Expert Roundtable on the Harmonisation of Credit Reporting Systems in Europe

Minutes

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Credit reporting – the collection of financial information on households and companies – is crucial for the sound functioning of credit markets in Europe. However, credit reporting systems and information collections are still not harmonised. Cross-border reporting is in different stages of development for different types of information and institutions. Whereas it is well-developed in the area of business reporting – the exchange of profiles on companies – is in its infancy for consumer reporting. Some public credit registers, on the other hand, are now members of the Memorandum of Understanding, an agreement on cross-border data exchange between seven European public registers. Credit reporting has an impact on lending, banking competition and credit market performance. In addition, it can contribute to further integration of credit markets in Europe. At this half-day expert roundtable at the **EUROPEAN CREDIT RESEARCH INSTITUTE,** we discuss the stage of harmonisation of credit reporting systems in Europe, the origins of fragmentation and possible policy solutions. We invited policymakers, industry officials, Central Banks and consumer advocates to discuss with us the latest developments. For further information consult: www.ecri.eu

The Chief Executive Officer of CEPS, **Karel Lannoo,** opened the Roundtable and welcomed all participants on behalf of CEPS and ECRI.

In the first presentation, **Dr. Nicola Jentzsch (Head of Research of ECRI)** gave a short overview on the importance of credit reporting for credit markets (e.g. reduction of information asymmetries, increase in volume of lending) and for credit market integration. In the latter case, credit reporting is beneficial, because of the increasing mobility of Europeans, as it allows more effective risk monitoring. She stated that the existence of different types of credit registers (private bureaus, public credit registers or dual systems) as well as the variation in the type and quality of information collected by these institutions could be seen as obstacles to cross-border reporting, although those were not the only existing barriers and they *are not* the most important ones. According to her, many pressing issues needed to be tackled such as identifying whether harmonisation in credit reporting was necessary. She also stated that a in-depth discussion of these topics was needed as well as an in-depth analysis of regulatory and natural barriers that really hampered credit market integration.

European Credit Research Institute (ECRI), 1 Place du Congrès, B -1000 Brussels, Belgium
Tel: +32-(0)2-229.39.11, Fax: +32-(0)2-229.41.51, e-mail: info@ecri.be, web: www.ecri.eu

Mike Bradford, President of the Association of Consumer Credit Information Suppliers (ACCIS), stated that the topic was of interest to his organization and the 30 consumer credit reference agencies represented by ACCIS. **Mr. Bradford** mentioned that diversity in terms of data collections currently existed in Europe, but these were not effective barriers to the integration of the credit markets. Instead, he pointed to the varying national legal data protection restrictions as barriers that hampered cross-border credit reporting and the creation of a single credit market. Given these barriers, he said that "the internal market does not lie in the hands of the credit bureaus" but that credit bureaus "can help to create internal market integration". According to **Mr. Bradford**, the harmonisation of national laws and regulation – which needed to strike a balance between consumer protection, the necessity of fraud prevention and responsible lending – was not the panacea for the creation of the Single Market. He concluded that concerted efforts were needed and stated that his organisation supported the idea of a Memorandum of Understanding between credit bureaus to facilitate cross-border credit reporting. In addition, according to **Mr. Bradford**, a full impact assessment should be carried out in order to evaluate whether demand from consumers or lenders existed.

Tom Quinn, Vice President of Global Scoring Solutions of Fair Isaac gave a short intervention. He emphasized the importance of credit reporting as a key to efficient assessment of credit risks, which in turn would lead to an efficient allocation of credit. **Mr. Quinn** presented figures which illustrated the positive correlation between the availability of both negative and positive data and the possibility to effectively predicting payment defaults. He explained different data items that deliver predictive power such as previous credit performance (35 per cent contribution to predictive power), currently level of indebtedness (30 per cent) or pursuit of new credit (10 per cent), among others. According to the him, comparable cross-border credit score metric in the EU did not require full harmonisation of credit reporting, but the Member States needed to permit full positive/partial positive credit reporting and non-discriminatory data access to credit registers for scoring intermediaries.

Presenting the Commission's view on the topic of credit reporting was **Christine Hauner, National Expert at the European Commission, DG Internal Market & Services, Retail Issues, Consumer Policy and Payment Systems**. She stressed that the Commission agreed on the importance of addressing the topic, especially after the results of the sector inquiry of DG Competition had been published. This inquiry found that unfair or discriminatory access conditions to data and regulatory barriers to data sharing still existed in some European countries. In addition, partial data sharing inhibited banking competition. Subsequently, **Mrs. Hauner** presented the Commission's initiatives dealing with the role of credit and credit reporting in the creation of the Single Market, which includes the Consumer Credit Directive, the *Green Paper on Retail Financial Services* as well as the *Green Paper on Mortgage Credit*. In the consultations after the latter's publication, a large majority of the stakeholders supported cross-border access to databases on a non-discriminatory basis. Moreover, respondents underlined that it was necessary to ensure that data was accurate and up-to-date as well as to subject credit reporting agencies to a form of supervision (e.g. monitoring of who could access the database). **Ms. Hauner** concluded

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that lenders were to be assisted in obtaining data. Furthermore, the increased mobility of borrowers in Europe – which had already been pointed out by **Dr. Nicola Jentzsch** – called for giving these citizens the possibility of taking their credit history with them. She stressed that the Commission had plans to set up an expert group on the subject matter.

In the ensuing roundtable discussion, **Ms. Hauner** expressed her doubts that despite potential facilitation, consumers would immediately shop for financial products in different countries, but emphasized the need to enable foreign companies to offer their products on other markets as well and not only their home market. This was picked up by **Karel Lannoo**, who stressed that there is a need for more competitive markets, especially in the retail banking sector.

Paul Schmidt, Policy Advisor of the Central Bank of Austria raised the question if the Commission had data on what so far had been described as "increasingly mobile customers." According to **Ms. Hauner**, some data on "consumer appetite" was available and drawn from the Eurobarometer, which showed that despite obvious reasons for reluctance to cross-border shopping of foreign products (such as language or cultural barriers), numbers of mobile customers were "slowly but surely" increasing. With regard to mobility, **Dr. Nicola Jentzsch** pointed to the generally lower mobility of European households in comparison to their US counterparts. In the US, there was a positive correlation between household mobility and information sharing, detected in some academic studies. She subsequently posed the question what measures should be undertaken to pave the way for one EU consumer credit report, if needed, or to facilitate cross-border data sharing.

Phil Jones, Assistant Information Commissioner of the UK and Head of Data Protection Practice started the second part of the Roundtable. He stated that the key question was whether it was reasonable for lenders to agree to the sharing of personal credit data with other lenders (on a reciprocal basis) for credit-related purposes. He answered this question with "yes" and stated that the UK Information Commissioner worked together with the industry in three important areas: transparency (the quality of explanation to consumers); quality of identification (to avoid misattribution) and quality of data (accuracy and consistency). **Mr. Jones** pointed out that consistency in reporting was important in a credit market that becomes more diversified and lenders who become more sensitive to individual circumstances. Furthermore, as "loose identification" was still a key problem, he stated that a uniform standard of the collection of identification information was considered to prevent misattribution of credit data. He concluded by pointing out that if there was an agreement on making the sharing of credit information a 'de facto' term of obtaining credit, then data protection regulation would help to ensure appropriate quality and use of credit data. In addition, he said that correct information was not just crucial for lenders, but also for customers. He therefore claimed that potential consumers should be provided with clear and full information in order to see "what they get into" when taking a credit.

In her intervention, **Violetta Damia, Economist-Statistician at the Directorate General Statistics of the European Central Bank** introduced statistics as an area that could take

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advantage of the public credit registers' and credit bureaus' information content in the future. At this occasion, she presented the efforts currently envisaged by of the European System of Central Banks (ESCB) to reduce the reporting burden, inter alia by using already available micro data such as those in credit registers. She also presented the potential statistical fields were credit registers can be used, in particular Monetary Financial Institution's statistics.. However, further investigation needed to be conducted in terms of what kind of data was actually stored and the level of quality (consistency, timeliness, etc.). **Mrs. Damia** explained that the ECB had created a "light questionnaire" directed at the existing public credit registers and private credit bureaus in Europe. The returns had put a spotlight on features such as low coverage of borrowers in some of the countries recorded. Moreover, the lack of harmonisation regarding the content of the private credit bureaus may lead the ESCB to initially explore the usage of public credit registers.

Didier Muraille, Head of the Credit Registers Unit of the Banque Nationale de Belgique explained the Belgian situation from the point of view of a public credit register. **Mr. Muraille** illustrated that the purpose of a credit register consisted of supporting responsible lending and preventing over-indebtedness. He assessed the issue of cross-border data sharing. Given the relatively small size of Belgium and its central geographical position, the Belgian credit register already effectively shared data with the Dutch credit register BKR and the German Schufa Holding AG. He explained that as files were "just passed on, not interpreted", no harmonisation had so far been conducted. Despite the possibility of data transfer, however, file sharing had not reached high volumes. **Mr. Muraille** also added that transactions with the Dutch credit register were more frequently executed than with the German side – a possible explanation being the language. He asked whether there was a need for cross-border data exchange as this would not solve the harmonisation problem.

In the final roundtable discussion, **Jacqueline Mills, Economic Affairs Advisor for Eurofinas/Leaseurope** mentioned that the sharing of fraud data had not yet been discussed and that the time was right to "bring fraud and credit data together". This was picked up by **Ms. Hauner**, who said that this topic could be considered in the Commission's future work. She also claimed that in order to allow for effective harmonisation, consistency of implementation of the Data Protection Directive by Member States could be improved. Subsequently, **Mr. Bradford** brought up the issue of costs of potential harmonisation, such as those for changing IT-systems, which would eventually be passed on to the consumer. **Mr. Muraille** stated that there needed to be a proof of the value-added of harmonisation for the involved parties. Responding to these statements, **Ms. Hauner** assured that a "rigorous cost-benefit analysis" would be conducted by the Commission in order to assess the situation.

The workshop was concluded by **Dr. Nicola Jentzsch**, who thanked the participants for the contributions and stated that further discussions of the topic would be needed in order to answer the open questions.

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