Consultation response: FCA Credit Information Market Study Terms of Reference

Response by the Money Advice Trust

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2018, our National Debtline and Business Debtline advisers provided help to more than 204,000 people by phone and webchat, with 1.7 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2018 we delivered this free training to over 820 organisations. Furthermore, Money Advice Trust Training and Consultancy services have worked with over 224 commercial organisations to identify and support their customers in vulnerable circumstances.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to comment on the FCA Credit Information Market Study terms of reference. We have set out our answers to the questions below.

- ✓ We would say that the scope of the market study is appropriate. We are particularly pleased to see that the scope will focus on the impact of the credit information market on consumers, and particularly on consumers who may be in vulnerable circumstances.
- ✓ While we appreciate that given the FCA's remit, the market study will not directly consider how credit information is used by other credit sectors such as utilities, we would recommend that the study does take into account the possible impact of any proposed remedies on these sectors, and liaises with the relevant regulators to prevent any unintended consequences arising from proposed remedies.
- ✓ We do not generally consider that the credit information market is working as well as it could work for consumers, for the reasons set out in our response. For us, the accuracy and completeness of data supplied to and maintained by credit reference agencies is key, as this can have such a huge effect on individual consumers.
- ✓ In addition, we question whether a system where the data held by three (at least) different agencies need to be checked to gain an accurate and complete picture of an individual's financial commitments is optimal.
- ✓ The FCA needs to factor in future developments such as HM Treasury's forthcoming Breathing Space scheme in this market study.
- ✓ If the market study finds significant structural problems in the credit information market or that competition is not functioning in the interests of consumers, we would suggest that the FCA should be prepared to consider strong interventions, up to and including the exploration of the idea of establishing a central credit information database.

Responses to individual questions

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

The description of the industry in the paper appears to be accurate. We are not close enough to the industry to be in a position to comment on this question.

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

We would say that the scope of the market study is appropriate. We are particularly pleased to see that the scope will focus on the impact of the credit information market on consumers, and particularly on consumers who may be in vulnerable circumstances.

We note that the intention is to focus on credit information relating to individuals and not on the provision of credit information to SMEs. In our experience of offering advice to small businesses through Business Debtline, we would point out that clients find that information on their personal credit file impacts on their business credit score. This also includes small limited companies where the directors' personal credit files are used to calculate the credit score for that limited company. The effects of this on small businesses and limited companies should be taken into account when carrying out this market study.

However, we would stress that the vital importance of making sure the study focuses particularly on the impact of the credit information market and its effect on people who are financially excluded. Consideration should be given to what improvements to the system could be put in place that would materially benefit particular vulnerable groups in particular. We have not attempted to create a definitive list of examples here. For example:

- ✓ people with thin or non-existent credit files because they are unbanked;
- ✓ consumers who are unable to provide the current range of documents required for proof of identity to access financial products;
- ✓ people who move about between temporary accommodation, or are homeless; or
- ✓ people whose thin credit files are because of not being on the electoral register.

We note that the terms of reference makes clear that the study:

> "will not focus on how credit information is used in non-financial services markets (eg utility and telecom companies). But we recognise that our findings may be relevant to these other markets."

While we appreciate that this approach is driven by the FCA's remit, we would recommend that the study takes into account, at least, the impact of any remedies proposed on non-financial services credit markets, and liaises with other regulators to prevent any unintended consequences.

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

We do not generally consider that the credit information market is working as well as it could work for consumers. We have set out some thoughts below.

We agree that there are concerns about how credit reference agency (CRA) data is currently supplied and used. It is less than satisfactory that there are three main competing sources of CRA data which can mean that for firms to obtain a complete picture of a consumer's financial obligations; all three CRA accounts need to be checked. It is also problematic that the data can overlap and be recorded inconsistently, using different product categorisations. This can therefore give a misleading picture of the financial obligations that a person may have.

Credit referencing models need to be looked at to make it easier for currently excluded groups to access affordable credit and other financial services. This might include the use of public sector and other data, although this needs to be thought through to ensure that safeguards are in place. The Responsible Finance research programme looking at inclusive credit scoring may be of relevance here.[1]

Certain types of debt are not included in the CRA files, so the picture will not be complete. It is clearly difficult for a lender to solely rely upon CRA data for the assessment of affordability where someone has particular priority debts such as rent, court fines, utilities or council tax. We have expressed our reservations in the past about including debts like council tax, rent and utility debts on credit reports.

This is because such debts are very prone to reporting error due to housing benefit or council tax support delays or overpayment problems,[2] errors by the DWP or local authority, or changes in government policy in relation to benefits, and with over or under-estimated utility bills. This will mean that people can be behind with their household bills when they have no control over the outcome. Such errors can unfairly affect a consumer's credit record, through no fault of their own.

Individual and household income sources or levels are not recorded on CRA records, so a CRA files cannot be used to indicate income for creditworthiness assessments.

There are still barriers to opening a bank account in relation to providing acceptable proof of identity, and these can be difficult to overcome for young people in particular. There is still not a cross-industry standard for ID verification in place. There needs to be an exception process for people who do not possess standard identification documents.

The report on the Treasury Select Committee's Consumer Access to financial services inquiry[3] sets out a variety of proposals of relevance to this study. The Committee recommends that the Treasury and the FCA consult on bringing in a standardised list of identification papers that are acceptable as identification for a basic bank account and that financial service providers should accept as many forms of identification as possible, and think creatively about more forms of identification that could be accepted.

We have raised the issue of real-time reporting in the context of high-cost short-term credit in previous FCA consultations. There is currently a variety of industry-based schemes that all have different rules and processes. This means coverage is neither comprehensive, nor is it compulsory for lenders to join a particular scheme. This should not be left as an optional business decision for individual lenders.

We are concerned about the way in which the credit information market impacts people in vulnerable circumstances. We are a debt advice charity, and so by the time people seek debt advice they are not usually in a position to solve their debt problems by taking out further consumer credit. Generally their financial position has deteriorated to the point that defaults are registered on their credit file, making mainstream credit unavailable to them.

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[1] https://responsiblefinance.org.uk/policy-research/publications/ Scaling up Affordable lending: Inclusive Credit Scoring February 2018

[2] https://debtcamel.co.uk/liability-orders-credit-records/

[3] https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2017/consumers-access-to-financial-services-17-19/

We think that the importance of a "perfect" credit score has been over-emphasised generally to the extent that there have been concerns expressed that people may put off seeking debt advice because they are worried about damage to their credit score even though they have more pressing concerns about household debts. This is not necessarily a rational response, but a concern about access to credit in the future and possibly concerns about "status".

The move to generally provide free credit reports in the credit referencing sector is to be welcomed for our clients.

However, in some instances we are concerned that consumers might be persuaded into taking out costly monthly updated report services that they do not need to pay for. It seems unlikely that these will be required by many people unless perhaps for a short term, for example when considering a mortgage application or large credit transaction.

As we have said in previous responses to the Lending Code review, we believe that firms should provide the main reason for refusal of credit following a credit assessment to all applicants and not just when requested to do so by the customer.

We believe the CONC rules and Lending Standards Board standards should go further than they currently do, with an aim of enhancing the ability of consumers to find out why their credit applications have been refused. This would help empower consumers to take further action to rectify the problem. Good practice guidance could include a requirement on firms to direct people towards money and debt advice. At the very least, tailored suggestions of what action the consumer should take as a "next step" to help improve their credit rating should be provided in all cases. This might be as simple as explaining how to get on to the electoral register.

We note that it is good practice to use quotation searches but it is not compulsory for lenders to offer quotation searches. The FCA CONC rules[4] suggest that this facility should be offered "where practicable". We suggest that it should be compulsory for lenders to offer a quotation search that does not appear on credit files (with the potential for limited exemptions).

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

The themes identified in the paper appear to encompass the main issues.

We wonder if the "future evolution of the market" theme is broad enough to ensure the FCA can look at a wider comparison with different models from other countries. We would suggest that drawing on international comparisons would be beneficial.

[4] CONC 2.4.3G01/04/2014 A *firm* undertaking a credit reference search should not leave evidence of an application on a credit file where a *customer* is not yet ready to apply. Where practicable, *firms* should facilitate *customers* shopping around for *credit* by offering a 'quotation search' facility.

Question 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?

There has been some thought given to the idea of debt rehabilitation and the idea that credit files could better reflect a good debt repayment record. The Money Advice Service issued a report "Debt solutions in the UK: Recommendations for change"[5] that looked at these ideas.

This has led to discussions about debt rehabilitation within HM Treasury's forthcoming Breathing Space and Statutory Debt Repayment Plan schemes. Consumer groups suggested that the plan should be recorded in a way that is less damaging for an individual's credit rating. The government response to the latest consultation[6] states:

"Given the complexity of this area, informed by respondents to the consultation, the government will work with Credit Reference Agencies and other interested parties on how breathing space and the plan will interact with an individual's credit file over the coming months."

The Ministry of Justice carried out a consultation into default county court judgments in 2018. This looked at changing the rules about how these are recorded on the county court register as many consumers are affected by judgments they were not aware of, perhaps because of inaccurate credit file address information, affecting their creditworthiness in future.

If the government decides to take any changes forward, there will be an effect on the rules put in place by the Steering Committee on Reciprocity (SCOR).[7] We would suggest that the SCOR rules need looking at again to align with any new rules that apply to default county court judgments. It will not make sense to allow a judgment to be removed from the register where the debt is repaid (under certain circumstances), but to allow the debt to remain as a "default" on the consumer's credit report.

There was also discussion as to how duties could be placed on credit reference agencies and lenders to maintain accurate address information. Perhaps this source of data could be harnessed so that it is shared in some way subject to data protection requirements, or at least there is a requirement on larger creditors to check credit reference files for up-to-date address information.

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

If the market study finds significant structural problems in the credit information market or that competition is not functioning in the interests of consumers, we would suggest that the FCA should be prepared to consider strong interventions, up to and including the exploration of the idea of establishing a central credit information database if this is deemed feasible.

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[5] https://www.moneyadviceservice.org.uk/en/corporate/debt-solutions--recommendations-for-change
[6] https://www.gov.uk/government/consultations/breathing-space-scheme-consultation-on-a-policy-proposal/breathing-space-scheme-consultation-on-a-policy-proposal
[7] http://www.scoronline.co.uk/sites/default/files/High%20Level%20Prinicples%20Document%20Version%202%20final.pdf

For more information on our response, please contact:

Meg van Rooyen, Policy Manager
meg.vanrooyen@moneyadvicetrust.org
0121 410 6260

The Money Advice Trust

21 Garlick Hill

London EC4V 2AU

Tel: 020 7489 7796

Fax: 020 7489 7704

Email: info@moneyadvicetrust.org

www.moneyadvicetrust.org