

Credit information and the business of reputation

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A bank that lends or discounts bills needs information about the creditworthiness of its borrowers. The private banks of Basel obtained this information through their own experience, through the network of the *Daig*, through their correspondents and through inquiries among merchants. In the nineteenth century, with the growth of trade and the increase in the number of merchants and firms, this informal system became insufficient. A new business emerged: the commercial credit agency, which collected information about the creditworthiness of merchants and sold it to subscribers.

The first commercial credit agencies were founded in the 1840s: the Mercantile Agency in New York in 1841, which later became Dun & Bradstreet, and similar agencies in London and on the Continent. In Switzerland, credit information agencies were founded in the second half of the nineteenth century. The business later developed into the modern credit reporting and debt collection industry.¹

The credit agency transformed information about reputation into a commodity. The private banker who knew his clients personally and relied on the opinion of his peers was replaced, for many purposes, by a report that summarised the financial situation, the business history and the payment behaviour of a firm. The credit rating agencies of the twentieth century, which assess the creditworthiness of states and large companies and whose ratings are used by investors and regulators throughout the world, are the heirs of this development. The role of the rating agencies in the financial crisis of 2008, when they gave high ratings to securities that later defaulted, led to their regulation in the United States, the European Union and, to a lesser extent, Switzerland.²

The modern law of data protection limits the collection and use of credit information about individuals. The Swiss Federal Act on Data Protection, for instance, sets conditions for the processing of personal data for the

purpose of assessing creditworthiness.³ The balance between the need of lenders for information and the right of borrowers to privacy, which the credit agencies of the nineteenth century did not have to consider, is a central question of modern financial regulation.

1 Notes

1. On the history of commercial credit reporting agencies (Mercantile Agency, New York, 1841; later Dun & Bradstreet) and their development in Europe and Switzerland, see the literature on the history of credit information. To be verified. ↩
2. On the regulation of credit rating agencies after 2008 (US Dodd-Frank Act; EU Regulation (EC) No 1060/2009) and the recognition of rating agencies by FINMA for supervisory purposes, see the relevant legislation and FINMA publications. To be verified. ↩
3. Art. 31 para. 2 lit. c FADP (SR 235.1) on the overriding interest in the processing of personal data for the assessment of creditworthiness, subject to conditions. To be verified. ↩

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