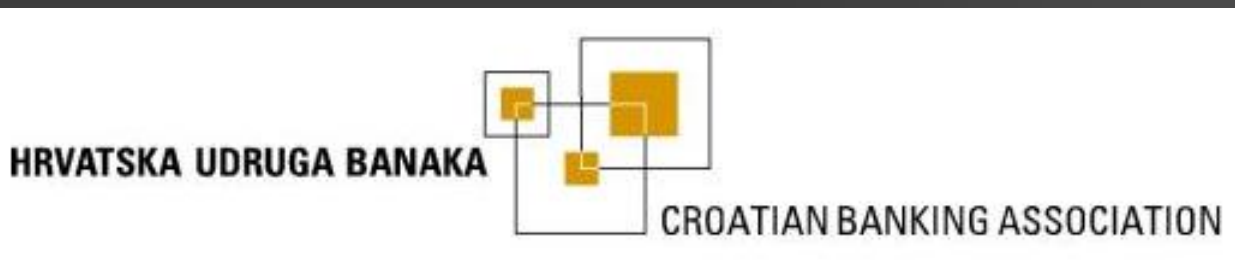


“Developing Credit Bureaux: the Croatian Experience”

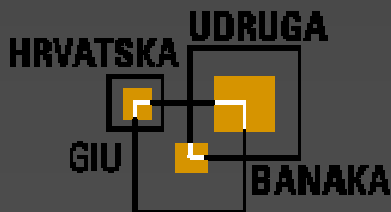
dr Zoran Bohacek



**Southeast Europe Mortgage Finance Working Group
Split, 25 May 2004**

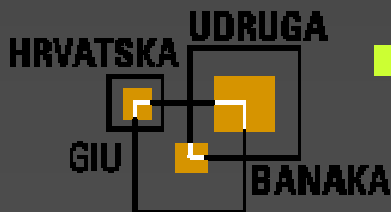
Presentation format

1. General view – What to keep in mind when deciding to establish a credit registry
2. Highlights of the proposal to CBA on credit registry (HROK – CROC)
3. Selected solutions for HROK



CREDIT INFORMATION COMPANY

- Credit Bureau (US)
- Credit Referencing Agency (UK)
- Centrale rischi (I)
- KSV – Kreditschutzverband (A)
- Auskunftfei (D)
- ZEK - ZentralEvidenz Kredite (CH)
- Kredi Kayit Bürosu (TR)
- Credit Registry etc.



what is a CREDIT INFORMATION COMPANY?

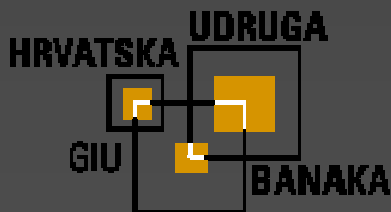
an organisation which

collects

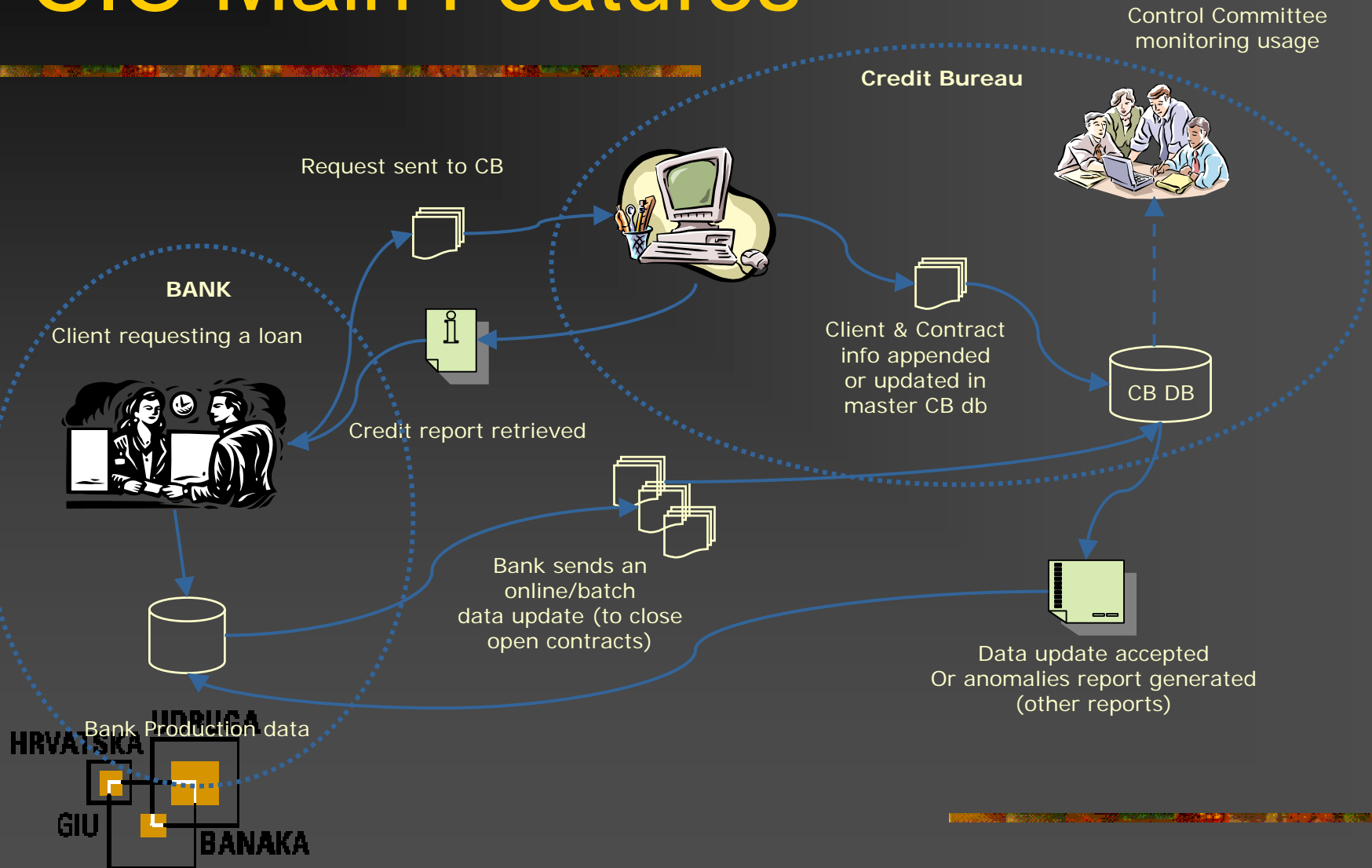
maintains

distributes

information about consumers'
credit histories

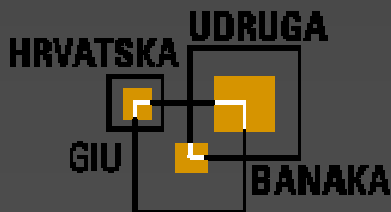


CIC Main Features



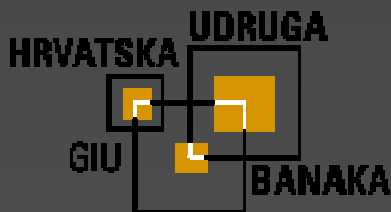
key PRINCIPLES

- reciprocity - only those supplying data are allowed to purchase information
- no decisions - just gives objective information in a required format
 - each user estimates creditworthiness according to own criteria



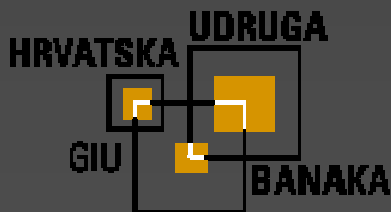
key BENEFITS

- consumers
 - easier access to financing
 - prevention of overindebtedness
- users
 - reduce losses
 - more efficient operations
 - better customer service



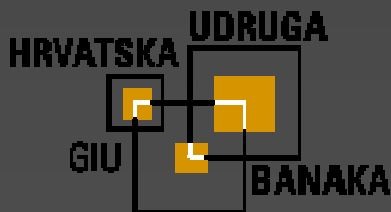
key BENEFITS

- consumers
- users
- government institutions
 - supervision
 - risk classification
 - market studies and analyses
- credit industry & consumption

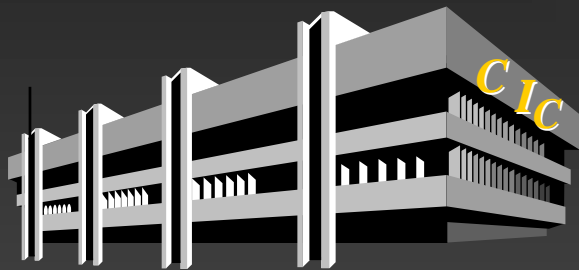


key REASONING

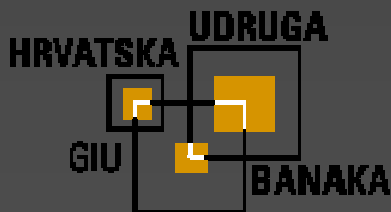
*why should “goods”
pay for “bads”?*



CIC model

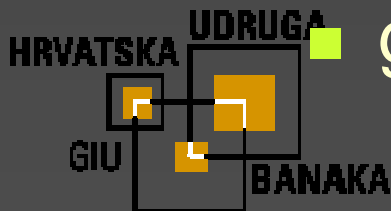


- users
- information
- consumers
- credit products
- CIC products



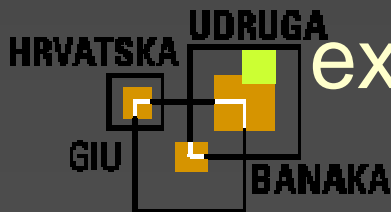
possible USERS

- banks & savings banks
- financial companies
- insurance companies
- T&E cards
- private label cards
- department stores
- telecommunications
- government institutions



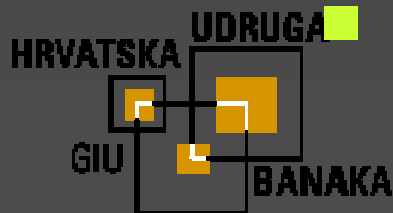
INFORMATION

- negative
- negative AND positive
- public information
 - courts
 - chambers of commerce
 - real estate registry
- private info (e.g. telephone directories)
- existing databases (e.g. central bank)



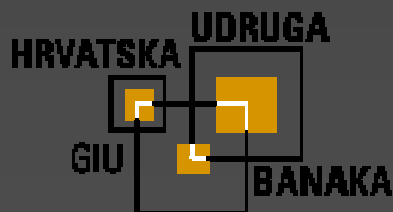
CONSUMERS

- companies
 - self-employed & private business
 - limited companies
 - state-owned
- individuals
 - household members
- links between the two
- status



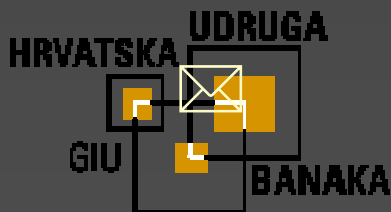
CREDIT PRODUCTS

- loans
 - commercial
 - consumer (finalised or not)
 - leasing
 - mortgage
- cards
 - bankcards
 - t&e
 - private label



CREDIT PRODUCTS

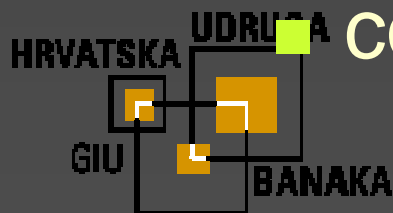
- overdrafts
- insurance policy
- guarantees
- letters of credit



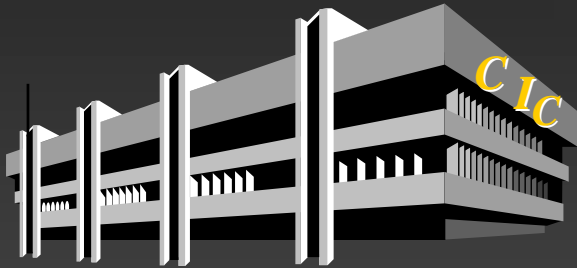
CIC PRODUCTS

- credit report
 - full
 - summary & alerts
 - public information
- scores
- quality checks
- permanent alerts

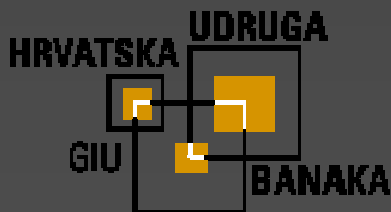
■ commercial purposes



CIC set-up

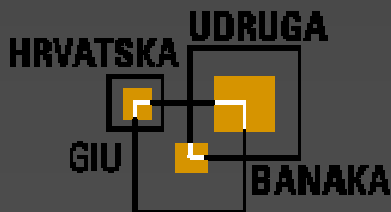


- ownership
- legal framework
- consumer protection
- technical issues
- organisation
- business plan
- investment plan



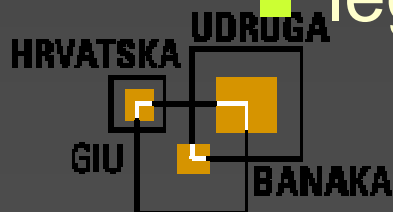
OWNERSHIP

- profit or non-profit
- independent
- user-owned (all or some)
- state-owned or private
- existing institution
- use existing as service bureau



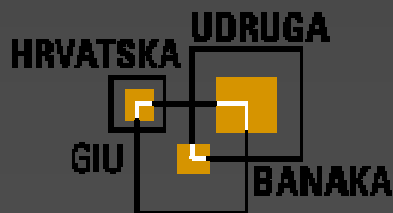
LEGAL framework

- legal restrictions
 - establishment
 - banking secrecy
 - non-banking institutions
- security - data ownership
- users
 - who can buy a report?
 - how many reports?
- legitimate purpose



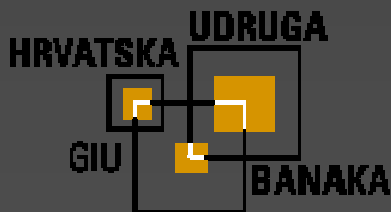
legal REGULATION

- obligatory participation
 - simplifies set-up and operations
 - information is complete
 - what with non-banks?
- regulation alone not sufficient
 - users' discipline
 - must be economically justified



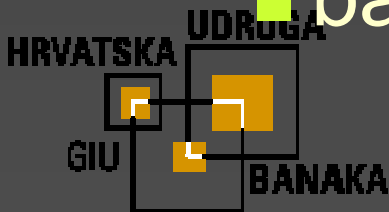
consumer PROTECTION

- “private” information
- reason for rejection
- right to access information
- right to correct mistakes
- require consent
- education



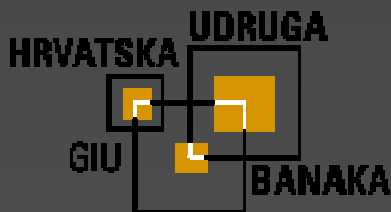
TECHNICAL issues

- hardware
- software
- communications
 - data transmission
 - inquiries
- response time
- backup, disaster recovery



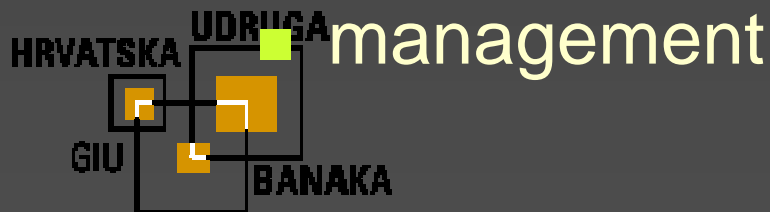
international CO-OPERATION

- different types of possible providers
 - associations (ACCIS)
 - multinationals
 - particular companies
 - international standards
 - cross-border credit information exchange
- do-it-yourself or buy a “black-box”?



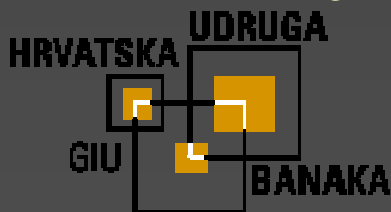
ORGANISATION

- systems
- education & training
- user support
- consumer support
- marketing
- research & development
- consulting



PLANNING

- business plan
 - revenue: inquiries
 - expenses
- investment plan
 - set-up
 - start of operations
 - breakeven point



Croatian credit bureau proposal highlights

System solution

iCRS – TransUnion´s worldclass system (operated in 15 markets);
CRIF´s European and CEE market knowledge and team support.

System Functionalities

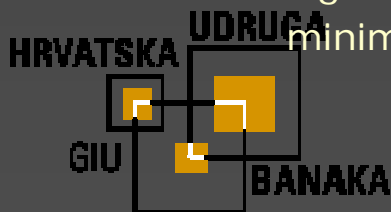
Divided into 2 stages:

1st stage provides basic functionalities (data update in online and batch mode; data matching and normalisation features; credit report retrieval - online and batch; reporting; accounting; user administration).

2nd stage is optional and would be implemented in line with the market demand (focus on added value services: detailed statistical reports, anti-fraud support, credit bureau scoring, etc.).

Application architecture

Light HW and SW requirements; flexible and modular system;
minimum IT requirements on the users.



Croatian credit bureau proposal highlights

Operational support of the bureau

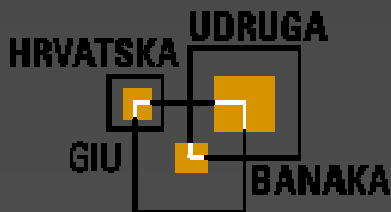
Expected volumes assume staff of 6 for the first 3 years.

The following activities will be performed by the bureau staff:

- HelpDesk
- Client Centre
- 1st level technical support
- User training
- Controlling and monitoring of usage (control committee)
- Administration, Billing, Communication, Marketing

Outsourcing alternative

We support outsourcing of the above activities to FINA due to its high credibility and commercial benefits.



Data content

- Positive and negative information
- Private individuals; sole traders; *SME & corporate
- Type of contracts

Installment operations:

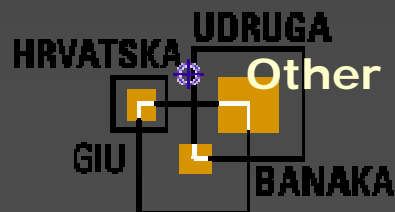
(Personal/consumer loan; Mortgage loan; Construction savings loan; *Investment loan; *Operational loan; *Leasing; *Export/import loan)

Non-installment operations:

(Credit line on current account; *Factoring)

Credit cards & revolving operations:

(Credit cards; Charge cards; Revolving loan)



Other public & private external databases

Data security and confidentiality issues

Technological security:

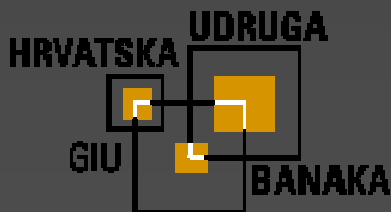
- Secure private lines (VPN technology, data and transmission encryption, CA)
- Detailed access logs; automatic monitoring of excessive use

Personal & organizational security:

- Closed-end user group; reciprocity rule (only data contributors have access to data)
- Strict contractual regulations (MFA, membership agreement: strict rules and regulations, sanctioning system towards members)
- Physical access rules; personnel requirements on CB staff

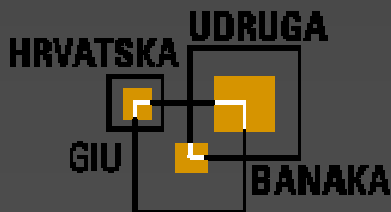
Control committee:

- Composed of CB staff and users' representatives
- Monitors activity logs; makes inspections at users
- Authority to impose immediate rectification, temporary disconnection, and sanctions.



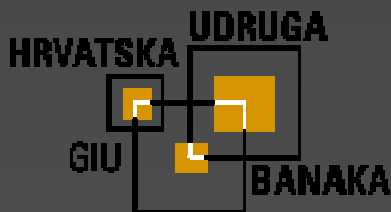
1. ESTABLISHING HROK

- Legal framework
- Financial framework
- Organisational framework
- Management
- Ownership
- Financing



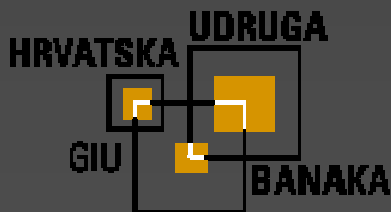
LEGAL FRAMEWORK

- Limited company
- Only banks, without TUC
- Users initially banks, others depending on the legislation



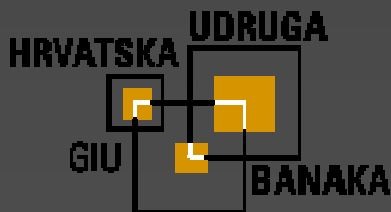
FINANCIAL FRAMEWORK

- “For profit” company, in accordance with the Company Law
- Goal is not returning profits to owners
- Profit control thru report price
- Using profits for additional products (e.g. “bureau score”) or reducing report price



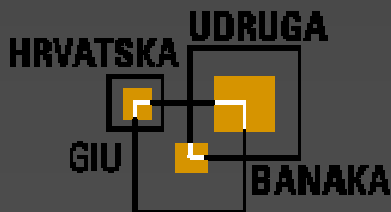
ORGANISATIONAL FRAMEWORK

- Small number of employees, growth following growth of inquiries
- Subtenant to CBA, later own space
- Outsourcing deal with FINA



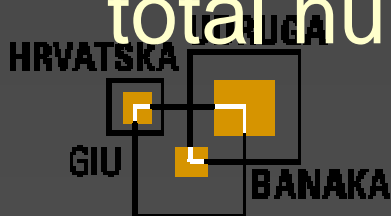
MANAGEMENT

- Day-to-day operations – HROK director (1, up to 3)
- Assembly – all owners (formal body)
- Users Council – votes depending on contribution & usage parameters – operational body



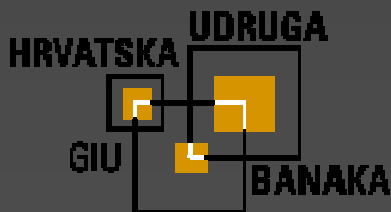
OWNERSHIP

- Offered to all Croatian banks,
- Principles based on market share and simple division
- Limited to 15%
- Largest groups 10%
- Minor share 1% or 0,5% - depending on total number of owners



FINANCING

- Company capital – x €
- Out of capital, software license and customisation fee + expenses until breakeven
- Income pays all royalties and expenses



HROK establishment

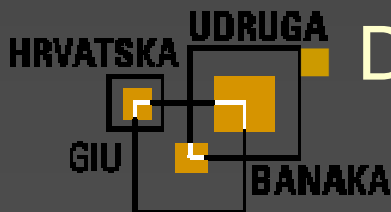
- According to laws:

- Banking
- Data protection
- Consumer protection
- Business relationship

- Needing agreement by:

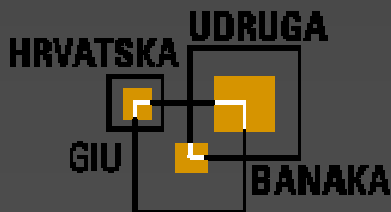
- Croatian National Bank

- Data Protection Agency (once operational)



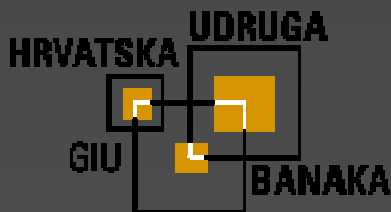
IMPLEMENTATION TEAMS

- Project Management Team (ex-Negotiating Team)
- IT Expert Team
- Retail Credit Expert Team
- Project Teams TUC & FINA



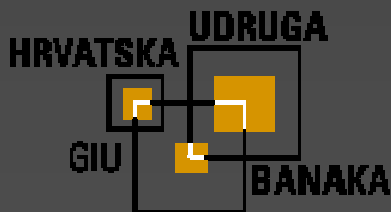
CONTRACTS

- Joint Development Agreement: CBA-TUC
- HROK Articles of Association – founding banks
- Software and Sublicence Agreement: HROK-TUC
- Outsourcing: HROK-FINA



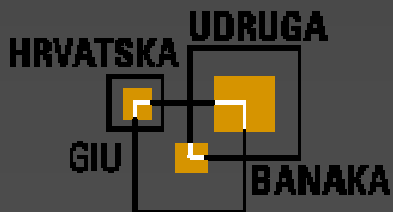
TIMEFRAME

- Establishment of HROK d.o.o – in progress
- Sublicence Agreement – after establishment and common acceptance
- Software Customisation – after Agreement
- Testing and Corrections – end 2004
- HROK Reporting – early 2005



WHERE ARE WE?

- European environment
- Transition countries





The European Association of Consumer Credit Information Suppliers

- FULL MEMBERS (European Companies)
- member-owned 'mutual' organisations
- commercial profit-making companies
- government-owned
- providers of both negative and positive information
- currently 23 full member organisations in 17 countries
- currently 7 associate member organisations in 7 countries

KSV (Austria),
BANQUE NATIONALE DE BELGIQUE (Belgium),
CZECH CREDIT BUREAU (Czech Republic),
RKI Kredit Information A/S (Denmark),
IRISH CREDIT BUREAU (Eire),
EXPERIAN (England), EQUIFAX (England),
SUOMEN ASIAKASTIETO OY (Finland),
SCHUFA HOLDING AG (Germany), CEG GMBH (Germany),
TIRESIAS (Greece),
IIS Ltd (Hungary),
CRIF (Italy), CTC (Italy), EXPERIAN (Italy),
BKR (The Netherlands), EXPERIAN NEDERLAND (NL),
BIURO INFORMACJI KREDITOWEJ S.A. BIK (Poland),
ASNEF Equifax (Spain), EXPERIAN (Spain),
UPPLYSNINGS CENTRALEN UCAB (Sweden),
ZEK (Switzerland),
KKB Kredi Kayit Bürosu (Turkey).



Transition countries

- Fully operational

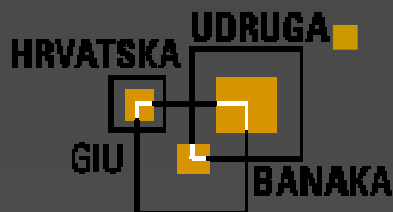
- Estonia
- Czech Republic
- Poland
- Slovenia (empty)

- In construction

- Slovakia
- Croatia
- Bulgaria?

- Planning stage

- Romania
- Hungary
- Lithuania?
- Latvia?
- Serbia





**CREDIT INFORMATION
REDUCES THE RISK
AND BENEFITS CONSUMERS!**



Thank you!

**Dr. Zoran Bohacek
Croatian Banking Association**