ROMANIA
CONVERGENCE FINANCIAL SECTOR MODERNIZATION
Public-Private Special Projects Initiative

Expansion of Positive Credit Information Reporting

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

SPI Committee Meeting
November 13, 2007

Project Objective:

The achievement of positive credit information sharing based on a system of market based and / or regulatory incentives. As an implementation component, to draft a data protection regulation that strikes a balance between the need to protect the consumer data and to dispose of adequate information for improving financial institutions' credit risk management.

Project Working Group Activities

PWG members: 8

PWG meetings: 6

Public stakeholders

- National Bank of Romania
- NACP
- NASPDP.

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, July 17, October 10, 2007: PWG meetings with NASPDP and NACP on the draft regulation of the authority. An improved version of the draft regulation is still under discussion, with some important issues still pending.

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.

For more information, please contact:

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SPI Project on Expansion of Positive Credit Information Sharing

Project Team

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Project Technical Anchors:
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Summary of the SPI Secretariat Contribution

Prepared the meetings of the project working group meetings and documents.
Prepared documents outlining the pros and cons of the issues under discussion and the possible compromise solutions regarding the data protection issues
Related with all stakeholders in keeping the dialogue on the data protection issues open and transparent.

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SPI Project on Expansion of Positive Credit Information Sharing

Project Implementation Report

I. Actions undertaken in July-October 2007

I.1. Progress with positive information reporting

While BRD started to report positive credit information in June 2007, BCR is still in the process of preparing its IT systems in order to begin sharing positive credit information by the end of the year. The Credit Bureau continues to actively support BCR in the process of migration to the Phase II of the system.

At present, 18 banks report positive credit information, accounting for 57 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.

Also, four non-banking financial institutions (one leasing company and three consumer credit companies) contribute positive information to the Credit Bureau.

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

The discussions with the National Authority for Supervision of Personal Data Protection and the National Authority for Consumer Protection continued in order to draft a data protection regulation which strikes a balance between the need to protect the consumer data and to dispose of adequate information for improving financial institutions' credit risk management.

The project working group held meetings on July 17th and October 10th. NASPDP prepared a new draft for the data protection decision, which took into account some of the suggestions formulated by the project working group. The new draft regulation has been shared with the project working group on October 5th.

The main achievement of the project working group discussions refers to the ***acceptance of positive credit information to be shared within credit bureau systems***. Also, some other improvements compared to the initial version of the regulations are: the reporting of delinquencies to credit bureaus after 60 days (compared to 120 days initially) and the retention period for credit information of 3 years (compared to 1-2 years initially).

The draft regulation has been discussed with the project working group at its October 10th meeting. Some of the observations of the banks', NBR and Credit Bureau representatives have been taken into consideration. However, the most important issues at stake (see Annex 1) remain under discussion.

The opinion of banks is that the new draft regulation still has the potential to generate major risks within the banking system, by protecting a small category of clients, respectively the bad borrowers. At the same time, the banks' representatives have outlined that the risks will be ultimately bared by consumers as the losses from non-performing loans will translate into a higher level of commissions and other lending costs.

The central bank's opinion is that the solution is not to restrict the transmission of data to credit bureaus, but rather to promote in an active manner the consumer financial education. The banks' representatives also subscribed to this proposal.

From the consumer point of view, the NACP representative outlined that there is a need for a more complete and accurate information of consumers regarding the risks and costs associated with borrowing. This information could be made available to consumers by both banks and the Credit Bureau. However, the consumer's opinion is that the new draft regulation responds to an enhanced protection need.

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 following next steps are envisaged:

1. **NASPDP** - will prepare an amended regulation, which will take into consideration some of the working group suggestions formulated in the October 10th meeting (22-26 October);
2. **SPI Secretariat –** will send the new draft regulation together with the minutes of the October 10th working group meeting to: a) the RBA for distribution to banks and b) to the First Deputy Governor Office for distribution to relevant NBR departments (comments on the new draft regulation should be received from the consulted parties by November 19th);
3. **SPI Secretariat –** will centralize the NBR and banks' comments and will prepare a document for SPI Committee and NASPDP consideration (by November 26th);
4. **A high level meeting with NASPDP, SPI Committee members, and Credit Bureau representatives** will be held for discussing the outstanding issues (by end of November).

III. Proposed SPI Committee decision

It is proposed that the SPI Committee takes note of the progress of the discussions of the project working group on the data protection draft decision, which is encouraged to address the remaining issues in order to build a robust framework for credit information sharing in Romania. SPI Committee members also express their availability for supporting the project working group in identifying commonly agreed solutions.

ANNEX

Building Consensus on Data Protection Issues

Main issues still under Discussion

	Issues under discussion	Pros	Cons	Proposed solution	Comments
1	**The participation of non-financial institutions in the credit bureaus** *Integration of utilities providers, telecoms, other service providers*	- A better coverage of information on borrowers' risk profile; - Lower costs of credit for good borrowers; - Increased access to credit for first-time borrowers who can prove a good debt servicing history; - By using portfolio monitoring services, financial institutions can anticipate problems of their debtors (i.e. if a client does not pay its utility bill, the financial institution could proactively approach the client	- Decrease access to credit of persons with bad debt servicing history; - Increase costs of credit for bad borrowers.	Accept only GSM telecom providers to provide to the Credit Bureau exclusively negative information (see example of Germany).	The proposed solution would ensure that financial institutions have access to information about how (potential) borrowers serviced their debts with service providers, thus having better indications on the risk profile of potential borrowers. At the same time, the solution is covering only a particular segment of the service providers, which are not vital-utilities providers (gas, water, etc.) ensuring that the access of clients to subsistence services will not be affected.

	Issues under discussion	Pros	Cons	Proposed solution	Comments
		to propose a restructuring of his debt before he gets overdue with the bank too).			
2	**The reporting of declarations with inadvertencies at the Credit Bureau** *Issuance of common guidance for reporting institutions, explaining the coverage of inadvertencies*	- At present, the lack of a comprehensive definition of "inadvertencies" gives room to interpretation by reporting entities; - Also, there are cases of "false alarms" which may trigger actions against good faith bank clients; - A common definition for inadvertencies may support a clearer categorization by reporting institutions as well as a better monitoring for supervisory agencies (including the Data Protection Agency).	- In practice, given the wide variety of inadvertencies cases, it is impossible to provide a comprehensive definition / typology for this notion; - Reporting entities should bear the responsibility for reporting the inadvertencies based on their own checks and considerations and to take remedial action is such inadvertencies have been reported wrongly.	Maintain the current system. A solution for a better protection of customers would be to impose an additional requirement for financial institutions to notify their clients when they send their information to the Credit Bureau based on receipt of declarations with inadvertencies.	The issuance of guidance for reporting inadvertencies would be rather complicated and it would not be justified by the limited number of cases where such declarations have been wrongly registered with the Credit Bureau. However, the notification of clients regarding the transmission of their information to the Credit Bureau will ensure that they are adequately informed and they can take remedial measures if necessary.

	Issues under discussion	Pros	Cons	Proposed solution	Comments
3	**Modifying the current term for reporting negative data to the Credit Bureau** *Modifying the current term of 30 days since the payment delinquency occurred to 60 days (and register every subsequent delinquency in 30 days)*	- The current reporting term is very short from the consumer point of view as delinquencies could occur due to exceptional circumstances (sickness, trips abroad, etc.); - Borrowers who do not honor their obligations within 30 days could suffer disproportionate negative consequences in cases where such events are accidental.	- In practice, the current reporting system implies that a client may in fact owe to the bank two installments (one at moment T0, when the default is registered and another at moment T1=T0+30 days, when the default is actually reported); - A prolongation of the reporting term would increase the risks for financial institutions as the person cold in the meantime contract other loans from third financial institutions; - The payment delinquencies are registered with the NBR Credit Information Bureau in 30 days.	Maintain the current system, provided that clients are adequately notified (in written format or by telephone / SMSing) regarding the moment when they are reported to the Credit Bureau, giving them enough time to take action (see next section).	Maintaining the current system would ensure uniformity with the information recorded in the NBR Credit Information Bureau.
4	**Ensuring an adequate information of the persons whose data will be reported to**	- Creating a industry-wide practice for	- The notification of clients at least 15 days prior reporting	Create a uniform practice of notifying the clients (in written format or by	In practice, most financial institutions notify their client prior to reporting

	Issues under discussion	Pros	Cons	Proposed solution	Comments
	the Credit Bureau *The proposal for ensuring an uniform practice for informing the customers whose data will be reported to the Credit Bureau (i.e. notification of customers at least 15 days before reporting to Credit Bureau)*	informing the customers would ensure a better communication with clients, who will be able to take necessary measures to ensure that they will timely repay their debts; - A uniform industry-wide practice will make financial institutions more responsible in their relationship with the clients.	to Credit Bureau may increase the costs of financial institutions (pertaining to sending the written or/and the verbal notification and possibly keeping the records for these notifications).	telephone / SMSing) at least 15 days before their payment delinquencies are reported with the Credit Bureau, possible to be institutionalized through professional associations (RBA, etc.). This obligation could be also stipulated in the contract concluded by financial institutions with the Credit Bureau. This proposal could be backed by an awareness raising campaign regarding the risks involved by the late repayment or non-payment of their debts. Financial institutions could raise awareness on this issue by distributing flyers or brochures at their territorial outlets.	them at the Credit Bureau (in written or by phone). Therefore, the institutionalization of the practice of informing the clients at least 15 days prior to reporting the payment delinquency would be in line with the financial institutions present systems. In Italy, such notifications are required only when the borrower defaults for the first time on a payment, either for two months in a raw (two installments) or one installment not paid in two months (he does not pay the fist installment, but he pays the second). In order to minimize costs of financial institutions with such notifications, the subsequent notifications are actually included in the monthly statements.
5	**The term for storing the client data at the Credit Bureau** *Shorten the current term of 5 years for keeping the data at the Credit Bureau*	- From a consumer point of view, showing at the Credit Bureau as a “bad client” for period of 5 years	- A period for storing client data of 5 years is a timeframe that is in line with supervisory (Basel	Impose uniformity between the “displaying” and the “storing” period, to be both set at 5 years.	At present, there are differences between two timelines: the “displaying period” of 5 years, which is the timeframe for the participants to the Credit

	Issues under discussion	Pros	Cons	Proposed solution	Comments
		represents an excessive penalty, especially in cases where delinquencies have been minor.	II) requirements to have enough “history” to build an adequate risk profile, as well as with international best practices; - A period of 5 years for storing the data will create a strong stimulus for consumers to repay their debts and promote sound financial planning; - A shorter period of time for storing negative data would increase the costs of borrowing for good clients, as financial institutions will increase the cost for all clients if a clear delimitation between “bad” and “good” clients can not be made (adverse selection issue).		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 (5 years of “displaying” plus 2 years of keeping depersonalized information).