Credit Information Market Study
Terms of Reference

Market Study
MS19/1.1

June 2019

How to respond

We are asking for comments on this report by
31/07/2019

Or in writing to:
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1 Executive summary

1.1 This Terms of Reference marks the start of the Credit Information Market Study and sets out the Market Study's rationale, scope and the topics we will explore.

1.2 Credit information is used to help assess the financial standing of consumers and plays a key role in enabling access to a range of financial and non-financial services. It is important in delivering public policy objectives such as responsible lending. We have identified concerns about the coverage and quality of credit information, the effectiveness of competition between credit reference agencies (CRAs), and the extent of consumer engagement.

1.3 Given its important role and our concerns, it is vital that we understand how the credit information market works, whether it does so in the interests of credit information users and consumers, and whether there is scope for improvement. We are particularly interested in understanding how the credit information market:

- functions, including the role of CRAs and the effectiveness of competition between them, as well as the roles of data contributors and credit information users
- impacts consumers, including those who are vulnerable or may face access challenges and the various consumer-facing markets that use credit information

1.4 To do this we will focus our work under the following themes:

- purpose, quality and accessibility of credit information
- market structure, business models and competition
- consumers' engagement and behaviour

1.5 The credit information market is undergoing a period of significant change: regulatory and technological developments may present new opportunities for consumers to engage with credit information and related services, but may also create risks or raise ethical considerations. We will therefore also explore future trends and how the sector may develop and the impacts on markets and consumers.

1.6 We will now start to gather evidence from CRAs, data contributors, providers of credit information services (CISs), users of credit information, industry representatives, and consumer organisations.

1.7 We aim to publish an interim report setting out our analysis, preliminary conclusions and, if appropriate, potential remedies in spring 2020. We will consult on this and, after carefully considering the responses, publish our final findings later in 2020.

1.8 We are not formally consulting on these terms of reference, but would welcome any views on them and the specific questions in Annex 1 by the end of July.

2 Role of credit information and rationale for the market study

2.1 Credit information is used in a variety of ways in a number of different markets. As such the potential impact of credit information on consumers is wide-ranging. For example, many financial and non-financial services markets rely on credit information to verify a customer's identity and to reduce the risk of fraud. We want to understand how the credit information market functions and whether it is working in the interests of credit information users and, ultimately, of consumers.

2.2 Credit information is particularly important for the retail lending market. This section explains the importance of credit information in retail lending. It then describes the rationale for the credit information market study.

The role of credit information in retail lending

2.3 The UK has a relatively advanced credit information market, comparing favourably to many other countries both in terms of the depth and coverage of credit information (see the World Bank Doing Business report). Credit information is critical in the retail lending sector, influencing much of the allocation of over £50bn of net lending in 2018 (see Bank of England report). Indeed, nearly 80% of adults hold at least one credit/loan product (see the FCA Financial Lives Survey). A well-functioning credit information market can:

- **Improve lenders' ability to verify the identity of a potential customer and militate against fraud.**
- **Inform assessments of credit risk and affordability** to help lenders assess an applicant's risk of default and set interest rates or determine the total amount of credit offered accordingly, as well as helping customers avoid over-indebtedness (see Bennardo, Pagano & Piccolo).
- **Reduce the informational advantage of individual lenders**. In the absence of shared credit information, a lender would hold information about the financial standing of its own customers only, giving firms with large back books of customers an advantage.
- **Increase borrowers' incentive to fulfil their repayment obligations** as any failure or delay in repayment should be recorded and made available to other credit information users (increasing a borrowers' future cost of credit or even restricting their access to credit).

Rationale for the Market Study

2.4 The credit information market is important, and we have concerns about it. This means we must understand how the market functions and whether it is working in the interests of credit information users and consumers. Key issues include the following:

- Good-quality (accurate and complete) credit information is often key for lenders to conduct effective creditworthiness assessments. The data-sharing arrangements in place between data contributors and CRAs determine access to credit information. We have previously identified concerns about the coverage, timeliness and consistency of credit information (see CP17/27). Poor quality credit information used by lenders could lead to harm if a consumer is 'wrongly' declined for credit or is offered credit that is unaffordable. We have also considered how credit information may affect access to alternatives to high-cost credit, including credit unions and CDFIs (see CP18/35).
- Effective competition between CRAs can drive competitively priced, high-quality and innovative products. It may also result in consumers being better served by financial (and non-financial) services that depend on credit information. We note that several market characteristics could indicate low competitive pressure, for example the market appears to be concentrated and some lenders have raised concerns about the costs of switching CRA. We recognise that these factors alone do not mean that competition is not working effectively, therefore we wish to assess competition in more detail.
- Consumers' understanding and engagement with their credit information, and their consequent behaviour, may significantly affect how their creditworthiness is perceived by providers of financial (and non-financial) services. In its 2016 survey, Which? found that 53% of people have never checked their credit report and 36% incorrectly thought that checking their credit score regularly would damage their credit rating. Low awareness and understanding may lead to consumers missing opportunities to improve their credit rating and reduce the cost of future borrowing.
- Credit information can play a key role in enabling consumers to access a range of financial and non-financial services. Research by Experian suggests that 5.8 million consumers have limited or no credit history – this could restrict their ability to access numerous services. We recognise that initiatives such as the Rent Recognition Challenge may help with this. But we wish to understand the extent to which the issue may lead to consumer harm in financial services and how this might be addressed.
- Developments in technology, data sources, and regulation may significantly alter the way this market functions in the near future, bringing new opportunities for consumers to engage with their credit information and related services.

A FSMA market study

2.5 We will conduct this market study under the powers given to us by the Financial Services and Markets Act 2000 (FSMA) rather than the Enterprise Act 2002 (EA).

3 Sector structure and market participants

3.1 Critical to understanding a market is understanding the main participants and their functions. This chapter describes our current understanding of the credit information market's structure, main participants, and relevant regulation.

Market structure and main participants

3.2 We describe the structure of the credit information sector through four types of participant:

- Credit reference agencies (CRAs)
- Data contributors
- Credit information users
- Credit information services (CIS) providers, who are also credit information users

3.3 Figure 1 (over the page) provides a simplified illustration of the sector and certain associated activities that market participants undertake.

Credit reference agencies

3.4 CRAs aggregate information from data contributors within and across a range of different sectors. CRAs build a financial profile for a consumer by matching information from data contributors and from other data sources, such as public records. These public records can include the electoral registry, County Court Judgements, debt relief orders, individual voluntary arrangements (IVAs), and bankruptcies. Correctly matching credit information to a consumer can be difficult as the same consumer might use different versions of their name or address, and these can change over time. These financial profiles are known as credit reports or credit files.

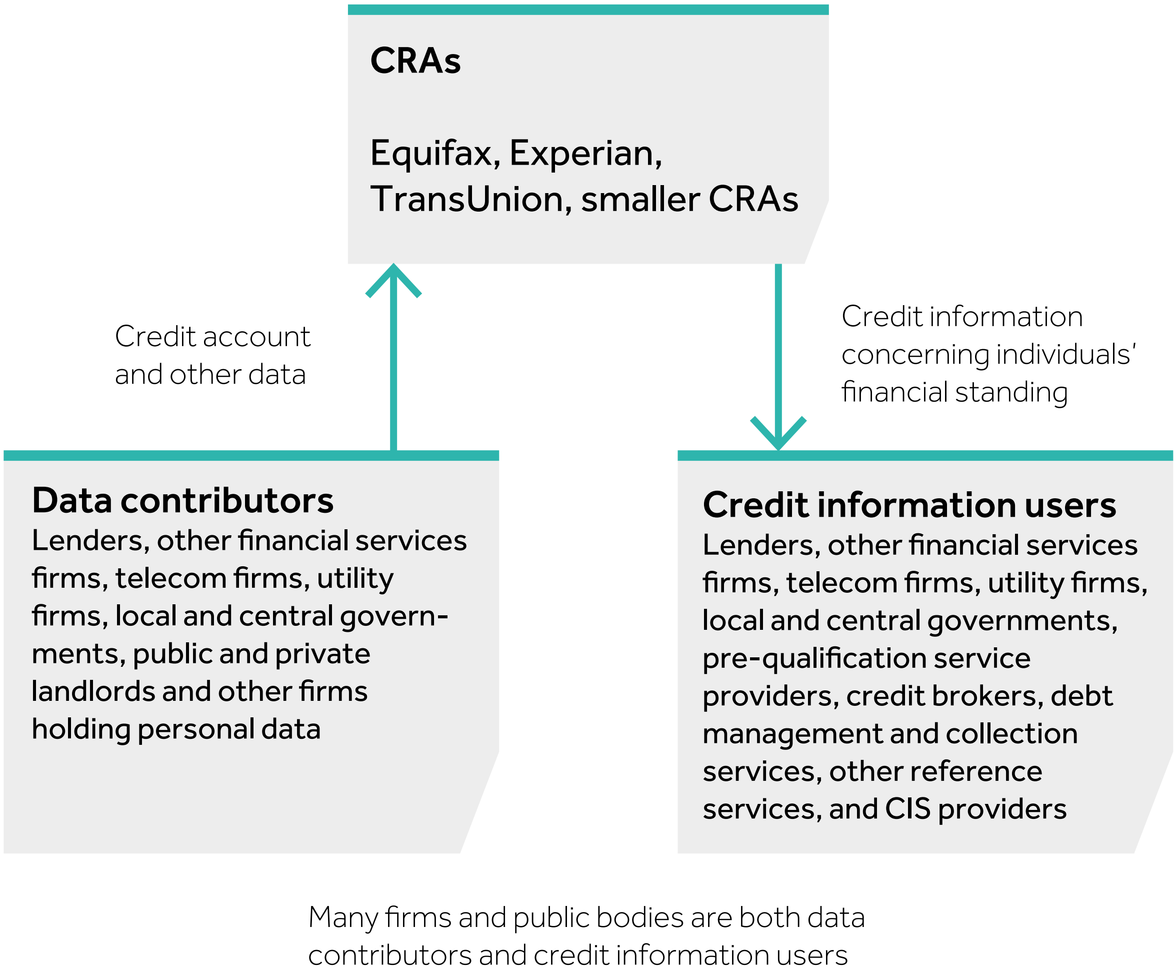
3.5 CRAs provide credit information, and products and services derived from this information including credit scores, income verification, identity verification and affordability tools. This is provided to credit information users. CRAs also provide a range of services directly to consumers. Each CRA constructs its own set of credit scores, which differ from other CRAs.

3.6 The UK credit information market consists of 3 large and established CRAs (Experian, TransUnion and Equifax) and around 20 much smaller CRAs.[1] All 3 large CRAs are part of global groups that operate in other countries. Experian is by far the largest of the 3 with revenues of around £600m in 2017/2018. TransUnion (previously CallCredit) and Equifax are similar in size, each with revenues around 20% of Experian.

3.7 Most small CRAs are recent entrants to the market. Some CRAs are seeking to use advanced analytical techniques, such as machine-learning or artificial intelligence, to provide alternative credit-scoring models. Some are developing business models which complement traditional credit information with alternative data sources including from Open Banking, social networks or interviews with consumers.

1 Around 25 firms are authorised by the FCA to provide credit references (PERG 2.7.20L).

Figure 1: Stylised sector structure



Source: FCA

Data contributors

3.8 Data contributors typically include lenders (providers of mortgages, credit cards, loans, etc) and non-financial services firms such as telecom companies, utility companies, and landlords. CRAs also obtain information from other public and private data sources.

Credit information users

3.9 Lenders most commonly use credit information and derived products provided by CRAs to verify the identity of new customers and to assess their creditworthiness. They may also use the information to manage the accounts of existing customers and to inform forbearance strategies. They might use this alongside other relevant information they have available, such as personal details the applicant has supplied or the lenders' record of previous dealings with the applicant.

3.10 FCA rules do not explicitly require lenders to use information from CRAs when making lending decisions. However, a firm survey conducted in 2016 found that 96% of lenders use CRAs and 48% use two or three CRAs. The credit scores provided by CRAs can indicate the creditworthiness of a consumer, but they are unlikely to be determinative given the range of other factors relevant to lending decisions.

3.11 Other credit information users in financial services may include pre-qualification service providers, credit brokers, debt management and collections services, and other reference services. Debt management firms use credit information to help them identify appropriate debt solutions.

3.12 CRAs also provide information and other services to non-financial services sectors such as utility firms and landlords. The public sector, for example local and central government, commonly uses fraud and ID/tracing tools.

Credit information services

3.13 CRAs may also make credit information and/or credit scores available to the consumers concerned, either directly or through third-party providers of credit information services (CIS).[2] This is the main way consumers engage with their credit information and credit scores.

3.14 The two prevailing business models among providers of credit information services are: paid-for (typically a monthly subscription fee) and free. The free services are typically integrated with a broking service (in credit, mortgage, and/or insurance) and generate income through lead generation.

3.15 The provision of free services is relatively new. Noddle was the first to start offering free services in 2011, followed by ClearScore (2015), Credit Club (2016, part of MoneySavingExpert), and Experian free account (2016). Several new, free credit information services providers have entered the market since 2016 (see CMA Experian/ClearScore provisional findings). Alternatively, consumers can request their free statutory credit report directly from the three established CRAs.

3.16 Apart from providing a consumer's credit information and credit score, CIS providers are increasingly offering consumers additional services such as fraud detection, alerts to score changes, score history, and guides on how to interpret credit files and improve credit scores.

Data collection

3.17 CRAs collect data from a range of sources, including (i) data that are publicly available, (ii) data they purchase on commercial terms, and (iii) data provided by data contributors in return for access to the aggregated credit information the CRA provides (ie data sharing). A data contributor may provide data to multiple CRAs. However, CRAs do not share information directly with one another.

3.18 Data that are shared with CRAs include the date a customer's accounts were opened, the amount of debt outstanding (if any), any credit limits and the repayment history on the account, including late and missing payments (see CRAIN). An increasing range of data are now being shared with CRAs, including monthly current account turnover data, payment arrangements with utility and telecommunication services, and some public and private rental payments.

2 The activity of providing credit information services is in Article 89A of the FSMA 2000 (Regulated Activities).

3.19 Data sharing is predominantly governed by the Principles of Reciprocity (PoR), an industry agreement that covers key issues including terms of access and purposes for which the information may be used. Broadly, these arrangements set out that data contributors can access credit information of the same kind they contribute, with a view to encouraging comprehensive coverage. Although these arrangements have evolved, they continue to broadly reflect operational processes established in the 1990s - for example providing data to CRAs using 'batch' or monthly updates.

3.20 Data contributors sign up to be members of a closed-user group. At a high-level, the PoR requires that:

- Members have access to the same level of information that they contribute, known as their 'subscription level'. Members with a low subscription level cannot access the higher-level data held about an individual.
- For a given subscription level, members must provide all such information available.
- Credit information has restricted uses, such as to prevent fraud and identity theft, to support debt recovery and responsible lending, and to comply with legal and regulatory requirements. Particularly, credit information cannot be used to identify and select prospective customers.

3.21 The PoR are administered and developed by the Steering Committee on Reciprocity (SCOR), a cross-industry forum made up of credit-industry trade associations, CRAs and representatives from different sectors, including financial services, utilities and telecoms. SCOR operates on behalf of the trade associations and industry bodies that it represents and can only make recommendations on matters concerning the PoR to those organisations. It has no powers of its own.

3.22 Separately, since 2006, personal current account (PCA) providers also share current account turnover (CATO) data with each other. CATO data consist of the monthly aggregated credit and debit turnover for each PCA. Some lenders use CATO data to help verify borrowers' income and to support affordability and indebtedness assessments. Members of the closed user group of CATO data (within SCOR) have access to granular CATO data. Non-members (eg credit providers without a PCA product) that nonetheless contribute data can access some level of information or products derived from the CATO data, such as income verification tools.

Regulatory landscape

3.23 CRAs and CIS providers were brought into FSMA regulation in 2014 and are authorised firms, although there are currently no rules specific to credit information in the FCA Handbook. In recent years, the FCA has made significant interventions in the consumer credit market involving analysis and research relevant to, or derived from, credit information. We have also engaged with industry work on quotation search tools. We now wish to better understand the extent to which changes to regulation, or other means, could achieve better outcomes for consumers. Annex 2 sets out more detail on certain relevant regulation.

4 Scope of our market study and themes for investigation

4.1 A market study typically involves looking at a market holistically to understand the impact of market forces and structures. It is in-depth, evidence-driven and typically considers the behaviour of consumers, firms and potential new entrants. The primary aim is to identify how a market could be made to work better going forward, rather than focusing on past firm conduct.

4.2 This chapter sets out the scope of the credit information market study and the themes we plan to investigate.

Scope of the market study

4.3 The focus of this market study comprises two related elements. First, how the credit information market *functions*, including the role of CRAs and the effectiveness of competition between them, as well as the roles of data contributors and credit information users.

4.4 Second, how the credit information market *impacts* consumers, including those who are vulnerable or may face access challenges, and the various consumer-facing markets that use, or may benefit from using, credit information. For example:

- the impact of credit information on lending decisions and forbearance, including mortgages and consumer credit
- the impact of credit information on access to other financial services
- any barriers to accessing credit information for credit information users who are not able to contribute data to CRAs that may ultimately impact consumers
- consumer engagement with credit information, such as accessing credit files or scores directly from a CRA or via providers of credit information services (CIS)

4.5 We will focus on credit information relating to individuals; and *not* on the provision of credit information to SMEs. However, the relevant FCA-regulated activity (of providing credit references) also relates to information relevant to 'relevant recipients of credit' – such recipients include sole traders and small partnerships. So, should any remedies be required, we may need to be mindful of how credit information for sole traders and small partnerships differs to help avoid unintended consequences.

4.6 We will consider lending practices which are directly impacted by the availability and quality of credit information, including identity verification and assessments of creditworthiness. Lending practices not impacted by credit information, such as the impact of funding costs on pricing or the availability of funds, are out of scope.

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

Themes for investigation

4.8 We have developed four themes that we intend to explore in the market study. See Figure 2.

Figure 2: Proposed themes

Theme	Credit information market	Potential impact on consumers
Purpose, quality and accessibility of credit information	The nature and purpose of credit information and derived products and services The coverage and quality of credit information Incentives created by data sharing arrangements	Do the quality and accessibility of credit information enable credit information users to serve their customers effectively (eg for lenders to make good lending decisions)? What impact does this have on consumers in different markets? Are vulnerable customers disproportionately affected by the way credit information is used? Does the PoR lead to good outcomes?
Market structure, business models and competition	How CRAs compete for business Barriers to entry and expansion The incentives on CRAs	Does the nature of competition in the credit information market result in higher prices, reduced quality, and weaker innovation in credit information products and services? Does this lead to consumer harm and, if so, how?
Consumer engagement and behaviour	Consumer engagement with credit information	How do consumers use credit information services? To what extent do they understand credit information and how does this impact their behaviour?
The future evolution of the market	Impact of new data sources, analytical methods and regulation on collecting, aggregating and providing credit information	Potential benefits and harm to consumers of market developments, including any ethical issues raised by new data sources and analytical methods. This includes the impact on those who have a limited credit history or low financial literacy.

4.9 We also intend to look at how the markets for credit information work in some other countries and what the UK market might learn from them.

Theme 1: Purpose, quality and accessibility of credit information

4.10 The effective functioning of the retail lending markets (eg mortgages, credit cards, and personal loans) depends on the availability of good-quality credit information, measured in terms of its coverage and accuracy. Most lenders use the credit information provided by the CRAs, as well as products and services derived from it, to verify the identity and assess the creditworthiness of applicants, and help make lending decisions (eg whether to lend and under what terms).

4.11 We have previously identified concerns about the coverage, timeliness and consistency of credit information (see CP17/27). Lenders may be unable to make efficient lending decisions if they cannot access good quality credit information about a potential borrower. For example, a lender may decide not to provide credit if they are unable to access sufficient credit information to assess an applicant, even where the applicant may otherwise represent a low credit risk (eg some 'thin file' consumers).

4.12 Inefficient lending decisions can result in consumer harm in several ways. Consumers may take on too much debt (over-lending), have limited access to credit relative to their credit risk (under-lending), pay high costs of credit relative to their credit risk (over-pricing), or be offered inappropriate products that do not meet their credit needs.

4.13 To understand whether the credit information market provides sufficiently good quality information to ensure the effective functioning of the retail lending markets and mitigate consumer harm, we will explore the following issues:

- **The nature and purpose of credit information and derived products and services.** We will identify the various purposes for which credit information is used and the extent to which providing this information contributes to wider public policy objectives, such as helping to facilitate responsible lending to prevent over-indebtedness and facilitating access to other products or services. This will enable us to understand the potential benefits to consumers of improving any aspects of the credit information market that we conclude are not currently working well. In particular we will consider whether vulnerable customers are disproportionately affected by the way credit information is used, and whether any alternative approaches might deliver better outcomes for consumers.
- **How complete and accurate is the credit information CRAs provide?** We will consider the quality of credit information in several areas, including the proportion of the population covered, the depth and accuracy of the information held, the nature of the data collected, and the extent to which the information is up to date. We will consider the impact this has on products and services derived from this information, and how the quality of credit information and its derived products can affect lending decisions including the impact on access to credit for different segments of consumers (such as those with thin files).
- **How do the data-sharing arrangements work, what incentives do they create and what impacts do they have on competition?** We will seek to better understand how data-sharing arrangements (eg the PoR) are governed, whether they create the incentives for data contributors to share high-quality data with multiple CRAs, and whether they enable credit information to be accessible to different lenders.

Theme 2: Market structure, business models and competition

4.14 Effective competition between CRAs should create strong incentives to ensure that good-quality credit information and its derived products and services are accessible to credit information users at competitive prices.

4.15 If competition does not work effectively and CRAs have market power (over credit information users), they may charge high prices for access to credit information and derived products and services. Or there may be only weak incentives on CRAs to improve quality or to innovate or both. Such 'costs' could impact consumers through higher pricing for, or reduced quality of, downstream products and services, or inefficient lending decisions.

4.16 Additionally, competition in related markets could be stifled. For example, if CRAs vertically integrate with downstream CIS providers, CRAs may have incentives to offer credit information on advantageous terms to those integrated services. This could affect competition from third party CIS providers in those markets and could lead to consumer harm in the form of higher prices, reduced quality of service, or reduced access to innovative products and services.

4.17 Some lenders have indicated that it is costly (in terms of fees paid and operational costs) to subscribe to multiple CRAs (multi-homing) or to switch their credit information source from one CRA to another. CRAs may exploit barriers to multi-homing and switching.

4.18 To assess whether competition between CRAs is working effectively, we need to consider the structure of the market they operate in and the nature of their commercial offerings.

This will allow us to understand the level of competitive pressure and the extent of CRA market power. To do this we will explore the following questions:

- **How do CRAs compete to win new business and retain existing business?** We will explore the dimensions on which CRAs compete. We will seek to understand what products and services CRAs offer, what credit information users need, and the role credit information currently plays in the CRAs' business models. We will also consider how credit information users choose these products and services, and the trade-off between price and quality. We will consider the ability of credit information users to switch CRA and exert a degree of buyer power over CRAs.
- **Are there barriers to entry and expansion in the market?** We will seek to understand the structure of the CRA market and how this has changed over time. We will explore the extent to which new CRAs can enter the market or gain market share and the impact of industry features (including network effects[3] and regulation). We will also explore the extent to any barriers might change over time.
- **What incentives do CRAs face?** We will seek to understand CRAs' different lines of business. Our focus will be on understanding the underlying business model to better understand the incentives these create and how they could evolve. Relevant to this is also the ease and terms on which credit information users can access information from CRAs and whether some users may be 'priced out'.

Theme 3: How credit information and services affect consumer behaviour

4.19 Consumer awareness and understanding about the nature and role of credit information (including derived products such as credit scores) can significantly affect their behaviour and ability to improve their creditworthiness.

4.20 Poor awareness and understanding of the nature and use of credit information can lead to adverse consumer outcomes, adversely affecting the terms on which they can access credit (if at all). Consumers may, for example, be unaware of how searches are recorded on their credit files, and of the distinction between 'soft' searches (which may facilitate quotations or indicative eligibility tools) and 'hard' searches. This might lead to a consumer making multiple credit applications in a short period of time, not being aware that certain applications leave a record on their credit file which can reduce their chances of obtaining credit in subsequent applications.

4.21 In a 2016 survey, Which? found that 53% of people have never checked their credit file, 60% of people incorrectly thought that CRAs made lending decisions, and 36% incorrectly thought that checking their credit score regularly would damage their credit rating. Lack of awareness and lack of understanding may lead to consumer behaviour that is detrimental to creditworthiness.

4.22 We will assess whether poor consumer awareness and understanding could result in consumers behaving in a way that negatively affects their creditworthiness, access to credit or the prices at which they can obtain credit. We will seek to answer these questions:

3 This describes the effect that as more firms share data through a CRA, the data held by that CRA become more attractive to other firms and attracts even more firms to contribute. This effect can prevent small CRAs from reaching commercially viable scale.

- **How do consumers use credit information services?** This will include the value that consumers derive from accessing these services. We will also consider products and services designed to improve consumer credit scores.
- **How well do consumers understand their credit files and credit scores?** We will explore, for example, whether consumers know how to access their file, how to challenge or correct data, the potential impact of application searches, and how to improve their credit scores.
- **What impact does this understanding have on behaviour?** We will examine how consumers' awareness and understanding of credit information inform the way they interact with credit information services and credit products. This includes, for example, how they search for credit products and how they react to having thin files or low credit scores.

Theme 4: The future evolution of the credit information market

4.23 The credit information market is undergoing a period of significant change. Regulatory and technological developments have the potential to increase the volume and type of credit information available to firms and to transform how these can be analysed. They may present significant new opportunities for consumers to engage with credit information and related services. But they may also create potential risks and raise ethical considerations. We will seek to understand the potential impact of these developments on the sector. We have identified market developments in three key areas which we will explore in more detail:

- **The use of new data sources**: CRAs are collecting an increasing volume of data about consumers and increasingly seeking to use data from a wider range of sources, including rental payments as well as more novel sources such as social media, customers' online browsing history and digital footprints. There may also be data held by central and local government, including information relating to income tax, council tax and benefit payments, that could be relevant to how the market may evolve.
- **The use of more advanced techniques for analysing data**: the application of advanced analytical techniques, for example from artificial intelligence driven analytics and behavioural tracking and analysis, which new CRAs and the established CRAs are undertaking.
- **The impact of regulatory initiatives**: Open Banking and PSD2 are enabling firms who provide account information services to access and share online bank account data, with explicit customer consent. Data portability requirements under GDPR may also enable consumers to more easily share relevant information with lenders.

4.24 These developments could increase the sophistication of creditworthiness assessments, particularly for those consumers with limited credit histories. They could also impact the competitive environment, creating opportunities for firms with innovative business models to enter the market.

4.25 However, these developments could also create potential harm. The use of an increasing number and different types of data sources might, for example, create risks to data security and raise data privacy issues. And greater use of algorithms could lead to variables correlated to protected characteristics (such as race, religion or gender) being used to determine credit scores. These developments could also create the risk that consumers who do not consent to share information about themselves might face higher charges or even become financially excluded.[4]

4.26 It is important therefore that we understand how the market might develop in the future, what potential harms could arise and how we can ensure potential benefits are realised. We will therefore explore the following questions:

- **What could be the impact of new data sources, analytical methods and regulation on competition and consumers?** We will explore if these developments could create opportunities for new firms to enter the market or whether they might create additional barriers to entry due to, for example, the large fixed costs of holding data. We also want to understand their impact on different types of consumers, such as those with limited credit histories or low financial literacy. We will seek to identify any potential ethical concerns, for example in relation to the sharing of particular types of data and any discrimination resulting from processing methodologies based on protected characteristics.
- **Are there any constraints to the benefits of these developments materialising and do they create any potential harm to consumers?** We will explore whether there are any reasons why the benefits from these developments might not be realised, for example, the extent to which consumers would be willing to engage with Open Banking and the likely timescales for this.[5] We will seek to understand whether these developments could create potential harm or create potential ethical, privacy or data protection concerns.

4.27 To better understand how the credit information market might evolve in the future we will seek input from a range of industry experts.

4 This has been widely discussed in the academic literature, for example, https://www.law.ox.ac.uk/business-law-blog/blog/2018/11/law-and-autonomous-systems-series-algorithmic-credit-scoring and; http://www.fsb.org/wp-content/uploads/P011117.pdf

5 This was one of the themes from the responses to our consultation of assessing creditworthiness

5 Next steps

5.1 We are not formally consulting on these terms of reference. However, we welcome any views on them and the specific questions in Annex 1. Please send these to CreditInformationMarketStudy@fca.org.uk by the end of July.

5.2 We will start gathering information and views from stakeholders. This will include CRAs, CIS providers, contributors of data to CRAs, users of credit information, and consumer organisations. We plan to tailor our approach depending on the nature of the information needed to minimise the burden on stakeholders as far as possible.

5.3 We aim to publish an interim report setting out our analysis, preliminary conclusions and, where appropriate, potential solutions to address any concerns identified in spring 2020. We will consult on this and, after carefully considering responses, publish our final findings later in 2020.

5.4 We may decide to take no further action. This could be because we do not identify any concerns that regulatory intervention can proportionately address, or that anything we find is likely to be addressed by upcoming legislative measures or likely future market developments. If this is so, we may continue to monitor the sector to ensure our concerns are addressed.

5.5 If we find that the credit information market is not working effectively, we may intervene to minimise any harm for consumers. We can do this in several ways, including rule-making, publishing general guidance, proposing better self-regulation for the industry or introducing firm-specific remedies or enforcement action. We can also introduce or remove rules to lower barriers to entry, expansion or innovation. And for issues that lie outside the FCA perimeter, we can make a reference to the Competition and Markets Authority (CMA) for further investigation – this is known as a market investigation reference.

Annex 1
Questions to stakeholders

Q1: **Do you agree with our description of the industry, the sources of data collected by CRAs, and the usage of that data?**

Q2: **Do you consider that the scope is appropriate to assess whether the credit information market is working well?**

Q3: **Do you consider that the credit information market is working well?**

Q4: **Do you have any views on the themes or the questions we are planning on exploring?**

Q5: **Do you have any views on the future developments of the credit information market or any other key developments we should be aware of?**

Q6: **Are there any other potential issues we should consider in the course of the market study which are not outlined here?**

Q7: **We intend to seek input from industry experts about how the credit information market might evolve in the future. If you are aware of a suitable individual please contact CreditInformationMarketStudy@fca.org.uk**

Annex 2
Regulatory landscape

Under FSMA[6], the FCA regulates two related regulated activities: 'providing credit references' and 'providing credit information services'.[7] In addition to conduct rules for firms carrying out credit-related activities, regulated firms are also subject to the generic rules and high-level standards, such as about systems and controls[8], the Principles for Businesses[9] and the Threshold Conditions.[10]

The Information Commissioner's Office (ICO) also plays an important role in regulating CRAs and their use of personal data. The ICO is responsible for enforcing compliance with the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA)[11] The FCA and the ICO have a Memorandum of Understanding in place, revised in 2019, which sets out the framework the two authorities use to cooperate.

The data protection regime in the UK is set by GDPR, which came into force in May 2018, and the DPA.[12] GDPR aims to harmonise and strengthen the protection of personal data within the EU. GDPR contains seven key principles about the storage and handling of personal data which organisations must follow.

Under the DPA, an individual can request any CRA to provide a copy of information on their credit file, known as the 'statutory credit report'. The statutory credit report cost £2 until 2018, and is now available for free. In addition, the Consumer Credit Act (CCA) sets out how an individual can dispute inaccurate information on their credit file, and how the CRAs must respond to such requests.

The Revised Payment Services Directive (PSD2) and Open Banking are also relevant to the future of the credit information market given the opportunities they present to consumers for third parties to access and use their account information.

- PSD2 is a directive that regulates payment services throughout the EU and came into force in January 2018. It is implemented through the Payment Services Regulations 2017, which the FCA enforces. PSD2 aims to promote innovation and data-sharing by allowing third-party providers (TPPs) to share payment account information, subject to customer consent.[13]
- Open Banking is a set of measures the CMA mandates. It requires the nine largest banks in UK to provide access to current account data in a single standard format (application programming interface or API).

6 Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (RAO)
7 FCA Handbook, PERG 2.7.20L and PERG 2.7.20K
8 Senior Manager Arrangements, Systems and Controls ('SYSC') in the FCA Handbook
9 ('PRIN') in the FCA Handbook
10 ('COND') in the FCA Handbook
11 Regulation (EU) 2016/679: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32016R0679.
12 http://www.legislation.gov.uk/ukpga/2018/12/contents/enacted. The GDPR gives member states the opportunity to make provisions on the application of the regulation in their country, which is what DPA 2018 does for the UK. However, the DPA 2018 regulates also matters that are outside of the scope of EU law, as those related to immigration or national security. There are also separate parts that cover the ICO and its duties. For more details, visit https://ico.org.uk/for-organisations/data-protection-act-2018/
13 http://europa.eu/rapid/press-release_MEMO-15-5793_en.htm

Annex 3
Abbreviations used in this paper

AISP	Account information service provider
CATO	Current account turnover
CIS	Credit information services
CMA	Competition and Markets Authority
CRA	Credit reference agency
CRAIN	Credit Reference Agency Information Notice
Credit information services providers	A firm that provides services to consumers in relation to information about their financial standing
Credit information user	Firm or organisation that uses the credit information (and other products and services) provided by a CRA for a range of purposes
Credit reference agency	A firm that provides credit information users with information, products and other services relevant to the financial standing of individuals; collects and aggregates data from a variety of sources to do this
Data contributor	Provides certain data held about consumers to a CRA. Includes lenders, utilities and telecommunication companies, and other private data sources
Data sharing	When a data contributor provides data on accounts held by its customers to a CRA in return for access to credit information provided by the CRA
DPA	Data Protection Act 2018
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
HCSTC	High-cost short-term credit
GDPR	General Data Protection Regulation 2018
ICO	Information Commissioner's Office
Open Banking	A set of measures mandated by the CMA that requires the nine largest banks in UK to provide access to current account data in a single standard format (application programming interface (API))
PCA	Personal current account

PoR	Principles of Reciprocity
PSD2	Revised Payment Service Directive
SCOR	Steering Committee on Reciprocity
TPP	Third-party provider

We have developed this work in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

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