26.06.2020

Report: Data Sharing in Credit Markets: Does comprehensiveness matter?

Introduction

As background information to the public consultation on an European Data Strategy and for reference, ACCIS would like to bring the European Commission’s attention to an **independent** study prepared by the European Credit Research Institute (ECRI) and the University of Edinburgh on the relationship between the comprehensiveness of a credit reporting system and the fulfilment of the role of credit reporting.

The report can be found here: <http://www.ecri.eu/sites/default/files/accis_ecri-ceps-ue_data_sharing_in_credit_markets-web_0.pdf>

It has also been attached with our response to the consultation survey.

The initial **hypothesis** to test was that (i) the more comprehensive a credit reporting the better the interest of consumers and lenders could be safeguarded; and that (ii) non-traditional data sources can complement creditworthiness assessment for all types of borrowers and, in particular, for borrowers with “thin credit files” .

Key findings

The report demonstrates that expanding the collection of data for seven additional items by credit reference agencies (e.g. number of missed payments in utility bills, the outstanding amount in credit lines on current accounts, etc.) in the EU would:

* lead to an increase of the consumer credit to GDP ratio in the EU, from 7.8% to 8.1% (an increase of 0.26 percentage points). So, **more comprehensive credit data boosts the access of consumers to credit**
* grow the inclusion of poorer consumers on average from 32.2% to 33.7% (an increase of 1.53 percentage points) or over 2,5 million vulnerable consumers. The average inclusion of richer consumers would rise from 43.2% to 44.5% (growth of 1.26 percentage points). So, m**ore comprehensive credit data facilitates access to credit, especially for vulnerable consumers**
* lead to an increase in the consumer credit to deposit ratio of 0.93 percentage points i.e. from 16.2 to 17.2 percent. If CRAs collect more comprehensive data, banks channel more savings into consumer credit rather than into other financial activities. So, m**ore comprehensive credit data encourages banks to channel more savings to consumer credit**
* decreases 0.77 percentage points the future non-performing loan ratio (for example from 8.2% to 7.45 %). So, m**ore comprehensive credit data decreases the risk of missed repayments**

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Other key findings of the report are:

* Stakeholders in credit markets perceive non-traditional credit data as data that increases the predictive accuracy of credit risk models, increases financial inclusion, and offers a holistic view of a customer.
* The use of non-traditional data should be complementary to traditional types, since the latter is still more powerful.
* Stakeholders in credit markets perceive structured non-traditional data (e.g. data on payments, transactional data) as the most useful type of data for affordability assessments and the most socially/legally acceptable.

Policy recommendations

The report lists the following policy recommendations, all of them very relevant in the context of the EU future Digital Finance Strategy.

1. To boost financial inclusion, policy-makers should facilitate the availability of more comprehensive credit data, notably structured non-loan data.
2. More attention should be paid to the extent of credit data sharing in the analysis of borrowers’ solvency and the accessibility of credit.
3. Policy changes should be introduced to enable wider data sharing in credit markets, particularly those markets with a high degree of concentration and relatively low barriers to entry.
4. Legislation should not promote information that is only “up to date and accurate”, as mandated by data protection legislation, but also “comprehensive”.
5. If unstructured, non-traditional information, such as social media data, is to be used as an input to determine creditworthiness, it should be done within a clearer ethical framework and with a better understanding of societal preferences.
6. Further research should investigate the impact of non-loan data for specific segments of the population.