



Understanding credit

markets for Europe

CREDIT REPORTING: THE FUTURE

**Law Reform Commission – Annual Conference 2009
REFORMING THE LAW ON PERSONAL DEBT**

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INTRODUCTORY REMARKS

The European Credit Research Institute - ECRI

ECRI has been conducting independent, in-depth research on consumer credit markets since 1999. Its management is outsourced to the Centre for European Policy Studies (CEPS).

- Monitoring & Publications

Policy Briefs, Commentaries, Research Reports, Newsletters, Website

- Seminars and Workshops

Forum for academics, policy makers, industry representatives, consumer organisations

- Statistics and Databases

"Statistical Package", Restructuring of Banking Sector, Codes of Conducts, etc.

- Research Projects

European Commission, self-financed projects, externally-funded projects

- I. THE IMPORTANCE OF CREDIT DATA SHARING**
- II. CREDIT REPORTING SYSTEMS WITHIN THE EU**
- III. CROSS-BORDER ACCESS TO CREDIT DATA**
- IV. THE EGCH: SOME RECOMMENDATIONS**
- V. THE FUTURE OF CREDIT REPORTING: CONCLUSIONS**

I. THE IMPORTANCE OF CREDIT DATA SHARING

Credit data sharing is an essential element of the financial infrastructure and a prerequisite for efficient financial markets.

- ✓ information as basis of economic transactions
- ✓ credit information as basis of modern credit markets
- ✓ establishment of new credit bureaus all over the world
- ✓ World Bank and IFC support for creation of new registers

I. THE IMPORTANCE OF CREDIT DATA SHARING

The sharing of credit information generates a host of benefits...

For creditors	For borrowers	For authorities
Reduction of information asymmetries	(Potentially) easier access to credit	Access to data on state of financial market
Amelioration of credit portfolio	(Potentially) better prices (for good credit risks...)	Improve systemic financial stability
Facilitation of credit application process	Reduce use of guarantees	Collection of information for statistical purposes
Reduction of collateral request	Support understanding of credit management	Tool to prevent over-indebtedness
Support/enhance responsible lending		

I. THE IMPORTANCE OF CREDIT DATA SHARING

...but brings along certain draw-backs and challenges which need to be addressed accordingly.

Data protection issues:
enhanced sharing = higher risk of identity theft ?

Data quality issues:
garbage in = garbage out

Data content issues:
Comprehensiveness, definitions, retention periods

Data rectification issues:
Additional burden on consumers in case of cross-border exchange

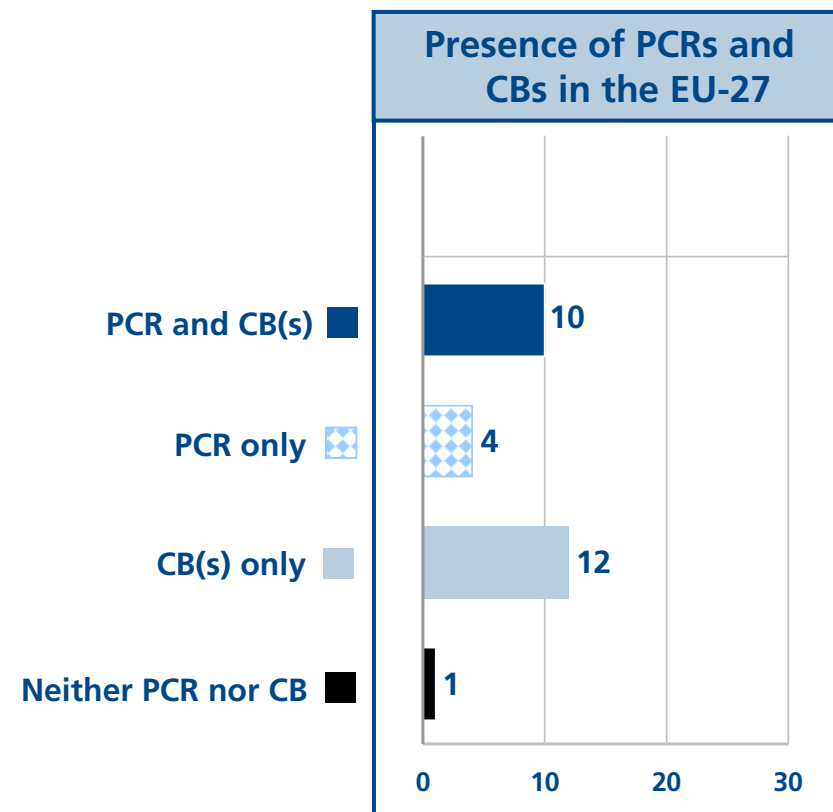
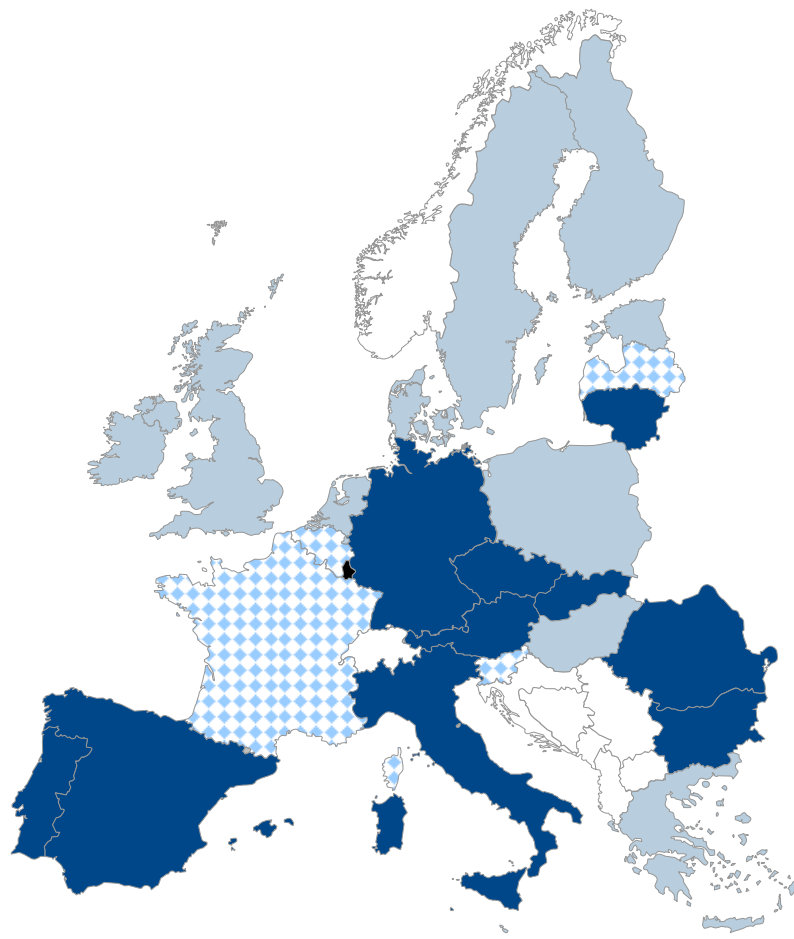
II. CREDIT REPORTING SYSTEMS WITHIN THE EU

Despite a common purpose, public credit registers and private credit bureaus have varying main features...

Features	Public credit register	Private credit bureau
Ownership	Central bank / Supervisory authority	Private/Commercial entity
Reporting institution	Financial institutions authorized to grant credit	Creditors & (in some cases) other service providers
Reporting	Mandatory by law	Voluntary
Coverage	Universal	partial
Scope	Banking supervision; credit assessment; preventing over-indebtedness; statistics/ studies	Credit assessment; credit & portfolio monitoring
Additional Services	None	Credit scoring; fraud prevention
Type of data	Mainly corporate credit data	Credit data on individuals and SMEs; non-credit data
Degree of detail of information	often aggregated; existence of (relatively high) thresholds	Single loan basis; relatively low or no thresholds

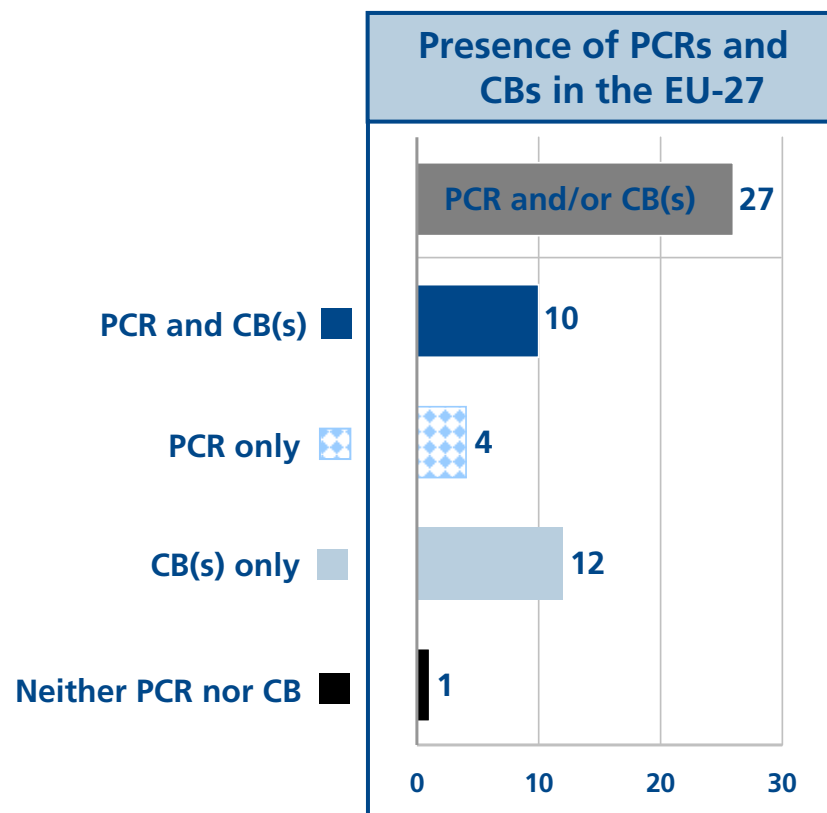
II. CREDIT REPORTING SYSTEMS WITHIN THE EU

...and the presence of credit information systems varies between European countries.



II. CREDIT REPORTING SYSTEMS WITHIN THE EU

Either public or private credit information databases exist in every but one EU-27 member state...



II. CREDIT REPORTING SYSTEMS WITHIN THE EU

...but the information depth varies significantly, depending on the ownership, national legislation and several other factors.

amongst other issues:

All credit information systems provide negative information while positive data is less frequently processed

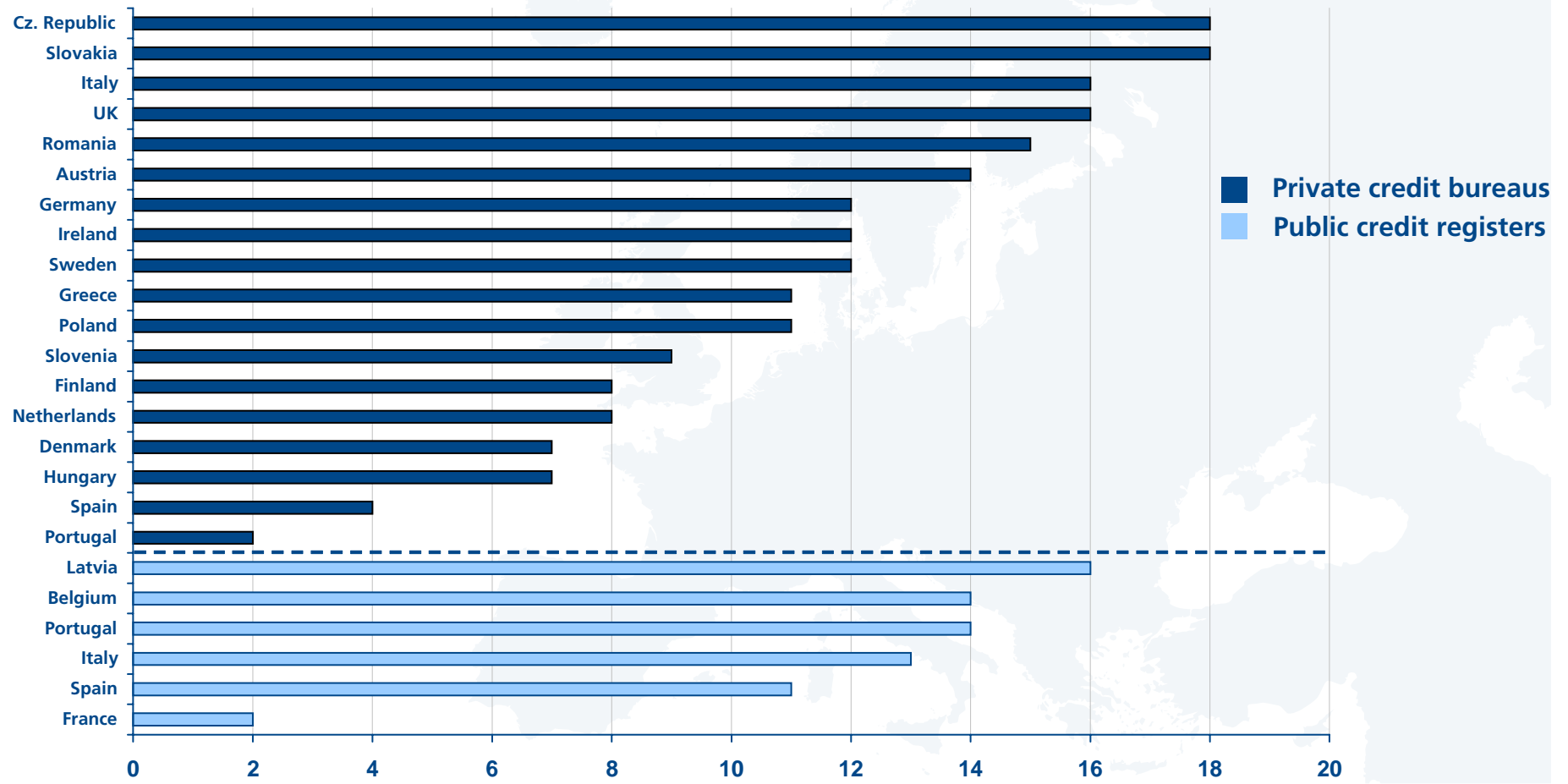
Despite some similarities, the amount of negative and positive data items varies between credit information systems in the EU

Public credit registers usually apply relatively high thresholds, private credit bureaus have no or relatively low thresholds

The collection and use of non-credit data for the purpose of creditworthiness assessment is not permitted in all EU countries

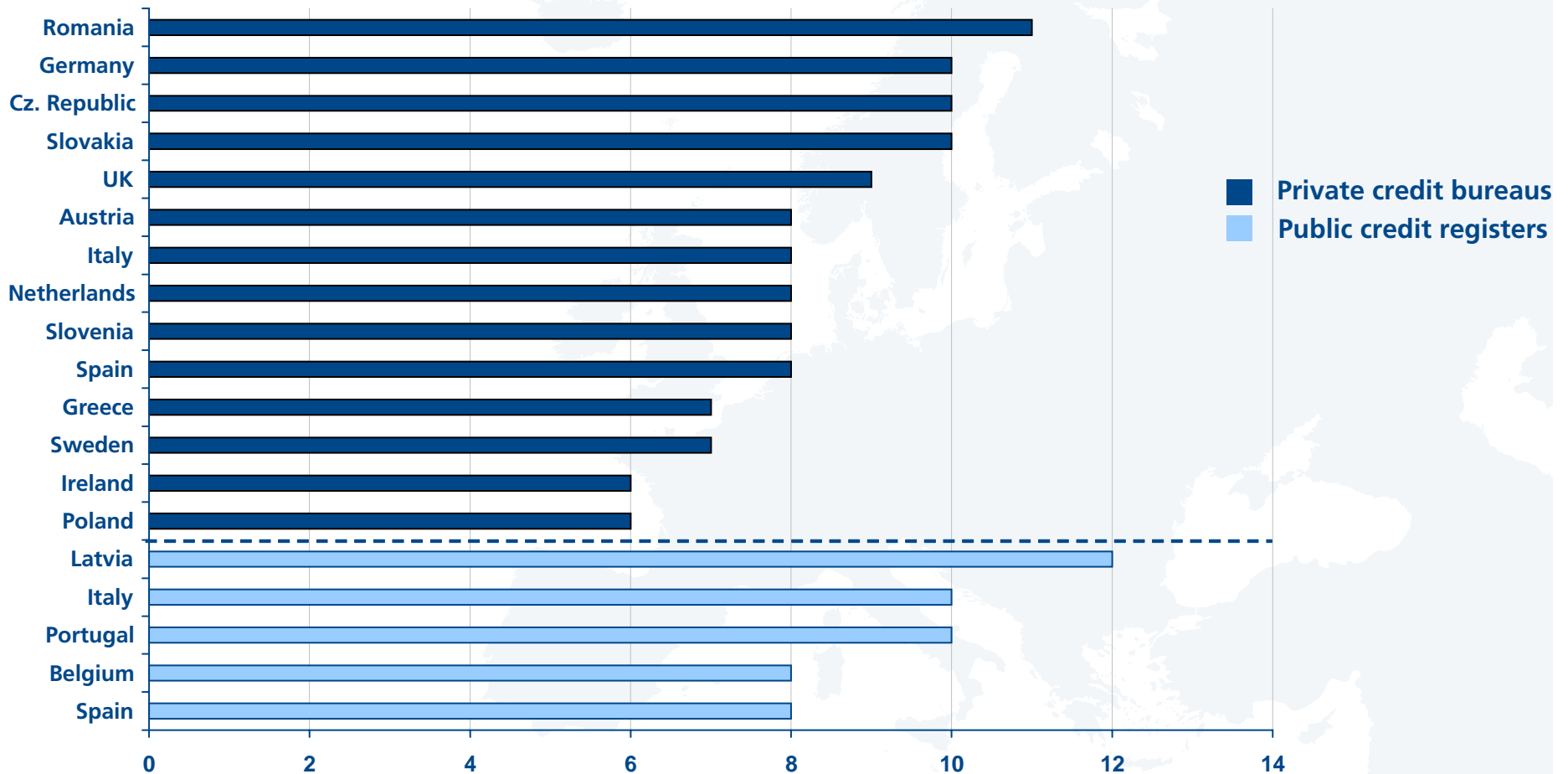
II. CREDIT REPORTING SYSTEMS WITHIN THE EU

The sum of selected NEGATIVE credit information items ranges from 18 in the Czech Republic to 2 in Portugal...



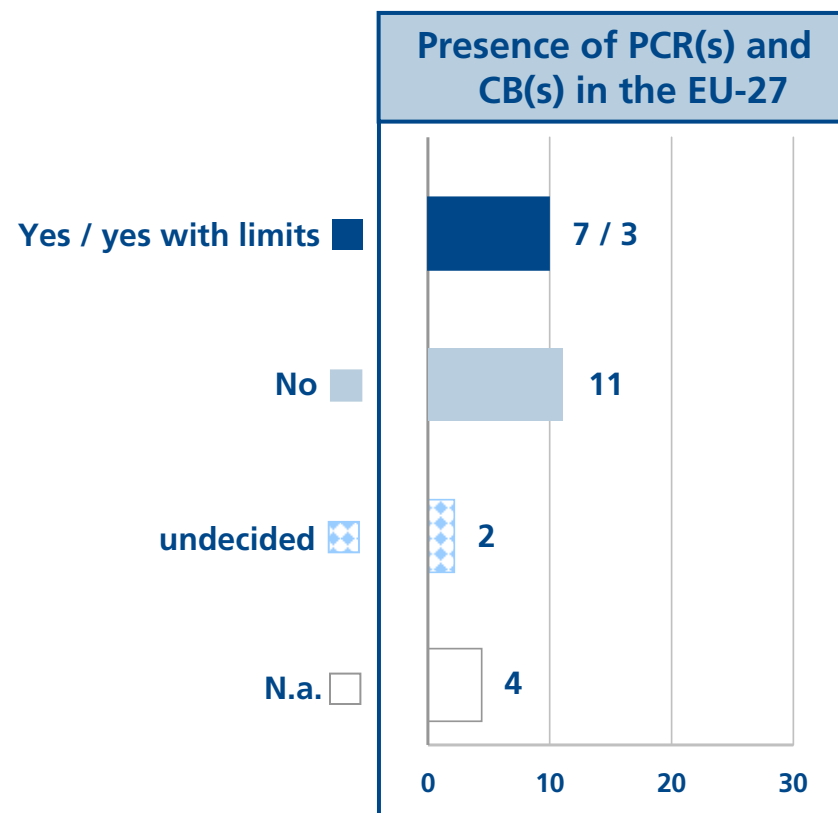
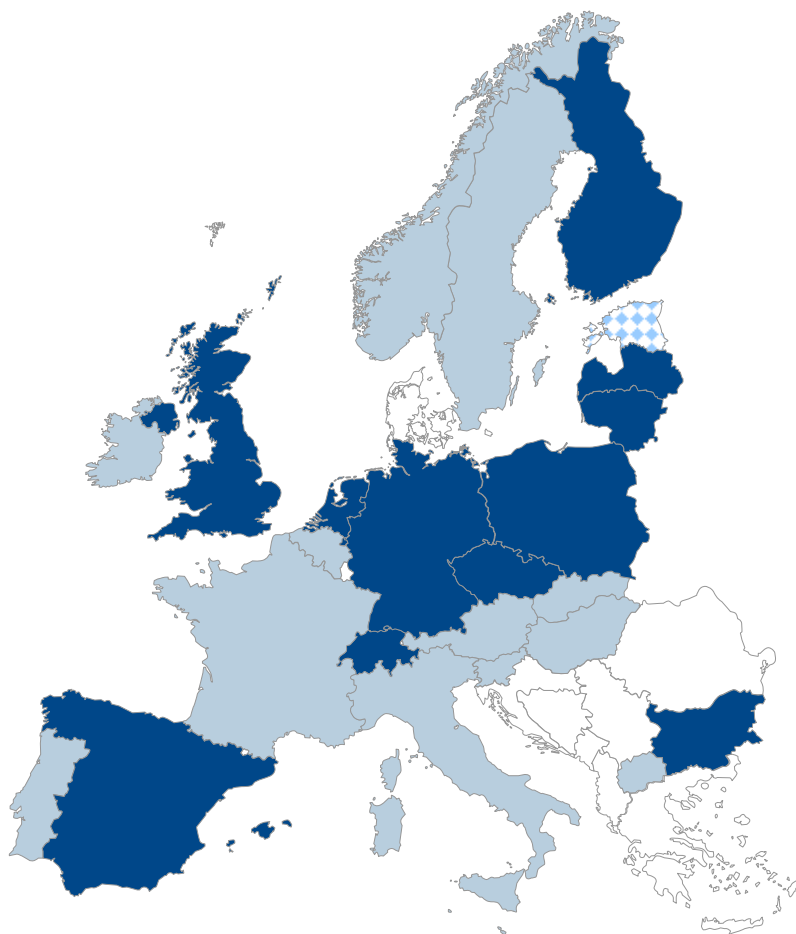
II. CREDIT REPORTING SYSTEMS WITHIN THE EU

...and the sum of selected POSITIVE credit information items from 11 in Romania to 6 in Poland



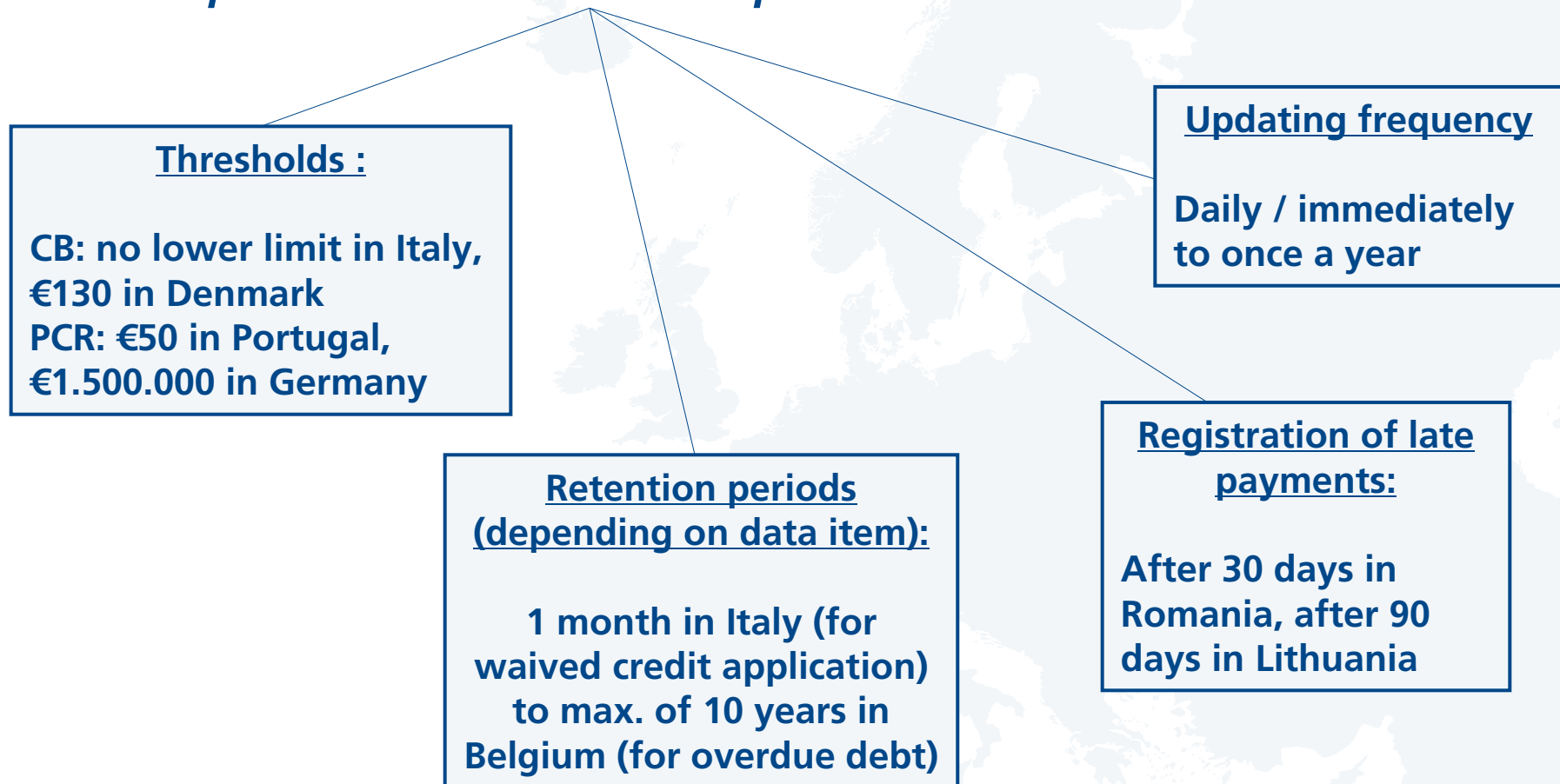
II. CREDIT REPORTING SYSTEMS WITHIN THE EU

Ten EU-27 countries allow the merging of non-credit data with credit information, eleven countries restrict this practice.



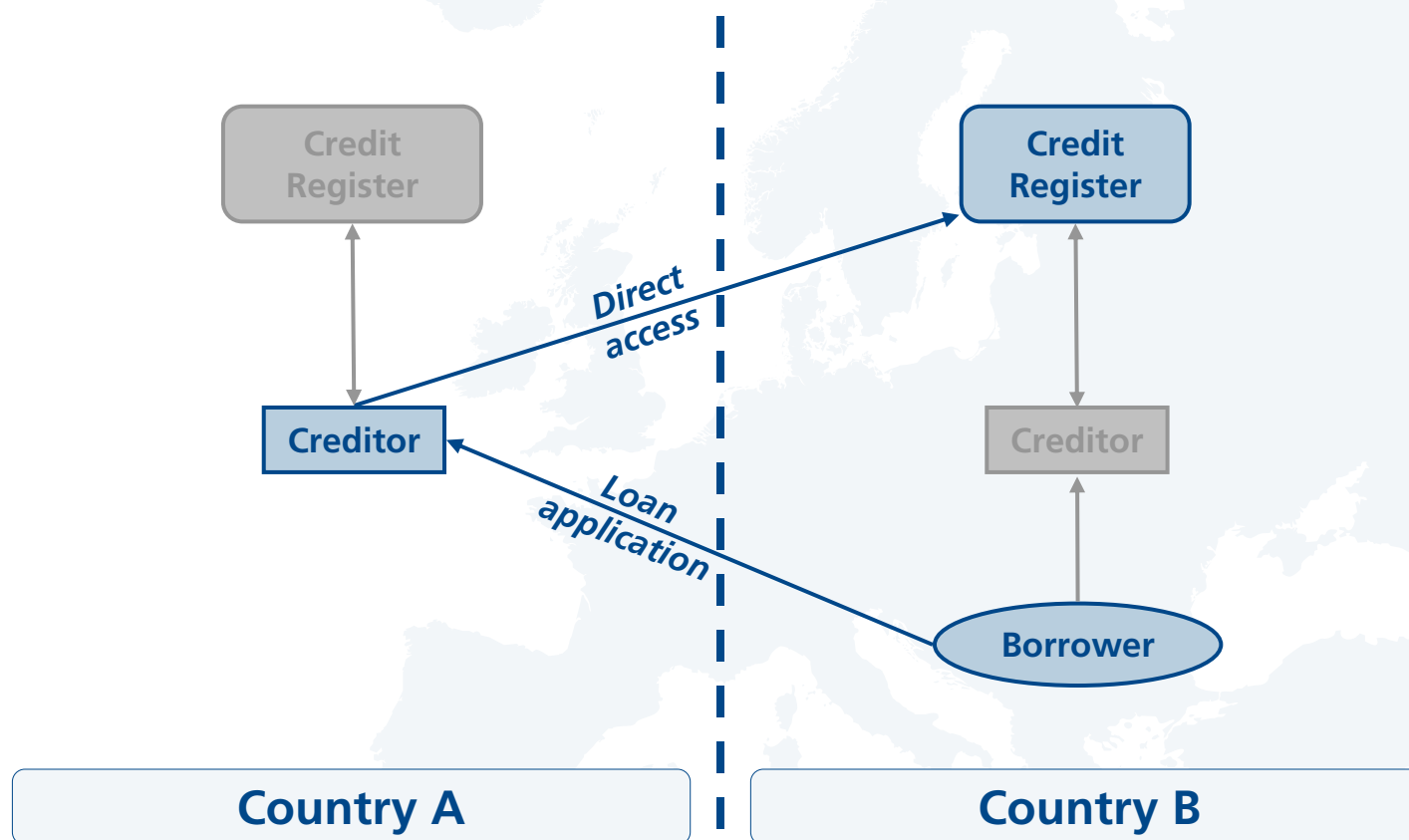
II. CREDIT REPORTING SYSTEMS WITHIN THE EU

Different definitions, thresholds, retention periods and updating frequencies render data comparison difficult.



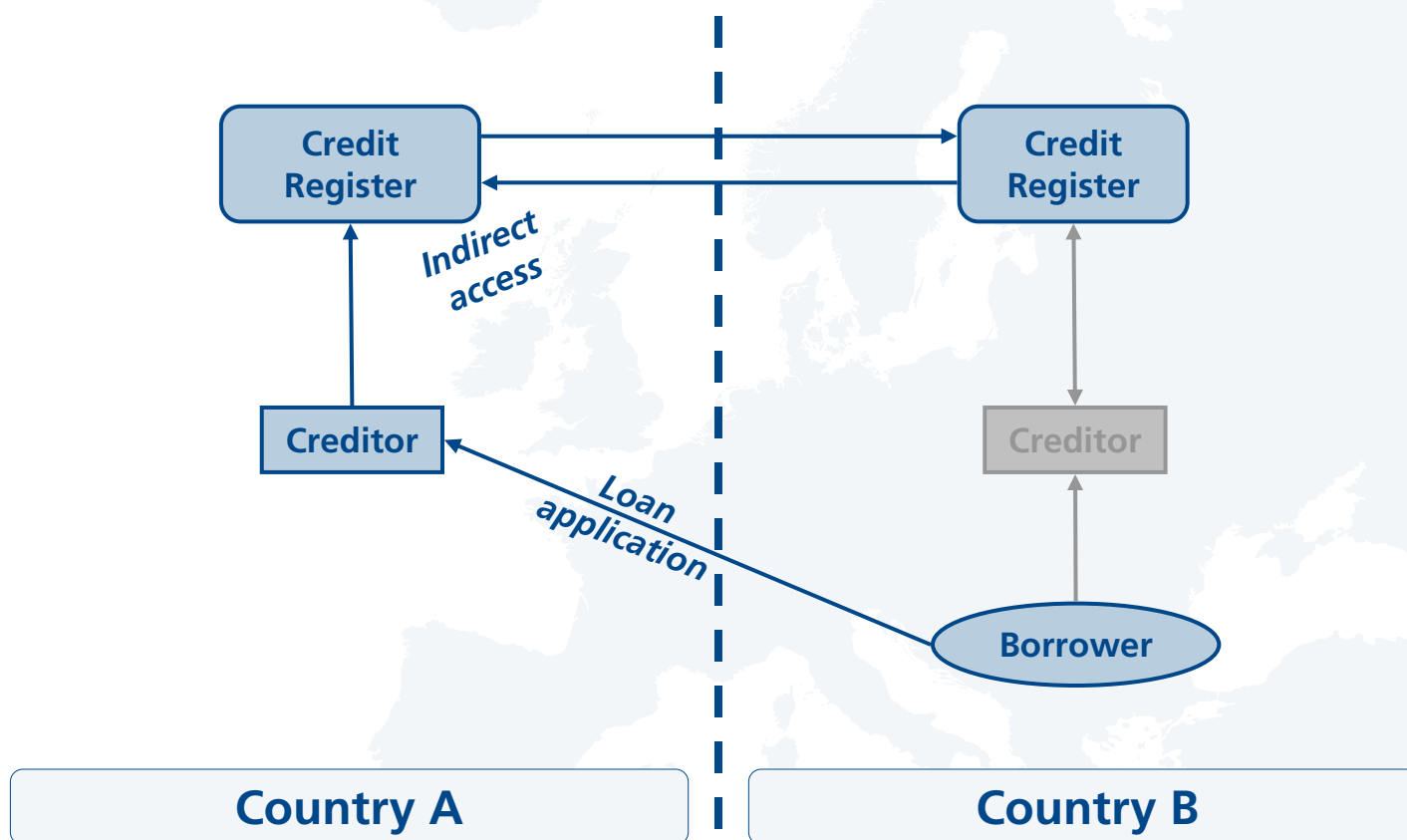
III. CROSS-BORDER ACCESS TO CREDIT DATA

In a “direct access model”, creditors from country A access credit data on borrowers in country B through CR in country B...



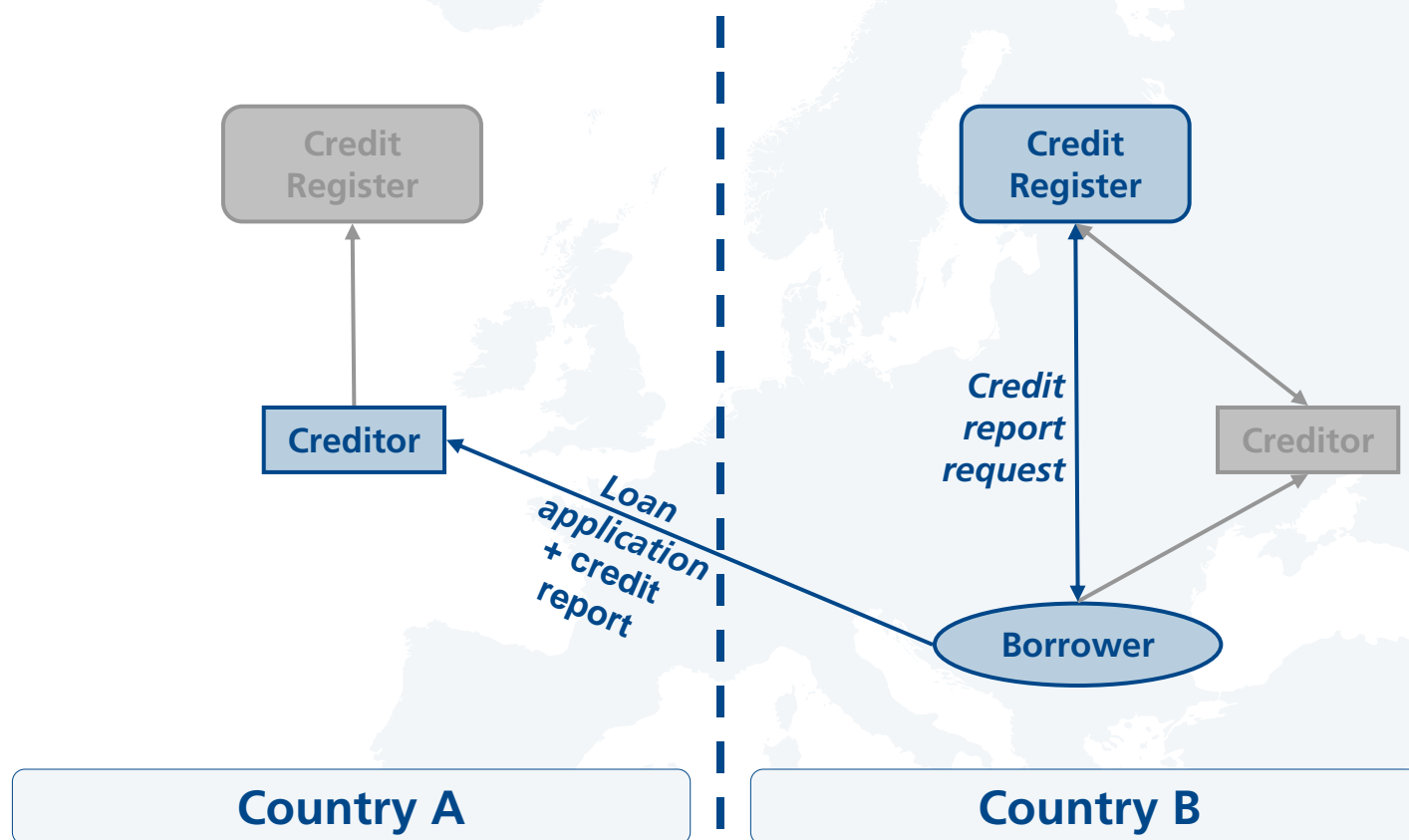
III. CROSS-BORDER ACCESS TO CREDIT DATA

...while in a "indirect access model", creditors in country A access data of CR in country B through CR in country A.



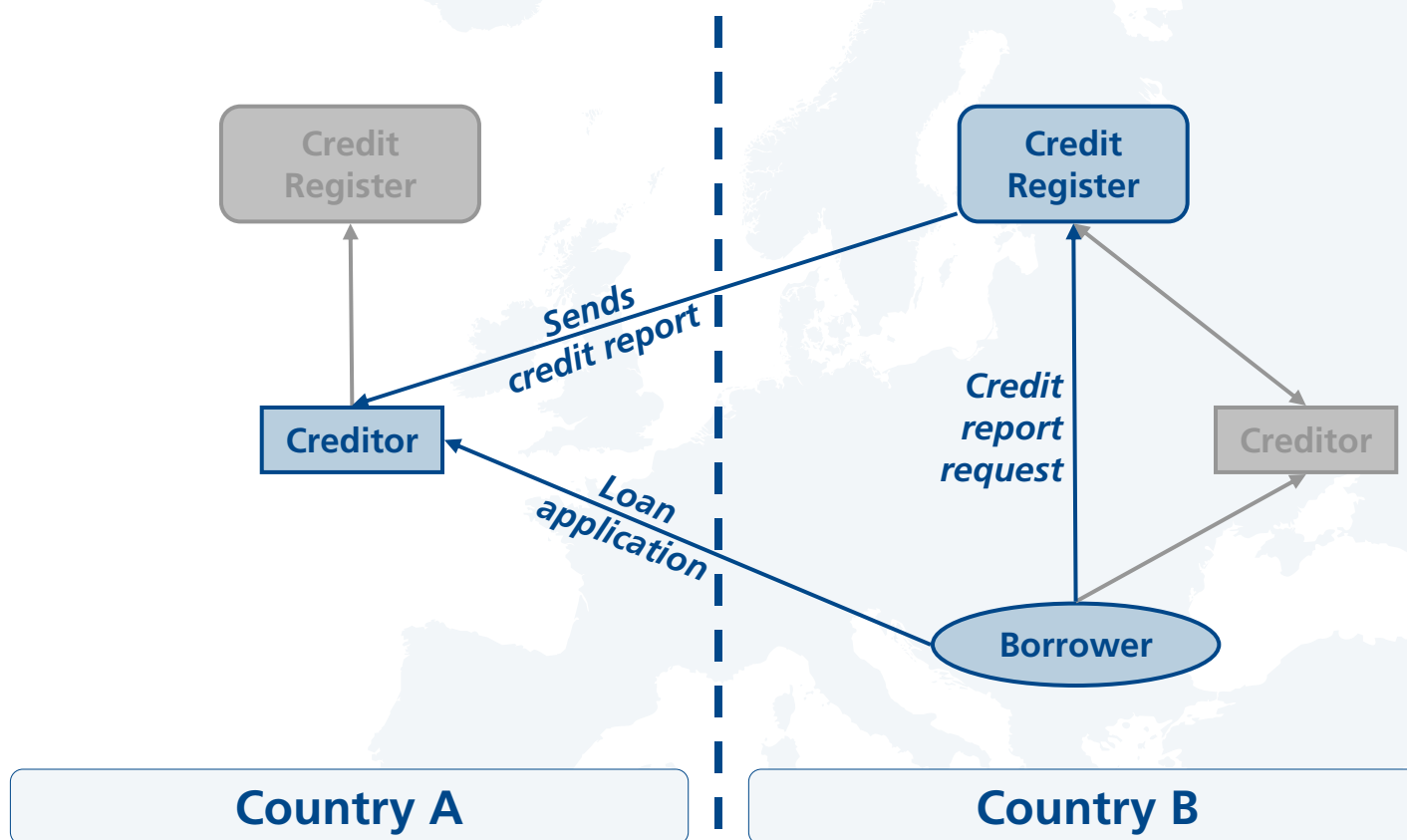
III. CROSS-BORDER ACCESS TO CREDIT DATA

In a “report portability model”, borrowers in country B request a credit report from CR in country B and hand it to creditors in country A...



III. CROSS-BORDER ACCESS TO CREDIT DATA

...while in a "right of access model", borrowers in country B request CR of country B to send a credit report to creditor in country A.



IV. THE EGCH: SOME RECOMMENDATIONS

The EGCH does not recommend the creation of a pan-European retail CR and considers the “indirect access” the most suitable model...

Concerning the model of data access, the EGCH recommends...

R.1

to discard a single pan-European retail credit register for the foreseeable future.

R.2

free choice for creditors between access models but considers the “indirect access model” to be the most suitable.

IV. THE EGCH: SOME RECOMMENDATIONS

...and argues that non-creditors should be excluded from cross-border access, while access for mortgage lenders could be granted.

Concerning access to data, the EGCH recommends...

R.6

...that compliance with Art. 9(1) of the CCD means “providing foreign creditors access at the same level and terms as local creditors”.

R.7

...the possibility of data access “throughout the credit lifecycle and after expiry of credit agreement”.

R.8

...to extend the provisions of the CCD (as regards database access) to cover legitimate mortgage lenders and other lenders outside the CCD.

IV. THE EGCH: SOME RECOMMENDATIONS

The EGCH considers reciprocity between Member States necessary to ensure high market coverage and avoid unfair access conditions...

Concerning the reciprocity principle, the EGCH recommends...

R.9

...that the reciprocity principle be preserved as a key requirement in case of cross-border data exchanges.

R.10

...that creditors could access the borrower's home CR only if participating in its "own national CR".

R.11

...proportionate reciprocity requirements: a creditor should only report back data on the one particular borrower at stake.

R.12

...that the reciprocity principle be interpreted as implying that creditors obtain the same type of data that they provide when to the foreign CR.

IV. THE EGCH: SOME RECOMMENDATIONS

...and experts underline the importance of ensuring transparency and high standards of data quality.

Concerning data quality, the EGCH recommends...

R.13

...a contribution for database access by consumers appropriate, while some experts of the group call for unlimited free-of-charge access.

R.16

...to introduce appropriate and efficient data quality control mechanisms and adequate cross-border cooperation.

R.17

...the development of practical solutions by the industry to enable creditors & consumer understand foreign credit reports.

R.18

...handling at EU level, in cooperation with national data protection authorities, the problem of data holder's identification.

V. THE FUTURE OF CREDIT REPORTING: CONCLUSIONS

Latest political discussion have not come forward with concrete proposals as regards an “optimal” infrastructure at national level.

=> credit reporting markets: strong concentration tendencies; small markets do not support co-existence of multiple credit bureaus

=> existence of public credit register and private credit bureau compatible

*=> World Bank/BIS currently creating credit reporting standards;
ECB working group on use of public credit register for statistical purposes*

*=> EGCH: - no recommendation as regards necessity of creating a public credit register;
- no recommendation on comprehensive credit reporting on national level*

=> next steps:

- evaluation of answer received to consultation on EGCH report*
- convergence/harmonisation of data protection rules*
- roundtable on credit data, identity theft and anti-money laundering rules*
- seek convergence of content, definitions and retention periods*



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