REGULATION AND DEVELOPMENT OF CREDIT INFORMATION SERVICES

The legislation of credit information services was improved By strengthening the cooperation with many relevant legislature and judicial agencies such as Legislative Affairs Commission of the Standing Committee of the National People's Congress, Legislative Affairs Office of the State Council and the Supreme Court, drawing upon foreign experience in the legislation and practice of credit information services and taking into consideration of the status quo of the credit information services industry in China, the PBC worked out rules like *the Rules for Registration of the Pledge of Accounts Receivables* which played important roles in standardizing the development of the credit information services market, protecting the legitimate rights and interests of enterprises and individuals, strengthening the supervision of credit information services, maintaining the safety of the country's information, and promoting the construction of the social credit system. The PBC also vigorously promoted the standardization of credit information services, released six standards including Data Elements for Credit Information Services, Data Elements for Credit Information Services of Enterprises, and conducted research on the basic framework of credit information services standardization system with a view to continuously improving the standardization of credit information services.

The regulation of the credit information services market was steadily promoted Regular cross check mechanism on individual credit information data has been set up, by which the individual credit information data would be cross checked on a semi-annual basis. Starting from 2008, the Credit Reference Center of the PBC and commercial banks will cross check the incremental data on individuals' credit account in the national consumer credit database semi-annually to urge commercial banks to improve data quality. The first data check and examination has already been conducted. The PBC also regulated the credit rating activities in inter-bank bond market in line with *Guideline on Credit Rating and Specification for the Credit Rating in the Credit Market and Inter-bank Bond Market,* guided rating agencies to strengthen internal governance via self-discipline, and promoted fair and orderly competition in the market. A pattern of government regulation and self-discipline of rating agencies has emerged. The PBC actively coordinated and cooperated with relevant government departments to boost the credit rating for enterprises and pressed ahead with credit rating for guarantee companies. An information sharing system was established among the PBC branches on regulating credit rating business. At the end of 2007, more than 40 thousand enterprises and over 390 guarantee companies were rated.

The construction of SMEs credit system was spread out nationally Beginning with normalizing SMEs' borrowing behavior and establishing healthy relationship between banks and SMEs', the PBC spread out the construction of SMEs'credit system across the whole nation in a well-organized way. The PBC mobilized the initiatives of SMEs and commercial banks to participate in the construction of SMEs credit system by wrapping up the experience in the pilot stage and demonstrating the outstanding cases, helped SMEs foster credit consciousness through publicity and training, coordinated commercial banks to research and provide SMEs credit information products meeting the needs of the market by intensifying the use of SMEs' credit records, therefore effectively improving credit environment for SMEs. By the end of 2007, more than 70 thousand training courses have been organized for SMEs and more than 1.1 million credit files have been set up for SMEs which have never borrowed from banks. During the same period, commercial banks inquired SMEs' credit files over 200 thousand times, more then 40 thousand SMEs obtained loan commitments from banks, while nearly 12 thousand SMEs obtained loans of RMB130 billion yuan from banks.

The pilot program on the establishment of rural credit system was launched The PBC actively propelled its branches at all levels to explore the development of rural credit system. The PBC fostered and enhanced the credit consciousness of farmers and enterprises in the rural areas through the publicity and training on credit information, coordinated financial institutions in the rural areas to gradually set up electronic credit files for farmers in line with the reality in different rural areas, established and improved credit assessment system for farmers, and guided financial institutions to roll out innovative financial products that fit the features of the countryside and farmers so as to give finance a substantial role in building the socialist new countryside. By the end of 2007, more than 74 million credit files of farmers had been set up, among which more than 50 million had been given credit ratings and more than 39 million farmers had obtained a total of RMB977.3 billion yuan of loans with an outstanding balance of RMB486.5 billion yuan.

The construction of business and individual credit information databases (NBCID and NICID) made great progress As of the end of 2007, NBCID had covered 13.31 million enterprises and other organizations, among which 6.21 million enterprises had credit records, 118 thousand inquiry accounts were opened, the average daily volume of inquiry for the full year reached 84 thousand and the highest daily volume of inquiry amounted to 112 thousand. As of the end of 2007, NICID had covered 595 million individuals, among whom 103 million individuals had credit records, 105 thousand inquiry accounts were opened, the average daily volume of inquiry for the full year reached 323 thousand and the highest daily volume of inquiry amounted to 593 thousand.

Besides the information on bank loans, the information on non-banking liabilities and law and regulation compliance by enterprises and individuals has also been gradually entered into NBCID and NICID, including the information on enterprises' and individual's participation in and payment on the social security system and house provident fund, negative information on telecom and wage bill payments, as well as compliance information on environmental protection and production quality. With the support of the Ministry of Public Security and General Administration for Quality Examination, on-line verification of citizen's identity card over the counters of commercial banks was realized, and on-line verification of enterprises' code information by commercial banks will be achieved in 2008.

The Account Receivables Financing Registration System officially started operation on October 1, 2007. As of the end of 2007, the system has registered 9 445 transactions, 8 361 inquiries and issued totally 912 inquiry certifications.

The construction of the inquiry system for payment information started in the beginning of 2007. The work on business requirement and the development of application software were completed at the end of March and in early August 2007, respectively. The system was projected to be open to public inquiry by the end of the first half of 2008.

Box

The Construction of SMEs' Credit System

For a long time, many SMEs were in great need of capital but found it difficult to get financing from banks due to lack of healthy credit relationship between banks and SMEs which was mainly caused by information asymmetry. A great number of SMEs simply thought that they should get bank loans as long as they had good projects. However, from banks' point of view, they have to be ensured that the principles and interests can be repaid in a timely manner before offering loans. With no collaterals no guarantee, the credit history of enterprises matters. When making lending decision, banks concern about not only project performance, but also borrowers credit history, and usually, the loan amount will be increased by and by for enterprises with good credit, with other conditions of borrowers are given. Unfortunately, SMEs do not pay much attention to their credit history, and the majority of them are lack of good habits, such as having no appropriate accounting system, compiling financial statements at discretion and cheating the taxation authorities and giving commercial banks with different set of financial statements, making large volume of payment in cash and leaving few payment records with banks, and being delayed in the payment of taxation and other obligations, ect. It is impossible for banks to provide credits to such enterprise. Therefore, in order to expand the loans to SMEs, the long-term credit relationship between banks and enterprises should be established to effectively ease the problem of information asymmetry.

In line with *Small- and Medium-sized Enterprises Promotion Law and Opinions of the State Council on Encouraging, Supporting and Guiding the Development of Non-public Ownership Economy Such as Sole Proprietorship and Private-owned Enterprises,* and according to its assignments determined by NDRC, the PBC took efforts to set up a credit system fitting into SMEs.

The construction of SMEs credit system aims to strengthen SMEs' internal governance, enhance SMEs' credit consciousness, establish credit files for SMEs based on NBCID, provide commercial banks with relevant information so as to let them to get better understanding and judgment of SMEs' credit risk, and lay a institutional foundation for resolving the problem of information asymmetry and financing difficulties by providing publicity, education and training on credit consciousness to SME. At the same time, a multi-layer SMEs credit assessment system will be set up and a credit incentive mechanism of awarding credit and punishing discredit for SMEs will be gradually come into being. Meanwhile, the PBC had encouraged commercial banks to make full use of information resources of SMEs to increase loans to those SMEs with good credit, market potential and efficiency, research and provide innovative financial products including buyer's credit, finance leasing, loan packaging, micro financing with no collaterals and account receivables pledge, and conduct research on credit assessment methodology system special for SMEs, hence to improve credit environment for SMEs and carry forward the development of SMEs.

Since the start of construction on SMEs credit system in July 2006, the PBC had put forward detailed work plans after taking into account the features of commercial banks and SME and organized its branches at all levels to implement the plan. These branches had actively cooperated with local governments and their departments as well as commercial banks to spread the significance of construction on SMEs credit system and conduct education on credit consciousness through various channels such as newspapers, magazines, TV, broadcasting, internet and mobile media, organized trainings on credit and management knowledge to senior staff of SMEs and guided commercial banks and enterprises to inquire and use credit information of SMEs in a timely manner so as to set up SMEs credit assessment system and promote financing of SMEs. The construction of SMEs credit system made great progress.