

WESTERN HEMISPHERE CREDIT & LOAN REPORTING INITIATIVE

INICIATIVA DE SISTEMAS DE REPORTE DE PRÉSTAMOS BANCARIOS Y CRÉDITOS DEL HEMISFERIO OCCIDENTAL



Evaluation Workshop
Mexico City, Mexico
December 14th -15th 2006

MINUTES

The Center for Latin American Monetary Studies (CEMLA), together with the World Bank and the financial support of the "FIRST Initiative", evaluated the activities of the Western Hemisphere Credit and Loan Reporting Initiative carried out in the year and discussed the main issues identified during implementation in the workshop held at CEMLA headquarters on December 14th – 15th 2006.

The main objective of the event was to analyze with participants the progress achieved by the Initiative since its launching seminar held in August 2004, and to discuss the main issues identified during execution: legal, regulatory and consumer protection aspects, the role of authorities and the oversight function, issues related to private credit-reporting companies, public and private data registries and the use of the loan registry for purposes of implementing Basel II. Given the participatory nature of the event, all organizations and institutions involved had the opportunity to express their views and comments, and to influence the development of the project's next stages.

The workshop was attended by representatives of Central Banks, Bank Supervisory Authorities, Banking Associations and Multilateral Organizations, international experts in the field of credit reporting and the International Team.¹

¹ The list of participants is available at www.whcri.org

I. THE WESTERN HEMISPHERE CREDIT AND LOAN REPORTING INITIATIVE (WHCRI): ACTIVITIES AND METHODOLOGIES

- **Report on WHCRI activities**

Mario Guadamillas (World Bank) provided an overall view of the origin, strategic pillars and goals of the Initiative, as well as its organization, core team, activities and responsibilities, ending with the results obtained so far in the project and expectations for the coming stages.

- **Methodology**

José Antonio García (World Bank) presented the main aspects of the evaluation reports for countries which had received missions, both in their executive summary and detailed report versions. He said that the executive summary contained an overview of the credit reporting system in the country and on strategy to strengthen it. He commented that the detailed report included the information on country background, context and situation, as well as the findings by the International Team.

Next, Corina Arteche (CEMLA) described the main features of the public report, including the statistical tables and glossary of terms, as items contained in the work methodologies.

II. MAIN ASPECTS IN THE AREA OF BANK LOAN REPORTING SYSTEMS

- **Legal, regulatory and consumer protection aspects.**

Miguel Llenas (FIRST consultant) presented the different trends within the region that are being followed in regard to the legal framework for credit reporting systems. He detailed the different approaches with emphasis on the existence in some countries of specific laws regulating all aspects of credit information systems such as licensing, permitted operations, basic technology to be employed, consumer protection and supervision.

- **Aspects related to the role of the authorities and the oversight function.**

Massimo Cirasino (World Bank) explained the reasons justifying the creation of an oversight function in the area of credit information systems, and how the efficient exchange of information influenced market efficiency and financial stability, increasing access to credit by the population. He also indicated that the oversight role would be to develop principles and norms, to coordinate individual and collective action and to promote market development.

- **Aspects relating to private credit reporting agencies.**

Oscar Madeddu, from IFC, based his presentation on three aspects: the symbiosis between access to credit and exchange of information, the various international trends in the operation of private credit registries and the ways in which the authorities can help develop the industry.

- **Aspects relating to public and private data registries and the use of the loan registry for purposes of implementing Basel II**

Matías Gutiérrez (FIRST consultant) made two presentations. In the first he referred to the importance of using the information contained in the public and private civil, property and court registries, as well as data bases on returned checks or corporate financial statements. He then referred to the use of information contained in public credit registries for purposes of Basel II. In this presentation he summarized the main aspects of Basel II and proceeded with a detailed explanation of the usefulness of information contained in public information registries for preparing simulation exercises and validating the risk measurement systems employed by banks, as well as for the creation of systems of classification.

III. COUNTRY EXPERIENCES FROM LATIN AMERICA AND THE CARIBBEAN

In this part of the seminar representatives from the different countries visited by the International Team during the current project phase made presentations on their credit reporting systems, indicating the use made of the public registry, the role of the authorities, the existing legal framework and future plans. Several of them emphasized, among other aspects, their receptivity to the recommendations of the International Team, the missions' contributions to an overall view by the parties involved, and the relationship with and importance of the Supervisory Agent. The following participated: Jorge Olcese (Superintendencia de Banca, Seguros y AFP, Peru), Ariel Imken (Banco Central del Uruguay), Jeffrey Maxime (Central Bank of Trinidad and Tobago), Robert Boopsingh (Banking Association of Trinidad and Tobago) and Jafet Zuñiga (Superintendencia General de Entidades Financieras, Costa Rica).

IV. REFORMING CREDIT REPORTING SYSTEMS IN LATIN AMERICA AND THE CARIBBEAN: NEXT STEPS

Gulden Bayaz, Representative of FIRST Initiative, informed of the structural changes the organization shall undergo as from February 2007, and stressed that support to low-income countries, and in many cases middle-income countries, shall continue.

The participants then expressed their views and comments on the development of credit reporting systems and the importance these are acquiring for different sectors, as well as on the need to deepen their knowledge of the subject.

All the above mentioned presentations are available at www.whcri.org

V. GENERAL DISCUSSION AND CONCLUSIONS

The following topics were those most discussed:

1. The need for specific regulatory frameworks which include the requirements for the creation, operation and dissolution of private credit reporting registries, as well as the need for adequate supervision.
2. The importance of the positive information generated in loan registries and private credit registries, the use given to it (whether positive or negative) and the sharing policy with respect to other agencies.
3. The compatibility and diversity of functions of both private and public registries. In this respect the importance of coordinating these objectives so as to avoid covert activities in detriment of market competition and efficiency, was emphasized.
4. The distribution and dissemination of information by the authorities and its implication for private industry, considering aspects such as the ownership of information and the use of technology.
5. The implementation of the oversight function, differentiating clearly between its goals focused on coordination and regulation, and the objectives of the supervisory function.
6. The need to create specific provisions in the context of consumer protection, including within this normative framework the rights and obligations of consumers, the relevant authorities and the procedures to be followed by consumers.
7. The importance of having a regulatory framework for all formal aspects of credit bureaus, including the requirements for requesting an operating license, activities to be carried out and business continuity plans.

The following conclusions arose by the end of the workshop:

1. Participants expressed the importance of continuing with the Western Hemisphere Credit and Loan Reporting Initiative and emphasized the achievements of the first phase of the project.
2. Those in attendance agreed to formalize the creation of a working group, with CEMLA as Technical Secretariat. Terms of reference would be drafted for such purpose and sent to the countries for approval.
3. Additional country evaluations would be undertaken on a demand driven basis, and following preparatory work in which the authorities made progress in the outline of the "orange book" and the compilation of statistics.
4. The need to organize country sensitization workshops that involve not only lending institutions but also legislators.