REPLY ON CREDIT CHECK

Index

The Credit Check

❏ Introduction

The Credit Check is the process of verifying a customer's creditworthiness in view of requests for loans, financing, overdrafts, advances on invoices or other products that generate the assignment of a credit line.
The Credit Check can be simplified as "solvency test".

The Credit Score is the current evaluation of the credit risk profile issued by a credit-rating agency. It is usually expressed with values from AAA (extremely high) to D (default situation).

The Credit Check involves different actors in a process fragmented into several sub-processes, each chaired by different actors and with goals related to the institutional purposes of the specific subject.

The purpose of this document is to evaluate the inclusion of RoCC in the Credit Check process in order to allow the customer – private or company – of the Banking System (hereinafter the System) to provide information in support of their evaluation produced by third parties based on data held by the System as a whole.

The main points of the Credit Check process are described below.

❏ Central Credit Registers

They are databases that collect data and information aimed at measuring the credit risk of companies and individuals.
The most important is the Central Credit Register of the Bank of Italy; others are CRIF, CAI, CERVED, CTC, CRIBIS...

The Central Credit Register (CCR) of the Bank of Italy collects information on the overall indebtedness of the customers of Italian banks.

At fixed intervals, generally monthly, each bank operating in Italy:
- Communicates to the CCR the situation of indebtedness granted and used by customers, who are identified by a CIC (Customer Identification Code) when the value granted exceeds € 30,000.00
- Receives the cumulative debt situation per CIC with all the credit institutions with which the CIC has open positions: system debt.

Therefore, each bank can control the indebtedness granted/used on the institution itself, on the system (as a total on other institutions) and the percentage of indebtedness insisting on the institution (ShareWallet).

The CCR of the Bank of Italy shows the indebtedness granted/used by businesses and individuals to the Italian banking system; it has no control over the data communicated by the banks and it cannot intervene.

In evaluating credit risk, the importance of the CCR in the credit management and, above all, in the granting of new credit lines, has increased over time up to 50%.

❏ Other Central Credit Registers

In addition to the Bank of Italy's Central Credit Register, companies and individuals are recorded and "monitored" in other databases, managed by:
- Private subjects, such as Cerved
- Institutional subjects, such as Courts, Chambers of Commerce, Equitalia (Italian tax collection agency) and the Italian Agency of Revenue.

For the purposes of this document, the Centrale dei Bilanci (Italian organization specialised in balance sheet collection) of Cerved plays an important role for companies that are required to file financial statements and for those that, although not required to do so, file financial statements for other purposes.

For each recorded company, Cerved expresses a Company Rating and a Balance Sheet Rating: both are based on algorithms that process the available data and assign the evaluation. Ratings are expressed with reference to a scale of values defined by Cerved.

Institutional CCRs are no less important as they contain information on preliminary issues such as protests, seizures, criminal proceedings, mortgages: the existence of a preliminary ruling leads to a drastic deterioration of the rating that an individual Bank assigns to a CIC, whether or not they are already a customer.

❏ Rating Agencies

The world's best-known rating agencies are Standard & Poor's, Moody's and Fitch Group. In Italy, the two most important are Cerved and Crif.

The Rating is expressed synthetically with a value on the AAA-D scale, 75% of which is based on quantitative data and 25% on qualitative information acquired directly by the company subject to evaluation and, at its discretion, by its suppliers.

Qualitative information may relate to:
- the commercial pipeline
- the order backlog
- the trade payables
- the business plan
- the situation of the company's reference market.

With regard to companies, the Rating assigned by Cerved is based on information managed directly (financial statements) or acquired from the company or, in some cases, from its suppliers. This evaluation does not include information on granted/used loans (CCR Bank of Italy) or preliminary rulings (other CCRs).

❏ Credit Institution's Rating

Each credit institution assigns its customers a rating aimed at assessing the risk associated with granting a credit assignment.

Each Institute develops its own treatment algorithm and defines its own scale of evaluation; as a rule, these elements are not disclosed outside the Institute. The algorithm considers various factors including the account movement index, the existence of credit lines and their use, the regularity of expiry evasion…
Basically, the rating increases as transactions increase in the absence of negative events, such as an unpaid loan instalment.

The main element of the internal Rating is the so-called Performance, i.e. the trend of the internal rating over time. Usually, this is the result of periodical elaborations and it can be forced to a worsening value if we know of a prejudicial event that can put at risk the future solvency, or even lead to the default of the company itself in the following 12 months.

❏ Creditworthiness

This is the set of evaluations on which the decision-maker, within the Institution, grants or denies further credit to the applicant company; in short it is based on:
- bank policy
- bank's current exposure in the specific business sector of the company
- internal rating assigned to the company
- external ratings (e.g. Cerved)
- existence of prejudicial events.

The process is aimed at minimising risks for the bank and the System.

Reply on Credit Check

❏ Introduction

The objective of RoCC is to allow subjects – businesses and individuals – who are penalised by evaluations that do not allow the acquisition of additional credit lines, to express their opinion on the facts that are penalising the creditworthiness.

The advantages are:
- for the individual/the company – to express themselves on a fact relevant to their personal and working life such as the creditworthiness expressed by third parties
- for the credit rating agency – to improve its reputation and reduce the number of complaints and objections.

RoCC's objective is "to provide additional information" and not "to force rating improvements".

The currently available functionalities are:
- "Who can read", Share credit report and responses to authorised persons/ organisations.
- "Check Credit", Receive a real-time credit report from all major credit rating agencies and receive updates with any new changes to reports.
- "Tell them Why", Refute errors in a credit report by uploading supporting documentation, share rationales for poor credit history allowing creditors to see a full picture of payments before determining creditworthiness.
- "Check Why", At a glance, potential creditors can review consumers' uploaded documents and receive an unbiased and objective evaluation of the rationales justifying poor credit. Creditors can also analyse content not usually captured in credit reports (e.g. utilities and remittances), which can showcase positive payment history allowing them a more accurate assessment.
- "Good payment", Upload documents that showcase a wider range of positive payment history and highlight personal financial responsibility to new creditors.

The project seems to envisage that information relating to creditworthiness will be acquired by the Central Credit Registers upon decision of the RoCC user.

Intellectual property of Casaleggio Associati srl.
Reproduction is prohibited

6

RoCC vs Credit Check

As already mentioned, the process of evaluating creditworthiness is aimed at reducing risks for the Bank and maintaining the soundness of the System.

The reports that prevent access to credit are:
- excessive debt
- the existence of actual negative behaviours
- the existence of misreported behaviour
- the existence of negative behaviours that have been fixed but not eliminated

The ultimate aim of these databases is to make the credit system more efficient and the credit granting decisions more correct.

RoCC aims at including elements of improvement of the Credit Score in the process (such as comments), coming from those directly concerned and not "certified" by anyone.

As improving the Credit Score increases the risk for the Bank, it follows that those involved in the process today may not benefit from the adoption of RoCC.

It is difficult to imagine the implementation of RoCC as an external system connected to the management systems of the actors of the system.

It is difficult to imagine that credit institutions could consider a set of not "certified" information "reliable".

RoCC is an external element to the system, which could, however, integrate into its own platform, via API or subscription, information contained in the databases of the services indicated and help the credit system overcome some of the problems, including legal ones, inherent in the mechanism itself.

As better specified in the legal opinion of the lawyer Francesca Paruzzo, the functioning logic of the system is designed to reveal reports that are illegal due to failure to receive notice, incorrect assessment of the intermediary and failure to update the report, resulting in personal injury and damage to property.

In this sense, RoCC can play a role in rebalancing the person-system relationship from these points of view:
- privacy, as a fundamental right to informational self-determination
- reputation, as an opportunity to re-establish the correct perception of the individual within a given context
- personal identity, as an aggregator of the individual's manifestations in the various fields of action and a complete representation of their personality.

"

The framework outlined above – according to which a negative credit assessment has enormous consequences on credit access – shows how the system created by Reply on credit check (possibility for each user to download the assessment related to their creditworthiness defined by the various databases and upload the appropriate documentation – making it accessible to the subjects responsible for granting credit – to prove the incorrectness or, at least, the incompleteness), by expanding the information available to banks and financial intermediaries through data provided by the interested party itself, can really protect the fundamental rights described above:

- Privacy, as a fundamental right to informational self-determination, i.e. as a right to determine how to build the private sphere in its entirety through a comprehensive protection of information concerning the individual: through RoCC individuals can gain awareness of their own credit history, as elaborated through the data provided by and to the databases. Those interested can integrate the same story by providing different indications that, because of one's own experience, can affect (and explain) the reasons for any non-fulfillment of the obligations.

- Reputation, which by assuming the ideal collocation of the subject at the center of interpersonal relationships, mainly based on ethical, professional and intellectual assessments and judgments, identifies the representation of the individual's personality in a circle of associates and has an objective connotation, even if variable in relation to the reference group and to the subject's status. The opportunity, for users, to acquire (with a simpler and more immediate way) the information available on the databases and to subjectively integrate their scope, can allow to bring forward the protection of the fundamental right to reputation, by correcting any mistakes, filling the gaps of some reports and, therefore, preventing the injury of this legal asset, with a resulting deflationary effect with respect to judicial controversies or disputes of another kind.

- Personal identity, as a synthetic formula aimed at distinguishing the "subject from a global point of view in the multiplicity of their specific characteristics and manifestations [...] and expressing the concrete and actual

"

"

individual personality [of the same] that has become well-established [...] in social life". The definition of the creditworthiness of each person has a strong impact on the building of personal identity and on how the person concerned is known in their relational context. In order for the identity of a subject to be fully rebuilt and expressed, the merit of their access to credit cannot be based solely on economic data.

"

Source "Legal opinion on RoCC" Avv. Paruzzo
https://rightofreply.news/wp-content/uploads/2018/06/Lega-Opinion-on-ROCC-Avv.Paruzzo.pdf

Digital model evaluation

❏ Applied Methodology

This chapter contains the digital model evaluation: 18 elements weighed from 18 to 0 have been identified; the highest value indicates a favourable element for the sustainability of the solution and the lowest value indicates an unfavourable element. The scale then shows, moving clockwise from 12 o'clock, the 18 elements from the most favourable to the least favourable.

For each element an evaluation degree from 0 to 100 was stated, where 0 stands for the complete absence of the element and 100 for its full presence.

Consequently, a very favourable element (in position 2, for example) with a low evaluation degree (for example 20) is to be considered as an untold advantage. Conversely, a very unfavourable element (in position 4, for example) with a low evaluation degree (for example 20) is to be considered as a weak point with little effect on the model's sustainability.

❏ Preliminary Notes

The evaluation was assigned to single elements on the basis of the known information and the materials available and viewed at the date of this document.

Particularly, the lack of knowledge of the details on the implemented technologies, on how they will be used, and the unavailability of the platform in a proofing environment underlines some unfavourable elements to the sustainability of the digital model.

The overall evaluation here expressed can be revised in any moment, as more and more evidence will be brought to attention and made available for in-depth analysis and tests.

Therefore, this evaluation is strictly bound to the date on this document and may be revised with the evolution of the solution.

Intellectual property of Casaleggio Associati srl.
Reproduction is prohibited

10

⌐ Elements

Evaluation model RoCC

100 **News of the model compared to the perception of need.**

The idea of a platform that allows natural persons and companies to add information to the Credit Report developed by credit-rating agencies, providing news and explanations unavailable in any other system, represents a novelty in the Italian creditworthiness evaluation system.

The perception of need is very high: often no credit is granted on the basis of data and with evaluation criteria that are not transparent to the applicant.
The evaluation degree is due to the growing need for access to credit, present both in a time of economic crisis and in a time of recovery, and to the concurrent deterioration of the reputation toward the credit granting system and its actors.

60 Information security.

The blockchain technology guarantees the identity of the subject that publishes news, the non-modifiability of the news itself and of the related official documents (Credit Report and others): after the extraction, the informative block is protected from any unauthorised external action.
The evaluation degree is based on the lack of detail about the blockchain solution used.

40 Integration.

The possibility of RoCC interacting in two directions with the management systems of the active subjects in the current process might represent an important incentive for the adoption. The integration can take place both in the automatic acquisition of official documents and in the publication of additional information provided by the interested subject.
The evaluation degree is bound to the unavailability, at the date of this document, of information about integrations.

30 Solution adoptability.

At present, the credit check process is aimed at containing the credit risk of banks. The presence of a negative figure, such as an unpaid instalment, deteriorates the rating; in the case of a preliminary ruling, the deterioration is considerable. In the process, RoCC adds elements that are supposed to improve the rating and thus reduce the credit risk for the bank to acceptable levels.
The evaluation degree comes from the consideration that nowadays, the credit check is oriented towards reducing its own risks and not supporting the access to credit. Therefore, if on the one hand the adoptability by interested subjects – people and businesses – appears high, on the other hand it seems to be low by those who currently hold the process levers.

70 Sensitivity in subjects with high spending capacity.

For the theme addressed, the solution seems to be particularly adoptable by subjects already exposed to credit institutions and characterised by negative credit situations or preliminary rulings. It is assumed that these subjects are in a position where they can invest in the use of a service that could, if not solve a critical situation, at least facilitate overcoming obstacles to access new credit.
The nature of the service makes it desirable to two segments of the public: subjects with a current or prospective high spending capacity, who see in RoCC the possibility of restoring a wrong perception of the market towards them, and subjects with a low spending capacity, who see in RoCC the opportunity to correct the evaluation expressed by the credit system, which prevents them from accessing funds.

50   Modularity of the offer.

At present, two targets are known – people and businesses – and a need: for the interested party to comment on the credit report. In the event that the type of processed information may range in time over different thematic areas, it is possible to imagine that the offer will be differentiated according to the targets and needs.
The evaluation degree is bound to the lack of information in this respect.

50   Simplicity of approach.

The approach to need is theoretically simple.
The evaluation degree is bound to the lack, at the date of this document, of objective elements about how the solution will be implemented and the consideration that RoCC is attempting to enter an area that has never considered the active participation of interested subjects in the evaluation of creditworthiness

50   Scalability of the model.

The operation model, if framed within the context of Digital Identity solutions, appears to be easily extendable to host different types of information linked to a natural person user: in addition to reputation and credit, resume, certifications, training, tax status, deductions, property. The same applies if the RoCC user is a legal person.
The evaluation degree is due to the idea of the solution itself, although there aren't objective elements that confirm the intention to extend the model to complementary information segments.

30   Context virality.

RoCC's services appear to be aimed at a well-defined niche audience: those who need to correct their reputation on the market, and those who need access to credit.
Virality, meant as the possibility of distribution to a wide audience, does not seem to be an inherent element of the RoCC solution.
However, one can count on the fact that, especially with regard to the first niche, it is in the customer's interest to share as much information as possible about themselves; the customer themselves could be RoCC's first word-of-mouth agent.
The evaluation is expressed in relation to the type of audience that seems to be addressed today.

90   Localisation.

In theory, the RoCC solution can be extended to other countries; the need to define integration/linkage mechanisms with similar companies involved in the process, country by country, may represent a disadvantage.
The valuation is linked to localisation, technical and contractual costs.

70   Variety of content.

The user's point of view on their Credit Report can be expressed with text-based news and documentary evidence. Other formats that could be used to support the customer's position are: audio, video and other structured data.
At the moment it is not clear which content format is accepted in the platform.

90   Level of development.

At the date of this document, the progress in the technical development of the platform is not known. It is easy to imagine that, by the launch date, the development will be at an advanced point, at least as far as the core features are concerned.

80   Functional Specifications.

Evaluations on the platform are possible, at the date of this document, only on the basis of the materials received and those available on the website. In particular, it is not clear how the platform should work from the user-side.

80   Presence of third party functions.

In the current state of specifications, it is not clear which third party functions are required for the platform operation. However, it is undeniable that RoCC cannot exist as a stand-alone solution, disconnected from other digital platforms, otherwise it will be irrelevant on the market.
RoCC's value appears to be bound to the quantity and quality of connections with the outside world, digital and otherwise.

80   Variety of sources.

The sources used to evaluate creditworthiness are many, both in terms of type and number. The effectiveness of the RoCC's solution is proportional to its ability to collect the highest number of external data and evidence, so that the resulting profile is complete. Therefore, the news added by the user can fully complete the profile.
It is not clear which sources will be involved.

80   Certificability of news.

The credit check process collects data and news acquired, organised and interpreted by subjects designated for this purpose; the resulting figure is in some way "certified" by the nature of the subject that manages them (authorised credit-rating agencies, State bodies).
It is not clear if the news added by the RoCC user to their Credit Report is, in some way, "certified" by other subjects who testify its truthfulness.
At the moment there is no information to evaluate this aspect.

80   Replicability of the solution.

The model is easily replicable, on a theoretical level, and the technical platform reproducible; the technology on which the solution is based is, although innovative, in a historical moment of great distribution.
What can reduce this risk is the ability to have a connection with the main actors in the system and the speed with which agreements are negotiated.
At the moment there is not enough information.

80   Distribution model.

The distribution of the platform, in terms of brand awareness, is bound to the interest and subsequent consideration by the main credit institutions or, alternatively, by the main credit-rating agencies.
At the moment there is no evidence of operational plans in this respect.

⌐ Indications

Considering the expressed evaluation, there are some recommendations about the digital model development:

- The integration of the model with the Credit Check current instruments used by credit institutions, financial institutions and credit-rating agencies should be carefully examined, especially with regard to any return information
- The idea behind the model has, however, the characteristics to integrate into the RoCC platform the information on the database used by credit institutions, financial institutions and credit-rating agencies
- The most promising work scenario for the project development is to shift the focus of the model from "integrated platform in the Credit Check System" to a "platform that acquires and integrates data from the Credit Check System"
- In this scenario, if the business model was linked to a fee for the various subjects of the supply chain, the cost of a potential "subscription" could be absorbed into third party services (e.g. Cerved)
- The new model should establish itself as a stand-alone service that integrates third-party information and data, with all the branding, marketing and commercial obligations that this entails, which would inevitably lead to finding sponsors
- The possible interest of the actors of the System remains yet to be fully explored so as to definitively discard the hypothesis of their adoption of RoCC
- As well as the sensitivity of the public to problems related to access to credit should be observed, focusing on a smaller target, both in terms of user profile and need for use
- In developing the model, in light of the legal issues that RoCC might help solve, the objectivity of the information entered by the user (not only "comments", but additional data as well) should be highlighted so that the identity profile is complete and truthful.