

WESTERN HEMISPHERE CREDIT & LOAN REPORTING INITIATIVE

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



**Launch Workshop
Mexico City, Mexico
24-25 August, 2004**

MINUTES

The *Centro de Estudios Monetarios Latinoamericanos* (CEMLA) in partnership with the World Bank, and with the financial support of the FIRST Initiative, launched the Western Hemisphere Credit & Loan Reporting Initiative (WHCRI) during a workshop held at CEMLA headquarters on August 24-25, 2004.

Following on the successful experience of the Western Hemisphere Payments and Securities Clearance and Settlement Initiative (WHI) funded by the World Bank and CEMLA, the central banks' Governors from Latin America and the Caribbean (LAC) agreed at a meeting held in September 2003 in Dubai to replicate the WHI model to credit and loan reporting systems within LAC through an initiative named the Western Hemisphere Credit & Loan Reporting Initiative (WHCRI).

The WHCRI comprises some major elements:¹

1. Definition of policies and actions for sub-regional integration of credit and loan reporting systems (CLRSs) in the LAC region.
2. Assessment (using a common assessment methodology) of the CLRSs in LAC countries, starting from a first group of seven countries (Mexico, Colombia, Brazil, Costa Rica, Peru, Trinidad and Tobago and Uruguay).

¹ See the Project Document available at www.whcri.org

3. Development of strategies and action plans for CLRSs in visited countries.

The primary objective of the workshop was to engage all involved parties in a discussion on the objectives, methodologies and outputs of the project. Through this participatory approach, stakeholders had the opportunity to influence the project preparation, which will ensure country ownership. Furthermore, country representatives were able to begin a dialogue at a regional level, which will result at the end of the project in sustainable cooperation.

The meeting was attended by representatives of central banks, bank supervisory authorities, banking associations, international multilateral and donor organizations, international experts in the field of credit reporting as well as the core project team.²

I. INTRODUCING THE TOPIC: THE IMPORTANCE OF CREDIT & LOAN REPORTING SYSTEMS³

- **Credit Reporting Systems: State of Development Worldwide and Insights for Latin America**

Margaret Miller, Senior Economist, World Bank, provided a high level presentation describing the importance of credit reporting systems in the financial sector, the roles of public versus private credit reporting and the elements that make up a robust credit reporting system.

- **A Practitioners Viewpoint**

Jose Mantilla, a technical consultant provided by the FIRST Initiative, followed up with a presentation highlighting the value proposition of credit reporting systems to banks and other lenders by contrasting the experience of doing business in the absence and in the presence of a credit bureau.

- **The Western Hemisphere Credit & Loan Reporting Initiative**

Payment and Securities Settlement Initiative—A Model

Massimo Cirasino, Senior Financial Sector Specialist, World Bank began by providing an overview of the recognized outcomes and success factors of the Western Hemisphere Payments and Securities Settlement Forum (WHF) - the precursor to the Credit & Loan Reporting project. José Antonio Garcia, Senior Economist, CEMLA, and Secretary of the Working Group on Payment System Issues of Latin America and the Caribbean (WGPS-LAC) continued with a review of the objectives and structure of the WGPS-LAC, which in the future might serve as a useful model in the WHCRI.

² The list of attendees is available at www.whcri.org

³ Presentations are available at www.whcri.org

Credit and Loan Reporting Initiative—Project Origin and Structure

Mario Guadamillas, Senior Financial Economist, LAC Region, World Bank, spoke about the origin of the WHCRI and the mandate given to CEMLA by LAC central bank governors to launch a regional initiative in the area of Credit & Loan reporting replicating the model of the WHF. Mr. Guadamillas also talked about the organization of the initiative; success factors and responsibilities of the project team; the roles of the FIRST Initiative, CEMLA and the International Consultative Committee (ICC); initial project activities; and expected outputs and outcomes. José Antonio Garcia then explained the draft methodologies and tools, including the proposed outlines for the recommendations and public reports, proposed statistical tables and demonstrated the WHCRI website (www.whcri.org).

II. BREAKOUT SESSIONS

After the morning presentations, the workshop attendees divided into four subgroups in order to discuss WHCRI objectives, structure and methodology during the afternoon. Each group was asked to prepare a brief presentation of the discussion during the Plenary Session in the following morning. Attendees and main discussion themes are discussed below.

1. Central Banks

1.1 Attendees:

Milton Gonzalo Vega Bernal (Banco Central de Reserva del Perú), Matías Alfredo Gutiérrez Girault (FIRST consultant), José Miguel Matus Lineros (Banco Central de Chile), Robert Boopsingh (Bankers Association of Trinidad & Tobago), Faizool Mohamed (Central Bank of Trinidad & Tobago), Rodrigo Monteiro (Banco Central do Brasil), Daniel Sánchez (Banco Central do Brasil), Mauricio Avella-Gómez (Banco de la República de Colombia), Manuel Gonzalez Rocco (Banco Central de Uruguay), Héctor Ariel Imken Poeyland (Banco Central de Uruguay), Robert Smith (FIRST Initiative) and Mario Guadamillas (World Bank).

1.2 Comments and Reactions

- The importance of standards to guide the evaluation was mentioned, as it is currently the case in the areas of payment systems and banking supervision
- The Project must consider the possibility to support cross-border information sharing due to commercial agreements, e.g., NAFTA
- The difficulty of developing and maintaining good data bases
- Standards for Public Credit Bureau databases are desirable

- Relationships between payment systems, risk management systems and others (e.g., collateral registries) should be clarified and deepened.
- It will be important to identify the appropriate regulatory bodies to determine what institutions should be involved in the project.
- Efficient mechanisms for managing the influence of interest groups who could lock system improvements must be identified.

1.3 Role and Formation of the ICC

- Private sector participation will need to be considered
- The ICC will be an important body for defining standards or guidelines for the assessments given that international standards are lacking
- Central bankers were open to participating in missions

1.4 Country Studies

- The reports—both the public and the confidential recommendations reports—are important
- It will be important to circulate the methodology for comment as soon as possible so that detailed comments can be formulated
- The basic project objectives should include contributing to stability and promoting greater access to credit by the most marginalized segments of the population
- Studies should include in-depth analyses of information quality, implications of Basel II and the impact of consumer rights
- Theoretically, the primary participants in the missions should be the central banks, the bank supervisory authorities and banking associations
- The importance of the web site was noted

1.5 Coordination with other efforts (e.g., FSAP) and follow-up

- Following the experience of the WHF, coordination with FSAPs will be highly beneficial
- The action plan identified in the recommendations report should be designed to guide future technical assistance work
- It will be important to identify topics that will require special attention (e.g., legal or operational issues) prior to the deployment of the mission team in the field
- Technical assistance and follow-through will be useful to expand upon the issues identified during the missions
- The form of technical assistance needed for follow-up will depend on the nature of the recommendations (i.e., technical assistance or technical assistance plus financing)

1.6 Regional Work Group

- Private sector involvement will be important—including industry associations, chambers of commerce and system operators

- More discussion will be needed on this issue

2. International Consultative Committee

2.1 Attendees

Massimo Cirasino (World Bank), Maureen Tootle (Bank of Canada), María Soledad Cruces de Abia (Banco de España), Richard Hoffman (FIRST Initiative), Socorro Heysen (IMF), Arturo Galindo (IADB), Gerard Dages (Federal Reserve Bank of New York), Peer Stein (IFC), Lucinda Brickler (FIRST Consultant)

2.2 Recommendations

- ICC representatives were supportive of project activities and felt that the TORs capture foreseen activities well
- Following the example of the International Advisory Council of the WHF, the World Bank will coordinate the activities of the ICC
- Regarding the composition of the group:
 1. Banking supervisors should be represented through ASBA.
 2. Group should be enlarged to include institutions such as USAID and other donor organizations (e.g. Consultative Group to Assist the Poor (CGAP)).
- Project should seek output from a broad range of stakeholders, e.g., banks, non-bank financial sector, telecoms, insurance, credit card, credit bureau associations (CDIA and ACSS). However, these institutions should not be part of ICC due to potential issues of confidentiality or conflict of interest. In this regard, terms of Reference for an “Outreach Group” will be developed.
- The importance of the following in the context of the country studies was discussed:
 1. Best practices and international standards
 2. Finalizing methodology
 3. Engaging banking supervisors
 4. Identification schemes within countries
 5. Broad scope
- Regional working groups should reflect the multiplicity of institutions/regulators with a stake in credit reporting.

3. Bank Supervisors

3.1 Attendees

Rodolfo Aquilino Cifuentes Bustos (Superintendencia Bancaria, Colombia), Jafet Zúñiga Salas (Superintendencia General de Entidades Financieras, Costa Rica), Daniel Backal Mitrani (Comisión Nacional Bancaria y de Valores,

Mexico), Héctor Ariel Imken (Banco Central del Uruguay), Jorge Olcese Fernández (Superintendencia de Banca y Seguros, Perú), José Mantilla (FIRST Consultant), José Antonio García (CEMLA)

3.2 General Reactions and Concerns

- The WHCRI will be key to improving supervisory capabilities
- Type of risk database—whether based on balances or on types and volume of operations
- Importance of the issue of Pricing
- How to limit access to databases in the case of financial conglomerates; uses of credit information for purposes other than making credit decisions
- Competition—private versus private, private versus public
- Consumer education
- Countries should perform a self-assessment regarding their strengths and weaknesses before the mission

3.3 Comments and Reactions to Documents and Presentations

- Consider the involvement of non-financial grantors of credit, consumer protection agencies, systems for identifying individuals and firms and eventually large firms such as Equifax and TransUnion
- Consider the relevance of sharing of information between banking and non-banking and/or banking and non-financial institutions
- Consider the relevance of political decisions (e.g., incentives for non-repayment, impact of bail-outs)
- Studies of public and private credit bureaus will be quite different—how can they be reconciled?

3.4 Recommendations Report

- Legal framework—include consideration of data standards where more than one bureau exists. Should interoperability form part of the legal framework? Consider who should be authorized to be an operator, consult, regulate the public credit bureau
- Current operations of credit reporting systems—consider competition and pricing, operational compatibility and use of information for Basel II, consider the interaction between credit reporting systems and payment systems and instruments, the role of public and private institutions including authorities, public registries and trade and industry associations and cross border links
- Public Reports/Orange Books—will we report only on the financial sector or others as well?
- Web Site—Offer Portuguese version.

4. Banking Associations

4.1 Attendees:

Marcelita Marques Marinho (Brazil), Patricia Jimenez (Colombia), Alberto Soto (Costa Rica), Juan Manuel Ruiz (Mexico), Julio Enrique Arroyo (Perú), José Eduardo Barbieri (Uruguay) and Margaret Miller (World Bank)

4.2 Considerations

- Development of an adequate legal and regulatory framework
- Protection of the consumer
- Data privacy
- Information—both positive and negative, sharing financial, commercial and other public sector information
- Client authorization
- Maintaining data for an adequate period of time
- Data structures and systems that permit sharing of data between countries
- Development of best practices

III. GENERAL DISCUSSION AND CONCLUSIONS

To conclude the meeting, the discussion was opened for questions, comments and discussion. The following themes were raised:

1. Cross Border Sharing of Information

The need to explore cross-border information was emphasized. It was noted that this kind of sharing does not currently exist, but the intent has been expressed by ASBA. It was also noted that it is possible that smaller countries may consider hosting databases outside of their countries.

2. Role of Banking Supervisors in the Project

Clarification of the ICC statement that banking supervisors must feel ownership was raised. It was noted that CEMLA is, by definition, a central banking organization and that banking supervisory authorities in the member countries are not always part of the central bank. However, banking supervisory authorities play a key role in the project by design and should be encouraged to exercise leadership.

3. Sharing/Synchronizing Information Across Credit Bureaus

The question of if and how competing credit bureaus share/synchronize information was raised. It was noted that this kind of sharing does not exist.

For example, in the U.S. market, consolidators have evolved that provide a report that combines the information carried by the three major credit bureaus. It was noted that attempts have been made at legislating sharing of information across credit bureaus.

4. Methodology: Large Countries versus Small Countries

The observation was made that the needs of large countries will most likely be different than the needs of smaller countries with respect to credit and loan reporting systems. While it was acknowledged that differences exist with respect to market conditions and resources available, it was noted that there will be some common set of elements that are applicable to all and that each project would be customized to take into account local issues.

5. Pricing

Pricing was an important issue in the payment systems project and the question of whether pricing was expected to be an important issue in the arena of credit reporting was asked. The importance of pricing to microfinance and the value of competition were discussed.

6. Credit & Loan Reporting System Oversight

The question of where responsibility for credit & loan reporting system oversight remains open. While central banks definitely have an interest in this matter, it was noted that they might not be well suited for dealing with consumers and retailers. It was noted that in the U.S. this responsibility falls primarily under the auspices of the U.S. Federal Trade Commission. The conclusion has been that oversight responsibility is a shared function among different authorities and the WHCRI will foster its formal establishment, as well as the design of the necessary cooperation framework.

7. Tracking and Measuring Progress

The idea that demonstrating progress in terms of actual reforms would be hard to demonstrate over the short term because credit & loan system reforms often require years to have an impact. The hope is that the output from the effort—reports, standards, benchmarks, etc., will inform debates within countries on legal reform. It is also anticipated that this effort could help the member countries to implement more immediate improvements to consumer education and outreach.

All attendees reiterated their full support to the project activities and their willingness to cooperate towards the achievement of the project objectives.