

CREDIT INFORMATION MARKET STUDY
TERMS OF REFERENCE
FCA: MS19/1.1

RESPONSE BY THE FLA

Introduction

The Finance & Leasing Association (FLA) is the leading trade association for the UK consumer credit, motor finance and asset finance sectors. FLA member companies include banks, the finance subsidiaries of major manufacturers and independent finance firms. They offer credit services to customers from all social groups, via credit and store cards, personal loans, point of sale finance, mortgage finance, motor finance and a number of other consumer credit products, as well as a wide range of leasing and hire purchase services to businesses of all sizes.

In 2018, FLA members provided £137 billion of new finance to UK businesses and households, £45.8 billion of which helped consumers and businesses buy new and used cars, including over 91% of private new car registrations. £104.2 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK.

We welcome the opportunity to comment on the Financial Conduct Authority's (FCA) [Terms of Reference](#) (ToR) for the Credit Information Market Study (CIMS), as FLA members make extensive use of credit information as part of their responsible lending decisions.

Executive Summary

- The FLA is keen to work closely with the FCA on the CIMS and would be pleased to facilitate further engagement opportunities with members to help the regulator in formulating its conclusions and any potential remedies.
- The UK credit information market is well-established and has been working effectively for several decades. The success of this market is underpinned by effective and reciprocal 'data sharing', which forms important aspects of risk / credit decisioning, underwriting and responsible lending practices. The Principles of Reciprocity (PoR), developed by the Steering Committee on Reciprocity (SCOR), have played an important role in providing governance around data sharing activities and have helped to provide a framework for organisations adhering to these rules.
- Nonetheless, we recognise that there may be opportunities to innovate and improve on current practices. Part of this stems from advancements in technology and the changing nature of the way in which data is collected, used and managed by organisations. For example, in a fast-moving credit sector where new products are regularly brought to market, it is important that these are appropriately recorded and identified via searches undertaken with the Credit Reference Agencies (CRAs) so both lenders and consumers can see exactly which type of product is listed.

- Consideration should also be given to the inclusion of a broader range of data sources which might be shared in the interests of responsible lending. This could include access to information such as: rental data; HMRC data (such as payroll data); utility bills and Council Tax records. The inclusion of this additional data could help to provide a more in-depth view of the customer's financial position and could also enhance the creditworthiness assessments that are undertaken.

Other opportunities for improvement relate to consumer awareness, with issues including: how consumers interact with credit information; their understanding of the market in practice (and what their credit scores mean); their ability to obtain credit; and how they can improve their credit profile (including where they have a 'thin file' or limited information on their credit profiles).

- We agree with the FCA's description of the credit information market and how it plays "*a key role in enabling consumers to access a range of financial and non-financial services*" – and we expect this to continue to be the case in the future. However, as firms seek to evolve and adapt to new processing methods / credit products, any proposed changes from the regulator should be mindful of potential impacts to the industry and the need for proportionate implementation periods, due to the potential complexity involved.

Responses to questions in Annex 1 of MS19/1.1

1. Do you agree with our description of the industry, the sources of data collected by CRAs, and the usage of that data?

- Yes, we agree with the FCA's description of the industry and the references to the collection / uses of data.
- With reference to section 3.19, while the overall process of sharing data has remained broadly similar for a number of years, it has been subject to ongoing change. The PoR has been regularly updated (with over 40 reviews since its inception) to reflect market developments and is very much a document which has been adapted to cater for innovation within the sector. A data quality guide has also been developed in collaboration with the Information Commissioner's Office (ICO), to help further improve the quality and consistency of data sharing and usage.

2. Do you consider that the scope is appropriate to assess whether the credit information market is working well?

- Yes, we agree with the scope as described in the ToR document – there appears to be an appropriate balance between the role of firms and the impact of credit information on consumers.

3. Do you consider that the credit information market is working well?

- Yes. We think that the credit information market works very well and that it has a major influence on driving responsible lending practices within the industry. Through access to good quality credit information, firms have been able to more accurately determine the financial standing / creditworthiness of potential customers and have, accordingly adapted their lending, underwriting and risk policies.
- However, as noted earlier, there is a need to ensure that credit data sharing keeps pace with market developments and also the volume of new products that are being introduced. These also need to be properly reported and in a consistent manner so the information is clear to both lenders and consumers when accessing credit files.
- It would be useful to look at the extent to which lenders could access a 'menu' approach to services offered across the CRAs. For example, this could take the form of utilising credit scoring services from the first CRA, responsible lending products from the second CRA, and ID verification services from the third. Effective competition in the sector would allow for this approach.
- Improvements to the 'timeliness' of data could usefully be explored and would need to look at both the pros and cons of providing data on a more regular basis. For the majority of credit products, monthly reporting works well in practice. However, a move to 'real-time' submission of data to CRAs could pose significant challenges – particularly in terms of having to make considerable system changes. Issues around sustainability could also arise, especially if continuously providing this information gives rise to the need for extra resources. Furthermore, there are questions around how these changes could impact consumers on a practical level, and what (if any) tangible benefits are likely to be derived as a result.

4. Do you have any views on the themes or the questions we are planning on exploring?

- The four proposed themes within the ToR appear sensible.
- We welcome the FCA's intention to consider the impact of poor consumer awareness and the future evolution of the credit information market. Both these factors will be essential in determining how consumers think / access their credit files, and what the direction of travel within this market could look like.

5. Do you have any views on the future developments of the credit information market or any other key developments we should be aware of?

- We welcome the FCA's intention to take a forward-looking approach as part of this market study, and that the conclusions / recommendations will take account of further developments in technology.

- Developments in initiatives such as Open Banking (OB) and ‘Open Finance’ (OF) (as recently mentioned in the FCA’s Business Plan for 2019/20) could significantly influence the way in which data sharing currently takes place. For example, lenders could decide to use OB / OF to perform routine credit checks on customers – and this could realistically be implemented in the near-term. However, the use of traditional credit checks will remain important, as they provide an overview of how customers have actually managed their financial commitments (including any arrears).
- Separately, we feel that consumers may be able to play a more active role in managing their credit information in the future. However, much of this is dependent on their level of understanding and general awareness of the market. For example, if customers better understand how their credit scores are determined, how these can vary amongst the different CRAs, and how it could affect their ability to obtain credit – they are likely to be better informed when seeking to manage their current financial position.
- The mediums through which customer awareness is provided could also be an influential factor in the future, particularly as younger generations are more likely to consume information through the use of mobile devices rather than through traditional means such as paper leaflets or face-to-face advice from professionals etc.

6. *Are there any other potential issues we should consider in the course of the market study which are not outlined here?*

- The ToR at section 4.11 refers to the FCA’s concerns around ‘coverage’, ‘timeliness’ and ‘consistency’ of credit information. We would like to work with the FCA to explore these issues in more detail and to consider where improvements might be made – while also recognising that, at present, credit data sharing does work effectively in assisting responsible lending decisions.

7. *We intend to seek input from industry experts about how the credit information market might evolve in the future. If you are aware of a suitable individual please contact CreditInformationMarketStudy@fca.org.uk*

- The FLA will share a list of potential industry experts with the FCA CIMS team in due course.

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