NCLC National Consumer Law Center

Credit Monitoring: A Bad Deal for Consumers

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Credit monitoring services usually bundle several products into a subscription service, including identity theft alerts, identity theft insurance and recovery assistance, and unlimited access for a consumer to their credit scores. This may sound helpful, but it's unclear if any of these products actually benefit consumer to any large degree. More importantly, consumers can receive similar benefits — and better protection — for free.

Credit monitoring bundles also have a hidden cost. Buried in the fine print of their agreements are forced arbitration clauses. These clauses prevent consumers from going to court to enforce their rights and force them into a private adjudication where the deck is stacked in favor of corporations.

The "Big Three" credit reporting bureaus (Experian, Equifax, and TransUnion) are major providers of credit monitoring services. At least one of these credit bureaus — Experian —includes a broad arbitration clause in its terms and conditions that may prevent consumers from suing over errors in their credit report, even when those errors are unrelated to credit monitoring.

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Credit monitoring services are a bad deal for consumers, and arbitration clauses make them worse.

Credit Monitoring Bundles: A High Cost for Limited Value

If you believed the marketing, credit monitoring bundles will help you "protect your identity" and give you "peace of mind" by offering "robust protection." In reality, these costly services provide little value to consumers that they cannot receive for free. The cost of credit monitoring services varies between $60 and $480 per year, depending on the services provided.

Alerts Have Only So Much Utility

Credit monitoring services alert consumers when a company runs a credit check or "inquiry," which often occurs when a new account is created. If an identity thief takes a loan out in a consumer's name, the alert about the inquiry supposedly enables the consumer to react quickly.

The value of alerts is limited for a number of reasons.

- Nearly 85 percent of identity theft occurs on existing accounts, such as unauthorized credit card or debit card charges. An alert for a credit check will not detect this type of identity theft. The best defense is to simply check the monthly credit or debit card statement or the account's online portal.

- Not every new account created by an identity thief will generate an alert. Stolen information used for medical services or to file a fraudulent tax return will likely not trigger an alert.
- Most importantly, even when an alert does detect identity theft, it generally does so *after* the thief has attempted to open an account and has either succeeded or been rejected by the creditor. Credit monitoring does not *prevent* identity theft.

Identity monitoring provides a similar service. The company scans the black market or "Dark Web" for personal information and notifies the consumer when it finds their information. The benefit of this detection is also dubious. There is no way of knowing whether the alert presents a threat to the consumer, if the information is current, or whether it will be used. And most critically, these services can't remove information from the Dark Web, so it's not clear what consumers should do if they receive an alert.

Identity Theft Insurance and Restoration Services: Not What It Seems

Many credit monitoring bundles include identity theft insurance, which appears to offer robust protection. However, consumers may be disappointed if they attempt to file a claim. The seemingly generous identity theft insurance might have a narrow scope of coverage, reimbursing mostly for out-of-pocket expenses such as postage and notary fees, and only limited amounts for time spent on resolving the identity theft.

Credit monitoring services often boast of offering $1 million or more in identity theft insurance policies. In reality, people experiencing identity theft rarely ever file claims and when they do, the payout is much more limited. The highest payment a Government Accountability Office study could identify was about $50,000, or only 5 percent of the million-dollar maximum. Identity theft insurance companies only pay out a tiny portion of the premiums they collect in the form of claims to consumers (called a "loss ratio"); in one case, this pay out was less than 3 percent compared to car insurance companies that pay out between 50 percent and 75 percent.

As for the identity theft specialist services provided in these bundles, they might only offer limited assistance that does not fully resolve consumers' issues. Contrary to the marketing, some of these specialists merely give advice on steps they can take and leave the leg work to the consumer.

Limited Benefit from Unlimited Access to Credit Scores

Credit monitoring services often tout access to a consumer's credit score on a daily basis, and imply that the score is the same as what lenders use to make credit decisions. However, that is not always true. About 90 percent of credit scores sold for lending are FICO scores, but some credit monitoring services, including Equifax and TransUnion, offer a different score — from a company called VantageScore. In 2012, the Consumer Financial Protection Bureau (CFPB) determined that a consumer's FICO score can significantly differ from their VantageScore in one out of four instances.

Daily access to credit scores is actually not that useful. Unless the consumer misses payments or opens new accounts, credit scores do not change significantly on a daily basis. According to the CFPB, the most important factor for your credit score is making timely payments over a long period of time, meaning it will be unlikely to jump quickly.

Arbitration Clauses Make Credit Monitoring a Worse Deal

Mandatory arbitration clauses prevent consumers from filing lawsuits against companies by forcing them into a private system of dispute resolution that is less transparent and systematically favors corporations. Arbitration clauses also generally eliminate the option of bringing claims on a class-wide basis, keep results secret, often limit remedies or rights, and force the consumer to use the arbitrator selected by the big business.

Credit bureaus generally have only a limited opportunity to force consumers to mandatory arbitration, but signing up for a credit monitoring service provides one such opportunity to sneak a requirement in the fine print. These mandatory arbitration provisions generally only require arbitration for disputes related to the credit monitoring service, and not the credit bureau's actions concerning credit reporting. However, at least one of the credit bureaus — Experian — expanded its arbitration clause in August 2020 to apply to ALL disputes, including disputes over the accuracy of the contents of the consumer's credit report.

Applying mandatory arbitration provisions to credit reporting accuracy disputes is especially problematic because the credit bureaus have many well-documented problems:

- Credit reports too often include significant errors;
- Credit bureaus mix up the credit files of people with similar names and Social Security numbers; and
- They often refuse to correct errors in response to consumer disputes.

A Federal Trade Commission study found that 1 in 5 consumers have verified errors in their credit reports, and 1 in 20 consumers have an error so serious that they would be denied credit or need to pay more for it.

Freezes: The Most Effective Identity Theft Protection is Free

The most effective way to prevent identity theft is a credit security freeze, and it is free! A security freeze stops the Big Three credit bureaus from providing credit scores or reports to open new accounts. When consumers themselves need to access their credit report or score to open a new account, the credit bureau must temporarily unfreeze or "thaw" accounts within an hour of a phone call or online request.

Free DIY Credit Monitoring

Consumers also don't need to pay a monthly fee for credit monitoring, because they can do it themselves with free tools. Consumers have a right to obtain their credit report for free once every year from each major credit bureau, and can stagger them by pulling them from a different credit bureau every four months. The credit bureaus are offering free weekly access to credit reports through the end of this year due to the ongoing COVID-19 pandemic. The only website to obtain truly free reports is AnnualCreditReport.com. The CFPB has a list of credit card companies where consumers can get their credit scores for free.

Warning: Credit bureaus sometimes steer consumers to their paid services when they search for the free options. In 2005, Experian was sued for creating a free credit report website that signed consumers up for a monthly subscription. In 2017, TransUnion and Equifax paid $23 million in a settlement with CFPB for allegedly duping consumers into paid subscriptions. In

2022, the CFPB sued TransUnion again for continuing these practices. Once enrolled, the credit bureaus can sometimes make it difficult to cancel these services.

Conclusion

Credit monitoring bundles can be costly without providing consumers the best and strongest protection from identity theft. Rather than giving people “peace of mind,” consumers may be forfeiting their right to their day in court while receiving very little except a monthly bill.

Consumers should look to free alternatives, such as placing credit freezes, getting free scores from their credit card lender, and getting free annual credit reports, before purchasing a paid service.