

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

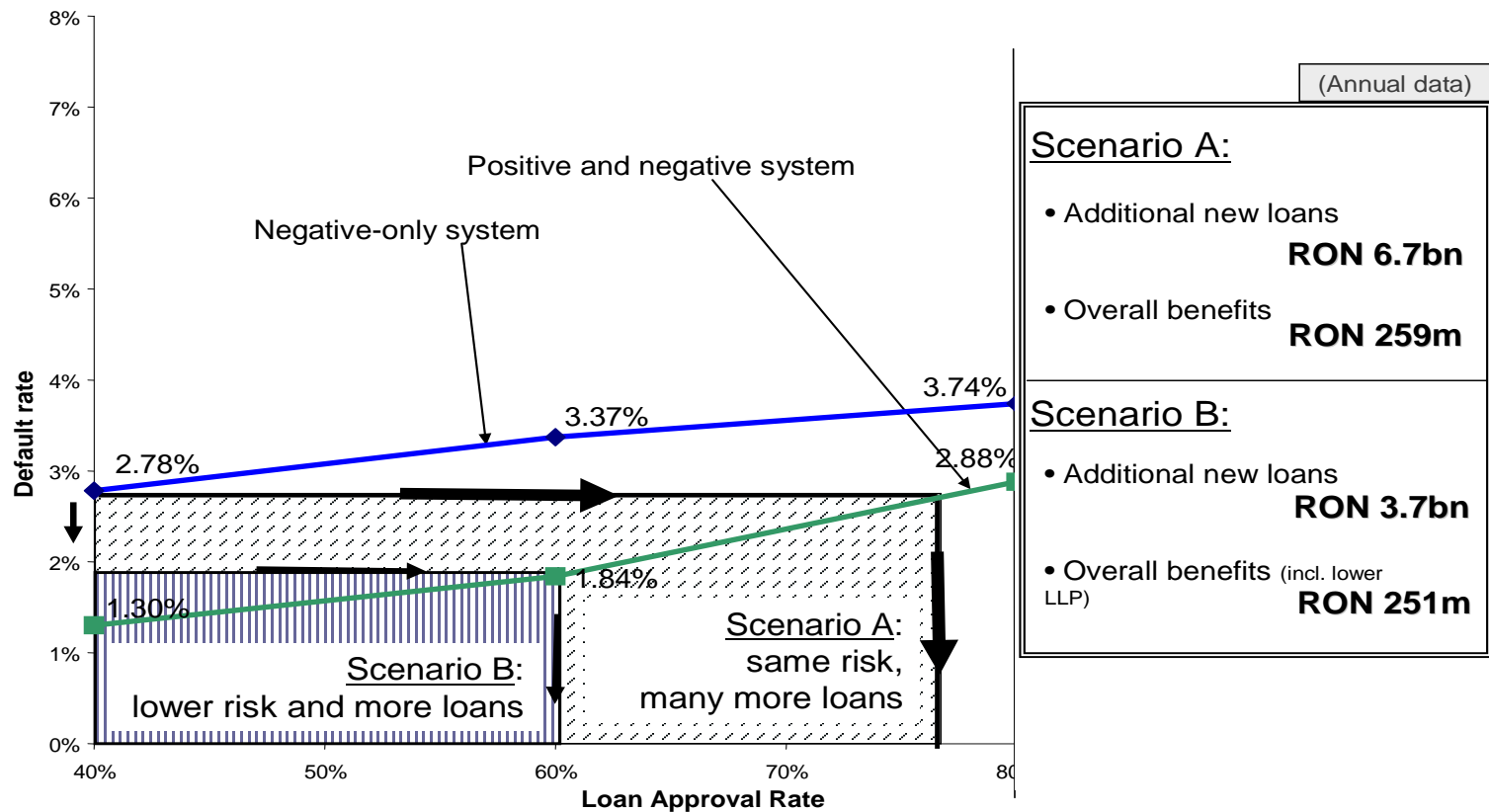
SPI Working Group N
(Experts from public and private institutions)



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

IFC SmartLesson (#230):

http://smartlessons.ifc.org/files/FPDVP_Convergence.pdf

Thank you!