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Copy to:

Mr Bernardo Urrutia  
Directorate General for Employment, Social Affairs and Inclusion, European Commission

**Subject:** European code of good conduct for microcredit provision - A perspective from the credit reference industry.

Dear Professors Dayson and Vik,

ACCIS, the Association of Consumer Credit Information Suppliers, is an international non-profit trade association bringing together 42 members across 28 European countries and 8 associate and affiliate members from all other continents.

While preserving their core values of trust and innovation, ACCIS members are committed to building a thriving and globally competitive European financial services sector, including with regards the provision of microcredit-related services.

It is from that perspective that we are glad to contribute our views to the update of the [European code of good conduct for microcredit provision](#).

#### Clause 1.10

Original text	Suggested ACCIS amendment
Microcredit providers will assess repayment <b>capacity</b> and loan affordability on the basis of <b>sufficient information from the applicant, database and/or competitors.</b>	Microcredit providers will assess <b>the prospects of</b> repayment and loan affordability on the basis of <b>data that is relevant, adequate and necessary, including positive information, for each specific credit application. The information shall be obtained from relevant internal and / or external sources, including the consumer.</b>

#### Explanation

'Sufficiency of information' makes an implicit reference to a given amount of information that would be considered 'right' to assess the likelihood of loan affordability and repayment. This implicit reference to 'data quantity' is further reinforced in the current explanatory text for current clause 1.10 with the reference to 'at a minimum'. This 'at a minimum' information could be construed as a *de facto*

maximum information that would be used by the microcredit provider to conduct a creditworthiness assessment.

In our view, the code should evolve from an approach based on ‘sufficiency of information’ as the only criteria to an approach focused on ‘relevance of information’. It should be noted that one of the objectives of the code is to favour that loan applicants have access to long-term finance in the best possible conditions, whilst they avoid over-indebtedness. Lending decisions will be fairer and more responsible when lenders adopt a comprehensive approach towards data, especially when dealing with borrowers who have limited credit files.

For example, micro-credit applicants often lack a credit history. They may not have accounting packages to record their transactions and generate credible financial statements and projections, especially those operating in some level of informality. The absence of credit / financial information means that their creditworthiness may prove hard to assess properly. How could those situations be addressed, so as to promote better financial inclusion? By means of ensuring that all relevant information is collected and taken into account in the creditworthiness assessment (e.g. not only any previous credit agreement, but, also, payment of energy bills, telephone bills, etc.).

In addition, it should be noted that, in the current digital age, businesses are getting access to large volumes of non-traditional data (e.g. mobile and online banking transactions, digital payments, etc), which can also be used for decision-making.

A more comprehensive approach towards data has a number of advantages:

- It delivers a more accurate overview of the applicant’s financial situation.
- It allows microcredit providers to better discern between different situations and tailor credit conditions accordingly, ensuring their own long-term financial sustainability and increasing the chances for easier access to credit and/or better credit conditions for applicants.
- It incentivizes financially responsible behaviour by microcredit applicants, allowing them to gain better awareness of their financial situation and, consequently, since “knowledge is power”, to be in a better position to address possible issues.

In a nutshell: technically today, microcredit providers could use traditional credit data complemented by innovative datasets to better determine the prospects of repayment and loan affordability. The usage of comprehensive sets of relevant data for carrying out creditworthiness assessments should, be enabled and encouraged.

In line with the above, our suggestion is to re-draft clause 1.10 to recognize the importance of non-traditional data and new methods (i.e. AI, machine learning) and the evolving digital reality, so that the assessment of the prospects of repayment and loan affordability would be done on the basis of **data that is relevant, adequate and necessary for each specific credit application and deriving from relevant internal and / or external sources, including the consumer.**

Relevant data is data that has value in determining the probability of a consumer’s repayment behaviour.

Relevant data must be accurate, meaning that the data is correct, truthful, complete and up to date (as defined by the World Bank<sup>1</sup>). In order to better meet this requirement, any information on which the credit assessment is based should ideally be appropriately verified by reference to documentation, ‘independent’ of the borrower. The data used should also be adequate to the specific circumstances of the applicant and the product being applied for.

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<sup>1</sup> General Principles for Credit Reporting, September 2011 – General Principle 1 (pp. 25 – 29).

In addition, data used in creditworthiness assessments should include all data that is necessary to appropriately assess the borrower's probability to repay the debt in each specific case.

Importantly, data that is relevant, adequate and necessary should include positive data. As recognized by the World Bank, research<sup>2</sup> has shown that comprehensive reporting systems generate more accurate scores than negative-only systems. Thus, including positive information in scoring models produces better predictions, and should improve the ability of microcredit providers to separate good borrowers from high-risk borrowers

Data meeting the above-mentioned requirements may derive from one or multiple data sources. Microcredit providers should have the flexibility to gather data from among the existing different internal and / or external data sources, including the consumer him/herself. That flexibility should not, however, mean that providers can disregard data sources that essentially contribute to the fulfilment of the ultimate policy objectives of any creditworthiness assessment, making the latter a merely formal exercise.

Finally, it is important to note that the current text mentions "repayment capacity" and "loan affordability", which seem to refer to the same concept, namely an individual's ability to repay. However, there is a distinction between the credit risk (probability of default) for the lender, and the affordability risk for the borrower (the risk that the credit will negatively impact on his wider financial situation). Both risks should be comprised within the creditworthiness assessment of the microentrepreneur.

We are confident that our comments will help ensure that the Code remains a robust quality standard for the microcredit sector.

We remain at your disposal in case you need any further information.



Enrique Velázquez  
Director General

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<sup>2</sup> Turner, Michael A. (2010). "[The Consequences of Prohibiting Credit Inquiry Data in Chilean Credit Files](#)" or Barron, J.M., and Michael Staten (2003) "[The Value of Comprehensive Credit Reports: Lessons from the US Experience.](#)"