Credit Information Market Study Interim Report

Annex 4: Consumer engagement

November 2022

Contents

1 Introduction and our approach

Why we decided to look at how consumers engage with credit information

1. This annex outlines our interim findings on how consumers engage with credit information, one of the market study's themes we set out in our Terms of Reference.

2. Credit Reference Agencies (CRAs) make credit information available to consumers either directly or through third-party providers of credit information services (CIS). This is the main way consumers engage with their credit information and credit scores.

3. Credit Information Service Providers (CISPs) rely on credit information from CRAs to help consumers understand their credit file better. They do so by offering credit checking tools (CCT) that allow consumers to check their credit score and credit file. They may also act as credit brokers by providing price comparison services for products like credit cards, loans, car finance, mortgages, etc. Other services that they may offer include advice, guidance and tips on how to improve credit scores, identity and fraud protection tools and so on (CIS are covered in more detail in the CIS Competition Annex).

4. Research conducted by YouGov in 2019 found that 49% of UK adults have never accessed their credit report despite an individual's information being key to lenders' decisions about whether to provide credit or not. The research also revealed that a significant majority (78%), said that being named on a "credit blacklist" would have an impact on someone's credit score – despite there being no such thing. 17% also incorrectly though that checking their own credit report regularly would damage their credit rating. The results suggest the public misunderstands the role CRAs play – some 28% incorrectly believe that CRAs are responsible for making decisions over credit card applications and a fifth (20%) think the same for loans.

5. Poor understanding of credit information can lead to consumers acting in ways which are unknowingly detrimental to their creditworthiness, potentially impacting their access to credit and the cost of it. For instance, some consumers may not know that registering on the electoral roll can help increase their credit score, thereby improving their chances of getting approved by lenders.

6. To better understand this, we set out consumer engagement and behaviour as one of the themes for investigation in our Credit Information Market Study (CIMS) launched in June 2019

Scope of our analysis

7. We considered three main research questions:
   - How do consumers access their credit information?
   - How well do consumers understand their credit files and credit scores?
   - What impact does consumer understanding of credit information have on consumers' behaviour?

Evidence gathered to support our analysis

8. The interim findings presented in this annex are drawn from multiple pieces of analysis:
    - Consumer research to understand how consumers engage with credit information. The first stage of the research consisted of eight focus groups to gather initial evidence and inform the second stage online survey. This survey with a nationally representative sample of over 3,000 consumers was used to validate our understanding and dig deeper into the issues discovered in the first stage.
    - Quantitative analysis of consumer credit scores to understand if consumers who access their credit information are more likely to have higher scores than those who do not ('event study').
    - Quantitative analysis of clickstream data (information collected about a user while they browse through a website) of three CISPs. This was to validate our understanding gathered through the survey of the elements of the credit information consumers are more interested in.
    - Qualitative analysis of 10 CISPs' responses to our information request. Responses included research internally or externally commissioned by CISPs and information on the products and service offered.

9. Since much of the above analysis was conducted in 2019 and 2020, we have sought to validate our findings with additional, more recent sources and remain confident that the evidence we have gathered remains robust. This includes submissions from CRAs (large and small) through 2022, recent industry reports and our FCA Financial Lives Survey.

10. Further details on the consumer research can be found in the published Consumer Engagement Technical Annex. The data on the event study and the clickstream analysis is described in more detail in Appendix 1.

2 Interim findings

11. Greater awareness and understanding of credit information may help consumers bust myths and misconceptions about credit information, which could be holding them back from improving their financial health. For example, a 'credit aware' consumer would make payments on time, not overextend themselves and take action to correct any inaccurate information held on them by CRAs.

12. It is important to note that while our research primarily focuses on scores to test some of the hypotheses formed in our research, they are not the be-all and end-all. Credit scores are a proxy for what, eventually, is on a consumer's credit file and when accessing credit information, it is recommended that consumers look at their credit report, and not just their score, as the report contains detailed data on one's financial history and provides a better view of one's creditworthiness.

13. We also spoke to experts from financial and debt advice firms and financial charities to further understand how consumers in specific sets of circumstances, in particular vulnerable consumers, engage with credit information.

How do consumers access credit information services?

Consumer awareness of and access to credit information is high

14. Overall, we found that consumers are aware of the existence of credit information. Our survey suggested that almost all consumers (94%) have heard about credit scores, with more than a half (72%) claiming to know what a credit score is.

15. More than half of consumers (57%) have checked their credit score at least once in the past and nearly a third (32%) have checked both their score and their credit file at least once. To some extent, this was expected as broadly in line with existing research for the UK (39-47% Mintel 2018, 40-50% CMA 2018). Furthermore, recent reports suggest that this proportion has only increased over the pandemic.

16. By 2022, more than a third of UK adults were checking their credit score at least once a month, up from 27% in 2019.

17. Of those consumers who have checked their credit score or file:
    - 26% had done so once in the previous year
    - 33% did so between 2 and 5 times
    - 17% between 6 and 10 times
    - 11% more than 10 times ('heavy users')

Curiosity is the main reason for checking credit scores

18. In our survey, we asked respondents to indicate the reasons why they have checked their credit score. Curiosity emerged as the main reason, with more than a half (53%) of those who checked claiming this was one of the reasons, and over a third (34%) doing so 'only because' they were curious. The second most frequently cited reason for checking is to make sure information is correct (28%).

19. The main reasons for not checking included consumers not seeing the need (49% of those who did not check) and not being interested (39%). Less common reasons for not checking included not thinking that it would be helpful (15%), not wanting to pay for checking (15%), and not wanting to share personal details (9%).

20. Our survey also found that individuals that do not check their credit score generally, expect lower scores compared to those that do. Evidence from our focus groups showed that certain consumers may attach some form of moral judgement to their credit score, associating feelings such as shame, embarrassment and confusion with having a poor credit score.

Most consumers access their credit score for free

21. Our survey found that, of the sample of consumers who did check their credit score, almost all (91%) had accessed their headline credit score for free. Of those consumers who had checked their credit score, almost all (93%) considered the process of doing so either 'quite easy' (48%) or 'extremely easy' (45%).

22. Evidence from our survey showed that 1 in 5 consumers (19%) have used paid for services, with Experian having the largest share of paid usage. Evidence from the survey suggested that consumers do not see much ongoing value in those services, leading to a high cancellation rate (73% of those who subscribed to paid for services) because of high fees or the feeling that services were not value for money. For more information on this, see Figure 1. We also found that for most consumers the process of cancelling the subscription is not considered to be difficult to any extent (with only around 2% of those who cancelled the subscription finding the process 'very difficult').

Figure 1: Reasons to cancel subscriptions, % of those who have cancelled their subscriptions

Source: FCA consumer research

23. In aggregate, subscription-based services have become smaller over time. CIS providers instead generate the majority of their revenue via lead generation, through an offering of price comparison websites (see the CIS Competition Annex for more information).

24. Our survey also showed that the main reason for choosing a provider is because respondents had previously heard of it or have seen it in an advert (23% of those who have used at least one provider). Other reasons included recommendation by friends or family (14%), recommendation by price comparison websites (14%), sense of trust (14%), and prominence in online search (14%).

Consumers focus on their credit score when using credit information services

25. We were interested in understanding which element(s) of credit information consumers focused on the most.

26. We could then understand whether consumers were exhibiting behaviours that would align with their interests. For example, a consumer who checks their detailed credit file, rather than just their headline credit score, is better placed to pinpoint any errors and correct any inaccurate information held on them.

27. We showed each respondent two out of three 'mock-up' credit files, i.e. anonymised copies of CIS providers' reports. Respondents were asked to click on any elements of the mock-ups they found helpful or interesting. They could click on numerous categories of information including the score and/or score chart, their total borrowing, further information on their accounts and personal information, and links to historical data or links to PCWs. Two of the three mock-ups were richer in terms of the information provided. All respondents saw the simplest report (i.e. with less information) and one of the two containing more information.

28. We found that consumers focus on the credit score independently from how rich the report was in terms of information. When presented with the simplest mock-up report, many consumers claimed to be interested in the score chart (56%) more than anything else. The link to PCWs to compare credit products (eg credit cards, loans, mortgages) was the second most selected element (48%), while other elements such as the total borrowing displayed were selected by less than a quarter of respondents. Similarly, when presented with the richer reports the score chart attracted more interest than other information (48% for one, 51% for the other), though consumers seem to prefer simpler interfaces (73% of consumers claim to understand 'everything' of the simpler report compared to 67% and 59% for the richer mock-ups).

29. Our survey finding of consumers focusing more on credit score charts of a credit report is confirmed by web-traffic (or 'clickstream') data we have gathered from several CISPs. We collected data on users' visits on different pages of CISPs' websites. Web-traffic statistics were grouped in the following categories: credit score; score explanation content; score improvement advice; price comparison websites (PCWs), and ID management (when available).

30. We found that the 'credit score' section of the report website attracted a much larger amount of traffic than any other sections of the report website. For example, we found that for one provider, 71% of users typically click on the 'credit score' category compared to 31% on PCWs, which is the second most visited category. For another provider, 40% of users click on the 'credit score' category versus 27% on PCWs. This evidence is consistent across age groups.

Consumers who have a poorer financial health and rely most heavily on credit are more likely to have checked their credit information

31. Our survey included questions to understand consumers' use of credit, financial health, and level of financial acumen. This allowed us to consider engagement with credit information in the context of consumers' perceptions about finances and their attitudes to borrowing. The analysis of survey data revealed six distinct consumer segments. These segments are set out in Table 1 below. The Consumer Engagement Technical Annex explains in detail on how we derived the segments from the consumer survey results.

Table 1: Consumer segments based on consumers' use of credit, financial health, and level of financial acumen

Segment (size as % of total sample)	**Use of credit**	**Financial health**	**Financial acumen**	**% who checked credit score or both score and report**	**% who checked credit score or both score and report excluding those who only checked out of curiosity**
Struggling Borrowers (11%)	High	Poor – regularly run out of money between paydays and unable to set any savings aside (only 32% can cover a £200 unexpected bill)	Medium – lack confidence in managing money and borrow more high-cost credit products	80%	56%
Younger & Financially Stretched (22%)	High	Medium – do not consider themselves in a good financial standing and do not save much (49% can cover a £200 unexpected bill)	Low – not confident at managing money and occasionally lose control of spending	63%	44%
Working Their Way Up (24%)	Medium	Medium – good control over spending but cannot save as much as the most affluent segments (71% can cover a £200 unexpected bill)	Medium – see themselves as quite knowledgeable about financial services, not all are confident in their ability to manage debt	58%	40%
Comfortable & Unengaged (14%)	Medium	Good – have higher income and save higher proportion of	Low – confident about managing finances but admit not being	50%	32%

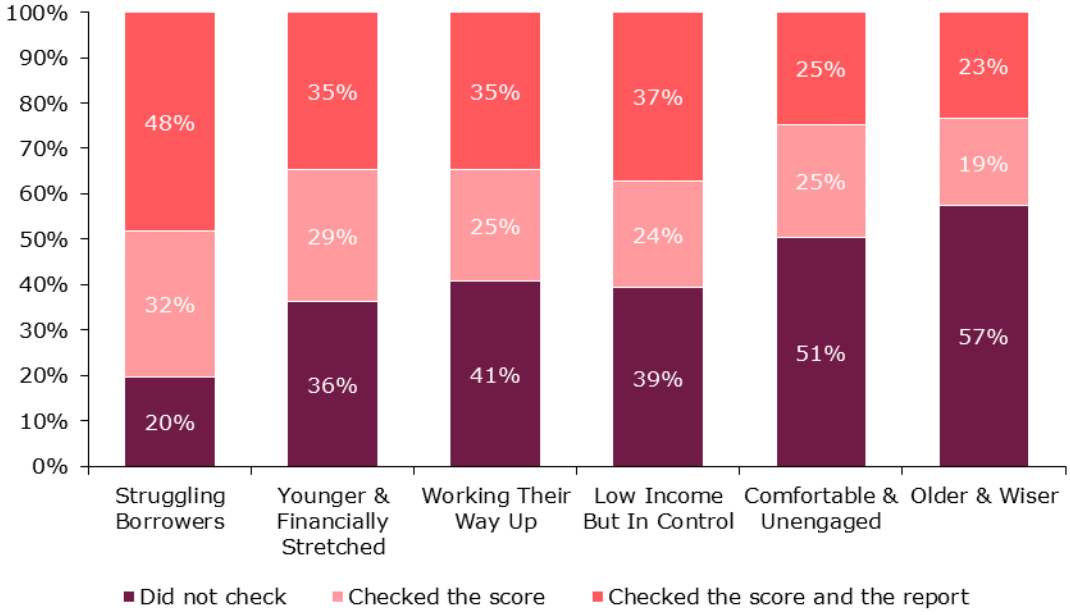
Segment (size as % of total sample)	**Use of credit**	**Financial health**	**Financial acumen**	**% who checked credit score or both score and report**	**% who checked credit score or both score and report excluding those who only checked out of curiosity**
		that (85% can cover a £200 unexpected bill)	savvy and knowledgeable about financial services		
Low Income But In Control (10%)	Low	Poor – low income and savings (62% can cover a £200 unexpected bill)[1]	High – clearly recognise the trouble of taking on debt given their finances	60%	37%
Older & Wiser (19%)	Low	Good – financially satisfied and savvy (95% can cover a £200 unexpected bill)	High – consider themselves knowledgeable about financial services and creditworthy	42%	26%

Source: FCA consumer research

32. The analysis of segments revealed a clear relationship between financial health, use of credit, and use of credit information. As shown in Figure 2, we found that consumers who have poorer financial health and rely most heavily on credit are more likely to have checked their credit score and report. In particular, our evidence suggests that 80% of consumers within the poorest segment ('struggling borrowers') have checked their credit information compared to 42% within the 'older and wiser' segment.

[1] Note that the 'low income but in control' have the lowest income of all segments but they are good at managing their money and typically have savings for emergencies. They do not tend to take credit because they understand the potential risks of accumulating debt given their financial situation. They skew towards middle age and more senior consumers who are not in permanent employment, and are more likely than other segments to rent or live in social housing.

Figure 2: Use of credit information by consumer segment



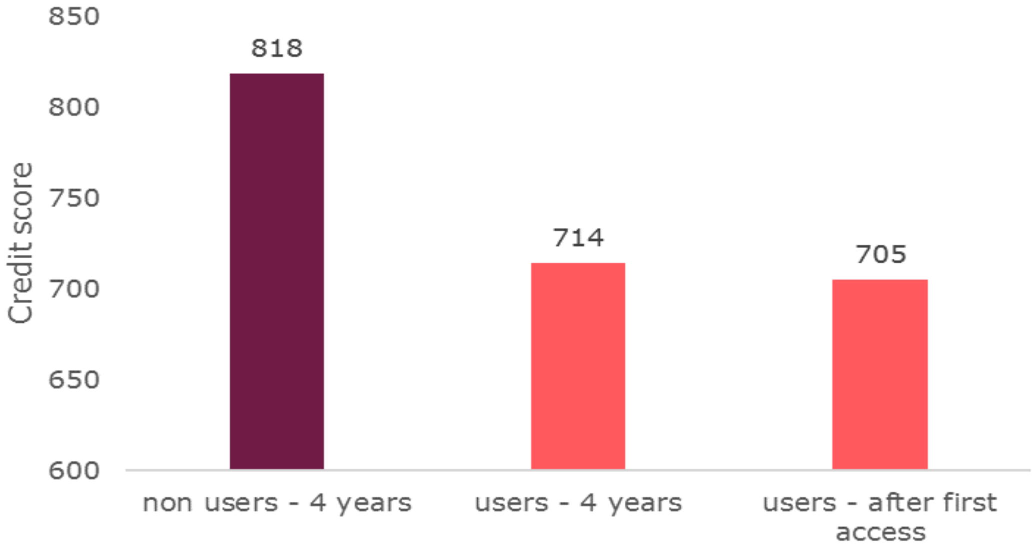
Source: FCA consumer research

33. This consumer survey evidence is supported by our analysis of consumer credit scores. Using data from October 2015 to October 2019, we compared the credit scores of consumers who have never checked their credit score or report to those of consumers who checked at least once in our sample period.

34. Figure 3 shows that the 4-year average score of consumers who have never checked was:

- around 100 points higher than the 4-year average score of those who checked
- around 110 points higher than consumers' average score in the period following their first access[2]

Figure 3: Mean credit scores of consumers who never checked versus consumers who have checked



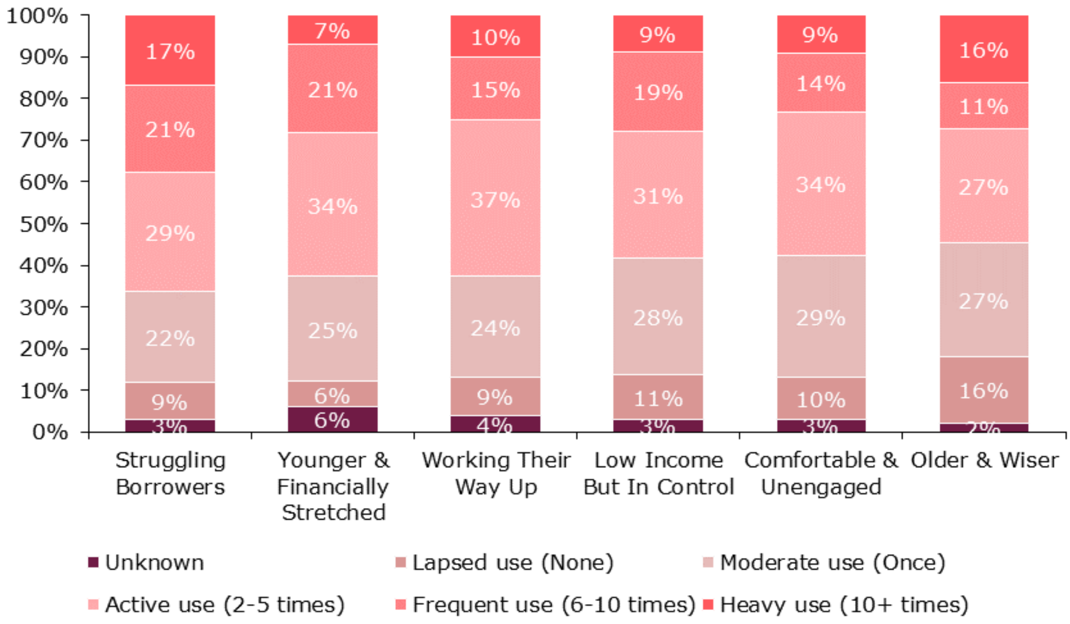
Source: FCA analysis based on data provided by firms

[2] We found similar results when comparing median credit scores.

35. We then looked at how many times consumers have checked their credit score or report. Comparing either end of the spectrum of consumer demographics (struggling borrowers against the 'older & wiser' segment), we can see that 38% of struggling borrowers either frequently or heavily access credit information, in comparison to 27% of older & wiser consumers.

36. Overall, from this survey, it does seem that consumers who have poorer financial health and rely most heavily on credit (i.e. those on the left-hand side of the chart) typically check their credit information more frequently than other consumer groups. This relationship does not exist for heavy users (10+ interactions in the previous year). Consumers who have checked more than 6 times claimed that they wanted to monitor progress or just stay in control of their finances.

Figure 4: Frequency of credit information use by consumer segment (number of times credit score or report have been checked in the previous year)



Source: FCA consumer research

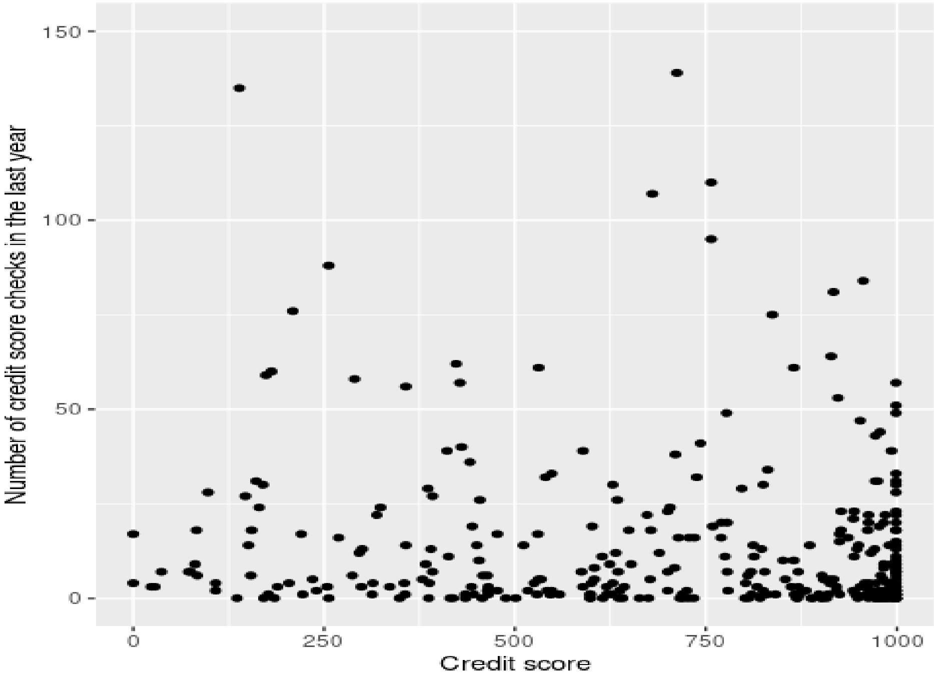
37. We also looked at data on consumer access to credit information we gathered from CISPs. From this data, we found that, over the 4-year sample period, 'struggling borrowers' checked their credit score 67 times on average (once every 3 weeks) compared to 25 times of the 'older and wiser'.

38. Finally, we used data from CRAs and CISPs to understand whether checking credit information frequently is correlated with credit score values. For all consumers who checked their credit information at least once in our sample period, Figure 5 plots their credit score in October 2019 (x axis) against the number of times they have accessed their credit information in the previous year with any of the five CIS providers we received data from (y axis). The scatterplot shows that more frequent access does not seem to be correlated with higher scores. For example, people who accessed their credit score more than 10 times in the previous year ('heavy users') can have any score between 0 and 999.[3] The R squared of the regression of credit scores on frequency of access is extremely low (0.006), confirming a lack of correlation between the variables.

[3] We note that the concentration of scores towards the highest possible value of 999 is reflective of how credit scores are distributed in the population (i.e. more people have a score of 999 than they have any other score).

39. Overall, the evidence and analysis suggest that consumers who have poorer financial health are more likely to engage with their credit information, relative to those in stronger financial circumstances. This is likely because these consumers typically rely more on credit and engaging with your credit information is followed by applying to and using credit.

Figure 5: Scatterplot of credit scores in October 2019 (x axis) against number of accesses to credit information between October 2015 and October 2019 (y axis)[4]



Source: FCA analysis based on data provided by firms

Consumers who show characteristics of vulnerability have on average lower scores than those who do not

40. We combined the credit score data and access to credit information data with our consumer survey responses. This has given us insights into the characteristics of those who check credit information and those who do not.

41. The two datasets cover a range of different characteristics across consumers including socio-demographic (eg, age, gender, postcode) and circumstances of vulnerability. We have proxied vulnerability based on consumer postcodes and the MHCLG index of multiple deprivation (IMD) 2015.[5] We also asked targeted questions in the survey against four drivers of actual or potential vulnerability, as set out in our on the fair treatment of consumers in vulnerable circumstances. These drivers were:

- Financial resilience – low ability to withstand financial or emotional shocks.
- Financial capability – low knowledge of financial matters or low confidence in managing money.

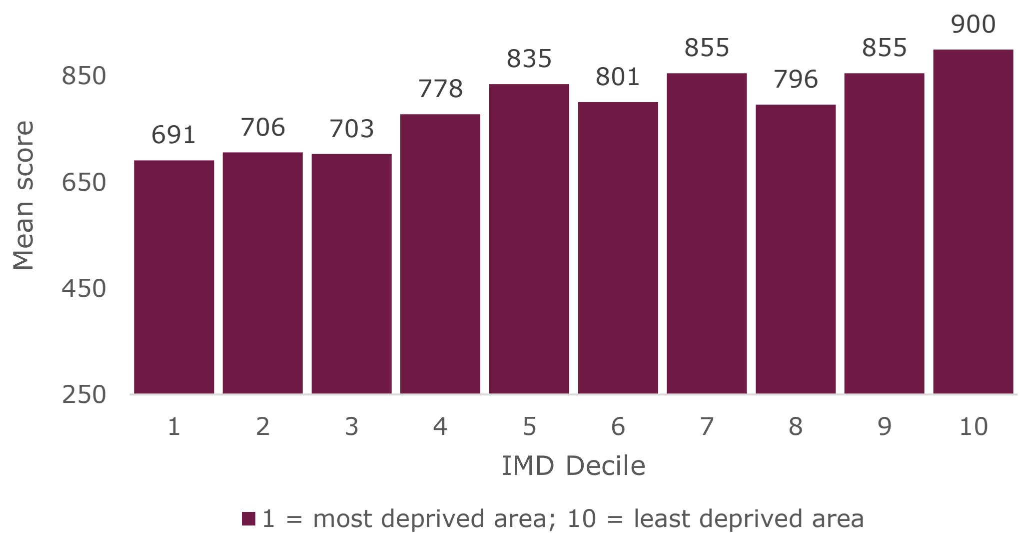
[4] Note that to improve readability we restricted the y axis to the range 0-150. This hides 2 observations where the frequency of access is greater than 150 times.

[5] The IMD is a measure of relative deprivation in geographical areas in England produced by the Office for National Statistics. The index ranks every geographical area (ie lower-layer super output areas, LSOA) from the most to the least deprived area. It combines information from seven deprivation measures: income, employment, education and skills, health, crime, housing, and living environment. For more details on the index see the IMD documentation on the Ministry of Housing, Communities and Local Government (MHCLG) website.

- Health – health conditions or illnesses that affect someone's ability to carry out day to day tasks.
- Life events – major life events such as bereavement or relationship breakdown.

42. Credit scores exhibit a strong correlation with IMD.[6] This is driven by consumers living in more deprived areas having lower scores, on average, than consumers living in more affluent areas (Figure 6).[7] Our sample slightly underestimates consumers who live in more affluent areas, as we found that 60% of consumers are concentrated in the first 5 deciles, while 40% in the 6th to 10th deciles. However, we do not consider this to have a significant impact on our results.

Figure 6: Mean credit score by deprivation areas



Source: FCA analysis on CRAs data and MHCLG IMD data

43. We then looked at our survey data to compare consumers who show at least one of the four FCA drivers of vulnerability[8] with those who do not show any of these. We found that the credit scores of consumers who do not show any vulnerability drivers are on average 170 points higher than those of consumers with at least one driver. The gap increases when looking at consumers with more than one vulnerability driver. In particular, the credit scores of consumers who do not show any vulnerability drivers are on average 470 points higher than those of consumers with both low financial capability and low financial resilience.[9]

44. We also compared consumers' credit scores across the six consumer segments outlined in Table 1. We found that consumers who have poorer financial health and rely most heavily on credit tend to have lower credit scores. As displayed in Figure 7, average scores range from a lowest of 590 points within the poorest segment ('struggling borrowers') to a highest of 930 points within the wealthiest segment ('older and wiser).

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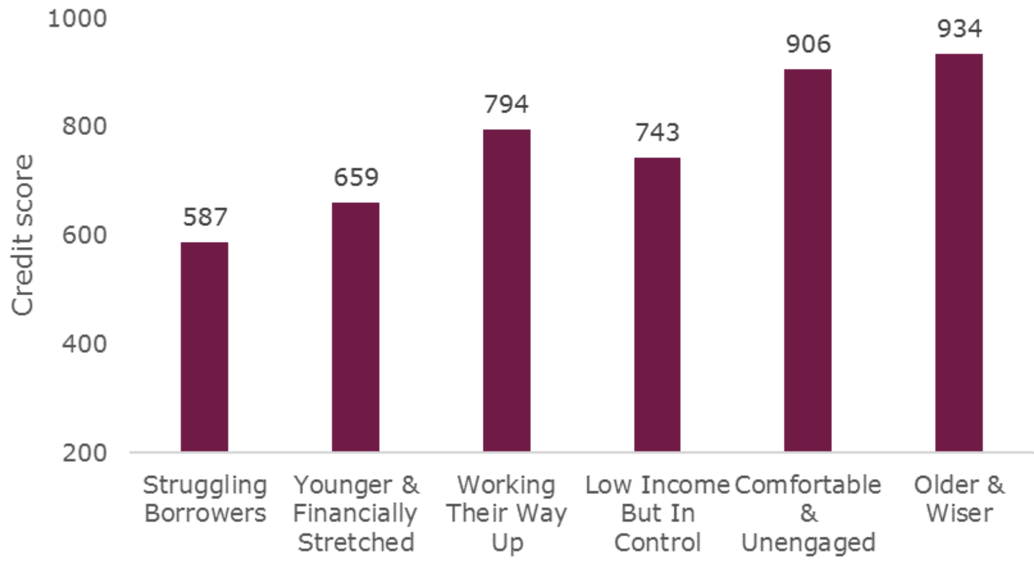
[6] This analysis was conducted using credit score data in October 2019 on a sample of nearly 1,000 consumers. These consumers consented to share their personal data as part of the survey (1), self-reported their postcode in England (2), and Experian could find their credit score in October 2019 in its datasets (3).

[7] We do not think the 6th and 8th deciles represent significant exceptions.

[8] https://www.fca.org.uk/publication/finalised-guidance/fg21-1.pdf page 9

[9] We found that health and life events are less strongly correlated with credit scores than financial capability and financial resilience. When comparing the credit scores of non-vulnerable consumers with those of consumers vulnerable based on health or life events we observe a much smaller gap (the credit scores of non-vulnerable consumers are on average 50 points higher than those of consumers with health issues and 60 points higher than those of consumers with life events).

Figure 7: Mean credit score by consumer segment



Source: FCA analysis on CRAs and CIS providers data and FCA consumer research

How well do consumers understand their credit files and credit scores?

Consumers claim to have a good understanding of credit information, but it seems many do not know how different behaviours can impact their credit score

45. Our survey found that nearly two thirds (63%) of those who have checked their credit score claim to 'somewhat understand' what influences it, while nearly a quarter (21%) claim to 'completely understand'. But when we tested consumer understanding of how certain behaviours can affect their credit score, we found that there are myths about debt, credit reports and credit scores which consumers may easily misinterpret.

46. Table 2 shows, for some behaviours we tested, the percentage of respondents who incorrectly indicated the likely effect of a given behaviour on credit score. For example, 46% of all respondents thought that keeping their credit utilisation low (keeping their credit card balance below 30% the limit), would worsen or have no impact on their credit score.

47. Since our research took place, however, we note that in 2020 and 2021 there has been a market response, including by some CRAs who have been offering new consumer-facing products in an attempt to improve consumers' understanding of their score. This is potential evidence of the market meeting consumers' needs. However, we are currently uncertain of the effect these initiatives have had as they are still in their infancy. Furthermore, we recognise that CISPs have an incentive to better educate consumers in order to improve their credit scores, as a pool of consumers that are more eligible for credit will generate more lead generation for CISPs via credit broking.

Table 2: Consumer understanding of how different behaviours can impact their credit score

Factor	Actual effect on credit score	% of respondents who incorrectly indicated effect on score
Keeping your credit card balance below 30% limit	Improves credit score	46%
Borrowing more than 90% of limit on a credit card	Worsen credit score	36%
Registering on the electoral roll	Improves credit score	36%
Receiving a County Court Judgment	Worsen credit score	22%
Defaulting on an account (eg failing to repay the money borrowed)	Worsen credit score	20%
Missing a repayment on a credit card or loan	Worsen credit score	20%

Source: FCA consumer research

Disclaimer: The information provided in the table above is illustrative only. Different credit scoring models may weigh these factors differently and credit scores reflect a wide range of different factors.

Many consumers have misconceptions about how credit markets function and struggle to navigate the disputes process

48. Our survey found that many consumers know that it is CRAs that calculate credit scores (84%) and correctly believe scores have an impact on the credit product they can access (87%). However, we also found that many consumers (55%) incorrectly think that they must check their credit score regularly, and almost half of consumers (48%) incorrectly think CRAs can decide who can access financial credit.

49. Our focus groups also highlighted that some consumers struggle to navigate the statutory data disputes process under section 159 of the Consumer Credit Act (CCA). Under s159 of the CCA, if someone considers an entry on their SCR is incorrect and if it is not corrected, they are likely to be prejudiced, they can ask the relevant CRA to remove or amend it. The CRA should respond within 28 days. If the CRA does not respond within 28 days or does not remove or amend the entry, the individual can ask the CRA to add a notice of correction to their SCR. If the CRA considers the notice is incorrect, defamatory, frivolous or scandalous, or is for any other reason unsuitable for publication, the CRA may apply to the ICO (where the objector is an individual) who may make such order as it thinks fit. The individual objector may also apply to the ICO for an order if it has not received confirmation from the CRA within 28 days that it has received the notice of correction and whether it intends to comply with it.

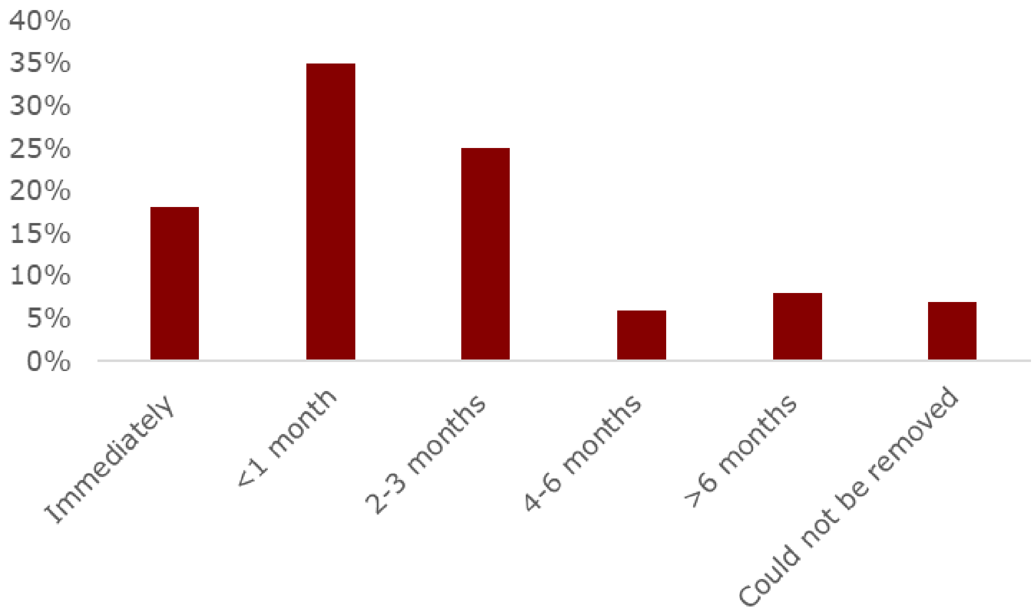
50. Our survey found that of those who have checked their credit file, 17% have noticed errors in them. This is broadly in line with findings from a 2019 Which? Survey that found that more than a fifth of those who had checked their credit report had found

an error. These consumers were unclear where responsibility for correcting errors lies and potentially have to engage separately with all three CRAs to correct any errors.

51. As there is more than one CRA, in some cases consumers who find inaccuracies in their credit file have to potentially correct their data at all 3 large CRAs. This is because they do not typically know which CRA a given lender uses. The disputes process can be long and onerous, and some consumers drop out of this process out of frustration. Under the 'data dispute' process, CRAs have 28 days to inform a consumer whether data has been corrected, removed or left unchanged. We have heard that lenders can sometimes take significantly longer than this to investigate data disputes and do not respond to CRAs within this period (See Figure 8 for detailed information on the time taken for an error to be corrected). While disputed data may be 'suppressed' during this period, consumers may still be harmed if their credit file does not provide an accurate view of their financial circumstances because data is 'suppressed' or is otherwise incorrect.

52. In some instances, CRAs asked consumers to approach the lender who may be at fault for the inaccuracy, at which point lenders inform the consumer that the CRA is in fact responsible[10].

Figure 8: Time taken for an error to be corrected, % of those that took action after noticing an error



Source: FCA consumer research

53. This could be a concern because inaccuracies in credit files can lead to adverse outcomes for consumers. They can either be extended credit when they should not be or be rejected for credit when they might be eligible, or the terms with which they access credit (the interest rate) is affected.

Some consumers are not aware they can request a free statutory credit report (SCR) from CRAs

54. SCRs detail consumers' credit history. They include personal data held by CRAs relating to the individual's financial standing. Individuals have corresponding rights to access

[10] From our conversations with the 3 large CRAs, the correction process begins with the lender, who have to inform the CRA of the inaccuracy, at which point it is corrected. Lenders are required to pay for corrections to credit files for which they are at fault.

their credit files from CRAs due to provisions made in the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. SCRs are helpful to consumers because they can check how their credit history looks to lenders. They can also assess whether there are any mistakes in their credit file. Consumers can also access their credit information through other channels including CISPs. The key advantage of the SCR over the services provided by CISPs is that it is free to access and free from cross-selling.

55. From our survey, we found that 43% of the respondents did not know they could request a free statutory credit report (SCR) directly from the CRAs. Using data provided by firms on the number of free statutory report requests, we also found that only 15% and 43% of users (paid-for and free) of two CRAs requested their free SCRs.

56. To understand the consumer's journey in obtaining their SCR, we reviewed the processes by which consumers access their SCR from the 3 large CRAs.

57. Our Consumer Duty[11] sets out our expectations for the standard of care that firms provide to consumers. For firms, this would mean they must 'consistently focus on consumer outcomes and put customers in a position where they can act and make decisions in their interests.'

58. In order to do this, firms will need to ensure they do not utilise 'sludge practices'. Sludge practices are those which result in as an excessive friction that hinders consumers from making decisions in their interests, by taking advantage of their behavioural biases. Behavioural biases are irrational beliefs or behaviours that can subconsciously influence our decision-making process. The final non-Handbook guidance for firms on the Consumer Duty includes several examples of sludge, such as where 'a firm may not clearly signpost the process for product cancellation on its website, making it harder for its customers to switch'. It also highlights that 'In the online world, sludge can be found in the design of websites or mobile apps, eg, user interfaces that are designed to push consumers into choices that may not be in their best interests.'

59. Another barrier, and a related concept to sludge practices, is harmful digital design practices that are sometimes referred to as 'dark patterns' or 'deceptive design' in academic literature. Examples of these include hiding important information in a navigation menu or misdirecting consumers' attention to choices that are not in their best interests. For further discussion of such harmful digital design practices, please see the CMA' discussion paper and evidence review on online choice architecture.

Sludge in accessing SCRs

60. We conducted a website review of the three large CRAs - between January 2022 and March 2022 – and found evidence of sludge practices and dark patterns. We are concerned that this could prevent consumers from accessing their free SCR. In particular, the practices we found could mean:

- Consumers may be unaware that they can apply for a free SCR and believe the paid-for services are the only option available for them to retrieve their credit report.
- Consumers that are aware of the SCR or generally aware that they can access their credit information for free may be unable to find the option to request it.
- Consumers could inadvertently sign up for paid-for services when intending to access their free SCR.

[11] https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty

- Consumers may begin the process of applying for their SCR but not complete the process because of the (sometimes substantial) burdens to proving their identity.

61. When reviewing, we have considered how the CRA websites and processes could adopt a consumer journey to make it reasonably straightforward for consumers to apply for their SCR. Such a consumer journey would likely ensure that:
    - One of the most prominent links on each webpage of the CRA websites, especially the home page, would direct consumers to applying for the SCR.
    - Whenever the SCR is referred to, it's made clear that it is free to apply for. For example, it's referred to across the website as the Free Statutory Credit Report.
    - Paid-for services should not be described as "FREE*", when only the initial trial period is free but ongoing access is not.
    - Where comparison tools/tables are applied, consumers should not be discouraged from applying for the SCR. Where there are comparator tools, it should be signposted that there could be fees, a requirement for a subscription or that it can be used for cross-selling.
    - All efforts made to ensure that identity checks do not put undue burdens on consumers. That means, with suitable regard to data protection and security, endeavouring to use identity check questions where possible instead of onerous requirements to provide documentation. Where documentation is required, making provisions for consumers to be able to provide that documentation online rather than only via post.

62. Below, we summarise our findings from our review of the process of requesting a SCR from the three large CRAs - Equifax, Experian and TransUnion. We have split the consumer journey into obtaining their SCR into two steps. The first step is navigating to the correct webpage on the CRA's website to apply for the SCR. The second step is completing the application process to receive the SCR.

63. Finding the right webpage to apply for the SCR:
    - Salient links at the top of some home pages and other prominent pages on the website encourage consumers to 'SIGN UP', 'SIGN UP NOW' or 'Start my free trial'. These links default consumers to applying for a paid-for product. As a result, consumers may be unaware that they can apply for a free SCR and believe the paid-for services are the only option available for them to retrieve their credit report.
    - We are also concerned that the option to apply for the SCR, if it exists, on the home page is essentially hidden information to consumers. Where it does appear, it is often only displayed hidden on menus or further down the home page. It is often, also ranked/listed below that of the paid-for product. The alternative, the paid-for product is far more prominent and acting as the default when clicking 'sign up'. Overall, we are concerned that these design elements push consumers away from a choice that may be in their best interest. When this occurs, it is sometimes referred to as asymmetry or unequal burdens between choices.
    - Paid for products are being advertised as 'FREE*', with, a less prominent clarification made below the asterisk in much smaller font that eg, '*Your first 30 days are free then it's £7.95 per month.' Moreover, the SCR is not advertised as 'FREE', despite the fact that it is.
    - Comparison tables, which contrast the SCR to other paid-fair products are not always clear about the terms of each offering. For example, the comparison tables do not always display that the SCR is free whereas the paid-for products are only

free over a trial period. Furthermore, references to CISPs are not accompanied by a clear statement that consumers will likely face cross-selling when using these products.

64. Completing the request for a SCR:

- In one instance, we found in order to prove identity, consumers are requested to provide physical copies of identification, proof of address and a cover letter explaining the request for SCR via post. This contrasts with an approach we found that enables consumers to submit a more limited set of such documentation online. It is also different from an approach that enables consumers to answer a series of identity check questions (eg, 'Do you have a personal (including joint) mortgage?' or 'Do you have a personal mobile phone contract registered to your current address?') online to obtain their SCR. In each case, the burdens to proving identification become substantially lower. We want to ensure that, with suitable regard to data protection and security, identity checks do not put undue burdens on consumers to receiving their SCR.
- In one instance, the time taken between starting the process to obtain an SCR and receiving one was around 3 weeks. This was predominantly due to waiting to pass identity checks, as set out above. Whereas, in another instance, where identity checks were completed online via a series of identity check questions, the SCR was available almost instantly. We are concerned that in cases where the delay is substantial, this could make it more difficult for consumers to check and ensure their SCR is correct before making a credit decision.

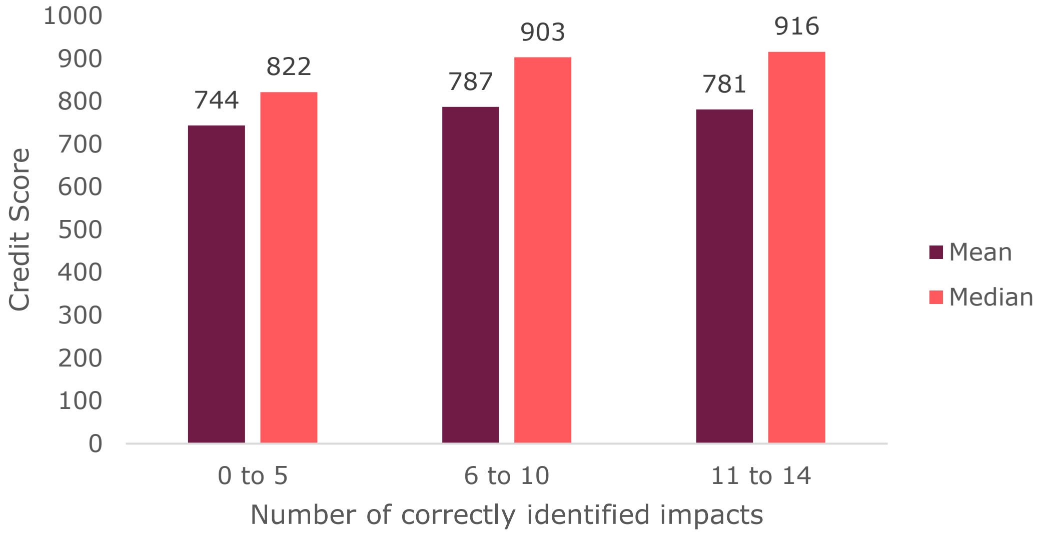
65. Following this website review of the 3 large CRAs, we have concerns that consumers may be discouraged, slowed down or prevented from accessing their SCR. This can negatively impact the proportion of consumers that access their SCR. For those consumers who have mistakes in their credit file, this lack of accessibility will mean errors are not seen and corrected, adversely impacting CRAs' data quality for these consumers, which may in turn lead to inaccurate lending decisions in the future.

Consumers with better understanding of credit information tend to have on average higher credit scores

66. We matched credit score data from one CRA with individual responses to our consumer survey (see Appendix 1 – Event Study & Clickstream Analysis), to test a number of hypotheses. One hypothesis explored whether consumer understanding of credit information correlated with credit score levels. Overall, we found that consumers with a poorer understanding have on average lower scores compared to those showing a better understanding.

67. We looked at correlation between understanding and credit scores in two ways. First, we compared consumers' average credit scores depending on their knowledge of what influences a score. In our survey, we asked consumers to indicate the impact that different behaviours would have on a credit score. Figure 9 shows that both mean and median credit scores tend to increase with the number of 'impacts' they correctly answered.

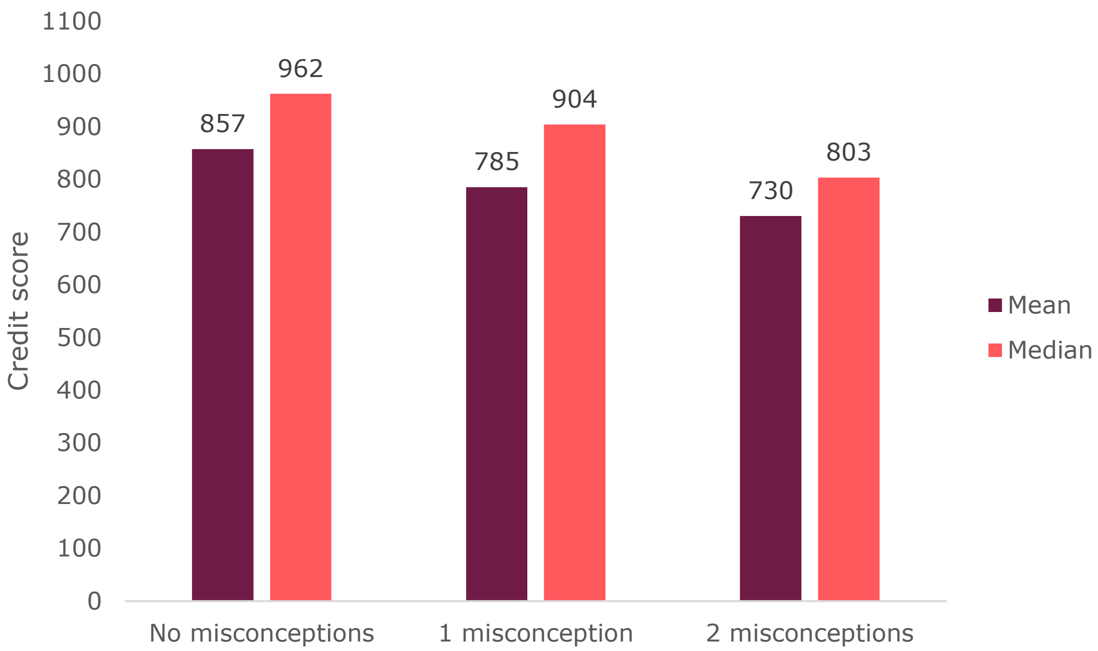
Figure 9: Mean and median credit scores by number of correctly identified impacts of behaviours on score



Source: FCA analysis on CRAs and CISPs data and consumer research data

68. Secondly, we compared average scores of individuals having none, one, or two misconceptions about the factors that drive a credit score.[12] As shown in Figure 10, we found the highest mean and median credit scores amongst consumers who did not have any misconceptions, followed by those who had just one misconception.

Figure 10: Mean and median credit scores by number of misconceptions



Source: FCA analysis on CRAs and CISPs data and FCA consumer research

[12] These misconceptions are: i) incorrectly thinking that checking your credit score regularly is a must and ii) incorrectly thinking that CRAs decide who can access financial credit.

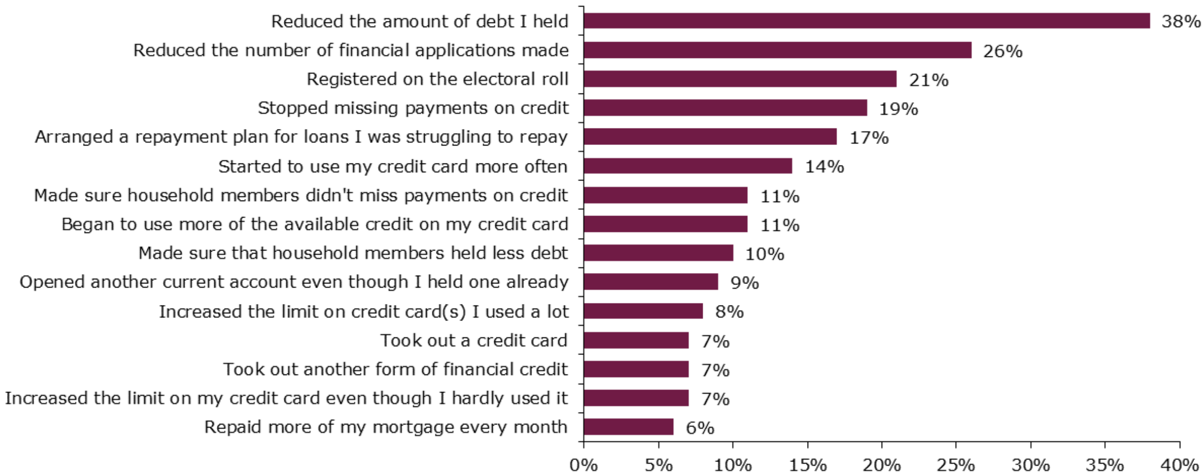
What impact does consumer understanding of credit information have on their behaviour?

A minority of consumers claimed they took steps to improve their score after checking it

69. In our ToR, we said we were interested in examining how consumers' awareness and understanding of credit information informs the way they interact with credit information services and credit products. This includes how they react and what they do after checking their credit score.

70. Of the consumers who have checked their score, our survey found that less than a quarter (22%) claimed they took steps to improve it after checking it. When we asked these individuals which steps they have taken, just over a third (38%) said they reduced the amount of debt held, and roughly a quarter (26%) said they reduced the number of credit applications made. Other actions include registering on the electoral roll and not missing payments on credit11.[13]

Figure 11: Actions taken to improve credit score after checking it



Source: FCA consumer research

71. The remaining 78% of consumers who checked their score claimed they did not take any steps to improve it. About half of these (48%) said this was because their score was sufficiently high. However, the other half (52%) did not take action for more 'negative' reasons. These reasons included: being unclear what to do to improve the score, not being clear if they needed to improve their score, not wanting to improve their score or not having a need because they obtained credit in other ways.[14]

[13] Note respondents could select multiple options.

[14] To understand whether the latter two reasons were 'negative', we checked what type of credit these two groups of consumers tend to hold and if they were recently refused credit. Of those who said they got credit in other ways, we found that nearly a half (40%) took out high-cost credit products in the past and nearly a third (30%) were refused credit in the previous 2 years. These figures are even higher amongst those who said that they did not want to improve their score (60% took out high-cost credit products and nearly 50% were refused credit in the previous 2 years). Numbers are considerably lower in the wider population, where 38% of consumers took out high-cost credit products in the past and 19% were refused credit in the previous 2 years. We therefore think these 2 groups of consumers could benefit from improving their credit score because a higher score could increase their likelihood of being accepted for credit and also allow them to qualify for better forms of credit.

On average, consumers who have taken steps to improve their score have seen their score increasing after they took steps

72. Consumers who took steps to improve their score have similar characteristics to those who did not take steps for 'negative' reasons.[15] The two groups are similar in the respective proportions of consumers that display characteristics of vulnerability (19% of consumers who took steps to improve their score have low financial resilience and low financial capability compared to 18% in the group who did not take steps for 'negative' reasons). They are also similar in the proportion of consumers in each of our six consumer segments (outlined in Table 1)[16] This provides some reassurance that we can make meaningful comparisons between those that took steps to improve their score and those that did not for 'negative' reasons.

73. For the 22% of consumers who took steps to improve their score, we found that their mean and median scores increased by around 20 score points (a 3% score increase) between October 2015 and October 2019 (Figure 12). Notably, this is a long observation period and many developments could have occurred, outside of consumers taking steps to try and improve their score, that affected consumers' credit scores.

74. A 3% rise in a consumer's credit score is likely to affect consumers in different ways. Scoring scales differ across CRAs, and lenders interpret scores in different ways with some focusing more on underlying raw credit data. It is, however, reasonable to assume that improvements in score reflect an improvement in a consumer's raw credit file as well.

75. There is also decreasing marginal benefit from score improvements for relatively high scores. Hence score improvements are likely to disproportionally benefit those with a poor credit score (with respect to being approved for credit).

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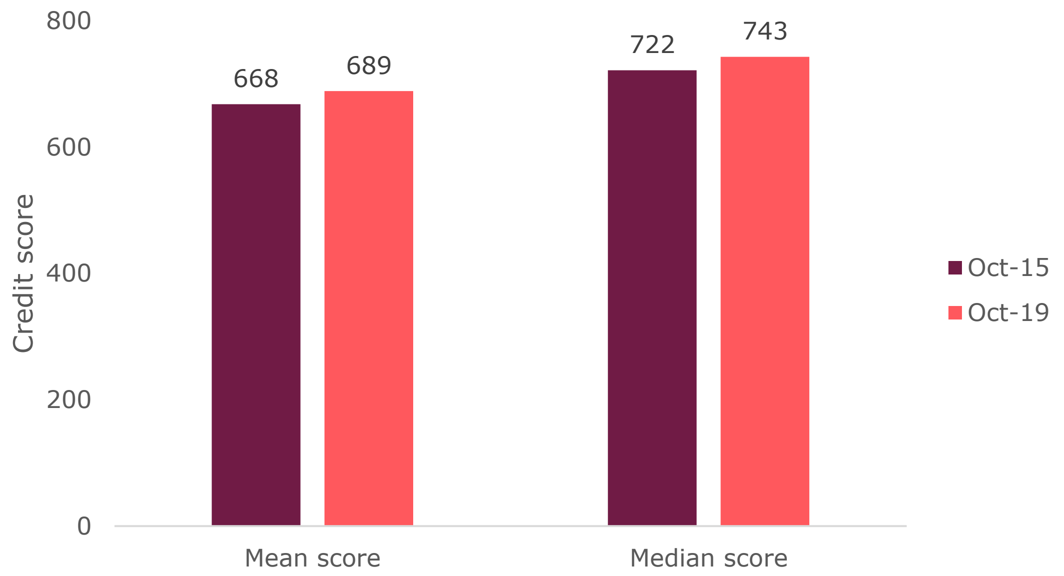
[15] As described above, these 'negative' reasons were: being unclear what to do to improve the score, not being clear if one needed to improve the score, not wanting to improve the score or having obtained credit in other ways.

[16] The percentage of consumers falling in each of our 6 consumer segments is similar between those who did not take steps for 'negative reasons' and those who took steps, while it is very different for the group who did not take steps because their score was sufficiently high. The exact proportions are listed below:

Segment	Took steps	Didn't take steps for 'negative reasons'	Didn't take steps because score sufficiently high
Struggling Borrowers	22%	22%	5%
Younger & Financially Stretched	24%	31%	12%
Working Their Way Up	30%	22%	24%
Low Income But In Control	16%	12%	9%
Comfortable & Unengaged	5%	6%	22%
Older & Wiser	4%	7%	28%

Figure 12: Mean and median credit score in October 2015 and October 2019 for consumers who took steps to improve their score



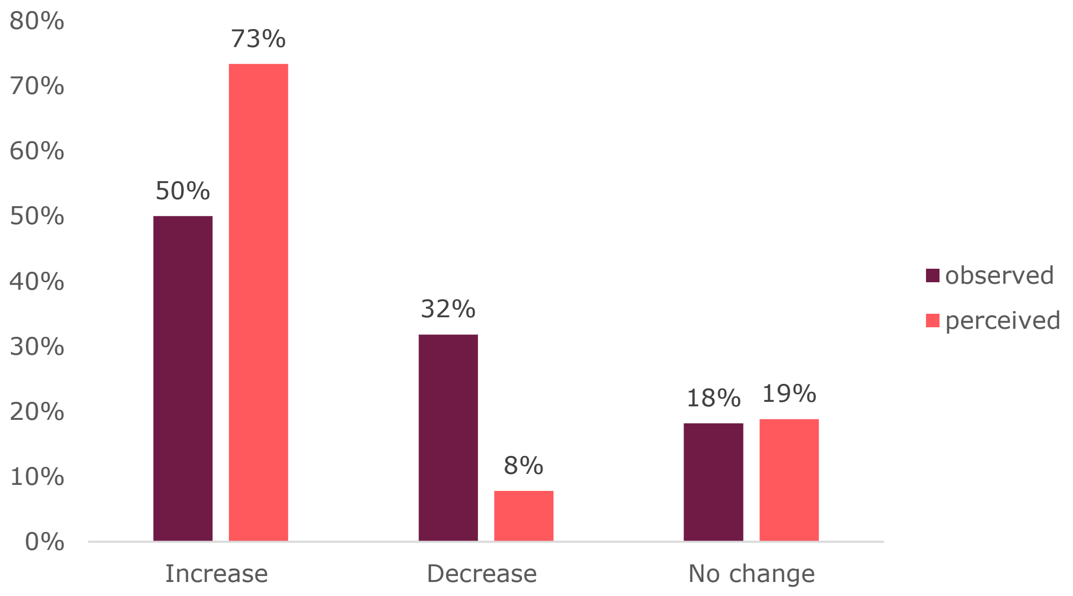
Source: FCA analysis on CRAs and CISPs data and FCA consumer research

76. The credit scores of consumers who did not take steps for 'negative' reasons decreased on average (by 5%) over the same period. Hence, this suggests that taking steps targeted at improving the score might be effective in credit score improvement.

77. We also compared consumers' perceptions of how their score might have changed following action with the actual change we observed in the scores over our outcome period. The sample used for this analysis is made of all consumers who claimed in our survey that they took steps to improve their score. Since we do not have information on the date consumers took the stated actions nor do we hold data on the number of stated actions, we were unable to cross check in the data that these consumers took the actions they reported and hence our findings may be biased.

78. While credit scores data suggest that the score increased for 50% of people who took steps to improve it, 73% of consumers claimed that their score increased after they had taken steps, showing a tendency to be over optimistic about their own credit score (see Figure 13).

Figure 13: Perceived versus observed change in score after taking steps to improve it (percentage of consumers)



Source: FCA analysis on CRAs and CIS providers data and FCA consumer research

Some consumers who have not taken steps to improve their credit score could benefit from doing so

79. We sought to understand whether consumers who did not take any steps to improve their score, could have benefitted from doing so.

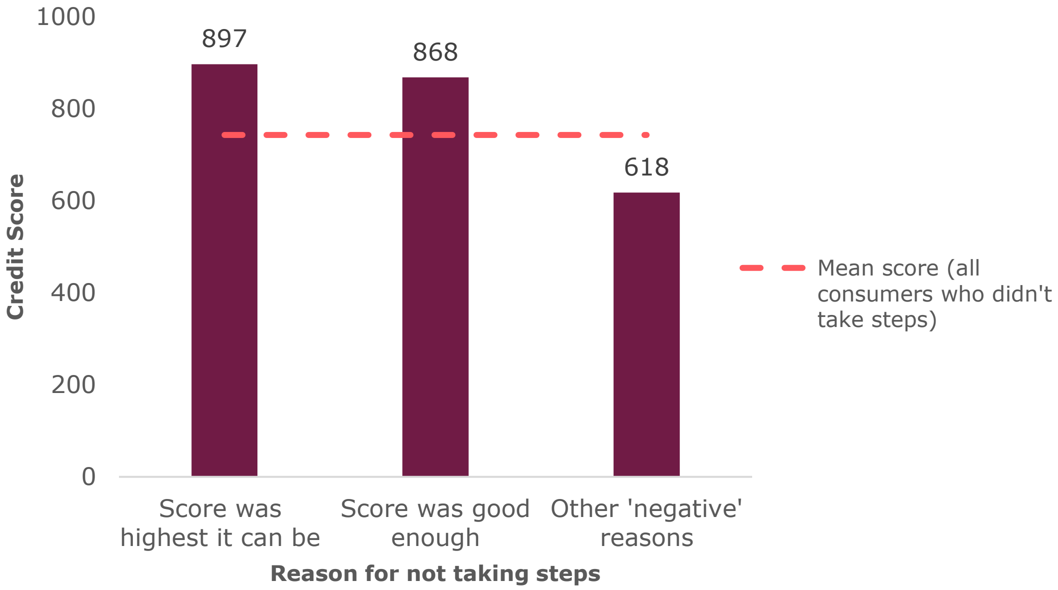
80. We first looked at the scores of consumers who claimed they have not taken steps because their score was 'the highest it could be' (17% of those who have not taken steps) or it was 'good enough' (40%), to check if they did indeed have high scores meaning they would be unlikely to benefit from further action. For these consumers, we looked at their credit score the last time they checked it (self-reported in our consumer survey). We found that consumers who have not taken action because they are satisfied with their score tend to have scores above average (Figure 14).

81. But there were some consumers who could have possibly benefited from taking action. Of those who claimed that their score was 'the highest it could be', we found that 62% of these consumers had a score which would be considered 'excellent' by a certain CRA in our sample. 11% had a 'good' score and the remaining 27% had lower than good scores, with some of these being particularly low (i.e., classified as 'poor' or 'very poor', 11%). Of those who claimed that their score was 'good enough', 66% of these consumers had a score which would be considered 'excellent' or 'good' by a CRA. The remainder 34% had lower than good scores, with 14% classifying as 'poor' or 'very poor'.

82. We also looked at the scores of consumers who did not act to improve their score for the 'negative' reasons outlined above (52% of those who did not take steps). Figure 14 shows that these consumers have, on average, a score which is nearly 300 points lower than the average score of those who did not feel they had to take any steps. These consumers appear to have lower scores and are more likely to display

characteristics of vulnerability (i.e. have low financial capability, low financial resilience and are most reliant on credit).

Figure 14: Average credit score of consumers who have not taken steps to improve their score by reasons for not taking steps



Source: FCA analysis on CRAs and CISPs data and FCA consumer research

83. We also found that consumers who did not take steps for ‘negative’ reasons have similar characteristics to those who took action but had a different experience to the latter group. In particular, the scores of those who did not act for ‘negative’ reasons slightly decreased on average (by 5%) in our sample period, while the scores of the group who took steps increased by 3%. This finding suggests that this group of consumers could have indeed achieved a higher score by taking action.

Appendix 1 – Event study and clickstream analysis data

1. This Appendix provides more detail on the data we have used for our event study and clickstream analysis.

Event study

2. We asked participants in our consumer survey for permission to link their survey responses to credit information that is held by CRAs and CISPs. Out of 3,013 survey participants, we obtained consent from 1,603 individuals. We then sent their personal details (name, full address, date of birth) to CRAs and CISPs, so they could identify those individuals in their databases and send us credit information on them. We sent a data request to five CISPs. Our data request was divided into two sections, A and B. Two CIS providers who are also CRAs received both sections, while the remainder three CISPs only received section A of the request.

3. Through Section A, we collected information on consumer access to each CISP in the period which goes from 1 October 2015 to 1 October 2019. In particular, we collected:
   - whether an individual is or has ever been a customer of the firm
   - the date on which the consumer first accessed the firm's services
   - the dates of subsequent access to the services
   - the names and types of services accessed
   - whether the consumer accessed services aimed at improving their credit score and, if so, the dates they accessed these
   - whether the individual cancelled their subscription with the firm and, if so, the date they cancelled

4. Section A data covers all services which were available to consumers at any point in the period between 1 October 2015 and 1 October 2019, including those that are no longer open to new customers.

5. Through Section B, we requested the historical characteristics and educational scores of all consenting individuals, for each month from 1 October 2015 to 1 October 2019.[17]

6. We used Section A data from all 5 CIS providers and Section B data from one CRA to conduct multiple pieces of analysis:

7. A comparison of credit scores between consumers who never accessed their credit score or report and those who did so at least once in our sample period. Out of 1,603 consenting individuals, we found that:
   - 1,004 have never checked their credit information with any of the 5 CIS providers we requested data from.
   - 487 accessed their credit information with at least one of the 5 CIS providers. We further restricted the sample to only include those 407 who had their first access in our sample period (October 2015 – October 2019). We matched these individuals with their credit scores and finally included 232 individuals in our analysis, i.e., consumers for which we had a credit score on the month they first accessed their credit information and 6 and 18 months after.

[17] We only requested the characteristics which enter into the calculation of a firm's educational score.

- We excluded the remainder 112 individuals from the analysis because at least one firm was unable to match them to their databases due to poor input data.

8. For consumers who accessed their credit information at least once, we did a comparison of their score on the date of first access and in two outcome periods, 6 and 18 months after the first access. This analysis is based on a sample of 232 individuals, i.e., those for which we had a credit score on the month they first accessed their credit information and 6 and 18 months after.

9. For consumers who accessed their credit information, a comparison of credit scores based on frequency of access. This is to understand if frequency of access is correlated with higher scores. This analysis is based on a sample of 348 individuals, i.e., those who accessed their credit information at least once in our sample period for which we also had credit scores at the end of the sample period (October 2019).

10. Moreover, we matched Section B data from one CRA with individual responses to our consumer survey to test a number of hypotheses:
    - To check whether consumers who showed a low level of understanding of credit information in our survey tend to have lower scores than people who showed higher levels of understanding. Our sample for this includes 1,151 individuals.
    - To check whether consumers who show characteristics of vulnerability have on average lower scores than those who do not.

11. The analysis using the Index of Multiple Deprivation (IMD) as a measure of vulnerability is based on credit score data in October 2019 on 972 consumers. These are consumers who met the following criteria: i) they consented to sharing their personal data (including postcode) as part of our survey, ii) their (self-reported) postcode could be used for this analysis, i.e., a valid postcode in England and iii) a CRA could provide us with their credit score in October 2019.

12. Both the analysis where we compare credit scores across our six consumer segments and the one where we look at vulnerability based on four categories (low financial resilience, low financial capability, life events, health issues) are based on a sample of 1151 individuals. These are consumers who consented to the FCA matching their survey responses to their credit files for which we also had credit scores at the end of our sample (October 2019).

13. To check whether the scores of individuals who claimed they took steps to improve their score actually improved. This analysis is based on a sample of 165 individuals, i.e., those who took steps to improve their score for which we also had credit scores at the beginning of the sample (October 2015) and at the end of it (October 2019).

14. To understand whether those survey respondents, who reported they did not need to take steps to improve their score might have benefitted from taking action. This analysis is based on a sample of 519 individuals, i.e., those who did not take steps to improve their score for which we had credit scores on the month they last checked their score. Of these 519 individuals, 251 claimed they didn’t need to improve their score because it was good enough or the highest possible, and 268 were not clear if and how to improve their score/ were not interested in improving it/ did not try to improve it because they got credit another way.

15. We used Section A data to distinguish individuals who have never accessed their credit information from those who have accessed their credit information at least once in our sample period. We acknowledge that although the 5 CIS providers we requested data

from make up the great majority of the CIS market (97%), there is a small risk that some individuals appear to us as not having ever accessed their credit information, while in fact they might have used a CIS provider outside of our sample. This would result in the credit scores of individuals who have in fact accessed their credit information to be aggregated with those of consumers who never accessed it, ultimately biasing our comparison of the scores of users and non-users of credit information.

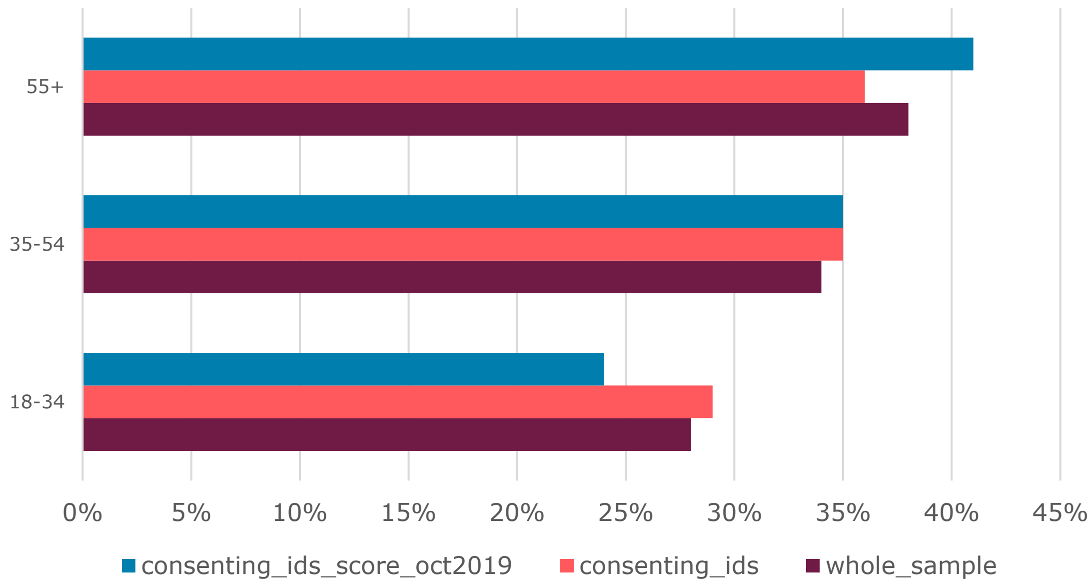
16. Where we compared credit scores at different points in time), we chose two outcome periods, 6 months and 18 months after the first access to credit information or tools to improve the score. We chose these outcome periods based on findings from the literature and on our understanding of credit information services.[18] However, we appreciate that we might obtain different results if we selected different outcome periods.

17. As described in our Consumer Engagement Technical Annex, the whole sample of 3,013 survey respondents was selected by setting gender, age and regional quotas so to be representative of the UK adult population. To check whether the sample of individuals used in this analysis (i.e. those consumers who gave us consent as part of the survey and for which we received credit scores from a CRA) was representative of the UK adult population, we compared key demographics in the whole sample of survey respondents and in our subsample.

18. We found that the key demographics (gender, age, region) in the sample used for this analysis are very similar to those in the whole sample of respondents, which reassures us on the representativeness of our subsample of consumers. For example, the whole sample was selected to have 49% males, 50% females and 1% other gender. Very similarly, in the sample of consumers who gave us consent and for which we have scores in October 2019, there are 53% males and 47% females. For ease of understanding, the comparison of demographics based on age and region is shown in the two figures below (Figure 15 and Figure 16).

[18] Studies show that a number of different programmes to help consumers improve their credit score produce their effects from 6 months after taking action. For example, a study of the impact of credit building counselling offered to workers as an employee benefit in Boston found that 67% of people receiving one-to-one assistance improved their score after 6 months in the benefit. Another study evaluated the impact of a program introduced in the US aimed at improving credit scores via a mix of consumer financial education and financial coaching and found impacts 6 and 18 months into the program. Still in the US, the CFPB commissioned research to assess the impact of two financial coaching programs on credit scores and other dimensions of financial wellbeing and found impacts in similar windows. research to assess the impact of two financial coaching programs on credit scores and other dimensions of financial wellbeing and found impacts in similar windows.

Figure 15: Key demographics – Age



Source: FCA analysis on CRAs and CISPs data and FCA consumer research

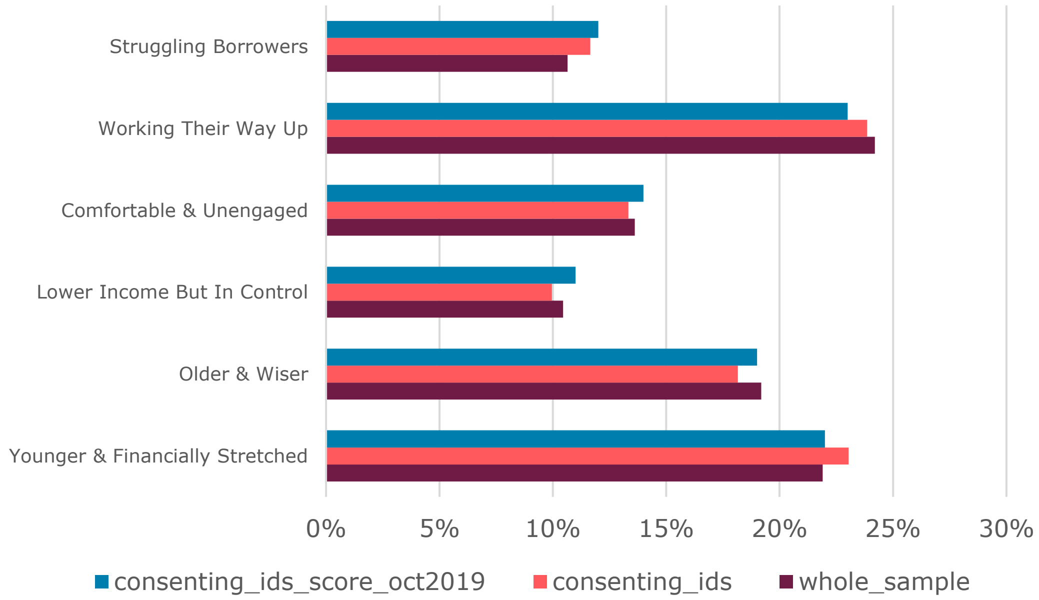
Figure 16: Key demographics – Region

Source: FCA analysis on CRAs and CISPS data and FCA consumer research

19. We also found that the composition of the consumer segments (in terms of age, gender and region) in the whole sample is very similar to that in our subsample. Finally, we compared the percentage of people falling in each segment in the whole sample and

in the sample used for this analysis. As Figure 17 shows, these are almost identical (the maximum discrepancy is by 1 percentage point).

Figure 17: Percentage of consumers falling in each segment



Source: FCA analysis on CRAs and CISPs data and FCA consumer research

20. We note that the greatest discrepancy between the whole sample and the sample used for this analysis is around the proportion of consumers living in London (13% in the whole sample and 8% in the subsample used for the analysis). This means that consumers in London are under-represented in our subsample, which could bias our results. To account for this and make sure that our main findings hold in London, we replicated the most important elements of our analysis on the London sample. We found that taking steps has a significant impact on the credit score in London as for the whole of the UK.

Clickstream analysis

21. Our survey covered consumers' interest in modelled credit information service interfaces ('mock-up reports' section).

22. To complement the consumer survey, we also asked four main CIS providers about patterns of use on their web and mobile interfaces. We asked them to provide aggregated web traffic statistics on the main sections of their websites and mobile app, where relevant. The main sections of these interfaces were defined as follows: (i) detailed credit information (ii) score explanation (iii) score improvement advice (iv) ID management, and (v) product comparison tools. Where available these statistics were provided by age categories and credit score categories.

Appendix 2 – FCA vulnerability dimensions

1. We used consumer responses to questions in our survey to identify whether consumers display characteristics of vulnerability or are in vulnerable circumstances based on four dimensions - low financial resilience, life events, low financial capability and ill health or disability.

2. The classification of potential vulnerability based on these four dimensions follows the classification used in the FCA's Financial Lives Survey.

3. Table 3 below maps each dimension of vulnerability to the features of that dimension ('Features' column) and to the survey questions asked as part of our survey ('Survey questions' column).

Table 3: Dimensions of vulnerability

Dimensions of vulnerability	Features	Survey questions
Low financial resilience	• Would not have enough savings to cover an unexpected bill of £200; and • Missed payments on any of the listed products in the last 6 years[19]	• If you faced an unexpected bill of £200, would you have enough savings to cover it? • Have you ever missed payments on any of the following accounts in the last 6 years?
Life events	Experiencing at least one of the following life events: - Recent bereavement - Separation/divorce - Caring responsibilities - Unemployment/unstable unemployment	Are you currently experiencing any one of the following? - Recent bereavement - Separation/divorce - Caring responsibilities - Unemployment/unstable unemployment
Low financial capability	- Not confident at managing money; or - Do not consider themselves confident/savvy when it comes to financial services and products	- Self-reported levels of confidence/savviness. Specifically, for the two statements below, consumers were asked to indicate where they place themselves on a scale from 1 to 5: I am not confident at all when it comes to managing my money — 1 — 2 — 3 — 4 — 5 — I am very confident managing my money When it comes to financial services and products, I would <u>not</u> consider myself a confident and savvy person — 1 — 2 — 3 — 4 — 5 — When it comes to financial services and products, I would consider myself a confident and savvy person
Ill health or disability	Experiencing at least one of the following conditions: - Long term physical or mental illness	Are you currently experiencing any one of the following? - Long term physical or mental illness - Long term disability

[19] Mortgages, motor finance, personal loans, credit cards, high-cost short-term credit, guarantor loans, rent-to-own, logbook loans, catalogue credit, store cards, other retail credit (eg furniture), home-collected credit (doorstep loans), peer-to-peer lending, premium finance (ie insurance paid monthly), rent, utility bills, other household bills.

Dimensions of vulnerability	Features	Survey questions
	- Long term disability	