



Changing how we present the cost of borrowing on loans

An experiment for Clearscore

January 2025



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01.

Welcoming remarks

Kate Pender, CEO Fair4All Finance

fair4all
finance

02.

Introduction to the research

Tom Markham, UK GM, ClearScore



This research is a follow on from our whitepaper on the non-prime lending market in 2024

Introduction

21 March 2024

We published our whitepaper, 'Building a non-prime lending market that delivers for UK consumers' on 27th February

Building a non-prime lending market that delivers for UK consumers

SECTION FOUR

Building a non-prime lending market that delivers for consumers

Play lenders and their investors have lost confidence in operating in the non-prime market because of their own market bias, and the factors set out in this report. Steps need to be taken to restore confidence and make it attractive again. Lending, customers might think they are offered and lenders to make it all important for the risk they take.

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Building a non-prime lending market that delivers for UK consumers

EY
Building a better working world

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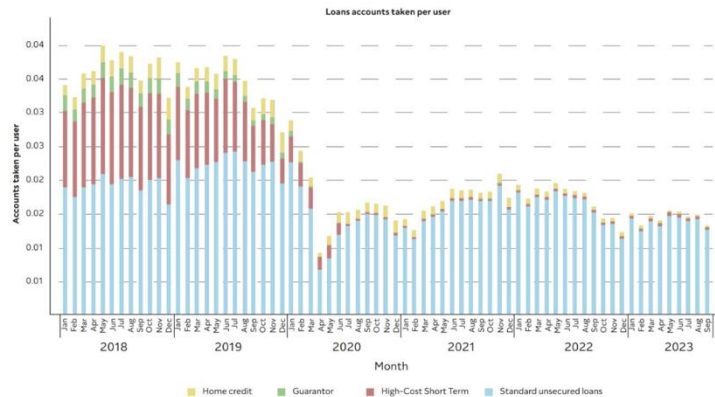
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That research highlighted the challenges that many UK consumers have getting access to affordable credit options

Evidence of market failure

There is clear evidence of market failure: since the start of 2019, the number of loans taken per ClearScore user has dropped 64%

Decline in the availability of credit (per ClearScore user)



Note: Uses all available bureau data of users signed up to ClearScore UK at the time (does not require them to have visited the ClearScore marketplace). Accounts taken per user = the number of accounts taken divided by the number of users ClearScore pulled a credit score for in a month.

¹ FCA PSD006 cited by Fair4All Finance, 'Blog: Illegal money lending and the changing credit market' (October 2022).

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Evidence of market failure

The lack of access to affordable lines of credit leads to more people turning to sub-optimal alternatives, or going without essentials

12.8m → **2.9m** were refused
adults applied for one or more credit products in the two years to May 2022¹



Read the full whitepaper here

19% said they were forced to borrow from friends and family
9% said being declined resulted in their default on a loan, bill or payment
2% said they turned to an illegal or unregulated money lender

Over 3M may have borrowed from an illegal money lender in the last 3 years²

¹FCA, Affordable Credit – use of different credit products and consumer vulnerability' (October 2023).

² Fair4All Finance, 'Millions turning to unauthorised lenders as new report shines a light on illegal moneylending in Great Britain' (June 2023).

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To support underserved users, we recommended alternative methods of communicating the cost of short-term loans

Challenges & Recommendations

We identified several reasons for market failure...

- | | |
|--|---|
| 1 Perception and unwritten rules driving a contraction in supply | 4 Retrospective impact of regulatory change |
| 2 Barriers to innovation | 5 An un-level playing field |
| 3 The disproportionate impact of CMCs | 6 Accurately assessing affordability |

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Challenges & Recommendations

...and laid out recommendations for how the market might recover

- | | |
|--|---|
| 1 Set a clear strategy and vision for a well-functioning non-prime lending market | 5 Clarify expectations on affordability and fair value |
| 2 Setting expectations for the role of open finance in assessing affordability | 6 Produce supervisory guidance to ensure consistency |
| 3 Address the unnecessary burdens posed by CMCs | 7 Promoting better communication between the industry and the Ombudsman |
| 4 Develop alternative methods of communicating the cost of short-term loans to consumers | |

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Funders and partners



03.

What we found

Mike Ellicock, Plain Numbers

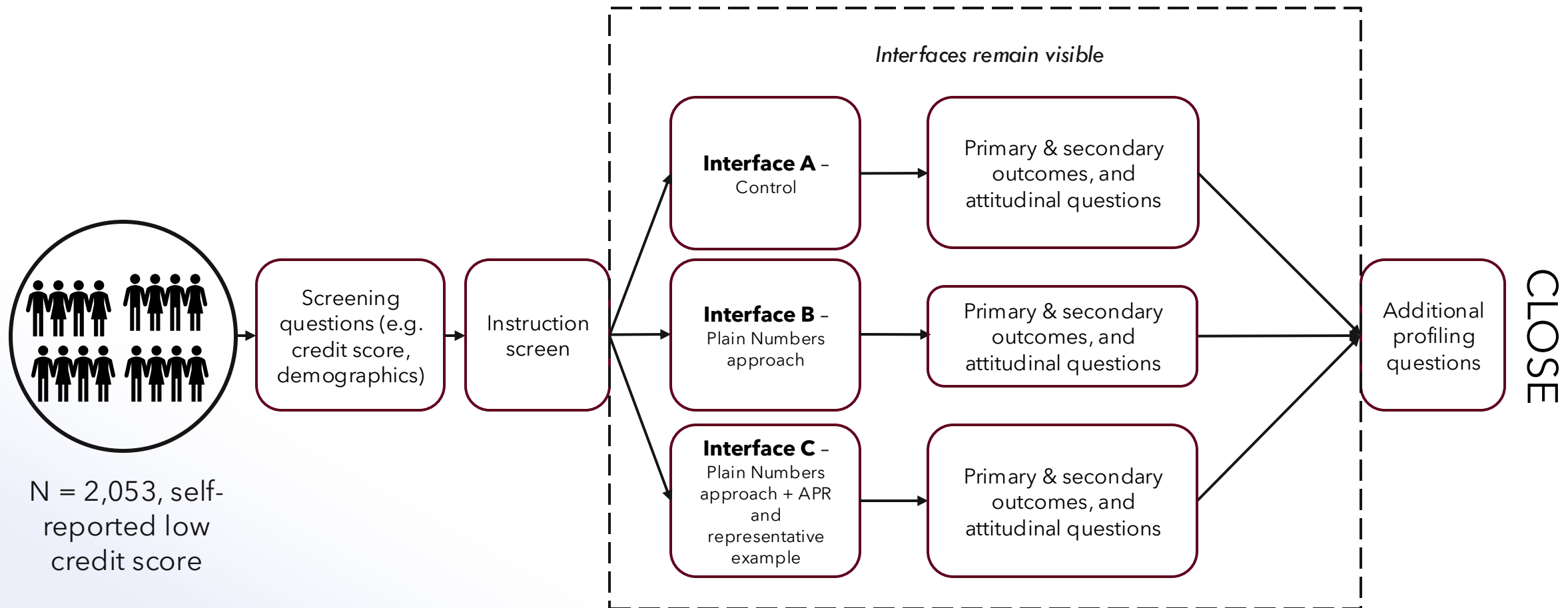
Max Mawby, Thinks Behavioural Team



Plain
Numbers

Thinks
— Insight & Strategy —

We ran a randomised controlled trial with three arms



We recruited 2,053 participants from across the UK who self-reported having a low credit score



Gender

Male	Female	Other	Prefer not to say
997	1047	5	4



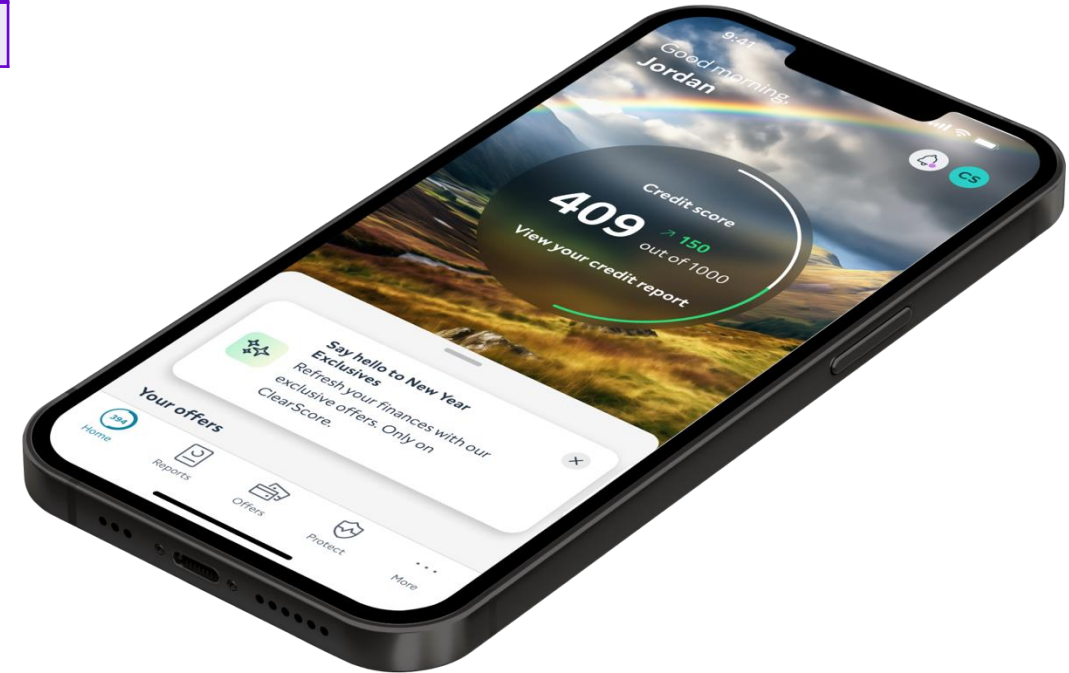
Age

18-34	35-49	55-60	60-66
829	762	386	76

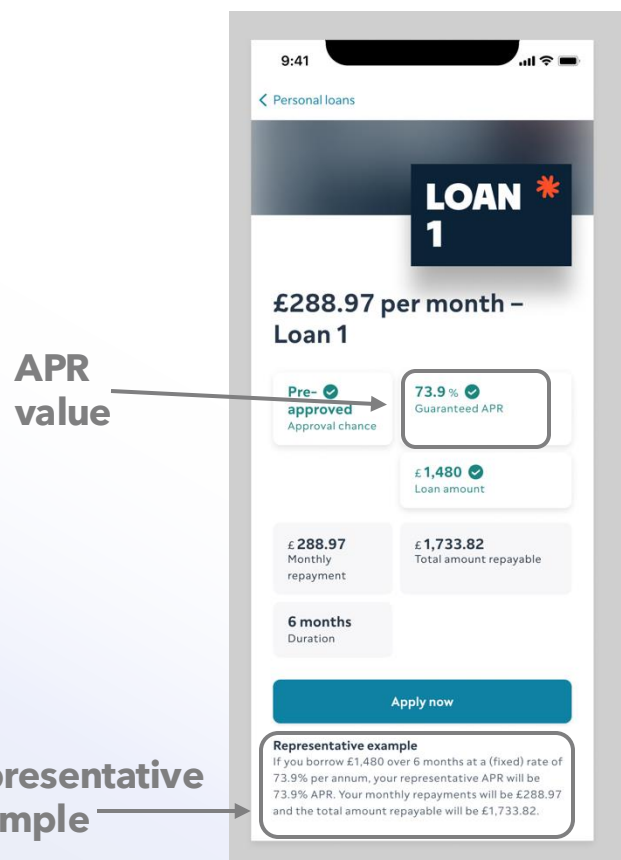


Region

England	Wales	Scotland	N. Ireland
1761	102	154	36



We tested three ways to communicate the cost of credit – in each arm participants saw a different interface

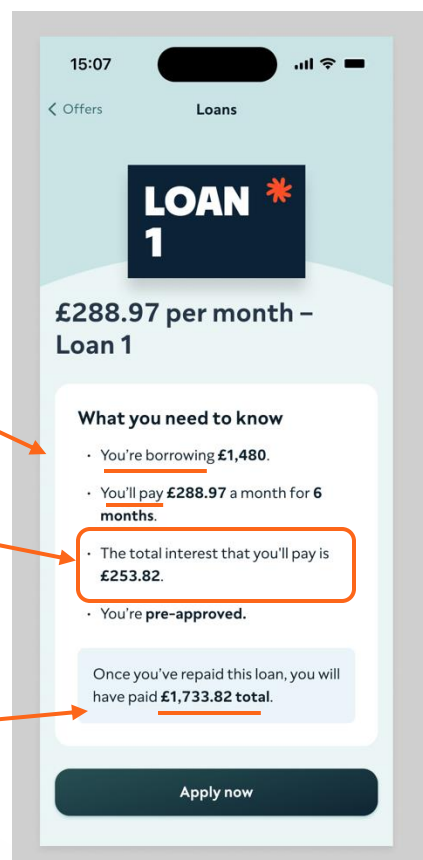


Interface A
Control

Simple narrative language throughout

Total interest you'll pay - in Plain Numbers

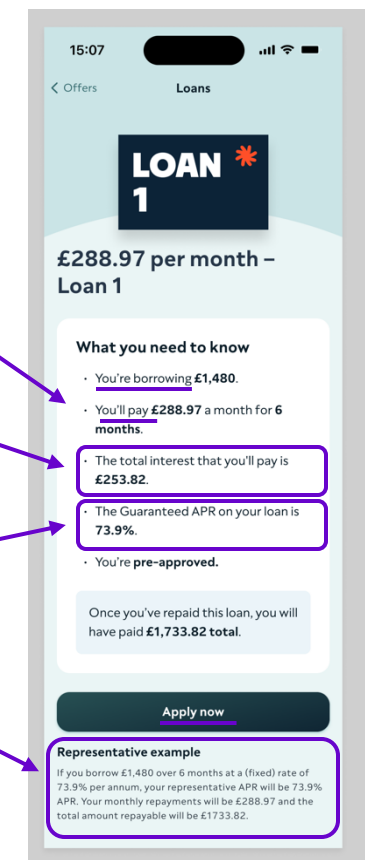
Total clearly highlighted



Interface B
Plain Numbers Approach

Plain Numbers Approach applied throughout (as in Interface B)

With original APR value and representative example also included



Interface C
Plain Numbers Approach +
APR and representative
example

The Plain Numbers Approach drives significant increases in understanding of the cost of credit

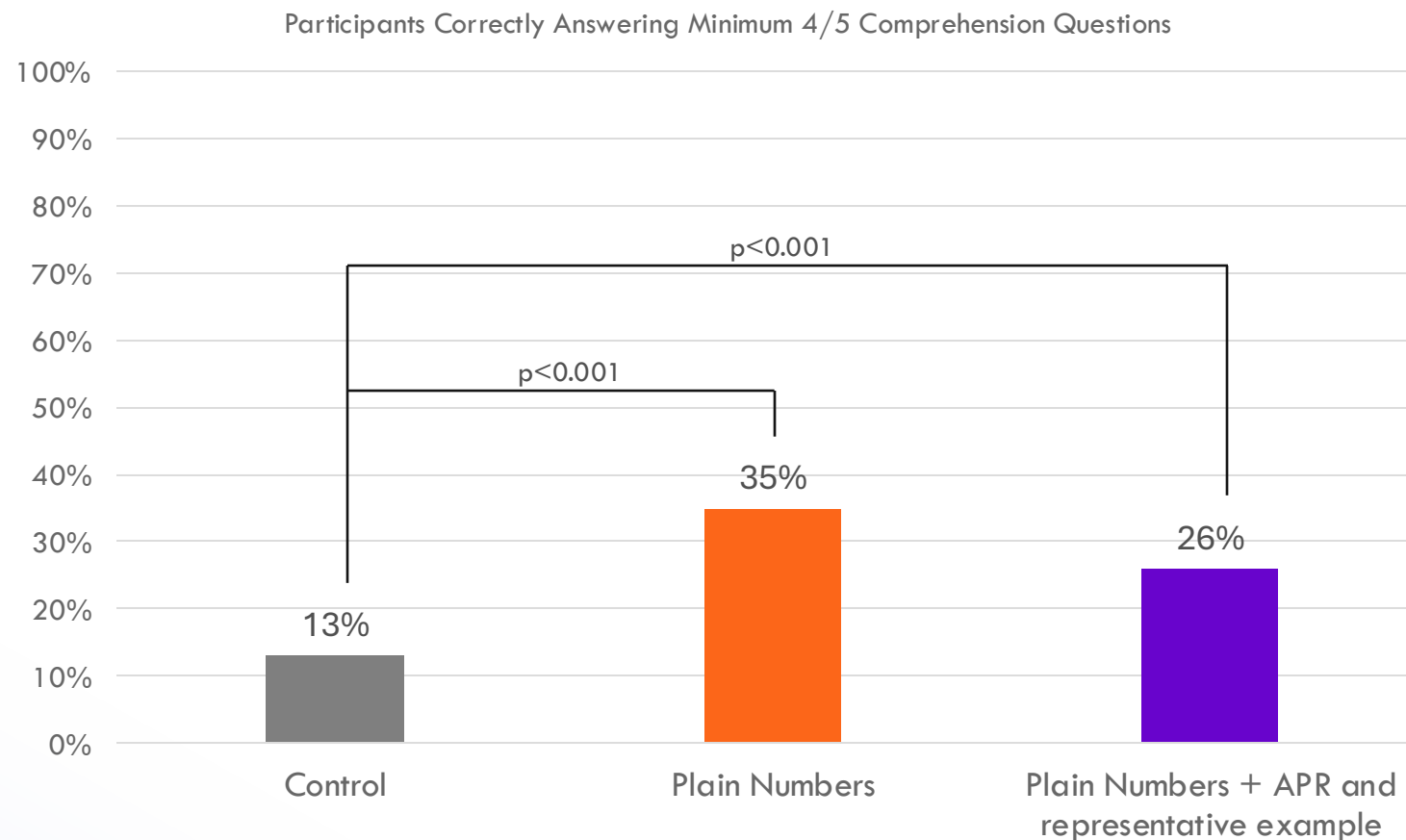
Both Plain Numbers interfaces drive a **significant increase in understanding** the cost of credit compared to the current regulatory requirements interface in the control.

This increase was **greatest for the Plain Numbers interface without APR and representative example**, nearly tripling from 13% to 35%.

Binomial logistic regression with Bonferroni correction, controlled for covariates of numeracy level and previous refusal of credit.

Base = 2053, Control = 686, Plain Numbers = 690, Plain Numbers + APR = 677.

The primary outcome is the percentage of participants who were able to correctly answer a minimum of 4 out of 5 comprehension questions (Q9-13).



The Plain Numbers Approach appears to be more effective when APR and a representative example are not present

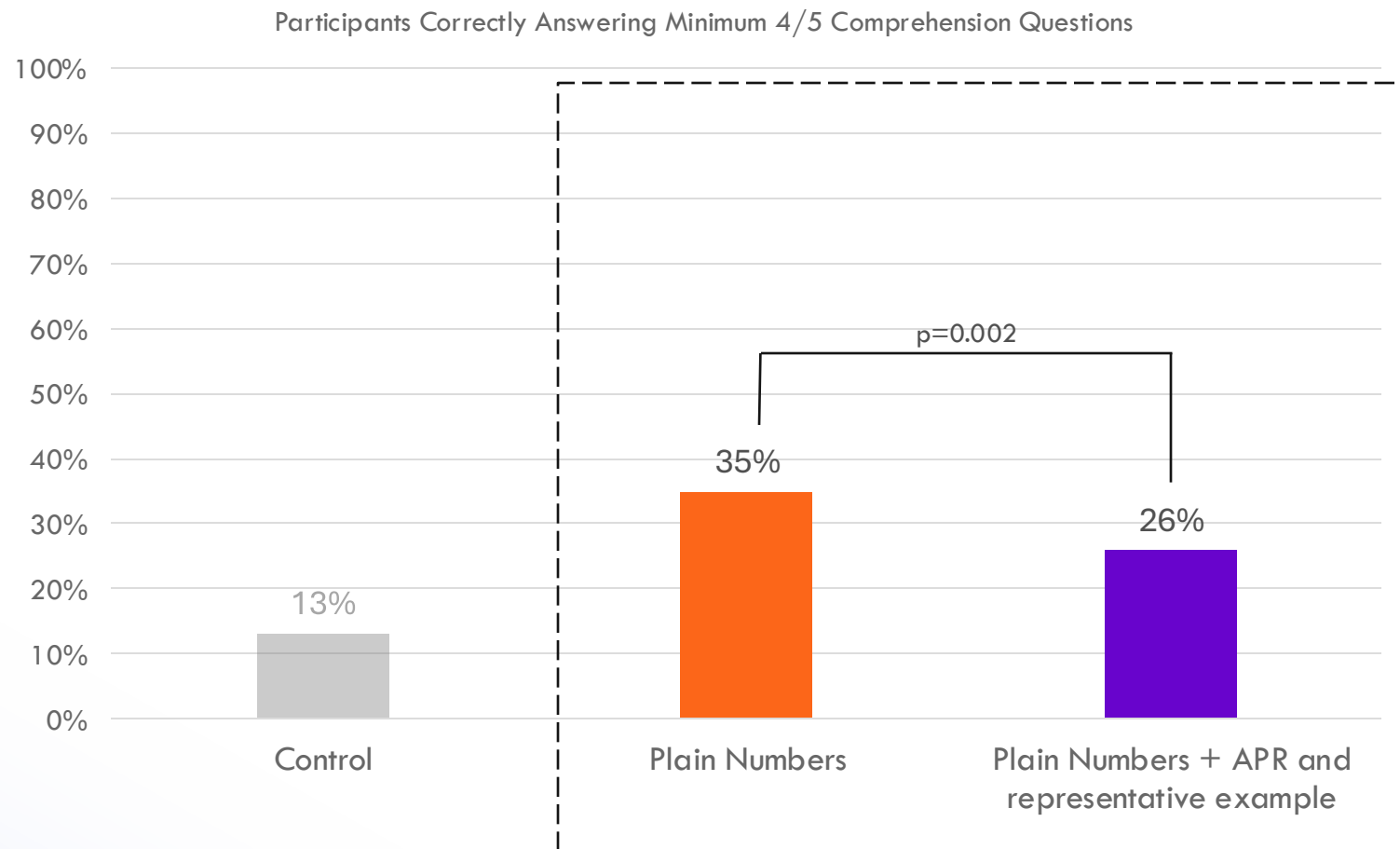
When APR and representative example are added to the Plain Numbers interface, it results in a **significant drop in understanding** of the cost of credit.

This suggests the inclusion of APR and representative example **actively undermines understanding** when the cost of the loan is explicitly stated.

Binomial logistic regression with Bonferroni correction, controlled for covariates of numeracy level and previous refusal of credit.

Base = 2053, Control = 686, Plain Numbers = 690, Plain Numbers + APR = 677.

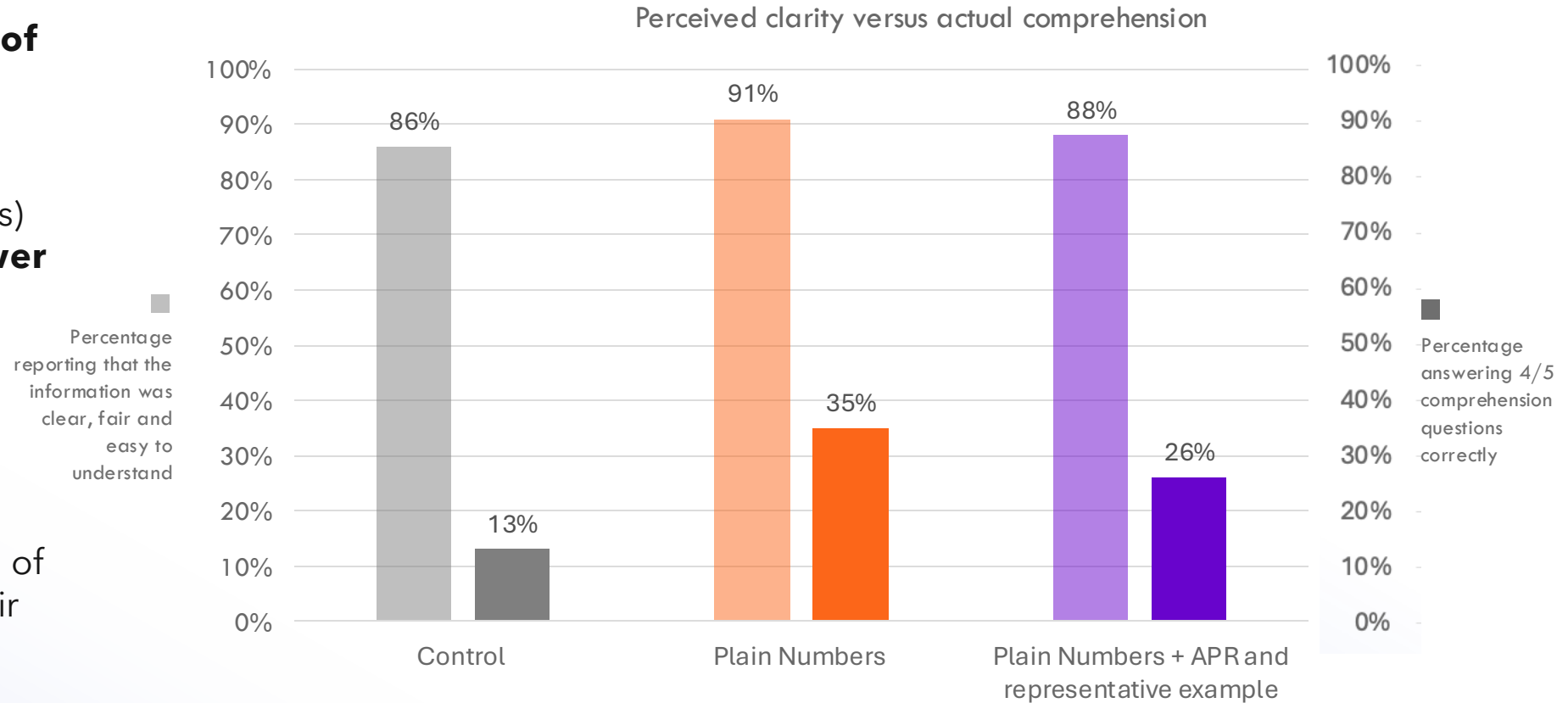
The primary outcome shows the percentage of participants who were able to correctly answer a minimum of 4 out of 5 comprehension questions (Q9-13).



However, actual comprehension lags far behind perceived clarity in each of the arms

In contrast, **actual levels of comprehension** (as measured by the correct answering of at least 4/5 comprehension questions) appear **substantially lower than perceived clarity across all arms.**

This demonstrates a substantial disconnect between participants perceived understanding of the cost of credit and their understanding in reality.



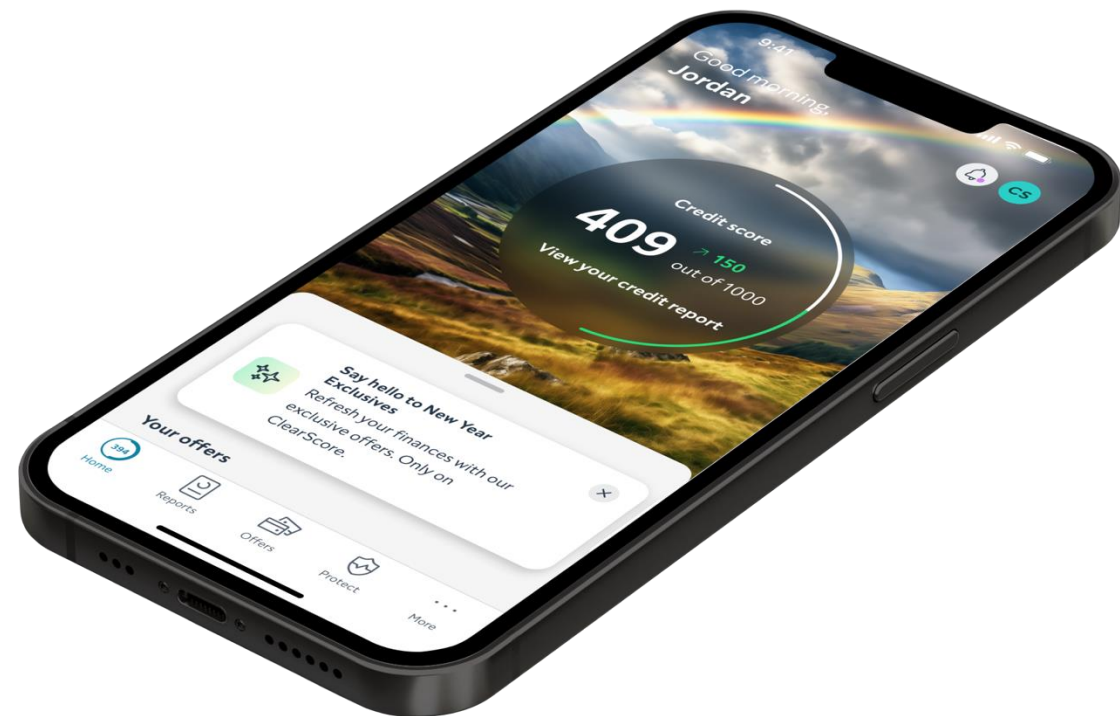
Q6. To what extent do you agree that this information has been presented in a way that is clear, fair and easy to understand?

And primary outcome showing the percentage of participants who were able to correctly answer a minimum of 4 out of 5 comprehension questions (Q9-13).

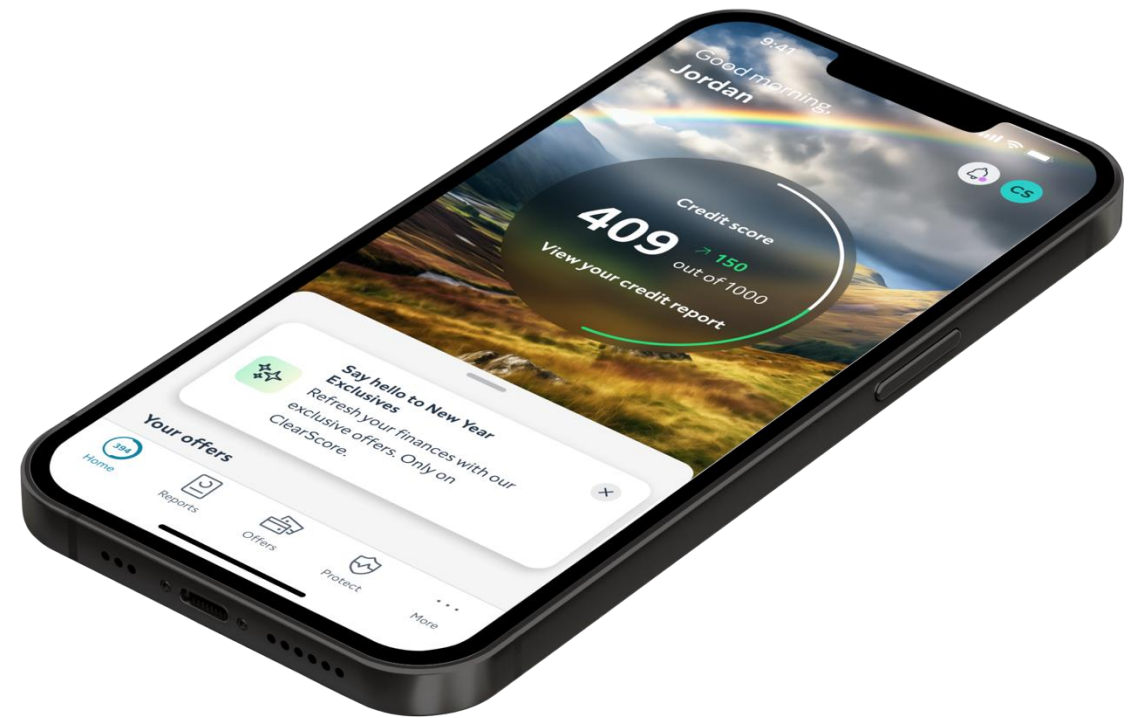
Base = 2052, Control = 686, Plain Numbers = 690, Plain Numbers + APR = 677

Key Findings

- 1. The Plain Numbers Approach drives significant increases in understanding of the cost of credit** compared to the current regulatory requirements interface in the control.
- 2. The Plain Numbers Approach appears to be more effective when APR and a representative example are not present.** This suggests that 'less is more' - more information (APR and representative) confuses people.
- 3. People don't know what they don't know.** Across all arms, the vast majority of participants agreed that information was presented in a way that is clear, fair and easy to understand.



What else was interesting?

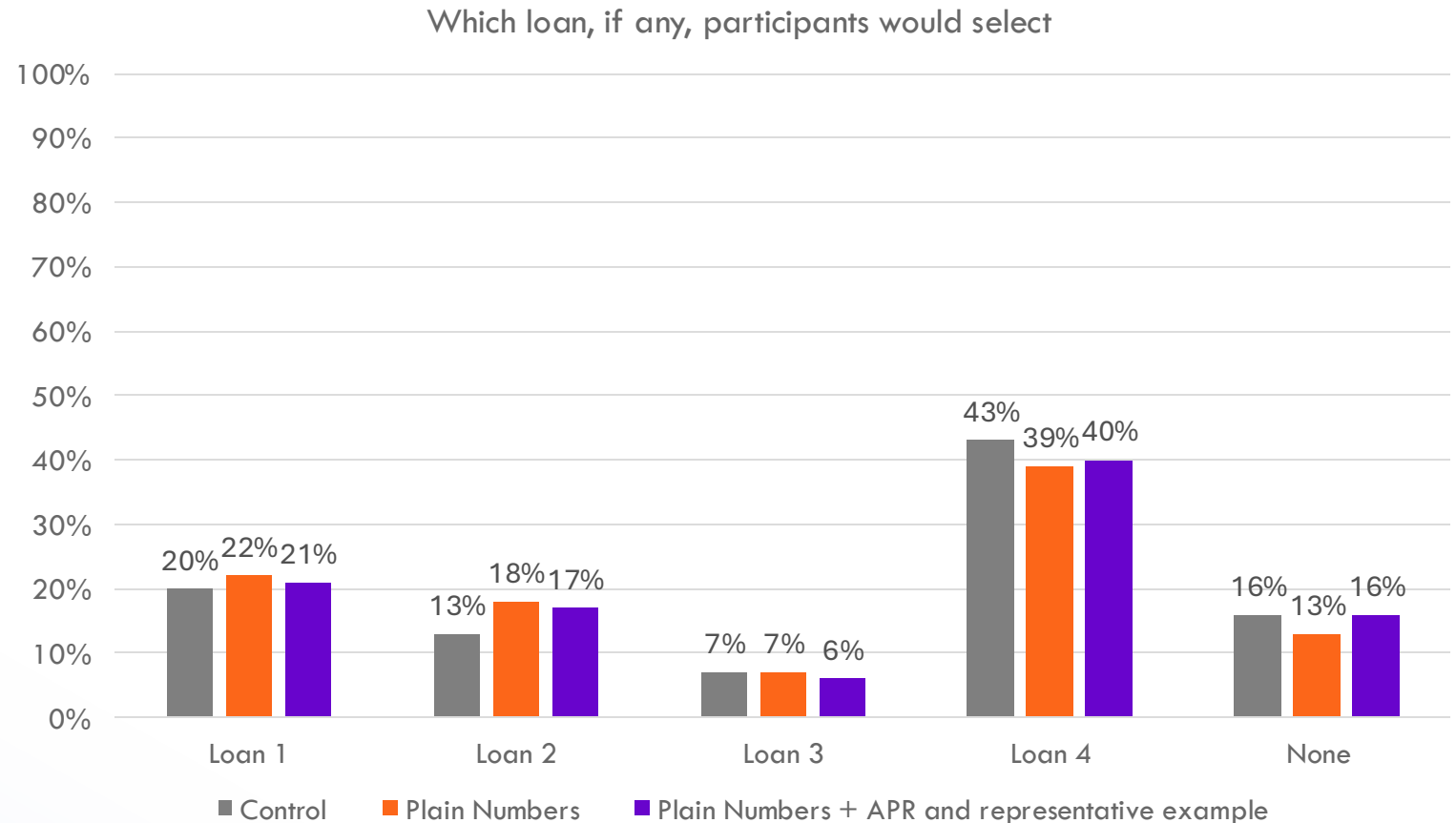


Participants prioritise low monthly repayment when it comes to loan choice

Loan 4 is the most popular choice for participants across all arms, the loan with the lowest monthly repayments.

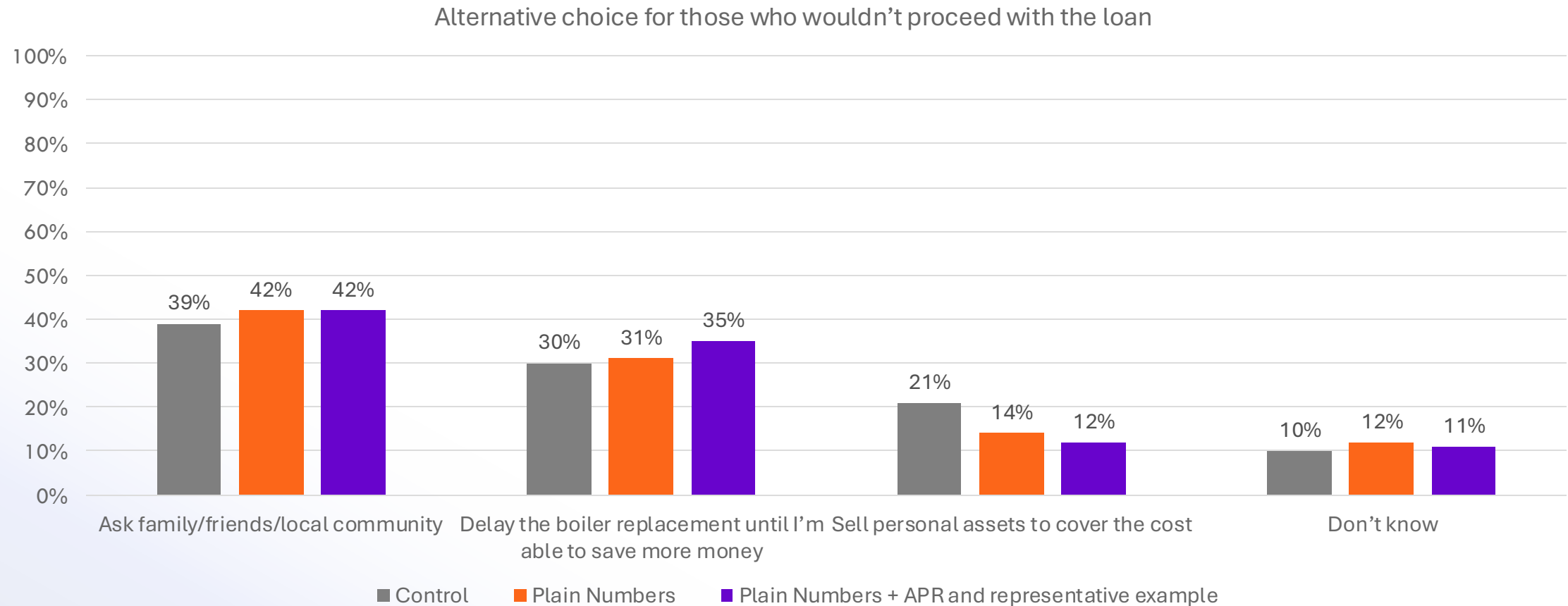
The presence of the APR figure in the control and Plain Numbers + APR and representative interfaces does not appear to have an impact on loan selection.

15% of overall participants would not select any loan, the second least popular option (just ahead of Loan 3).



Q.7. Assume you are unable to find better options from your bank, other providers or comparison sites. Would you proceed with any of these loans? If yes, which?
Base = 2053, Control = 686, Plain Numbers + APR = 677, Plain Numbers = 690

Those who would not select any loan would primarily rely on their family, friends and community for alternative support



Q8. As you answered no to the previous question, what would you do next to source the required funds? Remember that you are unable to find better options from your bank, other providers or comparison sites.

Base = 2053, Control = 686, Plain Numbers + APR = 677, Plain Numbers = 690

04.

Reflections

Peter Tutton, Head of Policy – StepChange Debt Charity

StepChange
Debt Charity

05.

Reflections

Charlotte Clark, Director Cross-cutting Policy and Strategy –
FCA



The next step is to take the findings and start to test in the ClearScore marketplace

- 1 We will test **expanding the ClearScore marketplace** to loans that are lower than £1,000 and durations lower than a year
- 2 We will work in partnership with **lenders and Plain Numbers** to display these products in a way that **maximises user understanding**
- 3 We are in the process of submitting an application to the **FCA Regulatory Sandbox** to enable this expanded trial

Please reach out to your ClearScore contact if you would like to be part of this trial.

12:49

Loans Cancel

STEP 1 OF 2

How much would you like to borrow?

£ 500

▲ The loan amount must be at least £1000.

For how long?

12 months

💡 Longer loan terms will cost **less per month** because the repayments are spread over a longer period. However, you may pay **more interest** overall.

Next

06.

Any questions?

Thank you

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