PERC Newsletter

WINTER 2019

LETTER FROM THE PRESIDENT

A recent report by the Information Technology and Innovation Foundation (ITIF) found that media coverage of technology and the tech industry experienced a decisive shift toward the end of the 20th century from largely positive to increasingly negative coverage.

Media, in their role as opinion makers, influence both the general public and lawmakers. There exists a feedback loop—the greater the media coverage, the greater the public interest. In turn, the more galvanized the public becomes, the more likely lawmakers respond with policy measures.

This tech-lash identified in the ITIF report is manifesting itself in policy outcomes in the US and around the world. For example, lawmakers in California last year unanimously enacted the California Consumer Privacy Act (CCPA). One concern is that the new law, widely expected to be emulated in other states given California's role as a bellwether state, contains a "company killer" provision permitting statutory fines of between $100-$750 per victim in a data breach. Had such penalties applied to the Equifax breach, fines for California alone could have exceeded $15 billion, and may have driven the company out of the market.

What's Inside

PERC

RESULTS AND SOLUTIONS

More recently, the German Bundeskartellamt (federal cartel office) ruled that Facebook's policy of asking users to either grant universal data sharing rights or delete their account does not comply with the GDPR, and that in light of their dominant market position they have special obligations with respect to data processing.

Many groups in the US are now calling for a new national privacy law to prevent the inevitable chaotic patchwork of laws across the 50 states. To minimize the probability of a patchwork of privacy laws across the US, actors including the US Chamber of Commerce, the Center for Democracy and Technology, and the Internet Association are seeking a federal solution that would pre-empt states. Predictably, privacy advocates and others are arguing against a pre-emptive approach and are pushing other states to join California, Illinois, and Vermont—each of which have passed statewide privacy laws.

The stakes for getting this right couldn't possibly be higher. At risk is the continued ability of US firms to think with data in order to innovate and preserve a competitive advantage in the industry of the era. If lawmakers go too far, it would not take much to jeopardize America's competitive standing in tech—and instead of Amazon, eBay, Facebook, Microsoft, Oracle, Intel, Cisco, Sun Microsystems—we would see a world populated primarily by Chinese tech firms that are unencumbered by unduly onerous privacy restrictions.

Worse, the driver of the most recent wave of tech-lash—the consumer harms associated with data breaches—is unsupported by empirical evidence. Many tech pundits have been fear-mongering for years to sell consulting and software solutions, and the media have helped propagate their sales pitch. The reality is that industry after industry have implemented measures over the years to dramatically increase data security and minimize the probability of ID theft and fraud in the aftermath of a breach. Consequently, while data breaches have been trending upward (a phenomenon directly linked to the explosive overall growth in data), losses to individuals from ID theft/fraud have stabilized and in some industries declined.

In the months ahead, PERC will be exploring some of these issues in more depth. We will offer the largest and most rigorous study on the correlation between data breaches and ID theft and fraud. We will also look at innovative uses of data for the civil sector and for social good--stories often under-reported in the traditional media. Finally, we will explore impacts on the US economy, and the ability of the tech sector to remain competitive in the face of a punitive legislative onslaught. We hope you'll follow this important research along with us.

Sincerely,

Michael A. Turner, Ph.D.

JOINT PERC-HUD STUDY

PERC's joint-study with the Department of Housing and Urban Development is nearing completion. The report, a first of its kind, examines the credit score impacts of including Public Housing Authority (PHA) tenant payment data in credit reports. The report also analyzes fully reported data from PHAs as well as from property management companies covering millions of tenants.

Data for the study came from three participating PHAs (Cook County, Seattle, and Louisville), and nationwide consumer reporting agencies. To assess credit market impacts on consumers, two different credit scoring models were used (FICO 9 and VantageScore 3.0). The sample was composed of many relatively high-risk consumers, and included a large share of unscoreable consumers. The data was full-file, meaning it encompassed both positive (on time) and negative (late) payments.

The preliminary results found that the inclusion of rental payment data dramatically reduces unscoreability and the population of credit invisible consumers. The study will be published, as always, on our website, so keep checking (expected release April 2019).

DATA SERIES

PERC is working with the U.S. Chamber of Commerce on a study of data breaches. The study will look at the growth of data breaches relative to the growth of data generally, and the link between data breaches and identity theft/financial fraud. It will also examine the uses of data, data security solutions and their efficacy, as well as costs of overregulation, particularly on small businesses. Stay tuned for more details!

INTERNATIONAL

CANADIAN CREDIT INVISIBLES & CREDIT DESERTS

A workshop hosted by the Canadian Lenders Association (CLA)—with support from PERC Canada and TransUnion Canada, will be held on March 6th in Toronto. You can register here.

At this event, PERC will discuss preliminary findings of their study on Canadian credit invisibles and credit deserts. The OECD reports that just 44% of Canadians indicated an ability to cover existing costs for 6 months if income unexpectedly dries up. Compounding matters is the fact that so many are unable to access sufficient quantities of affordable credit when needed—to help smooth over cash flow disruptions, for instance. One reason for this is the disproportionate number of persons with no credit file or a "thin file" who are unscoreable. Without a score, the person is essentially "credit invisible" and getting credit becomes a challenge.

PERC estimates that nearly 6 million Canadians are "credit invisible." This

ASIA-PACIFIC CREDIT COALITION ACTIVITIES

UPDATE: The Asia-Pacific Finance Forum (APFF) of the APEC Business Advisory Council (ABAC) had their Financial Data Ecosystem Roadmap approved by the APEC Ministers of Trade at their meeting in Papua New Guinea last October!

RECENT ACTIVITY: The APFF Strategy & Planning Meeting was held in Bangkok on Jan 24th to discuss the year's deliverables. Patrick Walker of PERC attended for the APCC.

SURVEY: The APFF survey is a baseline survey for key APEC stakeholders on the credit information sharing ecosystem in their home economies. The questions are targeted at member economy public credit registries, private credit bureaus, regulators, and lenders, and answers will be supplemented by field research from a select number of case studies of specific member economies. The results will be used to obtain insights on the gaps and issues that need to be addressed to promote financial inclusion. They will also inform recommendations on credit information ecosystem reform under the Cebu Action Plan and details of the APFF Financial Data Ecosystem Roadmap. Please fill out the survey here and share it with your network!

MEMBERSHIP: To learn more about APCC membership, please contact Patrick Walker at walker@perc.net

population is mostly lower-income, immigrants, members of minority communities (including the Indigenous population), the young and elderly, and the unbanked and underbanked (nearly 1 in 5 Canadians). They remain financially excluded and face considerable barriers in building assets and generating wealth.

There is also a geography of credit invisibility. "Credit deserts" are contiguous areas with an above average concentration of credit invisibles and fringe financial institutions, below average concentrations of mainstream lenders, and below average household income and credit scores. Given phenomena in the Canadian economy, it is likely that credit deserts are expanding. For instance, the payday lending industry has been experiencing a boom: between 2009 and 2014, the percentage of Canadians accessing payday loans more than doubled, from 1.9% to 4.5%.

Mark it down on your calendar: March 6ᵗʰ, 2019. Come say hi to us in Toronto! Want to learn more about credit invisibility and credit deserts? Check out the PERC Canada podcast for more information, and our U.S. publications for our pioneering research on this topic.

HONG KONG REPORT

Stay tuned for PERC's report on the Hong Kong credit information sharing market! The report looks at current data gaps in Hong Kong, specifically positive mortgage data payment and full-file non-financial payment data, and the effects of these gaps on the Hong Kong economy.

Developments in the Chinese credit information sharing market are also outlined, as they will no doubt affect its Hong Kong counterpart in the reintegration process. A new regional credit bureau, Nova Credit, is entering Hong Kong to serve the Greater Bay Area.

The report argues for expansions of data required and permitted to be collected and permissible purposes of that data, to improve and expand information sharing in Hong Kong. The report recommends updating existing regulation to account for multiple credit bureaus and ensure fair and beneficial competition.

ON THE HORIZON

TORONTO MARCH 6
CREDIT INVISIBLES & CREDIT DESERTS
PERC, TransUnion Canada, and the Canadian Lenders Association are organizing a workshop on the Canadian credit landscape. Click here to learn more and here to register.

BANGKOK JANUARY 24
2019 APFF STRATEGY & PLANNING MEETING
Patrick Walker attended on behalf of APCC to discuss goals for 2019 relating to financial inclusion, the financial services data ecosystem, and MSME finance.

PHOENIX APRIL 9
CS WEEK 2019
Dr. Turner will be speaking at the 2019 Customer Service Week conference on the topic of business process synergy. Click here for more details.

POITIERS APRIL 4-5
SPRING 2019 ICCR MEETING
Dr. Turner will be attending the International Committee for Credit Reporting's spring meeting hosted by the Banque de France.

▷ PERC will be collaborating with Aspen Institute's Financial Security Program on value of implementing rational credit collections policy reform to help ensure financial stability and well-being. PERC will showcase findings from forthcoming study modeling impacts of implementing nationwide reforms based upon existing models in two states.

▷ FORTHCOMING REPORTS

- Joint PERC-IFC report on credit reporting and microfinance
- Joint PERC-HUD study on credit reporting rental payment data
- PERC report on trends in tech policy
- PEC study on data breaches and material impacts on victims
- PERC studies on data uses for civil sector and social benefits
- PERC report on Hong Kong's credit information sharing market
- PERC analysis of impacts from proposed credit collections policy reforms

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