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"A new European landscape towards a unified credit market and the role of the credit bureau"

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It is a great pleasure to be here today and have the opportunity to share with you my thoughts on the importance of the European financial services ecosystem and the steps we need to take in order to strengthen consumer trust.

Firstly, I will briefly outline the importance of credit bureaus in building such a trust by increasing the efficiency of both lending and borrowing as well as by minimizing information asymmetries and moral hazard.

Secondly, I will outline the social responsibility dimension of consumer-focused credit activities in the framework of a well-functioning EU consumer credit market, whereby creditors and intermediaries should act accordingly.

Thirdly, I will touch upon the issues of smart and sound innovation in the credit bureau's industry, whereby a credit bureau should act beyond the traditional boundaries and have the ability to connect new customers to all existing financial services.

Fourthly, I will talk about the necessity of ensuring a level-playing field, for all credit bureau participants by minimizing the monopolistic elements that exist in the credit bureau industry.

Finally, I will argue that a better regulated credit industry will facilitate an efficient and cost effective credit risk assessment, as credit bureaus can evaluate credit risk accurately and consistently through the use of appropriate tools.

A. The importance of credit bureaus in building trust in the financial system

Building trust is equivalent to the fulfillment of expectations by market participants. Credit bureaus have a very important role to play in building trust in the financial system, as they are responsible for managing and providing credit data to consumers, while at the same time simplifying the complexity of credit data usage in consumer financial markets.

The benefits of credit bureaus into building trust in the financial system are the following:

1. They improve the performance of the financial sector and stimulate economic growth by increasing the efficiency of lending and borrowing. Borrowers, having registered a positive past credit history, may seek loans at better and more competitive terms and conditions. Lenders, on the other hand, can utilize the collateral history – stored in centralized collateral registries—to assess borrowers' creditworthiness.
2. They address the problem of moral hazard that is the behavioral unwillingness of a consumer to repay. Credit bureaus support borrower discipline since a failure to repay a creditor may result in penalties imposed by other creditors.
3. They address the problem of information asymmetries, as borrowers and lenders may share the same information regarding risks and pricing. Increased transparency will result in more informed credit decisions, which will ultimately increase the volume of credit.
4. They enable the functioning of a competitive financial system, as loan processing becomes simpler, collateral information is being properly utilized and streamlined and, in the end, lenders are able to offer new products at competitive interest rates due to the availability of information on customers' credit risk profiles.

B. Social responsibility of consumer-focused credit activities

As the core business of credit reporting involves the flow of information through a network of stakeholders, credit reporting activities touch upon sensitive issues, such as the privacy rights of consumers as well as their protection and security.

We should not forget that, due to the many functions and usages of credit data, sharing of credit data from credit bureaus raises issues of social responsibility of the credit industry or private credit bureaus. It necessitates appropriate prudential supervision, and the need for well-functioning institutions, which are to be entrusted with the exercise of such a social function. If credit data are not used within a proper framework, they can result in dysfunctional markets, market abuse, lack of trust and, in some cases, abuse of fundamental rights. All these can reduce the volume of credit.

Therefore it is of utmost importance to set the policy goals correctly both in terms of the institutional or legal form of the organizations managing the data, as well as with regard to the design and use of databases under the provisions of the law.

C. Challenges from smart and sound innovation

In many ways, the Open Source Credit & Big Data Bureaus that have recently emerged, connect new customers to existing financial services at a lower cost. Innovative lenders are reshaping business models, underwriting criteria, and customer experience. Their innovations reflect an understanding of demographic changes, borrower needs, and how to connect to borrowers through new technological channels.

As a result, the transition from business-driven to data-driven decision-making should revolutionize the way the credit bureaus operate. By relying more on Big Data, Neural Networks, Artificial Intelligence and Machine Learning, agencies will have the opportunity to approve loans for consumers in markets whereby access to the banking sector has been limited so far. In this way, a credit history will be created from scratch at a much lower cost compared to the credit history databases that exist today. At the same time, creditors may get access to such databases on a fee basis, allowing them to receive a list of customers that have already been accessed. In order to get the borrower's profile, no physical appearance may be needed nor any documents that usually accompany a loan application. Credit scoring techniques may access data even from the consumer's smartphone and the system will be able to identify potential credit risks with a significant level of accuracy.

As certain confidentiality issues may arise, all appropriate technical and legal safeguards should be employed in order to assure all stakeholders of the confidentiality of the provided information.

D. Competition and level-playing field

The establishment of a level playing field, regarding the competition of financial institutions may demand that they are equipped with similar tools, and no relevant restrictions or barriers exist within the EU Member States. In turn, this means that credit-risk data may require a high degree of standardization.

However, this is far from being the case today, as we are currently facing a fragmented system of national credit data sharing. Apart from operating at a national level, a number of challenges arise for calculating and comparing data coverage figures on customers across countries, as each credit bureau does not necessarily collect information on the same population across countries. The European Credit Research Institute has conducted a survey commissioned by ACCIS[1] which provides a list of credit bureaus operating in European countries and underlies the aforementioned challenges.

1 Source: page 1 - "The European Credit Information Landscape: An analysis of a survey of credit bureaus in Europe" http://aei.pitt.edu/33375/

As a result, competition in the information industry within the EU is almost absent. The market for credit data remains national and hence, commercial credit bureaus do not face competition.

The EU should have been the relevant market for credit data by ensuring a level-playing field for all credit bureau participants. Conditions may improve through the interlinkage of information flows to the various credit bureau stakeholders. More specifically, as information flows between suppliers andand users of information increase, the interlinkage between the national credit bureaus should increase as well, by incorporating more information from customers. In such an interconnected network, all stakeholders would find it more attractive to join. The more sources are connected to the network, the more detailed credit knowledge becomes the more useful it become for risk-management purposes.

E. Regulatory and supervisory initiatives – policy actions

Given the dispersion of sources, the need for the integration of credit markets raises questions on how to measure over-indebtedness and assess household creditworthiness in similar ways. This will improve micro and macro financial surveillance and enable a more comprehensive assessment of financial stability risks. In effect, this calls for a harmonized system of measuring credit data in the EU.

Nevertheless, regulatory and institutional experience vary amongst EU member states, as National Credit Registries do not exist in certain member-states, while various interests in the credit industry have dictated how the data centralization systems would be set up (i.e. credit bureaus, credit reference agencies, public credit registers etc).

The good news is that the European Central Bank has made significant steps for the setting-up of a centralized infrastructure for the collection and sharing of granular credit-risk data within the banking sector on a EU-wide scale, called “Analytical Credit Dataset” (‘AnaCredit’). Anacredit will impose new reporting requirements for lenders and credit bureaus in the Euro Area, which will enable the harmonization of credit data that credit bureaus have in their databases. In this vein, all stakeholders (credit bureaus, lenders, borrowers, consumers) may be obliged to use the same set of indicators and harmonized definitions which, eventually, will allow for a pan-European comparison of the levels of indebtedness levels.

Having said that, our problems will not disappear automatically with an integrated pan-European Database. The relevant supervisory activities should be enhanced in order to ensure that credit bureaus implement best practices in data collection processing and submission. Supervisors should ensure that appropriate procedures are in place so that the rights of customers can be protected, while the protection of security and confidentiality of data should remain high on the agenda.

Best practices indicate that credit reporting systems should benefit from a legal and regulatory framework that is transparent, predictable, proportionate and supportive of consumer rights. The legal and regulatory framework should allow more than one credit bureau license in order to avoid the creation of a monopoly. Credit bureaus should be allowed to operate under an institutional framework that could regulate its specific activities, including the receipt and processing of consumer information, its database updates, as well as the means for compiling information and assessing consumers' creditworthiness. Since the level of information is expected to be harmonized, private credit bureaus that have obtained a license could then compete on the pricing and the quality of their services.

Finally, the most recent financial crisis unveiled a number of data gaps that hindered effective supervision and regulation of the financial system. Credit bureaus, as suppliers of data, can partly bridge the gap, as long as they employ innovative technology and change their business models by exploiting information from alternative data sources, so as to adapt to the new credit usage behavior of customers.

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