

Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



SPI Project: Lending Databases (Mortgage Loan Servicing and Loss Given Default Databases)

Project Status and “Rescue” Strategy

Project Objective

To prepare a set of recommendations on the consensus-building, practical and technical steps that the banking system will need to take in order to set up databases that address mortgage loan servicing and loss given default information requirements. The preferred option is the purchase and adaptation of off-the-shelf solution(s). Should the alternative of designing a custom-made database be considered necessary, this assessment should include aspects on the consensus-building and technical steps (including “governance” of the actual development and management of the database) that would make the project a reality in a cost-effective manner and a useful timeframe.

Project Team

Project Owner: Nicolae Danila (on behalf of RBA)
Project Managers: Arion Negrila and Dragos Stoian (BCR)
Deputy Project Manager: Beatrice Popescu (Alpha Bank)
Technical Anchor (TAN): Italian Banking Association
Project Working Group Members:
Alexandru Berea, BCR
Camelia Ionescu, BCR
Bogdana Grigoroiu, Raiffeisen Locuinte
George Simion, Unicredit Romania
Angela Margarit, National Bank of Romania

Purpose of this note

To outline the current status of the project and the need for a project “rescue” strategy. Accordingly, the note outlines possible suggestions for overcoming the current deadlock.

Project Working Meetings

None.

A Project Strategy Meeting took place on February 1, 2007.

**Prepared by the SPI Secretariat
March 2007**

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Project Status Report

I. Summary of actions undertaken so far

A. Technical Workshop on the “International Experience with Lending Databases”

The technical workshop held on Tuesday, December 19, 2006, at the Romanian Banking Association, aimed at helping the local stakeholders build a common understanding on the two lending databases starting from existing international hands on experience on the matter presented by experts from the Italian Banking Association (ABI), which represents the project technical anchor.

The ABI experts made the following recommendations:

- a) Banks should **start by understanding the benefits** of setting up the two databases. This could start from gathering each bank’s perspective on the perceived benefits (by performing a survey) and then developing a common vision on the benefits, followed by an awareness-raising campaign;
- b) The databases set-up should be a **joint effort** by the banking community and the NBR in order to ensure consistency with the central bank requirements;
- c) Once the specific data needs are clear, it is important to agree on a **uniform set of definitions** for data collection purposes;
- d) The database project working group should then focus on thinking how to **design an uniform database structure** and at the practical implementation solutions;
- e) The database project working group could also think on how to **enhance the use of credit registers’ databases**.

B. Project Strategy Meeting

At the project strategy meeting held on February 1, 2007¹, the project working group (PWG) agreed that:

- i. the above mentioned recommendations made by the technical anchor could represent the **guiding principles** for the future work of the project working group;
- ii. the databases should include **information that could be used by both risk management and business development** departments of banks;
- iii. the process of designing the database should be very transparent and the banking community should be kept **informed regularly** on the progress of the PWG;
- iv. the PWG members from banks will make a list of the **databases information requirements** from both a risk management and business development perspective and will send their feedback on the questionnaire on the potential benefits stemming from inter-bank LGD/MLS databases and on the experience of their mother entities (both by February 8, 2007);
- v. the SPI Secretariat will support the PWG in identifying **possible local and international off the shelf solution providers**.

¹ It was attended by the following: Dragos Stoian (Project Manager), Alexandru Berea, Angela Margarit and Camelia Ionescu (Project Working Group Members), Teodor Dinu and Monica Obaciu (BCR staff), and SPI Secretariat.

C. Actions undertaken by the PWG

So far, only two of the banks represented in the PWG have submitted a partial feedback on the questionnaire with respect to the benefits stemming from inter-bank LGD/MLS databases (results provided in Appendix 1). The responses received outline that the respondent banks perceive important benefits in terms of improving their information systems and achieving a capital relief from the application of the Basel II requirements (see Box 1).

Box 1. Preliminary results of the survey on the “Potential benefits stemming from inter-bank LGD/MLS databases”

Two PWG member banks have provided their answers on the survey. The results are as follows:

1. while by 2007 banks will apply the Basel II standardised approach, by 2011, the banks will apply either the IRB-foundation or the IRB-advanced approaches;
2. none of the banks has either an LGD or a MLS database currently in place. However, both banks plan on setting up a LGD database in the next 5 years and one of them a MLS database in the next 5 years;
3. both banks consider that the LGD and MLS databases can significantly help them in obtaining benefits provided by Basel II (i.e. capital relief);
4. both banks consider that the expected benefits of the two databases are a more correct allocation of capital, more precise loan loss provisioning and pricing, improvement of risk mitigation and risk transfer;
5. one of the respondent banks also considers that the LGD inter-bank database can help it overcome criticalities arising from running internal databases, such as deeper losses time series and more granularity level for internal LGD estimation;
6. both banks consider that the possible means to raise awareness on the two industry-wide databases are an active dialogue between the PWG and industry representatives and the dissemination of technical materials on the benefits of the databases.

No feedback has been received from banks on the databases informational requirements or on the relevant experience with setting up LGD/MLS databases of their mother entities.

D. Actions undertaken by the SPI Secretariat

The SPI Secretariat undertook the following actions to support the PWG work:

- i. **contacted possible domestic** (Bursa Valorilor Imobiliare, Oracle Romania and SAP Romania) **and foreign** (Algorithmics) **off-the-shelf database solutions providers** and requested more information on their experience in setting up industry-wide databases. In depth discussions have been held with one local and one foreign database solutions providers (such discussion are also planned with the other two local database solutions providers). The project management has been kept on the loop with the discussions with the two database solutions providers.

- ii. The companies with concrete experiences in setting up data consortiums for LGD and MLS will make a presentation to the PWG, banks and representatives of the NBR on April 12, 2007, on the occasion of the workshop on the “International Experience with Provisioning in View of IFRS and Basel II Implementation” jointly organized by the RBA, NBR and Convergence.
- iii. **outlined the informational requirements for the LGD database and a possible database architecture**, based on the information received from the technical anchor – Italian Banking Association. The document provided by the project technical anchor outlined:
 - the LGD database general approach;
 - the models for calculating LGD;
 - the factors influencing LGD and
 - the architecture of the database.

This documentation has been made available to the PWG by the SPI Secretariat on March 6, 2007.

II. The need for a project “rescue” strategy and possible solutions

In view of the limited involvement of the PWG in project activities, it is necessary that a “rescue” strategy is conceived in order to have a more active engagement of the local stakeholders, given the high importance of this project for the Romanian banks.

In order to catalyze stronger involvement by local stakeholders (banking community and NBR) in the design of possible industry-wide database solutions, the SPI Secretariat proposes the following measures:

1. **the RBA to increase the number of banks represented in the PWG and diversifies the profile of the project team.** In this regard, it would be useful to have more banks involved in the project, which could support the awareness-raising on the importance of the project and could bring a new impetus to the project. Likewise, it would be important to achieve a balanced mix of experts with risk management, business development, legal, and IT background. Regarding the latter, a possible option would be to involve RBA experts;
2. **the NRB Supervision Department to get involved in the project.** The involvement of the NBR Supervision Department is justified by the relevance of the two databases for the application of the Basel II requirements and the future involvement of the NBR in analyzing and approving the banks methodologies;
3. **the NBR and the RBA to start together, with SPI Secretariat help, an awareness-raising campaign** on the importance of the two databases for the further development of the banking sector. This campaign would be important for getting the support of the banking community in implementing this initiative;
4. **the expanded project team to prepare a concrete action plan for the project for the endorsement of the SPI Committee** at its third meeting, to be held in late April. The action plan will be designed by the expanded project team, with the support of the SPI Secretariat and the project technical anchor.

III. Proposed Next Steps

The following concrete actions are recommended to be undertaken, in line with the proposals outlined in Section II:

a. Project team appointments:

SPI Secretariat will prepare a letter for RBA Chairman and Project Owner's signature to proceed with the following project management appointments:

Co-Project Manager: request BRD to appoint a person with risk management background
Co-Deputy Project Manager (at the suggestion of Ms. Beatrice Popescu): Ms. I Minea, IT Director, Banca Romaneasca

SPI Secretariat will prepare a letter for Project Manager's signature to proceed with the following project working group appointments:

Ms. Rodica Tuchila, Principal Advisor (IT background), Romanian Banking Association
Request the participation of Raiffeisen (a person with business development background) and of BancPost (a person with risk management background – possible option – Mr. Mihai Stoica)
Request the participation of the NBR Supervision Department (a person with risk supervision background)

b. New project team meeting:

The new project team should meet no later than early May in order to design a concrete action plan for the project revival, with the support of the SPI Secretariat and of the technical anchor. The action plan will be sent in due time to SPI Committee members for their endorsement.

c. Awareness raising campaign:

The SPI Secretariat will prepare for the new project team meeting a proposal for the initiation of an awareness raising campaign on the importance of the two databases for the further development of the banking sector, to be carried out by the RBA and NBR.