Changing how we present the cost of borrowing on loans

An experiment for Clearscore

ClearScore®
Plain Numbers
Thinks Insight & Strategy

January 2025

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Welcoming remarks

Kate Pender, CEO Fair4All Finance

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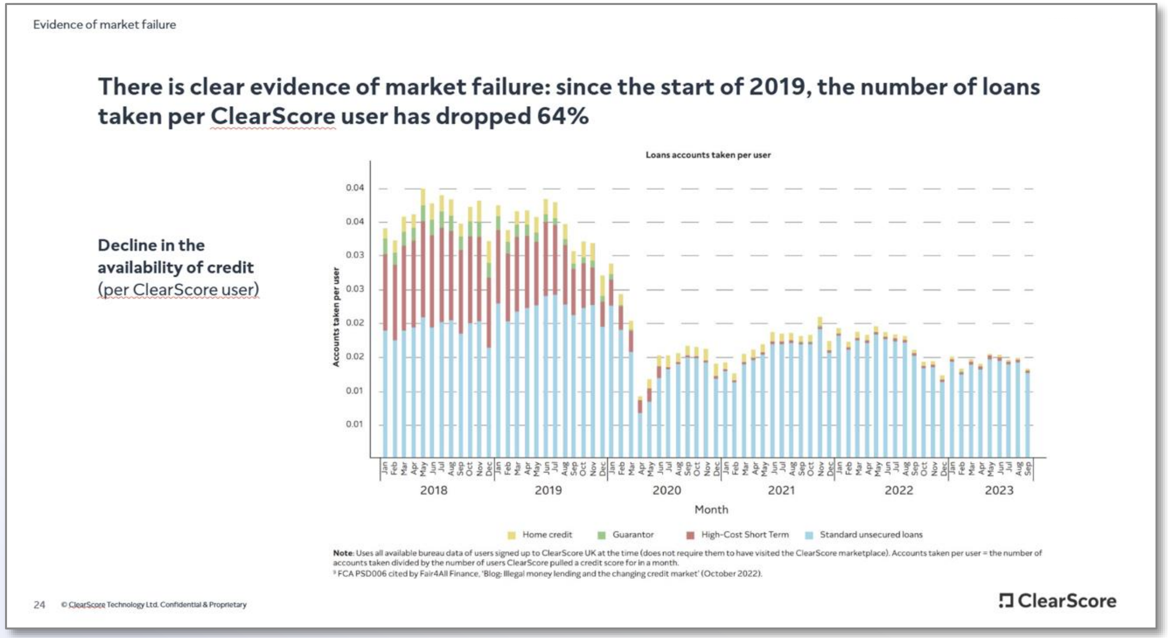
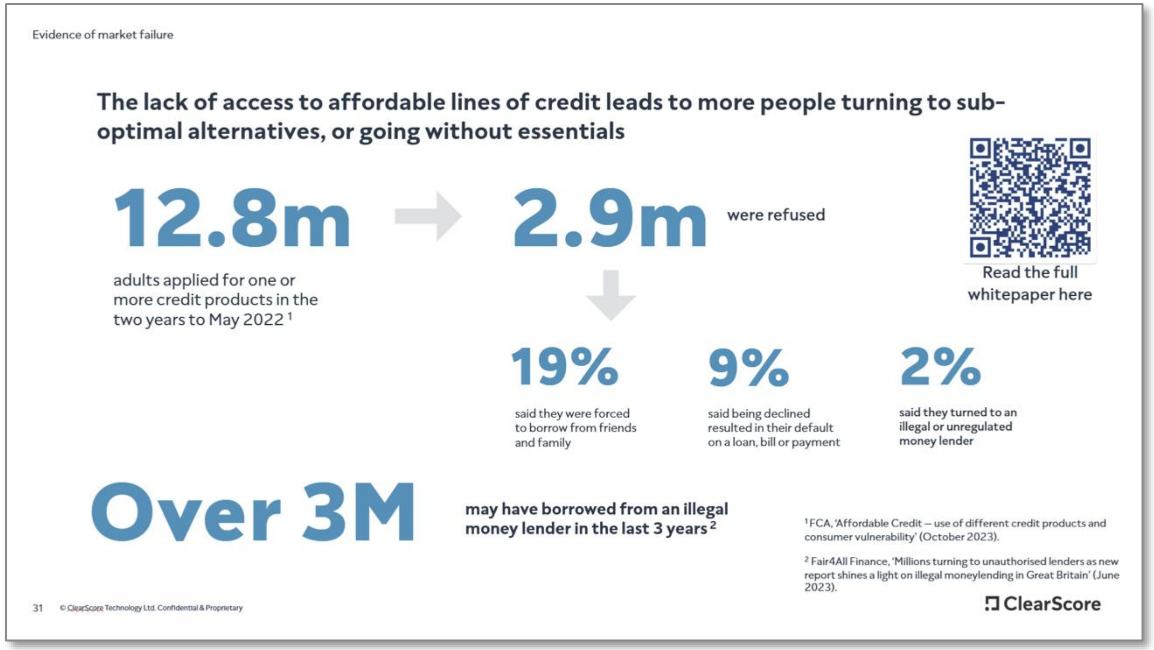
Introduction to the research

Tom Markham, UK GM, ClearScore

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

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





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

Funders and partners

ClearScore®

fair4all finance

Creditspring

GAIN CREDIT

Plain Numbers

Thinks
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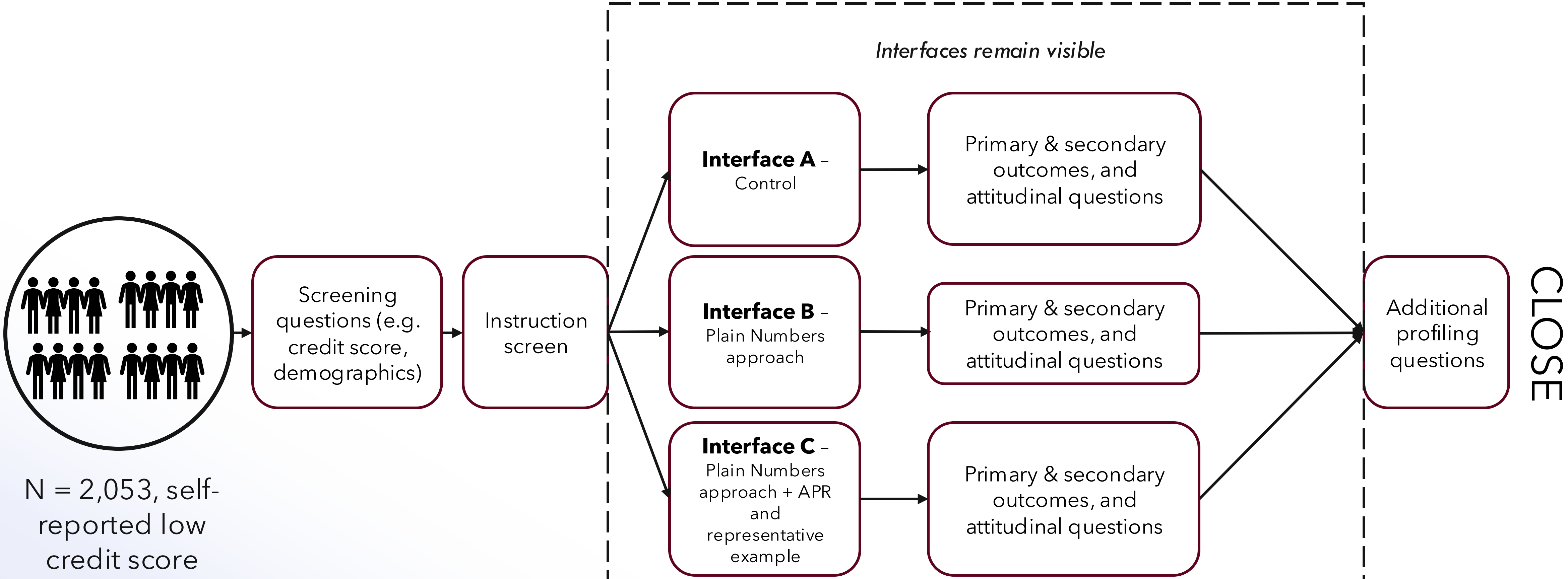
03.

What we found

Mike Ellicock, Plain Numbers

Max Mawby, Thinks Behavioural Team

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

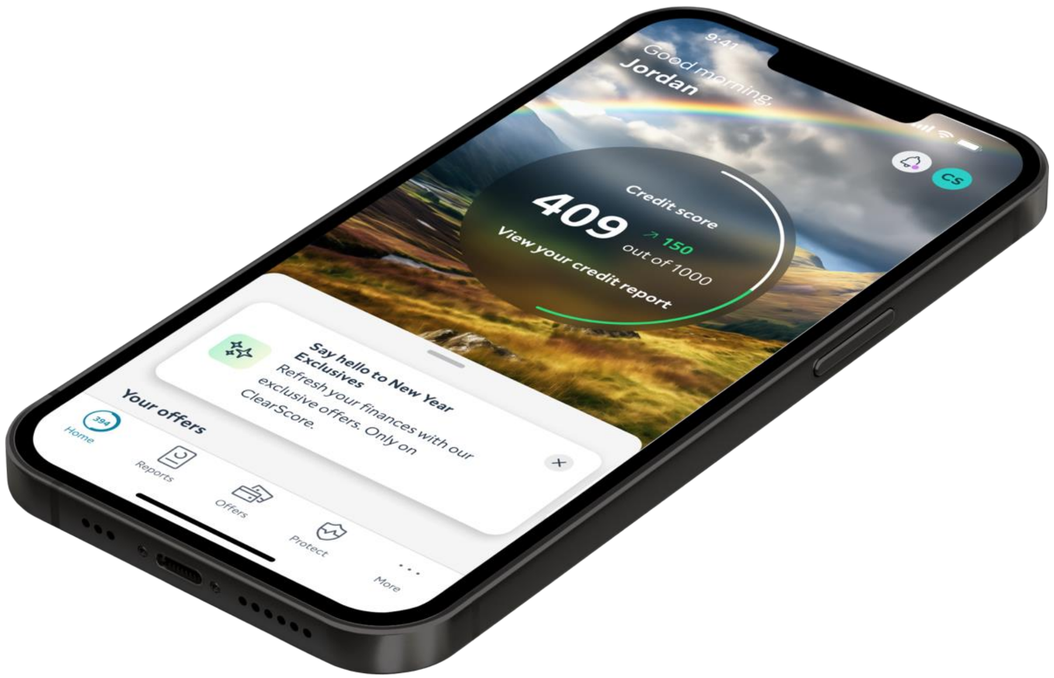
Male	Female	Other	Prefer not to say
997	1047	5	4

Age

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

Region

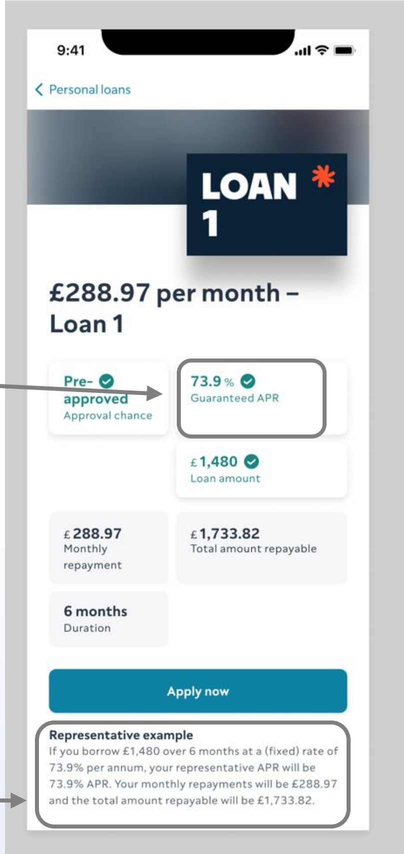
England	Wales	Scotland	N. Ireland
1761	102	154	36



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

APR value

Representative example

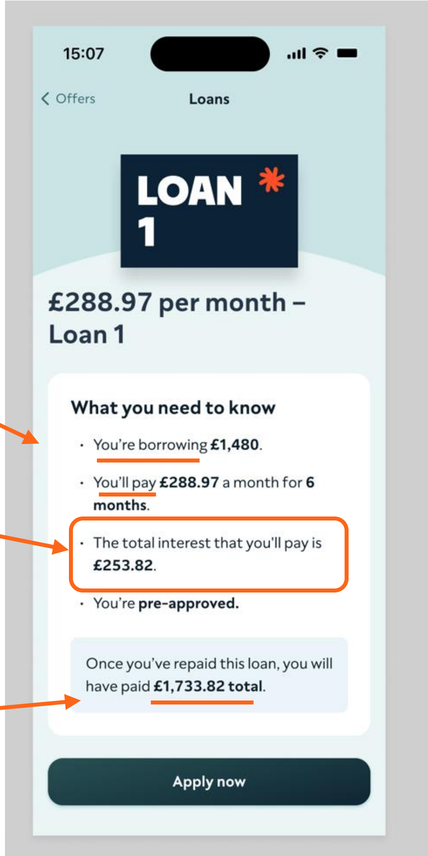


Interface A
Control

Simple narrative language throughout

Total interest you'll pay – in Plain Numbers

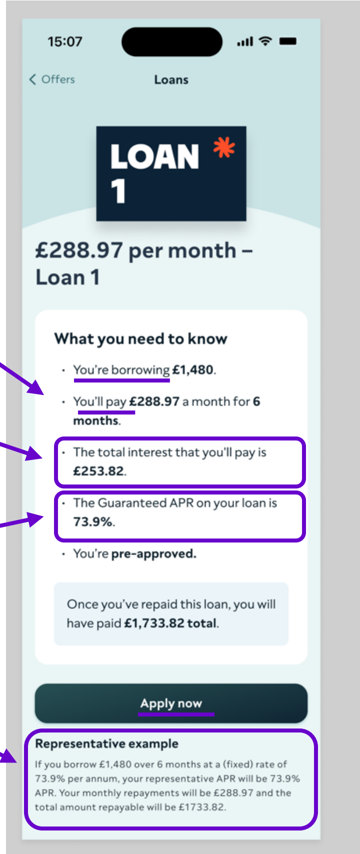
Total clearly highlighted



Interface B
Plain Numbers Approach

Plain Numbers Approach applied throughout (as in Interface B)

With original APR value and representative example also included



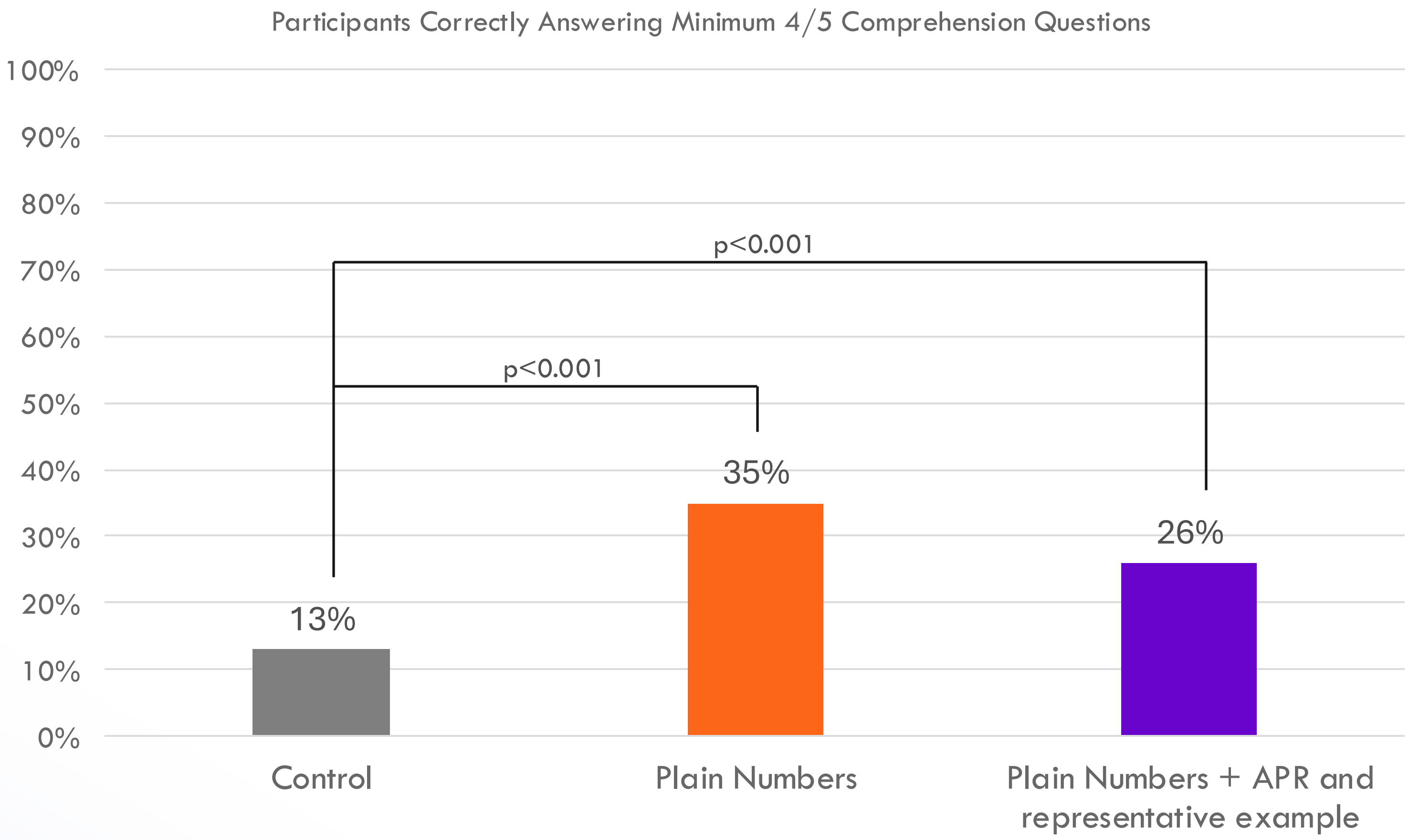
Interface C
Plain Numbers Approach + APR and representative example

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.



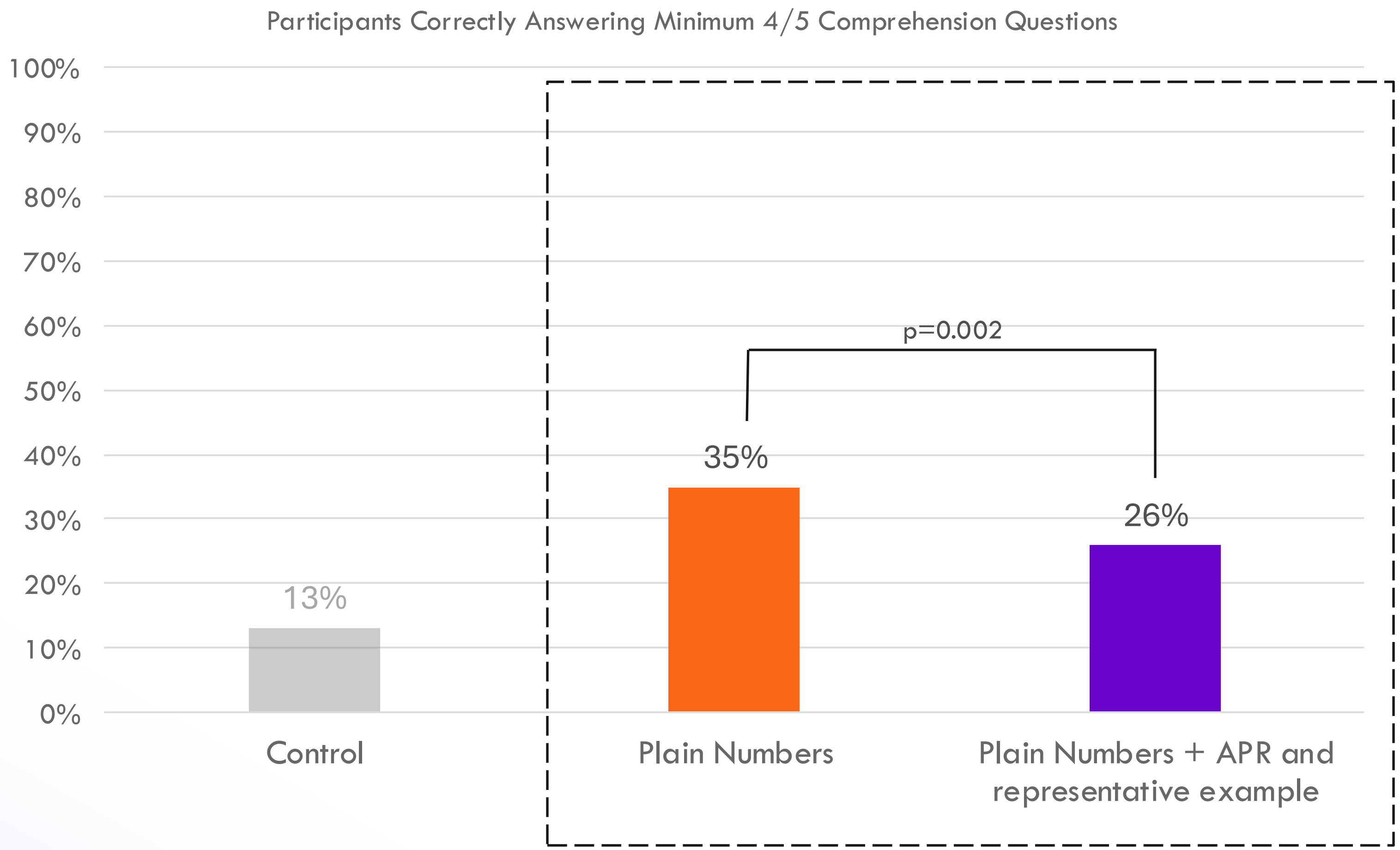
Base = 2053, Control = 686, Plain Numbers = 690, Plain Numbers + APR = 677.
The primary outcome is the percentage of participants who were able to correctly answer a minimum of 4 out of 5 comprehension questions (Q9-13).

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.

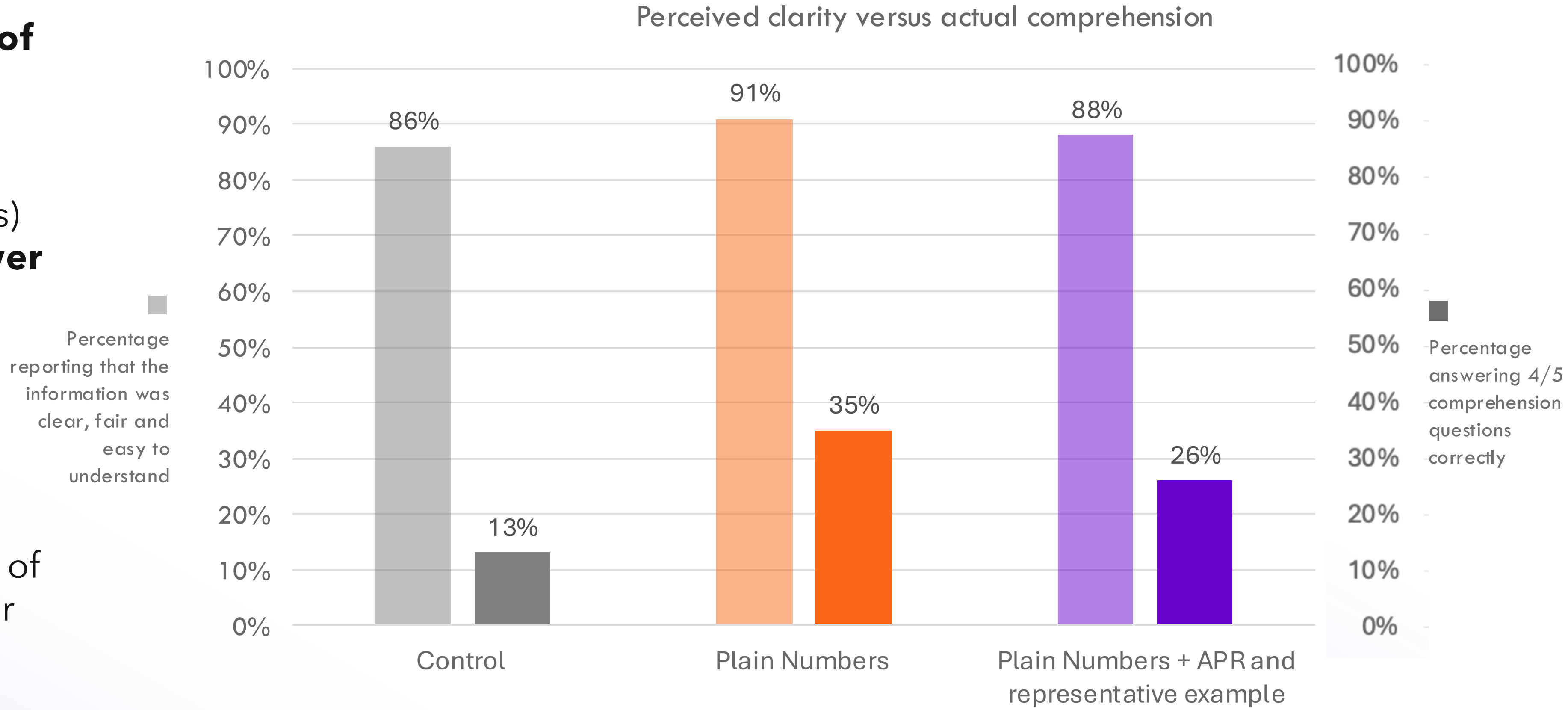


Base = 2053, Control = 686, Plain Numbers = 690, Plain Numbers + APR = 677.
The primary outcome shows the percentage of participants who were able to correctly answer a minimum of 4 out of 5 comprehension questions (Q9-13).

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.

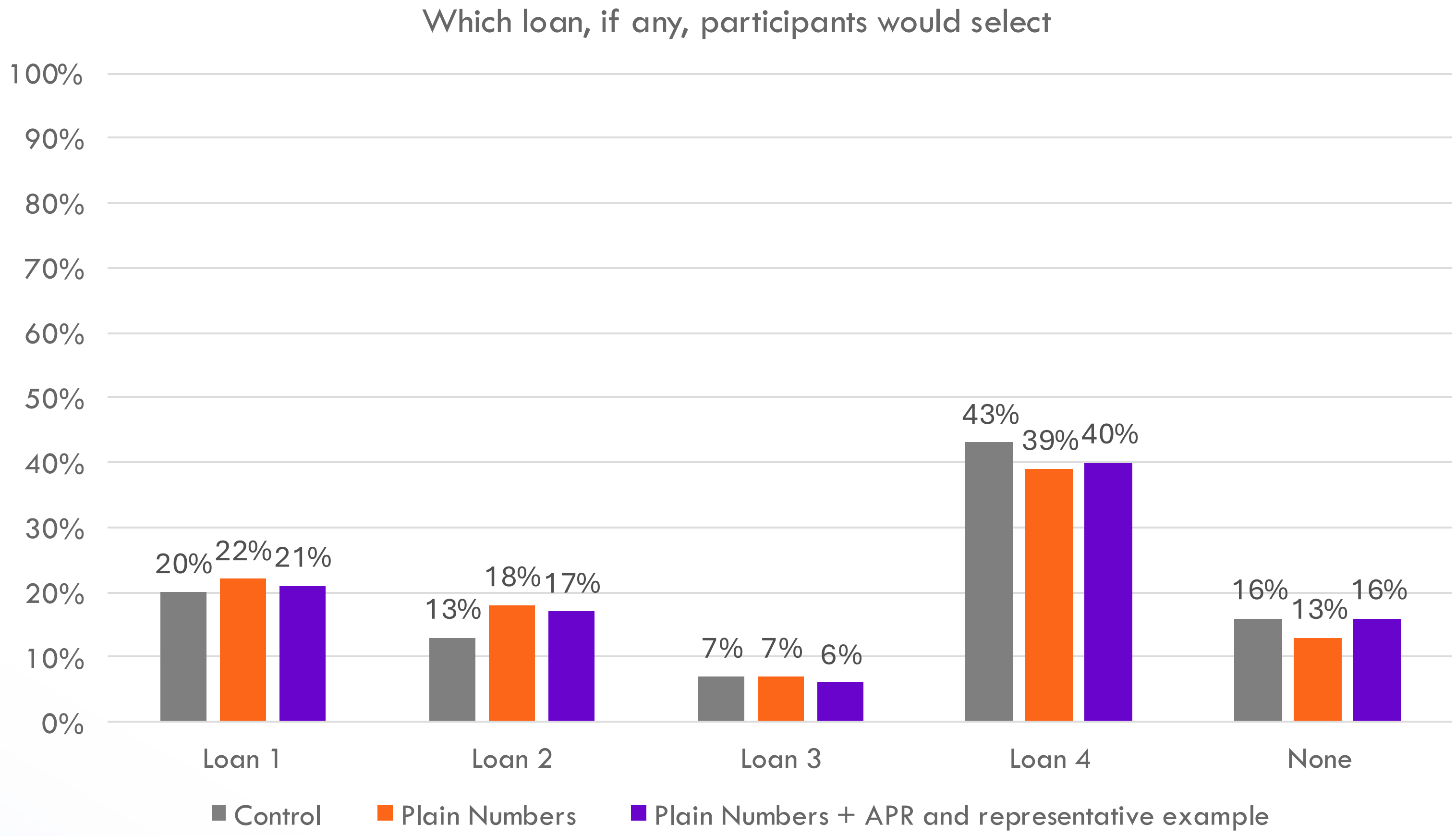
What else was interesting?

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.

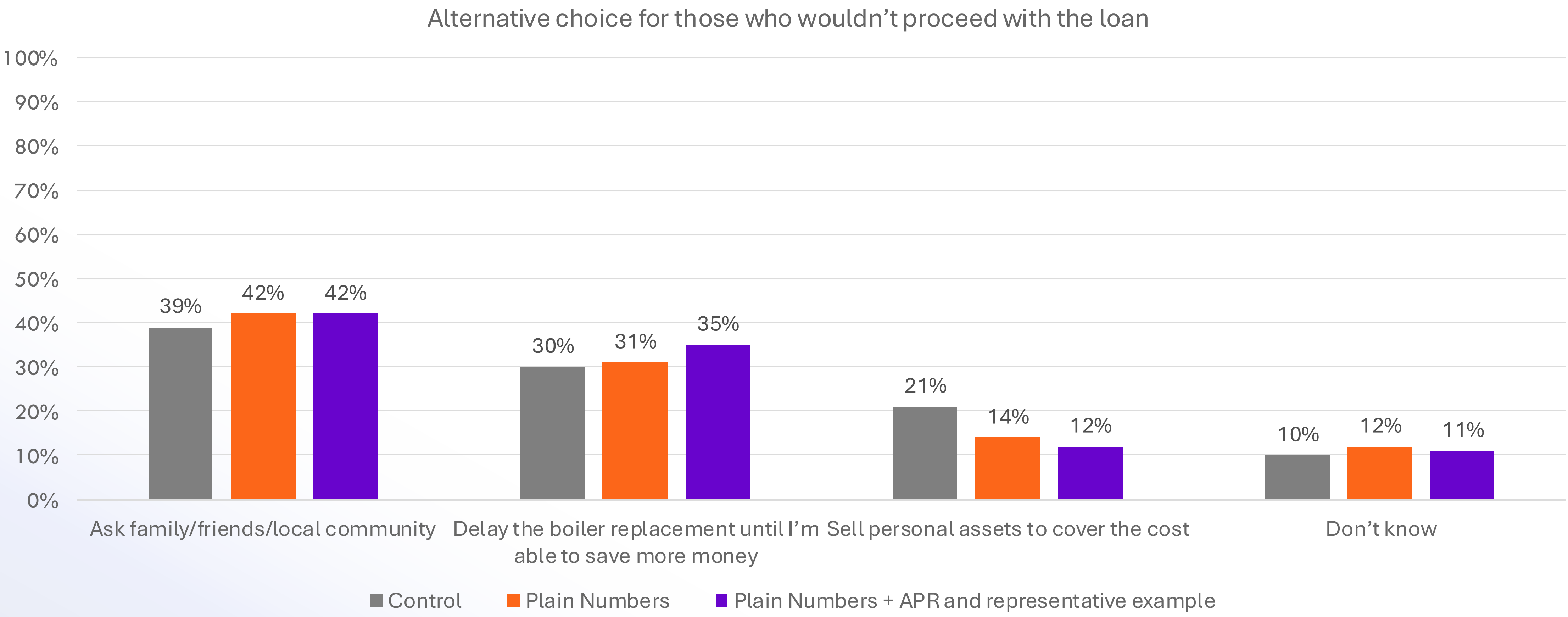
The presence of the APR figure in the control and Plain Numbers + APR and representative interfaces does not appear to have an impact on loan selection.

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

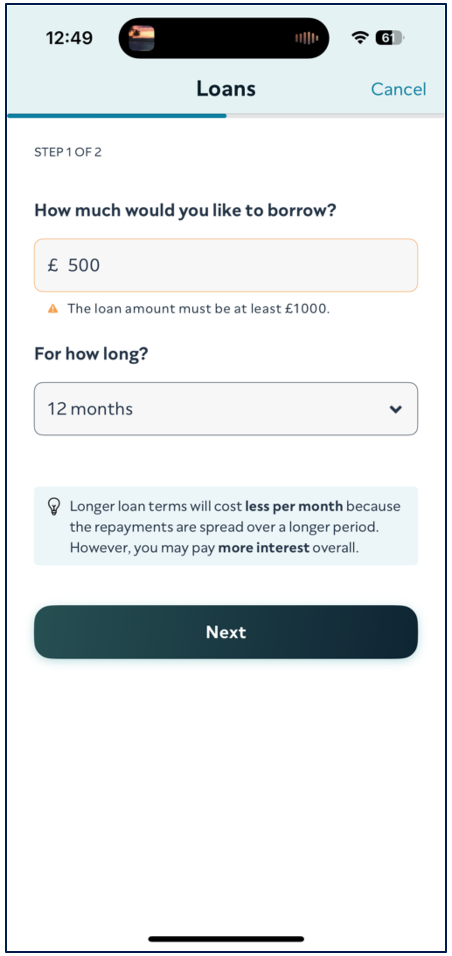
05.

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.

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Any questions?

Thank you

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