

## TOWARDS BETTER USE OF CREDIT REPORTING IN EUROPE

Prospectus of an ECRI/CEPS Task Force

First meeting: June 12<sup>th</sup> 09:30-15:00 (Brussels)

Chair: Prof. Dr. Dieter Steinbauer, former Executive Board Member of SCHUFA

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### INTRODUCTION

ECRI and CEPS propose to set up and run a Task Force on the future challenges and opportunities in the European credit reporting landscape. This Task Force comes at the right time for the industry, with financial and technological innovations changing the space of information and the increasing use of electronic commerce is creating new demand for credit data and its security. More data has the potential for greater efficiency across all sectors, which is why an institutional framework that allows new value creating uses of data while protecting the privacy of consumers and maintaining data security is called for. ECRI and CEPS wish to engage the users, subjects and providers of credit data as well as policy makers, experts and academics to discuss how credit reporting systems in the EU should evolve in order to promote this development.

Credit reporting has to maintain certain security and data protection standards, which is why the data protection regulation is currently under reform process to keep up with the developments of the digital world of big data. However, regulation should not rule out the new opportunities that sharing more relevant data entails. The EU policy makers have long acknowledged the importance of accurate credit data in supporting responsible lending as well as financial inclusion while contributing to prevent over-indebtedness, and in the changing information environment, lenders need more information to assess the creditworthiness of their possible borrowers.

The Task Force aims to provide recommendations as to the actions needed for the credit reporting systems to fulfil their increasingly important role in promoting responsible lending and borrowing as well as efficient and secure distribution of also a wider range of services to consumers. In particular, we will discuss the future of the extent and scope of data to be used and the efficiency and functioning of the data sharing networks.

The Task Force will consist of 3 meetings for structured discussion of the following broad topics:

- (1) Credit data access.
- (2) Credit data reliability and security.
- (3) Reporting networks and level playing field.

Each topic will be analysed from the four following levels: General content of the credit data, consumer concerns, cross-border credit reporting, and regulation. The final report will be discussed in a fourth meeting and presented in a launch event. The following document is a report, subject to the input and feedback of Task Force members.

## WHY A TASK FORCE ON CREDIT REPORTING?

Credit data sharing between creditors is generally considered an essential element of the financial infrastructure that facilitates access to finance for consumers and growth of the economy. Consequently, as the legislation on consumer and mortgage credit is under development, practices promoting responsible lending and financial inclusion as well as measures to prevent consumer over-indebtedness are emphasized, even more so because of the experiences from the financial crisis. The rapidly changing environment and the use of financial services online create requirements for more information, and not just credit, but also payment and money transfer providers are looking for more efficient ways to provide their services responsibly. Extending the collection and the sources of credit information for the purpose of credit worthiness assessments, as well as for the benefit of more efficient other services, are therefore issues currently under debate.

However, the extent and sharing of data differs between countries due to differences in legal frameworks and national infrastructures, complicating the question of the overall level of data that is relevant and required. Sharing more data generates more protection and privacy issues, which is why a balance between its costs and benefits should be found to determine the level of required relevant data. This is why the reform of data protection regulation is intended to provide a solid ground for functioning digital markets and protection for consumers. However, its implications for the development of credit reporting together with the rapidly changing information environment should be carefully assessed. Another issue relevant from the consumer's perspective is that the complexities of different data and their usage in credit reporting may seem opaque to the consumers, translating potentially to mistrust among consumers towards the credit system. Therefore, in addition to efficient sharing of accurate data, also transparency and understandability of credit reporting is a key area of development.

In addition to the extent of relevant data used, the well functioning interaction between different credit information providers, credit information users, and credit data subjects should be guaranteed. For the lenders to be able to provide borrowers with credit at fair prices, the credit data networks need to operate on a level playing field. In addition, cross-border information flows are becoming more important in today's increasingly globalised financial markets, where cross-border data transfers can become a useful instrument to monitor the credit exposures of important borrowers outside a creditor's home markets.

The Task Force will approach the above mentioned points to assess the next steps in the rapidly changing world of more information. In particular, the Task Force aims to draw recommendations as to how should the credit reporting environment and the policy framework evolve in order to deal with the challenges as well as benefit from the opportunities that new innovations in the data environment generate. Table 1 outlines the main questions guiding the Task Force.

The Task Force is open to all those who play a role in the credit reporting industry and who wish to make a contribution to the debate on the future on the industry:

- ✓ Credit bureaus
- ✓ Credit providers
- ✓ Banking associations
- ✓ Consumer organisations
- ✓ Regulators and supervisors
- ✓ Other financial service providers
- ✓ Non-financial service providers
- ✓ Academics and industry experts

## OBJECTIVES

The Task Force will bring together both users and providers of credit information, policy makers, consumer organisations and academics to assess the current stage of European credit information landscape, and what could be done to make it more efficient and converged to promote the Single Market. Credit information markets in the EU are highly fragmented in terms of the extent of data shared in networks. Therefore, the Task Force aims to:

- Provide an overview of the extent of data used and shared in credit reporting in the Member States and identify some of the main points of weaknesses;
- Discuss the options and possibilities for making use of more data and alternative non-financial services data;
- Assess how credit reporting networks could be expanded for the benefit of more efficient retail financial services market;
- Approach the three main topics from four levels:
  - General content of the credit data;
  - Consumer concerns;
  - Cross-border credit reporting; and
  - Governance and regulation.
- Provide the participants with an opportunity for an open discussion to:
  - Exchange their views regarding the next steps to be taken in making the credit reporting systems more efficient;
  - Discuss the current regulatory framework and express their concerns in it;
  - Assess different potential regulatory changes and their potential impacts.
- Provide overview of different scenarios that should be taken into consideration when making recommendations for policy making.



ECRI and CEPS will oversee the drafting of the final report and recommendations in order to keep the research independent and in line with principles and proposals approved by the Task Force members. In effect, the report carried out by the rapporteur should be generally supported by all members, even though not all will necessarily agree on all the detailed issues.

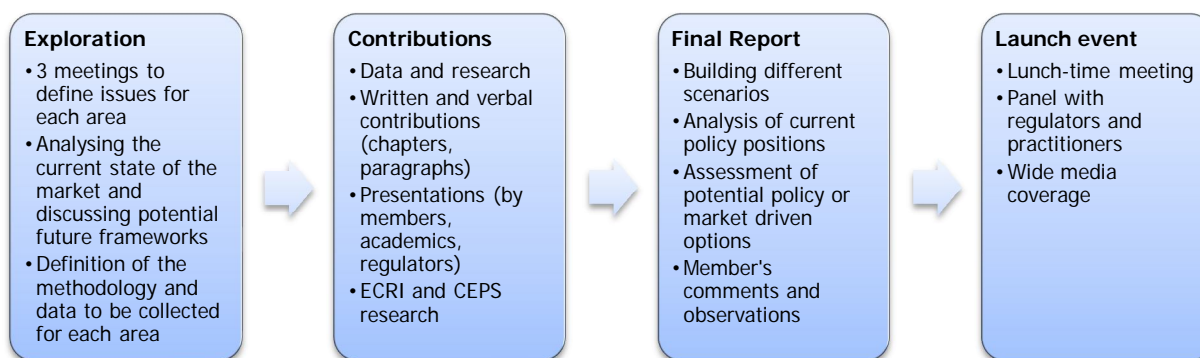
**TABLE 1. CONTENT OF THE MEETINGS**

	Meeting 1: Data access June	Meeting 2 Reliability and security	Meeting 3 Networks and level playing field
<b>Data</b>	<ul style="list-style-type: none"> <li>▪ What is the level of relevant credit data?</li> <li>▪ Can credit data adequately reflect individual situations?</li> <li>▪ What kind of data could be used to improve credit information and its usage?                             <ul style="list-style-type: none"> <li>- Sharing among different economic segments?</li> <li>- Data from social networks.</li> </ul> </li> <li>• Can use of more data help in dealing with households' over-indebtedness?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Finding the balance between 'relevant, adequate, and non-excessive' nature of the data processed in relation to the 'determined, explicit and legitimate' purpose for which is it collected.</li> <li>▪ Inconsistency in definitions used by various data providers, e.g. for delinquency.</li> <li>▪ Data quality controls (audits etc.).</li> <li>▪ The impact of the financial crisis.</li> <li>▪ The use of irrelevant data.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Discriminatory data access                             <ul style="list-style-type: none"> <li>- Credit register membership criteria.</li> <li>- When applicable, do discriminatory volume-based transaction fees or high fixed transaction fees discourage membership or use of data.</li> </ul> </li> <li>• Special need for credit data by specialized credit providers.</li> <li>• How could non-financial service providers benefit from sharing payment information?</li> </ul>
<b>Consumer concerns</b>	<ul style="list-style-type: none"> <li>▪ Should consumers have the facility to have a narrative put onto their credit report explaining an item of data?</li> <li>▪ How could sharing more comprehensive data contribute to preventing financial exclusion?</li> <li>▪ Is it clear for consumers whether their information is transferred to third parties?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Transparency: consumer should be aware of the purpose of data and how information affects her personal data.</li> <li>▪ Risk of identity theft.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Does data sharing between industries lead to exclusion from non-financial services?</li> <li>▪ Should authorities promote those credit reporting systems that are the most effective and supportive of consumer rights?</li> </ul>
<b>Cross-border credit reporting</b>	<ul style="list-style-type: none"> <li>▪ The differences in national regulation                             <ul style="list-style-type: none"> <li>- Consent of the borrower: should law precisely allow cross-border data sharing?</li> </ul> </li> <li>• Authorised purposes of data usage differs.</li> <li>• Differences in definitions and scope.</li> <li>▪ Practical solutions to help consumers and creditors understand foreign credit reports?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Should data quality monitoring by DPAs be harmonised?</li> <li>▪ How can consumers be provided the possibility to check the content of their data and initiate changes if needed at a cross-border level?</li> <li>▪ Cross-border sharing of positive data: how to deal with different data content levels?</li> </ul>	<ul style="list-style-type: none"> <li>▪ How to improve the cross-border network of credit registers?</li> <li>▪ In some countries non-banks are not allowed an access to all the information as banks. What kind of competitive implications does this have?</li> <li>▪ Through Consumer Credit Directive, should cross-border access be limited to creditors?</li> </ul>
<b>Governance and regulation</b>	<ul style="list-style-type: none"> <li>▪ Banking secrecy rules</li> <li>▪ What are the opportunities for more comprehensive credit reporting (distribution of information and its collection not segmented to a limited number of sources)?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Is the regulatory framework precise and predictable?</li> <li>▪ What would be an effective oversight structure?                             <ul style="list-style-type: none"> <li>- Clearly defined principles?</li> </ul> </li> <li>▪ Small markets might only be efficient through the creation of a single mechanism serving more than one market.</li> </ul>	<ul style="list-style-type: none"> <li>▪ In some countries, non-banks are not subject to banking secrecy regulations.</li> <li>▪ Should the access requirements be harmonised by allowing the access to data by non-banks in all countries?</li> <li>▪ What kind of governance arrangements would ensure that fair competition is not compromised because of ownership structures?</li> </ul>

## WORK PLAN

Meeting	Provisional agenda
<b>Meeting 1</b> <b>June 12<sup>th</sup> 2012</b> <i>11.00 - 17.00</i>	Opening remarks The uses of credit information: what is the future? (Lunch) What kind of data sharing is missing now? Cross-border issues in credit reporting
<b>Meeting 2</b> <b>September 2012</b> 10.30 - 16.30	Opening remarks What level of data shared is relevant? Transparency and understandability of credit reporting (Lunch) Legislative framework to find the balance Solutions to ensure reliability and security of credit reporting
<b>Meeting 3</b> <b>November 2012</b> 10.30 - 16.30	Opening remarks Equal access to credit data among lenders (Lunch) Expanding data sharing networks The room for governance and legislative changes
<b>Meeting 4</b> <b>January 2013</b> <b>(if needed)</b>	Opening remarks Discussion of the final report Approval of the final report Closing
<b>Launch</b> <b>March 2013</b> (Lunchtime event)	Opening remarks Presentation of the report Questions and answers Media interviews
<p>*Dates can be subject to change, prior approval of Task Force Members. Final content of the meetings may be altered to take account of developments or input provided by members.</p>	

## METHODOLOGY



The Task Force will proceed in three phases.

### 1. Exploration

- Presentations by members, experts, academics and policy makers to provide the ground for further discussions.
- Discussion among members about their views and concerns, which are further collected to draft meeting reports.
- Definition of methodology and data to be collected.

### 2. Contributions

- Written and verbal contributions, presentations, data and research
- Drafting the final report in the further cooperation with the members. Fourth meeting for round-up discussion and approval of the final report.

### 3. Final report

- Compilation of research evidence and members' comments and observations.
  - i. Comprehensive overview of the current situation in the credit reporting landscape;
  - ii. Discussion of the set of different legislations currently or possibly affecting credit reporting;
- The points potentially identified in the Task Force as calling for improvement.
  - i. Discussing the possible policy and market-led options.
  - ii. Identification of issues to be taken into consideration when making recommendations for market participants and policy makers.

Members will find all materials presented and discussed during the Task Force meetings freely available for download from the CEPS website. Only the Task Force members will be able to access this material.

## ORGANIZING TEAM

The Task Force will be chaired by Professor Dr. Dieter Steinbauer, a former member of the Executive Board of SCHUFA. He will bring his extensive expertise in credit reporting systems to the structure the profile of the Task Force. The rapporteur of the Task Force will be Dr. Elina Pyykkö, researcher at ECRI. She will be in charge of preparing the meetings, reporting of them and drafting the final report.

CEPS and ECRI have a multidisciplinary approach to their research as they represent a team of experts in the fields relevant to this Task Force (functioning and regulation of retail financial markets, EU policy, economy). The experts of CEPS and ECRI are scholars and market practitioners who have significantly influenced the debate in European regulation over the past years. In addition, ECRI and CEPS have also shown a remarkable ability to respond to requests and calls for studies and reports both by the EU institutions and different stakeholders. ECRI and CEPS have a long-standing experience in studies requiring geographical reach, covering the EU27 and beyond, as they are run by a very international team of researchers from almost all EU Member States. ECRI and CEPS also coordinate a large number of networks specialised in policy analysis, which can support the Task Force work and the drafting process.

## COSTS

The participation to the Task Force is subject to a discounted fee for CEPS and ECRI members, and to a full fee for non members. Discounted fees will be considered for non-members if they decide to become member of CEPS and/or ECRI.

The fee covers

- ECRI and CEPS research
- Organisational costs of all meetings
- Launch event
- Documentation
- Lunches
- Printing and editing costs of the final report (3 printed copies for each Member).

Members' travel and accommodation costs are not included. Upon request, ECRI and CEPS will mail additional copies of the final report to Members, at their expenses

Fee structure	
<b>CEPS Corporate Members</b>	€1,000 (+21 VAT)
<b>ECRI Members</b>	€1,000 (+21 VAT)
<b>Non-Members</b>	€4,000 (+21 VAT)

To join the Task Force Group, please fill out the reply form at the end of this document and send it back to the address indicated on the form.

For more information and questions about the Task Force, please contact:

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**REGISTRATION FORM**  
Towards Better Use of Credit Reporting in Europe



**Person attending the meetings**

Salutation: \_\_\_\_\_ First name: \_\_\_\_\_ Last name: \_\_\_\_\_

Job title: \_\_\_\_\_

E-mail: \_\_\_\_\_ Telephone: \_\_\_\_\_

**Company**

Company name: \_\_\_\_\_

Postal address: \_\_\_\_\_

Postcode	City	Country
_____	_____	_____

Contact Person: \_\_\_\_\_

E-mail: \_\_\_\_\_ Telephone: \_\_\_\_\_

**Billing information**

Tax register number (VAT for Europe): \_\_\_\_\_

Your reference, Customer Purchase Order No. or Cost Code N: \_\_\_\_\_

Department: \_\_\_\_\_

Postal address: \_\_\_\_\_

Postcode	City	Country
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Contact person: \_\_\_\_\_

Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_

E-mail: \_\_\_\_\_ Other: \_\_\_\_\_

**CEPS and ECRI members - please state your fee (+21% VAT)**

CEPS Corporate Member | EUR 1,000

ECRI Member | EUR 1,000

**Non-members - please state your fee (+21% VAT)**

Full Fee | EUR 4,000       Interested in becoming a member of CEPS and/or ECRI

**Date:** \_\_\_\_\_ **Signature:** \_\_\_\_\_

**Return to:** Isabelle TENAERTS at [isabelle.tenaerts@ceps.eu](mailto:isabelle.tenaerts@ceps.eu) | Tel: +32 2 229 39 56  
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**More information:**

If you would like to become a member or need more information, please contact **Elina Pyykkö**, Researcher at [elina.pyykk@ceps.eu](mailto:elina.pyykk@ceps.eu) +32 2 229 3973 or **Staffan Jerneck**, Director Corporate Relations at [staffan.jerneck@ceps.eu](mailto:staffan.jerneck@ceps.eu), +32-2-229 3910 (direct line) or +32 475 903 924 (mobile phone).

Discounted fees for this Task Force will be considered for non-members if they decide to become member of ECRI and/or CEPS.

Learn more at [www.ceps.eu](http://www.ceps.eu) and [www.ecri.eu](http://www.ecri.eu)