

Convergence Romania Financial Sector Modernization Special Projects Public-Private Initiative Steering Committee



Expansion of Positive Credit Information Reporting

<http://www.spi-romania.eu/program-2007/expansion-of-positive-credit-information-sharing/>

SPI Committee Meeting July 25, 2007

Project Objective:

The achievement of positive credit information sharing based on a system of market based and / or regulatory incentives.

Project Working Group Activities

PWG members: 8

PWG meetings: 6

Public stakeholders

- National Bank of Romania.

Private stakeholders

- Banking sector (3 banks);
- Credit Bureau

Project Main Steps

Nov. 1, 2006: 1st PWG meeting

Dec. 15, 2006: PWG members endorse the report prepared for the SPI Committee

Dec. 20, 2006: SPI Committee members decide not to proceed immediately with regulatory actions but to encourage negative information banks to take on this practice

Jan. 16, 2007: SPI Committee members called upon the management of BCR and BRD to contribute positive credit information to the credit bureau

Jan.-Apr. 2007: SPI Secretariat provided to BCR and BRD additional information (on benefits, risks and technical implementation steps) to prepare for a management decision

Apr. 2007: BCR and BRD confirm their decision to start sharing positive information;

May 24, 2007: Conference on Personal Data Protection in the Banking Activity marks the start of an effective dialogue between banks and NASPDP;

June 26, 2007: 1st PWG meeting with NASPDP on the draft regulation of the authority.

Summary of Impact Assessment:

X: First full year, **Y**: 5-year NPV - (mln Eur)

- Economic system: lending increase (130, 3,000)
- Government: tax revenues (4, 43);
- Banks: net P&L benefits (26, 266);
- Consumers: larger access to finance and lower cost of lending.

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SPI Project on Expansion of Positive Credit Information Sharing

Project Team

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SPI Project on Expansion of Positive Credit Information Sharing

Project Implementation Report

Prepared by the SPI Secretariat
Oana Nedelescu, SPI Director of Analytics and Policy

I. Actions undertaken in April-June 2007

I.1. Actions with market players

In April 2007, the two largest banks confirmed to the SPI Committee their intention to start sharing positive credit information¹. The endorsement of positive credit information sharing by the two largest banks marked the successful achievement of the project objective.

BRD started to report positive credit information in June 2007. Also, **BCR is in the process of preparing its IT systems in order to begin sharing positive credit information in September 2007.** The Credit Bureau is actively supporting BCR in the process of migration to the Phase II of the system.

Following the central bank recommendation to report positive credit information in order to have a better determination of the risk profile of their borrowers and encouraged by the participation of the two largest banks to Phase II of the Credit Bureau, other four banks started to disseminate positive credit information.

At present, without BCR, the banks contributing positive credit information account for over 50 percent of the retail banking market. It is estimated that **by the end of 2007**, following the participation of BCR and of other banks which already started preparations for Phase II, **the banks sharing positive information will cover over 85 percent of the market.** The comparable data in July 2006 was 27 percent of the market.

I.2. Actions with the National Authority for Supervision of Personal Data Processing

The conference held on May 24, 2007 with the National Authority for Supervision of Personal Data Protection opened the dialogue regarding the outstanding issues from the proposed draft regulation in order to strike a balance between the need to protect the consumer data and to dispose of adequate information for improving financial institutions' credit risk management.

¹ At its management meeting from April 18, 2007, BCR decided to start sharing positive information. This decision has been communicated to the SPI Secretariat on April 19, 2007. Likewise, BCR has shared with decision on starting sharing positive information with BRD on April 19, 2007. At its management meeting from April 20, 2007, BRD also decided to start sharing positive information.

Both NASPDP and NACP accepted to participate in the PWG. The first meeting of the PWG, held on June 26, 2007, continued the discussions on the issues raised by NASPDP on the occasion of the conference. So far, the PWG discussed in detail the first three questions and some compromise solutions have been advanced (see Box 1).

Box 1. Summary of PWG discussions on the questions raised by NASPDP

1. *What are the legal grounds for the decisions of the financial institutions to set up a common database for positive and negative data to enable risk assessment?*

While the setting up of the Credit Bureau was a voluntary decision made by the banking community in order to improve the credit risk management (also in line with international practices, where credit bureaus have developed organically), there are legal requirements that justify the legitimate interest for the creation of an industry-wide database with credit information (NBR Regulation no. 3/2007 regarding the mitigation of risks in individuals bank lending, NBR Norm no. 2/2002 regarding know you customer rules, etc.). NASPDP is particularly concerned with the provisions of GEO no. 99/2006, which may be interpreted as if credit institutions can process personal data without the specific consent of the borrower. The PWG will support NASPDP in clarifying with NBR the above mentioned provisions.

2. *What types of data are strictly needed for the financial institutions to achieve the objective of setting up the Credit Bureau, in order to assess the risks in the lending process and to reduce the risk of over-indebtedness?*

While both NASPDP and NACP are in favor of positive information sharing, they believe that non-financial institutions should not participate in the Credit Bureau set up by banks as there is a danger that persons who have delays in servicing their debts to banks will be cut access to basic utilities. The banks representatives outlined that, in practice, more information available will enable financial institutions to make a better determination of the risk profile of their customers and therefore to offer cheaper services to good borrowers, who are at present penalized due to adverse selection issues. A compromise solution proposed was that telecoms participate to the credit bureau exclusively with negative information (according to other countries' practices, such as Germany). NASPDP will consider this proposal and further discussions will be held on the matter.

3. *What is the most adequate term for reporting negative data to the Credit Bureau?*

Both NASPDP and NACP consider that the current 30 day time horizon for reporting delays or failures to repay debts is too short as exceptional circumstances may affect the borrowers' capacity to service their debt. Banks' representatives outlined that this term is a reasonable period of time as in practice could imply the failure to repay two consecutive installments. Also, the terms represents a timely indication of potential debt servicing issues, which is important information for risk management. A compromise solution proposed was to report the first failure to reimburse debts after 60 days and any other subsequent over due payments after 30 days. The banks will consider this proposal and further discussions will be held on the matter.

4. *Which is the date or the term within which the financial institutions can ensure the notification of the persons whose data are transmitted to the Credit Bureau (taking into consideration both the date of signing the credit contract, as well as the date at which the event that generates the reporting of negative data occurs?)*

With the purpose of improving the awareness of customers regarding the notification of the Credit Bureau, banks have proposed to institutionalize the practice of informing the clients 15 days after a repayment incident. This will ensure that clients have enough time (15 days) to take measures to repay their debt. The issue is to be discussed by the PWG.

5. *In which way the persons that are going to be reported to the Credit Bureau or assessed by the Credit Bureau should be informed?*

The banks outlined that persons are notified about the reporting of past due debts to the Credit Bureau in written form and by phone. However, these practices are not uniform across banks. Therefore, a common practice should be institutionalized among banks. The issue is to be discussed by the PWG.

6. *What is the term for storing data to the Credit Bureau, considered to be sufficient for achieving the objective of processing data through this system?*

The banks' representatives outlined the differences between two timelines: the "displaying period" of 5 years, which is the timeframe for the participants to the Credit Bureau to "see" the information about a reported borrower and the "storing period" of 7 years, which is the timeframe for keeping the information on borrowers in the IT system of the Credit Bureau. While banks believe that the "displaying period" of 5 years should be maintained as it promotes borrowers' discipline, the "storing period" could be reduced to 5 years. The issue is to be discussed by the PWG.

II. Proposed next steps

The PWG will continue the discussions on the above mentioned issues and will try to reach commonly agreed solutions for all stakeholders, i.e. to strike a balance between protecting individuals' personal data and promoting sound credit risk management of financial institutions.

The PWG will submit, by September 2007, the proposed solutions to the SPI Committee for its endorsement. The proposed solutions could entail:

- self-regulatory actions undertaken by banks in order to promote an uniform regime for informing their customers about Credit Bureau notifications;
- amendments to the Credit Bureau operating guidelines;
- clarifications received from NBR regarding certain legal provisions;
- the NASPDP draft regulation.

III. Proposed SPI Committee decision

It is proposed that the SPI takes note of (a) large coverage of positive credit information achieved since the start of the SPI project; (b) usefulness of dialogue with NASPDP whose concerns need to be validly addressed to build a robust framework for credit information sharing in Romania, (c) engagement with NASDPD and NACP has enabled to identify residual issues in the credit bureau functioning that needs to be fine-tuned to improve performance.