OUR VISION FOR THE FUTURE

BY ACCIS //

THE ASSOCIATION OF CONSUMER CREDIT
INFORMATION SUPPLIERS

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ACCIS, THE ASSOCIATION OF CONSUMER CREDIT INFORMATION SUPPLIERS, is an association consisting of 48 members active in collecting and sharing consumer credit information. Among its members, there are 40 credit reference agencies (CRAs) from Europe, 6 CRAs from other continents, and 2 affiliate members. Each member strives to provide services to help creditors make better-informed decisions when providing credit to individuals and businesses.

ACCIS

OUR VISION FOR THE FUTURE

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OBJECTIVE AND METHODOLOGY

ACCIS wants to more effectively represent, promote, protect and preserve the common interests of its members. To achieve that objective, the Management Board of the Association decided in September 2017 to launch a "Building a Vision" project. This project was designed to deliver a view of where our industry stands today and where it may be tomorrow i.e. 3-5-year horizon.

This document was prepared based on detailed interviews with selected business leaders in the industry and consultation with the wider ACCIS membership.

THE ROLE OF CREDIT REFERENCING IN THE ECONOMY

Being a third party between credit granters and borrowers (individuals, SMEs, corporates), CRAs ensure better access to information by lenders about borrowers thus reducing information asymmetries between them. CRAs act as a key element in:

Increasing access to credit for borrowers. CRAs help to better evaluate risks, allowing more appropriate decisions, and help reduce lending to borrowers who are more likely to default (due to the size of their outstanding debt or other reasons).

Preventing over-indebtedness by ensuring that lenders have a clear picture of the amount of debt held by a borrower so that effective decisions can be made to avoid burdening borrowers with debts they cannot repay.

Supporting responsible lending by helping lenders and borrowers make decisions based not only on their current ability to pay (affordability), but also on their future capacity.

Supporting financial inclusion by helping potential borrowers share their payment history to show how they are managing their existing or past debts.

Supporting fairness in lending by enabling lenders to create lending policies and implement these policies based on consistent and accurate information so that lending decisions could be made fairly.

Preventing or detecting fraudulent activities by using information to identify unusual activities indicative of actual or attempted fraud.

Improving borrower discipline by helping consumers gain a clear picture of their own "financial standing". The availability of such information can lead to more responsible financial management and the better management of their finances.

Helping to provide greater convenience by providing information and thus enabling consumers to conclude a contract in the online world or the point of sale in a matter of seconds.

Providing accurate information to help lenders collect outstanding payments from borrowers.

Supporting regulators and policy makers in their supervision of financial markets.

In summary, the benefits of credit reporting activities are passed on to borrowers in the form of a lower cost of capital, which, in turn, has a positive impact on spending and investment. Improved information flows also provide the basis for fact-based and quicker assessments, thus facilitating greater access to credit and other financial products. A well-balanced and managed credit reporting system benefits lenders, borrowers, and the economy as a whole. It does so by reducing the potential of inappropriate lending or borrowing, thus helping to avoid economic peaks and troughs and smoothing out economic cycles.

AN EVOLVING LANDSCAPE

The landscape in which CRAs operate today is changing significantly. This is mainly in response to the evolving and interlinked forces of rapid developments in technology, new customer expectations, new competitors and strengthened regulatory requirements.

Although these changes are still relatively new, one thing however is clear: staying the same is not an option for the industry. In fact, CRAs are proactively taking measures to respond to these changes by incorporating new technologies, partnering with new players and developing new products and services based on these rapidly evolving factors.

A.

THE DATA ECONOMY AND DATA-RELATED TECHNOLOGIES

THE WORLD IS EXPERIENCING A DATA EXPLOSION. Human and industrial activities are leading to data collection and processing on an unprecedented scale (big data). Major new breakthrough technologies make it possible for big data to generate economic value which, in turn, spurs new products and services as well as new business models.

These developments are impacting the credit reference industry in various ways:

> **Data not directly related to a consumer's credit behaviour[1] is growing significantly.** Sources of data multiply and become more distributed. As a result, the traditional inventory of well-defined, structured credit data information held by CRAs[2] is declining relatively to the stock of recent and granular open banking data (e.g. current account and transactional data) and new unstructured data (e.g. social profile data, clickstream data, data from phones / wearables, etc.). **Unstructured data is being increasingly used** to better understand trends and patterns in consumer behaviour and therefore develop better customer-oriented products and services.

1. That includes any action or non-action by humans or non-humans that can potentially be collected and aggregated for meaningful analysis of a customer's credit behavior.
2. Examples are past loan and credit applications, on-time payments, types of loan and credit used and credit history.

> **Big data technologies** e.g. new analytic tools, cognitive computing, artificial intelligence, blockchain, cloud computing, machine learning algorithms, etc. make it easier, faster and more cost-effective to mine large quantities of data and make meaning out of them while minimising the risks associated with human intervention. These new technologies support the emergence of new solutions and **help generate efficiencies in existing processes.**

> **Other technologies** such as new payment technologies, including mobile payments (e-wallets) and cryptocurrencies, blockchain and distributed ledger technologies, biometrics and advances in the use of psychometrics, have also tremendous **potential for credit information sharing**. Some of them remain, however, at a "proof-of-concept" stage.

> The expansion of the number of data sources and collection points coupled with rapid and not always seamless technological evolution also increases the risk of data inaccuracy.

Such inaccuracies are harder to detect, and the source of the error can be more difficult to identify. As the number of data sources and the interaction between players in credit reporting and the wider information system grows - all of whom have different technologies, networks, software, and security policies for access to and use of such data - data vulnerabilities also increase. **Protecting a vast and growing volume of critical information** - and being able to search and analyse it to detect potential threats - **becomes essential**.

> Finally, **the explosion of new data by the interaction of groups in closed platforms means that the "network effect"[3] that CRAs had traditionally enjoyed is now increasingly benefitting those platforms too**. The bigger these new platforms become, the more useful they are to their users, who, in turn, become more entrenched. Network effects generate momentum that make it very difficult for new players to replace those platforms or for traditional business to react.

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B.
NEW CUSTOMER EXPECTATIONS

THE DIGITALIZATION OF THE ECONOMY GIVES RISE TO HIGHER CUSTOMER EXPECTATIONS REGARDING CONVENIENCE, SPEED, COST AND USER-FRIENDLINESS OF SERVICES.
And this is regardless of exogenous factors such as burdensome sectoral regulatory frameworks, as for example, in financial services.

Individuals' expectations are even formed by the technologies that surround them. **Individuals** - particularly younger generations - **adapt their lifestyles to each new technological invention**. They constitute a **new category of customers who are digitally, globally and constantly connected**. They seek transformational change, and where they cannot find it, they look to invent it themselves.

These new categories of customers are being educated and empowered by recent legislation[4] to **take more control over their personal data as well as being made aware of its commercial value**. Looking ahead, these customers are likely to start behaving more like suppliers, demanding to trade with companies, including CRAs, on commercial terms, to secure the correct market value for sharing their personal data.

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3. The more data a CRA has, the more valuable its credit reports and scores become and the more clients it can attract, giving it access to even more data.
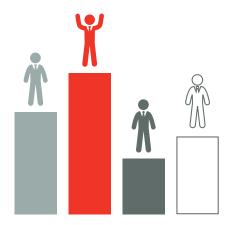4. The EU General Data Protection Regulation and the review of the Payments Services Directive are good examples in that regard.

C. NEW COMPETITORS

OVER THE PAST DECADE, NEW PLAYERS HAVE EMERGED TO MEET THE NEW AND HIGHER CUSTOMER EXPECTATIONS ON CREDIT REFERENCING SERVICES.

By combining new financial technologies and alternative data sources and often profiting from less restrictive regulatory regimes, these companies promote alternatives for traditional CRA solutions in markets where CRAs may not be fully servicing the needs of customers and other market actors in the financial services sector.

That substitution disrupts the market and further encourages CRAs to leverage new types of data and technologies to improve existing operational processes, develop new products and services, and address the risks associated with increasing digitisation.

At the same time, synergies between some new players e.g. fintech start-ups and traditional CRAs suggest that the former can be catalysts for market improvements and collaborators with established players. For CRAs adopting a cooperative approach, the risk of disintermediation may be reduced and market potential enhanced.

D.
STRENGTHENED REGULATORY REQUIREMENTS AND MANDATORY DATA SHARING

GROWING CONCERNS SURROUNDING THE SAFETY OF PERSONAL DATA from identity theft, cyberattacks, hacking or unethical usage, are leading to the introduction of more stringent data privacy laws globally.

In Europe, the General Data Protection Regulation aims to empower EU citizens by making them aware of the kind of data held on them by all companies, including credit reference agencies, and the rights of the individual to protect and manage their personal information. **The application of strengthened data privacy regulations calls for a re-modelling of businesses' (including CRAs) existing data systems** and the creation of newer systems with the concept of Privacy by Design embedded into their operating ideologies.

Disruptive regulatory changes - such as 'open banking' standards - are emerging as a response to market structures limiting competition and therefore choice for consumers

and businesses. These new standards require banks to make it possible for individuals to easily enable verified third-parties to access directly their transactional/ bank account data. As a result, banks are shifting from being one-stop-shops for financial services to open platforms where individuals and other providers can embrace a more modular approach to financial services. This is spearheading a realignment along the financial services value chain.

With regards to credit data specifically, the availability of sufficiently granular and reliable loan-level data is becoming a major public policy priority for statistical, supervisory and financial stability reasons. Public policy is mandating the collection, reporting and analysis of credit data that could impact the interests of existing CRAs. AnaCredit - the Eurosystem database comprising loan-by-loan data on credit granted by euro area financial institutions - is a case in point.

THE DEVELOPMENT OF AN ENABLING ENVIRONMENT FOR CREDIT REFERENCING

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In full alignment with their traditional purpose, the future of CRAs is likely to involve the provision of credit information and solutions helping to protect companies against non-payment and individuals against possible over-indebtedness. It will remain a core responsibility of CRAs to assist lenders in managing consumer credit risk and empower consumers to understand and responsibly use credit in their financial lives.

Expanding from its base in credit, CRAs will be increasingly involved in the supply of other advanced decision support services. As individuals and businesses take decisions in ever more complex and data-rich business and social contexts, CRAs that make an independent, informed and compliant use of data will help eliminate many points of friction in those decision-making processes. For example, the identity verification of the party to a transaction, its creditworthiness, the affordability of a product or service for that party and the expected risk arising from the transaction.

From an operational perspective, credit referencing is likely to evolve from a focus on reporting data to a focus on understanding data and, ultimately, to a focus on the relationships between data. **CRAs are likely to move from credit referencing to embrace a more comprehensive approach to information.** In fact, several of the CRAs are already becoming global information services companies, able to provide strategic direction and advanced decision support to all types of organisations and businesses, but also to their customers.

From a business organisational perspective, global digitalization is likely to call into question the traditional centralised database model and its centralised data security. It is feasible that, **in the future, records are compiled and created in real time "upon request"**, connecting data available in decentralized data sources, even across borders.

A focus on servicing customers will be particularly relevant. No different from any other industry, the future of credit referencing will be about the creation of long-term customer relationships that are transparent, honest and fair, and that enable customers to feel confident and secure in the knowledge that their well-being is a priority and data privacy safeguarded. Innovations such as portable credit reporting solutions, that enable customers to control their credit information sharing, will become increasingly common.

The importance of CRAs activities, the emergence of new players and the growing sensitivity around the risks associated with the sharing of data, especially that of individuals, is likely to invite a reflection about the observance by all industry players of **minimum, common levels of business standards** and the role of public authorities is overseeing their fulfilment, particularly in those countries or jurisdictions lacking adequate regulatory frameworks and / or frameworks that treat the same activities differently.

GUIDING PRINCIPLES AND VALUES FOR ACCIS

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ACCIS, as the international association serving the credit reporting industry, has a role to play in recognising emerging trends and in forging a vision that will enable its members to benefit from change. To help its members change with the times, ACCIS endorses the following principles and values.

PRINCIPLES

Putting customers first, our industry works to provide useful, explainable, real-time and cost-effective solutions for all types of credit providers (banks, retailers, peer to peer etc.), decision-making organisations and end-customers.

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Our industry ensures that its **databases are accurate, verifiable and reliable**. Our industry avoids a use of data that originates or perpetuate biases or that leads to discrimination.

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In every step of the data processing **we ensure rigorous security and safety of the data**.

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Our industry **embraces cutting-edge technologies that help derive meaning from the relationships between all accessible and relevant data**. As such, our industry embraces the benefits of big and open data and state of the art data analytics.

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Our industry gathers and processes data from different sources in a manner that **facilitates the integration and management of large datasets**.

VALUES

Trust.

Our industry upholds trust as the basis for all our activities and the foundation of relationships. We know and care about the individuals and businesses whose information we hold and strive to ensure they benefit from information use. We build trust through transparency of the data we hold and the processes we use. We act with honesty and respect in all our interactions, complying with the spirit and letter of all applicable laws and industry codes, in particular with data privacy law.

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Innovation.

To stay relevant, we improve with society's changing needs. We constantly strive to redefine the standard of excellence in everything we do. Our industry therefore produces, embraces and channels positive change, to create better opportunities for our customers.

ACCIS
MISSION
STATEMENT

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*Enabling individuals and businesses
to take informed decisions
and conduct secure, trustworthy
and efficient financial operations.*

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