

Departments

[Home](#)
[News & Comment](#)
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[Viewpoint](#)
[Karina's Kolumn](#)
[Capital Markets ▼](#)
[FX & Derivatives ▼](#)
[Cash & Securities Services ▼](#)
[Regulatory Issues](#)
[Retail Banking ▼](#)
[Technology ▼](#)

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[Reinventing The Bank](#)
[Equity Derivatives in the Ascendancy](#)
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[Turkey's Economy Soars](#)
[Annual FX Interbank Survey](#)
[Portugal: New Opportunities](#)
[Serbia: Building Up Confidence](#)
[Qatar Savours Success](#)
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[Croatia: On the Accession Path](#)
[Saudi's Booming Economy](#)
[Bermuda: Paradise for Business](#)

Credit bureaux law is flawed

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Page 92

Rumours of mounting bad debt problems in retail banking have led Russia to pass a law allowing credit bureaux to set up – but their proliferation is getting out of hand. *Ben Aris* reports from Moscow.

Competition to capture retail customers and lend them money is red hot. So far, Russians have a good record for repaying their loans on time and in full but some analysts are worried that a tidal wave of bad consumer debts is on its way. To head off a potential crisis, the government has introduced credit bureaux to keep defaults down – but has botched the implementation.

State-owned retail giant Sberbank estimates that deposits reached \$68bn by December, up 200%, whereas its consumer loans were \$20bn, up 400% and accounting for half the market.

Dark predictions

Most Russians have no debt at all, therefore about a third of their income is disposable and they have been reliable borrowers. But rumours of problems have started in the past few months. Russian daily *Vedemosti* reported that retail banks were so keen to win customer loyalty that banks were prepared to immediately change the terms of loan to fit a customer after one rejection, and it warned of a “crisis of bad debt”.

Alfa Bank made the shocking estimate that among the top 20 banks about 40% of consumer loans have already gone bad, although it admits these are unofficial numbers that cannot be confirmed.

Have banks set themselves up for a fall? Tellers are paid a bonus based on the number of loans they get approved, which encourages them to skimp on credit checks. And banks are reluctant to turn a customer down because they will go to a competitor that may be more willing to lend them money.

However, some bank analysts say that profit and loss accounts of banks with retail operations show that Russian consumers are still among some of central and eastern Europe's most disciplined payers. Although there is confusion about the extent of the problem (or if it exists at all), banks do admit that there is a problem with fraud.

“The checks are pretty good, and if someone wants to borrow a significant amount then the bank will make the effort to ring employers to confirm the size of the applicant's salary and bonus,” says Greg Thain, CEO of IMS, a marketing firm that has been following the retail banking sector. “However, there is a rising problem with fraud where applicants are arriving with a false passport and increasingly sophisticated scams. But it is hard to say how big this problem is.”

Credit bureaux

Still, it is early days yet and only one in 50 Russians has taken out a loan of



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an average of \$168. Surveys have found that 19% of respondents say interest rates are a key concern, whereas the bank's prestige was the most important consideration for 36%.

In an effort to head off problems, the government passed a new law this spring to create credit bureaux and the initial results have been encouraging. A pilot project set up in Samara met with great success. The local representative of the Central Bank of Russia (CBR) joined forces with regional authorities to launch a local credit bureau. The result was increased activity on the interbank market, and individuals and corporate customers borrowed more from local banks.

"There is a great deal of political good will in favour of credit bureaux and a number of joint ventures with foreign firms intending to set them up," says Richard Hainsworth, the CEO of RusRatings, a leading domestic bank rating agency.

The appearance of credit bureaux is welcome but banks have almost embraced them too enthusiastically: it seems every bank with a large depositor base has set up its own credit bureau.

The Russian Association of Banks has one. The National Credit History Bureau is a co-operation between the US's Transunion-Crif and Association of Russian Banks. Experian-Interfax credit bureau is a joint venture between the UK's Experian and the news agency Interfax.

Banks on the bandwagon

The banks are also getting into the game. Russky Standart pioneered the consumer credit business and has announced plans to set up its own bureau and Sberbank, the biggest retailer in the country, has also said it would go it alone with a competing bureau.

"This is typical for Russia: both Russky Standart and Sberbank have very rich stores of information on their customers and don't want to share it with the competition," says Mr Hainsworth.

The proliferation of credit bureaux is due to flaws in the law covering their establishment. While passing credit history information on customers to a bureau is mandatory, the law is vague about to whom this information should be passed.

"Russian law is a strange combination of obligation for all Russian banks to participate in a credit bureau and the fact that there is no government or central credit bureau for them to join. The law is very vague about who is responsible, with the result that anyone can join any bureau," says Irina Penkina, who covers Russian banks for rating agency Standard & Poor's (S&P).

And the existing rules are largely ignored: S&P says that if a customer asks to be included in a credit bureau then the bank will pass on their information, otherwise they do nothing.

Ms Penkina says that this is only the first round and that the political will to whittle down the number will only appear when the plethora of credit bureaux proves to be more of an expensive burden than a cost-cutting benefit.

The development of credit bureaux is further stymied because they are difficult ventures for banks to make money out of. Capital intensive and slow to pay back on the initial investment, credit bureaux work best when backed by the government, which has shown little interest in creating a new branch of the financial bureaucracy.



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