

ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



# How to complete credit information infrastructure through moral suasion and coalition building

## The Collaboration with SPI Romania

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# Credit Information Situation in Romania

## Private Credit Bureaus

- Most important (Biroul de Credit) set up by banks in February 2004, with IFC support

Phase I – negative info (implemented in August 2004)

Phase II – positive info (implementation started in November 2004, very slow progress until recently)

Phase III – scoring (envisaged to start in 2008)

- Experian, dealing with telecoms info mainly

## Public Registers

- National Bank of Romania Credit Information Bureau (registers overdue claims over RON 20,000)

# Why Slow Progress?

## 1. Weak coverage of positive credit information - November 2006:

- only 10 institutions participating (7 banks)
- coverage of 26 percent of the retail banking market
- largest two banks did not participate with positive credit info

⇒ negative implications:

- increase of population over-indebtedness risk!
- hamper increase of access to finance for “good borrowers”, including higher cost of credit (adverse selection)
- drawbacks in quality of banks’ portfolios and risk management

## 2. Later on ... Data Protection Agency threatening to issue regulation banning positive credit information reporting

# Broad Impediments To Positive Credit Information Sharing

## Big banks' main arguments:

- the information provided is far more relevant to the other banks than the information received;
- mother entities do not report positive credit info;
- positive info reporting is a low priority.

## Small banks' main arguments:

- technical drawbacks (need to adapt IT systems);
- lack of awareness on the benefits of positive info sharing and the practical steps needed to start implementing it.

# How To Break This Stalemate?

Promoted by the WB's Convergence Program, public-private working group set up to address the issue

**September 2006:** high level Special Projects Initiative (SPI) Committee recognizes the importance of the issue from both public and private perspective and assigns it a high priority;

**October 2006:** mixed working group composed of eleven representatives of banks (both negative and positive), credit bureau and NBR supported by IFC, Convergence Program, and SPI Secretariat;

**December 2006:** working group finalizes interviews with stakeholders and study with recommendations.



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## SPI Committee Solution Endorsement

SPI Secretariat  
Analyses & Consensus-Building

Project Owner 1

Project Manager 1

SPI Working Group 1  
(Experts from public and private institutions)

Project Owner 2

Project Manager 2

SPI Working Group 2  
(Experts from public and private institutions)

Project Owner N

Project Manager N

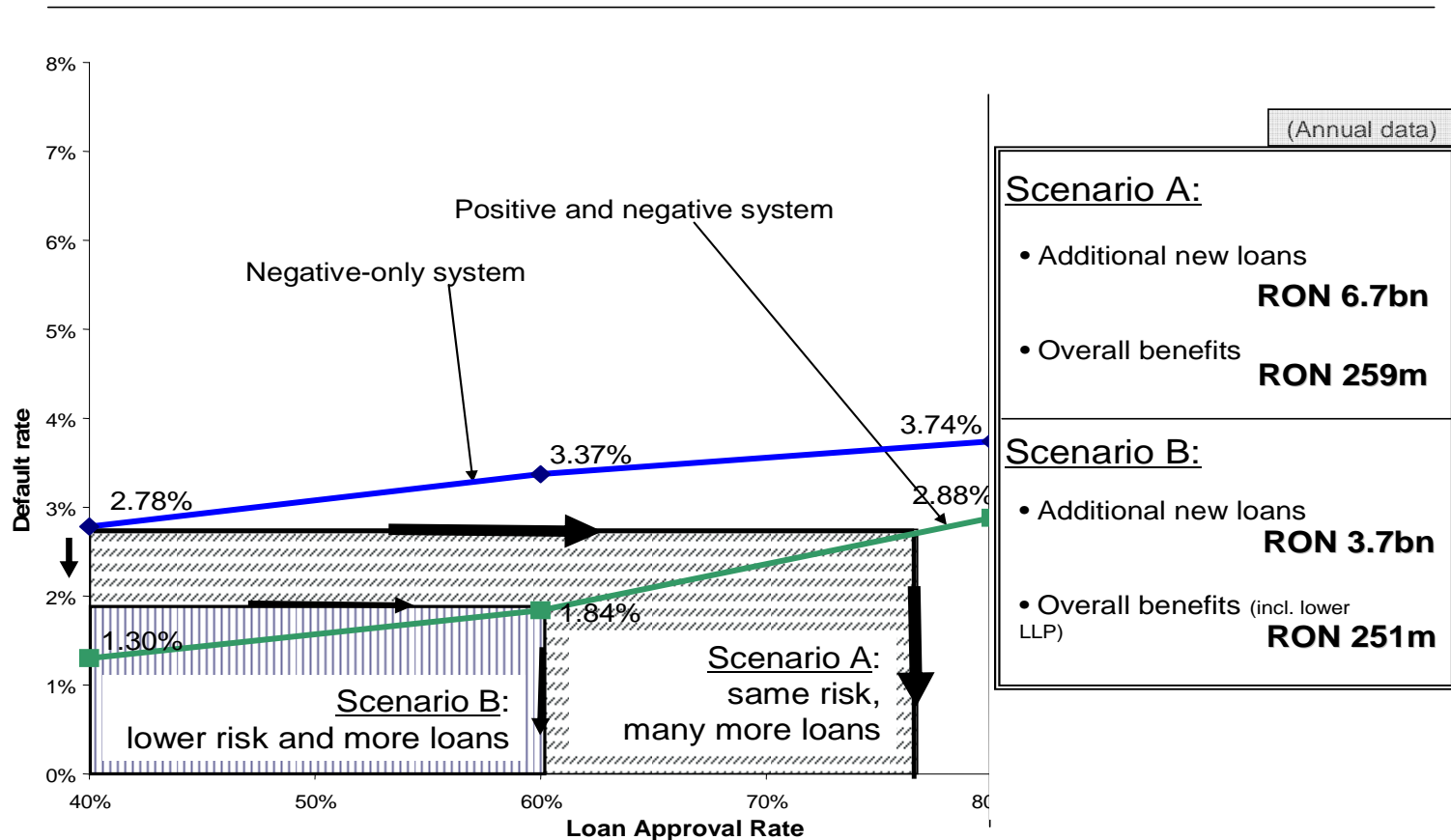
SPI Working Group N  
(Experts from public and private institutions)



SOLUTION FINDING (Based on public-private consultations through RIA)

Global Financial Markets Group

# Convergence Impact Assessment: Key To Show Gains From Positive Info Sharing



Convergence calculations on IMF data [IMF, *Romania: Selected Issues and Statistical Appendix*, May 2006].

# The Project Working Group Unanimous Recommendations

1. Need for NBR regulatory intervention (i.e. incentives for positive reporting banks);
2. Need for concerted action to support Data Protection Agency in coming up with a regulation in line with international best practices but responding to specificities of Romanian lending market;
3. Need to keep all stakeholders (authorities – market players – credit bureaus – consumers) engaged in the process of promoting of positive information sharing.



# Implementation Sequence (I)

**December 2007:** SPI Committee expresses preference for public-private moral suasion instead of regulatory action;

**January 2007:** SPI Committee members NBR First Deputy Governor and RBA President urge the management of two largest banks to contribute positive credit information to the credit bureau because of large system-wide gains;

**January 2007:** SPI Secretariat invites Data Protection Agency to participate in the public-private working group;

**February 2007:** Two largest banks request to SPI Secretariat information for better preparing management decision;

# Implementation Sequence (II)

**February 2007:** Under SPI Committee pressure, two largest banks agree jointly to sharing positive credit info. SPI Secretariat keeps on following up with their management;

**March 2007:** NBR Governor reinforces SPI Committee stance with public statement that banks should dispose of a complete image of the individual borrowers' indebtedness;

**April 2007:** Two largest banks communicate to SPI Committee decision to start reporting positive credit info;

**April 2007:** Data protection conference with IFC participation; Data Protection Agency and Consumer Protection Authority join PWG.

# Where Are We Today?

Coverage of positive credit information jumped from 26% to 83% of retail banking market (and keeps on growing)!

Data Protection Agency recognizes the value of positive credit information and prepares a new regulation allowing for positive information sharing.

Discussions on other important issues for an efficient implementation of positive information reporting are still pending with Data Protection Agency:

- participation of non-financial institutions (i.e. telecoms); terms and ways of reporting borrowers to Credit Bureau; further improvements in credit bureau system, etc.

# The Public-Private Approach Impact

The broad participation of public and private stakeholders through a permanent dialogue platform can lead to the development of more effective and quicker solutions (i.e. market self-regulation is preferable to regulatory intervention).

When the issues at stake are complex because they involve different interests, it is important that a permanent communication platform (SPI like) is established to facilitate analytical work and consensus building.

# The SPI Value to IFC Advisory Services

## Romania project with SPI

- Prior high-level authorities and industry commitment (through SPI Committee) to implement solution identified
- Permanent access to all financial sector stakeholders (authorities–industry–consumers–IFIs) to design most effective implementation
- Effective platform to carry on analyses and consensus-building, backing scarce IFC specialist resources

## Romania project without SPI

- Difficult gauging of effective client ownership
- No mechanism to reconcile potential opposing stakeholder views
- Stand-alone project, not part of a large-scale financial sector modernization program
- Difficulty to promote self-regulatory solutions
- Challenging implementation and weak monitoring of results

**For more information:**

**[www.spi-romania.eu](http://www.spi-romania.eu)**

**IFC SmartLesson (#230):**

**[http://smartlessons.ifc.org/files/FPDVP\\_Convergence.pdf](http://smartlessons.ifc.org/files/FPDVP_Convergence.pdf)**

**Thank you!**