

ERFF Consensus Paper April 2018

Consumer Credit and Creditworthiness Assessments

(Actions 7 and 9 of EC Action Plan on Consumer Financial Services, 2017)

The European Retail Financial Forum (ERFF) is a pan-European forum bringing together around one table consumers, business and policymakers to support the opening up of retail financial markets in Europe. Representing all aspects of the retail sector - traditional, wider investment and digital - we are citizens-focused, favour removing key barriers and increasing choice and transparency for all consumers across borders in ways that keep Europe competitive.

The European Commission's Action [Plan](#) on Consumer Financial Services brings about opportunities for greater growth in the credit markets that will benefit both consumers and credit providers, especially through the use of modern technology and the realisation of the Digital Single Market. Against this backdrop, we are very committed to continue to engage with the European Commission on their work going forward and have set out the following preliminary observations below.

1) Identification of customers on the internet

Opportunity

We see opportunities for all stakeholders - including consumers and consumer credit providers - such as ease and access, through digital channels, to a wide set of product and services. This will allow for adaptation to individual customers as well as meeting consumers' expectations for convenience and expedient delivery of products and services. In addition, credit providers will be able to enter into new markets and develop more effective and adapted distribution channels, leading to more competition and lower prices. For cross-border activities it would be beneficial to have a harmonised identification method across Europe. (Note, the purchasers of investment products could be similarly advantaged.)

Obstacle

Today, a lack of extensive legally valid identification of the customer via the internet, both on national and European level, continues to exist. Furthermore, diverging approaches at local level when it comes to regulatory and supervisory approaches hinder the effective use of digital distribution channels. Whilst some of the systems that have been developed are very user friendly, some are not and do not allow for an expedient digital delivery. This is an important obstacle for the consumer credit sector, as identification of the customer is a prerequisite for the development of cross-border lending.

Solution

We welcome the work accomplished by the European Commission on the eIDAS regulation and we support its further work to facilitate the application in financial services. To enable a fully digital on-boarding experience in relation to consumer credit, it is essential to facilitate the use of electronic identification and Know-Your-Customer (KYC) portability as set out in the

Commission's current work programme. In this, a prerequisite is also greater supervisory alignment between national competent supervisors.

Robust, yet simple and practical tools for electronic identification and electronic signatures are needed to fully enable non-face-to-face transactions and the online provision of financial products and services. In addition to tools for electronic identification and signatures, the ability must be further developed to quickly and effectively authenticate information provided by an applicant borrower, e.g. on income and employment situation, by the improved ability to use and access relevant systems and databases. (Similar identification, affordability and suitability issues also apply to investment products.)

2) Expanded access to credit – credit inclusiveness

Opportunity

Comprehensive credit reporting systems can help creditors expand access to credit to creditworthy borrowers including individuals with thin credit files. This includes SMEs, micro-entrepreneurs and borrowers from diverse ethnic, social and gender backgrounds.

When comprehensive credit data infrastructures i.e. credit bureaus are available, efficient, and reliable, the cost of financial intermediation falls. Consumer credit becomes accessible to greater numbers of borrowers and lenders and investors have greater confidence in their ability to evaluate and price risk.

Obstacle

There are currently limitations to information sharing. Not all potential users of credit data information have a similar level of access to information held in credit bureaus across Europe. For example, in some Member States, creditors do not have access to positive credit data i.e. complete account-level information including balance and payment information. Across the EU, only 31% of new lenders, such as FinTech credit granters can access and use data in credit bureaus¹ to assess the credit risk of potential customers.

All these limitations are the result of inconsistent national legislation / supervisory practices across the EU and across users, which impose restrictions on information availability and sharing.

Solution

It is urgent to work towards enlarged information sharing and data access across the EU and the removal of national barriers preventing a level playing field at EU level. It is also necessary to capitalise on the increasing availability of data - including current account data brought

¹ According to the 2017 ACCIS Membership Survey, available at:

http://www.accis.eu/fileadmin/filestore/Documents/ACCIS_Survey_of_Members_2017.pdf

about by PSD2 and alternative data – along with technologies to harness the power of that data. This has to be done in recognition of the challenges that are associated with those data and those technologies and in compliance, therefore, with the appropriate policy safeguards.

3) Expanded cross-border credit

Opportunity

Consumers and businesses migrate from one jurisdiction to another with increasing frequency. Purchasing of goods on line is also becoming normal practice. A borrower applying for credit in a country where he or she has no credit history, but who has a credit history in his or her country of origin, could be assessed easily if the information were available to potential creditors in both countries.

Obstacle

The legal, regulatory and supervisory framework does not specifically allow for credit information sharing across borders. Furthermore, and despite the imminent application of the General Data Protection Regulation (GDPR), there is not yet a common understanding by data protection supervisors of how the privacy and information of data subjects should be safeguarded in the Single Market.

In addition, credit data infrastructures in certain countries lack certain data categories i.e. there is no level playing field.

Solution

More and better availability and exchange of credit data within the Single Market is desirable. On that basis, it would be possible to develop and further expand industry standards governing the exchange of credit data in cooperation with data protection supervisors, and on the basis of common credit data dictionaries and or taxonomies.

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About ERFF

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