ACCESS TO CREDIT SCORES EMPOWERS CONSUMERS, STRENGTHENS THE LENDING ECOSYSTEM

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FOREWORD

This original report, sponsored by TransUnion, examines the role that consumer access to credit scores and credit file data plays in the promotion of financial inclusion, responsible borrowing habits, and more transparent and accurate lending practices.

This research report was independently produced by Javelin Strategy & Research. Javelin Strategy & Research maintains complete independence in its data collection, findings, and analysis.

OVERVIEW

Once a closely guarded back-office lending tool, credit reports and scores have evolved into one of the most accessible, powerful, and popular ways for Americans to build an awareness and an understanding of their creditworthiness, gain financial confidence, and protect their personal identities and financial assets. The U.S. model serves as an international case study of how laws broadening access to credit information have created greater consumer literacy and inclusion, strengthened the lending ecosystem, and made credit markets more robust.

EXECUTIVE SUMMARY

Credit information is readily available and generally free. More than half of U.S. consumers view their credit score at least monthly, with 87% receiving updates for free. They turn to a variety of sources to review their credit data, including financial institutions, credit reporting agencies, and third-party monitoring services. Banks and credit unions are the leading providers of this information, but nearly 40% of consumers interact with more than one provider for credit information.

Access to credit information benefits consumers, businesses, and the economy. Access to information creates a data marketplace for credit scores, credit files, identify protection services, and other information. That data marketplace provides three broad benefits:

- Greater consumer financial literacy and inclusion
- A stronger lending ecosystem
- More robust credit markets

Consumers are more financially aware and empowered than ever. U.S. consumers are learning how credit scores work and are actively engaged with their own credit files. Monitoring one's credit score won't guarantee financial success, but people who monitor their credit scores monthly express greater confidence that they have control over their day-to-day finances, are better able to absorb a financial shock, and can achieve financial well-being.

Consumer engagement with credit information benefits businesses and the lending ecosystem. Expanding awareness of and access to credit data around the globe benefits organizations throughout the lending ecosystem in three key ways:

- Increased fraud detection
- Improved data integrity
- Improved consumer creditworthiness

Personalized insights will deepen engagement and loyalty. As digital engagement with credit information increases, financial institutions will initiate more advice-driven digital "conversations" that will build trust and provide financial guidance. The information underlying these conversations will unfold in three stages, culminating in regular advice-driven interaction:

- Status: "We want you to know …"
- Insight: "Here's something interesting; you decide what to do with it."
- Advice: "We recommend …"

LENDING ECOSYSTEM: Broadly speaking, businesses benefit from access to credit information, including those that directly provide consumer loans and complementary services; depository and nonbank lenders; credit report and score providers; personal financial management services; and other financial-services firms.

AN INDUSTRY TOOL BECOMES CONSUMER-FACING

Although credit information was once closely guarded in the United States, it is now a fundamental component of financial oversight for millions of consumers. This expansion of access offers a case study with global benefits for consumers, businesses, and the economy.

In the United States, credit scores provide millions of consumers with a yardstick of their borrowing behavior and progress toward financial success. It hasn't always been this way. As consumer credit data and scoring emerged in the late 20th century, lenders maintained a tight grip over access to this vital information. Consumers had limited insight into the data contained in their files or how to improve their rating. Further, it was difficult to dispute errors. The financial-services industry frequently came under fire from consumer advocates and regulators, and credit reporting agencies and lenders endured significant damage to their reputations and brands.

The U.S. Fair and Accurate Credit Transactions (FACT) Act of 2003 sought to make consumer credit data more transparent and accurate by requiring credit reporting agencies to provide consumers with free annual credit reports. The law also established a framework for adding protections against identity theft and consumer fraud. Broadly varied resources for personal finance and financial wellness have since been introduced to complement the baseline credit reports made available by the FACT Act.

The implications of the FACT Act have been far-reaching. The legislation was passed under the intuitive assumption that access to information and awareness of how it can be used will contribute to a consumer's financial well-being and ability to achieve personal milestones. Consumers want to know where they stand and verify that they're on the right track, and that they're taking the appropriate steps to meet their financial goals. Access to credit information is one way to build that confidence, along with personal financial-management tools, retirement planning, and other resources.

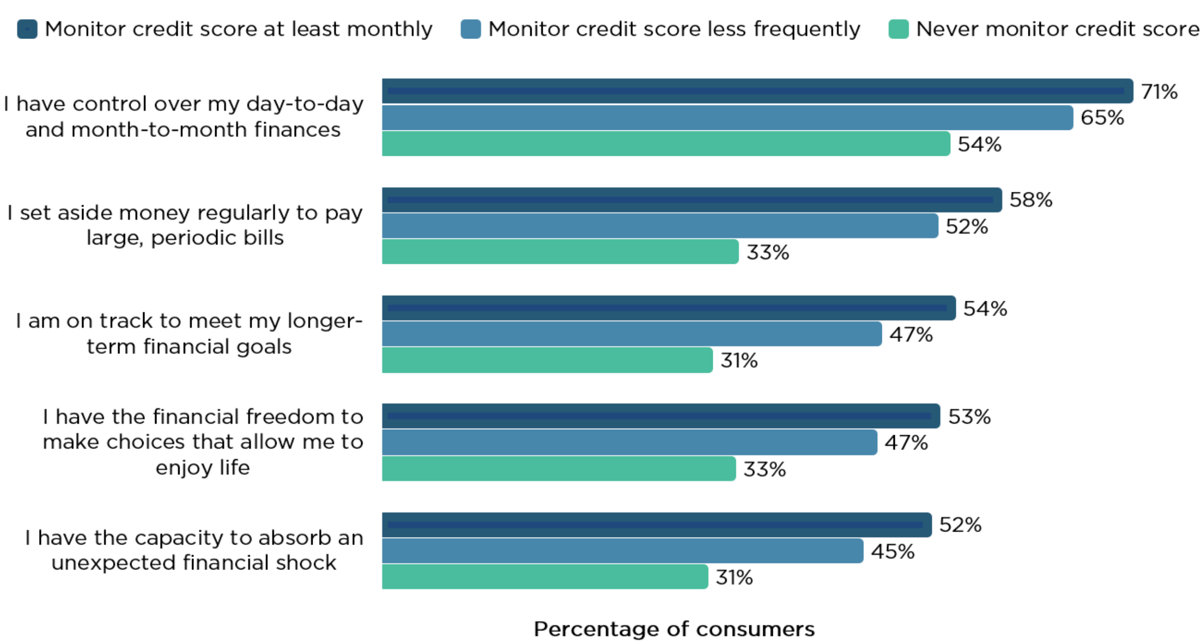
ACCESS TO INFORMATION USHERS IN AN ERA OF FINANCIAL EMPOWERMENT

Data illustrates that U.S. consumers have a better understanding of how credit scores work and are actively engaged with their credit files since the passage of the FACT Act. In addition, heightened monitoring has helped consumers root out fraud and make credit reporting data more accurate.

Access to information also has bolstered consumer confidence. Monitoring one's credit score doesn't guarantee financial success, of course. But consumers who monitor their credit scores on a monthly basis express greater confidence about their financial health and are more likely to demonstrate behaviors that the U.S. Consumer Financial Protection Bureau considers crucial for financial well-being (Figure 1). For example, 71% of consumers who check their scores at least once a month perceive that they have control over their day-to-day finances, compared with the roughly 54% of consumers who never check their score.

Consumers Who Monitor Their Credit Score Feel More Confident About Their Financial Health

Figure 1. Agreement with Statements about Financial Health, by Frequency of Credit Checking



Source: Javelin Strategy & Research, 2019

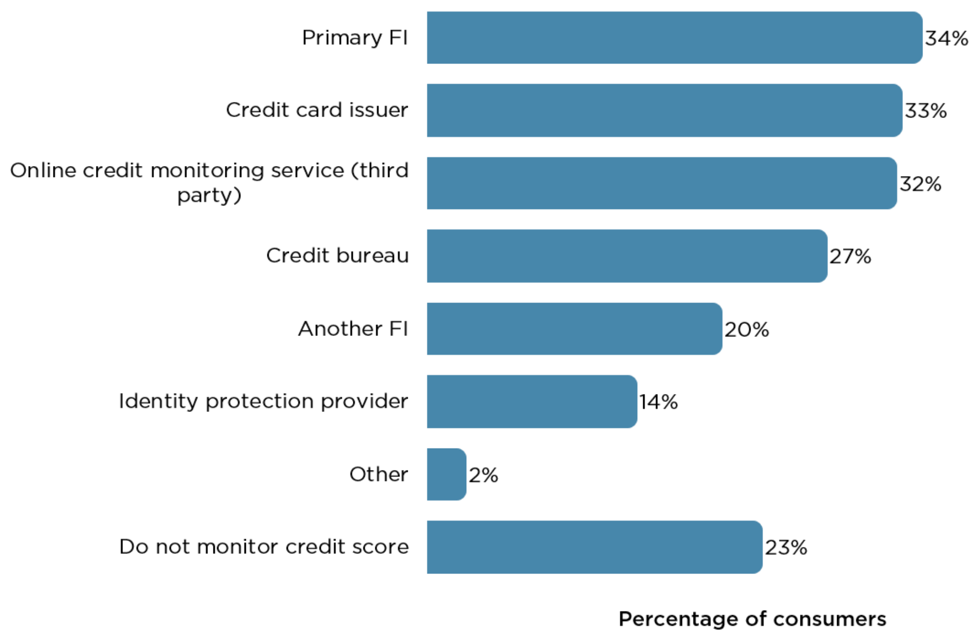
In general, consumers who check their credit scores monthly express more confidence that they:

- Maintain control over their financial lives
- Could absorb a financial shock
- Will achieve the financial freedom necessary to enjoy life
- Are on track to meet long-term financial goals
- Can set aside money regularly to pay large periodic bills

U.S. consumers turn to a variety of sources to access credit data, including financial institutions, credit reporting agencies, and third-party monitoring services (Figure 2). Banks and credit unions are the leading providers of this information, in their capacity as depository institutions and credit card issuers. However, nearly 40% of consumers interact with more than one provider for credit information. Nearly 9 in 10 of these consumers (87%) receive updates for free.

Consumers Routinely Use Multiple Sources

Figure 2. Sources Used by Consumers to Check Credit Reports and Scores



Number of providers used	
0	23%
1	38%
2	17%
3	7%
4+	15%

Source: Javelin Strategy & Research, 2019

CONSUMER CREDIT ENGAGEMENT BENEFITS BUSINESS VITALITY AND THE LENDING ECOSYSTEM

Expanding awareness of and access to credit data in the United States has provided three key benefits to consumers and businesses throughout the lending landscape.

1. Detecting Fraud

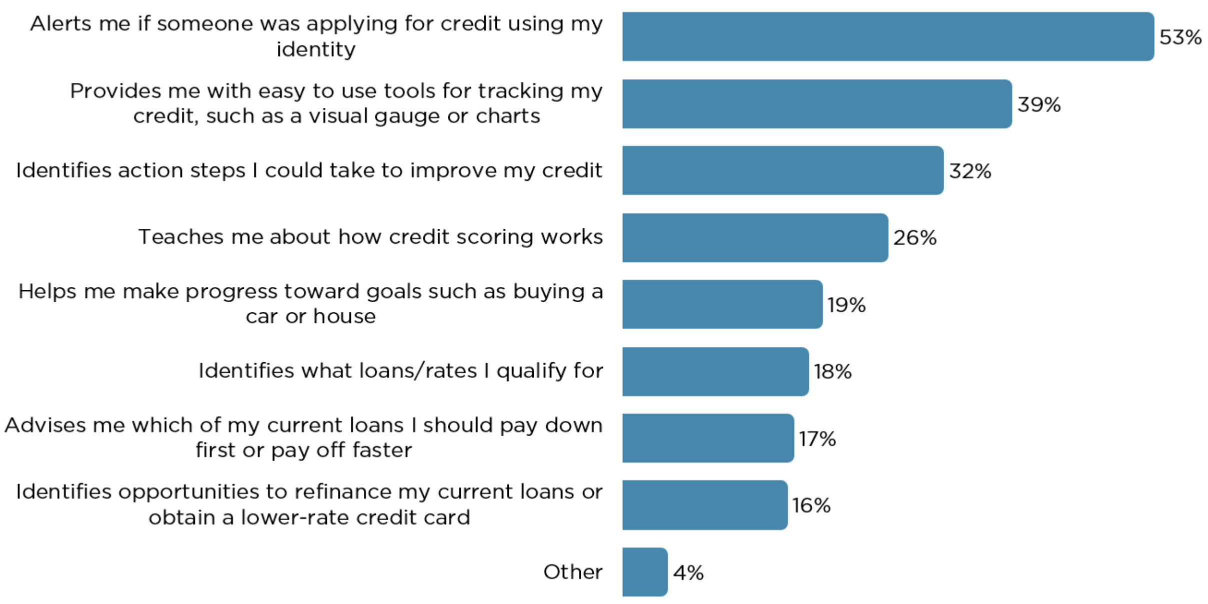
Although financial institutions provide the first line of defense against fraud, they are getting an assist from consumers armed with information about their credit data and overall finances. Increasingly, financial institutions seek ways of empowering customers with security hubs, alerts, education, and the ability to stand watch over their credit data. More than half of consumers using a credit monitoring service say they do so to remain vigilant and protect themselves against identity fraud (Figure 3).

2. Ensuring Data Integrity

Routinely monitoring credit reporting data encourages consumers to be on the lookout for—and to proactively address—errors in their files caused by a reporting mistake or malicious fraud. About 39% of consumers using such services also use tools that track their credit usage and other credit benchmarks, while 32% seek to improve their creditworthiness.

Consumers Use Credit Monitoring Services to Detect Fraud, Monitor Their Financial Health

Figure 3. Reasons Consumers Use a Credit Monitoring Service



Source: Javelin Strategy & Research, 2019

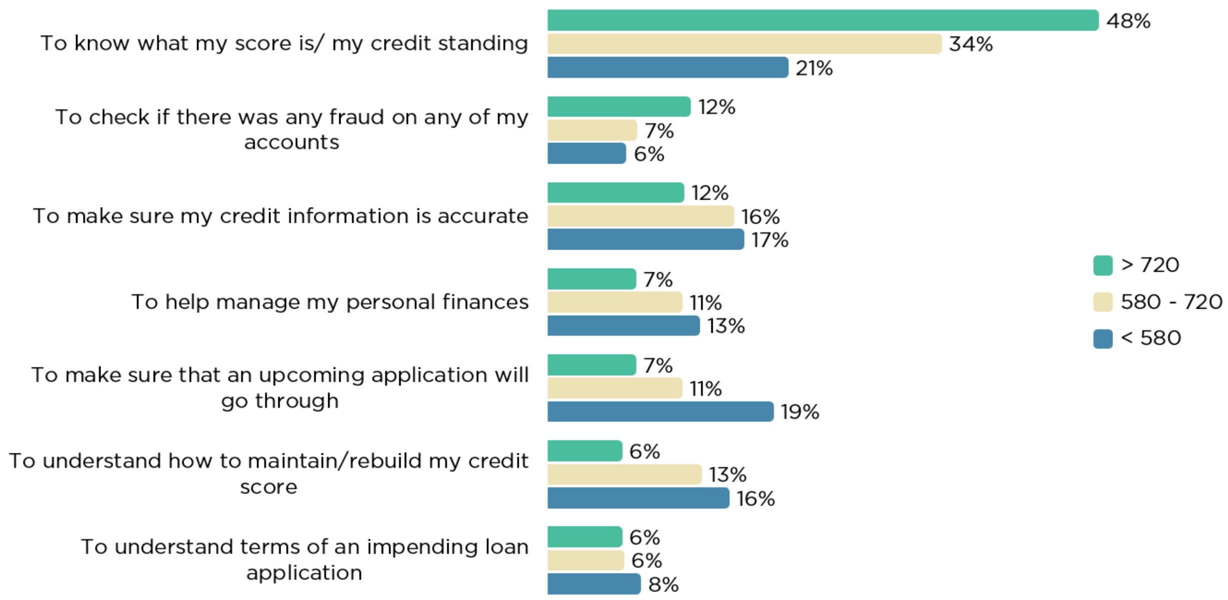
3. Improving Creditworthiness

One underlying assumption of the FACT Act is that U.S. consumers are better equipped to borrow responsibly if they are informed about their credit files and how scores work. When consumers build stronger credit profiles, their borrowing costs ultimately decrease, which provides an incentive to shoulder prudent debt. At a macro level, it also reduces lenders' risk exposure and spurs economic activity through broader consumer spending.

The ways and reasons that individuals access their financial data vary in part by where their scores sit on the credit spectrum. For example, consumers with prime credit scores are more likely than those with subprime scores to access their data to check their standing (48% vs. 21%). On the other hand, consumers with subprime scores are more likely to access their data before applying for loans (19% vs. 7%) and to rebuild credit (16% vs. 6%). These activities indicate that many consumers understand how to apply these tools and are aware they can play an active role in polishing their lending profile (Figure 4).

Consumers Monitor Scores to Know Where They Stand

Figure 4. Motivations to Monitor Scores Vary by a Consumer's Creditworthiness



Source: Javelin Strategy & Research, 2019

CONSUMER EMPOWERMENT OPENS THE DOOR TO SUSTAINED DIGITAL ENGAGEMENT

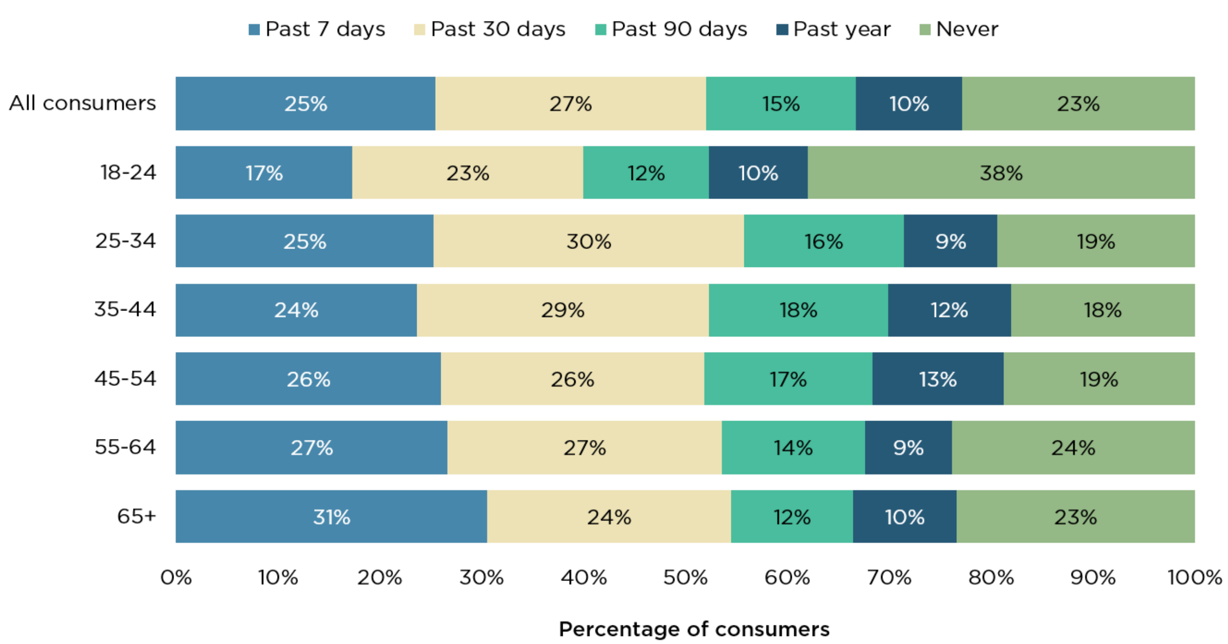
Today, more than half of U.S. consumers view their credit score at least monthly through credit monitoring services, card issuers, financial institutions, identity protection services, and credit reporting agencies. This easy access has made credit data an important tool for millions of adults—from the emerging Generation Z consumers who are just beginning to establish a financial footprint, to more experienced Baby Boomers on the lookout for financial fraud (Figure 5). This trend points to an evolution in how consumers use their personal credit data, progressing from access on an as-needed basis to regular and consistent monitoring.

The global marketplace today is built to serve self-directed consumers. Increasingly, however, financial institutions are discovering the benefits of delivering personalized insights and recommendations proactively, prompting engagement, and building consumer relationships across digital channels.

For example, pioneering banks and credit unions supplement online and mobile banking with holistic financial-fitness scores, net-worth tracking, and debt-repayment tools, as well as information-based benchmarks and notifications that can put managing money and personal finance at the heart of a banking relationship. Consumers turn to these digital tools not only to keep tabs on the movement of their credit score but also

Half of Consumers Check Their Scores Monthly

Figure 5. Last Time Consumers Viewed Their Credit Score, by Age



Source: Javelin Strategy & Research, 2019

to explore the factors that go into it, act on recommendations to improve their borrowing power, and respond to automated alerts about potential financial fraud and identity theft.

Credit information is provided with the aim of helping consumers gain a deeper understanding of their credit scores and increase their borrowing power. These efforts raise awareness of different types of credit scores, how to maintain a healthy balance of debt and income, and why it's important to pay bills on time and manage other factors that lenders evaluate for loan applications.

Such engagement can build trust and put a financial institution at the front of the line when a consumer shops for a car loan, a first home mortgage, an equity loan, investment services, or other financial products.

A GLOBAL PERSPECTIVE ON THE FUTURE

The proliferation of consumer-facing credit information in the United States has far-reaching implications for global financial institutions. Credit scores are the basis upon which lenders can deliver personalized insights and advice that help consumers make wise financial decisions. Providing access to this information can be part of a longer-term strategy to engage with current and prospective customers. When done right, it can establish trust and develop advice-driven digital relationships before consumers are even in the market for a loan.

As lenders worldwide increasingly use credit data to make underwriting decisions, consumer transparency with these resources will play an important role in education, the increase of digital banking engagement, and the development of innovative new ways to serve credit-savvy consumers.

Access to, and engagement with, credit scores and credit information is just one element in the pursuit of financial well-being, along with other considerations such as better saving habits, managed spending, homeownership, and long-term fiscal security. In large part, consumers' primary motivation today for accessing their credit score is informational; they want to know

Customer Relationships around Credit Data Will Evolve and Deepen into an Advisory Role

Figure 6. How Building Creditworthiness Will Evolve

Evolutionary phase	Message to the customer	How FIs will engage with customers
Status	"We want you to know…"	• Free credit scores • Static gauges of credit balances vs. credit limits, debt-to-income ratios, and other measures that lenders evaluate • Alerts that report current data
Insight	"Here's something interesting; you decide what to do with it."	• Alerts with a forward-looking view to avoid missteps and improve borrowing power • Customized analysis of credit information such as debt-to-income ratios and lending metrics • Self-help tools to evaluate and analyze debt
Advice	"We recommend…"	• Gamification, alerts, and other features that incorporate behavioral economics and "nudge" theory, with the aim of affecting behavior in a positive way

Source: Javelin Strategy & Research, 2019

what their score is and guard against fraud. This leaves a lot of untapped potential to expand these digital interactions into proactive engagement between lenders and consumers, benefitting both parties (Figure 6).

Although the use cases of credit scores vary around the globe, the reality of the Information Age points to growing consumer demand for access to this data, as well as better tools for understanding and flexing individual borrowing power, detecting fraud, and managing financial well-being. Over time, the U.S. model developed to benefit businesses, consumers, and the larger economy. Its success offers a blueprint for other countries looking to boost financial inclusion, create business opportunities, encourage sensible lending, and bolster the overall economy. The hunger for information could accelerate around the globe as nations build and refine their information infrastructure, look to the success in the United States, and enact regulations to widen consumer access to credit.

As access to credit information expands globally, so will the benefits of transparency, accountability, and awareness. As a result, the lending ecosystem will be better equipped to:

- Detect fraud
- Improve data integrity
- Help consumers improve their borrowing power

Expanding consumers' access to a variety of sources of credit data is essential to empowering them with choices for engaging this information while encouraging competition within the lending ecosystem to develop more robust offerings. Financial institutions that seek to keep tight control over credit data, or are slow to share these resources, will be at a disadvantage with current and prospective customers who want to understand and build their borrowing power, prevent fraud, and achieve overall financial wellness.

The engaged consumer helps improve the data that lenders rely on, boosting the overall volume of loans that can be made and repaid on time, as well as creating cross-sell and upsell opportunities.

METHODOLOGY

This report is based primarily on information collected in two online surveys:

- A panel of 10,768 consumers conducted from June to July 2017. The margin of sampling error was ± 0.94% at the 95% confidence level.
- A panel of 2,000 consumers conducted in August 2018. The margin of sampling error was ± 2.19% at the 95% confidence level.

ABOUT JAVELIN STRATEGY & RESEARCH

Javelin Strategy & Research is a research-based advisory firm that helps clients make informed decisions in the digital financial world. It provides strategic insights for financial institutions, government, payments companies, merchants, fintechs and technology providers.

Authors: Austin Kilgore, Director, Digital Lending,
Mark Schwanhausser, Director of Digital Banking

Contributors: Ian Benton, Senior Analyst, Digital Banking & Payments

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