StepChange response to FCA Credit Information Market Study interim report and discussion paper

February 2023

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Summary

Credit information is central to outcomes for consumers and the harms StepChange sees as a free debt advice provider:

- We have identified how financial difficulties journeys and problem debt harms arise from desperation borrowing among people unable to keep up with existing credit commitments and other essential costs.[1] Gaps and weaknesses in credit information undermine the ability of firms to prevent unaffordable borrowing and/or intervene early to arrest debt spirals.
- In our research with clients into their experience of creditor communications, concern about credit reporting contributes to anxiety and fear that prevents people from accessing help at the right time.[2]
- StepChange has also highlighted broader impacts of credit information beyond financial services in our research into the experience of our clients in the private rental sector where negative credit reporting can exclude clients from safe, good quality housing at an affordable price.[3]

The FCA's market study findings cast light on longstanding problems. Systemic weaknesses and inconsistencies in data have persisted, the need for more granular and balanced reporting of forbearance has been known but not addressed, and credit information has been repurposed beyond its intended use without sufficient safeguards. Consumers have paid a price for these problems through poor outcomes.

We welcome and support the FCA's proposed remedies to create new governance arrangements to drive improvements in credit information, create a 'core' credit information dataset with mandated data sharing across CRAs to improve the quality and consistency of data, create new arrangements flags, and make it easier for consumers to access and correct credit information.

However, while we agree that governance arrangements for credit information must change, we do not agree that the proposed industry-led approach will change those arrangements enough. Oversight of credit information should belong with a body that can consider evidence objectively, weigh competing perspectives and, where necessary, make decisions that are in the interests of consumers but not industry stakeholders. The incentives that have prevented progress on the problems identified by this market study would be replicated in industry-led governance and likely persist in future.

The conditions we believe necessary for a new governance body to be successful include:

- a clear high-level mandate consistent with the FCA's regulatory objectives and the Consumer Duty;
- a meaningfully independent governance body overseeing and separate from standing committees, working groups or activities that may be consumer- or industry-led where appropriate;

[1] StepChange (2022) *Falling behind to keep up: the credit safety net and problem debt*

[2] StepChange (2022) *Why communications to people in financial difficulty need to offer a clearer, better route to help*

[3] StepChange (2019) *Locked out: How problem debt affects people's housing situations*

- a formal relationship with the FCA that provides for ongoing involvement and oversight;
- effective, well-resourced arrangements for consumer involvement, voice and impact on decision-making;
- arrangements for reporting the impact of the body on consumer outcomes that, in turn, drive the future activities of the governance body and recommended actions for external stakeholders; and
- funding arrangements that prevent conflicts of interest.

There are multiple ways to achieve these criteria while also meeting the needs of industry and we would welcome further dialogue from the FCA with partners to develop proposals that have the confidence of all stakeholders.

The proposal for a single third-party entity which could act as a central repository and distributor of credit information appears to us to be sensible and logical long-term extension of the proposed remedies that could facilitate better outcomes for consumers. We would like to see the FCA ensure that this proposal forms part of its own and/or the working programme of a new governance body.

More generally, we would like the FCA look harder at the interaction between credit information and consumer outcomes to inform its proposals and future work programme. Credit information is not effective enough in preventing financial difficulty until signs of difficulty are obvious and then tends to over-exclude consumers. The UK has a highly segmented credit market where marginal increases in repayment risk (or perceived risk) can cause significant increases in costs to consumers. The market study interim report touches on consumer understanding of credit information but does consider the impact of credit information on consumer behaviour and, in particular, on the behaviour of customers in financial difficulty where concern with credit status can be a driver of harmful coping strategies such as taking out additional credit to make credit repayments. These strike us as crucial questions to address in order to understand how well the present credit information system is serving the interests of consumers (and in understanding in future whether firms are meeting the new Consumer Duty price and value outcome).

Responses to Annex 6 discussion questions

Remedy 1 – Industry Governance reform

Q1: Do you agree that there is a need for a new credit reporting governance body with broader objectives that is more inclusive, transparent and accountable?

Yes, we strongly agree that there is a need for a new credit reporting governance body with specified objectives and an inclusive, transparent and accountable governance model.

In StepChange's response to the FCA's proposed terms of reference for the market study, we described how failures in the credit information system are linked to problem debt and poor consumer outcomes. We highlighted particularly the impact of limitations in credit information on effective creditworthiness and affordability assessments and the manner in which consumer understanding of credit information can affect behaviour in ways that leads to poor outcomes.

The FCA has now produced clear evidence that there are systemic problems constraining the quality and usefulness of credit information. In fact, in areas those problems, such as the inconsistency of data across CRAs, are more serious than we had understood. The FCA's findings show that current governance arrangements (or the absence of those arrangements) have been inadequate to surface and address problems that contribute to poor consumer outcomes.

We agree with the FCA's analysis that SCoR is 'too narrow in focus and representation' and appears to have been 'slow to respond to emerging issues in a co-ordinated way, and may hinder improvements to the credit reporting framework' (MS19/1.2, 1.12).

We agree with the importance of an inclusive, transparent and accountable governance model. However, we think the need for a reformed governance model goes deeper than this. Credit information forms essential infrastructure that heavily influences consumer outcomes. At a high level, the vision for a new governance body should include the need to support the objectives of regulation of financial services, including the Consumer Duty. This is vital to provide the body with a sufficiently clear mandate to guide its activity, culture, ethos and work programme. It is also important because a well-functioning credit information system is central to firms' ability to meet the Consumer Duty: a new governance body with objectives that are not aligned with the FCA's wider objectives for financial services will create a disjunction that constrains improvements in consumer outcomes from both the Consumer Duty and governance body initiatives.

We think it is also important that this vision for this organisation includes some consideration of the broader footprint of credit information beyond financial services, notably on access to housing. We recognise that it is not for the FCA to address public policy beyond its statutory remit; however, there is a clear impact of data collected within the ambit of financial services regulation on broader social policy and we think it is appropriate for the FCA to have some role in creating a dialogue with relevant stakeholders to create a forum in which adverse outcomes stemming from the interaction between credit information and public policy can be identified and acted on by relevant policy stakeholders. We see this as an issue a governance body could help address through its membership, MoUs with external stakeholders and subcommittees or working groups involving external membership to consider relevant issues.

Q2: Do you agree that a new credit reporting governance body could be effectively designed and implemented through voluntary industry-led change?

No, we disagree that industry-led change is an appropriate model for the governance reforms envisaged.

The objectives set out by the FCA appear to us to raise a clear problem of a conflict of interest between those objectives and industry-led governance. The FCA touches on this problem when it highlights in the market study interim report document there have been insufficient incentives for firms to share data with all CRAs, and for CRAs to demand higher quality information (1.16) and that commercial incentives and coordination challenges hinder the market's ability to respond to material differences in credit information (4.42). The market study findings illustrate how industry leadership has not effectively promoted the interests of consumers. The problems identified have largely been understood and have persisted for years without action.

StepChange maintains constructive relationships with its industry partners and stakeholders. Through those relationships, we know that financial services firms have important insight and expertise and can contribute to strong collaborative partnerships with the regulator or consumer organisations. But we also know from those relationships that firms are subject to their own commercial priorities and considerations, some stemming from fiduciary responsibilities and internal governance, that mean they cannot be objective consumer champions or stewards of competition and innovation policy. Any workable solution to these problems demands a governance model that puts decision-making at arm's length from such conflicts of interest. It is difficult to see an industry-led body making decisions that have a cost to industry but are good for consumers and/or other objectives like competition, innovation and financial inclusion.

The proposed 'regulatory liaison' objective (including agreeing to undertake work to achieve outcomes specific by the regulator) illustrates this tension. The findings of this market study are ample evidence for the need for ongoing regulatory involvement in credit information governance: the FCA has rightly found that, to ensure credit information supports good consumer outcomes, regulatory involvement is essential. However, the proposed governance model is unclear on the nature and extent of FCA oversight and decision-making. The broader package of remedies amount to a significant regulatory intervention by the FCA in the form and mechanisms for sharing of credit information. The justification for intervention now will continue to be pertinent in future. Yet it is unclear how industry-led governance could ensure that new arrangements continue to meet the FCA's regulatory objectives. This does not strike us as coherent.

More generally, there is not a strong track record of industry-led governance aligned with the type of objectives the FCA envisages. Open banking governance is an example where the CMA was obliged to intervene following an independent investigation into governance failures, including failures to manage conflicts of interest properly, to establish a stronger and more effective governance framework. Following that intervention, consumer voice remains diluted (for example, while arrangements have been put in place for the Open Banking Implementation Entity to report on consumer outcomes regularly, there is no requirement for that body to act on those findings). StepChange has numerous experiences of participating in industry committees and bodies as 'consumer input' in which the input of consumer organisations is not heard or acted on. At worst, governance arrangements that fail to address the tension between meaningful consumer voice and commercial interests create circular and unproductive dynamics. This is very different to the balance achieved by statutory regulation where arm's length decision-makers seek to gather evidence and weigh decisions objectively and can ultimately act in the face of objections from key stakeholders.

Q3: Do you agree with the potential 'blueprint' for the new industry body?

As we note in our response to question 2, while we acknowledge that industry involvement is appropriate, a new governance body must be meaningfully independent in the way it sets priorities, makes decisions and takes ownership of desired outcomes. The current proposals are unclear on key points, such as how the FCA will ensure the work of the body is consistent with its objectives, where decision-making rests and how consumers will not just have input but a meaningful voice and impact on the work of the body.

To address these problems**,** we believe the most coherent approach is for the FCA to separate governance and working arrangements so that appropriate elements of work can be industry-led but governance itself is not. We note this could be achieved through different options: the FCA could chair a governance group and provide secretariat support, or an industry group could report to an oversight group chaired by the FCA with consumer and independent members (or a fully independent board could be established, with an independent chair and membership.) Whatever option is pursued, the process of moving to new governance arrangements should be closely overseen by the FCA in partnership with stakeholders.

The governance body should also have clear high-level objectives to ensure that any broadening of governance objectives from those held by SCoR serve consumer interests and do not lead to unintended outcomes. The FCA has rightly proposed broad objectives and functions for the governance body and a widening of administration and workstreams from present SCoR arrangements. We agree with the FCA's statement that 'the new body should have a broader remit which is able to holistically consider issues relevant to how all credit information is shared and used within and beyond the retail lending sector' (22). However, we do not think the objectives proposed by the FCA (19) collectively form a sufficiently clear statement of purpose that speaks to the central purpose of credit information and would provide sufficient direction for a new governance body to navigate difficult policy questions. To address this problem the FCA should set a clear high-level statement of purpose that aligns the work of a new governance body and the FCA's strategic objectives and the Consumer Duty.

We welcome the presence of financial inclusion in the proposed objectives. However, how this objective is interpreted is crucial: the interpretation of financial inclusion by industry participants tends to be different from the interpretation of the FCA or non-industry participants such as consumer organisations or academics. In recent years, firms touting financial inclusion have created and promoted models of lending that have caused significant consumer harms and ultimately proved to be unsustainable. In some cases, redress for mis-selling has ben so widespread that firms have exited the market or used other legal means to compound their redress liabilities. In addition to the proposed high-level statement of purpose (which would narrow the range of reasonably interpretations of financial inclusion), some additional definition of the financial inclusion objective may be necessary.

With regard to consumer representation, this must mean substantially more than a single representative. In practice, such a representative is likely to be isolated and only able to influence the decisions of the body in areas of common interest with other representatives, i.e. potentially rendering their input ineffectual. The resources available to industry participants is far in excess of that available to consumer organisations or individual advocates. To address this imbalance, the FCA should ensure more developed arrangements for consumer representation, including a budget to undertake research, specific powers including a veto on key decisions and special access to the chair and regulator. In turn, the consumer representative/s should be tasked with gathering the wider views of consumers and consumer organisations to provide advice to the governance body.

We agree with the proposal for an annual report, which should be required to include an evaluation of the impact of credit information and the work of the body on consumer outcomes. Crucially, the governance body must be required to undertake work to address areas where outcomes are worse or not improving (and report on these actions). The annual report should also be required to surface issues and risks that require action by the FCA or other industry, departmental or public bodies and make recommendations on those actions.

Finally, we note the FCA has consulted alongside the PRA and Bank of England on the potential benefits and risks related to the use of artificial intelligence and machine learning in financial services. Credit information would appear to be an important source of such potential benefits and risks (for example, those technologies might be linked to an increase or reduction in financial exclusion and harmful price discrimination, or new exploitation of consumer behavioural biases and/or characteristics of vulnerability). An important challenge for regulators in future years will be to help ensure benefits are realised and risks are addressed. To ensure governance of credit information is responsive to new opportunities and risks, the FCA should ensure that a new governance body has a remit to take account of developments in new data technologies including AI/machine learning.

Q4: Do you agree that funding and resources for the new industry body should be a matter for industry to determine and provide?

We do not agree that this approach could deliver the objectives the FCA indicates in its proposed remedies paper. The role of funding in any governance body speaks to the balance of power in that body: governance and funding are inextricably linked. Any conflict of interest between funding and decision-making power must be avoided to ensure all participants have an equal voice. The FCA must have regard not only to any explicit influence of funding but the subtle influence funding (and other support such as hosting meetings) has on the culture and decision-making of an organisation. Where there is any possibility of funding being withdrawn, that will provide for influence for the funder. It is therefore crucial the FCA finds alternative solutions to fund the new governance body that avoid these problems.

Q5: Please indicate if there are any alternative ways that you think such a body could be made more representative, transparent and accountable.

We have specified that we believe such a body should:

- have a clearer high-level mandate consistent with the FCA's regulatory objectives and the Consumer Duty;
- be led by a meaningfully independent governance body overseeing and separate from standing committees, working groups or activities that may be consumer- or industry-led where appropriate;
- have a formal relationship with the FCA that provides for ongoing involvement and oversight;
- have strong, well-resourced arrangements for consumer involvement and voice;
- have arrangements for reporting the impact of the body on consumer outcomes that, in turn, drives the future activities of the governance body and recommended actions for external stakeholders; and
- have funding arrangements that prevent conflicts of interest.

Remedy 2A – Mandatory data sharing with CRAs

Q6: Do you agree with the principle of a mandatory reporting requirement to certain designated CRAs to establish a 'core' consumer credit information dataset?

Yes, we agree with the principle of mandatory reporting of core data. The gaps and inconsistencies in credit information are a key constraint on effective creditworthiness and affordability checks, and on the ability of firms to identify financial difficulty and intervene early. Removing these problems so far as possible has the potential to have a significant positive impact on consumer outcomes by ensuring fewer consumers access credit they cannot afford, more consumers who are unnecessarily excluded are able to access credit or other financial services, and more people who have fallen behind on payments are identified early and given appropriate support.

The rationale for the present principles of reciprocity is that credit information is collected and shared to support responsible lending and prevent fraud and money laundering, i.e. those purposes encompass <u>all</u> data shared with CRAs through the principles. We are therefore unclear what element of credit information could not be considered 'core'. (We recognise that CATO and CBD data may currently be treated differently.)

The FCA mentions in the remedies document that if firms share data with all CRAs, it may be more efficient in the long run to share information through a single third-party entity which could act as a central repository and distributor of credit information (52). This appears to us a potentially sensible long-term approach that could facilitate better outcomes for consumers. If designed well, it could reduce friction to evolving credit information (by reducing the complexity of the credit information infrastructure) and help improve the consistency and quality if information by reducing sharing barriers. Supported by effective governance arrangements, a single database could support innovation by reducing costs and commercial barriers to access and use of the data for smaller firms. It could also support effective regulation and wider public policy by facilitating easier research into patterns and consumer experiences of financial difficulty.

Q7: Do you agree in principle with the proposal to establish a CRA designation framework?

Yes, we agree with the proposals to establish a CRA designation framework.

Q8: Do you agree with the potential designation criteria? If not, what else should or should not be included?

We have no comment on this question at this time.

Q9: What might the competition implications be if only a small number of CRAs become designated CRAs?

We have no comment on this question at this time.

Q10: Do you have views on the possible costs and benefits of including a broader range of CRAs within a designation scheme?

We have no comment on this question at this time.

Q11: 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?

We favour the most comprehensive reasonable approach. It is essential to meet the aims of the remedy for regulated credit agreements and regulated mortgage contracts to be subject to comprehensive reporting requirements and we would not favour a differentiated approach based on creditor portfolio type, which would risk perpetuating weaknesses in data that contribute to poor consumer outcomes.

Q12: Do you think it would be appropriate to introduce 'de minimis' reporting thresholds, if so how should these be defined?

No, we do not think this would be appropriate since the data held by firms (for example new firms with small numbers of customers) could be central to outcomes for the customers affected. We are unclear as to the circumstances in which an authorised firm should be exempted from reporting since any firm providing credit information would presumably need to meet minimum standards of capability and capacity in order to be authorised by the FCA.

Q13: Do you think designated CRAs should be prevented from levying direct charges to receive data under a mandatory reporting requirement?

Yes, we agree with this proposal.

Q14: Do you agree that firms should be left to decide whether to share full or negative only credit information under a mandatory reporting requirement?

No, we believe that firms should be required to report 'full' data. Our understanding is that 'positive' data includes information such as credit card behavioural data. That data can give firms crucial information that should affect creditworthiness and affordability decisions and help identify early signs of financial difficulty. We note that when this data was first shared from 2008 a rationale given was that the data could help predict creditworthiness and enable lenders to intervene at an earlier stage to support struggling customers.[4] Given the central role of credit card debt to patterns of indebtedness in the UK, not including this data in the 'core' dataset would undermine the effectiveness of higher quality data in improving consumer outcomes.

Q15: 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?

We believe that it would be appropriate for the FCA to prescribe in detail what information should be shared with designated CRAs. There appears to be some inconsistency between the FCA's stated objectives for a 'core' dataset (i.e. improving creditworthiness and affordability assessments and supporting early intervention) and paragraph 60 of the remedies document. If there is no prescription of the information to be shared, the problems the FCA identifies may not be effectively addressed because important gaps in credit information would persist.

The principles of reciprocity were set up in the 1990s to ensure personal data shared by CRAs is used only for the purposes of responsible lending (alongside preventing fraud and money laundering, and supporting debt recovery). Since <u>all</u> of the data shared with CRAs under the PoR is done so to meet those objectives, we are unclear why any element of that data should be excluded from proposed mandatory data sharing in future.

With regard to the FCA's concern that prescribing information to be shared could constrain innovation, we are not convinced of this risk. As the FCA notes, any prescribed dataset would not limit the information that firms could collect and share; moreover, the dataset could be updated over time with elements added

[4] '[Credit card issuers to share 'behavioural data' on customer accounts](#)', Finextra, 24 November 2008

or removed in response to market developments led by a governance body with an explicit remit to support innovation.

Q16: 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?

Yes, we would like to see more prescription around use cases for credit information to prevent misuse of data and/or adverse outcomes. There are already problems with credit information being repurposed for uses beyond the core PoR purposes, for example where consumers are asked to give their consent to share credit information with prospective landlords, that can seriously expand and entrench exclusion in essential services. To prevent such issues arising in future, there should be safeguards against further opening up of credit information.

Q17: 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.

We have no comment on this question at this time.

Remedy 2B – Common data format

Q18: Do you agree with the proposal to establish a common data reporting format?

Yes, we agree with the proposal to establish a common data reporting format and believe this is consistent with, and important to, the aims of a core dataset in improving consumer outcomes.

Q19: Do you agree with the principle of a new approach to reporting arrangements to improve consistency and granularity?

StepChange has gathered and shared evidence that people in financial difficulty are often reluctant to engage with firms. Reasons for this include concern and fear about the practical consequences of acknowledging financial difficulty, including negative credit reporting and its impact on access to credit and other services. Other notable reasons include low trust in firms; low awareness of options such as debt advice and debt solutions; and anxiety, embarrassment and mental health problems.

We agree that a new approach to reporting arrangements could help encourage engagement without masking financial difficulty. It could also, in principle, lead to more consistent (and, on average, better) outcomes for consumers in similar situations.

This noted, it is not clear how much impact this proposal would have on consumer behaviour and the proposals raises some questions:

- The difference between an arrangement and default may not be well understood by most consumers: both may appear to be similar ways of recording failure to meet an agreement. Some of the benefit of this proposal therefore rests on firms (and other stakeholders such as advice providers) communicating effectively with customers about their options.
- Even where understood, the proposals may not fundamentally shift incentives for customers in difficulty because the difference between the proposed 12 month period an arrangement flag and six years may not appear significant.

- We are unclear from the remedies document whether an arrangement flag would always remain on a credit record for less time than a default or debt solution at present (where the term of an arrangement or debt solution is longer than six years).
- For the proposals to be effective, there would need to be changes to the way that defaults are recorded (so that arrangements flags replace defaults), which would require consideration alongside reform of the Consumer Credit Act. In practice, clients often seek advice with some debts already recorded as defaulted. The proposal would only benefit these clients if a subsequent arrangement supersedes (replaces) a default.

For these reasons, while we agree this proposal should be pursued, we think encouraging early engagement from borrowers in difficulty also requires a more fundamental rethink across consumer credit regulation. In particular, we would like the FCA to explore requiring firms to build more flexibility into product design and ensure customers have an attractive reason to engage in the early stages of financial difficulty. We note the FCA expects to consult on the future of the tailored support guidance for borrowers in difficulty later this year and look forward to engaging further on these issues.

More generally, a new body should look more closely at how well reporting supports consumers affected by failures of firm conduct or life shocks beyond their control. Both lenders and borrowers are responsible for the risk of missed repayments or default. Where lending is not affordable it is highly likely consumers may miss repayments or default. In recent years, there is ample evidence of cases in which lenders have behaved irresponsibly and lent to consumers who could not afford to repay. There is, however, no recognition of irresponsible lending in the credit records of such consumers. Likewise, StepChange research identifies how life events and circumstances beyond the control of individuals can lead to desperation borrowing and financial difficulties journeys (which are often characterised by the reluctance of those affected to miss repayments due to concerns about credit reporting). These issues speaks to the need to think more deeply about how the credit information system should evolve in future and ensure balance and responsiveness to consumer outcomes in the governance and design of reporting arrangements.

Q20: Do you agree with the potential new approach to reporting arrangements and debt solutions?

We agree with the potential approach but would welcome more engagement on the detail before the proposals are taken forward. The proposals raise some practical questions, including for example:

- What happens if a payment arrangement is agreed after a default is recorded on the credit file?
- What happens when someone’s circumstances change, i.e. if a customer reduces the agreed payment to a lower agreed payment?
- Within a collective debt solution, what happens if one creditor rejects the payment arrangement, but others accept it?

It would also be helpful to understand more information about the proposed exceptional circumstances flag. An exceptional circumstances flag could be useful if it allowed people to record temporary life events with the knowledge that the marker would be removed promptly and would not affect their long-term credit record. However, it is not clear how this marker could be used effectively without accompanying rules about how repayments should be recorded while the flag is in place.

Q21: 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?

We are supportive of the aim of supporting consumers to disclose vulnerabilities. However, as the FCA notes, this proposal has implications that need careful consideration and we think more engagement is needed before deciding whether or how to take this proposal forward.

The proposal raises a number of concerns and questions:

- Progress has been made in encouraging firms to understand vulnerability as situational and complex rather than narrow and specific to particular issues. While we recognise the use case for certain non-financial vulnerability flags, there is some risk of encouraging a perception that customers are not vulnerable to poor outcomes if they do not have a vulnerability flag. That would be a step backwards.
- Our understanding is that credit information is not typically used by firms to populate the customer information they use when they engage with customers in financial difficulty.
- The proposals do not clarify how such markers could be removed, and how people could be certain that the markers have been removed not only from central credit information databases but from records held by firms.
- How vulnerability flags are used would be just as important as how they are recorded. We are unclear from the consultation document how the FCA envisages vulnerability flags being used by firms. There is a high risk that such flags could deepen financial exclusion. It would seem the only answer to this would be to set rules preventing firms from using the flags in some circumstances, such as creditworthiness assessments. However, we are unclear as to how realistic and enforceable such an arrangement would be.
- Vulnerabilities are very different in nature and some (and perhaps all) would require a bespoke approach. A recording system that works well for those experiencing economic abuse, or who are survivors of abuse, would require extremely careful end to end design. Recording disability, long-term health conditions or terminal illness would each similarly pose specific design challenges. It is not obviously clear that a single reporting system could accommodate a number of different bespoke approaches well.
- The proposal to allow lenders or advice providers to record vulnerability with consent raises difficult questions. We find that clients can be surprised by actions their lenders take after a client discloses financial difficulty, such as withdrawing access to credit. If disclosing vulnerability had consequences for access to financial services, informed consent would be crucial. There is not a sufficiently good track record of conduct across financial services to be confident that all firms can meet the high standard that would be essential to safeguard the interests of vulnerable consumers. Moreover, consumers may feel under pressure to provide consent (or not fully understand the request) when engaged in discussions with firms about financial difficulty.

We recognise the FCA's intent in raising this proposal and that there are use cases where new markers could help improve outcomes for consumers and prevent harm. Our initial view is that any use cases are likely to be narrow and specific rather than general to a wide range of vulnerable circumstances. StepChange will be glad to engage with the FCA further as this discussion is taken forward.

With regard to NoCs, we agree with the proposals to provide a means to make notices in a streamlined way.

Q22: 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?

Please see our response to question 21.

Q23: Do you agree that consumers should have the ability to record a 'credit freeze' marker across the designated large CRAs in a streamlined way?

We support this proposal in principle but, as in our response to question 21, believe careful examination of the design, use and consequences of a 'credit freeze' marker need careful consideration before this idea is taken forward.

Q24: 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.

We have no comment on this question at this time.

Remedy 2C – Designated CRA regulatory reporting to FCA

Q25: Do you agree with the proposal to establish a new regulatory reporting framework for designated CRAs?

Yes, we agree with this proposal. As a user of credit information data StepChange is affected where data is inaccurate while clients are affected by mismatched or incorrectly recorded data. There do not currently appear to be strong incentives for the firms responsible to address problems. Mandatory reporting would presumably shed greater light on the source of errors and mistakes and allow the FCA to take action when appropriate.

Q26: Do you have views on the potential areas identified above for a designated CRA regulatory reporting regime?

We agree that the proposed areas of reporting (disputes, errors and corrections and the identity of the responsible data contributors most often) and support the FCA's proposal to explore with industry what can be done to enhance the effectiveness of matching processes and develop relevant reporting metrics.

Q27: 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.

We have no comment on this question at this time.

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

Q28: 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?

Yes, we strongly support the proposals to introduce specific requirements that set clear expectations around how quickly data contributors should investigate and resolve data disputes, and require firms taking out CCJs to ensure that records are updated with the Courts in a timely manner. Credit information can have a significant impact on access to services and credit; where mistakes are made, it is right that they should be identified and remedied as soon as possible. The latter proposal will help prevent those who have repaid a CCJ, including many StepChange clients, from having information about the judgement remain outstanding on their credit record once it is satisfied. We would also like the FCA to consider extending this requirement to part full and final settlements of judgement debts.

Q29: Please provide evidence on the additional costs that might be incurred from the potential requirements for FSMA-regulated, separately identifying any one-off and ongoing costs, and on the possible benefits that would result.

We have no comment on this question at this time.

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

Q30: 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?

Yes, we agree with this proposal.

Q31: 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?

The FCA should be able relatively soon to observe the impact of the Consumer Duty on CISPs and therefore be in a position to answer this question. We would presume that highlighting the issue in this paper will send a strong signal to firms. However, given the importance of statutory credit reports to consumers, we think there is a good case to require signposting to ensure clarity and set expectations of firms' approach.

Q32: 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?

We would support prescription given the limited information about the scope of statutory reports that appears to be shared by CISPs (which, rather, tend to present such reports in negative contrast to a paid-for option). However, consumers are likely to be confused so long as firms continue to use information about statutory reports to compare and contrast against their own offer. The FCA might therefore consider a requirement on CISPs to signpost prominently without reference to paid-for alternatives.

Q33: 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.

We have no comment on this question at this time.

Remedy 3B – Single portal – access to statutory credit file

Q34: Do you agree in principle that a single portal could help consumers to access and engage with their credit information?

Yes, we agree in principle with this proposal. The purpose and aims of this portal requires some consideration. As we note elsewhere in this response, we see evidence that concerns about credit information can drive consumer behaviours that lead to harms and poor outcomes. Public information about credit information can contribute to these problems because if it drives consumers to seek to protect their credit record by maintaining repayments, borrowing when this is no longer sustainable to keep up with repayments and delaying reaching out to firms or debt advice because they are concerned about the impact on their credit record. Similarly, consumers with low financial resilience can take out credit builder products that are not in their interests that lead to poor outcomes. A key goal for any such portal therefore should be to support good outcomes for consumers and promote balanced and objective attitudes to credit information.

Q35: 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?

Yes, we agree with this proposal. We see particular benefits because this would provide a neutral space in which consumers can access credit information in which they are not subject to product marketing. This could help reduce the number of consumers who access credit in circumstances in which they are anxious or feel under pressure to take actions in response to credit information that lead to poor outcomes or do not meet their wider or longer-term financial objectives.

Q36: 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?

Yes, we agree with this proposal and hosting key information in one place could help improve consumer awareness of credit information and their rights to seek corrections and make NoCs. This noted, making information available is unlikely of itself to be an effective driver of consumer understanding of credit information. We agree enhancing consumer understanding should be a priority and suggest this should be the objective of a single portal alongside (rather than via) providing factual information and key documents. We would also suggest that the objective of enhancing consumer understanding should be included in those envisaged for a new governance body if it takes responsibility for a single portal.

Q37: 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)?

Yes, we agree that consistency in the presentation of key information and metrics in the SCR would be helpful for consumers. We would also like the FCA to consider standardised explanations to support consumer understanding. This should include considering how explanations given in SCRs and the single portal could encourage more consumers in difficulty to seek help from appropriate sources. The way that credit reports and credit scores are framed in a commercial context contributes to consumer anxieties and worries that can trigger financial difficulty through inappropriate products or lead to harmful coping strategies and poor outcomes. Framing SCRs with consumer messages that contextualise credit information and engage consumers in sources of information, advice and support could help address harms arising from the use of credit information, credit scores and SCRs by firms as a marketing tool.

Q38: 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?

Yes, we strongly agree. Anxiety about credit information may make consumers susceptible or vulnerable to marketing and cross-selling of products. A key benefit of such a portal would be providing a source of information and access to credit information separate from cross-selling or other product marketing. We cannot envisage that a commercial space could usefully meet the reasonable core objectives of a single portal.

Q39: Do you think that the new industry governance body should have a role in the development and operation of a single portal?

We have concerns that an industry-led body would not be the appropriate organisation to take responsibility for a single portal. The FCA identifies in this market study that industry has not provided appropriate access to statutory credit reports without unnecessary friction. We note in our response to question 37 how the commercialisation of credit information plays a role in consumer harms. Many key industry stakeholders would have a conflict of interest because they provide alternative sources of information such as CISPs that broker credit products.

We would not have these concerns where a new governance body is credibly at arm’s length from commercial conflicts of interest. Whatever approach the FCA takes, we would expect that to meet the objectives of a single portal, the FCA will need to give clear directions, desired outcomes and timelines and closely oversee progress.

Q40: 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.

We have no comment on this question at this time.

Remedy 3C – Single portal – streamlined disputes process

Q41: Do you agree that there should be a streamlined process for disputing and correcting errors in credit information held across designated CRAs?

Yes, we agree with this proposal, which would make it significantly easier for consumers to address errors in their credit record. Consumers who wish to despute credit information are often those who have experienced financial difficulty and come to an agreement with their lender/s which then may not be accurately or promptly reflected in credit information. The anxiety and worry such consumers experience is likely to make it more difficult for them to pursue corrections and a simplified process would therefore be of significant benefit to this group.

Q42: Do you have views on the potential effectiveness of the implementation options described above?

We have no comment on this question at this time.

Q43: 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?

We have no comment on this question at this time.

Q44: 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.

We have no comment on this question at this time.

Remedy 3D – Single portal – streamlined Notice of Corrections (NoC) and vulnerability markers

Q45: Do you agree in principle that consumers should be able to record NoC, nonfinancial vulnerability and credit freeze markers across designated CRAs through a single portal?

Yes, we agree with this proposal with the caveat that we have raised concerns about implementation of non-financial vulnerability markers.

Q46: What operational, technical or other implications might such a process raise?

We have no comment on this question at this time.

Q47: Are there any alternative options that might help deliver a more streamlined processes for recording NoC in the absence of a single portal?

We have no comment on this question at this time.

Q48: 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.

We have no comment on this question at this time.

Remedy 4A – More timely reporting of key data

Q49: Do you agree in principle that more timely reporting of key data to designated CRAs could deliver net benefits to firms and consumers?

Yes, we agree that more timely reporting of data would deliver net benefits to consumers and firms. People experiencing financial difficulty often pursue harmful coping strategies through further borrowing and may do so at points of acute anxiety, stress and mental health problems. This can lead to high frequency borrowing where a debt problem escalates quickly through a series of loans (or increasing borrowing using a revolving credit product). While new arrangements were put in place for high-cost short term credit in response to this problem, consumers can access credit at short notice through a wider range of credit products. The difference where a harmful pattern of desperation borrowing is arrested at an early stage (or a firm reaches out to a consumer effectively weeks or days earlier than otherwise) can be significant to the outcome for that customer.

The FCA's proposals for arrangements flags raise some questions about the interaction between timely reporting and preventing unnecessary impairment of credit records, and subsequent financial exclusion, through missed payments or defaults where arrangements are possible. While in principle we favour more timely reporting because of the benefits for preventing over-indebtedness, more timely reporting should be considered alongside other measures to ensure reporting is sufficiently flexible to preserve incentives for customers in difficulty to engage at an early stage.

Q50: Do you agree with our suggested approach of encouraging industry-led change in this area?

The FCA should do more than encourage change in this area. More timely reporting would have long-term benefits to all stakeholders but is likely to cause disruption and have costs to CRAs and firms. This means it is likely to be difficult for industry to lead change with the appropriate objectivity and pace. We therefore believe the FCA should take forward this work, commissioning specialist research if necessary to gather technical information.

Remedy 4B - Updated data access arrangements (PoR)

Q51: Do you think that the underlying principle of reciprocity would remain relevant and appropriate where credit information is provided to designated CRAs under a mandatory reporting requirement?

An essential element of the PoR is in putting responsible constraints on the use cases to which credit information can be put (responsible lending, preventing fraud and money laundering, and supporting debt recovery). There are different ways these safeguards could be incorporated into new governance arrangements, but it is essential that these 'guardrails' remain in place. We have touched elsewhere in this response on our concerns that credit information leaks out of PoR arrangements via consumer permissions in ways that can be problematic and are not subject to sufficient safeguards. Our view is that safeguards against repurposing of credit information should be increased and uses beyond to PoR agreement subject to more effective limits, scrutiny and accountability. Extending or removing the limitations on use cases set by the PoR could further open up credit information to drive unintended and potentially harmful consequences.

Q52: Do you agree with our suggested approach of encouraging industry to consider this issue with input from all relevant stakeholders?

Please see our response to question 51.

Remedy 4C - Updated data access arrangements (CATO)

Q53: Do you agree that granular CATO data should be made available to non-PCA providers? What implications might this have?

Yes, we agree with this proposal which supports the wider objectives the FCA has set out to improve the quality of credit information and would in turn give more firms better information with which to assess creditworthiness and affordability and identify financial difficulty and support good consumer outcomes.

Q54: Do you agree that there is scope to enhance the consistency and granularity of CATO data? If so, how might this best be achieved?

We have no comment on this question at this time.

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