

Credit Information Market Study Interim Report

Annex 3: Credit information service competition

November 2022

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1 Introduction and our approach

- 1 This annex presents our analysis of competition for credit information services (CIS). When competition works well, it drives down costs and prices and drives up service standards, in the interest of consumers. Weak or poorly functioning competition in financial services can cause harm to consumers, firms and the wider economy. Competition is a vital engine of economic growth. By regulating to support competitive markets, our work both adds value to the economy as a whole and helps individual consumers.
- 2 Providing credit information services is a regulated activity under article 89A of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (RAO). CIS can be provided by CRAs, and by other CIS providers, which typically, are firms that use a Part 4A permission to carry on the regulated activity of providing credit information services. We refer to such firms in this annex as Credit Information Service Providers or CISPs. They obtain credit information data from one or more Credit Reference Agency (CRA). Over and above providing credit information to consumers, their activities include, but are not limited to, providing Open Banking data, information and advice to support understanding of credit information, price comparison services, etc. There are important links between CISPs and the CRAs they rely upon to offer their services. CISPs obtain credit information from one or more CRA in exchange for a fee. For example, ClearScore uses data solely from Equifax, checkmyfile uses data from Equifax, Experian, TransUnion and Crediva, Credit Karma uses data from TransUnion. The sale of credit information to CISPs can thus be an important revenue stream for the CRAs.
- 3 Out of the three largest CRAs (Experian, Equifax, and TransUnion), Experian and Equifax provide a CIS offering directly through their websites. Experian do this through 'CreditExpert', a tool that gives consumer's daily updates on their credit score and report, personalised tips on how to improve their score and credit report alerts. Experian also offer price comparison services for products like credit cards, loans, mortgages, insurance etc and receives commission payments from lenders or brokers. Equifax do this through 'myEquifax', a product/tool that provides consumers unlimited access to their Equifax credit report and score, alerts about any significant changes to their credit report, identity protection tools and comprehensive support from a customer care team. Equifax, too, offer price comparison services for loans and credit cards through 'Equifax Marketplace' (in partnership with Creditec Ltd) and share any commission received from lenders with Creditec Ltd.
- 4 Because Experian and Equifax provide credit information to CISPs and provide a CIS offering themselves, they could have the ability and incentive to affect the degree of effective competition in the CIS market in order to benefit their own CIS businesses. For instance, by setting prices for CISPs at a non-competitive level, CRAs may create or reinforce barriers to entry.
- 5 As such, we set out to understand the structure of the market and competitive dynamics, including vertical relationships between CRAs and CISPs, CIS business models and how they have evolved, and to assess how firms offering CIS compete to retain and win new consumers. In particular, we assessed whether CISPs can access

credit information from CRAs at competitive prices and are provided good service standards and quality, in order to operate effectively in the market.

- 6 Finally, we have assessed competition in the provision of products which inform pre-qualification services (PQS). A PQS is an estimate for credit given by a lender (or a credit broker) based on information provided by a borrower. It is conditional and involves the lender reviewing the borrower's creditworthiness before granting a pre-approval. A range of solutions exists in this market to help lenders, and CISPs that operate price comparison services, to perform these 'soft' checks, however they are limited to a few firms. Experian, through its acquisition of HD Decisions and Runpath in 2015 and 2017 respectively, is the main provider of products/solutions which inform pre-qualification services in the CISP market. Monevo, an alternative to Experian, also provides these solutions however its services are restricted to a smaller pool of credit products. Because most CISPs generate a significant portion of their revenue via credit broking, we have concerns that weak competition in the provision of products which inform PQS could potentially affect or distort competition within the CISP market. For example, should third party CISPs pay relatively higher prices for PQS than an integrated CIS pays, this could reduce their ability to compete against the integrated provider. We explore this in detail in chapter 5.
- 7 In terms of the wider market study, our analysis informs whether competition is working well for market participants in CIS. CIS is chiefly consumer-facing, and so, if competition is not working well, consumers may potentially be facing adverse outcomes, both in this market and in lending markets.

Scope of our analysis

- 8 Our analysis is set out below as follows:
 - In Chapter 2 we describe the structure of, and business models adopted in, the supply of CIS.
 - In Chapter 3 we discuss the characteristics of CIS, assess the effectiveness of competition for the supply of CIS, and the outcomes for consumers.
 - In Chapter 4 we assess whether the commercial relationships between CISPs and CRAs affect competition for CIS, including in the provision of products that inform pre-qualification services (Chapter 5).

Evidence base

- 9 Our analysis relies on several sources of data.
 - The responses of 10 CISPs to our information request on their business model, operations, and their views on competition for CIS.
 - Information from firms' business documents, such as internal consumer research results and strategy plans.
 - The CMA's Provisional Findings report into the acquisition by Experian of ClearScore (the "Provisional Findings").¹ This merger was abandoned after the CMA raised concerns that there would be a "substantial lessening of competition" ("SLC") as a result of the merger and opened an in-depth investigation.²

¹ The Provisional Findings can be found at the following case page: <https://www.gov.uk/cma-cases/experian-limited-credit-laser-holdings-ClearScore>

² An 'SLC' is the CMA's legal test to refer a proposed merger to an in-depth investigation. The CMA assesses whether a merger is likely to significantly affect firms' rivalry, and thus overall competitive pressure, in the long-run in the markets where merger parties compete. The merger investigation focuses on assessing whether the merger will lead to an SLC

- Data and findings from our other working papers.

against a relevant counterfactual situation (for instance, that the market keeps operating as before the merger). Importantly, it is not meant to assess the degree of competition in the absolute. (See [Merger assessment guidelines: CC2/OFT1254](#)).

2 Market Overview

Introduction

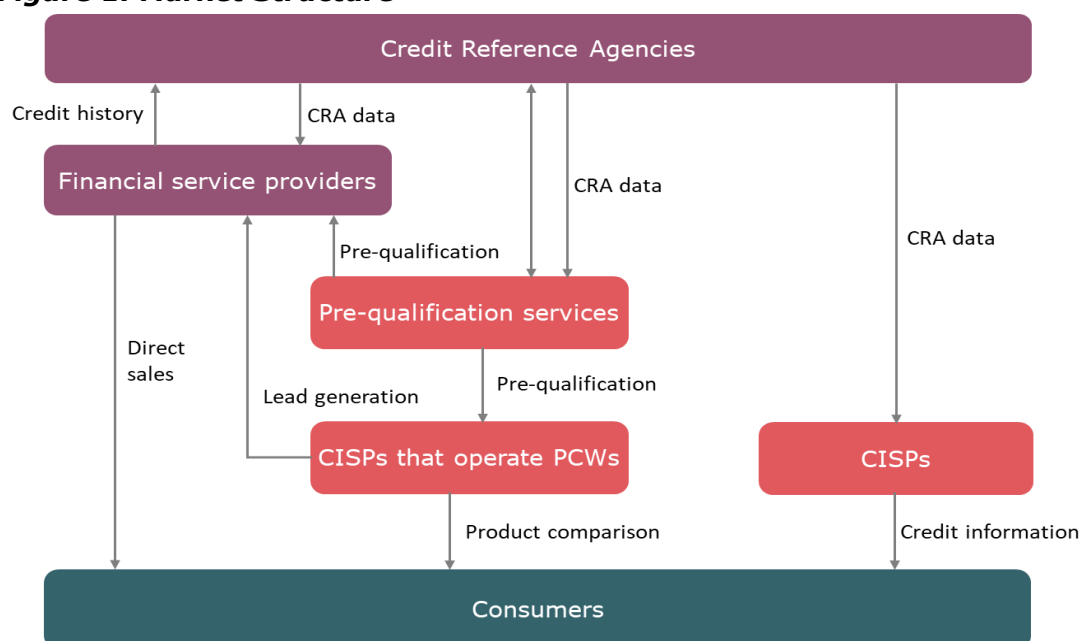
- 10 Providing 'credit information services' is a regulated activity under article 89A of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (RAO). Firms that offer these services (also known as CISPs), typically:
 - Seek to obtain information on behalf of a consumer about his/her financial standing such as credit rating
 - On behalf of a consumer, seek to amend information held by a CRA about his/her financial standing or prevent the agency from holding or disclosing such information.
- 11 In this section, we describe the main characteristics of the CIS market. We describe:
 - CISPs and their business models
 - what CIS offers consumers
 - the CISP supply chain

CISP Supply Chain

Supply chain for the provision of CIS and related services

- 12 Below, we describe the relationships between players involved in the CIS supply chain: CISPs, CRAs, and financial services providers (primarily lenders). Figure 1 summarises the interaction between these players. Magenta arrows denote the provision of a service or product by one category of player to the other, and purple arrows illustrate where we observe instances of vertical integration in the provision of these services.

Figure 1: Market Structure



Source: Adapted from CMA's Provisional Findings on Experian/ClearScore

13 We describe the elements of Figure 1:

- CRAs collect, maintain and commercialise credit information.
- Financial services providers (mostly lenders) contribute to CRA databases, purchase CRA data and related services, and offer credit to consumers, either through direct sales or through intermediaries such as price comparison websites.
- CISPs source CRA data and distribute it to consumers, as described previously.
- CISPs that operate price comparison services aggregate various lending offers, present them to consumers, and support them in finding relevant lending products.
- Pre-qualification service providers source data from CRAs and lenders to provide price comparison websites with tools that enable them to perform 'soft checks' and determine which credit products best fit a consumer. They are also known as "eligibility checkers".

CISPs and their business models

14 Under Article 15 of the General Data Protection Regulation (GDPR, 2018), consumers have the right to request a copy of their "Statutory Credit Report (SCR)" from a CRA. A SCR details an individual's credit history. It contains public and private information recorded in an individual's name and is available to authorised lenders carrying out a credit check through a given CRA.

15 CISPs seek to obtain this information from CRAs on behalf of consumers and present it to them along with a credit score, a three-digit number representing the probability of a consumer defaulting.

16 In addition to providing consumers access to their credit information, some CISPs may also offer other related services:

17 They may offer price comparison services for credit products such as loans, credit cards, etc on their websites. Price comparison services typically connect users with lenders, matching users with financial products that are suitable for them. They allow users to save time by removing the need to individually compare a large number of suppliers. Lenders use these price comparison services as a marketing channel through which they can offer credit products. CISPs typically earn a commission on every lead they generate for a lender.

- CISPs may also aim to improve the financial literacy and standing of their consumers by offering guides/dedicated sections on their websites that contain useful information on how to improve one's overall credit profile. Some firms may provide personalised insights about a consumer's credit score and tips on how to improve it. CISPs that operate price comparison services have an incentive to help consumers improve their eligibility for credit, as they earn commission when consumers successfully obtain credit via them.
- They may also provide other tools and services like identity theft and fraud prevention tools, contact centres for consumers in vulnerable circumstances and so on.
- Firms that provide credit information services in relation to information relevant to the financial standing of an individual. These firms typically bundle a range of associated products and services and offer them to consumers using a subscription-based pricing model. They primarily derive their revenue from these consumer-facing subscription-based products and services. Examples of such firms include checkmyfile, Affinion, and Credit Angel.

- Firms that provide credit information services in relation to information relevant to the financial standing of an individual *and* act as credit brokers. These firms primarily derive their revenue from commissions earned through their price comparison services. Examples of such firms include MoneySuperMarket, ClearScore, Credit Karma, and Totally Money.
- 18 It is important to note here that CRAs may also provide a CIS offering to consumers. For example, out of the three largest CRAs (Experian, Equifax, and TransUnion), Experian and Equifax provide a CIS offering directly through their websites.
 - 19 Among CRAs, the largest (in terms of revenue generated) provider of CIS is Experian. Experian provides its CIS offering through 'CreditExpert', a paid for tool that gives consumer's daily updates on their credit score and report, personalised tips on how to improve their score and credit report alerts. Experian also offers price comparison services for products like credit cards, loans, mortgages, insurance etc and receives commission payments from lenders or brokers.
 - 20 Among CISPs, the largest provider of CIS (in terms of revenue generated) is ClearScore, which launched in the UK in 2015. ClearScore provides consumers with their credit information free of charge and primarily generates its revenue via commission earned through its price comparison services. In 2018 Experian sought to acquire ClearScore, but this was abandoned after a merger investigation by the CMA found that the merger may result in a substantial lessening of competition in the market for "credit comparison platforms".
 - 21 Another CISP is Credit Karma. Credit Karma started in the USA as a free CISP and entered the UK market through its acquisition of Noddle from TransUnion in 2019.³
 - 22 Among the CRAs that provide CIS and CISPs that responded to our request for information, only Experian, Equifax and Credit Karma generate (or have generated) revenues from both lead generation and subscriptions. However, Equifax is a relatively small player in the provision of CIS, and Credit Karma shut down its subscription service in 2018 (and moved its previously paying subscribers to its free products).
 - 23 The three large CRAs are also legally mandated to provide consumers with free statutory credit reports (SCRs). We discuss this in more detail below, as well as this report's [Consumer Engagement Annex](#).
 - 24 A cohort of CISPs, particularly those that offer credit information free of cost to their customers, have disrupted the market for CIS. Historically, CISPs earned a significant part of their revenue by charging customers via subscriptions for paid-for services. Increasing up-take and substitutability of free CIS has meant that the way CISPs generate revenue has changed. They now chiefly make money via lead generation on their CCP. We explore this in detail in Chapter 3.
 - 25 The disruption of the fee-paying subscription model has also impacted CRAs that provide CIS who have seen either stable or declining revenues directly collected from consumers (i.e. subscriptions). The revenue collected through commissions partially offset these declining revenues.

³ Noddle was the CIS provider for former CRA CallCredit and was operating since 2011 with both free and paid-for services. TransUnion acquired CallCredit in 2018, and subsequently chose to sell Noddle.

3 Competition in provision of CIS

Introduction

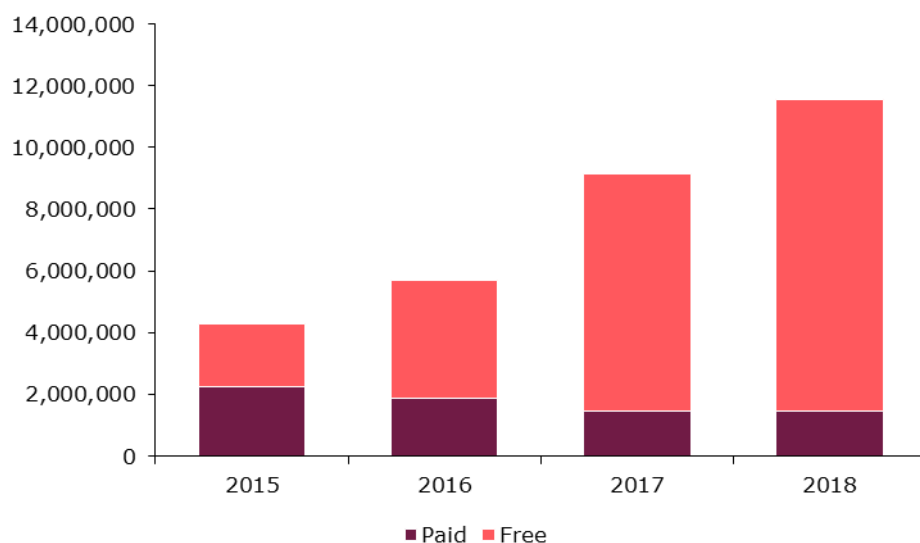
- 26 Our analysis in this chapter aims to detect inefficiencies (if there are any) arising from weak competition in the CIS market. We focus on both price and non-price factors of competition including product/service quality, innovation and product range. We do so by presenting evidence that we have collected on both the demand side as well as the supply side of the CIS market, focusing on the outcomes that this generates for consumers.
- 27 In the section *Demand-side characteristics*, we discuss the following themes:
- Consumers' adoption of CIS, to assess how the market for CIS has significantly expanded with the emergence of free CIS.
 - Differences in CIS consumption between free users and subscription-based users, and whether free CIS services impose a competitive constraint on subscription-based services.
 - The extent to which consumers multi-home.
- 28 In the section *Supply-side characteristics*, we present our analysis of:
- Concentration among suppliers of CIS and how this has evolved through time
 - How firms offering CIS compete with each other
 - How findings from our consumer research relate to the incentives faced by firms offering CIS
 - Incentives related to firms' credit broking activity
 - Other market characteristics such as economies of scale and barriers to entry and expansion
- 29 Throughout this chapter we describe our assessment of the outcomes generated by the interaction between both sides.

Demand-side characteristics

Consumers' adoption of CIS

- 30 Over the past few years, consumers' use of CIS has grown rapidly. This has been driven by the emergence of several free CIS offerings, such as ClearScore in 2015 and Experian's "Credit Matcher" in 2016.
- 31 Figure 2 below illustrates the number of paid and free active accounts over time managed by the firms offering CIS in our sample. It shows that over four years, the number of active user accounts (i.e., users that have had a login in the last two years) has gone from roughly 4 million, to over 11 million. At the same time, free accounts grew from 2 million to 10 million, and paid accounts decreased from 2.2 million to 1.4 million.

Figure 2: Number of active CIS user accounts over time, 2015-2018



Source: FCA analysis based on information provided by firms

- 32 The decrease in paid-for accounts and the increase in free user accounts have occurred in parallel. Over this period, not only have a proportion of previously paying consumers moved on to free services, but in addition, the emergence of free CIS propositions has fuelled an overall increase of usage for CIS. Hence, as a result of free CIS, credit information is now increasingly accessible to consumers.
- 33 This has meant that the largest CIS firms' main source of revenue has changed over time, from subscriptions to credit broking via their price comparison services⁴.
- 34 The emergence of free services makes it more likely that some consumers hold multiple credit information accounts ('multi-home'), and/or keep open inactive accounts (defined as no login over a two-year period).
- 35 Inactive accounts represent little value to CISP as they won't generate commission revenues. This means that free CISP are likely to focus on acquiring consumers and keeping consumers engaged to drive revenues. We discuss the importance of consumer acquisition and ongoing engagement, for CISP, in detail below.
- 36 The extent of multi-homing is uncertain. The CMA's 2019 analysis of multi-homing in its Experian/ClearScore Provisional Findings⁵ indicated that multi-homing is relatively uncommon. However, one firm submitted data on multi-homing to us which suggests that in some cases more than half of users of a given firm also obtain CIS from another firm.
- 37 According to the same research by this provider, multi-homing appears to be much more widespread amongst firms that provide price comparison services.

Demand segmentation

- 38 We investigated the differences between users of subscription-based CIS and users of free CIS to assess differences in outcomes, for example, in the range of services they can access. Firms' interaction with consumers may differ depending on how they

⁴ We are also aware of different business models. One example is that consumers can be charged a fee which can be part of a subscription bundle, eg, on a quasi-loan or credit improvement product.

⁵ <https://www.gov.uk/cma-cases/experian-limited-credit-laser-holdings-clearscore>

generate revenue. The difference between paid and free CIS can affect the degree of consumer switching, which is conditional on the degree to which free and paid-for CIS are substitutable (which can also be viewed as the competitive constraint one applies on the other). We also looked at whether a typical CIS user uses more than one firm (multi-homing), as this will impact the degree to which firms are incentivised to keep users engaged as well as consumers' propensity to switch CISP.

Subscribers

- 39 Consumers who pay a subscription for their CIS could face harm for two reasons. Firstly, they may not be receiving objective value for money if free CIS was a perfect substitute to their current paid for service. Second, they may be inactive and continue paying for CIS they do not use.
- 40 Subscription-based CIS products generally offer a one-month free trial period. After this, subscription costs between £5 and £15 monthly, depending on the provider. In addition, some CISPs offer a second-tier subscription with more basic CIS and services related to fraud detection, which are offered for prices ranging from £3 to £7 monthly.
- 41 We received data from four firms providing subscription-based CIS which indicated that consumers maintain their subscription for typically less than 6 months, although a large proportion of consumers cancel their subscription during the initial month trial period. This pattern is consistent across several subscription-based CIS offerings.
- 42 It is likely that competition from free CIS is likely to attract the most budget sensitive consumers, who are less likely to subscribe to a paid-for CIS. This lowers the risk that the potential harm affects consumers with lower incomes.
- 43 CIS also include regular email updates, for example when a consumer's credit score changes. This mitigates the risk that consumers forget about their subscriptions. Furthermore, we see that uptake of paid-for CIS services is on the decline as firms have pivoted to a credit broking business model.
- 44 We intend to conduct a sludge review investigating the process by which consumers cancel their subscriptions before publishing our final report.
- 45 According to consumer research which tested different subscription bundles (including free ones) with consumers submitted by one CISP, 10% of consumers are willing to pay for a subscription at an average price of £2.80 monthly, and 5% are willing to pay £9.99 monthly. This suggests that there is a segment of consumers who prefer to pay for a premium service.
- 46 Also, we have seen that free services have expanded over the same time period that revenues from subscription services have declined. This suggests that a proportion of previously paying consumers have been able to access, assess (shop around) and act (switch) in their best interest.

Free users

- 47 Free users represent the majority of CIS consumers: 90% in 2018, as illustrated in Figure 2 above.
- 48 Providers of free CIS explained that users of free credit checking tools rarely cancel their accounts. For instance, one provider told us that their attrition rate for their free

service was approximately 0.1%. Another submitted that approximately 3% of their accounts were shut each year.

- 49 Although consumers do not close their accounts, they may quickly become inactive. One firm indicated that approximately 30% of a cohort of users had become inactive after four years (defined as no login over a two-year period). Since firms offering free CIS generate revenue via lead generation, these providers want users to be actively engaging, thereby more likely to generate their commission.
- 50 Data submitted by one CISP indicates that users are more likely to be converted (i.e. earn the CISP commission) in the first month of opening an account. This is likely to be because demand for CIS derives from demand for credit, as shown by our consumer research (see the [Consumer Engagement Annex](#)). Thus, attracting consumers who are looking for credit is key to generating revenues, as further discussed below.

Comparison between paid-for and free CIS offers

- 51 We looked at whether free users and subscribers get different levels of service in practice. We wanted to investigate the degree of substitutability between firms' products (both free and paid for). We also wanted to know if providers offered different product ranges (i.e., a lack of exhaustive provision), both between a providers' free and paid products and between rival providers. To do so we compared the offerings of the main CISPs, depending on their monetisation model.
- 52 We found pronounced differences between some CISPs' free and paid-for products. These firms have an incentive to maintain this difference, to avoid their free product cannibalising their paid-for product. It also provides firm's the opportunity to upsell the paid-for product to free users, so growing a firm's free user base can also be beneficial for its paid-for product's revenue.
- 53 Amongst CISPs that offer subscription services, we found that competition takes place through product differentiation. For example, some CISPs offer a wider and more comprehensive range of products and services than others. Some offer a unique proposition by aggregating credit information from more than just one CRA.
- 54 CISPs that offer free services compete with each other via product differentiation too. These CISPs also compete directly with CISPs that offer paid for services.
- 55 Given the similarity of the offerings between free and paid-for CISPs, we find that it is likely that they are close substitutes to each other. This high degree of substitutability, perhaps, explains the significant expansion of free CISPs over time.
- 56 This is also consistent with the conclusions from the CMA's Provisional Findings which find free services, such as those provided by ClearScore, had been the closest competitive constraint to Experian's CreditExpert product. In addition, a large provider informed us that firms offering paid-for CIS consider the relative value of their proposition compared to their free alternatives. This qualitative evidence further indicates that free CIS propositions exert a competitive pressure on subscription-based services.

Supply-side characteristics

- 57 In this section, we present an analysis of estimates of share of supply compiled using the data provided by the sample of firms we surveyed. We have built several share measures to capture different aspects of competition between firms providing CIS.
- 58 Our analysis is based on a sample of firms⁶. As such our share estimates can be considered an upper bound on the level of market concentration.

Concentration measured by revenues

- 59 First, we considered the evolution of aggregate revenue, its composition, and firms' relative sizes in terms of revenue in recent years. We compared outcomes between 2016 and 2018.
- 60 We aggregated firms' earnings from subscriptions and commissions earned from lenders. We found the following:
- Aggregate revenue decreased by 2.2%, from approximately £215m in 2016 to £210m in 2018.
 - In 2016, commission revenues represented 9% of total revenues, in 2018 they represented 32% of total revenues.
 - In 2016, the top three firms collected 88% of the revenues. In 2018, they collected 83%.
- 61 Revenue shares have not been stable through time. The third largest supplier in 2016 more than tripled its revenue share in 2018 and overtook the second largest provider. The two other large players lost revenue shares, and the remaining providers in the market expanded their combined market share.
- 62 Accordingly, the sector Herfindahl Hirschmann Index ("HHI", a measure of concentration among a group of firms) has decreased from 4978 in 2016 to 3093 in 2018.⁷ The evolution of this statistic summarises the fact that the market has become less concentrated in this timeframe but remains highly concentrated. A HHI greater than 2500 is seen as implying a high degree of concentration. As caveated already, this estimate is likely an upper bound, given we only surveyed a sample of firms.
- 63 During that timeframe, CIS suppliers, such as Totally Money, also entered the market. Noddle was sold to Credit Karma and rebranded. In addition, in 2020, comparethemarket launched a CIS offering. These entrants have the possibility of reducing concentration in the market in the future.
- 64 Overall, despite revenues being concentrated, we have seen significant change over a short period of time, both in terms of the composition of CISPs' revenues and in terms of the market share of providers.

⁶ Experian, ClearScore, Equifax, CheckMyFile, Affinion, Quint, Credit Karma, MoneySuperMarket, RS Datatech, Scores Matter and Totally Money.

⁷ The HHI is a statistic computed as the sum of the shares of suppliers squared. The higher the HHI, the more concentrated the market. A high HHI can be caused by a small number of suppliers, or a single firm with a large market share. For comparison, a monopoly would have a HHI of 10,000. A duopoly with equal share, a HHI of 5000. A market with three equal players, a HHI of 3333; and a market with 4 equal players a HHI of 2500. So, the CIS industry evolved from a situation where it appeared as concentrated as an even duopoly, to a situation where it is less concentrated than a 3 equal players market, but somewhat more than a 4 equal players market.

Impact of MoneySuperMarket's entry on revenue concentration

- 65 Our analysis of market concentration thus far relies on a sample of CISPs for which CIS is their main historical activity. It does not include price comparison websites who have launched a CIS offering to complement their existing business. Notably, in 2016, MoneySuperMarket, one of the largest price comparison websites, launched its own CIS over the course of our work on the sector.
- 66 From the CMA's Provisional Findings on the Experian/ClearScore merger MoneySuperMarket group is estimated to have had 30-40% market share in credit cards and 20-30% in loans (see Provisional Findings, Table 10.1). This suggests that MoneySuperMarket's credit-driven revenue is larger than ClearScore's (which had 10% and 10-20% respectively). This means that including MoneySuperMarket would have had a significant impact on our concentration analysis. Integrating a provider of this size would lead to a much lower HHI index, at roughly 2150 (implying a shift of concentration from highly concentrated to moderately concentrated). Concentration among CISPs would appear lower, but still significant.

Concentration measured by number of users

- 67 We looked at the distribution of users among the CISPs in our sample. This complements the analysis of revenue shares by providing a view of the relative users' volume, irrespective of revenues generated, which may differ according to the business model and other suppliers' characteristics.
- 68 User concentration in free CIS is even greater than by revenue, with the top three providers representing 95% of users in 2018, up from 92% in 2016. The composition of the top three suppliers remained the same during that timeframe, but the number of users overall nearly doubled at the same time.
- 69 This difference is explained by the fact that free accounts generate a lower average revenue per user than subscriptions. Not every user will convert to a successful intermediation and generate a commission. As shown in Figure 2 above, in 2018, 90% of users had a free account. But lead-generation represents about a third of revenues. This means that the average revenue per user from the free, commission subsidised model is lower than the average revenue generated through subscriptions.
- 70 Recent, successful market entry into the provision of CIS (eg, ClearScore, MoneySuperMarket) demonstrate that, although being concentrated, entry into the provision of CIS is feasible.

The importance of consumer acquisition and ongoing engagement in CIS competition

- 71 Instead of attracting consumers to their platforms in order to entice a subscription, firms providing CISPs now have to increasingly keep users engaged so that they utilise their price comparison services and are more likely to generate revenues through credit broking activities. Hence CISPs compete to attract and keep consumers engaged to their platforms.
- 72 In addition, a significant proportion of consumers engage with credit information because of a credit need. Therefore, acquisition and lead generation are closely linked

since consumers tend to engage with their credit score with a credit application in mind (i.e. demand for CIS or price comparison services can be interpreted as a derived demand for credit, to an extent).

- 73 Given the importance of acquiring consumers regularly to generate revenues, firms invest heavily in marketing and advertising. As some competitors informed us, ClearScore's success was in part driven by its ability to manage significant advertising spending due to being well financially resourced.
- 74 Consistent with this finding, firms in our sample spend on average, 17% of their direct revenues on marketing. This is as much on average as CISPs spend on acquiring credit data.
- 75 Consistent with the view that firms compete for consumers' attention, firms track their rivals' share of internet traffic using datasets such as Hitwise which provides estimates of web traffic.
- 76 Firms also adapt to each other's advertising strategy. For instance, a CISP launched TV advertising campaigns in response to an increasing presence of rival CISPs on these channels.
- 77 Several firms provided insights on the evolution of their marketing costs, which have been increasing over time. It may not necessarily mean that consumer acquisitions costs are rising: in the case of one credit information service provider, the launch of its free service has allowed it to improve its onsite conversion of customers, thereby decreasing its customer acquisition cost.

Credit broking incentives

- 78 Since firms offering free CIS, and offering price comparison services, chiefly earn revenue via credit broking, there is a potential concern that they may be incentivised to induce consumers to take on unsuitable and expensive credit in order to maximise commissions earned. We analyse their incentives and ability to do so, as well as their conduct with regards to regulation, below.
- 79 We heard from one CISP that they earn greater fees when consumers secure near prime credit cards compared to prime ones. Therefore, especially for consumers on the margin of being considered near prime or prime, CISPs may have the incentive (to earn more revenue) and ability (by displaying higher cost credit prominently) to induce a consumer to take on unsuitable and costly credit.
- 80 However, there are some firm practices and market features which may mitigate the extent to which commissions influence CISP's incentives and behaviour.
- 81 For example, CISPs have told us that they use an automated algorithm which they claim is not biased in favour of revenue generation when showing consumers available credit products. This algorithm does not look to maximise bounties (i.e. commission). Instead, we have been told that the algorithm takes into account elements such as eligibility, the total cost of credit and other minor factors such as secondary terms and star ratings.
- 82 In addition, one CISP told us that lenders cannot pay for position within the price comparison website platform. Nevertheless, this evidence is qualitative and based on one CISP only. As such, we cannot be certain that our initial concern is mitigated by

CISPs' actual conduct. It is therefore important that CISPs that operate price comparison services keep their practices under review to ensure that they are brokering products in a way that treats consumers fairly.

- 83 Our Consumer Duty⁸ requires firms to focus on supporting their customers to make good financial decisions, enable and support customers to pursue their financial objectives, act to avoid foreseeable harm to customers and checking whether their customers are receiving good outcomes. This includes providing information to consumers to understand products and services that are fit for purpose and offer fair value and helpful customer service.
- 84 Therefore, given CISPs appear to have the incentive and ability to induce consumers to take on unsuitable credit, and given our Consumer Duty, we expect providers of credit broking services to consider, review and comply with our Consumer Duty once it is live.

Our consumer research findings on consumers' engagement with credit information and its interaction with firms' incentives

- 85 Our consumer research work is presented in the Consumer Engagement annex. We briefly summarise the results of that work that are useful in the context of this annex, specifically in relation to the incentives firms face.
- 86 We found that that 94% of consumers are aware of the existence of their credit score, and that 57% of consumers have checked their score, which involves interacting with CIS in most cases.
- 87 Despite high awareness of credit scores, consumers generally have a poor understanding regarding the impact of their behaviour on their perceived credit risk. We have found that a large proportion of consumers who would benefit from taking action to improve their score do not do so.
- 88 Firms offering CIS are bringing new products to market which aim to improve consumer understanding. As these products are still in their infancy, we have not sought to evaluate their effectiveness.
- 89 Our consumer research also confirmed that usage of CIS is closely positively related to usage of credit overall (i.e. the demand for CIS is a derived demand for credit, to an extent).
- 90 Firms are therefore incentivised to address current levels of low consumer understanding. A more informed cohort of consumers, who can better mitigate adverse impacts to their creditworthiness, and look to improve their score by exhibiting positive financial behaviours, will likely generate CISPs more revenue as they will be increasingly credit eligible.

Barriers to entry and expansion

- 91 In this section we explore whether provision of credit information exhibits barriers to entry, such as economies of scale and network effects. We also look at evidence which suggests that such barriers have been overcome and may be limited in inhibiting expansion for new entrants in CIS.

⁸ <https://www.fca.org.uk/firms/consumer-duty>

Economies of scale and Network Effects

- 92 We examine whether CIS exhibit economies of scale and network effects as this can lead to advantages for incumbent providers and make entry and expansion difficult for new entrants. As a result, incumbents may not experience a competitive constraint from prospective entrants, and as a result may not be adequately incentivised to engage in effective price and non-price competition to the benefit of customers.
- 93 Given the market characteristics described in this paper, the CIS industry is likely to exhibit economies of scale for at least two reasons.
- 94 First, CIS are mainly provided through digital applications, typically requiring a lump-sum initial investment and fixed costs to maintain. Marginal users' costs are driven by costs of acquisition through marketing, and the cost of sourcing their credit file data from CRAs. In terms of these CRA data costs below, we have seen that generally agreed prices have been discounted according to the volume purchased. This would contribute to economies of scale for expanding CISP.
- 95 Secondly, CISP who operate price comparison services act as providers on a two-sided market. As a result, the platforms cater to two distinct user groups: prospective borrowers (consumers) and lenders. Consumers can access the price comparison services for free, and the CISP that operates these services can earn revenue from lenders via credit broking.
- 96 These two groups impose indirect network effects on one another. Generally, a two-sided market becomes more attractive for each side as the number of users on the other side increases. Thus, as the CISP that offer price comparison services expands the number of credit products it intermediates, it becomes more attractive for prospective consumers to join. Accordingly, the greater the number of consumers who use a given price comparison service, the more attractive the platform is for lenders who can therefore reach a greater number of prospective borrowers.
- 97 As a result of this network effect, established firms with a large cohort of consumers and lenders are able to compete strongly as price comparison websites. They are able to effectively intermediate a critical mass of the two sides of the platforms, thereby generating revenue.
- 98 Overall, we consider the provision of CIS to be characterised by economies of scale. We have inferred that this is likely, given that they operate platform business models, which are characterised by indirect network effects. Together, these advantage large, established providers and act as a barrier to entry and expansion for new entrants. However, the entry we have observed shows these features have not prevented entry.

Timeline of change in industry structure

- 99 The emergence of providers with a model combining a free CIS with a price comparison offering has significantly disrupted the industry. The timeline of entry of providers offering free CIS is as follows:
- Noddle launched with a free and a paid-for proposition in 2011.
 - ClearScore launched in 2015.
 - In 2016, Experian launched its free service. And MoneySavingExpert (a subsidiary of MoneySuperMarket) launched a free CIS tool called Credit Club.

- TotallyMoney, focusing on providing price comparison services, launched a free CIS in 2017.
 - At the end of 2018, MoneySuperMarket launched a free CIS called Credit Monitor.
 - In 2019, Credit Karma completed the acquisition of Noddle, rebranded this CISP under its own brand and repositioned it solely on the free business model.
- 100 Noddle and MoneySavingExpert's Credit Club tool, which were respectively launched much earlier than, and around the same time as ClearScore, did not succeed to the same extent as ClearScore did. Both providers had existing branding and consumer recognition to leverage from their established business. This suggests that providers do not enjoy a significant incumbency advantage when establishing a CIS business.
- 101 ClearScore's expansion has been primarily at the expense of Experian, rather than the smaller CISPs. This is evidenced by our analysis of ClearScore's increasing revenue share, whilst Experian lost revenue share, since 2016. Accordingly, the CMA's Provisional Findings found that these two providers should be considered close competitors, in both the provision of CIS and the provision of price comparison services.
- 102 The competitive pressure brought by ClearScore's successful entry is likely to remain given that the market features that enabled this contestability have not fundamentally changed. Furthermore, at least some of the more recent entrants have advantages that makes them well-positioned to challenge the status quo:
- Credit Karma can combine Noddle's user base with the expertise of its successful US venture.
 - MoneySuperMarket is the leading price comparison service in the UK.

Firms' views on entry

- 103 We asked existing firms for their views about potential barriers to entry and expansion. Besides the costs of setting up a web-based consumer facing business (staff, product development), the main costs mentioned were getting the appropriate authorisations, developing relationships with lenders to set up a price comparison service, and marketing costs.
- 104 The regulatory requirements to operate in the CIS sector mentioned by firms are consistent with most businesses who would seek to offer consumer-facing services related to regulated activities.
- 105 Existing firms may find it possible to develop a CIS offering when they operate in a related market. According to one CISP, a firm with an existing brokerage (eg, a price comparison website) or similar financial service activity would be able to launch a credit checking service proposition in 6 months. This view is supported by the recent launch of MoneySuperMarket's free CIS tool.
- 106 Some firms stated that the expansion of ClearScore demonstrates that there are few barriers to entry and expansion in this sector. Our view is that ClearScore's entry demonstrates that the market was contestable at the time it entered.
- 107 A crucial input into CIS provision is credit information from CRAs. If this is expensive this can act as a barrier to entry. We explore this in more detail in this annex.

108 Overall, given the evidence gathered, we find that the barriers to entry and expansion in the provision of CIS do not adversely impact market contestability. In addition, whilst the CIS industry exhibits economies of scale that may provide some advantages to larger incumbents, it has also experienced significant change from recent entrants, which shows that barriers to entry and expansion in the provision of CIS are surmountable.

Competition through innovation

109 In this section we illustrate evidence that market outcomes (eg, regarding new product launches and the adoption of new technologies) demonstrate that CISP's compete on non-price characteristics to engage with consumers, who thus benefit from their continued investments.

110 Firstly, we have found evidence of continued innovation from CISP's. ClearScore in particular has brought several significant innovations, both in terms of its free CIS offering and its price comparison services. For example, ClearScore has:

- launched with a user-friendly interface and a mobile app
- developed a "chatbot" software to engage and advise consumers
- expanded its price comparison service beyond unsecured credit, towards other financial services (eg, mortgages and general insurance)

111 More recently in 2020, ClearScore launched a digital fraud protection tool, which identifies any personal information or password breaches their users experience. This is likely a response to the development of similar tools by subscription based CISP's. Hence it appears that consumers of both paid and free CIS have been benefiting from non-price competition – new product launches – as a result of the competitive constraint these product segments impose on one another.

112 Other firms have also innovated, including more recent entrants:

- Totally Money developed partnerships with lenders to present consumers with pre-approved offers.
- Totally Money and Credit Karma have developed interfaces that allow consumers to flag inaccuracies and disputes with CRAs directly from their platform.

113 These innovations foster competition between firms offering CIS as they seek to replicate competitors' advances. The latter starts is relevant in light of the evidence we present in this report's Consumer Engagement Annex, that consumers find it onerous to correct inaccuracies in their credit files.

114 CISP's also compete in providing up to date and relevant editorial content on their websites. For instance, ClearScore and Credit Karma published guides and advice on managing finances over the coronavirus pandemic.

115 In addition, CISP's have recently launched new tools which aim to improve consumers' understanding of credit information This is detailed further in this report's Consumer Engagement annex.

4 CISPs' access to CRA data

Introduction

- 116 In this section, we present our assessment of the relationship between CRAs and CISPs for the supply of credit data. CISPs require CRA data to operate, and as such have become significant clients of CRAs. This means that CRAs are potentially able to leverage this commercial relationship to affect how the CIS industry works, in particular when CRAs themselves provide CIS.

Cost of CRA data and entry in the CIS market

- 117 If providers of CIS, that are not CRAs themselves, cannot access CRA data on reasonable terms, it may limit their ability to compete, and may ultimately represent a barrier to entry in the CIS market. We analyse the commercial relationships between CISPs and the CRAs, including CISPs' spending on CRA data, to find out if this would likely be the case.

Data costs for CISPs

- 118 The cost of purchasing core CRA data generally represents a significant part of a CISPs' cost base. Using data from a sample of firms surveyed, we estimate that around 17% of a CISP's cost base is spent on accessing CRA data.
- 119 Supply agreements between CISPs and CRAs are based on variable fees, depending on the volume of queries. Some firms have told us that they secure better unit prices if they achieve higher volumes, consistent with several price schedules that were shared with the FCA by a range of CRAs' customers (see [CRA Competition Annex](#)).
- 120 Purchasing CRA data is mostly a variable cost to CISPs. A small CISP will have lower total expenditure compared to a larger CISP, despite having a higher marginal cost.
- 121 Some firms pay a monthly service fee per active user. This model seems to be historically linked to CIS as a subscription service. At least one CISP adopted a different purchase model, solely based on paying per volume of request. In this pricing model, the CISP is paying more if consumers choose to view their credit file multiple times in a single month.
- 122 Given data costs can be characterised as variable costs based on usage, and despite volume discounts available to larger CISPs, we find that smaller firms do not seem disadvantaged compared to larger firms: across three small, subscription-paid CIS, we found that data costs represented approximately 10% of their revenues. This compares to a cost/revenue ratio of 13% for a larger (free) CIS.

Terms of supply

- 123 CISPs gave us their views on their commercial relationships with CRAs. CISPs sign up to multi-year supply contracts with CRAs. The contracts' duration and other terms vary, from 3 to 7 years. Most CISPs told us that they conduct a competitive tendering

process involving at least two CRAs. Whilst the duration of these contracts appears relatively long in some cases, it is beneficial for CISPs to have a degree of stability of access. Also, the differences in duration indicate that commercial negotiations lead to different outcomes for different firms.

- 124 Technical capabilities, and in particular capabilities related to receiving complete and up-to-date information from the CRA, was the main factor of choice mentioned by CISPs, although pricing was also mentioned. This indicates that CISPs focus on non-price elements of CRAs' offering, in addition to their pricing.
- 125 Accordingly, some CISPs who have recently negotiated or renegotiated their supply agreements with CRAs told us they managed to achieve competitive price reductions. So, commercial negotiation with CRAs lead to improved cost outcomes for CISPs.
- 126 Overall, although CRA data access is an essential input in the provision of CIS, we have not found evidence that it has constituted a barrier to entry. Data access does not appear to create a barrier to entry or expansion for emerging CISPs, or deter the ability of CISPs, that are not CRAs themselves, to compete with CRAs that provide CIS.

Potential for CRAs that provide CIS to foreclose CISPs

- 127 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. Foreclosure could potentially worsen the rival CISP's competitive position in the market for CIS, consequentially benefiting CRAs that provide CIS. We explore CRAs incentive to do so below.
- 128 Of the three large CRAs, TransUnion is the only CRA that does not *directly* engage in the provision of CIS. TransUnion has partnered with select third parties (Credit Karma, Totally Money, checkmyfile) who provide CIS and TransUnion supplies credit information to them. TU's absence from the CIS market and focus on B2B sales implies that it may not have an incentive to foreclose rival CISPs as it may have an incentive to expand its distribution channels. For this reason, we do not conduct an assessment of TransUnion's incentive or ability to foreclose CISPs.
- 129 Equifax is a CRA that provides a CIS offering directly through its website. It does this through 'myEquifax', a product/tool that provides consumers unlimited access to their Equifax credit report and score and other related services. In addition to offering its own paid-for CIS, Equifax also supplies credit information to other CISPs such as ClearScore and CreditWise. It may thus have an incentive to foreclose rival CISPs by limiting their access to credit information or supplying the information on unfavourable terms, in order to benefit its own CIS business. However, we find that Equifax is a relatively small player in the market for CIS (in comparison to the CISPs in our sample) and so despite having the incentive to foreclose rival CISPs, it may not have the ability to do so. For this reason, we do not conduct an assessment of Equifax's incentive or ability to foreclose CISPs.
- 130 Experian also provides a CIS offering directly through its website. It does this through 'CreditExpert', a tool that gives consumer's daily updates on their credit score and report, amongst other things. It also supplies credit information to other CISPs like checkmyfile and to banks through partnerships.

- 131 We assess Experian's ability and incentive to foreclose rival CISPs, given the fact that it is the largest CRA, as well as the largest provider of CIS, and may have the incentive and ability to do so. Experian's position as a CRA could create a bottleneck for rival CISPs to access credit information.
- 132 Experian could partially foreclose rival CISPs by charging higher prices for access to credit information. Such a foreclosure mechanism could raise the rival CISPs' costs per end user, reducing their incentives to compete aggressively (for example by providing free CIS) and thus dampening competition in the market for CIS.
- 133 All in all, we find that the foreclosure risk related to Experian's position is mitigated by the incentives of provision faced by the other CRAs. CISPs use one or more CRA to access credit information and do not necessarily rely solely on one. They choose the CRA/CRAs that best fits their needs following a tendering process based on factors like price, quality and ease of integration.
- 134 If Experian were to partially foreclose rival CISPs by charging higher prices, CISPs would turn to other CRAs in the market such as the likes of Equifax and TransUnion. Losing any source of revenue to competitor CRAs would not be in Experian's best interest. Furthermore, if Experian were to fully foreclose a rival new entrant CISP by denying access to credit information, TransUnion and Equifax would be commercially incentivised to supply the new entrant to benefit from expanding sales of credit information. This too, would not be in Experian's best interest.
- 135 We have heard that Experian has participated in competitive tenders to supply credit information to CISPs in the recent past. This anecdotal evidence indicates that Experian appears willing to challenge the two other CRAs for data provision to CISPs.
- 136 Hence the competitive pressure in the provision of credit information to CISPs from the other two large CRAs is sufficient enough to constrain Experian's ability to potentially foreclose rival CISPs.
- 137 Overall, the relative positions of the three CRAs in the supply of data to CISPs are significantly different, and they have different incentives to compete for CISPs' business. The competitive pressure in the provision of credit information to CISPs from the other two large CRAs is sufficient enough to constrain Experian's ability to potentially foreclose rival CISPs.

5 Competition in the provision of products that inform pre-qualification services

Introduction

- 138 Products/solutions which inform pre-qualification services (PQS) are used by CISPs that offer price comparison services to tailor the list of credit products that they offer to users. These solutions combine data from the PCW's users with their credit file data, and with credit policies of individual credit providers, to match users to financial products they are most likely to qualify for. This matching happens without the need for a formal credit check to be carried out by the financial provider on the prospective customer. This is known as a 'soft search'. Soft searches are valued by users since being refused a credit product following a formal credit check can harm an individual's credit file.
- 139 From a consumer's perspective, these services 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 calculations screen out unsuitable candidates and therefore potentially improve the quality of leads sent through, improving the efficiency of lead-generation.
- 140 Experian, through its acquisition of HD Decisions and Runpath in 2015 and 2017 respectively, is the main provider of products/solutions which inform pre-qualification services in the CIS market. Monevo, an alternative to Experian, also provides these solutions however its services are restricted to a smaller pool of credit products.
- 141 Building direct APIs with lenders can be an alternative to using products that inform pre-qualification. APIs in this context refers to developed set of routines, protocols and tools which allow financial product providers and CISPs that operate price comparison services to pass information to users and financial products between using a standard format. This allows the matching of users' characteristics to a financial product's characteristics.
- 142 We have considered whether the supply of products that inform pre-qualification should include the constraints from alternative technologies such as APIs, which allow direct links between lender and CCP without the need for an intermediary such as HD Decisions/Runpath/Monevo. Consistent with the CMA's provisional findings on the proposed Experian/ClearScore merger, we consider that APIs provide a significantly weaker constraint on pre-qualification services supplied by third parties such as HDD, Runpath and Monevo. Nevertheless, we have considered the constraints arising from APIs in our competitive analysis.
- 143 We consider the provision of pre-qualification services to be a two-sided market, as providers are catering to two distinct user groups: lenders and CRAs and CISPs that operate price comparison services. This market is characterised by indirect network effects, in that the more lenders a pre-qualification service provider has on its panel, the more utility it provides to a price comparison service (which is in turn looking to connect prospective borrowers with a panel of lenders' credit products). Providers of pre-qualification services charge both sides of this market, i.e. both lenders and CRAs and CCPs that operate price comparison services are charged for its service.

- 144 Since Experian's business units HD Decisions and, to a lesser extent, Runpath supply products that inform pre-qualification services to CRAs/CISPs that operate price comparison services, whilst operating their own price comparison service, we have concerns that Experian may have the incentive to either refuse products that inform pre-qualification services to its competitor price comparison services or supply those on unfavourable terms i.e., through price or quality.
- 145 Such action is known as 'input foreclosure'. These foreclosures may be targeted on all, one, or a few CISPs that operate price comparison services, or on a specific product (eg loans but not credit cards). The risks for competition within the CISP market may take the form of:
- Higher prices charged to rival CISPs and CRAs that operate price comparison websites. Experian could charge higher prices to rival CISPs that operate price comparison services than it effectively charges itself. This could raise the overall costs per end user, reducing their ability to compete for new users (for example through rewards such as meal vouchers, free CIS etc.) and thus dampening competition in the CISP market. Again, the result would be fewer end users on the foreclosed platforms.
 - A deterioration in the quality of service provided eg service level agreements meant to significantly benefit one party in the transaction over another. Experian could degrade the quality of the products that inform pre-qualification services provided to rival CISPs that operate price comparison services, relative to the products/services provided to Experian's own price comparison service. This could result in end users switching away from the foreclosed CISPs to Experian instead.
 - Finally, if Experian were to increase its price for products that inform pre-qualification services to rival CISPs that operate price comparison services, these CISPs could pass these increased costs on to lenders in the form of higher commissions. If lenders were to delist from price comparison services as a result, consumers could find the price comparison services less attractive and could switch away from the foreclosed CISPs.
- 146 In all the above mechanisms, the result would be fewer consumers on the competing CISPs that operate price comparison services than there would be without the foreclosure action. In this section we set out our analysis of whether Experian has the ability and incentive to refuse to supply/ worsen quality/ raise prices to rival CISPs that operate price comparison services, and, if so, whether there is likely to be a harmful effect to competition. This represents a test regarding whether foreclosure is likely to happen with respect to the provision of products that inform pre-qualification services to CISPs that operate price comparison services. The rest of the section is structured as follows:
- First, we show that there are limited alternatives to products that inform pre-qualification services provided by Experian (via HD Decisions and Runpath) currently in the market.
 - Second, we show that outcomes on price, quality and innovation for these services are commensurate with weak competition. Nevertheless, there is scope for rival providers' expansion and as a result competition could strengthen going forwards.
 - Alternatives to Experian's products that inform pre-qualification services
- 147 Firm responses on the availability of products that inform pre-qualification services confirm Experian's strong market position in the provision of them. Most firms we

questioned were only aware of Experian (HD Decisions and Runpath) as providers of products that inform pre-qualification services. Experian offers these services for personal loans, credit cards and mortgages.

- 148 Another player in the market for the provision of products that inform pre-qualification services is Monevo. Monevo's API and platform empowers lenders, banks and price comparison services to host, manage and distribute credit offers. However, Monevo currently only operates in the market for personal loans and is hence not a credible alternative in the provision of products that inform pre-qualification for credit cards. This is a result of aforementioned network effects. Monevo does not currently have a panel of credit card providers, i.e. insufficient market coverage which means that it is not an effective substitute to Experian in the provision of products that inform pre-qualification services for credit cards.
- 149 As a result, we have heard that the strength of competition in the provision of products that inform pre-qualification services for loans is stronger than in credit cards. Clients of products that inform pre-qualification services for personal loans and credit cards have told us that they receive better price (can negotiate more) and service quality outcomes in the personal loans segment as a result of stronger competition. For credit cards, price comparison services are usually restricted to paying a price list price with no volume discounts being afforded, and we have heard complaints about service quality and a lack of historic innovation.
- 150 Firm responses on the availability and cost of alternatives to buying products that inform pre-qualification services from Experian confirm that there are some alternatives in the form of direct APIs linking lenders and price comparison services, as well as other forms of self-supply.
- 151 For a price comparison service, integrating lenders' APIs is an imperfect alternative to products that inform pre-qualification services provided by firms like Experian and Monevo. This is because the former only allows bilateral contacts between the price comparison service and a specific lender. Pre-qualification providers, on the other hand, connect a price comparison website with a significant number of lenders and their credit products. We have heard that some lenders are investing in order to offer API integration to price comparison services, but there is a significant cost associated with this investment which many lenders are not incentivised to take on given the existing service provided by firms like Experian.
- 152 Anecdotal evidence suggests that for some price comparison services, lenders with integrated APIs represent a sizeable minority of their intermediated volume (clicks). Further, APIs are more developed for personal loans than for credit cards.
- 153 Providers of products that inform pre-qualification services such as Experian aggregate multiple lenders' lending criteria. There are a number of advantages for a price comparison service and lender to use a service provider like Experian, rather than a direct lender API:
- According to HD Decisions, for example, its technology offers optimal data processing speed, providing eligibility results the quickest.
 - Moreover, lenders can contract with such firms with little upfront investment.
 - A price comparison service benefits from such firms aggregating multiple lenders, including some which may not offer APIs. Here, indirect network effects mean that the more lenders the third-party has in its panel, the more valuable its service is to prospective price comparison services.

- 154 However, direct APIs also offer advantages:
- For lenders, developing their own API gives them more control, which has implications in terms of control of their lending criteria, and their traffic. For example, a lender may update its lending criteria several times per week.
 - After implementation of a direct API, lenders' running costs of this service may be lower than contracting a third party.
 - Price comparison services may benefit from direct integration with lender's APIs, in terms of access to innovation and potentially enhanced pre-qualification accuracy.
- 155 We consider that there is a competitive interaction between firms like Experian, Monevo and direct API solutions. CISPs that operate price comparison services have told us that for lenders who offer APIs, they are able to substitute these specific lenders away from their agreement with providers of products that inform pre-qualification services.
- 156 CISPs that operate price comparison services and lenders might be able to circumvent firms such as Experian/Monevo in the long run (either by encouraging upstream entry or through self-supply options such as APIs), but circumventing such firms will not be immediate, and it may be costly. Thus, Experian may have some ability to foreclose rival price comparison services at least for a limited period of time.

Outcomes for customers of products that inform pre-qualification services

- 157 In this section we analyse the outcomes price comparison websites, the main clients of providers of products that inform pre-qualification services, receive. We look at aspects such as price, quality and innovation. If the market in the provision of products that inform pre-qualification services exhibited effective competition, we would expect to see, for example, PCWs exercising buyer power (i.e. being able to negotiate on price), enjoying provider choice, and benefiting from quality improvements via product innovation.
- 158 CISPs that operate price comparison services and who multi-home have told us that they are able to better negotiate on price for products that inform pre-qualification services for loans, with Monevo and Experian competing for their customers during the procurement processes.
- 159 On the other hand, PCWs tell us that they are unable to exercise any buyer power for products that inform pre-qualification services for credit cards, given a lack of substitutes to Experian, and have been stuck on legacy rates, with no volume-based discounts being agreed upon as they have expanded their PCW business.
- 160 These outcomes are consistent with there being ineffective competition in the provision of products that inform pre-qualification services for credit cards.
- 161 In the provision of products that inform pre-qualification services for loans, provision by Monevo results in relatively lower levels of concentration, and this segment exhibits pricing outcomes consistent with stronger competition.
- 162 With regards to innovation, we have not heard evidence that quality improvements are commensurate with strong competition. Some customers have expressed concerns to us over quality of service agreements given the extent to which they are subject to operational resilience concerns. This is an issue for PCWs because products that inform

pre-qualification are considered a crucial input into their services (i.e. if providers of products that inform pre-qualification services experience operational issues, PCWs' businesses would be adversely affected).

163 However, we have seen some innovation has taken place. For example, the introduction of counter-offers. This is where a lender cannot offer the amount requested by a consumer, and so the pre-eligibility tool will return a pre-approved offer for a lower loan amount.

164 We see some potential for change going forwards and we intend to monitor this market and revisit our findings in our Final Report. If challengers are able to expand we expect competition to strengthen (particularly in the provision of products that inform pre-qualification services for credit cards), which can engender positive outcomes for clients, in terms of price, quality and innovation.