FINCONET STANDING COMMITTEE 2:

Questionnaire on supervisory approaches to consumers' creditworthiness assessment

January 2020

Introduction

1. This questionnaire on *"Supervisory approaches to consumers' creditworthiness assessment"* is an initiative of the International Financial Consumer Protection Organisation (FinCoNet).

2. Since 2013, FinCoNet's Standing Committee 2 ('SC2') has been in charge of identifying regulatory and supervisory approaches and tools for supporting responsible lending practices. In doing so, it has addressed responsible lending from multiple and complementary perspectives.

3. Previous work of SC2 includes:

   - the 2014 'Report on Responsible Lending';

   - the 2016 'Report on Sales Incentives and Responsible Lending';

   - the 2016 'Guidance to Supervisors on the setting of Standards in the field of Sales Incentives and Responsible Lending';

   - the 2017 'Report on the digitalisation of short-term, high-cost consumer credit'; and, most recently,

   - the 2019 'Guidance to supervisors in the field of digitalisation of short-term, high-cost consumer credit'.

4. In its Open Meeting in March 2019, FinCoNet's Governing Council agreed that SC2 should focus its future work on the supervisory approaches to consumers' creditworthiness assessment.

5. The creditworthiness assessment is a key dimension of responsible lending and it has been on the agenda of market conduct supervisors for several years.

6. In a context of growing digitalisation of credit products, firms are changing the way they assess consumers' creditworthiness, which is fostered by the increasing availability of consumers' data and by technological developments. In tandem with approaches that rely on information provided by consumers on their financial situation and other personal circumstances, firms are increasingly making use of models based on automated processes and alternative types and sources of information.

7.   Although innovation in this field may encompass benefits and opportunities, it also raises new challenges and risks to consumers and to market conduct supervisors, which should be thoroughly analysed from a consumer protection perspective.

8.   As a first step to address these issues, in July 2019, SC2 conducted a stocktaking exercise, aimed at obtaining a high-level overview of regulatory approaches to creditworthiness assessment among FinCoNet members. The answers provided by the 16 supervisory authorities that have responded to the stocktaking exercise revealed the importance of the existence of a regulatory framework governing consumers' creditworthiness assessment. The questionnaire takes into consideration the insights obtained through the stocktaking exercise, but intends to go further in-depth in the description of the regulatory solutions and the powers granted to supervisory authorities to effectively oversee compliance with the existing regulations.

9.   The questionnaire focuses on creditworthiness assessment in the context of the provision of **consumer credit** - covering both **housing loans and mortgages** and **unsecured consumer credit** - and aims at gathering relevant information on how market conduct supervisors are currently addressing the issues related to creditworthiness assessment, taking into consideration the existing regulatory framework and the market practices in this field.

10. The questionnaire is structured as follows:

   (a)   In the **first section**, respondents are invited to describe the regulatory framework applicable to creditworthiness assessment in their jurisdiction.

   (b)   The **second section** of the questionnaire aims at obtaining qualitative information on the main practices, developments and risks associated with consumers' creditworthiness assessment which have been identified by supervisors when monitoring consumer credit markets.

   (c)   Finally, in the **third section**, respondents are invited to describe the strategies and tools implemented to oversee compliance by firms of the regulatory framework applicable to creditworthiness assessment.

11. Although the questionnaire consists mostly of closed-ended questions, respondents are invited to describe any practices/initiatives/lines of action that they would like to highlight and that could be considered an effective or innovative supervisory approach to consumers' creditworthiness assessment.

Instructions for responding to this questionnaire

(1)   Please answer each question by referring to your own jurisdiction.

(2)   If the answer to a question depends on the type of credit which is being offered, please specify the existing differences.

(3)   Case studies and statistical data, where available, are welcomed.

(4)   Kindly provide your answers to the questionnaire by email to the OECD Secretariat (sally.day-hanotiaux@oecd.org / miles.larbey@oecd.org) by **14 February 2020**.

(5)   Should you need any further information or guidance in order to complete the questionnaire, please contact the OECD Secretariat (sally.day-hanotiaux@oecd.org / miles.larbey@oecd.org)

Contact point

Please indicate contact point for any questions that may arise in respect to this questionnaire:

Name:

Position:

E-mail:

Telephone:

Glossary

Term	Meaning
Big Data[1]	Large volume of different types of data, produced with high velocity from many and varied sources which are processed, often in real time, by technology tools such as powerful processors and algorithms.
Consumer	Individual acting for personal, domestic or household purposes, not business purposes.
Credit Intermediary	Natural or legal person who is not acting as a creditor and who, in course of his / her trade, business or profession: • Presents or offers credit agreements to consumers; • Assists consumers by undertaking preparatory work or other pre-contractual administration in respect of credit agreements other than as referred to in the previous point; or • Concludes credit agreements with consumers on behalf of the creditor. In some jurisdictions, this figure is known as a 'credit assistance provider'.
Creditworthiness assessment	Evaluation of a consumer's ability to repay the obligations resulting from the credit agreement.
Digital channels	Any online, mobile or other technological means through which a consumer can obtain consumer credit.

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[1] EBA (2017), Report on innovative uses of consumer data by financial institutions, 28 June 2017.

Machine learning	A subset of Artificial Intelligence that allows a program or system to build a predictive model from input data, without being explicitly programmed. The system uses the learned model to make useful predictions from new (never-before-seen) data drawn from the same distribution as the one used to train the model.
Sources of data	Consumer data obtained both from internal and external sources. Internal sources include data provided by consumers to firms. External sources include information that firms collect outside of their own network, namely from other public or private companies.

Section 1

Regulatory framework on consumers' creditworthiness assessment

This first set of questions aims to **obtain a general overview of the legal and regulatory framework** applicable to consumers' creditworthiness assessment in each jurisdiction.

1. Does your jurisdiction have in place any rules or principles governing consumers' creditworthiness assessment? *(please select all applicable options)*

   ☐ Yes, rules

   ☐ Yes, principles

   ☐ No

   ☐ Under consideration / In progress (*please provide details*)

   1.1. If you answered 'Yes', please specify, from the list below, which entities are responsible for issuing the applicable rules and principles.

   ☐ Supervisory authority

   ☐ National legislator

   ☐ Other authorities *(please provide details)*

   1.2. If you answered 'Yes' to question 1, please specify, from the list below, which credit products are covered by the existing legal and regulatory framework.

   ☐ Housing loans / mortgages

   ☐ Personal loans

☐ Car loans

☐ Revolving credit (e.g. credit cards, overdrafts)

☐ Payday loans

☐ Student loans

☐ Leasing

☐ P2P lending / Crowdlending

☐ If others, please specify

2. Does the legal and regulatory framework governing creditworthiness assessment in your jurisdiction establish different rules or principles depending on the credit product being provided?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

☐ Not applicable

3. Does the legal and regulatory framework governing creditworthiness assessment in your jurisdiction establish different rules or principles depending on the features of the credit agreement being provided (e.g. loan amount, loan maturity, distribution channel)?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

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4. In your jurisdiction, when are firms required to perform consumers' creditworthiness assessment? *(please select all applicable options)*

☐ Before the conclusion of a credit agreement

☐ Prior to an increase of the loan amount

☐ Prior to a renegotiation of the credit agreement's terms and conditions

☐ Other circumstances *(please provide details)*

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5. In your jurisdiction, are firms allowed to charge consumers any fees or charges related to creditworthiness assessment?

☐ Yes (*please provide details*)

☐ No *(additional information - optional)*

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6.   In your jurisdiction, are firms prevented from concluding a credit agreement where the creditworthiness assessment reveals that it is unlikely for the consumer to comply with the terms of the agreement?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

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7.   In your jurisdiction, are firms required to inform the consumer of the grounds for the refusal of a credit application based on the output of his / her creditworthiness assessment?

☐ Always

☐ In certain circumstances *(please provide details)*

☐ No

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8.   Does your jurisdiction set forth criteria to ascertain the cases in which a credit agreement shall not be concluded based on the output of the creditworthiness assessment?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

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9. In your jurisdiction, are firms required to follow specific procedures when carrying out consumers' creditworthiness assessment?

☐ Yes

☐ No

9.1. If you answered 'Yes', please indicate which type of procedures firms are required to observe: *(please select all applicable options)*

☐ Consultation of credit register databases

☐ Collection of information from the consumer

☐ Collection of information from the guarantors

☐ Collection of documents to confirm the information provided

☐ Archiving the information and documents collected during a certain period of time

☐ Producing a report with the main elements and conclusions of the creditworthiness assessment

☐ If others, please specify

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10. In your jurisdiction, are firms required to take any specific criteria into consideration in consumers' creditworthiness assessment?

☐ Yes

☐ No

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10.1. If you answered 'Yes', please identify in the following table which criteria firms shall take into consideration when assessing consumers' creditworthiness:

	Housing loans / Mortgage credit	Unsecured consumer credit
Financial situation of the consumer (income and expenses)		
Other personal circumstances of the consumer:		
Age		
Household (e.g. number of dependents)		
Employment / professional situation		
Other circumstances (please specify)		
Compliance with obligations under other credit agreements		
Loan maturity		
Value of the collateral		
Financial situation and other personal		

circumstances of the guarantor		
Future events which may have a negative impact on the consumer's ability to repay the credit *(please specify)*		
If other, please specify		

11. Does your jurisdiction set out *ratios* to be complied with by firms when assessing consumers' creditworthiness?

☐ Yes

☐ No

11.1. If you answered 'Yes', please fill in the following table with the value of the applicable ratios:

	Housing loans / Mortgage credit	Unsecured consumer credit
Loan-to-income		
Loan-to-value		
Debt-to-income		
Debt-service-to-income		
Loan maturity / age of the consumer		
If others, please specify		

12. Does your jurisdiction set out obligations on credit intermediaries related to consumers' creditworthiness assessment?

    ☐ Yes *(please provide details)*

    ☐ No *(additional information - optional)*

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13. Does your legal and regulatory framework set any restrictions in respect to remuneration policies of staff engaged in consumers' creditworthiness assessment (e.g. to avoid conflict of interests)?

☐ Yes *(please provide details)*

☐ No

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14. Does the legal and regulatory framework in your jurisdiction govern the use of scoring models to assess consumers' creditworthiness?

    ☐ Yes *(please provide details)*

    ☐ No *(additional information - optional)*

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15. Does the legal and regulatory framework in your jurisdiction govern the use of alternative sources of data, such as social media, mobile phone payments, browsing data and data from commercial partners, to assess consumers' creditworthiness?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

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16. Please classify your regulatory framework regarding the innovative approaches to creditworthiness assessment:

    ☐ Technologically neutral *(please provide details)*

    ☐ Technologically driven *(please provide details)*

    ☐ In the process of adapting to innovative approaches *(please provide details)*

    ☐ Other, please specify

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Section 2

Market practices

This second set of questions aims to identify the **main practices, developments and risks** associated with consumers' creditworthiness assessment in each jurisdiction, based on the experience of the supervisory authorities.

17. What kind of information do firms usually obtain from the consumer in order to assess his / her creditworthiness, depending on the type of credit being provided and the channel used to provide the credit?

	Housing loans / mortgages			Unsecured consumer credit			Unsecured consumer credit provided through digital channels		
	Always	Usually	Not usually	Always	Usually	Not usually	Always	Usually	Not usually
Age									
Income									
Debt service obligations									
General expenses									
Current account transactions									
Employment / professional situation									
Household (e.g.									

number of dependents)										
Other *(please specify)*										

18. Do firms in your jurisdiction have mechanisms in place to mitigate risks linked to the provision of inaccurate information by the consumer, especially as regards his / her level of income / expenses?

☐ Yes

☐ No

    18.1. If you answered 'Yes', please explain which mechanisms firms have in place to mitigate those risks, especially when the credit is provided through digital channels.

    18.2. Have you identified situations in which the procedures implemented by firms to collect information from consumers in the creditworthiness assessment process were inducing or facilitating the provision of inaccurate information?

    ☐ Yes *(please provide details)*

    ☐ No *(additional information - optional)*

19. Do firms, in your jurisdiction, have access to credit register databases to perform creditworthiness assessment?

☐ Yes

☐ No

19.1. If you answered 'Yes' to the previous question, please indicate the nature of the entity(ies) responsible for managing those credit register databases: (*Please select all applicable options*)

☐ The supervisory authority

☐ Other public bodies

☐ Private companies

19.2. If you selected 'Private companies' in the previous question, please inform whether those companies are under the supervision of your authority and, if so, specify the rules applicable to their activity.

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19.3. Is there any information sharing by credit register databases operating in your jurisdiction?

☐ Yes *(please provide details)*

☐ No

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19.4. What sort of information is included in those credit register databases? (*Please select all applicable options*)

☐ Only negative information

☐ Both positive and negative information

☐ Risk profiling / Scoring

☐ If other, please specify

19.5. Please indicate which entities provide information to credit register databases.

19.6. Is there a minimum threshold regarding the loan amount of credit agreements registered in the credit register databases?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

19.7. What information is available in credit register databases to firms when assessing creditworthiness?

☐ Only recent information

☐ Historical information *(please provide details)*

☐ Consumers' full credit history

☐ If other, please specify

19.8. How often do firms collect information from credit register databases in order to assess a consumer's creditworthiness?

☐ Always

☐ In certain circumstances *(please provide details)*

☐ Not applicable

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20. Do credit intermediaries in your jurisdiction play a role in consumers' creditworthiness assessment?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

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20.1. Do you consider that the intervention of credit intermediaries in the credit granting process poses specific risks to the consumers' creditworthiness assessment?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

☐ Not applicable

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20.2. Do firms have mechanisms in place to mitigate the risks arising from the intervention of credit intermediaries in consumers' creditworthiness?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

☐ Not applicable

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21. Based on your experience, how would you classify the use by firms under your supervision of alternative sources of data in the context of consumers' creditworthiness assessment?

	Largely used	Largely used in specific segments of the market *(please provide details)*	Used by some firms	No data available
Transaction data (e.g. use of credit or debit card)				
Telecom / utility / rental data				
Social profile data				
Clickstream data				
Audio and text data				
Social network analysis				
Survey data				
If others:				

22. Based on your experience, how would you classify the use of machine learning by firms in your jurisdiction in the context of consumers' creditworthiness assessment?

☐ Largely used

☐ Largely used in specific market segments *(please provide details)*

☐ Used by some firms

☐ No data available

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23. Based on your experience, what kind of benefits do you consider that the use of alternative sources of data and machine learning in the context of the creditworthiness assessment bring to consumers?

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24. Based on your experience, please classify (from 0 to 5, in which 0 is "no risk" and 5 is "very high risk") the risks to consumers associated to the use of alternative sources of data and machine learning in the context of the creditworthiness assessment?

Risks	Ranking
Data privacy and protection	
Lack of transparency for the consumer	
Risk of consumer default / Over indebtedness	
Financial exclusion	
Other (Please indicate in the box below):	

24.1. Please provide additional information to explain the answer to the previous question.

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25. Please describe any procedures or practices associated to consumers' creditworthiness assessment that you have identified in your market which you would like to highlight, for instance due to its innovative nature or due to the specific risks raised for consumers.

Section 3

Supervisory approaches to the creditworthiness assessment

This third section aims to gather information on **how supervisory authorities address issues related with firms' assessment by of consumers' creditworthiness**, with special focus on new strategies and oversight tools.

26. Is your supervisory authority responsible for overseeing compliance with creditworthiness assessment requirements?

☐ Yes

☐ No

27. Does your supervision cover all credit products identified in answer to question 1.2 above?

☐ Yes

☐ No *(please provide details)*

28. Does your supervisory scope cover all entities providing credit in your jurisdiction?

☐ Yes

☐ No *(please provide details)*

29. Does your supervisory scope cover the activities carried out by credit intermediaries?

☐ Yes

☐ No

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30. Please indicate the enforcement powers that your supervisory authority has in relation to creditworthiness assessment requirements. *(Please select all applicable options)*

☐ Penalties / administrative fines

☐ Imposition of compensation to the consumer

☐ Specific orders

☐ Recommendations

☐ Imposition of contractual effects

☐ Alternative dispute resolution

☐ If others, please specify

30.1. Please provide additional information on the circumstances in which these enforcement powers are used.

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31. Which tools do your supervisory authority use to oversee compliance with the requirements on creditworthiness assessment? *(Please select all applicable options)*

☐ Off-site inspections

☐ On-site inspections

☐ Mystery shopping

☐ Analysis of data reported by firms

☐ Analysis of data from credit register databases

☐ Complaints handling

☐ Advertising analysis

☐ Market monitoring

☐ If others, please specify

31.1. Please explain how your supervisory authority applies each of the oversight tools selected in the answer to the previous question in the supervision of consumers' creditworthiness assessment.

31.2. If you selected 'Analysis of data reported by firms', please describe which kind of information firms are required to report and the frequency of such a report.

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32. Is your supervisory authority considering implementing new tools or approaches to oversee compliance with rules governing consumers' creditworthiness assessments?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

33. Does your supervisory authority monitor scoring models used by firms in consumers' creditworthiness assessments?

☐ Yes

☐ No

☐ Under consideration / in progress *(please provide details)*

33.1. If you answered 'Yes', please explain to what extent you monitor the scoring models implemented by firms and, if possible, illustrate your answer with some examples of actions your supervisory authority has undertaken.

34. Does your supervisory authority assess the sources and/or types of data used by firms in their scoring models to assess consumers' creditworthiness?

☐ Yes *(please provide details)*

☐ No *(additional information - optional)*

☐ Under consideration / in progress *(please provide details)*

34.1. If you answered 'Yes', please explain to what extent you monitor the use of big data and alternative sources of data by firms and, if possible, illustrate your answer with some examples of actions your supervisory authority has undertaken.

35. How does your supervisory authority decide which firms, products or distribution channels to take action on (e.g. data on default credit, alerts from complaints, advertising)?

36. Please present examples of action taken by your supervisory authority in the oversight of the creditworthiness assessment regulatory framework, describing the triggers, the detected infringements and the enforcement powers used.

37. What are the main challenges and difficulties faced by your supervisory authority in relation to supervising consumers' creditworthiness assessment?