



Break into Bulgaria

The automotive sector in Bulgaria is a booming and attractive niche for financial institutions
Yann Dautais and Dessislava Teneva
 report

BULGARIAN financial institutions offer a wide and diverse range of financial services and this strategy has led to unprecedented growth for this industry sector. In particular, 2005 has been a good year so far and shows little sign of slowing down. In the search for further growth, the financial services industry is turning its attention to the automotive sector, which itself is likely to break all records for car sales in 2005. Almost all the major vehicle producers are active in Bulgaria and expansion is continuing with new players constantly opening new retail outlets.

The new car market represents 15 per cent of the total car market in Bulgaria and it is expected that 30,000 new vehicles will be sold this year.¹ This represents a 51 per cent increase on the previous year, which had already seen growth of 44 per cent. The second-hand vehicles market is going through the same dynamic changes, clearly demonstrated by the increasing presence of the so-called "Auto-houses" that

now number over 120 in the capital alone.

Vehicle financing has certainly been driving this excitement, and Bulgaria has seen a massive growth in 'vehicle credit' where leasing accounts for about 70 per cent of all new-car sales.² Nearly all the Bulgarian banks offer financing products for both the private and commercial sectors for new and second-hand vehicle purchase. Additionally, captive finance schemes are available via the car manufacturers and a number of independent leasing companies have created partnerships with car dealers.

However, the rapid growth does not come without challenges.

Firstly, car dealers are not using the most efficient methods or technology for application processing and credit-risk management. Without these techniques, which are widespread in other markets, the growth in lending is matched by a corresponding rise in the level of bad debt. Without accurate assessment of risk and a customer's ability and

willingness to repay, lenders are finding that many customers are struggling with their repayments and are consequently defaulting. Fraud, both at the point of application and through insurance fraud, is also an inevitable consequence of the growth in lending and can often be masked by "bad debt" losses. The issue of fraud is not widely recognised in Bulgaria and solutions to counter fraud are not currently being adopted by lenders, which could lead to major issues in the future.

Secondly, centrally-held databases that provide consumer profiles in areas such as risk, are not yet widely used. The only commonly-accessed public data available comes from the Credit Register of the Bulgarian National Bank. This information is limited and can only be accessed by banking institutions, which leaves a large number of the automotive lenders working blind. Car dealers also face a lack of information on the vehicles, liens and transfer of ownership, which would enable them to monitor easily the car ownership transfer process. Bulgarian law requires strict control of down payment registration along with police registration, lien registration and insurance.

The credit market is certainly booming in Bulgaria and, in particular, vehicle finance is seeing unprecedented growth that looks set to continue in the future. To ensure sustainability and profitable growth, the credit financiers need now to adopt the new approaches and technology from across Europe that will help them to manage this expansion whilst limiting the emergence and losses of bad debt and fraud.

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1. Union of Importers of automobiles in Bulgaria – UIAB
2. National Statistics Institute