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**ROLE OF CIBIL IN THE FINANCIAL SECTOR AND TO  
STUDY THE EVOLUTION AND GROWTH OF CIBIL**



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**Short Profile**

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**ABSTRACT:**

Catalyze growth of Credit in India through solutions, technology and people

The loan market has changed a lot in the past 5 years. It is now extremely important for a borrower to keep tabs on the credit report issued by a widely accepted credit reporting agency like CIBIL to get a loan. It is now mandatory to maintain a good credit score for

getting all types of borrowings from banks, whether it is a home loan, car loan, personal loan or business loan.

Credit Information Bureau (India) Limited or CIBIL is a Credit Information Company (CIC) founded in August 2000. Post Inception, CIBIL have come to play a critical role in India's financial system. Whether it is to help loan providers manage their business or help consumers secure credit faster and at better terms, the use of CIBIL's products have led to a massive change in the way the credit life cycle is managed by both loan providers and consumers. CIBIL is India's first Credit Information Company (CIC) and is the central recorder of the credit information of all the borrowers. CIBIL collects

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and maintains all the record of each particular individual regarding the loans and credit cards and provides the same information to all other financial institutions, so that the banks can be aware of customers' credit history before approving loan. This information is provided to CIBIL by the member banks and finance houses. Every time you borrow a loan or avail a credit card, your credit and repayment information is collected and submitted by the member bank to CIBIL on a monthly basis. This information is collected and recorded to create a Credit Information Report (CIR), which is in turn shared with all the other banks and financial institutions. The next time Customer walks into a bank to apply for a loan, their CIR is first verified by the bank, to prevent the bank from providing a bad loan or lending money to borrowers who may not be credit worthy. Thus, the CIR is customers' credit score sheet, which the bank verifies before approving loan application. CIBIL has played an important role in the Indian financial system, providing efficient information and preventing a bad situation.

### KEYWORDS

*Operation of CIBIL, Role of CIBIL, Evolution of CIBIL, CIBIL TransUnion score 2.0, Credit score and CIR, Benefits of Credit Score and CIR, Mistakes on a Credit Report, Major factors affects Credit Score, How to improve Credit Score.*

### INTRODUCTION :

CIBIL collects and maintains records of an individual's payments pertaining to loans and credit cards. These records are submitted to CIBIL by banks and other lenders, on a monthly basis. This information is then used to create Credit Information Reports (CIR) and credit scores which are provided to lenders in order to help evaluate and approve loan applications. CIBIL is the repository of information which is pooled in from all Banks and lending Institutions operating in India. CIBIL have a database size of over 17 crore consumer records and over 65 lakhs company records contributed by over 500 Members.



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CIBIL's aim is to fulfill the need of credit granting institutions for comprehensive credit information by collecting, collating and disseminating credit information pertaining to both commercial and consumer borrowers, to a closed user group of Members. Banks, Financial Institutions, Non Banking Financial Companies, Housing Finance Companies and Credit Card Companies use CIBIL's services. Data sharing is based on the Principle of Reciprocity, which means that only Members who have submitted all their credit data, may access Credit Information Reports from CIBIL. The relationship between CIBIL and its Members is that of close interdependence.

CIBIL only reports loan and credit-card information such as repayment track, loan type, amount outstanding, loan amount disbursed, various dates, etc. The report also contains a customer's personal information like name, address, date of birth, phone number(s), passport number, voter's ID number, PAN, etc. In a commercial credit report the inputs are similar but include some additional details pertaining to the commercial entity like legal constitution, registration number, etc. The credit report does not provide any opinion or comment on whether a loan should be extended to a customer. It reports the facts that its member banks and financial institutions have reported. Member banks contribute to CIBIL on a monthly basis data of all their customers who maintain a loan/credit-card account with them. Hence a customer's name cannot be removed from CIBIL's database. Approval or rejection of a credit application depends on the bank's policies. Rejection by one bank on the grounds of the CIBIL report might not imply rejection by another bank. The CIBIL report has information of loan/credit details of the borrower only. Therefore, for a retail customer, it would not matter if someone in his/her family has defaulted. If the customer's repayment track record is okay, his/her credit score will not be affected by that of his/her family members.

### OBJECTIVES OF THE STUDY

- To be acquainted with the History and origin of CIBIL
- To know the operations of CIBIL
- To study the evolution and growth of CIBIL
- To cram the importance of Credit Score (TransUnion Score 2.0) and CIR

### HISTORY AND ORIGIN

In the late 1990s, the need for a credit information system was increasingly felt in order to enable informed credit decisions and aid fact based risk management. It was also imperative to arrest growth of fresh non-performing assets (NPAs) in the banking system through an efficient system of credit information on borrowers as a first step in credit risk management. In this context, the requirement of an adequate, comprehensive and reliable information system on the borrowers through an efficient database system was keenly felt by the Reserve Bank of India and the Government as well as credit institutions. A Working Group with representatives from select public sector banks, SBI, ICICI, Indian Banks' Association and Reserve Bank was constituted by the Reserve Bank in the year 1999, to explore the possibilities of setting up a Credit Information Bureau (CIB). The Working Group had recommended setting up a CIB under the Companies Act, 1956 with equity participation from commercial banks, FIs and NBFCs registered with the Reserve Bank. As per the recommendations made by the Working Group, Credit Information Bureau (India) Ltd., (CIBIL) was set up in January 2000. The

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Credit Information Companies (Regulation) Act, 2005 was subsequently passed with a view to regulating credit information companies and facilitating efficient distribution of credit and for matters concerned or incidental to it. It has many of financial commitments.

### OPERATIONS OF CIBIL

- ✦ The Credit Information Companies (Regulation) Act, 2005, and various Rules and Regulations issued by Reserve Bank of India has empowered CIBIL or (Credit Information Bureau (India) Ltd to collect the data from various types of credit grantors (i.e. lenders). and then share the same within the group. The legislation has enabled banks to submit data to CIBIL without obtaining borrower consent. This has enabled CIBIL to tracks repayment history of bank customers' loans, credit cards and further banking finances.
- ✦ For credit grantors to gain a complete picture of the payment history of a credit applicant, they must be able to gain access to the applicant's complete credit record that may be spread over different institutions. CIBIL collects company and consumer credit-related data and collates such data to create and distribute credit reports to Members. Thus, we can say that CIBIL collects commercial and consumer credit-related data and collates such data to create and distribute credit reports to Members.
- ✦ CIBIL is not a list of defaulters: CIBIL only maintains account information of various loan customers and credit card customers irrespective of the fact whether they are defaulters or not. The information comprises their name, address, monthly repayment track record, outstanding amounts, etc.
- ✦ Members: CIBIL Members, which include leading Banks and Financial Institutions, can access information from CIBIL on the principle of reciprocity i.e. only those Members who have provided all their data to CIBIL are permitted to access CIBIL Credit Reports. Members can do so only to take valid credit decisions. Disclosure to any other person or entity is prohibited. Individuals can also request access to their Credit Reports directly from CIBIL.
- ✦ Banks report to CIBIL: Only the names of the borrowers i.e. those customers who have availed of a loan or a credit card from a CIBIL member are reported to CIBIL. Details of liability accounts such as savings, fixed deposits and recurring deposits are not sent to CIBIL.
- ✦ Segments of CIBILs Credit Reports: CIBIL is a composite Credit Bureau, which caters to both company and consumer segments. The Consumer Credit Bureau covers credit availed by individuals while the Company Credit Bureau covers credit availed by non-individuals such as partnership firms, proprietary concerns, private and public limited companies, etc.

### PROCESS: Data submission to CIBIL by members

- ✦ Regular
- ✦ Monthly / quarterly
- ✦ Complete
- ✦ Containing all information on all borrowers
- ✦ Compatible
- ✦ Exactly in the format supplied

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- ⬆ Error free
- ⬆ Minimize rejections

### DIVISIONS

- ✦ CIBIL houses credit on over 220 million trades across individuals and businesses, organized into two divisions: Consumer Bureau and Commercial Bureau.
- ✦ The Consumer Bureau was launched in 2004 with 4 million records, and now maintains more than 260 million records.
- ✦ The Commercial Bureau was launched in 2006 with 0.7 million records, and now maintains more than 12 million records.

### SECURITY STANDARDS

CIBIL is ISO 27001:2005 certified- the most recognized security standard in the world. CIBIL is one of the 1000 companies in the world, which have achieved ISO 27001 certification, and one of the first few in India.

### WHO OWNS CIBIL?

CIBIL's equity was held by State Bank of India, Housing Development Finance Corporation Limited, Dun & Bradstreet Information Services India Private Limited and Trans Union International Inc. The shareholding pattern was in the proportion of 40:40:10:10 respectively. The shareholding pattern has now been diversified to include the number of other banks and financial institutions representing varied categories of credit grantors.

The diversified shareholding pattern includes the following entities:

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Banks	Percentage
Trans Union International Inc.	55
India Infoline Finance Limited	1
ICICI Bank Ltd.	6
Bank of Baroda	5
Bank of India	5
Union Bank of India	5
The Hong Kong & Shanghai Banking Corp. Ltd.	5
Indian Overseas Bank	5
State Bank of India	6.1
Aditya Birla Trustee Company Private. Ltd.	4
India Alternatives Private Equity Fund	2.9

## EVOLUTION AND GROWTH OF CIBIL

APRIL 2011	CIBIL TransUnion Score made available to individuals
SEPT 2010	Launched the first centralized database on Mortgages in India- CIBIL Mortgage Check
JULY 2010	Launched CIBIL Detect- India's first repository for information on high-risk activity
NOV 2007	CIBIL TransUnion Score introduced to Banks
MAY 2006	Commenced Commercial Bureau operations
APRIL 2004	Launch of Credit Bureau services in India (Consumer Bureau)
AUG 2000	CIBIL was Incorporated basis the recommendations made by the Siddiqui Committee
NOV 1999	Report submitted by Siddiqui Committee for setting up India's first Credit Information Bureau

- ▲ **Credit penetration in the country growing:** CIBIL - Credit penetration in India has deepened considerably in the last seven years, with the share of first-time borrowers growing from 32% in 2006 to 50% in 2012, said Credit Information Bureau (India) Ltd, or CIBIL. "Out of this, 62% of these new-to-credit borrowers have obtained secured loans like home and auto, while 28% have

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availed unsecured loans like credit card and personal loans.

- ⤴ Default on customers' mobile bill and they may soon become ineligible for a home loan or a car loan. Non-payment of telephone bills will also rule out the possibilities of getting a new credit card or even another mobile number.
- ⤴ CIBIL, the country's credit information bureau, which tracks credit history of consumers, is taking steps to include mobile and telephone bill payment history to calculate the credit worthiness of an individual. It has already launched a pilot initiative with Vodafone's post-paid customers and is in talks with the country's largest telecom by customers, Bharti Airtel, for a similar project.
- ⤴ Over 70 per cent of information about borrowers collected by banks and financial institutions matches with CIBIL report and the credit information bureau expects this rate to rise to 90 per cent in future.
- ⤴ India's loan-seekers growing younger: CIBIL study: A city-wise analysis showed that Bangalore boasted of the youngest population applying for credit. "More than 70% of applicants from Bangalore are under 35 years of age," the report observed.

### CIBIL TransUnion Score 2.0

The CIBIL TransUnion Score 2.0 is a new, updated version of the Credit score which has been designed keeping in mind the current trends and changes in the consumer profiles & credit data. Banks are gradually switching to the new version and you may find a difference in the new version when compared to the earlier version (i.e., the score 2.0 may be lower than the earlier version). The difference in the Credit Score does not impact the credit decisioning during the Loan approval process as both the versions of the score may have a different score eligibility cut off while processing the loan application. For example, if the Bank earlier used to sanction loans/credit cards to individuals with a credit score of 800 and above it may now lower its score cut-off, if it has switched to the new version. The CIBIL TransUnion Score 2.0 also introduces a risk index score range for those individuals who have a credit history of less than 6 months. These individuals were categorized under the category of "No History- NH" in the earlier version. The score range is from 1-5, with 1 signifying "high risk" and 5 signifying "low risk".



Score 2.0 summary and interpretation:

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Score & Index	Interpretation(i.e., for whom does this score reflect)
<b>NA or NH</b>	<ul style="list-style-type: none"> <li>Individual has no credit history &amp; it has not been reported to us.</li> <li>Individual has no credit history but has only been enquired upon</li> <li>Individual has credit history but none that is reported in the 24 months prior to enquiry.</li> <li>Individual has a credit history but it has not been reported to us in the last 24 months.</li> </ul>
<b>1-5</b>	<ul style="list-style-type: none"> <li>Individual has a credit history which is less than 6 months, hence a risk Index is returned</li> <li>Higher the index, lower the risk</li> </ul>
<b>300-900</b>	<ul style="list-style-type: none"> <li>An individual with a credit history of more than 6 months (in the last 24 months)</li> <li>Higher the score, lower the risk</li> </ul>

## CREDIT SCORE AND CIR

- ✦ The credit history & repayment behavior of a customer is translated into a number developed by CIBIL, called 'credit score'.
- ✦ It is an indicator of the credit-worthiness of a customer. It predicts the likelihood of a consumer defaulting on a payment. A borrower who is more financially disciplined will have a higher credit score. Higher credit scores are better.

Credit Score - A Credit Score or the CIBIL TransUnion Score is a three-digit numeric summary of customers' credit history. The score is derived using the credit history found in the CIR. CIR - A Credit Information Report (CIR) is a factual record of a borrower's credit payment history compiled from information received from different credit grantors. Its purpose is to help credit grantors make informed lending decisions - quickly and objectively. In other words "A CIR is an individual's credit payment history across loan types and credit institutions over a period of time. A CIR does not contain details of your savings, investments or fixed deposits".

## ROLE OF CREDIT SCORE AND CIR

- ✦ CIBIL's products, especially the CIBIL TransUnion Score and the CIR are very important in the loan approval process. The credit score helps loan providers quickly determine, who they would like to evaluate further to provide credit. The CIBIL TransUnion Score ranges from 300 to 900. CIBILs' data indicates that loan providers prefer a credit scores which are greater than 750. Once the loan provider has decided which set of loan applicants to evaluate, it analyzes the CIR in order to determine the applicants' eligibility. Eligibility basically means the applicants ability to take

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additional debt and repay additional outflows given their current commitments. Post completion of these steps the loan provider will request for the applicants income proof and other relevant documents in order to finally sanction the loan.

- ✦ An individual's score provides a credit institution with an indication of the "probability of default" based on his/her credit history. It helps in estimating the likelihood of repayment of loan based on the individual's past pattern of credit usage and loan repayment behavior. The closer the score is to 900, the more confidence the credit institution will have in the individual's ability to repay the loan and hence, the better the chances of his/her application getting approved.
- ✦ Consumers can pay for availing their TransUnion Score by following an online payment procedure or through a demand draft. The higher the score, the more favorably it is viewed by credit institutions. However, every institution has its own benchmark of what constitutes a good credit score. CIBIL does not recommend any cut-off score loan application eligibility.
- ✦ The country's first generic score has become the most reliable indicator for prudent decision-making for credit grantors. Financial discipline, coupled with prudent credit management and a good payment history, will ensure that individuals enjoy all the benefits associated with having a good credit score, Thukral said. CIBIL benefits both credit grantors and consumers by collecting, analyzing and delivering information on credit histories of millions of borrowers. It provides its members with information on both consumer and commercial borrowers, thus enabling them make sound credit decisions across both individuals and businesses.

### BENEFITS OF CREDIT SCORE AND CIR

- ✦ Since, the credit score and CIR not only helps loan providers identify consumers who are likely to be able to pay back their loans, but also helps them to do this more quickly and economically. This translates into faster loan approvals.
- ✦ Until recently, there was little visibility and transparency with regards to the loan approval process and the elements that loan providers used to evaluate customers loan application. Since, CIBIL has made customers credits score and CIR available to the customers, they will be able to see how valuable a customers are they to loan providers.
- ✦ In alignment with our creed, CIBIL empowers both loan providers and individuals to see their world more clearly and hence, take better and more informed decisions.

### BENEFITS TO THE MEMBERS

- ✦ Pitching usage of Credit information about a borrower as a
- ✦ Collateral so as to improve the turnaround for sanction and
- ✦ Disburse of loan
- ✦ RCB = Consumer +Commercial Bureau
- ✦ Reduction in NPA levels
- ✦ Deterrence to potential defaults
- ✦ Greater market penetration/higher business volumes
- ✦ Move from relationship-based to information-based lending
- ✦ Move from security oriented to cash flow lending

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## BENEFITS TO BORROWERS

- ✦ Faster Turnaround time
- ✦ More credit for prudent borrowers
- ✦ Appropriate levels of credit
- ✦ Better pricing, better terms
- ✦ Transparent and objective assessment

## MISTAKES ON A CREDIT REPORT

CCIR (Credit Report) is an important factor in the loan application process. Hence, mistakes on customers' credit report can result in reduced chances of a loan approval. It is very important for every credit active individual to understand the various types of common mistakes that can occur in their Credit Report.

- ✦ **Inaccurate Current Balance or Amount Overdue** When customers' have purchased their CIBIL credit report they may notice that their Current Balance or Amount Overdue may not be updated for their most recent payment. This will usually be the case if customers have purchased their CIBIL credit report within 45 days of making a payment. Loan providers report information to CIBIL on a monthly basis, which would mean that the latest payment will not reflect on their (customers) CIBIL credit report. An inaccurate Current Balance (especially on the high side) implies that customers have more debt than they actually do while an "Amount Overdue" indicates that customers are unable to service their existing loan obligations. Both are viewed negatively by loan providers and may affect the chances of getting loan application approved.
- ✦ **Incorrect Personal Details** Credit information is submitted to CIBIL by various loan providers. Each loan provider submits customers' credit account along with their personal information such as name, address, date of birth, PAN Card Number and so on. CIBIL then uses the personal information to collate these details into a single credit report which provides customers' complete credit profile. Ensure that customers have provided accurate and updated details to loan provider at the time of their loan application. In addition, every time their personal details change or are updated, they should inform their loan provider so that it is possible for it to make the necessary changes to its database.
- ✦ If customers believe that either some of the personal details or one or more accounts on their credit report do not belong to them, they should write to the credit bureau. The credit bureau will look into the matter and help customers update the information if required. Overall, the best solution is to check customers CIBIL credit report before they apply for a loan so that they will know their loan provider is evaluating their loan application based on accurate data.
- ✦ Typically, one checks credit report when one's loan gets rejected and the loan provider tells that it is because of some information on credit report. Mistakes on a credit report can be easily corrected with the CIBIL's help. All the customer need to do is:

- a) Purchase their CIBIL credit report
- b) Identify the erroneous information

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c) Provide name, address, date of birth, a Control Number and the nature of the error on the credit bureau's website. The Control Number is a unique 9-digit number found on the top right hand side of the customers' CIBIL Credit Information Report and is generated every time a credit report is generated. It is very important to provide this number to the bureau, as it helps identify the CIBIL credit report on which the customer would like to 'dispute' information.

### MAJOR FACTORS AFFECTS CREDIT SCORE

- 1.Payment history: Making late payments or defaulting EMI's or dues (recently or consistently) shows customers are having trouble to pay existing credit obligations and will negatively affect their score.
- 2.High utilization of Credit Limit: While increased spending on credit card will not necessarily affect their score in a negative manner, an increase in the current balance of their credit card indicates an increased repayment burden and may negatively affect their score.
- 3.Higher percentage of credit cards or personal loans (also known as unsecured loan): Having a balanced mix between the secured loans (such as Auto, Home loan) and unsecured loan (such as Personal loan, Credit Card) is likely to have a more positive affect on credit score.
- 4.Many new accounts opened recently: If customers have recently been sanctioned multiple loans and credit cards, then lenders will view their application with caution because this behavior indicates customers debt burden has increased, which will negatively impact customers' score.

### HOW A CUSTOMERS CAN IMPROVE THEIR CREDIT SCORE

Customers can improve their Credit Score by maintaining a good credit history. This will be viewed favorably by lenders and it can be done with 6 simple rules:

- 1.Always pay dues on time: Late payments are viewed negatively by lenders.
- 2.Keep balances low: Always prudent to not use too much credit, control utilization.
- 3.Maintain a healthy mix of credit: It is better to have a healthy mix of secured (such as home loan, auto loan) and unsecured loans (such as personal loan, credit cards). Too many unsecured loans may be viewed negatively.
- 4.Apply for new credit in moderation: You don't want to seem Credit Hungry; apply for new credit cautiously.
- 5.Monitor co-signed, guaranteed and joint accounts monthly: In co-signed, guaranteed or jointly held accounts, customers are held equally liable for missed payments. Customer's joint holder's (or the guaranteed individual) negligence could affect their ability to access credit when they need it.
- 6.Review credit history frequently throughout the year: Purchasing CIR from time to time to avoid unpleasant surprises in the form of a rejected loan application.

### CONCLUSION

The establishment of CIBIL is an effort made by the Government of India and the Reserve Bank of India to improve the functionality and stability of the Indian financial system by containing NPAs while improving credit grantors' portfolio quality. CIBIL provides a vital service, which allows its

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Members to make informed, objective and faster credit decisions. Since April 2011, Credit Information Bureau (India) Ltd (CIBIL), India's first credit information company, has allowed consumers to purchase their "CIBIL TransUnion Score" directly from CIBIL of credit institutions, is now available to consumers for Rs 450.

Credit penetration in the country is growing. CIBIL - Credit penetration in India has deepened considerably in the last seven years, with the share of first-time borrowers growing from 32% in 2006 to 50% in 2012. "Out of this, 62% of these new-to-credit borrowers have obtained secured loans like home and auto, while 28% have availed unsecured loans like credit card and personal loans". CIBIL, the country's credit information bureau, which tracks credit history of consumers, is taking steps to include mobile and telephone bill payment history to calculate the credit worthiness of an individual. It has already launched a pilot initiative with Vodafone's post-paid customers and is in talks with the country's largest telecom by customers, Bharti Airtel, for a similar project. CIBIL is India's leader in credit information, has selected HP Converged Infrastructure to improve the performance of its IT operations to meet the needs of its expanding customer base and accelerate business growth. Pioneering and leading the growth of India's credit risk management industry, CIBIL provides CIBIL Report and CIBIL TransUnion Score to more than 1,000 banks and credit institutions, using credit histories of more than 340 million consumer records and more than 17 million commercial records. Almost no bank in India lends without checking the CIBIL Report of an individual or business entity.

With the continued expansion of India's economy and financial services sector, CIBIL needed to prepare its business operations for future growth. The company's existing technology infrastructure had limited scalability, was becoming complex and costly to operate, and was slow to meet the new era of business demands. With sustained retail credit growth alongside an improved economic environment, business volumes are growing steadily and therefore the size of CIBILs consumer and commercial bureau is increasing rapidly.

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