European Relationship to Sesame Credit and the Social Credit System

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Introduction

In Europe, there are many discussions about the impact of the planned Social Credit Score System in China. Some believe the system leads to a dystopian future due to the dangerous dictatorial tendencies and some believe it enhances justice (Orgad/Reijers, 2019). However, it is ambiguous to what extend nations of Europe support the establishment of a Chinese Social Credit System. In the following, after explaining the Social Credit System in China Sesame Credit is taken as an existing social credit system in China and is analysed for its relation to European nations.

This paper is divided into two parts. The first deals with the Social Credit System in China. Thereby, the systematic and state centred implementation of the Social Credit System is described but the predictive functionality of the governmental social credit system is excluded. Instead, Sesame Credit, the credit score system of Technology Giant *Alibaba Group*, is analysed for its functionality and impact on its users. This is for the reason that Sesame Credit was already established in 2015 and had around 520 million Users in 2017 (Koetse, 2018) wherefore scientific measurements are more valid.

The second part takes a look on Chinese-European relationships within the establishment of the Social Credit System. Therefore, the Schufa Credit Scoring System is analysed and compared to Sesame Credit. Additionally, the cooperation between the Luxembourg consulate in Beijing and Sesame Credit is described.

1. Systematic Implementation of the Chinese social credit System

"Society can be understood and engineered through a holistic, scientific approach, blurring boundary between state and society, public and private." (Creemers, 2018)

The Social Credit System is fundamentally a massive Big-Data-Communication-Technology which is analysing actively generated information "by multiple sensors scattered across the lives of its subjects" (Creemers, 2017, p.96). The organisational implementation of the complex and interconnected infrastructure indicates a sophisticated long-term planning accompanying the ever-used five-year-plans and the China-2050-Project. In 2002 the Social Credit System was first mentioned in a speech of Jiang Zemin, the general secretary, at a meeting of the central committee of the Chinese communist party as a modernization "of the modern market

economy" (Source by Warnke, 2002; Creemers 2018). According to the speech, the social credit system is included in the "10th Five-Year-Plan and the goal of 2010" (Source by Warnke, 2002). Here already, a separation was defined, between financial creditworthiness, similar to Fico scores in the United States and Schufa in Germany, and a broader notion of trust and honest conduct in the marketplace (Creemers 2018). In 2006 the People´s Bank of China established a "Credit Reference Center", combining reports from other financial entities on client´s creditworthiness with the non-financial information from courts, government departments, telecommunications companies and fiscal authorities into one credit score (Creemers 2018).

Then, in 2007 the state council announced a system of inter-ministerial joint meetings elaborating a social credit system (Source by Warnke, 18.04.2007). The conferences were meant to deal with three necessities of the social credit system. This includes the creation of better credit information records in the market economy, the creation of credit information systems, and the creation of credit service markets (State Council, 23.03.2007; SCS Source Warnke). Within the upcoming five years, until 2012, some cities and counties developed and implemented a social credit score separately. However, those credit systems differed in their detailed credit rules as well as in their technological infrastructure, which was taken as a reason for the state council to centralise the organisation of the social credit score system (Liu, 2019). Therefore, in 2012, the inter-ministerial joint meeting members were expanded with "high profile Party bodies" (Creemers 2018, p.18) such as the Central Political Legal Committee, the Central Propaganda Department, the Central Discipline Inspection Committee and the Central Leading Group for Spiritual Civilization Construction as well as the Supreme People´s Court and the Supreme People´s Procuratorate (Source by Warnke, 17.07.2012). With the expanding of the participating members the organisational leadership of the meetings were transferred to the Development and Reform Commission and the People´s Bank of China (ebd. 2012).

The expanded inter-ministerial joint meeting elaborated a planning outline for the construction of a Social Credit System and published it in 2014 (Source by Warnke, 27.06.2014). It consists of a 6-year implementation plan starting in 2014 aiming for registering all Chinese nationals in a social ranking database by 2020 (Manohar/Briggs 2018). According to the document published by the State Council the objective of the social credit system is "raising the honest mentality and credit levels of the entire society" (Source by Warnke, 27.06.2014).

To do so, the plan defines a timetable for the realization of four major objectives: (1) creating a legal and regulatory framework for the Social Credit System, (2) building credit investigation

and oversight, (3) fostering a flourishing market built on credit services, (4) completing incentive and punishment mechanisms (Creemers 2018).

Additionally, four major policy areas were identified as priority fields affected by the Social Credit System. Governmental activities would be determined by increased transparency and enhanced lawful administration promoting the trustworthiness which works as a role model of sincere conduct. The market economy would benefit from efficiency, trust and transparency across a range of sectors. In social services, the Social Credit System would enhance trust in healthcare and scrutiny over online conduct. Lastly in legal affairs, judgements could be more effectively implemented and the information sharing within lawsuits would be enhanced. (Source by Warnke, 27.06.2014)

Additionally, the explanation of a punishment and reward system can be highlighted for its direct interaction with and, hence, instant teaching of the individual. Citizens will be granted lucrative benefits as a motivational mechanism encouraging sincerity in return for being punished when breaking trust (Source by Warnke, 08.07.2014). Further demonstrations of punish and reward systems are mentioned in the following chapter.

In 2014, the The People´s Bank of China has allowed eight tech-companies to develop and implement their own pilot credit systems (Economy, 2018; Hatton, 2015). The companies included giants, such as Alibaba, Tencent and Baidu which have great technical capacities, as well as ant financial companies, like Beijing Sinoway Credit and the China Chengxin Credit Management Group which have access to lots of credit data reports of clients. Whilst some of the aforementioned companies launched their credit rating systems publicly and some stayed privately, in 2018 none of the companies gained a license to carry out the social credit system for the whole nation (Koetse, 2018). Instead, the capacities of each company's credit system were combined in the joint establishment Baihang Credit Company, launched on May 23, 2018 (ebd., 2018). Each company holds 8% of the shares of Baihang Credit Company and the remaining 36% are hold by the state level National Internet Finance Association (NIFA), established in 2015 by the People´s Bank of China (Zhang & Liu, 2018). The cooperation is based on the exchange of informational data and infrastructural technology, as well as on shared human resources. Hence, Baihang Credit Company is establishing a credit score, which combines financial information, from companies like Beijing Sinoway Credit and the People´s Bank of China, and behavioural information, collected by Alibaba, Tencent and Bailu. Therefore, the Baihang Credit unifies comprehensive digital activity of Chinese citizens into

one score but, according to a PBOC`s official, this score focusses "on the financial field and resists the potential abuse in other social areas" (Liu, 2019).

In addition to the commercial adaptation of credit score systems, pilot cities started in 2014 to effectively implement social credit score systems, such as the Bailu Score in Xiamen and the Moli Score in Fuzhou (Lewis et. al, 2019). Those scores use data gathered by the local government, including bureaucracy and street cameras, but they do not share data with private companies (ibid. 2019). In this sense, China now has two parallel social credit ecosystems, the official SCS considering data by the government and other commercial credit systems (). It seems that a nationwide social credit score system would require the fusion of the state-infrastructure used in pilot cities like Fuzhou and private-infrastructure used by Baihang Credit Company. Though, the establishment of the Baihang Credit Score was the first approach to give governmental institutions access to private infrastructure.

2. Sesame Credit

Although Alibaba Group´s private credit system did not gain a licence to establish a nationwide credit, their credit score system Sesame Credit (also known as Zhima Credit) is still in use and further development. Sesame Credit was launched as part of the Alibaba Group´s Ant Financial Services Group in 2015. According to an official statement by the Alibaba Group on its website, Sesame Credit is the first credit agency in China to use a scoring system based on online and offline data (Christie & Li, 2015). It was made for citizens with only little credit history at traditional credit agencies, while being an active internet and e-commerce user (ibid. 2015). In fact, two years after the launch of sesame credit 520 million users were registered (Koetse, 2018).

The creditworthiness of the user is being shown in the sesame score ranging from 350 to 950 points, which can be accessed in the Alipay Wallet Mobile App and through merchant websites that accept Sesame Credit Services. The scores are calculated using five different factors, each with different weightings that can vary according to individual profiles. The user´s past payment history and indebtedness is reported in their (1) Credit History. The user´s (2) Behaviour and Preference is analysed through website-usage and product-interest. In order to secure contract fulfilment, indicators such as Alipay account balances are considered to state the user´s (3) Fulfilment Capacity. Personal Metadata, such as home address, length of time of

residence or mobile phone numbers, are recorded in (4) Personal Characteristics. Lastly, (5) Interpersonal Relationships considers the online characteristics of a user´s friends and the interactions between the user and his/her friends which creates an intertwined network of user rating interaction. (Christie & Li, 2015)

A reason for the success of Sesame Credit is the usage of the giant data base of Alibaba Group (Ke et al. 2018). Alibaba Group´s services are omnipresent in China´s society, for example the mobile payment service Alipay is the most used payment method as well as Alibaba´s e-commerce platform is the most used online shop in China (ibid. 2018). Hence, the data encompasses details to most Chinese citizens using internet or mobile phones. Because every user of services provided by the Alibaba Group has some kind of credit score, Sesame Credit can have such high registration rates (Koetse, 08.11.2018).

As a motivation to register and use Sesame Credit, a punishment and reward system has been integrated which directly interacts with the user´s behaviour in a way that it can decline or provide access or benefits to several services (Chong, 2019). Rewards can be small benefits like using ridesharing without a deposit or receiving free toilet paper in public toilets, but they can also cause high impact benefits on social life. This includes the following benefits. With a score over 650 people can get faster treatments in hospitals by cutting lines which is, especially in China where hospital treatments are highly time consuming, a life-saving benefit (Koetse, 08.11.2018). Furthermore, the Ant Financial Members Lounge is established in several train stations across the country which can be accessed by Sesame Credit Scores higher than 650 (ibid. 08.11.2018). Another high impact benefit refers to the visa application process for Luxembourg and Singapore. A credit score higher than 750 is used as a proof of financial capabilities, a necessary proof for visa application, and visa applications are processed faster (Tsang/Fung 2015). Whilst the Luxembourg visa requires some documents to be sent in paper due to demands of Schengen, a Singapore visa is granted completely online through Alitrip (ibid. 2015). Still, the accelerated process of visa application to Luxembourg means "that it will be easier for Chinese tourists to visit France, Italy and dozens of other popular destinations in Europe (Si, 2015). Further consequences of European cooperation with Credit Rating Systems in China are being discussed in the following chapter.

The Sesame Credit System consists of many different reward and benefit offers that encourages citizens to register for a credit score, but punishments resulting from low credit scores are less present. In fact, most punishments are conducted in the shape of public shaming through the release of low score identity lists (Raphael/Xi, 2019). A low Sesame credit score also affects your mobility at services provided by the Alibaba Group, for instance temporary bans from

shopping websites can occur. In other ways, a low Sesame score resembles a low credit score at Germany´s Schufa or United States´ Fico which causes inability to receive loans or debts (Ke et al. 2018).

The Sesame Credit Score provided by the Ant Financial Services Group of Alibaba Group is a credit score very much based on the Schufa and Fico system (Creemers, 2018; Huang et al., 2016; Meissner, 2017). In contrary to the German and USA alternative, the credit score is omnipresent in society with direct benefits and disadvantages transcending the borders of credible and financial activity.

3. European Relation to Sesame Credit

Considering the E-Privacy-Agreement of the European Union, it seems that a big-data-analytical-tool gathering information from private lives, then ranking the information in a predetermined ruleset, and then granting direct impact benefits or disadvantages regarding the rank, does not go along with the political line in Europe. However, Luxembourg made an agreement with Alibaba Group allowing an accelerated visa procedure as a benefit of participating in the scoring and following the ruleset for a high score. And the scoring system is, indeed, inspired by the Schufa-Scoring used in Germany.

3.1 Schufa and Sesame

The Schufa is a private credit bureau in Germany that gathers data such as personal metadata, financial credit history and data from public registers to calculate the credibility of the user (Schufa, 2020). The calculation is then considered in every contract involving credit such as loans, rents and payment credits (Schufa, 2020). Similar to Sesame Credit, Schufa calculates a scoring which categorizes the credibility and trustworthiness of the user but instead of using a scoring range of 350 to 950, Schufa ranks the users from 0 to 1000 (Toader et al., 2015). The Schufa holds credit-relevant information of 67,9 million people in Germany that is on a relative scale 77% of Germany´s population. Compared to sesame with credit information of 520 million people covering 37% of China´s population it is much higher wherefore the Schufa score is expected to be more present in Germany´s society. But there is a fundamental difference in data management between both credit bureaus. The Schufa Holding AG demands payment in order for the individual to receive detailed descriptions of their data and scoring, except for a once-a-year free information paper which actively needs to be ordered from the individual (Schufa, 2020). This causes that a majority of listed citizens do not receive any information

about their data and scoring when not being confronted with restrictions due to the Schufa Score. In comparison, Sesame Credit shares calculated data and scoring with the individual through a simple User Interface momentously. But both companies do not share their calculation method and according to a judgement of the German BGH in 2014, the algorithms being used belong to company secrets, for which reason the Schufa Holding AG cannot be forced to share it (Spiegel, 2014).

Hence, it can be stated that in Germany there is a credit scoring system being used that resembles Sesame Credit, but data and score is not as present to the individual as Sesame is.

3.2 Luxembourg Visa / Schengen Visa

In cooperation with Ant Financial Service Group, the consulate of Luxembourg in Beijing created a visa application process for Chinese citizens that uses the data-analytics of Sesame Credit (Lu, 2018). The contract, closed in 2015, determines that Chinese residents with a Sesame Score higher than 750 avoid the time-consuming process of credibility proof because the score is acknowledged as evidence. This is relevant because Europe is a famous travel destination for Chinese citizens wherefore, according to the World Tourism Organisation, in 2017 12,4 million tourists from China visited Europe (PXCOM, 2018) and the visa for Luxembourg grants access to every Schengen country in Europe. Hence in 2017, 12,4 million tourists would have benefited from a high Sesame Score.

On one side, this cooperation is an example for supporting the registering of Chinese citizens in Sesame´s credit score through useful benefits because it encourages residents to take part in the program. In this case, a direct assistance in the establishment of the Sesame Credit system can be allocated to the Luxembourg consulate in Beijing.

On the other side, this cooperation can have uplifting effects on economic profit. In fact, some bureaucratic savings occur due to less paperwork and less involved human resources but certainly with more tourists in Europe, more money will be spent in Europe. According to a statistic of the World Tourism Organisation each Chinese tourist spends around 3400 Euro in Europe which means in 2017 42,2 billion Euro has been spent by Chinese tourists (PXCOM, 2018).

Thus, there are reasons for a cooperation between the Luxembourg consulate in Beijing and the Ant Financial Service Group wherefore a nation of Europe supports the dissemination of the Sesame Credit Score System within Chinese society. And the presence of Sesame Credit Score accustoms the user to an extensive social credit system.

Conclusion

The Social Credit System of the Chinese government is based on a long-term planning implementation first mentioned to public in 2002. Sesame Credit, as part of the eight pilot projects, was envisaged to lift up the development and the implementation of a credit system in society. Especially the development of the technical infrastructure allowing massive data communication was a core obstacle that was partly solved by Alibaba´s capabilities. Although Sesame Credit is a financial based score that is comparable to the Schufa Score in Germany, its punish and reward system that executes in basic societal action such as renting a bike, buying a phone or visiting the hospital demonstrates explanatory impacts on individual life that exceeds high investment activities such as getting a loan or renting an apartment. The sphere of competence also describes a core difference between the Sesame Credit Score and the Schufa Score because, in Germany, the score is only considered in high investment activities which lowers the relevance of the score for German citizens in everyday life. Then again, the data gathering between both systems are comparable. Both record personal metadata and every credit transaction that is made to create a predictive trustworthiness score. But Sesame, additionally, analyses shopping behaviour and categorizes the purchased goods in a social relevance. The latter demands a predetermined vision of how society should look and behave like. Consequently, Sesame Credit instructs its users what to buy and how to behave in order to receive a higher score resulting in more rights for social freedom. Though, this is experienced on a comparable low relevance for now, it demonstrates that a Chinese social credit system much more engages with citizens everyday life than Germany´s credit system. Therefore, obeying the rules of the Social Credit System is predictively much more demanding for Chinese citizens.

Despite the impact of the punish and reward system on its users, Sesame Credit also uses a high degree of transparency regarding the existence of the score. In Germany, citizens are much more excluded from the establishment of their scoring except for the request to pay bills on time, though the Credit Score has an essential impact on citizens life, for instance regarding the rent or purchase of a home. The other extreme of giving citizens access to their scoring is conducted by Sesame Credit using a free-of-charge mobile application. Certainly, both systems have benefits and disadvantages, for instance Sesame credit is more demanding while Schufa credit is more irreproducible.

But the discussion about the Chinese Social Credit System can bring up discussions about the Schufa Credit Scoring which as well might help to restructure these systems in the sense of its citizens instead in the sense of a political party or several comparations.

To conlude, Europe supported in several ways the establishment of a credit system in China that is demanding compliance to enjoy privileges uplifting individual freedom. On the one side, it created a Credit Score System that serves as a role model for Chinese systems and on the other side, it delivers benefits that encourage users to comply with the rules.

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