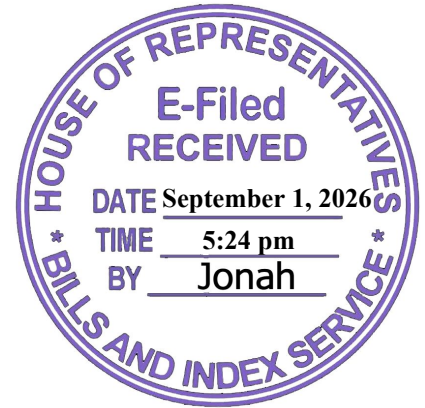


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 11051



Introduced by **ANG PROBINSYANO**
Party-List Representative Alfred Delos Santos

EXPLANATORY NOTE

Access to affordable and formal credit remains out of reach for millions of Filipinos, particularly those without an established credit history, such as informal sector workers, farmers, fisherfolk, and micro, small, and medium enterprises (MSMEs). Financial institutions play a central role in closing this gap, and the growing availability of alternative and digital transaction data presents new opportunities to responsibly assess the creditworthiness of previously underserved borrowers.

The Bangko Sentral ng Pilipinas (BSP) has itself recognized the value of alternative data, such as mobile, utility, and online transaction data, in painting a more complete picture of a borrower's creditworthiness, allowing more individuals and businesses, especially those with thin or no credit files, to be assessed for credit. Realizing this potential, however, requires that credit scoring models built on such data remain accurate, fair, and free from undue bias against the very sectors they are meant to serve.

Given BSP's immediate action in ensuring liquidity in the economy through decreased lending rates and reserve requirement during the COVID-19 Pandemic, the pressure is on for banks to operationalize such measures post-pandemic and continue to normalize such practice. While the intention of the government is to provide support, banks would need to immediately scale their operations to manage worsening credit positions of existing borrowers and accommodate possible increase in new credit due to lowered interest rates.¹

The lack of alternatives and exclusionary mechanisms of financial credit scoring systems have led many Filipinos to resort to more expensive, poorly-supervised, and potentially illegal lending operations that impose abusive

¹ <https://www.pwc.com/ph/en/business-unusual/banks-approach-to-covid-19.html>

interest rates and practice predatory lending activities, to the detriment of many disadvantaged and underprivileged sectors of the society.

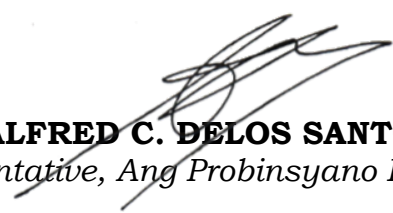
The lack of alternatives and exclusionary mechanisms of financial credit scoring systems have led many Filipinos to resort to more expensive, poorly-supervised, and potentially illegal lending operations that impose abusive interest rates and practice predatory lending activities, to the detriment of many disadvantaged and underprivileged sectors of the society.

This bill seeks to encourage the development of non-traditional approaches to credit scoring, with the aim of including more sectors of the society that have been excluded under more conventional and traditional approaches. With a fairer and more inclusive approach to credit scoring, more members of the agriculture sector, MSMEs, informal sector, and other vulnerable groups will be able to access more affordable credit that proactively enables them to engage in more productive economic activities.

This Act specifically mandates a credit inclusiveness study to determine whether conventional credit scoring techniques exclude specific segments and sectors of the society; grants the Bangko Sentral ng Pilipinas (BSP) clear regulatory oversight of credit scoring methods; requires a regular review of credit scoring models to assess their inclusivity; and allows the BSP to prohibit credit scoring models that are deemed to be unduly exclusionary.

Finally, this bill responds to the continuing need to translate financial system liquidity into credit in the real economy, particularly for sectors that remain underserved by conventional credit scoring systems. Through this, more Filipinos will be able to engage in productive economic activity that will help sustain and broaden the country's economic growth.

In view of the foregoing, the immediate passage of this bill is earnestly sought.



ALFRED C. DELOS SANTOS
Representative, Ang Probinsyano Partylist

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Introduced by **ANG PROBINSYANO**
Party-List Representative Alfred Delos Santos

**AN ACT TO ESTABLISH FAIR AND INCLUSIVE CREDIT REPORTING
MECHANISMS TO ENSURE EQUITABLE CREDIT ACCESS TO THE MOST
VULNERABLE SECTORS OF SOCIETY AND FOR OTHER PURPOSES**

*Be it enacted by the Senate and the House of Representatives of the
Philippines in Congress assembled:*

SECTION 1. *Short Title.* — This Act shall also be known as the "Fair and Inclusive Credit Information and Scoring Act."

SECTION. 2. *Definition of Terms.* — For the purpose of this Act:

- a. "Alternative Modeling Techniques" shall refer to statistical and mathematical techniques that are not traditional modeling techniques, including decision trees, random forests, artificial neural networks, nearest neighbor, genetic programming, and boosting algorithms;
- b. "Consumer Report" shall refer to any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living which is used or expected to be used or collected in whole or in part for the purpose of serving as a factor in establishing the consumer's eligibility for (1) credit or insurance to be used primarily for personal, family, or household purposes, or (2) employment purposes, or (3) other purposes authorized by law.
- c. "Non-Traditional Data" shall refer to data related to telecommunications, utility payments, rent payments, remittances, wire transfers, data not otherwise regularly included in consumer reports issued by consumer reporting agencies described under section 603(p), and such other items as the Bureau of Consumer Financial Protection deems appropriate.

- d. "Traditional Modeling Techniques" shall refer to statistical and mathematical techniques (including models, algorithms, linear and logistic regression methods, and their outputs) that are traditionally used in automated underwriting processes.

SECTION 3. *Credit Inclusiveness Study.* — The Credit Information Corporation (CC), in collaboration with the Philippine Institute for Development Studies (PIDS) and the Bangko Sentral ng Pilipinas (BSP) shall carry out a study to assess the impact (including the availability and affordability of credit and other non-credit decisions, the potential positive and negative impacts on consumer credit scores, and any unintended consequences) of using traditional modeling techniques or alternative modeling techniques to analyze non-traditional data from a consumer report and of including non-traditional data on consumer reports on the following:

- a. Consumers with no or minimal traditional credit history;
- b. Traditionally underserved communities and populations, such as members of indigenous communities;
- c. Consumers residing in rural areas;
- d. Consumers residing in urban areas;
- e. Religious and ethnic minorities;
- f. Consumers across various income strata, particularly consumers whose income is less than the annual median income as determined by the Philippine Statistics Authority (PSA);
- g. Refugees and non-permanent residents;
- h. Self-employed and small and medium enterprises; and
- i. Consumers residing in informal housing and or state-funded housing projects for low-income families.

SECTION 4. *Additional considerations in the credit inclusiveness study.* — In assessing impacts under Section 3 of this Act, the CIC, PIDS, and BSP shall also consider impacts on:

- a. the privacy, security, and confidentiality of the financial, medical, and personally identifiable information of consumers;
- b. the control of consumers over how such information may or will be used or considered;
- c. the understanding of consumers of how such information may be used or considered and the ease with which a consumer may decide to restrict or prohibit such use or consideration of such information;
- d. potential discriminatory effects; and
- e. disparate outcomes the use or consideration of such information may cause.

SECTION 5. *Consideration of other state studies.* — In assessing impacts under Section 3 of this Act, the CIC shall also consider recent government

studies on alternative data, including the body of research on financial inclusion which may be available from the BSP.

SECTION 6. *Annual report to Congress.* — Not later than one (1) year after the date of the enactment of this Act, the CIC shall issue a report to the Committee on Banks and Financial Intermediaries of the House of Representatives and the Committee on Banks, Financial Institutions and Currencies of the Senate containing all findings and determinations, including any recommendations for any legislative or regulatory changes. made in carrying out the study required under Section 3 of this Act.

SECTION 7. *Oversight of credit scoring models.* — Not later than one (1) year after the date of the enactment of this Act, the Monetary Board shall (in consultation with the Philippine Deposit Insurance Corporation, the Securities and Exchange Commission, and the CIC) issue final regulations applicable to any person that creates, maintains, utilizes, or purchases credit scoring models used in making credit decisions to establish standards for validating the accuracy and predictive value of all such credit scoring models, both before release for initial use and at regular intervals thereafter, for as long as such credit scoring models are made available for purchase or use by such person.

SECTION 8. *Inclusivity and fairness in credit scoring models.* — At least once every two (2) years. the BSP and CIC shall conduct a review of credit scoring models to determine whether the use of any particular factors, or the weight or consideration given to certain factors by credit scoring models, is inappropriate, including if such factors do not enhance or contribute to the accuracy and predictive value of the models. Upon the conclusion of its review, the BSP may prohibit any of its supervised financial institutions from weighing, considering, or including certain factors in, or making available for purchase or use, certain credit scoring models or versions, as the BSP determines appropriate.

SECTION 9. *Review of changes to credit scoring models.* — With respect to a person that creates credit scoring models used in making credit decisions, if such person creates a new credit scoring model (including a revision to an existing scoring model) that would, when compared to previous credit scoring models created by such person, lower the credit scores of a class of consumers, the BSP may review such new credit scoring model and, if the BSP determines that such new credit scoring model is inappropriate (including, with respect to a revision to an existing scoring model, if such revision does not enhance or contribute to the accuracy and predictive value of the existing scoring model), the BSP may prohibit such new credit scoring model.

SECTION 10. *Implementing Rules and Regulations.* — Unless otherwise stated, the BSP and the CIC shall jointly issue the rules and regulations necessary for the implementation of this Act, within ninety (90) days upon its effectivity.

SECTION 11. *Oversight Committee.* — The Committee on Banks and Financial Intermediaries of the House of Representatives and the Committee on Banks, Financial Institutions and Currencies of the Senate shall select, from each committee, a delegation of five (5) members, with at least one (1) member representing the legislative body's minority coalition, to constitute the Congressional Oversight Committee on Fair Credit Reporting, which shall be co-chaired by the Chairpersons of both Committees.

The Oversight Committee shall convene within one hundred and twenty (120) days after the date of effectivity of this Act to determine whether:

- a. The BSP and the CIC have issued the Rules and Regulations necessary for the implementation of this Act;
- b. The study mandated under this Act has been initiated; and
- c. Other mandates under this Act have been initiated or fully complied with.

SECTION 12. *Separability Clause.* – If any provision or part of this Act is held invalid or unconstitutional, the remaining provisions or parts unaffected shall remain in full force and effect.

SECTION 13. *Repealing Clause.* – All laws, executive orders, presidential decrees or issuances, letters of instruction, administrative orders, rules, and regulations contrary to or inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SECTION 14. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,