

## Contents

### Regulatory Affairs in Europe

- |  |   |
|--|---|
| Integration of EU Mortgage Markets?      | 1 |
| Customer Account Mobility under Scrutiny | 2 |

### International News

- |   |   |
|---|---|
| World Bank Organises Regional Credit Reporting Conference | 2 |
| China Establishes World's Largest Credit Registry         | 2 |

### Events and Ongoing Projects

- |   |   |
|---|---|
| Expert Roundtable on Household Indebtedness | 3 |
|---|---|

### News About ECRI

- |   |   |
|---|---|
| Website Re-launch                               | 3 |
| ECRI Starts Research on Financial Vulnerability | 3 |

### Publications

- |   |   |
|---|---|
| ECRI Publishes Report on Retail Loans and Basel II                            | 4 |
| ECRI Publication on Consumer Empowerment                                      | 4 |
| ECRI Researchers Contribute to MIT Volume on the Economics of Consumer Credit | 4 |
| New Book on Financial Privacy Published                                       | 4 |

#### Editors:

European Credit Research Institute (ECRI)  
at the Centre for European Policy Studies (CEPS)  
Place du Congrès 1 – 1000 Brussels  
E-mail: [info@ecri.be](mailto:info@ecri.be)  
Web: [www.ecri.be](http://www.ecri.be)



Disclaimer: The European Credit Research Institute is a sub-institute of the Centre for European Policy Studies (CEPS). The views expressed in this newsletter do not necessarily reflect those of ECRI or CEPS.

## Regulatory Affairs in Europe

### Integration of European Mortgage Markets?

The efforts to integrate European mortgage markets continue on the European level as the European Commission (Internal Market and Services DG) continued to hold talks with experts from consumer and industry groups in October. At the moment, there only exists a 'Code of Conduct' for the industry at the European level. At the meeting on 25 October 2006, the discussion among stakeholders in the Mortgage Funding Expert Group revolved around banks' advice to consumers concerning mortgages, as well as APR definitions and if the latter should be broad or narrow. Other issues addressed were early repayment charges and whether credit bureaus could be interlinked for cross-border transfers of credit information. The question is whether the Commission will draw up a directive on the issue or only guidelines.

Approximately a year ago, the Commission published several documents on the subject, among them a study on the costs and benefits of further integration of mortgage markets in Europe. The study estimated at that time that the value of increased integration of over the next 10 years corresponded to 0.89% of current EU-GDP (2005). The study also estimated that by 2015, the EU mortgage credit market would raise EU GDP by 0.7% and private consumption by 0.5%. These benefits might only materialise, however, once the obstacles are overcome. In June of this year, the Commission announced the establishment of the above-mentioned Mortgage Funding Expert Group, composed of stakeholders from the industry, but also consumer advocates. The main task of this group is to analyse and inform the Commission about existing barriers to cross-border activity. Recommendations and insights of this expert group are not unimportant for they will be the basis on which the Commission decides to take further action. Some industry officials prefer that no action would be taken and the Code of Conduct would continue to be placed hold. If the Commission decides to announce measures, it will announce them in a White Paper on the integration of EU mortgage credit markets. This White Paper is anticipated for 2007. The consultation groups and past meetings can be downloaded from the Commission's website.

#### Further information:

European Commission: [http://ec.europa.eu/internal\\_market/finservices-retail/home-loans/integration\\_en.htm](http://ec.europa.eu/internal_market/finservices-retail/home-loans/integration_en.htm)

### Customer Account Mobility under Scrutiny

How easy is it for consumers to switch between bank accounts? This question is the focus of attention of a new expert group that has been founded by the European Commission (DG Internal Market). The Group, which met for the first time in September 2006, comprises interested parties from consumer associations such as Test Achats, as well as banks. In addition, there are academic experts involved such as Professor Dr. Juergen Bott (University of Applied Sciences of Kaiserslautern) or Professor Włodzimierz Szpringer (University of Warsaw and Warsaw School of Economics), who is also a member of ECRI's Consumer Finance Network.

The group's main task is to identify legal, administrative or other obstacles that customers encounter when opening, closing or switching bank accounts at both domestic and cross-border level. It will also advise the Commission on how these obstacles can be addressed. This meeting is a follow-up to the White Paper on Financial Services Policy, 2005-10. The Commission sees a bank account as pre-requisite to access various financial services that are necessary today. To benefit from competitive offers it is of the utmost importance for customers to be able to switch banks. The report containing the expert group's findings and recommendations should be publicly be available in the first half of 2007.

#### Further information:

European Commission: [http://ec.europa.eu/internal\\_market/finservices-retail/baeg\\_en.htm](http://ec.europa.eu/internal_market/finservices-retail/baeg_en.htm)

The European Commission's White Paper on Financial Services Policy 2005-2010 can be downloaded at:  
[http://ec.europa.eu/internal\\_market/finances/policy/index\\_en.htm](http://ec.europa.eu/internal_market/finances/policy/index_en.htm)

emerge around the region. It hosted officials from central banks, ministries of finance and commerce and representatives from the legislative and judicial branches of government in Kenya, Tanzania, South Africa and Nigeria, among other nations. The head of the European Credit Research Institute, Dr. Nicola Jentzsch, was also invited to give a presentation about the regulatory developments in Europe. She stressed that although Europe was ahead of Africa in terms of integration, it would be beneficial for African nations if they could coordinate their regulatory efforts.



Nataliya Mylenko, Programme Officer from the IFC urged the African governments to exchange their views and experiences. Altogether the conference brought together experts from 37 countries, including more than 50 central bank representatives from 20 African nations. Together with the World Bank, the IFC launched the Africa Credit Reporting Programme to support governments, businesses and other stakeholders in developing credit reporting systems in Africa. The program is funded by IFC, the Netherlands and Visa. This \$1.5 million assistance programme was announced during the Conference.

A second major conference held in South Africa (8-10 October 2006) was the 5<sup>th</sup> World Consumer Credit Reporting Conference, which brought together more than 200 delegates from across the globe, including representatives from all the major companies. It was organised by the US Consumer Data Industry Association (CDIA) and the Association of Consumer Credit Information Suppliers (ACCIS).

---

## International News

### World Bank Organises Regional Credit Reporting Conference

One certain sign of expanding credit markets is the appearance of credit reporting agencies. More and more of these companies are being opened in Africa, and governments increasingly know that credit reporting is the vital information structure they need for increasing access to finance for the poor. At the beginning of October, the World Bank, together with the International Finance Corporation (IFC), devoted a whole conference on the topic. The Regional Conference on Credit Reporting Systems in Cape Town (5-6 October 2006) covered not only the economic impact of credit reporting, but also the role of public policy as well as opportunities for private-public partnerships as they

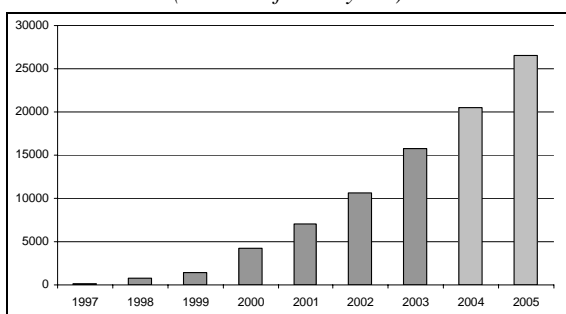


### China Establishes World's Largest Credit Registry

China has witnessed a rapid expansion of its credit markets. Virtually unrecognised by Western media, China has now established the world's largest credit registry at the beginning of 2006, with more than 480 million registered consumers. In stark contrast to Western systems, the People's Bank of China will collect information on consumers from many different sources, not only banks. In light of this development, it is questionable if there is a market for private credit reporting agencies in the country. Industry officials from local, but also international credit bureaus seem to be uncertain how to respond to this development. One official even told ECRI that they intend to compete with the public credit register. Several international institutions have advised the Chinese government to do

otherwise: to create a threshold and open the market for private credit registers to compete.

*Balance of consumer credit and estimates for China  
(billions of RMB yuan)*



Source: Bruce L. Reynolds and Tu Yonghong, "Recent Growth and Institutional Constraints in China's Consumer Credit Sector", paper presented at Annual Meetings of the Southern Economics Association, New Orleans, November 2004 (updated).

But the Credit Information System Bureau of the People's Bank of China has worked diligently to build up a completely public system, which is seen as an important ingredient in a stable expansion of the Chinese consumer credit market. The establishment of the systems coincides with the publication of provisional regulations concerning the data. The database contains the following fields of information: personal identity number, credit information, settlement account information, credit card transactions and guarantee information. For Western data protection activists, the idea of a central database on each individual of the credit-active population might be a nightmare. Chinese officials, however, apparently regard it as the only quick route to a rapid expansion of knowledge about borrowers.

## Events and Ongoing Projects

### Expert Roundtable on Household Indebtedness

The European Credit Research Institute will host an expert roundtable in the latest developments in European household indebtedness on 21 November 2006. The phenomenon of household indebtedness has been rising throughout Europe – and especially fast in the new EU member countries. According to the European Central Bank, the household debt-to-assets ratio for the euro area reached an historical level at 33% in 2004, and levels of indebtedness continues to increase. Although the repayment burden of European households has remained fairly stable, the main question is what impact a rise in the interest rates or adverse income shocks would have. Moreover, over the past five years, euro area residential property prices have increased by 5% per annum – a rate that even accelerated in 2005. These increases were especially strong in Greece, the Netherlands and Portugal, and to a slightly lesser extent in Spain, Ireland and Finland, where they slowed somewhat compared to 2004. Inflation in housing prices poses the risk of

overvaluation and correction. What macroeconomic impacts do these developments have? We discuss these and other pressing questions at a half-day expert round table of the European Credit Research Institute in Brussels. At this roundtable, we put a spotlight on the latest developments in Europe. Speakers at this workshop will be CEPS Director Daniel Gros, Philippe Moutot (Deputy Director General Economics and Director Monetary Policy, European Central Bank) as well as Fernando Restoy (Director of the Department of Monetary and Financial Studies, Banco de España). Registration is limited due to a limited number of places available.

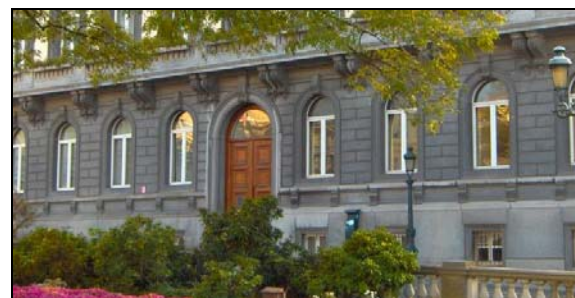
#### Further information:

Programme, minutes and other workshop material will be available at ECRI's website after the workshop: [www.ecri.be](http://www.ecri.be)

## News about ECRI

### Website Re-launch

ECRI has re-launched its website. The website still features all the content of the old site, but in a reorganised fashion. It contains a section on the latest news which is constantly updated as well as a section where the research reports can be downloaded for free. The sections on events are divided into seminars and workshops. The latter consists of an explorative discussion of new trends and research, whereas seminars tend to cover ongoing trends. Finally, roundtable meetings provide a forum for the exchange of experts' views.



### ECRI Starts Research on Financial Vulnerability

ECRI, together with the Personal Finance Research Centre (University of Bristol), will start a large-scale research project on consumer financial vulnerability to financial shocks. Genworth Financial in the UK has awarded a grant for independent research to ECRI to support exploration of this area. In this research, the project team will assess the financial vulnerability of consumers in the European Union, covering more than 10 countries. The main purpose is to map influence factors as well as early warning factors about the possible increase of credit risks. This research project

will involve the psychology of borrowing, behavioural economics as well as insights from similar indices across Europe. The contract and project is running for a year. ECRI will work on this project together with other researchers from several countries including Italy, Spain, UK, Sweden and Germany.

## Publications

### ECRI Publishes Report on Retail Loans & Basel II

In 2004, the Basel Committee for Banking Supervision adopted recommendations for a revised framework for risk measurement and corresponding equity capital standards to further strengthen the soundness and stability of the international banking system ('Basel II'). The implementation of the new framework in EU member jurisdictions is scheduled for year-end 2006, although some advanced approaches to risk measurement will only become available at year-end 2007. This paper presents a new technique for grouping retail loans into homogeneous risk pools, which adheres to the provisions of Basel II. The authors use recursive partitioning and test the technique on a data set of approximately 413,000 auto loans. By classifying loans according to selective predictors of default, we find that banks can achieve significant savings in terms of a lower regulatory capital requirement. Alternatively, this provides the opportunity to increase lending capacity.

#### Further information:

S. Paul, S. Stein and D. Kaltfofen (2006), *Retail Loans: How Banks Can Use Portfolio Segmentation to Reduce Their Capital Requirements*, ECRI Research Report No. 8, August 2006 (downloadable at [www.ecri.be](http://www.ecri.be)).

### ECRI Publication on Consumer Empowerment

The use of financial products by consumers has increased noticeably in recent years. These changes may justify policy initiatives in the areas of consumer information, education and protection. With the aim of contributing to the debate, ECRI is organising a series of Consumer Financial Capability Workshops on economic, social and regulatory issues related to financial capability. The goal of these workshops is to develop guidelines for improving the financial capability of European consumers. This series has been co-sponsored by VISA Europe. The First Consumer Financial Capability Workshop took place in Brussels in November 2005. To offer a solid scientific basis to the debate, six papers covering various financial capability issues (see reference below) were discussed. The workshop also offered the possibility for the presentation of several financial literacy programmes. Two debate sessions gave the audience the opportunity to exchange views.

#### Further information:

"Consumer Financial Capability: Empowering European Consumers", Papers from the First Consumer Financial Capability Workshop (downloadable at [www.ecri.be](http://www.ecri.be)).

### ECRI Researchers Contribute to MIT volume on the Economics of Consumer Credit

Academic research and policy analysis of credit markets usually focus on borrowing by firms and producers rather than by households. A new book published by the MIT Press, *The Economics of Consumer Credit*, brings together leading international researchers to focus specifically on consumer debt, presenting current empirical and theoretical research crucial to ongoing policy debates on such topics as privacy rules, the regulation of contractual responsibilities, financial stability, and overindebtedness. The rapidly growing consumer credit industry in the United States is mirrored by developments in Europe, and this volume is noteworthy for its cross-national perspective. Several chapters compare the use of credit markets by households in different countries, while others focus on single country case studies to illustrate general insights. Other chapters draw policy lessons from the US experience with bankruptcy regulation and the development of the credit counselling industry. Finally, the book reviews historical, theoretical, and empirical aspects of information-sharing, which is of particular interest in light of the integration of European Union credit markets. Contributors include Giuseppe Bertola, Jonathan Crook, Richard Disney, Tullio Jappelli, Marco Pagano, Nicola Jentzsch and Amparo San José Riestra.

#### Further information:

MIT Press website  
(<http://mitpress.mit.edu/catalog/item/default.asp?ttype=2&tid=10992>).

### New Book on Financial Privacy Published

A new book by Nicola Jentzsch, entitled *The Economics and Regulation of Financial Privacy: An International Comparison of Credit Reporting Systems*, provides the first in-depth analysis of the economics and regulation of financial privacy. It is an international comparison of credit reporting systems in the United States and in European countries. On the theoretical level the book explains competition in information markets, especially in markets for goods made of highly personal and sensitive information. It reviews the microeconomics of information and privacy and discusses the economic incentives to disclose or to conceal information. The book also focuses on the institutions of credit reporting, the history of credit reporting agencies and the regulation of privacy and credit reporting on both sides of the Atlantic as well as internationally. Finally, on the empirical level, it reviews the microeconomic and potential macroeconomic effects of credit reporting in the credit markets of countries around the world.

#### Further information:

Springer website:  
[http://www.springer.com/west/home/economics/law+&+economics?S\\_GWID=4-40551-22-173663755-0](http://www.springer.com/west/home/economics/law+&+economics?S_GWID=4-40551-22-173663755-0)