

# **CREDIT** AND ITS **SOCIOECONOMIC** **ROLE IN BRAZIL**



BRAZILIAN ASSOCIATION OF CREDIT BUREAUS



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In short, citizenship is the relationship between an individual and a state to which the individual owes allegiance and in turn is entitled to social welfare.

Social welfare is materialized through resources that in recent centuries have become financialized. Therefore, citizens can only access resources for their well-being and fully exercise citizenship once they are financially included and have access to credit.



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Elias Antonio Sfeir  
President of Brazilian Association  
of Credit Bureaus



## CREDIT HISTORY

### KNOWADAYS

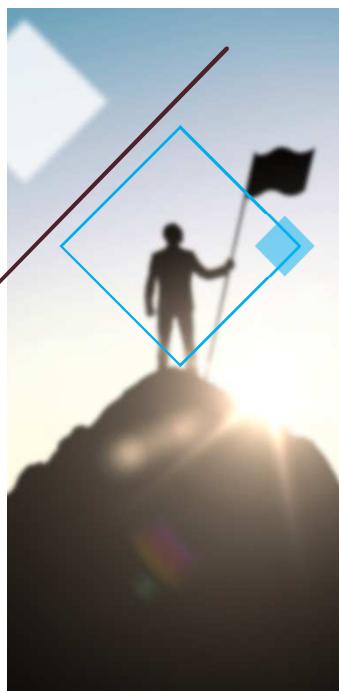
Credit is key in people's lives. **In the USA** Credit x GDP ratio is **150%**, while in **Brazil** this ratio is of **47.8%** and in **Chile** close to **90%**.

### IN THE PAST

Consumer credit has been around for more than 5,500 years! There is historical evidence that Sumerians used this system, 3,500 BC. Since then, its evolution throughout the world is undeniable.

### THE FUTURE

Open data will dominate the future and will be controlled by consumers themselves. Fintechs will see a great expansion. New technologies will improve credit rating and tackle fraud.



## PURPOSES

ANBC



*Establish  
Credit  
Discipline*



*Improve sector  
efficiency and  
effectiveness*



*Bring the  
industry  
closer to  
stakeholders*



*Promote  
financial  
literacy*

**ANBC**  
BRAZILIAN ASSOCIATION OF CREDIT BUREAUS

## PARTNERS

**Serasa  
experian.**

**SPC  
BRASIL**

**BoaVista**  
SCPC

**quod**

**ANBC**  
BRAZILIAN ASSOCIATION OF CREDIT BUREAUS



## CREDIT IN THE PAST

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### The evolution of consumer credit

The word credit comes from Latin *creditum*. From a financial perspective, it is the confidence that the borrowed money will be returned. The institution lending money is called lender, and it "believes" that the money will be repaid.

Consumer credit has been around for more than 5,500 years! Its existence was first proved among the Sumerians, 3,500 BC, and later between the Babylonians and Romans, close to the Christian era.

Over this period, credit experienced ups and downs, as in the Middle Ages, when the practice of charging interest

was considered immoral. Despite these downturns, the truth is that credit has evolved dramatically. New York Stock Exchange crash in the 20th century shook the most diverse industries around the world, strongly affecting the credit market with a quick recovery. In 1959, four years after the creation of the Central Consumer Credit Service - SCPC, installment sales in São Paulo accounted for 80% of retail sales, up from 30% in previous years, largely due to fast SCPC credit approval.

## CREDIT NOWADAYS

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The huge importance of credit today is undeniable. In the USA, Credit x GDP ratio is 150%, while in Brazil this ratio is of 47.8% and in Chile close to 90%.

The credit industry has undergone dramatic changes, particularly in recent years, as information technology evolves and is used in credit and risk assessment. Increasing use of technology is expected to reduce information asymmetry, one of today's major credit market issues.

Scanning the present credit scenario in Brazil and worldwide, some situations and initiatives stand out. The 1930 Geneva Convention, for instance, achieved the universal unification of foreign exchange laws, which was a key milestone for the credit market maturity. These regulatory adjustments associated with the increasing use of electronic data processing technologies led US credit bureaus to issue in 1960 no less than 60 million credit reports in a single year.

Another important instrument for consolidating the global credit market was the creation of the credit score and the definition of a standard system for measuring credit scores based on facts and data. And, more recently, the introduction of the credit report, already in place in many countries, including Brazil.

Some important events have marked the evolution of the credit market in Brazil and worldwide, such as the prohibition by the Church of usury or interest on loans, in the ninth century, and recently the approval by the Brazilian government of the inclusion of an opt-out mechanism for Credit Report.

**3500 aC.**

In Sumer we found the first evidence of consumer lending, used for agricultural purposes.

**1800 aC.**

In Babylon, the Hammurabi Code formalizes the first known credit laws, with maximum interest rates that could be legally applied.

**50 aC.**

In the Roman Republic, writings by Cicero indicate that a neighbor used the credit to complete the purchase of land worth 11.5 million sesterces equivalent to 11.5 tons of coins. To avoid carrying these coins through the streets of Rome, the operation relied on credit and bond.

**800**

During the Dark Ages, in Europe, after the fall of the Western Roman Empire, economic activity was halted. Under Charlemagne (768-814 AD), the Church even banned usury, the practice of charging interest on loans.

**1500/1600**

In Europe, this period, known as the Age of Discovery, was marked by a strong expansion of credit, as trade missions aimed at discovering and exploiting distant lands needed capital and sought credit with the promise of repayment on return, with precious goods.

**1803**

In England, a group of London tailors began exchanging information on defaulting consumers. With more and more business owners eager to make better business decisions, the idea has grown into the Society of Guardians for the Protection of Trade, the very first credit bureau, which marked Experian's beginning.

**1808**

In Brazil, on October 12, 1808, Prince Regent D. João creates the Banco do Brasil, the first bank operating in the country, in the city of Rio de Janeiro.

**1826**

Manchester Guardian Society is founded in England and starts publishing a monthly newsletter with information on defaulters.

**1864**

In the United States, in New York City, R.G. Dun and Company develops an alphanumeric system to monitor the creditworthiness of companies, which was used until the twentieth century.

**1899**

In the city of Atlanta, the Retail Credit Company is founded, with the purpose of providing an extensive list of customers with good credit history. Later the company was renamed Equifax, the oldest of the three major credit bureaus in the United States.

**1919**

In Detroit, GM decides to lend money to consumers to allow them to buy a new car. It was the first step to consolidate financing and installment plan concepts in the country.



# 1926

In Brazil, the "A Capital" shirt store in downtown São Paulo pioneered the sale by credit, which for many years was the store slogan.

# 1929

The crash of the New York Stock Exchange was the first major crisis of capitalism and affected the whole world. São Paulo, for instance, experienced an epidemic of bankruptcies.

# 1930

In Switzerland, the Geneva Convention defined the universal unification of foreign exchange laws.

# 1942

Brazil formally adheres to the decisions of the Geneva Convention. In the country, the bill of exchange is most commonly used in credit operations between lending institutions and traders, while in domestic forward transactions the most common security is the duplicate.

# 1955

The Central Credit Protection Service (SCPC) is created on October 14 by the São Paulo Commercial Association, currently BoaVista SCPC, an initiative of great importance to the retail industry.

# 1955

The Credit Protection Service, currently SPC Brazil, was created, at the initiative of a group of businessmen from Rio Grande do Sul, who met to exchange information on their customers creditworthiness. SPC is the CNDL System innovation platform to provide companies with knowledge and intelligence for credit, digital identity and business solutions.

# 1958

In the United States, Bank of America launches the first credit card program for middle-class consumers and small and medium-sized businesses, which later became Visa. Soon followed by American Express and Mastercard, which offer Americans general credit for a wide variety of purchases.

# 1959

Credit approval information dropped from three days or more to five minutes or less at the SCPC service desk, the São Paulo Trade Association, or by telephone. It was a turnaround in the São Paulo trade, which until then had 70% of spot sales and 30% of forward sales; moving to 80% of forward sales and 20% in cash.

# 1960

Since this decade, the evolution of credit mechanisms in Brazil has had a direct influence on the development of car, appliances, furniture and other durable consumer goods industries. It has equally influenced the growth of factories in textiles, footwear, clothing and other semi-durable consumer goods.

# 1960

In the United States, credit bureaus issue 60 million credit reports in a single year.

1964

In Brazil, Law 4,595/1964 establishes new rules for the banking market, creating the National Monetary Council (CMN) and the Central Bank of Brazil (Bacen).

1964

In the United States, the American Association of Credit Bureaus conducts the first studies on the application of computer technology to credit reports.

1967

In Brazil, the Brazilian Federation of Banks (FEBRABAN) is created.

1968

And Brazilian first bank credit card, Elo, is launched by Banco Bradesco.

1968

In Brazil, the Law of Duplicates No. 5474 was promulgated, and modified by Decree-Law No. 436 in 1969; and sales and consignment tax were replaced by the Tax on Circulation of Goods and Services – ICMS, which no longer used the duplicate for its collection and inspection.

1968

In the United States, the TransUnion (TU), a wagon leasing operation, is created. The following year, TU acquired the Cook County Credit Bureau (CBCC), which manually maintained 3.6 MM of card files. After the acquisition, it became the first company to replace accounts receivable data with automated tape-to-disk transfer, reducing the time and cost of updating consumer files.

1968

In Brazil, Serasa was created, at the initiative of the Brazilian Federation of Banks (FEBRABAN), to standardize reports, registration forms and speed bank decisions. In 2007, the Irish group Experian acquired control of Serasa, which was renamed Serasa Experian, completing the acquisition in 2012.

1970

In the United States, the first Fair Credit Reporting Act establishes a standard legal framework for credit reporting agencies.

1970

In Brazil, the so-called “economic miracle” boosts credit sales

1975

In Brazil, Diners Club introduces the first Corporate Card. In 1981, Diners operation was sold to Citibank.

1977

In Brazil, the credit protection service was computerized concentrating information from all over the country. As a consequence, the Credit Information and Protection Network (RIPC) is created, becoming later the RENIC.

**1980**

More than five million manual forms archived by SCPC were digitized.

**1980/1990**

The rising inflation that had come since the 60s made forward sales unrealistic, as it was impossible to predict the devaluation of the currency. Credit analysts disappeared and inquiries at SCPC declined.

**1989**

In the United States, FICO is created, quickly becoming the standard system for measuring credit scores based on facts and data.

**1990**

Brazil's economic opening turns out to be the crucial factor for the expansion of the credit market in the country.

**1994**

Real Plan finally stopped the inflationary bleed and forward sales could return to their normal level.

**2005**

In Brazil, the National Business Information Network (RENIC) is consolidated, gathering more than 150 million credit information on forward sales.

**2006**

In the United States, VantageScore is created through a joint venture between the three major credit rating agencies.

**2010**

In Brazil, Boa Vista Serviços is created to manage, modernize and expand credit protection services, SCPC, with the purpose of providing its clients with information on corporate and individual defaulters, ensuring the best decisions and strategies for credit sales system.

**2015**

The National Association of Credit Bureaus (ANBC) is founded with the objective of representing the sector, encouraging financial literacy and helping to create a favorable regulatory and legal ecosystem for credit management to foster the Brazilian economy. Initial partners were Serasa Experian and BoaVista SCPC, joined by Quod and SPC Brasil.

**2018**

In Brazil, Quod, a fintech credit company controlled by the five largest banks in the country, is created to provide risk control, fraud prevention and data analysis products and solutions for financial institutions and other companies that require credit risk information.

**2019**

In Brazil, the Law of the Credit Report is approved and promulgated by the President of the Republic, an initiative aimed at democratizing access to credit.

## CREDIT IN THE FUTURE



Some element such as open data will be key for the credit market. Today, most consumer financial data are almost exclusively from banks and credit bureaus. But the trend is that much of the data is under the control of consumers, who can decide how to use it.

Fintechs will also promote credit by expanding application programming interfaces (APIs), which will make it easier for developers to use data to create new applications.

New technologies such as neural networks or artificial intelligence systems that can look at a huge raw data set and understand patterns will help, for instance, to improve credit assessment. To tackle fraud, the market will resort to different technologies, such as Blockchain or Fingerprint Biometrics, Face Recognition, and other identification means to protect identities.

There are so many innovations and such anticipated disruptions that in the future, instead of applying for credit, it will be possible for consumers to have credit automatically allocated to them based on their credit history, behavior, age, assets and needs.



### Information sources:

Studies by Serasa Experian, Boa Vista SCPC, Sao Paulo Trade Association, Equifax, Febraban, Central Bank of Brazil, Bradesco Projections — DEPEC, RAFIH, Rhasmey El; CABRIOLI, José Vinicius. Institutes guarantors of payment and the origin and evolution of credit securities.





## Open Letter

### Why stimulating credit should be a priority for the new president of the Republic

A positive agenda for financial inclusion, sustainable delinquency reduction and healthy expansion of the credit market in Brazil

## INTRODUCTION

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The biggest economic crisis in the republican history of Brazil, coupled with the lack of consumer planning and the inefficiency of the current lending model from creditors, which do not know the real creditworthiness of individuals, led over 63 million Brazilians to be included in the defaulters list.

Credit losses not only intensify financial problems of organizations (banks, financing institutions, retailers, utilities, telephone and telecommunications companies, etc.), they also strongly impact the lives of these defaulting families, who make up about 40 percent of the nation's adults.

What seems an isolated situation, ends up harming the whole country. Brazilian interests are high due to loan default rates. According to the Central Bank, more than half of bank spreads (difference between the interest rate charged by financial institutions and the cost of raising funds) is due to unpaid debt.

As a result, the problem affects both those who do not pay their debts and run out of credit in the market, as well as those who pay their debts, but are forced to pay higher interest rates to offset defaulters.

Despite the healthy divergences between the different presidential candidates, there is consensus regarding challenges for the resumption of economic growth, which necessarily involves the expansion of the credit market.

That is:

- + The need to rebalance public expenditure by reducing expenses and growing the economy, generating jobs and raising revenues without increasing the tax burden.
- + The importance of long-term public policies to attract private investment and consolidate a Market Economy.
- + The urgent credit expansion at fair cost
- + The pressing need of addressing loan default of over 63 million Brazilians

## WHY CREDIT EXPANSION IS GOOD FOR BRAZIL

The entities that sponsor Credit History point to sustainable credit expansion as a solution to address key political and economic issues discussed during the presidential campaign.

Credit, after all, is an important driver of domestic market development and production. The increase in the volume of loans boosts domestic demand, thus impacting directly and positively Gross Domestic Product performance, which is the sum of all goods and services produced in the country. By boosting consumption, credit leads the productive sector to invest and manufacture more goods and, consequently, to employ more people, increasing the population's income and improving their quality of life by raising their standard of consumption.

But to do so, credit must be properly granted, based on the most well-known and scaled risk. If loan default rate is high, it impairs the country, hindering value and affecting the quality of life of citizens and the entire production chain. Therefore, companies, organized civil society and governments must face the great challenge of promoting best practices in credit analysis and lending transactions, reducing information asymmetry with tools such as Credit History, financial literacy. We must speed up all these processes.

In Brazil, despite the high loan delinquency rate, credit has no widespread acceptance. According to the Bank for International Settlements (BIS), the country recorded in the first half of 2016 non-financial private sector indebtedness of approximately 45% of the GDP, well below global average, showing the potential for credit growth in the country.

At the same time, according to BIS, the Brazilian income commitment to interest and amortization is much higher than global average. Among other reasons, it occurs due to an extremely high bank spreads compared to the world and our neighboring countries.

How to reverse the situation and stimulate a healthy expansion of the credit market?

How to make credit a mechanism for financial and even social inclusion?

## CREDIT HISTORY IS THE WAY TO RESPONSIBLE CREDIT

To cheapen credit and democratize its access, the main tool is the creation of a credit information system, the Credit History, already in place in more than 70 countries.

An information record brings new competitors to the credit market, such as Fintechs, increases the volume of loans, and allows rates to be differentiated, with fairer rates for good payers. Although in force since 2013 in Brazil, the model adopted discourages consumer adherence. The new proposal submitted to the National Congress, for automatic inclusion of all Taxpayers' # may lead the country to perceive the benefits that the Credit History can offer:

For the economy:

- + GDP increase by 0.54% p.a.
- + injection of up to \$ 1.1 trillion into the market
- + BRL 790 billion expansion in credit to companies of all sizes
  - BRL 550 billion, i.e. 8.4% of GDP, of credit expansion to 4 MM of micro and small enterprises, which employ the largest share of the workforce across the country.

For the society:

- + up to 45% reduction in loan delinquency, which reaches about 63 million Brazilians
- + inclusion of about 22 MM citizens, i.e. more than 10% of the Brazilian population, into the credit market
- + lower interest rates by increasing competitiveness among creditors and providing credit based on good and not bad credit history data

For the government:

- + up to BRL 450 Bn in tax collection and federal contributions managed by the IRS, without changing tax rates
- + increase of BRL 205.7 Bn in ICMS and IPVA collection by Brazilian states, driven by economic activity growth

## CREDIT HISTORY AND DATA PROTECTION

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Brazilian credit market growth is compatible with respect to citizens' data privacy, as it is the case in other countries that have already adopted the Credit History through automatic inclusion, such as the United States, United Kingdom, Belgium and Mexico.

Brazilian data protection law is based on the European legislation. The General Data Protection Regulation (GDPR) represents the most complete personal data protection instrument in the world. According to the GDPR, consumers do not need to give permission for their data to be used for credit purposes. In Article 23, paragraph e, the GDPR establishes the exceptions, as in Brazilian law, regarding the use of personal data automatically or compulsorily.

In Brazil, although the general legislation defined by the data protection law is based on consumer authorization (opt-in model), the legislation itself defines exceptions. Article 7, paragraph X, expressly cites that the processing of personal data may be carried out for the "protection of credit".

It should not be forgotten that three of the main legislations that refer to consumer relations, including those related to credit, have the same hierarchy in the legal system. The Consumer Protection Code, the Credit History as it exists today, and the General Data Protection Act are ordinary federal laws, all of which are, of course, below the Federal Constitution. None of these three rules regulates nor overlaps the other.

Credit protection databases do not store sensitive or confidential information. The privacy of individuals is protected as provided by law. Information such as social and ethnic origin, health and biometric data, and religious belief are part of the so-called sensitive or confidential data, the definition of which is found in Article 5, paragraph II, of the data protection law.

## CREDIT HISTORY TO REDUCE DEFAULT

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The existence of more than 63 million defaulters is a challenge for the country and the federal government, mainly because the level of indebtedness has a strong negative impact on consumption and is directly reflected in the Gross Domestic Product (GDP).

Find solutions to eradicate this huge problem is a duty of society. And the Credit History is the most viable solution to restore the credit situation of this defaulting population in an organic and gradual way.

On the one hand, the availability of positive information gathered in the credit score will stimulate competition in credit offer, including through Fintechs. On the other hand, by lowering risks, lenders will be able to practice fairer rates. Finally, consumer empowerment through credit score grants access to better rates.

Industry studies show that the Credit History could reduce delinquencies by up to 45%, which would mean a significant decrease of over 28 million of defaulters.

In addition, the new Credit History will be extremely beneficial to consumers, who will be less prone to debt and more likely to use credit rationally.

## MORE CREDIT AND FAIRER RATES FOR ALL

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Credit History is an inclusive measure as it will help those who are on the sidelines of the credit system because they have no credit history. Part of the population has no proof of income, but they pay monthly bills like water, electricity, telephone and gas. Credit History allows to analyze the behavior and potential consumption of these people, who currently have no proof of income, based on their utility consumption patterns.

## CONSUMER CONTROL ON PERSONAL DATA

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In the current voluntary membership system, credit history data, such as bill and loan payments are available to any requester such as shops, banks, financing institutions, utilities, etc.

With the new law these data are automatically included in the credit score and the data is disclosed by the borrower to the requester.

- + Bank secrecy is guaranteed, as only the credit score will be made available to the lender upon consumer authorization.



## ON THE WAY TO FINANCIAL CITIZENSHIP

- + The borrower - individual or legal entity - may request its exclusion from the Credit History at any time, in multiple ways.
- + All institutions that make up the Credit History, such as database managers, information providers and information requesters, will operate in accordance with the Consumer Protection Code.

Citizenship gives citizens the right to participate in decisions that affect well-being in exchange for responsible behavior within society. Citizenship goes through the growing financialization of economic resources, fundamental for the welfare and prosperity of the citizen. Thus, in a financialized society, if we are not financial citizens, we are not citizens.

Financial citizenship materializes through three main stages:

- + Financial Inclusion: a process that gives citizens access and visibility to the economy's products and services through the financial system. Credit History is one of the most effective processes to guarantee this inclusion.
- + Availability of Products and Services: products and services offered according to the need and accessibility of the citizen.
- + Financial Literacy: knowledge framework and good practices enabling inclusion with responsible financial behavior and citizenship sustainability.

In short, financial citizenship allows people to access appropriate financial products and services, as well as the opportunity, ability and confidence, and the appropriate support and advice to make informed decisions about their financial situation.

Consolidating this institutional framework will effectively allow a society that respects democratic values to rediscover the path of economic development with social inclusion.

In this context, the Credit Bureaus sector is committed to participating in Brazil's socioeconomic improvement through:

- + Promotion of Credit discipline
- + Financial Inclusion
- + Sustainable Credit
- + Conscious Consumption



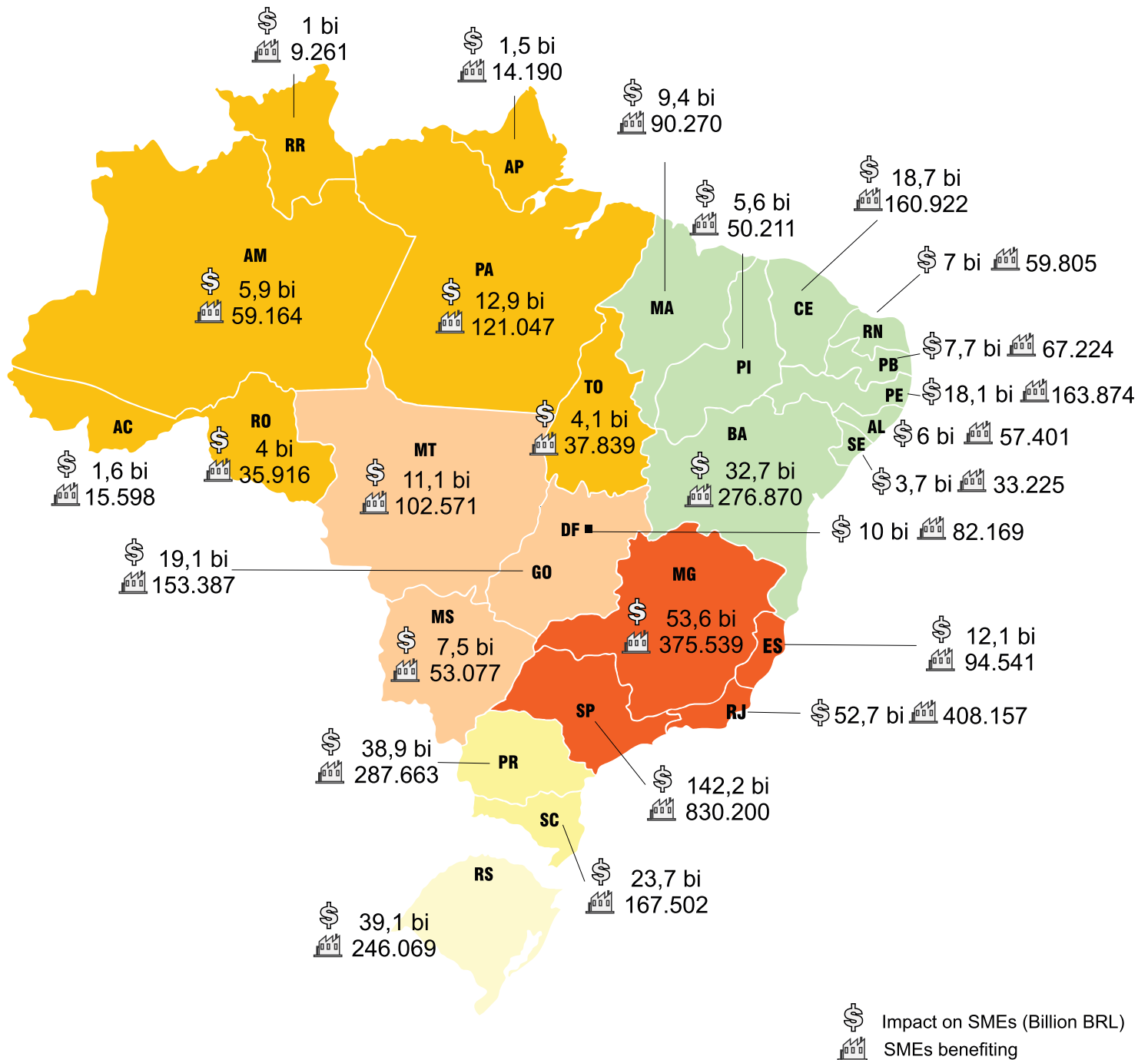
# BENEFITS

## CREDIT REPORT

- BRL 1.3 trillion injection into the economy
- 22 MM of new consumers without access to credit
- GDP increase by 0.54% p.a.
- Classes C, D and E benefits = 60%
- Reduction of bank spreads by 4.05 p.p. driven by lower default
- Default drop by 45%
- Estimated BRL 205.7 B in ICMS and IPVA collection
- Estimated BRL 450 B in federal tax collection
- 4 MM of SMEs benefiting
- BRL 550 B in new business for SMEs
- BRL 790 B in new business for companies of all sizes
- Brazil in the roll of more than 70 countries worldwide

# Find out how Credit Report may help Brazilian SMEs

A study by the National Association of Credit Bureaus, ANBC, shows the impact of Credit Report on small businesses, which employ more than 50% of the country workforce\*



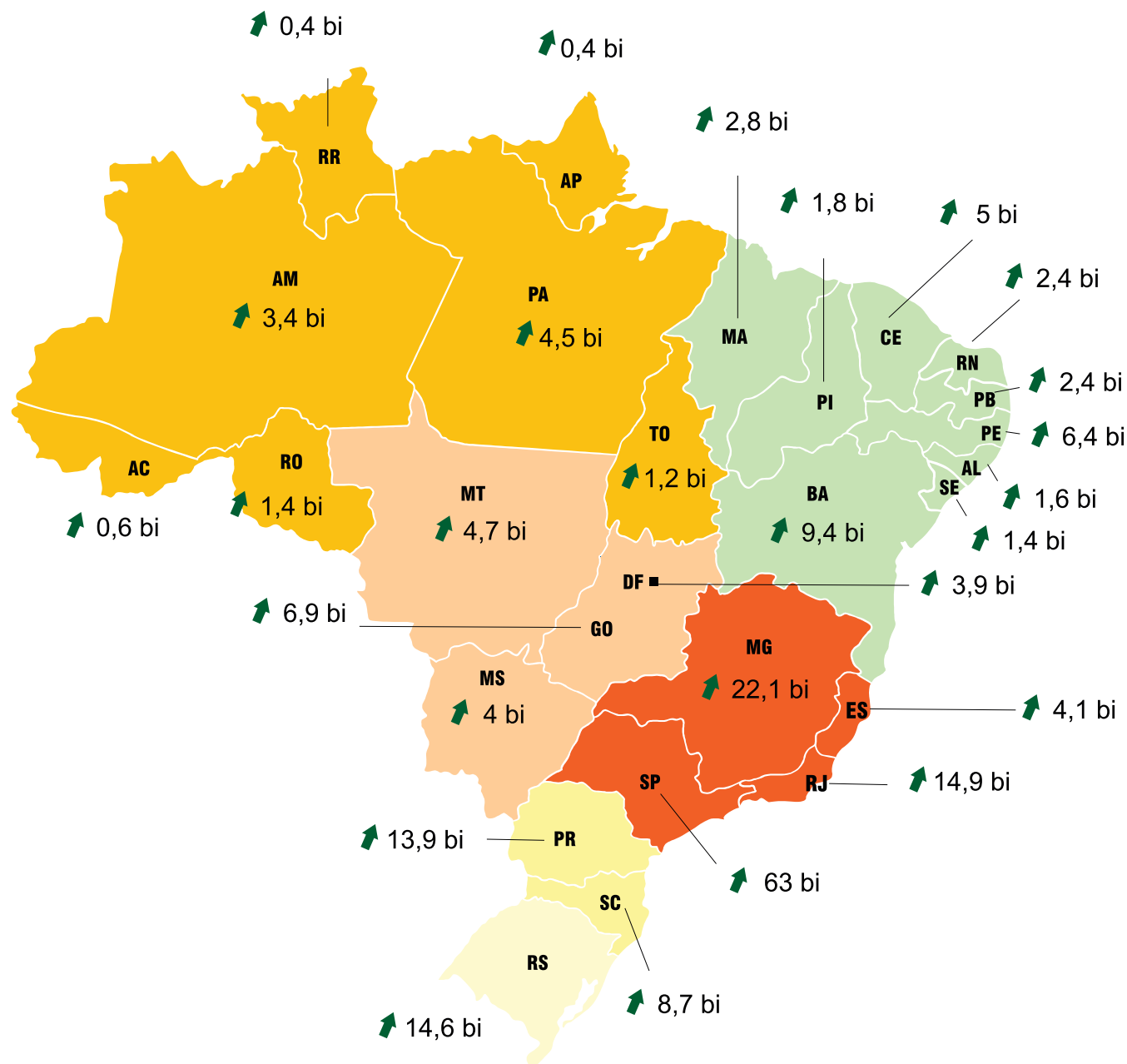
\*Study by Sebrae shows that in 2015 small businesses employed 16.9 million people, which makes up 54% of the country's employee workforce.

Entities supporting this initiative



# Credit Report can generate an increase of BRL 205.7 B in revenue and ICMS and IPVA

A study by the National Association of Credit Bureaus, ANBC, shows an average increase of 3.7% per year, benefiting Brazilian states.



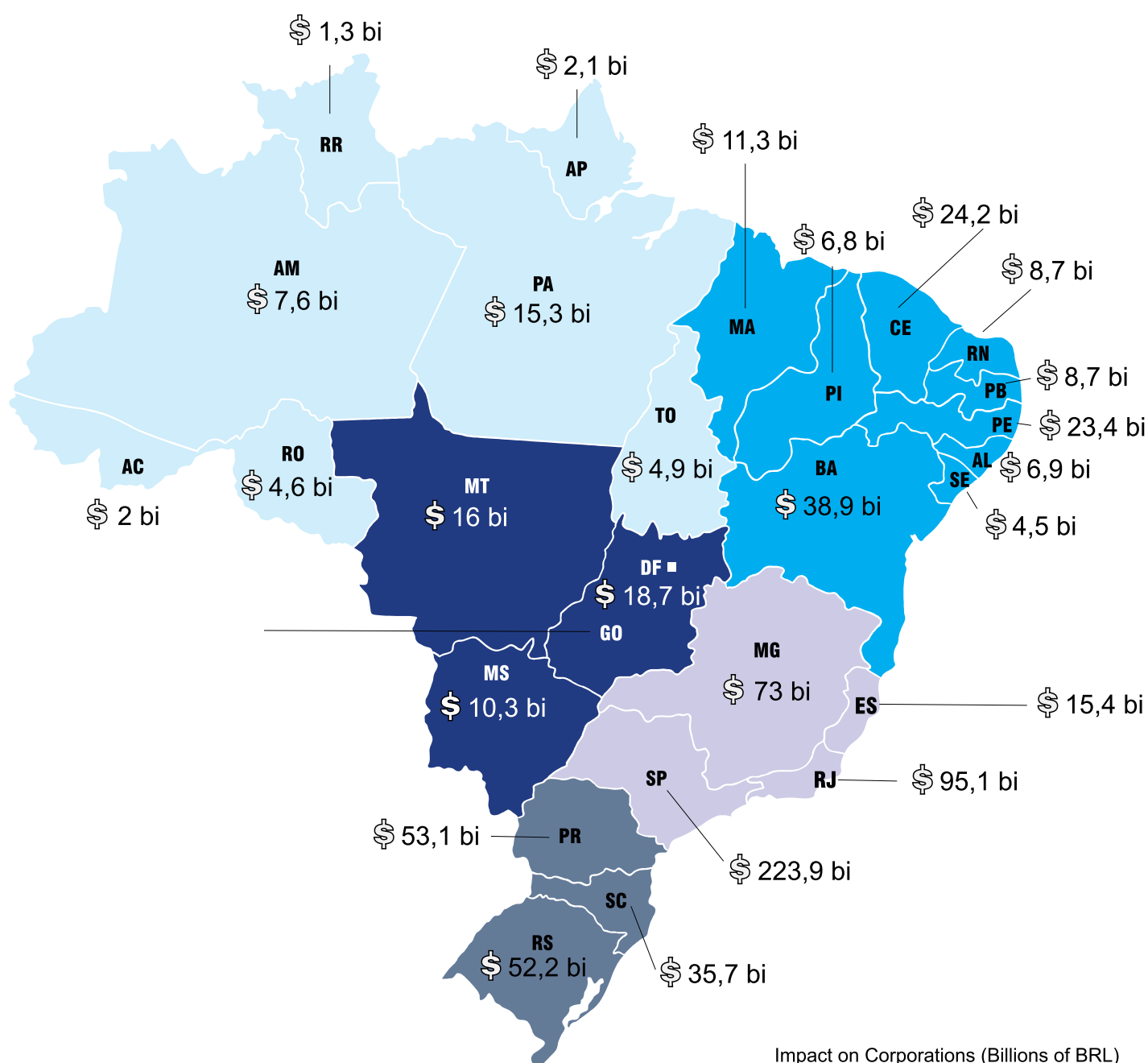
Source: ANBC, based on data from Confaz Federal Revenue System and study by LCA Consultants.

Entities supporting this initiative



# Find out how Credit Report may help Brazilian Companies

Study by the National Association of Credit Bureaus, ANBC, shows the impact of Credit Report on business generation



Source: ANBC, based on data from Confaz Federal Revenue System and study by LCA Consultants.

## Entities supporting this initiative



# Find out how Credit Report may increase federal revenue, without increasing taxes

Calculation considers all federal taxes and contributions managed by the IRS



\*IPI  
\*IR  
\*IOF

\*ITR  
\*COFINS  
\*PIS/PASEP

\*CSLL  
\*CIDE  
\*PSS

\*Imposto de Importação  
\*Contribuições  
Previdenciárias

Source: ANBC, based on data from Confaz Federal Revenue System and study by LCA Consultants.

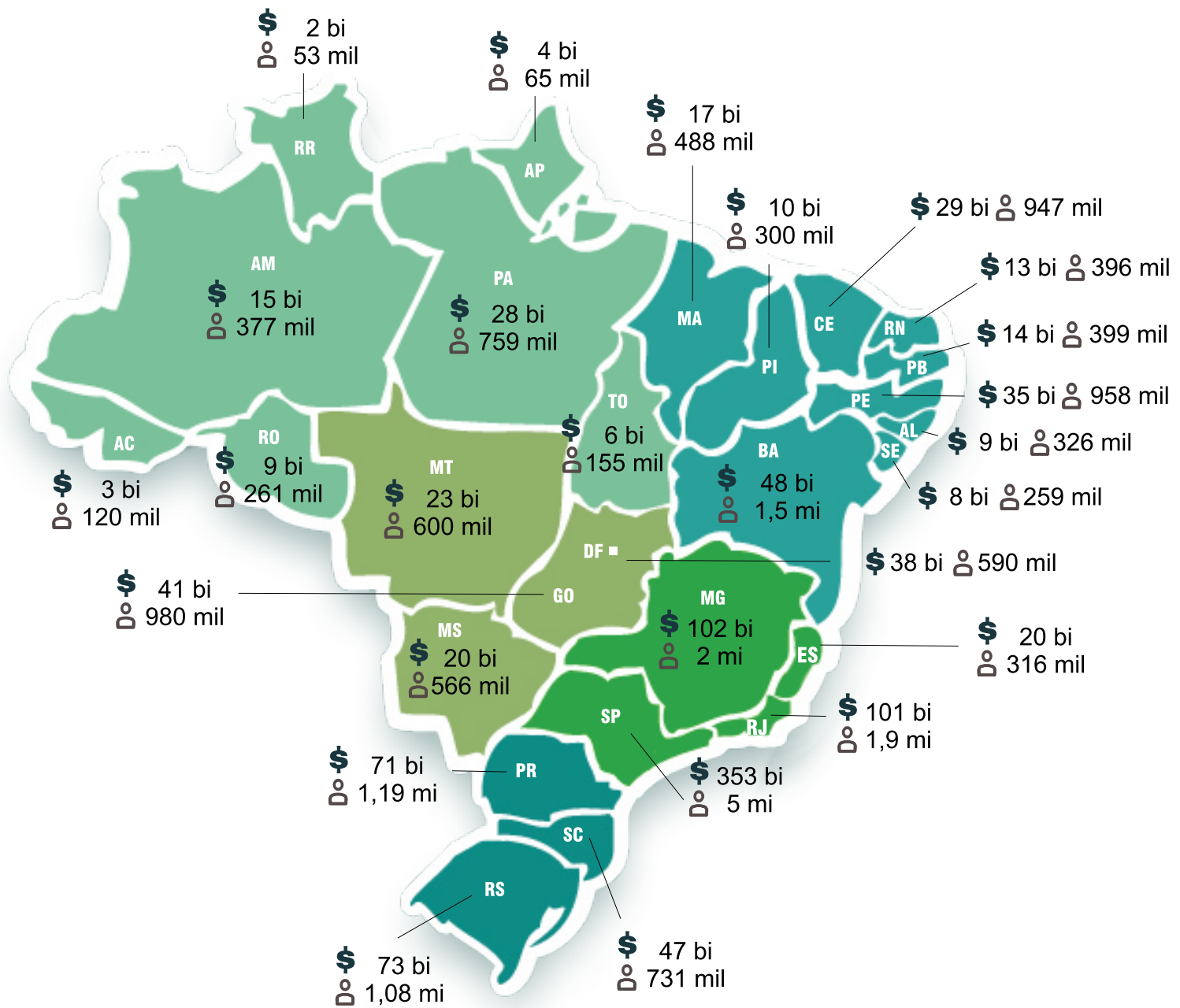
Entities supporting this initiative





# Find out how Credit Report may help Brazil

Study by National Credit Bureaus Association, based on industry data, shows more than BRL 1 trillion in savings and 22 MM new consumers



\$ expected injection into the local economy (Bn of BRA)    👤 new consumers expected

Entities supporting this initiative





# Reckless practices compromise credit dynamics

by Elias Sfeir  
President of Brazil's  
National Credit Bureaus  
Association

Credit bureaus are responsible for managing databases to provide transparency between lender and borrower. To do so, this process includes activities such as collecting and storing information, analyzing data and provide tools to support credit decision making, with access to third parties authorized by law.

In the current scenario, where transactions occur at a faster pace, making this credit information available provides data security to all market stakeholders: lender, borrower, and economic system.

Entities offering credit need to understand credit behavior of borrowers. Loan applicants can use their information - credit score - for instance, to negotiate lower interest rates and better payment terms. A

healthy dynamic strengthened by the new rules of the Credit Report in force.

The automatic inclusion of individuals and legal entities into the Positive Data Credit Report will enable more consumers and organizations to access loans and financing and avoiding fraud.

Unfortunately, some reckless credit practices may compromise this healthy credit dynamic regulated by the Brazilian Credit Score law, the Consumer Protection Code and the General Data Protection Act, which will take effect on August 2020.

**Get to know the practices.**

**1) Prohibiting and Restricting use of information:** prohibiting and restricting use of relevant financial information for credit analysis purpose is one of these credit-damaging practices, which may lead to distorted credit analysis. Proper risk analysis based on the information from credit bureaus databases may help lenders to determine loan applicants' creditworthiness. Restricting use of information may increase the risk of borrower defaulting to the detriment of creditors and the good payers causing borrower over-indebtedness.

**2) Credit report limitation:** any credit report limitation for credit analysis purposes also compromises the market leading to information asymmetry and biased credit analysis which may impair lender repayment and borrower over-indebtedment.

**3) Increased costs related to credit information:** increasing the costs of relevant information to credit analysis is equally detrimental and contrary to the sharing purpose and transparency. Databases that provide credit analysis serve the public interest and the access to such information should be granted to those who are authorized by law.

**4) Negotiation and repayment processes bureaucracy:** bureaucratic red tape hinders negotiation and debt repayment, scoring debtors with bad credit report for longer and impairing borrowers as a consequence. Simplifying negotiation and debt repayment is a democratic approach, which strengthens the economy and becomes an incentive for good creditworthiness.

**5) Increased repayment costs for borrowers:** costs related to the debt repayment penalize

borrowers. The repayment should be their only responsibility. Any additional cost impairs the consumer ability to repay the debt and brings incentive for no payment. As the debt increases, the repayment may be compromised. When the lender collects debt efficiently without penalizing the borrower, credit recovery is encouraged, thereby strengthening the relationship between lender and borrower.

**6) Complex and non-flexible collection system:** complex collection processes are characterized by several steps for debt repayment. The relationship should be as simple as possible. Making the negotiation process easier and repayment flexible speeds collection and strengthens the relationship between lender and borrower, encouraging debt repayment.

**Accurate and effective credit information accelerates market processes and fosters the relationship between lender and borrower.**

