

**Central Credit Register (CCR) - Consultation Paper CP63
Consultation Response to Central Bank of Ireland
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1. Background

This submission is provided with pleasure but is in an area of some complexity; the devil is in the detail! Top level observations by the World Bank and others can provide general direction but there is a need to have well thought out clarity before such a major implementation. An early follow up meeting would be welcomed as we have only touched briefly on a number of important areas.

My background and those of many associates and colleagues I work with - is in the optimisation and fairness of the credit decision making process. (My personal profile is provided in a separate attachment to highlight this.) The role that a successful CRA provides in assisting in this is the bedrock of the CCR as we see it. We totally support the creation of a complete and mandated comprehensive credit database for the benefit of all stakeholders; especially the consumer. We have highlighted areas where we believe the CCR – as conceived – may limit this objective.

I have worked in Ireland for several decades with bank, mortgage and credit card and finance company sectors. In virtually all cases the value and use of existing credit reference data has predominated; whether in a start up situation or where major reviews have taken place.

Inevitably, I have been aware of the state of play with regard to the Irish Credit Bureau for many years. I see the CCR as a real chance to enhance credit data content and lending practices but would urge caution on a number of practical fronts and advocate a longer term perspective on others.

My focus is enhanced as I am at present representing UK retailer Next plc in their intention to enter the Irish market. As a retailer of note in the UK and increasingly in international markets – they seek to leverage their credit expertise in the UK for use worldwide.

They have a cautious and careful approach to credit and this allows them to offer attractive APRs and a quality credit product. A mixture of internet and branches offers fashion and home products with some 4 million active customers in the UK willing and capable of using credit for these purchases. Next do not offer direct credit to their internet or store customers in Ireland but intend to do so. There are 9 stores in Dublin, 4 in Cork and 17 spread over most counties.

A key part of the UK credit data provision is the use of CRAs. For decades data provision has expanded voluntarily in the UK but is now extensive; this includes telecom and utilities and house rental data. The cross industry lender/CRA initiative called SCOR created 20 years ago has helped facilitate this and has even moved beyond the more comprehensive and welcomed bank current account data of recent years.

Of note has been the better use of data for advanced fraud prevention, smarter identification, money-laundering compliance, affordability checks, financial inclusion initiatives and over-indebtedness prevention. This is over and above the improvements seen in credit scores with wider information sources and higher volumes of data; this to support volumes of UK applications estimated to be in excess of 100m per year.

2. Consultation Response

All relevant past papers - and those referred to in the consultation document have been reviewed - and the consultation document questions have been considered. There will unfortunately be duplication in our answers if we follow the questions precisely. Also – from a Next perspective answers will be as a potential lender – not as an established one. We have not seen a line by line critique of the failings of the existing operations and there is little mention of the ICB in the documents read; so we have had to rely on personal experiences and judgements.

We propose below to set out our best view of how Next would be affected together with a number of observations based on past general experience. These will hopefully still address your issues and provide feedback based on comparable situations. Our considerations do focus on consumer credit – but we will refer to other aims of the CCR especially on commercial lending and regulatory oversight.

3. Likely issues for Next

An exercise is underway at the ICB concerned with estimating anonymously how many of Next's retail customers have accounts already at ICB. This will clearly indicate the degree to which this data can help our credit decisions. We see it as vital to check accounts from younger age groups; those with lower incomes and even those with small but potentially unaffordable balances.

A factor that concerns us there is the **minimum size of balances** held at ICB but to an extent this will be an issue for the CCR too. The proposed 500 Euros minimum (say £368) is perilously close to the average Next UK balance of £363. This implies that about half of its Irish customers would not be held on the CCR. Furthermore – searches are not expected to be required for loans of less than 2,000 Euros (£1,470) thus implying that Next **does not have to search the vast bulk of its credit applications**. This surprises us. (5.4)

We do not believe this to be an issue for Next alone. Mail order business could be similarly affected and we would expect some credit union accounts to be thus excluded. Revolving accounts such as credit cards and overdrafts are held by a significant number of individuals and will have zero or small balances to start with – which will be hidden. Wise lending can start with low limits and build gradually. (5.4 – Q3, Q4)

We are aware that over-indebtedness can be caused by having a large number of individual accounts. On face value some of these can be for small balances and absent from the CCR but in total can be material. From a financial inclusion viewpoint – consumers with little or no balance at the CCR can easily be deemed un-creditworthy if small balances do not show. This is especially so for younger applicants or for those on lower incomes.

Another aspect for Next concerns what will happen in the **short term to ICB** before the CCR comes fully on stream. There are compelling reasons to use both at some point but this does not make sense. Will the ICB data be blended into the CCR database? In some cases ICB will already have important credit histories that lenders do not hold that should be transferred. This is a practical issue not covered in the consultation document but such a transition is important. (5.5)

4. Specific responses

We list the response points below and to an extent recap on the issues for Next that potentially affect others too. They are not specifically in priority order.

1. Re-consider both the minimum value requirements for data submission and use of CCR; we believe the values should be much lower. (Section 3 – paragraphs 2 and 3)
2. Provide more certainty on the future role of and data transfer of ICB data. (5.5 Q3)
3. Though phasing may be essential; consider mini projects in parallel rather than in series; as requirements for consumer, commercial and regulatory use differ markedly in complexity, resource, expertise and timescales; this to help balance different objectives whilst moving the overall project forward. (5.1, Q1, Q2 – 5.2, Q1 and Q2)
4. Select any future policy groups carefully and widely and give due consideration to enlightened challenge, practical experience of lender and credit reference systems, lender issues, potential pitfalls and realistic timescales. (The latter may be slower than wished for). Given that the Working Group reported in 2011; there may be scope to reflect recent change).

5. Member of such groups should be diverse and not be dominated by banks; within this group those with a wide experience of credit scores for typical non CRA data should be represented to enable applicant data to be refined. Those with thin CCR files will benefit. (Q5.3 – 1)
6. Support the intention to create a single complete customer view by including all possible sources - even if limited to start with. This to embrace those excluded; particularly considering financial inclusion, better identification, over-indebtedness, fraud prevention and smaller institutions. (5.1 Q4 d), 5.2 Q3)
7. The important role in the UK of the electoral roll, reporting of court judgements and data from debt purchasers bears a fresh and objective look – especially if the very desirable use of PPSN is denied.
8. There is no mention in the consultation of the role of CRIF. Many operational aspects mentioned are surely the responsibility of CRIF and may need clarification. (5.4 Q1)
9. Storage durations of credit histories should not be skimmed; credit and behaviour scoring developments, affordability measures, loan loss forecasts and future regulator data analysis makes this important.(5.5 Q2)
10. Lenders look to their CRA for more products (such as scores) - than just a reference check to enhance credit decisions. A full review and consultation on this aspect is needed as this dimension can enhance future development of the core CCR.
11. The Central Bank should at least consider longer term issues now on certain trends and future developments; examples of these include on - line real time systems, whether to store declined cases, the use by consumers of their credit information by smart phone and portable devices, non lender data participants. (5.3 Q2)
12. The consultation asks for comments on charging levels and systems for the use of the CCR – which are somewhat theoretical in the absence of the likely self financing costs of the CCR. This is surely affected by the set up and running costs, the build up and full-use volumes of required searches and the size mix of its users. IT and CRIF operational fees should be included.

We believe it would be prudent of the Central Bank to estimate these costs and to model and suggest alternatives based on these factors. There are different models in operation in various other places which have pros and cons. (5.9)

13. A cost to be aware of is the demand for consumers to see a copy of their file. In the UK the demand is satisfied by both a statutory and customised service.

Despite being charged a fee – albeit a small one – the UK processes about a million requests a year. The free service will be a cost to the CCR - which will be recovered from its users and ultimately from the consumer. A separate costing exercise is suggested for this aspect alone. (5.7)

14. With the advent of credit scoring the use of many consumer guarantors faded but there has been resurgence of late. We have limited experience on this - but we have researched and agreed a modus operandi with jointly held bank and (some) credit card accounts. There is an agreed protocol with the UK Information Commissioner. (5.8 Q1)
15. I was party to foreign lending and various cross border lending studies and initiatives. I understand that volumes are still tiny and mainly confined to adjacent states. There is a value in keeping alert on this subject but existing processes seem to work but are not likely to involve the CCR at this stage. (5.5 Q1)
16. On a final note – our experience with commercial lending is small but it is more diverse and complex than consumer; with the credit data being quite different. We are aware that SMEs and Trade Finance firms in the UK are becoming more active in seeking fair credit treatment – with government support. This is influencing data sharing. (5.1 and 5.2)

Footnote

Where there are gaps or short answers this may be due the following –

- Inapplicability; deserves detailed/face to face discussion; little or no specific experience; or not being operational yet (Next). We would be happy to meet and elaborate on any points we have covered above.

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