Challenges and prospects for setting-up a European Union shared system on credit

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1. Background

Central credit registers (CCRs) are granular databases operated by national central banks (NCBs) containing loan-level or borrower-level information locally tailored to provide for exchange of credit information within the financial system, especially among banks, and additionally they serve to support micro-supervision analysis. Currently, there are three main uses of CCRs: (1) to enable bank supervisors to accurately assess credit risk in supervised financial institutions; (2) to support financial transactions by assisting credit institutions in the evaluation of risk; and (3) for economic analysis.

Since 2007, the European System of Central Banks (ESCB) has been exploring the potential statistical use of CCRs, in particular to understand to which extent their content may be enhanced and adapted to euro area and European Union (EU) statistical needs, to alleviate the statistical reporting burden and increase transparency. In this context, several related ESCB initiatives have not only proven the analytical usefulness of CCRs but have also shown that, where applicable (since in some countries there is no CCR), the differences in terms of coverage, attributes and data content are often substantial pointing to the need for (1) harmonisation in concepts and definitions, (2) over time, convergence in data coverage and content.

2. ESCB Task Force on Credit Registers

Against this background, an ESCB Task Force on Credit Registers (hereinto mentioned as the TF), comprising experts from the statistical as well as from credit registers' areas, was mandated in 2012 to investigate three main issues: (1) identify a core set of information to meet main users' needs and the necessary data attributes and level of harmonisation of definitions/methodologies; (2) consider the governance, legal and confidentiality issues; and (3) explore the identification of entities[3] and of loans and the CCRs' links to other data sources such as micro databases and business registers.

In addition, the TF was assigned to work on a 'pilot area' with the aim to study the identification of a core set of information to meet main users' needs, in terms of analysis envisaged, required coverage of the data in focus, available definitions and

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concepts and the related necessary data attributes. The pilot was based on a proposal for sharing a subset of data, prepared in cooperation with ECB internal users from the Financial Stability, Economics and Research departments. The users were then asked to assess whether the dataset (or subsets of it) were indeed fit-for-use for their data analyses, and provide recommendations, also in comparison with other available data sources.

Overall the pilot exercise showed that loan-by-loan, or at least borrower-by-borrower, data availability may further support, including at country level, a number of monetary policy relevant issues relating to the provision of credit and the functioning of the transmission mechanism. In addition, from a financial stability point of view, such granular data allow for a more accurate analysis of credit risk, while the granularity of information on lending could complement (or even replace) existing data sources for monitoring the degree of financial integration within the euro area. Nonetheless, all user areas stressed that the analysis performed had largely been hampered by the lack of further cross-country harmonisation, limited country coverage and incompleteness of the data (lacking further information on collateral, ratings, etc.), thus paving the way for (longer-term) developments towards more harmonisation and data comparability in the future.

In addition, a light fact-finding exercise on the legal frameworks prevailing at national level among the participating members has shown that relevant confidentiality and data protection obligations apply, arising under both the EU and national laws, and that accessibility to CCR raw data is often restricted for supervisory purposes.[4] The overall TF work resulted in a number of recommendations, which refer to the gaps on credit and credit risk data, and include proposals to coordinate efforts to improve granular data among NCBs on lenders, borrowers and credit attributes, as well as methodological issues, covering the following areas:

(1) reporting framework and methodological issues, with a strong encouragement to collect loan-by-loan information;

(2) coverage and determination of lenders, borrowers and types of credit;

(3) core set of data, i.e. required attributes on lenders, borrowers, credit, currency, collateral and maturity etc.;

(4) other information requirements, i.e. additional attributes that the CCRs are encouraged to incorporate, such as information related to the identification of entities and loans, performance of a borrower/loan, probability of default, loss given default, financial guarantees, inception and maturity dates of the loan, effective annualised interest rate and accrued interest; and

(5) other considerations regarding the database management, such as historical data and revisions, data frequency and timeliness, and threshold.

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4   In addition, data sharing with other CCRs follows the rules of the initiated in 2005 Memorandum of Understanding (MoU), on the exchange of information among CCRs, signed by nine NCBs (AT, BE, CZ, DE, ES, FR, IT, PT, RO), and based on reciprocity. The MoU defines the framework to exchange information among the CCRs to provide this information to the reporting institutions to obtain a better overview of the indebtedness of the borrowers in an environment of financial integration, in which cross-border lending is becoming increasingly important. Data aggregation or anonymisation are in general minimum requirements for providing access for non-supervisory users of CCR data, with similar access available to both national and cross-border users on this basis.

3. Way forward and challenges ahead

The CCRs' content could become a primary source of information on credit exposures and credit risks to support the macro and micro-supervisory tasks in the context of the forthcoming (not yet established) Single Supervisory Mechanism (SSM). With a view to defining the best strategic approach towards meeting the increasing user demands for more granular data and flexible data sources in a pan-European set of credit and credit risk data, a number of work-streams have been identified within the recently established (in 2013) ESCB Task Force on Analytical Credit Datasets (also involving countries that do not maintain a CCR), which has been mandated to extend the work of the first TF on the following key issues:

(a) In the *short run*, to (1) monitor CCRs' convergence to the benchmarks identified by the previous TF via a repetition of the pilot exercise, possibly also embracing the emerging SSM requirements, and (2) to investigate the appropriate legal steps for a regular exchange of data serving analytical/policy purposes.

(b) From a *longer term* perspective, and in view of the upcoming implementation of the SSM, to analyse any further ECB needs on granular credit data and overall consider how datasets could be shared across the Eurosystem/ESCB, so as to ensure an in-depth analysis of the data for lenders and borrowers with significant cross-border loans, while limiting duplication with current or enhanced CCRs, or any similar datasets. In this attempt, a new template to collect granular data from NCBs, including attributes on lenders, borrowers, credits and methodological aspects may be developed. In addition, based on the legal framework (including that for the SSM), to investigate the most appropriate legal solution to have the new data collection mechanism in place.

(c) Given that the work focused thus far on non-financial corporations, the need for data on other borrowing sectors can be explored. In particular, as the household sector is usually not adequately covered by CCRs, to investigate the extension of coverage possibly to housing (including mortgage) loans, but also to inter-financial corporations' lending and lending to the government sector (taking into consideration other similar loan-level datasets, such as the European Data Warehouse and "private credit bureaus" that operate in many EU countries).

In particular regarding the second work-stream, the work may be further supported by the establishment of an IT solution (Analytical System on Credit – AnaCredit) for receiving, storing and disseminating credit and credit risk information on a euro area (or a EU-wide scale), which would be sourced from national CCRs or other similar datasets and would include the most important attributes on loans, lenders (possibly abridged from the ESCB Register on Financial Institutions and Affiliates database, RIAD) and borrowers. The system may process some very granular information, *e.g.* on significant loans and borrowers, and more aggregated data (as combination of other, individually less significant). The remainder of the granular information would be handled at national level, under the responsibility of NCBs which would coordinate and cooperate with any relevant national data sources.

Such a tool may substantially support credit and credit-risk analysis required for the conduct of monetary policy, micro-prudential supervision, economic analysis, financial stability, research and statistics, in particular under the on-going turmoil of financial markets. It will enable the necessary flexibility to address in a timely

manner needs on granular data, *e.g.* credit data broken down by economic activity, size of firms, new credit granted (whether, or not, yet drawn), arrears, etc., while the reporting burden is kept to a minimum. Actually, the efforts to set up or enhance such granular credit datasets are expected to be offset, overall by (i) the additional information feedback to reporting agents (as a normal feature of CCRs or similar loan-level datasets) for them to assess the creditworthiness of their (actual or potential) customers and (ii) the substitution effect of the new granular datasets in comparison with additional breakdowns, *e.g.* in Monetary and Financial Statistics (MFI) balance sheet statistics or in (additional breakdowns in) supervisory reports.

To meet the ESCB data needs, methods would have to be worked out in order to overcome the difficulties associated with the data scope, coverage, definitions, reporting framework, as well as the interoperability of credit registers and their links with other sources. In collaboration and with the active participation of all the entities involved, one more coherent and integrated system would have to be developed for the creation of interconnected statistical databases to be used according to the increasing demand for data on credit.

References

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