

**Financial and Banking Services Market**

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**CREDIT BUREAUS AND THE BUREAU  
OF ECONOMIC INFORMATION  
IN THE POLISH BANKING SYSTEM**

**Abstract**

Unfairness in business is a common feature known around the world, but in the countries with the developed economy there are quite effective mechanisms and institutions that hedge (limit) dishonesty in economic relations. In the economic systems that are just developing, to which one can refer the new members of the European Union and Ukraine, many good companies bear huge losses because of the unfair partners and debtors with bad reputation. This article will try to reveal the experience of fighting with this feature in the Polish economy.

**Key words**

Credit bureau, Bureau of credit information, credit risk, client with bad reputation, Bureau of economic information, client database.

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According to Polish statistics, 20-25 percent [9] of consumers do not perform their obligations in time [3]. There are two types of institutions in Poland that accumulate information about debtors and borrowers. The first is titled the Joint Stock Company «Bureau of Credit Information» -- the institution established by commercial banks on the voluntary basis in accordance with the Law on banks, and the second -- the Bureau of Economic Information -- was established under different profiles of economic activity. The similar structures function in different countries of the world and in most of the EU countries. In Belgium, such a bureau of credit information is called Union Professionnelle du Credit, in Sweden -- UC AB, in Germany -- SCHUFA. The Ukrainian bankers were informed about the activity of the German credit bureau at the Ukrainian-German meeting last year in Frankfurt am Main. There is an interesting fact that young couples before they get married request data from the bureau about their loyalty, in order to prove the absence of debts. There are also interstate institutions that collect data about the debtors and the clients with bad reputation. Such is, for instance, Equifax, a British-American bureau.

Credit bureaus, which gather data and create client databases, are necessary for the normal functioning of the banking system. Therefore, in order to meet a quite substantial bank's need for information about the borrowers, there was an initiative started under the Polish Banking Union on the establishment of the respective structure, which in 1991 began to operate under the title «Bank Register of Clients Who Did not Fulfil in Time Their Debt Obligations». In 1996–1997, due to the initiative of five banks (PKO BP, PBK S. A., BGZ S. A., PEKAO S. A., i Bank Pocztowy S.A.) and with the participation of more than 20 banks, there was a work performed that resulted in 1997 in the establishment of the JSC «Bureau of Credit Information». The legal aspects of BCI performance laid in the law «About Banks» from 1997 (with further changes and amendments) [3]. On October 29, 1997, the first (constituent) meeting of the shareholders of the JSC «Bureau of Credit Information» was held. In 1999 a number of banks joined the JSC BCI and 33 banks signed an agreement on cooperation without becoming the shareholders. In 2000 the banks, members of BCI received an access to the System of Credit Information. In February 2000, the first informational report and credit request were made. Since that year BCI became the member of the international union of credit bureaus – ACCIS.

The main tasks of the Bureau of Credit Information incorporate gathering, custody, processing and dissemination of complex information in the form of credit reports about credit histories of bank clients. The BCI defined the aim of its activity as follows:

- To provide the creditor (bank) with the additional up-to-date methods of credit risk evaluation, which help to make the appropriate decision within short terms;
- To provide the ability to exchange credit information between the banking sector and the non-banking institutions;

- To systematize information about small and medium enterprises;
- To establish the mechanisms (tools) for the transformation of credit information;
- To disseminate BCI services.

The JSC BCI builds its performance using the following principles:

1. Mutuality – all banks, which sign the agreements on cooperation with BCI and oblige themselves to submit the full data on the regular basis as stipulated by the agreement, will have the right to use information.

2. Authenticity (accuracy, reliability) – is based on the information obtained from the banks. The banks bear the responsibility for the accuracy of the databases they provide.

3. Neutrality – JSC BCI shall not provide the data, which may contain business secret, and also shall not provide the name of the Bank out of which this information comes from. The request is always related to the specific legal entity of individual (corporate or individual client) and the party interested in receiving the information has to submit the data, which identify the person.

4. Maximum safety – is necessary to create the defined system of information exchange between the JSC BCI and the recipients of information. All information, which is exchanged between the JSC «Bureau of Credit Information» and its clients, is the banking secret. It is recommended to use the appropriate technical equipment and to adhere to the procedures that prohibit access to the data of the unauthorized persons.

The credit report is the basic product of the Bureau of Credit Information. Credit report is a comprehensive review of clients' obligations to the banks. The information contained in the report allows evaluating the degree of risk when extending the next credit or opening a credit line for the client. It also enables to see a non-standard behaviour of the client, for example, petition about credit issue submitted to several banks at one time. The basis for such identification may be the information about how many banks and when have submitted their requests about the client. The credit reports helps to monitor the loan after its issue.

Major part of information is submitted by Polish BCI through CPU (central processing unit) system. The program allows exchanging data automatically and the bank credit officer from his/her terminal can receive the data and further send the information to the BCI. Such flexibility of the system helps the bank to cooperate with its own informative programs and to introduce the remote review of credit applications, the so-called "scoring". Using the Internet technologies, the users of the system obtain information within short time. The JSC BCI is able to generate over 10 million of credit reports during the year. In the future, it plans to provide new reports which will show the links (relations), their financial standing and the marketing analysis.

The Bureau of Credit Information warns that it is not responsible for the content of personal data which it stores and transfers. If the client has a claim on the provided information, he/she has to refer to the bank which holds this information. In the terms and conditions signed by the BCI and the banks, it is stated that the bank must submit full and reliable information and controvert it immediately in case the placement of the non-accurate information is found.

Ukraine has made the first steps towards the creation of credit bureaus. In accordance with the article 6 of the Law of Ukraine «About the National Bank», by the NBU and with the banks' participation there was created a single informational system (SIS) for borrower accounting called «Register of Borrowers». It incorporated the borrowers, which have overdue indebtedness under the loans issued by banks. The banks which entered into agreement with the National Bank of Ukraine on provision of the information and reference services using the system are connected to the register. The NBU secures the work of the register and the safety of its performance. As of today, 126 banks signed agreements on their participation in the SIS «Register of borrowers». The total assets of these banks make more than 80 percent of assets of the banking system of Ukraine. With consideration of branches, the total number of SIS participants makes 583 at the beginning of 2005. The total amount of the overdue indebtedness under the credits extended by the banks as well as by the banks liquidation committees which are put into the database makes 3.3 billion Hryvnya. The number of debts in the SIS database makes 7198 (\* Internet NBU supervision).

But unlike the Polish, the Ukrainian register contains only negative information, which makes a barrier for the complex evaluation of credit risks when crediting the client.

There are other types of institutions in Poland worth of attention. These are the Bureaus of Economic Information. They function on the basis of the law «About Providing Access to Economic Information» adopted on February 14, 2003 [4]. In accordance with this law, the data are defined which may be referred to the economic information. These are:

1. For enterprises and institutions – name, domicile and address in the state register, tax code, personal name of the managerial staff, business area.
2. For individuals – personal name, citizenship. Address of the permanent domicile, tax code, serial number of personal identification documents, and the date of birth.
3. If the individual client carries out business activity, then the types of activity, the number in the state register, and the data about authorized persons have to be defined additionally.

In accordance with this law, payment obligations, amounts of indebtedness under the liabilities, information about the borrower claiming against liability, also through the courts are referred to as the economic information. The data

about use of the false or stolen documents are also part of economic information.

The Bureau of Economic Information can be established in the form of a joint stock company with the authorised capital of not less than PLN 4 million (over USD 1 million). The subject of activity may include only intermediary services in providing access to economic information.

The economic information about clients may be provided to the bureau by banks, insurance companies, savings banks, leasing and factoring companies, service providing operators (telephone, electricity, gas and water, etc.), credit intermediaries, housing cooperatives, broker agencies, stock exchanges, cable TV operators and some other institutions.

In order to submit data to the bureau, a businessman has to fulfil a number of conditions. First, he/she has to sign a respective agreement with the Bureau of Economic Information; second, the liabilities with regard to the businessman arose in accordance with the consumer agreement and the amount makes not less than PLN 200; third, the default in payment makes not less than 60 days; and fourth, at least a month elapsed since the day when the claim was sent with the registered mail to the debtor.

In order to submit the information about other businessmen, one shall make the bilateral agreement between them on fulfilment of economic activities, the debt amount has to exceed PLN 500 and all the rest is as above.

In case of the false or stolen document – there is a need to inform the bureau without hesitation, but also to inform the person whose documents were used about that and clearly indicate the person who did that. The activity of the Bureau of Economic Information is realized on the territory of Poland only. Except for the clients of the bureau, the following institutions are entitled to receive the information:

1. Prosecutor's office – when opening a criminal case.
2. Police office – if it is required for the investigation or warning of the crime.
3. Bureau of State Security in accordance with the law from 16.03.2001 [5]
4. General Inspector on treasury control within the limits of his/her competence [6].
5. State financial monitoring service.
6. General Inspector on Bank monitoring within the limits of his/her supervision [7].
7. President of the Upper Control Chamber, with regard to the information about enterprises and institutions.
8. Court bodies.

The bureau charges a fee for provided services and conducts the register of all information and requests. Each Polish citizen has the right to get familiarized with his/her personal data, kept with the BEI free of charge once in a half a year. The Ministry of Economics performs monitoring of the work of the BEI. High penalties (up to PLN 5 million) and criminal liability are envisaged for the illegal picking up of information. Accordingly, penalties are imposed for the submission of false information. There are also penalties for non-timely deletion of information from the database and for non-termination of the agreement with the bureau after the termination of economic performance.

The legislation permits the banks to create the institutions for collecting, compiling and provisioning the respective structures with the information, which deal with the crediting. Therefore, the Bureau of Credit Information may (even must) cooperate closely with the Bureau of Economic Information.

The activity of the abovementioned institutions is rather necessary feature both for creditors and for credit recipients. The former may secure themselves from clients with bad reputation, reduce provisions for bad debts coverage, and get more trustworthy clients. Speaking about the borrowers – this is the possibility to show their good standing in business, get larger limits, secure themselves from the debts, receive better offers from the banks and other creditors [9].

Today, such a bureau does not exist in Ukraine. Some work has been done and a number of companies established that own the database of current firms. But the legislative database has not been properly handled yet. Thus, if the client with bad reputation is within the competence of the National Bank and the State financial monitoring and the Antimonopoly committee, therefore, one may find it difficult to find a complex database on the client.

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