

Impact case study (REF3)

Institution: University of Nottingham		
Unit of Assessment: UoA16 Economics and Econometrics		
Title of case study: Shaping Consumer Financial Protection Policy in the United Kingdom		
Period when the underpinning research was undertaken: 2010-2019		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s): John Gathergood	Role(s) (e.g. job title): Professor of Economics	Period(s) employed by submitting HEI: January 2008 - present
Period when the claimed impact occurred: 2014 - 2020		
Is this case study continued from a case study submitted in 2014? N		
<p>1. Summary of the impact Professor John Gathergood's ground-breaking research on consumer finance, including research co-produced with the Financial Conduct Authority, played a key role in determining landmark consumer financial protection policy actions in the United Kingdom. This has benefited individuals who use credit products, particularly more vulnerable individuals in society who tend to use higher cost credit products [A,C]. The Head of Behavioural Economics and Data Science at the Financial Conduct Authority attests: "<i>John's work has directly and substantially impacted a number of parts of the FCA's consumer credit policy formation</i>", highlighting that, "<i>John's work with the FCA on the design of a price cap on payday loans in the UK was fundamental in shaping the final policy, which has protected the 4,300,000 applicants for paydays loans in the UK</i>" [B].</p>		
<p>2. Underpinning research Since joining the School of Economics at the University of Nottingham in 2008 and, beginning with his job market paper [1], which made an independent research contribution to the field of household finance, Professor John Gathergood has developed a portfolio of research in the field, extensively supported by Economic and Social Research Council funding. Funding received included a Post-Doctoral Research Fellowship, First Grant, Large Grant and Centre Grant [i - iv], further supported by funding from the University of Nottingham's Impact Accelerator Account and Impact Leaders Training Program. Gathergood is a Theme Leader of the ESRC Network for Integrated Behavioural Science, established by the ESRC Centre Grant with continued support by the Large Grant, leading the Theme "Applications in Consumer Financial Behaviour" which sees academics co-produce research and research impact with policymakers and industry collaborators.</p> <p>The impact described in this case study has arisen from three main themes of work on payday lending, financial distress and consumer decisions in the credit card market.</p> <p>Between 2014 - 2015, Gathergood co-produced with the Financial Conduct Authority a major piece of underpinning research on the effects of payday lending on consumers in the United Kingdom. This work originated in February 2014, when Gathergood was invited by the Chief Economist at the FCA to lead the analytical team which designed and implemented the Financial Conduct Authority's Price Cap on 'High Cost Short-Term Credit' (Payday Loans) in the United Kingdom. This invitation was extended to Gathergood [A] "<i>...as a leading European expert in the economics of consumer credit and financial decision making on the basis of his extensive publishing record in consumer behaviour in financial markets, under ESRC supported research.</i>"</p> <p>Gathergood led the work on research design and implementation of the research, together with FCA Economists and the FCA Head of Behavioural Economics. The resulting completed working paper [2], published in final version following revisions in light of academic reviews, as research paper [3] drew upon the near-universe of payday loan</p>		

applications in the United Kingdom over a 2-year period, together with a bespoke consumer survey, employing a regression discontinuity design methodology. The key research insight was that payday loans, while offering short-lived liquidity to consumers, cause increased medium-term financial distress.

This co-produced research, which is published as the academic research paper jointly co-authored with FCA economists [2, 3] was also reproduced, in full, as the evidence base within the Cost-Benefit Analysis and Technical Annex of FCA Consultation Paper 14/10 Proposals for a Price Cap on High-Cost Short-Term Credit [B]. The regression discontinuity design analysis in Sections 3-5 of the working paper [2] is reproduced in Technical Annex 3 Sections 2-8; the survey evidence included in Section 6 of the working paper [2] is included in Technical Annex 3 Sections 9-11. Note that differences between this working paper version [2] and the final published version [3] arise due to the editorial process at the journal. This is an example of technical, empirically-focused and tightly co-produced academic research featuring as both the evidence base for policy in a statutory cost-benefit analysis produced by the regulator and as a concurrent academic paper, which subsequently led to a peer-reviewed scientific publication. The FCA corroborates that [A] “*This research was fundamental to the design of the price-cap.*”

In a second project conducted in 2016, Gathergood again co-produced with the Financial Conduct Authority a large-scale piece of underpinning research, in this case on the determinants of financial distress among consumers in the United Kingdom [4]. This research collaboration emerged from Gathergood’s prior work on household indebtedness with the Department for Business [referenced in A]. This research utilised the UK Wealth and Assets Survey, modelling household financial distress using panel data methods. The key research insight was that a household’s Debt-to-Income Ratio is a strong predictor of future financial distress, even after controlling for ‘life events’ that may cause financial distress, such as becoming unemployed. The FCA highlights that [A] “*This finding is a very significant insight that we have applied in other contexts.*”

In a third, interdisciplinary project ongoing since 2015 joint with Professor Neil Stewart (Psychology, University of Warwick), Gathergood explores consumer behaviour in the credit card market. This project draws on matched data from five UK credit card providers, provided in agreement with the UK Finance Association, allowing individuals to be linked to multiple cards. This project has uncovered a number of elements of consumer behaviour hitherto undocumented in the literature. The key research insights are as follow: [5] shows that individuals learn to avoid late fees via switching to automated payments, which insure credit card holders against forgetting. [6] shows that credit card automatic minimum payments reduce overall debt repayment, increasing interest charges and prolonging individual indebtedness.

3. References to the research

Research

1 “Debt and Depression: Causal Links and Social Norm Effects” (J Gathergood), *Economic Journal*, 122: 1094-1114, 2012 <https://doi.org/10.1111/j.1468-0297.2012.02519.x> Published Paper

2 “How Do Payday Loans Affect Consumers?” (J. Gathergood, B. Guttman-Kenney and S. Hunt), Financial Conduct Authority Working Paper February 2018. Working paper. Available on request.

3 “How Do Payday Loans Affect Borrowers? Evidence from the U.K. Market” (J. Gathergood, B. Guttman-Kenney and S. Hunt), *Review of Financial Studies* 32: 496-523, 2019 <https://doi.org/10.1093/rfs/hhy090> . Published paper.

4 “Can We Predict Which Consumer Credit Users Will Suffer Financial Distress?” (J. Gathergood and B. Guttman-Kenney) Financial Conduct Authority Occasional Paper No. 20 2016 <https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-20-can-we-predict-which-consumer-credit-users>

5 “How Do Consumers Avoid Penalty Fees? Evidence from Credit Cards” (J. Gathergood, H. Sakaguchi, N. Stewart and J. Weber) *Management Science*, 2020 <https://doi.org/10.1287/mnsc.2019.3568> Published paper.

6 “Default and Anchoring Effects of Credit Card Minimum Payments” (J. Gathergood, H. Sakaguchi, N. Stewart and FCA co-author group) Working Paper. Revise and resubmit (2nd round) at Journal of Marketing Research. Available on request.

Awards

i Finalist (final 3), ESRC Outstanding Impact in Public Policy 2017 details [here](#)

Grant Details

ii Postdoctoral Research Fellowship, Household Finance and Housing Wealth, 2008 - 2010, GBP109,437 (Principal Investigator) ES/F017278/1

iii ESRC First Grant, Financial Literacy and Over-Indebtedness in the United Kingdom, 2010 - 2013, GBP179,666 (Principal Investigator) RES-061-25-0478

iv ESRC Centre Grant, Network for Integrated Behavioural Science, 2012 - 2017, GBP3,054,754 (Co-Investigator) ES/K002201/1

v ESRC Large Grant, Network for Integrated Behavioural Science - The Science of Consumer Behaviour, 2017 - 2021, GBP2,038,444 (Co-Investigator) ES/P008976/1

4. Details of the impact

The first research project on the effects of payday loans and the resulting working paper [2], now published as research paper [3], formed the evidence base for the Financial Conduct Authority’s introduction of a price cap on high-cost short-term (‘payday’) lending. Published in November 2014, FCA Consultation Paper 14/10 [A] included in full the research content in [2,3] as the main evidence base for intervention in the market. Professor Gathergood testified in defence of the research at the House of Commons Treasury Select Committee, providing oral testimony to the committee on the likely impact of the price cap and defending the research design and implementation [A]. After a period of consultation, which saw no amendments to the design of the policy, the price cap on payday lending was introduced in June 2015, coming into force in July 2015. The direct impacts of this policy have been widespread.

The policy has acted to protect the 4,300,000 applicants for payday loans in the UK [A] by limiting the prices that payday lenders can charge. The price cap led to a reduction in payday loan issuance, reducing the potential exposure of consumers to harm, including the market exit of the largest lender (Wonga). The policy was reviewed two years after its introduction, with the FCA review detailing a number of positive effects of the policy as follows:

- First, since the introduction of the policy 760,000 borrowers have collectively saved GBP750,000,000 over the five-year period as a result of the policy reducing the average cost of a payday loan from GBP100 to GBP60 [C, para 2.24].
- Second, the default rate on loans reduced from 14% to 4% [C, para 2.26].
- Third, consumer harm reduced, with the Citizen's Advice Service reported a 60% reduction in the number of individuals presenting with cases relating to payday loans [C, 2.30].

The review concluded: "*We have found improved outcomes for consumers since setting the cap. Consumers pay less, repay on time more often and are less likely to need help with High Cost Short Term Credit products from debt charities.*" [C, para 1.15]. On the basis of the impact of this project on payday lending, Gathergood was shortlisted as a finalist (final 3) for the 2017 ESRC Award for Outstanding Impact in Public Policy 2017.

In a subsequent collaboration with the Financial Conduct Authority, between July - December 2018 Gathergood advised on the research design for a project focusing on Rent-to-Own Finance, a high-cost form of finance. The Deputy Chief Economist for Research at the FCA writes that "[Gathergood] is highly productive in a practical setting: he has an ability to articulate complex economic ideas so that others understand the analysis and the logic of an argument" [D]. Gathergood worked with the FCA on the design and analysis of a consumer survey and designed the supply-side analysis. These designs adapted the research designs using the work on the payday lending price cap [in particular, the analysis adapted the supply-side analysis design from the payday price cap (Section 1 of A and the survey design in Section 3 of A) and applied these to the Rent-to-Own market in the analysis presented in E]. The results of this research were published by the FCA in their consultation on the design of the price cap [E,F].

This work led to the creation of a price cap applied to the Rent-to-Own market, mirroring the introduction of the price cap in the payday lending market. This work "*impacted our Rent-to-Own policy project directly and substantially... [and] 'This analysis played an important role in setting the level of the cap.'*" [D] The price cap benefits customers in the Rent-to-Own market, of which there are approximately 400,000 in the UK. The cap, introduced from 1 April 2019, has been projected to save this group of consumers approximately GBP22,700,000 million annually (F).

The second research project, focusing on the determinants of consumer financial distress, building on Gathergood's prior work on financial distress [4], "*had a major influence on the institution's [FCA] collective thinking when developing rules and guidance for firms as to how they should make credit decisions*" [B]. The resulting research paper [4] was presented by Gathergood at a launch event at the FCA, attended by stakeholders from industry and the third sector [B]. It also formed the main evidence base for the follow-up FCA guidance to lenders developed and outlined in OP17/28 "Preventing financial distress by predicting

unaffordable consumer credit agreements: An applied framework” [G], which extensively references [4]. In turn, the findings on the predictability of financial distress were incorporated into new guidance issued to all consumer credit providers in Policy Statement PS18/19 [H].

As an independent academic researcher, Gathergood’s research [5, 6] has also impacted policy formation through statutory channels used to convey insights co-produced with industry collaboration and data. The third research project on consumer behaviour in the credit card market drew on data resources provided by the UK credit card industry and resulted in Gathergood, together with Professor Neil Stewart, delivering representations that fed into the Financial Conduct Authority Credit Card Market Study in the form of a presentation to the FCA Credit Card Market Study team in early 2016 [I] and a subsequent consultation response submission [J]. The FCA attests that this submission “*shaped the FCA’s thinking on consumer detriment in the credit card market and the design of potential remedies*” [B]. Specifically, Gathergood and Stewart’s analysis of the effects of direct debit and minimum payment rules on credit cards, drawing on insights from papers [5] and [6] were referenced by the FCA as grounds for investigating behavioural remedies in ‘nudging’ consumers to increase credit card repayments [I].

In sum, “*(Professor Gathergood) has demonstrated that he delivers – in terms of engaging and useful research output and high-quality communication of the findings – in the context of practical policy organisation*” [B].

5. Sources to corroborate the impact

A Financial Conduct Authority Consultation Paper 14/10 and Technical Annex plus [House of Commons, Treasury Select Committee \(14 December 2014\)](#)

B Letter, Head of Behavioural Economics and Data Science, Financial Conduct Authority

C Financial Conduct Authority Feedback Statement 17/2

D Letter, Deputy Chief Economist for Research, Financial Conduct Authority

E Financial Conduct Authority Consultation Paper 18/35

F [FCA Press Release \(5 March 2019\)](#)

G Financial Conduct Authority Occasional Paper 17/28

H Financial Conduct Authority Policy Statement 18/19

I Financial Conduct Authority Credit Card Market Study, Annex 4

J Consumer Behaviour in the UK Credit Card Market: Insights from Consumer Credit Data Provided by Argus (Slides); Consumer Behaviour in the UK Credit Card Market: Insights from Consumer Credit Data Provided by Argus (Consultation Response)