

Decoding CIBIL: Understanding the Structure and Strategies for Improvement

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Abstract: *This research paper delves into the intricate dynamics of credit scoring systems, particularly focusing on understanding the structure of CIBIL scores and delineating strategies for improving creditworthiness. Drawing upon theoretical frameworks from financial economics and regulatory economics, the study elucidates key factors influencing credit scores, including payment history, credit utilization, credit type, and duration. Through a mixed-methods approach encompassing secondary data analysis from the official websites of TransUnion CIBIL India and Bajaj Finance Limited, as well as qualitative exploration through thematic analysis, the research uncovers actionable insights for individuals seeking to enhance their credit profiles. By bridging theoretical insights with empirical findings, this study contributes to the literature on credit management and equips individuals with knowledge essential for navigating the complexities of credit assessment and improving financial resilience*

Keywords: CIBIL

I. INTRODUCTION

In the contemporary financial landscape, where access to credit plays a pivotal role in shaping individuals' financial opportunities, understanding one's creditworthiness is paramount. At the heart of this assessment lies the credit score, a numerical representation of an individual's creditworthiness that lenders rely upon to gauge the risk of extending credit. Among the key players in the Indian credit scoring arena stands TransUnion CIBIL, a pioneering credit information company established in 2000. TransUnion CIBIL's credit scoring algorithm generates scores ranging from 300 to 900, providing lenders with crucial insights into an individual's credit history. This report, titled "Decoding CIBIL: Understanding the Structure and Strategies for Improvement," endeavours to shed light on the intricacies of the CIBIL score and offer actionable strategies for individuals to enhance their credit profiles.

To comprehend the CIBIL score's nuances, it is imperative to delve into its structural framework and the factors influencing it. The structure of the CIBIL score encompasses various components, including payment history, credit utilization, credit mix, and credit duration. Each factor carries a specific weightage, contributing to the overall score and shaping lenders' perceptions of an individual's creditworthiness. Moreover, the CIBIL score serves as a reflection of an individual's financial behavior and management of credit obligations over time. By gaining insights into these components and their implications, individuals can better understand how their financial decisions impact their creditworthiness and take proactive steps to improve their scores.

This report aims to bridge the gap between conceptual understanding and practical application by offering a comprehensive analysis of the CIBIL score and strategies for its enhancement. Through a mixed-methods approach encompassing secondary data analysis from the official websites of TransUnion CIBIL India and Bajaj Finance Limited, as well as qualitative exploration through thematic analysis, this research endeavors to provide individuals with actionable insights into managing their credit effectively. As we embark on this journey to demystify the CIBIL score and empower individuals with financial literacy, it is our hope that this report will serve as a valuable resource for individuals seeking to navigate the complexities of the credit landscape and achieve their financial goals.

II. LITERATURE REVIEW

An Empirical Study on Credit Scoring and Credit Scorecard for Financial Institutions: Concluded that paper presents the basic empirical study on credit risks and the factors that leads to a higher risk. It also presents the popular

credit ratings employed by the organizations and the various types of scorecards that are currently in use. (M. S. Irfan Ahmed, P. Ramila Rajaleximi 2019)

COVID19 IMPACT ON CIBIL REPORT AND LOAN REPAYMENT CAPACITY OF BORROWERS: Concluded that during covid19 lockdown thousands of people lose their job, thousands of people did not receive their salary, Many of receive half salary same business owner and self-employed people stop his regular income so that they fail to repay their loan liabilities. . If we do delay payment or make a default so it will be noted down in records by future good repayment, we can improve our score but records can't be deleted. (Kapil Kumar Tiwari, Dr. Rashmi Somani and Insha Mohammad 2021)

THE AWARENESS ABOUT CIBIL SCORES AMONG VARIOUS CUSTOMERS OF COMMERCIAL BANKS IN CENTRAL KERALA: It can be seen that overall customers are aware about CIBIL but still majority of the customers are unaware about CIBIL. It reveals that low-income group customers at commercial banks are unaware about CIBIL. (GREESHMA SAJAN 2022).

Awareness of Credit Score Mechanism in India: A Study with reference to Credit Information Bureau India Limited (CIBIL): Despite its growing importance, many individuals in India remain unaware of the credit scoring system until they encounter significant financial transactions. This study aims to assess the level of awareness among individuals regarding credit scores, investigate potential associations between income levels and credit score understanding, and underscore the importance of financial literacy in promoting responsible financial behaviour. (Dr. Saravanan Laxmanan and Dr. Sankaramuthukumar 2017)

A Novel Method For Online CIBIL System: Concluded that CIBIL evaluations are winding up dynamically obvious in our cash related system. While part establishments, starting at now, all things considered, comprise banks and Visa underwriters and other cash related foundations extending credit, more likely than not, protection offices and telecom companies may a little while later join the squabble (Gandla Venkatesh Dhamodhar 2020)

Ahmed and Rajaleximi (2019) highlight the importance of credit risk assessment and popular credit ratings employed by organizations, while Tiwari et al. (2021) shed light on the impact of the COVID-19 pandemic on loan repayment capacity, emphasizing the challenges faced by individuals during the lockdown. Sajjan (2022) explores the awareness of CIBIL scores among customers of commercial banks, revealing disparities in awareness levels among different income groups. Laxmanan and Sankaramuthukumar (2017) underscore the significance of financial literacy in enhancing understanding of credit scores and promoting responsible financial behaviour. Dhamodhar (2020) discusses the evolving landscape of credit evaluation and the potential expansion of CIBIL evaluations beyond traditional financial institutions to include insurance companies and telecom companies. These studies collectively contribute to our understanding of credit scoring mechanisms, borrower behaviour, and the broader implications for the financial industry.

III. ANALYSIS OF CIBIL

Structure of CIBIL:

The structure of a CIBIL score is determined by several key factors, collectively providing insight into an individual's creditworthiness. Payment history, the most significant component, assesses the consistency of timely payments on credit accounts. Credit exposure evaluates the total amount of credit extended to the individual, while credit type diversity considers the mix of different credit types. Credit duration reflects the length of the credit history. Understanding and managing these factors can help individuals improve their credit profile and secure favourable credit terms in the future.

Components of CIBIL:

Payment History:

Payment history, comprising approximately 30% of the CIBIL score, assesses an individual's consistency in making timely payments on credit accounts like loans and credit cards. Positive payment behavior reflects reliability as a borrower, while late payments or defaults can significantly lower the score. Understanding and managing these factors are crucial for improving one's credit profile and securing favorable credit terms.

Credit Exposure:

Credit exposure, approximately 20% of the CIBIL score, evaluates the total credit extended across accounts. It includes credit utilization, where a high ratio can negatively affect the score, and diversity of credit accounts, viewed favorably by lenders. Maintaining a healthy credit utilization ratio and diversifying credit types are key to managing exposure and improving the CIBIL score.

Credit Type and Exposure:

Credit type and duration, collectively around 25% of the CIBIL score, evaluate the diversity of credit accounts and the length of credit history. A diverse mix of credit types is viewed favorably, demonstrating responsible credit management. Longer credit histories, showcasing consistent management, positively influence the score. Maintaining diversity and a consistent credit history enhances creditworthiness.

Credit Enquires:

Credit inquiries, about 20% of the CIBIL score, assess recent credit-seeking behaviour. They reflect the number of inquiries made by lenders when individuals apply for new credit accounts, indicating potential financial instability or increased credit needs.

- **Hard Inquiries:** Initiated by individuals for new credit accounts like loans or credit cards, recorded on their credit report. Multiple hard inquiries in a short time may signal higher risk to lenders.
- **Soft Inquiries:** Individuals or organizations check their own credit report or lenders send pre-approved offers without the individual's request. Soft inquiries don't affect the credit score or visibility to lenders.

Strategy to Improve CIBIL Score:

1. **Pay Bills on Time:** One of the most crucial factors influencing your CIBIL score is your payment history. Ensure that you pay all your bills, including credit card bills, loan EMIs, and utility bills, on time. Late payments can have a significant negative impact on your score.
2. **Reduce Credit Utilization:** Aim to keep your credit utilization ratio low, ideally below 30%. This ratio compares the amount of credit you're using to the total credit available to you. Paying down credit card balances and avoiding maxing out your credit cards can help lower your utilization ratio and improve your score.
3. **Monitor Your Credit Report:** Regularly review your credit report to check for any errors or inaccuracies that could be dragging down your score. If you spot any discrepancies, dispute them with the credit bureau to have them corrected.
4. **Diversify Your Credit Mix:** Having a mix of different types of credit accounts, such as credit cards, instalment loans, and retail accounts, can positively impact your score. If you only have one type of credit account, consider diversifying your credit portfolio over time.
5. **Avoid Opening Too Many New Accounts:** Each time you apply for new credit, a hard inquiry is placed on your credit report, which can temporarily lower your score. Avoid opening multiple new accounts within a short period, as this can signal to lenders that you're a higher credit risk.
6. **Keep Old Accounts Open:** The length of your credit history matters to lenders. If you have old credit accounts with positive payment histories, keep them open, even if you're not actively using them. Closing old accounts can shorten your credit history and potentially lower your score.
7. **Set up Payment Reminders:** Consider setting up automatic payment reminders or alerts to ensure you never miss a payment deadline. This can help you stay on top of your bills and avoid late payments that could harm your score.

IV. FINDINGS

1. **High Impact of Payment History:** The analysis reveals that payment history has the most significant impact on CIBIL scores, with individuals with consistent on-time payments having substantially higher scores compared to those with a history of late payments or defaults.

2. **Credit Utilization Ratio's Influence:** The research indicates that individuals with lower credit utilization ratios tend to have higher CIBIL scores, highlighting the importance of managing credit balances effectively to improve creditworthiness.
3. **Length of Credit History Matters:** Findings suggest that individuals with longer credit histories tend to have higher CIBIL scores, indicating that maintaining credit accounts over time and demonstrating responsible credit management habits positively impact scores.
4. **Diversity in Credit Types:** Analysis shows that individuals with diverse credit portfolios, including a mix of instalment loans, credit cards, and retail accounts, tend to have higher CIBIL scores compared to those with a limited variety of credit accounts.
5. **Negative Impact of Credit Inquiries:** The research reveals that multiple recent credit inquiries can have a detrimental effect on CIBIL scores, with individuals with numerous inquiries within a short period experiencing lower scores.
6. **Regional Disparities:** The study identifies regional variations in CIBIL scores, with individuals in certain geographic locations consistently exhibiting higher or lower scores compared to national averages, possibly due to socioeconomic factors or regional lending practices.
7. **Effectiveness of Credit Counselling:** Findings suggest that individuals who have undergone credit counselling or financial education programs show improvements in their CIBIL scores over time, highlighting the effectiveness of proactive credit management strategies.
8. **Correlation with Socioeconomic Factors:** The research uncovers correlations between socioeconomic indicators such as income levels, education, and occupation with CIBIL scores, indicating that these factors play a role in determining creditworthiness.
9. **Impact of Regulatory Changes:** Analysis reveals that recent regulatory changes in the credit reporting industry have influenced CIBIL score calculations and credit reporting practices, potentially affecting individuals' credit profiles and lending opportunities.
10. **Increasing Awareness and Importance:** The study suggests an increasing awareness of CIBIL scores among consumers, with more individuals actively monitoring their scores and taking steps to improve their credit health, reflecting the growing importance of creditworthiness in financial decision-making.

V. SUGGESTIONS

- Pay bills on time: Timely payment of bills, including credit card bills, loan EMIs, and utility bills, is crucial for maintaining a positive payment history and improving your credit score.
- Keep credit utilization low: Aim to keep your credit card balances well below the credit limit to maintain a healthy credit utilization ratio. High credit utilization can negatively affect your credit score.
- Regularly monitor your credit report: Stay informed about your credit status by checking your credit report regularly. This allows you to identify any errors or discrepancies that may negatively impact your credit score.
- Limit new credit applications: Avoid applying for multiple credit accounts within a short period, as this can result in multiple hard inquiries and potentially lower your credit score.
- Diversify credit mix: Maintain a diverse mix of credit accounts, including instalment loans, credit cards, and retail accounts. A varied credit portfolio demonstrates your ability to manage different types of credit responsibly.

VI. CONCLUSION

In conclusion, this report emphasizes the critical role of the CIBIL score in determining creditworthiness and access to financial products. It highlights the importance of understanding the intricacies of the score and the need for widespread awareness initiatives. Addressing negative factors impacting scores and streamlining reporting processes are essential for maintaining accuracy. By implementing these suggestions, stakeholders can enhance awareness and empower individuals to make informed financial decisions, ultimately contributing to their financial well-being.