DAY 5 23RD AUGUST 2024

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Data Governance Frameworks for Effective Credit & Risk Management Conference Programme

CROSS BORDER CREDIT INFORMATION SHARING ROUNDTABLE

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Creating Markets, Creating Opportunities

NCR Opening Remarks

Lynette de Beer

Acting Chief Executive Officer, NCR

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IFC Opening Remarks

Paula Leynes Felipe,

Regional Manager, Upstream and Advisory Eastern and Southern Africa, FIG,IFC

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SECO Opening Remarks

Daniel Lauchenauer,

Head, Economic Cooperation and Development, Swiss Embassy South Africa

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SESSION 1

Cross border information:

Rationale and importance of harnessing cross border information sharing to promote inclusion and enhance stability

Collen Masunda, Global Specialist, IFC and ICCR Secretariat

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Harnessing cross border data flows to promote financial inclusion

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Creating Markets, Creating Opportunities

Collen Masunda
August 2024

Agenda

A. Drivers of cross border movements

B. Benefits of cross border data flows

C. Obstacles, challenges and risks of sharing data across borders

D. Current state of cross border credit information sharing

E. Use cases

F. Ongoing work to promote cross border credit information sharing

G. Concluding thoughts

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A. Major trends driving cross border movement

migration

regional integration

business expansions

technological advancements

1. Voluntary and forced migration

Drivers:

geopolitical transformations, demographic transitions, climate change and natural disasters, economic opportunities and social issues, technological spheres

Size:

281 million migrants (4th largest country):

169 million migrant workers

48% women

Economic benefits:

Remittances - $857 billion of which $656 billion to LMIC (2023). (more than ODA and FDI in some markets)

Skills/ labour force

investment

2. Regional integration

- Increasing wave of regional integration of blocs across the world. Top 5 major trading blocs:

European Union	United States-Mexico-Canada Agreement (USMCA)	Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	African Continental Free Trade Area (AfCFTA)	Regional Comprehensive Economic Partnership (RCEP)
• Launched 1993. • 27+ members. • covers 14% of global GDP.	• Launched 1994. • 3 countries: US, Canada, Mexico • Successor to NAFTA. • covers 17% of global GDP.	• Launched in 2018. • 11 countries • covers 15% of global GDP.	• Launched in 2020. • 55 countries in Africa • covers 3% of global GDP • 18.3% of population	• Launched 2022. • The 15 nation in Asia. • covers 30% of both global GDP and population.

B. Cross border data flows matters

"Global flows of goods, services, finance, people, and data have raised world GDP by at least 10% in the past decade, with the contribution to growth of GDP from data flows nearly matching the value of global trade in physical goods and services" – (McKinsey, 2017)

"At the national level, data access and sharing across borders may generate social and economic benefits up to 2.5% of GDP (up to 4% of GDP in a few studies)". - (WEF, 2023)

promotes access to finance

increases exports

reduces trade finance costs

financial stability

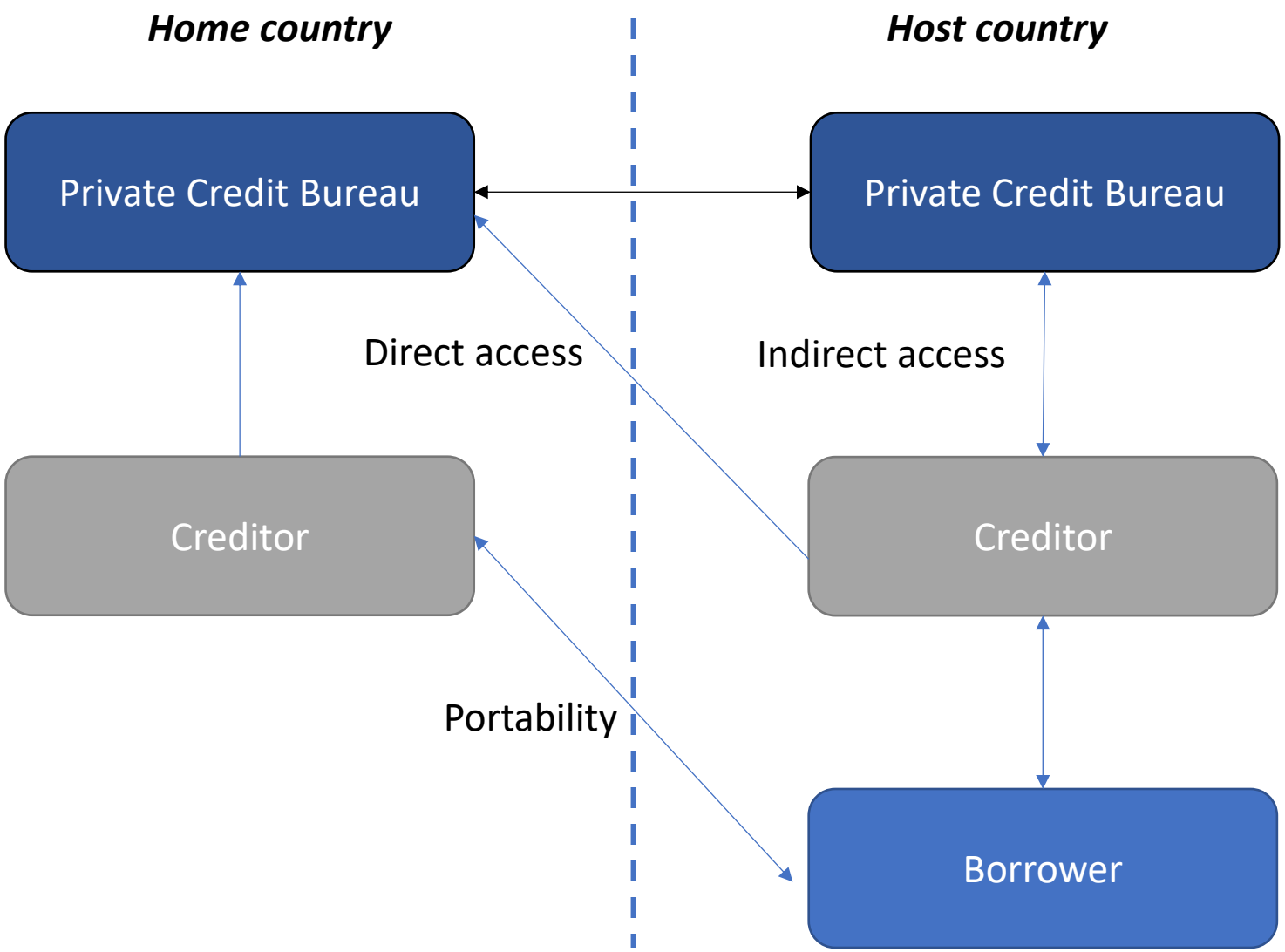
Benefits of cross border data flows

Consumers	Industry	Economy
• Access to service • Increase choice and satisfaction • Reduce cost of service • Improves standard of living	• Improves exports • Reduce trade costs • Promotes data driven decision making • Ability to serve multiple markets • Improve service quality	• Promotes digitization • Increases efficiency and productivity • Enhances competitiveness • GDP growth • Improves public policy objectives such as supervision.

C. Cross border information sharing remains a challenge

Regulatory	Practical challenges
• Data localization • Data protection & privacy laws • Competition and antitrust laws • Sovereignty • Cybersecurity concerns • Protectionism	• Lack of unique identifiers • Lack of use of existing identifiers. • Absence of unified dictionary of terms • Lack of standardization of common formats • Unwillingness to share

D. Four emerging models of cross border data sharing



1. Direct access
2. Indirect access
3. Portability
4. Right to access

Four emerging models of cross border data sharing

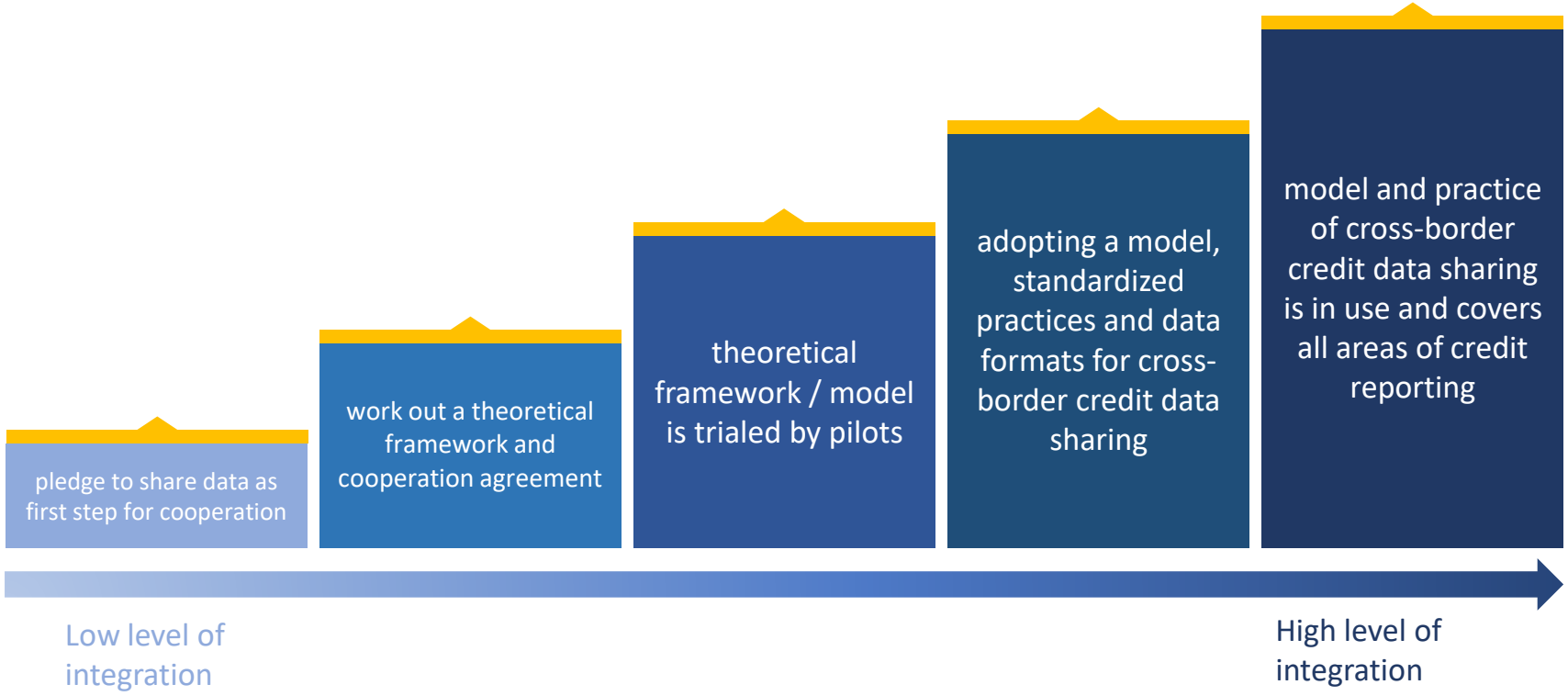
1. Direct Access Model (Creditor to CRB)	2. Indirect Access Model (Creditor via its CRB to another CRB)
"In this model, the creditor from country A accesses the credit data of the borrower from country B stored in a credit bureau located in country B. After having granted credit to that consumer, **the creditor of country A could be required to report the data and possibly the payment performance of that credit to the credit register located in country B**."	"In this model, in order to get the credit data of a borrower from country B, the creditor (resident in country A) accesses the credit register located in country B through a credit register located in country A. T**he creditor reports the data on the credit granted and/or payment performance to his local credit register according to the rules applicable to it.** The request works vice versa—that is, a credit bureau in country B requests information about a borrower's activity in country A. **This model is predominantly in use nowadays."**
3. Report-Portability Model (Borrower to Creditor)	**4. Right-of-Access Model (Indirect access to CRB via borrower direct/ delegated request**
"In this model, a borrower from country B collects his/her own credit report from the credit bureau. The borrower then provides it to the creditor in country A. This model is sometimes used for mobile borrowers, such as citizens who are moving to or working in a foreign member state (country A) and applying for a credit. The integrity of the origin of the data and the credit report, however, have to be proven."	"When a borrower applies for a credit, the creditor requires the borrower to ask the relevant credit bureau in his/her country of origin to send an authenticated credit report directly to the creditor on his/her behalf. The local credit bureau conducts the actual production and provision of the report."

ICCR (2021)

E. State of cross border information sharing

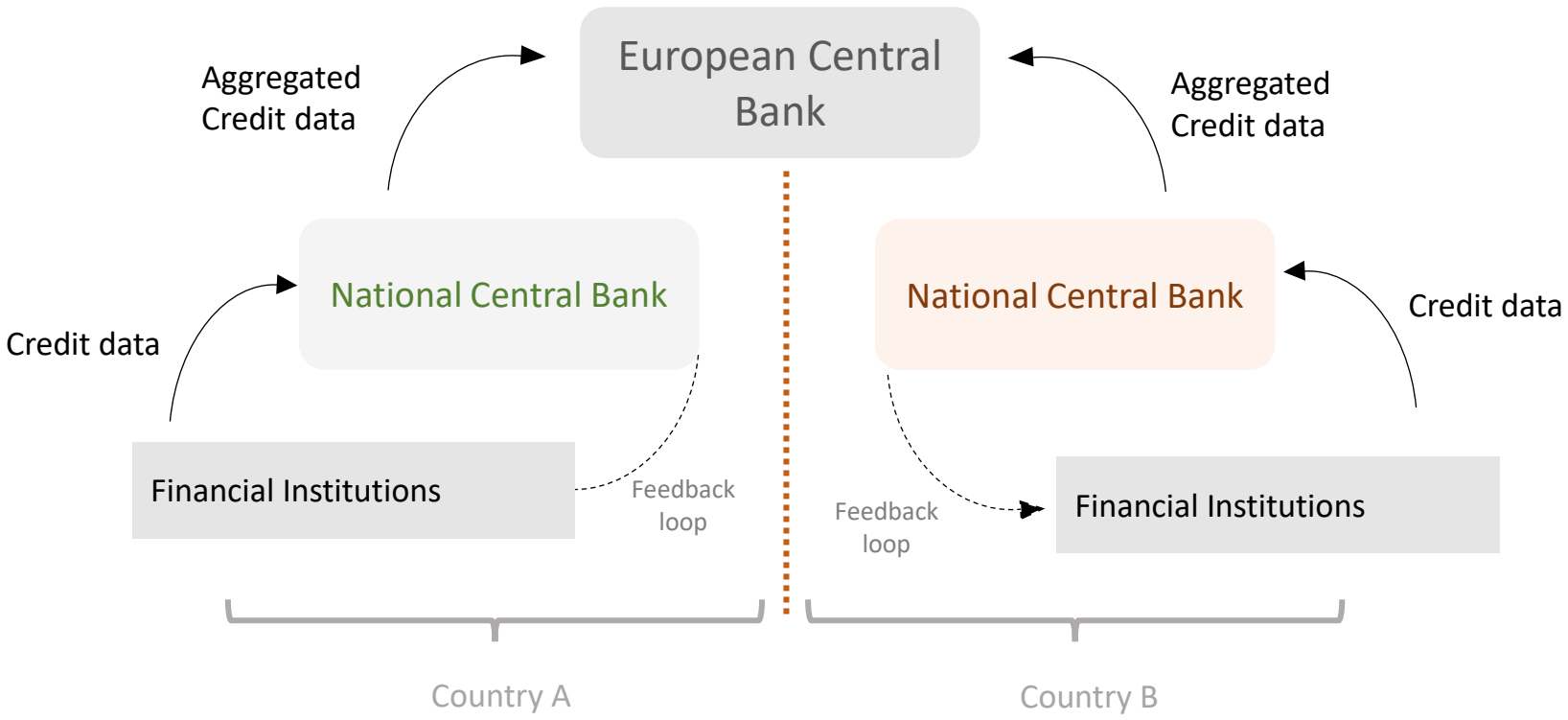
- Several ongoing private and public initiatives are at different stages of integration depending on the economic integration of the participation countries.
- Public initiatives are driven by regional (trade) blocs and/or Central Banks – with AnaCredit in Europe the most advanced. EU Member states adopted a common model, standardized practices and data formats for cross-border credit data sharing.
- Demand for consumer credit reports across borders is picking mainly driven by migration.
- Regional credit information associations are facilitating cross-border credit reporting albeit there is no cooperation across regions.
- Fintech have begun transnational movement of data.

Cross border information sharing maturity

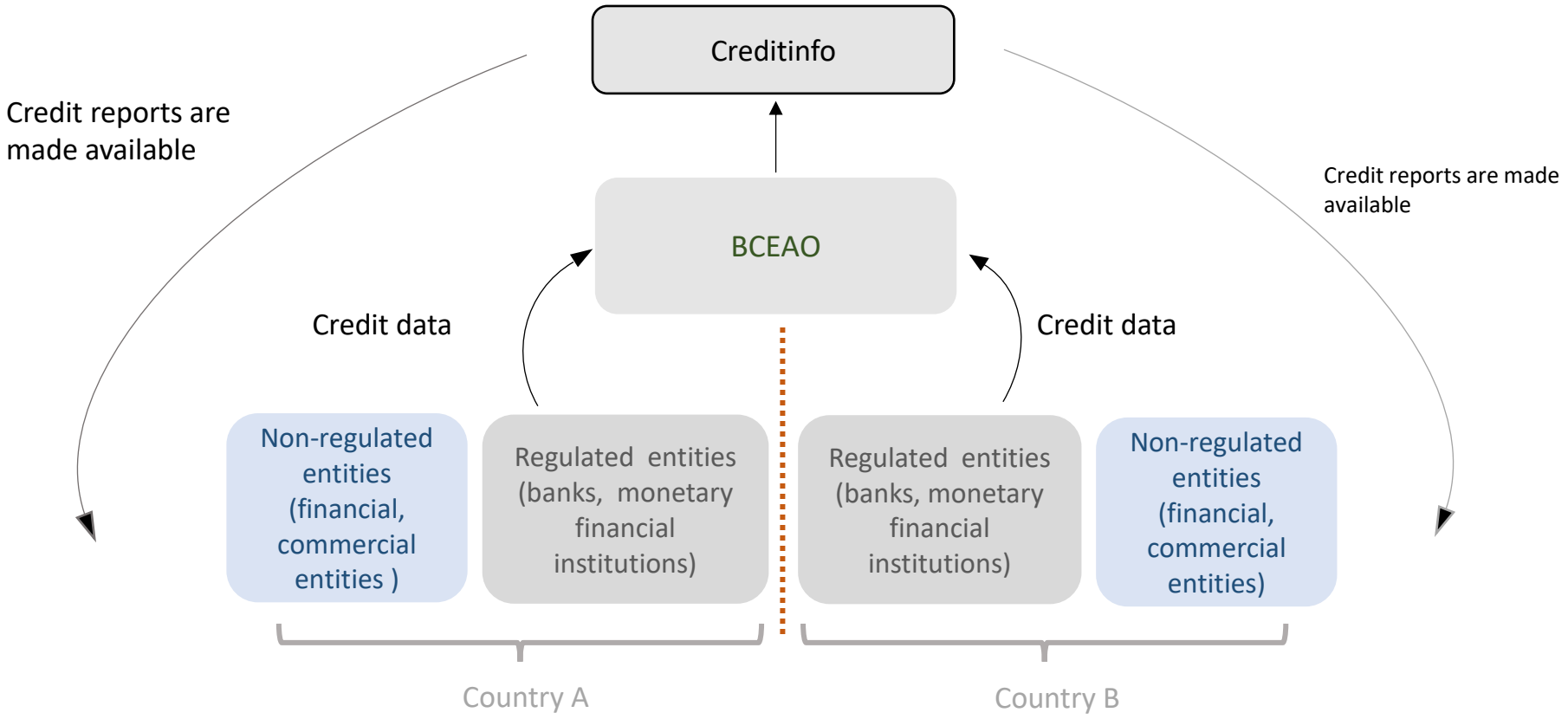


ICCR (2021)

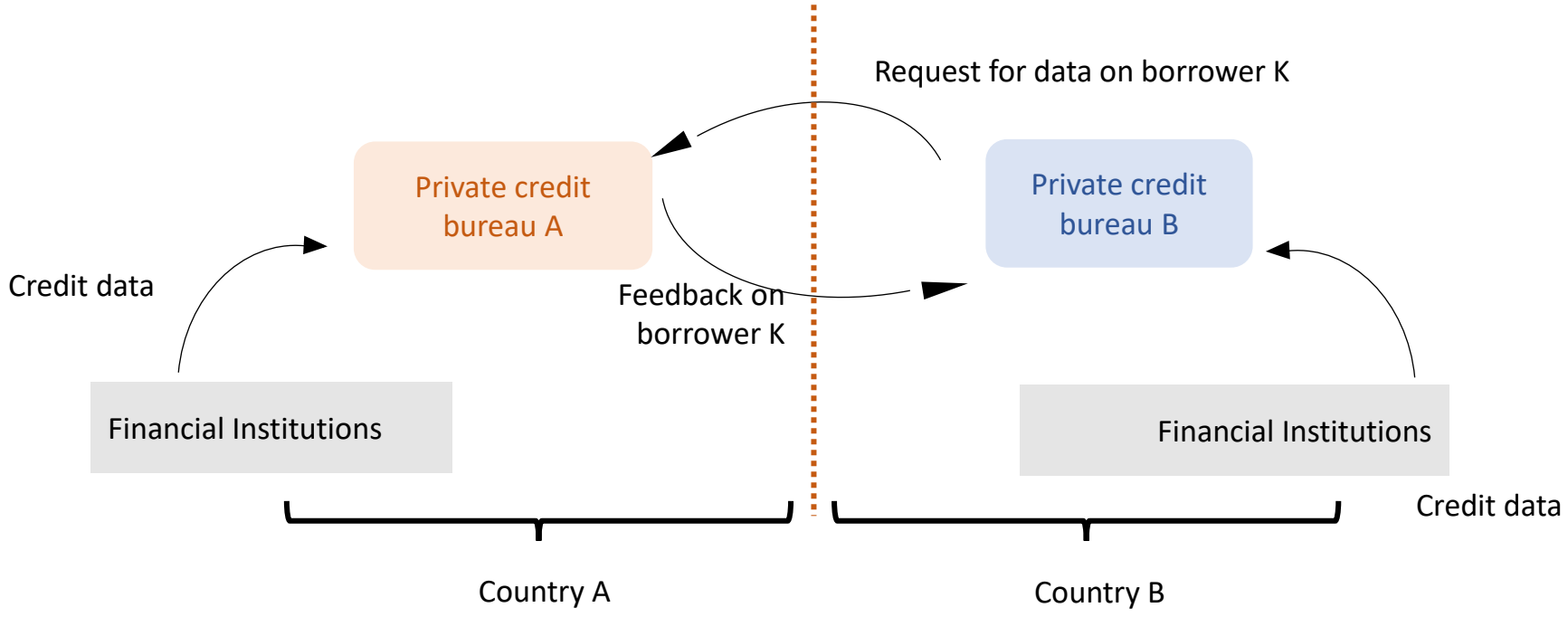
1. Public Initiative: AnaCredit



2. Private – Public Initiative: UEMOA Regional Credit Bureau



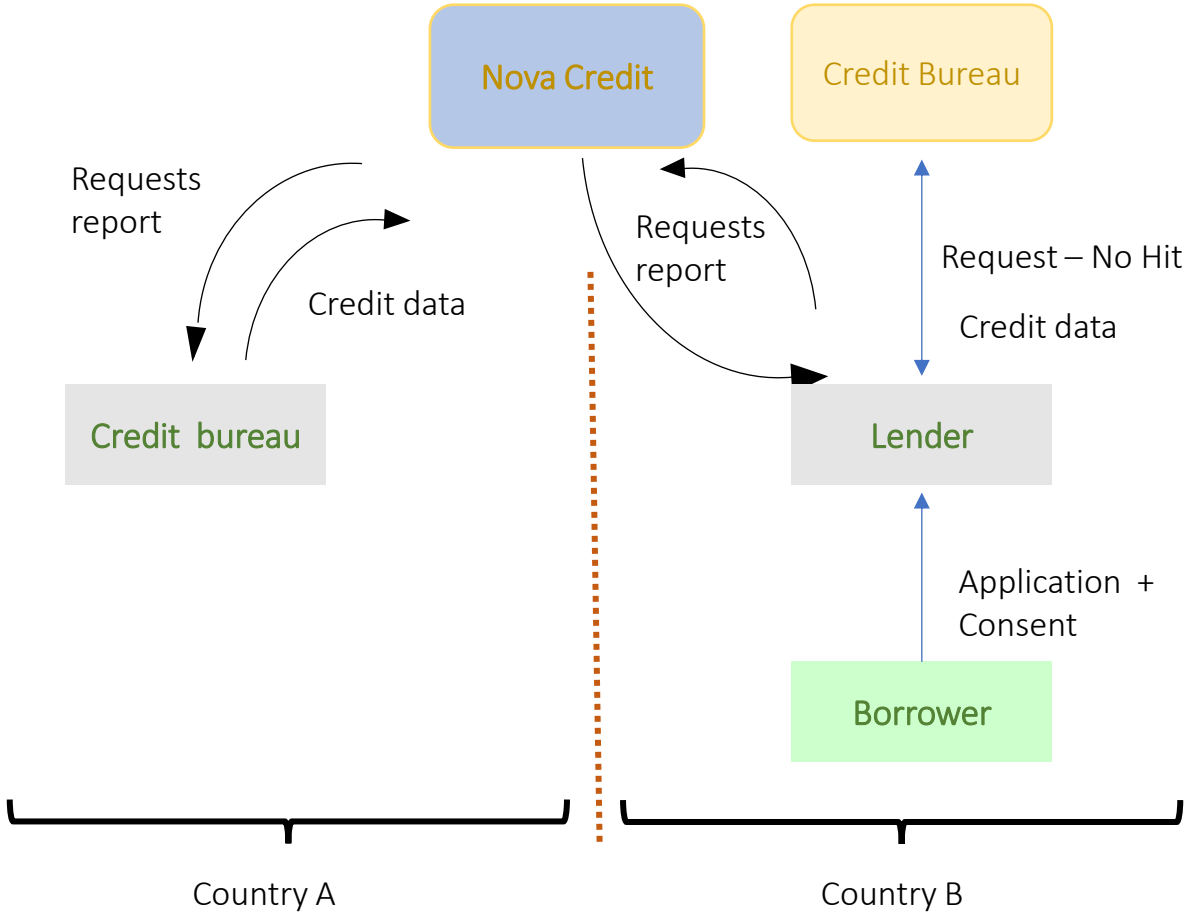
3. Bureau to Bureau Model



Examples:

- ACCIS members
- Credit Bureau (Cambodia) - Credit Bureau (Singapore)

4. Right to access



F. Use cases of cross border data flows in inclusion

- identity verification
- leasing
- employment screening
- credit underwriting
- trade finance & supply chain
- data driven product development & innovation
- Policy & regulation

G. Ongoing work on cross border information sharing

1. ICCR knowledge work
2. WBG projects
   i. Completed
   ii. Ongoing

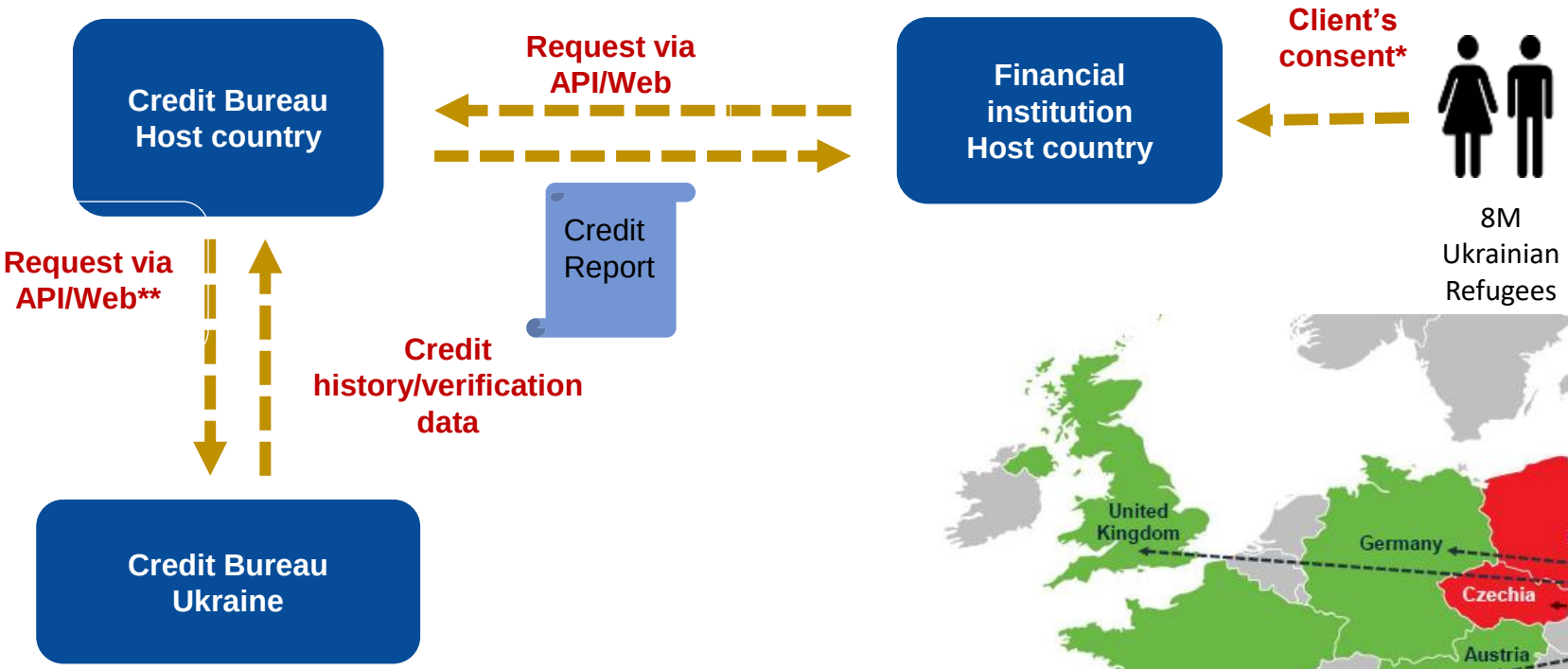
ICCR Proffered recommendations

International Organizations	National Policymakers	Industry Associations / private CB
• Self-assessment tool for policy-makers or regulators • Monitoring data processing restrictions • Develop standard framework for cooperation based on EU MOU and COC for Cross border credit reporting • Include the views of consumers and civil society	• Market assessment of demand for Cross-border Credit Reporting. • Develop regulatory impact assessments (structured view of costs and benefits) • Explore alternative ways to cross border credit reporting within regulatory frameworks • Framing of Written and Transparent Policies: 1) public education measures; 2) transparent and written policies	• Cooperation at Association and at Membership Level (regional clearing hubs) • Establish a global open credit reporting standard: global standard, common models, attributes and definitions • Establish common definitions: i.e. late payment, defaults, bankruptcies. • Leverage technological innovations to promote cross-border exchange • Develop international credit reporting schemes through standard service level agreements

5. IFC UKRAINE DIGITAL DATA CORRIDOR (EAST EUROPE)

The project initiated to assist Ukraine refugees to get access to financial services in host countries:

- Verification of Ukrainian citizens/companies
- Credit history/credit report



H. Concluding thoughts

- There is no one size fit all.
- Small steps matter:
  - Engagements with public and private sector players.
  - Review the feasibility of cross border sharing including legal and regulatory frameworks.
  - Start with most active transnational corridors to demonstrate scale.
  - Pilots
- Technology can ease some of the pain.

Six essential elements for cross border credit data sharing

1. Standards on data format
2. Mandatory data elements
3. Guidelines for crossborder data transfers
4. Risk mitigation
5. Governance in credit reporting agencies
6. Frameworks for cooperation and coordination among different regulators

THANK YOU

SESSION 2 - Panel

Promoting cross border sharing in Africa:

Opportunities and challenges

Anda Makrwede, Acting Senior Legal Advisor: Executive Support – NCR
Adamou Sambare, MD, Creditinfo West Africa
Sam Omukoko, Founder& GroupMD- MetropolCRB
Sophia Osie-Annor, Deputy Manager, Financial Stability, Bank of Ghana

Moderator: Collen Masunda, Global Specialist IFC and ICCR Secretariat

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SESSION 3
ICCR Data Related Working Papers

Luz Salamina, Lead Financial Sector Specialist, IFC and ICCR Secretariat

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1. Complementarity between Public Credit Registries (PCRs and Private Credit Bureaus (PCBs) for improved data quality Case Studies

2. Alternative data for enhanced management

3. Interplay between credit inclusion and over indebtedness

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ICCR BACKGROUND

- In May 2009 an international task force coordinated by The World Bank with support from the Bank for International Settlement was created with the ultimate goal of producing international standards for credit reporting.
- The taskforce was comprised of public sector + private bureaus associations.
- The taskforce's first publication was the General Principles on Credit Reporting (GPs) which are part of the compendium of standards of the Financial Stability Board.
- The task force was eventually transformed a permanent structure "International Committee on Credit Reporting."

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INTERNATIONAL COMMITTEE ON CREDIT REPORTING

ICCR Mandate

Role

- Promote safe and efficient credit information sharing that facilitates responsible access to credit and supports the stability of financial systems.
- Resource support (financial, human etc.) from WBG to review best practices, draft standards and committee's activities.
- **Meets twice a year.**

Responsibilities

- Formulating, promoting and supporting timely and consistent implementation standards and recommendations;
- Coordinating, cooperating and collaboration;
- Monitoring and assessing developments and innovations in credit information sharing;
- Knowledge sharing platform;
- Advisory role to private and public.

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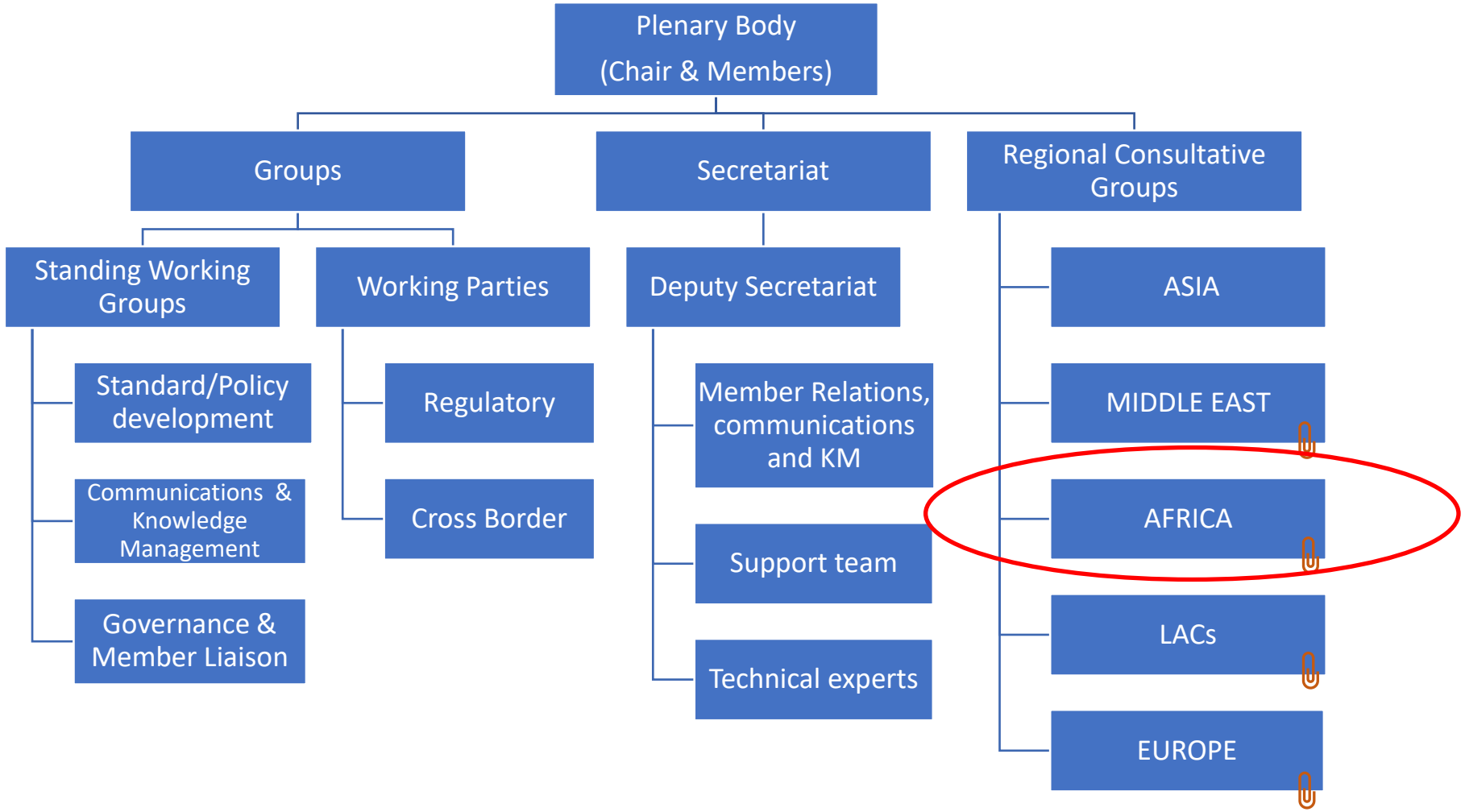
MEMBERSHIP

- The Committee's membership is derived from:
  - financial sector standard setting bodies,
  - international financial organizations,
  - central banks and regulatory authorities,
  - supra national authorities,
  - credit registries,
  - **associations of private bureaus**
  - **other private sector organizations who are part of the credit reporting ecosystem**.
- **Currently 29 members:** 15 Central Banks mostly from G20; 6 other financial and data privacy regulators; 4 multilateral organizations; 7 service providers associations from Europe, Asia (2), LAC, ECA, US and Africa.

ICCR INTERNATIONAL COMMITTEE ON CREDIT REPORTING

ORGANIZATIONAL STRUCTURE



***Chair and Secretariat hosted by WBG

RCGs Objective: Facilitate and formalize engagement between the Committee and regional credit information sharing stakeholders on the work of the ICCR and on matters of interest relating to credit information in the region.

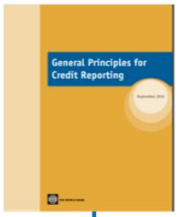
The key objective is for communication, representation and accessibility

ICCR INTERNATIONAL COMMITTEE ON CREDIT REPORTING

ICCR PUBLICATIONS

COMPENDIUM OF STANDARDS FSB ✓

GP for Credit Reporting endorsed by FSB



GP Assessment Methodology

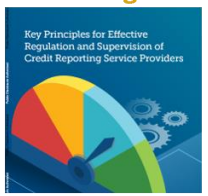
Contribution to financial Inclusion Policy Brief

CYBERSECURITY IN CREDIT REPORTING GUIDELINES

CREDIT SCORING APPROACHES GUIDELINES

COMPENDIUM OF STANDARDS FSB ✓

Regulatory Framework for Oversight

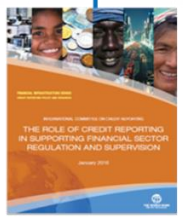


< 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022-4

Application:

- FSAPs
- Reference for ICR standards
- WBG Technical assistance on CR
  - Diagnostics
  - Legal Framework
- Self-assessments

Facilitating SME Financing



Supporting Financial Sector Regulation and Supervision

Policies on Alternative Data G20-GPFI SME Sub group

Treatment of Credit Data in Credit information system in the context of the COVID 19 Pandemic

Cross Border Information Sharing

Responsible use of Technology (Q4 2022)

The promise of alternative data on Creditworthiness assessment (Q3 2024)

Balancing Credit Inclusion and over-indebtedness (Q3 2024)

https://www.worldbank.org/en/topic/financialsector/brief/international-committee-on-credit-reporting

ICCR INTERNATIONAL COMMITTEE ON CREDIT REPORTING

CURRENT & FUTURE WORK

- The Committee is currently working on several governance, strategic, policy and research topics including:
  - Membership recruitment
  - Establishment of RCG
  - Strategy plan review
  - Engagements with SSBs
- Current policy and research activities:
  - **The use of alternative data in credit risk assessment of MSMEs: the opportunities, challenges, and risks.**
  - **Balancing credit inclusion and overindebtedness: the role of credit reporting systems.**
  - **Complementarity between public credit registries and private bureaus.**
  - Gender/ sex disaggregated data
- Future knowledge management work includes:
  - Sustainability
  - Disasters and credit reporting: challenges, opportunities, and role of credit reporting.
  - General Principles clarification.

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Complementarity between Public Credit Registries (PCRs) and Private Credit Bureaus (PCBs) for improved data quality - Case Studies

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Outline

- Background
- Traditional Role of PCRs
- Evolving Role of PCRs
- Operating Models
- Emerging issues
- ICCR interventions
- Proposed working paper scope

Traditional Role of PCRs

- Historically PCRs were established within the central banks to collect and compile information from regulated financial institutions to support financial system oversight, monetary policy, research, and statistics.
- By design, the PCR were intended to collect data of large credit exposures from regulated entities, mainly banks. As a result, the PCR tended to provide limited or no services to external stakeholders.
- With the emergence of the **financial crises**, the role of PCRs started to expand to include macroprudential supervision and financial stability.
- Over the past decade, there has been an emergence of new breed of public credit registries (PCR). **By 2019, 122 countries were reported as having established or operating a credit registry (World Bank 2020)**.

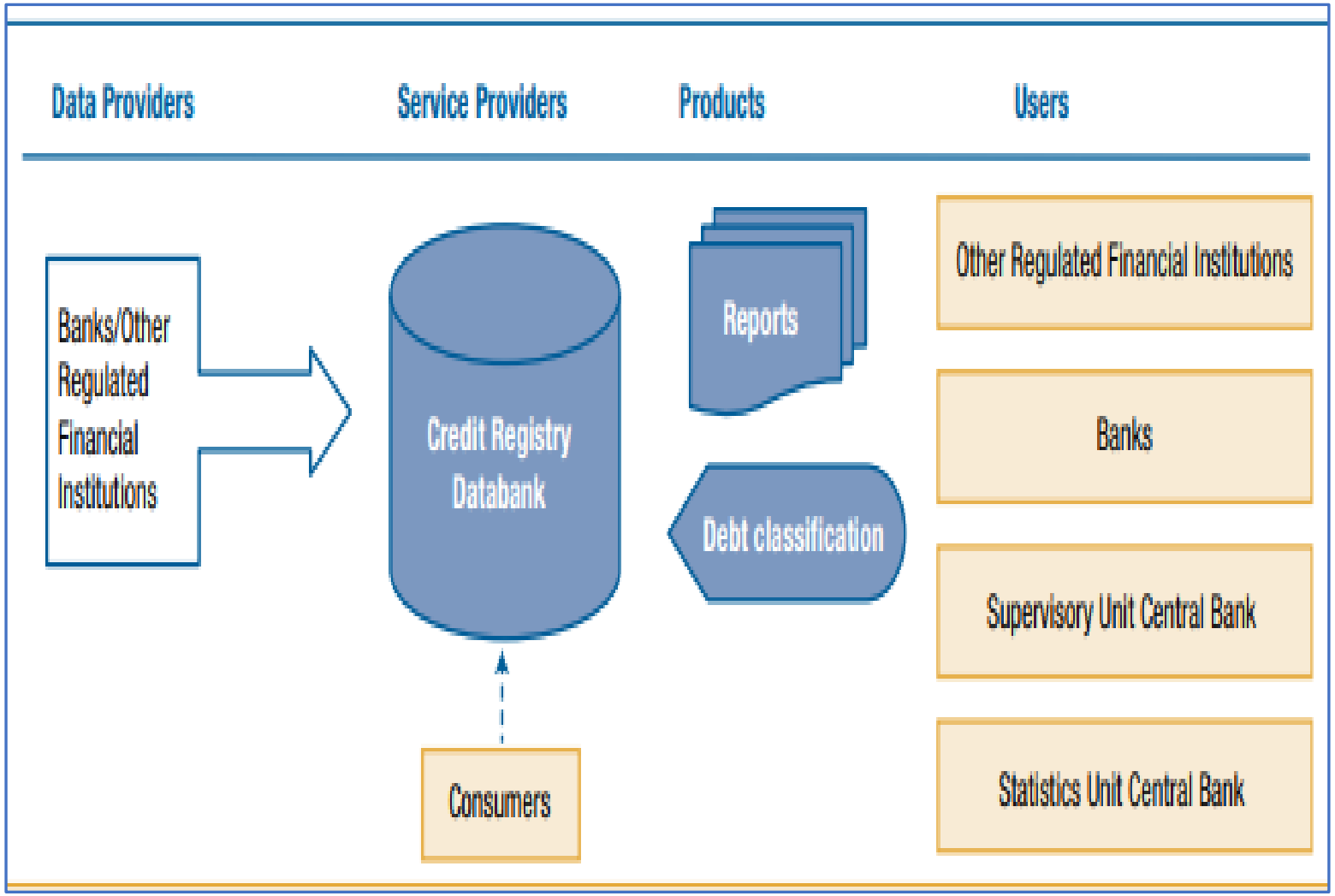
Key drivers behind increasing implementation of PCRs

- Global financial crisis
- Financial stability oversight
- Perceived market failures
- Proliferation of non financial data
- technological innovations
- Public policy

Three Operating Models of PCRs are emerging

- There are three broad credit referencing models:
  A. PCR as the only provider **(solo credit referencing model)**.
  B. PCR with a complementary role (**hybrid models).**
  C. PCR as a competitor to PCBs (**coexistence credit referencing model)**.
- The models are usually informed by the public policy objective, size of the market and capacity considerations.
- The database content, clientele, and associated products and services vary significantly from jurisdiction to jurisdiction.

A. Solo Model

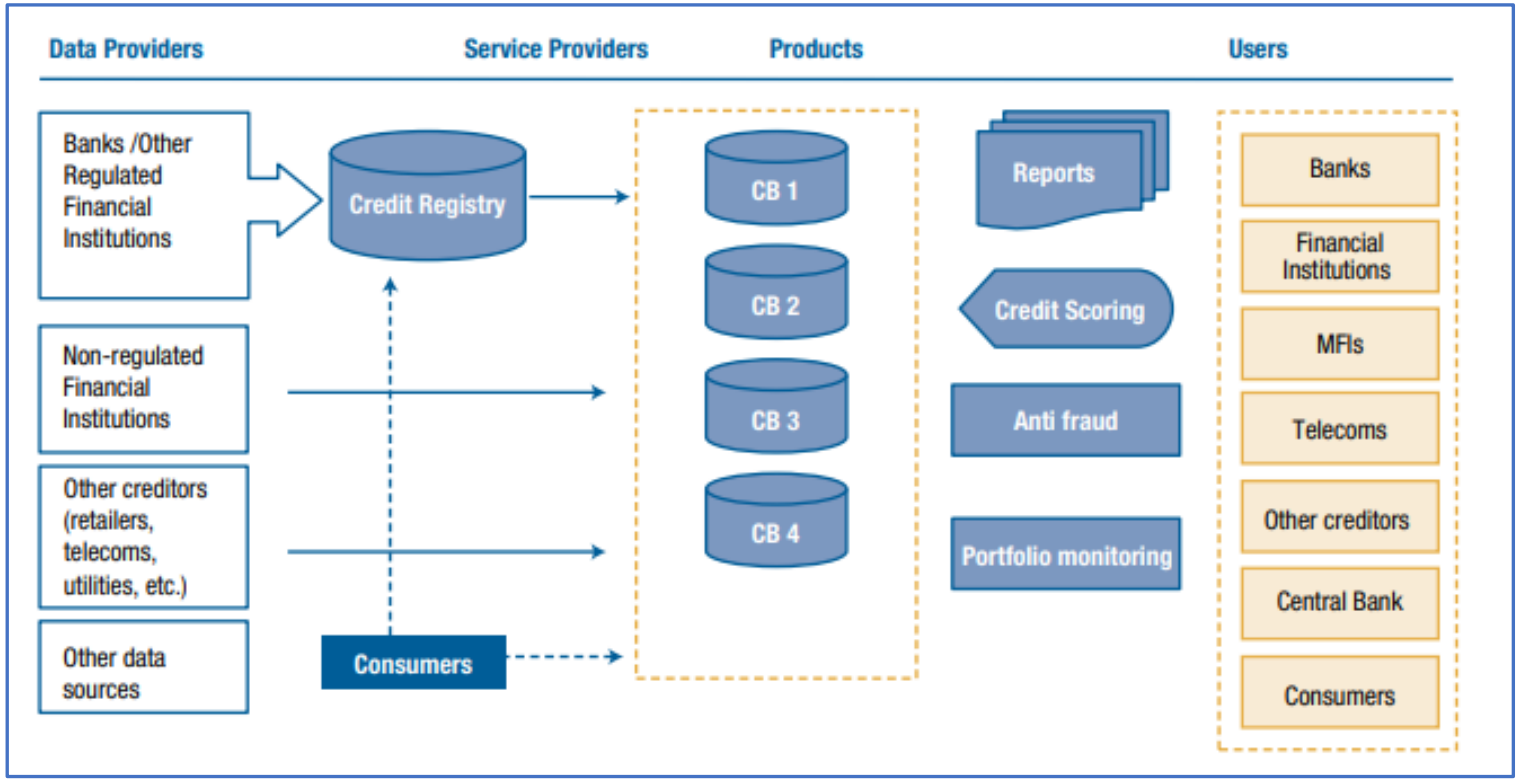


Key features

- PCR operates as the only CRSP in the country.
- Normally a result of public policy decision or lack of PCB appetite.
- Collects information on individual and businesses from regulated entities.
- Offers value added services such as credit reports and scores.

Examples: Belgium, France, Afghanistan, Mongolia, Ethiopia, and Togo.

D. Hybrid model

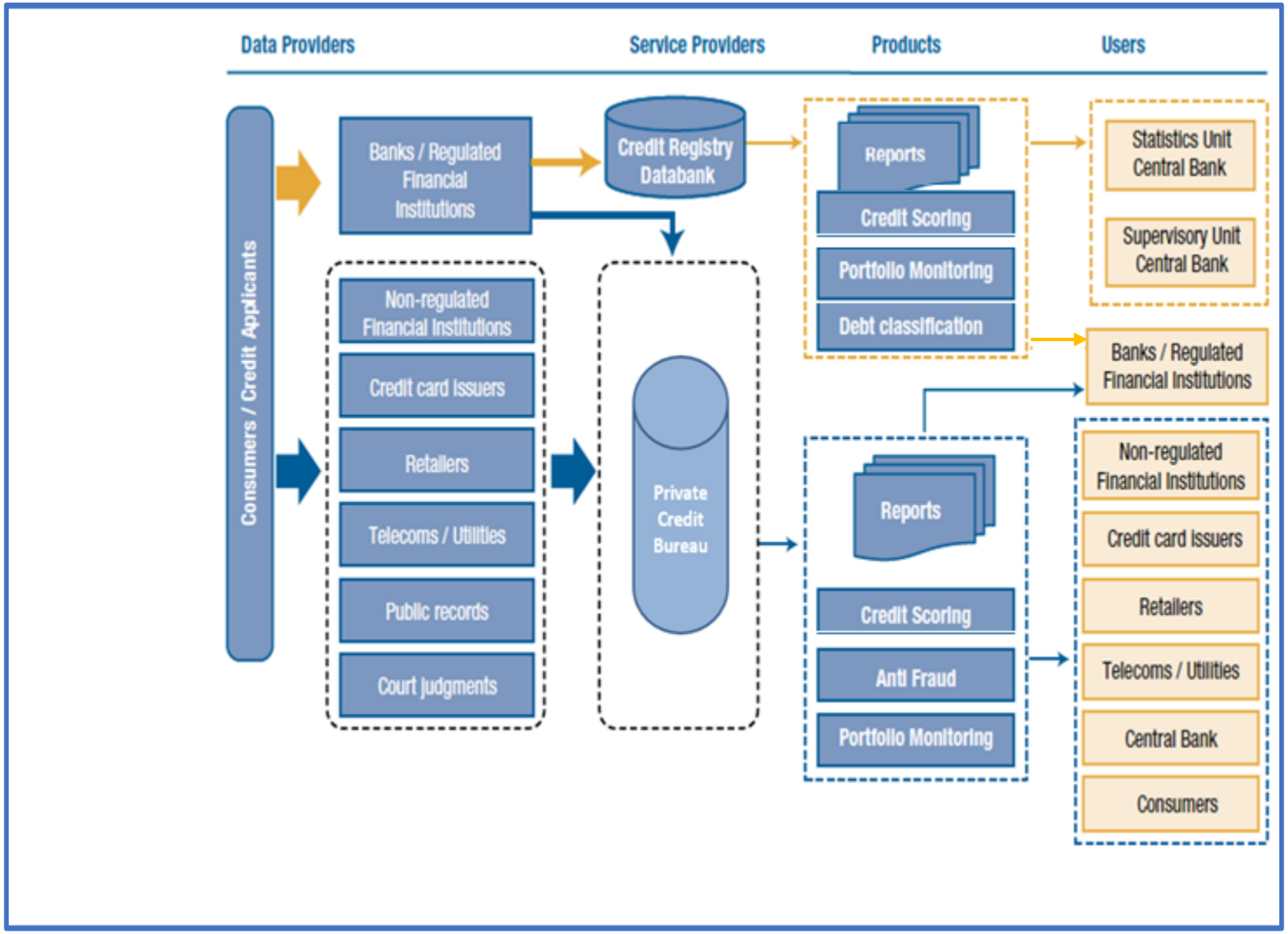


Key features

- PCR runs a databank that supports internal purposes but also provides data from regulated institutions to PCBs.
- PCBs can also access data directly from non-regulated.

Examples: Tanzania, Zimbabwe, UEMOA

B. Co-existence model



Key features

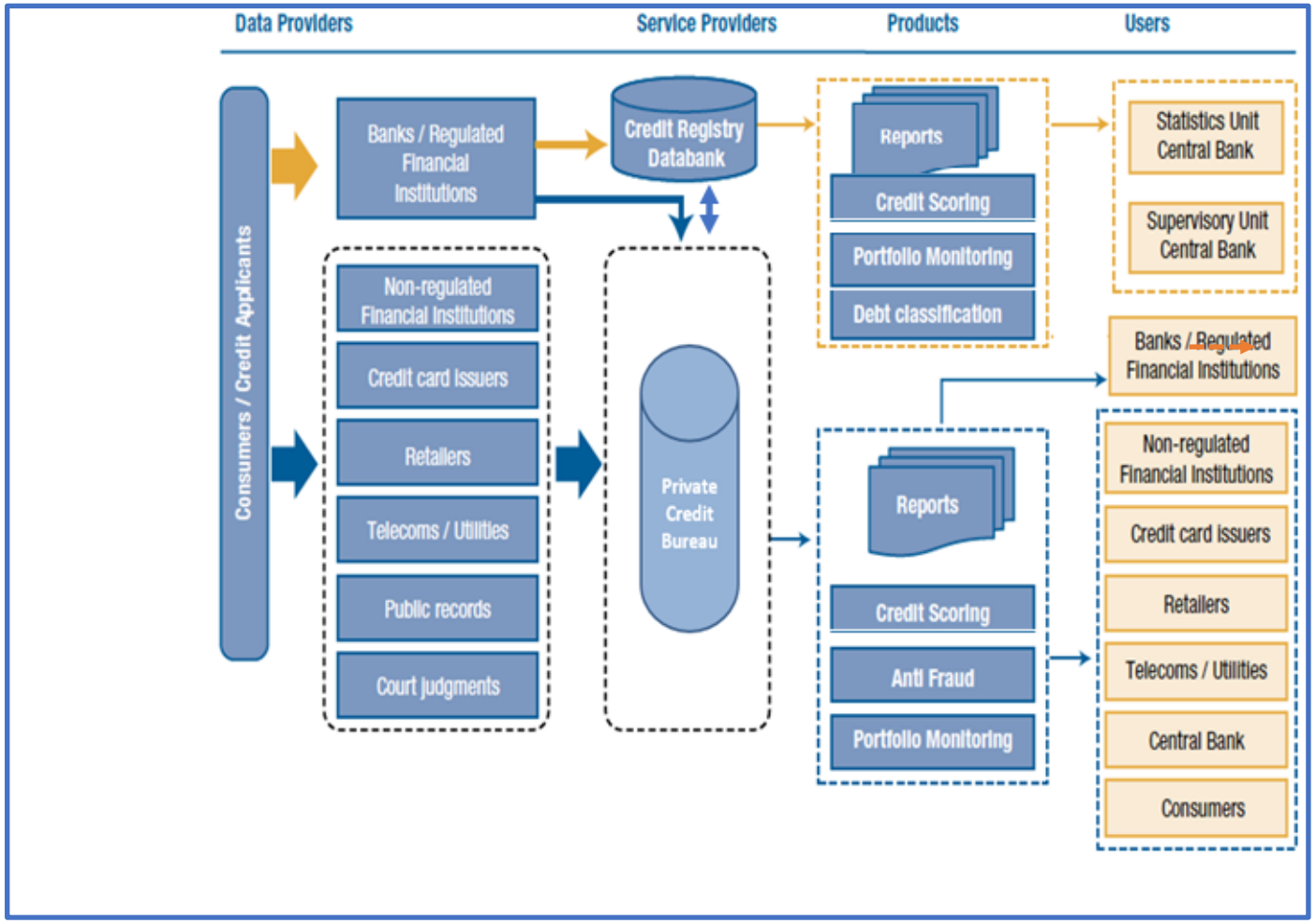
- PCR collects data from the regulated entities.
- The registries offers services, albeit limited in number and sophistication, to internal users, regulated entities and to the public.
- PCB collects information from regulated and non-regulated entities, and offer a full suite of services to all public and private clients.

Examples: Malaysia, Kazakhstan, Portugal, Honduras.

Malaysia

- Established in 2009, Central Credit Reference Information System (CCRIS) **enables Bank Negara Malaysia to collect credit information from licensed financial intermediaries on a monthly basis.** It serves several purposes to fortify the credit market, enhance financial stability, and foster responsible lending and borrowing.
- Non-regulated institutions also submit data to the CCRIS on a voluntary basis. There is no minimum amount threshold for data submission.
- Three operating largest bureaus are allowed to access the CCRIS system on a reciprocal basis and provide private credit reports with information that extend the data stored in CCRIS.
- Unlike CCRIS, **PCBs collect alternative data such as utilities payment, fraud information, nonbank loans, supply chain credit, credit cooperatives data, and bankruptcy records**. **Data submission to bureaus is voluntary.**
- **Checking with the CCRIS for creditworthiness assessment is mandatory for lenders**. The CCRIS does not produce credit scores.
- **Use cases of the CCRIS:**
  - Credit Risk Management and informed lending by providing credit information
  - Macro-prudential surveillance: **BNM utilizes the credit data in assessing the health and stability of the financial sector**
  - Consumer protection**: Borrowers can access their own credit reports via the CCRIS, even online which increases transparency**
  - Financial inclusion: Assessing credit data, financial institutions can develop and offer products tailored to specific segments of the population

C. PCR Co-existence /complementary



Key features

- Several variations:

i. PCR collects data from the regulated entities for internal use & PCB collects information from regulated and non-regulated entities and offer services.

ii. PCR also offers limited services to regulated entities and public.

iii. The PCR and PCB also share information to enhance their respective databases while managing compliance burden and regulatory constraints.

Examples: Brazil, Indonesia, Philippines, Germany, Italy and Poland.

Brazil

- Hybrid environment constating 5 CRBs and Public Credit Registry established to support Bank of Brazil objectives of financial stability and economic monitoring, and eventually to serve industry.
- Financial institutions, including banks and non-bank lenders such as microfinance providers, housing finance, B2B lenders, credit unions, investment firms that purchase credit portfolios and digital lenders submit data to the SCR. BCB also collects data from the Federal Tax Authority.
- Lenders are obligated to provide credit information to both SCR and PCBs, although depth and breadth of information vary. The SCR data has a broader scope compared to PCB data, with the latter unable to access credit union data and information from 5,000 other lenders.
- PCBs access data from the SCR on a monthly basis, focusing on customer-based loan types. PCBs also collect and send utility information (water, electric, telco, gas) and credit scores to the SCR. The SCR does not provide credit scores.
- New phase effective May 2023 – PCR and PCB exchange data: PCR share data on 600 millions loans granted regulated entities while PCBs share data on 100 millions debtors nonregulated FIs, monthly. PCBs share score information on a quarterly basis.

Primary Use Cases of the SCR:

- Credit risk monitoring
- Onsite supervision
- Economic statistics
- Financial inclusion

Italy

- CCR was established in 1962 and provides an informative tool for both the financial intermediaries and the Bank of Italy's micro and macro supervisory functions. Legally, the CCR is linked to the Bank of Italy's supervisory function.
- Data submission to CCR is on monthly basis and mandatory by 1300+ lending entities on loans and guarantees from banks, financial companies, collective investment schemes, digital lenders and other intermediaries. The CCR does not produce credit scores.
- **Reporting threshold is 30,000 EUR which is lowered to 250 EUR if the customer has a bad (nonperforming) debt.**
- **PCBs collects data on daily basis and have a relatively wider scope for data collection from reporting entities and there is no threshold for data collection, both for positive and negative data.** Additional data they collect include digital, buy-now-pay-later (BNPL), and utility payments information.

Primary Use Cases of the CR:

- Credit-granting purposes
- Risk assessment and indebtedness monitoring
- Financial sector monitoring

Indonesia

- Indonesia has established a hybrid credit referencing model comprising of PCR, SLIK, and PCBs.
- SLIK, is owned and operated by the OJK to ensure a stable financial system, protect the interests of consumers and society, and enhance the competitiveness.
- It processes credit data from participating financial institutions, and produces credit reports for financial institutions, borrowers (upon request), private credit bureaus, and other stakeholders such as Bank Indonesia, but does not provide credit scores.
- OJK also regulates private credit bureaus. They collect and maintain credit information from SLIK and other sources such as telecommunications providers and e-commerce transactions.
- SLIK primarily serves regulatory and supervisory needs and also supports credit risk management of lenders.

Use cases of the register:

- Macro-prudential supervision
- Credit-granting purposes – evaluation of credit risk on the part of lenders
- Prevention of over-indebtedness – through compilation of consolidated data on borrowers

Morocco

- Morocco has established a solo credit referencing model, central credit register, established by Bank Al-Maghrib, which twin goals of register of all the openings, modifications and closures of bank accounts, and collects from the creditors information on loans granted to customers, repayments behavior and financial difficulties related to the loan repayment in the credit register.
- The credit register has been outsourced in 2009 to Creditinfo, an Icelandic credit reporting agency. The register consolidates financial data, processes information about overall indebtedness of borrowers and prepares reports.
- A creditor is under the obligation to consult the credit register before granting loans.

Use cases of the register:

- Macro-prudential supervision - Bank Al-Maghrib uses the register to identify financial instabilities and vulnerabilities in the market
- Credit-granting purposes – evaluation of credit risk on the part of lenders
- Prevention of over-indebtedness – through compilation of consolidated data on borrowers
- Optimization of the borrowing process through automatization
- Consumer protection
- Financial inclusion or to allow for the development of a diversification of financial products suitable for MSMEs.

Several discussions points are emerging from the changes

- Potential to crowd out private sector.
- Potential conflict of interest and unfair competition.
- Ability of PCRs to adapt to market changes and provide comprehensive service offering.
- Resource capacity of PCRs to service the market on a sustainable basis.
- Compliance burden to data providers.
- Democratization of access to data – data as a public good.

Key Considerations

Consideration 1: Ensure level playing field

Where PCRs and PCBs have similar roles and functions and provide similar service to the market; consider measures that sustain effective co-existence. The aim is to promote comprehensive information sharing

Consideration 2: Address crowding out risks

If PCR directly competes with the PCBs, there is need to mitigate against the potential crowding out of the PCBs. Avoid unfair pricing or data access privileges or discouraging use of PCBs by lenders.

Consideration 3: Collaboration of CRSPs

Collaboration between PCR and PCBs may lead to more comprehensive and accurate credit reporting ecosystem

Consideration 4: Comprehensive data collection

….including alternative data – allows for more accurate overview of credit exposures; assess emerging risks (over-indebtedness), credit concentration. Guide policy for financial inclusion with relevant data

Consideration 5: Data exchange

Data exchanges between PCR and PCBs in addition to providing comprehensive data, also provides for continuity of service to the market

Consideration 6: Leverage advanced data analytics

CRSPs should consider leveraging technologies such as AI/ML to t enhance data quality management and enhance their serivces such modeling and scoring .

Consideration 7: Sustainable delivery of services

When both PCRs and PCBs are performing a similar role, both should ensure adequate investment in infrastructure and human resources.

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ICCR Interventions

- Against the above background, ICCR is pursuing a two pronged approach to building awareness and recommending best practices:
  - Convening discussions between regulators/ credit registries and private sector.
  - Knowledge exchange.
  - Research.

Alternative data for enhanced management research/working papers

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

National Credit Regulator

International Committee on Credit Reporting

International Finance Corporation
World Bank Group

Creating Markets, Creating Opportunities

OUTLINE

- Background
- Types of alternative data
- Emerging businesses and strategy models
- Regulatory responses
- Recommendations
- Policy Considerations

Objectives

The study sought to answer the following questions:

- How alternative definition or scope is evolved over time?
- What are the key driving factors?
- What is the impact of using alternative data? Whether it has accelerated inclusion for underserved and unserved segments?
- What are the risks, challenges, and opportunities presented by alternative data?
- How is alternative data currently being used across regions? Who are the key players? What are the current and emerging business models or applications?
- How did the policy and regulatory framework adapt to the emergence of alternative credit scoring?
- What are the pre-requisites necessary for a responsible and sustainable mainstreaming of alternative data in creditworthiness assessment?

Methodology

- Extensive desk review
- Semi-structured interviews with 41 stakeholders across all regions:
  - ✓Commercial banks
  - ✓Fintechs
  - ✓Fintech associations
  - ✓Credit associations
  - ✓Regulators

A growing list of 41 stakeholders across 26 countries

Alternative Data Types Used Globally

Transactional data remain prevalent across various regions, including telco data, utility payments, app usage, mobile money transactions, and e-commerce participation. Data identified in the report can be categorized into 8 distinct domains.

- **Consumer Financial Behavior:** Telco data, text messages, digital wallet, BNPL, Remittances, Credit/Debit card & Bank account records.
- **Consumer Lifestyle and Habits:** app usage, social media insights, travel data, geolocation, biometric data.
- **Business Operations & Analytics:** Corporate data, accounting software data, shipping data, supply chain data, patent data, survey data, cloud platform data, gig economy platforms.
- **Housing & Utility Management:** rental history, utility payment.
- **Economic Activity & Commerce:** e-commerce data (consumers &MSMEs), POS data.
- **Risk Management & Insurance:** weather forecast, insurance.
- **Market & environmental insights:** Satellite data, web traffic, CCTV, bioclimatic data.
- **Regulatory compliance:** Government data.

Emerging Business Models & Strategies

Credit reporting entities integrating alternative data into their databases

Banks partnerships with alternative scoring providers

Alliances between credit reporting agencies and fintechs

Advancements in open frameworks: open banking / finance

Tech companies leverage alternative data from their own platforms

Emergence of credit building products

Global Regulatory Responses

Regulatory responses to adoption of alternative data have varied across markets with some adopting a prescriptive approach while others opting for soft and incremental approach.

Prescriptive approach

- **Brazil, Uganda, BCEAO, Tajikistan** have sought to codify the integration of alternative data **by incorporating it into their credit reporting laws and regulations**.
- **Thailand:** Bank of Thailand's rules, procedures and conditions for the undertaking of digital Personal Loan business, 2020.
- **Europe:** Revised Consumer Credit Directive (CCD), 2023.
- **China:** The People's Bank of China's Measures for the Administration of Credit Reporting Services, 2021.
- **India:** Account Aggregator (AA) framework, 2021. Digital Lending Guidelines, 2022. National Financial Information Registry (NFIR), 2024.

Soft and incremental approach

- **No-action Letter:** In 2017, the Consumer Financial Protection Bureau (CFPB) issued a no-action letter (NAL) to Upstart Network—an AI lending platform that uses nontraditional data as part of its credit scoring.
- **Collaboration between regulators and the private sector:** Project REACh launched by the OCC.
- **Regulator-led pilot program: pilot** launched by National Credit Regulator (NCR) in South Africa with the support of the IFC to test the predictiveness of alternative data.
- **Regulatory sandboxes:** Indonesia's regulatory sandbox under Regulation "OJKR No. 13/POJK.02/2018" on Digital Financial Innovation.

Recommendations

R1: Implementation of robust legal and regulatory frameworks

There is a need for regulators to consider enactment of robust legal and regulatory frameworks that **promote the sharing and use of alternative data** with the necessary consumer protection and cyber security safeguards.

R2: Implementation of a Regulatory Blacklist for Alternative Data in Credit Scoring

Policy makers should **identify data sources that are prohibited from inclusion in credit scoring algorithms** due to potential risks associated with the use of alternative data such as privacy and discrimination concerns

R3: Leveraging regulatory innovation platforms to promote experimentation and testing

In the absence of an existing legal framework, regulators should consider utilizing innovation platforms such sandboxes to test the predictiveness of alternative data within the country context. Other policy instruments or tools such as the No Action Letter (NAL)/ No objective letters, and controlled pilots can also be considered.

R4: Promote the adoption of consumer permissioned secure data sharing protocols that enables effective sharing of alternative data at scale

There is a need for regulators to accelerate consumer permissioned data sharing frameworks that are frictionless to both data providers and consumers such as **open banking/ data frameworks**.

Recommendations

R5: Advancing gender equity in alternative credit scoring through inclusive data practices

Policymakers and industry players can adopt several inclusive approaches in designing alternative scoring models such as **collection and use of sex-disaggregated data** at financial institutions and credit bureaus to inform the design of such models and offer tailored products that better reflect the unique financial behaviors and creditworthiness factors of certain borrowers e.g., women.

R6: Establishment of a comprehensive industry code governing the use of alternative data in credit scoring

In the absence of legal and regulatory guidance, industry participants may consider self-regulation guided by a set of comprehensive principles that ensure responsible and ethical use of alternative data.

R7: Adoption of a risk-based approach for the collection and use of alternative data for creditworthiness assessment by lenders

Regulators should ensure that lending institutions have adequate data policies that govern consent management, collection, processing, storage of alternative data and reliance on third party data providers. The policies should also cover the responsible application of machine learning and AI in credit scoring.

Policy Considerations

Policy Consideration 1: Incentivizing digitization of economic activities

To the extent possible, policymakers **should implement financial and non-financial incentives to promote digitization**. In addition, there is a need to ensure equitable access to internet connectivity and digital devices.

Policy Consideration 2: Digitizing government services and making the data readily accessible

To the extent possible, **governments should digitize their services and make public databases such as company registries, vehicle registries, tax registries, and court records readily accessible for CRSPs**.

Policy Consideration 3: Supporting infrastructure development

Policymakers should consider policies that enable the **development of robust digital public infrastructure namely: identity, payments, and data exchange systems** as these are essential for alternative data generation and usage.

Policy Consideration 4: Supporting Digital Literacy and Consumer Awareness

Policy makers should promote literacy and awareness programs as a means to promote responsible use of data.

Policy Consideration 5: Promoting cross-border collaboration

Given the increasing regional integration and migration (voluntary and involuntary), policymakers should implement measures that promote cross-border data flows.

Interplay between credit inclusion and over indebtedness

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IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

OUTLINE

- Background
- Drivers of over-indebtedness
- Objectives of policy recommendations
- Policy Recommendations

Background

- While access to credit promises improved financial inclusion, it comes with risk of over-indebtedness.
- This risk is experienced across the globe, irrespective of the level of economic development of the financial markets.
- Credit reporting systems can have an important role in assessing the balance between credit inclusion and over-indebtedness.
- The working paper provide recommendations for policymakers to optimize the nexus of inclusion and indebtedness.

Drivers of over-indebtedness

Macro Factors	Supply - side	Demand - side	Factors for Microbusiness
• economic growth • inflation, • unemployment, • income inequality • economic crisis, • macroprudential policies • the efficiency of the legal system • Regulatory / supervisory frameworks	• Weak affordability assessment • Irresponsible Practices • High costs • Lack of transparency • Regulatory arbitrage	• Socio-demographic Factors • Behavioral factors • Financial illiteracy • Lack of affordability • Multiple borrowing	• Tailored credit products • Different financing needs • Applicable regulatory rules • Available information for analysis • Treatment of microbusiness

Objectives of policy recommendations

i. Reducing the risk of overindebtedness whilst promoting access to credit

ii. Effectively managing existing over-indebtedness of consumers and micro businesses

iii. Leveraging the role of credit reporting in reducing over-indebtedness while enabling access to credit

iv. Utilizing relevant legal and regulatory reforms covering licensing, affordability assessment, consumer protection, and credit reporting, among others.

Policy responses to over-indebtedness

- Regulatory monitoring and oversight
- Comprehensive credit information sharing
- Affordability assessment
- Responsible lending
- Financial Literacy
- Transparency of credit terms
- Consumer protection

Policy Recommendations

1. Regulatory oversight

Policymakers should introduce an appropriate regulatory oversight framework for credit providers, taking into account a *broad definition of credit and covering all types of lending activities.*

2. Comprehensive credit information sharing systems

Policymakers should promote comprehensive credit information sharing systems that *cover all relevant types of credit information, including digital lenders.*

3. Affordability assessment requirements

Policymakers should require all *credit providers to undertake appropriate credit affordability and creditworthiness assessments* before credit approval.

4. Responsible lending practices

Credit providers *should not employ predatory, unsolicited, or deceptive sales and marketing practices* in lending activities.

Policy Recommendations

6. Promoting financial literacy

Policymakers should *promote financial education, literacy, and consumer awareness programs* targeting the use of all credit products.

5. Transparency of credit terms

Policymakers should ensure that *credit products are offered with appropriate disclosure of terms, conditions, and pricing*.

7. Consumer protection

Policymakers should ensure an appropriate, accessible, and *efficient consumer protection framework* is in place covering all types of credit services.

THANK YOU

Closing Remarks

Collen Masunda, Global Specialist, IFC and ICCR Secretariat

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