



SPI Project:

Expansion of Credit Bureau Services

Preliminary Impact Assessment

Background* - 1

The Credit Bureau system is going to be developed in 3 phases:

- Phase I – negative information received only from banking sources (completed in August 2004);
- Phase II – negative and positive information (outstanding credits) collected from banking and non-banking institutions (ongoing, started in August 2005);
- Phase III – implementation of value added products, including the credit scoring (no implementation calendar for the time being).

At present, 27 banks share negative information (accounting for 96 percent of the retail market) of which 7 banks (accounting for 26 percent of the market) also share positive information.

The incentives for sharing negative information consist of banks being able to better ascertain the good borrowers from bad borrowers, which is likely to result in lower default rates.

Sharing positive information can result in an increase of the banks' loan portfolios (by enlarging their customer base and by lowering risk margins based on good credit histories). Positive information sharing may also reduce the risk of over-commitment by performing borrowers.

Background* - 2

Disposing of more comprehensive information on their clients, banks can have a better image of the total exposure of their clients towards the banking system, which may result in an improvement of the credit risk management, a decrease in the costs with provisioning, and lower default rates.

However, the benefits can only be fully exploited if all the banks are sharing positive information. The present situation does not ensure a level playing field for the banks that share positive information and inform their lending decisions on more comprehensive disclosure by borrowers.

The reasons for not sharing positive information seem to be that banks are afraid that their clients may be “stolen” by other banks (although the information on clients can only be disclosed based on their permission); in some cases, banks observe the practices of their mother entities that do not share positive information; and there are banks that have a large market share and are able to rely on in-house information on their clients (although these ones could be as well clients of other banks). Some concerns may also arise with respect to the costs pertaining to sharing positive information (human resources, IT systems, etc.).

Background* - 3

The lack of comprehensive positive information sharing also impairs the effectiveness of the application of the NBR rules on limiting the indebtedness of bank clients. Only within a widely-shared positive information environment, the risk of over-commitment by borrowers (i.e. level of indebtedness) can be effectively monitored, preventing situations in which a borrower takes credit simultaneously from several banks, without any of these being aware of the total amount of credit that the borrower has taken on. The NBR could be interested in positive information sharing to improve the monitoring of compliance with the stated norms and to ensure a level-playing field for all market players.

Economic impact assessment - 1

A	Average annual credit flow to households (2004-2005, Mln RON)	7,546
B	Baseline: estimated default rate (%)	2.78%
C	Baseline: loan approval rate (%)	40%
D	Scenario: estimated default rate (%):	1.84%
E	Scenario: loan approval rate (%)	42.5%
F	Additional new loans (Mln, RON) $[(A * E) / C] - A$	471.6
G	Net interest margin (%)	6.6%

Economic impact assessment - 2

H	Gross financial margin (Mln, RON) [F*G]	31
I	Additional Loan Loss Provisions (LLP) (Mln, RON) [D*F]	8.7
J	Net financial margin (Mln, RON) [H-I]	22.4
K	Lower LLP on overall flow (Mln, RON) [A*(D-B)]	(71)
L	Overall benefits	
	1Y horizon: Overall benefits (Mln, RON) [J-K]	93
	5Y horizon: Present value - Overall benefits (Mln, RON)	938

Analytics - 1

Average annual credit flow to households (2004-2005, Mln RON)	a)	7,546
<u>Baseline</u> : estimated default rate (%)	b)	2.78%
<u>Baseline</u> : loan approval rate (%)	c)	40%
<u>Scenario</u> : estimated default rate (%)	d)	1.84%
<u>Scenario</u> : loan approval rate (%)	e)	42.5%
Additional new loans (Mln, RON)	$f)=((a*e)/c)-a$	471.6
Net interest margin (%)	g)	6.6%
Gross financial margin (Mln RON)	$h)=f*g$	31
Additional Loan Loss Provisions (LLP) (Mln, RON)	$i)=d*f$	8.7
Net financial margin	$j)=h-i$	22.4
Lower LLP on overall flow (Mln, RON)	$k)=(a*(d-b))$	-71
Overall annual benefits (Mln, RON)	$l)=j-k$	93.4

		2007	2008	2009	2010	2011	
Average annual credit flow to households (2004-2005, Mln RON)	1)	8,678	9,980	11,477	13,198	15,178	
Growth rate	2)	15%	15%	15%	15%	15%	
Loan approval rate	3)	42.5%	45%	48%	54%	60%	
Additional new loans (Mln, RON)	$4)=(1*(3/c))-1$	542	1,247	2,295	4,619	7,589	
Net interest margin (%)	5)	6.6%	6.6%	6.0%	6.0%	5.5%	
Net interest margin (Mln RON)	$6)=4*5$	36	82	138	277	417	
Additional Loan Loss Provisions (LLP) (Mln, RON)	$7)=d*3$	10	23	42	85	140	
Net financial margin	$8)=5-6$	26	59	95	192	278	
Lower LLP on overall flow (Mln, RON)	$9)=(1*(d-b))$	-82	-94	-108	-124	-143	
Overall annual benefits (Mln, RON)	$10)=7-8$	107	153	203	316	420	
PV - Overall benefits (Mln, RON)	11)	100.3	133.5	165.5	240.3	298.4	938.1

Discount rate (%)	7.10%				
Discount factor	0.93370682	0.871808	0.814013	0.76005	0.709664

Analytics - 2

Data and assumptions:

- a) Baseline: negative info sharing prevailing
 - b) Baseline default rate (*): 2.78%
 - c) Baseline loan approval rate(*): 40%
 - d) Households credit flow considered for assessment: average 2004-2005 (Bln, RON) (**): 7.5
 - e) Scenario (*Lower risk, More loans*) (*)
 - default rate: 1.84%
 - approval rate: 60%
- | year | 2007 | 2008 | 2009 | 2010 | 2011 |
|------|-------|------|------|------|------|
| | 42.5% | 45% | 48% | 54% | 60% |
- f) Net interest margin(**): 6.6%
 - g) Growth rate of credit flow to households: 15%

(*)= drawn from A. Powell, N. Mylenko, M. Miller, G. Majnoni, *Improving Credit Information, Bank Regulation and Supervision: on the Role and Design of Public Credit Registries*, World Bank Policy

(**)=data drawn from IMF, Romania: Selected issues and Statistical Appendix, May 2006.

(***)= NBR, NBR, Monthly Bulletin-Statistical Section, 9/2006, p. 19