ECRI NEWS
Understanding Credit Markets for Europe

WRAP-UP OF A PRODUCTIVE YEAR AT ECRI: FINTECH, CONSUMER PROTECTION, CYBERSECURITY, MACROECONOMICS AND FINANCIAL INCLUSION

By Sylvain Bouyon
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Consistent with its commitment to independence and objectivity, ECRI is maintaining a strong voice on key policies affecting retail finance. In particular, it is developing broad networks and expertise on financial technology and the digital transformation of consumer finance and macroeconomics. As such, through its Task Forces, research projects and events, ECRI is playing a growing role in providing the European institutions with relevant findings and insights in relation to various EU policy agendas for retail finance, notably PSD2, CCD, MCD, GDPR, PAD and eIDAS.

After successfully completing one Task Force on the Digital Transformation of Consumer Finance in February, another was launched in September on "Cybersecurity in Finance: Getting the policy mix right!" Drawing on its on-going in-depth research, ECRI will soon publish a paper aimed at informing the debate on a possible new CCD (as announced by the Commission), as well as a study on the difficulty retail banks are experiencing in managing their costs during the digital transformation. In 2018, further studies will also be carried out in the context of PSD2.

In addition, ECRI continues to organise influential conferences that help shape the debate on the policymaking processes for consumer finance. Two were particularly success in the past year, the first organised on January 31 st to debate the best policy tools for enhancing financial innovation and a second one on May 30 th to explore big data, payment systems and blockchain. ECRI has also collaborated in organising various other events with European associations to discuss major items currently on the agenda of the EU policymakers.

On October 17 th , it co-organised a well-attended conference with BEUC and EFIN on "Fintech and big data: A solution to financial exclusion?". The purpose of the present Newsletter is to provide a recap of the main insights and analyses produced at this event. The leaders of well-known consumer associations, practitioners of successful Fintech start-ups and a renowned academic, all of whom contributed to the conference, offer their reflections on the main issues, risks and opportunities in relation to big data, Fintech and financial inclusion.

Special articles: "FinTech and Big Data" - A conference held on 17 October '17

IN THIS NEWSLETTER

FINTECH AND BIG DATA: A SOLUTION TO FINANCIAL EXCLUSION?

By Olivier Jérusalmy
Director, EFIN

Taking the various headings of the ECRI conference sessions one by one, this contribution asks what can be concluded in relation to the specific issue of financial exclusion?

1. Insurance

Some types of discrimination between groups in society are presently forbidden to providers of insurance products, for example discrimination based on gender or race. Others are allowed, for example discrimination in the calculation of car insurance premiums based on age – young/old. For health insurance, discrimination based on risky behaviour – smoking – is allowed, but equally, there is no regulatory barrier to discrimination based on genetic inheritance, or chronic health conditions. FinTech and Big Data raise the possibility that new algorithms for calculating insurance risk will be introduced. In particular, these algorithms could be based at least partially on measured behaviour, either indirectly through data captured from other sources such as social media, or directly using data captured from a direct, real-time monitoring of behaviour, for example from a black box installed in a vehicle. Of course, for vehicle insurance, there is already a bonus/malus system in widespread use, whereby a track record of claims determines ex-post conditions of access to insurance. With real time monitoring of behaviour, conditions of access to insurance could, theoretically, be determined by the reality of behaviour on a continuous rather than ex-post basis. Such a development could be favourable, for example, for a young driver who drives prudently and well. Pay-as- you-go premiums in other words. Similar developments might be imagined for health insurance – based for example on the monitoring of lifestyles, risky or prudent. Would consumers be ready to accept direct or indirect monitoring of their behaviour in exchange for better conditions from insurance providers? Would they be taking such decisions in full knowledge and understanding of the implications? How could they make price comparisons with offers made to other consumers? Would insurance providers be able to manage the complexity of such a detailed segmentation of insurance markets? Would the erosion of the pooling of risks this implies undermine their business model since even the most sophisticated of profiling and monitoring tools can and will give false results in individual cases? Would the development of such algorithms risk creating new kinds of unacceptable financial exclusion since algorithms may reflect the ubconscious prejudices of their creators or sponsors and not only objective realities. Should regulators be tasked with checking and approving such algorithms – with what staff and with what expertise? And against what standards – what types of discrimination are acceptable, and which are not? So many questions, so few answers. But the good news perhaps, is that rapid change in the market for insurance products is thought unlikely. The impact of FinTech is likely to be mostly on the trading of risks within the financial sector, rather than on the interface between the insurance provider and the consumer. Moreover, cross-border marketing, and hence international competition for the provision of insurance products, is held back by the very different cost structures and legal systems in different countries. One clear positive development might be the introduction of artificial intelligence (AI) systems for giving advice to consumers on offers available in the market and their suitability for each consumer's specific requirements. Potentially, if well designed and genuinely independent of commercial interests, these could be more efficient and trustworthy than human beings. But again, should there be some regulatory system for verifying this is genuinely the case, and who would do such a job? Last but not least, what does all this imply for the future role of government as the insurance provider of last resort, or even first resort – for health risks and for some life events such as divorce, unemployment? Private insurance providers can only be expected to offer coverage for certain categories and types of risk. After all, some types of risk coverage almost inevitably increase the hazard of the risk occurring, and that is an issue that can only be settled by moral and social choices in society.

2. Payment services, transactions and transfers

Access to payment services, and transaction and transfer services, is a fundamental need for all citizens in a 'low-cash' environment. While a completely cash-free society seems unlikely and undesirable, access to electronic services is already a basic requirement to lead a normal life, or even access to social security benefits. From this perspective, the right to a basic banking account and related services, as will be established under PSD 2, is an important reform, whose practical application in every member state of the European Union needs to be closely monitored. FinTech offers the prospect of further progress in two respects. First the rapid spread of low-cost electronic payment and related banking services is of clear potential benefit to consumers. Secondly, FinTech is opening up the possibility of greater competition for transfers and remittances to third countries, of particular benefit to migrants for example, who currently pay high fees in many cases. The regulator could do more to facilitate these developments, in particular by acting to prevent oligopolistic practices from obstructing new market entrants, or which prevent cross-border access to new providers in the jurisdiction of another country. The impact of FinTech is both immediate and profound on the

traditional providers of banking services. The accelerating closure of bank agencies and the likely decline in the number of ATMs impact especially those living in rural areas and deprived communities. This creates new forms of exclusion for the populations concerned, and in general, for those who are not digitally literate, or have special needs (poor eye-sight, for example), or who prefer not to use electronic services for whatever reason. Is this a matter on which the regulator should intervene, so as to preserve a universal service that is accessible to all groups in society? Traditionally, post office banking has had a social role as well as a commercial role, but privatisation tends to privilege the latter.

3. Credit

Of course, credit should not be treated as a permanent top-up to an insufficient income so as to enable a normal life. It should be a temporary measure to smooth out over time affordable purchases, or to meet temporary and unforeseen circumstances. In an ideal world, individuals and households would be in a position to accumulate savings equivalent to at least three months income, so as to be able to minimise the need for recourse to credit except for major purchases such as housing and possibly, a new car. FinTech combined with big data offers the possibility of better algorithms for assessing the credit-worthiness of solvent households, based once again on the reality of behaviour rather than on categories of clients. For example, recent records of financial behaviour, such as bank statements during the previous three months, are said to be rather reliable measures of creditworthiness. This could be helpful for those who do not have an established credit history for whatever reason, or who find themselves in a generalized "at risk" category despite their individual behaviour. It could also be helpful to all concerned if 'apps' were made available to consumers that allowed them to assess for themselves their capacity to borrow, and to better understand what determines their creditworthiness and adapt their behaviour accordingly. However, FinTech and Big Data also bring with them the risk that unscrupulous lenders could more effectively target vulnerable consumers, and thereby expand still more the market for high-cost, or worse, toxic forms of lending. Given that regulators have been, in many countries, unwilling to act vigorously to suppress usury, this risk must be considered serious. Universally, the poor and vulnerable pay more for credit than those who are less in need of it. Should government in partnership with alternative providers do more, if the business case for providing fair and affordable loans to this market is not demonstrated? Another concern is the widening scope of data on lifestyles collected by credit rating agencies. Are these agencies collecting only data demonstrably relevant to assessing creditworthiness, or are they increasingly engaged in comprehensive data mining for other purposes, such as marketing ideas and products in general? There are many calls for more transparency about their activities, for a right to challenge their assessments of credit ratings without risking penalties, for a right to live off-line without being penalised when seeking credit. And of course, for better guarantees that data are kept safe. This is not so much an issue of FinTech as such, as a question of who collects and who owns big data, and for what purposes, and with whose consent from those concerned. Across member states, the types of data collected and the criteria used to establish credit ratings are quite different. There is no established orthodoxy as to the type of data that is relevant to collect. It would be attractive if, at European level, a process could be started to build a consensus around what is genuinely needed and what is not, and on that basis, to regulate the types of data that credit rating agencies are licensed to collect. A fundamental principle should always be to only collect what is strictly needed for the declared purpose. The issue becomes even more important as the 'internet of things' develops, and a new source of data about personal lifestyles becomes available. What do you have in your fridge – does this suggest a healthy lifestyle? Finally, in the modern world, there is a proliferation of new credit providers, including in particular, retailers. Access to credit is used as a means of capturing consumers. The business model is not to provide a service to a consumer, but rather as a tool for companies to segment markets and control consumer loyalties. Insufficiently regulated, competitive pressures amongst retailers can lead to unsustainable credit offers and a new generation of over-indebted households.

Conclusions

Not surprisingly, there are more questions than answers. Perhaps it is more important at this stage to be asking the right questions and collecting the right data to assess the reality of the problem. It is arguably premature to be looking at this stage for the right solutions, except in those cases where the issues are the most evident and urgent.

Another way to analyse the question is to look at the impact of FinTech and Big Data on specific groups:

- People who are not earning enough income to live a normal life in the society to which they belong. The solution has to be access to an adequate income, not dependency on credit as a substitute.
- People who are just about managing but have no savings (such as young families). The best solution is to help households achieve a modest saving potential to reduce their need to call on credit, as well as ensuring access to affordable credit when needed. Is FinTech commercially motivated to play a role?
- People in unstable employment. Can Fintech and Big Data better take into account their prospects over time and provide temporary solutions in a more attractive form, for example within mortgage or pension schemes?
- People with special needs. Cross-border marketing might help by creating larger groups of clients and hence a stronger business case for providing tailor-made solutions, including the design of universal services.
- Workers who are mobile across borders and migrants. FinTech can help by increasing competition and thereby reduce the costs of remittances, and by facilitating access to financial services including credit where there is no established credit history in the country concerned.
- Finally, people without a data profile. What does the future hold for them?

BENEFITS AND POTENTIAL RISKS OF INCREASED DIGITALISATION OF FINANCIAL SERVICES FOR VULNERABLE CONSUMERS

By Anne-Sophie Parent,
Secretary General, Age Platform

The rapid digitalisation of financial services is welcome by many as an opportunity to offer more diverse and innovative products, to reduce costs for the provider and to improve speed and user-friendliness for the consumer. Yet this trend is starting to raise serious concerns about the potential risks of financial exclusion of vulnerable consumer groups, and some now wonder if the current consumer protection legislation is still adequate. As highlighted recently by an informal group on broader accessibility issues formed by the Euro Retail Payment Board (ERPB)[1], this concern, in particular, relates to older persons and persons with disabilities, but also others such as consumers with low digital and financial literacy. Together these groups represent a significant part of European consumers, and their numbers are expected to grow rapidly over the next decades as a result of Europe's demographic ageing. Barriers faced by these groups range from technical, to social and consumer protection issues. As explained by the PayAble campaign,[2] technical barriers identified so far concern mainly the lack of accessibility of both the hard and software of IT devices supporting digitalised financial services. This is why older persons and persons with disabilities welcome the European Parliament's decision to include points of sale (POS) in the scope of the European Accessibility Act (EAA) proposed by the European Commission. The lack of harmonisation of keypads, screen layout and transaction processes within and between EU countries is another issue reported as creating barriers for these groups of consumers, both within countries and in a cross-border context.

Social barriers include the relatively high price of mobile phones and PCs and of internet subscription fees, which can be prohibitive for persons with a low income and may result in excluding these consumers if no alternative option is available for the consumer to access the desired good or service. This is the case, for example, with parking fees that can only be paid through a mobile phone or train tickets that can only be purchased online via a mobile phone or computer. Because mobile phones play an increasingly important role in financial transactions, financial inclusion policies should ensure that alternative solutions remain available to guarantee consumers' choice and to avoid excessive reliance on a single payment system that excludes some users and may be vulnerable from time to time to technical problems, such as a flat battery or mobile network failure.

Finally, safety issues cover the difficulties faced by some to remember their PIN, particularly if they use several cards/IT devices, the potential risks linked to contactless cards when the function is activated by default and difficult to de-activate, the potential misuse of big data collected through digitalised financial services, etc. These issues have been identified as the most problematic by the public authorities in several EU countries, with solutions being explored notably in Ireland, France and the Netherlands. In the latter country, a special project has recently been launched by the Ministry of Social Affairs targeted at preventing financial abuse of older people.

Although these initiatives are welcome, they apply only to their own national contexts. Yet the EU Treaties enshrine the fundamental freedoms of movement for citizens, goods and services across the EU. In the context of the debate on the EAA, key principles and outcome objectives to ensure accessibility of ATMs, banking services and POS should thus be agreed at EU level and promoted across member states to prevent a fragmented approach, ensure adequate protection for all consumers and support the freedom of movement for all consumers across the EU regardless of age, impairments or social profile.

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1 Established by the European Central Bank in December 2013, the Euro Retail Payments Board replaces the SEPA (Single Euro Payments Area) Council and seeks to foster the development of an integrated, innovative and competitive market for retail payments in euro in the European Union.
2 See more at http://pay-able.eu/

LACK OF TRANSPARENCY IS BIGGEST DRIVER OF COST

By Flora Coleman
Head of Government Relations, TransferWise

The European Commission is looking into ways to drive down the cost of cross-border payments within the whole of the EU. This is absolutely vital, particularly for those on lower incomes or with lower financial literacy who are hard hit by high prices. However, some of the proposed measures could have the opposite effect because they make it difficult for new firms to disrupt the market. At TransferWise, we've done the same thought exercise and concluded that the one thing that will drive down the cost of cross-border payments in the EU is total transparency.

Complexity of intervention

The cost of cross-border non-euro payments and non-EU remittances has decreased, and this is a result of increased competition and transparency. Whilst pricing intervention might bring in short-term cost reductions, in the long-term pricing policies will have a negative effect on competition, which will lead to less-market incentive to decrease prices and a disproportionate benefit to larger providers. There is a base cost of currency conversion, which, despite innovative efforts to reduce costs by avoiding expensive correspondent banking and increased use of technology, cannot be avoided. These costs will need to be recouped for the provision of the service from the consumer, and we would prefer providers to be as honest as possible by charging

directly rather than cross-subsidisation of that cost by increasing the charge for other services. Therefore, the only efficient and non-distortive method of regulating pricing would be to implement a pricing cap that takes into account the base cost to the PSP (i.e. cost to provider + a revenue %). However, this would either be imperfect by being too general or extremely complex by attempting to understand the base costs of all providers. Moreover, oversight and enforcement of such a scheme would require high costs to Government which would outweigh the benefits. Without sophisticated oversight of the costs to providers, implementing such a scheme could be hugely disruptive to competition between current businesses and reduce the likelihood of new players entering the market and succeeding as TransferWise has done so.

Increase in transparency benefits consumers

We have seen that the most effective method of driving down cost is to ensure that consumers know what it costs them to send and receive money abroad. If consumers are able to work out the total cost of a transaction (i.e. any sending fees, charges in the exchange rate, and correspondent and intermediary fees) as one simple figure they can meaningfully compare and choose between providers. Currently, 86% of European consumers are unable to identify the total cost of a foreign currency transaction, causing needless confusion. At TransferWise we charge a fixed % mark-up on top of the interbank exchange rate which we then display transparently as a total cost. Other PSPs normally disclose a fee and then conceal the % mark-up by disclosing their own reference rate, which is much more complicated for consumers to understand than a simple total cost amount. However, all PSPs could show or at the very least estimate the total cost of their service at any time. Displaying the price is technically possible as we have shown at TransferWise, where we also display the total cost of many of our leading competitors in Europe. With PSD2 this should become even more straightforward.

Consumers can only make the best choice for them if they know what the service costs. This lack of honesty in cross-border payments has fooled consumers in Europe for too long. It's time to enhance the regulations to legislate for proper transparency.

FINANCIAL INCLUSION AND HOW BIG DATA AND FINTECH CAN ADDRESS THE PROBLEM IN THE AREA OF PERSONAL CREDIT

By Federico Ferretti
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What are the opportunities and the risks? Who should take action to strike the delicate balance between protecting vulnerable users and allowing innovation? These were the challenging questions addressed by the Panel on Credit. Any attempt to engage with these difficult issues begins by expanding the question/equation with the addition of the respect of the fundamental rights and freedom of every individual, regardless of her/his status. The risk, otherwise, would be that a 'silo' debate and analysis would ensue, but the issues of consumer protection (especially the vulnerable) and respect for the fundamental rights of everyone are intertwined.

To discuss Big Data and Fintech we need to make a step back as they take place in an environment that already presents a number of unresolved complexities and controversies, at least in the EU. Here, I make reference to the many traditional uses of personal data for different purposes in the area of retail credit markets, not all of them univocal or universally recognised or accepted. Indeed, for some time the sharing of customers' credit data has become the most extensively used instrument or practice of the lending industry to underwrite decisions on credit or the supply of goods and/or services to consumers that will be repaid in full at a later stage, or that tie them in a contractual relationship over time.

The first striking feature for a researcher of traditional credit data in the EU has been to note how over time the rhetoric for justifying their use by the lending industry has gone through continuous evolutions or involutions (depending on the perspective of the observation – but perhaps the term 'changes' carries a more neutral connotation). Supported by the dominant economic and financial literature, justifications started with the reduction of the information asymmetry between lenders and borrowers for a better credit-risk analysis. From there, first correlations started to emerge, in particular the one that past behaviour is predictive of future behaviour, as if the observation of human past could statically and repeatedly prophesy the future. Then, theories over personal data usages as reputation collateral for borrowers started to be developed. However, the emergence of policy discourses over responsible lending (especially commencing in the preparatory work of the Consumer Credit Directive), creditworthiness assessment and the fight against over-indebtedness transformed the rhetoric to justify credit data sharing among lenders. The extensive use of credit data has been promoted by a number of stakeholders and international agencies on the grounds

that it could have helped achieve a number of policy objectives. These include the facilitation of access to a more affordable and better quality credit for consumers, the prevention of consumer over-indebtedness by limiting irresponsible/predatory lending and the contribution to financial stability by limiting banks' credit loss risks. Whether these benefits have actually materialised is open to debate. In any event, the diverse and different uses, roles and functions attributed to the data in financial services in the various member states (including their institutional organisation) have already exposed a jeopardised EU single market. Moreover, whatever the arrangements and function of data-sharing systems in the national jurisdictions, the differences in volume and variety of the datasets and data sources, as well as the depth and breadth of the data (including differences in the meanings attributed to equivalent data) show that very different practices exist across the EU. So, which data-processing practice works best to achieve well-defined and univocal objectives? Can we say that practices in one member state are 'better' than those in the others? There is no study or evidence that offers such a suggestion. That is why the fragmentation in the member states calls into question the reliability and proportionality of the practices in the national system. There are no uniquely accepted criteria or standards on the use of data - that is, there is no accepted/shared acceptance of which data are relevant to achieve defined objectives, especially when it comes to policy goals such as the creditworthiness assessment of borrowers or the provision of suitable loans to consumers.

A major problem when dealing with personal data is that data protection in the EU is (or at least should be) a fundamental right, so lenders or data brokers should not be left with the sole determination in establishing what data should be processed, especially in light of the lack of commonly accepted criteria. If we want to take data protection seriously, the current approach poses concerns over the purpose limitation and data minimisation of the credit data processing operations. In addition, credit data may pose problems beyond data protection rights. Personal data processing becomes the gateway of the economic and social life of people, determining inter alia access conditions to goods and services (sometimes including pricing). Therefore, they may become a key factor for the economic and social inclusion/exclusion of consumers.

So far, however, despite the difficult questions that credit data pose for the integration of EU markets in consumer finance and the safeguarding of EU citizens, the EU policy and regulatory responses have been absent, remaining uncoordinated at national level and equivocal. It is within this already complex and controversial scenario that Fintech and Big Data step-in.

Interestingly, these new business models in the area of credit are the first ones to recognise the limits of traditional credit data. As credit underwriting and technologies evolve, and credit adapts to changing economic cycles and shifting demographics, an increasing number of lenders themselves want to target customers who may habitually have no or short credit history in the traditional sense – the invisible or un-scorable customers. A considerable limit of traditional credit data is that they are of a historical nature.

So, the big idea: the use of big data, i.e. large datasets obtained from diverse unrelated sources, where Fintech make the correlations. A number of concerns/risks for consumers could be anticipated alongside the opportunities of serving a larger customer base. In whose interest is the expanded data processing undertaken? If on the one hand there is the virtue of serving the underserved, on the other hand it remains questionable whether this is responsible lending or creditworthiness assessment, or rather whether it is credit-risk analysis and marketing (in the broadest sense) in the interest of lenders. Have we moved to the concept of creditworthiness through relationships or creditworthiness through correlations? A problem is that correlation is not causation.

What about the un-networked? Here the thought does not go necessarily towards those segments of the population that are not digitalised. As a provocation, do people (all people) have a right or liberty to be un-networked or offline? Last but not least, more data mean more data protection concerns. As a fundamental right, data protection is there to protect fundamental values and liberties of every person as a human being living in a free society. It is a personality right to allow and protect the development and shaping of identities and to participate in society (inclusion). If privacy is about the legitimate opacity of people, data protection is about transparency. It is there to ensure that members of society are not discriminated, sorted, classified, categorised, simplified or stereotyped. It is there to ensure that we are not subjected to the conformity of thought or behaviour, in this case dictated by the financial services industry.

Hence, the tentative answer to the original question (or at least a possible one): in the age of correlations, there is a 'correlation' between data protection and economic and social inclusion. However, for it to work, we need to take data protection seriously. Unfortunately, the tide does not seem to be going in that way, at least as long as data protection continues to rely as legitimising grounds for processing on: 1) the individual 'consent' in situations of obvious imbalance of power between the parties; or 2) on the 'legitimate interest' of data controllers (lenders), where the latter make the determination of whether they have a legitimate interest to justify the processing, and whether their interest overrides the fundamental rights and freedoms of the data subject (consumers).

UPCOMING ECRI EVENTS

18 January, 2018 | BEUC-CEPS-ECRI Breakfast Debate

Dynamic Currency Conversion: Valuable service or deceptive business model?

The aim of this breakfast debate is to discuss the DCC service, its advantages and drawbacks, the EU legal framework within which it operates, and possible remedies to prevent placing consumers at a disadvantage.

6 February, 2018 | CEPS-ECRI task Force Meeting

Cybersecurity in Finance: Getting the policy mix right!

CEPS-ECRI 2nd meeting of the TF on: "Cybersecurity in Finance: Getting the policy mix right!". The different consensuses achieved during the Task Force will result in a list of recommendations and an action plan that will be submitted to the European regulators (primarily DG FISMA, DG Connect, DG Justice, ESAs, ECB, and European Parliament).

22-23 February, 2018 | CEPS Conference

CEPS Ideas Lab "Europe - Back on Track"

The CEPS Ideas Lab is an annual forum that brings together Europe's top decision makers and thinkers to discuss the major issues confronting the EU and to explore innovative solutions.

Understanding Credit Markets for Europe

CREDIT REPORTING IN THE UNITED STATES – WHAT CAN EUROPE LEARN FROM OUR MISTAKES?

By Ira Rheingold, Executive Director
National Association of Consumer Advocates

The recent Equifax scandal – the corporation failed to secure the private information of 143 million Americans – received widespread attention across the globe. Consumers were outraged about Equifax's negligence and demanded they be allowed to 'opt out' of their relationship with the credit reporting agency.

While Americans' fury at Equifax's cavalier treatment of consumers' personal financial information was and is completely justified, it is also unfortunately much too late. Over the past several decades, while consumers were paying little attention, Equifax (and TransUnion and Experian) have not only become the keepers and collectors of all Americans' private financial information, they have systematically spun that information into the gold that is the centrepiece of their multi-billion dollar businesses. For American consumers, opting out is simply not an option.

How American consumers got to this point is an interesting tale for another day, but for now, I'd like to focus on how credit reporting generally works in the United States and the lessons Europeans can and should learn from our very troubled system.

Private credit reporting agencies (CRAs) – every single day - collect millions of data points about consumers from private sources, such as corporations who have or want to have a business relationship with consumers and from public sources, such as court and other government records. For CRAs, this information is their prime commodity and their customers are the businesses to whom they sell it. For consumers this CRA-collected information, aka "credit report", has grown to become a central and essential feature to their everyday life. Whether or not the information is accurate, and/or whether it is predictive, credit reports are now being used in the United States for decisions about whether a consumer should be offered credit and at what price, what the cost of their insurance should be, whether they are eligible to rent an apartment and even if they should be offered a job.

The problems with this private credit reporting system are myriad, but for European nations contemplating a similar arrangement, three essential issues should be considered. First from a privacy standpoint, consumers have almost no control over the information that is gathered about them, and very limited real control over who gets to look at their data.

Second, from an accuracy of information stand point, while consumers have a legal right (although often not the practical ability) to make sure their reports are correct, in practice, because the CRAs have a much greater incentive to collect as much information as possible, rather than to ensure its accuracy, mistakes are rampant in our system. For instance, in a 2015 report, the FTC found that about 21% of consumers had verified errors in their credit reports, 13% had errors that affected their credit scores and 5% had errors serious enough to be denied or charged more for credit. Finally, from a use perspective, American corporations seem to have forgotten that "correlation does not imply causation." Just because they can, should companies price insurance, or make employment or apartment rental decisions based on a credit report?

As EU member states contemplate the role and use of data in the lives of their citizens, they should not follow the US model that has turned consumer information into corporately controlled currency with little concern for security, privacy, accuracy or proper use. Instead, if you care about allowing consumers to control their own information, if you want the data to be secure, accurate and used only when appropriate and believe that privacy is a right to be protected and nurtured, then the EU must find a better way.

HOW BANKING DATA CONTRIBUTES TO FINANCIAL INCLUSION WITH REGARD TO CREDIT PROVISION

By Florian Schwabl
Partnerships Manager, figo GmbH

"Is there a right to credit?", Maria Lissowska (Senior Expert, European Commission) asked at the beginning of "Panel 3 on Credit". Well, obviously there's no written right to credit, but it's also obvious that the opportunity to obtain credit is a big contributor to financial inclusion. However, access to credit depends largely on the consumer's creditworthiness. In the future, therefore, the question should be: how can the creditworthiness of a credit applicant reflect his or her financial reality and thus promote financial inclusion?

Instead of the often incomprehensible and non-transparent credit scores assigned to consumers, banking data can provide the necessary information for evaluating one's creditworthiness. With a view to data minimisation, the question should be which data are actually needed to make a credit decision. Furthermore, the financial reality of a credit applicant is not correlated to market data as the basis for credit scores because every single person applying for credit is a unique case.

The use of banking data is an appropriate way to evaluate how much money a consumer really needs to be loaned and how much money a consumer is realistically able to pay back based on current expenses. With the help of a digi-

tal account check, credit providers can obtain an overview of a consumer's salary, additional income and, of course, the structure of his/her expenses. A complete overview of revenues and expenditures for a household is possible.

So, how can banking data be used in practice for credit decisions? As a FinTech company, figo is connected to various financial sources such as banks and enables its partners to get access to current accounts, including the most relevant banking data in order to make sound credit decisions. By using his or her online banking credentials, the credit applicant decides to provide and use his or her own banking data for the credit decision. The figo partners get immediate access to banking data, e.g. account balances and transaction history, also formatted by category. With this information, the credit provider can apply its creditworthiness scoring and other algorithms to arrive at a direct credit decision. The credit provider is able to recognise critical expenses like high gambling losses or existing credits which have a negative impact on credit provision decisions. As a result, figo enables its partners to offer a more digitalised credit application process to their users as an option.

From figo's perspective, there's a great mind set of financial inclusion behind the approach of using current banking data for credit decisions. First of all, as the owner of his or her own data, the consumer decides to use the banking data for the credit application. The consent of the user to allow access to his or her banking data is always needed. Secondly, credit providers who obtain access to the data should always be transparent about exactly which data are being used for the credit decision. Thirdly, data protection and data security should and will always be crucial factors. The Payment Services Directive 2 (PSD2) will legally define every service that collects payment account data as an account information service (AIS). This will create a legal framework for comparison platforms, FinTechs and credit providers, resulting in a level playing field for all players processing payment banking data. The sovereignty of consumer data will be strengthened by empowering consumers to use their banking data in a context beyond their existing data 'silo' of online banking.

With PSD2's 'Access to Account' (XS2A) requirement, banks in Europe will be obliged to provide banking data from payment accounts to regulated third-party providers (e.g. account information services), making banking data accessible and more extensively usable for credit decisions in the future. This will sustainably strengthen financial inclusion in lending forthe benefit of consumers: a good sign from Europe for consumers.

About figo

As a B2B provider, figo enables third parties to access various financial sources through the integration of figo technology. This includes processed data of bank accounts, credit cards, deposits, Paypal accounts and a variety of FinTechs. More at www.figo.io/en.

ECRI STATISTICAL PACKAGE 2017

For the second time, detailed data on several "emerging economies".

Since 2003, the European Credit Research Institute (ECRI) has published a highly authoritative, widely cited and complete set of statistics on consumer credit in Europe. This valuable research tool allows users to make meaningful comparisons between all 28 EU member states as well as with a number of selected non-EU countries, including the US and Canada.

WHAT IS COVERED?

Two Statistical Packages are on offer. The more comprehensive product "Lending to Households (1995-2016)" contains valuable data on consumer credit, housing loans, other loans, total household loans, loans to non-financial corporations as well as total credit to the non-financial business and household sector. The 'standard' "Consumer Credit in Europe (1995-2016)" exclusively covers consumer credit data.

The 2 Packages in Fact & Figures:

- 40 Countries: EU 28, Turkey, Rep. of Macedonia, Iceland, Norway, Switzerland, Liechtenstein, Australia, Canada, Japan, the United States, India and Russia, Mexico and Saudi Arabia.
- 21 years data series: 1995-2016
- National accounts: GDP, final consumption expenditure and gross disposable income of households, inflation and exchange rates.
- 150 (67) tables: present time series data in nominal and real terms, and per capita, as well as breakdowns by lender, type, currency and maturity are also available for selected countries.
- 27 (13) figures: highlight credit trends in a way that allows user to make meaningful comparisons of the retail credit markets across countries.

FACTSCHEETS

The European Credit Research Institute (ECRI) provides indepth analysis and insight into the structure, evolution and regulation of retail financial services markets in Europe. Through its research activities, publications and conferences, ECRI keeps its members and the wider public up-to-date on a variety of topics, such as retail financial services, credit reporting and consumer protection at the European level.

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