# Do We Need a European Directive for Credit Reporting?

Nicola Jentzsch*

Data are usually more mobile across borders than people. In the credit reporting industry, however, it is the other way round: people are more mobile than data. For various reasons credit reports – the personal financial profile of a borrower – are currently not exchanged across borders. Such profiles are produced by public or private credit registers, they are compiled from banks, insurance companies, utilities and telecoms. In some countries virtually the whole credit-granting industry delivers information about payment behavior and contractual breaches to credit registers. But why are these profiles not as mobile across borders as their "data subjects"? The explanation is simple: there is a lack of demand for cross-border consumer credit and therefore a lack of demand for credit reports on the side of the banking industry. The eager plans of the European Commission with regard to harmonizing markets for personal data using directives have not changed the picture much. In 2007 there were discussions among policymakers in Brussels whether another directive could help to rectify the situation. Do we in fact need another directive for harmonizing European credit reporting systems?

## One Europe – 27 credit reporting systems

For years European policy makers have worked to harmonize and integrate capital and credit markets in Europe. While the main focus has been on the provision of services (such as saving facilities, credit products and payment services), the "informational structure" facilitating these activities has been neglected. Credit reporting is still not harmonized at all, although data protection has been harmonized, which says little about the data items collected in the individual countries. The European member states have taken different routes of developing the "informational structure" in their credit markets. Some countries, such as France and Belgium, organize credit reporting via a register located at the central bank. In this register they collect information about private individuals. All bank-supervised institutions report to that register. In other countries, such as UK and Sweden, there is not a central register, but a competitive industry. Several credit reporting agencies collect information on borrowers and sell it to the credit-granting industry. Luxemburg has neither a register nor an industry, because of a small market and strict privacy provisions. In Brussels, this diversity is increasingly seen as an obstacle to integration of credit markets.

Table 1 presents an overview of European credit reporting systems. It shows when the public credit register (PCR) was established (if there is one) and when the first or one of the first private credit bureaus was founded. The Table also shows the information sharing regime – meaning if either positive or negative information is exchanged. Positive information denotes all data about normal contractual behavior, such as repayment data, amount and maturity of loans. Negative data, on the other hand, are all data about contractual breaches, such as late payments or even bankruptcy. "Limit" denotes the reporting threshold, meaning all credit above such thresholds must be reported to the credit register.[1] As can be seen, there are some countries with fairly high reporting thresholds: Austria, Germany and Italy. These countries use their registers primarily for banking supervision in terms of monitoring systemic risk, risk concentration or financial conglomerates. Other countries have low thresholds. The registers of France and Belgium, for example, are used to prevent overindebtedness and to promote responsible lending. Compared with a private credit bureau collecting the same type of information, these registers do not provide other services, such as marketing or credit scoring.[2] The information sharing via public credit registers is in many cases not voluntary as regulations prescribe what data must be reported and when.

Credit reporting agencies, on the other hand, have relatively low thresholds, because they may want to include institutions, such as telecoms and utilities, which could otherwise not report to them. Some credit bureaus even collect information from tax authorities (such as in Sweden). It is noticeable that in virtually all more mature credit reporting systems more and more participants from different industries

* Nicola Jentzsch currently serves as Head of Research of the European Credit Research Institute at the Centre for European Policy Studies in Brussels.

[1] In some countries such as Germany, the overall indebtedness of the borrower has to be reported.
[2] A credit score is a risk rating of a borrower.

**Table 1**

**European credit reporting systems (EU-27)**

| EU | PCR est. | CB est. | PCR pos. info | PCR neg. info | CB pos. info | CB neg. info | Limit ind. (PCR) € | Limit ind. (CB) € |
|---|---|---|---|---|---|---|---|---|
| AUS | 1986 | 1941 | Yes | No | Yes | Yes | 350,000 | 35 |
| BE | 1967 | – | Yes | Yes | – | – | 200 | – |
| BU | 1998 | 1995 | Yes | No | Yes | Yes | 510* | 0 |
| CY | – | 2001 | – | – | Yes | Yes | – | 0 |
| CZ | 1994 | 2000 | Yes | Yes | Yes | Yes | 0 | 0 |
| DN | – | 1971 | – | – | No | Yes | – | 130 |
| EST | – | 2001 | – | – | Yes | Yes | – | … |
| FI | – | 1961 | – | – | No | Yes | – | 0 |
| FR | 1946 | – | No | Yes | – | – | 500 | – |
| GER | 1934 | 1927 | Yes | Yes | Yes | Yes | 1,500,000 | 100 |
| GR | – | 1993 | – | – | No | Yes | – | 0 |
| HU | – | 1990 | – | – | Yes | Yes | – | 0 |
| IR | – | 1963 | – | – | Yes | Yes | – | 200 |
| IT | 1962 | 1989 | Yes | Yes | Yes | Yes | 77,500 | 0 |
| LV | 2003 | … | No | Yes | Yes | Yes | 150 | … |
| LT | 1996 | 2000 | Yes | Yes | No | Yes | 14,500 | … |
| LU | – | – | – | – | – | – | – | – |
| MT | – | 2002 | – | – | No | Yes | – | … |
| NL | – | 1965 | – | – | Yes | Yes | – | 125 |
| PT | 1978 | 1996 | Yes | Yes | Yes | Yes | 0 | 50 |
| PL | – | 2001 | – | – | Yes | Yes | – | 0 |
| RO | 1999 | 2000 | Yes | Yes | Yes | Yes | … | … |
| SK | 1997 | 2003 | – | – | Yes | Yes | – | … |
| SL | 1994 | … | Yes | Yes | … | … | 0 | … |
| SP | 1962 | 1967 | Yes | Yes | No | Yes | 6,000 | n.a. |
| SW | – | 1890 | – | – | Yes | Yes | – | 0 |
| UK | – | 1960 | – | – | Yes | Yes | – | n.a. |

PCR = public credit register; CB = credit bureau; est. = established; neg./pos. info = negative/positive information; ind. = individuals; "…" denotes unknown; "–" denotes non-existent.
* Threshold for overdraft on debt cards, "limit" is the reporting threshold.

Source: World Bank, Jappelli and Pagano (2002) and Jentzsch (in press).

are joining the networks. Information traces left by an individual in different contexts are collected together and are correlated. The data are fed into credit scoring models – statistical procedures involving several variables used to predict the probability of default. Similar models may also be used to predict attrition risk or the profitability of consumers. The score is a number that summarizes this risk – it can be sold with the credit report or without it. In many countries, credit reporting agencies have a 0-threshold, which leads to the inclusion of all credits granted by the reporting institutions. Private credit bureaus are voluntary information sharing mechanisms. Banks and other institutions have the option to become a member, but once they do they must report on a reciprocal basis. Private credit bureaus and public credit registers are therefore different and in many cases (depending on the design) complementary. The design and complementary features are discussed in greater detail in Jentzsch (in press). Some countries have had such systems for years (such as Austria and Germany), others have just recently set them up. In addition, some countries have until recently had no private credit reporting agency (Latvia and Malta are examples). In this case new credit bureaus might be collecting only negative information. Under these conditions it is obvious that it will be an arduous task to standardize all the different systems.

### One Europe – no common market

At the moment, private borrowers can take up credit in several European countries without individual national credit granters having a complete picture about indebtedness. This is because credit reports are immobile at the moment, and there is no single institution that collates the information from different countries. Although the impact of this matter on the downstream banking industry is negligible at the moment, it will become a problem once consumers start to borrow from creditors in other member states. Potentially, credit reports can be sent to institutions in other European Union countries as all nations have implemented the European Data Protection Directive. This directive, implemented by all EU members as of April 2007, harmonizes the most important data protection principles, regulates supervision functions and holds that once it is implemented in a country, data traffic can be conducted without impediment. Technically, cross-border data exchange is already possible today. Data in credit reporting could cross the border in potentially three ways:[3]

[3] This discussion is based on Jentzsch (in press).

**Table 2**

**Members of the memorandum of understanding**

| Country | Year est. | Name | Operator |
|---|---|---|---|
| Austria | 1986 | Grosskreditevidenz | Central bank |
| Belgium | 1985 | Centrale des Crédits aux Particuliers | Central bank |
| France | 1946 | Fichier National des Incidents de Remboursement des Crédits aux Particuliers | Central bank |
| Germany | 1934 | Evidenzzentrale für Millionen-kredite | Central bank |
| Italy | 1964 | Centrale dei Rischi | Central bank |
| Portugal | 1978 | Serviço de Centralização de Riscos de Crédito | Central bank |
| Spain | 1962 | Central de Información de Riesgos | Central bank |

Source: Jentzsch (in press).

- Exchange among public credit registers;
- Exchange among commercial reporting agencies and
- Exchange among consumer reporting agencies.

Any discussion about the integration of credit reporting systems in Europe must at least differentiate between these three types of networks, because each of them is in a different stage of development in terms of integration. With respect to the exchange of data among public credit registers in Europe there has been some progress. There are also systems for commercial reporting across borders, meaning that information on corporations and firms is shared. Cross-border consumer reporting, on the other hand, is in its infancy, although it is in the process of being developed.

### International exchange among public credit registers

The exchange among public credit registers is organized as follows. Altogether 14 European Union members have a public credit register at the Central Bank. All of them collect data on corporations and entrepreneurs, and most of them also collect data on natural persons, however, to a varying degree. The latter is not done by the Czech Republic and Slovakia, where the registers collect only data on firms and entrepreneurs. The coverage of the borrowing population (corporations aside) varies enormously due to the varying thresholds as discussed above. At the moment, the data exchange among PCRs is *not legally regulated on the EU-level*. It was proposed that by April 2007 only the access to these databases should be regulated. The October 2005 draft of the Consumer Credit Directive contains a provision stating that a member state shall ensure non-discriminatory access to the databases in its territory for creditors from another member state (proposed Art. 8). The provision reads:

*In the case of cross-border credit, each Member State shall ensure access for creditors from other Member States to databases in that State under non-discriminatory conditions. The consumer, if he so requests, shall be informed of the result of any database consultation immediately and without charge.*

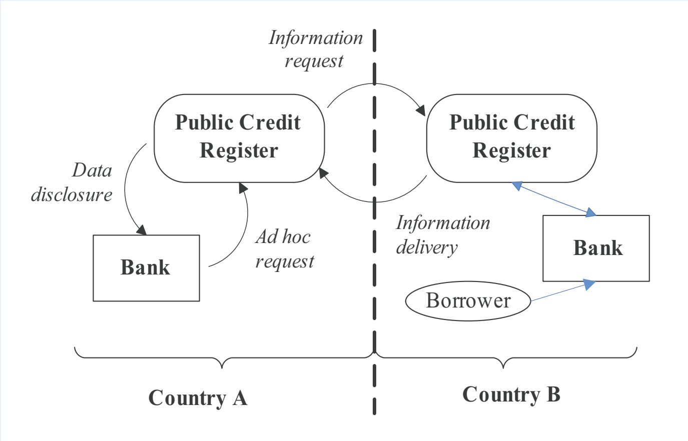
Suggestions to specify the purpose of data collection (former Art. 7), such as for granting credit, have been scrapped after intensive criticism. This is the only provision that exists at the moment on this level – the European Data Protection Directive will be discussed further below. However, among some of the 14 countries with public credit registers, there is a Memorandum of Understanding (MOU).[4] To become part of this exchange, some countries had to change their laws, while others – Belgium, Italy, Portugal and Germany – had adequate provisions in place in 2002. As of October 2006, seven EU countries had signed the Memorandum. These registers are listed in Table 2.

Former accession states, such as the Czech Republic, Latvia and Lithuania, are not listed because, as of April 2007, they had not joined. The Memorandum of Understanding covers data on corporate borrowers *and* on private persons. But the members of the PCR working group have agreed on a threshold for this type of reporting. They have agreed to provide each other with data on borrowers if the indebtedness of the borrower exceeds EUR 25,000. There are regular information exchanges, but financial institutions, insurance companies and investment firms can also initiate ad hoc requests to the PCRs. Typically,

[4] The *Memorandum of Understanding on the Exchange of Information among National Central Credit Registers for the Purpose of Passing it on to Reporting Institutions* (20 February 2003) is available from the European Central Bank's website. Other information used here was provided by the Evidenzzentrale of Germany's Bundesbank.

**Figure 1**

MOU TRANS-NATIONAL DATA EXCHANGES AMONG PCRS




Source: Designed by the author.

such requests must be transmitted through the national PCR, which must verify whether the creditor has an established relationship with the borrower or intends to establish one. Thus, the national PCR acts as a "clearing house", as a transmission mechanism for requests and replies. This exchange is currently limited to only a small number of data items, for instance, the total amount of indebtedness. If a bank wants to know the indebtedness of a borrower in country B, but itself is situated in country A, the information on the borrower must be requested through the national incumbent PCR (Figure 1).

In a next step, the national PCR must request this information from the PCR in country B. Since this PCR collects information on borrowers via banks in the home country, such data can be provided to the PCR in country A, which in turn discloses the data to the bank. The MOU states that PCRs may use the data they receive for banking supervision purposes and for internal research. Banks and financial institutions may use it for evaluation of the borrower's credit risk. As of April 2007, only information on corporate borrowers is being exchanged. But apparently it has been planned to expand this exchange to include data on individuals. This will be the case when the participants gain more experience with the data exchange that is currently going on. The number of profiles on borrowers that pass trans-national borders was fairly low as of 2007.

## International commercial credit reporting

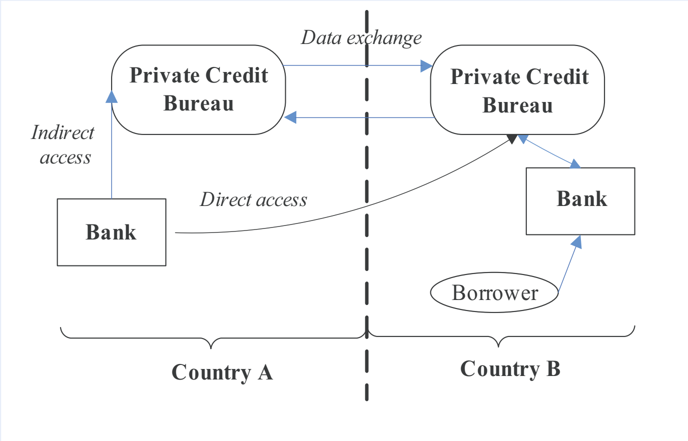
The most developed data traffic provides information on firms and companies through commercial credit reporting agencies. In 2007, there were several competing networks in Europe. For instance, BigNet participants are reporting agencies that collect information on firms. The reports on companies include some basic identifiers, but also creditworthiness and payments ratings, financial figures and a company's owner/s as well as any group connections. The so-called Eurogate Report is provided by a network of credit reporting agencies in Austria, Belgium, Germany, Spain and Great Britain. This network was founded in 1994 by Bürgel, one of Germany's commercial reporting agencies and now provides access to the databases of the major commercial reporting agencies such as Graydon, Eurocredit and SCRL. This network covers 10 countries in Central Europe. Another system is Key Factor (formerly known as EurisConnect, a system for data exchange among ACCIS members). Key Factor users can obtain credit reports on European citizens in Italy and overseas. Some large credit reporting companies have built up subsidiaries in different countries. For instance, Coface International and Creditreform are in several European countries and therefore can provide international credit reports through their own network.

## Consumer reporting agencies: Intensifying cross-border expansion

Increasingly, there is also action in the area of international consumer reporting. Two strategies are employed by the credit reporting agencies: either expanding through mergers and acquisition (this is done by the credit reporting agencies Equifax, Experian and Creditinfo) or lodging partnerships with other national credit bureaus – a strategy pursued by Schufa, BKR and others. For the latter, the *Association of Consumer Credit Information Suppliers* (ACCIS), the European industry association of credit reporting agencies, has developed a standard contract for the exchange of data on individuals. Two options are possible: either per direct link-up/access or bilateral transmission. The two options are presented in Figure 2.

**Figure 2**

POSSIBLE DATA EXCHANGE AMONG PRIVATE CREDIT BUREAUS




Source: Designed by the author.

Some companies pursue a strategy of merger and acquisition. Two companies are outstanding in this sense: the British-American Experian and the Icelandic Creditinfo Group. The latter is a newcomer that was virtually unknown five years ago, but is comparatively small in comparison with the other international agencies. Both companies have pursued aggressive expansion strategies. Creditinfo expanded to Eastern European countries, whereas Experian is trying to expand into more mature markets. Equifax is employing a strategy that is a mixture of expansion and partnerships. They are involved in joint ventures and are also considering bilateral cross-border contracts.

*Option direct access:* A creditor from country A can be directly linked up to a credit bureau in country B. However, credit reporting usually is conducted in a reciprocal manner, meaning that parties that withdraw information must also deliver their own data. With a direct link-up, the creditor in country A would have to deliver data on consumers in his home country to a credit bureau in another country. This is rather rare, although potentially possible, because of the harmonization of the European Data Protection Directive.

*Option cross-border contract:* Increasingly more common is the cross-border contract between a credit bureau in country A and a credit bureau in country B. For instance, one could imagine that a financial institution might ask its incumbent credit bureau for credit information on borrowers in country B. The incumbent credit bureau would then contact its partners in country B to request information on the borrowers (Figure 2). The information would be delivered to the incumbent and then from there to the requesting financial institution. There is now also a reciprocity principle between partner credit bureaus as the information that can be delivered is also the type that can be withdrawn. This resembles somewhat the public credit register data exchange. If in one country, there is only a negative information-sharing regime, all that can be withdrawn from a partner institution is negative information. Apparently public credit registers have become interested in this type of exchange, as Belgium is already a member of ACCIS.

In some instances, these companies are active in a country without actually conducting credit reporting. Some firms provide ancillary services such as commercial reporting or the processing of credit cards – in France credit bureaus provide such services. It is clear that the main intention of expansion strategies is to become Europe's dominant credit reporting agency. It is likely that only three or four networks will survive in the medium term. There are strong concentration tendencies inherent in the competition in information markets. Moreover, there might be "first mover" advantages: the downstream

**Table 3**

**International presence of credit bureaus in Europe**

| Entity | Country presence |
|---|---|
| Experian | Austria, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Monaco, Netherlands, Norway*, Spain, Sweden, United Kingdom |
| Equifax | United Kingdom, Ireland, Spain, Portugal |
| Creditinfo | Bulgaria, Czech Republic, Cyprus, Greece, Lithuania, Malta, Slovakia, Romania, Iceland*, Norway* |
| CRIF | Italy, United Kingdom, Czech Republic, Slovakia |
| * denotes EEC countries. | |

Source: Experian Annual Reports, Equifax Annual Reports, Creditinfo Annual Report, CRIF, company website.

industry might flock into the network that was established first. In some cases (such as in the U.S.), several credit reporting networks are used simultaneously. Technically, cross-border exchange is already possible as the international agencies use the same platforms in different countries.

**Forces for integration or forced integration?**

Some international credit reporting networks exist and the technology is in place: why then is there only very limited cross-border reporting? And is this really an obstacle for credit market integration in Europe? A look at the history of credit reporting might provide some interesting insights. In the U.S. in the 1960s, lenders centralized their files nationally and pressured credit reporting agencies to nationalize. This might also be the future development in Europe. With the internationalization of retail banking, the internationalization of credit reporting will occur almost automatically. In the European Union, the Commission has used several instruments to integrate consumer credit markets by harmonizing the legislation. The main mile stones were:

- Consumer Credit Directive 87/102 amended in 1990 and 1998;
- Directive 90/88/EEC amending Directive 87/102;
- Revision of Directive 87/102/EEC (October 2005 version of the proposal).

While harmonization is essentially not a bad idea, the reality of directive transposition and judicial interpretation again might create varying legislation across countries. The transposition of the European Data Protection Directive has also led to varying regimes (discussed in further detail with ratings for individual countries in Jentzsch, in press). Another directive that regulates and standardizes information collection in the individual countries might probably lead to overlap with the European Data Protection Directive. Competing and overlapping legislation will create uncertainty for the industry. European credit markets are quite different and thus create different information environments. In addition, while there are some "core variables" that are predictive for credit risk across nations (such as martial status and home ownership), there might be others that vary from country to country. Altogether it is not advisable to forcibly create something "common", where the difference is actually what is important. Scoring models differentiate and this discrimination becomes ever more detailed – the more exact the risk estimation, the better.[5] Scores could possibly be exchanged across border as this is in many cases sufficient, also for point-of-sale credit. Scores are already used for fast growing person-to-person credit markets where private individuals directly lend to each other without using a bank. These markets are now expanding quickly in the United States and increasingly also in Europe.[6]

Two important factors for the efficient functioning of the data trade are consumer protection rights and transparency of information flows. These are necessary to preserve some fundamental rights of consumers in the digital economy. The European Data Protection Directive installs basic rights for data subjects, obligations for data controllers (this category includes credit bureaus) and tasks for supervisory authorities. The most important matters, therefore, are in place. It is questionable, if another directive would be of great help as there might be the risk of overlap and contradictory provisions, as already pointed out. Furthermore, trying to regulate credit reporting agencies as *industry* would be counter-productive; it is better to regard credit bureaus as *networks,* where thousands of information furnishers and users take part in the information sharing under standardized conditions.

The forces for increasing consumer credit market integration will probably originate elsewhere. They must come from consumer demand, from technology and from increased competition across borders. In future consumers might increasingly screen for bank products with the best price, regardless of the nationality of the provider. As long as the primary modus of service provision is not cross-border lending, but direct presence in the market, cross-border data exchange will be limited. It is more important to monitor the industry and national public credit registers from a competitive point of view to avoid any abuse or discriminatory behaviour on the part of banks or credit bureaus. DG Competition has just recently analyzed the credit reporting industry.[7] This approach is helpful insofar as it ensures that the systems operate without discriminating against foreigners. The current legislation at the EU level is suffi-

[5] This has its limits as some variables should not be included in scoring models such as race, political beliefs, trade union membership, etc.
[6] Prosper, Zopa and Fairrates as well as Smava are some of the marketplace providers.
[7] Report on the retail banking sector inquiry – Commission Staff Working Document accompanying the Communication from the Commission – Sector Inquiry under Art 17 of Regulation 1/2003 on retail banking (Final Report) [COM(2007) 33 final] SEC(2007) 106.

cient for cross-border reporting to develop. Instead of drafting a new directive, the Commission should ensure enforcement of the existing legislation and should conduct research as to whether there are discriminatory rules in laws at the national level. There are indications that such rules exist in several countries. In general there should be some trust in market-led development of private consumer reporting – for credit bureaus a simple Memorandum of Understanding might be sufficient. Policymakers must carefully consider, however, if it is better to rely on the forces that encourage integration or opt for forced integration.

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