

CREDIT HISTORIES TO BE ACCESSIBLE ACROSS THE EU

Expert group report slammed for 'useless' conclusions and incompetence, while cross-border data debate continues
By Freddie Dawkins

THE EU-appointed Expert Group on Credit Histories (EGCH) has delivered its report, which accepts that there needs to be much more openness about credit histories within the EU's borders, but it falls short on advising practical steps.

The European Commission is legally obliged to make credit histories more easily accessible, as part of its pathway to creating a single market in financial services.

Many trade and industry groups submitted their views to the EGCH during its months of deliberation, and Eurofinas' Tanguy de Werve told *CCRW*: "The report recognises the importance of facilitating cross-border access to, and exchange of, credit histories whilst arguing against the establishment of a pan-European database.

"We have actively worked on access to credit histories and sent a preliminary position to the EU Commission in April. Now that the report of the Expert Group has been published, the Commission has opened up the debate, calling for submissions to them by 31 August."

According to Article 9(1) of the Consumer Credit Directive – which must be complied with as of May 2010 – cross-border access to credit databases shall be non-discriminatory.

Volker Remy, CEO of Euregex, based in Leipzig, told *CCRW*: "The objective for having access to the credit history of a foreign citizen is respectable, but the rationales for it are kind of absurd: It is definitely not the 'bad' or 'insolvent' consumer who is the origin of the financial crisis – it is the investment banking community, together with an extreme creativity in selling national (sub-)primes on the global market.

"The conclusions of the report are consequently rather useless and show a tremendous lack of competence. And, it is extremely lopsided! It is sufficient

to have a look on the composition of the expert-group: banks and data protection organisations. Where are, for example, the trading industries?"

He explained how these days banks are 'supranational', that is they can easily use their own pan-European information infrastructure: the customer wishing to purchase property abroad just might ask his bank to give a statement on his person for the target bank, together with a recommendation which bank in the target country he should contact. He said that the risk of doing a deal and the costs of an eventual credit-check is more important for services or goods to sell.

"And last but not least," said Mr Remy, "I believe the conclusion of the report also shows its lack of professional input: it refers to the network solution of the existing national systems to a

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supranational and complete new solution. How unrealistic can those experts be? If such a project can ever be realised, it will be a on a completely new and common standard only and nothing else."

According to Mr Remy the basis of each credit-check is to know the identity of a person, enabling the granting of credit and payment experiences to the right person and to avoid fraud at the same time. But he questions how this should work, where some member states do not really have an idea of actually who lives in their country, and what is the permanent address of the citizen?

He believes that without population registers, and with identity cards in some countries that have not been updated for many years: how can we get practical credit information on a French or British



Volker Remy, CEO, Euregex

consumer? And, more importantly how can such a consumer be retraced, once he turns to a debtor and moves home?

"Or take other member states that do have population registers but who do not 'talk' to anybody but bailiffs or courts, because of their national legislation on data protection, which means creditors

can be engaged in a cost-intensive and often enduring legal procedure," he said. "Take France as an example: there is no real tradition of purchasing goods in e-commerce other than paying in advance, since there is no payable and fast credit check facility available and legal procedures are at the risk of the creditor, even if he is completely right? So why should a French consumer get consumer credit abroad, whilst he will not get it at home?"

"What seems to be forgotten as well, is that any credit-check is the search for negative payment experiences as a decision basis. Very often it is more important to know the positive payment-experiences, but paradoxically it is the data protection lobby, for example in Germany, that successfully impedes the

use of such data with the recent Data Protection Act reform on credit checks and scoring."

Mr Remy's conclusion is that the premise of a European credit check is one of a reliable and cheap identity check. "The premise for such an identity check is the European unique identification number for each citizen," he said. "No ID check – no reliable credit-check. With such an instrument the Commission could possibly radically reform the national standards at the same time, and in a short time. Everything else is not realistic – not in the time that we could witness it."

Neil Munroe, external affairs director at Equifax and president of the global Association of Consumer Credit Information Suppliers, went on record last month, explaining the importance of credit information to help achieve responsible lending.

Thanking the group experts for their work, internal market and services commissioner Charlie McCreevy said: "The availability of complete and accurate credit data is essential in order for creditors to assess the borrower's creditworthiness and, thus, lend more responsibly. Obstacles to the cross-border access to and exploitation of credit data is also one of the barriers to the development of lending activities within the internal market.

"The group has done valuable work in identifying solutions, whilst taking into account key data protection concerns. We will examine carefully its analysis and its recommendations. I welcome reactions from all interested stakeholders on this report."

The EGCH report recognises the low appetite for and the high cost involved in radically changing national credit register systems. So the experts have rejected global and complex solutions such as setting up a pan-European credit register or aligning all member states to a single – already existing or new – credit data model.

According to the experts, data access model choices should be market driven. Before being implemented, any solutions will need to be carefully evaluated in terms of their costs and benefits for both consumers and creditors.

◆ Briefing, p29

CFOS IGNORING SUPPLY CHAIN RISK

Survey reveals that cost-cutting is most favoured means to survive the recession, ignoring supply chain management
By Freddie Dawkins

A NEW global study has revealed that chief financial officers (CFOs) are shunning risk management in favour of cost cutting, and are failing to treat supply chain dangers seriously enough.

The current downturn is profoundly affecting businesses around the world, and *The Cost of Control* is the first major global study investigating the issues impacting finance and procurement.

An insight into the views of 550 financial directors and CFOs, the research was supported in the US by Mark Frohlich, associate professor of operations management at the Kelley School of Business.

The study revealed that in spite of a high-risk economic environment, CFOs are failing to recognise the importance of closely managing supply chains through procurement, with just 28% of respondents to the study saying that they believe procurement has a significant impact on financial risk exposure.

Commenting on the findings, Professor Frohlich said: "Businesses today are defined by their supply chains, and some of the high-profile business failures of the last 12 months point to this as a root cause. Finance departments across the

globe have been guilty of ignoring the real value that their procurement teams can bring to the financial health of their organisations for decades now, so there is real truth to the suggestion that CFOs are not making the most of what can be an invaluable asset in the fight against the recession."

The study found that only 46% of CFOs see real integration between purchasing and finance processes, representing a major break between two departments that should be working closer than ever to combat the downturn.

According to survey results, fewer than half of the respondents see any level of integration between procurement and finance teams. Raw cost cutting was seen as a major priority for the CFOs questioned in the study, with 64% stating that bringing costs down was the top item on their agenda.

At the same time, strategic goals seem to be taking a backseat for many, with only 39% citing risk analysis as a major concern for them, and a comparable 39 percent believing that maintaining or improving margins was key.

Copies of The Cost of Control study are available from robert.cohen@basware.com

EUROPE

PATENTS CAN SAVE FIRMS

ECONOMIC experts expect up to 35,000 business failures in Germany in 2009, yet very often intangible assets, such as patents, are not sufficiently taken into account by banks when making lending decisions. This oversight is proven by the results of a new study by the KfW banking group.

"This can be a misjudgement which can cost companies their existence," Daniel

Papst, patent attorney at Papst Licensing GmbH & Co. KG told *CCRW*. "Active patent management is essential to ensure it does not come to this. Successful patent exploitation can prevent bankruptcy. SMEs should no longer regard intellectual property rights as an instrument to block competitors, rather they should view them as a core element of an 'offensive corporate strategy'."