, later they refine it with help of computer and latest technology they build what became 'FICO' score.

"FICO" this is the first company in world established to give credit score to lender, to reduce risk and maximize profitability. FICO originally Fair, Isaac and company are first credit scoring company founded by Bill Fair and Earl Isaac in 1956. It has head office at San Jose California (USA).

## Credit Information Bureau (India) Limited

TransUnion CIBIL Limited (Credit Information Bureau (India) Limited) was incorporated based on recommendations made by the RBI Siddiqui Committee. This is first organization in India established to collect the credit information from various financial institutions and lender. It stores the data summaries, analyzes, giving the information as and when lender required.



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## Remarking An Analisation

Credit information bureau (India) limited popularly known as CIBIL was incorporated on 2000. it launches its consumer bureau services on 2004, later it expands operation to commercial bureau services on 2006.

Now CIBIL is the only company about more than 100 companies of the world with an ISO 27001, rating which is the highest security standard in the world. now it maintains more than 460 million consumer bureau records and more then and more than 22 million commercial bureau records.

CIBIL works with more than 2,400 members including all commercial banks, NBFC's, housing finance company across the globe. These member institutions are sending periodical reports (monthly once) to CIBIL based on these data they give credit information reports or credit score of the prospected borrower.

In order to improve the efficiency and speediness of the process CIBIL has technical partner with TransUnion International (a global credit bureau) and Dun and Bradstreet (a global provider of credit information)

It established with strong mission "to create information solutions that enable businesses to grow and give consumers faster, cheaper access to credit and other services".

Other credit information companies in India

- a. Equifax Credit Information Services Pvt. Ltd
- b. Experian Credit Information Company of India Pvt. Ltd
- c. High Mask Credit Information Services Pvt. Ltd

### Objective of the study:

1. to know the conceptual frame work of credit score
2. to know the organization and operation of CIBIL
3. to know need of maintaining good credit score.

### Methodology

This study purely based on secondary data which are available from Transunion CIBIL official websites, RBI reports, are major sources for the study. Along with this information researcher used various articles from newspaper, magazines, and other related websites information used. To know calculation methods CIBIL researcher used percentage, tables, and figures also used.

### Calculation of CIBIL Trans Union Score

CIBIL report mainly focuses on credit behavior of the individual customer this score will calculate based on the information available in "Accounts and Enquiry" section of CIBIL report. But the score based on the following factors.

1. Credit utilization: how much credit used by the customer
2. Defaulting/Delinquency: how many accounts are past due and how many days?
3. Trade Attributes: what type of credit does he/she have? how old are this customer's line of credit? Does the customer have a good mix of credit or it all credit cards?

### CIBIL Score Influenced By Following Factors

#### The Applicant's Repayment History

Customer should clear all the EMIs or dues within predetermined date and maintain good repayment history with the banker otherwise if any

EMIs due even once, it will negatively impact on impact on the score.

#### The Credit Balance

It contains two factor one is how much credit sanctioned and how much as customer utilised. If customer utilised maximum portion of credit utilised, that customer proposal considers as risky one.

#### The Amount of Time for Which You Have Used Credit

It means customer borrow the money for a longer period and make timely repayment it will positively impact on the score.

#### Credit Mix

This is important factor it says customer have different types of loan instead of take one type. It means its combination of secured and unsecured loans availed by the customer it will positively impact on credit score.

#### Credit Exposure

It means whether existing customer or new customer

#### Other Factor

Other means recent behaviour of customer also contributes to score.

Table : 01

#### Parameters considered to calculate Credit Score

Parameters	Weightages
The applicant's repayment history	35%
The credit balance	30%
Credit utilisation	15%
Credit mix	10%
Other factor	10%

The transUnion CIBIL can give credit report and related information both new and existing borrowers. But the above parameter applies existing borrower not for the new one so along with above they also consider following parameter.

Table : 02

#### Parameters Considered To Calculate Credit Score for New Users

PARAMETERS	WEI GHTAGE
Type of Service(Government or Private)	30%
Salary	20%
Year of service	50%

### Proposed Work

#### CIBIL score

1. CIBIL score is three-digit numeric number ranging between 300to 900.
2. This score based on "account" and "enquiries" section of credit report of the customer.
3. If the score above the 750 it will be considered as good score.
4. If the score close to 900 there is more chance of sanctioning of loan.
5. It acts as guide to lender to know the repayment behavior of customer.

## Remarking An Analisation

### Methods of improve the CIBIL score

In order to maintain good credit score as a customer follow the following steps:

#### Eradicate the balances

As customer use credit limit as much as he can pay timely, don't create any unpaid balances it will negatively impact on score. And clear all old unpaid balances and close the loan account.

#### Dispute inaccuracies.

resolve any disputes with any lender customer make clarify and resolve it as early as possible. If any disputes are pending it will negatively effect on the score. It is compulsory to every financial institution to act on that dispute within 30 days.

#### Keep the oldest creditcard account

Credit card account is a good indicator of credit discipline of the customer. If the customer use credit card balance and make timely repayment it will more contributing to improve the score. So, don't close the credit card account.

#### Pay EMIs on time

Make timely payment of EMIs without missing scheduled date given by the lender, That will improve the credit score of the customer.

#### Keep an eye on your credit utilisation ratio

Credit utilisation means proportion of credit used by the customer. it is comparing with the credit sanctioned. If the customer used 100% credit sanctioned, it will negatively impact on the score so customer use less than 30% credit sanctioned. Keeping the low credit balance of every month is good practice to lead the credit score.

#### Get a secured card

Customer can get secured credit card against a fixed deposit of nominal account. money against of credit card If you repay your balances on time, it will give your CIBIL score a shot in the arm.

#### Conclusion

In the present scenario credit score taking much more importance to get loans and advance from various financial institution also commercial banks.

Moreover, RBI mandate the CIBIL score must evaluate before granting any loans to prospected borrower. CIBIL increases the confidence of lender at the time approval of loan, because whole financial system based on the trust. Financial institutions are responsible to depositor, they have trust on the banker, banker trust on the borrower. that trust brought by this CIBIL so customer make repayment is not enough they make timely repayment of their dues. It benefits to both lenders and borrower.

#### Suggestion

1. Lack of knowledge towards CIBIL score to rural and uneducated borrowers.
2. Financial institutions, commercial banks create awareness about structure of CIBIL.
3. Here there is no perfect means to evaluate the new customer.
4. India has too many unrecognised borrowers facing many problems to raise the money they did not comes under CIBIL structure. We have to improve the mechanism which include every borrower in the country.

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