

Market Study

MS19/1.3

Credit Information Market Study Final Report

December 2023

How to respond

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or

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Chapter 1

Executive summary

The importance of the credit information market

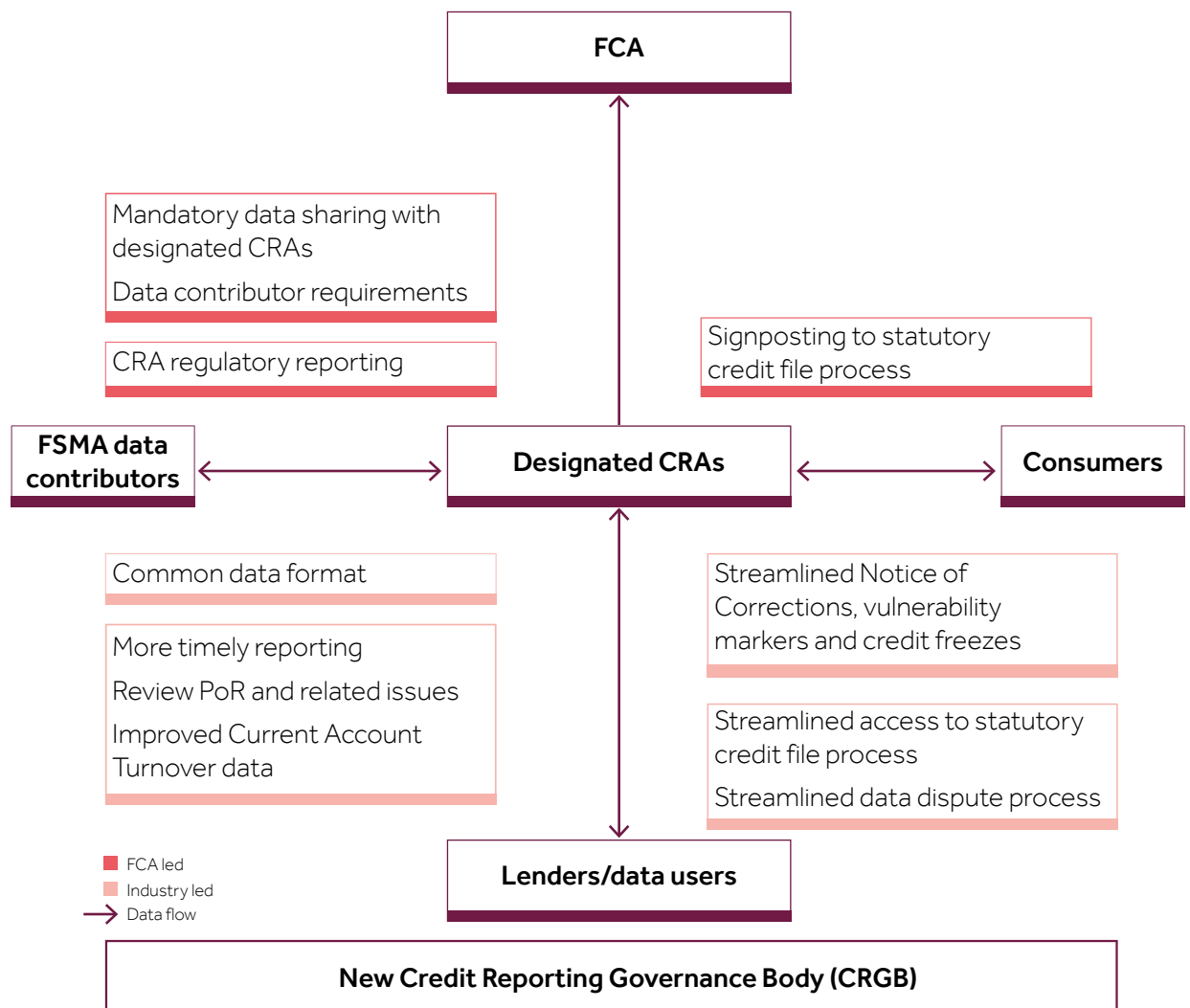
- 1.1** Credit information is a key factor in allowing retail lenders and wider financial services to make effective decisions. It is used to assess consumers' financial standing, verify identity, reduce financial crime and inform decisions. When the credit information market works well for firms and consumers, it delivers high quality credit information which enables decisions that better reflect people's underlying financial circumstances.
- 1.2** A well-functioning credit market helps protect consumers, improve consumer outcomes and increase market efficiency. It is also ultimately good for the UK economy and its sustainable growth in the long term.
- 1.3** There are 5 main types of participants in the credit information sector: credit reference agencies (CRAs), data contributors, credit information users (CIUs), credit information service providers (CISPs) and consumers. The 3 large CRAs in the United Kingdom (UK) are Equifax, Experian and TransUnion.

Our work on credit information

- 1.4** In November 2022 we published our [interim report and discussion paper](#). This showed that, while the market was working well in a number of ways, there were also several areas where it could be working better and which we wanted to address. We found:
- significant material differences in data coverage between the 3 large CRAs as well as some evidence of data quality issues
 - consumers lacked awareness in terms of accessing and disputing credit information
 - greater competition and innovation could be fostered through changes to data access arrangements and more timely reporting of key metrics
 - the current industry governance arrangements, the Steering Committee on Reciprocity (SCOR), was ineffective at driving forward change, representing views from a range of stakeholders, prioritising consumer outcomes and acting transparently
- 1.5** The interim report proposed 12 remedies focusing on 4 themes that came from our main findings. These were: governance, data quality, competition and innovation and consumer engagement. We received and analysed 57 responses from the credit industry and consumer groups. We have also engaged with a large number of stakeholders to discuss feedback on the findings and remedies.

- 1.6 Overall, respondents to our interim report agreed that outcomes for consumers and firms could be better. In general, we received positive and constructive feedback on our proposed remedies, with the majority agreeing these are needed to improve outcomes overall in the credit information and wider credit market.
- 1.7 In this final report we detail the remedies we propose to take forward based on this feedback and further analysis we have carried out to develop our thinking on the form and scope of the remedies.
- 1.8 The remedies will affect a variety of diverse groups who share or use credit information including FSMA-regulated firms, CRAs and consumers. We are also proposing new governance arrangements – the Credit Reporting Governance Body (CRGB) – to oversee the development and implementation of some of the remedies. Figure 1 below gives an overview of the proposed Credit Information Market Study (CIMS) remedies and which groups they affect. The package of remedies is categorised into 3 distinct types: FCA-led, industry-led and joint FCA and industry remedies (ie the CRGB). It also illustrates the way data flows between different groups and where the remedies affect those data flows.

Figure 1: How the package of remedies fits together in the credit information market



How our work relates to wider changes in the market

- 1.9** We know that the current challenging macroeconomic conditions may be relevant to our remedies, and that they create greater uncertainty for lenders and consumers. Consumers in financial difficulty are likely to be worried about their circumstances, including the impact on their credit files of seeking support. Similarly, lenders may find it harder to effectively assess credit risk given the changing circumstances. These circumstances make it even more important for us to take steps to ensure the credit information market is working as well as possible.
- 1.10** We want to limit the potential for harm to consumers in markets that rely on credit information and broaden financial inclusion, ensuring individuals have appropriate levels of access to credit. We will continue to prioritise the remedies which have the potential to deliver the best outcomes for the greatest number of consumers.
- 1.11** We have considered the potential evolution of the credit information and wider credit market when drafting this report and in designing and timing our remedies. These developments include the growth of digital products, embedded finance (ie the integration of financial services into non-financial offerings) and other product innovation. While we cannot predict how technology or innovation will evolve, we know AI and technology could change the way in which credit information is provided and used. We therefore think it is important to have more agile industry governance arrangements that are able to effectively respond to these changes. We will take account of any developments that may affect remedy implementation, including potential changes to the Consumer Credit Act 1974 (CCA), working with the Treasury as appropriate, the entry of Big Tech into credit markets, Open Banking and Deferred Payment Credit (typically known as BNPL).
- 1.12** Our wider work on Big Tech entry into financial markets and the development of Open Banking is particularly relevant to our work on credit information.
- Our Discussion Paper on competition impacts of Big Tech entry and expansion in retail financial services identified credit referencing as one of the main entry and expansion areas. Big Tech firms could use their data advantages and analytics capabilities to assess credit risk. This may bring benefits such as more precise and accurate profiling of consumer risks. However, there is a risk that competition could be weakened if these advantages allow Big Tech firms to price discriminate or gain and exploit entrenched market power to harm healthy competition and worsen consumer outcomes. So, it is important that we continue to monitor and assess the impact of possible Big Tech entry into the credit information ecosystem and what it means for our package of remedies.
 - Open Banking has started to offer some alternatives to traditional credit information. In the future, it could be used as an alternative to some types of traditional credit information as adoption becomes more widespread and lenders face fewer challenges in using Open Banking.

Outcomes we are seeking

- 1.13** The remedies we are taking forward seek to improve outcomes for consumers and firms by reforming industry governance arrangements, increasing competition and innovation, improving data quality and increasing consumer engagement with credit information.
- 1.14** Specifically, we want to see a market where:
- The quality of credit information is high and comprehensively covers UK consumers, leading to improved financial inclusion and better-informed lending decisions. We view high quality credit information as that which is sufficiently comprehensive, accurate and up to date to enable those who use credit information to make effective assessments of credit risk and affordability.
 - CRAs and CISPs compete effectively in the credit information market and provide fair value (in terms of price and quality) for consumers and firms.
 - Firms in the credit information market innovate and provide new products and services that increase the quality of credit information and the effectiveness of credit risk assessments.
 - Consumers know how to engage with credit information where necessary (for example for disputing data) and are easily able to do so.
 - Governance arrangements are representative of industry and credit information users and have a broad, progressive remit and take account of emerging issues.
 - Consumers have greater control over how they are viewed by CIUs through increased use of non-financial vulnerability markers and credit freezes.
 - We can effectively monitor the quality of data in the market.
- 1.15** In measuring our success, we would expect to see the types of issues we identified in the interim report no longer being present, or materially reduced, once these remedies have been implemented. We will consider what metrics, either qualitative or quantitative, might be useful to measure success as we take the remedies forward.

Potential impact on growth and competitiveness

- 1.16** We also expect that our remedies will support the international competitiveness and medium to long-term growth of the UK in line with our secondary objective, which came in to force in August 2023. When credit works well it enables economic transactions to take place efficiently, which promotes the growth of the wider economy through higher levels of consumption and investment. Increasing the availability of higher quality credit information reduces the risk of lending decisions, improving firms' confidence in UK credit markets. Our proposed remedies also promote innovation which has strong links to both productivity and growth in the medium to long-term.

Proposed remedies being taken forward

- 1.17** Having considered the feedback to both the interim findings and remedies, we are sharing the package of remedies as illustrated in Table 1. We have grouped them into 4 key themes.
- Industry governance – reform of industry governance arrangements to help deliver key measures and provide greater transparency and accountability.
 - Data quality – improving the coverage, quality and consistency of credit information to help deliver better outcomes.
 - Consumer awareness and engagement – support for consumers to improve awareness of and access to credit information.
 - Competition and innovation – potential changes to foster greater competition and innovation.
- 1.18** Some of these remedies are industry-led, with our input where necessary. Others we plan to take forward through using our rule-making powers, subject to further consultation. We see industry-led change alongside FCA rules as an appropriate and proportionate approach for driving forward the outcomes we want to see in the market.

Table 1: Package of remedies

Jointly led by industry and FCA		
1	Reformed industry governance arrangements	Establishing a new credit reporting governance body with broader objectives. The CRGB is to be more inclusive, transparent and accountable.
Industry-led – a holistic package of remedies to ensure better outcomes for consumers through increased consumer engagement and awareness, better data quality and increased competition between firms		
2B	Common data format	A common data reporting format to improve consistency and granularity of credit information across CRAs.
3B	Streamlined access to statutory credit report (SCR)	Streamlined consumer access to credit information, including SCRs, by having one stop for consumers to engage with.
3C	Streamlined disputes process	Streamlined process to help consumers dispute errors in the credit information held on their credit file.
3D	Streamlined Notice of Correction (NoC) and vulnerability markers	Streamlined process for improved consumer outcomes which builds upon existing processes.
4A	More timely reporting of key data to designated CRAs	Provision of an accurate and up-to-date view of consumers credit commitments to further support lenders in making decisions.
4B	Reviewing the Principles of Reciprocity (PoR) and related issues	Complementing the proposed mandatory reporting requirement implemented by the FCA.
4C	Improved Current Account Turnover (CATO) data with updated access arrangements	Assessment of how access arrangements to CATO data can be updated for non-PCA providers, and how CATO data can be improved.
FCA-led – remedies targeting improving the quality of credit information and consumers knowledge of SCRs		
2A	Mandatory data sharing with designated CRAs	A mandatory reporting requirement for all FSMA-regulated data contributors to designated CRAs which aims to provide more accurate, consistent and comprehensive credit information. The designation scheme will be a proportionate regulatory framework for sharing credit information between firms and certain CRAs, who meet criteria, to help improve the quality of credit information.
2C	Designated CRA regulatory reporting to FCA	A new regulatory reporting framework for designated CRAs which aims to monitor the mandatory reporting framework and give the FCA insight into potential issues.
2D	Data contributor requirements (error correction and reporting satisfied County Court Judgments (CCJs))	Proportionate requirements for FSMA-regulated data contributors that aim to provide regulatory certainty, aid supervision and deliver transparency to consumers.
3A	CRA/CISP signposting to SCR	Increasing consumer awareness of the availability of free credit information via the statutory process – SCRs.

How we will take the remedies forward

- 1.19** We know that industry expertise is essential for developing and implementing several of our proposed remedies, due to the complexities of credit information and its interactions with broader credit markets. We also believe the industry is best positioned to take necessary steps to ensure that the introduced measures can adapt to the pace of change in the sector. By having the industry implement some of the remedies, it can retain the flexibility to innovate and evolve in an agile manner in response to emerging market developments. Additionally, given the potential impact of the remedies package on non-FSMA regulated firms, it is important these firms and other regulators also play a role in implementing changes in the market and driving broader change.
- 1.20** To achieve the outcomes we seek, industry governance arrangements in the credit information market will need to be inclusive and representative of credit information users, including consumers. The reformed industry governance arrangements will be responsible for leading on the thinking, development and implementation of the industry-led remedies described above. To this end, we see the reformation of the industry governance, in the form of new industry governance arrangements which we refer to as the CRGB, as a key priority that underpins wider improvements in the credit information and wider credit market.

Establishing IWG and CRGB

- 1.21** As a preliminary step to setting up the CRGB, we have formed an Interim Working Group (IWG) which will have an independent chair. The group is made up of a broad range of industry stakeholders and consumer bodies. As setting up new industry governance arrangements is complex, we wanted to use existing industry and consumer organisation expertise as well as ensure that key stakeholders consider a full range of different options. The IWG is a temporary and advisory-only group, with no decision-making powers. It is expected to consider options and make recommendations on the CRGB to us. This should cover the CRGB's objectives, governance, constitution, operational model, resources and funding models. We expect the IWG to start development of proposals in January 2024 and to complete its work by Q4 2024. Chapter 4 gives further details on the IWG, its role, remit and expected outputs. Additionally, [our website](#) gives details of our progress on the updated industry governance arrangements.

Delivery of data-related FCA rules

- 1.22** We will lead on the remedies involving mandatory data sharing, designated CRA regulatory reporting to the FCA and data contributor requirements. The data issues identified in the interim report and discussion paper have arisen in the market largely because different industry stakeholders approach sharing and using credit information differently. Furthermore, we consider that the issues we found in this area have the potential to cause the largest amount of harm to consumers given the importance of credit information quality in informing credit risk and affordability assessments. We see that industry expertise is needed for devising and implementing a common data format and considering appropriate data reporting cadences. However, we believe that FCA requirements are needed to ensure that credit information is consistently reported to designated CRAs as this is something the market has been unable to deliver.

Prioritisation

- 1.23** At present, we are prioritising FCA-led remedies around improving data quality such as mandatory data sharing with designated CRAs. Our first steps will be to progress towards a consultation paper on rules for mandatory data sharing by the end of 2024. However, we recognise the interaction with wider governance reform so will continue to keep the prioritisation and sequencing of these remedies under review. The proposed course of action will depend on the formation of the CRGB and the extent to which there are other changes in the industry that need to be prioritised.
- 1.24** We are also prioritising the reform of industry governance arrangements. We have formed the IWG and expect it to operate for 9 months, at which time we expect a set of proposals which will help the CRGB to be formed. We then expect that the CRGB will begin work on delivering the industry-led remedies. We will continue to consider whether using our powers remains a better course of action to deliver the change needed.

Who should read this report

- 1.25** This report contains information which will affect:
- credit reference agencies
 - credit information service providers
 - industry groups/trade associations with members that report and use credit information
 - FSMA regulated firms who report and use credit information such as mortgage and consumer finance lenders
 - non-FSMA regulated firms who use credit information
 - firms looking to be FSMA regulated and report and/or use credit information in the future
 - consumer organisations specialising in consumer finance and/or debt advice

Next steps

- 1.26** We thank the organisations and individuals who responded to our interim report and those who have engaged with us since to discuss their feedback or contribute to the new governance arrangements we proposed.
- 1.27** We expect to sequence our consultation papers, starting with the publication of an initial consultation paper by the end of 2024 as discussed in paragraph 1.23. The consultation papers will include cost benefit analysis and competition assessments, which will set out the full details of our proposed rules. The timing and sequencing of consultation papers on our proposed rules is partly dependent on establishing the CRGB, given the interlinkages between the full package of remedies. We want to ensure full alignment between the FCA-led and industry-led remedies.
- 1.28** We have included recommendations for the new CRGB throughout this report and will be monitoring progress.

1.29 If you would like to contact us about the credit information market study final report, please email us at: creditinformationmarketstudy@FCA.org.uk

1.30 Or write to us at:

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Competition Division
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Structure of this report

1.31 In this report we summarise the responses we received as feedback to questions asked in the interim report and discussion paper. To note, the sequencing of the questions in this report are not in numerical order, but the question numbers remain the same as in the interim report and discussion paper.

1.32 The rest of this report is structured as follows:

- Chapter 2 recaps the findings of our interim report, and discusses the proposed package of remedies holistically
- Chapter 3 gives an overview of the feedback on the interim report findings
- Chapter 4 gives an overview of the feedback on our proposed governance remedy and provides an update on the progress of discussions in this area
- Chapter 5 gives an overview of the feedback on the remedies we propose are FCA rules and details our next steps for them
- Chapter 6 gives an overview of the feedback on the remedies we propose are led by industry and details our expectations on these for relevant industry stakeholders to take forward with FCA input where appropriate
- Chapter 7 provides details on next steps

Chapter 2

Background – our interim report

- 2.1** The Credit Information Market Study interim report and discussion paper (MS19/1.2) was published in November 2022. Whilst we found that there were a number of ways in which the market worked well, we also found a number of areas where there were issues that we believed had the potential to cause poor outcomes for consumers. We grouped these issues into 4 themes: governance, data quality, competition and innovation and consumer engagement.
- 2.2** Our findings in the interim report were a result of analysis undertaken through a number of methods. The evidence gathered to support our analysis includes:
- credit information held by the 3 large CRAs in August 2019 on a nationally representative sample of individuals
 - insight into the dynamics of the credit information sector from our requests for information (RFIs) from (i) large and small CRAs, (ii) large and small lenders across different sectors, (iii) consumer organisations and (iv) trade associations
 - financial data from the 3 large CRAs over the period of 2014 to 2021
 - a survey of smaller lenders (credit unions, high-cost short-term credit providers) in January 2020
 - a consumer survey with a nationally representative sample of 3,000 people across the UK
 - a survey of over 30 lenders on reporting of borrowers in financial difficulty (BiFD)
 - the Competition and Markets Authority's (CMA) November 2018 Provisional Findings report into the acquisition by Experian of ClearScore
 - FCA working papers, including Occasional Paper 28
 - bilateral meetings (before and after the pandemic) with a range of CRAs, credit information users, consumer organisations and trade bodies
 - FCA commissioned 2021 RAND report, a forward-looking research to understand how the credit information market might develop, absent FCA intervention, in the next 5 to 10 years

Our findings

Data quality

- 2.3** To assess data quality, we analysed a UK population representative sample of credit information data from the 3 large UK CRAs which was complemented with qualitative analysis on RFIs and bilateral engagement with firms. We examined population coverage and the depth of credit information at each of the 3 large CRAs and found that the CRAs held more credit files than individuals in the population. We posited that this reflected the challenges to CRAs of matching records.

- 2.4** We discussed that, as a result, particularly for thinner credit files that contain little information, CRAs can face uncertainty about whether records from different sources refer to the same individual. This creates the risk of falsely positive matches (where matched records are not in fact for the same person) and falsely negative matches (where records that should be matched are not). This means that some individual's credit files do not reflect their financial circumstances. This has the potential to result in lending decisions that do not reflect the consumer's financial situation, which could be a poor outcome for the consumer.
- 2.5** We also found that there were material differences in data on individuals at the 3 large CRAs by comparing the information held on a given individual across the CRAs. For example, we found that where an individual had a default recorded on any account, the 3 large CRAs only held consistent information on the number of defaults for around 30% of matched individuals. We found that this was likely in part due to the fact that some firms do not share credit information with all three large CRAs. If a CRA is unable to return a full picture of an individual's credit information to a lender that requests it, it could cause poor outcomes for that individual. For example, the over-supply of credit to individuals whose credit risk is under-stated or limiting access to/increasing the cost of credit for individuals whose credit risk is over-stated or not understood.
- 2.6** Whilst we were unable to directly link these differences in data to potentially harmful lending decisions, we undertook analysis that showed that credit scores are positively correlated with the chance of a lender accepting a credit application. Moreover, credit scores reflect the strength of an individual's credit history, so data quality is likely important in preventing poor outcomes for consumers. We discussed that inaccurate or insufficiently comprehensive data can influence how attractive an individual is to a lender. Better quality credit information could therefore help to ensure that consumers are more likely to have access to credit they can pay back or are more likely to be denied credit they cannot afford. If credit information is insufficiently comprehensive, CIUs will not be able to accurately assess credit risk or provision for bad debts, which can affect profitability and even their financial resilience.

Competition

- 2.7** In MS19/1.2, through financial and qualitative analysis, we found that the credit information sector is very highly concentrated with a Herfindahl-Hirschmann Index (HHI) measure of market concentration for the sector at over 5,000 in 2020. We also found that there were high barriers to entry and expansion for new CRAs, such as access to historical data, network effects and cost. We found that there were barriers to switching between CRAs for CIUs such as different data formats and legacy IT systems.
- 2.8** We posited that these characteristics could be limiting the strength of competition in the credit information market. Further, we thought that this potential limiting of competition could cause poor outcomes for consumers in the long run, such as higher prices as higher costs incurred by credit information users are passed through to consumers and less innovation.

Consumer engagement

- 2.9** In relation to consumer engagement with credit information, we found that there is a general lack of awareness among consumers about how their behaviour can affect their credit score. We also found that close to half of consumers (43%) did not know that they could request a free SCR from CRAs. Moreover, we found that those who were aware of SCRs found it hard to access them and dispute information on them. We think that this could potentially cause poor outcomes for consumers if they are unable to dispute incorrect credit information and the incorrect information is then used to inform lending decisions.

Governance

- 2.10** Through engagement with stakeholders bilaterally, our RFIs to various cohorts of stakeholders and forward-looking research on how the credit information market might develop, we found that governance arrangements in the market could be improved. We found that the arrangements appeared slow to respond to changes in the market to allow for it to adapt in a nimble manner. Further, we found that there was a lack of diverse stakeholder representation in the governance arrangements and that the arrangements were too narrow in focus.
- 2.11** We posited that these characteristics of the governance arrangements could be hindering improvements to and innovation in the credit reporting framework, which could cause poor outcomes for consumers. For example, if the latest developments are not effectively taken account of in the credit reporting framework, consumers financial behaviour may not be appropriately reported, leading to lending decisions which do not effectively reflect consumers' risk profiles.

The package of remedies

- 2.12** In the interim report and discussion paper we proposed a package of remedies to address the characteristics present in the market that we thought had the potential to cause consumer harm. This proposed package of remedies addresses the issues we found in the market holistically, working together to improve data quality, competition and consumer engagement. We also recognised that some remedies could be implemented in diverse ways (eg voluntarily by industry or using FCA rules) but we believed there is a strong need for industry-led change. This is because we viewed, and still are of the view, that industry expertise is needed to ensure that some of the remedies are implemented effectively given the complexities of the wider credit information market. Some of the remedies are intended to be implemented and take effect in the short term. Other remedies are intended to be implemented over a longer timescale as we recognise that related IT and operational systems are complex and will take time to change.
- 2.13** The feedback relating to and next steps on the proposed FCA-led and industry-led remedies, as detailed in Table 1, are discussed in Chapter 5 and 6, respectively.

Chapter 3

Feedback on the interim report findings

- 3.1** In this Chapter we set out the feedback received from stakeholders on the findings of our market study and outline our response.
- 3.2** We asked stakeholders who responded to our interim report a number of questions relating to their views on the findings of the interim report. Particularly, we asked for views on our findings related to:
- market overview
 - quality of credit information
 - competition in the provision of credit information to firms
 - competition in the provision of credit information to consumers
 - consumer engagement
 - borrowers in financial difficulty

Feedback received on findings relating to the market overview

- 3.3** In the interim report, we set out an overview of how the credit information market is currently functioning. It covered the main firms operating in the market, the products and services offered by these firms, the complex regulatory regime and how consumers interact with credit information.
- 3.4** We stated that there are five main types of participants in the credit information sector (credit reference agencies, data contributors, credit information users, credit information service providers and consumers) and that CRAs offer a number of products and services to cater for the range of user needs. These include identification services, fraud prevention, credit information to consumers and credit risk assessments for lenders. We described how the provision of credit information in the UK is highly concentrated, with the 3 large CRAs currently accounting for almost all of the UK sector.
- 3.5** We also laid out that consumers can interact with their credit information in a number of ways, including through subscribing to paid-for services offered by CISPs, using free services offered by CISPs, accessing their statutory credit report and disputing credit information through the statutory process.
- 3.6** We noted that the Covid-19 pandemic, the cost-of-living crisis, as well as the advent of Open Banking and new technologies have impacted both the demand for credit products and use of credit information.
- 3.7** We asked respondents:

Q1: *Do you have any views on our interim findings on the market overview?*

- 3.8** In general, respondents agreed with our description of the credit information market, including the structure of the market, market participants and the high concentration levels.
- 3.9** Respondents also agreed that the regulatory and legislative framework surrounding credit information is complex. They welcomed cross-cutting rules like the Consumer Duty which they believed would help to drive better outcomes for firms and consumers in the credit information market. They also flagged how data protection law, which provides the right of access to credit information for individuals and is also relevant to how credit information is shared and used, continues to be of utmost importance to consumers. Respondents expressed that any new data sharing framework should embody and strengthen data protection and data privacy in order to put consumer interests at the forefront, and that the FCA should liaise closely with the Information Commissioner's Office (ICO) as we develop our thinking on this.
- 3.10** Respondents agreed that the UK credit market is evolving quickly with the growth of digital products, embedded finance, retail credit, BNPL and other product innovation within traditional unsecured lending. They stated that it is important that the FCA understands how these changes will shape the credit information market in the future.
- 3.11** One respondent noted that the RAND report, referenced in [our market overview Chapter](#), was somewhat speculative and academic in nature. This respondent explained that they would be concerned if the report drove decisions on the operation of the credit information market.

Our response

We agree with the comments from stakeholders that the credit market and we regulate it is evolving and that there is a high degree of complexity present in the market. We further agree that our remedies should reflect these factors. As well as this, we recognise the need to future-proof our remedies and ensure that they equip the market to respond with agility to such changes. We believe that the package of remedies proposed enables this because it allows industry to adapt and respond through industry-led changes. We are also encouraged by respondents welcoming cross-cutting rules proposed by the FCA, like the Consumer Duty. We discuss in later sections of this report how the Consumer Duty supports and informs the remedies we are taking forward.

We recognise the importance of working closely with the ICO on the development of our mandatory data sharing remedy, and we will continue to liaise with the relevant teams to understand how our proposed remedies interact with data protection legislation.

The [RAND report](#) is forward-looking research to understand how the credit information sector might evolve in the future. Our proposed remedies stem from thorough analysis of a wide range of information, including discussions with industry and consumer stakeholders. Each proposed remedy has been developed through extensive analysis of a

number of different pieces of evidence. The full list of sources used is described in Chapter 2.

We are confident that our overall view of the market is representative given the feedback received and discussions we have had since the publication of the interim report. We have considered the impact of the remedies in this context and consider that the proposed remedies will make the market fit to respond to future developments.

Feedback received on findings related to the quality of credit information

- 3.12** In the interim report we set out our findings on the quality of credit information. We tested the quality of credit information held by the 3 large CRAs as we believed that there are certain features (poor incentives and weak competition) present in the market that drive poor quality of credit information. We set out our view that if data is not comprehensive and/or accurate it can lead to an inappropriate lending decision (over or under supply of credit) which can harm consumers.
- 3.13** We tested the quality of credit information through:
- examining the proportion of the population covered by credit information held by each of the 3 large CRAs
 - analysing different CRA assessments of credit risk by comparing relative credit scores of individuals across the 3 large CRAs
 - comparing the information held on the sample of individuals across the 3 large CRAs
 - examining how many CRAs are typically used for a credit application by lenders
 - analysing the correlation between credit scores and probability of acceptance for certain credit products to help assess the potential impact of data differences between CRAs on lending decisions
- 3.14** We considered that overall, the depth and quality of information in the UK is good. However, we found that there were inherent challenges in matching credit information to individuals and that some firms did not share credit information with all 3 large CRAs. This combination of factors likely contributed to our finding of material differences in the credit information held by the 3 large CRAs, including information that is particularly important to a lending decision.
- 3.15** Overall, we concluded that although lenders use a variety of information sources when making decisions, we saw evidence from our RFIs and bilateral engagements with CIUs that credit information from CRAs plays an important role. Differences in the information held on individuals by each of the 3 large CRAs and resulting variation in indicators of credit risk means lenders receive different perceptions of an individual's credit risk depending on the CRA they use. We stated that we believed that this can potentially lead to inappropriate access to and exclusion from credit and other harmful consequences.

3.16 We asked respondents:

Q2: *Do you have any views on our interim findings on the quality of credit information?*

- 3.17** Overall, there was broad agreement with our findings on credit information quality, and the vast majority of respondents recognised the need for better quality credit information to improve consumer outcomes. There was also a call for the FCA to define what we mean by 'high quality credit information'.
- 3.18** Respondents broadly agreed that matching or linking various pieces of credit information about an individual from different lenders was difficult, especially with common surnames or with family members who share first names and initials. Respondents suggested that standardising reporting formats would help create efficiencies in the industry. One respondent specifically referenced matching algorithms as the primary driver of differences in data.
- 3.19** There was general agreement from respondents that our finding that there are significant differences in the information held by the CRAs on individuals was valid. However, one respondent raised a concern that the comparisons of consistency of credit information between CRAs that we made were misleading. They stated that this was because zero events were excluded (ie where all 3 CRAs did not record data for that variable eg number of defaults for a given individual at each CRA is zero). They said that this led to the inconsistencies between CRAs being overstated as we did not take account of all instances where the CRAs consistently reported zero.
- 3.20** A number of respondents expressed that the timeliness of reporting should be revised in order to improve credit information accuracy. One respondent mentioned that, in their experience, mortgage data held by CRAs can be up to 3 months out of date, which hinders consumers who changed their financial circumstances shortly before applying for a mortgage.
- 3.21** There were some stakeholders that expressed large concerns about certain aspects of our methodology used in the interim report. One of these areas was the analysis of population coverage estimates. There was also concern regarding the sample used and the way it was requested from the CRAs, and therefore the validity of the analysis, as we are unable to determine what the true size of the population was. Another critique was how we matched information between CRAs as we adopted matching methodologies that were less sophisticated than CRA matching methodologies (for more details see [Annex 1 of MS19/1.2](#)). These concerns meant that these respondents did not feel comfortable supporting the conclusions made in the interim report that some consumers face poor outcomes because of differences in data between CRAs.

Our response

We regard high quality credit information as credit information that is sufficiently comprehensive, accurate, and up to date to enable credit information users to make effective assessments of credit risk/affordability.

We note the points raised by stakeholders on the methodology and how the sample was requested from the 3 large CRAs. We had to conduct proportionate analysis in terms of data being requested and analysed and, in our view, the sampling we did was appropriate for that. We recognise that there were limitations in the analysis that we undertook, however we were not intending to replicate 'real-world' CRA matching processes. Instead, we wanted to gain an indicative view of data held across CRAs, which is a fundamentally different task. We believe that our output is indicative of matching challenges as well as differences in underlying data across CRAs; findings that stakeholders broadly agreed with.

We disagree that the methodology used to create the consistency comparisons led to misleading results. We chose to exclude instances where all CRAs recorded zero values as the focus of the analysis was to quantify how a CIU's view of a consumer varied depending on the different CRA(s) used. Zero values were not relevant to this analysis as the concerns lay in differences when these variables were present but had not been recorded at all 3 large CRAs, not when the variables were not present.

Further, this analysis was only one part of the evidence base used. For details of other analysis we undertook, please see the [interim report and discussion paper Annex 1](#).

We also recognise the constructive engagement that we have had with some stakeholders on these complex issues.

Feedback received on findings related to competition in the provision of credit information to firms

- 3.22** Our interim report findings explained that overall competition in the provision of credit information to firms was working well. Despite high levels of concentration, we found some evidence of competition in price and quality (static competition) and the emergence of innovative products and services (dynamic competition) driving positive outcomes for many CIUs. Similarly, we found that Open Banking has the potential to offer an alternative route for challenger CRAs to compete with large CRAs, driving competition.
- 3.23** However, we found that there are barriers to switching for some users, albeit that these can be mitigated to an extent with innovative IT systems and using different CRAs for different products. We also found that smaller CIUs generally have less buyer power in their dealings with CRAs than larger CIUs.
- 3.24** Despite finding that some market conditions may support coordinated conduct and that CRAs do frequently work together, more so than we see in other financial services sectors, we did not see any evidence of coordination by the 3 large CRAs.

3.25 We asked respondents:

Q3: *Do you have any views on our interim findings on competition in the provision of credit information to firms?*

3.26 Overall, most respondents agreed with our findings in relation to competition in the provision of credit information to firms.

3.27 While respondents agreed that the market for the provision of credit information to firms is highly concentrated, many respondents submitted that overall competition is working well as many users are able to obtain fair prices.

3.28 Some respondents stated they had seen evidence of firms switching suppliers in recent years and that CRAs try to ease switching by accepting competitors' data formats. However, a few respondents explained that the time and monetary costs associated with switching between CRAs for small CIUs are particularly burdensome. This is because the CRA already being used is integrated into their systems and so it will take time and resources to switch which small users cannot necessarily spare. Similarly, some respondents also explained it can be burdensome to negotiate new contracts with CRAs.

3.29 With regards to our findings on barriers to entry and expansion, several respondents submitted that API solutions, which enable links between a data source and the firm, and/or open banking can provide alternative routes of entry for challenger CRAs. Other respondents submitted that recent entry in the market (such as CallCredit in 2000) provides evidence that barriers to entry and expansion cannot be significant.

3.30 Most respondents submitted that open banking is providing an alternative to the 3 large CRAs. Respondents explained that many challenger CRAs are already using open banking data to provide credit risk and affordability solutions. These respondents also stated that open banking offers an alternative data source that provides more accurate assessments of consumer's current circumstances. Respondents highlighted this is allowing for new entry and placing a competitive constraint on the 3 large CRAs. However, one respondent reported a negative experience with poor-quality products or services related to open banking data.

Our response

We note the issues raised by some stakeholders regarding burdensome switching costs for small CIUs. We maintain that we want to see improvements in the competitive dynamics of the credit information market.

The adoption of open banking, mainly for affordability assessments, is increasing, with over 1 in 9 British consumers active users of open banking as of October 2023. We however recognise that there are a number of challenges with open banking at present including, consumer adoption of open banking and lenders needing to use internal analysis or a third party to derive insights from the dataset. We understand that, at the margin, open banking may also be used as a proxy for credit risk in the absence of any traditional credit information on a consumer, for example a consumer with a thin file. However, whether open banking will be a substitute for traditional credit information data (where it exists) remains an open question, but one to watch and monitor to assess how it could impact on competition in the provision of credit information to firms.

Feedback received on findings related to competition in the provision of credit information to consumers

- 3.31** Our interim report findings, as discussed in Chapter 2, explained that overall competition in the provision of credit information services to consumers is working well. Whilst we found the market to be highly concentrated, we also found it to be contestable with a number of new firms entering and new business models being developed. Relatedly, we also found limited evidence of barriers to entry and expansion, particularly that access to CRA data does not appear to be a barrier to providing credit information services.
- 3.32** We explored the potential for CRAs that provide credit information type services to foreclose rivals who provide CIS through limiting access to pre-qualification services that are used for consumer price comparison websites. However, we found that the competitive pressure between the 3 large CRAs is sufficient enough to constrain any ability to potentially foreclose rivals who provide credit information services (CIS). We did, however, find that in the provision of pre-qualification services to firms, Experian may have some ability to foreclose rival price comparison at least for a limited period. This was due to the lack of competitors operating in this space, particularly in the provision of pre-qualification services for credit cards.
- 3.33** We asked respondents:
- Q4:** *Do you have any views on our interim findings on competition in credit information services to consumers?*
- 3.34** Most respondents agreed with our findings on this area of the market.
- 3.35** One respondent submitted that the 3 large CRAs quickly purchase any new successful entrants in the market, resulting in stifled innovation. However, many other respondents highlighted that the availability of free services to consumers demonstrates that competition is working well in this market. Some respondents also submitted that they have not seen any evidence that concentration in the market is resulting in consumer harm.

- 3.36** Respondents stated that they have not experienced any instances where competitor CRAs providing CIS-type services have threatened to foreclose or attempted any foreclosure strategies.
- 3.37** Some respondents submitted that they find that CRAs offer competitive pricing for data.
- 3.38** One respondent submitted that the market for pre-qualification services is concentrated, and therefore, may enable Experian to foreclose rival price comparison services. However, this respondent also highlighted that direct API integrations between CISPs and lenders are becoming more common and offer an alternative to the pre-qualification services offered by Experian. Similarly, other respondents highlighted that since the publication of our interim report findings Monevo has become a stronger competitor to Experian. Respondents explained this is because Monevo has begun to offer an increased range of services.

Our response

Since the interim report we have continued to monitor the market for pre-qualification services, including the development of APIs as a different way that lender policy rules are being accessed. We have seen some shifts in terms of key players and technological advancements in the market.

We are aware that Monevo has started to provide products that inform pre-qualification services for credit cards alongside personal loans in addition to other services. This brings Monevo into closer competition with Experian.

In our discussions with, and feedback received from, many industry stakeholders we have heard that direct API integrations between CISPs and lenders are becoming more common. However, we were told by some stakeholders that it can be quite costly to invest directly in APIs, particularly for smaller firms.

Therefore, we consider that competition in the market for the provision of products that inform pre-qualification services is strengthening. However, we also recognise that Experian is still the largest provider of this service and we would like to see further developments in the competitive dynamics of this market. As a result, we intend to continue to monitor this market to examine if positive outcomes, in terms of price, quality and innovation are being delivered.

Feedback received on findings related to consumer engagement findings

- 3.39** In our interim report we found that although awareness of credit scores was high, with almost all consumers having heard of them, understanding was low due to their complexity. Our consumer survey revealed some key misconceptions.
- 3.40** We also found that consumers find it hard to access their SCR and we found instances of sludge and dark patterns which make it difficult for consumers to access their SCR. For example, the links to access SCRs are often hidden, while paid for services are advertised as 'free' when only the initial trial period is free.
- 3.41** Consumers also find it hard to navigate the credit information disputes process. Our focus groups highlighted that consumers were unclear where the responsibility for correcting errors lies (between the CRA and lender) and consumers thought they had to engage individually with each CRA to dispute any errors.
- 3.42** We asked respondents:
- Q5:** *Do you have any views on our interim findings on consumer engagement?*
- 3.43** In general, respondents agreed with our findings that consumer understanding of credit information is low and that this can have adverse outcomes for consumers when making financial decisions.
- 3.44** Respondents stated that greater awareness and understanding of credit information may help consumers bust myths and misconceptions about credit information, which could be preventing them from improving their financial health. For example, one respondent highlighted that sometimes consumers mistakenly assume that by taking out more debt, their credit scores will improve, which may not necessarily be the case. They also stated that when consumers look at their credit report, they tend to primarily focus on their scores whereas in reality lenders often examine the underlying credit information when making creditworthiness assessments.
- 3.45** Some respondents highlighted that they believe there is currently a lack of appropriate financial education for consumers in the UK and that greater education would help to improve consumer understanding of credit information. It was suggested that firms who provide advice and information to consumers, such as bank staff or debt advisors, should help to spread understanding of what credit information is, how it is used in various financial decisions, and how consumer behaviour can impact upon credit scores. Some respondents highlighted the Finance and Leasing Association's (FLA) recent research 'Future of Credit', which supports the proposal to aid consumer education in the credit market for example through sharing information with consumers on how lending decisions are made and the wider context.

- 3.46** A minority of respondents challenged our finding that consumers find it hard to access their SCR and posited that the SCR had become obsolete in the face of improved offerings from CISPs. This includes credit reports that contain tips on how to improve your credit score and fraud support.
- 3.47** A respondent challenged our finding that consumer understanding of files and scores is low. For example, this respondent felt that our findings on the number of consumers that correctly understood the impact of a certain financial decision on their credit score was framed too negatively. The respondent emphasised that over 80% of consumers in our sample did understand the impact of the most important factors. There was concern that remedies 3A and 3B (CRA/CISP signposting to SCR and Streamlined access to SCR) are underpinned solely by this evidence. Another respondent argued that their research showed a significant growth in the number of respondents who claimed to have a good understanding of their credit scores.
- 3.48** Respondents agreed with our finding that consumers struggle to dispute information on their credit reports via the statutory disputes process under section 159 of the CCA. Some respondents mentioned how some consumers conflate CISPs with CRAs, creating challenges for consumers that look to dispute information on their credit reports. Respondents also told us that they agreed with our finding that consumers can experience long delays when disputing their information and that speedy resolution of disputes is essential as it can impact lending decisions.
- 3.49** There was also a concern raised by a respondent that the market study had not investigated commission bias in the credit information market. Specifically, the risk that CISPs/CRAs who provide credit broking services are biased in favour of products which earn them the greatest commission. Another respondent highlighted that lenders that use only one pre-qualification service present a structural barrier as they show consumers only a limited number of credit products.

Our response

We welcome that the feedback from respondents agrees with our findings that greater awareness and understanding of credit information may help consumers bust myths and misconceptions about credit information. We are also pleased that respondents agreed that better understanding of and engagement with credit information can help consumers financial health.

We recognise that different surveys may have different results depending on the design and delivery of the survey, however we are confident that the evidence we have gathered remains robust. Even if there are differing levels of consumer understanding from different surveys, there seems in all surveys to be a group of consumers who have sufficient misunderstandings to justify making improvements in this area."

As with all of our proposed remedies, we used multiple sources of evidence to support our conclusions to ensure that no singular source of information solely underpinned the rationale for a remedy. Since much of our analysis was conducted in 2019 and 2020, prior to publication, we

validated our findings with additional, more recent sources. This includes submissions from both large and small CRAs through 2022, recent industry reports and our FCA Financial Lives Survey. Information from these other sources all supported our findings.

We note the concerns raised around potential commission bias in the credit information market. Under the Consumer Duty, firms must consider the end retail customers in the distribution chain, even if they do not have a direct customer relationship with them. Where a firm can determine or materially influence outcomes for retail customers, it must act to deliver good outcomes and avoid causing foreseeable harm. We remind all CRAs and CISPs of these obligations and to consider whether their distribution strategies and commission arrangements could lead to foreseeable consumer harm.

Feedback received on findings related to borrowers in financial difficulty

- 3.50** Our interim report found that there are differences in the way some events are reported to, and recorded by, the 3 large CRAs, and found this can have an adverse effect on consumer outcomes, particularly for consumers in financial difficulties.
- 3.51** We also discussed how there are currently some limitations in the consistency and detail of credit information when borrowers experience financial difficulty. We said that our view was that these limitations can mean borrowers potentially receive materially different outcomes even where their circumstances may be similar.
- 3.52** In addition, we suggested that poor consumer understanding about how financial difficulty and forbearance arrangements are reflected in credit information may inhibit early engagement by consumers.
- 3.53** We asked respondents:
- Q6:** *Do you have any views on our interim findings on borrowers in financial difficulty?*
- 3.54** The vast majority of respondents agreed with our findings on borrowers in financial difficulty. We also received feedback relating to borrowers in financial difficulty in response to other questions we asked. For completeness we have included relevant points in the below section.
- 3.55** Respondents agreed that the differences in the way events relating to consumers in financial difficulty are reported and recorded were having a significant impact on consumer outcomes. Some respondents felt that inconsistent reporting and recording of data relating to financial difficulty resulted in some consumers securing further credit that they would otherwise not be eligible for, and other consumers not being able to secure credit that may be affordable.

- 3.56** A respondent stated that establishing more consistent processes for reporting data relating to those in financial difficulty will help reduce the scope for materially different outcomes where consumers may otherwise be in similar financial circumstances. Relatedly, a respondent stated that creating new processes for one type of product may not be suitable for another, and that any future governance arrangements should have the ability to make changes to guidance quickly and to communicate this to data contributors.
- 3.57** Some respondents acknowledged that consumers in financial difficulty, who recovered within a short period, were likely to be most affected by inconsistent approaches, and this resulted in poor consumer outcomes. Respondents proposed a number of possible solutions to improve outcomes for those experiencing short-term financial difficulty. One suggestion included having mechanisms in place to ensure short-term arrangements do not impact CRA risk scores, provided the arrangements are kept up to date.
- 3.58** There was broad agreement amongst respondents that some consumers may take steps to 'protect' their credit reports, and this may inhibit early engagement.
- 3.59** Some respondents felt that there was overlap between trying to secure better outcomes for consumers in financial difficulty and what the Consumer Duty seeks to achieve. They felt the Duty will require firms to improve the consistency of reporting to CRAs, as well as to innovate in this area, and this would secure better consumer outcomes. Overall, there was broad agreement that there should be greater consistency regarding how events relating to financial difficulty are reported and recorded. There was also broad acceptance that this would lead to better outcomes for consumers as well as firms.

Our response

We welcome the feedback which supports our view that the current approaches to reporting consumers in financial difficulty could be enhanced. We also acknowledge the complexity of these issues and that there is a balance between ensuring the credit reporting framework does not disproportionately disadvantage those who have experienced financial difficulty whilst at the same time allowing lenders to effectively assess credit risk and lend responsibly. We have taken these points into account, and provided further feedback on the proposals made later in this report.

Chapter 4

Governance remedy

- 4.1** This Chapter sets out the feedback received from stakeholders in response to the governance remedy proposed in MS19/1.2. It also outlines our response to questions and issues raised in this feedback and how our remedies will address them. We have also included an update on our work on this remedy thus far and details of our overall approach to the governance remedy going forward.

Remedy 1 – Reformed industry governance arrangements

- 4.2** In MS19/1.2 we acknowledged that the current governance arrangements in the credit information market, SCOR, have achieved significant milestones to date. These arrangements have successfully established the framework by which lenders and other data contributors share credit information with CRAs – the PoR. This led to an improvement in the quality of data available to lenders and other CIUs. However, we highlighted SCOR was slow to respond to emerging issues in a coordinated way due to being narrow in focus and representation. We concluded in the interim report that SCOR may be hindering the credit information market’s development in the interests of all market participants, being too narrow in focus and lacking consumer or challenger representation.
- 4.3** To address these issues, we proposed industry-led reform of the current governance arrangements via the establishment of the new CRGB. In MS19/1.2 we set out a blueprint for how we think the CRGB might operate including new broader objectives, a new constitution and more diverse representation, particularly from consumer organisations and smaller challenger CRAs. A key part of the reform is about improving the basic governance standards, such as increasing resources and enhancing accountability. We considered that such arrangements should be able to act quickly and effectively to ensure that the risks and opportunities presented by the evolving credit information and wider credit markets are considered holistically. Likewise, we considered it important that decisions reflect the interests of a more representative group of stakeholders and support good consumer outcomes.
- 4.4** We recognised that these proposals would represent significant changes from the nature of the current arrangements, requiring increased commitment from stakeholders and deeper ongoing regulatory engagement between the CRGB and the FCA. As such, we sought feedback from stakeholders on ways to reform and improve governance arrangements in the credit information market.
- 4.5** In MS19/1.2 we asked:

Q7: *Do you agree that there is a need for a new credit reporting governance body (CRGB) with broader objectives that are more inclusive, transparent, and accountable?*

- 4.6** All stakeholders agreed that the current governance arrangements require reform. Many respondents recognised SCOR's importance and achievements to date, including the establishment of the PoR, and suggested retaining SCOR's expertise in the new CRGB. Some also suggested retaining the PoR, or an updated version, within the CRGB's remit. However, a number of respondents also identified flaws within the current governance arrangements and explained that new governance arrangements need to be set up to meaningfully address these issues.
- 4.7** Respondents highlighted that SCOR currently makes decisions via unanimous agreement, which is burdensome and limits the group's ability to respond to emerging issues and to adapt to an evolving credit information landscape. Respondents indicated that the decision-making processes would need to evolve going forward given the wider membership of the CRGB. Further, although respondents agreed with the proposed wider remit, they also recognised that this may lead to conflicts of interest. They suggested that a more sophisticated approach is required to resolve differences in opinion and conflicts of interest whilst considering the interests of all members fairly.
- 4.8** Some respondents also noted that due to SCOR's lack of enforcement powers, the PoR are not fully adopted by all industry participants presently. Therefore, a handful of respondents suggested that the CRGB should have enforcement powers over the rules it sets, to eliminate instances of noncompliance with the framework. A few other respondents however disagreed, stating that such powers should remain with regulators, such as the FCA. They explained that the CRGB's remit should focus solely on data sharing to successfully improve the data quality across the industry.
- 4.9** The majority of the respondents agreed that greater transparency will lead to greater accountability and better outcomes for consumers. Many respondents also agreed that there needs to be more diverse representation and suggested that lesser represented groups should have greater involvement to balance against existing SCOR members' ability to influence the shape of the new arrangements and market evolution.
- 4.10** In MS19/1.2 we also asked:

Q8: *Do you agree that a new credit reporting governance body could be effectively designed and implemented through voluntary industry-led change?*

- 4.11** Most respondents agreed that the credit information and wider credit industry is best placed to consider, design, and implement this governance remedy because they can leverage the expertise of industry specialists. However, respondents raised concerns around the potentially resource intensive nature of the CRGB, especially in comparison to SCOR's current resource requirements. A few respondents suggested implementing an interim working group to consider and design the shape of the new arrangements, including the CRGB's funding, remit and decision-making process.
- 4.12** A handful of respondents however, emphasised that the industry would be unable to deliver the change that is required in the market, even with significant FCA input. They reasoned that the current governance arrangements were developed and continue to be governed by a small group of prominent stakeholders. They further suggested that

these stakeholders are primarily motivated by commercial interests, which is preventing the forum from being used to promote the interests of consumers, competition and innovation in the market.

4.13 Some respondents noted that the CMA intervened in Open Banking Limited, which continues to operate with a level of government and regulatory oversight. They reasoned that the establishment and operation of the CRGB should mimic this model to avoid the need for greater regulatory intervention at a later date.

4.14 Finally, a few respondents raised concerns that industry would not be able to swiftly focus on achieving better consumer outcomes or issues warranting swift regulatory intervention. They also highlighted that the issues identified by the FCA, including the lack of consumer representation, have persisted for many years and that SCOR has had many opportunities to implement changes but has not.

4.15 We also asked:

Q9: *Do you agree that funding and resources for the new industry body should be a matter for industry to determine and provide?*

4.16 Around half of stakeholders who responded to this question agreed with our proposed approach of allowing industry to determine and provide the funding and resources for the new industry body. Those who disagreed mostly suggested that the FCA should be involved in designing a funding and resourcing model. A few stakeholders also noted that the funding model will need to consider how non-FSMA firms contribute.

4.17 Many respondents raised concerns over the industry potentially under-resourcing the CRGB, and thus that it would be unable to deliver remedies which sufficiently improve consumer outcomes. They explained that this could either be due to some members being unwilling to contribute or because some members may not be able to afford to meaningfully contribute and may therefore deter stakeholders from becoming members. A few respondents also argued that funding and governance are intrinsically linked, therefore the largest contributors will have the greatest influence over the nature and extent of changes implemented. Based on this, some respondents suggested alternative funding models such as government funding, an FCA imposed levy on relevant stakeholders, SCOR's funding model or that only CRAs contribute and obtain fees from CIUs, so that CIUs contribute indirectly.

4.18 We further asked:

Q10: *Do you agree with the potential 'blueprint' for the new industry body?*

Q11: *Please indicate if there are any alternative ways that you think such a body could be made more representative, transparent and accountable.*

- 4.19** The majority of respondents agreed that the blueprint is a good starting point and acknowledged that competition, inclusion and transparency could be improved under the reformed governance arrangements in the credit information market. Respondents also broadly agreed to the proposed wider remit of the CRGB, including that more data-sets should be governed by the data sharing framework.
- 4.20** Many respondents agreed that wider stakeholder representation is crucial in reflecting the evolving market. However, a handful of respondents noted that consumer representation in the blueprint is potentially still too limited, therefore the CRGB will not be sufficiently motivated to work towards improving consumer outcomes. They consequently suggested that additional resources, such as compensation, be provided to the consumer representatives to ensure they are able to obtain wider views and provide input into the CRGB.
- 4.21** Most of the respondents agreed that the CRGB should publish annual reports to increase transparency. A respondent suggested that the annual report should include an evaluation of consumer outcomes including the ongoing impact of any new standards or other initiatives. Some suggested that there should be mechanisms in place that allow non-members to input their views on issues being considered by the new governance arrangements, to increase the CRGB's transparency.
- 4.22** Some respondents suggested that the CRGB include CISPs as they offer valuable resources for consumers and have a considerable understanding of consumer needs. Some respondents also advocated for the ICO to be a permanent member of the CRGB, to provide greater clarity around data protection issues. Respondents also emphasised that Treasury involvement needs to be well-considered. Some respondents suggested that the CRGB should be able to set its own priorities and objectives, in light of the extended remit which will include non-financial service firms.
- 4.23** In response to the suggestion that the CRGB should have an overarching objective centred on good consumer outcomes, some respondents proposed that this could mitigate conflicts and align participant interests. A couple of respondents suggested having an additional objective relating to the improvement of consumer outcomes by improving the data quality that CRAs obtain and subsequently share with CIUs.
- 4.24** A small number of respondents queried how the CRGB would interact with the Commercial Credit Data Sharing Scheme (CCDS). CCDS is a statutory small business commercial credit data sharing scheme run by the Treasury. They highlighted that there is some uncertainty around the delineation of what may currently fall within the remit of SCOR and CCDS. They consequently requested greater clarity over how CCDS would interact with the new body.
- 4.25** Some respondents, who did not agree with the blueprint, suggested an alternative structure where the decision-making board is separated from the working group or advisory forum. They explained this would ensure the decision-making arrangements are sufficiently agile, while the working group would encompass a broader, more representative stakeholder base. This would be akin to the current structure of Open Banking Limited. Other respondents suggested that the CRGB should be set up to be a working group, with no decision-making function, with the sole purpose of reporting to the FCA to make decisions. Alternatively, one respondent suggested implementing

a national credit information bureau, rather than industry arrangements as they opined that the industry would be unable to address all of the issues identified in the interim report.

- 4.26** A few respondents suggested that SCOR should work to become more representative, transparent and accountable, whilst the new governance arrangements are being set up, such as by publishing meeting minutes and a workplan. Respondents also requested that SCOR urge all data contributors to share data with each of the large CRAs, to help reduce the scope for differences in the coverage of data.

Our response

We welcome the feedback received that supports the reform of the governance arrangements in the credit information market.

In recognition of the extensive changes required to deliver this remedy, we have been working with stakeholders to set up an Interim Working Group, whose sole purpose is making proposals and recommendations to the FCA on how a new governance body could be introduced. We are proceeding with this temporary and advisory only group on the basis that after 9 months a new CRGB can be formed based on the IWG's recommendations. Throughout the duration of the IWG, there are stage gates where we will evaluate the effectiveness of the group to ensure it is fulfilling its purpose to a high standard.

We acknowledge that SCOR's unanimous decision-making seeks to balance a complex range of interests of its members, and this may have hindered the body's ability to respond quickly to emerging issues. We also recognise that competing interests and tensions could be more prominent given the CRGB's wider remit and membership. Therefore, we recommend that the design of the CRGB considers having a clear mandate and mechanism in place that deals with the competing incentives between stakeholders. We also believe that a new decision-making process that doesn't require all members to agree, is more transparent, fair and representative could mitigate this concern.

We note SCOR's limited membership potentially prevents the arrangements from being able to act in the interests of the different stakeholders in the market and importantly in the interest of consumers. We would thus like all stakeholders to be adequately represented in the CRGB, including relevant consumer bodies. There may be opportunities where the CRGB may seek to consult wider views from specific cohorts when considering and delivering the industry-led change.

We recognise concerns over the industry not providing sufficient funding or resourcing for the final arrangements. We also acknowledge that a pay to play model whereby each member has to contribute financially to be part of arrangements may be too restrictive and could discourage or even prevent valuable voices inputting into the thinking and design of the industry-led remedies. It is important that the new governance body is well-funded and resourced to take on the work it is expected

to deliver. Through our engagement following the interim report, we are encouraged by industry's enthusiasm and drive to work together and think it achievable that an appropriately funded industry-model can be put in place which will be sufficient to deliver remedies and undertake the new remit.

We received some alternative suggestions to the structure that the CRGB could take, considering that neither SCOR nor any existing bodies would be able to successfully deliver the industry-led remedies in their current forms. We see value in considering structures that would separate a decision-making board from the working group, analogous to Open Banking Limited.

Some respondents argued that the CRGB should not have enforcement powers, while others explained that if the CRGB has no enforcement powers, the industry may not have sufficient incentive to comply with the standards. We think it important that the arrangements have a role in overseeing and assessing compliance with standards, appropriate incentives, and mechanisms to address issues as they arise.

We recognise issues raised by respondents in relation to the complex interactions between the CCDS and SCOR. We can see the benefit of having a more formalised relationship between the new CRGB and CCDS which could be reflected in the design of new arrangements.

While we acknowledge that the current governance arrangements have faced some co-ordination challenges and therefore appreciate the concerns over industry leading the governance reform, we see great value in the credit information market's participants playing a key role in establishing the CRGB. By working with stakeholders to design the CRGB with a clear mandate and objectives, increased transparency and whereby all relevant stakeholders are appropriately represented, we seek to mitigate these concerns. We are encouraged by the feedback we received and interactions and input we have had so far which demonstrate stakeholders' interest and desire to work towards new governance arrangements.

Taking all the points above into account, we think it is important that the new governance body is established in the credit information market and is well placed to tackle emerging and future market developments that require cross-industry approaches or decisions. We are also confirming that while we primarily see this as an industry-led remedy, we recognise the need for the FCA to work in partnership with industry to address these complex issues and help co-ordinate change across the wider market. We view this to be a proportionate approach to tackle our concerns about the current governance arrangements, which are shared by stakeholders.

We want to stress the importance of reforming the governance arrangements because it will play a significant role in taking forward many of our industry-led remedies as outlined in Table 1. Therefore, we will monitor progress of this remedy by linking it to regular milestone

outcomes. Further, we will develop alternative options should the industry be unable to agree on how the governance arrangements should be reformed to achieve the outcomes we seek.

Stakeholder engagement and establishment of IWG

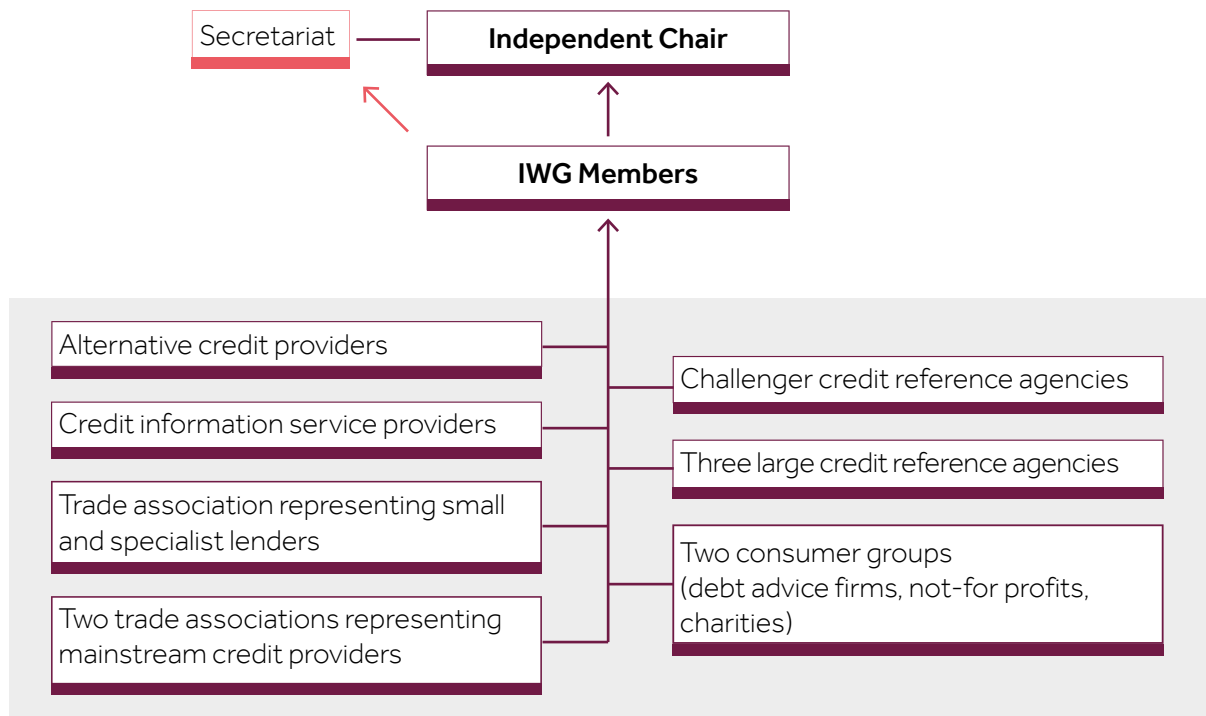
We recognise the concerns and difficulties raised, one of which is the complexity of the process and journey to implementing the proposed reform of the governance arrangements. We support the suggestion of having an IWG, a temporary, advisory only group, with the sole purpose of making recommendations to the FCA on the design, implementation and operation of the proposed new CRGB. We consider this to be a good transitory way to drive the remedy forward and progress towards forming the CRGB.

In recognition of the careful thinking and consultations that are required to shape the IWG, the co-ordination challenges where we may be required to act as a facilitator for engagement, as well as commitment of resources from industry, we have engaged heavily with a wider range of stakeholders since the publication of the interim report. Through these engagements, we established the need for, viability and design of this IWG. We took the approach of first speaking with SCOR in March 2023, and then expanded our engagements to FSMA-regulated firms as well as consumer bodies throughout April and May 2023 to obtain their views on the IWG proposal as well as discuss their involvement in the IWG. We also held an industry event in June 2023 with a wide range of stakeholders, including industry representatives and consumer groups.

The IWG that we have established is comprised of wide representation that allows diverse cohorts to voice their views and opine on the proposals for the long-term solution. This includes designing the CRGB to have greater transparency and accountability. Finally, the IWG membership also includes some SCOR representatives, who will be able to advise in detail what did and did not work from a governance perspective for SCOR and retains the technical expertise which currently sits within the group. Alongside this, we anticipate that the IWG will take the lessons learned and best practices from other similar experiences, such as the Open Banking Limited model to better consider and recommend options for the CRGB.

The IWG will have an independent chair. Ensuring the independence of the chair will allow the chair to build consensus amongst the conflicting interests of stakeholders in an impartial and consistent manner and find a way forward such that the new governance body arrangements are supported by the entire market. The selection of the chair for the IWG does not set precedence for the chair of future governance of the CRGB. Stakeholders expressed strong support to continue progressing the IWG's work, and we are keen to ensure that the appointment of the chair does not prevent the IWG beginning work on the substantive issues and allow the IWG's momentum to continue. We will provide further updates on [our website](#).

Figure 2: The Interim Working Group Structure



IWG Members have a responsibility to seek wider views from the cohort they represent.

- 4.27** Together with the final report, we have also published the IWG's Terms of Reference (ToR), which explains that the group was set up with the view that it would enable the wider industry to be able to feed their views into a proposal on a number of outputs that will inform the shape of the CRGB. To alleviate concerns over industry-led initiatives, we have been supporting the IWG to ensure the design of the CRGB fulfils its purposes, while being flexible for future changes in the market.
- 4.28** Each IWG member has agreed to seek views from areas they represent, who have an interest in the creation of the CRGB and are not already represented by or engaged with the IWG. We acknowledge that it is especially difficult for consumer representatives in the IWG to reflect wider views given the dispersed nature of this cohort, as highlighted in the feedback received and the limited resourcing each consumer organisation faces. We see value in having consumer input in the design of the CRGB. To aid this process, we will continue to facilitate sessions between the IWG consumer representatives and relevant members of our Consumer Network. To start the discussions, the Consumer Network event in June 2023 included an update and explanation of how the IWG members could input their views into the IWG through nominated representatives. This will enable input into the IWG of a wider body of consumer facing expertise and experience.
- 4.29** As a tangible output, we expect to use a stage gate approach to receive the IWG's recommendations and ensure that the IWG is delivering robust recommendations on the design and implementation of the CRGB. We have recommended the IWG considers the topics in individual phases and after each phase produce a report on the group's recommendations on the topics, to ensure the FCA can sufficiently monitor progress. The sequencing and clustering of these outputs have been determined to minimise interlinkages that may need revisiting.

Recommendations for the CRGB

4.30 We think that the CRGB's remit should go beyond a data sharing framework to include progression and oversight of some of the remedies that we find appropriate for industry to lead on, as illustrated in Table 2. We have asked the IWG to consider these in its deliberations when designing the shape of the CRGB.

Table 2 – remedies for the CRGB to take forward

Proposed remedies we envisage the CRGB looking at:		
2B	Common data format	The CRGB would liaise with stakeholders to develop the common data format and agree an approach to the reporting of arrangements, debt solutions and flags.
3B	Streamlined access to statutory credit file	The designated CRAs/CRGB would help facilitate consumer access to SCRs in a streamlined way
3C	Streamlined disputes process	The designated CRAs/CRGB would consider how a more streamlined data dispute process could be implemented.
3D	Streamlined NoCs, vulnerability and 'credit freeze' markers	Designated CRAs would work with the CRGB to consider the introduction of our remedies on these issues subject to a number of objectives as outlined in Chapter 6.
4A	More timely reporting of key data to designated CRAs	The CRGB would assess the costs and benefits of introducing more timely reporting of key data to designated CRAs. The outcome would be communicated to the FCA. The CRGB may wish to prioritise this in its workplan because of the links between this remedy and the mandatory reporting requirement and the common data format.
4B	Reviewing the Principles of Reciprocity (PoR) and related issues	The CRGB would evaluate whether changes are needed to the PoR and consider specific issues as outlined in Chapter 6, with a view to amending the PoR, introducing new guidance and/or taking policy decisions on these issues.
4C	Improved CATO data with updated access arrangements	Industry would consider a number of specific issues relating to how CATO data may be improved and access arrangements updated. This work would be factored into the CRGB's overall workplan and the outcome would be communicated to the FCA. The CRGB may wish to prioritise this work because of the potential links between this remedy and the common data format.

4.31 Given the importance and breadth of the work programme above, we emphasise the need for the CRGB to be well-equipped and designed such that it is agile enough to adapt to new developments, changes in the market and adjust its role in achieving its objectives. For the CRGB to be able to conduct its role, as described above, we believe the IWG should consider a number of aspects in relation to the composition and operation of the CRBG, including:

- expertise that the CRGB will need for designing and implementing these remedies
- how best to obtain wider views from stakeholders to evaluate and consult, as necessary

- how the CRGB will oversee compliance with standards it sets
- how the CRGB will be funded to ensure it has the resources to conduct its objectives and work
- how the CRGB will be flexible in addressing developments in the market and do so at a good pace

4.32 Similarly, when considering the design of the CRGB's role and remit, the IWG will contemplate whether the CRGB should be able to redefine its remit in line with the developments in the market. For example, the IWG should consider how credit information data interacts with other data sets or frameworks, such as CCDS and Open Banking data.

4.33 Respondents suggested that the CRGB should have a close relationship with bodies and regulators, such as the Treasury and ICO. We agree that it could be beneficial for the CRGB to have a relationship with such bodies, to ensure that appropriate input can be provided on emerging issues or developments. We also see merit in the CRGB having ongoing engagements with regulators, such as the Office of Communications (OFCOM), the Water Services Regulation Authority (OFWAT) and the Office of Gas and Electricity Markets (OFGEM) to ensure the interests of non-FSMA bodies and trade associations are captured. To this effect, the IWG should consider whether it would be appropriate and beneficial for the CRGB to have a Memorandum of Understanding (MoU) to better define the relationship between other sector regulators and bodies and the CRGB. This could provide opportunities to have a more engaged relationship, as well as a structured process, via which the CRGB could obtain views or advice from the regulatory bodies.

Chapter 5

FCA-led remedies

- 5.1** This Chapter sets out the feedback received from stakeholders in response to the FCA-led remedies as proposed in MS19/1.2. It outlines our response to the questions and issues raised by stakeholders, and details how we plan to address them. We conclude the Chapter with the next steps on all FCA-led remedies.
- 5.2** The remedies that the FCA are taking forward primarily target improvements in the quality of credit information held by CRAs. High-quality credit information is important to the integrity of the retail lending sector, and in helping to ensure that consumers receive fair outcomes.
- 5.3** Subject to further work and public consultation, we are of the view that introducing FCA rules is the most appropriate approach to tackle some of the issues found in the interim report and discussion paper. This is because we view that these issues have the potential to cause the largest amount of harm to consumers given the importance of credit information quality in informing credit risk and affordability assessments. These data issues also underpin several other issues we found evidence of, such as poor consumer awareness and understanding of credit information. Likewise, these issues have arisen because the sharing and use of credit information is approached differently by different stakeholders, therefore FCA rules will enable the introduction of a consistent approach to remedying these issues, which the market alone could not provide. Similarly, introducing FCA rules enables enforcement of these remedies, which is important to ensure the issues we found are properly addressed.
- 5.4** We see the following remedies, as detailed in Table 1, as potential FCA rules:
- 2A: mandatory data sharing with designated CRAs
 - 2C: designated CRA regulatory reporting to FCA
 - 2D: data contributor requirements (error correction and reporting satisfied CCJs)
 - 3A: CRA/CISP signposting to SCRs
- 5.5** We believe that these proposed remedies would advance the FCA's statutory objectives through securing appropriate protection for consumers and promoting effective competition between CRAs and in the consumer lending markets they serve. We believe that these remedies will promote our secondary international competitiveness and growth objective too, as detailed in the executive summary of this report. Given the pivotal role this data plays we think it likely to be a proportionate intervention given the scale of impact on consumer outcomes.
- 5.6** We intend to propose and consult on draft rules, and a cost benefit analysis and competition assessment will be part of any rule making process.

Alternative approaches to promoting higher quality credit information

- 5.7** Firstly, before we explain the remedies we are intending to pursue through rules, we address below some alternative remedy proposals we received for collating and distributing credit information.

Single credit repository/national credit database

- 5.8** In some countries, credit information is shared with a central repository, rather than directly with CRAs. This means that data contributors only need to share data with a single entity rather than multiple CRAs. In such cases, CRAs, who may be authorised for the purpose, obtain credit information from the central repository, and subsequently match and combine this data. This is then used to devise products and services to sell to CIUs.
- 5.9** Some stakeholders suggested that the work undertaken by CRAs under a central repository system, for example in relation to the matching of data to individuals, could potentially be done by the central repository itself provided it possessed the necessary expertise and systems.
- 5.10** Similarly, some stakeholders suggested that the FCA should consider the introduction of a 'national credit database' analogous to that typically operated in some other countries by central banks. They suggested that this would help provide certainty to consumers about the nature and extent of data held about them and ensure a consistent single view of their credit commitments.
- 5.11** While we understand the rationale for these suggestions, we do not consider that such a comprehensive restructuring of the current credit reporting framework would be a proportionate response to the issues that we found in the MS19/1.2. Any form of single repository or national credit database would require primary legislation to introduce and significant resources and expertise to develop. It would also likely require a strong evidential basis that such an approach would deliver better outcomes overall than the current framework.
- 5.12** The remedies that we have proposed are therefore intended to broadly work within the grain of the current system, with a view to improving the overall quality of credit information held by CRAs who are incentivised to compete and innovate to deliver good outcomes. We think this approach is the most proportionate means to achieve the enhanced outcomes we seek.

Access to historic credit information

- 5.13** We have heard that access to historic credit information held by established CRAs is one of the largest barriers to entry in the credit information market. The established CRAs have acquired historic credit information over many years under existing industry data sharing arrangements, which they have processed, aggregated and matched to individuals. These processes are likely to have required extensive investment and

specialist resources and are thus likely to constitute intellectual property. This data has also been shared under privacy notices which typically identify the parties with whom personal data will be shared. Some stakeholders have suggested that it would be beneficial to competition if this historic credit information could be shared with potential new entrants.

- 5.14** We recognise that access to this information may present a barrier to new entrants, but given the significant issues identified above, our view is that it is not currently practicable, proportionate or in the reasonable expectation of consumers to encourage or require large volumes of historic personal data to be shared directly between established commercial firms and new entrants in the manner suggested.

Remedy 2A – Mandatory data sharing with designated CRAs

- 5.15** In the interim report and discussion paper, we explained that credit information plays a pivotal role in helping lenders assess the credit risk of individuals. Moreover, we discussed how we wanted to improve the quality of credit information to secure better outcomes for consumers. Our initial view was that mandatory reporting requirements for FSMA-regulated data contributors to share credit information with designated CRAs could reduce the scope for differences in key data between CRAs. Further, we discussed that this would help to ensure credit information users have a better picture of a consumer's credit history and indebtedness.
- 5.16** We suggested that a mandatory data sharing requirement would create a consistent credit information dataset provided by FSMA-regulated firms. Given the importance of credit information to consumer outcomes, our initial view was that the provision of high-quality data to certain designated CRAs by FSMA-regulated firms should play an intrinsic role in the responsible provision of credit and debt services.
- 5.17** In MS19/1.2 we asked:

Q12: *Do you agree with the principle of a mandatory reporting requirement to certain designated CRAs to establish a 'core' consumer credit information dataset?*

- 5.18** Most respondents to this question agreed with the principle of a mandatory reporting requirement to designated CRAs to establish a core consumer credit information dataset. Respondents agreed that such a requirement would improve the quality and coverage of data and reduce the differences in the information CRAs return to CIUs. They explained that this would increase the effectiveness of credit risk assessments as CIUs would have a more comprehensive picture of a consumer's credit history and indebtedness. Some respondents further explained that such an approach would also allow firms to offer consumers more suitable products and tailored support. They also discussed that this could help enhance financial inclusion.
- 5.19** Respondents also noted that it would give CRAs greater opportunity and enhanced incentives to innovate and compete in areas other than data coverage.

- 5.20** Some respondents felt that the requirement would increase fairness and enhance transparency as consumers would more likely know the credit information that is being used in lending decisions. They explained that this would also address some of the issues that cause consumer detriment, as consumers can currently receive materially different outcomes depending on which CRA their chosen lender uses.
- 5.21** Some respondents, although in agreement with the proposal, were concerned about the additional cost to firms arising out of a mandatory reporting requirement. They were also concerned with the risk of hampering innovation between CRAs due to disincentivising them from innovating and acquiring new datasets. Others were concerned that designation could potentially be designed to suit existing large CRAs. Therefore, some felt that this would entrench the position of the 3 large CRAs and create barriers to entry.

Our response

We note that most stakeholders are broadly supportive of the proposal to introduce a mandatory reporting requirement and agree that this would help to improve the quality and coverage of credit information.

We agree with the feedback which indicates the proposal would deliver improved consumer outcomes through more effective credit risk and affordability assessments. Furthermore, more comprehensive credit information will help to provide lenders and other users with a more informed view of consumers' financial circumstances. It could also help to deliver further benefits through enabling CRAs to undertake more effective 'matching' processes, reducing errors and increasing the effectiveness of fraud prevention processes. In addition, a mandatory reporting requirement is likely to improve consumer understanding in this complex area, as there will be greater transparency for consumers in respect of who their credit information is being shared with.

We also agree that a mandatory reporting requirement could help play a significant role in enhancing financial inclusion, as it will reduce the incidence of 'thin files.' This may be particularly relevant for younger or more high-risk individuals where there are more likely to be 'gaps' in credit information. As the retail lending market evolves, these issues may become more acute as new and innovative credit providers enter the market who may be less likely to share credit information across multiple CRAs, increasing the risk of data fragmentation and poor outcomes.

We recognise that some stakeholders have raised concerns around the potential competition implications of requiring lenders to share credit information with designated CRAs. We reasoned that a mandatory reporting requirement could work to incentivise competition, both between CRAs and in the wider consumer lending market. As credit information will become more homogenised, CRAs could be incentivised to compete on the quality of derived products and analytics, as well as the effectiveness of 'matching' processes. They may also seek out new data sources to aid differentiation, driving further competition and innovation.

Greater homogenisation of credit information may also help lenders and other users to assess the value of related products provided by the CRAs, driving downward pressure on pricing and incentivising switching. We will consider more fully the implications on competition as we develop our cost benefit analysis, competition assessment and consultation paper on this remedy.

We also think that more comprehensive credit information will help foster greater competition in the retail lending market and increase market efficiencies. In particular, smaller lenders who are typically less able to obtain and ingest credit information from multiple CRAs will be able to access more comprehensive credit information more easily from a single CRA, enabling them to compete more effectively with larger lenders. Similar benefits may also arise for debt charities, where it is important that they have a comprehensive picture of consumers' financial circumstances when providing debt advice. More broadly, better quality credit information should help lenders assess risk more effectively and reduce losses, potentially reducing the costs of credit for consumers while broadening access.

In relation to the costs of the proposal, we accept that additional on-going costs are likely to fall mainly on those data contributors who may be required to share credit information with a greater number of CRAs than at present. We also acknowledge that there would be set-up costs to report to additional CRAs and that these costs might fall more on some lenders than others. We will seek to explore these trade-offs further as we develop our approach and undertake a cost benefit analysis.

In view of the feedback received and potentially significant market wide benefits as set out above, we intend to consult on the introduction of a mandatory reporting requirement for FSMA-regulated data contributors. We appreciate that this would represent a shift in the way the credit information market operates, and that there are a number of complex issues that will need to be considered, including the scope of such a requirement and the mechanics of how it would operate. We also recognise there will be operational and implementation issues to consider. However, given the pivotal role that credit information plays in helping to deliver important public policy objectives, both in the retail lending market and more broadly, we think this approach presents a significant opportunity to ensure consumer outcomes are enhanced through more informed and fairer decision-making.

We will engage with stakeholders on this further. Moreover, we will seek more information about the potential costs and benefits as we develop the proposed rules. We will then share a detailed cost benefit analysis as part of our consultation.

Scope of requirement (CRAs)

5.22 In MS19/1.2 we explained that it would be necessary to introduce a regulatory framework which designates certain CRAs with whom credit information is shared under a mandatory reporting requirement. We said that we envisaged that a designation criteria could be primarily linked to those firms with permission for 'providing credit references' (Article 89B RAO permission), with certain additional criteria including:

- bulk data processing capability
- robust processes which facilitate compliance with data protection and CCA requirements
- robust financial and operational resilience
- the ability and willingness to participate in significant regulatory engagement and industry-wide initiatives.

5.23 We asked:

Q13: *Do you agree in principle with the proposal to establish a CRA designation framework?*

Q14: *Do you agree with the potential designation criteria? If not, what else should or should not be included?*

5.24 Most respondents agreed with the proposal to establish a CRA designation framework and with a potential designation criteria. They agreed that a designation framework which facilitates mandatory data sharing would improve the efficiency of the credit information market and consequently improve outcomes for consumers.

5.25 Respondents were supportive of a regulatory framework that set out the process of obtaining designation, and an ongoing requirement to maintain designation status, ensuring standards are upheld. Some respondents stated that there is opportunity to learn from the CCDS initiative, and ensure the FCA framework is effective, efficient and keeps pace with market changes. Some respondents, whilst supportive of the potential designation criteria, suggested other items to include in the criteria, such as robust data and cyber security protocols, the ability to consume data from data contributors in any standard industry format, working with other firms on error correction and compliance with the PoR.

5.26 Some respondents submitted that a designation scheme would have a negative impact on competition, favouring existing large CRAs and entrenching their position. They felt existing challenger CRAs and new entrants should be provided a clear, fair and objective route to designation and that the standards to achieve designation should not be too onerous. Concerns were raised about the potential costs associated with becoming designated, and that this may pose barriers to entry for challenger CRAs who may not have the financial resources to apply for and secure designation. A limited number of respondents felt that designation would amount to 'giving up competition'. They explained that they felt parts of the criteria were irrelevant, such as the requirement of having bulk processing capability, as other methods, such as the use of API centric systems, could be used to process data transactionally and in bulk.

- 5.27** One respondent stated that the number of CRAs to be designated, and how often the designation process is run needs to be carefully considered, as, for example, an annual designation process could be onerous and costly.

Our response

We agree with feedback that a designation framework that facilitates mandatory data sharing would improve the efficiency of the credit information market and outcomes for consumers. Our view is that a designation framework will also encourage competition in areas other than data coverage in respect of FSMA-regulated data contributors, such as matching algorithms. Such an approach would broadly work within the structure of the current system and is likely to be the least disruptive for most firms whilst delivering maximum possible benefits.

We acknowledge that there are similarities between what we have proposed and CCDS. We have engaged with the Treasury and will continue to do so as there are potential lessons to learn. Our intention is to also engage other stakeholders, such as the ICO, in respect of the design of our designation criteria. We acknowledge that some additional suggestions and concerns have been raised in respect of a designation criteria, and we also understand that engaging with industry through the IWG, and eventually the CRGB, may be necessary in order to finalise what a designation criteria may look like.

We agree with feedback that the framework would need to set out the process for obtaining designation, as well as outlining ongoing requirements to maintain designation. The process of designation, and how often this process is held, needs to be carefully considered. We also note comments that holding a designation process on an annual basis may be onerous.

We accept stakeholder views that designated CRAs should have robust security protocols and have data capabilities that would allow them to ingest and process large amounts of data.

We have noted concerns relating to the designation scheme favouring existing large CRAs. However, the framework would be open to CRAs to seek designation under the criteria. We intend to consult on the criteria for a designation framework and will provide more details as we develop our thinking. We are not convinced that a designation scheme would entrench the position of the 3 large CRAs. Their position, in our view, is already established, and competitors currently seek to complement the services provided by them rather than compete against them. Further, we believe that competition is likely to develop in different directions as discussed previously. It should be noted that the designation scheme will be separate and in addition to firm authorisation for permissions to operate in the credit information sector; we are looking to create an

additional layer of bespoke rules that would apply to the designated CRAs (and firms that will contribute data to them) in order to implement a mandatory reporting remedy.

We have noted concerns in respect of challenger CRAs not securing designation under a designation framework, for example, due to the potential costs. However, provided challenger CRAs are able to meet a designation criteria, these entities would be able to seek designation under the framework. When designing the criteria for designation, we will further explore the costs implications for all types of CRA's to ensure these do not set up significant barriers to entry or expansion. We discuss further the competition implications of designating a small number of CRAs in response to question 9.

We note that some stakeholders have suggested that a designation criteria should require designated CRAs to accept data from data contributors in any standard industry format. We consider whether that is necessary and discuss data format issues in relation to discussion on remedy 2B – the common data format.

Having considered the feedback in respect of designating CRAs under a mandatory reporting framework, we have decided to proceed with a consultation on the establishment of a CRA designation framework, the primary purpose of which is to facilitate a mandatory reporting requirement. We think a designation framework is the only practicable way of achieving a mandatory reporting requirement without a fundamental restructure of the credit information market. We have noted suggestions in respect of other methods that could be used to share credit information, including to a single repository or national credit database, however, as explained above, we consider such fundamental change would likely be disproportionate in the circumstances based on the evidence we have found.

We recognise that there are a number of questions stakeholders may have regarding the designation scheme. We will consult on the CRA designation framework, and the proposed rules in respect of a designation criteria and process, which will set out the designation scheme and criteria in greater detail. While we intend to proceed with a consultation on this remedy in line with what we broadly set out in the interim report, we will reflect on the points made about the designation framework and take them into account when developing final proposals. This will include a cost benefit analysis and competition assessment of the proposals.

Scope of requirement – data sharing with a broader range of CRAs

- 5.28** In MS19/1.2, we discussed the implications of a mandatory reporting requirement on competition in respect of the position of challenger CRAs. To foster greater competition, we wanted to understand how mandatory reporting requirements could or should be extended to a greater number of CRAs.
- 5.29** We explained that this would involve data contributors sharing information with a larger number of CRAs than at present. We said that this may raise questions around the most efficient mechanism for data contributors to share information, for example, sharing data via a single repository, rather than sharing data with each designated CRA individually.
- 5.30** We asked stakeholders:
- Q15:** *What might the competition implications be if only a small number of CRAs become designated CRAs?*
- Q16:** *Do you have views on the possible costs and benefits of including a broader range of CRAs within a designation scheme?*
- 5.31** Some respondents explained that they did not foresee any adverse implications resulting from designating a small number of CRAs. One respondent further explained that effective competition could still take place with a limited number of CRAs being designated. They stated that reduction in differences in data coverage would also strengthen incentives for CRAs to further increase the value of their analytical products. Respondents stated that the designation process should be clear and transparent, and have processes for expanding designated CRAs to facilitate market entry and foster innovation.
- 5.32** Most respondents who addressed the question indicated that a small number of designated CRAs would have negative implications on competition. They cited entrenchment of the 3 large CRAs, loss of innovation and delayed information quality improvement as key concerns. One respondent was concerned that designating a small number of CRAs would make it more expensive for social purpose lenders to service financially excluded consumers. Some respondents felt that a core credit information dataset would enable smaller challenger CRAs to become competitive alternatives, provided they receive access to equivalent data, both current and historic.
- 5.33** Several respondents suggested that an independent third-party entity/central repository could be used for data sharing between data contributors, data users, existing large CRAs and challenger CRAs. One respondent made an additional suggestion that credit information could be uploaded to personal data files instead, and consumers could choose to share their personal data file with whom they choose.

- 5.34** A number of respondents stated that the market is not dysfunctional, and that competition is already effective between the CRAs. There were also some concerns raised around designating a large number of CRAs as this could potentially create greater inefficiencies, reduce data accuracy and consistency and, as a result, cause consumer detriment.
- 5.35** Most respondents had neutral views on the possible costs and benefits of including a broader range of CRAs within a designation scheme. Some respondents felt that a wider range of CRAs would benefit consumers in the longer term as it would result in a greater choice of CRAs and more competitive pricing. However, they recognised that the likely implementation costs of this would be a challenge in the short to medium term. Other respondents added that a broader number of CRAs within a designation scheme would increase competition between CRAs and give lenders access to increased depth of information.
- 5.36** A few respondents were of the view that including a broader range of CRAs would increase costs, and that a broader range of CRAs is not required to encourage competition. A small number of respondents added that they felt that reporting to a single portal would be cheaper. One respondent explained that including a broader range of CRAs is not required to encourage competition or innovation, and due to the buying power of some lenders, prices are already competitive.
- 5.37** There were concerns raised about the extensive investment in database and server management new CRAs would need in order to ingest large amounts of data under a mandatory reporting requirement. Respondents explained that this is unlikely to entail significant additional costs to the existing large CRAs. However, some respondents explained that all firms involved in mandatory reporting as well as consumers would incur increased costs without necessarily seeing any benefits. For example, increased costs to data contributors due to having to share with a broader range of CRAs, and potentially increased costs to consumers due to having to check credit files with multiple CRAs.

Our response

We do not have a pre-set view of the number of CRAs that would be designated. We acknowledge there could be operational challenges with a large number of designated CRAs, but we also want to guard against too few CRAs being designated. Any designation process will need to evolve over time as market developments occur.

Whilst designating a small number of CRAs will not be an explicit aim of the designation process, the designation scheme will need to be proportionate and take account of any increase in data contributor costs which may arise from being required to share with a larger number of CRAs. Our current view is that effective competition could still take place with a small number of designated CRAs, as CRAs would be more incentivised to compete in areas other than coverage of data from FSMA-regulated data contributors. For example, as suggested in feedback from stakeholders, this could be through further increasing the value of related analytical products and matching capabilities.

We have noted feedback that designating a small number of CRAs would have negative implications on competition in the market and entrench the position of the 3 large CRAs. We have also noted concerns that this may lead to a reduction in innovation and a delay information quality improvement. However, as mentioned previously, we are of the view that the positions of the larger CRAs are already established, and competitors, who are often innovative, seek to complement the services provided by the larger CRAs rather than compete against them. We have also found in our competition analysis in the interim report that there is evidence of dynamic competition between the 3 large CRAs. The 3 large CRAs have told us that, to remain competitive, they have to constantly innovate for the benefit of their clients. This is consistent with what CIUs have told us and evidenced by the 3 large CRAs' expenditure on innovation. Our financial analysis also broadly supports that there is competition between the 3 large CRAs.

Based on our initial thinking, we are not convinced that designating a small number of CRAs is likely to have more of a negative cost implication on social purpose lenders who service the needs of a specific market segment. Rather, we think that such lenders may benefit from being able to access more comprehensive credit information from a single source.

We have noted that some respondents said that requiring data contributors to submit credit information to a single repository would be more appropriate. We have addressed this point at the start of this Chapter.

We understand that some data contributors currently only share data with one or two CRAs. Therefore, any designation scheme that is implemented to facilitate mandatory reporting requirements may result in some firms incurring more additional costs than others who currently share data with more CRAs. We acknowledge that some respondents have said this would be burdensome. However, based on our initial judgement, we consider that sharing data under a mandatory reporting requirement with designated CRAs will help achieve better coverage of data in the long term and subsequently help deliver better consumer outcomes and enhance competition.

We will seek to strike the right balance when designing the designation scheme and the criteria used for selecting designated CRAs. Further, we want a designation criteria that at least maintains the current level of competition in the market and one that is flexible enough to respond to opportunities to increase competition in the future. Stakeholders have indicated there would be cost implications and competition impacts, which we will explore in more detail prior to consulting. In doing so, we would also consider the practicalities of requiring firms to share data with a large number of designated CRAs, which could potentially increase the cost burden on firms. We acknowledge that there is a need to strike a balance between advancing our objectives of consumer protection and encouraging effective dynamic competition in the market when designing the designation scheme. We will consider these issues and reflect on the feedback we have received when developing our final proposals for consultation.

Scope of requirement – data contributors

5.38 In MS19/1.2, we posited that a mandatory data sharing requirement should apply to all firms involved in the provision or administration of regulated credit agreements or regulated mortgage contracts. However, we said there were a number of ways that this could be structured and set out three high level options:

- An absolute requirement: all firms involved in the provision or administration of regulated credit agreements or regulated mortgage contracts being required to share certain credit information to designated CRAs.
- A portfolio approach: requiring firms who share credit information on a lending portfolio with at least one designated CRA to share with all designated CRAs. This would be different to the absolute requirement, as firms who did not wish to use credit information from designated CRAs would not be subject to mandatory reporting requirements.
- A prescribed product/activity: this would involve firms engaged in particular types of activities being required to share credit information on those portfolios to designated CRAs.

5.39 We also explained that there may also be various combinations of the above three approaches, and it may be appropriate to consider whether certain 'de minimis' thresholds should apply, beneath which mandatory data reporting requirements would not apply. We also stated that we did not think it was appropriate for designated CRAs to levy charges for receipt of credit information under any mandatory reporting requirement. With regard to initial set up costs incurred by designated CRAs, our initial view was that these should be borne by those CRAs given the ongoing benefits to their business model.

5.40 We asked stakeholders:

Q17: *Do you have views on which types of regulated activity should be subject to a mandatory reporting requirement and on the further options set out above on scope?*

Q18: *Do you think it would be appropriate to introduce 'de minimis' reporting thresholds, if so, how should these be defined?*

5.41 Most respondents felt that an absolute requirement was most suitable. They described that this would provide the most comprehensive data coverage, is a simpler approach, would reduce gaps in credit information and therefore secure the best possible consumer outcomes. A number of respondents also added that the other two approaches would leave out certain credit information and would risk perpetuating fragmentation in data coverage that contributes to poor consumer outcomes.

- 5.42** A number of respondents suggested that additional information, such as CATO data should be included. Some respondents also suggested that BNPL data should be included as this data has become increasingly important as consumer behaviour changes over time.
- 5.43** Some respondents felt that data relating to unregulated agreements, such as rental payments and mobile phone contract payments, should also be subject to a mandatory data reporting requirement.
- 5.44** A limited number of respondents explained that the absolute approach would present cost challenges to smaller lenders, increasing their operational costs which would ultimately be passed on to consumers. However, most respondents were broadly of the view that data relating to small sums of credit regardless of the size of the lender, should be subject to a mandatory data reporting requirement.
- 5.45** One respondent stated that where insurance is financed by credit, these agreements should not be subject to a mandatory reporting requirement and that the FCA should take a more prescribed product/activity approach.
- 5.46** Most respondents did not think it was appropriate to introduce a 'de minimis' reporting threshold. They explained that consumers would expect to see all their credit information and that simplicity is essential. They said that a 'de minimis' approach may have undesirable consequences for consumers if firms are able to avoid sharing important credit information.
- 5.47** Respondents who supported a 'de minimis' approach explained that without a 'de minimis' reporting threshold there may be unnecessary burden on smaller lenders, and this may hinder innovation and competition. There was some support for thresholds to be introduced based on volume of data and size of portfolio. Some respondents also felt that there should be a carve-out from mandatory reporting where only a small amount of credit is extended for a limited period.
- 5.48** A limited number of respondents felt that further clarity was required in respect of any 'de minimis' approach before they would be able to provide an informed response.

Our response

While we recognise there are pros and cons to the three high-level options proposed, we agree with the majority of stakeholder feedback that an absolute requirement is likely to be most appropriate. On balance, we think that this approach is likely to secure the most comprehensive data coverage across designated CRAs whilst being simple for firms and consumers to understand.

Taking a portfolio or prescribed product/activity approach, or an approach that is a combination of the three approaches set out above would potentially leave room for important credit information to be left out from credit files. We understand that some lenders currently do not share credit information with CRAs, and these may be smaller lenders or those servicing the needs of specific market segments. We also understand

that some lenders currently share credit information with only one CRA. Requiring a change in reporting of these lenders could have cost implications which we acknowledge.

An absolute approach to a mandatory reporting requirement would present different cost implications to diverse types of lenders. However, our current view is that the consumers of lenders who service the needs of specific market segments are likely to benefit more from an absolute approach. These consumers may have characteristics of vulnerability and/or have impaired credit history. Having a comprehensive data set that sufficiently reflects their circumstances would benefit them as they are more likely to possess thin credit files. An absolute approach would help these consumers build up their credit files at each designated CRA. Furthermore, we believe that this approach may ease the entry of new lenders for these cohorts, thereby enhancing financial inclusion. More comprehensive credit information on this cohort of consumers is also likely to enable firms to compete more effectively to serve these consumers.

In light of the above, our current view is that introducing a 'de minimis' reporting threshold may not be appropriate. In addition, such an approach may create consumer confusion as consumers may not see all the credit information that they would expect to see on their credit file. We also think that excluding particular types of credit agreements from a mandatory reporting requirement because they are intended for a particular purpose, for example to finance an insurance contract, is unlikely to be appropriate given the regulated nature of the underlying credit agreement.

We note that some respondents have suggested that CATO data should be included in a mandatory reporting requirement. We will explore the costs and benefits of including CATO data under the proposed mandatory requirement, although we recognise that this is a specific dataset which is not necessarily derived from credit accounts. Different considerations may therefore apply to whether it is proportionate to require this data to be shared with designated CRAs. However, we do consider that there is an opportunity to consider how CATO data could be enhanced, for example through enabling it to be reported through the common data format. We discuss these issues further in remedy 4C in Chapter 6.

We have also noted the suggestion that data relating to non-FSMA regulated agreements, such as BNPL agreements and payments towards rental agreements, should be subject to a mandatory data reporting requirement. We recognise that the BNPL market is expanding and that the reporting of data relating to BNPL agreements could help reduce instances of unaffordable BNPL 'loan stacking' while providing visibility of this type of payment arrangement to the wider retail lending market. However, these products and agreements currently do not fall within our regulatory perimeter, and as such we are unable to capture them in any requirements. We will consider how information from BNPL agreements could be included in the proposed mandatory reporting scheme in the event that BNPL is brought into our regulatory perimeter. We will also

consider how best to engage other regulators, or encourage the CRGB to do this, with a view to enhancing the comprehensiveness of data reported by non-FSMA data contributors.

We will be seeking more information about the cost implications of taking an absolute approach ahead of our consultation on draft rules. We will reflect on the feedback we have received as well as any feedback from industry engagement when finalising proposals. In particular, we will seek to understand the implications for firms who currently do not share credit information with CRAs, or only share credit information with one CRA, including possible implementation options that could minimise costs. This could include, for example, taking a sequenced approach to implementation that takes into consideration the size and nature of firms.

5.49 We also asked stakeholders:

Q19: *Do you think designated CRAs should be prevented from levying direct charges to receive data under a mandatory reporting requirement?*

5.50 Most respondents felt that designated CRAs should be prevented from levying direct charges to receive data under a mandatory reporting requirement.

5.51 Although respondents acknowledged that CRAs would incur costs, they felt that a mandatory reporting requirement would result in ongoing benefits to designated CRAs. Moreover, respondents felt that existing large CRAs would be able to absorb the additional costs arising from a mandatory reporting requirement without incurring significant operation costs. It was also suggested that levying charges may disincentivise sharing of other non-mandatory credit information.

5.52 Some respondents explained that if designated CRAs levy direct charges to receive data, the cost implications for smaller firms would be detrimental and prohibitive, and significantly impact the ability of new lenders to prosper.

5.53 A limited number of respondents were of the view that levying charges may be reasonable in some circumstances. For example, they felt that any need to remediate data inaccuracies should be chargeable to lenders.

Our response

We agree with the feedback that designated CRAs should be prevented from levying direct charges to receive data under a mandatory reporting requirement. Although there will be costs associated with the introduction of a mandatory reporting requirement and some of these costs will be incurred by the designated CRAs, the requirement would provide ongoing benefits to the business models of the designated CRAs. Therefore, we see no reason for CRAs to charge data contributors to receive information under a mandatory reporting requirement.

Regarding levying charges in respect of remediating data inaccuracies, we understand that there are existing arrangements in place for error correction and we do not think it is appropriate for us to interfere with this arrangement. This is because we think there may be circumstances in which such charging arrangements create appropriate incentives for data contributors to submit accurate data in the first place. However, the option to explore this area further remains open to us through industry engagement via the CRGB. We do not think it would be appropriate for CRAs to charge data contributors for all errors, as we are conscious that it is not always clear what the root cause of errors may be. Furthermore, where ad hoc changes are made to correct errors, we would not want to see charging mechanisms imposed which would disincentivise such errors from being resolved or corrected expeditiously.

Information to be shared

- 5.54** In MS19/1.2, we explained that FSMA-regulated firms share data with CRAs that are full information ie positive and negative credit information (positive credit information: for example, that a payment has been made; and negative credit information: for example, that a payment has been missed), or negative only (for example, when a default has occurred). Where firms have decided to share negative only information, our initial view was that it would be disproportionate to require them to share full information, and any mandatory requirement to share information should apply at the current level at which they are reporting (ie full information or negative only).
- 5.55** We asked stakeholders:
- Q20:** *Do you agree that firms should be left to decide whether to share full or negative only credit information under a mandatory reporting requirement?*
- Q21:** *To what extent do you think the FCA should prescribe the type of information to be shared with designated CRAs under a mandatory reporting requirement?*
- 5.56** Most respondents were of the view that firms should not be left to decide whether to share full or 'negative only' credit information under a mandatory reporting requirement, and that firms should be required to share full credit information. Respondents explained that only providing negative information to designated CRAs would be detrimental to consumers, result in poor consumer outcomes and financial exclusion. They explained that sharing full information would ensure consistency and prevent an incomplete picture of a consumer's credit history and indebtedness.
- 5.57** A number of respondents also explained that sharing 'negative only' information could undermine the effectiveness of credit information and may not be consistent with the expectations under the Consumer Duty. Some respondents explained further that full information reporting would ensure that consumers with thin credit files would have

a more complete one. Respondents also said that 'negative only' information sharing would reduce potential improvements in the quality of credit information held by designated CRAs. Furthermore, it was posited that this may cause consumer confusion, where consumers are not able to locate accounts on credit files due to data contributors choosing to share negative only data.

- 5.58** A small number of respondents, although supportive of full information sharing under a mandatory reporting requirement, expressed concerns that some data contributors may face cost implications. Some respondents, that said that firms should be left to decide, acknowledged that there are risks that the approach may inadvertently result in financial exclusion.
- 5.59** The majority of respondents felt that the FCA should have some involvement in prescribing the type of information that is to be shared with designated CRAs. Respondents who supported the idea of the FCA prescribing the type of information to be shared cited consistency as a reason. They felt that this would improve the accuracy of the data being reported. One respondent further added that a strict implementation timetable should also be set by the FCA. Furthermore, respondents did not appear to be concerned that a risk of constraining innovation would be present if the FCA were to prescribe the type of information to be shared.
- 5.60** Some respondents explained that the FCA should consider the diversity of products that are reflected in credit information, so that reporting credit information does not become unnecessarily complicated or subject to misinterpretation.
- 5.61** Several respondents felt that this role is better suited to the new governance arrangements with the support of the FCA. Within this group of respondents, a small number explained that the industry should have flexibility to decide what credit information is shared to best support consumers.
- 5.62** Other respondents felt that industry should be able to deal with this as long as the FCA set the baseline. They explained that agreement on the type of information to be shared will happen naturally provided the FCA played an active role in the new governance arrangements.

Our response

We agree with the rationale provided in the feedback as to why firms should be required to share full credit information under a mandatory reporting requirement, rather than being left to decide whether to share full or 'negative only' credit information. In the absence of a requirement to share full credit information, credit information will not be as comprehensive as it could be. This is likely to have an adverse impact on consumers due to firms not being able to undertake effective credit risk assessments. It may also lead to financial exclusion due to reducing the ability of consumers to demonstrate positive repayment behaviour. We therefore agree with the feedback which suggests this may undermine the overall effectiveness of credit information.

We also recognise that a requirement to share full credit information will likely most assist those with 'thin' credit files and would help reduce consumer confusion by ensuring consumers are able to see all relevant credit information when they access their credit files.

We understand that some firms that share 'negative only' information, or no information at all, may face additional costs because of having to switch to full information sharing. On the other hand, we also think there could be potential benefits of securing better outcomes for consumers from full information being shared such as helping consumers to demonstrate positive repayment behaviour more easily.

We note the broad agreement that the FCA should set out high-level expectations in respect of this as part of a mandatory reporting requirement. We understand that prescribing the type of information to be shared with designated CRAs is a complex matter. However, this area has a potential relationship with the common data format, discussed in Chapter 6. Our current view is that it may be appropriate for the FCA to prescribe, at a high-level, the format and datasets to be shared with designated CRAs. This is important for consistency as well as regulatory certainty and could evolve pending a common data format. We do not think it would be appropriate to prescribe in detail the type of information to be shared, as the approach may need to evolve over time. We may also consider a transitional approach to what is prescribed, pending the introduction of a common data format. It may also be necessary for us to set expectations around the reporting of credit information in one of the existing industry formats, while the common data format is developed, including the sharing of CATO data if necessary.

We will gather more information about the cost implications of mandating the sharing of full credit information prior to consulting on rules so that we can provide a full cost-benefit assessment when we consult on the rules.

Appropriate use cases for information shared under a mandatory reporting requirement

- 5.63** In MS19/1.2 we explained that introducing a mandatory data reporting requirement could present an opportunity to clarify appropriate use of credit information by FSMA-regulated data contributors and designated CRAs. The current framework reflects complex interactions between data protection requirements and industry data sharing arrangements.
- 5.64** The complexity of these arrangements may give rise to questions around whether it is clear to consumers what credit information may be used for and when. This complexity could also lead to different interpretations as to what is, or is not, a permissible use case.

- 5.65** Our initial view was that the use cases set out by the current framework are broadly appropriate, and that existing legislation and industry data sharing arrangements provided consumers with sufficient clarity about how their credit information might be used. However, we sought stakeholder views on whether more prescriptive requirements should be introduced in the context of a mandatory reporting framework.
- 5.66** We asked:
- Q22:** *Do you think that more prescriptive requirements should be introduced around permissible use cases for credit information shared by FSMA-regulated data contributors with designated CRAs? If so, what should these include?*
- 5.67** Some respondents stated that more prescriptive requirements should be introduced around permissible use cases. They discussed how more prescriptive requirements would be welcome as this would ensure potential harm is minimised. They also said that this would prevent the misuse of data and reduce the potential for adverse consumer outcomes.
- 5.68** Several respondents suggested that existing industry arrangements were sufficient. However, they felt that more transparency should be presented to consumers, and that industry data sharing arrangements, which set out permissible use cases, would benefit from review and further clarification. Furthermore, some of these respondents stated that mandatory reporting arrangements would not benefit from or necessitate prescriptive requirements. They also explained that the new industry arrangements would be best placed to consider this, if required, and take forward. One respondent further added that a prescriptive approach may be inflexible in some circumstances and therefore hamper innovation.
- 5.69** One respondent explained that the Consumer Duty means firms are looking for ways to better understand their consumers and that it may be helpful for the FCA to consider how credit information should be used going forward.

Our response

We have noted the views expressed in response to this question. We understand that this is a complex area with interactions between existing legislation, industry data sharing arrangements and different commercial incentives. However, we think it is important to provide appropriate certainty and transparency to consumers about what data can be used for under a mandatory data reporting requirement.

We therefore agree with the feedback that it may be necessary to set out the broad purposes for which data is being shared under mandatory reporting, so that there is clarity and a level playing field. This could help prevent misuse of data and possibly reduce potential consumer harm. However, we recognise that we would need to be balanced in our approach so that any expectations are not unduly restrictive or prevent positive innovation.

We remain of view that the industry data sharing arrangement, the PoR, is broadly appropriate. Moreover, our current view is that it would be appropriate to incorporate similar high-level objectives in our framework to those set out in the PoR. Given the complexities of how these objectives are applied to practical scenarios, we think it would be appropriate for industry to continue to set out detailed guidance on permissible use cases which could also apply to credit information shared under a mandatory reporting requirement.

There are links between this issue and remedy 4B (reviewing PoR and related issues). In Chapter 6 we explain that we will be asking the CRGB to consider ways in which the PoR could potentially be updated to reflect the emerging needs of the wider credit market, including some related issues which are relevant to permissible use cases.

Once we have engaged with industry, we will finalise our approach on this remedy. If appropriate, we may consult on rules that govern permissible use cases for credit information shared by FSMA-regulated firms. While we acknowledge that firms are looking for ways to better understand their consumers under the expectation of Consumer Duty, it is important to ensure credit information is used to bring about benefits to consumers and does not result in any unintended consequences. We will also engage with the ICO as we develop our approach.

Potential costs and benefits

- 5.70** In MS19/1.2 we recognised that firms would incur some costs where they do not currently share data across multiple CRAs, and designated CRAs may themselves incur costs due to ingesting credit information data from new data contributors. However, we suggested that where a firm already shares information with at least one designated CRA, the direct marginal cost of providing credit information to an additional one or two designated CRA would likely be negligible.
- 5.71** We noted that currently, CRAs generally accept credit information in any format. However, we recognised that other costs for data contributors may arise, for example in relation to dealing with additional data queries from CRAs or consumers. We therefore welcomed insight from stakeholders to enable us to assess the potential costs and benefits of introducing a mandatory reporting framework.
- 5.72** We also recognised that additional costs from sharing with all designated CRAs may be incurred disproportionately by smaller firms. However, we were of the view that it is important that consumer outcomes are not unduly affected by commercial decisions about who to share credit information with.

5.73 We asked stakeholders:

Q23: *Please provide evidence on the additional costs that might be incurred from mandatory data sharing, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*

- 5.74** Most respondents did not provide details of costs. The majority stated that they either required additional information or provided a summary of items that are likely to attract additional costs.
- 5.75** Several respondents explained that costs would be minimal where a data contributor already shares credit information with a designated CRA. Some were also of the view that most operational and technical processes were already in place to share with one CRA, therefore minimal technical development would be required to share with more than one CRA.
- 5.76** Some respondents explained that costs and impacts are likely to vary depending on the size of firm and were of the view that smaller firms are likely to incur disproportionately higher costs.
- 5.77** A limited number of respondents provided high level information on costs and these estimates were varied.
- 5.78** Other respondents explained that they would incur significant initial and ongoing operational costs but did not provide details or evidence of these.
- 5.79** Some respondents said they could not say with certainty what the costs would be but accepted that a mandatory reporting requirement would benefit consumers and increase competition between CRAs. They also said that lenders would likely see benefits in the longer term.
- 5.80** Some respondents explained that requiring submission of credit information to one single portal would be more cost effective instead of a requirement to share data with multiple designated CRAs.

Our response

We have noted the range of views and the limited information provided in respect of costs. We recognise that the cost estimates provided are provisional and would be dependent on the relative size of the firm.

We understand that a mandatory reporting requirement is likely to present some additional costs to firms. We understand that there may be distributive differences, for example, between smaller and larger firms, and there are likely to be both one-off and ongoing costs. We also note that respondents have acknowledged that a mandatory reporting requirement could bring about benefits such as improved quality of credit information. Hence, we will provide more details of the proposed scheme

and gather more information to inform our view of how the benefits will weigh up against the costs before publishing a consultation.

We understand that a mandatory requirement to report to designated CRAs would need to be introduced in a proportionate manner.

Therefore, we will also give thought to how costs can be minimised through different implementation options, for example, through a phased approach to implementation.

Remedy 2C – Designated CRA regulatory reporting to FCA

- 5.81** In the MS19/1.2 we stated that the current regulatory reporting arrangements may not provide us with early insight into emerging issues that could contribute to consumer harm. We discussed that this was due to the lack of bespoke requirements for CRAs to report sector-specific information to the FCA which could aid supervisory oversight of the credit reporting framework. We therefore thought that it was appropriate to consider how a proportionate regulatory reporting framework for designated CRAs could be put in place. This would support some of the other proposed remedies such as a common data format and data contributor requirements on error correction and reporting satisfied CCJs. It would also help ensure that the FCA can monitor the effectiveness of certain designated CRA and lender processes through the provision of key information to the FCA about the quality of credit information.
- 5.82** We discussed that the proposed reporting framework would provide key information on three identified areas:
- **Information on data contributors.** Subject to a mandatory reporting requirement would help to monitor the operation of such a framework. For example, information about the nature and number of data contributors along with any other information relevant to the operation of a mandatory reporting framework.
 - **Information on complaints and data disputes.** To ensure that the FCA has a holistic view of the extent and nature of complaints and data disputes being raised, we proposed that designated CRAs should be required to provide regular information to the FCA on issues such as the total number of data disputes received each month, the number of those data disputes where data is either corrected, removed, or left unchanged, among others.
 - **Information on CRA matching.** We were keen to explore with industry what more could be done to enhance the effectiveness of CRA 'matching' process, particularly in relation to public data, and what reporting metrics or other changes might be put in place to facilitate improvements in this complex area.
- 5.83** Metrics on the identified areas described above will help evaluate the impact of the new reporting requirements described in remedy 2A and provide ongoing insights into the quality of credit information overall in the wider credit market.

5.84 In MS19/1.2 we asked:

Q24: *Do you agree with the proposal to establish a new regulatory reporting framework for designated CRAs?*

Q25: *Do you have views on the potential areas identified above for a designated CRA regulatory reporting regime?*

- 5.85** Most respondents agreed with our proposal to establish a new regulatory reporting framework for designated CRAs. Many respondents recognised the need for the FCA to collect relevant data from CRAs to aid in its oversight of the credit reporting framework as a key factor. In addition, respondents welcomed the opportunity to work with the FCA on a further consultation to develop appropriate metrics that are capable of being reported and enable the oversight of designated CRAs.
- 5.86** Some respondents mentioned that the proposal should be balanced to ensure that the new framework does not duplicate metrics already reported by CRAs in compliance with existing regulatory obligations.
- 5.87** Most respondents agreed that the areas identified by the FCA should be included in the regulatory reporting framework. Overall, respondents believed that these topics are appropriate to monitor the effectiveness of the mandatory reporting framework and overall quality of credit information held by CRAs.
- 5.88** Some respondents supported the proposal of reporting data disputes alongside dispute resolution (DISP) complaints. They suggested including in the regulatory reporting framework the number of DISP complaints that originated as data disputes, as well as the number of complaints related to unsatisfactory dispute resolution for consumers. A couple of respondents noted that data contributors currently do not report the details of typical correction reasons (eg due to CRA matching process, errors made by data contributors). Consequently, its inclusion would necessitate development work to facilitate the reporting process. Similarly, another respondent emphasised the need to confirm the expected categories of information to appropriately develop the work required for reporting such data. Some respondents recommended that the reporting of data disputes should be standardised by the CRGB, who should set the standards and have visibility and oversight of data quality.
- 5.89** In relation to developing metrics on matching individuals to data, a number of respondents agreed that the main concern around matching data, particularly on public information, arises from the absence of key personal identifier information such as name, address, and date of birth. Some noted that they had engaged with relevant government departments to raise the necessity for more consistent personal identifiers. They acknowledged that the improvement of these identifiers falls outside the remit of the FCA. A couple of respondents suggested that since the matching process comprises the intellectual property of each CRA, it should remain as such to encourage investment to further improve outcomes. They suggested that this will in turn create a competitive pressure on all designated CRAs to match as accurately as possible. They expressed scepticism about the feasibility of conducting a meaningful matching comparison between CRAs and emphasised that the FCA's oversight should

involve qualitative assessments with each CRA, rather than introducing metrics for direct comparison. Additionally, due to the diverse sources of information (ie public data sources, FSMA-regulated sources, etc), any potential metric should also be categorised by data contributors to identify those not adhering to the mandatory reporting requirement. For instance, it would identify entities that do not report to all designated CRAs or do not provide sufficiently high-quality personal identifier information.

Our response

We welcome and agree with the positive feedback received on our proposal to establish a new regulatory reporting framework for designated CRAs. We also acknowledge the issues and concerns raised by respondents. We envisage a proportionate regulatory reporting framework for designated CRAs as a complement to the current reporting requirements. We are mindful of the need not to place any undue burden on designated CRAs, and we will consult closely with the industry to develop suitable metrics. These metrics should be capable of providing effective oversight of designated CRAs and the mandatory reporting framework.

We welcome the feedback received which supports our proposal for designated CRAs to report data disputes in addition to DISP complaints. While we acknowledge the challenges raised by certain respondents around the complexities of reporting detailed correction reasons, we think that there is an opportunity to develop standardised categories to help ensure a full picture of the nature and extent of all types of data disputes is provided.

In MS19/1.2 we mentioned that we have heard from both industry and consumer groups that matching errors are more likely to occur in relation to 'public data', eg CCJs and insolvencies, primarily due to variances in the quality of these types of data, eg names and dates of birth. Respondents agreed with our findings, and some have engaged with other authorities with a view to improving data quality. They also acknowledged that this type of data falls outside the remit of the FCA.

However, given the importance of this data to consumer outcomes we believe that certain metrics around the matching of data, particularly where it emanates from public data sources, could help provide useful insight into market-wide issues. Our intention would be to gather insight into systemic market-wide issues rather than to compare the effectiveness of individual CRA matching processes. We propose to work with industry to consider what metrics might provide this insight, utilising any existing CRA internal indicators wherever possible to ensure any requirements in this area are proportionate.

We propose implementing this remedy by introducing new rules in the FCA Handbook, which would equip the FCA with the appropriate data to oversee the mandatory reporting framework and provide insight into potential market-wide issues. This is aligned with the positive feedback

received on our proposals and will encompass the three identified areas described previously. We will also engage with industry to better define the proposed reporting metrics to ensure our approach is proportionate.

Potential costs and benefits

- 5.90** We explained that the proposals above would involve costs for designated CRAs in relation to the collection and provision of information to the FCA. While these costs may not be negligible, we stated that this information may already be known to CRAs or could be derived through relatively minor changes to existing processes. We further considered that a designated CRA regulatory reporting framework could deliver significant benefits in terms of the effectiveness of supervisory oversight – both of designated CRAs and FSMA-regulated data contributors.
- 5.91** We asked:
- Q26:** *Please provide evidence on the additional costs that might be incurred from the potential new regulatory reporting framework for designated CRAs, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*
- 5.92** We received a small number of responses to this question and most of the respondents did not provide specific evidence or quantification of costs. However, a group of respondents provided insights on potential additional costs.
- 5.93** In terms of the costs, a respondent provided an estimation of the initial implementation and annual operational costs they would incur to comply with a CRA regulatory reporting framework. This was based mainly on new personnel to build the reporting system. However, they claimed that this would be outweighed by benefits of potentially becoming a designated CRA.
- 5.94** Respondents expressed concerns about the potential costs associated with a new regulatory reporting framework, including one-off and ongoing expenses for resource and technical setup. The extent of these costs varied based on information granularity and reporting frequency. However, they recognised the benefits of such reporting for designated CRAs. They also welcomed further consultation to ensure that the benefits outweigh the costs.
- 5.95** On the benefits side, a couple of respondents said the new framework could create a minimum standard of regulatory reporting for the designated CRAs and equip the FCA with the information it needs to act against data contributors who fail to comply with mandatory reporting requirements. This will help achieve compliance with mandatory data reporting, which they said would help to produce better outcomes for consumers.

Our response

Although a limited number of respondents provided some information about costs, we acknowledge that it is challenging to provide a meaningful estimate until the specific details of the CRA regulatory reporting framework are known. However, we recognise that designated CRAs will incur some costs in the collation and reporting of information.

Our objective is to develop an informative and proportionate suite of metrics which could help to monitor compliance with any new mandatory reporting requirement and provide insight into related issues. Our initial view is that the long-term benefits of the proposal are likely to justify the initial implementation costs for CRAs seeking designation due to the nature of their business models. But, we will seek to verify this through more targeted engagement with industry to assess the potential costs and benefits in advance of consultation.

Remedy 2D – data contributor requirements (error correction and reporting satisfied CCJs)

- 5.96** In MS19/1.2 we found that consumers sometimes find it challenging to dispute errors in their credit files across CRAs. Also, we found that consumers are often unaware of the need to ensure that where a CCJ is satisfied to provide proof of this to the relevant Court. These issues can affect the accuracy of credit information held by CRAs as they obtain Court information through Registry Trust Ltd.
- 5.97** We recognised that data contributors and CRAs have sophisticated processes in place to identify errors. We also acknowledge that the elimination of all errors is unrealistic given the complexity of credit reporting processes which involve many different parties. However, alongside any mandatory reporting requirement introduced under remedy 2A, we stated that it would be appropriate to set clear expectations for FSMA-regulated data contributors in relation to data diligence standards.
- 5.98** We identified three areas where we considered the need for specific FCA Rules:
- **Lender data provision to designated CRAs:** Whilst we recognised that most of the credit information provided by data contributors were likely to be accurate, some errors are identified by the CRAs at the point of ingestion and subsequently by consumers. There are existing Handbook provisions in SYSC and CONC which are relevant to the systems and controls that firms put in place. In addition, under the Consumer Duty, firms are expected to act to deliver good outcomes for customers. However, to set clear expectations and aid supervisory oversight, we believed that it might be helpful to introduce a specific requirement on the data contributors relevant to the provision of credit information to designated CRAs. This could include, for example, guidance or expectations around checks to be undertaken prior to data submission and on regularly reviewing the efficacy of

reporting processes in the light of root cause analysis where errors are identified by CRAs or consumers.

- **Error investigation and correction:** Consumers can invoke the statutory process under section 159 of the CCA to dispute credit information through the 'data dispute' process. Under this process, CRAs have 28 days to inform a consumer whether data has been corrected, removed, or left unchanged. Lenders are not explicitly mandated to this timeframe and in some cases the data dispute process may take more time. This may harm consumers if their credit information does not accurately reflect their financial situation due to it being suppressed or otherwise incorrect. To address this, we recommended setting specific timeframes for data contributors to respond to disputes and resolve them promptly across CRAs. This would be balanced with expectations already placed on firms under the Consumer Duty particularly in relation to the consumer support outcome.
- **Reporting satisfied CCJs to the Courts:** CCJs provide crucial public data for CRAs and heavily influence lenders' decision-making processes. CRAs obtain CCJ information from Registry Trust Ltd, a not-for-profit organisation that maintains the register of Judgments, Orders and Fines. Unresolved CCJs can significantly hinder credit access. However, a CCJ that has been fully paid will only be marked as 'satisfied' on the public register and credit files if proof of payment is provided to the courts. Many consumers are unaware of this requirement. This results in a lack of data that confirms CCJ satisfaction which potentially impacts credit information accuracy. Given the ability of this to affect consumer outcomes, we considered it appropriate that data contributors taking out the CCJ bear responsibility for ensuring that records are updated with the Courts in a timely manner. This requirement would only apply to FSMA-regulated firms who obtain CCJs.

5.99 We thought that it would be helpful for stakeholders to consider how those potential measures might interact with firms' obligations under the Consumer Duty. However, we also wanted to explore whether it would be helpful to consider specific FCA rules to address the points described above, or whether the application of the Consumer Duty is now sufficient to deliver improved consumer outcomes across those areas.

5.100 In MS19/1.2 we asked:

Q27: *Do you have views on the potential requirements for FSMA-regulated data contributors, including whether they are necessary in the light of firms' obligations under the Consumer Duty?*

5.101 Most of the respondents welcomed the potential requirements on FSMA-regulated data contributors. Furthermore, respondents asserted that the Consumer Duty strongly emphasises how firms must prioritise meeting the needs of retail customers and seek to put their needs at the heart of the products and services they provide. This includes aspects such as pricing, target market definition and the ways in which they engage, support, and service customers throughout their consumer journey. However, respondents also noted that the Consumer Duty does not provide specific guidelines regarding data collection and accuracy by firms for purposes beyond their own use, such as for internal management information and reporting, identification of vulnerable customer groups and outcomes testing analysis. Collectively, respondents'

perspectives highlight the pivotal role of accurate consumer credit information within the industry. Consequently, they suggested that potential requirements for FSMA-regulated data contributors complement the requirements of the Consumer Duty.

- 5.102** Some respondents pointed to a lack of clarity about the benefits of introducing requirements for data contributors due to a potential overlap with existing regulations, including the Consumer Duty, FCA Handbook rules, the UK GDPR and 2018 Data Protection Act (DPA). Similarly, some respondents stated that the existing Handbook requirements in CONC and DISP sufficiently cover the obligations for firms to have appropriate systems and controls in place in respect of their regulated activities, including where data is provided by lenders to CRAs. In order to avoid any overlap with current requirements, a respondent proposed that the FCA and the new industry governance arrangements should work together to uphold standards.
- 5.103** There was broad agreement with our proposal on error investigation and correction. A common theme among respondents was the need to set clear expectations on lenders around disputes resolutions to improve consumer outcomes. However, some respondents suggested adding some caveats to the proposed 14-day requirement to respond to disputes. They highlighted that in some cases CRAs do not raise disputes with lenders in a timely manner. Moreover, some respondents also noted that errors were not always caused by lenders but in some cases by CRA processes. It was also suggested that any requirements should take account of the fact that complex cases may take more time to solve. Relatedly, a respondent raised some concerns regarding the feasibility for debt purchasers to respond to CRAs within 14 days. They explained that if a dispute is raised with a debt purchaser, it may be necessary to obtain information from the original creditor, and therefore obtaining a response within the suggested 14-day deadline may not be feasible.
- 5.104** In terms of reporting satisfied CCJs to the Courts, respondents generally agreed with this proposal as they stated that it would lead to better outcomes for consumers. A respondent proposed mandating the use of personal identifiers such as date of birth or address by FSMA-regulated firms who engage with the courts in relation to CCJs. Additionally, they suggested including CCJ information within the new common data reporting format to improve the likelihood of accurate matching. Lastly, a respondent commented that some data contributors already reported satisfied CCJs to the Courts while others do not, meaning that some firms might incur implementation costs if this proposal is introduced while others may not.

Our response

We recognise that stakeholders generally agree that the Consumer Duty, on its own, may not achieve the desired outcomes for this remedy. The Consumer Duty's focus is on the standards of care that firms should provide to customers in retail financial markets, not on the specific details of data contributor requirements.

We note that stakeholders broadly aligned with our view on the desirability of introducing proportionate requirements for FSMA-regulated data contributors. Such an approach would help provide regulatory certainty,

aid supervision, and enhance transparency for consumers. Our stance emphasises the importance of data contributors exercising a suitable standard of care and diligence when supplying data to designated CRAs. To maintain these standards and prevent potential overlaps with existing regulations, we will work closely with industry and other key stakeholders to develop a proportionate set of requirements.

We welcome the suggestions from respondents on error investigation and correction. We understand that there is a need to consider that complex cases may take a longer period to investigate than the 28 days envisaged by the CCA, (for example because there is more than one party involved). In such cases, we would envisage that data contributors provide an initial holding response to CRAs and work to resolve the matter without undue delay. Additionally, we recognise the feedback provided in remedy 3C (streamlined dispute resolution process) related to suggestions that data contributors should correct information on a real-time basis, wherever possible, to help resolve disputes that have the potential to cause consumer detriment. We will consider how these requirements should accommodate different scenarios as part of the consultation process.

We also note there was a general consensus that those parties taking out a CCJ bear responsibility for ensuring that records are updated with the Courts in a timely manner. While this supports our view that FSMA-regulated firms should take responsibility for ensuring credit information which emanates from their processes is as accurate as possible, such a requirement would not override existing processes that enable either respondent or claimant to contact the relevant court with proof of payment. We also note the suggestion that lenders should include all relevant personal identifier information when obtaining a CCJ to help enhance the effectiveness of matching processes. We will consider the feasibility of such a requirement as we develop our approach.

Overall, while we consider that the Consumer Duty might go some way in achieving the outcomes we seek, on balance, our view remains that it would be appropriate to put in place some specific requirements in these areas to provide regulatory certainty and transparency to consumers. We therefore propose to consult on specific requirements around lender data provision to designated CRAs, lender error investigation and correction, and reporting satisfied CCJs to the Courts where these are obtained by FSMA-regulated firms. We will engage with relevant industry stakeholders before consulting to assess the costs and benefits of this proposal.

Potential costs and benefits

- 5.105** In MS19/1.2 our initial view was that any additional costs resulting from these measures are expected to be minimal.

5.106 We stated that these measures are likely to benefit consumers through enhanced firm conduct, more accurate credit information and reducing the need for consumers to navigate complex administrative processes with different parties.

5.107 We asked stakeholders:

Q28: *Please provide evidence on the additional costs that might be incurred from the potential requirements for FSMA-regulated data contributors, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*

5.108 Only a small number of respondents made comments regarding potential costs and benefits. However, most of those did not express strong views as they required further details to provide a more comprehensive statement on costs.

5.109 A respondent commented that most of the processes are already in place that would enable the additional data sharing with Registry Trust Ltd. They indicated that secure data transfers take place every day from firms to the courts service when taking out a CCJ; from courts to Registry Trust, and from Registry Trust to the CRAs. Also, including data on dates of birth can all be included in that same data feed, meaning minimal data entry, with no incremental set-up costs.

5.110 Some respondents raised concerns about the potential costs arising from the potential requirements for FSMA-regulated data contributors. They claimed that costs will vary across firms but could be more of a concern for smaller firms due to development costs and their reliance on legacy IT platforms. They also flagged implementation could take up to 24 months.

5.111 On possible benefits, a respondent stated that the provision of accurate, consistent and comprehensive data to CRAs by data contributors plays an intrinsic role in the responsible provision of credit to consumers and positive consumer outcomes. Hence they stated that there are significant benefits in facilitating the investigation and resolution of data disputes in a timely manner and ensuring satisfied CCJs are reported to the courts.

Our response

Although a small group of respondents provided us with some information regarding costs, we have not received persuasive arguments or information that counter our view that costs arising from these proposals are likely to be negligible.

We recognise that most firms already have reporting systems in place, and they will not typically need to create new processes to comply with our proposed requirements. On balance, we still think benefits are likely to significantly outweigh costs in this area and that setting some baseline expectations around data diligence standards will help to reduce costs for firms and consumers over the longer term. We acknowledge

that some concerns have been raised around costs which we note and will take account of when developing our approach to ensure that any requirements in this area are proportionate. We will also take account of these issues when developing a cost benefit analysis as part of the consultation process.

Next steps on remedies 2A, 2C and 2D

- 5.112** We intend to consult on draft rules in respect of the remedies we have proposed on a mandatory requirement for all FSMA data contributors to report credit information to designated CRAs, designated CRAs reporting to the FCA and data contributor requirements on reporting error correction and satisfied CCJs. As we develop our approach we will also coordinate with other relevant FCA initiatives, including the proposals set out in the consultation paper on Consumer Credit – Product Sales Data Reporting (CP23/21). We will engage with industry and other relevant stakeholders before finalising our proposals and will also weigh up the costs and benefits (including understanding the competition impacts) prior to our consultation.

Remedy 3A – CRA/CISP signposting to statutory credit file information

- 5.113** In MS 19/1 we highlighted the complexity of the credit information landscape and the lack of clarity around the availability of consumers' credit information via the statutory route. We posited that this may be inhibiting consumers from taking action to check the accuracy of the underlying data on their credit file, as individuals may not be aware that they have a right to access their credit files from CRAs. This is despite consumers being able to do so due to provisions in the General Data Protection Regulation (GDPR) and the DPA.
- 5.114** We were also concerned that some consumers may be inadvertently signing up to related subscription services that are focused on the provision of credit scores or credit broking services, whilst seeking to obtain their credit information. Our consumer survey found that almost half the consumers in our sample were unaware that their credit information was available for free through a statutory process. CRAs in the UK commonly refer to this credit information as SCRs, reflecting processes that were originally set out in the CCA.
- 5.115** In MS19/1.2 we proposed that CRAs prominently signpost to the availability of credit information for free through the statutory process. In addition, we proposed that CISPs prominently signpost to the availability of credit information for free through the statutory process. For the purposes of this report, we deem CISPs to include those CRAs who provide credit information to consumers through CIS-type services where that information has been collected pursuant to their CRA permission. We suggested that such signposting would help to ensure that consumers do not inadvertently sign up to subscription services that may not necessarily be appropriate for their circumstances.

5.116 In MS19/1.2 we asked:

- Q29:** *Do you agree that CRAs and firms providing credit information services (CISPs) should be required to prominently signpost to the availability of credit information through the statutory process?*
- Q30:** *To what extent do you think that specific new requirements in this area are necessary in the light of firms' obligations under the Consumer Duty?*
- Q31:** *Do you have views on whether such a requirement should be at a high-level or whether information to be provided to consumers should be prescribed?*
- Q32:** *Please provide evidence on the additional costs that might be incurred from the potential requirements for CRAs and CISPs to prominently signpost to the availability of credit information through the statutory process, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*

5.117 Most respondents agreed that CRAs and CISPs should be required to prominently signpost that credit information is available through the statutory process. Moreover, the majority of respondents agreed that such signposting can help ensure that consumers are provided with more consistent messaging about the availability of this information.

5.118 A handful of respondents disagreed with the proposal. They argued that if CISPs were required to signpost to SCRs currently available only through CRAs then there could be a negative impact on CISPs' business models. They noted that CISPs would effectively be diverting their customers to CRAs, whom they view as their direct competitors in the CIS market. They highlighted that this could potentially discourage new entrants and dampen competition in the CIS market. Further to this, they argued that redirecting customers to CRAs that provide SCRs may also incentivise those CRAs to divert customers from the free SCRs to related subscription services, which are focused on the provision of credit scores or credit broking services.

5.119 A few respondents highlighted that the products and services offered by CISPs are more accessible in terms of layout and terminology than SCRs. They said that this made them more effective at furthering consumer understanding and engagement than SCRs, as CISPs frequently provide additional services to the information a consumer finds in their SCR. This is often in the form of general information that contextualises the consumer's credit history as well as the way the consumer's credit information may be interpreted by a lender. Furthermore, some respondents argued that SCRs provide consumers a static snapshot of their credit information, whereas the services provided by CISPs offer consumers ongoing access to their credit information. A couple of

respondents also stated that the SCRs do not contain credit scores which can be a key piece of information for consumers. They suggested that consumers may prefer credit reports containing credit scores because whilst credit scores in themselves are of little to no use to consumers, they serve as a summary of an often long and complex set of information. Furthermore, one respondent argued that a consumer accessing their credit information through a CISP is accessing the same information that is present on their SCR. They stated that due to this there should not be a requirement for CISPs to signpost to the availability of SCRs.

- 5.120** Some respondents argued that CISPs that provide consumers with their credit information for free should not be required to signpost to the availability of SCRs. They questioned whether an expectation for CISPs (that provide credit information for free) to signpost to the availability of SCRs could be inferred under the Consumer Duty. Contrary to this, another respondent stated that if there was a requirement for CISPs to signpost to the availability of SCRs, it should be applicable to all CISPs, including CISPs that provide credit information for free. They highlighted that a universal requirement would ensure a level playing field in the CIS market.
- 5.121** One respondent argued that consumers are offered a choice in terms of how they wish to receive their credit information ie free of cost, through the payment of a fee or through the receipt of commission generating marketing offers. This respondent believed that consumer choice has been well established in the CIS market.
- 5.122** Some of the respondents considered the Consumer Duty, particularly the Duty's consumer understanding outcome, to be sufficient in urging firms to reconsider how information is currently being provided to consumers about the availability of SCRs, and deliver good outcomes for consumers in this area. Some respondents focussed on the positives of allowing firms to implement signposting in a more flexible manner, highlighting that this can be particularly attractive where firms are better placed to identify the best approach to achieve desired outcomes. They also argued that prescriptive rules around signposting could disrupt the competitive design of the products and services offered by CRAs and CISPs. However, it was also posited that should the Consumer Duty be considered insufficient in achieving outcomes with respect to signposting, the FCA should consider prescribing specific wording that should be prominently displayed to consumers on CRAs' and CISPs' websites.
- 5.123** One respondent argued that the price and value outcome of the Consumer Duty, which focuses on ensuring consumers receive fair value, is also relevant in determining whether CRAs and CISPs are required signpost to the availability of SCRs. They explained that if consumers derive the same value from free SCRs compared to subscription-based services, the consumer should be signposted to the availability of SCRs. As such, they interpreted the Consumer Duty to also require signposting by firms.
- 5.124** Some respondents highlighted that prescriptive rules in this area would provide clarity for firms on what they are required to do. Furthermore, they highlighted that rules can also facilitate enforcement, by focusing efforts on establishing whether firms' actions have infringed a set of prescriptive obligations.
- 5.125** On additional costs, respondents stated that the direct costs incurred from any requirement to signpost to the availability of credit information through the statutory

process were likely to be minimal. However, they suggested that the indirect costs of signposting could be notable for both CRAs and CISPs. They highlighted that this measure could impact revenues generated from related subscription-based services and/or credit broking services thereby leading to unintended consequences for competition and innovation in the CIS market.

Our response

We welcome the feedback that agreed with the proposal that CRAs and CISPs should prominently signpost to the availability of credit information through the statutory process. We see the importance of consumers engaging with their SCRs for various reasons. SCRs are only available from CRAs and credit information currently held by the 3 large CRAs may be different. Consumers may mistakenly assume the credit information provided by a CISP to be all-encompassing. It is possible that if consumers were viewing their credit information through a CISP that obtained its data from only one CRA, they may be unaware of any potential errors that may be on their credit file at another CRA. This may mean that consumers are unable to identify and dispute mistakes in their credit information, potentially adversely impacting their future eligibility for credit. Further, we think that consumers should be able to make informed choices in terms of how they wish to receive their credit information ie either through the statutory process, through the payment of a fee or through the receipt of commission generating offers.

We note that respondents who disagreed highlighted that CRAs and CISPs signposting to SCRs could potentially have a negative impact on the revenues CRAs and CISPs derive from subscription-based services and/or credit broking services. We recognise that CRAs and CISPs can be commercially incentivised to encourage consumers to sign-up to related subscription-based services, and that the potential measures with regards to signposting could have an impact on revenues derived from these services.

We recognise that credit information services typically provide free or paid-for additional features which may be useful to consumers and may enhance consumer engagement, such as scores, personalised tips unique to an individual on improving their credit score, report alerts and fraud support.

However, we do not want consumers inadvertently signing up to subscription services when seeking to obtain their credit information. Evidence from our consumer survey showed that respondents cited 'the same available free of charge' as one of the top three reasons to cancel their subscriptions. We believe prominent signposting to the availability of credit information for free through the statutory process will help ensure that consumers do not inadvertently sign-up to services that may not be suitable for their needs.

We have also seen the option to apply for the SCR only displayed hidden on menus or further down the CRAs' home page, being ranked/listed below a paid-for product, and comparison tables which contrast the SCR to other paid-for products not always being clear about the terms of each offering. We believe that firms should support their customers by enhancing the clarity of communications to them about products and services.

We think that signposting to the availability of SCRs will help consumers access relevant information about their credit position, enable them to compare the free offering against other paid for subscription-based services and make well-informed decisions as to what product they wish to opt for. Further to this, we think that measures to improve consumer awareness of SCRs could strengthen incentives for CRAs/CISPs to innovate and focus on how the added value of their subscription-based services can deliver benefits for consumers.

In the feedback we heard that consumers often place an undue amount of significance on their credit scores rather than the information that underlies it. Whilst scores may be regarded as a proxy for what is on a credit file, we believe that it is important that consumers focus their attention on the detailed information on their credit files and are able to easily identify and rectify any errors on their file. Therefore, we think the absence of a credit score on an SCR does not negate the potential benefits of signposting to SCRs, and indeed may mean consumers are more likely to engage with the underlying credit information rather than focusing unduly on a credit score.

We agree with the feedback from respondents that prominent signposting to the availability of SCRs should be applicable to all CISPs, including CISPs that provide credit information for free to ensure a level playing field in the market. Further, we agree with respondents that consumers may be unaware of the hidden cost of receiving commission generating marketing offers via these free offerings. We are also concerned that including marketing links to related credit products when presenting credit information could lead to consumers signing up to additional services or taking on credit, when it may not be in their best interest to do.

We concur with the feedback that the Consumer Duty has a role to play in this remedy, and that the consumer understanding outcome of the Duty is particularly relevant.

Next steps on remedy 3A

- 5.126** We want consumers to be aware of and able to easily access their SCRs so that they make an informed choice of how they access their credit information and easily identify errors in their credit information. Given the relevance of the Consumer Duty to these outcomes, particularly the consumer understanding principle and cross-cutting rules,

we expect to see improvements in signposting and will continue to monitor how firms advance this. If we do not see the outcomes we seek, we will decide what specific FCA rules may be necessary to require CRAs and CISPs to signpost to SCRs. As per other FCA-led remedies, we would assess the costs and benefits as well as competition implications of introducing any requirements in this area and consult accordingly.

Chapter 6

Industry-led remedies

- 6.1** This Chapter sets out the feedback received from stakeholders in response to the proposed industry-led remedies set out in MS19/1.2. It outlines our response to the questions and issues raised by stakeholders, our final proposal on each of the remedies, and our recommendations for how they should be taken forward.
- 6.2** We consider that industry-led change is appropriate for a significant number of the proposed remedies. Furthermore, we believe that the new industry governance arrangements, the CRGB, will be best placed to take most of these proposed remedies forward. The CRGB will be designed to ensure agility and diversity, to create the right environment for collaboration and change. Further, we recognise that extensive industry expertise is needed to develop and implement several of our proposed remedies due to the complexities of the credit information sector and the pace of evolution in wider credit markets.
- 6.3** We believe that change is needed across the entire credit information market and accordingly non-FSMA regulated participants are likely to be impacted. We want non-FSMA regulated participants views to be represented in the way that certain remedies are developed through the CRGB so that they are adopted by non-FSMA regulated market participants. An FCA rules-based approach to certain remedies may create difficulties in involving non-FSMA regulated firms in the required industry change. We will work with, and encourage relevant industry stakeholders to work with, other regulatory bodies as appropriate. We see the reform of industry governance arrangements as the key priority and precursor to facilitating wider industry engagement and adoption of the proposed remedies.
- 6.4** We consider that the current regulatory context, including the Future Regulatory Framework (FRF), also supports an industry-led approach to certain remedies. The FRF encourages the FCA to be flexible in our approach to remedies in order to facilitate the growth and competitiveness of the UK financial markets when advancing our primary objectives. Furthermore, the outcomes-focussed approach of the Consumer Duty gives firms flexibility to adapt and innovate.
- 6.5** Whilst we have recommended that a number of remedies will be led by industry with some input from the FCA in development, if necessary, we will consider the need for any further regulatory involvement on those remedies to ensure they deliver the changes, and subsequent outcomes, we would like to see in the market.
- 6.6** We see the following remedies, as described in Table 1, as best led by industry:
- 2B: common data format
 - 3B: access to statutory credit report
 - 3C: streamlined dispute process
 - 3D: streamlined NoC process, vulnerability markers and credit freezes
 - 4A: more timely reporting of key data to designated CRAs
 - 4B: reviewing the PoR and related issues
 - 4C: improved CATO data with updated access arrangements

- 6.7** Overall, these proposed remedies combined with the interrelated proposed FCA-led remedies support all three of our statutory objectives. The suite of remedies will also enhance the integrity of the UK financial services system by (i) improving the information flow within the credit information market – this aids firms in their risk assessments when making lending and other risk-based decisions, (ii) improving competition in the credit information market by aiding comparability and making switching between CRAs easier and (iii) allowing smaller creditors to compete more effectively through increased quality of credit information. Moreover, better quality, more timely data will enhance the wider credit market’s ability to deal with instances of fraud and reduce overall financial risk.

Remedy 2B – Common data format

- 6.8** In MS19/1.2 we explained that credit information is currently shared with CRAs in different data formats. We indicated that this could make switching between CRAs more difficult and give rise to inconsistencies between CRAs which may unduly impact consumer outcomes. Different data formats may also hinder the effective evolution of the reporting framework.
- 6.9** We explained that there are two main formats in which credit information is reported to CRAs: INSIGHT (owned by Equifax) and CAIS (owned by Experian). CATO data is also shared in different formats reflecting the individual contractual relationship between Personal Current Account (PCA) providers and CRAs.
- 6.10** We said that there is now an opportunity to consider how a new common data format could be introduced alongside the reformed industry governance arrangements and mandatory reporting requirements. We recognised that such a change raises complex issues and would require specialist industry expertise to consider technical implementation issues and any new reporting parameters.
- 6.11** We asked:

Q33: *Do you agree with the proposal to establish a common data reporting format?*

- 6.12** Most respondents were supportive of establishing a common data reporting format. Respondents believed that this would be a positive step for both industry and consumers. Respondents said they could see the benefits of having a common data reporting format, such as the improved consistency and granularity of information across CRAs. They stated that they thought that this would improve consumer outcomes. Some respondents further stated that a common data format would make it easier for CRAs to process data and that it could support automation of these processes, making them more efficient.
- 6.13** There was broad agreement that having a common data format would make switching between CRAs easier. Although a limited number of respondents did not think different formats hindered switching between CRAs, they did agree that different formats gave rise to certain data inconsistencies in certain aspects of data, and therefore supported the introduction of a common data format.

- 6.14** Some respondents, although supportive, were of the view that this is a complex issue and should be left to the reformed industry governance arrangements to implement. One respondent added further that there are many implications that need to be considered, such as costs, format, timescale of adoption and cadence of reporting. Moreover, it was flagged that developing a common data format would be complex, as adoption may involve making changes to critical systems. It was also suggested that a common data format could potentially limit innovation due to reducing CRAs ability to differentiate and compete. They said that this may lead to a stagnant market.
- 6.15** Several respondents explained that the FCA need to consider a number of issues, such as allowing time for firms to update their risk models. They also asked the FCA to consider the extent to which the identified outcomes, in the interim report, are due to different CRA data matching algorithms rather than differences with formats.

Our response

We agree with feedback that a common data format would increase the consistency of credit information across CRAs that use it. Given the importance of credit information to lending decisions, we think it is vital that the credit reporting infrastructure records consumer circumstances consistently and appropriately. Improving the consistency and granularity of credit information held by designated CRAs will likely help firms assess risk more effectively and consequently secure better consumer outcomes. We think more consistent and granular credit information would also improve competition in the retail lending market, as lenders may be able to offer more lending products to different cohorts of consumers.

We agree with respondents that a common data format is likely to make switching between CRAs easier. As all designated CRAs would ingest information in the same format, it would reduce barriers to switching between designated CRAs by CIUs. We believe that a common data format would encourage CRAs to focus on adding value from related products and analytics. We think it will also make it easier for CIUs to compare and evaluate different CRA offerings because users have more certainty that the credit information held by the CRAs is sufficiently comprehensive and make informed decisions about switching.

We would not want the common data format to curtail or limit innovation so would encourage the industry to consider how the common data format could be made future-proof and help facilitate innovation.

We acknowledge that implementing a common data format will be complex, and that it will present implementation challenges and costs to firms. However, we believe that there are also benefits brought about by having a common data format, as described above.

We believe that the industry is well placed to develop the common data format in such a way to make it future proof. Furthermore, we think that the industry is well equipped to create improvements in comparison to existing standard industry formats.

Borrowers in financial difficulty

- 6.16** In MS19/1.2 we said that how borrowers in financial difficulty are reflected in credit information materially affects how they are viewed from a risk perspective. We explained that these borrowers may often also present characteristics of vulnerability, and how they are viewed is central to ensuring they receive an appropriate degree of protection.
- 6.17** We were concerned that the current reporting framework may not always deliver consistent or appropriate outcomes for borrowers who engage with lenders and agree bilateral or collective payment arrangements. Therefore, in developing a common data format, we suggested that there is an opportunity to consider how payment arrangements and debt solutions are reflected in credit information.
- 6.18** We explained that we think better outcomes could be achieved through a new approach to reporting arrangements and debt solutions for borrowers in financial difficulty. This should provide more consistent, granular information to lenders and greater certainty to consumers about longevity of impact on credit files where they maintain payment arrangements.
- 6.19** We also set out that the introduction of a more granular arrangement flag could help to better represent the circumstances of consumers when they experience financial difficulty. We said that this would allow for more effective isolation of different cohorts that may present different risk profiles. Alongside this, we said consideration could be given to introducing a more granular range of separate flags to identify consumers who are engaged in different types of collective debt solutions or other initiatives as well as an 'exceptional circumstance' flag.
- 6.20** Furthermore, we considered that the reporting framework for bilateral arrangements and debt solutions could deliver a better balance between the interests of firms and consumers if performing non-token arrangements (ie a meaningful payment towards debt) or debt solutions are reported against agreed rather than contractual terms. We explained that such consumers could be identified through a more granular arrangement or debt solution flag, both during the period of such an arrangement and for an agreed period thereafter.
- 6.21** We asked:
- Q34:** *Do you agree with the principle of a new approach to reporting arrangements to improve consistency and granularity?*
- Q35:** *Do you agree with the potential new approach to reporting arrangements and debt solutions?*
- 6.22** Most respondents were supportive of the principle of a new approach to reporting arrangements in respect of borrowers in financial difficulty. Respondents explained that a consistent method for reporting arrangements should be a feature of the new common data reporting format as this would improve consistency and granularity.

They said this could provide enhanced transparency and incentives for borrowers in financial difficulty to engage with their lenders.

- 6.23** Some respondents explained that missed payments and defaults are not necessarily indications of financial difficulty and questioned whether the current approach of recording information for a number of years is appropriate. They also explained that any review may be an opportunity to explore whether changes are required in respect of the way defaults are recorded and the length of time they remain on credit files.
- 6.24** Respondents explained that such a new approach could be improved with a more flexible approach to reporting that represents consumers more appropriately. They were of the view that consistent reporting would result in more appropriate interpretation by data users, provided the new approach was accompanied with strict definitions, guidelines and rules on interpretation.
- 6.25** Some respondents highlighted the differential impacts that reporting an arrangement under the current framework may have, depending on the approach taken by the lender and the way that arrangements are recorded by CRAs. One respondent highlighted that any changes need to be mindful of the impact on the resources of smaller firms. Another respondent suggested there may be a risk of sharing too much or unnecessary information.
- 6.26** Some respondents indicated that debt advisors were unable to provide accurate information on the possible implications of debt solutions for credit files, leading to consumer confusion. They thought there were differences between CRAs which led to potential consumer harm through lenders making decisions based on inconsistent information when borrowers experienced financial difficulty.
- 6.27** The majority of respondents agreed with the potential new approach to reporting arrangements and debt solutions. Respondents acknowledged that more granular arrangement flags would allow for a more representative view of consumers' circumstances. They said that this would also allow lenders to have a more accurate picture of the risk profile of consumers for credit risk assessment purposes, and they suggested this would result in fairer outcomes. There was also agreement from some respondents that reporting should be against agreed terms, such as revised repayment plans, rather than contractual terms.
- 6.28** A small number of respondents expressed that there would be technical and operational issues to consider. They also suggested that too many flags may cause confusion for lenders and consumers. They explained that the level of granularity should be balanced and recommended that the focus was on a small number of key additions. They were of the view that all relevant stakeholders needed to be involved in the design of more detailed and easier to understand data elements.
- 6.29** A limited number of respondents did not agree with the approach. They explained that credit files remain fit for their primary purpose, enabling prospective lenders to assess an individual's credit history and determine their credit risk. They suggested that any changes made to the reporting framework should still ensure that an individual's credit file is an accurate reflection of the way in which they have managed their obligations, both positive and negative.

- 6.30** There was broad agreement that an industry-led review of the criteria and definition for arrangements and debt solutions was required, to determine a wider range of new scenarios that should be incorporated in the new common reporting format.

Our response

We agree with the feedback that a new approach to reporting arrangements and debt solutions is likely to secure better outcomes for both consumers and firms and should be a feature of the new data reporting format. We think this could potentially provide lenders with a more comprehensive and consistent view of the financial circumstances of consumers and, as a result, enable lenders to better assess risk. It may also help them to provide more tailored support and potentially offer more tailored products aimed at certain cohorts of consumers.

We agree that differences in approaches to reporting arrangements, defaults and debt solutions can cause confusion when consumers seek debt advice and can act as a disincentive for consumers to seek early support from lenders or debt advisers. We think a more consistent approach to reporting these events would improve consumer outcomes as both consumers and debt advisors would likely have a better understanding of the possible credit file implications of different solutions. A more consistent approach to reporting arrangements and debt solutions could therefore enhance transparency and encourage consumers in financial difficulty to engage lenders or debt advisers earlier.

We recognise that while the existing approaches have some limitations, they are relatively simple from an operational perspective. Any changes therefore need to take a balanced approach to avoid creating undue complexity and exacerbating consumer confusion. We understand a new approach to these issues will present initial challenges in terms of agreeing new reporting parameters and making operational changes. However, how borrowers in financial difficulty are reflected in credit information plays a pivotal role in determining outcomes for these consumers, and we consider that there is now an opportunity to think holistically about these issues as a part of the development of a common data format.

We welcome the feedback that agrees with the proposed new approach to reporting arrangements and debt solutions using more granular flags while reporting payment performance against agreed rather than contractual terms. We recognise that this would represent a significant change from current approaches but, on balance, think that it would provide additional flexibility to reflect a broader range of different payment arrangements and better reflects the nature of the relationship between the firm and the customer. It will also help ensure that those consumers who have agreed and maintained a payment arrangement with their lender are appropriately isolated from those who have simply missed payments. An increased range of flags may also mean the

financial services industry is better placed to respond to exceptional or unforeseen situations.

We recognise that some respondents highlighted concerns around the potential 'masking' of financial difficulty under any new approach, and that credit files should accurately reflect the payment performance of consumers. We note these points and do not want to see financial difficulty 'masked' – our overriding objective is to enhance the consistency and granularity of credit information, as this will help deliver the best outcomes for consumers. However, we acknowledge that excessive granularity may not be useful or proportionate and that a balance will need to be achieved.

Overall, we remain of the view that the approach set out in the interim report is broadly appropriate as it would deliver more consistent and granular credit information where consumers are in financial difficulty, provide enhanced flexibility and better balance the interests of firms and consumers. We also think it would help provide enhanced transparency and incentives for consumers in financial difficulty to engage with their lender earlier, leading to better outcomes for all.

We would therefore like to see industry consider these issues further, alongside appropriate consumer input, with a view to determining a new approach as a part of the development of a common data format.

Potential costs and benefits

- 6.31** In MS19/1.2 we explained that establishing a comprehensive and consistent consumer credit information dataset could deliver significant potential benefits to firms and consumers. However, we thought that in practice this would be difficult to achieve effectively without the introduction of a common data format.
- 6.32** We recognised that designated CRAs and FSMA-regulated data contributors would incur costs in making changes to underlying infrastructure and systems. We acknowledged that for some firms these costs may not be negligible, and we invited evidence on what these costs might be.
- 6.33** We also explained that we recognised that the development and implementation of a common data format would take some time, and that the overall costs could be mitigated by industry incorporating changes within existing programmes wherever possible.
- 6.34** We asked:

Q36: *Please provide evidence on the additional costs that might be incurred from a common data format, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*

- 6.35** There was broad agreement that there would be significant costs involved in respect of the common data format. Respondents explained that costs would relate to development, testing and transitioning to the common data format. Some also added that there would be scope for significant data errors during transfer to a common data format.
- 6.36** Whilst most respondents did not provide estimates of costs, some estimations indicated that costs would be significant. However, these cost estimations were not substantiated.
- 6.37** Some respondents felt that a common data format will reduce CRA switching costs for CIUs and make it cheaper for data contributors to report to more than one CRA. Another respondent added that data sharing processes already exist, and therefore, set up costs should be minimal.
- 6.38** Some respondents said that it was difficult to determine what potential costs would be without more information. One respondent added further that the additional costs that would arise from the common data format may be to the detriment of consumers, as costs may be passed to consumers.
- 6.39** One respondent explained that many firms do not have the capacity to align with any major new initiative due to the additional costs system changes would lead to.

Our response

Although we did not receive substantiated evidence of costs firms would incur, we acknowledge that firms will incur costs as a result of the introduction of a common data format and the need to report credit information in that format.

We think a common data format presents significant benefits to both firms and consumers. As mentioned by some respondents, it is likely to reduce the cost to data contributors and credit information users when switching between CRAs and make the data between designated CRAs more consistent and comparable.

We also acknowledge that the costs each firm is likely to incur will vary based on firm type and size. Therefore, consideration may need to be given in respect of how the common data format could be introduced in a proportionate way so as to minimise costs and operational challenges.

Next steps on remedy 2B

- 6.40** Having reflected on the feedback from stakeholders, we are recommending to industry that it establishes a common data reporting format in line with our proposal in MS19/1.2. We see this remedy as primarily industry led as it would allow for industry to feed into how it is developed and represent a proportionate approach. As such, we would like to see the CRGB take forward the work to design and implement a common data format. We would like the CRGB to consider how all FSMA regulated firms could be encouraged

to adopt the common data format whilst also ensuring that it supports sufficient room for innovation where appropriate.

- 6.41** We remain of the view that a common data format presents a range of benefits for both firms and consumers. For example, a more consistent and granular approach to reporting data on borrowers in financial difficulty, better consumer understanding and a reduction of consumer confusion.
- 6.42** Given the impact on borrowers in financial difficulty and vulnerable consumers, as well as the evolving debt landscape, how the new approach to reporting arrangements and debt solutions is designed should reflect the views of a broad group of stakeholders, via the CRGB and the FCA.
- 6.43** The development of this remedy will have important inter-linkages with the design of FCA rules on a mandatory reporting framework (remedy 2A). As such, we intend to work with the CRGB on this issue including in relation to how a common data format could be implemented across industry in the most cost-effective way.

Remedy 3B – Access to statutory credit report

- 6.44** To simplify the process by which consumers access SCRs, we proposed in MS19/1.2 that the designated CRAs jointly develop a single consumer portal which streamlines access to credit information through the statutory process. We thought that this could complement remedy 3A where consumers are prominently signposted to a single portal which facilitates easier access to credit information through the statutory process. We said that such a portal could initially provide consumers with the ability to click through to the appropriate parts of designated CRA websites in a single step.
- 6.45** We did not envisage that such a process would entail the portal itself holding personal data. However, we were interested in exploring if there was scope for identity verification processes to be simplified to reduce the need for consumers to go through multiple separate processes for requesting their SCRs. We also wanted to explore if it would be desirable for an alignment of approaches when presenting SCRs to consumers. For example, through having greater consistency in presentation of key information and metrics.
- 6.46** In MS19/1.2 we asked:
- Q37:** *Do you agree in principle that a single portal could help consumers to access and engage with their credit information?*
- Q38:** *Do you think it would be desirable to introduce a single process for consumers to gain access to credit information held by all designated CRAs? What operational or other implications might this raise?*

- Q39:** *Do you think that a single portal could play a positive role in enhancing consumer understanding by providing factual information about credit information and hosting key documents?*
- Q40:** *Do you think that consumers would benefit from greater consistency in the presentation of key information and metrics in the SCR (to allow easy comparison between SCRs)?*
- Q41:** *Do you agree that there should be no links or cross-selling to credit information subscription-based services or other credit products from the single portal?*
- Q42:** *Do you think that the new industry governance body should have a role in the development and operation of a single portal?*
- Q43:** *Please provide evidence on the additional costs that might be incurred from a single portal to access statutory credit file information, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*

- 6.47** In principle, most respondents agreed that a single consumer portal could help consumers access and engage with their credit information. They noted that there are several CRAs and CISPs in the credit information market that provide a range of products and services. They stated that some of these are offered for free while others are subscription based and paid-for. They said that this can create a lot of confusion for consumers seeking to obtain their credit information. Respondents suggested that streamlining the process for consumers to access their SCRs could reduce the time that the process takes and enhance consumer engagement with credit information.
- 6.48** A few respondents highlighted potential challenges around the proposal to develop a single consumer portal. One respondent argued that if the portal were to operate only as a front door/signpost to the SCRs, it would have minimal consumer benefit. They stated that this was because similar signposting already exists in the market. They flagged that MoneyHelper, a government approved customer facing service provided by the Money and Pensions Service (MaPS), currently holds a wide range of information on credit information and other financial topics. They also stated that MoneyHelper already signposts to the availability of credit information via CRAs and CISPs.
- 6.49** Another respondent argued that in addition to the costs of developing and maintaining the portal, a noteworthy amount would also have to be spent on heavily promoting the portal to increase its awareness amongst consumers. The respondent highlighted that there is a possibility, that even with a large advertisement spend, the single portal may

not gain enough traction from consumers. They argued that consumers may still prefer to use the subscription-based services provided by CISPs and thus the single consumer portal would be unsuccessful in achieving its goal of streamlining SCR access.

- 6.50** Some respondents highlighted that greater commonality of data across designated CRAs, following the introduction of any mandatory reporting requirement under remedy 2A, could reduce the need for consumers to access all three SCRs. They said that this could diminish the need for a single consumer portal. Several respondents highlighted the negative implications on competition in the CIS market if a single portal were to be developed, similar to concerns raised in response to our questions on remedy 3A.
- 6.51** Some respondents agreed that a single portal could play a positive role in enhancing consumer understanding by providing factual educational information and hosting key documents. However, a couple of respondents argued that just making information available was unlikely to enhance consumer understanding of credit information. They stated that consumers need to be incentivised to act on the information they have been provided with and there is already a lot of information available to consumers in the market. Another respondent argued that information is most useful to consumers when it is personalised and considers an individual's financial position. They added that such personalised information is typically provided by CISPs and is more useful than more generalised all-encompassing information provided by services such as MaPS.
- 6.52** Some respondents agreed that consumers would benefit from greater consistency in the presentation of key information and metrics in their SCR. They explained that the lack of a prescribed format for the presentation of credit information provided under the statutory process was an issue highlighting that greater consistency could make it easier for consumers to spot and correct any inaccurate information on their credit files. One respondent suggested that the CRAs should consider incorporating standardised explanations against data points in SCRs to support consumer understanding. Some respondents argued against greater consistency in the presentation of key information in SCRs and suggested that different consumers may prefer different formats. They stated that what works for one may not necessarily work for the other.
- 6.53** Respondents agreed that such a portal should be free from links or cross-selling to any credit information subscription-based services or other credit-related products. They said that would create an additional layer of complexity in terms of how such advertising would be governed. Furthermore, they discussed that a portal should not be designed to compete with commercial operators in the open market, who would be unfairly disadvantaged. One respondent argued that it is not uncommon for consumers to check their credit information after having been denied access to credit. They added that CRAs, sometimes, show consumers competing credit offers, many of which are at the high-cost end of the market. The respondent highlighted that further borrowing in these instances can potentially compound the consumer's problems and deliver poor outcomes for them.
- 6.54** However, some respondents stated that given the high costs involved there would be little to no commercial incentives on the part of designated CRAs to develop and maintain the portal on an ongoing basis and attract consumers to it if they were not able to generate any revenue from it. Another respondent argued that some consumers may

want subscription-based services and/or other credit products when looking at their credit information and so it may be inappropriate to suggest that the portal should be free from links or cross selling.

- 6.55** Respondents agree that the new credit reporting governance arrangements should have a role to play in the development and operation of the single portal. They discussed that this was crucial to ensure accountability as the designated CRAs may have conflicting interests. One respondent highlighted that the FCA should set the parameters of the project and the timelines for implementation and that consumer groups should be heavily involved in the development of the portal. A handful of respondents disagreed that the new industry governance arrangements should have a role to play in the development of the single portal and one respondent argued that a mix of regulatory and industry collaboration would be required to develop the portal.
- 6.56** When asked to identify the additional costs that might be incurred from a single portal to access statutory credit file information and the possible benefits that would result, respondents highlighted that the cost range was wide and would depend on the complexity of design and functionality. Some respondents suggested that the costs of developing the single portal are prohibitive and do not justify the benefits arising from it.
- 6.57** Some respondents proposed alternatives to the single portal. One respondent argued that the CRGB could host a webpage that could act as a single reference point for consumers to access credit information held by the designated CRAs. They stated the webpage could also help enhance consumer understanding around the nature and role of credit information by providing factual educational information and hosting key documents or Q&A material.

Our response

Whilst in principle most stakeholders agreed with the proposal to introduce a single consumer portal to help consumers access and engage with their credit information, we note that there are already some resources in the market that provide guidance on and help consumers access their credit information. We recognise that some of these resources are established in the market and that any new portal could exacerbate consumer confusion in this area. We also acknowledge that, depending on the level of functionality involved, there is a possibility that the costs, resource, and level of collaboration required for a single portal may be significant requiring further evidence of the potential benefits to assess whether such an approach is proportionate.

We agree with the feedback that following the introduction of any mandatory reporting requirement under remedy 2A there should be greater commonality of data across designated CRAs provided by FSMA-regulated data contributors. We recognise that this could potentially reduce the need for consumers to access all three SCRs over time, thereby reducing the potential benefits arising from a single portal that streamlines access to the three SCRs.

In line with some of the feedback, we believe any single resource to help consumers access credit information through the statutory process should be free from cross selling for reasons outlined in our response to the feedback on remedy 3A. While we note that some consumers may be searching for credit products when looking at their credit information, we believe that customers could be signing up to paid-for services without realising they could have obtained information for free via the statutory process. We agree with some of the feedback that allowing firms to cross-sell their services on such a resource would create an additional layer of complexity in terms of how such cross-selling would be governed. It would also raise questions around the prominence/listing of the various firms that are cross-selling.

We remain committed to the objectives of remedy 3B as set out in MS19/1.2. We want consumers to be able to access and engage with their credit information with the minimum amount of friction, subject to appropriate data protection and security protocols being in place. However, for the reasons previously outlined, we recognise that establishing a single portal for consumers to access their SCRs may not be the most effective or proportionate way to enhance consumer understanding and engagement in this area. We are also keen to avoid unnecessary duplication and to build on existing initiatives wherever possible that have already helped to engender consumer trust and understanding.

We note that many stakeholders have referred to the information and guidance provided on the MoneyHelper website, operated by MaPS, and that this may provide a resource through which consumers could be routed directly into the SCR process without the need to develop a new portal. The MoneyHelper website currently provides guidance on credit information and how it can be accessed via CRAs or through their partner websites (CISPs). We agree that there is now an opportunity to consider how this resource could be further enhanced, including in relation to how credit information is accessed through the statutory route and as a 'one-stop shop' for information and guidance on issues relating to accessing and disputing credit information.

Next steps on remedy 3B

- 6.58** We would like to see more streamlined access to SCRs for consumers, and for there to be a 'one stop shop' for related consumer information and guidance. One such way to do this would be through the MaPS MoneyHelper website, working within MaPS' statutory remit. We expect the CRGB to engage and work with an organisation like MaPS to ensure that consumers are able to access their SCRs in a streamlined manner. We would also like to see the 'one stop shop' helping to enhance consumer understanding around the nature and role of credit information by providing factual information, holistic guidance around credit files and credit scoring prompting consumers to take action to review and engage with their credit information.

- 6.59** We recognise that CRAs, CISPs and other debt advice firms already host a range of information for consumers on their own websites, but there may be benefits in streamlining access to this. This might include, but is not limited to, information such as the CRA Information Notice (CRAIN) which is a single privacy notice jointly developed by the 3 large CRAs.
- 6.60** We think it would be inappropriate for the single point of access for consumers to provide links or cross-selling to credit information subscription-based services or other credit related products for reasons outlined above.
- 6.61** As part of streamlining access to SCRs, we would also like the CRAs to consider if there is scope to have greater consistency in the presentation of key information and metrics in SCRs, to enable consumers to compare information and support consumer understanding. This could make it easier for consumers to identify and correct any errors in their credit files.

Remedy 3C – Streamlined dispute resolution process

- 6.62** In MS19/1.2 we found that there were practical issues consumers faced when disputing data across all 3 large CRAs. This included the need to access their credit information through 3 separate processes and potentially initiate 3 separate data disputes procedures. As CRAs are unable to determine the accuracy of information provided by data contributors, we have heard that consumers often find themselves going back and forth between CRAs and lender(s) to ascertain the root cause of errors, which can be costly and time consuming for them.
- 6.63** We stated that where data contributors identify an error in data provided to one CRA, there is no explicit requirement for them to notify other CRAs of the same error where they have provided the same data. We also noted that some errors may also result from the challenges in matching information to individuals, which may not directly arise from errors in information provided by data contributors.
- 6.64** Given these issues, we posited that there may be benefits in streamlining the data dispute process, particularly where data was common across CRAs. We believed that this could help contribute to the overall effectiveness of the data dispute process and is also relevant to remedy 2D described above which discusses new requirements for FSMA-regulated data contributors to investigate and correct errors in a timely way. We set out some possible implementation options for discussion in the interim report.
- 6.65** We asked:
- Q44:** *Do you agree that there should be a streamlined process for disputing and correcting errors in credit information held across designated CRAs?*
- Q45:** *Do you have views on the potential effectiveness of the implementation options described above?*

Q46: *Are there any alternative options that might help deliver a more streamlined processes for disputing and correcting credit information in the absence of a single portal?*

Q47: *Please provide evidence on the additional costs that might be incurred from the potential streamlined data dispute process, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*

- 6.66** All respondents agreed that there is a need for a streamlined process for disputing and correcting errors in credit information held across designated CRAs. One respondent highlighted that consumers who opt to raise disputes through consoles operated by CRAs find the dispute resolution process even more burdensome. Some respondents suggested that the statutory data dispute process, in some instances, took longer than the 28-day timeline set out in Section 159 of the CCA.
- 6.67** A couple of respondents said that delays in resolving data disputes are further exacerbated by the fact that there is currently no requirement for data contributors to respond to data disputes in a timely manner. One respondent highlighted that under the Consumer Duty, data contributors should be correcting any inaccurate data records in a timely manner, ie in real time rather than through wider batch portfolio updates.
- 6.68** One respondent highlighted that data disputes are currently not tracked and reported to the FCA in the same way that DISP complaints are, meaning the FCA may not have sight of issues relating to the data dispute process.
- 6.69** Another respondent emphasised that not all data disputes raised by consumers are genuine, and there is a risk that streamlining the data dispute process could lead to more ingenuine disputes being raised. This could put an unjustifiable level of stress on CRAs' and lenders' resources.
- 6.70** When asked if respondents had any views on the potential effectiveness of the implementation options set out in the interim report, one respondent suggested that the implementation options would require CRAs to have oversight of each other's systems and client base to accurately identify errors likely to be replicated.
- 6.71** Several respondents stated that there were a considerable number of GDPR/DPA issues to work through with regards to the implementation options set out by the FCA. A couple of respondents highlighted that the legal basis on which CRAs would be able to share data with other designated CRAs under the 'data handshake' option would require consideration. One respondent further highlighted that any 'data handshake' process would need to address the issue of obtaining consumers' informed consent to share details of a dispute across CRAs. They said it would also need to ensure that a consumer is accurately matched across the CRAs.
- 6.72** One respondent highlighted that for disputes that relate to non-FSMA regulated entities like the courts, consumers would still need to speak to various entities to get the dispute resolved. They said that the implementation options set out in the interim report would not resolve this particular issue.

- 6.73** When asked if there were alternative options that might help deliver a more streamlined process for disputing and correcting credit information in the absence of a single portal, one respondent made a reference to e-OSCAR, recommending that going forward, the CRGB consider it as a basis for an improved dispute resolution process. They mentioned that e-OSCAR is a software that was created by Equifax, Experian, and TransUnion for the US market to reduce resources needed to process consumers' disputes on their credit files. The software disseminates information on a dispute received by a CRA to other CRAs and to the appropriate 'data furnishers'. They highlighted that a software like e-OSCAR could remove the need for CRAs to coordinate with each other and mitigate the risk of CRAs sharing commercially sensitive information with competitors.
- 6.74** One respondent stated that currently, if a lender finds that a data item requires amending, the lender typically updates all three CRAs. They suggested that a more effective solution to streamline the data dispute process would be one where a consumer only has to raise a query once and the contributor only has to update one system to ensure the data amendment is actioned by all parties. Further to this, they suggested that there be an appropriate charging model in place to ensure costs of these amendments at the CRA are covered by the contributor whose data is subject to query or found to be inaccurate.
- 6.75** Another respondent stated that the data dispute process could be streamlined by setting stricter SLAs between CRAs and data contributors to resolve disputes, which should be reported to and monitored by the new industry governance arrangements. Another respondent highlighted that such monitoring by the CRGB should go hand in hand with penalties being imposed on firms that are unable to comply with the SLAs.
- 6.76** One respondent suggested that, in the interim, there is scope for CRAs to enhance the dispute resolution process by using web forms, standard dispute wording templates and tick boxes. They told us that they believed that all of these measures can potentially enhance the consumer dispute journey. Another respondent highlighted that more could be done in the interim, such as increasing awareness about the data dispute process by providing more helpful information on consumer facing advice websites like MaPS/MoneyHelper. A couple of respondents also mentioned that remedy development and implementation may take some time and in the interim, CRAs could commit to sharing query resolution information with each other.
- 6.77** When asked to provide evidence on the additional costs that might be incurred from the potential streamlined data dispute process, respondents gave estimates of the one-off costs as well as the ongoing costs. One respondent indicated that to enable a single point of querying data through a single portal, the portal would itself need to hold personal information (ie the data being queried). Respondents highlighted that there were alternative proposals which could help achieve the outcome of a streamlined data dispute mechanism in a more proportionate and cost-effective way.

Our response

We welcome the feedback that respondents agreed with the need to streamline the current data dispute process. Research from the [Financial Lives 2022 survey](#) found that 16% of those who had accessed their credit information had found an error or issue on their credit file. This figure remains broadly in line with our 2019 consumer [research](#) finding that 17% of those who had checked their credit file had noticed an error. A more streamlined data dispute process therefore has the potential to benefit a substantial number of consumers, although we recognise that stakeholders have raised a number of potential implementation challenges given the operational and legal complexities.

Despite the complexities of current processes detailed in both MS19/1.2 and feedback from stakeholders, we believe a more streamlined data dispute process could help mitigate potential harm. Consumer harm could arise from consumers dropping out of the process to raise disputes, or where errors are corrected at only one CRA despite being common across other CRAs. A more streamlined process could also potentially reduce time and effort for the consumer to correct errors by reducing the need to engage with multiple processes. It could therefore be beneficial to consumers overall and help to reduce the cost of dealing with data disputes over the longer-term for both firms and consumers. It could also help to improve the overall quality of data held by CRAs.

We acknowledge the feedback from respondents of the technical complexities of creating a single portal and that this may be disproportionate given that there may be alternative ways of achieving similar outcomes. As discussed in remedy 3B we have decided not to prescribe or specify implementation mechanisms in these complex areas, which we recognise will require industry expertise and co-ordination to determine optimal solutions.

We note the feedback which indicates there are often delays in resolving data disputes because there is currently no specific requirement for data contributors to respond to data disputes in a timely manner. Whilst we would already expect data contributors to respond to these issues in a timely manner, we remain concerned that practices appear to vary and that delays in resolution have the potential to cause considerable consumer detriment. We recognise that the root cause of errors may not always be clear, but as discussed in remedy 2D to set clear expectations for FSMA-regulated data contributors we will introduce new requirements around investigating disputes in a timely manner, as well as on correcting information across multiple CRAs where data is common. We think that these new requirements will help enhance the overall effectiveness of the data dispute process.

We agree with the feedback which suggests that data contributors should correct information on a real-time basis, wherever possible, to help resolve disputes that have the potential to cause consumer detriment. For example, this may be crucial where a consumer is seeking to correct

erroneous information which has come to light during a mortgage application. We will consider further whether to set specific expectations on this point as a part of our development of remedy 2D.

We acknowledge the points made by stakeholders around the data protection and commercial implications of CRAs sharing data between themselves in relation to data disputes. We also recognise that a streamlined data dispute process could potentially interact with the legislative requirements set out in section 159 of the CCA. However, we think that in these circumstances data sharing between CRAs in the context of correcting information is likely to be strongly in consumers' interests. We also envisage that a streamlined dispute process would be complementary to the process set out in the CCA, such that it would ensure CRAs are better able to respond to consumers with a final resolution to their dispute within the prescribed 28-day period. In relation to the commercial implications of CRAs not necessarily being aware of the identity of other CRAs data contributors, we note that the mandatory data reporting remedy would provide a degree of certainty as to the commonality of data provided by FSMA-regulated data contributors across designated CRAs.

We also think it may be possible to put processes in place which do not necessarily require data sharing between CRAs, for example where a query is disseminated to multiple CRAs through a single query process. Given this, our view remains that a more streamlined process can be put in place which is compliant with existing requirements and does not necessarily involve direct data sharing between CRAs other than where it is clear that the information held between CRAs is likely to be common.

Whilst we recognise that it is a possibility that by creating a more streamlined process for raising data disputes it could make it easier for consumers to raise ingenuine disputes, we do not think that in practice this is likely to have a material impact. We want to see a more efficient process by which disputes can be raised and resolved, but do not think that this should reduce the robustness of dispute investigations or decisions reached.

We note that some respondents suggested alternative options that might help deliver these outcomes in the absence of a single portal. We agree that some of these options may be viable alternatives to the single portal. These options included:

- The creation of a similar piece of software to e-OSCAR, which is a centralized system that manages disputes consumers submit to CRAs or data contributors in the United States (US). This software operates under a standardised format for data reporting in the US to electronically share data. We agree that it could be beneficial for the CRAs to develop similar software in conjunction with data contributors, particularly in the context of a new common data format (see Remedy 2B).
- Using web forms and standard wording templates to potentially facilitate data sharing between CRAs.

- Sharing query resolution information and amendment data between CRAs.
- Working with MaPS, the ICO and other consumer facing organisations to ensure that information provided to consumers on the data dispute process is relevant and up to date.

While we are keen to observe long-term solutions that address all these issues, we would also encourage industry to consider interim improvements to current processes wherever possible.

In response to some feedback that the FCA may not have sight of all issues relating to the data dispute process, we are also proposing new regulatory reporting requirements for designated CRAs relating to data disputes under 2C. This is further detailed in Chapter 5. Any data received through this regulatory reporting will form a part of our ongoing monitoring in this area.

Next steps on remedy 3C

- 6.78** Our view remains that a streamlined data dispute process across designated CRAs has the potential to deliver significant benefits. Given the technical complexities and the range of different parties involved in these processes, we consider that this remedy is best delivered through industry-led change. We recognise that consideration of these issues will likely need to be led by designated CRAs and data contributors. However, given the need for consumers to initiate and engage with dispute processes to achieve successful resolution, we think that development of this remedy should be informed by appropriate input from consumer stakeholders.
- 6.79** We would therefore like to see CRAs and lenders take forward remedy 3C as part of the CRGB's workplan. We recognise that an optimal solution to this issue may be dependent on the introduction of a common data format, but that there are likely to be measures which could be prioritised in the shorter-term to deliver improvements to current processes.
- 6.80** Overall, we would like to see a new streamlined data dispute process that achieves the following outcomes:
- Prompt resolution of data disputes for consumers, reflecting the 28-day period set out in the CCA.
 - A simple, user-friendly, and well-signposted way for consumers to initiate a data dispute across designated CRAs in a single step.
 - An integrated process that means where data is common across designated CRAs any errors are corrected automatically across those CRAs.
 - Correction of erroneous data on a real-time basis wherever possible.
- 6.81** We will monitor the progress made by CRGB and other relevant information, including for example through any CRA regulatory reporting provided under remedy 2D, to inform the need for any further regulatory involvement in this issue.

Remedy 3D – Streamlined Notice of Correction (NoC) process, non-financial vulnerability and 'credit freeze' markers

- 6.82** In MS19/1.2 we stated that alongside the streamlined data dispute process we wanted to consider the introduction of a streamlined process for consumers to record a Notice of Correction (NoC) across designated CRAs. We discussed how section 159 of the CCA allows individuals who consider an entry on their credit file to be incorrect to serve a notice to the CRA, asking the CRA to either remove the entry on their credit file, or amend it. Further, within 28 days of serving the notice, the objector can serve a further notice on the CRA requiring it to add to their credit file an accompanying notice of correction drawn up by the objector and include a copy of it when furnishing information based on that entry. Currently, when consumers wish to record a NoC on their credit file, they need to engage separately with each CRA. Therefore, a NoC may not be recorded consistently across the CRAs, even where the issue may be common or relevant to credit information held by each CRA.
- 6.83** We also wanted to consider the implications of consumers being able to directly record binary indicators of non-financial vulnerability (eg life events like bereavement, divorce and health issues, lack of confidence with financial matters or literacy) and 'credit freeze' markers (which allow consumers to place a warning flag against their name if they do not wish to be accepted for any credit products) at any given time on credit files. We stated that this could significantly enhance consumers' engagement with their credit information and provide additional contextual information to lenders to inform consumer engagement and forbearance strategies. We described that such a process could operate alongside a streamlined NoC process as described above, such that consumers are able to record non-financial vulnerability and 'credit freeze' markers across designated CRAs in a streamlined way.
- 6.84** In MS19/1.2 we asked:
- Q48:** *Do you agree that consumers should have the ability to record non-financial vulnerability markers and/or Notices of Correction across designated CRAs in a streamlined way?*
 - Q49:** *Do you agree that lenders and other users should have the ability to record non-financial vulnerability markers across designated CRAs with appropriate consumer consent?*
 - Q50:** *Do you agree that consumers should have the ability to record a 'credit freeze' marker across designated CRAs in a streamlined way?*
 - Q51:** *Do you agree in principle that consumers should be able to record NoC, non-financial vulnerability and 'credit freeze' markers across designated CRAs through a single portal?*

- Q52:** *What operational, technical or other implications might such a process raise?*
- Q53:** *Are there any alternative options that might help deliver a more streamlined processes for recording NoC in the absence of a single portal?*
- Q54:** *Please provide evidence on the additional costs that might be incurred from enabling consumers to record NoC, non-financial vulnerability and 'credit freeze' markers across designated CRAs through a single portal, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.*

6.85 For ease, the following feedback and associated response from the FCA has been split into distinct sections for each process.

Notices of Correction

- 6.86** Most respondents agreed in principle that consumers should be able to record NoCs on their credit files in a streamlined manner. Some respondents recognised that the requirement to liaise separately with three CRAs to record a NoC was cumbersome and may be particularly challenging for consumers in vulnerable circumstances. One respondent argued that the current process for recording NoCs was effective, as differences in data coverage mean that not all NoCs are relevant to all CRAs.
- 6.87** Some respondents highlighted that currently NoCs are being used by consumers for reasons not foreseen/intended under Section 159 of the CCA. For example, consumers using the NoC textbox to advise lenders about anything they wish to be taken into account about their credit application, rather than to provide contextual information relating to disputed information as set out in the CCA. We also heard some concerns around how, over time, NoCs have generally been devalued and about how lenders are very likely to ignore any notice that serves simply as an excuse for missed payments. Respondents suggest that this is due to the lack of a suitable mechanism to draw personal circumstances to a lender's attention at the point of decisioning and that the introduction of non-financial vulnerability markers is likely to bridge this gap. One respondent added that there should be controls in place to ensure that consumers do not misuse the markers, for example, by providing misinformation.
- 6.88** When asked about the operational and technical implications of consumers being able to record NoC on their credit file through a single portal, some respondents raised several challenges. One respondent highlighted that NoCs are linked to "data items" and not the relevant individuals themselves, and so are not intended to record facts for extended periods of time. They stated this could require a complete overhaul of the existing process of recording NoCs, which could be resource and time intensive. They also highlighted that, if the volume of NoCs recorded by consumers increased, there may be a need to automate the process by which NoCs are processed by lenders. This could undermine the central premise of text being manually reviewed.

- 6.89** When asked if there were any alternative options that might help deliver a more streamlined process for recording NoCs in the absence of a single portal, a couple of respondents suggested introducing a set of standard templates containing wording for the most common NoCs, whilst still retaining a free text option. They argued that a standard template would facilitate sharing of this data between designated CRAs, thereby eliminating the need for consumers to engage separately with 3 CRAs to record a NoC.
- 6.90** One respondent highlighted that there are actions that the industry can take in the interim to improve the process by which consumers currently record NoCs. They mentioned that CRAs, when responding to consumer requests to add, amend or remove NoCs, should provide the consumer with a summary of their NoC request, and give them information on how to share this information with other CRAs.

Non-financial vulnerability markers

- 6.91** Most respondents agreed in principle that consumers should be able to record non-financial vulnerability markers on their credit files in a streamlined way. Some respondents highlighted that the success of non-financial vulnerability markers would ultimately depend on how the markers are received, processed, and presented by the CRAs.
- 6.92** A couple of respondents highlighted that for such markers to benefit consumers, they would require clarity about what kind of vulnerability they can record, what the benefits and drawbacks in recording this information are and how the information is ultimately used by CRAs and lenders. The respondents also highlighted some concerns around whether lenders would take this information into consideration, given the information was self-reported.
- 6.93** More generally, some respondents were cynical about consumers being able to record non-financial vulnerability markers on their credit files. They discussed the risk of unintended consequences from this approach, such as self-flagged vulnerable consumers not being offered the full range of products and services by firms or being deemed too costly to serve. One respondent highlighted that the proposal would only be beneficial to consumers on the stipulation that the information is not used by lenders to negatively influence a lending decision and is instead used to inform customer engagement and forbearance strategies.
- 6.94** Respondents had contrasting views on whether lenders and other users should have the ability to record non-financial vulnerability markers on consumer credit files with appropriate consumer consent. They highlighted that the entities permitted to do this, as well as the best way of implementing this, would require consideration. Some respondents highlighted links to the Consumer Duty, whereby they argued that the Duty expects firms to be able to identify particular groups of customers, such as those with characteristics of vulnerability or who share specific protected characteristics under the Equality Act 2010 or equivalent legislation. This is to ensure that they have access to the support they need by adopting a flexible consumer support approach. The overall view was that the decision over what is appropriate to capture as a vulnerability marker and when should be consumer driven.

- 6.95** Several respondents argued that processing data on vulnerability requires explicit consent under UK GDPR, as it is special category data, which may have resource implications for firms. One respondent added that communication with consumers when recording the non-financial vulnerability markers, could push CRAs into the realms of financial and legal advice, exposing them to increased liability. They argued that such risks would translate into costs for CRAs and that it was unclear if the costs would justify the potential benefits arising out of the proposal. Another respondent asked for clarity on the expected lawful basis for recording and sharing this information, and how the FCA and ICO would expect firms and CRAs to satisfy the requirements of explicit consent in circumstances where this is the lawful basis relied upon by firms.
- 6.96** One respondent argued that consumers may be reluctant to record non-financial vulnerability markers, citing the Government's "Debt Respite Scheme" (breathing space for mental capacity), the adoption of which was lower than expected by the Government. They highlighted that proof of concept would thus be useful before such a proposal is rolled out. Another respondent added that the share of people with mental health issues who choose to disclose their vulnerability to a financial services firm is small, citing research which showed that just 14% of a representative polling of 5000 individuals with mental health problems had ever disclosed their vulnerability to a financial services provider.
- 6.97** There were concerns from respondents around the absence of consistent parameters for lenders to interpret data on vulnerability. Some respondents highlighted that if lenders were to inconsistently interpret vulnerability data, then the remedy may not have its desired effect. One respondent highlighted that there may be potential conflicts between lenders' internally held markers and those provided by the CRAs and that new processes would have to be put into place to mitigate these conflicts, which could be costly and time intensive for firms.
- 6.98** One respondent highlighted that there are already organisations such as Vulnerability Registration Service (VRS) that give consumers the option to be pre-declined for financial service applications or add a 'referral flag' (financial and non-financial vulnerability flags) to their names to make organisations aware of their circumstances. They highlight that whilst the VRS do not currently receive or supply NoCs, they do already have an API-based system that provides real-time updates to CRAs on changes to an individual's circumstances. They highlighted that what the VRS do, by providing consumers a single point of access to register information on vulnerability, is similar to the single portal proposed in the interim report. Another respondent suggested that the FCA collaborate with other initiatives like OFGEM's Priority Services Register, which supports consumers in vulnerable circumstances.

'Credit freeze' markers

- 6.99** The majority of respondents agreed that consumers should be able to record 'credit freeze' markers on their credit files in a streamlined way. One respondent highlighted that any mechanism to record 'credit freeze' markers should function in near real time, like the freeze capability offered by many challenger banks.

- 6.100** Some respondents highlighted that if 'credit freeze' markers were to be used more broadly and regularly by consumers, they would require extensive supporting infrastructure. They stated that this could include, but not be limited to, the ability to add/remove credit freezes in real time, the ability to pre-warn consumers when their file is frozen, the ability to let a consumer know when a credit application has been made against a frozen file and so on, which would be time and resource intensive.
- 6.101** One respondent highlighted that the introduction of 'credit freeze' markers in credit reporting would be complex. They stated that if 'credit freeze' markers in the United Kingdom are intended to mirror their United States counterparts, they should apply to credit origination but should likely not apply to soft searches, tracing or customer management.
- 6.102** Another respondent stated that there should be appropriate timescales agreed between the responsible parties to manage the addition and removal of markers, as extensive delays to the removal of a 'credit freeze' marker, for example, could have significant repercussions for an individual's ability to access credit. The respondent argued that consideration should also be given to the speed with which a consumer can remove the marker and potentially obtain credit during a period of, for example, poor mental health. They discussed that this could be in the same way that gambling firms have delays on the implementation of changes to self-imposed deposit limits.

Other feedback from respondents

- 6.103** A couple of respondents highlighted there could be other consequences of using such markers such as increased underwriting referrals, which could potentially delay consumers' access to credit. One respondent argued that the introduction of such markers could potentially lead to consumers "gaming" the process (ie adding markers with the expectation that it will trigger a manual underwriting process, rather than an automated decisioning process).
- 6.104** Some respondents highlighted that given the technical complexities of these issues, the proposals on NoCs, non-financial vulnerability markers and 'credit freeze' markers would be best delivered through industry-led change.
- 6.105** A couple of respondents suggested that improving consumers' awareness and understanding of NoCs, non-financial vulnerability markers and 'credit freeze' markers could increase consumer engagement with their credit files across CRAs. One respondent further highlighted that more information on these processes should be available on consumer facing online advice services such as MoneyHelper.
- 6.106** A couple of respondents believed that consumers should be given the option to record NoCs, non-financial vulnerability and 'credit freeze' markers through CISP.
- 6.107** When asked to provide evidence on the additional costs that might be incurred from enabling consumers to record NoC, non-financial vulnerability and 'credit freeze' markers across designated CRAs through a single portal, some respondents provided varying estimates. They highlighted that it would be extremely costly to fund such a portal, with little to no benefits to justify the costs. Another respondent argued that focusing on existing channels, such as the Vulnerability Registration Service (VRS),

rather than creating an entirely new portal would be a more effective way to streamline the process by which consumers record non-financial vulnerability and 'credit freeze' markers.

Our response

Whilst we discussed NoCs, non-financial vulnerability and 'credit freeze' markers in the interim report in the context of a new single portal developed by the CRAs, we recognise the concerns raised around proportionality and that respondents have made various alternative suggestions. We have now explored these further and set out our detailed views on these in the sections below where we believe that similar outcomes can potentially be achieved in a more cost effective and efficient way.

Notices of Correction

- 6.108** Currently, the number of NoCs recorded on credit files appears low in comparison to the proportion of consumers who may be expected to exhibit characteristics of vulnerability. This suggests that the NoC process may be challenging for consumers to engage with, or that they are unaware this facility exists. Feedback has also indicated that NoCs are often misused, either deliberately or due to misunderstandings regarding their purpose.
- 6.109** We acknowledge the concern raised by some respondents that by streamlining the NoC process, there is a risk that it could make them easier to misuse. However, we think that the increased use of specific non-financial vulnerability and 'credit freeze' markers in the credit reporting ecosystem will largely mitigate this risk. We note the alternative approaches suggested in the feedback above and think that these have some merit. This includes the suggestion of standard templates for NoCs, which could facilitate data sharing between designated CRAs. We acknowledge that not all NoCs will be relevant to all CRAs, and that processes could be designed to ensure that only those NoCs likely to be relevant to other CRAs are shared. We also acknowledge that there are interactions with the data dispute and NoC processes set out in the CCA. However, our view is that a more streamlined NoC processes could be put in place which remains compliant with these requirements.

Non-financial vulnerability markers

- 6.110** We welcome the broad support for the proposal to introduce non-financial vulnerability markers. However, we also acknowledge that stakeholders have raised several concerns, including the risk of limited uptake, how they ought to be interpreted by lenders, and the potential challenges around processing special category data. We have reflected on these concerns, as well as the interactions of this remedy with others in our proposed package.
- 6.111** Historically, there has not been a streamlined mechanism for consumers to draw personal circumstances to a lender's attention through CRAs. Consumers in vulnerable circumstances may also be unaware of the various services available to them in the

market to share this information. We have heard feedback suggesting that this has led consumers to use NoCs to provide a variety of contextual information to lenders. This misuse of the NoC process for this purpose is sub-optimal and creates practical difficulties for consumers given the need to engage separately with each CRA to record a NoC on each credit file. For this reason, we believe that greater use of non-financial vulnerability markers within the credit reporting ecosystem could complement the suggested changes to the NoC process and help ensure consumers have appropriate options when seeking to provide contextual information to lenders and other credit information users.

- 6.112** We acknowledge that stakeholders have raised concerns about the ability and appropriateness of lenders recording indicators of vulnerability. We also note that vulnerability may be transient or permanent, and the consumer will typically be in the best position to define the scope of support they need, if any. We have reflected on these points and agree that processes of this nature should generally be consumer driven. We recognise that some respondents expressed concerns around the lack of consistent guidance for interpreting data on vulnerability. We do not believe that firms should be using data on vulnerability to make creditworthiness assessments or to assess risk, because it could result in unfair decisions and discrimination against consumers based on particular vulnerabilities or protected characteristics. Such data should instead be used by firms to inform their customer engagement and forbearance strategies. Providing certainty to consumers on how this type of data will be used may also encourage greater uptake of these tools. We believe that lenders, in consultation with consumer representatives, should consider creating a set of principles for the use and interpretation of this data.
- 6.113** Some stakeholders raised concerns around the challenges of processing special category data on vulnerability, as it is likely to constitute “special category data” under GDPR requirements. We acknowledge these concerns, but do not consider them insurmountable as long as consumers are provided with appropriate information regarding the implications of recording a non-financial vulnerability marker and provide explicit consent. We also note that vulnerability can come in many different forms and there may not be one solution that will be appropriate in all circumstances. For this reason, we would like to see firms proactively tell consumers about the options of help and support that are available to meet the needs of vulnerable consumers, while allowing the consumer to decide the best path forward for them. We view this as part of how firms can ensure they are meeting our expectations on how to treat vulnerable consumers, and we believe that making this information available may encourage consumers to share information about their needs.
- 6.114** We understand that the current uptake for recording vulnerability is low for a variety of reasons. Furthermore, we recognise that sometimes consumers may hesitate to record information on vulnerability because of past experiences of their concerns not being considered or concerns about not being offered products and services on the basis of information they have provided. This lack of trust is therefore a hurdle for consumers to overcome. However, we think appropriate parameters about the use of such information could potentially be agreed across industry that mitigates these risks.

'Credit freeze' markers

- 6.115** We welcome the broad support for the proposal to implement 'credit freeze' markers, which will allow consumers to place a warning flag against their name if they do not wish to be accepted for any credit products at any given time. We view this as a particularly important remedy in the context of the ongoing cost-of-living challenges and as a complement to our remedies on NoCs and non-financial vulnerability markers.
- 6.116** We heard feedback that there are some processes in place to register 'credit freeze' markers in the UK market, including some CRAs offering these services. However, we are concerned that the variety of different services available, almost all of which are paid for, may be difficult for some consumers to engage with. Furthermore, it is possible that these 'credit freeze' markers are interpreted differently by different lenders or missed altogether because they are not currently automatically transferred across different services. Given that lenders typically use just one CRA to make a creditworthiness assessment, it is possible that a 'credit freeze' marker that a consumer has paid to register with one CRA will not be seen at all by the lender considering their application. Under the current system, a consumer would need to opt for paid-for tools at all CRAs to ensure that details of 'credit freezes' are seen regardless of which CRA the lender uses. This creates a considerable time and resource cost for consumers particularly if they are in vulnerable circumstances and may be resulting in lower-than-expected uptake.
- 6.117** We acknowledge and agree with the feedback that 'credit freeze' markers should only be used for credit origination and credit limit decisions, and not for tracing, soft searches or customer management. We also agree with the principle that there should be clear guidelines for consumers on how this type of marker will be used.

Next steps on remedy 3D

- 6.118** We expect the designated CRAs and CRGB to consider how best to implement this remedy, in line with the following objectives.
- 6.119** With regards to NoCs, we expect to see:
- Enhanced consumer awareness about the purpose and implications of the NoC process, including improved visibility on how to initiate the NoC process.
 - Processes which enable consumers to easily record, amend, and remove NoCs.
 - Processes which enable consumers to submit NoCs across different CRAs more easily where relevant and appropriate.
- 6.120** With regards to non-financial vulnerability markers, we expect to see industry consideration and engagement with appropriate processes and systems that enable:
- Consumers to easily record, amend and remove information about non-financial vulnerability in a way that improves firm awareness of consumer circumstances, in order to deliver good consumer outcomes.
 - Processes which enable lenders to readily incorporate this information into decisioning processes.

- Consistent recognition, adoption and application of a range of markers or information notifications which indicate consumers' circumstances and needs.
- Non-financial vulnerability information to be interpreted consistently across industry with clear parameters and appropriate guidance provided to consumers on disclosure, including how such data will be used.

6.121 With regards to 'credit freezes', we expect to see:

- Processes which enable consumers to register 'credit freezes' across the credit reporting ecosystem in a streamlined way without charge.
- Processes which enable lenders to readily incorporate this data into decisioning processes.
- Consumers have clarity on when and how this data will be used, as well as the implications of these markers on their ability to access credit.

6.122 We expect industry to consider the broad objectives highlighted above when considering how to proceed with this remedy. In the meantime, we consider that there would be consumer benefit from CRAs, lenders and consumer facing advice services such as MaPs signposting consumers and their representatives to appropriate services that facilitate the recording of non-financial vulnerability, so that consumers get the support they need.

6.123 We note that there are existing and emerging providers with applications that can help support this outcome. Currently, there is not a single shared approach to accessing and using non-financial vulnerability markers and credit freezes across the credit information market. Such information is not automatically transitioned into an individual's credit file, and lenders do not automatically consider this information during their decisioning processes.

6.124 For these reasons, we think the CRAs, along with the CRGB, should work to leverage existing resources to help ensure that non-financial vulnerability and 'credit freeze' markers recorded by consumers can be readily and routinely incorporated by lenders in decisioning processes. We recognise that this work is likely to require collaboration from different parties, including those already providing existing services in this area, and emerging models, including in other sectors.

Remedy 4A – More timely reporting of key data

6.125 In MS19/1.2 we explained that credit reporting usually occurs on a monthly basis, reflecting the payment cycle of typical credit products. However, we highlighted that this may not necessarily be an optimal solution for all credit products. For example, it can mean credit information is outdated by the time it is used. Likewise, the retail lending market continues to innovate and develop new products (such as, among others, BNPL products) which we did not consider the current monthly reporting infrastructure was likely serving well.

6.126 We discussed whether more timely reporting of key data to designated CRAs could help facilitate a more accurate and up-to-date view of consumers existing credit

commitments. We posited that this would enable lenders to make more informed lending decisions and ensure products and services offered to consumers are more appropriate to their financial circumstances.

6.127 To consider these issues further, we proposed that the CRGB undertakes further analysis to assess the potential costs and benefits of more timely reporting of key data.

6.128 We asked for feedback as to whether stakeholders agreed that more timely reporting of key data to designated CRAs would result in net benefits to both consumers and firms and whether stakeholders agreed with an industry-led approach to this proposed remedy.

6.129 We asked:

Q55: *Do you agree in principle that more timely reporting of key data to designated CRAs could deliver net benefits to firms and consumers?*

Q56: *Do you agree with our suggested approach of encouraging industry-led change in this area?*

6.130 Most respondents agreed in principle that more timely reporting of key data to designated CRAs could deliver net benefits to firms and consumers. Some respondents expressed concern about the potential complexities of implementing a change in frequency of data reporting, including possible resource and cost challenges for firms. These respondents also emphasised that any expectation that such a change be implemented quickly would exacerbate these challenges.

6.131 One respondent suggested that this proposed remedy requires careful consideration. Their view was that while there will be consumer benefits to more timely reporting, in some cases consumers benefit from a time lag. This is because if a consumer misses a payment deadline by only a day or two, this may not currently be reported as late by the lender depending on when the lender sends their file to the CRA.

6.132 Some respondents suggested that more consideration as to what data is thought of as 'key' is needed. Many of these respondents stated that some credit information is easier to report on a timelier basis than others. These respondents saw value in more timely reporting of key data relating to short-term lenders and levels of indebtedness (including BNPL products). However, these respondents saw less value in more timely reporting for asset classes such as mortgages where repayment schedules span years. Most of these respondents stated that shorter-term repayment schedule products should be prioritised with the implementation of this proposed remedy.

6.133 Many respondents also agreed with our suggested approach of encouraging industry-led change with regards to more timely reporting of key data. These respondents considered that industry-led change was the most appropriate approach given the need to reflect the views of a range of stakeholders (including non-FSMA regulated firms) and to utilise industry expertise.

6.134 Some respondents did question how industry-led change would ensure the timely delivery of this proposed remedy. These respondents considered industry players would struggle to come to a consensus given their conflicting objectives. Relatedly, a few

respondents asked for further clarification as to the role of the FCA in these proposed industry-led remedies. These respondents suggested the FCA may need to provide the new industry arrangements with clear objectives and potentially hold industry players to account with regards to implementation. This feedback has been reflected in our guidance for the CRGB on how it should operate, as discussed in further detail in Chapter 4.

Our response

We note the broad support from stakeholders for the proposed approach to this remedy but recognise that there are proportionality issues to consider. We also recognise that, as a part of the development of a common data format, there may be an opportunity to think more holistically about how credit information is reported to CRAs, including for example whether wider adoption of API interfaces could help provide a more up-to-date picture of consumers' financial circumstances. While we recognise the concerns raised by some stakeholders that complexities and costs will likely arise from more frequent reporting of key data under the current reporting framework, on balance we remain of the view that there are likely to be significant benefits for both consumers and firms from more timely reporting of certain key data.

We recognise that determining what data it may be appropriate to report on a more frequent basis will significantly influence the likely costs and benefits. As set out in Chapter 5, the proposed mandatory reporting requirement would create a credit information dataset comprising data provided by FSMA-regulated data contributors. Most of this data is presently reported monthly, however we consider some data could be reported on a more frequent basis. We agree that consumers would likely benefit from products with shorter-term repayment schedules (such as BNPL) being reported more frequently. However, we believe that careful consideration is needed to determine what products or data points could be reported on a more frequent basis to deliver optimal outcomes for consumers while ensuring that any increase in costs or complexity are proportionate to the benefits.

We also recognise that there are different approaches which could be adopted in terms of the frequency of reporting, for example this could be in real-time, daily, weekly or fortnightly. Each of these approaches are likely to present a different range of possible costs and benefits.

We note some stakeholder views about the potential benefits to consumers of data reporting time lags where payments are made late. While we recognise this point, on balance we think it is preferable for credit information to be as up to date as possible, both to enable credit information users to make their own assessment of the importance of late payments and to ensure any early financial difficulty is quickly identified. However, we appreciate that sometimes payments are made late for reasons unrelated to financial difficulty, and that it may be appropriate for some latitude to be incorporated into more timely

reporting mechanisms, particularly when reporting on consumers who are moving into an early arrears position. Overall, we think that more frequent reporting of certain key data will help to facilitate a more accurate and up-to-date view of consumers credit commitments. As a result, more timely reporting would enable lenders to make more informed lending decisions. This would likely improve outcomes for at least some consumers by helping to ensure the products and services offered to these consumers are more appropriate to their financial circumstances. More frequent reporting of key data could also help mitigate against fraud by ensuring more timely visibility to firms and consumers of new account openings.

Given the technical complexities raised by this proposal we remain of the view that an industry-led approach to this remedy is appropriate, particularly given the need to carefully consider the costs and benefits of what products or data points it might be appropriate to report on a more frequent basis, and what the frequency of such reporting could be. We also recognise that it may be helpful to consider this issue alongside the development of the common data format proposed under remedy 2B. We set out further details below of how we would like the CRGB to take this remedy forward.

Next steps on remedy 4A

- 6.135** We expect the CRGB to take forward this remedy by evaluating the costs and benefits of more frequent data reporting and possible implementation options which should be included within the CRGB's overall workplan.
- 6.136** We consider that there are likely four high-level approaches to increasing the frequency of reporting which the CRGB should consider the merits of:
- more timely reporting of all products and data
 - more timely reporting of some data in relation to all products
 - more timely reporting of some products only, but all data
 - more timely reporting of some data in relation to some products
- 6.137** The CRGB should have regard to proportionality and technical feasibility in its assessment, for example this may indicate that reporting only a subset of data more frequently is the most appropriate approach. The CRGB should also consider how any key data being reported more frequently might exacerbate the costs and benefits for particular types of data contributor or product.
- 6.138** We also think that it is important for the CRGB to consider ways in which certain data points could be reported more frequently as a part of the development of the common data format, including whether the wider adoption of API interfaces may mitigate any issues currently arising from time lags in reporting under the current framework.
- 6.139** We expect this work to be factored into the CRGB's overall workplan which we envisage may necessitate consultation and debate with a range of parties.

- 6.140** We propose that the outcome of this work is communicated to the FCA, which may be used to help inform whether specific regulatory requirements are necessary and appropriate in this area.

Remedy 4B – Reviewing PoR and related issues

- 6.141** In MS19/1.2 we explained that access to credit information is currently predicated upon the general principle of reciprocity. We described that this principle is embedded in the PoR – an industry document which addresses issues surrounding the use and sharing of credit performance data. This document is developed and overseen by SCOR. The PoR sets out that data contributors may only receive credit information from CRAs at the level of information they contribute (see [page 3 of the PoR](#) for further details). We also explained that the PoR helps prevent free riding from data contributors who would otherwise be unwilling to contribute credit information that they hold. This has helped to ensure that a 'critical mass' of credit information has been collected by CRAs.
- 6.142** Throughout MS19/1.2 we referred to the general principle of reciprocity as the 'underlying' principle and the Principles of Reciprocity industry document as the PoR.
- 6.143** Remedies 2A to 2D propose the introduction of a new regulatory framework around the reporting of credit information which seeks to ensure that credit information is as accurate, consistent, and comprehensive as possible. Remedy 2A proposes a mandatory reporting requirement for all FSMA regulated data contributors to designated CRAs. We consider that this will alter the incentives provided by the underlying principle of reciprocity for FSMA regulated firms to share their data. This is because a mandatory reporting requirement for these firms will require them to share certain data with the designated CRAs, potentially negating the effect of the underlying principle of reciprocity in incentivising such data sharing for FSMA regulated data contributors.
- 6.144** Given this, we raised the question as to whether changes are needed to the PoR to ensure it complements any mandatory reporting requirement introduced under remedy 2A.
- 6.145** To consider this further, we proposed that the CRGB undertakes further analysis to assess the continuing relevance and appropriateness of the underlying principle of reciprocity and the PoR, particularly in the context of an environment where credit information is provided to designated CRAs under a mandatory reporting requirement. We also asked for feedback as to whether stakeholders considered the underlying principle of reciprocity and the PoR would continue to remain relevant and appropriate with the introduction of a mandatory reporting requirement and whether stakeholders agreed with an industry-led approach to this remedy.
- 6.146** Since publication of the interim report, we have also engaged with stakeholders on various issues that either directly or indirectly relate to the PoR and the use of credit performance data, both within existing use case scenarios and potential new use case scenarios. There are also a number of broader issues relating to the reporting of credit information, how it is used and when it might be amended, that have been raised with

us by stakeholders. We set out more detail on these below including our proposed approach to how they might be considered further.

6.147 In MS19/1.2 we asked:

Q57: *Do you think that the underlying principle of reciprocity and the PoR would remain relevant and appropriate where credit information is provided to designated CRAs under a mandatory reporting requirement?*

Q58: *Do you agree with our suggested approach of encouraging industry to consider this issue with input from all relevant stakeholders?*

6.148 Many respondents felt that the PoR could be enhanced to better meet the emerging needs of the market and to encourage innovation such as taking forward new use cases for data. These respondents also suggested that the introduction of a mandatory reporting requirement would provide a good opportunity to review and update the PoR.

6.149 Some respondents stated that the underlying principle of reciprocity would continue to remain important for all firms, even with a mandatory reporting requirement, to ensure appropriate incentives remain in place for non-FSMA firms to share data. These respondents made it clear that they felt it was important that the PoR (or an updated version) remain in place for non-FSMA firms.

6.150 Most stakeholders agreed with our suggested approach of encouraging industry to consider whether the underlying principle of reciprocity and the PoR would remain relevant and appropriate with input from all relevant stakeholders. Respondents considered that an industry-led approach was most appropriate as extensive consultation will be needed with a wide range of stakeholders (including non-FSMA regulated firms) to evaluate this issue.

6.151 Some respondents did suggest that an industry-led approach may result in delays as stakeholders potentially lack the incentives to push forward change in a timely manner. Relatedly, a few respondents questioned how the industry governance arrangements would reach a representative consensus, ensuring that the views of stakeholders of all sizes and backgrounds are able to be represented and considered equally.

Our response

We recognise stakeholder views that the PoR could be enhanced to better meet the needs of and reflect the evolution of the credit information market. We consider that the CRGB, alongside evaluating how the PoR could be altered to complement the proposed mandatory reporting requirement, should also evaluate how else the PoR could potentially be amended to reflect the development of the market and needs of credit information users.

We have noted stakeholder views that the PoR should remain in place for non-FSMA regulated firms and we agree with these views. This is because we consider that the data provided by these firms is important for both non-FSMA and FSMA firms and can help play a role in building a fuller picture of consumers' financial circumstances and enhancing financial inclusion. As such, we agree it is important for non-FSMA regulated firms to be appropriately incentivised to report their data through being subject to the underlying principle of reciprocity.

Our current view is therefore that the underlying principle of reciprocity will remain relevant in its current form in the context of a mandatory reporting requirement in order to incentivise those firms not required to share data with designated CRAs to contribute their data. Depending on how the mandatory reporting scheme is designed, there is also a possibility that such a principle could still have relevance, for example in the event that firms were only required to share data across designated CRAs when already sharing with one CRA. Moreover, we recognise that the PoR document itself sets out detailed guidance on how data may be used in specific scenarios, which is likely to continue to be necessary unless otherwise provided for in rules or guidance.

However, we also think that there may be a need to consider whether changes are needed to the PoR to complement the proposed mandatory reporting requirement. For example, any permissible use cases for data shared under mandatory reporting set out in FCA rules may interact with the detailed rules on permissible use cases set out in the PoR. Despite this, our broad view is that the PoR, or equivalent arrangements, will continue to be necessary and appropriate as a mechanism to provide detailed guidance on complex issues. In our view, the PoR should reflect and complement the general requirements and expectations set out in any mandatory reporting scheme.

We have also considered a range of broader issues relating to the reporting and use of credit information which either directly or indirectly relate to the PoR, many of which have been raised by stakeholders with us and are likely to require holistic consideration by a representative group of stakeholders. These include questions around the need for clarity and consensus in relation to existing and potential new use cases, for example in the insurance and gambling sectors.

We also consider that there is scope for greater clarity around the approaches to be taken to data retention, amendment, or deletion when data contributors enter an insolvency procedure or otherwise cease trading, as well as in relation to FOS adjudications. We are also aware of the increased use of 'credit builder' products by consumers, which seek to improve credit scores through reporting certain financial arrangements to CRAs, but which may not provide fair value or represent a genuine payment obligation. We recognise that various industry stakeholders have taken steps to seek to resolve some of these issues, but that they typically require consideration and consensus from a representative group of stakeholders. Alongside the review of the PoR, we are therefore

also recommending that the CRGB develops further guidance in these areas to address these emerging issues.

We also think that alongside a review of the PoR there is an opportunity to consider how current processes which can result in consumers being assessed from a risk perspective by reference to geographically aggregated credit performance data deliver fair outcomes or are sufficiently transparent. For example, this may result in risk assessments for some consumers, particularly those who are younger and/or with 'thin files,' being significantly influenced by the aggregated credit payment performance of the postcode area in which they live. While we recognise that this approach may deliver market efficiencies, it may also raise questions of fairness when consumers are assessed by reference to information which does not reflect their individual circumstances. The approach could also perpetuate social inequalities. We therefore think that a broader review of these processes is now appropriate in the context of the Consumer Duty.

Given the complexity of these issues and need for industry expertise alongside broader stakeholder representation, we remain of the view that this remedy should be taken forward by the CRGB with appropriate input from the FCA or other parties where needed.

We recognise the concerns from some stakeholders that it may be hard to reach a representative consensus with views from all relevant stakeholders on these issues. This feedback has been reflected in our guidance for the CRGB on how it should operate, which is discussed in further detail in Chapter 4. We set out below details of how we would like the CRGB to consider these issues in its future workplan.

Next steps on remedy 4B

6.152 We expect to see the CRGB take forward remedy 4B as part of its workplan. We ask that the CRGB evaluates whether changes are needed to the PoR to complement the proposed mandatory reporting requirement implemented by the FCA and considers the need for further guidance or policy decisions on the specific issues identified below. We expect that the CRGB is proportional and balanced in their assessment of these issues. This should be particularly considered in light of any broader objectives being pursued by the CRGB. We recognise that some of this work may likely need to take place once the details of a proposed mandatory reporting requirement are clear.

6.153 We expect the CRGB to consider:

- if and how the PoR may need to be amended to complement the proposed mandatory reporting requirement, particularly having regard to the relevance of the underlying principle of reciprocity for FSMA-regulated data contributors and any permissible use cases for data set out under the proposed mandatory reporting requirement

- other ways in which the PoR could potentially be updated to better reflect the emerging needs of the wider credit market and credit information users, having regard to any broader objectives to which the CRGB may be subject

6.154 In addition, a number of issues have been raised in feedback, or separately with us, or which we have further considered that we would recommend the CRGB consider as a part of this work:

- the use of credit information by the insurance and gambling sectors where there is no credit element being assessed, to ensure a consistent approach and sufficient transparency to consumers on how data may be used by these sectors
- scenarios where data contributors enter into an insolvency procedure or otherwise cease trading
- scenarios where FOS adjudications create an expectation that certain data held by CRAs is either amended or deleted
- the reporting of certain 'credit builder' or other products which may not represent a genuine payment commitment
- the appropriateness and transparency of processes which can result in consumers' risk being assessed by reference to aggregated geographic credit performance data

6.155 We recommend this work be factored into the CRGB's overall workplan which we envisage may necessitate consultation and debate with a range of parties. We think that the relative prioritisation of these points and the need for any further guidance is best considered by the CRGB, in discussion with the FCA. We also recognise that some changes may need to be made to the PoR alongside the introduction of a mandatory reporting framework, this will therefore need to be considered as a part of any work prioritisation plan.

Remedy 4C – Improved CATO data with updated access arrangements

6.156 CATO data underpins many affordability-related services provided by CRAs. These services are typically used by lenders to inform their view of consumers' income. CATO data is governed by separate arrangements administered by UK Finance.

6.157 In MS19/1.2 we identified a number of ways in which access to and use of CATO data could be improved.

- While access to this dataset broadly reflects the underlying principle of reciprocity, the effect of this is that the most granular views of income based upon CATO data are restricted to those data contributors who offer PCAs. We suggested that there may be scope to reduce the differences in the way that views of income are provided by CRAs based on CATO data between PCA and non-PCA providers, so that non-PCA providers (who are involved in lending activities) are able to obtain more granular views of income and undertake more effective affordability assessments. We also considered that this would help level the playing field between PCA and non-PCA providers in terms of credit risk and affordability assessments, leading to increased competition between these providers.

- We also identified that CATO data shared by PCA-providers with CRAs can often be defined and reported on different bases, reflecting different CRA file specifications. We considered this likely results in some inconsistencies between CRAs and could impact the effectiveness of affordability assessments. We therefore suggested that the consistency of CATO data shared by PCA providers with CRAs could be improved. In addition, we identified that different levels of granularity of CATO data are currently reported to CRAs by different PCA-providers. This suggests that more granular CATO data could be reported by PCA-providers on a more consistent basis to enable more insightful CRA products and services relating to affordability. We therefore indicated there is an opportunity to consider how greater CATO data granularity could be achieved at a market-level.
- We also noted that some of these issues could potentially be addressed through the inclusion of CATO data within the proposed new common data format.

6.158 In MS19/1.2 we asked:

Q59: *Do you agree that granular CATO data should be made available to non-PCA providers? What implications might this have?*

Q60: *Do you agree that there is scope to enhance the consistency and granularity of CATO data? If so, how might this best be achieved?*

6.159 Almost all respondents agreed with our proposal of making more granular CATO data available to non-PCA providers who are involved in lending activities.

6.160 Many of these respondents highlighted the positive implications of updating access arrangements to more granular CATO data for non-PCA providers, such as:

- improved affordability assessments
- enabling early identification of individuals in financial distress
- levelling the playing field between PCA and non-PCA providers and increasing competition between these providers
- the chance to access more granular CATO data may also incentivise more firms to start using and reporting credit data, improving the comprehensiveness of credit data for all users

6.161 Almost all respondents also agreed there is scope to enhance the consistency and granularity of CATO data. Most of these respondents suggested that enhanced guidance for consistently defining and reporting CATO data was needed to achieve enhancement of CATO data and that this should be implemented as part of the common data format.

6.162 A few respondents questioned the need to update access arrangements to give more granular CATO data for non-PCA providers given these providers already have access to Open Banking data. Furthermore, respondents highlighted potential technical and legal challenges of updating access arrangements to more granular data for non-PCA providers. For example, a few respondents stated that it may not be in

the reasonable expectation of consumers that their CATO data is shared and used if access arrangements to more granular CATO data are updated for non-PCA providers. Respondents suggested this could raise contractual and data privacy issues which may be costly to resolve if updated customer consent is needed.

- 6.163** Some other respondents suggested that for the consistency and granularity of CATO data to be enhanced, so called 'non-consents' (older bank and other accounts opened before the mid-1990s for which appropriate information and privacy issues were not required to be issued at the time of account origination) must be included.
- 6.164** A handful of respondents also questioned how 'levels' of access to CATO data would be determined.

Our response

We note the feedback which agrees with our proposal to update access arrangements to CATO data. Similarly, many stakeholders also agreed with our view that there is scope to potentially enhance CATO data. This feedback also highlights that many stakeholders felt these changes could be partially addressed through the inclusion of CATO data within the new common data format, an industry-led remedy.

We agree with stakeholder views that open banking can be a viable alternative to the income and affordability products provided by the CRAs which are based upon CATO (and other) data. We would like to see greater use of Open Banking data which can potentially provide more granular views of income and expenditure. However, we recognise that Open Banking remains in a relatively early stage of adoption because of the need to gain consumer's explicit consent, and that the CRAs income and affordability products based on CATO data are already well-established and incorporated into lender decisioning processes. We therefore think that CATO is likely to continue to play a significant role in informing views of income in the medium term.

We acknowledge that any changes to the way that CATO data is used and accessed will present legal and technical challenges. In particular, we recognise that the use of, and access to, CATO data needs to be considered in the context of consumers' reasonable expectations. We also recognise that the nature of this data may mean that it is appropriate for it to be accessed and used in different or more limited ways in comparison to credit performance data. For example, it may be inappropriate for CATO data to be used to inform collections activity. However, on balance we consider that there is scope for reducing the differences in the way that CATO can be used in CRA income and affordability products provided to PCA and non-PCA providers. We remain of the view that this will help to deliver better consumer outcomes overall and help level the playing-field between PCA and non-PCA providers.

We recognise that the inclusion of so called 'non-consents' in CATO data is a longstanding issue that could be addressed but would also present some operational and legal challenges. However, we understand that there remain a significant number of accounts that are not reported because they were opened before the requirement to issue appropriate privacy notices and that it is possible for some consumers to experience difficulties accessing credit as a result. We therefore think that it is important to assess the costs and benefits of updating privacy notices for these accounts as part of a wider industry-led exercise to enhance CATO data. We agree with stakeholder views that the introduction of a common data format presents an opportunity to consider how CATO data could be enhanced, including whether it may be proportionate to include a limited number of additional data points to enhance granularity. We recognise that this will need careful consideration and that there is a balance to be struck between enhancing CATO data while there may be other, more optimal, solutions which can provide more definitive views of income.

Given the range of complex issues raised, we remain of the view that relevant industry stakeholders are best placed to determine the most effective and proportionate approach to updating CATO access arrangements and improving the quality of CATO data. However, given the nature of this data and implications for consumers we also think it is important that any updated CATO access arrangements or proposals to enhance CATO granularity are subject to appropriate consumer input. We therefore consider that it would be appropriate to consider whether the current CATO governance arrangements should be updated, for example by bringing CATO directly within the remit of CRGB. We set out below details of the specific issues that we think should be considered further and taken forward where appropriate.

Next steps on remedy 4C

- 6.165** We expect to see industry take forward remedy 4C as part of the CRGB's workplan. The issues raised should be considered in the light of any broader objectives being pursued by the CRGB. We also recognise that some of these issues may need to be considered alongside the development of a common data format under remedy 2B.
- 6.166** We recommend that industry consider the following specific issues, with a view to assessing the costs and benefits of change including possible implementation options:
- the most effective and proportionate approach to reducing the differences in the way that CATO can be used in CRA products provided to PCA and non-PCA providers across the retail lending sector
 - how CATO data might be enhanced, for example through the development of a common CATO reporting specification and the inclusion of a limited range of new data fields within a common data format

- the possible costs and benefits of updating privacy notices to allow older bank and other accounts to be used within the credit reporting framework
- whether it is proportionate and appropriate for CATO data to be used by lenders for a wider range of purposes than at present, having regard to the reasonable expectations of consumers
- whether CATO governance arrangements should be changed, for example by bringing CATO data within the direct remit of CRGB

Chapter 7

Next steps

FCA-led remedies

- 7.1** We will be following up this final report with consultation papers, cost-benefit analyses, competition assessments and compatibility statements where we will show how the proposed FCA-led remedies are compatible with the FCA's objectives and competition duty. We expect to sequence our consultation papers, starting with an initial consultation paper by the end of 2024.
- 7.2** The timing and sequencing of consultation papers on our proposed FCA rules, as detailed above, is partly dependent on the establishment of the CRGB given the interlinkages between the full package of remedies. We want to ensure that interactions between the FCA-led and industry-led remedies are fully aligned.
- 7.3** Our consultation papers will seek views on our proposed rules. We will consider all the feedback received and thereafter publish a policy statement with any finalised rules.
- 7.4** We expect firms to engage with the consultation process and then to work to implement any remedies which we introduce in line with the relevant implementation periods. We have already been actively engaged with firms on our proposed remedies and thank stakeholders for their positive and constructive discussions so far.
- 7.5** We also note the importance of addressing the issues identified in this market as promptly as possible, given the harms that they have the potential to cause. We will continue to keep the prioritisation of the measures under review.

Industry-led remedies

- 7.6** As discussed, we see the reform of industry governance arrangements as the key precursor to the majority of the industry-led remedies. We have now formed the IWG and expect its work to be concluded in 9 months. We will work with the IWG to reform industry governance arrangements. Our progress on this is detailed in Chapter 4 and on [our webpage](#). Once governance arrangements have been reformed, we would like to see the CRGB take forward the industry-led remedies as per the recommendations for the new CRGB detailed in Chapter 6. In the meantime, prior to formation of CRGB, we would welcome further industry engagement on how these remedies might be progressed."
- 7.7** We will be monitoring the progress of the CRGB and industry-led remedies and where we see firms failing to meet our expectations we will look to intervene as appropriate using our regulatory tools.

Chapter 8

Abbreviations used in this report

Abbreviation	Description
API	Application Programming Interface
CATO	Current Account Turnover
CCA	Consumer Credit Act 1974
CCDS	Commercial Credit Data Sharing
CCJ	County Court Judgements
CRA	Credit Reference Agencies
CIS	Credit Information Services
CISP	Credit Information Service Providers
CIMS	Credit Information Market Study
CIU	Credit Information Users
CMA	Competition and Markets Authority
CONC	Consumer Credit Sourcebook
CRAIN	CRA Information Notice
CRGB	Credit Reporting Governance Body
DISP	Dispute Resolution Sourcebook
DPA	Data Protection Act
E-OSCAR	Electronic Online Solution for Complete and Accurate Reporting
FCA	Financial Conduct Authority
FLA	Finance and Leasing Association's
FSMA	Financial Services and Markets Act 2000
GDPR	General Data Protection Regulation

Abbreviation	Description
HHI	Herfindahl-Hirschmann Index
ICO	Information Commissioner's Office
IWG	Interim Working Group
MAPs	Money and Pensions Service
MOU	Memorandum of Understanding
NOC	Notice of Correction
PCA	Personal Current Account
POR	Principles of Reciprocity
RFI	Requests for Information
SCOR	Steering Committee on Reciprocity
SCR	Statutory Credit Reports
SLA	Service Level Agreement
SYSC	Senior Management Arrangements, Systems and Controls
TOR	Terms of Reference
US	United States
UK	United Kingdom
VRS	Vulnerability Registration Service

Chapter 9

Glossary of terms used in this document

Term	Description
Affordability assessment	Assessment of a customer's ability to make repayments in a sustainable manner without having a significant adverse impact on the customer's financial situation.
Barriers to entry	Factors that can impede new firms from entering a market and so limit competition.
Challenger CRAs	Small CRA that typically use Open Banking data to inform creditworthiness assessments.
Credit file	The information that a CRA holds about an individual related to their financial standing.
Credit information service provider (CISP)	Provider of credit information services to consumers.
Credit information user (CIU)	Purchaser of credit information and derived products (from a CRA) typically to verify the identity of potential new customers and to assess their creditworthiness.
Credit reference agency (CRA)	An entity providing credit references.
Credit score	Indicator of an individual's creditworthiness, typically provided by a CRA.
Creditworthiness assessment	A lender's assessment of credit risk (to the firm) and affordability for the borrower.
Data contributor	Provider of data (relevant to an individual's financial standing) to a CRA. Typically includes lenders and non-financial services firms. CRAs also obtain information from other public and private data sources.
Data quality	Coverage and other aspects of the quality of credit information such as timeliness, accuracy and depth.
Deferred payment credit	New type of product sometimes referred to as buy-now-pay-later.
Dynamic competition	Competition between firms on innovation.
Embedded finance	The integration of financial services into non-financial offerings.
Foreclosure	Exclusion of a firm from a market caused by restricted access to a necessary input.

Term	Description
Open Banking	A secure way for customers to control their banking data and share it with organisations other than their own bank.
Open Banking Implementation Entity	Independent organisation set up by the 9 largest UK retail banks, following an order by the CMA, to implement Open Banking in the UK.
Sludge practices	Excessive friction that hinders consumers from making decisions in their interests (by taking advantage of their behavioural biases).
Statutory credit report	Credit file information available for free through a statutory process.
Token payment	Where a borrower pays a nominal payment, for example, £1 a month, towards debt for a limited period of time. A non-token arrangement is one where it is not a nominal payment, but something more meaningful, and usually agreed for a longer period of time.

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