

Credit bureaus in Russia: an outlook

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The Law on Credit Histories

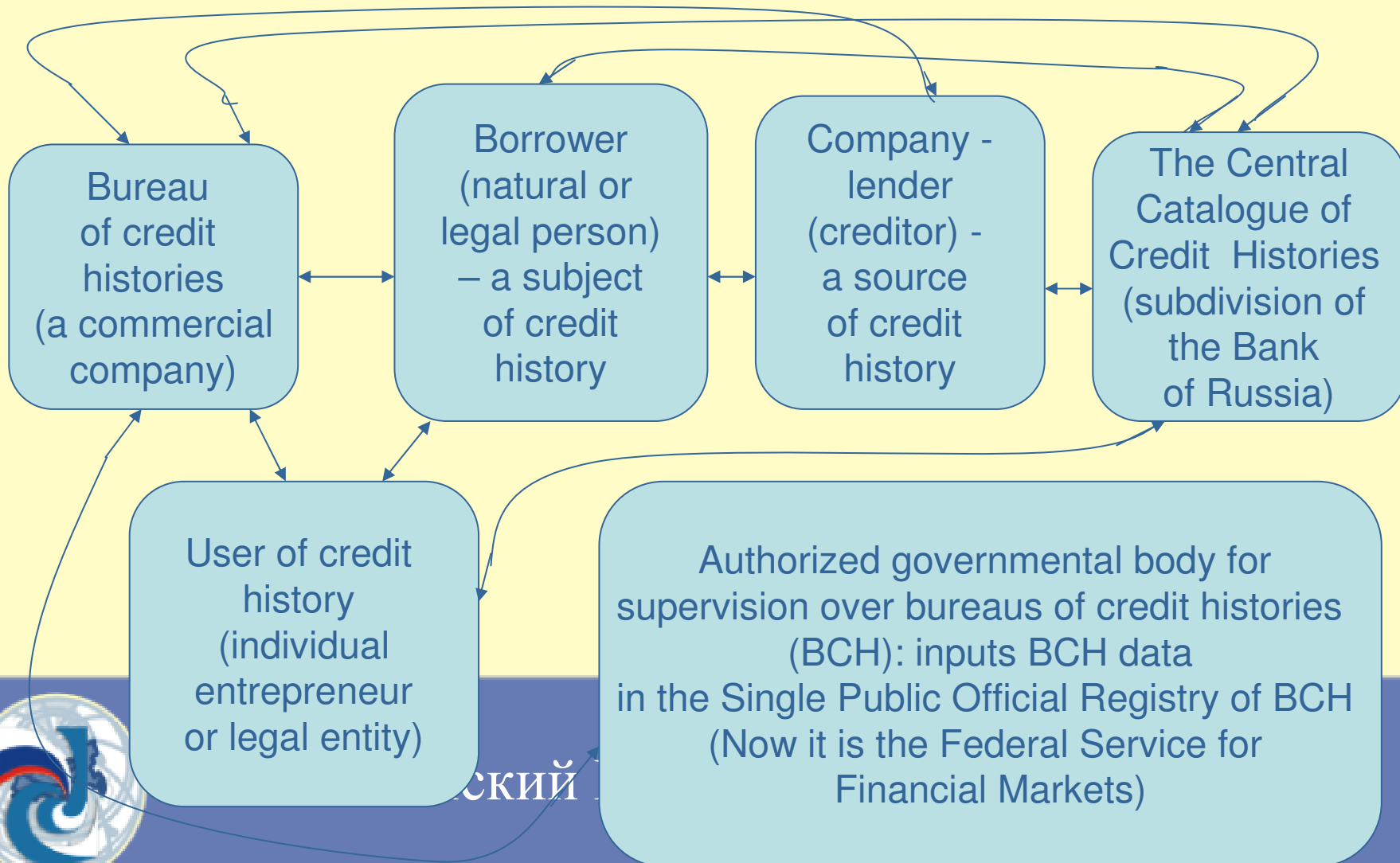
- The Law on Credit Histories: adopted by the State Duma on 30.12.2004, effective on 01.06.2005.
- By the Law, credit institutions must provide all required information on consenting borrowers to at least one of the bureaus of credit histories included in the state registry; the rule is effective as of 1 September 2005
 - **The Federal Law on Credit Histories defines:**
 - the concept and composition of a credit history
 - legal framework, procedures of generation, storage, and use of credit history data
 - operational procedures of credit bureaus
 - rules of establishment, liquidation and reorganization of credit bureaus
 - guidelines for interaction between credit bureaus and, respectively, sources of credit history data, borrowers, government authorities, local self-government, and the Bank of Russia



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PARTICIPANTS OF RELATIONS REGULATED BY THE LAW ON CREDIT HISTORIES

General Scheme of Relationships



СКИЙ

Content of a Credit History

For a natural person

Title page

- Name, patronym, surname
- Date and place of birth
- Passport information,
- Taxpayer ID number
- Pension insurance number

Main part:

- 1) Place of registration and actual residence; if registered as individual entrepreneur – registration information;
- 2) Borrower obligations (for each credit history entry)
- 3) May include individual borrower rating calculated by BCH methodology

Additional (classified) information:

- name and registration details of the credit history source
- name and registration details of the user (legal entity), date of enquiry
- registration details of the individual entrepreneur, name, patronym, surname, taxpayer ID, passport information, date of enquiry

For a legal entity

Title page

- Full and short name
- Address (location), phone number of a permanent executive body
- State registration ID
- Taxpayer ID
- Information on reorganization of the legal entity

Main part:

- 1) Bankruptcy procedures - if bankruptcy proceedings are underway in a commercial [arbitration] court; main parts of credit histories of reorganized legal entities terminated at the time of establishment of this entity through reorganization
- 2) Borrower obligations (for each credit history entry)
- 3) May include individual borrower rating calculated by BCH methodology

Additional (classified) information:

- name and registration details of the credit history source
- name and registration details of the user (legal entity), date of enquiry
- registration details of the individual entrepreneur, name, patronym, surname, taxpayer ID, passport information, date of enquiry



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Information on borrower obligations

The following is indicated in each credit history entry:

- amount of borrower's obligations as of the date of loan (credit) agreement;
- maturity of obligations;
- interest payment schedule;
- amendments to loan agreement;
- date and amount of actual repayment of obligations by the borrower, either full or partial;
- repayment through execution against collateral
- any judicial proceedings under a loan (credit) agreement and the content of operative parts of effective judgments
- other data officially obtained from governmental bodies



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Submitting data to BCH

- Sources of credit history data (lenders, creditors) submit available information to BCH under an information services agreement
- Credit institutions i.e. banks and commercial companies engaging in certain banking operations must submit all available information on all borrowers (subject to their consent) to at least one BCH included in the state registry of BCH
- For lenders which are not credit institutions submitting data to BCH is optional, rather than obligatory
- Information services agreement is an accession agreement: BCH sets out its terms and conditions, while a source of credit history accepts them by accession to the entire agreement
- Data is submitted on each consenting borrower
- A borrower's consent for their information being submitted to BCH must be in writing or otherwise documented
- Data may be submitted to one or more BCH, based on existing agreements
- Timelines for submitting information to BCH are set out in information services agreements, and cannot exceed 10 days of the event disclosed in the credit history
- Data are filed with BCH in the electronic format
- Providing information to BCH by a credit history source cannot be considered in violation of service, banking, tax or commercial secrecy
- BCH must, within one working day of the receipt, include the data in the relevant subject's credit history
- Each subject of credit history has an individual code



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Individual code of a credit history subject (borrower)

- is a combination of letters and numbers determined by the subject of credit history and used by the subject or with his/her/its consent by the user of credit history when making enquiries to the Central Catalogue of Credit Histories concerning BCH - holder(s) of the subject's credit history (ies), to verify such information

The subject of credit history (borrower) indicates his/her/its individual code to the source of credit history (lender) at the moment of signing a loan agreement. The lender forwards the code, together with other credit history data, to BCH.

- ✓ The subject of credit history can change his/her/its individual code
- ✓ The subject of credit history can create additional codes for each user of credit history to enable them to access information from the Central Catalogue of Credit Histories. Additional codes are effective while the relevant subject/user agreement is effective, and is annulled by the Central Catalogue upon expiration of the agreement.
- ✓ Consent granted by the subject of credit history to the user of credit history is effective for one month.
- ✓ Consent granted by the subject of credit history to a credit institution is effective as long as the relevant loan (credit) agreement is effective.



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Access to information

BCH issues a credit report within ten days of enquiry to:

- the user of credit history (legal entity or individual entrepreneur) – the main part of the credit history, upon enquiry under the information service agreement; the enquiry is included in the classified part of the credit history; the credit history is issued as an electronic document certified by a digital signature or an equivalent by the head or authorized representative of BCH
- the subject of credit history – upon enquiry for their own information; the credit history is issued as a printed or electronic document
- the Central Catalogue of Credit Histories – the title part of credit reports
- the court (judge) in case of criminal proceedings; criminal investigators if warranted by a prosecutor – the classified part of the credit history. Other information included in a credit history can be made available to these bodies under the Federal Law on Banks and Banking

When BCH makes credit reports accessible to users of credit histories and to other persons/entities entitled to access such credit reports, it is not considered a violation of service, banking, tax or commercial secrecy.

Those who access credit history information or individual credit history code must not disclose them to third parties.



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Data storage and protection

- BCH must store credit history information for 15 years following the most recent update of credit history information. Then the credit history is annulled.
- The Central Catalogue of Credit Histories (CCCH) stores information of BCHs holding credit history information on certain subjects, until BCHs inform the catalogue that a credit history is annulled
- During liquidation or reorganization, BCH can suspend accepting new information from credit history sources and/or issuing credit reports
- All data are transferred to the legal successor of a reorganized BCH
- Should BCH be liquidated or struck out of the Registry, its credit histories are sold in a public auction. BCHs included in the Registry have an exclusive right to participate in such auctions. The auctioning procedure is determined by the authorized governmental body, in accordance with applicable legislation
- Should two subsequent auctions be aborted, the credit histories stored by a liquidated BCH are transferred to CCCH for storage following a procedure established by the authorized body jointly with the Central Bank, for subsequent transfer, for free, to any BCH on a competitive basis. While credit histories are stored by CCCH, they are not amended or updated. Credit histories are stored by CCCH for five years, and then annulled.
- BCH are responsible for security of information in its processing, storage and transfer; to achieve this, they must use certified data protection technology. BCH must be licensed for technical capacity to ensure confidential data protection.
- The totality of data available to BCH are subject to turnover restrictions.



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Rights of credit history subjects

- to find out from CCCH what BCH stores their credit history
- to obtain a report on their credit history and the users to whom it has been issued, from each BCH that stores their credit history, once a year for free, and any number of times for a fee, without the need to give reasons for such enquiry
- to challenge data contained in their credit history by submitting a request to amend it. BCH must, within 30 days of such request, verify the data by making enquiries with the source (lender). During the verification, the credit history is marked with the relevant symbol. BCH must inform the subject of the findings within 30 days of the request; denial of amendment must be reasoned. BCH is not obliged to verify once again any information that has been unsuccessfully challenged before.
- to challenge in court BCH's denial of credit history amendment or BCH's failure to inform the subject of the verification findings within established timelines.



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Credit bureaus in Russia

- As of March 16, 2006, ten national-level credit bureaus are operational in Russia
- Three banks - biggest consumer lenders – have been sending their borrower data to BCH for awhile
- Currently, accredited BCH operate not only in Moscow and St. Petersburg, but in regions as well
- As of today, all Russian BCH combined hold 2 mln credit histories
- The federal executive authority responsible for supervision and oversight over financial markets maintains a registry of credit bureaus, published on it's website



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Prospects of BCH in Russia

- Experts estimate that by end-April 2006, Russian BCH will hold up to 5 mln credit histories.
- By estimates, Russia has about 50 mln potential borrowers.
- In a few months, BCH will cover up to 10% of the market - not bad for a start-up phase.
- Debating amendments to the Law on Credit Histories:
 - 1) experts differ concerning the requirement of the borrower's consent for their history to be forwarded to BCH;
 - 2) it has been proposed that a bank should send a borrower's data to only one BCH affiliated with this bank (the amendment is likely to be rejected as inconsistent with the law on competition)



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Russian BCH Model

- There are two basic BCH models in the world: “the U.S. model” and “the German model”
- By the U.S. model, anyone can set up BCH
- By the German model, only banks and other lenders can set up BCH
- The Russian law intentionally avoids imposing a model, in the hope that it will evolve naturally with the market
- Problem: poor communication and networking across BCHs. Currently, the law does not obligate BCHs to exchange information on borrowers to avoid information leakage
- Currently in Russia, about 100 companies position themselves as BCH. Ultimately, by expert estimates, only 20+ will be accredited, and later there will be even fewer, due to limited borrower information and high costs of infrastructure.
- Those BCHs that partner up with numerous banks or accumulate a big enough database will have better chances of survival
- The borrower’s right to look into their dossier ensures adequate protection of consumers, encourages exchange of information on prices and quality of services provided by different BCHs, and promotes competition.



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Purposes and amounts of loans

- Purposes: consumer, business
- Amounts: large, medium, small, microloans. Most consumer and SME loans are microloans and small loans
- In Russia, microloans are up to USD 3,000; small loans are up to USD 10,000 (in RUR equivalent). We refer to these numbers in our assessments of domestic demand and supply.



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Why MFI participation in credit bureaus is relevant in Russia: 1) demand

The USD 10,000 demand for microfinance services can be subdivided into two major groups:

- Existing microbusinesses - 4,5 mln. - generate a demand of USD 5-7 billion. Low capitalization is a specific characteristic of Russian microbusinesses, making microloans highly relevant at the start-up phase.
- Unemployed, migrants, former military and other potential entrepreneurs create an additional demand of at least USD 3 billion.



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Why MFI participation in credit bureaus is relevant in Russia: 2) supply

- Meets only 8% of the demand (without banks), or 15-18% (with banks).
- The Russian microfinance market has progressed from its formative phase to quantitative growth. As of 2005,:
- the number of active MFIs is estimated at 1,000 (accurate statistics are not available);
- an estimated 300,000 customers;
- aggregate loan portfolio estimated at USD 450 to 500 million
- average delinquency rate of around 3%
- Most microfinance providers are non-profit institutions (credit consumer cooperatives, SME support funds, non-profit partnerships, autonomous non-profit organizations, etc.).



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MFIs' interest in cooperation with BCH

- another way MFIs can discipline delinquent borrowers by limiting their reborrowing from other institutions
- MFIs are seen as more reliable and transparent by the state and other financial institutions
- Compliant borrowers are encouraged, being able to access cheaper loans with a good credit history
- In 2006, between 20 and 40 MFIs are expected to participate in BCH



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RMC's participation in debates over the draft Law on Credit Histories (1)

- The Russian Microfinance Center directly participated in debates over the draft Law on Credit Histories, and made a few suggestions which were accepted:
 - ✓ non-profit organizations are allowed to participate in generating credit histories and in the operation of credit bureaus
 - ✓ providing information on borrowers to credit bureaus is obligatory for commercial institutions and optional for non-profits
- Different approach to credit vs. non-credit institutions (credit histories are obligatory for the former and optional for the latter) is due to different scale of operations, different procedures for lending and borrowing, and the absence of state regulator of non-credit lending institutions. Lacking a regulator makes it difficult to ensure compliance. In the future, all lenders are expected to generate credit histories and submit them to BCH.
- Currently there is no role for a BCH servicing MFIs exclusively - their share of the market is a fraction of that of banks; their interest in generating and/or accessing credit histories is much lower. But a pilot project by the National Bureau of Credit Histories of servicing different types of MFIs, commercial as well as non-profit, will help assess the form and scale of their potential participation.



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RMC's participation in debates over the draft Law on Credit Histories (2)

- RMC organized round tables attended by "subjects of lawmaking initiative" (the Central Bank, members of the State Duma, the Federation Council, etc.)
- RMC spoke at sessions of the State Duma committees discussing the Draft Law
- RMC worked jointly with other non-governmental groups
- RMC drafted proposed amendments and had them submitted to the Duma through "subjects of lawmaking initiative"
- Outcome: the ideas were well-accepted and supported, with no objections



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RMC's cooperation with credit bureaus

- RMC's partner - the National Bureau of Credit Histories
- The National Bureau of Credit Histories is a Publicly Held Corporation
- NBCH's interest:
 - to involve legal entities as sources of credit history data,
 - to attract users of credit history data,
 - to advertise its operation
 - in the future: to develop and introduce scoring models
- RMC's interest:
 - a commission (percentage of the NBCH fee);
 - access to statistics on the microfinance component in the NBCH data
 - in the future – participation in the NBCH operation as a shareholder



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Problems faced by credit bureaus in microfinance

- Setting up a universal databank
- Data protection
- MFIs' awareness of, and/or interest in, opportunities of engaging with credit bureaus
- Service cost, quality and accessibility
- Borrower's consent is required to make the data available to a credit bureau



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Pilot projects of MFI engagement with credit bureaus

- Russian Women's Microfinance Network – the first in Russia non-bank deposit-credit organization (Moscow), with 5.5 thousand customers
- “Financial Union” Consumer Society, with one thousand members



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