

Activity steps up in 'new Europe'

Interest in setting up credit bureaux is running at a high level across eastern Europe and the countries of the former Soviet Union, fuelled by the rapid growth of consumer lending

After experiencing decades of shortages during the Soviet era, people in eastern Europe have become dedicated consumers of a range of goods from cars and furniture to PCs and TVs. With this surge of consumption has come rapid expansion of the consumer lending sector in nearly every country.

By Richard Rolfe

An analysis late last year by the Vienna-based RZB Group, whose international arm Raiffeisen International is represented throughout the region, concluded: "The most dynamic field of banking in (central and eastern Europe) over the last few years has been consumer loans."

Credits to households, RZB said, "displayed exceptionally high growth rates in euro terms and, given the still low ratio to GDP in most cases, are likely to retain strong growth for years to come."

The value of outstanding credits to households (Table 1) as a percentage of GDP varies widely throughout the CEE/FSU, with westernized Croatia showing the highest level. By comparison, credits to households in the 10 countries of the eurozone average

49% of GDP, while in the UK the figure is close to 100%. Taking the 14 countries in the table, total GDP in 2003 was equivalent to €880 billion and total credits to households were €68 billion, an average of 8% of GDP.

As the table shows, rapid expansion has led to declines in Poland (also influenced by the fall of the zloty against the euro) and in Serbia, where the banks have been restructuring. In other countries, growth has often been spectacular, if sometimes off a low base, as in Romania and Ukraine.

And as noted before (*ECR*, Sept/Oct, p18-22 – 'Ukraine Unleashed'), money in 'new Europe' tends to be in the hands of young people, who have the highest propensity to borrow and consume. This contrasts with 'old Europe,' where the old have the money.

Many consumer goods have to be imported, so countries like Poland have already learnt that there is a downside to unbridled consumption in the form of a deteriorating trade balance. Another, familiar in the UK and US, is increasing numbers of consumers with debt repayment problems. Consequently, countries throughout the region are warming to the idea of credit reporting systems, modelled on those found in most of western Europe and the US, to monitor the status of borrowers before granting them credit.

Launching a credit bureau, however, is not just a matter of the banks contracting with a company like Experian or CRIF, or getting together to exchange data on customers. The process has to start with a legislative framework which governs how data is obtained, stored and accessed. That means institutions like national parliaments, central banks and a range of

1: Credits to Households in the CEE/CIS Region

	Value €bn	Growth %	% of GDP
Poland	21.6	-3.2	12.5
Russia	11.4	35.1	3.1
Hungary	8.9	42.5	12.1
Croatia	7.2	24.3	29.0
Czech Republic	6.5	31.1	8.7
Slovenia	2.3	8.9	9.7
Slovakia	2.1	40.7	7.1
Romania	1.8	204.8	4.0
Ukraine	1.3	125.3	3.4
Estonia	1.2	48.0	16.6
Latvia	1.1	63.8	13.0
Bulgaria	1.1	75.0	6.2
Bosnia & Herzegovina	1.0	37.3	16.0
Lithuania	0.5	51.7	3.4
Serbia	0.4	-10.0	2.7

Source: RZB Group, CEE Banking Sector report; growth is Y-O-Y 2003 over 2002.

government departments have to play a role as well.

"Most CEE and FSU countries are reaching towards some sort of best practice bureau, with a view to modelling themselves on those in the UK, Germany or Italy," says John Hadlow, commercial manager, Experian-Scorex, which operates globally from its UK/US base and is involved in bureaux in Bulgaria and Russia in the region.

The big prize in the CEE/FSU region is to establish a credit bureau in Russia, with its fast-growing economy, large population and burgeoning consumer lending. In December 2004, Russia's Credit Bureau Law was approved and ARB, the Russian banking association, invited several suppliers to submit an offer, including Experian, CRIF of Italy and its US partner TransUnion, and Schufa of Germany.

Gestation of Experian's Russian credit bureau has taken several years

2: Credit Bureaux in the CEE/FSU Region

Country	Bureau	Ownership	Status
Bulgaria	ESBCB	Experian	Positive /negative data
Czech Republic	CCB	CRIF	Positive /negative data
Czech Republic	Creditinfo	Creditinfo	Negative data only
Estonia	Kreditinfo	Banks, management	Negative data only
Hungary	BISZ	GIRO Bankcard Co.	Negative data only
Georgia	Creditinfo Georgia	Creditinfo, NCIB, banks	Being implemented
Kazakhstan	FCB	Creditinfo, banks	Being implemented
Lithuania	Infobankas	Creditinfo	Negative data only
Poland	BIK	Polish banks	Positive /negative data
Romania	CIB	Central bank	See text
Romania	Expert Credit Bureau	See text	In development
Romania	Delos Creditinfo	Creditinfo	Positive /negative data
Russia	Experian-Interfax	Experian, Interfax	Operations start in June
Russia	n/a	CRIF, ARB	Operations start in Sept
Slovakia	SCB	CRIF	Positive /negative data
Slovakia	Creditinfo	Creditinfo	Negative data only
Ukraine	n/a	Bank consortium	Draft law in parliament

Source: ECR research, individual companies.

since the feasibility study began in May 1998. In September 2004, Experian announced plans for a 50:50 joint venture with Interfax, the Russian information services group and in April 2005 the Experian-Interfax Bureau of Credit Histories began to connect banks and other lenders to the system ahead of the start of operations in June.

Around 20 banks and lenders have so far agreed to co-operate with the bureau, including International Moscow Bank, Raiffeisen Bank, Baltiyskiy Bank, Bank Vozrozhdeniye and International Industrial Bank.

"It's an extremely challenging country to serve," says Hadlow, noting that there have been at least 13 projects to set up credit bureaux in Russia and regional credit bureaux are already up and running in the cities of Samara and Novosibirsk. With growth in consumer lending expanding rapidly, he adds, "there is a potential bad debt problem if it continues at this rate."

According to the Central Bank of the Russian Federation, consumer lending in Russia was Rbs 95 billion (\$3.1 billion) at end-2001. The figure had reached Rbs 282 billion (\$9.2 billion) by December 2003 and some analysts projected Rbs 460 billion by end-2004. Even after this surge, consumer lending remains underdeveloped in Russia.

Out of 1,300 banks in Russia, 40-50 in the consumer lending business are

those targeted by Experian-Interfax. "Data-sharing is already going on," Hadlow notes: "We aim to set up a basic credit bureau system which meets their needs, centred in the Moscow catchment area and then branching out into the regions."

CRIF and TransUnion, through a jointly-owned company, are technology partners for the National Bureau of Credit Histories (NBKI), the public company behind the National Credit Records Bureau in Russia. CRIF/TransUnion will supply NBKI with specialized credit bureau technologies and operational and managerial know-how.

As well as ARB, NBKI's founding members include Vneshtorgbank, Alfa Bank, Zenit Bank, Petrocommerz Bank, Gazprombank, DeltaBank, the non-commercial partnership National Credit Information Bureau, Rosbank and Citibank.

"The establishment of a credit bureau system in Russia represents a fundamental step towards the growth and development of the national consumer credit market," says CRIF CEO Carlo Gherardi.

Schufa has been involved in the Russian market for several years, stepping up its activities after being invited to tender by the ARB. "To get a closer picture of the situation, we consequently had several meetings with inter-

national and Russian banks," says Astrid Berle, executive manager, international projects, at Schufa.

"We prepared our offer based on Schufa's principles – owners should be users of the credit bureau, which implies among others, low prices for reports – and handed it in at ARB and at the banks we talked to. After internal discussion, ARB decided for TransUnion/CRIF as partner."

As Schufa did not want to establish a credit bureau on its own behalf, it cut back activities after this outcome. "Of course we are still observing the market and watching developments in order to possibly review our decision," says Berle: "We are interested in how business will be going for TransUnion/CRIF together with ARB, and for Experian-Interfax as well. Russia is a very dynamic country, so that one can 'never say never.'"

Ukraine, the region's biggest country after Russia, is well advanced with preparations for a credit bureau. The draft law, 'On Organization of Formation and Circulation of Credit Histories,' is progressing through the Rada (parliament), says Yevgeniy Nevmerzhytskyy, spokesman for EMA, the Ukrainian banks' MasterCard association: "We hope that the law will be accepted by our parliament in several months."

About 30 banks have signed the letter of intent to set up the credit bureau, Nevmerzhytskyy says: "Among these banks are AVAL, First Ukrainian International, Ukrsotsbank, Pivdenniy, State savings bank, Ukreximbank, who belong to the 10 top banks of Ukraine."

The next step will be to hold a meeting of shareholders, followed by registration of the credit bureau, probably in June. "Several foreign service providers are interested in setting up a credit bureau and this question is under consideration," says Nevmerzhytskyy: "Regarding the beginning of the work and providing the service, it will take about six months after the registration."

In smaller countries, the drive to establish credit bureaux is sometimes supported by organizations like the World Bank and its IFC offshoot and

by the USAID agency, which supports technical and legislative change.

"Certain countries, like Kazakhstan, have passed legislation to permit creation of credit bureaux, outlining what a credit bureau is and licensing data-sharing," says Hadlow: "What they want is an infrastructure in place to control fast-increasing debt."

Accis, the European Association of Consumer Credit Information Suppliers, has 21 full member organizations from 17 countries – all the EU15 nations other than France, Luxembourg and Portugal – including three from eastern Europe. These are Czech Credit Bureau (CCB), BIK (Poland) and IIS (Hungary), which manages the BISZ bureau.

Of Accis members, Experian and CRIF of Italy are the most active in the CEE/FSU region. The other regional player, mainly in the smaller countries, is Reykjavic-based Creditinfo Group, whose investors include the main Icelandic banks.

Supported by the Italian banking community, CRIF has expanded into

Germany, the UK and the US in recent years. In the CEE region, it set up a credit bureau in Czech Republic in 2000 in partnership with TransUnion, one of the big three US credit bureaux (the other two being Experian and Equifax) and Aspekt, a Czech company. In 2004, CRIF and TransUnion launched a similar bureau in Slovakia.

"In both countries, we outsourced an exact copy of the service we provide in Italy," says Fabrizio Fraboni, head of strategic planning in CRIF's international division: "Both are growing very fast in a very competitive market." Legislation in both countries allows credit data to be held in CRIF's system in Italy, Fraboni adds.

Creditinfo has expanded from its Icelandic base, where it owns the Lanstraust credit bureau, to set up wholly-owned bureaux in Malta and Lithuania. It has majority-owned subsidiaries in Czech Republic, Slovakia and Cyprus as well as minority interests in Romania and Kazakhstan; all of these hold consumer and corporate data. Bulgaria, Moldavia and Ukraine

are "among the markets being explored," says Creditinfo CEO Reynir Grétarsson.

Speed to market and a low cost base are Creditinfo's key characteristics, Grétarsson says: "We realize we cannot compete with all Experian's services, but at least we can be cheaper and faster." Given the critical mass support of 50% of a country's banks, "we can be ready in four weeks." On the prospect of competing with CRIF in Czech Republic and Slovakia, he says: "Not at the moment, but we will be."

Technology is key to Creditinfo's rapid growth, which has seen revenue expand from €32,000 in 1997, the first year of operations, to €5 million in 2004 and a forecast €7.5 million in 2005. "We are exporting our state-of-the-art technology. We are not using any mainframes – we were started after the internet and our programming language is .net," adds Grétarsson: "XML is getting out-of-date and being replaced by web services."

Creditinfo's most recent launch is in Georgia, where the credit bureau began in May. It owns 20% of JSC Creditinfo Georgia, with NCIB, Georgia's privately-owned National Credit Information Bureau, as its main partner. NCIB was established in 2002 to produce commercial credit reports for Dun & Bradstreet and other agencies.

"Presently, Creditinfo Georgia is working on collecting information from commercial banks, courts, and all appropriate sources," says NCIB GM Aitei Kukava: "It was agreed that initially, the company will offer services from negative information database. Later on this year, it is expected that products from positive information will also be provided."

As well as NCIB and Creditinfo, the main Georgian banks are involved – Bank of Georgia, TBC Bank and ProcreditBank. NCIB and Creditinfo are also working to extend credit bureaux facilities to other FSU states.

Poland is the most advanced country of the CEE/FSU region in sharing consumer data, having established the BIK (Biuro Informacji Kredytowej) credit bureau in the mid-1990s. Owned by a consortium of 16 banks, BIK draws on positive and negative data and recently started another business to process commercial information. CRIF was recently awarded a contract by BIK for the development of a credit bureau score for risk assessment.

In Bulgaria, Experian launched the Experian-Scorex Bulgarian Credit Bureau (ESBCB) in 2004. A Bulgarian legal entity, wholly owned and managed by Experian, ESBCB provides credit reports based on reciprocally-



Capture the European Market –

Join the PAGO Network Today!

 PAGO is one of Europe's leading credit card acquirers and payment service providers. As a Certified PAGO Partner you benefit by:

- > additional sales opportunities
- > a full range of educational, technical and marketing support
- > an international network that opens the door to successful business in Europe

Become a Certified PAGO Partner:
www.pago-international.com/partner

 **pago.**

PAGO eTransaction Services GmbH is a Deutsche Bank AG and Beisheim Holding Schweiz AG company and member of the ELECTRONIC TRANSACTIONS ASSOCIATION (ETA)

Be sure. Business powered by PAGO.

shared positive and negative data to banks, telcos and retailers.

The bureau project was initiated by BAEF, the Bulgarian-American Enterprise Fund, a not-for-profit corporation created by the US Congress to promote the Bulgarian private sector, and by IME, an independent economic think tank in Bulgaria.

"We are the first and only credit bureau in Bulgaria, processing information offshore from Monaco, with business and customer-facing aspects onshore in Bulgaria," says Hadlow.

In Romania, the central bank, National Bank of Romania, has formed Credit Information Bureau to collect and store lending data. The bank says it maintains four file systems – a central credit file, an overdue debt file, a debtor group file and a card fraud file.

There are two privately-owned bureaux – Neural Risk Management,

using knowhow from Neural Technologies (Nt3), which is a shareholder in the business along with local companies Universal Card Systems, SmartTel and Investment Solutions, backed up by a disaster recovery centre operated by Provus, the Romanian processing company (see also *ECR*, July/Aug 2003, p37), and Delos Creditinfo, backed by Creditinfo and local shareholders.

Experian says it is also a contender. "We're all in competition with each other to see who can get in there first and set up a credit bureau for Romania," says Hadlow: "It's next door to Bulgaria and we could re-use the existing model from there, aiming to create a bureau with positive and negative data-sharing." However, he notes that this has to be on a case-by-case basis, depending on whether national legislation and sensitivities over data

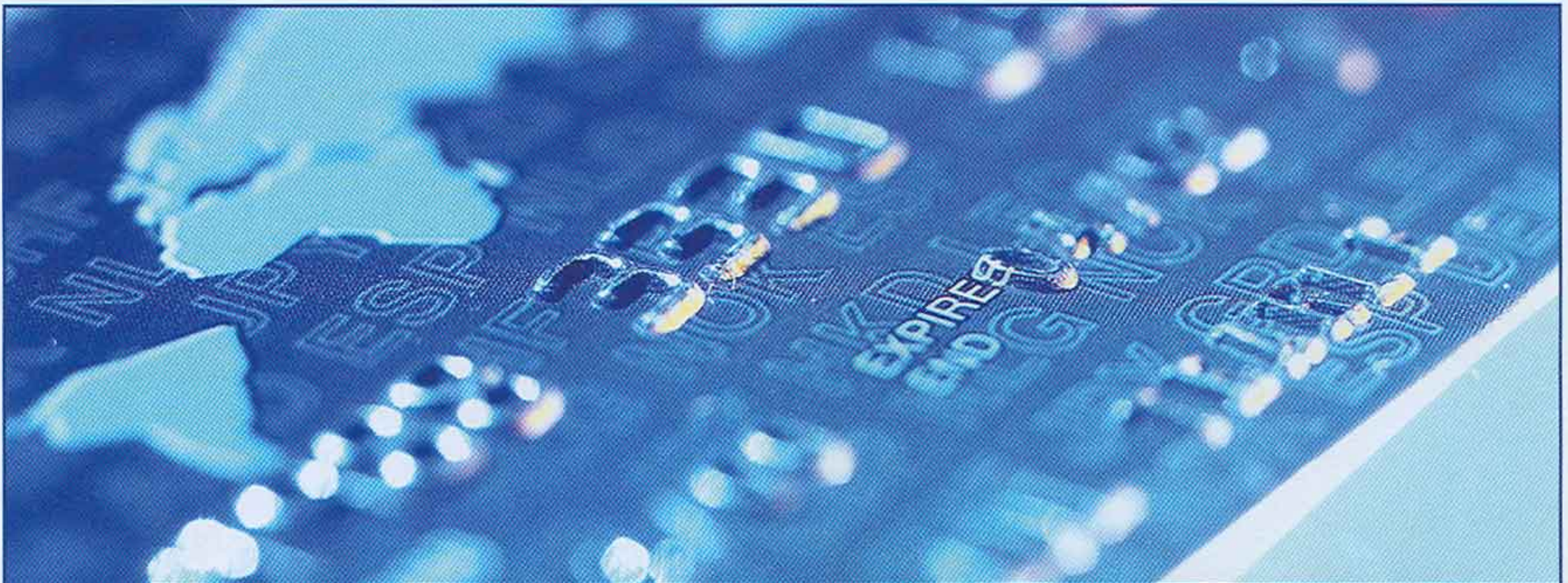
storage allow offshore processing.

Summing up Experian's strategy, Hadlow says it has a variety of business models for different markets, according to their size, strategic importance and the nature of the opportunity on offer.

In major markets, Experian will build its own business, consider buying a competitor or launch a joint venture, as in Russia. In smaller markets, often in association with its Monaco-based subsidiary Scorex, Experian will provide basic credit bureau functionality like applications processing, decision support and credit scoring.

"Clients setting up credit bureaux will ask us for our advice and about operating procedures, but mostly they request that we come in as well," concludes Hadlow, noting that Experian "has connectivity to about 80 or so different credit bureaux around the world."

ECR



Building Relationships with Cards

Discover a Real Alternative

NOMAD CORTEX powers successful card programmes throughout the EMEA region. As Europe's leading supplier of open systems payment solutions, NOMAD Software is uniquely positioned to enable you to focus on growing your business, whilst NOMAD CORTEX ensures your systems deliver.

Discover the benefits of working with a company that has the right long term vision. Since 1991, NOMAD Software has developed a broad range of fully

integrated modules covering switch and card management requirements - all using the UNIX platform, mainstream RDBMS and J2EE technology, and a consistent services orientated architecture.

So, why not contact us today to discover solutions that will make a difference to you and your customers.

Telephone +44 (0)207 292 2400

Email info@nomadsoft.com

www.nomadsoft.com

NOMAD
SOFTWARE