

## Q1 2019 overview of creditors sector

In the first quarter of 2019 there were 49 creditors in the market and eight credit intermediaries. Twelve of the creditors were operating with an exemption and were in the same consolidation group as a credit institution.

<b>Key indicators</b>	Q4 2018	Change	Q1 2019
Balance of loan portfolio	1,036 bln €	?	1,069 bln €
Number of contracts	539 764	?	517 141
Net interest income	28,3 mln €	?	29,1 mln €

The portfolio of outstanding consumption loans of creditors increased in the first quarter of 2019 by 3.2%, or 33 million euros, to reach 1.7 billion euros by the end of the year. The largest part of the quarterly profit was the 20 million euros that came from car leases.

Like earlier, companies associated with credit institutions had 80% of the outstanding loan portfolio of creditors at 855 million euros. The largest market share among creditors associated with credit institutions was held by Swedbank Liising AS with 24%, followed by Luminor Liising with 21% and SEB Liising with 19%. The remaining 20% of the market was held by creditors operating with an authorisation. The largest market share among these was held by IPF Digital Estonia OÜ and OÜ Koduliising, each with 3% of the market.

New reporting requirements started to apply to creditors from the beginning of 2019, distinguishing between the stock of consumer loans in Estonia and the stock abroad. This allows the activity of Estonian creditors abroad to be identified. There were 27 thousand contracts outside Estonia in total, equalling 5% of the contracts signed in Estonia.

Distinguishing between loans issued in Estonia and abroad also made it possible to calculate the average annual percentage rate more accurately. Unlike in Estonia, there is no ceiling for the cost of credit elsewhere, and so the high interest rates on loans issued abroad affected the average cost of credit from Estonian creditors. Calculations from the new reports showed the average annual percentage rate on consumer loans, which means leases, other credit and hire purchase taken together, to be 44% at creditors operating with an authorisation in the first quarter of 2019. The annual percentage rate on consumer loans from creditors associated with credit institutions was 9%. The annual percentage rate for consumer credit at the banks averages 19%.

The quality of the loan portfolio, meaning loans written off or overdue more than 30 days, of creditors associated with credit institutions is very different from the quality of that of other authorised creditors. Creditors with an authorisation wrote off 2.1 million euros of loans in the first quarter of 2019, or 1% of their total loan stock. Creditors associated with credit institutions wrote down 378 thousand euros

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of loans, or 0.04% of their loan stock. Other creditors operating with an authorisation had 13.7 million euros of loans overdue, or 6.4% of their total stock, while 1.3 million euros of loans were overdue at creditors associated with credit institutions, or 0.1% of their loan stock. This meant that the portfolio of authorised creditors, which was a quarter of the size of that of creditors associated with credit institutions, had a much larger share of delinquent loans in it, at 7.4% rather than 0.14%.

As well as making consumption loans to private individuals, creditors also issue loans to businesses. The stock of loans to businesses stood at 2.3 billion euros, and was 2.1 billion euros a year earlier. The biggest stock of corporate loans is at companies associated with credit institutions, as Luminor Liising had 29%, SEB Liising 26% and Swedbank Liising 25% of the stock of loans from the sector to businesses. The authorised creditors with the biggest stock of loans to businesses were Hüpoteeklaen and ALG Liisingu Aktsiaselts, each of which had some 1.5% of the stock of loans from the sector to businesses.

## **Main development trends**

- New reporting requirements that started to apply to creditors from 1 January 2019 make it now possible to distinguish between the stock of consumer loans in Estonia and the stock abroad. The changes also require loans and interest overdue 30-60 days and over 60 days to be reported as well as loans overdue more than 90 days. The changes improve access to the data needed for supervising credit contracts and make supervision more effective.
- Creditors and credit intermediaries continue to try to differentiate themselves from the competition in the market. New business models are complex and contain elements from credit intermediation and other financial services. Finantsinspektsioon has received applications for additional operating authorisations and for authorisations for credit intermediaries with new business models. Companies from other countries in the European Union have also shown interest in entering the market for creditors and credit intermediaries. The application process of Koduliising AS, a creditor with one of the largest loan portfolios, for the authorisation to become a credit institution was ongoing in the first quarter. The authorisation as a credit institution was issued to the company at the start of April.
- The biggest risk in the creditor sector remains the capacity of companies to meet the requirements for responsible lending. As responsibility for meeting the requirements for responsible lending lies with the managers of the creditor, one risk is in the structural design of the creditor as an organisation. The second risk point in meeting the requirements for responsible lending is the obligation for creditors to check the information submitted by consumers. This means that one risk point for creditors is how available, comprehensive and accurate information on the consumer is.

[Quarterly reviews of the creditors sector](#)

