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ENTRY AND STRATEGIC INFORMATION DISPLAY IN CREDIT MARKETS*

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In many countries, lenders voluntarily provide information about their borrowers to private credit registries. A recent World Bank survey reveals that the display of a lender's own borrower information is often not reciprocated. That is, access to these registries does not require the prior provision of proprietary data. We argue that incumbent lenders release information about a portion of their profitable borrowers for strategic reasons. The reasoning is that the pool of unreleased borrowers becomes characterised by a severe adverse selection problem. This prevents the entrants from bidding for all the incumbent's profitable borrowers and reduces their scale of entry.

A recent survey by the World Bank points out that in 70 countries credit information exchange between lenders takes place. Exchange of information between lenders has been introduced in many countries that recently experienced financial liberalisation.[1] This illustrates the growing importance of this industry (Miller, 2003). Credit information exchange between banks often occurs through credit registries. Miller (2003) distinguishes two types of credit information registries: public credit registries and private registries. Public credit registries are mainly organised around the central bank with mandatory provision of information. Private registries in contrast are initiated voluntarily. Miller (2003) finds that 'access to data in public registries is often limited on the grounds of reciprocity' (p. 48). This is in stark contrast to private registries, 'where 56% of the sampled firms stated that they did not require lenders or others to provide data to have some access' (p. 48). This World Bank survey indicates that the voluntary release of unreciprocated or unilateral credit information display is an important empirical observation.

Insights with regard to reciprocated information exchange have been produced in the last decade.[2] However, economic research has not so far explained unilateral information display. The main result of our article is that incumbent banks may strategically provide information about their borrowers to reduce the extent of entry by

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[1] The World Bank survey presented in Miller (2003) 'document[s] the growth of credit reporting internationally, with significant recent expansion in both public credit registries and private sector credit reporting firms. In the survey of private reporting firms, approximately half of the sample (thirty-nine of seventy-six respondents) began operations since 1989. This same pattern was observed for the Latin American subsample, where fourteen of thirty-one firms reported beginning their credit reporting activities since 1989. Eastern Europe, not surprisingly, reported the most new credit reporting firms, with all thirteen registries there having been established since 1992' (p. 35).

[2] For early results see Klein (1992) and Pagano and Jappelli (1993).