



Anniversary of the Register of Bank Loans and Guarantees in Slovakia

Ing. Ladislav Kátrik, National Bank of Slovakia

The year 2007 marks the tenth anniversary of the Register of Bank Loans and Guarantees (RBLG), which the National Bank of Slovakia maintains for the banking sector in Slovakia. It was shortly after the establishment of the Slovak Republic that Banks sought to set up a credit register, their first thoughts being to link such a commercial register with the then Bankové zúčtovacie centrum Slovenska a.s. (Slovak National Clearing Centre), which oversaw both interbank payments in Slovakia and payments between entities in Slovakia and the Czech Republic, along with the settlement of mutual payments. There was not at that time any legislation for the establishment, coordination and operation of a system for the central registration of loans and guarantees on a non-commercial basis.

Act no. 58/1996 Coll. on banks required the NBS to maintain a register of bank loans and guarantees for loans and guarantees extended to corporate entities, and other accepted liabilities, denominated in the Slovak currency or a foreign currency and amounting to at least SKK 3 million. The legislative framework for the new system of registering loans and guarantees within the sector was subsequently completed with an amendment to the Act on the National Bank of Slovakia and the adoption of Decree of the National Bank of Slovakia no. 12, an implementing regulation of 1996 which stipulated how the register of bank loans and guarantees was to be maintained and the scope of information to be reported for that register.

At the NBS's Banking Supervision Division, a department was established which became the coordinator of the register's operation. However, the date originally planned for the register's launch (1 December 1996) had to be put back. An amendment to the decree on the register (dated 7 February 1997) provided for the postponement of the register's entry into operation and regulated certain details in favour of the exercise of banking supervision. A later amendment to the Banking Act revoked the minimum limit on the amount of reported loans (SKK 3 million). When eventually the register of bank loans and guarantees was put into operation (on 1 August 1997), it represented the implementation of a new element in Slovakia's banking sector, one that certain advanced European countries had already been using for several years. Slovakia thereby established itself among a group of countries in which credit registers, or "central credit registers", had to a certain extent already removed the scope for extending "risky" loans and had also increased the security of business conducted in the banking sphere.

CREDIT REGISTERS IN OTHER COUNTRIES

The National Bank of Slovakia took as a template the central credit register established in France in 1946; it is the oldest central credit register in Europe and underwent substantial overhauls in 1959, 1968 and 1991. The NBS also obtained significant information from the operation of the central credit register in Belgium, which has been running since 1967. Finally, details from Germany's central credit register were used to complete the methodology and techniques for the administration of the register of loans and guarantees in Slovakia.

Other countries using a credit register which is administered by the central bank and which, in accordance with domestic legislation, provides information to the whole banking sector include: Italy (since 1962), Spain (since 1963), Portugal (since 1960), as well as Greece and the Czech Republic (since 2002). In some countries, credit registers are run by organizations other than the central bank, but on a commercial basis and exclusively for the requirements of commercial banks (the United Kingdom and Austria).

Since 2004, Slovakia has had a credit register administered by a company called the Slovak Banking Credit Bureau for a group of commercial banks and building societies (16 members at present). The register records only the borrowing commitments of natural persons.

Most credit registers and central credit registers process records on a monthly cyclical basis; the content of the records (items, commitments) is similar, with varying degrees of particulars and details. The identification profiles of borrowers mostly have a very similar structure whether they are for a corporate entity or an individual.

THE FIRST FIVE YEARS OF THE REGISTER

The methodological basis for the register was



laid down in NBS Decree no. 12/1966, and a related implementing regulation was NBS Decree no. 3/1995 on rules for evaluating banks' claims and off-balance sheet liabilities according to risk and for the formation of provisions to cover these risks. The substance and principles which they set out have remained basically the same up to the present day.

The register's input data comprised:

- basic identification information on banks' corporate customers (corporate legal and corporate natural persons, and, in the case of legal persons, information on their owners, too) who had accepted a loan, guarantee or other liability; this included the so-called scoring (classification) of the bank's customer;
- information on loans, guarantees and other accepted liabilities (bank code, agreement number, type of agreement, industry in which the loan, guarantee or other liability was provided, the validity date of the agreement, the type of security, the value of the security, the maturity date of the loan, guarantee or liability, the amount of the loan, guarantee or liability, the monetary currency, the current outstanding amount of the loan, guarantee or liability, the amount of the principal not paid within the time limit, the amount of the interest not paid within the time limit, the date on which the information was last updated, and the status code of the loan, guarantee or liability).

Outputs from the register, reported exclusively to banks and branches of foreign banks, comprised information on the total borrowing commitments of the customer, as follows:

- the customer's identification, the total credit commitments of the borrower, the total value of the security, the total number of registered loans provided to the borrower, the total number of past due repayments, the total amount of past due repayments.

This structure of the register's inputs and outputs was retained until July 2004, when the RBLG system underwent a first major overhaul.

During the first five years of its existence, the register of bank loans and guarantees was affected by turbulence in the banking sector. The period from 1997 to 2002 was marked by banking sector instability, banks' liquidity problems, the introduction of compulsory administration in several banks and the subsequent revocation of the banking licence, and, finally, the privatization of most banking entities (95%).

The process of banking sector restructuring and, in particular, the existential issues faced by banks during that period were also reflected in the discipline with which information was reported for the register. In truth, certain shortcomings in the system contributed to this fact, including methodological (e.g. problems with the ambiguous identification of customers), software-technical (slowness and clumsiness) and organizational shortcomings. The con-

sequences of these effects is perhaps best captured by the statistical indicator of how banks utilized the register (the average monthly number of banks' requests about customers): the average number of requests recorded during the said period was between 700 and 1,000, while the number of banking sector customers entered in the register with "live" loans or guarantees probably stood at around 28,000.

Today, the number of requests made about customers per month averages between 30,000 and 35,000, and has been as high as 60,000, while the average number of customers registered with current loans or guarantees is fluctuating at around 53,000.

The years 2002 and 2003 can already be seen as the period when the results of the banking sector's consolidation and recovery started to show through and when the sector's stabilization began. Stabilization was also reflected in the need for a proper approach to the conduct of business and behaviour in the financial market and, relatedly, the truthful and punctual reporting of required information. Banks improved their credit policies, and as the number of customers increased, so banks acted with greater prudence when assessing and taking account of risks attached to credit transactions. This situation was also shaped by a more proactive approach from the regulatory authority – the Banking Supervision Division of the NBS. The quality level in the banking sector was raised by a combination of tighter supervisory criteria, amendments to the legislative framework for the application of supervisory procedures, and restructuring of the Banking Supervision Division.

CONTENT AND STRUCTURAL CHANGES

The register of bank loans and guarantees has not been immune to changes, either. This information source gained in credibility following the consistent consolidation of its information at the end of 2003. With close cooperation between the banks and the National Bank of Slovakia, the database of loans and guarantees was successfully cleared up and organized. This mainly involved modifying the system and updating the information so that the entities recorded in the register could be clearly identified on the basis of a single identifier. This removed the problem of duplication where a single customer would appear in the system under different legal forms. Likewise, order had to be brought to the records and commitments that dissolved banking entities had failed properly to close. A subsequent amendment to NBS Decree no. 2/2003 of 30 May 2003, concerning the register of bank loans and guarantees, effective as of 1 June 2004, provided the basis for content and structural changes in records entered in the register on the basis of reports from banks and branches of foreign banks. This largely involved expanding the inputs and outputs, to include mainly:

- the records of non-resident corporates, whether



legal or natural persons, which have received loans or guarantees from the Slovak banking sector, including the ISO identifier of their country;

- more detailed specification of the method or type of collateral used to secure the loan;
- the scoring of the loan according to the customer's payment discipline as well as to the fulfilment of other criteria based on a comprehensive financial analysis of the customer;
- the number of days that the repayment of the receivable is past due.

This Decree also regulated the software, resulting in an increase in the system's user-friendliness and therefore its utility value.

These positive changes in the administration of the register probably contributed to maintaining the stability and soundness of the Slovak banking sector in the period 2003-2007.

CREDIBLE INFORMATION SOURCE

The register of bank loans and guarantees has, since its inception, been continuously developed in accordance with the current needs of the NBS, the Slovak banking sector, and also the recommendations of the European Union. Over the past ten years, various peripeteia notwithstanding, it has become for banking entities a credible central information source in the field of lending policy. The register supports the prudential conduct of business by banks and branches of foreign banks in Slovakia, and is at the same time a source of information for their acquisition activities. For the NBS, it represents an information resource for the exercise of supervision over banking entities and supports regulation of the banking sector's credit risk and other types of related risks.