



## INTEGRATING BANKING AND NON-BANKING CREDIT REGISTERS IN THE CZECH REPUBLIC

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*The Czech Republic is in the process of creating, applying and unifying credit registers of banking and non-banking institutions. This process is in line with the European and world standards of countries with advanced financial markets. It is taking place in conjunction with harmonization processes within the regulation and supervision of banking and non-banking institutions, which are creating the conditions for stability of financial institutions and protection of clients.*

When commercial banks and non-banking institutions execute for their clients active transactions in corporate lending, consumer lending and leasing, they undertake the creditor's risk that their receivables will not be paid. It may be said that credit risk is the biggest risk in the financial sector also in international trade.

Banks and non-banking institutions address these risks in several ways, the most important of which is the analysis conducted by the future creditor before actually concluding a transaction. Thorough checking and analysis of future clients requires the existence of high-quality and up-to-date information on future debtors, including information on their debt repayment history.

In the Czech Republic, registers of the credits provided by banks and non-banking financial institutions are maintained and are being gradually interconnected in order to expand the potential tools against credit risk and to support the maximum stability of the financial system in regard to the harmonization of related rules within international contexts. The interconnecting of credit registers is intended to increase their effectiveness in monitoring the creditworthiness and financial discipline of future debtors.

The process is now underway to interconnect banking client information registers (BCIR) and non-banking client information registers (NCIR) as registers of bank credits and lease receivables. The next step, before the end of 2006, will be to connect a register of non-banking institutions providing consumer retail loans. There is therefore scope for banks and financial institutions to use the credit registers maintained by the Czech National Bank and by the joint stock company Czech Banking Credit Bureau (CBCB).

The Central Register of Credits (CRC) operated by the Czech National Bank is an information system whose participants are obliged to update it on a monthly basis. The CRC participants are commercial banks and the branches of foreign banks in the Czech Republic. Apart from the participants, only the Czech National Bank has access to the register.

The CRC contains information on the credit commitments of legal entities and individual entrepreneurs. The whole project of credit registration was carried out in co-

operation with the Czech Banking Association (CBA) and in accordance with the requirements of commercial banks.

CRC participants may acquire information on the credit burden of bank clients – on the current balance of their potential commitments and the history of their commitments. The CRC contains the following:

- credits drawn, including overdrafts,
- current-account debit balances exceeding the set limit,
- undrawn lending arrangements and standby credits,
- guarantees issued,
- credit equivalents of selected off-balance-sheet receivables.

The identification of clients and their commitments includes:

- the client's legal form, identification number, name, and registered office,
- number of the bank's receivable, date of origin, and maturity,
- total amount of the receivable, current balance, and past-due principle,
- currency and collateral.

In accordance with Act no. 21/1992 Coll. on Banks, clients of banks are entitled to know what information the CRC database contains about them. Where a participant requests a check on a client or a client requests a check on its record in the area of credit commitments of natural persons and individual entrepreneurs, they will be directly referred to the banking credit register system. The register is maintained by the Client Centre of the Prague-based CBCB.

The CBCB has five shareholders, each a commercial bank operating in the Czech Republic: Česká spořitelna, a.s., Československá obchodní banka, a.s., GE Money Bank, a.s., HVB Bank Czech Republic, a.s., and Komerční banka, a.s. This fulfils the legal requirement for the institution's ownership in regard to the nature of its activities.

The CBCB maintains both a banking and non-banking register of clients. The banking register covers consumer loans to natural persons, members of the public, and in-



dividual entrepreneurs. The non-banking register – the Leasing and Loan Credit Bureau (LLCB) – registers client commitments arising from leasing and loans. Preparations are in hand to link the register with financial credit institutions in the area of consumer loans. In terms of the banking credit register, the CBCB is an independent entity providing services for banks and financial institutions in the area of client information, as is standard in many countries with an advanced financial market.

Its database registers positive and negative data about the financial standing, payment discipline and creditworthiness of clients. The information gives a view of a client's current state of indebtedness and their credit commitments over the past four years. The project has been carried out in accordance with the requirements of the Czech Office for Personal Data Protection and the Czech National Bank.

The following leasing companies are connected to this system:

- CAC Leasing
- CCB Leasing
- ČSOB Leasing
- GE Money Bank Leasing
- Česká spořitelna Leasing
- ŠKOFIN
- sAutoleasing.

Where leasing companies require information on the credit commitments of potential clients – legal persons, they obtain it through their partner commercial banks:

- Česká spořitelna, a.s.
- Československá obchodní banka, a.s.
- GE Money Bank, a.s.
- HVB Bank Czech Republic, a.s.
- Komerční banka, a.s.
- Živnostenská banka, a.s.
- Raiffeisenbank, a.s.
- eBanka, a.s.
- Hypoteční banka, a.s.
- Citibank, a.s.
- Českomoravská stavební spořitelna, a.s.
- Stavební spořitelna České spořitelny, a.s.
- Wüstenrot hypoteční banka, a.s.
- Raiffeisen stavební spořitelna, a.s.
- Hypo stavební spořitelna, a.s.
- Modrá pyramida stavební spořitelna, a.s.
- Volksbank CZ, a.s.

The interconnection of banking and non-banking information registers may be seen as the first step towards creating a comprehensive information system on the creditworthiness, financial standing and payment discipline of clients, with the aim of eliminating the risks faced by financial institutions. A basic problem is the need to generalize that information which is included in registers at the client's consent.

Under the Banking Act, banks may exchange information about any client without requiring their consent. The

requirement of client consent concerns the storing of information in non-banking registers. As creditors looking to protect themselves against risk, both banking and non-banking institutions have an interest in the exchange of such information and in the integration of such systems.

Future steps to address this issue may be expected to include legislative amendment in the area of financial institutions and also in the area of personal data protection. As regards new relationships of financial institutions, it is necessary to address the possibility that client information contained in the registers will be introduced prior to the concluding of a contract, where a client's standing could affect the closing of the contract and therefore the meeting of his financial needs.

The use of client information registers may be seen as positive not only for financial institutions but also for the clients of banks and non-banking institutions.

A client who is found by a check of the registers to be problem-free, especially in terms of his history of debt repayment and current financial standing, can look forward to the transaction being concluded quickly, more cheaply and more securely and may expect a greater range of products from the respective institution.

The general ethical aspect of banking and non-banking institutions setting up and using client registers is especially important. The focus here should be not only on mitigating the commercial risks of transactions but also on protecting financial institutions and their clients as a whole from the repercussions of concluding a high-risk transaction.

## Conclusion

From all of this it may be said that the utilization, shaping and unification of credit registers of banking and non-banking institutions represents a European and world trend corresponding to the standards applied in countries with advanced financial markets.

It will therefore be necessary to keep tracking both their operation and the feedback from clients of financial institutions. Client opinions will also have to be heeded in banks, especially in regard to the protection of personal data. It would obviously be interesting and instructive to monitor how banks, insurance companies and other financial institutions are affected in terms of competition. As regards the regulation and supervision of banking and non-banking institutions, the operation of client information registers creates the conditions for improving the stability of financial institutions and also for the protection and stability of clients' business objectives.

## Bibliography:

1. Act no. 21/1992 Coll. on Banks.
2. Act no. 124/2002 Coll. on the Payment System.
3. Website of the Czech National Bank: [www.cnb.cz](http://www.cnb.cz)
4. Websites of other financial institutions.