**PRA Group Europe Response**

**to**

**Consultation on Implementing Technical Standards (“ITS”) on NPL transaction data templates (EBA/CP/2022/05) (“Consultation”)**

**BACKGROUND**

# **About PRA**

As a global leader in acquiring and collecting nonperforming loans, PRA Group returns capital to banks and other creditors to help expand financial services for consumers around the world. PRA Group purchased portfolios of nearly $1 billion in the last financial year and owns portfolios in 13 countries in Europe, acquiring nonperforming loans from major credit granters.

## **Focus on Compliance and Customers**

With nearly 1000 employees in Europe alone, PRA Group is focused on collaborating with customers to help them resolve their debt. Our governance, risk and compliance functions work closely together with our operational and investment teams to ensure excellent outcomes for our regulators, sellers and customers alike, across market and product complexity.

Having been founded in 1996 and publicly traded on the US Nasdaq since 2002, PRA entered the European market in 2012. As a leading purchaser of unsecured personal loans across Europe, we are well placed to opine on the Consultation and share the benefit of our experience and expertise.

Summary Response

PRA Group’s response to the Consultation questions is based on the views and experiences of PRA Group personnel closely involved in portfolio underwriting and investments across the EU, with detailed knowledge of the markets in NPLs and the mode of acquiring NPL portfolios across various jurisdictions and sellers.

Our responses take into account that the objectives of the introduction of standardised data templates are to reduce barriers to entry to new market participants and increase efficiency in the secondary sale market for NPLs by adopting a common data standard across all credit institutions.

PRA Group Europe supports these objectives and welcomes all efforts to improve the efficiency of operation of the NPL sale market. PRA’s experience suggests that the unsecured consumer NPL market is already operating effectively and therefore the greatest potential for improvement to market efficiency are to be found in other parts of the secondary sale market, such as SMEs. It is important to ensure that the use of data templates enhances those parts of the market already working well and do not have the unintended consequence of creating unnecessary friction or discouraging use of the secondary market. Key to this will be ensuring that credit institutions are able to meet the requirements and that portfolios are not disqualified from sale where data is unavailable.

We have the following suggestions for further improvement in support of the objectives of the ITS and the Directive generally:

* A greater focus on template 5 with respect to historic collection data. To maximise valuations and accuracy, and to ensure a good customer journey, it is important for debt purchasers to have insight into customer behaviour, including communication preferences and payment behaviour. As communication and payment preferences move towards digital journeys it will be important to ensure that template 5 is flexible enough to accommodate this. We would recommend that data incorporated in template 5 is prioritised as mandatory for all portfolios.
* Key to the success of the data templates will be ensuring that external debt collection agencies utilised by the credit institutions are obliged to regularly report to the credit institutions and maintain relevant data with respect to customer status and collections. This is essential both for (i) the functioning of a competitive secondary market, where currently debt purchasers who are also incumbent credit servicers have a significant information advantage over competitors during portfolio valuation (especially new market entrants), due to asymmetries in data availability; and (ii) to ensure fair customer treatment post-sale.
* In terms of the NPL sale process, our experience suggests that it would be impractical and undesirable to impose highly standardised requirements in terms of the sales process and timing of data provision across the secondary sale market as a whole, and that to do so would risk hampering some parts of the market which currently operate well. We would recommend that directions given in recital (6) are reviewed to ensure that credit institutions retain a level of flexibility to ensure the smooth running of sales, especially in the unsecured consumer NPL sales market where existing processes are largely mature and effective across many Member States.

**RESPONSE TO CONSULTATION QUESTIONS:**

1. **Do the respondents agree that these draft ITS fits for the purpose of the underlying directive?**

At a general level we agree that the draft ITS fit the purpose of the underlying directive. However, from the perspective of stimulating and encouraging secondary markets in NPLs the comprehensive nature of the data requirements may, in some cases, be counterproductive if the burden on credit institutions is significantly increased. From a data purchaser perspective (with a particular focus on unsecured consumer NPLs) we would question the cost v benefit of requiring credit institutions to start collecting such data where many credit purchasers, especially those new to the market, are unlikely to utilise the data for valuation. We have identified in our responses in Annex II certain data fields which are of less or no value for valuation purposes and those which we believe should be prioritised.

Template 5, as noted below, does not currently meet all requirements of a debt purchaser in terms of valuation and we make further reference below to improvements that may be considered.

It must also be acknowledged that further data requirements beyond the ITS may be required in some jurisdictions to accommodate the requirements of local laws (such as insolvency). Given the lack of harmonisation in the underlying laws of Member States in this regard it would be impractical and undesirable for the ITS to include all possible requirements but the completeness and effectiveness of the ITS for the purposes of NPL sales is naturally limited as a result.

1. **What are the respondents’ views on the content of Template 1? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.**

Please refer to our responses in Annex II.

1. **What are the respondents’ views on the content of Template 3? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.**

Please refer to our responses in Annex II.

1. **What are the respondents’ views on the content of Template 4? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.**

Please refer to our responses in Annex II.

1. **What are the respondents’ views on the content of Template 5? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.?**

Please refer to our responses in Annex II.

It would be beneficial for template 5 data fields to be made mandatory in all cases. Collection history is very significant in the valuation of NPLs, and will inform the purchaser’s assessment of customer treatment strategy post-sale. Failure to provide this information would therefore have a detrimental impact on pricing and valuation confidence. Projected cash flow post-sale is not necessary or desirable for the purposes of NPL valuation as debt purchasers will assess this themselves based on assumptions driven by collection history.

We suggest that template 5 should go further to incorporate more granular data such as customer communication preferences (e.g. letter, emails, SMS etc), customer behaviour markers (e.g. email/digital open rate) and payment channels utilised (e.g. direct debit, online payment etc). Understanding customers’ preferences are key to ensuring a good customer journey and allow the purchaser to determine the most appropriate collection strategy post-sale.

1. **Do the respondents agree on the structure of Template 2 to represent the relationship across the templates? If not, do you have any other suggestion of structure?**

The structure of Template 2 is reasonable and logical. It may prove difficult to read where relationships are particularly complex but in the main it should work well.

It would be helpful to include data with respect to legal status of the counterparty e.g. any insolvency proceedings pending.

1. **Do the respondents agree on the structure and the content of the data glossary? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.**

Please refer to our responses in Annex II.

1. **What are the respondents’ views on the content of instructions?**

In the event that template 5 is amended as suggested above to include more detailed collection history and communication/preference data we would recommend that the instructions are updated to reflect the new requirements.

1. **Do the respondents agree on the use of the ‘No data options’ as set out in the instructions?**

While the aim of the ‘No data options’ is understood it is important that these options are not open to abuse as a loophole for credit institutions to avoid complying with the data requirements. It’s unclear from the ITS how compliance would be monitored and, if necessary, enforced.

1. **What are respondents’ views on whether the proposed set of templates, data glossary and instructions are enough to achieve the data standardisation in the NPL transactions on secondary markets, or there may be a need for some further technical specifications or tools to support digital processing or efficient processing or use of technology (e.g., by means of the EBA Data Point Model or XBRL taxonomy)?**

We believe the proposed set of templates, data glossary and instructions would be sufficient to achieve data standardisation in NPL transactions on secondary markets provided template 5 is revisited to ensure more detailed historical collections data, as noted above. This will, in many cases, require credit institutions to increase levels of reporting from external debt collections agencies pre-sale in order to satisfy data requirements.

Digital processing of ITS should be supported as the most likely and efficient means of processing in future.

1. **What are the respondents' views on the approach to the proportionality, including differentiating mandatory data fields around the threshold? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.**

As noted in our responses in Annex II we support the inclusion of further mandatory fields in the sub-EUR 25,000 category in order to increase transparency and improve valuation confidence.

1. **Do the respondents agree with the proposed calibration of 25 000 euros threshold in line with AnaCredit Regulation? If not, what alternative threshold should be introduced, and why?**

As noted above we recommend additional mandatory fields below the proposed threshold. The chosen threshold is somewhat arbitrary at any level and we believe it is better to avoid a cliff-edge in terms of data requirements.

1. **What are the respondents' views on the operational procedures, confidentiality and data governance requirements set out in the draft ITS?**

We have no additional comments on the operational procedures, confidentiality or data governance requirements set out in Chapter 3. However, in terms of broader directions set out in Recital (6) we are concerned that the imposition of standardised requirements of this nature (in terms of the sale process and timing of data provision) across the secondary sale market as a whole would be counterproductive in those parts of the secondary market which currently operate well. We would recommend that directions given in recital (6) are reviewed to give credit institutions a level of flexibility to ensure the continued smooth running of those parts of the market that are already mature and effective, such as the market for unsecured consumer NPLs.