



## ACCIS MANIFESTO ON BIG DATA AND FINTECH

5 December 2017

### Introduction

1. Technology is certainly driving new forms of innovation that simply were not viable before. It is disrupting every part of life, challenging what is 'normal' and traditionally accepted. Concretely, technology is enabling change in financial services. For example, APIs – or Application Programme Interfaces – is technology that allow banks and other companies to conveniently and securely share data. Artificial intelligence (AI) means the rise of self-learning 'robots' while and cloud technology is revolutionising the way information is stored and accessed.
2. A key part of technological innovation is the use of new types of data which are currently being used and processed for the provision of financial services. Transactional data is particularly powerful because it is a high-quality data-set that informs others about how consumers spend, and from this be able to infer those consumers' financial priorities, interests and needs. Data processing tools are also becoming more sophisticated: algorithms make it possible to analyse new 'big data' sets and the connections between different sets of data, including those supplied by Internet of Things technology.
3. Disruptive regulatory changes are also creating significant opportunities and challenges for all players. So-called 'Open Banking' standards will require banks to make it possible for consumers to share their financial transactional data far more easily with third parties online. Open Banking will allow financial data to be merged and analysed with other datasets. Firms could see what connections exist between transactional data and social media data, for instance.
4. ACCIS members - Credit Reporting Service Providers (CRSPs) - are committed to building a thriving and globally competitive European financial services sector. While preserving their core values of trust, privacy and security, CRSPs have been early developers and adopters of innovative financial solutions and technologies, helping to remove information asymmetries in the lending process for the benefit of both individual consumers (B2C) and firms (B2B).

### Credit scoring

5. Credit scoring is a financial tool native to the credit reporting sector that is regularly offered by CRSPs to creditors, to help them comply with their legal obligation to make a thorough assessment of a consumer's creditworthiness before concluding a credit agreement. A credit score is the result of a statistical model which, based on certain information about a borrower (e.g. existing arrears, number of previous loans, age, etc.), estimates the likelihood that the borrower can repay his / her loan on time. The information used to build up a credit score is processed in accordance to EU and national laws on privacy and consumer protection, such as the recently adopted EU General Data Protection Regulation.
6. Traditionally, the data used to build up a credit score has been based on credit factors heavily influenced by a borrower's own financial activities. This is changing. The exponential growth and availability of 'new' data created by people, applications and smart machines, combined with technical advances in data mining, storage, processing power and analytic tools present a number of opportunities:
  - Credit-scoring models based on 'traditional credit data' could, under certain circumstances, become even more predictive and accurate. Enhanced credit scores could increase access to credit by helping lenders better assess creditworthiness or lower the cost of that credit.



- 'Alternative data' and modelling techniques can help expand access to financial products to Europeans that (i) have no credit history; or (ii) have credit histories too limited to generate a credit score. It is estimated that around 30 million Europeans do not have a bank account<sup>1</sup>.
7. Along with these new opportunities, CRSPs see a new breed of companies arising that look for new sources of data that can help provide a more complete picture of credit risk and try to gain insights into new business opportunities in the field of credit information services. Yet along with the benefits of Big Data, comes a set of challenges that deserve proper consideration, both by industry, i.e. existing CRSPs and start-ups but, also, policy-makers. For example, safeguards need to be put in place to ensure that:
- new sources of data are as reliable and predictable for score modelling as traditional ones and will not unduly distort existing credit scores;
  - there is proper regulation in terms of transparency and disclosure over the kind of data used in new score models;
  - the use of flawed predictive analytics products is avoided;
  - the use of social media / behavioural data, which could lead to discriminatory scoring, is monitored and corrected;
  - the use of algorithm-based lending does not produce inaccurate decisions and unfair treatment of particular borrowers;
  - borrowers can meaningfully and effectively exercise their right to check and correct any (big, alternative) data used.
8. The ongoing market and regulatory developments around Big Data and FinTech are consequently highly relevant for ACCIS. These developments will strongly impact and transform the credit reporting industry, which is an important part of the broader financial market infrastructure.
9. ACCIS welcomes, therefore, the active debate launched by the EU Institutions on the subject of Big Data and FinTech, including the Joint Committee Discussion Paper on the Use of Big Data<sup>2</sup>, the European Commission's consultation on FinTech<sup>3</sup>, the establishment of the European Commission's Task Force dedicated to Fintech and the work on this topic in the European Parliament<sup>4</sup>, among others. In this respect, and also with reference to future initiatives on these matters, ACCIS wishes to confirm its interest and availability in being involved and giving a contribution based on its long-standing expertise.
10. ACCIS puts forward this 'Manifesto on Big Data and FinTech' as a contribution to the ongoing debate on these topics and recommends a number of actions that should be addressed by the EU as a priority in order to reap the benefits of the Big Data and FinTech revolution in our industry. Our recommended actions are grouped under 3 headings:
- Level Playing Field – 'Same services, same rules' principle
  - Expansion of the credit dataset
  - Regulatory approach to innovation

### **Level Playing Field – 'Same services, same rules' principle**

11. As a result of the complex and varying national legislation / supervisory practices across the EU - see § 16 below – there is a 'traditional' unlevel playing field among the traditional CRSPs in different Member States<sup>5</sup>. There is also an unlevel playing field between those players and the new entrants providing credit information services:

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<sup>1</sup> [http://europa.eu/rapid/press-release\\_IP-11-897\\_en.htm](http://europa.eu/rapid/press-release_IP-11-897_en.htm)

<sup>2</sup> [https://esas-joint-committee.europa.eu/publications/discussion%20paper/jc-2016-86\\_discussion\\_paper\\_big\\_data.pdf](https://esas-joint-committee.europa.eu/publications/discussion%20paper/jc-2016-86_discussion_paper_big_data.pdf)

<sup>3</sup> [https://ec.europa.eu/info/sites/info/files/2017-fintech-consultation-document\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/2017-fintech-consultation-document_en_0.pdf)

<sup>4</sup> <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2017-0176+0+DOC+XML+V0//EN>

<sup>5</sup> For example, the use of social media data for scoring is forbidden in Germany whilst it is allowed in Lithuania.



- As FinTech start-ups develop products to meet consumers' needs and wishes, incumbents often find that they are subject to stricter regulations<sup>6</sup> that prevent them from doing so.
  - Established CRSPs (and financial institutions) bear significant reputational risks in case of misuse of consumer data. New players, which have not built up their reputational capital yet, face significantly lower reputational and monetary losses in case of regulatory breaches can, therefore, be more aggressive in experimenting with innovative uses of data. The different level of reputational risk produces a clear competitive gap between the two categories of players.
12. The European Parliament has acknowledged<sup>7</sup> that FinTech should be understood as *'finance enabled by or provided via new technologies, including the whole financial sector in all its components'*. Any actor can be a FinTech regardless of the kind of legal entity it is. The development and implementation of innovation around Big Data and FinTech cannot happen at the expense of undermining the necessary level playing field and fair and equal conditions for competition between those established players and newcomers.
13. As a consequence, ACCIS calls for the effective implementation of the 'same services, same rules' principle. Anyone willing to embrace the digital transformation should be equally allowed to do so.
14. A concrete, urgent application of this principle is a consistent application of the GDPR, on all data processors and throughout EU Member States. ACCIS awaits the launch of the European Data Protection Board as key step to make progress in that direction.
15. By mandating open application programming standards (APIs) through the review of the Payment Services Directive (PSD2), European public authorities are already levelling the playing field for new entrants and smaller providers to compete with banks on access to transactional data. In a similar vein, 'Big Data' should be available to all players (existing and new) competing in similar markets under the same rules and constraints. For example, if with the consent of a data subject, his / her telecom or geo data is used by some players in the market to provide credit, the remaining credit providers should have access (directly or through intermediaries) to the same data, under the same prerequisites. This would allow the data subject to find new or better products and services and to lower the fees he / she pays, among other possible advantages.

### Expansion of the credit dataset

16. Regulatory limitations are still preventing CRSPs from fully exploiting the potential of traditional data towards better creditworthiness assessments. These are:
- Limitations on credit information availability. In some Member States, credit granters such as banks and alternative lenders do not have access to positive credit data i.e. complete account-level information including balance and payment information. As a result, those users are deprived of information that can increase the accuracy of credit risk decisioning. In some other instances, credit databases lack certain data categories. For example, according to ACCIS' latest membership survey<sup>8</sup>, only 77% of our members collect data on SMEs and 71% on larger corporate entities data. In other instances, some Member States do not enable the sharing of non-financial credit data (i.e. telco and utility) credit data.
  - Limitations on information sharing. Not all potential users of credit data have a similar level of access to information held in CRSPs across Europe. In some Member States such as Poland, only traditional banking and financial lenders can contribute credit data to CRSPs whereas in

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<sup>6</sup> An example of this can be found in the different national ways of transposing the EU anti-money laundering legislation. Those national differences in the transposition of the AML make it difficult for obliged subjects to employ innovative and/or FinTech solutions in their customer due diligence processes (see [EBA's discussion paper on Fintech, page 55.](#)).

<sup>7</sup> European Parliament [resolution](#) of 17 May 2017 on FinTech: the influence of technology on the future of the financial sector.

<sup>8</sup> [ACCIS Membership Survey, 2015.](#)



other Member States, cross-sector data (i.e. telecommunication, energy) can also be contributed.

17. These limitations are the result of inconsistent national legislation and supervisory practices across the EU that impose restrictions on credit information availability and sharing. These restrictions are suboptimal from the point of view of risk control for the following reasons:
  - They prevent the efficient allocation of credit and lead to interest rate charges that do not reflect as closely as possible the risk involved in lending to a specific borrower.
  - They give rise to adverse selection problems as high-risk borrowers find loans relatively cheap, whilst low-risk borrowers find them relatively expensive. Low-risk borrowers effectively subsidise high-risk borrowers.
18. ACCIS urgently calls for initiatives towards more comprehensive credit data pools and data access across the EU. As the voice of the data infrastructure of the credit markets in Europe, we are ready to orchestrate an industry-wide debate on data inputs for creditworthiness assessments, which can contribute to the European Commission's review of the Mortgage Credit Directive in 2019.
19. Big Data does not have a positive or negative connotation *per se*. Big Data analytics should rather be seen as a tool that can be used with positive or negative results for financial institutions, depending on the purpose pursued by such a tool and the quality of the data used. Whenever personal data are concerned, the new GDPR has to be observed, especially the principles of transparency and accuracy.

#### **Regulatory approach to innovation**

20. The pace of technological developments, which often cannot be matched by traditional rule-making processes, calls for innovative ways of regulating and supervising Big Data and other FinTech products and services in the EU. The lack of an EU-wide approach to experimentation-based supervision is limiting companies in many EU Member States from developing and launching innovative products. It also puts EU companies at a competitive disadvantage vis-à-vis their non-EU rivals as a large number of non-EU jurisdictions not only have already created so-called 'regulatory sandboxes' and similar projects within their financial markets supervisory authorities, but have even entered into FinTech cooperation agreements to share information on emerging market trends and developments<sup>9</sup>.
21. ACCIS calls, therefore, for an EU-wide regulatory and supervisory approach to Big Data and FinTech, based on the creation of cross-sector 'safe spaces' in which firms can enter the financial services market and experiment with new ideas and real customers with a degree of regulatory oversight and support. Depending on the scale and geographical reach of the experimentation, supervision and support could be conducted either by an EU body (for example the European Supervisory Authorities or the European Commission), or by national authorities, based on an EU-wide framework i.e. rules or guidance.
22. The lessons learned from this experimentation should be discussed in EU-wide, issue-specific expert groups. One group could be organised around data in credit scoring and reporting. This group could consist of representatives of industry and scoring and statistical experts, consumer protection organisations, financial and data supervisory authorities and EU regulators and its aim would be to create a common and visible understanding of the associated risks and opportunities of Big Data in credit scoring and reporting.

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<sup>9</sup> See the recent [Information Sharing Co-operation Agreement](#) between the Australian Securities and Investments Commission (ASIC) and the China Securities Regulatory Commission (CSRC).



23. ACCIS believes the European regulatory framework should not just be 'technology-neutral' but also 'entity-neutral', meaning that it should provide the same possibilities for developing and offering innovative services, including those based on Big Data analysis, to both traditional and new financial market players and in all Member States in the same way. Such an approach is crucial to effectively establish and implement the 'same services, same rules' principle.