CONSUMER CREDIT ASSOCIATION OF THE REPUBLIC OF IRELAND

Promoting high standards of business and consumer relations in the home credit

CHAIRMAN
Kevin Carey

SECRETARY
KEVIN MURRAY

TREASURER
RODDY O LEARY

12 June 2015

Dear Sirs

IN CONFIDENCE
CENTRAL CREDIT REGISTER - CONSULTATION RESPONSE TO CP93

We are pleased to offer our comments on the above consultation.

We sent a detailed response to the Department of Finance's June 2012 consultation on the Central Credit Register ('the CCR'). That submission (of 29 June 2012) is attached as Appendix B. It includes a description of home credit and also a technical analysis of the way that credit risk is assessed in home credit.

In that note, we observed that:

> **'Home credit is…highly tolerant to missed payments for genuine reasons. This is a key product feature, essential where most customers have to work to tight, easily-derailed budgets…Overall, this means that the concept of arrears/default under home credit is not the same as under remote lending models.'**

We also commented that:

> **'…face-to-face lending and collecting means that home credit decisions are based mainly on rich intuitive and observational data…In particular, home credit lenders can assess an applicant's character in a way that remote lenders cannot. A large UK lender has been able to prove that this face-to-face methodology can beat automated methods of assessing risk'**

And that:

> **'…weekly home collection is significant because - by imposing discipline, routine and smaller, more frequent repayments - it modifies lending risk'**

Credit bureaux are about sharing past performance data to help predict future payment behaviour. The success of such systems turns on their efficiency, their accuracy and the homogeneity of the data they hold.

To the extent that data on a bureau system is not homogeneous, participants will struggle to interpret it and are likely to ignore it. This is a live issue in the case of home credit. Mainstream lenders know little about the very different arrears and risk dynamics of home credit (see above) and have no real commercial incentive to find out more.

So home credit repayment data on the system will not necessarily *'facilitate enhanced creditworthiness assessments and responsible lending'* in the terms that CP93 suggests.

Instead, it is more likely to harm home credit customers by sending misleading signals to other lenders and by imposing extra costs on firms.

When loans are small (as with home credit), extra costs have adverse knock-on effects for consumers. In particular, extra costs dictate whether or not it is still profitable for a firm to continue lending to a customer.

The *de facto* price cap largely rules out the ability to recoup costs though higher charges. So instead, some customers who would previously have earned a small profit for CCARI member firms become unprofitable. Simple business economics means that firms will stop lending to these newly-unprofitable customers.

Executive summary

CCARI very much welcomes the thoughtful consideration that the Central Bank ('the Bank') has afforded the situation of home credit.

The Bank and others have already acknowledged the practical difficulties that home credit (and its customers) would face if it was required to participate in the full-blown[1] data sharing that CP93 and earlier documents envisage.

We strongly agree with those analyses and we welcome the suggested approach of setting some form of **lower threshold**[2] as one way to mitigate these adverse effects for home credit lenders and their customers **(CP93 - §5.2)**.

We also urge the Bank to consider **a modified reporting system for home credit**. This would require firms to report details of (a) agreements entered into (b) agreements paid up or formally written off and (c) any 'defaults'[3] **(CP93 - §5.1)**.

[1] By 'full-blown' data sharing, we mean data sharing that includes detail of payments as they are made under the loan agreement. Data sharing can also operate at a less detailed level, to include details of agreements entered into, agreements concluded and detail of 'defaults' (that is to say, where the relationship between the lender and the customer has irretrievably broken down).

[2] Although there are questions about where the limit should be set and about the problem of inflation: see later. Inflation has already eroded the €500 limit - and the €2,000 limit - since they were first proposed.

[3] In mainstream credit, 'default' tends to be mechanistically defined, usually by reference to a fixed number of missed payments. A 'default' entry is a highly negative entry on the consumer's file, broadly flagging no further intention to repay. Home credit is more tolerant and flexible and tends to define 'default' in terms of lender-customer relationship breakdown. Take, for instance, a home credit customer who has experienced a catastrophic financial shock. That person might still be determined and willing to repay but in practice be able to do this only by very small instalments. It is unlikely that a home credit firm would designate this scenario as a 'default', no matter how far behind that person fell on repayments.

Under this suggested approach, home credit firms would not be required to file ongoing repayment data. As we flag above (and elsewhere), it is doubtful that other 'mainstream' lenders would be able to safely interpret such repayment data even it was available on the CCR[4].

We welcome the phased implementation approach that would see home credit coming into the scheme after Phase 1 is completed[5]. The Bank identifies in CP93 that this second cohort of firms (which includes home credit) *'generally represent[s] a small portion of the market in value terms'* **(CP93 - §4.1)**.

On fees and levies, the position is complex. Cost should be allocated on some combination of usage and average loan size. Unless this is done, customers of firms that lend little but often (e.g. home credit) will end up cross-subsidising customers of firms that lend larger amounts over longer periods (e.g. mortgage lenders) **(CP93 - §5.9)**.

On other aspects of CP93:

- we consider that it would be disproportionate to require any lender[6] to file **application data** (apart from SME data - see below) **(CP93 - §5.3)**. Under Irish law, each firm has to assess applications made to it. It is not clear how other firms' assessments (perhaps using quite different criteria or internal policy reject systems) are relevant to that…

- …nevertheless, we agree with the policy sentiment behind the suggestion that banks should file **SME applications (CP93 - §5.3)**. As a trade body representing SMEs, we can see a case for perhaps making this a limited, SME-sector requirement.

- we consider that all lenders'[7] **credit agreements should be reported within, say, one month** of being entered into **(CP93 - §5.4)**. We think this should also apply to running-account credit even where the credit is not yet drawn down (as may happen with credit cards and overdrafts). If such an agreement is in place, the customer can almost instantly convert that into a debt liability.

- **transitional historic data** may not necessarily be especially valuable to lenders[8] **(CP93 - §5.5)**. The question (and we are unsure of the answer) is whether the cost of creating systems to collect and supply it would outweigh the largely temporary predictive benefit[9]. Nevertheless, it seems right that at least some detail of agreements that remain in force (such as mortgages and credit card agreements) should be on the system.

[4] There are two main reasons. First, the discipline and routine of weekly home collection actively modifies lending risk. An excellent home credit repayment record may not necessarily signify ability to handle and repay non-collected mainstream credit. Second, missed repayments may say as much about the home credit lender's willingness to give time to pay based on knowledge of the customer's character and current financial circumstances, as about whether or not the customer is willing and/or determined to repay.
[5] CP93 p.11
[6] Not just home credit lenders.
[7] Not just home credit lenders.
[8] Of all types. With home credit, firms find that only the previous 12 or 13 weeks' payment record (to them) is predictive in terms of whether to lend to that customer.
[9] We gather that the ICB has agreed to continue with its service for the time being and so firms would be able to access that data.

Key design considerations

In thinking through the ideas and suggestions in CP93, two interlinked considerations occurred to us:

- the essence of a credit register is that it should efficiently, accurately and proportionately collect and share past performance data to help predict future payment behaviour. All proposed features of the system should be tested against this aim, asking the question *'will this contribute in a meaningful and appropriate way to improved credit granting, or not?'*…

- …because this will inform the system's reputation (for good or bad) with firms and consumers

Although it is easy to shrug aside reputation as unimportant, credit referencing is a matter of acute concern to consumers. Most have a strong sense of what data about them should - and should not - be held on such systems. And eventually, such public concerns can transmit into political pressure for change and media criticism of the body that is operating the system in question.

In this general regard, we welcome the Bank's commitment to engage with the Office of the Data Protection Commissioner. This makes good sense because data protection concepts chime with what consumers would expect. Those concepts include rules about data only being processed for specified purposes and being *'relevant', 'adequate',* and *'not excessive'.*

Detailed comments

***Phased implementation* (CP93 - §4.1)**

CCARI believes that phased implementation makes good sense. CCARI also welcomes CP93's suggestion that licensed moneylenders should not be included in Phase 1.

***Thresholds* (CP93 - §5.2)**

CCARI welcomes the concept of thresholds. However, CCARI considers that it is important to set these at the right start level (the €500 and €2,000 thresholds were first mooted a few years ago and have already been eroded by inflation) and also to ensure that automatic inflation-proofing is built into the system.

***A suggested reduced reporting regime for home credit* (CP93 - §5.1)**

CCARI urges the Bank to introduce a reduced reporting regime for home credit.

This would involve reporting only (a) agreements entered into (b) agreements paid up or formally written off and (c) any 'defaults'.[10]

Our reasoning is that detailed home credit repayment data is difficult for other 'mainstream' lenders to interpret in a meaningful way (see detailed explanations elsewhere in this note). This data would not therefore *'facilitate enhanced creditworthiness assessments and responsible lending'* in the terms envisaged by CP93 and could prove positively harmful to consumers.

***Application data* (CP93 - §5.3)**

CP93 suggests that application data from all firms (not just home credit) should perhaps be included in the CCR. CCARI strongly disagrees. There are various reasons why this may be problematic and disproportionate.

Critically, an application may not proceed for a number of reasons. The customer may simply withdraw, perhaps because he no longer needs the credit or perhaps because he has shopped around and got a better deal elsewhere.

The customer may also completely misunderstand the product. For instance, an applicant may back out because he discovers something about the product he dislikes or does not require. Or he may apply to borrow far more than that firm is normally willing to lend.

Lenders may also sometimes refuse credit for reasons unconnected with creditworthiness. A firm may, for instance, have an internal policy of not lending to anyone under the age of 25. Or the firm may refuse a loan because it has no remaining funds available to lend that month.

The upshot is that where an application does not proceed to a loan, it may be unsafe to conclude anything from that.

[10] See footnote 3 above.

Set against this, collecting, filing and auditing application data is likely to carry significant costs for firms.

Finally, firms are required by law to conduct their own assessments of the customer's credit worthiness. It should be irrelevant to that process that another firm has also carried out a similar assessment.

Fees and levies **(CP93 - §5.9)**

The question of fees and levies is complex. Cost should be allocated on some combination of usage and average loan size.

Unless this is done, customers of firms that lend little but often (e.g. home credit) will end up cross-subsidising customers of firms that lend larger amounts over longer periods (e.g. mortgage lenders).

Application data and attempts to apply for multiple loans **(CP93 - §5.3)**

CP93 infers that filing application data would perhaps eliminate the risk of consumers making multiple near-simultaneous applications for credit. Tabloid journalists have sometimes made successful multiple loan applications on a single day which then form the basis of a credit industry exposé.

Nevertheless, such exposés do not amount to robust research and it is not clear how many real consumers make such multiple applications and to what degree this is a material problem.

A further aspect is that real-time data sharing[11] is needed to eliminate multiple, near-simultaneous applications.

Real-time data-sharing carries extra costs for firms and also creates its own problems and complexities. Everything must be done at speed and this may in fact be unhelpful to the consumer.

How, for instance, would this mesh with the right to withdraw from the credit agreement? How would consumers feel if, as many do, they missed a payment by a few days and found that they were technically in arrears (because the miss had been reported instantly)? And in the case of home credit, how would detail of an agreement concluded in the customer's home be passed - in real time - to the CCR?

Our colleagues in the UK report that there appears to be no demand from mainstream lenders (or consumers) for real time data sharing. Most credit products work on a monthly cycle and monthly reporting to the credit reference agencies seems to fit well with that.

The UK Parliament has called for a stand-alone real time system to be developed for single-instalment payday lending. This is because these loans (for a term of a month or less) are

[11] By 'real-time' data sharing, we mean here a system where any data about the loan, including inception details and repayments, is loaded almost instantly onto the credit register.

repaid[12] before they can be reported to a conventional credit reference agency and so are 'invisible' to those systems.

Application data and SMEs **(CP93 - §5.3)**

As a trade body with SME members, we are aware of the debate on the alleged failure of banks to lend to SMEs. We understand too that hard data may be difficult to come by, with each side contradicting the other's claims.

We can see a case for banks being required to file SME applications in order to provide the Bank with data on this important issue, although we think that SME representative bodies should be consulted on this.

We do not consider it appropriate to require all firms to file data on credit applications, simply to generate a dataset that would supply the Bank with SME sector data.

Timings for reporting agreements **(CP93 - §5.4)**

CP93 suggests that some types of agreement should perhaps not be recorded at the CCR until the customer draws down on them.

CCARI considers that all lenders'[13] credit agreements should be reported within, say, one month of the contract being concluded. We think this should also apply to running-account credit even where the credit is not yet drawn down. If such an agreement is in place, the customer can almost instantly convert that into a debt liability. As the Bank notes,[14] this would potentially be relevant to other firms' creditworthiness assessments of that customer.

Transitional historic data **(CP93 - §5.5)**

We appreciate the Bank's observations on transitional historic data but question whether this should be a matter for serious concern. It seems to us that simple cost-benefit analysis would assess the value of the transitional data to lenders and set that against the cost of collecting and lodging the data. And as CP93 notes:

> **'…retrospective collection can be difficult, effort is spent ensuring quality and by the time this effort has been expended, the value of the information has diminished.'**

The value of this transitional data to lenders may be less than might be supposed. Lenders use other data to make lending decisions and are also able to ask applicants directly what other credit commitments they have. As an aside, it is worth noting that, in home credit, firms have found from experience that only the last 13 or so weeks' worth of repayment data on an existing customer is predictive.

We also note from press articles that the ICB appears to have agreed to continue to operate until the new system comes on stream.

---

[12] Often from a further loan from the same lender.
[13] Not just home credit lenders.
[14] CP93 p.14

As a postscript, it seems to be important that at least some detail of long-term extant agreements (such as existing mortgages and credit card agreements) should be included in the new register.

Macro economic analysis **(CP93 - §5.5)**

We appreciate the importance the Bank places on being able to use the CCR data to inform economic policy. In this regard, home credit lending is fairly insignificant in terms of the overall sums being lent in Irish consumer credit markets. We should add too that each home credit firm is required to submit aggregated business data at each year's moneylending licensing round.

Yours faithfully

Kevin Carey
Chairman
Consumer Credit Association, Republic of Ireland

APPENDIX A - RESPONSES BY CCARI TO CP93 QUESTIONS

Consultation Question Responses

Reporting of CISs to the CCR

1. *With respect to the reporting of different categories of CISs to the CCR, do you favour a phased approach to the implementation?*
   Yes. We also welcome the Bank's decision to include moneylending in the second phase.

2. *Are there any specific areas that based on your current practice or experience you would suggest should be excluded or deferred from either phase? If so, please set out your rationale.*
   We urge the Bank to consider a modified reporting system for home credit. This would require firms to report details of (a) agreements entered into (b) agreements paid up or formally written off and (c) any 'defaults'[15].

   Under this suggested approach, home credit firms would not be required to file ongoing repayment data. As we flag above (and elsewhere), it is doubtful that other 'mainstream' lenders would be able to safely interpret such repayment data even it was available on the CCR.

   We strongly agree with the Bank's proposal that there should reporting (and enquiry) thresholds, although as we mention elsewhere, it is important that start figures are set at the right level and are inflation-proofed.

3. *If the CCR were to cover all CISs immediately, what impact would this have on your organisation and would you be in a position to supply this information i.e. have you the capacity to deliver both on the scope of Phase 1 & Phase 2 as suggested at the same time? Do you see any advantage to the CCR, to CIPs or other parties of being able to cater for those who might wish to implement all the requirements as a single project?*
   As the Bank is aware, most home credit firms would not have the capability to provide the data that CP93 envisages should be supplied

4. *In terms of lending to groups of individuals without specific legal personality e.g. partnerships, clubs and associations, there may be challenges to capturing personal details of liable partners, trustees or members and adding these obligations to individual records. The Central Bank is aware that this will be especially challenging where the liability of any one individual is limited in some way.*

   a. Could you currently provide all the personal information of individuals who are liable in these circumstances? How do you manage these types of liabilities within your organisation as a total group or as individual liabilities?

[15] In mainstream credit, 'default' tends to be mechanistically defined, usually by reference to a fixed number of missed payments. A 'default' entry is a highly negative entry on the consumer's file, broadly flagging no further intention to repay. Home credit is more tolerant and flexible and tends to define 'default' in terms of lender-customer relationship breakdown. Take, for instance, a home credit customer who has experienced a catastrophic financial shock. That person might still be determined and willing to repay but in practice be able to do this only by very small instalments. It is unlikely that a home credit firm would designate this scenario as a 'default', no matter how far behind that person fell on repayments.

Not applicable to home credit.

b. Would you expect to see or like to see these loans on the reports of individuals from the CCR if you were considering a credit application from such an individual?
Not applicable to home credit.

c. Is the incremental value to you of seeing this information (and having a comprehensive view of the total liability) worth any incremental effort you might have in providing this detail?
Not applicable to home credit.

d. Would you be satisfied to report groups of individuals at a 'group' level for a period of time and supplement this with the individual detail at a later point i.e. defer the obligation to report the individual detail and therefore not see these liabilities on an individual CCR record? Do you have a different view with respect to different types of groups of individuals e.g. partnerships as compared to clubs or associations?
Not applicable to home credit.

e. If you have suggestions in relation to addressing this challenge, please provide them along with supporting rationale.
Not applicable to home credit.

5. *Please outline any further comments or suggestions you have in relation to any phasing of CISs along with supporting rationale.*
   See responses above.

Reporting by CIPs to the CCR

1. *With respect to any phasing of different CIPs, do you favour a phased approach to the implementation?*
   We support the phased approach to CIP reporting expressed within CP93.

   Most CCARI members have little or no experience of using credit register systems. Many of the small member businesses also lack staff with the requisite knowledge to enable them to participate in the reporting process and/or to set up the systems and procedures required.

   Depending on the data to be reported, it is also possible that moneylenders will be required to gather data from customers which they do not currently collect. This will require system changes (e.g. to data protection consents in agreements, storage arrangements for new data etc.)

   We agree therefore with the proposal to omit licensed moneylenders from Phase 1 reporting to allow the sector to acquire the technical and practical skills and to make the system and procedural changes required.

2. *Can you please outline any further comments you have in relation to the phased approach outlined above? If you have any suggestions please provide them along with supporting rationale.*

   We have no further comment to make.

3. *It is suggested that licensed moneylenders and Local Authorities are omitted from Phase 1. Please outline any comments you have in relation to this approach? Are there any other categories or classes of CIP that you consider should be deferred or excluded? If so please provide your rationale.*

   Please see response to question 1 above: we strongly welcome the omission of home credit from Phase 1. We have no view on whether or not other categories of CIPs should be deferred or excluded.

Collection of Credit Application Data

1. *Can you please provide your opinions on the extent of application data that should be collected? Please outline any rationale you have for your proposal.*

   CCARI believes that application data should not have to be collected for any category of credit (except perhaps in the case of SME bank loan applications: see the main body of our response).

   There are various reasons why collecting application data is likely to be problematic and disproportionate.

   Critically, an application may not proceed for a number of reasons. The customer may simply withdraw, perhaps because he no longer needs the credit or perhaps because he has shopped around and got a better deal elsewhere.

   The customer may also completely misunderstand the product. For instance, an applicant may back out because he discovers something about the product he dislikes or does not require. Or he may apply to borrow far more than that firm is normally willing to lend.

   Lenders may also sometimes refuse credit for reasons unconnected with creditworthiness. A firm may, for instance, have an internal policy of not lending to anyone under the age of 25. Or the firm may refuse a loan because it has no remaining funds available to lend that month.

   The upshot is that where an application does not proceed to a loan, it may be unsafe to conclude anything from that.

   Set against this, collecting, filing and auditing application data is likely to carry significant costs for firms (which, in turn, will have implications for their customers).

   Finally, firms are required by law to conduct their own assessments of the customer's credit worthiness. It should be irrelevant to that process that another firm has also carried out a similar assessment.

2. *If additional credit data was collected at this point, would there be significant benefits from a CIP perspective in seeing and understanding credit applications on a real time basis?*
   See our response to Question 1 above: we strongly disagree that application data should be collected. Real-time data is also problematic: see elsewhere in this response.

First Point of Reporting of Credit Agreements to the CCR

1. *Please outline any comments you may have in relation to the timing of the first point of reporting of data to the CCR? Please outline any rationale you have for your suggested proposal.*
   CCARI considers that all lenders'[16] credit agreements should be reported within, say, one month of the contract being concluded. We think this should also apply to running-account credit even where the credit is not yet drawn down. If such an agreement is in place, the customer can almost instantly convert that into a debt liability. As the Bank notes,[17] this possibility would potentially be relevant to other firms' creditworthiness assessments of that customer.

2. *As a CIP, would you support reporting to the CCR at some point before drawdown and could your organisation currently meet any such requirement?*
   See our answer to 1 above.

3. *Please provide any comments or suggestions you may have in relation to the reporting of undrawn committed credit facilities to the CCR? You may wish to cross refer to your response to questions on section 5.3.*
   See our answer to 1 above.

4. *As stated above, the Central Bank believes there may be some concern to recording credit card approvals on a CIS record when they have not yet utilised the facility. Please provide any comments you may have.*
   See our answer to 1 above. If the facility is in place, it can be used. It is not clear to us whether the CCR will be able to record amounts drawn down on, say, a credit card but we consider this important information which we think such a system should be able to provide.

Extent of Historic Data to be collected

1. *Do you have any comments on the suggested approach? Do you believe the extent of data suggested is sufficient? If not, what additional information can you provide?*
   We appreciate the Bank's observations on transitional historic data but question (a) whether collection of such data should be a matter for serious concern and (b) whether it should take place.

[16] Not just home credit lenders.
[17] CP93 p.14

As far as we can see, the appropriate cost-benefit analysis would involve assessing the value of the transitional historic data to lenders, set against the cost of collecting and filing that data. As CP93 notes:

> **'…retrospective collection can be difficult, effort is spent ensuring quality and by the time this effort has been expended, the value of the information has diminished.'**

The value of this transitional data to lenders may be less than might be supposed. Lenders use other data to make lending decisions and are also able to ask applicants directly what other credit commitments they have. As an aside, it is worth noting that, in home credit, firms have found from experience that only the last 12 or so weeks' worth of repayment data on an existing customer is predictive.

We also note from press articles that the ICB appears to have agreed to continue to operate until the new system comes on stream.

As a postscript, it seems to be important that at least some detail of long-term extant agreements (such as existing mortgages and credit card agreements) should be included in the new register.

2. *Do you envisage any difficulties in collecting the data for periods suggested? Please outline any concerns you may have?*
   We agree with the Bank that collecting such data can be costly and difficult. The key question is whether the benefits (which would be essentially transitional) would outweigh the costs.

3. *If required, what difficulties if any are associated with collecting data, including monthly performance data, retrospectively, for example, for 3 years?*
   This would be a costly administrative exercise. For home credit, there would be no real benefit here and the extra costs would feed through into consumer detriment (including reduced access for the least well-off customers who are only marginally profitable).

Single Borrower View – Accurately identifying CISs

1. *Do you have any comments or views on the value or scope of personal information to be collected?*
   Firms are currently prohibited from collecting and holding the PPSN and this may raise data protection concerns among consumers.

2. *Please advise the extent to which you currently store or process the personal fields identified in the legislation (reproduced in Appendix 1)? If you do not currently store what operational challenges you would face in collecting these from CISs?*
   See answer to 1 above.

3. *Do you have any specific comments in respect of operational challenges you may face regarding the collection and reporting of PPSN?*
   See answer to 1 above.

4. *Do you have any comments on using, to the extent possible, existing Anti-Money Laundering procedures as the basis for CIS verification regulations?*
   No.

Collection of Foreign Credit Data

1. *Do you believe there is any benefit for capturing foreign credit data and that these outweigh the practical challenges embedded in the current requirements? Please outline any comments you may have in relation to the possible exclusion of this information?*
   We have no comment.

Collection of Guarantor Data

1. *Do you believe there is significant benefit to capturing guarantor data? Please outline any comments you may have in relation to the possible scope or timing of inclusion of this information*
   We have no comment.

Levies and Fees

1. *With respect to different classes of credit information providers and users, please outline any comments you may have in relation to the possible introduction of any levies or fees? If you have suggestions, please provide them along with supporting rationale.*
   The question of fees and levies is complex, especially as this is a compulsory system. Cost should be allocated on some combination of usage and average loan size.

   The objective should be to avoid customers of firms that lend larger amounts over longer periods (e.g. mortgage lenders) being cross-subsidised by customers of firms that lend little but often (e.g. home credit).

   It is also crucial that overall, costs and fees are kept to a minimum. For instance, the very high initial fees that ICB was charging at one stage would have largely eliminated the home credit sector had it been compelled to join that scheme.

   Even modest cost increases can have adverse effects for consumers, especially when (as with home credit) loans are small. In particular, extra costs dictate whether or not it is still profitable for a firm to continue lending to a customer.

   The *de facto* price cap means the CCARI members are unlikely to be able to recoup those costs through higher charges. So some customers who would previously have earned a small profit

for member firms would become unprofitable. Simple business economics means that firms will stop lending to these newly-unprofitable customers.

2. *Do you have views as to whether all CCR costs should be recouped entirely through either a levy or a fee, but not both? For example, should all costs be recouped only through access fees (i.e. user pays principle) with no levies imposed?*
   See our comments at 1 above.

3. *Is there another more equitable basis for recouping the costs of the CCR such as based on size of CIP, product specific charges or any other basis?*
   See our comments at 1 above.

Any other comments

If you have any other comments or suggestions in relation to the implementation of the CCR, please include in your response together with your supporting rationale.

APPENDIX B - CCARI RESPONSE OF 29 JUNE 2012

CONSUMER CREDIT ASSOCIATION OF THE REPUBLIC OF IRELAND

Promoting high standards of business and consumer relations in the home credit

CHAIRMAN
Kevin Carey

SECRETARY
KEVIN MURRAY

TREASURER
RODDY O LEARY

29 June 2012

Dear Sirs

IN CONFIDENCE
Credit Register Proposal

We are pleased to offer our comments on the above consultation. In our letter, the Consultation Paper is 'the CP', the Inter-Agency Working Group Report is 'the RIAWG' and the Central Credit Register is 'the CCR'.

The RIAWG offered a comprehensive and balanced view of the issues and our comments are, in effect, a gloss on these. We hope the Central Bank will find them useful.

CCARI and home credit

Consumer Credit Association Republic of Ireland ('CCARI') is the trade body for home credit (sometimes called weekly collected credit). This is a face-to-face, weekly-repaid lending system. Each week, an agent will visit the customer at home to collect any repayments due and - where required - issue further credit.

The loans are small: the average loan amount is probably around €500. But loans can be smaller than this (perhaps as little as €100) and larger too (some might be over €1500). Loan size does depend as well on the loan term.

The relationships between customers and their agents are very good.

All home credit lenders are 'moneylenders' as defined in the Consumer Credit Act 1995 (although not all moneylenders will necessarily be home credit lenders).

The home credit sector comprises a small number of large/medium-sized traders and a larger number of very small businesses. We estimate that the sector probably regularly serves upwards of 150,000 people in Ireland.

Robust UK research (POLICIS 2006) looked at what happened to consumers who were declined credit by home credit lenders. The study found that statistically, this group was much more likely to resort to illegal lenders.

Some specific aspects of home credit

In practice, home credit works very differently to mainstream remote lending formats. Yet out of necessity, credit reporting systems have to be designed around the more widespread mainstream lending models.

Home credit is different in these key ways:

- very small loans (relatively-speaking). Product viability therefore much more sensitive to regulatory cost/load.

- repaid weekly, not monthly (most credit reporting systems built around monthly model)

- highly tolerant to missed payments for genuine reasons. This is a key product feature, essential where most customers have to work to tight, easily-derailed budgets. There are no extra charges if a payment is missed. Overall, this means that the concept of arrears/default under home credit is not the same as under remote lending models.

- face-to-face lending and collecting means that home credit decisions are based mainly on rich intuitive and observational data[18]. In particular, home credit lenders can assess an applicant's character in a way that remote lenders cannot. A large UK lender has been able to prove that this face-to-face methodology can beat automated methods of assessing risk

- weekly home collection is significant because - by imposing discipline, routine and smaller, more frequent repayments - it modifies lending risk

- small businesses comprise a significant part of the sector.

- because loans are small, the sector is not systemically significant to the economy

Our reading of the CP and the RIAWG makes clear that the Central Bank is alert to - and sensitive to - these types of issue, an approach that we very much welcome.

Comments on the CP and the RIAWG

We strongly agree with key comments made in these documents, as set out below.

The problem of increased cost/load

We agree that most of our members would not be able to handle full participation in the CCR scheme:

[18] Plus data about the customer's previous performance with that lender. The data from the preceding 12 or so weeks is the most relevant payment data.

'...the Group considers that the majority of licensed moneylenders in Ireland lack the financial and technical capacity to become members of the CCR...' [RIAWG §5.6.5]

'...differing levels and frequencies of mandatory reporting...will enable smaller credit providers to become fully participating members...' [RIAWG §1.4(k)]

In this context, we strongly support the flexible approach implicit throughout the CP. This would, for instance, allow for reporting and searching thresholds[19] (see e.g. CP Heads 20(1)), different reporting standards (see e.g. CP Head 19) and the possibility of different fee levels (see e.g. CP Head 9(2)).

We think it would be a matter of serious policy concern if the cost/load of CCR participation had the unintended effect of causing home credit traders to exit the market.

The question of social good

We welcome the important focus on social good at RIAWG §5.6.8. The report is right to identify the risk of upward pressure on price as a possible outcome of CCR participation costs.

Other adverse effects include lenders looking to increase the minimum loan they are prepared to make (as costs rise, small loans become uneconomic). Lenders may also fine-tune criteria so as to exclude slightly higher risks (reducing costs by reducing write-offs).

In both cases, the likely effect is that this will tend to exclude the least well-off customers. This group only needs the very smallest loans and has to work to the tightest, most easily-derailed budgets. The risk is that this group finds that the very small credits it had been able to access - and repay - in the past are now no longer available.

This in turn creates the potential for these consumers to resort instead to unregulated illegal lenders.

Tailoring the definition of default to the product

We very strongly agree with the RIAWG at §1.4(n) where it says that:

'...a regulatory definition of default...may be tailored per product type in order to improve consistency and transparency of recording credit performance..' [RIAWG §5.6.5]

In this regard, the draft definition in the CP (Head 2 p.8) is based on the mechanistic market approach found with mainstream products. Because of home credit's flexibility (see earlier) the sector defines default differently. We focus less on mechanistic measurements and more on whether the customer relationship has broken down.

We believe that a credit reporting system is only as good as the signals that it sends and that flawed signals can damage credit markets and the reputation of the system. For instance, a '90 days past due' test for home credit could send misleading signals to other market players.

[19] It would be essential for all such thresholds to be properly index-linked.

We would very much welcome the opportunity to discuss this further with the Central Bank.

Use of the data for prudential supervision purposes

Generally, this seems to us to make good sense.

In the context of home credit, we have three comments:

- because loans are very small, the sector does not carry systemic risk for the Irish economy

- because home credit traders do not take deposits or otherwise hold clients' funds, prudential risk to consumers is nil (the customers have the lender's funds, not the other way round)

- each year, home credit traders have to lodge detailed financial information with the Central Bank, as part of the licensing round.

Overindebtedness, credit reporting and access to credit

At §2.5, the RIAWG looks at whether credit reporting can reduce the level of debt problems in an economy. It cites consumer group views which suggest that debt problems might increase.

In a very limited sense, the consumer group argument is right. When lenders use reliable and comprehensive credit reporting systems they can lend more reliably to more consumers. In other words, they enable the market to become wider and deeper.

As the consumers who use credit increase, the absolute numbers of delinquent borrowers may also increase. But we think it is wrong to paint this as a bad thing; in reality, default is one side of a two-sided coin, with access on the other side.

It is possible to achieve near-zero write-off rates in any economy. But for this to happen, the only lending would be to a small group of its most wealthy citizens: the very people who in fact do not need credit.

So when a lender goes deeper into a market and takes more risk, he is widening access to credit. He may have to write off 15 out of every 100 loans (some might say this was high). But at the same time, he has made credit available for 85 other people (who prove they can repay by doing so).

If the credit decisions are being made in an optimal way, then by and large, most write-offs will be caused by unpredictable life events[20]. So if a lender wants to (or is required to) reduce his write-off rate, he has only one way to do this. In effect, he has to stop lending to population groups that are generally more prone to[21] (or more sensitive to[22]) such life events[23].

[20] For instance, job loss, divorce or sickness.

[21] Because, for example, they are more prone to job loss.

[22] Because, for example, they are working to very tight budgets, with little or no 'cushion'.

[23] Non-predictable events should be contrasted with default that the creditor can predict. The profit motive will drive a commercial lender to identify - and take steps to avoid - 'predictable' default. The better such a lender can do this, the more money he will make.

In other words, write-off rates in a properly functioning credit market are neither 'good' nor 'bad'[24].

These are general comments about the use of credit reporting by the mainstream remote market.

As we explain earlier in this letter, the home credit lending model uses rich intuitive and observational data obtained from the weekly call to the customer's home. For our sector, the overall net benefits (if any) of participating in any credit reporting system are therefore much less clear-cut, especially given the potential cost and administrative load.

As we say above, we do very much welcome the Central Bank's clear recognition of the cost and administration problems that these proposals could cause the home credit sector.

However, as we have also said, we remain very concerned that the end results could prove highly damaging to our sector and extremely problematic for those consumers who rely on home credit to meet their liquidity needs.

We would very much appreciate the chance to meet with the Central Bank in the near future, to discuss these issues further as the implementation process develops.

We attach an Annex, which explores some of the issues in a little more detail.

Yours faithfully

D M Rees
Chairman, Law Committee

[24] Provided that debtors who can't pay are treated sympathetically, as most codes of practice now require.

ANNNEX

The UK experience

Following its scrutiny of UK home credit (2004-6), the UK Competition Commission ('CC') imposed four remedies on the sector.

One required the largest lenders to data share, using the UK's commercial credit reference bureaux system.

The CC saw that this would be prohibitive for most of the 500 or so UK home credit traders. Thus only lenders with 60 or more agents or annual turnover of more than £2m were required to data share. This means that only about twelve of the 500 or so UK home credit lenders have had to join this system.

Unusual features of home credit and the problem of false signals

Home credit works very differently from remote lending.

The weekly home visit positively modifies credit risk. This is because it imposes a regular routine and discipline on the customer. Also, the smaller, weekly instalments make for more manageable smoothing.

At the same time, the weekly visit also allows for a highly tolerant and flexible product. Where the customer's tight budget perhaps derails, he or she can quickly explain why to the agent when he calls. Agents are allowed to let the customer miss or make a reduced payment (at no extra charge).

These unique features can tend to mislead other types of lender who may look at CCR data. A 'good' home credit customer may struggle to repay a remote loan.

We know of two cases where remote lenders have systematically lent to home credit users based on their 100% home credit payment records (recorded in payment books). We gather that many of these remote loans to former '100%' home credit users went badly wrong. The payment data sent false signals.

The first such case was a UK finance house, which tried, several decades ago, to attract and serve large numbers of home credit customers. More recently, research by Liverpool John Moores University documented the same type of outcome when - in a small pilot - a UK credit union tried to lend remotely to '100%' home credit customers.

Home credit's in-built tolerance causes a similar kind of problem. A home credit user missing a payment for a genuine reason (and with his agent's agreement) would find that this had triggered (or begun to trigger) an adverse CCR entry. In other words, the CCR system would penalise the home credit user for using home credit in precisely the way it was intended to be used.

The agent would know why that payment had been missed and that the reason was genuine. CCR systems have no way of capturing and reflecting this subtlety: all they show is the miss.

Agents can beat mechanised data sharing systems

The common view is that computerised credit decisions must be better than human decisions.

This is true for remote lending systems. Here a loans officer (working only from a paper application) will consistently be beaten by computer algorithms.

However, this is not true for home credit. A large UK home credit lender has been able to prove (using the credit reference agency data) that agents can consistently beat computerised decisions. This is because of the weekly face-to-face contact with the customer.

Costs likely to outweigh benefits for home credit

In the end, all lenders' costs are borne by customers. If lenders can reduce costs, then in a competitive market, customers are likely to benefit. If net overall costs rise, then customers are impacted by those increased costs (either in the form of higher prices or in the form of reduced credit supply).

Commercial data sharing systems have flourished because - for the large remote lenders that use them - the benefits outweigh the costs. These remote traders have proved to their commercial satisfaction that the benefit of CCR data (in terms of reduced bad debt) outweighs the cost of participating in the CCR system. This is not surprising because these CCR systems were specifically designed for those types of lender.

However, CCR schemes are expensive and the net benefits (if any) for home credit are much less clear-cut. Small and medium traders could probably not afford to participate.

For the larger traders, this is still a costly proposition and, for them, it is also far from clear whether benefits would outweigh costs.

These types of calculation also turn on the efficiency of the relevant CCR system. The less efficient the system, the greater the chance that costs will outweigh benefits (a negative result for consumers and for society).