



The Value of Positive Information Sharing

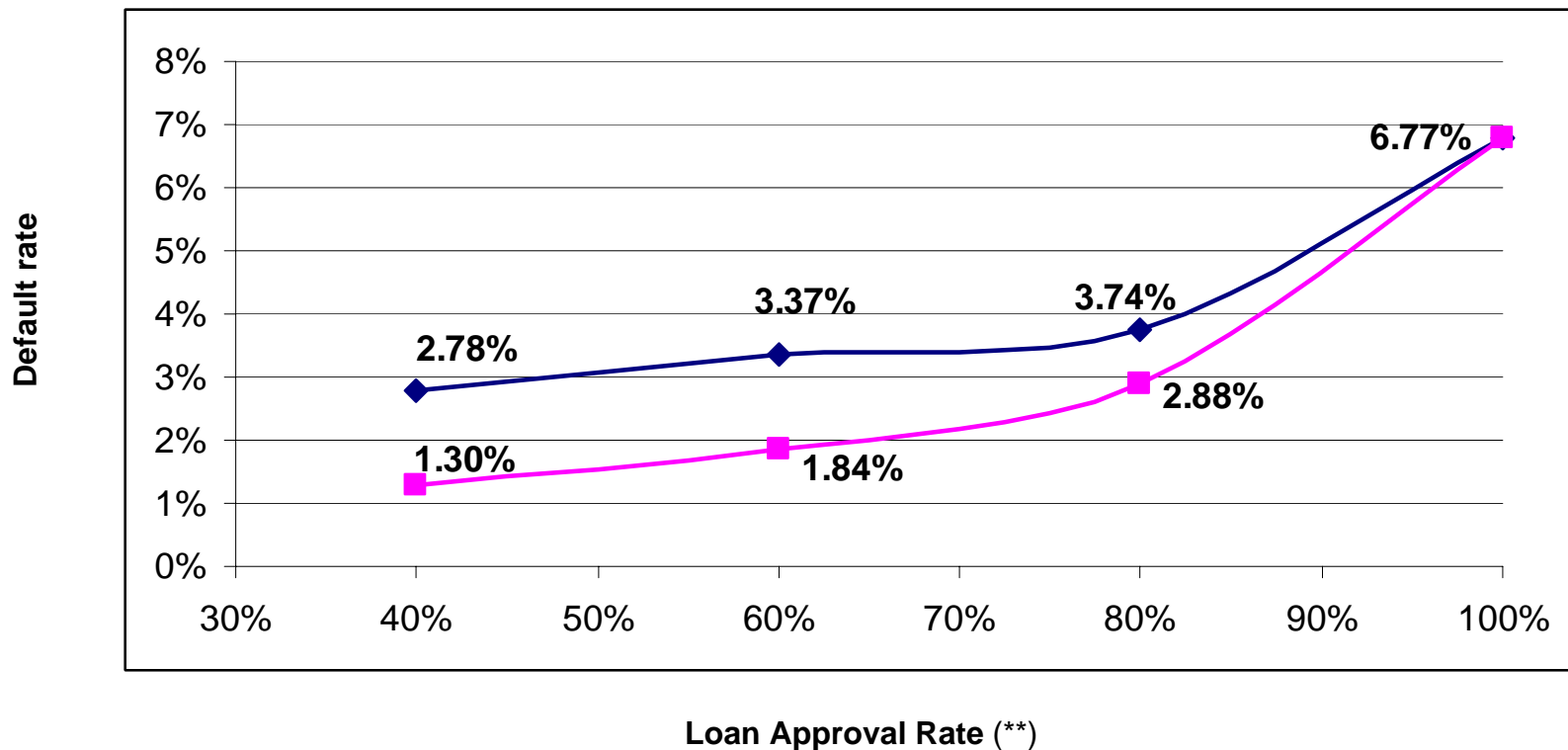
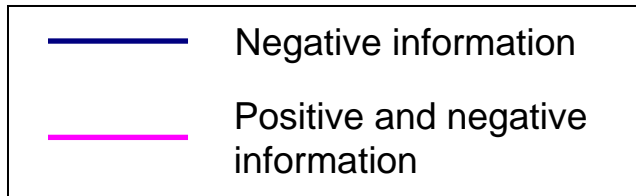
SPI Project: Credit Bureau

Preliminary Impact Assessment on Romania

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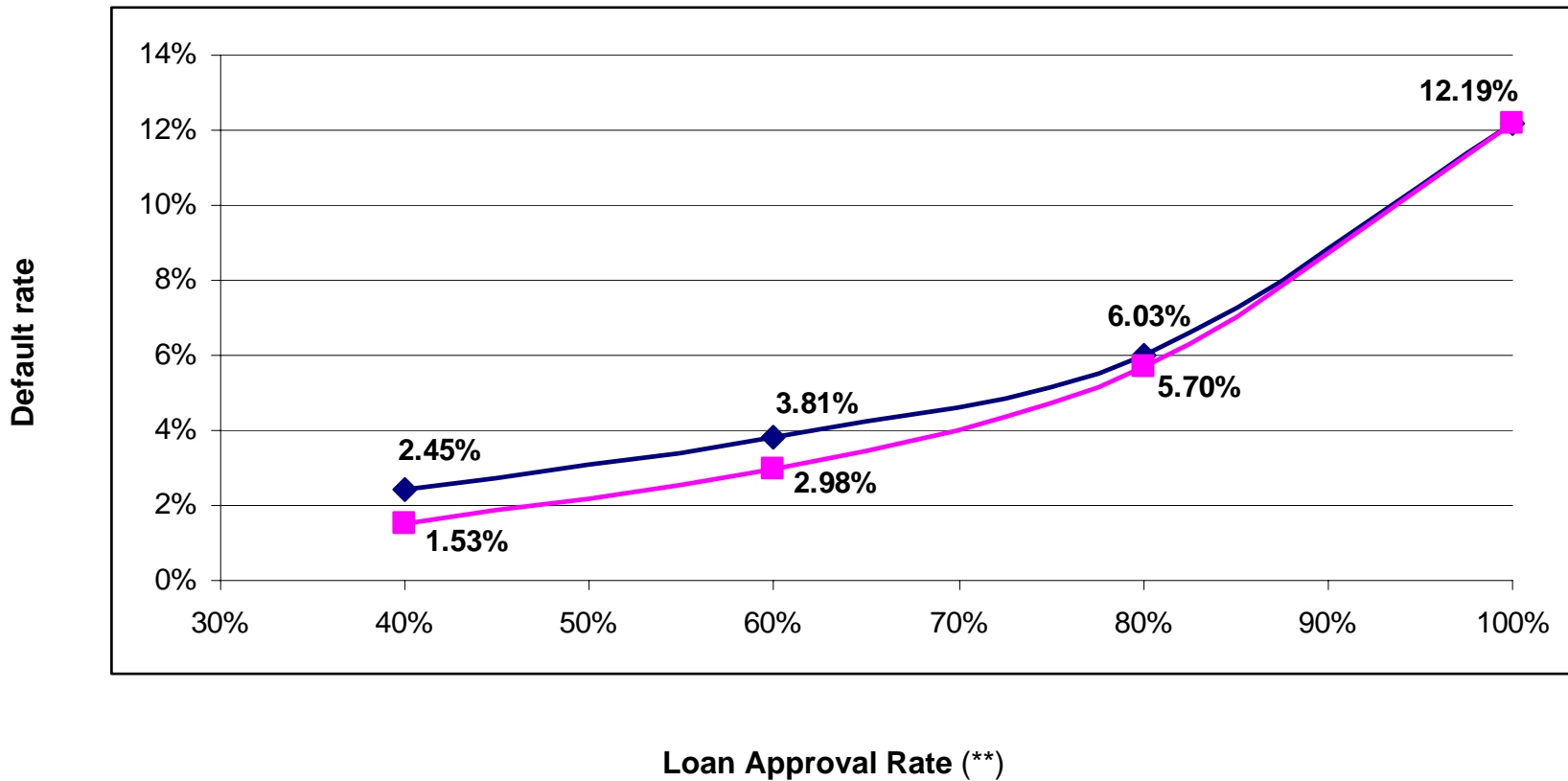
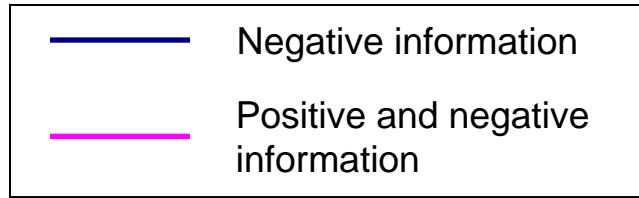
Lower default rates with positive information: the **Brazil** example (*)



(*) 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 Research Working Paper, November 2004.

(**) This refers to the loan granted/loan applications ratio;

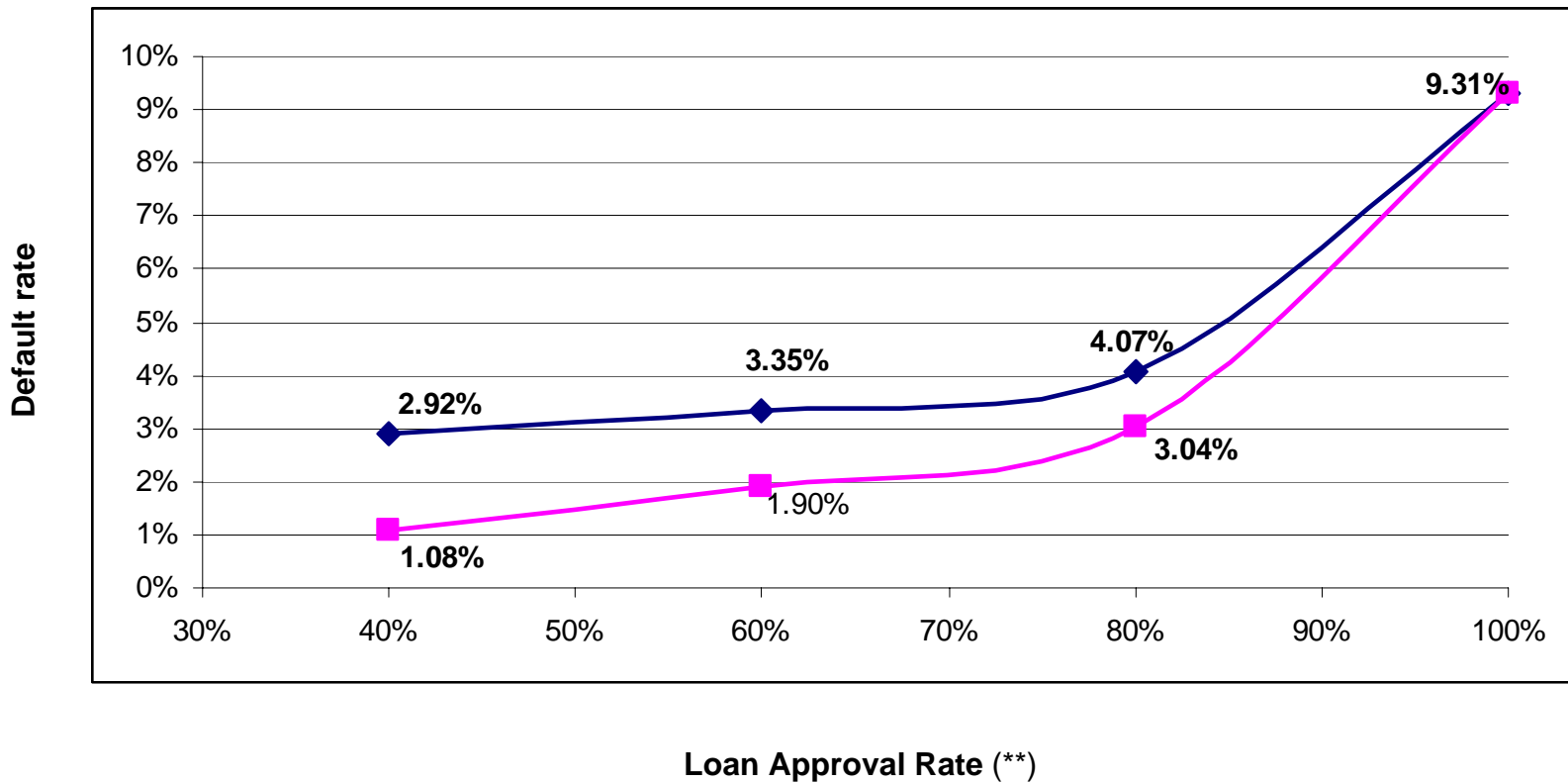
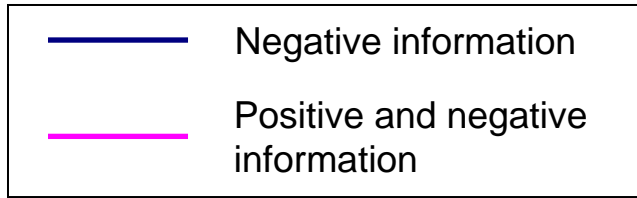
Lower default rates with positive information: the Argentina example (*)



(*) 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 Research Working Paper, November 2004.

(**) This refers to the loan granted/loan applications ratio;

Lower default rates with positive information: the USA example (*)



(*) J. Barron, M. Staten, *The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience*, May 2000.

(**) This refers to the loan granted/loan applications ratio;

Romania – Credit market segment impacted by private risk-scoring models

○ Credit to households:

▶ Outstanding consumer loans (Mln, RON)(*): **28,046**

▶ Outstanding real-estate and mortgage loans to households (Mln, RON)(*): **7,197**

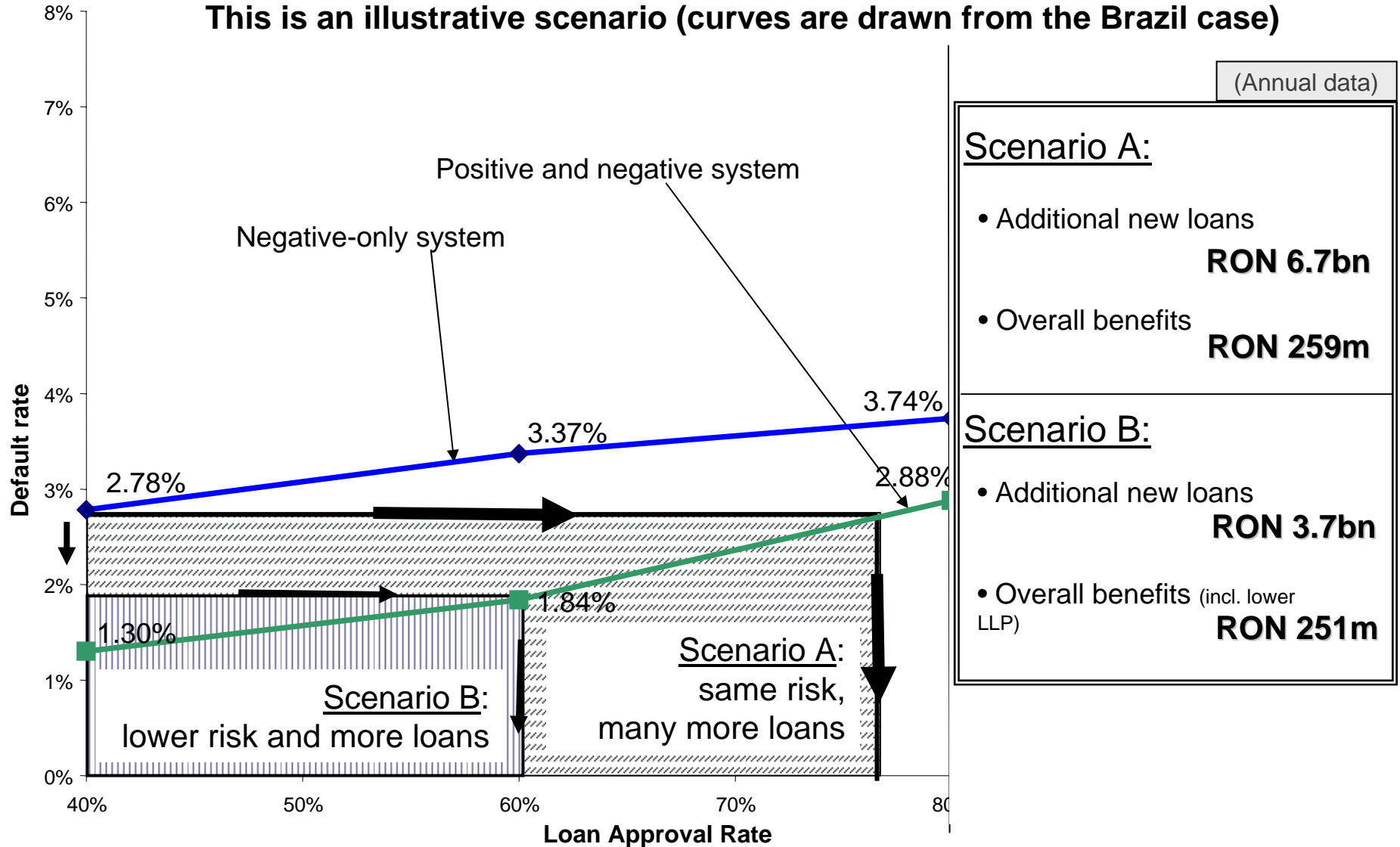
▶ Credit bureau relevant annual credit flow (Bn, RON) (**): **7.5**

(*)= Convergence computations on data from NBR, Financial Behavior of Households and Companies, September 2006.

(**)= Convergence computations on data from IMF, Romania: Selected issues and Statistical Appendix

Romanian banks miss profitable business opportunities without a positive information system

This is an illustrative scenario (curves are drawn from the Brazil case)



(Annual data)

Scenario A:

- Additional new loans **RON 6.7bn**
- Overall benefits **RON 259m**

Scenario B:

- Additional new loans **RON 3.7bn**
- Overall benefits (incl. lower LLP) **RON 251m**

Analytics - 1

	Scenario A <i>Same risk, many more loans</i>	Scenario B <i>Lower risk, more loans</i>
<u>Additional new loans (Mln, RON)</u>	6,791.7	3,773.2
<u>Gross financial Margin (Mln, RON)</u>	448	249
<i>of which:</i>		
<u>Households (Mln, RON)</u>	448	249.0
Additional Loan Loss Provisions (LLP) (Mln, RON)	189	69
<u>Net financial margin (Mln, RON)</u>	259	180
<u>Lower LLP on overall flow (Mln, RON)</u>	0	(71)
<u>Overall benefits (Mln, RON)</u>	259	251

Analytics - 2

Data and assumptions:

- a) Baeline: negative info sharing prevailing
- b) Baseline default rate: 2.78%
- c) Baseline loan approval rate: 40%
- d) Annual credit flow considered for assessment: 2005
- e) Borrower breakdown: average 2004-2005
- f) Resulting flow are as follows:

	2004-2005	
Credit flow (Mln, RON)	16,662.7	(*)
<i>of which:</i>		
Households(Mln, RON)	7,546.3	
	7,546.3	
<u>Credit bureau relevant annual credit flow (Mln, RON)</u>		

- g) Net interest margin for households and SMEs is as follows(**):

	Households
Lending rate	12.6%
Deposit rate	6.0%
Net interest margin	6.6%

(*)=Source: IMF, Romania: Selected issues and Statistical Appendix, Table 2, p. 29

(**)= Source: NBR, Statistical Section, Monthly Bulletin, 8/2006, p. 24

Conclusions

- Positive and negative information-sharing support bigger and better loan portfolios;
- More efficient marketing strategy;
- Positive financial stability implications;
- Better social equity: negative database penalize good consumers (90% of population).

This a Convergence Analysis

“Convergence”⁽¹⁾ is a financial sector development program for South-East Europe focused on:

- Undertaking, as an “honest broker”, analytical tasks of micro-institutional issues as a basis for identifying solutions tailored to country circumstances
- Taking EU integration as a strategic perspective
- Building awareness of market participants, involving them in the search of market-building solutions, and fostering their dialogue with authorities
- Using the experience of regional former policy makers and local experts whenever possible
- Working in partnership with other institutions

Contact: Convergence@worldbank.org

(1) “Convergence” is sponsored by the World Bank with the support of a grant from Italy’s Ministry of Economy