

Fall 2012 Newsletter



Letter from the president

Victory! At the end of November, the Australian Parliament passed the Privacy Amendment Bill 2012 enabling the sharing of positive payment data with credit bureaus. This landmark legislation removes yet another country from the rapidly diminishing ranks of negative-only credit reporting systems. Such systems are brutally unforgiving, and are especially hard on lower income persons—often trapping them in financial exclusion and poverty.

Since 2005, PERC has been working with Dun and Bradstreet Australasia to change national policy in Australia and New Zealand. New Zealand reformed its regulatory framework within the past year, a move that undoubtedly influenced Australian policymakers. PERC is proud to have played a role in the reform process in both countries. This regime change will make lending fairer, more responsible, and more inclusive for all, but especially for the many formerly excluded Aussies and Kiwis. Good on ya' mate!

I am also ecstatic about the traction that our Alternative Data Initiative continues to achieve both in the US and globally. In the US, Reps. Renacci and Ellison introduced H.B. 6363—a bill that permits those non-financial creditors who wish to fully report customer payment data to consumer reporting agencies (CRAs) to do so. While PERC believes that those firms defined as creditors under the Equal Credit Opportunity Act (ECOA) already have this right under the Fair Credit Reporting Act (FCRA), owing to the unfamiliarity of state utility regulators with the FCRA there is a need to clear up this regulatory uncertainty that prevents many utility companies from fully reporting. PERC looks forward to continuing to fight this good fight in the months ahead with the new Congress and Administration.

Globally, PERC is delighted to be partnering with Experian and the Bill and Melinda Gates Foundation on efforts to build out regional alternative data information sharing networks. The effort—known as the Financial Identity Risk Management (FIRM) solution—would deliver an identity and risk profile to lenders for use in credit underwriting. Much of the data that will be used is not collected by traditional credit bureaus that are not well suited to handle such data. This includes pre-paid data, fast moving consumer durable goods data, mobile money and digital transactions data. PERC and Experian will undertake a feasibility analysis in East Africa and will hopefully move rapidly to implementation thereafter.

The continued growth in our efforts on alternative data strengthens my resolve in PERC's mission and my belief in the transformative power of data as a force for good in the lives of many millions of people across the globe. And the beauty is that when these solutions are implemented, we will be able to measure exactly how many people have been impacted, where they live, and the extent of the impact. This is truly revolutionary in the sphere of economic development.

This Issue

ADI Update	
Publications	2
Event	3
Outreach	4
International Updates	
APCC	5
IFC Project	6
Introducing FIRM™	7
Publication	7
Events &	8
Engagements	
In the Press	9

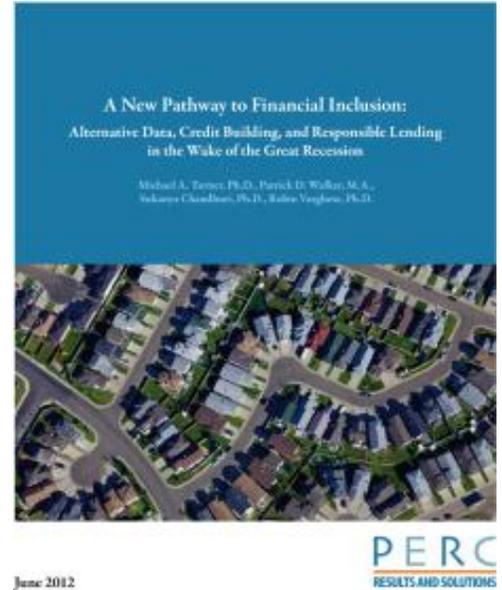
Alternative Data Initiative Update

Latest Publications: *Since our spring newsletter, PERC has released two reports on alternative data.*

A New Pathway to Financial Inclusion

The first report, *A New Pathway to Financial Inclusion*, was released in June. The study suggests that despite economic changes, alternative data provides enormous lift to lenders when assessing credit risk. The data used for the study was selected to capture the period during which unemployment and late payments spiked. As a result, the study compares results with data from 2005/2006 and 2009/2010 credit reports to assess the consumer credit impact of including fully reported alternative data in credit reports. The stability of the results suggests that the general impacts of alternative data are robust to macroeconomic conditions. The benefits of alternative data are most pronounced for young borrowers, minorities and people with blemished credit history.

You can find the report on PERC's [website](#).

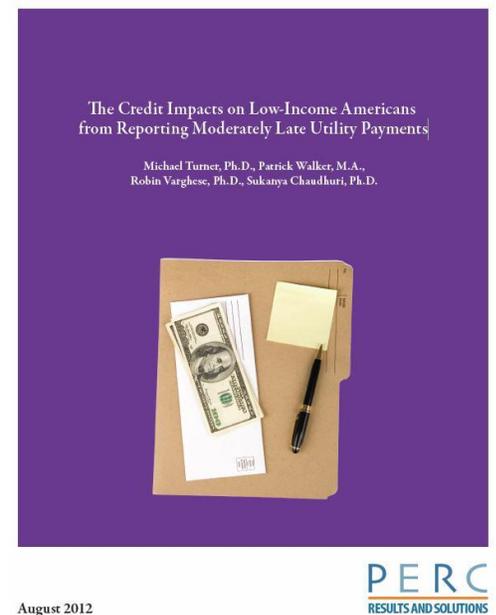


June 2012

The Credit Impacts on Low-Income Americans from Reporting Moderately Late Utility Payments

The second report is a follow up to the June study and was released in August. *The Credit Impacts on Low-Income Americans from Reporting Moderately Late Utility Payments* addresses the claims of organizations that reporting moderately late payment data would harm low-income Americans. Facts from the PERC study depict different results. Among other key findings, the facts show that including fully reported utility payments in consumer credit reports results in dramatic improvements in credit access for lower-income Americans. The study shows that given current industry practices, the number of lower income people who would either experience a dramatic score reduction, or a reduced score standing is miniscule.

You can find the report on PERC's [website](#).



August 2012

PERC ADI Event: Moneyball and Credit Access



Panel members from left to right: Dr. Michael Turner, Corey Stone (CFPB), Representative Keith Ellison (MN-D), Representative Jim Renacci (OH-R) and Tony Lythgoe (IFC)

The alternative data study *A New Pathway to Financial Inclusion* was officially released at an event in Washington, D.C. on Capitol Hill. PERC hosted a Hill Briefing entitled "Moneyball and Credit Access."

The event was designed to move beyond the rhetoric, and examine a key policy issue relating to consumer credit reporting from a fact-based perspective. PERC assembled a panel of experts who explored the pros and cons of including fully reported—both timely and late payment

information—non-financial payment data, so-called "alternative data," in consumer credit reports.

PERC hosted a panel of speakers including Representatives Jim Renacci (R-OH) and Keith Ellison (D-MN), Tony Lythgoe of the IFC, Corey Stone of the Consumer Financial Protection Bureau and Dr. Michael Turner. With set up for only about 50 people, at the start of the briefing there was standing room only.

View more photos from the event on our [Facebook page](#).

ADI Outreach Efforts

Congressional Hearing and HR6363



Top left corner:
Dr. Michael Turner, PERC
President & CEO

Top right corner:
Rep. Keith Ellison (MN-D)

Bottom left corner:
Rep. Jim Renacci (OH-R)

As a result of PERC outreach efforts, Representatives Jim Renacci (OH-R) and Keith Ellison (MN-D) drafted new legislation that will clear up already existing laws. The Credit Access and Inclusion ACT (HR6363) will reaffirm that energy utility and telecoms firms can fully report customer payment data to nationwide consumer reporting agencies, should they choose to do so.

A hearing was also held the second week of September, in part, to discuss the new legislation

and to discuss issues related to credit reporting agencies and credit scores. PERC was invited to at the hearing, “Examining the Uses of Consumer Credit Data.” Dr. Michael Turner testified before the House of Representatives Subcommittee on the Financial Institutions and Consumer Credit

You can download the archive webcast footage [here](#).

International Update

Asia Pacific Credit Coalition (APCC)

APEC recommendations and the Shanghai Financial Inclusion Forum

In May, Dr. Robin Varghese attended the third APEC Business Advisory Council Advisory Group meeting in Hong Kong. The meeting discussed the financial inclusion agenda and the SME financing agenda. This meeting also saw the first draft of the recommendations that will be put forth by ABAC to the senior financial officials for their meeting in Vladivostok, Russia.

As part of the recommendations, APCC has suggested successfully that measure which allow for broader access to public and private data sources for establishing an identity for matching purposes should be a key element in information

The SME Financing Forum

In September, some APCC members joined Drs. Michael Turner and Robin Varghese for a meeting with the IFC's Tony Lythgoe and Matt Gamser on the new G-20 initiative housed in the IFC, the [SME Financing Forum](#) (SMEFF). The SMEFF is a platform for sharing knowledge in small and medium enterprise finance, for promoting best practices and for collecting data to help set standards and develop roadmaps in this field. So far, governments of the UK, Korea and the Netherlands support the SMEFF.

The SMEFF's point of departure is the fact that there is a US\$2.5 trillion funding shortfall worldwide for SME financing. This gap stems from many factors, but one of the largest appears to be the lack of information sharing for risk assessment and mitigation. Bureaus, collateral registries and liens databases can go a long way to close the gap if the impact of the very limited movable collaterals database in China—which has lead to hundreds of

sharing reform. Given that unique national identifiers are lacking in many economies, access to multiple data for establishing and validating identities can help build a broader credit reporting system. The recommendations also call for the integration of non-financial data into credit files and the enabling of a regulatory space that allows for the collection and inclusion of such data.

These recommendations grew in part out of the presentations in this year's Financial Inclusion Forum, which took place in Shanghai on June 25-27. More than 30 regulators from 15 countries in the APEC, ASEAN and Asia region attended the forum.

billions of US dollars in new loans in a year—is an indication.

The forum was established by the G20, which has shown persistent commitment to it. SME financing is seen by the G20 as a solution to challenges of employment, as well as growth. The IFC's division on financial infrastructure development, the same group that promotes credit bureau development worldwide, is running the initiative.

The forum's primary mode of operation will be to provide a web platform for sharing knowledge and opportunities with policy makers looking to develop SME financing solutions in their economies. The forum has offered that APCC member organizations can be linked to by the SME financing forum, effectively directing policy makers looking for a solution to service providers.

International Update

Asia Pacific Credit Coalition (APCC) continued:

Alternative Data Workshop at the IDC's 4th Annual Credit Reporting and Risk Management Training

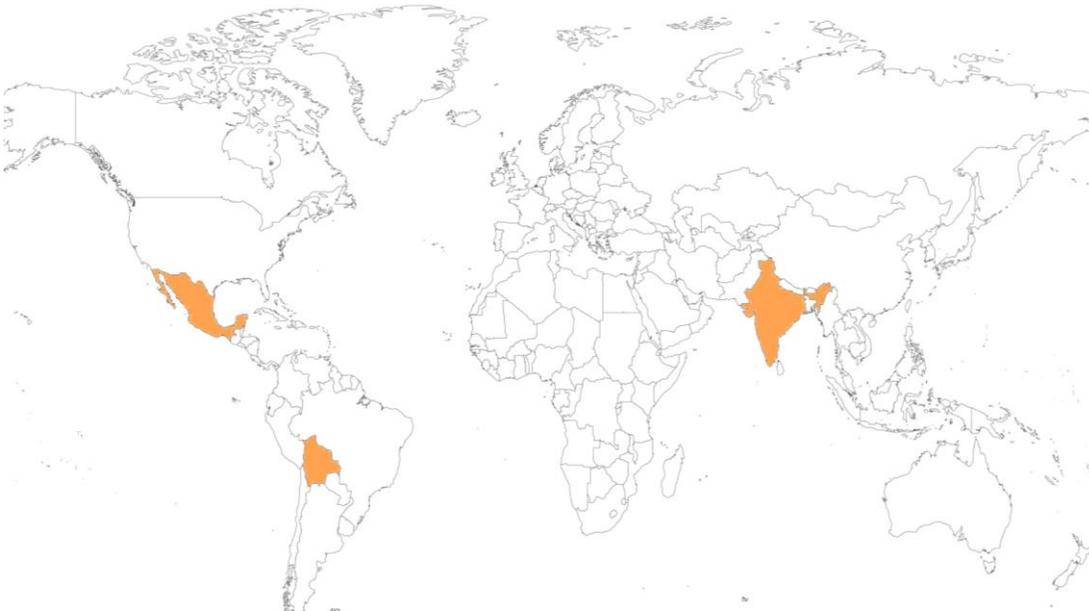
On November 6, Dr. Robin Varghese with the IFC's Alban Pruthi presented on "The Promise of Alternative Data: Financial Inclusion and Its Challenges" at the 4th Annual Credit Reporting and Risk Management Training in Kuala Lumpur. The workshop, sponsored by IFC and Bank Negara, the Central Bank of Malaysia, brought together over

100 regulators from more than 30 emerging economies for a week long program on a variety of issues related to information sharing and financial regulation.

The session was well received by the participants, and has become a staple of this event.

International Finance Corporation Project Update:

Microfinance and Credit Reporting



THE WORLD BANK



PERC's research for the International Financial Corporation of the World Bank Group is to measure the costs and benefits of credit reporting and credit scoring for microfinance institutions (MFIs). PERC has been setting up experiments in Bolivia, India and Mexico, using a randomized lending approach, to measure the costs and benefits to MFIs of reporting loan information, of utilizing credit reports, of developing scoring solutions.

International Update:

PERC Partners with Experian MicroAnalytics and the Bill and Melinda Gates Foundation on Financial Inclusion Risk Management™ (FIRM)

PERC, in partnership with Experian MicroAnalytics, received funding from The Bill and Melinda Gates Foundation to conduct a feasibility study in regards to our newest project called Financial Inclusion Risk Management or "FIRM."™

FIRM sets out to eliminate a constraint associated traditional credit bureau models; namely, that they overwhelmingly focus on the already banked population. The unbanked remain "Credit Invisible" and cannot access mainstream affordable credit. High cost credit prevents many from building assets and creating the wealth needed to save and use other financial services.

FIRM will be a regional alternative credit data-sharing network that supplements existing financial infrastructure. It is dedicated to facilitating risk assessment and smoothing credit application processes for financially excluded. Using alternative data sets such as mobile money, mobile wallet, utility payments, agriculture sector data and fast moving consumer durable goods data, FIRM will deliver a

financial ID, a risk profile and risk score that can either be used when no traditional credit report exists, or can be combined with traditional credit bureau data to assess risk and underwrite credit.

"Perhaps more than any other, this project embodies the spirit of PERC," said PERC President and CEO Dr. Michael Turner. "We are collaborating with world class partners to creatively solve a major development problem in a way that fits with existing infrastructure and is both scalable and replicable."

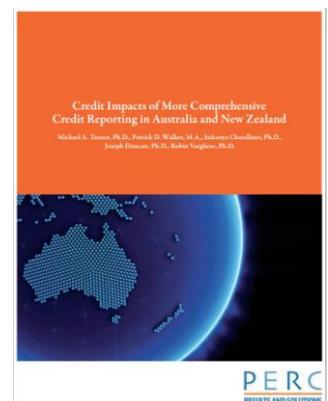
The initial study is in East Africa, where PERC and Experian MicroAnalytics are already hard at work. Earlier this month, Dr. Robin Varghese engaged in meetings with potential FIRM participants. Further rounds of in-person meetings are already scheduled for mid-January.

With the support of the Bill and Melinda Gates Foundation, PERC and Experian MicroAnalytics will take a large step forward in efforts to reduce the population of "Credit Invisibles" around the world.

Latest Publication:

Credit Impacts of More Comprehensive Credit Reporting in Australia and New Zealand

Released in August, the report summarizes the results from a pioneering joint undertaking by PERC and Dun & Bradstreet Australasia using credit data from 1.8 million Australians. The results of this study show strong empirical support for the credit reform in Australia. With fair file reporting, fewer lending errors are made and more credit is made available to the borrowers. In addition, a comprehensive credit reporting system benefits young borrowers the most. The list of those benefiting from a fair file system also includes people with blemished credit history. The study also shows the impacts of use of alternative data in credit scoring. It shows how non-financial account data; specifically telecommunications data is valuable in risk assessment. The results of this study are broadly consistent with international evidence that suggests that a more comprehensive credit reporting system results in more lending, better lending and fairer lending.



For all of the details, [download](#) a copy of the report.

PERC Events & Speaking Engagements

The past months have been a whirlwind of events and speaking engagements for PERC. Members of the PERC staff traveled throughout the U.S. and around the world.

June 7-8, 2012—Chicago, Illinois

PERC president and CEO, Dr. Michael Turner, attended the Clinton Global Initiative America meeting in Chicago, Illinois. The meeting brought together “nearly 1,000 leaders from business, government, and the nonprofit sector to address economic growth in the United States.”

June 25-27, 2012—Shanghai, China

Dr. Robin Varghese attended the Asian Development Bank's Asia-Pacific Forum on Financial Inclusion: Approaches, Regulations and Cross-Border Issues. The conference was held over the course of three days. Among the issues discussed were information, credit bureaus and regulations as well as microfinance regulations.

July 13, 2012—St. Kitts and Nevis

The International Finance Corporation (IFC) and Eastern Caribbean Central Bank hosted a Caribbean Credit Reporting Conference in St. Kitts and Nevis. Dr. Michael Turner gave a presentation on “Developing Credit Reporting Legislation: Balancing Consumer’s Rights and the Business Realities.”

September 20, 2012—Detroit, Michigan

Patrick Walker, Director of Research, spoke at the 2012 Uncollectibles Workshop about the PERC study, [“A New Pathway to Financial Inclusion.”](#) The presentation provided results from the study on the consumer credit impact of full-file credit reporting by utilities and telecom companies.

October 21-23, 2012—Taipei, Taiwan

Dr. Michael Turner and Dr. Robin Varghese attended the eighth World Consumer Credit Reporting Conference. Dr. Turner spoke at the conference. PERC was also a sponsor of the event and hosted a booth.

November 11, 2012—Baltimore, Maryland

Patrick Walker was a member of the NARUC panel discussion on utility credit reporting. Other members of the panel included, Carol Wayman of Representative Keith Ellison's office, Paula Carmody of the Maryland Office of Peoples Counsel and John Howat of the National Consumer Law Center.

November 30, 2012—Kingston, Jamaica

Patrick Walker presented at the Second Caribbean Credit Bureau Conference organized by the IFC. Mr. Walker presented on the benefits of alternative data.

December 5, 2012—Brussels, Belgium

Patrick Walker spoke at a Consumer Credit Data Task Force Meeting. Mr. Walker presented information regarding financial inclusion and alternative data.

PERC in the Press



[Alternative Data Can Help Eliminate Credit's Catch-22](#)

PERC in **American Banker**- November 7, 2012

[Few likely to get loans easier under new rules](#)

PERC in **Stuff.co.uk**- September 22, 2012

[Bringing 'Credit Invisibles' Out of the Dark](#)

PERC in **The Wall Street Journal**- September 21, 2012

[Obama's Credit Report Crackdown Based on Myth of 'Inaccurate' Data](#)

PERC in **Investor's Business Daily**- July 19, 2012

[Bankers: Rethink Risk and Start Lending Again!](#)

PERC in **ABC News**- June 23, 2012

[This Could Be the Solution to Shrinking the Credit Gap](#)

PERC in the **Business Insider**- June 22, 2012

PERC Features

PERC would like to thank interns **Gary Zhang** and **Hannah Stephens** for their work this summer. Gary Zhang is a graduate of North Carolina State University where he received a degree in Criminology. He is now a graduate student at Michigan State University studying Law Enforcement Intelligence and Analysis. Pursuing a degree in Communications, Hannah Stephens is in her final year of studies at North Carolina State University. Currently she is an intern at the Wake County Public Affairs Office.

Happy Holidays From



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