What is financial consumer protection for,

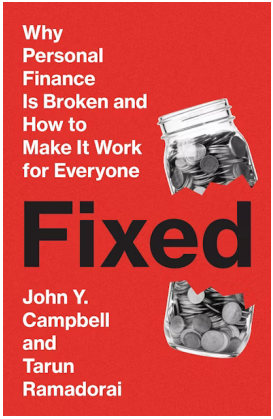
and how would we know it is working?

Tarun Ramadorai

London School of Economics

Drawing on John Y. Campbell and Tarun Ramadorai, *Fixed: Why Personal Finance Is Broken and How to Make It Work for Everyone*, Princeton University Press, 2025

OECD Working Party on Financial Consumer Protection, Education and Inclusion, 3 November 2026



Why competition does not protect consumers

- Financial decisions are **rare, high-stakes and hard to learn from**:
  - Outcomes are delayed and noisy; we confuse luck with skill; people don't talk honestly about money.

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- So households make predictable mistakes: misperceive costs, fail to search, mismanage products.
- **Competition does not undo these errors.** Firms supply the products demanded, not those that serve customers' interests:
  - Unproductive competition (advertising, branches) and obfuscation (complex, bundled products).

The sticker price is not the user cost

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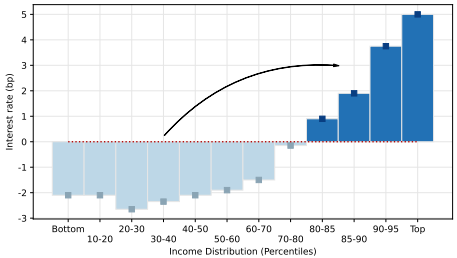
- Regulators naturally focus on the **sticker price**: the rate, the premium, the fee schedule.
- What a household actually pays depends on **product features and how they are used**:
  - We all pay for the option to refinance a mortgage, but many never use it. In Denmark, over half of mortgages have not refinanced four years after a positive incentive arises. (Andersen, Campbell, Nielsen and Ramadorai, AER 2020)
  - Teaser-then-reset pricing: inactive customers pay the reset rate.
  - Overdraft and late fees fund "free" current accounts and rewards cards.

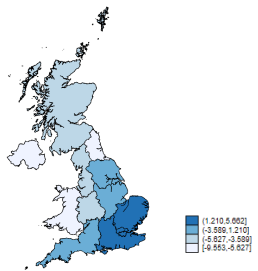
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  - Teaser-then-reset pricing: inactive customers pay the reset rate.
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- Capping sticker prices targets the wrong object: firms can move cost into features. The object to protect and to measure is user cost.

Your good deal is someone else's bad deal

Change in average UK mortgage rate (bp): single-rate counterfactual minus current teaser/reset structure, by income group (left) and region (right).





- Low-income groups and poorer regions would pay less under a single rate: the current structure is a regressive cross-subsidy. (Fisher, Gavazza, Liu, Ramadorai and Tripathy, JFE 2024)

What is financial consumer protection for?

1. **Lower the user cost** of essential financial products, especially for the least active.
2. **Remove regressive cross-subsidies** from inactive to active customers.
3. **Keep households in formal finance**: the alternatives (cash, moneylenders, crypto) are worse.

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- Consumer protection **cannot stop at education and nudges**: they are weak medicine.
  - Knowledge becomes obsolete and is context-dependent (learning to drive from a manual).
  - CARD Act: fee limits saved borrowers about $12bn a year; the minimum-payment nudge had minimal effect. (Agarwal, Chomsisengphet, Mahoney and Stroebel, QJE 2015)

Shove! Design over conduct

Putting the burden of effort back where it belongs

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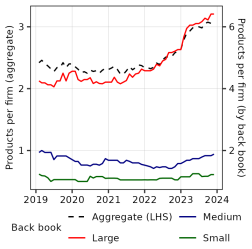
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- These design templates also create a natural benchmark: the gap between what households pay and the price of the starter-kit product.

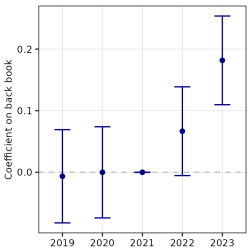
Why conduct-based price rules struggle

The UK price-walking ban (Coen, Gavazza, Gottlieb and Ramadorai, 2026)

- A well-motivated rule: loyal customers should not pay more than new ones.
- From January 2022, a renewal quote can be no higher than the equivalent new-business quote. Similar rules: Netherlands, Ireland, Australia, US states, Ontario.
- 8 million motor insurance enquiries on Compare the Market, 2019–2023. Firms **cut introductory discounts** and **proliferate products**:



(a) Trends by Back Book

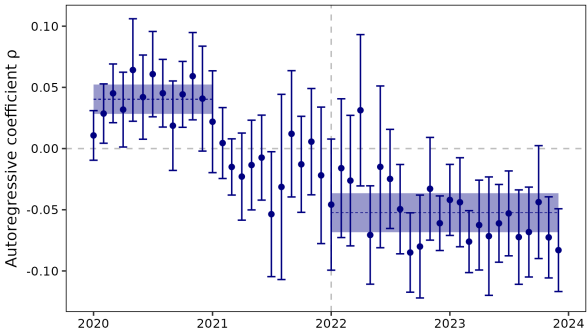


(b) Difference-in-Difference

Firms with the largest back books increase their product offerings by about 50%. Coen et al. (2026), Figure 5: products per firm; difference-in-differences.

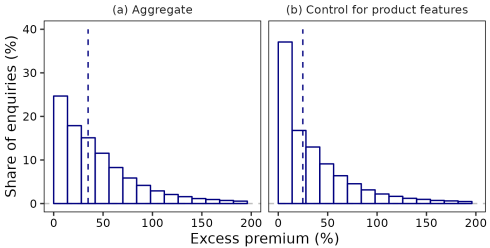
Compete, then exploit: a shifting target

- A firm that wins share builds a back book, then prices less competitively to exploit it, loses share, and competes again.
- Before the ban, market shares are persistent. After it, they **oscillate**.
- Regulation now confronts a shifting target.



Coefficient ρ_t from $s_{j\theta t} = \rho_t s_{j\theta,t-12} + \delta_{j\theta} + \epsilon_{j\theta t}$, market shares by product and customer type. Coen et al. (2026), Figure 4.

Search is still at least as valuable



- After the ban, the incumbent product costs about **40% more than the cheapest quote** at the median (about £270 a year); over 20% after adjusting for the features initially selected.
- Inactive customers are disproportionately young, poor, ill or disabled. The rule targeted an important gap, but firms' responses kept the cost of inaction high.

Measuring effectiveness: four lessons

1. **Measure user cost, not sticker price**: what households actually pay, given how they behave, relative to the best available alternative.
2. **Measure who pays**: averages hide cross-subsidies. Track the inactive, the low-income and the vulnerable.
3. **Allow for dynamics**: firm responses can cycle. Evaluate over several years, and pair event studies with models of firm behaviour.
4. **Get granular data**: quote- and contract-level data, with regulators and researchers working together and evaluation built into rule design.

For the 2027 review of the Principles: state objectives in terms of user costs and who bears them, and evaluate with firms' responses in view.