White Paper

The Future of Credit Information

The Experian vision

New technologies, new data sets, new types of data processing and new opportunities for dynamic lending are changing the financial landscape. Despite this, many consumers still suffer financial and digital exclusion and a lack of access to suitable credit, and as a consequence can be generally disengaged from their finances.

While we recognise that as an industry we have made some progress, we also feel there is now an opportunity to do much more. More to empower and benefit the consumer not with prescriptive rules and a heavy regulatory burden but instead by opening up new data and making better use of existing data, by innovating new products and services and by good governance.

This paper describes our vision for the future of credit information. Our aim is to create a future-proof credit ecosystem that's personalised, fair, transparent, understandable, and that has the consumer at its heart.

Creating the right data environment

Consumers are interested in outcomes. They need to know if the credit product they want is right for them and that they can afford it. They need to know if they'll be accepted for it when they apply. And once they've been accepted, they need to know they'll get it quickly and easily.

Rightly, consumers also expect the data held about them to be accurate, and only the relevant areas used to ascertain their creditworthiness. If something goes wrong they expect their concerns to be dealt with efficiently and the minimum of fuss. And they expect lenders to be responsible and not cause them harm or distress.

This is not the current reality – complicated technical processes, inconsistent data and a lack of easy access to information are hindering consumer convenience. But together we can create the right data environment based around four key tenets:

Be consistent

Credit data should be consistent for everybody conducting regulated credit reference activities. To achieve this we need a baseline credit data set comprising information that is predictive and insightful based on a consumer's past and current credit and financial commitments. This data set should be shared with all regulated consumer Credit Reference Agencies (CRAs) to benefit not only them but also consumers, lenders and the industry as a whole.

It will make it easier for consumers to interpret, understand and engage with their credit report, it will reduce the cost and complexity for lenders making credit decisions, and it will give CRAs a consistent data set from which they can build better products and services for everyone.

Be accurate

CRAs can provide an indication of affordability (i.e. an individual's ability to afford repayments in a sustainable manner without adversely affecting the consumer's ability to meet existing financial commitments). This indication of affordability is based on income and expenditure (I&E) information known to CRAs through credit applications, Office of National Statistics (ONS) data, and through Current Account Turnover (CATO) data. However, there is a limit to what most lenders (other than the banks providing it) are permitted to see of the CATO data, because of the rules of the CATO closed user group.

Be accessible

Consumers should be able to:

- Use their data to make informed decisions
- Access the goods and services they want how they want
- Make their data accessible to whoever they choose
- Get clear and relevant insight into their finances
- Do all of the above knowing their data stays safe and secure

To achieve this we need to make it easier for consumers to engage with the finance industry as a whole. From finding, interpreting and using their data across a range of media to getting an efficient, direct service if they have a question or dispute, accessibility empowers the consumer to make the most of their data.

Be transparent

Telling the consumer what's happening with their data will help them make better decisions. If they don't get the credit they want, they should be able to understand why they've been refused. To achieve this consumers should get easy-to-understand guidance and support that makes clear what options they have and how they can implement them.

It's time for a base level of credit data

The way we use data is changing, and we're embracing these changes alongside industry and government.

Consumers are often confused why different CRAs hold different data about them in their credit files. And while the majority of lenders do share their data with all three UK CRAs, some (and often those in high risk sectors) choose to share none at all. Not only is this data inconsistency confusing for consumers, it also creates a distorted credit picture for lenders – and so needs to change.

We suggest there should be a minimum set amount of information regulated lenders need to share with CRAs – a baseline credit data set. This would be the baseline for all lenders to use when assessing a credit application regardless of CRA and would ensure a complete and consistent picture of every consumer's credit status.

A baseline credit data set should:

improve the consistency of reporting across the financial industry

make it easier to interpret data more consistently

improve the accuracy of data used to assess creditworthiness

improve the data analytics and scoring used to assess credit risk

It's important that the data used to assess creditworthiness has the right focus on quality and is credible, reliable and insightful. Not all data can demonstrate all these benefits in all cases, so it's equally important to define clearly the types of data that can be used.

Payment history data from regulated lenders should be used as part of the baseline data set. But information from non-regulated providers like insurers and utilities companies, as well as new data sets like rental data, should be approached with more caution. Unregulated and not consistently used as a basis for making credit decisions, this type of data is currently better used to plug identity gaps and paint a richer financial picture of a consumer's credit profile. Although currently limited in use, this type of unregulated data deserves further research, innovation and investment to determine its true value.

We want to help cultivate a competitive environment that's better for consumers, and see an industry-wide baseline credit data set as something that will promote that. It will allow each CRA to pursue its own strategies for bringing value to the market though new products and by solving problems. It will not mean only the same credit data will be used for every credit decision. Instead lenders will still be able to choose the data they deem most relevant, can still interpret it according to their own requirements, and can still make their own lending decisions.

The next step is then to describe and define the mechanism for sharing a baseline credit data set to make sure it's efficient, secure and timely. We'd welcome working with the government and Financial Conduct Authority (FCA) to achieve this aim.

Simply, data reporting needs to become simpler and more consistent in every way to improve the quality of data both consumers and lenders have access to.

Consistency and data accuracy

In our current system lenders don't report their data to CRAs consistently, as they can interpret differently how and when to report on three key areas: credit arrangements, arrears and defaults on agreements. Guidance on this comes from the Information Commissioner's Office principles[1] (via SCOR guides) but again this is inconsistently used, widely misinterpreted and can actually promote confusion for consumers trying to understand if they're in arrears or have defaulted on a credit agreement.

Simply, data reporting needs to become simpler and more consistent in every way to improve the quality of data both consumers and lenders have access to.

To achieve this the industry as a whole needs to work collaboratively with the FCA and government to put workable guidance in place that is clear and that can be applied uniformly to help drive improvements in data quality. But while improved data reporting will help, there also needs to be a greater focus on the accuracy of that data to ensure a consistent quality throughout. This means further guidance on what is reported and how, and again we'd welcome the opportunity to work with industry to shape this guidance appropriately.

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[1]Based on the Information Commissioner's Office published 'Data Protection Technical Guidance: Filing defaults with credit reference agencies', dated 2007, the high level industry 'Principles for the reporting of arrears, arrangements, and defaults at credit reference agencies', version 2, dated July 2016 were created: http://www.scoronline.co.uk/sites/default/files/high_level_prinicples_document_final.pdf

Data sharing and the consumer

Industry changes like GDPR and Open Banking are making consumers much more aware of how their data is being shared and how they (and the parties they share it with) can use it to glean real value.

Open Banking

Open Banking has empowered consumers to share their bank transaction data and we believe will revolutionise how they use it to make good financial decisions. But first we must address the current mistrust of data sharing by building consumer and industry confidence in it so its positive implications and outcomes are clear. If we don't, consumers will not want to engage with services that require their data to be shared.

For example, sharing data can help consumers shopping for credit on price comparison sites. It can link consumers to suitable credit products. It can reduce friction in credit application journeys. It has the potential to improve a consumer's credit profile with the help of new data sets like rental data, as well as give them greater insight into their own income and spending.

GDPR

GDPR has empowered consumers to take more control of their personal data, and choose with who and how to share it. This is a good thing, provided it's in the consumers' interests.

This presents the industry with challenges about how we think about data. We also have to take into account new technologies and systems such as soft search data, and consider how it should be used and what kind of impact it should have on a consumer's credit file.

While there are already legal mechanisms in place to protect consumer interests, the practicalities of data access and sharing need greater governance.

The consumer should be in no doubt who is using their data and to what purpose. While there are already legal mechanisms in place to protect consumer interests, the practicalities of data access and sharing need greater governance.

Companies that have access to credit data should need to meet a set level of accreditation (akin to Open Banking) to make sure the consumer is protected and an acceptable standard of data processing is met. In particular, access to a base level of credit data will need to be protected to make sure it's kept securely, managed properly and only used in a way the consumer has agreed to via clear and transparent explanation. To navigate this new world of data sharing, consumers will need representation and guidance, and we expect consumer groups to play an integral part in its governance.

Current governance on this comes from the Guide to Credit Scoring[2], drafted by the industry and regulator in 2000. Technology, data innovation, data science and legislation have evolved in leaps and bounds over the last 18 years. Participants in the credit reference industry and those that share data with it have also changed, including FinTechs.

The governance needs to be updated and the industry needs to be more transparent. The legal framework should apply to all data shared across the entire industry, including all data that may be used to assess credit risk and affordability, and take into account AI and machine learning systems that may be used in making credit decisions.

To assess credit risk, the industry uses traditional credit history data in accordance with the Principles of Reciprocity subject to the oversight of SCOR[3] since its inception. Over the last decade this oversight has come under increasing challenge that's resulted in many changes to the allowed uses of data. For example, consumers using data for price comparison or the Office of National Statistics using credit data for UK-level insight. To get an indication of affordability, the industry uses Current Account Turnover (CATO) data. Restrictions around its use has meant there's a limit to what most lenders are permitted to see, in accordance with the rules agreed by its subscribers.

Opening up data assets like CATO data to the financial market would be in the consumer's interest. It would help them work out their own affordability status and help lenders assess affordability more effectively and proportionately. Consumers could also make more informed decisions about which credit products to choose and lenders could offer them products better suited to their financial status rather than relying on estimates of income and spending. It would provide the industry as a whole with a more accurate source for financial forecasting and economic data, making affordability checks more efficient and accurate.

We invite the industry to review the Guide to Credit Scoring and to consider how data sharing could further benefit the decision-making process for the consumer.

[2]https://www.bba.org.uk/wp-content/uploads/2007/08/Guide_to_Credit_Scoring_2000-1.pdf

[3]Steering Committee on Reciprocity's information sharing principles of reciprocity, http://www.scoronline.co.uk/sites/default/files/por_version_36.pdf

Transparency and a single point of contact

We provide a significant amount of online and offline educational material about consumer credit, and work closely with other organisations and debt charities to increase awareness around credit and make credit referencing more transparent. But more needs to be done to help and support consumers, in particular around queries and declines and how data affects decision-making.

Data queries

The system for managing data queries is longstanding and industry wide. Consumers expect to resolve queries as quickly and easily as they can enter into a new credit arrangement, but this doesn't match reality. For example, users often don't realise that lenders (or whoever they've entered into a credit agreement with) share their data with CRAs, and that mistakes and errors can happen for many reasons, from a simple name change to a misreported repayment.

CRAs use a variety of tools to flag inaccuracies in a consumer's credit profile, but currently consumers are advised to raise an inaccuracy with each CRA individually and then also ask the original lender providing the data to correct the mistake. It's a convoluted system that often leaves the consumer disengaged and the CRAs bearing the brunt and cost of handling and logging complaints based on data queries.

We would like to work with the government, FCA, industry and consumer representatives to create a better query-handling service. Specifically, we would like to see a single point of contact for consumers through any of the CRAs and a simplified process for dealing with them that doesn't penalise CRAs for reporting the problem. As part of this, we must work as an industry to rethink how consumers can better engage with their credit data and nudge them towards checking their credit score more regularly (habitually, even) and taking care of their own financial hygiene.

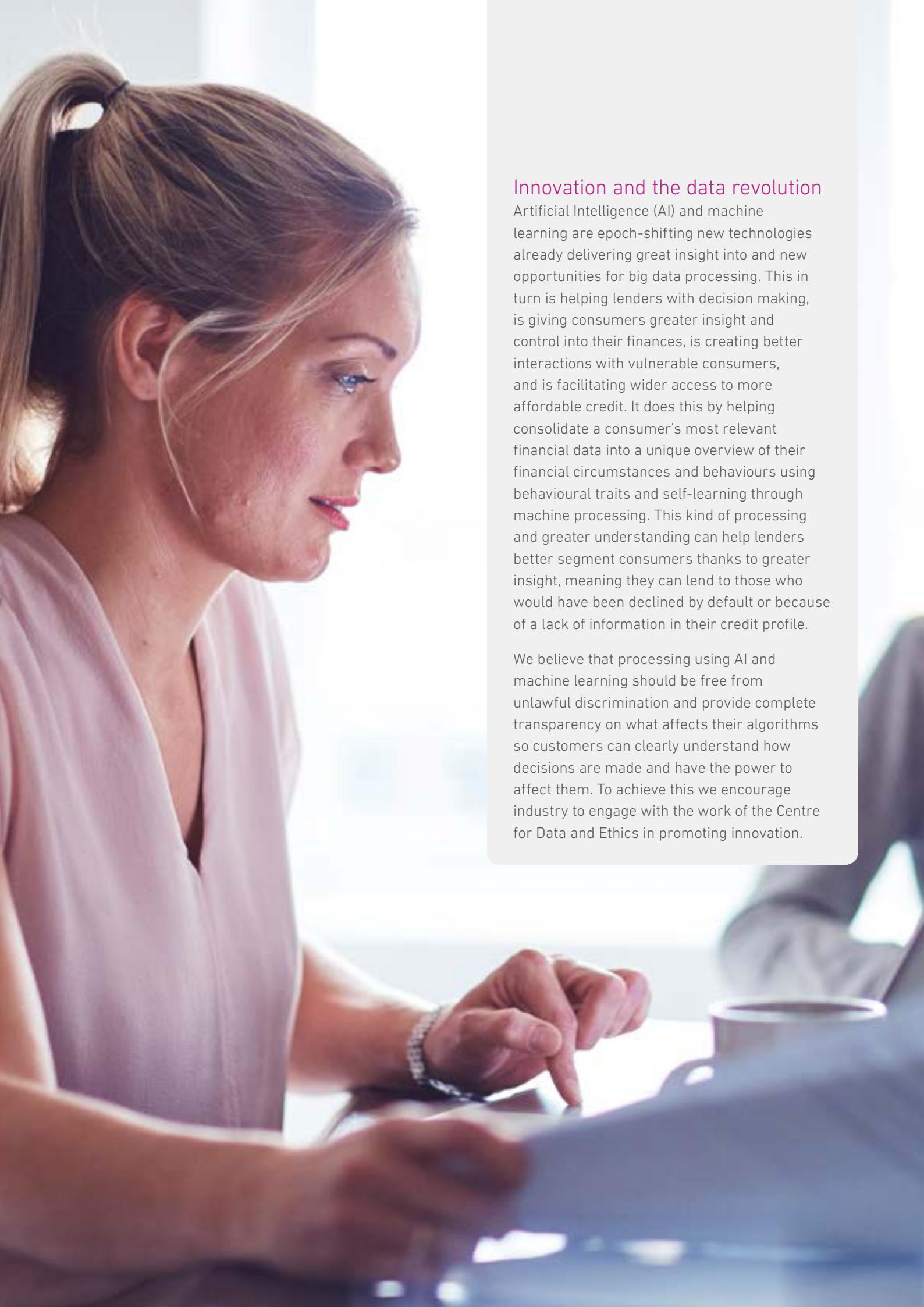
Declines

One area in particular that needs clarifying and greater transparency is the process surrounding a consumer having their credit application declined. Currently, when a consumer is declined credit, the lender will direct them to check their credit report with a CRA if this has influenced their decision or give them high-level feedback about their lending criteria and why these weren't met. This often leaves consumers with the false impression that it's the CRA rather than the lender who has declined their application and with little idea as to what to do next.

Only when the consumer properly understands the wider context and reasons why a lender has declined their application will they be able to engage with their credit data properly and put it to work for them. Part of our responsibility in this is to give consumers other options when they're declined and direct them down a route that doesn't leave them uncertain of how to avoid the same outcome next time.

The industry should be communicating with consumers at each step of a credit application, giving them 'in-transaction education' before, during and after, that helps them understand the process and brings home the inherent importance of creditworthiness. This is only made more important by the industry's digital, remote nature where a face-to-face consumer relationship doesn't really exist. Providing this kind of education in practical terms in a live environment with details of what options are available to the consumer each step of the way would empower them to change the factors that have negatively affected it.

We'd like to partner with lenders and consumer representatives to explore how we can put into place a simple and more effective mechanism for communicating with and educating consumers about declines and how to avoid them.



Innovation and the data revolution

Artificial Intelligence (AI) and machine learning are epoch-shifting new technologies already delivering great insight into and new opportunities for big data processing. This in turn is helping lenders with decision making, is giving consumers greater insight and control into their finances, is creating better interactions with vulnerable consumers, and is facilitating wider access to more affordable credit. It does this by helping consolidate a consumer's most relevant financial data into a unique overview of their financial circumstances and behaviours using behavioural traits and self-learning through machine processing. This kind of processing and greater understanding can help lenders better segment consumers thanks to greater insight, meaning they can lend to those who would have been declined by default or because of a lack of information in their credit profile.

We believe that processing using AI and machine learning should be free from unlawful discrimination and provide complete transparency on what affects their algorithms so customers can clearly understand how decisions are made and have the power to affect them. To achieve this we encourage industry to engage with the work of the Centre for Data and Ethics in promoting innovation.

A strategy for thin and non-existent credit data

5.8m

consumers in the UK
have a thin or non-existent credit file and are unbanked

8.3m

people are
financially excluded

There are currently 5.8 million people in the UK with a thin or non-existent data file, or who are unbanked[4]. These thin files and gaps in data – which can be caused by a range of problems like inaccurate, incomplete and non-concurrent data that is insufficient, unverified and unreliable – can lead consumers to poor and inconsistent credit assessments and financial exclusion.

Other factors also play a part, such as poor internet access limiting consumer exposure to price comparison websites that can help them find more affordable credit more readily. But even with access these consumers can still be excluded, as their lack of credit history and identity data makes them ineligible for credit. They then find themselves paying a 'poverty premium' for basic necessities like gas, electric, phone and other forms of credit[5].

Currently these thin file consumers are excluded from large parts of the financial market, reducing their financial options, which in turn increases their cost of borrowing and cost of living. Non-credit data has the potential to fill these gaps and benefit these consumers. The industry needs to innovate to tackle this problem, and using non-credit data would help close many of the gaps in UK coverage and provide lenders with richer representations of consumers. This could help the unbanked open bank accounts, demonstrate their financial commitment and ultimately improve financial inclusion.

We have already started exploring the type of non-credit data we can supply to lenders, such as rental data. We have established the Rental Exchange[6], which helps consumers with thin or non-existent credit files build their credit history, improve their credit score and ultimately get better access to better credit. Astutely and carefully combined with regulated credit data, non-credit data can help lenders make more informed decisions, ultimately leading to better outcomes and greater financial awareness for the consumer.

[4]According to the Financial Inclusion Commission based on figures from 2014, there are approximately 1.5 million unbanked in the UK (Rowlingson, K & McKay. S 2014. Financial Inclusion: Annual monitoring report 2014, Birmingham, University of Birmingham). Other commentators suggest there is now nearer 1.6 million unbanked in the UK.

[5]Big Issue Invest, Rental Exchange: helping social tenants build a positive credit history to gain equal access to financial services dated 2015 – www.bigissueinvest.com; and Financial Inclusion: Improving the Financial Health of the Nation, Financial Inclusion Commission, dated March 2015

[6]See www.experian.co.uk/rental-exchange

Non-credit data should help:

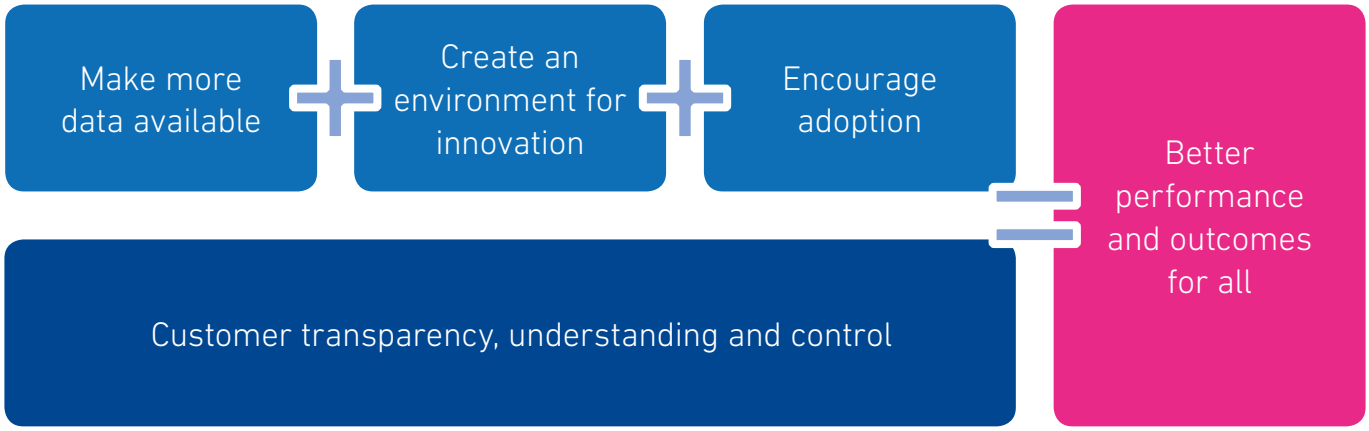
- Establish a consumer's general payment patterns – whether they're regular or irregular, reliable or inconsistent – to clarify their financial capabilities.
- Establish a more complete consumer credit risk picture by taking into account their financial behaviour across a wide range of non-credit related payments.
- Support identification verification by linking a consumer to a specific property.
- Establish a clearer picture of a consumer's income and spending – and so their disposable income and financial resilience – by showing what savings, pensions, investments and insurance they have in place.

It's early days though and despite the positive impact non-credit data is already having, much more needs to be done to access the kind of data that can be scaled at volume to work consistently for thin and non-existent files across the UK. Through our early work we've already established several data types that we think could deliver this.

Potential non-credit data sets include:

- Universal credit data. This could be provided for unemployed or supplemented income consumers to verify their income and identity. It would give lenders more information on which to assess a consumer's affordability without excluding them because they're on benefits.
- HMRC income data. This could be used as a viable alternative to bank transaction data to validate and verify income sources. A verified income figure would provide a proportionate benchmark lenders could base an affordability decision on far better than on a non-verified non-validated income figure provided by the consumer.
- Council tax data. This could be used as part of assessing credit risk to show a consumer's payment performance and gain insight into financial agreements unrelated to credit. It would also be a good early indicator of financial distress.

By combining regulated credit data with new non-credit data streams, we believe we can banish poor and inconsistent credit assessments to history. As this data would be supplied nationwide and reduce overall lender costs, we believe it would encourage them to create specific products to further benefit the consumer. For example, by examining Open Banking data, universal credits and HMRC income data, lenders would get greater clarity and certainty about a consumer's identity, reducing their risk. As affordability assessments could be digitised to a much larger degree than they are now, they wouldn't cost as much to do.



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A policy mechanism for today and the future

We call on policy makers to join us to:

1

Work with industry to create a data environment suitable for the changing data landscape to ensure data is consistent, accurate, accessible and transparent for the consumer.

2

Work with industry to establish a base level of credit data for regulated CRAs to give consumers and lenders a clear, consistent baseline for credit reporting – while encouraging a competitive and innovative environment for non-regulated credit data and accurate insight.

3

Change policy and make it mandatory for all credit providers – including those in high-risk sectors – to share a base level of credit data.

4

Work with industry to devise a simple, accessible mechanism for sharing this base level of credit data for the benefit of consumers.

5

Encourage a common use of the ICO Guidance on Defaults, thus providing customers and industry with a single, clear, consistent framework for reporting defaults, arrears and credit arrangements.

6

Help industry shape and adhere to guidance for reporting base level credit data to CRAs, thus improving consistency, accuracy and quality.

7

Work with industry to encourage consumer groups to play an integral part in modern data sharing governance, in particular protecting consumer rights around the use of new and innovative data sharing.

8

Work with industry to evaluate existing consumer credit governance and start developing a framework better suited to the evolving data and technology environment. This should include updating the current Guide to Credit Scoring.

9

Work with industry to create a coherent system for amending and correcting regulated credit data.

10

Reform policy rules concerning how CRAs have to report and log credit-related queries and disputes.

11

Reform policy rules concerning how consumers are declined credit, creating clearer guidance and options for consumers with input from industry and consumer groups.

12

Acknowledge the value of AI and machine learning in relation to credit data and decision making – and work with industry to develop guidance with the Centre for Data and Ethics to prevent discrimination and encourage transparency in its use.

About Experian

Experian is the world's leading global information services company, providing data and analytical tools to clients in more than 80 countries. Experian helps businesses to manage credit risk, prevent fraud, and automate decision making. Experian helps individuals understand and manage their credit report and credit score, and protect against identity theft.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Experian employs approximately 16,500 people operating across 39 countries and has its corporate headquarters in Dublin, Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil.

Experian is one of three main UK consumer credit reference agencies (CRAs) whose activities are regulated by the FCA and governed by the ICO. Experian is a Registered Account Information Service Provider.

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