Credit Information Market Study
Interim Report and Discussion Paper

Market Study
MS19/1.2

November 2022

How to respond

We are asking for comments on this report by **24 February 2023**.

You can send them to us using the **form** on our website.

Or in writing to:

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1 Executive summary

Introduction

1.1 Credit information provides insight into an individual's financial standing. It underpins many decisions by retail lending firms and supports public policy objectives such as responsible lending and reducing financial crime.

1.2 Ensuring the credit information sector works well supports FCA strategic outcomes around fair value, suitability and treatment, and access. The recent sharp increase in the cost of living is also likely to bring credit information into sharper relief by driving greater demand for credit and increasing the risk of borrowers entering financial difficulty.

1.3 This report sets out the interim findings from our credit information market study (CIMS). It also sets out a range of potential remedies and a proposed phasing of them for discussion. It will be of interest to new and existing credit reference agencies (CRAs), credit information service providers (CISPs), users of credit information such as lenders, and consumer organisations.

Market overview in brief

1.4 There are 5 main types of participants in the credit information sector: CRAs, data contributors, credit information users (CIUs), CISPs and consumers.

1.5 CRAs provide products and services designed to support (i) verifying identity and reducing fraud, (ii) lending and other risk-based decisions, (iii) customer account management, and (iv) providing information to CISPs.

1.6 In 2020 the value of the credit information sector, based on CRAs' UK revenues, was around £800m. The sector is highly concentrated; almost all credit information is supplied by 3 CRAs. This is similar to other credit information sectors served primarily by private firms, such as in Germany and Australia.

1.7 Credit information is also provided to consumers (most commonly by CISPs) to help them understand their credit profile.

Main findings

1.8 The credit information sector needs to work well to support retail lending and to help ensure that credit is offered only where appropriate and at a fair price. We would expect this to happen if:

- High quality credit information is available to lenders at competitive prices. This allows lenders to take account of information which appropriately reflects an individual's underlying financial circumstances.
- Consumers know how to access and dispute their credit information.
- Technology, data, and regulatory developments enable effective competition and innovation in this sector.

1.9 The UK has a relatively advanced credit information sector, comparing favorably to many other countries in terms of both the depth and coverage of credit information (see the World Bank Doing Business reports). We have found that the credit information sector works well in a few ways:

- CRAs offer a range of products and services to meet clients' needs, while many firms that use credit information appear to be sophisticated buyers of this information and are able to negotiate with CRAs
- some evidence of innovation both from large CRAs (eg investment in cloud-based services) and smaller challengers (eg using Open Banking)
- over 90% of individuals are aware of the existence of credit information and credit scores

1.10 But we have also found aspects of the market that are not working well.

- Governance arrangements were set up in the 1990s to oversee the sharing of consumer information to help support lending decisions and reduce fraud. These arrangements appear slow to respond to emerging issues in a co-ordinated way, and may hinder improvements to the credit reporting framework.
- There are significant differences in the credit information held on individuals across the 3 large CRAs. Market failures and inherent difficulties in matching new credit information can lead to poor outcomes, through:

  i. the over-supply of credit to individuals whose credit risk is under-stated and
  ii. limiting access to credit for individuals whose credit risk is over-stated or not understood.

- The market is concentrated and barriers to entry are high. Switching between CRAs can be difficult and challenger CRAs tell us they need access to historic credit performance data in order to compete effectively.
- Consumer understanding of credit information is relatively low. It can be difficult for individuals to access their credit information through the statutory process and also dispute information.

1.11 In the absence of significant (positive) disruptive entry, we believe that industry-led change, supported by regulatory intervention, could help to improve the quality and coverage of credit information, deliver better outcomes for firms and consumers while improving consumer understanding and engagement. We want to hear views from stakeholders about potential measures to:

- reform industry governance arrangements and agree a set of priorities for the industry over the next 3 years
- improve the quality and coverage of credit information
- enable greater competition and innovation through potential changes to data access arrangements and more timely reporting of key metrics
- support consumers to access and dispute credit information

Reform of industry governance arrangements

1.12 Industry governance arrangements known as the Steering Committee on Reciprocity (SCOR) have established the processes by which lenders and other data contributors share credit information with CRAs. However, SCOR remains focused solely on traditional credit information and now appears to be too narrow in focus and representation. Members include the 3 large CRAs and 8 trade associations; there is no representation of consumers or challenger CRAs.

1.13 We want to hear views on ways to reform industry governance. A key part of the reforms would be about improving the basic governance standards, such as increasing resources, enhancing accountability and widening representation – particularly from consumer organisations and smaller CRAs.

1.14 These governance improvements could be achieved through a new body with a broader remit. This remit could include a role in supporting good and improved consumer outcomes through competition and innovation, while also agreeing to take forward other proposed remedies. This new body could also take responsibility for other relevant datasets currently shared by lenders with CRAs, such as current account turnover data (CATO). We see reform to industry governance arrangements as a key precursor to many of the other potential remedies we are proposing.

Improvements in the quality and coverage of credit information

1.15 CRAs collect and assimilate a huge volume of information. But it is inherently difficult to match new credit information to individuals without a unique personal identifier. This means CRAs may sometimes have the equivalent of 2 or more files for an individual – ie they effectively have more credit files than there are individuals in the UK.

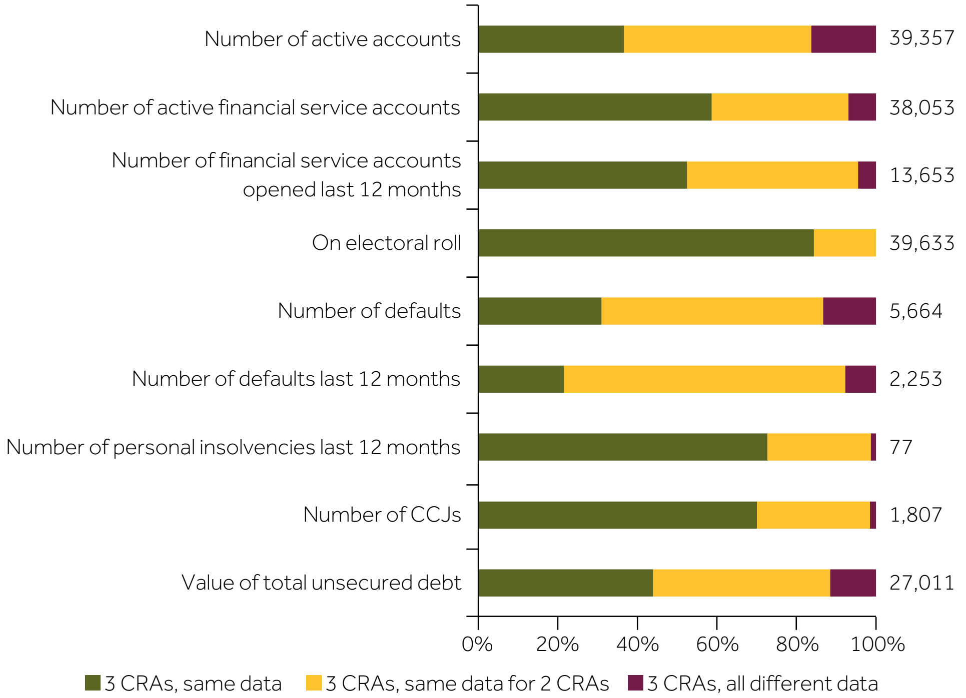
1.16 There are also market failures that create additional challenges for CRAs.

- There are insufficient incentives for individual CIUs to share data with all 3 large CRAs. Doing so can bring additional costs but, without other CIUs also sharing data with all 3 large CRAs, will bring little immediate benefit. Therefore, some CIUs do not share data with all 3 large CRAs.

- There are weak incentives on CRAs to demand higher quality data. Receiving better quality data is beneficial to a CRA. But it could lead to higher costs for data contributors. This increases the likelihood of them switching away if the data contributor is also a customer. Or, if the data contributor is not a customer, it may eventually stop providing data.

1.17 While we wouldn't expect the CRAs to hold identical information on all individuals, we have found that there are significant differences in the credit information held by the 3 large CRAs; information that is particularly important to a lending decision. Figure 1 shows that, in our sample of individuals known (and uniquely matched) to all 3 large CRAs, the CRAs are all aware of around 85% being on the electoral register. Whereas, amongst individuals that have a default recorded with at least one CRA, the 3 large CRAs hold consistent information on the number of defaults for only around 30% of them.

Figure 1: Differences in underlying data held by the 3 large CRAs



Source: FCA analysis based on data provided by firms

Note: Numbers on the right are the sample size; they include individuals for where at least one CRA had a positive entry.

Insolvencies include bankruptcies, sequestrations, protected trust deeds, debt relief orders and individual voluntary arrangements.

1.18 We analysed differences in underlying data for younger people, who have had less time to build up a credit history. The results for younger people were comparable to the population as a whole, though CRAs were more likely to have different data on whether a young person was on the electoral register. This reflects the fact that CRAs have less information to use for matching for individuals with less credit history.

1.19 We also analysed differences in underlying data for individuals with lower incomes. Results for individuals on lower incomes were also comparable to the overall population. Therefore, younger people and individuals with lower income can experience differences in data held by the CRAs, but not disproportionately.

1.20 The impact of these differences in underlying data depends on how lenders use CRA data and credit scores, alongside their own data, in their decision processes.

1.21 We have not been able to estimate the aggregate harm generated by these differences in credit information. To do so we would need to assess the extent to which the comprehensiveness of credit information used by a lender directly influences lending outcomes. However, our data modelling and the extent of the differences in critical CRA data used in lending decisions indicate that lending decisions for some borrowers are very likely to be affected by these differences in data.

1.22 For some lenders, especially smaller ones, the added costs of seeking additional CRA data can be too great given the margins on which they operate. Around 91% of credit applications in our sample of credit files involved a search at a single CRA. Higher quality credit information could help lenders make more effective decisions. This would reduce the risk of lending decisions being influenced by information which does not adequately reflect an individual's underlying financial circumstances.

1.23 We want to hear views from stakeholders about the extent to which it is necessary and important to deliver higher quality and more comprehensive credit information and, if so, how. Potential options include:

- Requiring FSMA-regulated data contributors to report data to certain 'designated' CRAs to improve the coverage of credit information. Any such designation scheme would need to be reviewed on an ongoing basis. These requirements would also apply to firms providing deferred payment credit (DPC, sometimes called 'buy-now-pay-later') once they are brought within our regulatory perimeter. This could improve coverage of credit information. However, it may also impact the nature of competition between CRAs as they would no longer compete on data coverage in respect of FSMA-regulated data contributors.
- A common data-reporting format for lenders and CRAs, to improve consistency of credit information and allow credit information users, such as lenders, to switch more easily between CRAs. This could help facilitate greater detail in some key areas, such as forbearance and debt solutions.
- Requirements setting clear expectations on lenders to ensure accuracy of the data they submit and correct errors promptly across designated CRAs.

Greater competition and innovation

1.24 The 3 large CRAs compete on data quality and price and are typically involved in the same tender processes. Larger lenders are able to exercise some bargaining power given their volume of business, volume of data they contribute, and through using multiple CRAs (to strengthen the perception of switching to another CRA). Many CIUs we spoke to said they recently felt able to secure price freezes or reductions from CRAs.

1.25 However, switching between CRAs by lenders is generally difficult and time-consuming, given the integration of credit information with lenders' decision processes. CRAs tell us that their annual CIU churn rate is between 10-20%. This switching is skewed towards smaller CIUs. Large CIUs rarely switch in full, from one CRA to another, and instead are more likely to adopt multi-bureau strategies and to move volumes between CRAs.

1.26 There are other entry barriers that weaken competition between CRAs. Lenders value a long-term track record and test CRAs' predictive models using historic performance data to which challenger CRAs do not have access. So the competitive constraint from challenger CRAs is not yet strong. CIUs typically see challenger CRAs as a complement, rather than an alternative, to the 3 large CRAs.

1.27 We want to hear views from stakeholders on a number of measures that could promote competition and innovation.

- Including challenger CRAs, that meet certain criteria, in the designation scheme (mentioned above). This could support new entry.
- Reviewing the principles of data access. Access to credit information is currently determined by the principle of reciprocity. The potential introduction of new regulatory requirements around data sharing present an opportunity to consider the continuing relevance of this principle.
- Enhancements to the way that CATO data is shared and accessed. More effective assessment of affordability by more lenders could be achieved if access to granular CATO data were made available to non-personal current account (PCA) providers.
- More timely reporting of key data. More frequent reporting of a limited range of data could help create a more up-to-date view of consumers' existing credit commitments. This is particularly relevant as new products with higher usage frequencies and shorter repayment schedules develop.

Support for consumers to access and dispute credit information

1.28 Consumers have a high awareness of credit information, but their understanding of it is relatively low. We have identified certain 'sludge practices' by firms when providing statutory credit reports (SCRs). For example, the links to SCRs are often hidden. There is also a stronger emphasis on CISP services being free-to-use. There are also challenges for consumers in disputing credit information given the number of different parties involved in such processes.

1.29 We therefore want to discuss potential measures that could help consumers to access and dispute credit information, including:

- CRAs and CISPs to improve consumer awareness of the availability of credit information through the statutory process by prominent signposting
- a consumer portal developed by designated CRAs which:
  - streamlines access to credit information through the statutory process
  - streamlines the data dispute process
  - enables consumers to record notices of correction (NoCs) and potentially vulnerability markers across their credit files where appropriate

Prioritising and phasing the remedies

1.30 The remedies we have proposed are designed to work together, but we need to consider the importance of each potential remedy and the extent of the interdependencies between them. We also recognise that some can be implemented in different ways (eg voluntarily by industry or using FCA rules) but we believe there is a strong need for industry-led change.

1.31 The current lending environment is challenging. Lenders are dealing with greater economic uncertainty and are likely to face challenges as the cost of living challenges evolve and take up resource and management focus.

1.32 Also relevant is the Financial Services and Markets Bill which is expected to generate new secondary objectives relating to international competitiveness and growth. And the new Consumer Duty will come into force in 2023. The final approach to any remedies will need to be considered in the context of these developments.

1.33 It is important that we prioritise the remedies which have the potential to deliver benefits for consumers most affected by the rising cost of living. We have already taken action to provide some guidance for consumers in financial difficulty by working with MoneyHelper. We have also written to more than 3,500 lenders to remind them of the standards they should meet as consumers across the country are affected by the rising cost of living.

1.34 However, the proposed CIMS remedies are largely longer-term in nature. We want to ensure the industry is well placed to provide high quality credit information that supports effective and responsible lending as the UK economy seeks to recover from the cost of living challenges.

1.35 Therefore, subject to further consideration of the relative efficacy and viability of the potential remedies we have set out above, we propose to prioritise and phase the remedies over the next 3 years, specifically:

- Industry first agrees to our broad proposals around improving governance. Widening representation is important and the new body will be integral in delivering the remedies we agree to prioritise.
- Industry designs more detailed governance proposals to include a specific structure, representation, budgets and ways of working. Once agreed with the FCA, the industry can then begin to implement the new arrangements.
- Once the new governance arrangements are in place, with all relevant sectors represented, we would seek to agree an 'agenda' for the industry for the next 3 years. This would effectively be a profile of work to support a strong recovery from the cost of living challenges.

1.36 Building the work profile would involve identifying those proposals that could deliver the greatest benefit as efficiently as possible, while acknowledging critical dependencies. Our focus is for the industry to lead the changes necessary to deliver most of the potential remedies. As this process develops, we will continue to consider the need and prioritisation of those remedies that would likely require FCA rules.

Next steps

1.37 The eventual package and sequencing of remedies will depend on stakeholder feedback. We would like to hear stakeholder views on the effectiveness, proportionality and importance of the potential remedies before we develop the proposals further. Where appropriate we will also assess the costs and benefits.

1.38 There are a number of specific questions in the Remedies Annex. We would be grateful for responses to these, as well as any other observations, by Friday 24 February 2023.

1.39 We expect to publish a final report in 2023 Q3 which will set out our final findings and report back on progress made towards the revised governance arrangements.

2 Introduction

Credit information provides insight into an individual's financial standing. It underpins many decisions made by retail firms and supports public policy objectives such as responsible lending and reducing financial crime.

We launched the credit information market study (CIMS) in light of concerns about the quality of credit information, strength of competition, and extent of consumer engagement and understanding. This report sets out our interim findings and several remedies.

Introduction

2.1 This chapter provides background to the study, including the rationale for it, the evidence gathered, the structure of this report and proposed next steps.

Why did we decide to look at the credit information sector?

2.2 Credit information provides insight into an individual's financial standing. It supports public policy objectives (eg responsible lending and reducing financial crime) and is key in enabling access to many financial and non-financial services.

2.3 We have previously identified potential concerns about the quality of credit information, the effectiveness of competition between credit reference agencies (CRAs), and the extent of consumer engagement. Given its important role, it is vital that the sector works well. Our work focused on the following themes:

- purpose, quality and accessibility of credit information
- market structure, business models and competition
- consumers' engagement and behaviour

2.4 Technological developments may present new opportunities but they may also create risks. We have therefore sought to explore future trends, how the sector might evolve and the impacts on markets and consumers.

2.5 Originally launched in June 2019, we paused this market study in April 2020 to prioritise other work during the pandemic. We relaunched the study in July 2021 and re-engaged with stakeholders to hear about recent market developments, including the impact of the growth in deferred payment credit (DPC).

Scope of the study

2.6 CIMS is conducted under the powers given to us by FSMA. Its focus is the provision of credit information on *individuals*.

The evidence gathered to support our analysis

2.7 During the study we gathered a range of information, including:

- credit information held by the 3 largest CRAs in August 2019 on a sample of individuals
- insight into the dynamics of the credit information sector from (i) large and small CRAs, (ii) large and small lenders across different sectors, (iii) consumer organisations, and (iv) trade associations
- financial data from the 3 large CRAs over the period of 2014-2021
- a survey of smaller lenders (credit unions, high-cost short term credit providers) in January 2020
- a consumer survey in with a nationally representative sample of 3,000 people across the UK
- a survey of over 30 lenders on reporting of borrowers in financial difficulty (BiFD)
- the Competition and Markets Authority's (CMA's) November 2018 Provisional Findings report into the acquisition by Experian of ClearScore
- FCA working papers, including Occasional Paper 28
- bilaterals (before and after the pandemic) with a range of CRAs, credit information users (CIUs), consumer organisations and trade bodies

Structure of the rest of the report

2.8 The rest of this report is structured as follows:

- Chapter 3 gives an overview of the credit information sector
- Chapter 4 describes our analysis of the quality of credit information
- Chapter 5 describes competition in the provision of credit information to CIUs
- Chapter 6 describes competition amongst CISPs
- Chapter 7 describes our findings on consumer engagement
- Chapter 8 describes our findings on borrowers in financial difficulty
- Chapter 9 describes potential remedies

2.9 We have also published a number of annexes to this report:

- Annex 1: Data quality
- Annex 2: Credit reference agency competition
- Annex 3: Credit information service competition
- Annex 4: Consumer engagement
- Annex 5: Consumer engagement technical annex
- Annex 6: Potential remedies

Next Steps

2.10 We invite comments by 24 February 2023 on the findings and potential remedies in this interim report. We want to hear feedback on the likely impact of the individual remedies, including on their potential costs and benefits, and phasing.

2.11 In 2023 Q3, we expect to publish a final report setting out our final findings and an update on remedies, including progress on new governance arrangements. If we decide to progress with FCA rules, for example on mandatory data sharing, a Consultation Paper will follow.

3 Market overview

There are 5 main types of participants in the credit information sector: credit reference agencies, data contributors, credit information users, credit information service providers and consumers.

CRAs provide products and services designed to support (i) verifying identity and reducing fraud, (ii) lending and other risk-based decisions, (iii) customer account management and (iv) providing information to CISPs.

The provision of credit information in the UK is highly concentrated; almost all credit information is supplied by 3 large CRAs. Challenger CRAs have not yet gained significant traction.

Introduction

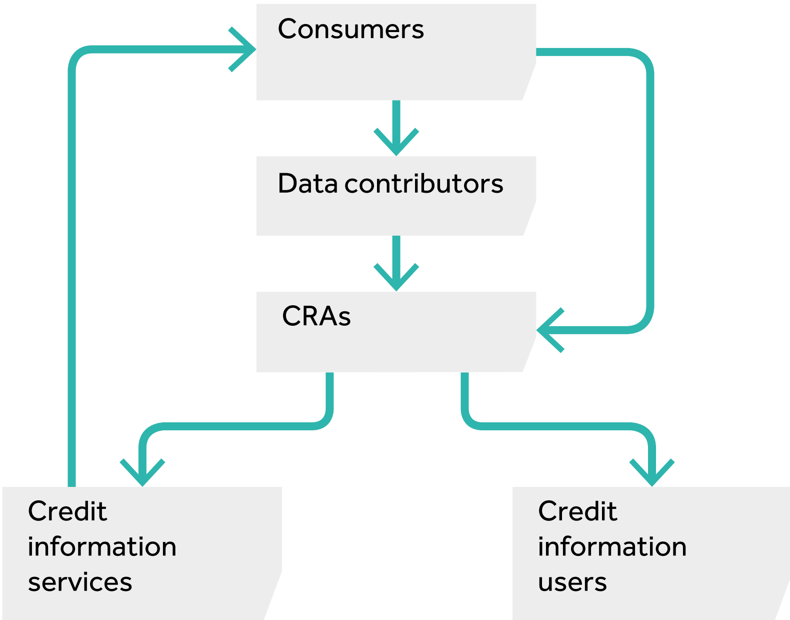
3.1 This chapter sets out some basic information about the credit information sector that is relevant to the analysis in the following chapters. It covers the main firms, the products and services they offer, the users of credit information, the regulatory regime and how consumers engage with credit information.

Structure of the sector and business models

3.2 There are 5 main types of participant in the credit information sector:

- Credit reference agencies (CRAs) who build financial profiles of consumers which they sell to CIUs. There are 2 broad types of CRA:
  - large CRAs who aggregate data from a range of contributors and other sources of public data to build financial profiles of consumers
  - smaller challenger CRAs, more recent entrants to the sector, typically relying on Open Banking data and/or sources of publicly-available data
- Data contributors including retail lenders (such as providers of mortgages, credit cards, etc), non-financial services firms such as utility providers, and sources of public information such as the electoral register.
- Credit information users who are clients of CRAs. A variety of retail lenders use the insight form credit information to verify the identity of new customers, assess their creditworthiness, and help manage customer accounts. Credit information is also used outside of the retail lending sector to help inform access to other products and services.
- Credit information service providers (CISPs) who provide credit information to consumers wanting to understand their credit file and/or score better.
- Consumers who use credit and other products that rely on credit information.

Figure 2: Main participants in the credit information market and the flow of data/credit information between them



Source: FCA analysis based on information provided by firms

Types of credit information and what it is used for

3.3 CRAs sell credit information, as well as products and services derived from this information, to credit information users such as lenders and to CISPs. The range of information, products and services typically includes:

- products focused on identity verification and reducing fraud
- products to help inform creditworthiness assessments, such as raw data, summary credit information and credit scores
- products to help inform affordability assessments
- products which help inform customer account management, including collections and recoveries processes
- credit files and scores to CISPs

Consumer interaction with credit information

3.4 Many consumers use credit and other products that rely on credit information. They may want to see and understand their credit file or score and can do so through a variety of channels. For example, consumers can

- subscribe to paid-for services (offered by CISPs) that provide credit information and scores
- use free versions of these services
- access credit information from CRAs for free under a statutory process.
- dispute credit information with CRAs under a statutory process

Regulatory and legislative framework

3.5 The regulatory and legislative framework for surrounding credit information is complex. The main aspects of this framework include:

- FCA regulation. CRAs and CISPs came into FCA regulation in 2014. There are 2 relevant regulated activities: (i) providing credit references, and (ii) providing credit information services. Some CISP business model also requires permission to offer credit broking services. The FCA Principles for Businesses apply to CRAs and CISPs. Many cross-cutting rules also apply such as for systems and controls, the Senior Managers & Certification Regime, and the new consumer duty.
- Consumer Credit Act 1974 (CCA). Some aspects of the CCA apply to CRAs. This includes the statutory process for individuals to dispute credit information and to add a 'notice of correction' (NoC) to credit files.
- Data protection law. This provides the right of access to credit information for individuals and is also relevant to how credit information is shared and used. The Information Commissioner (ICO) is responsible for enforcing data protection law and is the arbiter of disputes about the credit files of individuals under the CCA's statutory process.

3.6 Industry arrangements. There are also various industry arrangements that are relevant to the provision of credit information. These include:

- Steering Committee on Reciprocity (SCOR). SCOR is a cross industry forum established in the 1990s to oversee the sharing of consumer information to help support lending decisions and reduce fraud. SCOR established the Principles of Reciprocity (PoR). Under these Principles, credit information users can generally only access credit information from CRAs that is comparable to the data that they contribute. The Principles also set out permissible use cases for this data. SCOR's members are the 3 large CRAs and 8 industry bodies representing data contributors. SCOR is a forum rather than a legal entity and makes decisions on the PoR on a unanimous basis.
- Current Account Turnover (CATO) Forum. UK Finance directly oversees the sharing of current account turnover data, a subset of credit information. Access to CATO data broadly reflects the general principle of reciprocity. So only banks who offer current accounts and contribute CATO data are able to access granular CATO data, although such data can be used to inform products which are available to non-bank lenders.

3.7 Also relevant is the Open Banking Implementation Entity, an independent organisation set up in 2017 by the 9 largest UK retail banks following an order by the CMA, to implement Open Banking. Open Banking is a secure way for customers to control their financial data and share it with organisations other than their own bank.

Market information and recent developments

3.8 The provision of credit information in the UK is highly concentrated. Experian and Equifax have been present in the sector longest. TransUnion entered the market in 2000 (originally as CallCredit) and has since become comparable in size, based on revenue, to Equifax. The 3 large CRAs currently account for almost all the UK sector. This is comparable to international credit information sectors, such as Germany or Australia, that are also served primarily by private firms. Challenger CRAs in the UK account for only a small proportion of total revenues in the credit information sector.

3.9 Levels of CIU switching in this market are relatively low, with CRAs telling us that their annual churn rate is between 10-20%. This is partly due to barriers to switching. Switching between CRAs by lenders is generally difficult and time-consuming, given the integration of credit information with lenders' decision processes. Challenger CRAs tell us they need access to historic credit performance data in order to compete effectively.

3.10 CIUs, especially the largest banks, are increasingly adopting multi-bureau strategies. This can be for complements (purchasing different products from different CRAs) or for substitute products (for instance, searching a consumer's credit file at multiple CRAs to build a more comprehensive picture). Multi-bureau approaches reduce some barriers to switching. As a result, switching may increase if CIUs increasingly adopt this strategy.

3.11 The development of the Open Banking regime, following the CMA retail banking investigations, has enabled large and challenger CRAs to develop an alternative source of credit information. However, products using this source of information are still relatively uncommon, in part given the need to get explicit consumer consent. Challenger CRAs have had most success in using Open Banking data to complement the information provided by the 3 large CRAs (eg for 'thin file' consumers on which the 3 large CRAs hold less information) or for bespoke affordability solutions.

3.12 As the use and awareness of credit information has grown, the market for providing credit information to consumers through commercial services has developed. In 2018, CISPs' revenue from subscriptions and commissions was approximately £210m (most of which was from paid-for subscription services). The largest providers, based on both revenue and customers served, are Experian and ClearScore. Since 2016, we have seen evidence that revenue from credit broking commissions has grown in importance. Some CISPs offer credit information services (CIS) for free, generating revenue solely through credit broking. Other CISPs have a blended business model.

3.13 The CIS sector has also seen merger and acquisition activity. In 2018, Experian attempted to acquire ClearScore. This purchase was blocked by the CMA, which determined the acquisition would substantially reduce competition in the provision of CIS. In 2019, Credit Karma completed the acquisition of Noddle, rebranding this CISP under its own brand and repositioning it solely on a free-to-use business model. And in early 2022, Apple acquired Credit Kudos, a challenger CRA using Open Banking data.

3.14 CRAs have been innovating to improve the quality of their existing products (eg improving predictive power) and launch new products. The 3 large CRAs have been using new data sources, such as property rental data and Open Banking information. This can improve access to mainstream credit for 'thin file' consumers who previously had more difficulty accessing credit. CRAs have also been using traditional data sources in new ways, for example, using complex analytics such as machine learning to improve credit risk modelling.

3.15 In addition, CISPs have been innovating to attract and retain consumers. User-friendly apps and websites, robo-advice, digital fraud protection and Open Banking driven affordability insights are some examples of CIS innovation.

3.16 We commissioned some expert-led, forward-looking research to understand how the credit information sector might evolve in the future. Demand for credit information is primarily driven by lending markets but can also be influenced by other external factors. The report highlighted that in the future CRAs could potentially face a wider range of competitors who use new and emerging technology to process vast datasets. Some of these may be existing firms that are already of significant scale and data rich. Consumers' attitudes to sharing data may be shaped by experiences in other sectors as well as changes in regulation. The study has helped inform the package of potential remedies that we outline later in this report.

3.17 The Covid-19 pandemic had a material impact on demand for credit. Some consumers needed more credit as their financial circumstances deteriorated, while many others were able to pay down loans. Also, lender underwriting began to focus on the sector in which an applicant worked, as some sectors emerged from the pandemic more quickly than others.

3.18 The recent sharp increase in the cost of living is also likely to bring credit information into sharper relief by driving greater demand for credit and increasing the risk of borrowers entering financial difficulty. In November 2022 we published our key findings from our review of firms' treatment of borrowers in financial difficulty after the pandemic.

4 Quality of credit information

CRAs give lenders and other firms insight into the financial standing of potential and existing customers. Much of the value of what CRAs offer depends on the quality of the information they hold on individuals.

As well as challenges in matching account data, there are insufficient incentives on (i) lenders to share data with all CRAs or (ii) on CRAs to demand higher quality data from data contributors (suppliers) that are also credit information users (ie their customers).

There are material differences in the credit information the 3 large CRAs hold on individuals, including information that is particularly critical to lending decisions. For example, of those individuals who have had a default recorded with at least one CRA, the 3 CRAs hold consistent information on the number of defaults for only around 30%.

Credit scores reflect the strength of an individual's credit history and are positively correlated with the chance of a lender accepting a credit application. So data quality matters – it can be a determining factor in lending decisions.

Introduction

4.1 CRAs provide lenders and other firms with insight into the financial standing of potential and existing customers. Much of the value of what CRAs offer therefore depends on the quality of the information they hold on individuals.

4.2 This chapter describes our approach to analysing data quality, our findings, and the likely impact of any gaps or inaccuracies in the data. For a more detailed assessment of the quality of credit information, see the annex to this document on data quality.

Questions we wanted to answer and theories of harm

4.3 There are certain characteristics of the credit information sector that we believed may drive poor quality credit information. These include:

- Insufficient incentives on individual CIUs to share data with all 3 large CRAs. Under the Principles of Reciprocity, individual CIUs are generally required to contribute data to a CRA from whom they obtain credit information. Individual CIUs can further benefit if all CIUs contribute data to additional CRAs (ie those that they do not obtain data from). But contributing data to additional CRAs can bring additional costs and, without other CIUs doing likewise, may bring little immediate benefit.

- Weak incentives on CRAs to demand higher quality data. Although better quality data is in the interests of the CRA, it may impose higher costs on data contributors and increase the likelihood of them switching away (if the data contributor is also a customer) or simply ceasing to provide data (if the data contributor is not a customer).
- Improving data quality involves additional cost to CRAs which may affect prices paid by CIUs. CRAs are likely to be incentivised to optimise price and quality according to the needs of their customers (lenders) which may differ from the interests of individual consumers.
- Competition may be weak and failing to drive high quality credit information.

4.4 So our theory of harm involving data quality was:

Insufficiently comprehensive or inaccurate credit information leads lenders to make decisions based on information that does not adequately reflect an individual's underlying financial circumstances. This can affect consumers' access to credit (eligibility) and the terms offered (interest rate). It can mean that customers are being declined credit that they may be able to repay or being given credit they are unable to repay. It could also affect non-credit issues such as tenancy or employment vetting.

Methodology and approach

4.5 To assess the quality of information held by the 3 large CRAs, we asked each of them to provide the credit histories of a representative sample of UK individuals.

4.6 Individuals in the sample were chosen based on a specific date of birth. The information requested included personal identifiers of the individuals in the sample (eg names, postcodes and dates of birth), their credit history in the 6 years up to 1 August 2019, and their credit scores.

4.7 This method enabled us to construct a sample of around 50,000 individuals that could be matched across CRAs, allowing us to compare the information held on a given individual by each CRA. See the Data Quality Annex for more detail on our sampling and matching methodology, as well as its limitations.

4.8 We are unable to observe the 'perfect' credit file for each individual. But if we find significant differences between CRAs when looking at individuals we have uniquely matched between CRAs, then we can infer that at least one CRA holds inaccurate information, is missing information, has not yet matched new information to an individual, or has wrongly matched information to an individual. Conversely, if we found that the information held by the CRAs is the same then, while not certain, it is likely that the information the CRAs hold is a true reflection. It is also likely that our methodology, which focuses mainly on those individuals known to all 3 large CRAs, means that our estimates provide a lower bound. In order to compare data between CRAs we limit our analysis only to where we can uniquely match IDs between CRAs. This means by construction we exclude cases where a CRA has the same details for multiple IDs, and where the same details map to multiple IDs at another CRA. This reduces the risk that the individuals we are comparing are not actually the same individuals.

CRAs face inherent challenges in matching credit information

4.9 The sample of individuals provided by each of the 3 large CRAs were representative of the age and geographic distribution of the UK population. But each CRA provided information on significantly more individuals than would be expected – ie much more than there are in the UK based on publicly available estimates of the UK population by the Office for National Statistics (ONS). Some of these individuals were known to all 3 CRAs, but some were known to only 2 CRAs and some to just 1.

4.10 This is likely to reflect the inherent challenges to CRAs of matching records, resulting in individuals effectively being duplicated in the data. Without a personal identifier, CRAs match on identifiers such as name, date of birth and address. As a result, particularly for thinner credit files that contain little information, CRAs can face uncertainty about whether records from different sources refer to the same individual – eg due to typos, house moves, name changes.

4.11 This creates risks of falsely positive matches (where matched records are not in fact for the same person) and falsely negative matches (where records that should be matched are not), meaning that some individual's credit files do not reflect their financial circumstances. A CRA with an incentive to be risk averse (ie to not overstate the information held on an individual) would err on the side of not matching records where there is uncertainty, and so have a larger number of personal IDs than there are people. We appear to find this in the data.

Lenders use raw data, summary data and/or scores to make decisions

4.12 From information shared by CRAs and lenders, we know that many lenders use raw or summarised data from CRAs when making decisions. This is supplemented with information provided by applicants. This suggests that differences in the data held by the 3 large CRAs, such defaults, insolvencies and CCJs, are likely to affect lending decisions.

4.13 Other lenders may place more reliance on credit scores provided by a CRA within their decision processes. Credit scores typically reflect a CRA's estimate of the likelihood of the applied for account going 'bad' within a certain period of time.

Lenders who rely on underlying data are affected by differences in data…

Where an individual is known to all 3 large CRAs, there are material differences in underlying data

4.14 For the around 50,000 individuals known to all 3 large CRAs in our sample, we looked at the extent to which the information held by each CRA was similar. As discussed earlier, differences in data can lead to differences in lender decisions, so it is important to examine them. Table 1 shows the variables most commonly identified by lenders in our RFI as being particularly important factors in a lending decision.

Table 1: The most important underlying variables for lending decisions according to a majority of lenders in our sample

5 factors that can lead to automatic refusal	4 factors that are important in making lending decisions
Presence of bankruptcy	Credit utilisation
Presence of an Individual Voluntary Arrangement (IVA)	Presence in the electoral register
Large, recent, unsatisfied county court judgments (CCJs)	Balance of outstanding debts
Recent defaults	Age of credit accounts
Current arrears on any account	–

Source: FCA analysis based on information provided by firms

4.15 Table 2 shows the percentage of lenders who stated clearly, in the Borrowers in Financial Difficulty RFI, that the following factors would lead to an automatic refusal for at least some of their products.

Table 2: Percentage of lenders indicating they would automatically refuse certain lending for stated factors

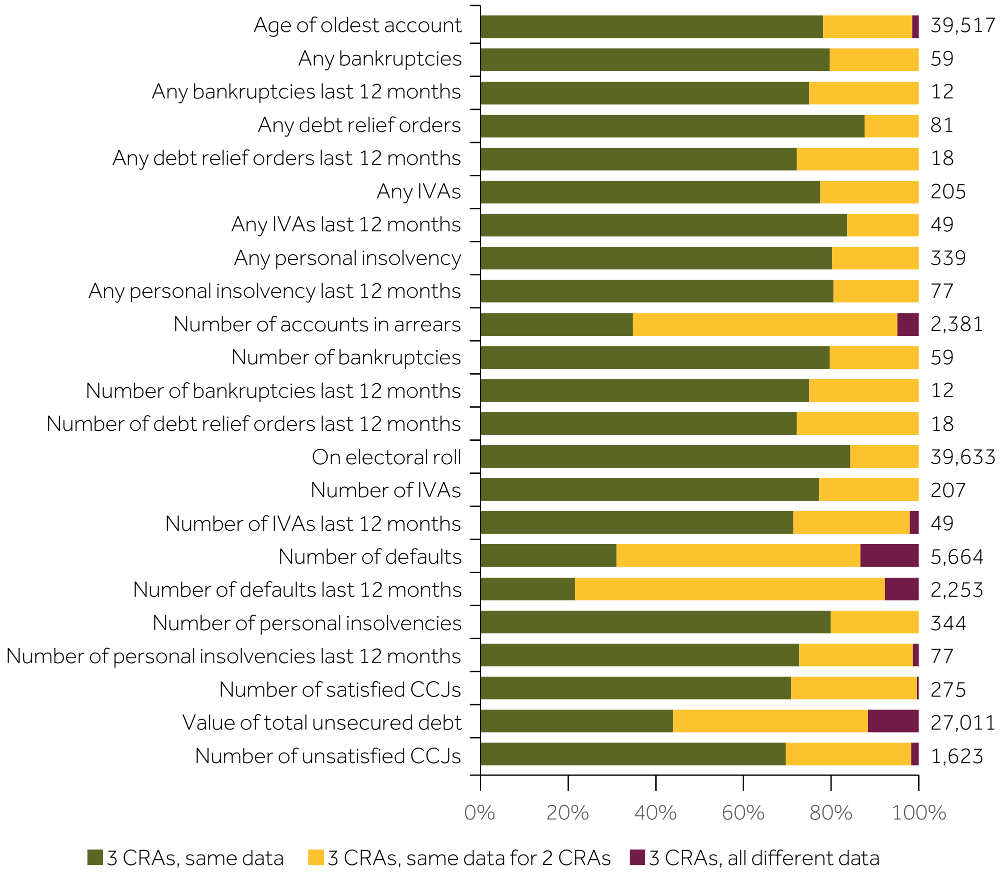
Factor	Percentage of lenders automatically refusing a credit application
Individual currently in an IVA	94%
Unsatisfied CCJ in the last year	45%
Satisfied CCJ in the last year	39%
Default in the last year	27%
Unsatisfied CCJ in the last 6 years	15%
Satisfied CCJ in the last 6 years	12%
Bankruptcy in the last 6 years	67%
IVA in the last 6 years	70%

Source: FCA analysis based on data provided by firms

Note: The lenders in this sample are only those that indicated the impact of each factor

4.16 Figure 3 shows the extent to which the 3 large CRAs hold similar information across a range of variables, including some of those which lenders consider the most significant. The figure shows where, in our sample of individuals that are known and uniquely matched to all 3 large CRAs, all 3 CRAs hold similar information (green), whether 2 CRAs hold similar information (yellow), or whether information held by all 3 is different (maroon).

Figure 3: Differences in underlying data most important to lenders held by the 3 large CRAs



Source: FCA analysis based on data provided by firms

Note: Numbers on the right are the sample size; they include individuals for where at least one CRA had a positive entry.

Insolvencies include bankruptcies, sequestrations, protected trust deeds, debt relief orders and individual voluntary arrangements. IVAs include trust deeds and bankruptcies include sequestrations

4.17 Figure 3 demonstrates how certain variables are relatively consistent (eg presence on the electoral register) but that others are not. For example, the 3 CRAs only hold consistent information on the number of defaults for around 30% of matched individuals who have had a default recorded with at least 1 CRA. Given the significance of defaults to a lender, this is highly likely to affect outcomes for individual consumers.

4.18 Where CRAs hold different information on an individual, both cannot give a true reflection of the individual's financial standing – ie one CRA must be missing information or (currently) holding inaccurate information. This is in addition to situations where an individual is not known to at least one of the 3 large CRAs. See Chapter 4 in the Data Quality Annex for more detail on this.

Data differences are also driven by firms not sharing the same information with all 3 CRAs

4.19 Given the demands of lenders, there are incentives for CRAs to compete to provide the most comprehensive credit information.

4.20 Some of the differences in credit information involve data obtained from public sources that are available to all large CRAs. It is more likely that these differences are caused by the challenges of matching new information to individuals. Some of the differences involve data provided to CRAs by CIUs, including lenders and non-financial services firms. Matching challenges exist here too.

4.21 Under the principle of reciprocity, CIUs generally have to provide data to any CRA from which they receive credit information. But CIUs are not required to provide data to other CRAs. This means not all CRAs receive the same data. CIUs incur a cost when sharing data with additional CRAs for little direct benefit – the benefit to a particular CIU comes from other CIUs sharing data with all CRAs. So the incentives on CIUs to share data with additional CRAs are not strong – some do so, while others only share with 1 or 2 CRAs. This is not easily resolved without influencing the incentives on lenders and other CIUs.

...and so are those lenders that rely more heavily on credit scores

4.22 While most lenders use raw or summarised data as provided by CRAs, others may also use CRA credit scores in their decision processes which themselves are determined by raw credit information data.

Credit scores differ materially between CRAs

4.23 To understand the extent to which credit scores differ across CRAs, we compared the credit scores of each CRA for individuals in our sample (ie of individuals known to all 3 large CRAs). CRAs offer many credit scores, so we selected broadly comparable, all-market credit scores which include information on individual's financial associates. We compared the scores for a given individual between a pair of CRAs, and repeated the exercise a further 2 times to cover all combinations (ie Experian vs Equifax, Experian vs TransUnion, and Equifax vs TransUnion).

4.24 We found that credit scores differ materially (2 or more deciles apart, meaning we can be certain the differences are not small) for between 35% and 57% of individuals, depending on which 2 CRAs are compared. See Chapter 3 in the Data Quality Annex for more detail on this.

Table 3: Differences in relative scores between CRAs

CRAs compared:		Two or more	Adjacent deciles	Same decile
CRA A	**CRA B**	57%	26%	16%
CRA B	**CRA C**	35%	36%	29%
CRA C	**CRA A**	54%	28%	19%

Source: FCA analysis based on data provided by firms

4.25 Credit scores are the output from the application of a model to data held on the individual. So variations in an individual's credit scores between CRAs are the result of one or both of (i) differences in the data held on an individual, in particular those characteristics that most influence credit score and (ii) different approaches to modelling risk.

4.26 Different modelling approaches is more likely a positive reflection on competition between CRAs. Differences in data are likely to be driven by the inherent difficultly in matching new credit information as well as two market failures:

- There are insufficient incentives on individual CIUs to share data with all 3 large CRAs. It can bring additional costs but, without other CIUs doing likewise, may bring little immediate benefit. Therefore, some CIUs do not do so.
- The incentives on CRAs to demand higher quality data are also weak. Although better quality data is in the interests of the CRA, it may impose higher costs on data contributors and increases the likelihood of them switching away (if the data contributor is also a customer) or simply ceasing to provide data (if the data contributor is not a customer).

Credit scores are strongly linked with lending outcomes

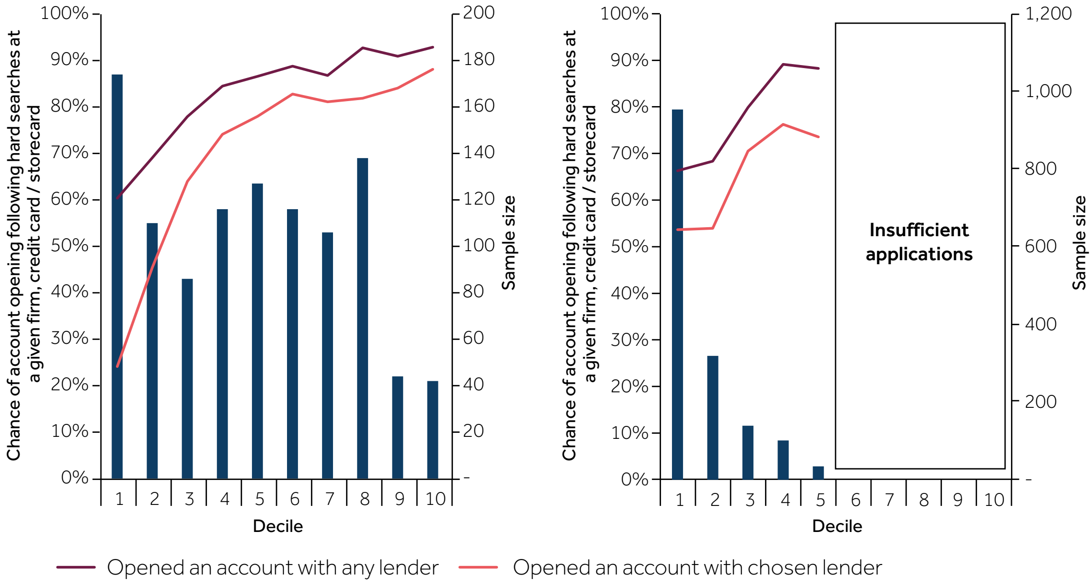
Credit scores are positively correlated with the chance of a lender accepting a credit application, and credit scores reflect the strength of an individual's credit history, so data quality matters

4.27 To understand the potential for credit information that is insufficiently comprehensive or inaccurate to affect consumers' access to credit (eligibility) or the terms offered (interest rate) we assessed whether or not differences in credit scores between CRAs are likely to result in different lending decisions were a lender to largely rely on data provided by a different CRA.

4.28 We have examined the relationship between (i) credit scores and (ii) lender acceptance following a hard search (where a lender searches an individual's credit file following an application for credit that is visible to other lenders). We know that lending decisions are positively correlated with scores for people across many types and characteristics. This can either reflect lenders' direct use of credit scores or the fact that the credit score is effectively a proxy for (ie indirectly reflects) the information in a credit file.

4.29 We would expect credit scores to be correlated with outcomes for lenders who use scores, and also for lenders who did not use scores as the information they did use would be correlated with scores.

Figure 4: Correlation between credit score and acceptance



Source: FCA analysis based on data provided by firms

4.30 The examples in Figure 4 above are for 2 different providers of credit cards. They show the probability of an application being accepted for a given credit score. We can see that, as credit score increases so does the probability of an account being opened (close to 100% in these cases). This demonstrates that lower scores are associated with lower chances of acceptance for consumers across the range of scores. It shows that data that does not appropriately reflect an individual's underlying financial circumstances can potentially matter for all individuals across the risk spectrum. So if an individual's credit risk is over or underestimated by a CRA, this is likely to affect the individual's ability to access credit. This is either because the lender uses that score to inform their decision process or because it uses the underlying data (for which the score is a proxy).

Poor quality data can therefore lead to inappropriate lending decisions

4.31 Inaccurate or insufficiently comprehensive data can influence how attractive an individual is to a lender. Better quality credit information could therefore help to ensure that consumers are more likely to have access to credit they can pay back or are more likely to be denied credit they cannot afford.

4.32 If lenders are more risk averse when data is less comprehensive or accurate, this is likely to lead to unduly restricted access to credit and/or higher prices (on average) for credit. Higher quality data can help avoid such harm overall, beyond those individual consumers who are affected by differences in data.

The scale of harm will vary depending on the lender

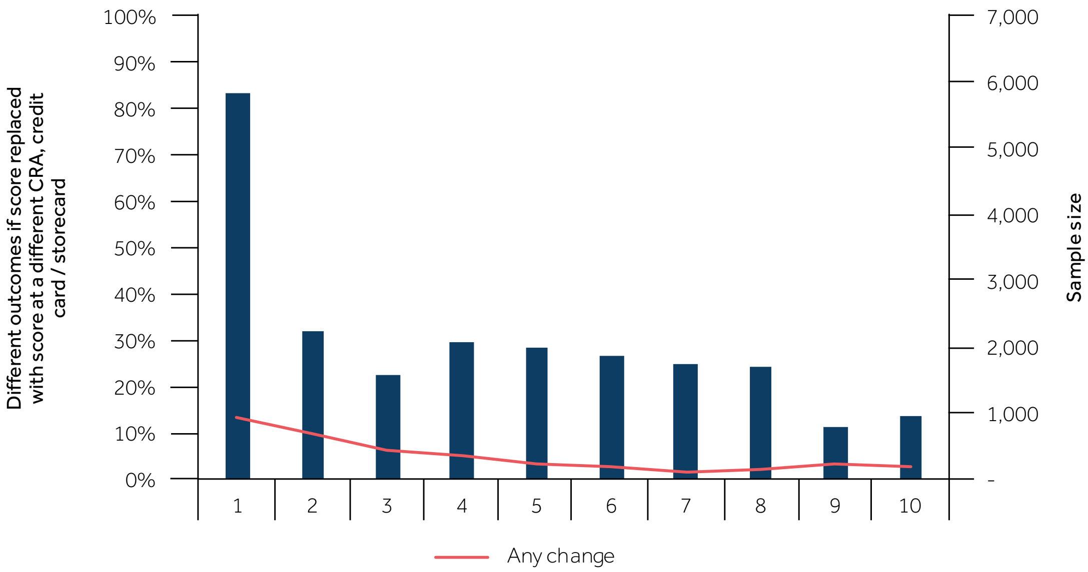
4.33 Understanding the magnitude of any harm to consumers resulting from differences in data held by the 3 large CRAs is challenging. Lenders all have very different lending criteria which are confidential, continually evolving, and rely on credit information from CRAs and other sources (including the applicant). To estimate the impact of inaccurate or insufficiently comprehensive data, we need to consider how lenders make decisions, which is difficult to ascertain from our data.

4.34 One illustrative method is (again) to treat credit scores as a proxy for the factors which lenders do care about. We can then group individuals with similar scores together and see how likely they were to have been accepted, based on the score alone. For individuals with very low scores, the chance of being accepted is low, either because the lender sees and uses the score, or because the lender sees and uses raw data which informs the score. Conversely, individuals with very high scores have a high chance of being accepted, independently of whether the lender uses scores in decision-making.

4.35 We can combine this with the analysis on the variation in scores between CRAs, to see if it suggests that lending decisions would have been different if a lender had used an alternative CRA. This provides us with counterfactual simulations and assumes that variation in CRA scores is driven, at least in part, by differences in underlying data.

4.36 Figure 5 shows the results of this simulation, specifically whether an individual may get a different outcome (ie offered or denied credit) if a lender had used a different CRA.

Figure 5: Different lending outcomes when simulating lending decisions



Source: FCA analysis based on data provided by firms

4.37 This analysis, described in more detail in the Data Quality Annex, suggests that choice of CRA can affect the outcome of an application for credit. The pattern of middle and lower scoring individuals being most likely to be affected reflects that in most cases, middle and lower scoring individuals are likely to be closer to the decision boundary for lenders.

4.38 While we do know that CRAs do use different methodologies, it is not the sole driver of score differences as CRAs receive data from different lenders to inform their score calculations.

Most lenders use only 1 CRA for each application

4.39 Lenders have told us that they do use multiple sources of credit information. Some use more than one CRA, some ask potential customers directly for additional information, and some have begun to source additional information from challenger CRAs. This could help to mitigate the impact of insufficiently comprehensive and/or inaccurate information.

4.40 But for some smaller lenders the additional costs of seeking additional data can be too great, given the margins on which they operate. Around 91% of credit applications in our sample of credit files involved a search at a single CRA. Additional CRA searches are generally only undertaken where no or little information was available from the first CRA. This makes the impact of differences more important than if data from more than one CRA was used for each credit application.

Conclusion on quality of credit information

4.41 CRAs provide lenders and other firms with insight into potential and existing customers. So much of the value of what CRAs offer depends on the quality of the information they hold on individuals.

4.42 Many lenders have told us that they are happy with the richness of credit information in the UK. But there are material differences in the credit information held on individuals by the 3 large CRAs, driven by challenges in matching new information and some CIUs not sharing data with all CRAs. Commercial incentives and coordination challenges also hinder the market's ability to respond to this.

4.43 Although lenders use a variety of data sources when making decisions, credit information plays an important role. Variation in credit scores and the underlying data are correlated with the likelihood of a lender accepting an application. So differences in data can potentially lead to inappropriate access to and exclusion from credit.

5 Competition in the provision of credit information to firms

We have seen some evidence of both static competition (price and quality) and dynamic competition (innovation) delivering positive outcomes for larger CIUs.

However, the credit information sector is very highly concentrated and barriers to entry for new CRAs are high, which limits the competitive constraint they can impose on existing CRAs.

Several market features in the supply of credit information appear to support tacit coordination, but we have not seen any evidence of it in practice.

Industry governance has established the practice of lenders sharing credit information with CRAs to manage fraud and support responsible lending. However, SCOR may now be restricting the sector's development, being too narrow in focus and lacking consumer or challenger representation.

Introduction

5.1 Effective competition is important in helping ensure users of credit information get good outcomes in terms of price, quality and innovation. But the credit information sector is highly concentrated and switching is low, both of which can indicate weak competition. We wanted to understand the extent to which these features may affect data quality.

5.2 This chapter describes our approach and findings on competition amongst CRAs. For a more detailed insight into our assessment of competition amongst CRAs, see this report's CRA Competition Annex.

Questions we wanted to answer and theories of harm

5.3 The credit information sector is highly concentrated, with the 3 large CRAs accounting for virtually all revenues. Large and stable market shares can be an indicator of weak competition, often resulting in higher prices and poorer quality.

5.4 We wanted to understand the nature of competition and the extent to which it provides incentives for CRAs to (i) get data from as many sources as possible, and (ii) offer credit information users competitively priced, high-quality credit information, as well as innovative products and services derived from it.

5.5 Our theories of harm involving competition between CRAs were:

Substantial costs of switching between CRAs may be limiting lenders' buyer power, resulting in higher prices, lower quality and weaker innovation.

Barriers to entry from economies of scale and network effects, including CRAs exclusively holding historic performance data, may be resulting in weak competition, leading to higher prices, lower quality and weaker innovation.

Features of the credit information sector may support tacit coordination, dampening competition among CRAs.

The remit, composition, resourcing, and governance of SCOR, which oversees the POR, may entrench the existing market structure and fail to encourage competition and innovation.

Methodology and approach

5.6 We used a range of information, all described briefly in Chapter 2, to analyse:

- market structure
- the nature and strength of competition between CRAs
- whether CIUs such as lenders are performing an effective role in driving competition
- the existence of barriers to entry
- the existence of any coordination between the 3 large CRAs

5.7 A market demonstrating strong price and non-price competition, an effective demand-side which promotes competition (eg through the culmination of buyer power), low barriers to entry and expansion, and an absence of coordinated conduct, all signal that competition is working well to deliver positive market outcomes.

5.8 We have analysed these elements to inform our conclusions about the strength of competition in the provision of credit information to firms.

The credit information sector includes a range of products and services

5.9 There are 5 main types of participants in the credit information sector: CRAs, data contributors, CIUs, CISPs and consumers.

5.10 CRAs provide products and services designed to support (i) verifying identity and reducing fraud, (ii) lending and other risk-based decisions, (iii) customer account management, and (iv) providing information to CISPs.

The demand-side is driving competition within the supply-side constraints

5.11 The credit information sector is highly concentrated. The Herfindahl-Hirschmann Index (HHI) measure of market concentration for the sector was over 5,000 in 2020, indicating potentially weak competition. But poor outcomes from concentrated markets can be reduced if customers have a degree of buyer power.

5.12 Buyer power stems from customers having credible alternative options. They can use the threat of switching volumes and revenues away from an existing supplier to achieve better deals. Alternative options can include the threat of partly or completely switching to another provider, sponsoring new providers into the market, and/or developing the capability to provide the service in-house. We looked at whether these conditions exist in the CRA sector.

Larger CIUs exhibit greater buyer power than smaller CIUs

5.13 Switching rates are relatively low in the credit information sector. CIUs told us that, because CRAs provide a crucial input into their business operations, there are significant operational risks to switching. Switching can also be technically complex as CRAs use different data formats and customers must integrate the new CRA into their own systems. The necessary change programmes can take a significant amount of time and money. For more details on our switching analysis, see Chapter 3 of this report's CRA Competition Annex.

5.14 While it is rare for large CIUs to switch all their custom from one CRA to another, large CIUs typically have a credible threat of switching volumes between suppliers and so are likely to have more bargaining power than smaller CIUs. This is because almost all large CIUs use more than 1 CRA (multi-home) which can reduce the future cost of switching volumes between suppliers and make the threat of it more credible. In a sample of 20 large CIUs, we found that 40% used 2 CRAs, and 60% used all 3 large CRAs.

5.15 From our engagement with CIUs it is clear that smaller CIUs are more likely to only use a single CRA. As such the expected future cost of switching can be large. These factors reduce the credibility of switching and so reduce small CIUs' bargaining power. We see this in the search data the 3 large CRAs provided – larger lenders appear to switch volumes from one CRA to another more frequently than smaller lenders (see the CRA Competition Annex, Chapter 3). Although these switching costs may limit switching by small CIUs, we have found examples of small CIUs switching between CRAs.

5.16 While the marginal cost to the CRA of a search for an existing CIU is likely to be very small and no different for a large or small lender, there are certain fixed costs of sales and onboarding new CIUs that are spread over higher volumes for larger CIUs. As a result, CRAs tell us they often give 'volume discounts' of up to 20-30% to clients that commit to larger contracts. Accordingly, some smaller, social purpose lenders have told us that smaller lenders pay many multiples more per search than large lenders. As a result, the cost of credit information is likely to be a greater proportion of such CIUs' total operating costs relative to their revenue, especially considering that they typically lend smaller amounts. Nonetheless, we believe that we don't have sufficient evidence to conclude that this price differential distorts competition in the lending market.

Many CIUs have sophisticated procurement processes

5.17 The sophistication of CIUs' procurement processes is an indicator of buyer power. Most lenders tell us they assess their credit information needs at the end of contracts and explore whether other CRAs can offer better value. Lenders tell us they can identify which CRA best meet their needs on factors such as data quality, price, ease of integration and reliability. Data quality and price, in that order, tend to be the most important determinants of choice of CRA.

5.18 Lenders can test data quality via retrospective analyses ('retros') to determine the predictive power of a CRA's data by using actual outcome data. Retros enable the CIUs to identify which CRA can most accurately predict credit risk. All 3 large CRAs sometimes charge for retros, but increasingly offer it for free, especially for larger CIUs. Also, some smaller CIUs have told us that the price of a retro is prohibitive for their scale and budget.

5.19 All 3 large CRAs tend to compete in similar client tender processes and this head-on competition helps buyers achieve price reductions. Most customers we spoke to (around 80%) told us they had recently been able to negotiate price discounts or freezes. This is reflected in our analysis of unit prices which appear to have been falling over time for creditworthiness products.

Barriers to switching vary between CIUs but CRAs' different data formats are a key hurdle

5.20 Large CIUs with legacy IT systems can face larger switching costs relative to smaller, more flexible customers. Nevertheless, large CIUs are more likely to adopt multi-bureau strategies, which can help reduce likely switching costs as they are already using (potentially complementary) services from another CRA. Large CIUs also receive proportionally greater benefits from switching given their larger lending portfolio. In comparison, smaller CIUs do not tend to multi-home but in some cases may benefit from more flexible IT systems.

5.21 An additional barrier to switching for all CIUs are the different data formats across the 3 large CRAs. While similar, these different formats make direct comparison of data between CRAs more challenging and increase the costs of switching. This may further reduce the likelihood of switching, which in turn weakens the competitive constraint CIUs can impose on credit information providers. For more information on barriers to switching, see the CRA Competition annex, Chapter 3.

There is evidence of dynamic competition between CRAs

5.22 Dynamic competition is rivalry driven by innovation in products or in process, leading to new, better products for CIUs, often at lower prices. Large CRAs have told us that, to remain competitive, they have to constantly innovate for the benefit of their clients. Some of the main examples of innovation include use of non-traditional data sources (eg Open Banking and rental data), using traditional data in innovative ways, new analytical techniques (eg machine learning), cloud migration and improved IT solutions. This is consistent with what CIUs have told us. It is also consistent with the 3 large CRAs' expenditure on innovation, as measured by global capital expenditure as a proportion of revenue, which has been rising since 2018 (see Figure 8).

Open Banking is currently one of the main drivers of innovation

5.23 Open Banking technology allows CRAs to get a snapshot of an individual's financial circumstances with their permission. This can offer greater insights into the financial standing of consumers that are not otherwise known to CRAs.

5.24 We have seen a small number of challenger CRAs using Open Banking gain some traction in affordability assessments. Larger lenders have told us that they are beginning to explore Open Banking based solutions. We have also spoken to smaller, social purpose lenders that rely solely on Open Banking data to assess creditworthiness for relatively small, short-term loans.

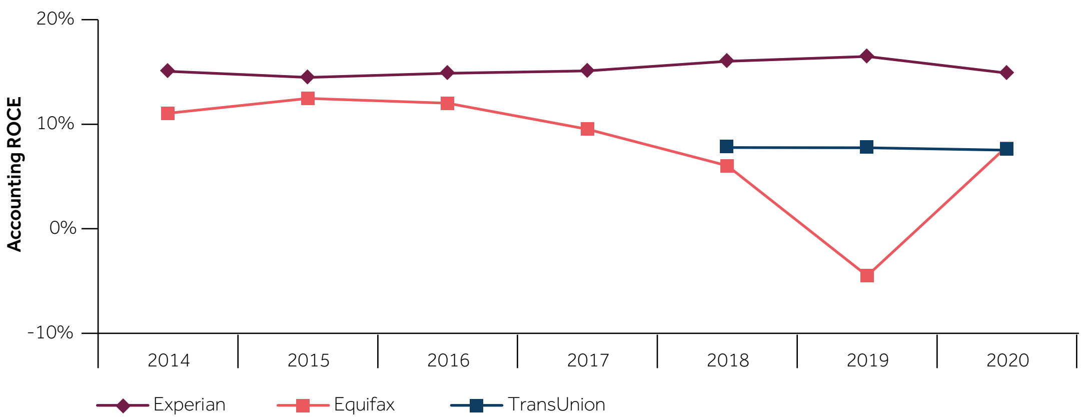
5.25 However, we have not seen evidence of Open Banking data being solely relied upon for creditworthiness or affordability assessments for larger, long-term loans such as mortgages. So, whether Open Banking-based credit information can offer a genuine alternative to traditional bureau data is not yet clear.

Our financial analysis broadly suggests strong competition between the 3 large CRAs

5.26 Profitability is one indicator of the level of competition pressure in a market. The degree to which firms can hold price above cost in the long run is an important part of assessing market power. By looking at firms' financial performance alongside other market features, such as market concentration, we can gain insight into the strength of competition.

5.27 Our profitability analysis using return on capital employed (ROCE), conducted using publicly available group global data on a best endeavour basis, demonstrates that Experian and Equifax have experienced a similar magnitude of returns and that CRAs' profitability has not been rising over time (see Figure 6). Our data for TransUnion only runs from 2018 and displays a lower level of return of just under 10% across all 3 periods.

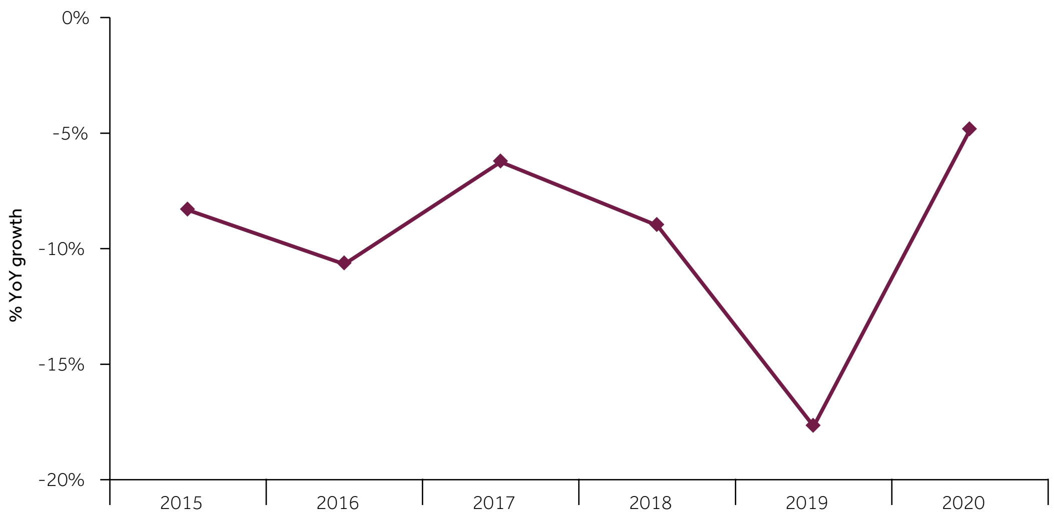
Figure 6: Accounting ROCE for the 3 large CRAs at global, group level (2014-2020)



Source: Public accounts for Experian PLC (annual report), Equifax Inc. (10-K) and TransUnion (10-K) using statutory tax rate

5.28 We also have evidence that unit prices for creditworthiness products have been declining since 2015, as shown in Figure 7 below. This is likely due to price competition between the 3 large CRAs, and CIUs exercising buyer power. To note, 2020 is an outlier year, primarily due to the impact of the pandemic, as well as a large range (around 30 percentage points) of unit price data from the 3 large CRAs which has informed an average (mean). Nevertheless, it does not alter the downward price trend we observe over the sample period. For more details on price outcomes, see CRA Competition Annex, Chapter 4).

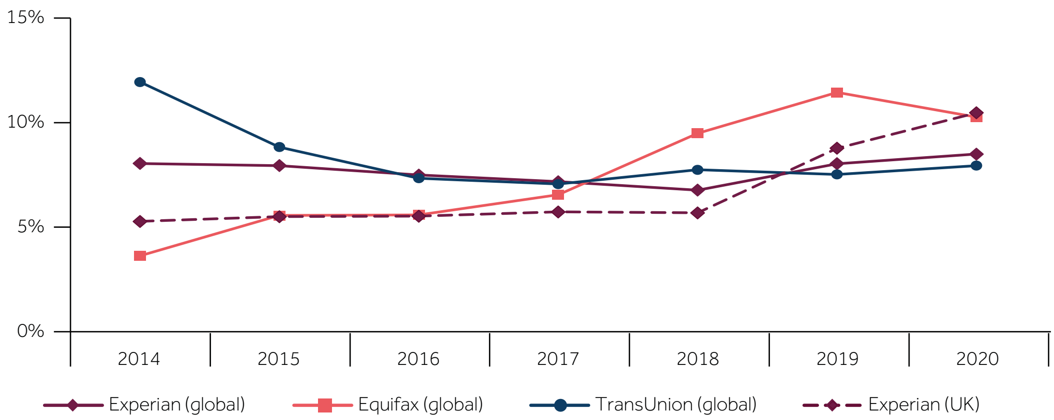
Figure 7: Annual change in unit prices for creditworthiness products (2015-2020)



Source: FCA analysis based on data provided by firms

5.29 As shown in Figure 8, we found evidence that the 3 large CRAs are investing in innovation, such as cloud-based services. But as discussed below, there are significant barriers to entry and expansion which are likely to limit the extent to which innovation is driven by new and challenger firms.

Figure 8: Capital expenditure (as a % of revenue) by the 3 large CRAs (2014-2020)



Source: Public accounts for Experian PLC (annual report), Equifax Inc. (10-K) and TransUnion (10-K)

Barriers to entry and expansion are significant

5.30 The threat of competition from potential entrants can affect the way existing providers compete. The strength of the threat depends on the barriers to entry and expansion faced by potential entrants. We expand on barriers to entry and expansion further in the CRA Competition Annex, Chapter 5.

5.31 TransUnion is an example of successful entry, having entered in 2000 as CallCredit. It now has market share, based on revenue, comparable to Equifax. To some extent, the conditions that enabled TransUnion to disrupt the market are still prevalent today. These conditions are strong underlying growth in the credit information sector and customers' appetite for additional data and innovative products.

5.32 However, there were specific features of TransUnion's entry which suggest that similar entry and expansion is unlikely. TransUnion was aided by a number of large lenders who reported credit performance data to it (previously only reported to Equifax and Experian) and had exclusive access to CATO data between 2006 and 2012. Even so, it took a significant amount of time before TransUnion was able to gain material market share. Notably, TransUnion only returned a profit at operating profit level in 2007, 7 years after its entry.

5.33 Some lenders told us that they do certain analytics in-house that are comparable to what is offered by the 3 large CRAs, but they still require the CRAs' raw data.

5.34 There are a number of other significant barriers to entry and expansion in the credit information sector which reduce the strength of this threat.

Network effects are a key entry barrier in the provision of credit performance data

5.35 Since clients of the 3 large CRAs also provide them with data, the accuracy and coverage of CRAs' credit information increases with the number of CIUs that report to them. This 'network effect' acts as a barrier to entry.

5.36 A new competitor to the established CRAs, with fewer clients, is likely to have fewer data contributors, and does not have historic information on the credit performance of individuals. This limits its ability to compete and is one factor which explains the high market concentration we see both in the provision of credit information in the UK and in some other privately-provided international markets. It also creates incentives for the 3 large CRAs to compete to keep existing CIUs and win new business to maintain and improve their coverage. Network effects mean that concentration can potentially be beneficial to CIUs. For example, a lender would not have to purchase credit information from a large number of CRAs to effectively assess a potential borrower's creditworthiness.

An additional barrier for challenger CRAs using Open Banking is lack of access to credit performance data

5.37 Some challenger CRAs using Open Banking tell us that it is crucial to have access to credit performance data. They need it to help them demonstrate to prospective clients the accuracy with which they can assess credit risk, to develop new products to assess credit risk and help them improve what they can offer. New entrants do not have access to credit performance data in the same way that the 3 large CRAs do and some tell us this makes it difficult to demonstrate value to prospective clients.

5.38 Lenders' T&Cs provide privacy notices to consumers which allow them to share data with CRAs without explicit consumer consent. In many cases these refer directly to the current 3 large CRAs and so do not permit sharing with newer CRAs. This is because such firms did not exist when the T&Cs were drafted. So this is one way that prevents small CRAs from accessing individuals' credit performance data.

5.39 Lenders may also not believe it is appropriate to share consumer data with such firms. For example, if they think it is unnecessary under data sufficiency or cannot be sure the data will be stored or used responsibly by the third party. Lenders do not appear to have an incentive to share data with smaller CRAs. The marginal cost of reporting to them does not appear to be dwarfed by a significant benefit. This is explored further in the section below on regulatory barriers.

5.40 As a result of these barriers, challenger CRAs do not tend to compete directly with the 3 large CRAs in the provision of credit performance data and products derived from this data. Instead, they mainly provide affordability services via data obtained through Open Banking. We also see some uptake of challenger CRAs' services by lenders interested in Open Banking-enabled insights. Over time, as Open Banking technology and usage increase, this could change.

Economies of scale are another barrier to entry and expansion

5.41 Traditional CRAs incur a range of costs, such as data, staff and overhead costs. In providing credit performance data, the marginal cost of a search to a CRA is close to zero. However, CRAs have incurred large fixed costs in building capabilities to provide this data; overhead costs are a proxy for such fixed costs and represent a substantial proportion of large CRAs' cost base. As we would expect for markets with significant economies of scale, the most recent of the 3 large CRAs to enter the UK market took almost a decade to become profitable. For more details and qualitative evidence on economies of scale, see the CRA Competition Annex, Chapter 5.

Incumbent CRAs also benefit from a first mover advantage

5.42 A range of CIUs have informed us that they value CRAs' track record. Demonstrating a track record in terms of products' predictive power, data security and service reliability are important factors to CIUs. Large CRAs understandably leverage their existing relationships with lenders when competing for new clients. Several CIUs have also told us they would not consider a new CRA as a potential provider unless that new firm has successfully onboarded a large bank. Incumbency advantages also exist through large CRAs' integrating with a CIU's existing IT systems.

5.43 SCOR established the Principles of Reciprocity (PoR) which are the industry arrangements under which consumer information is shared (amongst other things) for verifying identity and lending decisions.

5.44 Industry stakeholders have voiced concerns about SCOR, including that its unanimous voting system makes it slow to take forward initiatives that could potentially benefit CIUs and consumers.

5.45 Concerns have also been raised with us around

- resource constraints
- a lack of wider representation, for example from consumer organisations and challenger CRAs
- the role of the PoR in restricting wider use of credit information, particularly as technology opens up potential new use cases

5.46 As a result, the industry could benefit from an industry body with wider representation and more progressive objectives.

Market features are conducive to coordinated conduct

5.47 Several market features in the supply of credit information appear to be conducive to coordination between incumbent CRAs. This is a concentrated market, with substantial barriers to entry, similar cost structures (to an extent), and consistent demand growth pre-pandemic (in line with the wider performance of the UK economy). Although there is a degree of product differentiation and innovation, incumbents' products are relatively similar.

5.48 The CRAs also frequently work together, more so than we see in other financial services sectors, for example on SCOR and more recently on the onboarding of DPC data. Collaboration between CRAs can create efficiencies that benefit consumers. It can narrow the gaps in credit information and encourage a more consistent approach by the CRAs in order to deliver good outcomes in lending markets (eg regarding on-boarding DPC data).

5.49 However, other market features are not conducive to coordination – there is evidence of innovation and there appears to be a degree of buyer power, particularly amongst larger CIUs.

5.50 Although some sectors of the lending market are more clearly served by specific CRAs, there is no strong evidence suggesting that CRAs are carving up product or geographic markets. Our profitability analysis also illustrates that the 3 large CRAs have experienced a decline in their levels of profitability over time, which is typically inconsistent with sustained and successful coordination.

5.51 Despite the presence of some market conditions that can support coordinated conduct, we have not seen any explicit evidence of coordination by the 3 large CRAs. For a detailed assessment of potential coordinated conduct, see the CRA Competition Annex, Chapter 4.

Brief conclusion on CRA competition

5.52 The 3 large CRAs appear to compete on parameters that CIUs care about. There is evidence of these CRAs seeking to differentiate themselves via innovation. There is also evidence that they view each other as competitive threats and often compete head-on. Market outcomes, such as falling levels of profitability, falling unit prices, and relatively high levels of capital expenditure are also consistent with effective competition between the 3 large CRAs.

5.53 The demand-side appears engaged and motivated to get the best deal. But larger buyers appear more likely than smaller ones to be able to exercise bargaining power.

5.54 Challenger CRAs that rely on Open Banking technology to provide affordability products, struggle to compete head on with the 3 large CRAs. They are more likely to offer complementary products to the 3 large CRAs' offerings and so are unlikely to exert a strong competitive constraint. Successful entry in this sector has so far been limited to TransUnion. This indicates that barriers to entry and expansion are significant. And, while we have seen no evidence of coordination that is anti-competitive, several market features in the supply of credit information appear to support coordinated conduct between incumbent CRAs.

5.55 In our recent Discussion Paper on Big Tech entry and expansion, we highlighted that the competitive advantages that Big Tech firms have in accessing user data and analytics capability could provide the means to enter the credit referencing market. Such firms could either compete directly with existing CRAs in the market, or potentially provide consumer-facing credit information services to their own platform users. Big Tech firms might also collaborate with existing CRAs by providing data to be used in CRA credit models. While CIUs have told us they are unlikely to consider using a new CRA, Big Tech firms' competitive advantages may lead to competition risks arising in the longer term. This is particularly the case if a single or a few Big Tech firms controlled access to credit risk and affordability assessments.

6 Competition in credit information services to consumers

The market for the provision of credit information services to consumers is highly concentrated – the largest 2 providers of CIS account for well over half of consumers - but it appears contestable with a number of recent entrants and new business models.

CISPs are incentivised to attract and keep consumers to generate revenues (increasingly via credit broking commission).

Access to CRA data does not appear to be a barrier to providing credit information services.

Recent entry into pre-qualification services may lead to a change in the competitive landscape of the sector.

Introduction

6.1 CISPs offer individuals access to their credit file and a range of associated services. Relying on credit information provided by the 3 large CRAs, CISPs seek to help consumers engage with and understand their credit information and increasingly provide price comparison services through which consumers can access credit.

6.2 Effective competition is important in helping ensure users of credit information services get good outcomes in terms of price, quality and innovation. But the provision of credit information services is highly concentrated, while 2 providers of CIS are CRAs themselves.

6.3 This chapter describes our approach to analysing competition amongst CISPs and our findings. For a more detailed insight into our assessment of competition amongst CISPs, see this report's CIS Competition annex.

Questions we wanted to answer and theories of harm

6.4 The provision of credit information services is highly concentrated; the 2 largest firms accounting for well over half of all customers. Large, stable market shares can be an indicator of weak competition which can lead to higher prices and poorer quality. Weak competition can also be a feature of markets where firms at different stages in the supply chain are part of the same group of companies and one of them has some market power – for example a CRA providing CIS to its own customers, whilst also supplying credit information to rival CISPs.

6.5 Our investigation has focused on 3 themes. First, to establish if competition between CISPs leads to good outcomes for consumers. Second, to see if the largest CRAs that provide CIS could gain an advantage over rival CISPs. Third, to understand whether the relationship between providers of products that inform pre-qualification services and CISPs work in the interests of consumers.

6.6 We therefore established 3 theories of harm:

Barriers to expansion create concentration in the CISP market, which may be resulting in higher prices, lower quality and weaker innovation.

CRA data is a critical input into the operation of a CISP. CRAs that provide CIS may have an incentive to foreclose rival CISPs, by limiting their access to credit information or supplying it on unfavourable terms, thereby weakening entry and competition and leading to worse outcomes for CIS consumers.

Providers of products that inform pre-qualification services may have the incentive to foreclose rival CISPs that operate as price comparison websites (PCWs) by charging high prices. This could be to benefit their own price comparison service, thereby increasing overall costs per end user and dampening competition in the CISP market.

Methodology and approach

6.7 As described in Chapter 2, we used a range of information to analyse the market structure, the nature and strength of competition between CISPs and CRAs that provide CIS, the incentives and behaviours of CRAs that provide CIS, and the incentives and behaviours of providers of pre-qualification services.

New business models have expanded CISP's reach

6.8 CISPs have historically offered consumers access to their credit information for a monthly subscription fee. However, the industry has been significantly disrupted by the growth of CISPs who offer consumers core services for free but also offer price comparison services and earn commission from lenders for arranging credit.

6.9 Paid-for CISPs appear to have responded by improving their services. For example, we have observed improvements in online and app-based experiences and increased personalised support to help consumers improve their credit profile and/or victims of fraud.

The market is dynamic and contestable

6.10 Revenue shares have not been stable over time. One CISP more than tripled its revenue share over 2016-2018 while some CISPs' revenue shares have fallen materially in recent years.

6.11 We have also seen a significant change in the composition of revenues as a result of the free CISP model. In 2016, commission revenue represented 9% of total revenues for our sample of CISPs. By 2018 this had grown to approximately 32%. For more details, see the CIS Competition Annex.

6.12 The provision of credit information services is highly concentrated but is becoming less so. The HHI measure of market concentration for this sector was around 3,000 in 2018, but this was down from around 5,000 in 2016. New entrants have gained traction and there has been merger and acquisition activity such as Credit Karma's acquisition of Noddle in 2018.

While the largest CISPs exhibit economies of scale, barriers to entry and expansion remain limited

6.13 In recent years, several new firms have begun to provide credit information services or adopted new business models. This includes firms such as ClearScore, Noddle, TotallyMoney, Credit Karma and MoneySuperMarket.

6.14 Our 2019 online consumer survey indicated that some of these new entrants have been able to outperform existing services in terms of consumer recognition from existing brands. Indeed, the CISPs we spoke to did not express concerns about barriers to entry and expansion.

CISPs continue to innovate

6.15 Our findings on consumer engagement showed that, despite their high awareness of credit information, consumers had a low understanding of it. This helps create demand for services offered by CISPs.

6.16 We are seeing CISPs bring new products into the market, some aimed at improving consumer understanding like mobile apps, chatbox software, digital fraud protection, Open Banking-enabled affordability insights and credit broking beyond unsecured credit.

6.17 These innovations have fostered competition between independent CISPs and CRAs (that provide CIS) as they seek to reproduce competitors' progress and innovate further to attract and keep customers. One innovation has been the adoption of Open Banking which, once consent has been obtained, offers CISPs and CRAs access to consumers' banking data, and builds a more diverse picture of consumers' financial health and spending patterns. Adopting this data can also help thin file, underserved consumers access credit. For more details on innovation in the provision of CIS, see Chapter 3 of the CIS Competition Annex.

Access to credit information does not appear to represent a barrier to CISPs

6.18 Credit information is a critical input into the operation of a CISP. We had concerns that CRAs that provide CIS may have the incentive to foreclose rival CISPs, by limiting their access to credit information or supplying it on unfavourable terms.

6.19 We assessed Experian's ability and incentive to foreclose rival CISPs, given that it is the largest CRA and provider of CIS. We find that the foreclosure risk related to Experian's position is mitigated by the incentives of provision faced by the other CRAs. If Experian were to seek to foreclose rival CISPs by charging higher prices, CISPs would turn to other CRAs in the market such as the likes of Equifax and TransUnion. CISPs conduct a competitive tendering process involving at least 2 large CRAs, while a small number of CISPs buy credit information from all 3 large CRAs. We heard nothing to suggest that challenges to accessing credit information from CRAs hinders CISPs from competing against CRAs that provide CIS.

6.20 Further, despite CRAs making volume discounts available to larger CISPs, we found that smaller firms did not appear disadvantaged. Across 3 small, subscription-paid CISPs we found that data costs represented approximately 10% of their revenues. This compares to 13% for a larger, free CISP.

6.21 For more details on CISPs' access to credit information, see CIS Competition Annex, Chapter 4.

Competition in products that inform pre-qualification services may be strengthening

6.22 Products that inform pre-qualification services are an increasingly important feature for CRAs and CISPs that operate PCWs. From a consumer's perspective, pre-qualification services can help them understand their eligibility for a certain credit product without the risk of it affecting their credit file. From a lender's perspective, these services screen unsuitable candidates and therefore potentially improve the quality of leads sent through, improving the efficiency of lead-generation.

6.23 The main provider of products to inform pre-qualification services is Experian, following its acquisitions of HD Decisions and Runpath, in 2015 and 2017 respectively. Experian also operates its own price comparison service.

6.24 Market participants tell us that there are few genuine alternative providers of pre-qualification services. Currently, Monevo (part-owned by TransUnion) offers products that inform pre-qualification for loans, but not credit cards. As a result, we have heard that the strength of competition in pre-qualification services for loans is stronger than in credit cards.

6.25 Lender APIs could provide third parties with an alternative means to compete against the services provided by Experian and Monevo, but lenders are not incentivised to incur the substantial upfront investment required, at least not in the near future.

6.26 The lack of competition could create incentives for Experian to either refuse to supply competitor price comparison websites with products to inform prequalification services, or supply competitor websites on unfavourable terms in order to benefit its own price comparison services.

6.27 Experian could raise prices it charges to rival PCWs for products that inform pre-qualification services. This would raise the rival PCWs costs per end user, reducing its incentive and ability to compete aggressively, for example, providing free CIS to consumers. This could in turn dampen competition and disadvantage end consumers.

6.28 Some PCWs have told us that the option to choose between suppliers of pre-qualification services for loans has led to better outcomes, in terms of price and customer service, than for credit cards. However, Monevo's successful entry into pre-qualification services for loans suggests entry into credit cards is also possible. We also consider that further development by lenders of APIs could lead to significant changes in the competitive landscape and stronger competition between existing and new players. We will revisit the market for pre-qualification services and update our findings in our final report.

6.29 For more details on our assessment of competition in the provision of products that inform pre-qualification services, see the CIS Competition Annex, Chapter 5.

Brief conclusion on CISP competition

6.30 Despite high concentration, the provision of credit information services appears increasingly dynamic and contestable, where new business models have developed and expanded. CISPs continue innovating and are incentivised to keep consumers engaged and interested in their credit information. Most consumers use services that are free-to-use.

6.31 We have not found evidence of any competition concerns that require immediate action relating to CRAs that also provide (i) CIS or (ii) products to support pre-qualification services. The existence of at least one CRA that does not provide CIS appears to counteract any incentives on other CRAs (that provide CIS) and may have an incentive to foreclose rival CISPs.

7 Consumer engagement

Almost all consumers (94% in our 2019 online survey) have heard about credit scores and a little over half (57%) had checked their credit score at least once in the past. However, there is a general lack of awareness among consumers about how their behaviour can affect their credit score. This could have an adverse impact on individuals' access to credit.

Consumers also find it difficult to access statutory credit reports – there is evidence of sludge and dark patterns – and navigate the disputes process. This can also affect their access to credit.

Introduction

7.1 Poor understanding of credit information, and difficulties in accessing credit files, can lead to consumers acting in ways which unknowingly harm their creditworthiness, potentially affecting their access to credit and its cost.

7.2 This chapter provides an overview of consumers' awareness and understanding of credit information and their engagement with it. For more details on our assessment of consumers' interaction with credit information, see this report's Consumer Engagement Annex.

Questions we wanted to answer and theories of harm

7.3 Consumers' understanding and engagement with their credit information, and their consequent behaviour, may significantly affect how providers of both financial and non-financial services perceive their creditworthiness. In its 2016 survey, Which? found that around half (53%) of people have never checked their credit report and 36% wrongly thought that checking their credit score regularly would damage their credit rating. Low awareness and understanding may lead to consumers missing opportunities to improve their credit profile and to reduce the cost of future borrowing.

7.4 To better understand consumer engagement and understanding, we developed 3 theories of harm.

Consumers don't know that certain behaviours negatively affect their credit profile and their access to credit (and/or the cost of credit).

Consumers find it difficult to access their free statutory credit reports and may inadvertently sign up for paid-for services when intending to access their free SCR.

Consumers' face difficulties in identifying and disputing inaccurate credit information that CRAs may hold on them. As a result, obtaining credit may become more difficult.

Methodology and approach

7.5 We gathered evidence from multiple sources, including: 8 focus group sessions, an online survey of over 3,000 consumers, a qualitative analysis of 10 CISPs responses to information requests and an event study (quantitative analysis of consumer credit scores to understand if access to credit information leads to higher scores).

Awareness is high but understanding is low

7.6 In our survey, we found that almost all consumers (94%) had heard about credit scores and over half (57%) had checked their credit score at least once in the past. Recent reports from one CRA indicate that this proportion increased during the pandemic with nearly 4 million people looking at their credit score for the first time.

7.7 Despite high awareness of credit information, understanding is low due to its complexity. Our consumer survey revealed some key misconceptions which exist. For example, 36% of respondents incorrectly believed that registering on the electoral register would worsen their credit score. For more details on the percentage of respondents who incorrectly indicated the effect of a behaviour on a credit score, see the Consumer Engagement Annex.

7.8 However, not all consumers need to understand their credit files all of the time. Some consumers have a good credit score and are unlikely to be declined for credit. Others may have no immediate plans to apply for credit.

Consumers find it difficult to access and dispute their statutory credit report

7.9 While many firms provide credit information services which offer help to consumers (ie CISPs) it is not always clear that free credit information is available through a statutory process without the need to sign-up to subscription services. Close to half of consumers (43%) did not know that they could request a free statutory credit report (SCR) from CRAs.

7.10 We have worked through the process of getting an SCR from each of the 3 CRAs and found evidence of dark patterns and sludge practices which make it difficult for consumers to access their SCR. For example, the links to access SCRs are often hidden, while paid-for services are advertised as 'free' when only the initial trial period is free. Such practices could mean that consumers could inadvertently sign up for paid-for services when intending to access their free SCR. For more details on our sludge findings, see the Consumer Engagement Annex.

7.11 Some individuals that access their SCR may need to dispute some of its content. We found anecdotal evidence that those consumers who did manage to successfully access their SCR struggled to navigate the dispute process. For detailed statistics on the time it took to correct errors on credit reports, see the Consumer Engagement Annex.

7.12 Our focus groups highlighted that consumers were unclear where the responsibility for correcting errors lay (between the CRA and lender) and have to engage individually with each CRA to dispute any errors.

7.13 Some examples suggest CRAs often first ask consumers to approach the lender, while the lender tells the consumer that the CRA is actually responsible. Additionally, if the error is the fault of a lender, then this can mean that all other CRAs hold inaccurate information. Existing legislation requires each CRA to provide a mechanism for consumers to dispute inaccurate data, but each has a separate process and CRAs tell us that the dispute process can take longer than 28 days.

7.14 There are incentives for CRAs to encourage and resolve disputes since it improves the overall quality of the information they hold. But correcting errors can be costly or time consuming to resolve, involving a range of different parties and requiring significant manual intervention for a small increase in accuracy.

Cost of credit information services

7.15 Despite many credit information services largely being provided for free, we found that around 1 in 5 consumers (19%) have used paid-for services. However, around three quarters of them (73%) had cancelled their subscription soon after because of high fees or the feeling that the services were not value for money. There is also evidence that new services are coming to the market.

7.16 Free services are typically subsidised by commission earned from arranging credit. This should dampen the risk of harm from credit information services offering poor value for money. But it may create other risks such as providers being biased in favour of products which earn them the greatest commission (commission bias). However, CIMS has not specifically investigated the issue of commission bias.

Brief conclusion on consumer engagement

7.17 Although consumers claim to have a good understanding of credit information, many do not know how different behaviours can affect their credit score.

7.18 Most credit information services are offered free-of-charge and we note that over the past year CRAs have been offering new consumer-facing products to try to improve consumer understanding.

7.19 There is a statutory requirement on CRAs to enable individuals to dispute the credit information held on them. But the process requires consumers to engage individually with all 3 large CRAs and potentially lenders too.

8 Borrowers in financial difficulty

How borrowers in financial difficulty are reflected in credit information significantly affects consumer outcomes.

There are differences in the way that some events are reported to, and recorded by, the 3 large CRAs which can affect consumer outcomes.

Poor consumer understanding about how financial difficulty and forbearance arrangements are reflected in credit information may inhibit early engagement.

Introduction

8.1 How credit information reflects borrowers in financial difficulty materially affects how they are viewed by lenders from a credit risk perspective and so can significantly affect consumer outcomes. It can also significantly influence how and when consumers engage with lenders or others given concerns about how financial difficulty and any related arrangements will affect their credit file.

8.2 Borrowers in financial difficulty may often be likely to exhibit characteristics of vulnerability, and how such consumers are treated is central to ensuring that they receive an appropriate degree of protection.

8.3 This chapter summarises analysis undertaken on how credit information reflects borrowers in financial difficulty which is reported by lenders to the 3 large CRAs.

Questions we wanted to answer

8.4 We wanted to understand how borrowers in financial difficulty are typically reflected in credit information, how this may affect their future access to credit and whether there may be alternative approaches which could deliver better outcomes for consumers and firms.

Methodology and approach

8.5 Financial difficulty may result in a wide range of different outcomes including missed payments, bilateral payment arrangements, refinancing, collective debt and insolvency solutions. To understand how these events are reflected in credit information we sent an information request to a sample of retail lenders to understand:

- The consistency of current reporting processes between lenders, including whether there are areas within existing reporting guidance that are open to materially different interpretations or technical issues that result in different ways of reporting for similar events.
- The nature and longevity of impact on consumer outcomes. This includes the extent to which future access to credit is affected by arrears and arrangements reported to CRAs, particularly where consumers are able to recover after a period of short-term financial difficulty.
- The costs and benefits of possible alternative approaches, including the potential impact on the effectiveness of lending decisions.

8.6 We have also discussed these issues with a range of stakeholders and taken account of our broader work on borrowers in financial difficulty, particularly in relation to how the credit file implications of forbearance and related arrangements affect consumer understanding and engagement.

There are differences in how some events are reported and recorded

8.7 Much of our analysis focuses on how lenders interpret and comply with industry reporting guidance including the Principles of Reciprocity, the Principles for Reporting Arrangements, Arrears and Defaults, as well as other associated SCOR guidance. Lenders do have some discretion under this guidance on how to report certain events, reflecting the wide variety of product types within the retail lending market and different lender policies and risk appetites.

8.8 Although lenders are contractually obliged to follow industry guidance, it is also important to recognise that the CRAs do not necessarily know whether lenders are complying with industry reporting guidance as they cannot know individual customer circumstances. Enforcing the guidance generally rests with SCOR which in practice is undertaken by relevant trade bodies. So it is possible that reporting practices may vary further outside of this sample of lenders.

8.9 We identified a number of areas where there are differences in the way that information about financial difficulty is reported to and recorded by the 3 large CRAs. These include:

- Missed payments. Lenders can use different methods to calculate arrears and the corresponding status codes reported to CRAs. This can mean consumers receive different outcomes depending on the approach taken by their lender, even where products may be similar. There are also differing approaches to the use of 'grace periods', both at the point of initial and any subsequent missed payments, and of 'promise to pay' type arrangements where missed payments may not be reported for certain periods.

- Temporary reductions in payment. Where borrowers in financial difficulty agree a temporary reduction in payments with their lender, we identified material differences in the way that such arrangements are reported to, and recorded by, the CRAs. These differences stem from both the different data reporting formats and different lender approaches to calculating status codes when borrowers maintain agreed reduced payments under an arrangement. These differences can mean that new missed payments may or may not be recorded alongside an arrangement, depending on the approach of the lender and the data format used.
- Defaults. Lenders may adopt different approaches about when they report a default, particularly where consumers enter a collective debt solution such as a Debt Management Plan. We have also identified different approaches where accounts are subject to a debt sale process, which can materially affect whether and when defaults are recorded.

8.10 Some stakeholders have also questioned whether the current reporting framework is flexible enough to take appropriate account of the increasingly complex debt solution landscape. They highlighted the possible introduction of new debt repayment schemes as an area that required greater industry engagement and coordination to ensure a consistent approach.

8.11 Stakeholders also highlighted various other technical or interpretative issues which may lead to different consumer outcomes depending on the approach lenders take. Some stakeholders indicated that greater commonality of approach and enhanced granularity in certain areas could also help to deliver more effective decisions and better consumer outcomes.

8.12 It is difficult to assess the direct impact of these issues on consumer outcomes given the complexity of lenders' decision-making processes and interaction with an individual's other credit information. We know that for those consumers who have already missed multiple payments and are suffering a sustained period of financial difficulty, the marginal impact of some of these differences is likely to be negligible.

8.13 However, it is likely that those consumers who have a period of short-term difficulty and who go on to recover may be most affected by the differences in how missed payments are calculated and how arrangements are reported and recorded. There is also evidence that those in more long-term financial difficulty who enter debt solutions and/or have their debts sold to a third party may receive materially different outcomes depending on their lenders or debt purchaser's approach. This could significantly affect their relative ability to recover over the longer term.

8.14 Stakeholders have also highlighted how differences in approaches to these issues can cause consumer confusion and complaints.

More consistent and detailed information could deliver better outcomes

8.15 There is broad recognition among stakeholders that there is scope to improve current processes in the interests of both firms and consumers, particularly by improving the consistency and detail of reporting where consumers enter arrangements and debt solutions. Some stakeholders have also expressed support for enabling non-financial vulnerability markers to be recorded on credit files, which could help inform lender engagement and forbearance strategies.

8.16 We have also heard from stakeholders that consumers are often reluctant to engage with their lenders because of concerns about the nature and length of the potential impact on their credit file. This can mean that borrowers in financial difficulty try to 'protect' their credit file in the short-term instead of seeking sustainable solutions that might better meet their needs and circumstances.

Brief conclusion on borrowers in financial difficulty

8.17 Credit reporting processes are highly complex and typically interlinked with other operational processes. Given this, it is unrealistic to expect that the wide variety of different, complex and often unique consumer circumstances can always be reflected identically in credit information across the whole of the retail lending market.

8.18 We also recognise that the overarching purpose of this aspect of the credit reporting framework is to ensure that financial difficulty is reported and recorded as accurately and objectively as possible.

8.19 However, we consider that there are currently some limitations in the consistency and granularity of credit information when borrowers experience financial difficulty. These can mean borrowers potentially receive materially different outcomes even where their circumstances may be similar.

8.20 These issues, together with broader uncertainties about the nature and longevity of the impact on credit files when seeking support from lenders, may hinder consumer understanding and inhibit early engagement.

9 Potential remedies and next steps

The credit information sector must work well to help ensure consumers receive fair value and access to appropriate and affordable credit. In the absence of significant (positive) disruptive entry, we believe that industry-led change, supported by regulatory intervention, could help deliver higher quality credit information.

We want to discuss with stakeholders potential measures to:

- reform industry governance arrangements to help deliver key remedies
- improve the quality and coverage of credit information
- enable greater competition and innovation through potential changes to data access arrangements and more timely reporting of key metrics
- support consumers to understand, access and dispute credit information

In combination, the remedies should ensure that CRAs can offer more comprehensive and detailed data, CIUs benefit from more dynamic competition between CRAs, and consumers are better able to access and dispute credit information.

We have set out below our proposals on how this could be achieved. We are seeking views on these potential remedies and the extent to which they might be effective and proportionate in addressing the issues we have set out.

Introduction

9.1 In the absence of significant (positive) disruptive entry, we believe that industry-led change, supported by regulatory intervention, could help to improve the quality of credit information, delivering better outcomes for firms and consumers while improving consumer understanding and engagement.

9.2 In this chapter we discuss our rationale for intervention and summarise a range of measures we believe could help to achieve our aims for a well-functioning market. These measures seek to address the key issues identified in our analysis and discussions with stakeholders and reflect the pivotal role that credit information plays in underpinning how risk is assessed across the retail lending market.

9.3 It is important that we prioritise the remedies which have the potential to deliver benefits for consumers most affected by the rising cost of living. We have already taken action to provide some guidance for consumers in financial difficulty by working with MoneyHelper. We have also written to more than 3,500 lenders to remind them of the standards they should meet as consumers across the country are affected by the rising cost of living.

9.4 However, most of the proposed CIMS remedies are longer-term in nature. We want to ensure the industry is well placed to provide high quality credit information that supports effective and responsible lending as the UK economy seeks to recover from the cost of living challenges.

9.5 Many of the proposed measures are interlinked and raise complex issues. We want to hear feedback on their possible implications from a wide range of stakeholders before deciding whether and how to take them forward.

9.6 Further details on how the proposed measures might be implemented, along with specific questions for stakeholders, are set out in the Remedies Annex.

Rationale for intervention

9.7 Credit information plays a crucial role in helping to deliver important public policy objectives, such as reducing over-indebtedness and fraud. As the cost of living rises, a greater number of consumers will likely end up in financial difficulty. We are also seeing an increasing prevalence of online identity fraud. So it is more important than ever that firms can access high-quality credit information to help prevent consumer harm.

9.8 Credit information is also personal data, and these potential measures recognise that consumers in this market have little ability to decide how their personal data is shared or used. The increasing sophistication and automation of decision-making processes also makes it harder to be transparent with consumers about how credit information may affect their individual outcomes. So it is important that consumers can be confident that credit information reflects their circumstances as accurately and comprehensively as possible.

9.9 The credit information sector therefore needs to work well to support retail lending, helping ensure consumers have access to appropriate and affordable credit at a fair price. We would expect this to happen if:

- consumers know how their credit information is used, how to access it and how to raise disputes
- high quality credit information is available to lenders, at competitive prices, so their decisions are based on information which appropriately reflects consumers underlying financial circumstances
- technology, data, and regulatory developments enable effective competition and innovation

9.10 Given the findings described earlier in this document, we are therefore considering a package of potential measures to:

- reform industry governance arrangements and agree a set of priorities for the industry over the next 3 years
- improve the quality and coverage of credit information
- enable greater competition and innovation through potential changes to data access arrangements and more timely reporting of key metrics
- support consumers to access and dispute credit information

9.11 In developing these potential measures, we have taken account of emerging market developments and findings from our other relevant work. This includes the increasing use of Open Banking data in credit information products and services, and the growth of innovative new Deferred Payment Credit (DPC) type products, the potential for significant (positive) disruptive entry, as well as insights from a forward-looking report we commissioned into the possible future of the credit information sector. These developments have helped inform our view about the potential direction of travel for the market, while both the Woolard Review and Borrowers in Financial Difficulty project identified important issues, including around industry governance arrangements and forbearance reporting – which our measures seek to address.

9.12 Overall, we consider that there is a clear basis for proportionate regulatory intervention to help achieve better outcomes for consumers and firms. However, we also want to ensure that the market is well placed to respond to future developments and that competition and innovation continue to help drive good outcomes.

9.13 We would like to hear stakeholder views on the effectiveness, proportionality and importance of the potential remedies before we develop the proposals further.

Reform industry governance arrangements

9.14 SCOR has played a positive role over a number of years in developing the credit reporting framework which has helped to reduce fraud and support responsible lending. However, many stakeholders acknowledge that SCOR may be ineffective at driving further change in its current form.

9.15 SCOR has a narrow remit and lacks representation from challenger CRAs and consumers. Unanimity in decision-making can mean it moves slowly. Some stakeholders also question whether it is sufficiently transparent and accountable.

9.16 We want to hear feedback from the credit information sector on ways to reform industry governance arrangements, to help make it fit for the future and help deliver key remedies. This would leave the industry better able to support innovation, competition and tackle future market developments while taking account of the views of a wider range of stakeholders.

9.17 The main industry participants (ie CRAs and lenders) carry out regulated activities and can therefore be subject to FCA rule-making powers. However, as a cross industry forum SCOR has no legal status and does not carry out any regulated activities.

9.18 A key part of the reforms would be about improving SCOR's basic governance standards and accountability, including:

- broader, more progressive objectives tied to outcomes for consumers
- a wider remit, for example also including CATO data and other non-traditional types of credit information
- direct representation from a wider group of stakeholders, including challenger CRAs, smaller lenders, and consumer organisations

- an agreed initial agenda to enable it to take a key role in helping take forward other elements of our package of remedies
- greater accountability and transparency, such as making agendas and minutes public
- increased resources to enable it to take forward its agenda

9.19 If pursued under a voluntary approach, we would envisage industry indicating its agreement to take this forward first, broadly along the lines described above. If agreed, we would anticipate industry designing the governance arrangements in detail, and agreeing them with us, before implementing the new arrangements.

Improve the quality and coverage of credit information

9.20 Accurate and comprehensive credit information is important to market integrity and in helping to ensure that consumers receive fair outcomes in retail lending markets.

9.21 We have identified material differences in the underlying credit information the 3 large CRAs hold on individuals. We would not currently expect these CRAs to have the same information, as not all data contributors report credit information to all 3 large CRAs. However, we believe that better market and consumer outcomes could be achieved through improvements in the reporting of data to CRAs.

9.22 Commercial incentives and significant coordination challenges across industry may hinder the ability of the market to achieve further improvements in these areas, and we think that consumer outcomes could be significantly improved through regulatory intervention.

9.23 We therefore want to open a debate about how a proportionate regulatory framework could be put in place to improve the quality of credit information, including potential measures in the following key areas:

- New FCA rules which require FSMA-regulated data contributors to report to certain 'designated' CRAs to improve the coverage of credit information. Any such designation scheme would need to be reviewed on an ongoing basis to reflect market and other developments.
- We are interested in views on whether the approach to data contribution should be cast more widely than FSMA regulated data contributors to help further improve the coverage of credit information.
- A common data reporting format designed by industry to improve the consistency and detail of information (particularly for forbearance, debt solutions and vulnerability).
- New FCA rules requiring 'designated' CRAs to report certain information to us to help our supervisory oversight.
- New FCA rules requiring FSMA-regulated data contributors to correct errors and report satisfied CCJs to the courts to help improve accuracy.

9.24 These remedies should collectively enable designated CRAs to offer more complete and detailed data, enabling lenders to make better decisions on whether to offer credit and at what price.

9.25 We know these measures raise complex issues which we need to consider carefully before deciding how best to proceed. This includes potentially altering the competitive dynamic between designated CRAs, as information provided by FSMA-regulated data contributors will become less differentiated. There are also complex interactions with lenders' decision-making and other operational processes that we want to explore further to better understand the potential implications of new regulatory requirements in this area.

9.26 Some of these measures could be taken forward separately, while there may be interdependencies for others. It is therefore important that we consider the synergies which may exist between the various measures when identifying which types of intervention are likely to be effective and proportionate.

Enable further competition and innovation

9.27 We want to ensure that the credit information sector supports dynamic competition and innovation.

9.28 We recognise that requiring lenders to share credit information with a small number of large CRAs may strengthen their competitive position and may therefore have a negative impact on challenger CRAs. Therefore, we want to consider whether and how any reporting requirement could or should be extended to a broader range of CRAs to help foster greater competition. This may therefore mean including challenger CRAs, that meet certain objective criteria, in the designation scheme.

9.29 Requiring lenders to share credit information with a larger number of CRAs may raise questions around the most efficient mechanism for sharing information. For example, rather than sharing information directly with CRAs it may be more efficient to share information through a single third-party entity which could act as a central repository and distributor of information. We know this would represent a significant change from the nature of current arrangements but would be interested to hear views on the potential costs and benefits of this.

9.30 We have heard demand for changes in some long-established industry practices, including more timely reporting and considering changes to data access arrangements. Many are primarily issues for industry to consider and take forward, but FCA intervention (eg around the remit and purpose of governance arrangements) could potentially support changes that could help improve consumer outcomes.

9.31 We thus want to consider a number of measures that could each help foster greater competition and innovation between CRAs and in the retail lending market more broadly:

- more timely reporting of key data to help provide a more up-to-date view of consumers' existing credit commitments
- reviewing data access arrangements under the Principles of Reciprocity to assess their continuing relevance and appropriateness
- improved CATO data with updated access arrangements to help lenders undertake more effective affordability assessments

More timely reporting of key data

9.32 The credit reporting framework is generally structured around a monthly reporting cycle. This aligns with payment cycles for traditional credit products but means that credit information can be outdated by the time it is used. The emergence of new products with higher usage frequencies and shorter repayment schedules raises a significant question around whether reporting to CRAs on a monthly basis remains appropriate.

9.33 We recognise the challenges of moving to a more timely reporting pattern across the whole of the industry. But we think that there is an opportunity to consider whether daily reporting of a more limited range of data could help produce a more accurate view of consumers' existing credit commitments. Thus we are proposing that once established, the new industry body undertakes further analysis to assess the potential costs and benefits of more timely reporting of key data and publishes a report on its findings. The findings of this industry analysis will help inform whether any regulatory intervention in this area is necessary or appropriate.

Reviewing data access arrangements under the Principles of Reciprocity

9.34 Access to credit information is generally determined by the principle of reciprocity. This principle has helped to prevent 'free riding' from those who would otherwise be unwilling to contribute credit information that they hold. How credit information is accessed and used also has complex interactions with data protection legislation and commercial arrangements.

9.35 The introduction of a new regulatory framework for the reporting of credit information would present an opportunity to consider the continuing relevance of the principle of reciprocity. There may be potential benefits – for both firms and consumers – if credit information could be used for a wider range of purposes, and so by a wider a range of users, than is currently permissible. However, we recognise that use of credit information for a wider range of use purposes has data protection implications and that decisions about what should or should not be permissible can be finely balanced.

9.36 We therefore think that this issue ought to be considered holistically by industry, with appropriate consumer representation, to determine whether the current approach delivers the best possible outcomes for consumers taking account of their reasonable expectations about how their information might be used. Consequently, we are proposing that the new industry body undertakes further analysis to assess the continuing relevance and appropriateness of the principle of reciprocity and publishes its findings, particularly in the context of an environment where credit information is provided to designated CRAs under a mandatory reporting requirement.

Improved CATO data with updated access arrangements

9.37 Current account turnover data (CATO) is governed by separate arrangements administered by UK Finance. While access to this dataset also broadly reflects the principle of reciprocity, it effectively restricts access to detailed CATO data to those contributors who offer personal current accounts (PCAs). More effective assessment of affordability by more lenders could potentially be achieved if access to detailed CATO data was available to non-PCA providers. We therefore want to consider the implications of such a change in access arrangements to CATO data.

9.38 We also understand that CATO data shared by PCA-providers with CRAs can often be calculated on different bases, with varying levels of granularity depending on the specific arrangements between PCA-provider and CRA. We therefore want to consider how greater consistency and granularity could be achieved in relation to the sharing of CATO data.

Support consumers to understand, access and dispute credit information

9.39 The credit information environment is complex, and many consumers struggle to access and understand credit information. They also face challenges when disputing information on their credit file. While there are many firms providing credit information services which offer help to consumers (ie CISPs) consumers are not always aware that credit information is available for free through a statutory process without the need to sign-up to subscription services.

9.40 We think that outcomes for consumers could be improved by a number of measures which help consumers to access and dispute credit information held by CRAs. These include:

- potential new rules for CRAs and firms providing credit information services which require prominent signposting to the availability of credit information through the statutory process
- a single consumer portal developed by designated CRAs which:
  - streamlines access to credit information through the statutory process
  - streamlines the data dispute process and
  - enables consumers to record Notices of Correction and potentially vulnerability markers on their credit files

9.41 We recognise that there are interactions with legislative requirements for data access and dispute processes set out in data protection legislation and section 159 of the CCA. However, we consider that a more streamlined process could be put in place while remaining compliant with these legislative requirements. We also recognise that some measures, such as the ability to record vulnerability markers, may depend on other changes and should be subject to wider debate about potential risks and benefits.

9.42 While a single consumer portal would represent a significant change from current arrangements and would require industry resource and expertise to successfully implement, we think that there is an opportunity to significantly improve consumer understanding and engagement. A streamlined dispute process may also help to reduce the cost of dealing with data disputes in the longer term.

9.43 Our initial view is that a single consumer portal could be effectively achieved through industry-led change, although we remain open to considering how a more formal regulatory solution could be implemented.

Implementation and timescales

9.44 These remedy areas have the potential to deliver significant benefits to consumers and lenders. If taken forward, they could help ensure that:

- designated CRAs can offer more comprehensive and detailed data, enabling lenders to make better decisions on whether to offer credit and at what price
- CIUs benefit from stronger, more dynamic competition between existing and new CRAs
- consumers are better able to access and dispute the information held by designated CRAs

9.45 In practice, the remedies could be implemented voluntarily by industry or through FCA rules.

9.46 The eventual package of remedies will depend on stakeholder feedback. If we decide to take them forward, either separately or as a package, we would envisage splitting the work into phases – the proposed changes to industry governance arrangements is a measure we would expect to prioritise as it could then help facilitate implementation of some of the other measures.

Feedback and next steps

9.47 We invite comments by 24 February 2023 on the findings and potential measures outlined in this interim report. There are a number of specific questions in the Remedies Annex on which we welcome stakeholder views. In particular, we want to hear views on the effectiveness, proportionality and phasing of the measures and their possible costs and benefits.

9.48 You can send your responses to these questions using the online form.

9.49 In 2023 Q3, we expect to publish a report setting out our final findings, the remedies we would like industry to implement voluntarily and our proposed next steps. If we decide to progress FCA rules on the measures set out in the final report, a Consultation Paper will follow.

We will make all responses available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

Glossary of terms used in this document

Affordability assessment	Assessment of a customer's ability to make repayments in a sustainable manner without having a significant adverse impact on the customer's financial situation.
Barriers to entry	Factors that can impede new firms from entering a market and so limit competition.
Challenger CRAs	Small CRA that typically use Open Banking data to inform creditworthiness assessments.
Credit file	The information that a CRA holds about an individual related to their financial standing.
Credit information service provider	Provider of credit information services to consumers.
Credit information user	Purchaser of credit information and derived products (from a CRA) typically to verify the identity of potential new customers and to assess their creditworthiness.
Credit score	Indicator of an individual's creditworthiness, typically provided by a CRA.
Creditworthiness assessment	A lender's assessment of credit risk (to the firm) and affordability for the borrower.
Contestable market	A market for which there is relatively free of entry and exit.
Coverage	The extent to which a CRA has been able to obtain and match data on an individual.
Dark patterns	Harmful digital design practices that are also sometimes referred to as 'deceptive design'. Examples include hiding important information in a navigation menu or misdirecting consumers' attention to choices that are not in their best interests.
Data contributor	Provider of data (relevant to an individual's financial standing) to a CRA. Typically includes lenders and non-financial services firms. CRAs also obtain information from other public and private data sources.
Data inconsistencies	Differences in the data held by the 3 large CRAs on the individuals in our common sample.
Data quality	Coverage and other aspects of the quality of credit information such as timeliness, accuracy and depth.
Deferred payment credit	New type of product sometimes referred to as buy-now-pay-later.
Dynamic competition	Competition between firms on innovation.
Event study	Quantitative analysis of consumer credit scores to understand if access to credit information leads to higher scores.

Foreclosure	Exclusion of a firm from a market caused by restricted access to a necessary input.
Hard search	A check of an individual's credit file following an application for credit that is visible to other lenders.
Open Banking	A secure way for customers to control their banking data and share it with organisations other than their own bank.
Open Banking Implementation Entity	Independent organisation set up by the 9 largest UK retail banks, following an order by the CMA, to implement Open Banking in the UK.
Raw data	Basic credit information held by CRAs on an individual.
Sludge practices	Excessive friction that hinders consumers from making decisions in their interests (by taking advantage of their behavioural biases).
Social purpose lender	Small lender that is, for example, not-for-profit or has some other positive societal objective.
Soft search	A check of an individual's credit file that is not visible to other lenders.
Static competition	Competition between firms on basic parameters such as price and quality.
Statutory credit report	Credit file information available for free through a statutory process.
Summary data	Processed information held by a CRA on an individual.
The 3 large CRAs	Experian, TransUnion and Equifax.
Traditional bureau	Experian, TransUnion and Equifax, all of whom rely on data sharing under the PoR to provide credit information to CIUs.

Abbreviations used in this document

Abbreviation	Description
BiFD	Borrowers in financial difficulty
BNPL	Buy-now-pay-later
CA98	Competition Act 1998
CATO	Current account turnover
CCA	Consumer Credit Act
CCJ	County Court Judgment
CCP	Credit comparison platform
CDFI	Community Development Financial Institutions
CIS	Credit information services
CISP	Credit information service provider
CIU	Credit information user
CMA	Competition and Markets Authority
CRA	Credit reference agency
CU	Credit union
DCMS	Department of Media, Culture and Sport
DPC	Deferred payment credit
FSMA	Financial Services and Markets Act 2000
HHI	Herfindahl-Hirschmann Index
HMT	HM Treasury
ICO	Information Commissioner's Office
IVA	Individual Voluntary Arrangement
NoC	Notice of Correction

Abbreviation	Description
PCA	Personal current account
PCW	Price comparison website
PoR	Principles of reciprocity
RFI	Request for Information
SCOR	Steering Committee on Reciprocity
T&Cs	Terms and conditions
UKF	UK Finance

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