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### On the Record

#### ● Credit reports talk about the health status of the Czech debt market

By: Cristina Muntean, 08. 12. 2008, [More by this author:](#)

The ongoing credit crunch raised the awareness of Czech banks on credit clients' quality, and pushed them to increase supervision of overall debt portfolios in an attempt to avoid over-indebtedness and eventual future credit shocks, as trends illustrated by the CCB – Czech Credit Bureau have shown.

In the first half of 2008, the number of inquiries sent to CCB - Czech Credit Bureau, a company in charge of monitoring debt levels of customers of banking and nonbanking financial institutions, rose by 19 percent in the banking sector and by 34 percent in the nonbanking one. Petr Kučera, CCB's executive director, said that such trends illustrating credit carefulness of money lenders are normal in times of economic contraction.

But other trends lurk in the background as well. As people become more price-sensitive, this will probably bring further pressure on fees of mainly nonbanking credit providers.

CCB, which was founded in 2000 and started to operate in 2002, offers both positive and negative data, which means both a surveillance of timely credit payments and debt defaults. Nowadays, it covers the entire Czech retail banking market, some 85 percent of the leasing and half of the consumer credit markets.

In 2009, the firm plans to enter cross-border cooperation with its brother company in Slovakia, as the volume of cross-border credit transactions has been increasing. In the long term, it also targets Ukraine or Vietnam, but the volume of credit and maturity of fellow credit bureaus must be relevant for the company to act in that direction, Kučera said. CCB is also holding talks with service providers from factoring, utilities and telecommunications and plans to include factoring companies in its nonbanking bureau since the first quarter of 2009. Next year will also bring a higher focus on credits offered to small and medium-size enterprises (SMEs), he said.

Individual consumers can make inquiries on their credit histories too. Consumer credit reports are provided for an administrative fee of Kč 100 (€3.9) or Kč 200, depending on whether it is delivered by post or express delivery in person. Fees for credit reports to financial institutions are in the range of dozens of crowns, Kučera said. He also pointed out risks connected to the low supervision of consumer credit providers that today aren't obliged to report operations and debt levels to anyone. However, he said, the Czech debt level market remains far below the European Union average, thanks to the conservativeness of Czech households and firms.

The CCB revenues have been rising constantly since the bureau opening; yet, as the service offer grew, the fee price is heading down. CCB is entirely owned by the Italian firm CRIF, the fourth-largest global credit supervisor.

#### Q: What is your comment about the level of indebtedness of Czech households and companies?

**A:** In general, the growth is quite significant as we see from Czech National Bank (ČNB) statistics and from within the bureau. Yet, since the growth was starting from very small nominal values, we don't see it worthwhile to be commented on with a negative connotation. Something very healthy is that savings in banks are still almost double the credits that consumers get. We don't see [the growth] as very dramatic; even the ratio of credit to gross domestic product (GDP) is much lower than the average in the EU. Our last statistics show that even though the default rate is slightly increasing, it's increasing by such a small degree that we don't see any reason for panic so far. On the other hand, we cover the more responsible part of the market. Obviously, if you ask a company that isn't a member of the bureau on how their portfolio looks, there would be more gray stories, but we don't see them.

#### Q: Where do the main risks for the Czech credit market lie?

**A:** In the current situation, there is a risk of trust; the interbanking market is quite frozen at the moment and it limits consumer lending, which is still perceived as a safe harbor by banks. Yet, in some cases they don't have enough funds to provide credits, including mortgages. We hear stories that some banks limited [even] provisions of new mortgages to some extent; now, mortgages are quite a safe product, but since the liquidity is currently missing, some banks are limiting their provisions more than what their credit risk model is telling them.

I hope this distrust will be disappearing in a few months and we'll go back to—I couldn't say to business as usual because there will be a different situation—but I hope that the new banking trend will be that there are more voices for risk management rather than for business. Historically, before this turmoil, whenever there was a fight for a client between the business and the risk, in majority of cases the business reasons won. Now I think it's going to be quite vice-versa, and the risk aspects will be listened to more to by the banks.

#### Q: What are the risks connected to consumer credit providers and the fact that their operations aren't regulated and not included in any statistics?

**A:** I personally see this as a small limitation that we don't have a financial service authority like they have in the U.K. or because we

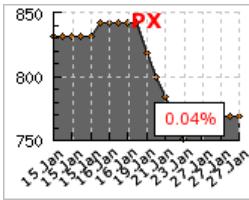


Who is Petr Kučera

**Born:** : April, 13, 1971, Prague

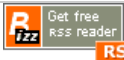
**Education:** Master's degree, Faculty of Philosophy and Faculty of Physical Education Charles University in Prague.

**Work history:** Currently, managing director of CCB - Czech Credit Bureau and (since 2004) of the Slovak Credit Bureau; 2001–04, CEE market senior regional manager in areas of credit bureau establishment and decision solution projects across the CEE region, Italy-based credit reference agency CRIF; 1994–2001, managing director, business information agency Aspekt Central Europe.



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don't have a central regulator. I think the market needs more transparency to provide feedback to the market and to consumers. It's more difficult to have leverage on transparency of rates and fees to be imposed to someone who's not regulated and is governed only by the general [commercial] code. I'd personally be more in favor of that, but obviously it's up to regulators.

When this situation comes combined with this still quite low level of financial education of the general public, then it's an issue. It is very difficult [for the public] to get oriented in the advertising and the variety of offers, while the long-term impact on the economy of the household isn't possible to be seen from the very beginning. For people who are educated in financial products, they can orient themselves very well. But for those people who don't have such salaries, for the lower income segment, they're getting more exposed.

**Q: Is there any chance that such a regulatory authority will be established in the Czech Republic soon?**

**A:** I'm not the right person to answer such a question. I don't hear of any initiatives of this type, but this is my personal [opinion], and I can't comment on the political situation and possible changes.

**Q: Many financial experts are looking at the credit card market as the ground for the next financial troubles. How real are the risks connected to this market in the Czech Republic?**

**A:** There is a theory that if a person gets four or five credit cards, [then there is a problem.] I don't think there are many people like this in this country. One of the reasons is the credit bureau itself, because the second and third bank would already know that the person has two or three cards before, and his credit limit is of a certain value.

I don't think we'll experience problems similar to those in some Asian markets like in Taiwan in the last decade when they had only a negative credit bureau at that time and when the general population started collapsing, the average person had some seven credit cards with a total value enough to buy a small car. That's because the other banks didn't know these people had another credit card because they only saw the negative performances, so [customers] were so far so good till everything collapsed.

But, as we [also] have positive data, I don't think we'll get into the situation when a large part of the population will have too many credit cards. I agree that this is a riskier product, but we also see the evolution trends for credit cards, and they aren't growing so dramatically.

**Q: Do banks always ask for your reports when they grant a loan?**

**A:** Not always. If there is a client who is a top VIP or a client already fraudulent with that particular bank, banks make a decision before consulting us. But the global picture is that the vast majority of applications are inquired about at the bureau. The credit market is based on an information gap; banks are bound to trust what the client is telling them in the application form, but they have no chance to verify whether the person owns two other mortgages or is repaying his car [loan] on time. They only depend on the person, so that's why it's good for them to look for any relevant external sources of information.

**Q: What percent of Czech mortgages granted have been checked through your bureau?**

**A:** We've never made a thorough analysis, but I'd say it's 100 percent.

**Q: What about the car loans and other lower-value mobile assets?**

**A:** The general trend is that the higher the volume, the more necessary the inquiry into the credit bureau is. If there is a small-ticket Kč 10,000 consumer loan, and if the bank has internal information that the client is all right, maybe it doesn't need external data all the time. This was also truer in the past when the level of indebtedness was not so high.

Now we're seeing new trends. Historically, banks were looking more at the negative aspects of a person's credit; for example, when they found a default payment in the past, they were treating it as a riskier client. Now their behavior is changing because they see that each client is getting more exposed to debt, so they are looking more at the positive data in the bureau—how much the person is currently indebted and whether this new credit application will put it into jeopardy and she might become a potential future bad payer.

Banks are looking much more at the current exposure, at everything a person owns everywhere and this is becoming a more frequent reason for rejecting a client rather than finding some problem in the past.

**Q: Have you noticed any other new trends with the bureau boosted by the crisis?**

**A:** This is a big trend worldwide, especially now with the crisis and the turbulent times. Whenever there is an economic slowdown, people are more price-sensitive; yet, they still need financial products because they still want to have a better life, and they want their TV set before they can save for it. So, they will be more stringent about the price of financial service and they are more likely going to go to those who can afford better rates. I think this will be one of the trends possible.

Also, in riskier times, new members of the credit bureau come because they have to adapt to the new situation and they have to know more about the client; they have to compensate for the lack of trust by more information.

**Q: Does this mean there will be more pressure on bank fees and other credit providers?**

**A:** Yes, there will be such pressure from clients, but more on consumer finance companies than on banks.

**Q: Did you notice any changes in Czech banks' risk models? Are they taking fewer risks today than in 2007?**

**A:** We do [notice], even though we don't necessarily see in the kitchen of the banks because they don't want these things outside the institution. But yes, we see a new trend in using the credit bureau data. Traditionally, users were inquiring about clients for the first time at the time of an acquisition, and not so much to revisit this profile. Now, with these more difficult times, it's necessary to monitor the portfolio of the bank not just internally, but also externally. If the same client that is in the portfolio might get in debt with three other banks over time, his risk profile changes dramatically. Yet, the first bank with whom he got the first loan doesn't know that the risk profile changed because they only made an inquiry at the time of underwriting the loan. That's why we see more a trend of a repeated portfolio monitoring.

Users are sending more control inquiries to monitor their portfolio. This trend is coming to the Czech Republic for the first time

because for the first time we're in a difficult time in this new era. But in other countries that have already gone through several economic cycles and had credit bureaus at that time, we saw that on the one hand there were more users coming—more financial institutions coming as a member—and, in cases where they had only negative data, [bureaus] switched to having positive as well because they needed it; plus, users started to use dynamic monitoring of the portfolio. We see this already happening here.

**Q: Does this mean more business for you and more revenues for your firm?**

**A:** It's hard to say. Nobody would tell you a good forecast about the impact of the current crisis. There are going to be two factors. One is the need for dynamic provision, which means many new inquiries. On the other hand, the new inquiries can be in a smaller number because people feel unsafe and don't come with new credit applications—we know about the drop in mortgages and car sales already. So, there will be these two effects: one is negative because fewer clients will want to have credit products, but the banks will want to see the portfolio more frequently.

**Q: How did your credit record fees develop since your foundation?**

**A:** There is a trend of gradual decrease of fees which comes hand in hand with increasing volumes. The pricing model is based on the fact that institutions that are members of the bureau pay per transaction; for every credit report they pay a fee. Since there is a volume discount-based model, the more they inquire, the less they're paying per unit.

As we start applying new products and services, there is a secondary effect of price decrease for the first one. Overall, the trend is that with more volume and longer time, the traditional products are decreasing in value, but there is more focus on the value-added new products.

**Q: Do you plan any significant cross-border cooperation?**

**A:** We are a part of a large international company that is the fourth largest credit reference agency in the world. We don't have a problem with looking for new technology or methodology; we have a huge variety of products in the other countries and we basically only seek the best products to be launched here at the right time and for the local specifics of the product. But to some extent, we're not reinventing the wheel. Yet, cross-border cooperation will become an issue—it is already an issue at the EU level where a European family has fewer barriers to travel and even take credit.

We're prepared to start sharing data across EU member states that are doing this. But we have analyses that show the cross-border credit is very small. If it happens, it happens in more closed regions like the Benelux or Austria-Germany where they have bilateral agreements—if an Austrian comes to Germany and wants to take a credit with a German bank, the bank can make an inquiry in Austria.

We are thinking of doing it with Slovakia because we have our sister company (SCB - Slovak Credit Bureau) there for the banking and the nonbanking sector, too, and there is a lot of traffic between the Czech Republic and Slovakia. We intend to do that and we're prepared to do it with other countries, but the [credit] volume should be showing that it needs to be done.

**Q: Would it make sense to cooperate with countries such as Ukraine or Vietnam, from where we have a strong minority in the Czech Republic?**

**A:** It's true. However, we need to have a same level partner in those countries. Credit bureaus there are not established yet, or are in very early days, and this isn't a balanced situation. In principle it's possible. Also, these countries aren't yet members of the EU, so from the legislative point of view it's more difficult as well.

**Q: What is new with entering the factoring and telecommunication market?**

**A:** It's a matter of time. We've already announced that we are talking to factoring companies; we're hoping to finalize some deals soon. One of the challenges is that we cover positive data; it's not only bad payers. When we move into service accounts like telecoms, utilities or factoring, it's very difficult for this segment to provide positive payment data because it's considered more a competitive issue. [This is valid] especially with the three mobile operators, in case they start checking how much each person pays on a monthly basis, even though it's not possible to make a market inquiry in the database because you always need a mandate to make it. But it's more risky to send this information.

For them it's simply easier to provide only negative data, but that hits our main principle: We're positive, we want you to give all that the others are giving for you to enjoy everything that we have in the database. We don't measure [a user] by size; we can also have the smallest leasing company with only some 100 accounts, but all of a sudden they have access to 30 million accounts. So there is a bit of a timing problem that we have in agreeing in data-sharing with the new segments.

**Q: Do you see an outcome possible in 2009?**

**A:** I hope so. For factoring I'm pretty sure; for utilities and telecoms, the future quarter will have to [be examined]. In Q109 there will be better indications if this could happen in 2009 or later.

**Q: When will you start providing corporate credit reports?**

**A:** We already have corporate and SME debt in the nonbanking bureau. Leasing companies already provide corporate leasing and loans. That's why some banks want to extend the data to be deposited in the bureau by corporations and SMEs. They would be sharing the data with the nonbanking bureau. My estimate is that already from the first quarter of next year some banks will start reporting data on companies in the banking bureau.

**Q: What will be the trends in mortgages in 2009?**

**A:** It's too early to predict at the moment because there are many aspects that can influence it. At this moment we're living this post-traumatic shock, so everybody is carefully thinking about a new credit, even if they need a flat or a car. There is a trend of decreasing prices of houses and that's a good aspect. At the same time, the interest rates of banks are growing despite the interbank rate.

If a mortgage should be cheaper because of the lower value of the house, it's actually becoming more expensive because of the interest rate, so it quite balances out. We've seen a volume decrease of about 20 percent compared with last year in new mortgages granted, but on the other hand last year quite an exceptionally good one. I think [mortgages] are going to slightly increase next year, but never to the levels of 2007.

**Q: What will be your main mid-term challenges?**

**A:** The challenge for us is that we want to focus more on value-added products and services, not just credit reports. At the moment, we already provide credit scoring; the portfolio monitoring feature; we provide fraud analysis with a system that analyses suspicious instances in the application—it's an anti-fraud application system that combines external data that the person declares in the application form. We now focus more on the SME segment as well. We want to start having data on small and medium enterprises in the banking sector of the bureau; we're providing now public information data on companies and we want to bundle that with the credit repayment data. Credit risk is hitting the SME segment very hard, and we want to have better information provided to the financial market so they could stimulate providing credit to SMEs.

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