ECRI NEWS
Understanding Credit Markets for Europe
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# Data sharing in credit markets: does comprehensiveness matter?

## Executive Summary

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*The sharing of data between lenders is commonly acknowledged as one of the core ingredients of successful credit markets. This contribution investigates how enhanced data-sharing may affect financial inclusion, intermediation and stability. Particular attention is paid to the potential use of non-traditional data in creditworthiness assessments and, hence, lending decisions. Evidence indicates that more comprehensive and deep data sharing tends to be correlated with more inclusive, efficient and stable credit markets. Specifically, structured granular non-loan data seem to play a major role.*

The report encompasses both quantitative and qualitative analyses.

### QUANTITATIVE ANALYSIS AND FINDINGS

In order to perform the quantitative investigation, panel econometric techniques were used to shed light on the relation between sharing of borrowers' data among lenders and financial inclusion, intermediation and risk.

The study highlights a clear and systematic correlation of data sharing and increased access to credit, of which the poorer borrowers seem to benefit the most. Besides, more variegated comprehensive information diffusion allows financial intermediaries to increase credit extension over deposits, eventually enhancing credit market efficiency. Finally, in line with the findings mentioned above, the econometric analysis shows how data sharing tends to foster stability, specifically by reducing the outstanding amount of NPLs in the banking sector. **Overall, there is evident indication that banks are lending below potential because of information asymmetries that could be easily reduced via enhanced data sharing**. There is an unused lending capacity that could be unleashed benefitting lenders, the current pool of borrowers and a share of the currently unbanked, all without undermining underlying credit market stability. That said, given the rather limited sample size, all inferences must be interpreted with caution.

An additional econometric analysis indicates that alongside high entry barriers to credit markets, legislation to promote data sharing is a key driver. Policymakers should therefore pay particular attention to those factors when legislating on financial inclusion, intermediation and risk.

The empirical evidence broadly confirms existing literature. **The value added of the present research report relies on the comprehensiveness and granularity of the data used**. The dataset, provided by ACCIS, in fact, embeds detailed information on both loan and non-loan data (e.g. information related to utilities, insurance, house rent, etc.) held by credit reporting agencies (CRA) in European countries, crucially indicating the providers of those data to CRAs, and reaches a high degree of granularity within the distinction of positive and negative data. Moreover, the complementary consistency of findings provides a holistic shade to the analysis, which adds to the specific empirical outcomes.

## QUALITATIVE ANALYSIS AND FINDINGS

Aiming at corroborating and expanding the empirical evidence described above, a qualitative approach was adopted in order to try to gauge recent developments in non-traditional data usage. Such data go beyond the traditional credit history and may include structured types (e.g. payments and banking transactions) and unstructured data (e.g. mobile phone use, web browsing and psychometrics). A series of interviews conducted with relevant stakeholders suggests that **the main benefits of non-traditional data are seen in increasing the predictive accuracy of credit risk models**. It is key to stress that the use of non-traditional data should be complementary to traditional types, since the latter are still more powerful. However, in cases where traditional data is limited or not available, non-traditional data may be used on its own. Finally, among non-traditional data, structured data is perceived as the most useful, whereas unstructured data attracts mixed opinions with some stakeholders seeing its potential value, whilst others are completely opposed towards its use.

When dealing with the use of non-traditional data for granting credit, policymakers should provide specific legal guidance, in particular concerning GDPR. Consistent regulations with equal requirements for all types of lenders and data holders should be encouraged. Moreover, an ethical framework and a better understanding of social preferences for the use of non-traditional data should be a priority.

## MORE INFORMATION

This report was presented in an event that took place in Brussels on 11 September 2019 at CEPS offices. The speakers included:

- **Karel Lannoo**, CEO of CEPS and General Manager of ECRI,
- **Enrique Velázquez**, Director General ACCIS
- **Sylvain Bouyon**, Associate Research Fellow, CEPS
- **Paulo Silva**, Legal Officer, DG FISMA, European Commission
- **Farid Aliyev**, Senior Financial Services Officer, BEUC
- **Enrico Lodi**, Managing Director, CRIF
- **Fiona Caboni**, Head of SME-Retail Credit Risk, Santander Bank

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