

COMPARISON OF RETAIL CREDIT PROCESS IN CZECH REPUBLIC AND VENEZUELA

KOŽENÝ V.¹, SRNEC K.²

¹*Department of Economic Theories, Faculty of Economics and Management, Czech University of Life Sciences Prague, Prague, Czech Republic*

²*Institute of Tropics and Subtropics, Czech University of Life Sciences Prague, Prague, Czech Republic*

Abstract

One of the most important products of retail banks world wide is the consumer loan. Although its specific process and execution are largely dependent on local regulations many similarities can be found in the high level process. In this article we compare the Venezuelan and Czech consumer loan process. From the respective process maps we note that the first part of the process realized in the branches is very similar. Significant difference lies in the use of automated application workflow in Czech process in comparison to the mainly manual Venezuelan process. Insufficient verifications implemented in the Venezuelan process also provide room for improvement. Due to common consumer loan characteristics and process similarities we can conclude that parts of the Czech process can be applied in Venezuela in order to remedy its weaknesses.

Key words: Venezuela, Czech Republic, bank, product, process, credit, loan, retail, consumer, marketing

INTRODUCTION

The fundamental of all trade activities is a product or service offering. Products offered by banks are characterized by their immateriality (Dvořák, 2005). What defines such products are their processes. Most banks have detailed maps of their products' processes, which are being constantly developed. One of the most important products for a retail bank is the consumer loan (Polidar, 1999).

Separation of risk management and sales division is among the key characteristics of modern lending business, as well as the necessary participation of several business units in the credit process. Such as sales, product specialists and risk management.

The credit process is defined by various aspects. Besides marketing strategy and tactics, local regulation and economic conditions contribute significantly to its final outcome (Procházka, 1996). The important regulators are in both countries the legislation bodies and national banks and also the office of the controller of the currency in Venezuela (Revenda, 2001; Bello, 2004).

In this article we would like to concentrate on a high level process comparison abstracting from the tactical differences in execution under specific state regulation or economic environment.

MATERIALS AND METHODS

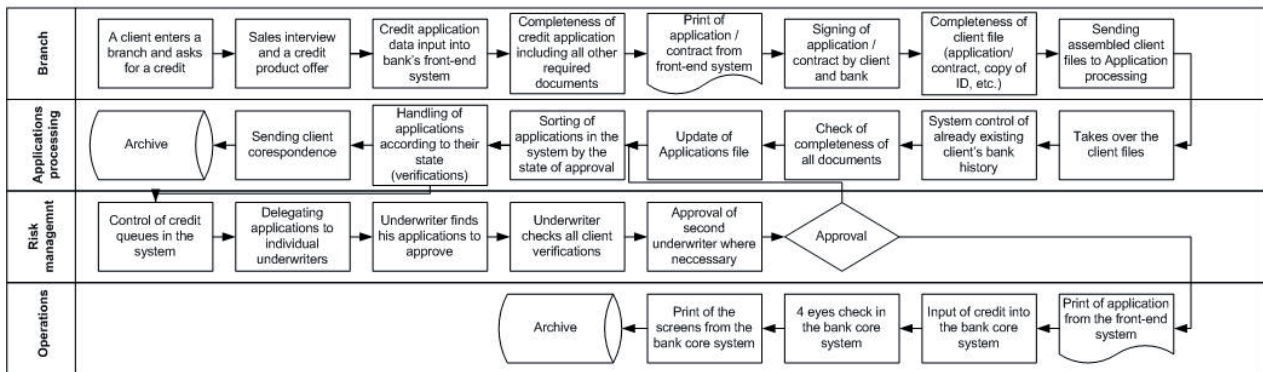
This article draws on several years of the authors experience in both Venezuelan and Czech banking sectors. Most of the materials were assembled and compiled by the authors based on their professional experience and research conducted between the years 2002 and 2007. The materials were collected across several banks in both countries and compiled in a way that best represented the current practices of the sector. It is of course possible and certain that individual banks deviate more or less from the below described process.

As a method to determine differences between the two countries we chose comparative analysis. Based on the results given by this method we follow with a discussion of the key points and suggest possible solutions to potential problems.

RESULTS AND DISCUSSION

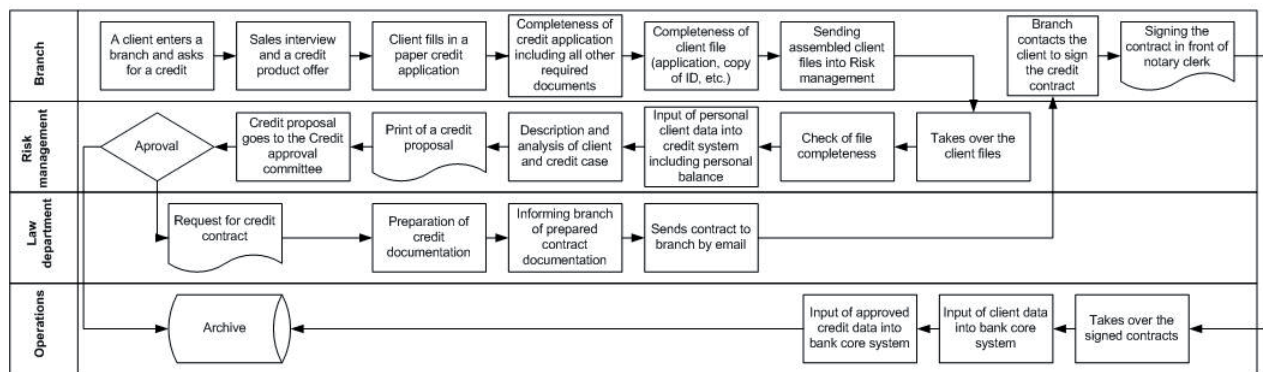
The individual credit process is best described by a process map, which contains the key activities across all the involved departments. Czech and Venezuelan processes are summarized in Figure 1 and 2 respectively.

Figure 1: Retail credit process in Czech Republic



Source: Compiled by authors based on data from Czech banking sector

Figure 2: Retail credit process in Venezuela



Source: Compiled by authors based on data from Venezuelan banking sector

On a first glance at the maps we observe a significant similarity of the loan acquisition process in the agency. The main difference is that in the Czech process client data is entered directly into bank's front-end software, which immediately creates a client history regardless of his success in obtaining the credit. In the Venezuelan case client data is transferred mostly in paper form through out the whole process. No electronic evidence persists if the bank denies a loan to a specific client. As it is nearly impossible to check every new application against all files in the archive it is theoretically possible for a client to submit another request after a denial, modifying his entry data in a way to favor him during the risk decision process.

In case of the Czech process the verification and processing of client's data is separated from pure approval process. Verification and data processing corresponds to special application processing unit. Risk management department then, based on pre-approved data, decides on approval or disapproval of individual loan application. Some applications never make it to risk management, because they are rejected earlier in the process based on firm internal rules. This lowers the load on risk depart-

ment and quickens the approval process. If an application passes all the verifications it is submitted to risk management department where one or two risk specialists based on internal regulations either approve or disapprove the loan. In any case the application is returned to application processing unit for further proceedings.

In contrast to the above mentioned, an application in the Venezuelan process is submitted by a branch directly to the credit risk department where they first perform an evaluation of client's liquidity. The application is has not been verified before and may not be complete or may not be very reliable. Based on evaluation of client's property, payment capability and other factors the credit risk department elaborates a complex case study of each individual application which is then submitted to Credit committee with a recommendation of either rejecting or approving the loan. The final decision over every application corresponds to the committee.

Another interesting difference between the processes is the participation of the legal department in the Venezuelan process, which separately prepares every individual contract while in Czech process the contracts are stan-

Table 1: Process comparasion summary

Differences	Individual processes		Risks
	Czech Republic	Venezuela	
application	system processing	manual paper processing	CR - system not functioning Ven - loss of application (data), time delay by re-writing
data typing	1x - into front-end system with automatic data transfer into central system with manual input of missing data	2x - into credit system in the Risk management dpt and again into bank internal system in the Operations dpt	CR - malfunctioning of system processing (data transfer) Ven - typing of data twice => mistakes by re-typing the data
application processing	in special Application processing dpt through front-end system => clerly defined processes	covered by Risk management dpt => too many different activities in one dpt	CR - system not functioning Ven - piling of applications,missing prescribed work or partially done work leads to time delays
verifications	yes - automatic and manual	no - verifications are not standardized	CR - possibility of failure of human factor during manual verifications Ven - no verifications of data provided by a client
approval	one or two underwriters according to internal competence rules of the bank	credit approval committee	CR - front-end system not functioning Ven - Credit Committee only meets once a week => time delay
contract	pre-defined contract, generated by system	individually compiled contracts by law department for every credit case independently	CR - not functioning system or late contract update in the system Ven - time delay, possibility of mistakes in data

Source: Compiled by author based on data from respective banking sector

standardized and the only part that varies is client personal information and credit specifics.

Differences can also be found on operational level. In Czech process part of the application data is automatically transferred from the front-end software to bank’s core system. Operations department then manually inserts the remaining product specifics and a four eyes control is always required to minimize errors. On the other hand in Venezuelan process the operations department manually enters all the client data into the core system for the first time and four eyes control is not required, therefore the space for error is much greater.

In Table 1 we summarize the most important differences between the two processes. The first column identifies the type of difference, while the second and third columns describe how it is processed in Czech Republic and Venezuela respectively. The last column then points out the potential risks associated with the specific solution.

From the analysis seems obvious that the biggest risks for the Czech process are connected with its front-end and core banking system functionality. Therefore a lot of effort is being put into maintenance and improvement of these systems.

On the Venezuelan side we note several risks that are potentially more severe. Firstly it is the possibility of

the loss of some key documents or even the whole application file. Reliability of client information is another important issue as verifications are not as thorough as in the Czech process. Furthermore there is a significant operational risk associated with the typing of application data into the core system as controls implemented are insufficient.

Some of the solutions for the Venezuelan process can be inspired from the Czech process. In the long term most errors in the credit application process would be solved by implementing a favorable combination of front-end and core software systems, with the capacity to minimize typing errors and eliminating the negative effects of a potential application loss. Both manual and automatic verifications need to be implemented and standardized to reduce potentially incorrect data submitted by a client.

CONCLUSIONS

Even though many differences in political, economical and legal areas exist between the two countries, we note that there are many similarities in the high level consumer loan process. Analyzing the respective processes we can conclude that the Czech process is the more consist-

ent one with less apparent flaws that may potentially endanger the bank. Some of the proceedings used in Czech Republic may be applied to the Venezuelan process, in order to increase its effectiveness.

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Received for publication on January 25, 2010

Accepted for publication on June 6, 2010

Corresponding author:

Ing. Václav Kožený, Ph.D., MBA
Czech University of Life Sciences Prague,
Faculty of Economics and Management,
Department of Economic Theories
Kamýcká 129, 165 21 Prague 6
Czech Republic
e-mail: kozeny@pef.czu.cz