



# PERC

## RESULTS AND SOLUTIONS

Summer 2014

*Expanding financial inclusion around the world...*

IN THIS ISSUE

## Letter from the president

As we enter the dog days of summer, many of us are able to sneak off for a week or two of much needed holiday—to relax, recharge, and reflect. Writing this column for PERC's newsletter offers me an opportunity to share some of my reflections with PERC friends and supporters. When we began in 2002, our focus was on information policy. The 90s had seen a boom in the information technology industry and many economists and journalists were fond of referring to the US and other advanced economies as "information economies" hearkening the beginning of the "information revolution."

During this period, Moore's Law applied not only to chip performance—said to double every 18 months—but also to the rate at which state governments, wrestling with the policy ramifications of Moore's Law, introduced data

regulations. Before the dotcom implosion in 2001, new privacy bills in the state exceeded 2,000 annually. Despite the prodigious quantity of legislative activity, and the compelling social and economic policy matters associated with the dramatic increases in the quantity of data accessible—the uses and potential uses of this information, the benefits of getting it right and consequences of getting it wrong—few organizations were fully committed to information policy. Among those that were, allegedly, devoted to such issues, most followed queues from IT firms—chip, hardware, and software manufacturers—and not from the information services industry.

It was from an effort to inform the fledgling information policy debate that PERC was born—originally as the Information Policy Institute in 2002. Though our focus has evolved over the

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## Continued: Letter from the president

years—from data privacy and security to financial inclusion through the responsible development of financial infrastructure (e.g. Credit information sharing systems and payment systems)—we were, and remain, the only policy think tank fully committed to matters pertaining to information policy in the US and globally. Our aspirations to inform policy debates with empirical studies held to the highest academic standards have been achieved as PERC research has influenced national law in the US, Africa, Latin America, Asia, and Oceania. And though still a boutique think tank, we are proud of the brand we have built through dedication to our mission and a relentless commitment to the highest standards of work.

The past few years have seen another seismic shift in PERC's mission. No longer content to inform policy debates, PERC has begun developing information solutions to meet unmet needs for Credit Invisibles in the US and globally. As a non-profit, we remain true to our mission, and partner with firms who share our normative values and social objectives. In so doing, we seek to rectify market failures and introduce sustainable solutions that enable millions of people to build a credit history using non-financial payment data to qualify for credit builder loans and eventually loans in amounts

that will make a difference in their lives—by enabling a small holder farmer to purchase an irrigation system or an additional acre. We are proud to have established partnerships with forward looking organizations to develop a real time income and employment verification system domestically, and a revolutionary alternative data network called "FIRM" for Financial Identity Risk Management that solves the related problems of verifying a person's identity and assessing their credit risk and credit capacity. More about both of these pioneering solutions can be discovered on our Web site at [www.perc.net](http://www.perc.net)

With the expansion of PERC to embrace solutions development that supplements our traditional empirical economic research arm, we have become a 21st Century globally-oriented R&D organization supported by a diverse group of individuals and organizations that share our vision. By daring to dream big, and acting together to find pragmatic solutions rather than be bogged down in pursuit of the perfect, we are making a difference on a scale that was heretofore unthinkable. The beauty of information solutions is their generalizable nature and their scalability. Given the number of countries that have reformed credit information sharing policy in response (in part) to PERC research, and the



foundational nature that income and employment verification and our FIRM solution will play in the proliferation of digital financial services for billions of unbanked persons worldwide, PERC's vision of increasing financial inclusion by more than any other organization on earth, while not without some hubris, is achievable.

We thank those many persons who have helped us inch and leap ever closer to our goal over the past 13 years, and look forward to continuing to make the world a better place as we continue to drive information policy debates and develop information solutions to enable access to finance.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Turner". The signature is fluid and cursive, with a large, stylized 'M' and 'T'.

Michael A. Turner, Ph.D.

# Alternative Data Initiative Update:

*An estimated 35-54 million Americans are 'credit invisible'. Alternative data is a solution that will end credit invisibility, drive financial inclusion and responsible lending, and will cost the government nothing.*

## A Bill in Both Chambers



Energy utility and telecommunication customer payment data is considered nonfinancial credit data, commonly known as "alternative data." For the past decade, PERC has been a prominent advocate for including fully reported alternative data in credit underwriting process.

Last year new legislation was introduced in both chambers of Congress in support of alternative data. The House of Representative's Credit Access and Inclusion Act (H.R. 2538) was introduced in June 2013. In late October 2013 the Credit Access

and Inclusion Act received a companion bill in the Senate, S.

1613 sponsored by Senators Mark Kirk (R-Ill.) and Joe Manchin (D-W.Va.). Both bills are a proposed amendment to the Fair Credit Reporting Act (FCRA), and are designed to clarify the existing law.

Specifically, these bills clarify that energy utility and telecoms firms may fully report their customer payment data to nationwide consumer reporting agencies (CRAs) should they choose to do so. Currently, few such firms fully report while almost all report seriously late payments, either directly or indirectly through collections agencies.

The status quo is harming tens of millions of low income Americans by creating a black list. Introducing timely payment data into the credit underwriting process makes the system more forgiving and fairer. Firms do not need to report moderately late data, and can, should they choose, report only positive data.

Low income Americans who have no credit report or are thin-file must rely on high-cost lenders--such as pawnshops and pay-day lenders--to meet their real credit needs. By including alternative data in credit reports, Credit Invisibles are able to add valuable payment information that will help them to build their credit profiles.

Abundant and inarguable empirical evidence and experience from within the U.S. and around the world proves that it creates a fair, more inclusive and more forgiving system for everybody. PERC research shows that it is especially beneficial for those who are new to credit, for those who have had credit harmed by life circumstances and for lower income Americans and immigrants.

## Recent Events:

### Experian Vision Conference,

May 5, 2014

Patrick Walker provided an update on PERC's Alternative Data Initiative at Experian's Vision Conference in Dallas, TX. At the conference Mr. Walker discussed legislative and regulatory activities around alternative data in the US. The Experian Vision Conference is an industry event where organizations learn about different strategies to improve their business performance.

### 2014 NCRC Annual Conference,

March 13, 2014

Patrick Walker was a panelist at the 2014 Annual Conference for the National Community Reinvestment Coalition (NCRC) in Washington, DC. He spoke at the workshop entitled, "Is Credit Scoring Shutting Out Access to Credit?" The NCRC conference is the largest national gathering of community non-profits, policymakers, government officials, small businesses, media and academia working together to determine a strategy for creating a more just economic framework to improve the lives of Americans.

# ALTERNATIVE DATA



## On the Horizon: Credit Deserts Analysis

An estimated 54 million Americans lack access to affordable credit. They are forced to turn to high cost lenders—pawn shops, pay day lenders, check cashing services—to meet their credit needs. Research on Alternative Financial Service Providers (AFSPs), such as pawnshops, payday lenders, and check cashing services, has shown that AFSPs are disproportionately located in lower-income areas and areas with a higher proportion of disadvantaged minority groups.

PERC intends to launch new research into 'Credit Deserts,' areas lacking affordable access to credit. Partnering with Mission Asset Fund, a San Francisco Bay Area circle lender, and Credit Builders Alliance (CBA), a Washington, DC based advocacy group, we are developing a Geo-information map as a powerful educational tool.

This web-based tool will allow users to see the existence and magnitude of Credit Deserts across the US by NSA and zip code. A credit

desert is defined as a geographic area wherein high cost lenders, AFSPs, are the dominate providers of credit within a community. This tool will display:

- concentrations of credit invisibles (those with little or no information in their credit file);
- concentrations of credit underserved;
- concentrations of high cost lenders (AFSPs);
- and concentrations of mainstream lenders.

The innovative unique aspect of this tool will be the visual depiction/ demonstration of how the inclusion of alternative data in credit reports changes the lending terrain within any geography.

Fully reported nonfinancial payment data can be transformative.

We hope that the placement online will result in going viral and eliciting support for the Credit Access and Inclusion Act.

# International Projects Update:

## IFC Project Update

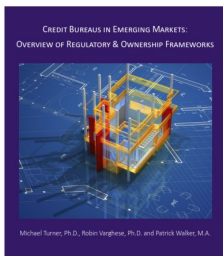


For the past few years PERC has been working to measure the costs and benefits of credit reporting and credit scoring for microfinance institutions (MFIs). Working with MFIs in India and Mexico, randomized control trials in lending are currently underway to measure: what are the costs to MFIs of reporting loan information, of utilizing credit reports, of developing scoring solutions? And how long will it take an MFI that has adopted program of information and score centered lending to realize their well-known benefits? This will be the first time that such an approach has been applied to the study of credit reporting, and we believe that the study will offer rigorous findings and new insights.

We expect the study to be completed in 12 months.

## Upcoming Publications

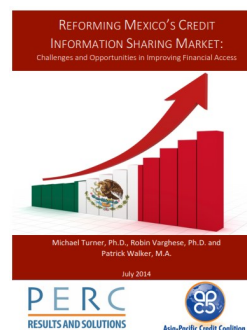
### *Credit Bureaus in Emerging Markets: Overview of Regulatory & Ownership Framework*



This publication answers a number of questions regarding information sharing governance and structure in emerging markets, among them, how should ownership be configured and how should the regulation of credit information sharing be implemented. The study also analyzes the survey responses of 23 credit bureau respondents.

Be on the look out for the release of this report in the next few months.

### *Reforming Mexico's Credit Information Sharing Market*



Compared to many of its peers, the Mexico credit market is underdeveloped. This publication examines reasons behind why the retail credit market has been slower to develop than those of other larger Latin American economies.

This report had a well-received soft release in early July. A full release of the report is forthcoming.

# International Projects Update:

## Asia Pacific Credit Coalition



The Asia Pacific Financial Forum (APFF), a regional platform for enhanced public-private collaboration to accelerate the development of financial markets in the Asia-Pacific region, was launched this year. The APEC Ministers of Finance approved the agenda in September of 2013, making the initiative officially part of the APEC process.

Formally under the rubric of the APFF, APCC developed and started an 18-month plan to accelerate the implementation of credit information sharing. The initiative identifies the needs of policymakers in their efforts to implement reforms by providing guidance and expertise, including model legislation. Among other aspects of financial sector development, APFF is working to help policy makers introduce full-file and comprehensive credit reporting systems and encourage the establishment and expansion of private credit bureaus through the development of legal and regulatory frameworks and enforcement models best suited to the goals of sound underwriting and inclusive growth.

This year, at the end of the first quarter, PERC and its APCC partners completed a gap analysis that identified and targeted the state of development of the regulatory frameworks for credit reporting systems and secured transaction registries in asset based lending. The analysis is being used to identify the stage of reform of these facets of financial infrastructure in APEC economies and the needs of policymakers in their efforts to implement reforms that enable modernized, robust and financially inclusive lending markets.

In March, PERC, APCC and GE Capital, with assistance from ABAC, the IFC and the People's Bank of China (PBOC), organized a two-day workshop in Shanghai on credit bureau development and on the development of secured transactions registries based on the gap analysis. The work stream begins with the premise that improving the quality and amount of information that a prudent lender has to underwrite a credit application will result in more credit be directed, and priced economically, to creditworthy borrowers. The two sub streams of the current APFF work stream are thus, in a sense, flip sides of the same basic coin, which is the need for transparency and predictability.

Day 1 focused on credit information systems development. APCC members, Experian and TransUnion, along with Dun and Bradstreet and other practitioners engaged regulators from Myanmar, the PRC, Indonesia, Vietnam, Cambodia, the Philippines, Laos, South Korea, Malaysia, Hong Kong and Japan. The workshop addressed issues concerning credit reporting standards, regulatory enforcement and models of ownership.

Under the APFF initiative, regulators in several APEC member economies held dialogues. The Mexican Treasury and central bank initiated a process that led to discussions with Mexican regulators on credit reporting reform providing them with presentations and reports on best practices in different economies, to assist them in exploring reforms to improve the competitive landscape of the credit reporting sector. Bank Indonesia and OJK held similar discussions on credit reporting reform in Indonesia. The PBOC discussed reforms to promote the development of private credit bureaus and foreign investment. Engagement with regulators in the Philippines, Thailand and other Asian jurisdictions are also being planned.

To help develop their credit information sharing systems, economies are being invited to join a pathfinder initiative using the APFF as a platform to accelerate reforms in two areas: development of regulatory frameworks to enable comprehensive and full-file credit reporting backed by consumer protections; and calibration of regulatory enforcement and oversight models to achieve a healthy balance between economic development and consumer protection.

## International Events:

### The Asia-Pacific Financial Forum in Seattle

The Asia-Pacific Financial Forum (APFF) interim report was presented to a very appreciative audience at a symposium in Seattle, and was officially approved by the APEC Business Advisory Council (ABAC) at the plenary meeting. ABAC also approved and submitted the funds passport letter.

A round of final edits will occur before sending it to the Finance Ministers as an annex to ABAC's report. Suggestions from APCC members have been solicited that may be incorporated into the pre-final draft.

Deepest, deepest thanks to all APCC members from the APFF Chair and from Dr. J.C. Parrenas for your incredible commitment to this initiative and your valuable intellectual contributions and leadership. The APCC contribution has greatly amazed ABAC members to the extent that Suzuki-san and Dr. Parrenas are now being consulted on how the APFF model can be

replicated in ABAC's other working groups.

The APCC still has a full workload, including presenting the findings from APCC sponsored research regarding credit reporting that was delivered in Seattle to broader audiences including at the Fifth Annual Responsible Finance Forum in Perth, Australia on August 28-29, and at an APFF workshop in Beijing in September.

APFF was highly praised at our symposium by US Treasury Assistant Secretary Marisa Lago. The Korean and Chinese ministries of finance are much impressed by the private sector talent we are mobilizing and our capabilities to engage all major multilaterals through the APFF. Working with the APFF, the members of the APCC have built a solid foundation for the next stage including activities with pathfinder member economies.

## Some Recent & Upcoming International Events:

### **Ninth World Consumer Credit Reporting Conference, 19-21 October 2014**

Dr. Michael Turner will, once again, participate as a speaker at the 9th World Consumer Credit Reporting conference (WCCRC) in Dubai. The conference will update attendees about the latest issues that relate to credit and credit reporting. More information about the conference and its hosts can be found online.

### **fin4ag Conference, 14-18 July 2014**

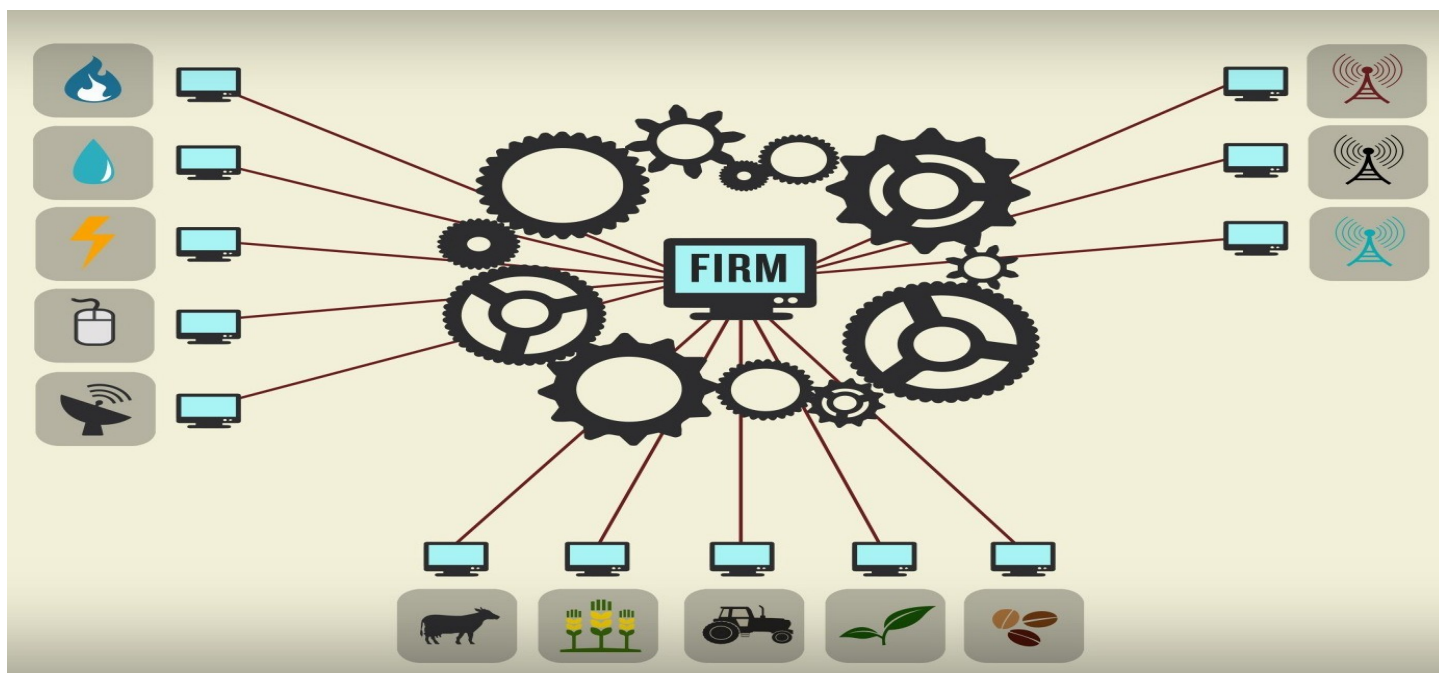
Dr. Robin Varghese presented at the fin4ag conference in Nairobi, Kenya. His topic was "Big Data for Smallholder Farms." The international conference focuses on "revolutionizing finance for agri-value chains." For more information about the conference, you can visit the conference website.

### **2014 Asia-Pacific Forum on Financial Inclusion, 19-20 March 2014**

Dr. Robin Varghese presented at the Asia-Pacific Forum on Financial Inclusion. The forum, sponsored by CITI Foundation, was organized by APEC Business Advisory Council, The Foundation for Development Cooperation, Asia-Pacific Finance and Development Center and Asian Development Bank Institute. The forum took place in Shanghai.

# International Projects Update:

## Financial Identity Risk Management (FIRM)



Dr. Robin Varghese was in Kenya in July for the Fin4Ag conference, speaking on a panel “Agricultural Digital Finance: More than Just Payments”. The conference was hosted by the ACP-EU Technical Centre for Agricultural and Rural Cooperation (CTA), in collaboration with the African Rural and Agricultural Credit Association (AFRACA) and several other partners, from 14 to 18 July 2014, at the Kenya School of Monetary Studies (KSMS), Nairobi, Kenya.

This conference brought together over 800 private and public sector representatives, from financial institutions, government agencies, farmers’ organizations, agricultural value chain stakeholders, multilateral development agencies, academics and foundations to examine how to promote smallholder-inclusive agricultural value chain finance in emerging markets.

At the conference, lenders were introduced to new innovative financial tools and products, rural organizations were exposed to success stories from other economies, and policy

makers were shown efforts by their counterparts how to develop and strengthen an enabling environments for agricultural finance.

Dr. Varghese presented on PERC and Experian MicroAnalytics’ efforts to develop the FIRM solution based on comprehensive supply chain, MNO and other non-financial data so that lenders can develop a 360° view of rural and other borrowers. PERC and EMA believe that such a tool can help mainstream lenders move into rural markets without radical changes of their lending and underwriting models. Additionally, FIRM would allow lenders to make larger loans for investments that can enable small holders to become agribusinesses. While many emerging markets have seen the development of automated, data-driven lending solutions to the financially excluded, these have largely remained at the level of small, short-term facilities. The next step lies in expanding this access from consumption facilities to productive loans.