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### **The link between mobile telephony arrears and credit arrears**

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At the request of Climate and Energy Minister Paul Magnette, who is also responsible for Consumer Affairs, the National Bank of Belgium carried out an investigation into the link between payment arrears for mobile telephony and credit arrears. This research was conducted on the basis of anonymous data from the Preventel records and the Central Individual Credit Register (CICR).

Drawing on a large sample of 40,000 people, the profile of borrowers with arrears for both types of debt (*Preventel group defaulters*), among others, was compared with that of borrowers who only showed arrears in the area of loan repayments (*Control group defaulters*).

The study revealed that defaulters with a Preventel registration form a specific group among CICR defaulters. Preventel group defaulters in fact have a demographic and credit profile which closely matches that of defaulters from the control group, yet differences were nevertheless found between both groups of defaulters in several respects.

Characteristics of the borrowing and repayment behaviour of defaulters from the control group can also be noted in the case of defaulters in the Preventel group, but they appear to be more marked amongst the latter. Compared to defaulters in the control group, defaulters from the Preventel group:

- have a loan portfolio comprising a larger proportion of consumer loans;
- have a lower total amount of borrowings. This is due not only to the smaller proportion of mortgage loans, but also to their relatively smaller consumer loans;
- are less likely to conclude loans with a codebtor;
- make greater use of lenders other than credit institutions;
- are more likely to have more than one negative loan;
- pay off a smaller percentage of their negative loans;
- have proportionately higher arrears ;
- include a higher percentage of persons with a collective debt settlement.

Yet, there is a particularly clear distinction between both groups of defaulters as regards the "age" aspect. Not only does the Preventel group comprise younger persons, but they also tend to take out their first loan at a younger age and run up their first sooner.

A further notable finding is that, within the Preventel group, loan defaulters and non-defaulters also differ from one another in their telephony characteristics. Defaulters on loans within the Preventel group feature a higher percentage of people who still had an outstanding Preventel registration and a higher percentage of those who had been registered more than once – whether by one or more than one operator. Furthermore, defaulters continue to be registered in Preventel for a significantly longer period than non-defaulters, the majority of whom pay off their arrears within a year.

Moreover, it is clear from the study that there is a statistically significant link between payment arrears for mobile telephony and credit arrears. On the basis of the definitions used in the study, the probability of a borrower with a negative Preventel record being registered in the CICR can be estimated at around ten times higher than for a debtor who has never had any mobile telephony arrears. The risk is five and a half times higher if only outstanding Preventel registrations are considered as mobile telephony arrears.

If the time aspect is incorporated into the analysis, it emerges that, in most cases where there are both types of debts, mobile telephony arrears usually come before arrears on loan repayments. Comparison of the dates of the first Preventel registration and the first loan default shows that in 68 % of cases the initial arrears concerned mobile telephony. In view of the absence of any strict, uniform rules of procedure for Preventel registration among the various operators, that percentage could be just a lower limit.

It is noteworthy that in nearly half of all these cases the Preventel registration also preceded the first positive loan agreement, or in other words, the person in question only took out his first loan once he was already registered in Preventel for arrears on his GSM bills.

If the Preventel registration is to act as a warning light, there has to be a link between the two types of arrears, and the chronology of the arrears needs to be right, but that is still not sufficient in itself. In addition, the Preventel registration must have a predictive value. The study used a rudimentary logistic regression model to judge the predictive value of mobile telephony arrears. The results show that the Preventel registration and the length of it provide a significant predictive variable for the relative probability of a negative CICR registration.

The findings of the study therefore suggest that information about payment arrears with telecom operators could serve as added value in the assessment of the credit risk of individuals. As the assessment of the credit risk of private individuals is based on a set of socioeconomic variables, payment arrears for mobile telephony could therefore be a useful complementary variable in that assessment.