The Implementation Contract Savings Schemes (Bausparen) in Russia – Features, Recommendations and Examples

Presentation by Dr. Friedemann Roy, Association of Private Bausparkassen Berlin, in Moscow, 10 February 04
Outline of presentation

• Contract savings schemes for housing (bausparen) in Russia
• How do bauspar systems work?
• General features of bauspar systems in transition economies
• Examples of implemented bauspar systems
• General evaluation and conclusion
When do bauspar systems appear suitable for implementation in emerging housing finance markets?

- Ill-functioning legal conditions
- Underdeveloped retail financial markets
- Low "official" savings ratios
- Low incomes and high house prices
- Difficulty to obtain a second mortgage-lien

Affordability
How do bauspar systems work?

Savings

Allocation fund

Loans

Lifetime of contract

Customer saves and earns interest (40 - 50% of contract amount, e.g. 100,000)

Notification by bausparkasse

Repayment of fixed interest rate loan

€ 40,000 - € 50,000

€ 60,000 - € 50,000
General features of bauspar systems in transition Economies

Households/customers

Government

Bauspar system

Financial institutions
General features of bauspar systems in transition Economies

- Credit option of the contract
- Inflation rate
- Financing of renovation/ modernisation

Households/customers

Housing policy
General features of bauspar systems in transition Economies

- Credit risk
- Liquidity risk
- Interest rate risk
- Relationship with the customer

Financial institutions
General features of bauspar systems in transition Economies

- Mobilisation of funds
- Subsidies
- Bauspar system
- Government
- Stability
- Integration in financial markets
Examples of implemented bauspar systems

Central and eastern Europe
• Slovakia
• Czech Republic
• Hungary
• Croatia
• Romania (2004)

Asia:
• India
• China (2004)
The bauspar system in Germany (I)

- Specialised institutions
- Market share: 30%; every third person = bausparer
- Positive impact on relationship
- Default rate: Despite recession, default rates have only risen from 0.02% (2001) to 0.04% per today
- Liquidity risk: no obligation to fund at a particular date
The bauspar system in Germany (II)

- Interest rate risk: limited by contract design
- Fund mobilisation: more than 13m dwellings built since 1948
- Subsidies: income thresholds; no tax benefits
- Stability: low foreclosures sales. Requirement by banks for borrowing
- Integration: important distribution outlet. Often subsidiaries of commercial banks
- Future challenge: financing of modernisation and renovation measures due to ageing housing stock
### Housing finance market in Slovakia

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<tbody>
<tr>
<td>Bausparkassen</td>
<td>96.1</td>
<td>245.7</td>
<td>375</td>
<td>504.2</td>
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<td>381.9</td>
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<td>Banks</td>
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<tr>
<td>SHDF</td>
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<td>32.0</td>
<td>65.1</td>
<td>29.7</td>
<td>68.6</td>
<td>85.1</td>
<td>130.0</td>
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<tr>
<td>Total</td>
<td>104.8</td>
<td>289.7</td>
<td>467.8</td>
<td>548.3</td>
<td>574.9</td>
<td>566.5</td>
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Housing Finance Volumes in mio. EUR of bausparkassen, banks and State Housing Development Fund (SHDF) from 1996 - 2002
Bausparen in Slovakia (I)

Households:
- Bausparkassen have become important fund mobilisers (2.6m customers)
- Favourable economic conditions have encouraged growth of bauspar-funds
- Important instrument for financing renovation/modernisation measures

Financial institutions:
- Bausparkassen operate as specialised institutions
- Balanced risk structure (default rate: 0.56%)
Bausparen in Slovakia (II)

Financial institutions:
- Main customers come from middle to lower income groups

Government:
- Subsidies in Slovakia: have proven beneficial catalyst to starting the system
- Bauspar system achieved transformation of short-term savings into long-term investments.
- Bausparkassen are most important providers for housing finance (market share: 56%)
General evaluation and conclusion (I)

Households

- Facilitate accumulation of funds
- Better access to credit
- Buffer in case of difficulties
- Small loans at reasonable costs available
- Financing of renovation/modernisation and new construction
General evaluation and conclusion (II)

- Bauspar systems help to overcome information asymmetries and improve transformation of liabilities
- Important tool for cross-selling activities
- Bauspar systems are subject to liquidity risk
- Attractiveness is related to macroeconomic and legal conditions
General evaluation and conclusion (III)

Bauspar systems help to overcome information constraints and contribute to higher savings rates

2 aspects to be considered:

Objective of general housing finance system

Costs and benefits of option embedded in proposed bauspar system

Government

Bauspar system helps to develop housing finance system by supplementing other models