Financial Inclusion Data Sharing Review – project summary
October 2019

Introduction

Data sharing and credit scoring is a vitally important part of the way lending works for customers in vulnerable circumstances. Being turned down for a loan due to a lack of data could make the difference between being able to buy a new washing machine to wash a child's clothes for that week of school or not. On the other hand, receiving an inappropriate loan based on incomplete data could tip a borrower over the edge into problem debt when a better solution was available.

Earlier this year, Fair4All Finance was commissioned by the Financial Inclusion Policy Forum to review the role of credit data in the affordable credit market, and to assess whether new data sources could improve providers' ability to make appropriate lending decisions for individuals in financially vulnerable circumstances.

We were commissioned to:

- test the hypothesis that affordable credit providers would benefit from access to additional and/or better data when making lending decisions for vulnerable customers;
- determine the nature of the issue, and whether data provided to the credit reference agencies (CRAs) or lenders is the root cause;
- assess which datasets could be used to improve risk management and decision making to the ultimate benefit of vulnerable customers;
- report back our findings and recommendations to the October 2019 meeting of the Financial Inclusion Policy Forum.

Between July and October 2019, we held around fifty consultation meetings with diverse stakeholders including affordable credit providers, government departments, the financial services industry, civil society and consumer support organisations, to explore the issues related to data sharing from a wide range of perspectives. We also conducted two working group meetings with a sub-group of Policy Forum members and held a meeting with credit reference agencies (CRAs).

Findings

This is a summary of the findings and recommendations presented to the Policy Forum on 7th October 2019, which cover customer analysis and its relationship to new data sources; incomplete current loan data; existing data initiatives; and consumer engagement.

We are excited about the potential that these recommendations have to enable community and mainstream lenders to make better decisions for those who most need the decisions to be the right ones. Taken together, they will help to build a richer data set in a careful and considered way, and address some of the imbalance in the way that data currently works for customers in vulnerable circumstances.

1) Customer analysis and its relationship to new data sources

The credit scoring system is complex. Adding further datasets into the system is challenging for a number of legislative and logistical reasons and has the potential to proliferate personal data, so we believe that before deciding to embark on the introduction of any new data source, its impact on consumers needs to be understood at a more detailed level.

There are three categories of consumers that it would be helpful to understand more about, from a behavioural perspective – people with 'hidden' files, who are not known to the CRAs; those with 'thin' files, about whom little is known; and those with 'bad' files, who have a troubled financial history. We currently don't know the extent to which people within these categories are trying to access credit, nor do we know enough about their likelihood of approaching affordable lenders, their lending decisions and the eventual outcomes.

We believe it is important to understand these issues further before introducing new datasets into the decision-making process. We recommend that an independent study is undertaken to understand the extent to which consumers are unable to access credit due to a lack of data, who is affected and how they are impacted. The research should also consider which additional government data sources could lead to more appropriate lending decisions for these consumers.

2) Incomplete current loan data

When affordable lenders are making their lending decisions, they often do so without having a complete picture of someone's financial position. Many will use a credit reference agency to find out about someone's credit history, but the loan data they get back is often incomplete. As a result, affordable credit providers do not always fully trust this data to give them a complete picture of an individual's financial history.

The loan data provided by CRAs is incomplete for a number of reasons. For example, lenders generally provide data to one or two of the three main CRAs - Equifax, Experian and TransUnion - but not always to all three. The data that CRAs hold therefore differs to some degree, and affordable lenders mostly take their data feed from only one CRA (sometimes using two for large loans). It's also the case that some affordable lenders don't feed their data into any CRAs at all, and some types of financial products such as rent-to-own products or doorstep lenders are often not captured by any of the CRAs.

This issue requires further assessment before possible solutions can be developed. We recommend that the FCA considers this as part of its ongoing Credit Information Market Study. The study would also benefit from having appropriate representation and input from the affordable lending sector. In parallel with the market study, we will continue to explore with the CRAs how the usability of current data by affordable lenders could be improved.

3) Existing data initiatives

A number of initiatives have been launched in recent years to try and improve the range and reliability of data available in the credit decision-making process. Rental data and Open Banking data are the areas which are most advanced, and which have shown signs of success, although each area currently has its limitations.

Open Banking is becoming an important tool for verifying income and determining affordability. It has enabled the development of new products and services for providers to understand someone's up-to-date financial position and it can create efficiencies for lenders. However, it is currently being used by affordable lenders inconsistently – some are utilising Open Banking in their processes, but others are still completing affordability tests and income verification manually – and as it only benefits those consumers who have online bank accounts, it can only be a part of the solution. In addition, new technological innovations are being developed which build a fuller picture of someone's financial

situation and produce other data that can be used in lending decisions such as financial discipline, financial resilience, stability or lifestyle.

We recommend that more work is undertaken to increase the understanding and usage of Open Banking by affordable credit providers. We also think that providers should be assisted to improve the way that they interpret and process data. As part of this, Fair4All Finance will be helping affordable lenders to advance their operations and technology, which will include the roles that Open Banking and other emerging data sources could play in their decision-making processes.

In terms of rental data, we're aware that a significant amount of work has been undertaken in recent years to gather rental data and incorporate it into the credit process. The work that has been undertaken thus far indicates that including information on rental payments improves the credit scores of most people (but not all). As the largest financial commitment for many people, we believe this could be a helpful addition to the credit scoring process and the government has undertaken supportive initiatives in this area in recent years. Despite this, rental data is not currently well-utilised by lenders.

To try and move this area of work towards implementation, we recommend that a place-based pilot is undertaken with public and private sector stakeholders and affordable credit providers, in order to trial the implementation of rental data into the lending decision process.

4) Consumer engagement

Consumers do not always receive clear and detailed information to explain why they've been declined for a loan, which would enable them to make well-informed financial decisions with a clearer understanding of how their credit file will be impacted.

We recommend that consumers are helped to understand more about the outcome of a lending decision. Where appropriate, they should be directed to supportive resources or guidance. We understand that work is already underway in the financial services sector to address some of these issues and we will hold further discussions with stakeholders to understand more about the progress that these initiatives have made.

Next steps

The Financial Inclusion Policy Forum welcomed this work as the right direction of travel to improve the way that data sharing and credit scoring can work for vulnerable customers.

With the review now complete, we are currently engaging with government, individual members of the Policy Forum and a number of other stakeholders, to agree ownership and implementation of these respective areas of work, so that they can be taken forward in an appropriate and timely manner.

We will publish a further update in early 2020 to highlight the way that these recommendations are being taken forward.

List of organisations consulted

ABCUL
Aire
Big Issue Invest
Bristol Credit Union
Government Digital Service
Carnegie Trust
Castlight
Citizens Advice Bureaux
Credit Kudos
Credit Ladder
Darlington Credit Union
Ducit.AI
DWP
Equifax

Experian
Fair By Design
Fair Finance
FCA
Financial Conduct Authority
Gojoko
HM Treasury
HMRC
Incuto
JP Morgan Chase
Lancashire Community Finance
Laurence Hamilton
LendingMetrics

Lewisham Plus Credit Union
Lloyds Banking Group
Ministry of Housing, Communities and Local Government
Money and Pensions Service
Moneyline
Police Credit Union
Salad Money
Soar
StepChange
TransUnion