Credit Education

Empowering consumers; enabling financial inclusion

TransUnion

Study background

Consumer credit monitoring — the practice of consumers checking their credit reports and scores through credit reference agencies, financial services institutions or other third-party providers — has expanded considerably in awareness and usage over the past decade. The pandemic and its impacts on consumer finances accelerated usage of credit monitoring since early 2020 in both developed and developing markets around the world. Consumers are increasingly aware of the importance of financial education and understand the role of building and maintaining a positive credit history in accessing lending — which is key to enabling greater financial inclusion.

To better understand the distinct profiles, motivations and future outcomes of credit monitoring consumers, TransUnion conducted a global research study examining millions of consumers in markets around the world who started monitoring their credit through TransUnion for the first time. This study looked at the credit behaviors of consumers in six markets: Canada, Colombia, Hong Kong, India, South Africa and the United States. The research focused on analysing distinct characteristics of credit monitoring consumers, their likely motivations and outcomes for monitoring their credit. To further understand whether credit education may contribute to consumers achieving their financial goals, the study explored subsequent behaviours and outcomes of credit monitoring consumers within the three credit-visible consumer segments of new-to-credit (NTC), credit underserved and credit served.

The study also gathered insights on the needs and preferences of credit monitoring users through consumer surveys in the above markets, as well as in Brazil, Chile, Dominican Republic, Guatemala, Philippines and the United Kingdom.

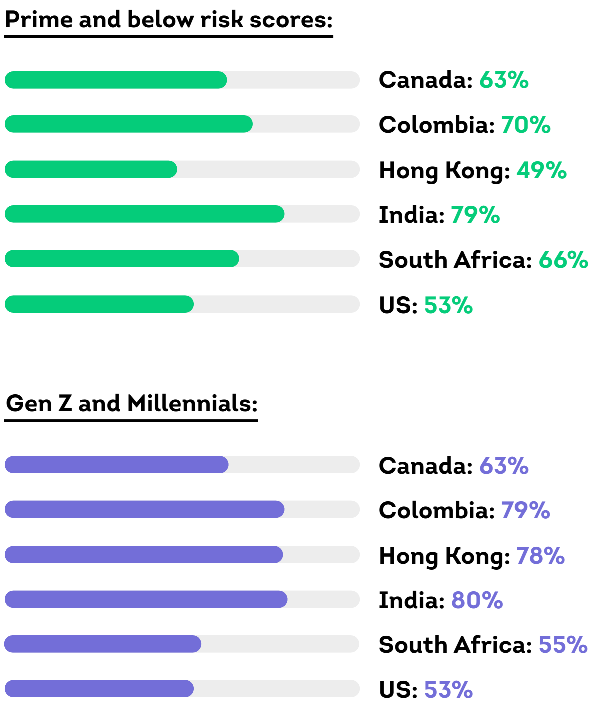
Identifying the distinct characteristics of credit monitoring consumers

When looking at consumers who start monitoring their credit, their age profiles generally skew much younger than the overall population distribution in their respective markets. This aligns with the expectation consumers are more likely to engage in credit education and understand their credit profiles early in their credit journeys. Also, younger consumers (who are digital natives) have greater awareness of the opportunities to engage with credit monitoring through phone apps and financial institution websites.

The analysis found other distinct characteristics of credit monitoring consumers relative to consumers with no history of credit monitoring with TransUnion, including:

- Generally have a higher-risk credit profile and lower credit scores (a larger percentage in below prime risk tiers)
- Have less credit tenure and are newer to credit
- Have lower incomes (based on data from markets where income data are available)

Across regions, younger and riskier segments are more actively monitoring their credit



The reasons consumers monitor credit

The consumer surveys across markets revealed insights into the motivations of credit monitoring consumers. Top-cited reasons why consumers began monitoring their credit included: Trying to improve my credit score; To learn of credit offers I might qualify for; and To protect against fraud. These reasons directly align to the three primary user segments we studied, each with unique motivations.

- **Credit Improvers:** These are consumers with subprime (poor) credit scores. Credit Improvers likely use credit monitoring to understand their current credit situations and take steps to cure delinquent accounts and/or improve their credit scores — with a longer-term goal of accessing expanded credit in future.
- **Credit Seekers:** These consumers have better credit scores; near prime and better. They intend to open new credit accounts within the next 12 months. Their goal in using credit monitoring is to ensure their credit profiles will enable them to gain approval for new credit.
- **Credit Managers:** These consumers also have credit scores in the near prime and better range. Credit Managers do not intend to open new credit accounts in the 12 months post-enrollment into credit monitoring service — but are looking to manage their current debt levels by maintaining or reducing their overall balances. Credit Managers may also use credit monitoring to detect and remedy fraudulent credit activity that could damage their credit standings.

1 In Hong Kong, Credit Improvers are defined as those with subprime or near prime credit scores.

Assessing consumer intentions to monitor credit

TransUnion segmented the full population of credit monitoring consumers by their motivations for monitoring, and analysed the behaviours of each segment against similar populations of credit-active consumers with no credit monitoring histories.

Do Credit Improvers benefit from curing existing delinquencies and/or score increases?

The study revealed Credit Improvers generally see score enhancements within 12 months of starting credit monitoring, with 57% to 75% (region-dependent) experiencing improvements. Notably, in all regions except Colombia, credit score increases among monitoring consumers were significantly greater than those of non-monitoring consumers, ranging from 1.2x in Hong Kong to 1.5x in South Africa. This highlights the added value of credit monitoring.

Moreover, Credit Improvers, often with initial delinquencies, tend to have higher cure rates — returning to current status or resolving delinquencies — within the first 3-6 months of monitoring compared to non-monitoring consumers.

These positive trends in score upgrades and cure rates were consistent across various segments based on credit visibility and usage, indicating broad applicability.

Notably, new-to-credit, underserved, and served consumers engaging in credit monitoring showed higher score increases and cure rates, benefiting their credit journeys and market engagement.

Overall, a significant portion of Credit Improvers achieved their goals of enhancing credit scores and reducing delinquencies.

Do Credit Seekers achieve their goals of opening more credit products?

Credit Seekers generally opened significantly more new accounts per consumer over the first 12 months post-enrollment than non-monitoring consumers during the same period, indicating a greater level of credit demand. Additionally, Credit Seekers saw a significantly higher percentage of new accounts opened in the three months following the month they first began credit monitoring, which indicates a strong correlation between consumers starting to monitor their credit and higher levels of credit activity in the following months. Consumption-led products like credit cards and personal loans were among the most popular for Credit Seekers in most regions, indicating many of these consumers are looking for credit to fulfill their ongoing spending needs.

This is an important insight for lenders looking to identify consumers with higher levels of credit demand, particularly considering the study finding that a material percentage of Credit Seekers subsequently originated new accounts with lenders that made credit monitoring services available to them.

Do Credit Managers attain their intent of managing their debt levels?

Credit Managers had higher average debt balances and account utilisation rates at the time they started monitoring than consumers with similar profiles and no credit monitoring histories. While results varied by region, in many markets, Credit Managers experienced higher levels of debt paydown (or slower levels of balance build) than non-monitoring consumers and lower utilisation on revolving products, indicating credit education helped them achieve their goals of managing their existing credit usage.

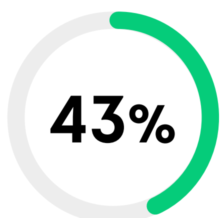
An additional motivation for Credit Managers was to protect against fraud, such as identity theft and account takeover. With the increasing sophistication and occurrence of fraud activities across the globe, consumers are more aware than ever of the importance of monitoring their credit reports to ensure they've not been victimised by fraudsters. Surveys of credit monitoring consumers across various regions indicated 25%–43% of respondents monitor their credit specifically to protect against fraud. This emerged as one of the top reasons and benefits cited for credit monitoring in every market.

Strategic implications to consider

As consumers continue to monitor their credit over time, they report realising benefits including:

- Learning how to monitor and manage their credit scores
- Gaining visibility to changes on their credit reports
- Detecting fraud
- Paying down debt
- Receiving better credit offers

The benefits cited by consumers were further supported by the observed performance and behaviours seen in the study data.

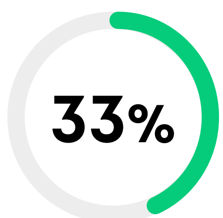


On average, 43% of consumers said they use credit monitoring to learn how to manage their credit scores.

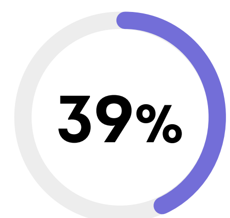
Credit Improvers benefit from score increases and/or lowering their existing delinquencies to a greater degree than those who do not monitor credit. In seeing these improvements to their credit profiles, Credit Improvers enhance their opportunities to gain access to new credit and expand their economic opportunities. Credit Seekers demonstrating a greater need for additional credit present a tremendous growth opportunity for financial institutions to responsibly meet their needs with new lending products. And Credit Managers who achieve their goals of managing debt levels present lenders account management opportunities to maintain or achieve top-of-wallet status and build consumer trust by better preventing fraud. An additional key finding from this research was all credit-active financial inclusion segments, including NTC, underserved and credit served consumers, saw benefits from credit monitoring and education. This finding indicates the importance of credit education to enable credit inclusion for consumers regardless of where they are in their credit lifecycles.

One of the top reasons respondents cited for initially enrolling in credit monitoring was, “It’s free.” This speaks to the importance of credit monitoring access in credit education, and the potential role banks and financial institutions can play in enabling that access. Many financial institutions across markets studied provide credit monitoring services at no cost to current (and even prospective) customers, and our survey highlighted the benefits of doing so. A large percentage of consumers in each market responded they’d prefer a lender that offered them credit monitoring over other lenders when opening new products. Many also responded using a lender’s credit monitoring services would influence them to continue to bank with that lender.

Financial inclusion is an important goal of organisations and governments around the world, and increased consumer access to credit in a responsible way is a foundation of this goal. Through greater credit education, of which credit monitoring is a critical tool, consumers are empowered to take control of their financial futures. As our research demonstrates, credit monitoring and education deliver measurable benefits to consumers. Financial institutions can use these insights to help their customers realise their motivations and financial goals — subsequently building consumer trust and empowering credit inclusion.



On average, 33% of consumers said they would prefer a lender that offers them credit monitoring services when choosing where to originate a new loan.



On average, 39% of consumers said a lender offering credit monitoring would influence them to continue banking with that lender.

Appendix

Study design

For the purposes of this study, we defined a consumer as monitoring their credit if they checked their credit report at least once during our study timeframe. All credit reports TransUnion has visibility into — whether directly through TransUnion, a lending partner or third-party application — were included. All data used in this study were anonymised and contained no personally identifiable information.

Our study measured consumers who started monitoring their credit for the first time between July 2021 to June 2022 as our primary study population. These consumers were compared to those who had never monitored their credit through TransUnion at any time during or prior to the study period.

This study also segmented consumers into buckets of new-to-credit, credit underserved and credit served. NTC consumers were defined as consumers with no prior credit histories who opened their first-ever traditional credit products, such as a credit card or personal loan. Underserved consumers were defined as those who had at least two years of credit experience but no more than two open accounts of one single product type ever in their histories. Served consumers were defined as those who had at least two years of credit experience and three or more open accounts or experience with multiple different product offerings.

Risk score models and tier cutoffs

CANADA

Canadian CreditVision® Risk Score

Subprime = 300–639
Near prime = 640–719
Prime = 720–759
Prime plus = 760–799
Super prime = 800+

COLOMBIA

Colombian CreditVision® Risk Score

Subprime = 0–499
Near prime = 500–600
Prime = 601–710
Prime plus = 711–775
Super prime = 776+

HONG KONG

Hong Kong CreditVision® Risk Score

Subprime = JJ–II
Near prime = HH–DD
Prime = CC
Prime plus = BB
Super prime = AA

INDIA

Indian CreditVision® Risk Score

Subprime = 300–680
Near prime = 681–730
Prime = 731–770
Prime plus = 771–790
Super prime = 791–900

SOUTH AFRICA

South African CreditVision™ Risk Score

Subprime = 0–625
Near prime = 626–655
Prime = 656–695
Prime plus = 696–720
Super prime = 721–999

UNITED STATES

VantageScore® 4.0

Subprime = 300–600
Near prime = 601–660
Prime = 661–720
Prime plus = 721–780
Super prime = 781+

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TransUnion is a global information and insights company with over 12,000 associates operating in more than 30 countries. We make trust possible by ensuring each person is reliably represented in the marketplace. We do this with a Tru™ picture of each person: an actionable view of consumers, stewarded with care. Through our acquisitions and technology investments we have developed innovative solutions that extend beyond our strong foundation in core credit into areas such as marketing, fraud, risk and advanced analytics. As a result, consumers and businesses can transact with confidence and achieve great things. We call this Information for Good® — and it leads to economic opportunity, great experiences and personal empowerment for millions of people around the world.

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