

# **The relationship with providers – an essential factor in the quality of financial statistics in Russia**

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## **Introduction**

Data quality is a key criterion for evaluating official statistics in any country. According to the IMF data quality assessment standard (DQAF), this criterion implies not only having an adequate legal framework for the collection of statistical data, using internationally accepted data compilation standards and making data accessible to users, but also ensuring that initial data are accurate and reliable. The latter depends to a great extent on the effectiveness of cooperation between data-producing agencies and reporting entities, on respondents' understanding the importance of the information requested, on their familiarity with the data compilation methodology used and on their recognition of the need for the timely provision of data.

This paper analyses the Bank of Russia's recent experience in expanding the coverage of monetary and financial statistical data and establishing cooperation with insurance companies and non-government pension funds for the purpose of compiling data based on a survey of financial corporations, pursuant to the requirements of the IMF Monetary and Financial Statistics Manual (MFSM-2000).

## **Quality prerequisites for individual data used in compiling monetary and financial statistics**

The Bank of Russia is the official agency responsible for compiling monetary statistics in Russia. It has full legal powers to require credit institutions to provide the data needed for this purpose. The law governing the Central Bank of the Russian Federation (Bank of Russia) gives the Bank the power to request and receive information from credit institutions on their activities, to demand explanations on the information and to establish compulsory accounting and reporting rules. The law also empowers the Bank of Russia to impose sanctions for failure to comply with reporting requirements, including the revocation of banking licences in cases of significant misreporting.

In compiling monetary data from data provided by the banking sector, the Bank of Russia, like other central banks, has relied on the monthly balance sheets of credit institutions as the main source of data for monetary statistics. To ensure the reliability of the data collected, the Bank of Russia:

- establishes mandatory rules that govern reporting from credit institutions, as well as the compilation of the information reported. These rules regulate the methodological and organisational aspects of data compilation and submission, including definitions, algorithms, links within the reporting form and with related data, point of contact and procedures for providing information in case of misreporting;

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- discusses drafts of new reporting forms and changes in existing ones with the banking community, and conducts pilot tests with a sample of respondents;
- develops the software package that credit institutions use for the compilation, monitoring and electronic transfer of data to the Bank of Russia;
- conducts on-site inspections of credit institutions to verify the accuracy of their reports;
- holds seminars and conferences to explain reporting requirements to credit institutions.

Also important is the fact that the Bank of Russia organises the collection of reports from credit institutions through its branches in the regions where credit institutions are registered and supervised. There is reason to believe that this practice, along with the measures described above, ensures the necessary cooperation with respondent banks, and helps them maintain the quality of individual data used to compile monetary statistics.

## **Analysis of capabilities for collecting data from other financial intermediaries**

As a result of the sustained growth of the Russian economy's financial sector, including banks and other financial institutions, the Bank of Russia found itself having to cover a wider range of respondents in order to further implement the MFSM-2000 principles and compile financial sector survey data. As an initial step, it selected insurance companies and non-government pension funds as the most rapidly growing institutions – entities whose liabilities were likely to include elements affecting the money supply.

The first challenge was how to obtain the necessary data. For this purpose, the Bank of Russia studied the legal and institutional environment and the resources available. As mentioned above, the law empowers the Bank of Russia to request and obtain necessary data from banks. It also has the right to request and receive necessary information from the nation's federal bodies and other legal entities free of charge, for the purpose of compiling monetary and balance of payments statistics, and for analysis of the country's economic situation. This does not mean, however, that these organisations are obliged to provide statistical data to the Bank of Russia, as we shall see.

In contrast to the Bank of Russia, the authority of the agencies that regulate the activities of financial intermediaries (the Federal Insurance Supervision Service for insurance companies, and the Federal Financial Markets Service for non-government pension funds) is limited to compiling information from these institutions obtained as a consequence of their supervisory functions. They also are subject to financial constraints, since all activities of federal bodies, including those relating to information needs, are financed by the federal budget. Since the main functions of the above-mentioned agencies are supervisory, they have no responsibility to obtain information relating to macroeconomic financial statistics.

Thus, the Bank of Russia was obliged to take action itself through its regional branches, in order to obtain and process the necessary data from other financial intermediaries.

To evaluate financial corporations' ability to compile and submit the necessary data, the Bank of Russia requested the top 100 insurance companies to complete a form providing a table of assets and liabilities broken down by financial instrument and economic sector, along with comments on the data.

This study allowed the Bank of Russia to determine in what direction to proceed in order to obtain the necessary individual data, specifically: (1) what methodology to require for breakdowns of assets and liabilities by sector; and (2) what legal framework was needed to

compel insurance companies and non-government pension funds to report the data that the Bank of Russia requires to compile financial statistics on a regular basis. The latter proved crucial, given that insurance companies had refused to report to the Bank of Russia on a voluntary basis (only 29 out of 100 insurance companies provided the data requested for the study).

### **Initial experience of cooperation with financial institutions in obtaining information for the financial sector survey**

Confronted with insurance companies' reluctance to report data, the Bank of Russia drafted reporting forms for insurance companies and non-government pension funds, based on the results of the survey. After gaining the approval of the relevant supervisory authorities, the proposed forms were sent to the Federal State Statistics Service (Rosstat) for approval. On 9 August 2005, Rosstat issued Resolution No. 61, which approved these forms and required insurance companies and non-government pension funds to provide the data specified on the forms to the Bank of Russia on a quarterly basis, beginning with the 2005 reports. Pursuant to established procedure, the resolution was published, and the Bank of Russia began internal preparations for collection and processing of the data.

The publication of the resolution provoked an unexpectedly strong reaction. The National Insurers Union (NIU), Russia's largest association of insurance organisations, publicly voiced its objection to the decision requiring insurance companies to report to the Bank of Russia. The NIU argued that the relevant supervisory authority already had all of the necessary information, and that providing additional information to the Bank of Russia would increase insurance companies' costs and lead to a rise in insurance rates. The NIU urged the Bank of Russia to hold consultations with the insurance community to explain why the new data collection form was necessary.

This reaction revealed a serious flaw in the way the Bank of Russia had laid the groundwork. The Bank had concentrated all of its efforts on obtaining approval of the new reporting forms from supervisory authorities and Rosstat, and had made no effort to contact non-banking financial institutions, or to brief future respondents on the plans. To address the problem, the NIU created a working group that included representatives of the NIU-affiliated insurance companies, the Bank of Russia, the Federal Insurance Supervision Service and Rosstat. The Bank of Russia's participation in the working group, and the constructive discussion that took place, helped resolve the pressing issues involved, including the following:

- the insurance community recognised the importance of data collection for macroeconomic decision-making;
- the parties agreed on the specifics of compiling data for the first reporting period (2005), which included the use of expert valuations when necessary internal data were lacking;
- the participating insurance companies familiarised themselves with the Bank of Russia's procedure for receiving and monitoring the reports provided.

The working group's protocols and decisions were soon placed on the NIU website.

This cooperation with respondents, in the framework of the working group, was successful, as it led to the settling all of the parties' differences and ensured effective data collection for 2005. The results for this year were satisfactory: 91% of the registered insurance companies and 88% of the registered non-government pension funds submitted reports to the Bank of Russia.

## **Specific forms and methods of cooperation with financial institutions in obtaining information for the financial sector survey**

The procedure established by the Bank of Russia for insurers and pension funds to report information for the financial sector survey is based on existing procedures for collecting data from credit institutions. Thus, the insurance companies and non-government pension funds report to the Bank of Russia branches in the regions where they are registered, and use the same data preparation and transmission facilities as credit institutions. However, the specifics of the Bank of Russia's regulations on collecting data from banks and other financial intermediaries imply specific approaches to collecting data from insurers and pension funds, as well as to the priorities designed to ensure the quality of the data received.

Thus, the Bank of Russia is now devoting greater attention to the provision of information, and to providing methodological support for the data compilation and transmission process. A special section of the Bank of Russia website, "Reporting by Other Financial Institutions", provides:

- instructions for the compilation and submission of data by insurance companies and non-government pension funds, and for their cooperation with the Bank of Russia's regional branches;
- answers to methodological questions by reporting institutions concerning the completion of reporting forms;
- electronic templates for insurance companies and non-government pension funds, with initial data control functions and user instructions;
- the list of insurance companies reporting quarterly (selected on a "cut-off-tail" basis).

NIU capabilities are also used to provide up-to-date information to respondents and to maintain contact with them. The Bank of Russia provides the NIU with all of the information it needs for its website. In addition, in the framework of the above-mentioned working group, under the aegis of the NIU, the Bank of Russia organised discussion of projected changes in the reporting methodology, when the need for changes became apparent in the course of the 2006 reporting process. We believe that preliminary discussion of such changes with reporting institutions is useful and should be regarded as an indispensable element in ensuring high-quality individual data.

Another important aspect of collaboration with respondents is providing them with the results of the processing and analysis of the data collected. Once it had summarised the results of the 2005 data collection, the Bank of Russia disseminated analytical and statistical material through its official publication, the Bank of Russia Bulletin, and on its website. This includes consolidated data on the banking system and other financial intermediaries, in the form of a survey, as well as separate information on the assets and liabilities of insurers and pension funds disaggregated by financial instrument, currency and economic sector. Made public for the first time, this information drew a positive response from market participants.

Another important point in collecting data from other financial intermediaries is to adopt a more flexible approach to data reporting dates, as well as to the data correction necessary to achieve completeness and to optimise the quality of data. Specifically, the Bank of Russia decided to allow financial intermediaries to report after the end of the established collection period, ruling that reports could be accepted by its regional branches and sent to the central office within three working days following the reporting deadline, or could be sent with the reports provided on the next reporting date. If errors are discovered when the Bank of Russia verifies reports, corrected reports may be provided for the current reporting period or for any of the last four quarters. In terms of its relations with insurers and pension funds, the Bank of Russia has made it clear that it will not sanction them for non-reporting or late reporting, leaving it primarily to its regional branches to ensure that there is the required coverage of respondents and timely reporting.

## **Conclusion**

This paper analyses the experience of the Bank of Russia in creating a database for the compilation of monetary and financial statistics in compliance with international standards. The experience shows that efforts by the compilers of macroeconomic statistical data to ensure high-quality information can succeed only if they are accompanied by measures to build an effective relationship with respondents. We hope that the Bank of Russia's approaches to cooperation with reporting institutions will prove useful to other central banks as well.