



Digital Credit Observatory (DCO) Results Brief

Consumer Protection Oversights in the Chinese Social Credit System

Researchers: Shazeda Ahmed, Jael Makagon
Country: China

Policy Issue

Success stories about digital credit systems in the developing world often focus on how these services enable financial inclusion of traditionally “unbanked” populations. However, the growing use of non-financial data to determine credit scores is a concerning trend that may infringe upon the civil liberties of users who are unaware of the surveillance they enable in providing this data. These risks are particularly prevalent in China, a country with still-nascent data protection and digital privacy laws. Digital credit in China is experiencing exponential growth, and the dominant market player, Sesame Credit, now has a user base of over 500 million people.

Social credit is meant to provide a comprehensive rating of citizens’ behavior in everyday life by rating more personal data such as who their friends are, what products they buy, which websites they visit, and offline information that may be considered off-limits for credit scoring in other parts of the world. This all-encompassing form of credit provides an example of how non-financial data are being used not only to make lending decisions, but also for access to foreign travel visas, hospitals, bicycle and car rentals, online dating, and housing. The researchers were not aware of any previous qualitative studies of users’ comprehension of how they are being evaluated.

Study Summary

Through semi-structured, one hour-long interviews with Chinese users of the social credit app Sesame Credit, this study uncovered consumer protection concerns that have been overlooked in foreign and domestic media coverage of this new form of digital credit. During summer 2017, PhD student Shazeda Ahmed conducted interviews in Beijing with seven Chinese citizens who work for NGOs or in related industries.¹² While this did not allow for the research team to explore the consumer protection concerns that the most socioeconomically disadvantaged users may face, these interviews nonetheless presented a rich picture of how well-educated users are still highly uninformed about the ways their personal data are being used.

During the duration of this six month pilot, Shazeda and her collaborator, Jael Makagon, continuously consulted news reports on social credit, with Shazeda focusing on Chinese-language materials and Jael on English-language sources, including academic publications.

¹A sudden broader tightening of domestic policies in China, with particular stringency of rules concerning NGOs, prohibited Shazeda from securing interviews with original planned contacts.

²Nectar Gan, “[Why foreign NGOs are struggling with new Chinese law](#),” South China Morning Post, 13 June 2017.



Takeaways

The in-depth semi-structured interviews revealed four overarching concerns and unanswered questions:

1. Users admit that there are major gaps in their comprehension of how Sesame Credit works

In general, it appeared that users' understandings of the criteria by which they were being assessed came from folk perceptions they had developed about how the service worked, rather than from Sesame Credit's user interface or other official company sources. In fact, four of the respondents had never viewed the in-app visualization of the five overarching data categories that determine their credit scores.

2. Many users still find banks to be more secure

Some interviewees raised concerns about Sesame Credit and the mobile payment app it is bundled with, Alipay. One respondent noted that there are people who have high enough Sesame Credit scores to take out small loans using Alipay's consumer credit product, but not able to receive the same loan amount from a bank. This led the respondent to question how meaningful the company's scores are as financial indicators of the probability of default. While most respondents admitted they do not often interact with their banks because of a reliance on fintech, they seem divided on the extent to which they can fully trust Ant Financial (the firm that runs Sesame Credit/Alipay) as an alternative.

3. Market capture could leave consumers with no alternative

Interviews with six regular users and one intentional non-user of Sesame Credit made it clear that the network effects of adopting this service are rapidly reaching the point at which lock-in might begin to make it difficult for people to opt out. This is particularly troubling given that there are few competitors to Ant Financial, which dominates the mobile payment market in China and which serves over 600 million users on the Chinese mainland.

4. Users do not want to mix social media and financial information

All seven respondents disliked that Alipay and Sesame Credit tried to resemble social media platforms. One active user of Sesame Credit stated that she did not add her real friends because she did not think it was relevant information for Ant Financial. Remarkably, one male interviewee stated that, "if WeChat (China's biggest messaging app) were to do this, that would be extremely terrifying," while unaware that WeChat's host company Tencent is currently beta-testing their own social credit app that will likely draw upon users' social media data for scoring purposes.

Policy Relevance & Implications

The results of this pilot study present policy implications for consumer protections and firm-state relationships in the development of China's social credit system. The issue several respondents raised about the difference between Ant Financial and traditional banks is extremely salient. China's central bank decided in 2017 that it would not grant official licenses to Ant Financial and the other eight private companies that were originally given permission to conduct social credit pilot testing in 2015 because of privacy and data collection concerns. Policymakers should work to understand how citizens view fintech companies and banks in comparison to one another and the limits of social credit data in predicting financial risk. The issue of digital privacy is slowly becoming a more common topic in Chinese academic and policy discourse.

The complaints about how Alipay and Sesame Credit are trying to adapt features of social media also raise questions about which laws will apply to the platform as it expands its services beyond fintech. If users are uncomfortable with or even resistant to adding their friends to their Alipay/Sesame Credit accounts, this could challenge the scope of what data the company should be allowed to collect for scoring purposes.

About the DIGITAL CREDIT OBSERVATORY (DCO) at CEGA

The DCO was established in 2016 with support from the Bill and Melinda Gates Foundation to support a coordinated portfolio of rigorous research on the impacts—both positive and negative—of digital credit products in emerging markets, and the effectiveness of related consumer protection measures. DCO researchers use randomized trials, machine learning, and other rigorous methods to answer questions of critical importance to this sector. In addition to funding research, the DCO maintains a strong network of private sector, academic, and policy partners working on digital credit for the purposes of sharing information and identifying meaningful areas of collaboration.

Learn more at <https://cega.berkeley.edu/initiative/digital-credit-observatory/>