CEPS/ECRI Event

Study of CEPS and the University of Edinburgh on:

Data sharing in credit markets:
does comprehensiveness matter?

11 September

CEPS-ECRI, Brussels

Background

The World Bank has shown that the existence of data sharing contributes to improve:

-the risk profile of borrowers

-the access of more customers to credit markets

Purpose of the study

Main question to be answered

Assuming that data sharing exists, does higher comprehensiveness in the data collected matter for European credit markets?

1. First specific question

Does higher comprehensiveness in the data collected by CRAs impact European credit markets?

2. Second specific question

Can the collection of non-traditional types of data contribute to well-functioning credit markets?

1. Main findings on data collected by CRAs

Finding 1

More comprehensive data boosts the access of consumers to credit

Finding 2

More comprehensive data raises the propensity of banks to channel savings into consumer credit

Finding 3

More comprehensive data reduces the risk of missed repayments

2. Main findings on non-traditional data

Finding 1

Structured non-traditional data is generally preferred

Finding 2

Unstructured non-traditional data is attracting mixed opinions

Finding 3

The main benefits of non-traditional data are primarily the increase in predictive accuracy and access to credit

Finding 4

The main challenge is legal compliance

Question 1:

Does higher comprehensiveness in the data collected by CRAs impact European credit markets?

Specific objectives: assessing the impact of more comprehensive data collected by CRAs on…

1. The access to credit

2. The propensity of lenders to channel savings into consumer credit

3. The risk of missed repayments

Methodology in two stages

First stage

-Development of the indexes of comprehensiveness by using a database built by European CRAs with the data types they hold

-Values of the indexes are between 0 and 1

Second stage

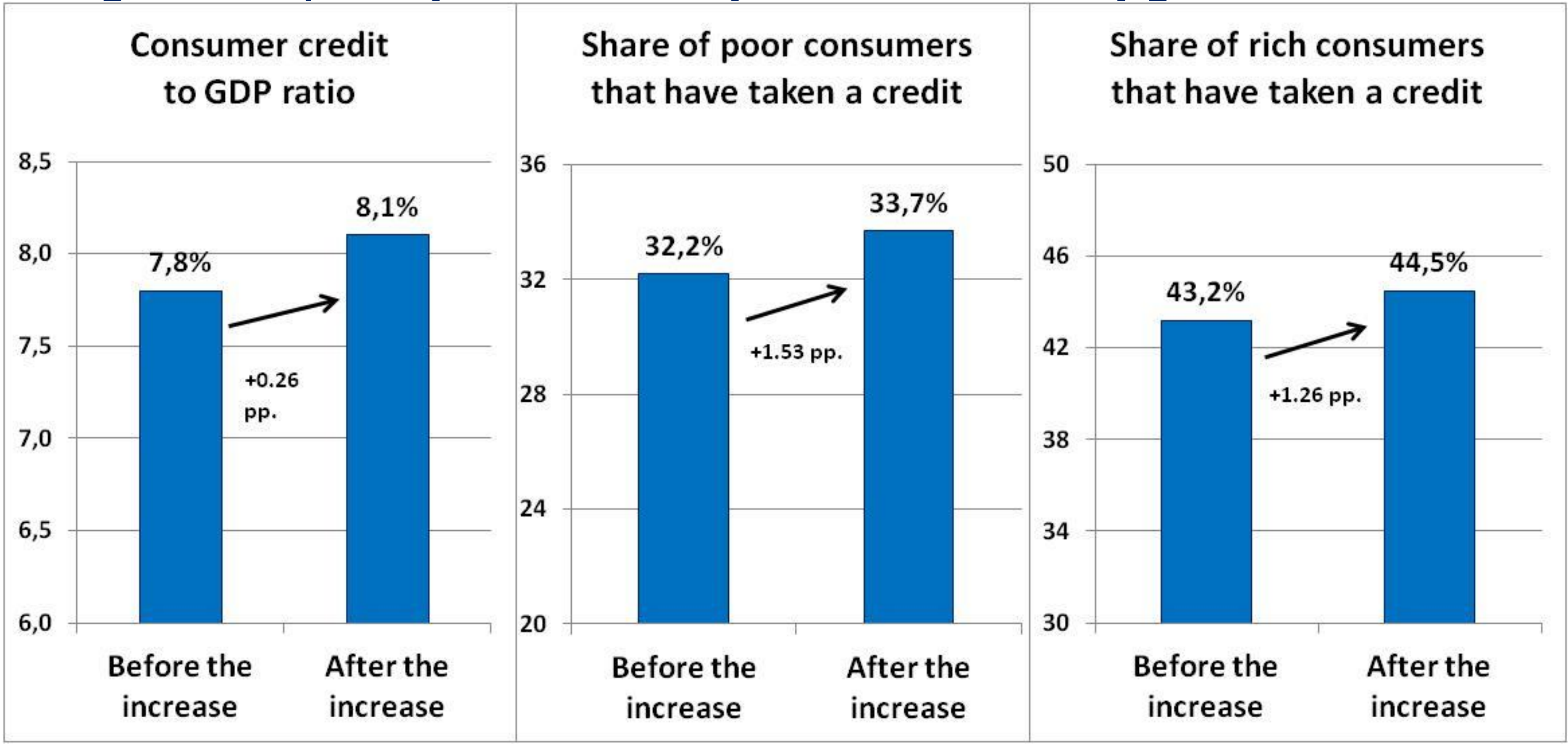
Use of panel econometrics to assess the quantitative impact of these indexes

Two main groups of comprehensiveness indexes

BREADTH of the data collected	DEPTH of the data collected
• Types of borrowers • Types of data collected on borrowers • Types of organisations supplying data to CRAs • Types of loan services • Types of non-loan services	• Positive data • Negative data

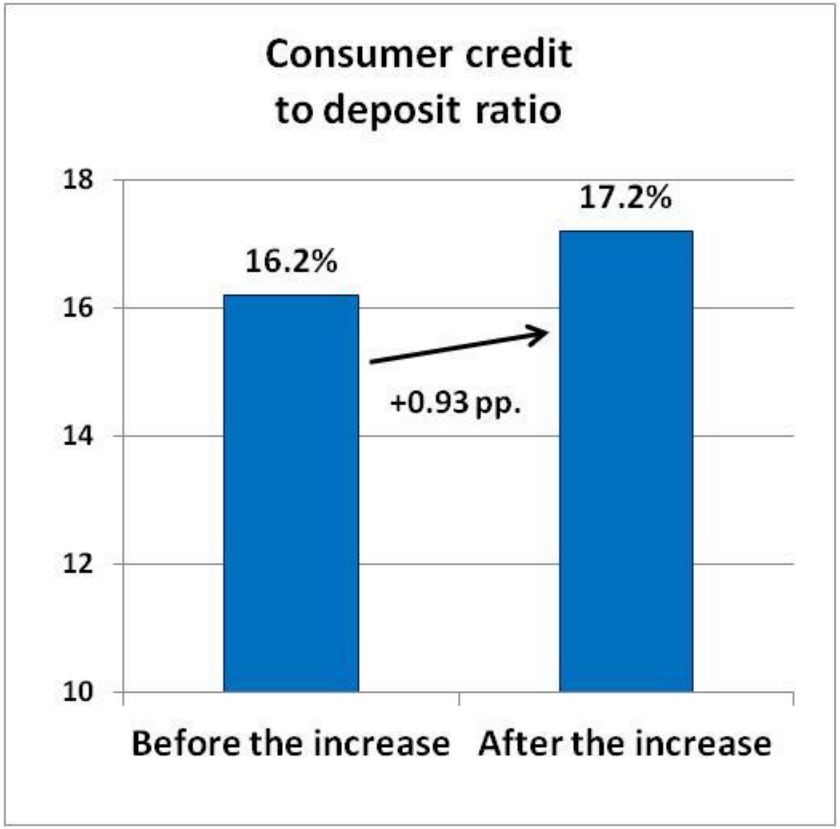
Finding 1:
Access to credit is boosted for both poor and rich consumers

Figure 1. Impact of an increase of 0.1 in the index of general breadth



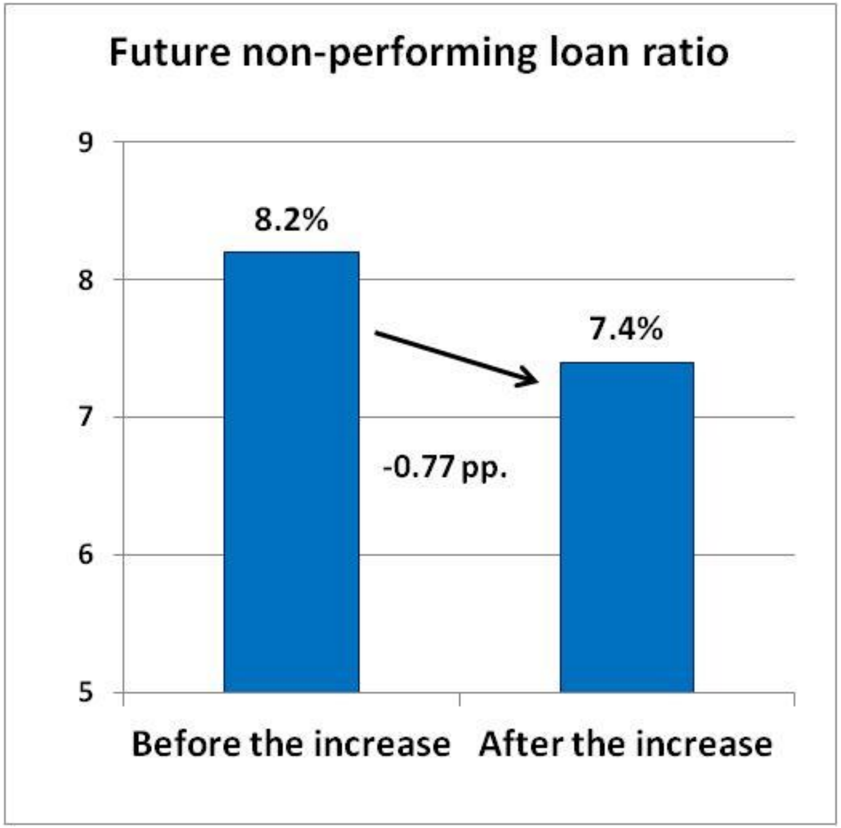
Finding 2:
Banks channel more savings to consumer credit

Figure 2. Impact of an increase of 0.1 in the index of general breadth



Finding 3:
The risk of missed repayment decreases

Figure 3. Impact of an increase of 0.1 in the index of general breadth



Question 2:

Can the collection of non-traditional data contribute to well-functioning credit markets?

Specific objectives: assessing the impact of non-traditional data on…

1. The access to credit

2. The risk of missed repayments

Methodology in two stages

First stage

Conduct of interviews with a limited number of stakeholders (consumer associations; CRAs; retail banks; startups providing credit)

Second stage

Conduct of desk research to complete the findings of the interviews

Main findings: Structured VS Unstructured

Non-traditional structured data is...

Finding 1

the more useful type of data for affordability assessments

Finding 2

the more socially/legally accepted one

Non-traditional unstructured data is...

Finding 3

promoted by some stakeholders (Fintech, retail banks)

Finding 4

highly critised by some other stakeholders (consumer associations)

The main benefits of non-traditional data are…

Finding 1

the increase in predictive accuracy of credit risk models

Finding 2

the increase in credit access

Finding 3

the ability of lenders to have an holistic view of a customer

Finding 4

more important for consumers with thin credit files

The main challenges of non-traditional data are…

Finding 1

legal compliance

Finding 2

the quality of the data

Finding 3

IT/technological difficulties

Finding 4

social acceptance/ethics