Evaluation Paper 23/1:

An evaluation of our 2019 overdrafts intervention

April 2023

FCA Evaluation Papers

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Contents

Abbreviations used in this document

APR	Annual Percentage Rate
ATE	Average Treatment Effect
CBA	Cost Benefit Analysis
CMA	Competition and Markets Authority
CP	Consultation Paper
DID	Difference in Differences
EAR	Effective Annual Rate
FD	Financial Difficulty
IMD	Index of Multiple Deprivation
PCA	Personal Current Account
PS	Policy Statement
RDD	Regression Discontinuity Design
RU	Repeat Use

Executive summary

In PS19/16: High-Cost Credit Review: Overdraft policy statement, we introduced a package of remedies in the UK market for overdrafts. In the same publication we announced that we would carry out an ex post impact evaluation (EPIE) of these remedies. The FCA Economics Department has carried out the evaluation, with peer review provided by an academic expert, along with support from colleagues across the FCA. This paper presents our methodology, results and lessons learned from this exercise.

Our intervention

Our investigation of the UK overdraft market as part of the High-cost Credit Review (see CP18/13: High-Cost Credit Review: Overdrafts) identified high levels of consumer harm from high prices, complicated pricing structures, repeat overdraft use, and low awareness and engagement among personal current account (PCA) holders. We found that overdraft prices regularly exceeded an equivalent interest rate of 10% per day. Overdrafts can be an expensive way to borrow, and consumers can accumulate problem debt when they use them for long-term borrowing.

In CP18/42: High-Cost Credit Review: Overdrafts consultation paper and policy statement we calculated that in 2017, 26 million people in the UK used an overdraft. Of these, 19 million used an arranged overdraft and 14 million used an unarranged overdraft. Our analysis showed that harm in the form of high charges was disproportionately concentrated on vulnerable consumers. Using, the Index of Multiple Deprivation (IMD) as a proxy for vulnerability, we found that the most deprived IMD decile in England was almost 3 times more likely to incur annual charges in excess of £200 for unarranged overdraft borrowing compared to the least deprived decile. We also found that the mean unarranged overdraft charges for the most deprived IMD decile in England were over 3 times higher than for the least disadvantaged decile.

To address these failures, we introduced a package of remedies in PS19/16 with 2 elements:

- **Pricing remedies,** which**:**
  - prevented firms from charging higher prices for unarranged overdrafts than for arranged overdrafts
  - banned fixed fees for all overdrafts
  - required firms to price all overdrafts by a single annual interest rate
  - required firms to advertise overdraft prices in a standard way including a representative annual percentage rate (rAPR), and
  - issued guidance that refused payment fees should reasonably correspond to the costs of refusing payments

- **Repeat use (RU) remedies,** which:

- required firms to identify customers who are repeatedly using overdrafts and paying high cumulative charges and develop and implement a strategy to reduce their overdraft use, and
- required firms to identify customers who are repeatedly using overdrafts and are showing signs of financial strain or are in financial difficulty and develop and implement a strategy to reduce repeat use.

What we expected

Our rules aimed to reduce:

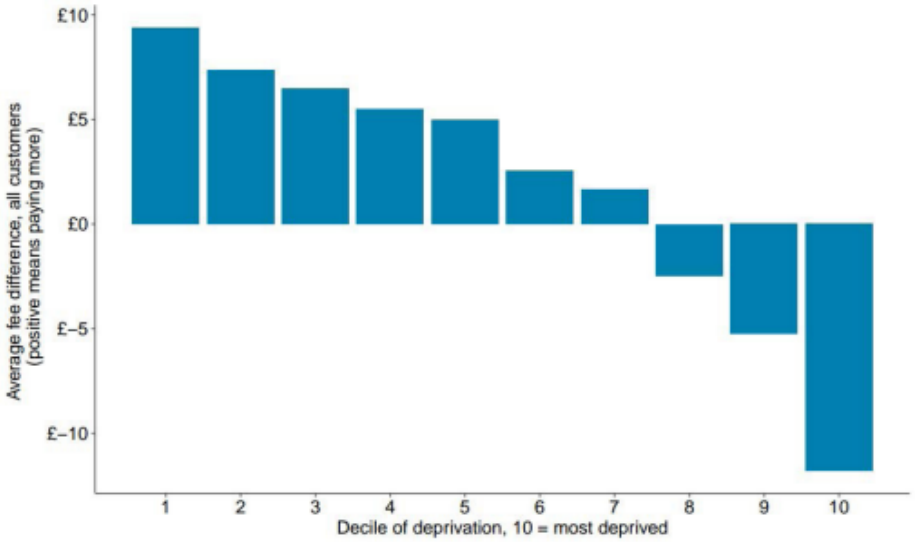
- harm to consumers from high prices of arranged and unarranged overdrafts
- the high incidence of charges on vulnerable consumers, and
- the cumulative cost of repeat overdraft use

We expected the interest rate component on overdrafts to increase post-intervention to compensate for the fall in revenue from fixed fees. Nonetheless, we expected the effective price (which includes fixed fees and interest) on both arranged and unarranged overdrafts to become proportional to the amount and time borrowed for. We anticipated that the most vulnerable consumers would see the largest benefits as they were more likely to incur high unarranged overdraft charges before our intervention. We also expected that the advertising of overdraft interest rates in a standard way would help consumers compare prices and shop around. This would in turn put competitive pressure on firms and result in lower prices for all consumers in the long-run.

In CP18/42 we reported the expected medium-term changes in annual overdraft charges due to our pricing remedies. We modelled total charges from both arranged and unarranged lending to capture the full impact of our policy. Figure 1 shows the expected reductions in those charges by IMD decile. The predicted savings in Figure 1 are a conservative estimate as they are based on the assumption that APRs would stabilise towards the higher end of those observed in the pre-intervention period. We refer to this as our central scenario.

Our analysis in CP18/42 was done exclusively on IMD deciles for English domiciled consumers, as the IMD scores for regions outside of England are computed differently and did not allow for direct comparisons. Nonetheless, when we reported aggregate savings by IMD decile, we extrapolated results to the UK population on the simplifying assumption that the deprivation distribution in England is representative of the UK. We continue this approach for the evaluation detailed below.

Figure 1: The expected average (mean) change in annual overdraft charges for consumers as a result of our proposed pricing interventions (Scenario: Baseline and higher APR)



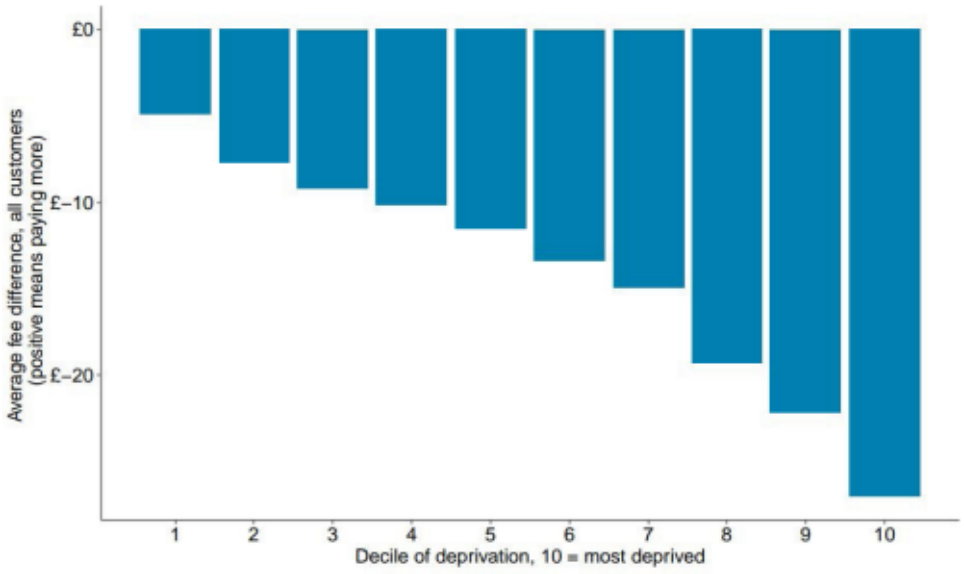
Source: Annex 2, CP18/42, Figure 9

Under the central scenario we expected the average saving for PCA holders (regardless of whether they use their overdraft or not) in the 3 most deprived IMD deciles in England to be between £2 and £12 per person per year. Extrapolating this to the 3 most deprived deciles in the UK predicted total savings in charges of £101m per year for those holding PCAs. Charges for the 7 least deprived deciles were expected to increase by £197m in total.

In CP18/42 we showed that this transfer between consumers would be net beneficial after applying welfare weights. Welfare weights take into account that an additional £1 of consumption is valued more by consumers with lower incomes. We showed that the welfare weights that would make this transfer net beneficial were significantly lower (i.e. more conservative) than those advised in HM Treasury's Green Book.

We also calculated benefits under a scenario where overdraft interest rates stabilise towards the lower end of those observed in the pre-intervention period. We refer to this as the optimistic scenario. Under this scenario, we expected all IMD deciles to see reductions in charges, on average (see Figure 2).

Figure 2: The expected average (mean) change in annual overdraft charges for consumers as a result of our proposed pricing interventions (Scenario: Baseline and lower APR)



Source: Annex 2, CP18/42, Figure 10

For RU remedies, we expected to see firms engaging with customers who repeatedly use their overdraft facility, particularly those who are suffering financial harm. Over time, we expected this engagement to lead to a reduction in the number of consumers suffering harm through repeat use through a reduction in overall overdraft borrowing and charges. We did not quantify these expected benefits, but we showed that under the assumption that 4 million consumers are impacted by our proposals in the first year of intervention, and a further 1.3 million each year thereafter, an average one-off saving of £3 in fees and charges would ensure that proposals break even against the compliance cost of RU remedies.

Scope

We evaluate both elements of overdraft remedies in PS19/16 with the exception of the guidance on refused payment fees. We do not include this in our evaluation as this set of remedies became binding for all overdraft customers simultaneously, hence we do not have a natural experiment that would allow us to estimate its causal impact on overdraft outcomes.

Our evaluation approach

Our evaluation follows our framework for EPIEs and the approach we have taken in previous evaluations. We quantify the impact of our policies with reference to our pre-intervention expectations, as set out in the cost benefit analysis (CBA) in the Consultation Paper (CP18/42). We also consider unintended consequences such as whether our interventions led to reduced ability to borrow through overdrafts and to increased borrowing through more expensive forms of credit.

For this evaluation we collected a large sample of transaction-level data from the 6 largest providers of PCAs (accounting for c. 83% of the UK overdraft market) for the period May 2018 – September 2021. We asked each firm to provide us with data on approximately 300,000 consumers across the UK who had an open current account with the firm during the sampling period (with or without an overdraft facility). The consumers in the sample were chosen based on a random selection of birth dates. We also requested data on the full population of consumers identified as repeat users or as being in actual or potential financial difficulty in the period (c. 3.6m consumers across the 6 participating firms). These are large samples that allow us to perform analysis at the firm or IMD decile level with sufficient statistical power. Chapter 2 gives further detail on our sampling approaches.

In Chapter 3 we show that overdraft borrowing, charges and effective price (defined as the total overdraft charges in a month – both interest and fixed fees - divided by average borrowing in that month) have all reduced since the introduction of our policies. The main goal of this paper is to uncover how much of these movements are due to our remedies. To do this, we apply robust techniques from the field of causal inference to both pricing and repeat use remedies.

Our main research questions with regards to pricing remedies are:

- how much did average monthly borrowing change in response to our policy?
- how much did average monthly charges change in response to our policy?
- by how much did the effective price of overdrafts change due to our policy?
- how do these effects vary across IMD deciles?

Our research questions with regards to repeat use remedies are:

- how much did monthly overdraft borrowing change in response to the repeat use and financial difficulty strategies?
- how much did overdraft charges change in response to the repeat use and financial difficulty strategies?

We use differences in the pre-intervention pricing structures at the consumer level to isolate the effect of pricing remedies. We compare differences in outcomes for those consumers who saw the biggest changes in pricing to those whose pricing structure remained relatively unchanged. Our methodology allows us to make causal inferences about the average impact of our pricing remedies on the full population of PCA holders.

To estimate the impact of repeat use strategies we use two approaches. Our primary approach is to compare consumers who marginally qualified as a repeat user to those who fell just short of the definition. Our secondary approach is to find individuals who do not qualify for the strategy, with similar characteristics to those who do qualify for the strategy and compare the outcomes of the two groups. These approaches allow us to make statements about the causal effect of the policy on those consumers who narrowly met the criteria for a repeat user.

Summary of our evaluation findings

Pricing remedies

Main findings

We estimate that **due to our policy**, monthly borrowing through overdrafts (arranged or unarranged) fell by £7.45 on average per person for those consumers who either had an arranged facility or were eligible for unarranged borrowing. For the same group, total charges fell by £1.45 per month per person and the effective price of overdrafts, defined as monthly charges divided by monthly borrowing, fell by £2.80 per £100 borrowed over a month. The table below puts these numbers in the context of the pre- and post-intervention averages we observe in our sample.

Table 1: Estimated effects of pricing remedies, PCA customers with an overdraft facility

Outcome of interest	Average value before intervention	Average value after intervention	*Estimated value in the absence of intervention*	Causal Effect of pricing remedies
Average monthly borrowing	£126.50	£86.50	*£93.95*	**-£7.45**
Average total monthly charges	£3.00	£1.60	*£3.05*	**-£1.45**
Average effective price for £100 borrowed over one month	£4.10	£1.90	*£4.70*	**-£2.80**

Source: FCA analysis of PCA data

The £1.45 reduction in monthly charges translates to savings of £17.40 per year on average. This effect is calculated for the population of consumers who either had an arranged overdraft facility or were eligible for unarranged borrowing. In our dataset this group represents 54% of consumers who had a PCA. We extrapolate this result to the 53 million adults in the UK who hold a PCA, to get c.28.7 million people benefiting, with total annual savings in charges of around **£500m.** Due to our large sample size, the 95% confidence interval around this estimate is relatively narrow. Our lower bound is £473m while the upper bound is £525m (the bounds are not symmetric due to rounding).

Important market developments around the time of implementation may have interacted with our policy. Our results are estimates of the additional benefits of pricing remedies over any effects of other policies adopted around the same time.

The most important such policy is the introduction of competition remedies in CP18/42. These remedies included eligibility and charges calculators and requirements around visibility and content of key overdrafts information. This package effectively strengthened CMA's retail banking remedies from February of 2018, and may have contributed to lower interest rates after its introduction. Competition remedies, however, became binding in

December 2019 – five months before our pricing remedies. We show in the Technical Annex that around this time there were no changes in overdraft pricing components. We also show in figures 7, 8, and 9 that our main outcome variables do not react prior to the adoption of pricing remedies. Hence, our estimates are unlikely to be capturing any of the benefits generated independently by competition remedies.

We note that the policy has caused average monthly borrowing to decrease despite also decreasing the effective price. Further in the paper we show that this reduction is primarily driven by reductions by less deprived consumers. This decrease in borrowing is likely driven by a fall in demand rather than a decrease in the supply of overdrafts, as we show that arranged overdraft limits have increased in response to the policy (see Chapter 4).

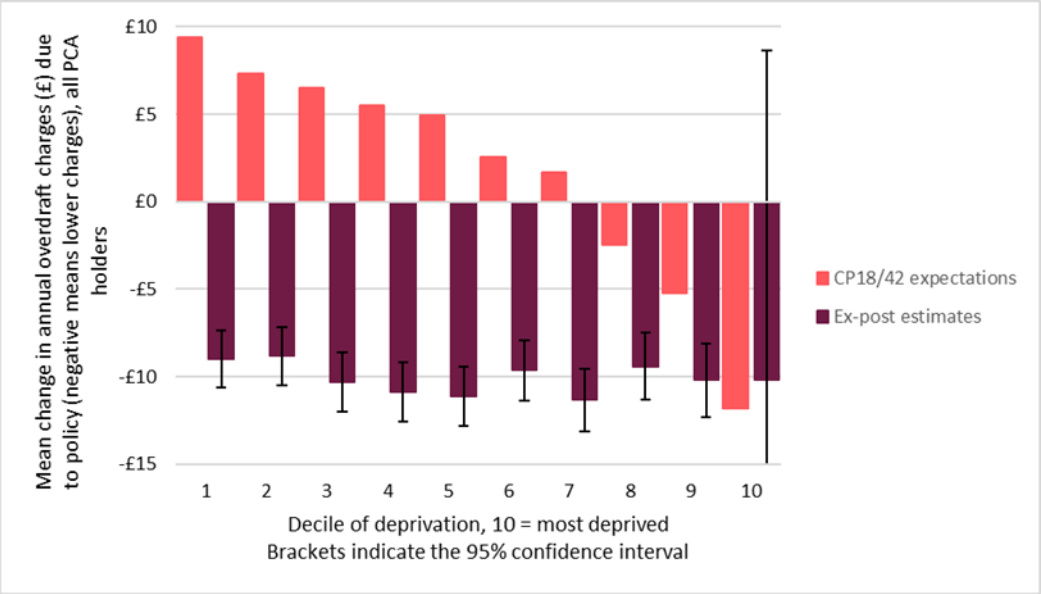
Decreasing demand in response to lower prices is counterintuitive. However, our policy has acted to make pricing of overdrafts clearer, which may explain this reaction. If consumers underestimated how high the price was before we intervened, they may perceive the new price as higher due to the single interest rate. We do not formally investigate the impact of our rules through consumers' comprehension of price as we cannot quantify it. Nonetheless, we provide an estimate of the total effect of the policy, which includes improved comprehension and the direct reductions of certain pricing components.

The reduction in charges we report is driven by the lower borrowing, but also by the direct effects of the removal of fixed fees. The pre-intervention effective price of £4.10 (including fixed fees) per £100 borrowed over a month is equivalent to a 62% effective annual rate (EAR). We find that in the post-intervention period the average effective price is £1.90 per £100 borrowed, equivalent to 25% EAR. We estimate that in the absence of our intervention, the effective price would have been equivalent to 74% EAR.

The new pricing structures adopted by lenders following our policies are centred around higher interest rates but no fixed fees. These structures may have led to higher borrowing costs for consumers who use their overdraft for large purchases or long-term borrowing. Our analysis suggests that these consumers represent no more than 1.4% of consumers in our sample. However, the population of this type of consumers may have increased after the last date in our sample due to the ongoing cost-of-living crisis. Our analysis does not account for this possibility as our data end in August 2021. Nevertheless, if more consumers use their overdrafts in this way, it is likely that they will fall under their PCA provider's definition of a repeat user and will therefore benefit from our repeat use remedies (e.g. lenders may direct them to more appropriate products), whose effectiveness we discuss below. This ensures that the total package of remedies is likely to be generating net benefits even if consumer behaviour temporarily changes due to the cost-of-living crisis.

We also consider the distributional effects of our policy. We calculate the average reductions in charges due to our pricing remedies by IMD decile and report these against our predictions from CP18/42 in Figure 3. We do not include consumers based in Scotland, Wales and Northern Ireland in that analysis, as the IMD score in these regions is computed on a separate scale and does not allow for direct comparisons with England. When we extrapolate results to the full UK population, we assume that the distribution of deprivation in England is representative of the UK. For consistency with CP18/42, we report averages across all PCA customers, not just the ones with an overdraft facility.

Figure 3: Distribution of changes in mean annual charges by IMD decile, all PCA holders, CP18/42 expectations vs ex-post estimates



Source: FCA analysis of PCA data

The amount of savings in overdraft fees and charges per PCA holder does not exhibit a clear pattern across English IMD deciles. The average saving for the 3 most deprived deciles per consumer is £9.90 per year, while the average for the 7 least deprived deciles is £10.20 per year. The most deprived decile benefits in line with our central scenario in CP18/42, while benefits for the remaining deciles exceed the central scenario. Benefits for the 7 least deprived deciles are closer to our optimistic scenario (see Figure 2).

We note that due to a smaller sample size in the most deprived decile, the confidence interval is large. The reason for smaller samples in more deprived deciles is that people are less likely to have an arranged overdraft facility or be eligible for unarranged borrowing if they live in more deprived areas. Nonetheless, we believe that our central estimate for savings in the most deprived decile is reliable as it is in line with savings in the 8th and 9th decile.

Table 2 below summarises the estimated savings for 3 most deprived and 7 least deprived deciles against our expectations in CP18/42.

Table 2: Expected aggregate savings from pricing remedies by deprivation group vs. ex-post estimates

Outcome	Expected value pre-intervention (central scenario)	Expected value pre-intervention (optimistic scenario)	Evaluation result (post-intervention) estimate
Change in total annual charges, all consumers	£96m*	-£757m*	-£500m
Change in total annual charges, 7 least deprived IMD deciles	£197m*	-£425m	-£366m
Change in total annual charges, 3 most deprived IMD deciles	-£101m	-£332m*	-£153m

**Figures were not published in CP18/42*

Source: FCA analysis of PCA data

The benefits for less deprived IMD deciles are higher compared to those for more deprived deciles. In Chapter 4 we present evidence that monthly overdraft borrowing has reduced more for the less deprived IMD deciles in response to the policy compared to the most deprived ones. Lower overdraft borrowing for the less deprived groups would then mechanically reduce charge, explaining the larger savings.

Unintended consequences

We also check for unintended consequences from pricing remedies. In our original analysis, we considered the possibility that consumers lose access to credit if firms reduce their lending to riskier consumers. To check whether this has occurred, we repeat our analysis with arranged overdraft limits as the outcome variable. We also check for evidence that consumers have substituted to more expensive forms of credit in response to our policy.

We find that pricing rules have resulted in an increase in arranged overdraft limits of £129 on average for the population of consumers who had an arranged facility or were otherwise eligible for unarranged borrowing. This increase in arranged overdraft limits also occurs across all IMD deciles, meaning that this is not driven by increasing limits for the least disadvantaged consumers. This outcome may be driven by the fact that unarranged overdrafts are not allowed to be priced higher than arranged overdrafts. This may have incentivised firms to increase arranged overdraft limits to capture revenue from consumers who did not use unarranged borrowing.

On substitution towards more expensive forms of credit, we check whether our policy has caused an increase in borrowing balances on a list of 9 credit products. These products include high-cost short term credit, rent to own and catalogue credit. The only product where we find significant increase in balances is mail order credit. However, this is an exception, and we also show that the effect of the policy relative to the average balance on this product is not as large as the reduction in overdraft balances. We find a small and significant reduction in credit card balances and a large reduction in high-cost short term

credit balances for holders of the respective products. Due to methodological limitations, we cannot make definitive statements about the impact of our overdrafts policy on other markets, but we interpret these results as a lack of evidence of loss of access to overdrafts. These results again do not account for the cost-of-living crisis, which may have increased substitution towards other forms of credit.

Due to the reducing sample sizes when we analyse holdings of other credit products, we cannot perform distributional analysis by IMD decile. However, the products where an increase in balances would be a concern, are generally held by more deprived consumers. For example, more than 75% of rent-to-own holders in our sample came from the three most deprived IMD deciles. Hence, it is unlikely that our results are driven by the responses of less disadvantaged consumers.

Our analysis in CP18/42 also identified the possibility that interest rates on arranged overdrafts increase so that all revenue losses are recouped through increased overdraft charges for less deprived consumers. Our causal estimates show that overdraft charges have fallen in response to our policy for all IMD deciles. We find no evidence to suggest that savings for the most deprived consumers have come at the cost of disproportionate increases in charges for the least deprived.

Around the time of implementation, stakeholders expressed concerns that interest rates on arranged overdrafts had increased. We note that even though the interest rate component offered on accounts has increased from 7% to 31% on average (see Chapter 4), the overall effective price of overdrafts has fallen significantly. Prior to our intervention, we find that the effective price on overdrafts was equivalent to an EAR of 62% due to the presence of high fixed fees. We show that the effective price paid by consumers in the period after our intervention is equivalent to an EAR of 25%. We also present evidence that a large part of this reduction in effective price is attributable to pricing remedies.

Repeat use remedies

Each firm was asked to develop and implement a strategy to identify and provide support to customers who are repeatedly using their overdraft and paying high cumulative charges (the 'repeat use strategy'), and a second strategy to identify and provide support to customers who are repeatedly using their overdraft and are also showing signs of actual or potential financial difficulty (the 'financial difficulty strategy'). We refer to customers who enter one of these strategies as being 'treated' on that strategy. There was some direction from us about what these strategies should entail, but it was left to firms to identify which of their customers fall under each strategy, as well as when and how to reach out to them. Some firms decided to create 'sub-strategies' to capture short- and long-term repeat users, and to capture short- and long-term repeat users in actual or potential financial difficulty. We evaluate the impact of each firm's (sub-) strategy separately.

The fact that our remedies did not prescribe a way for firms to identify and communicate with relevant users means that the criteria applied to qualify as a repeat user, as well as the types of communications sent to repeat users, differ across firms. Our results of the impacts at the firm level therefore cannot be used to make comparisons across firms, as the type of consumers that fall within those strategies varies substantially. Firms who apply low thresholds in their repeat use assessment identify a larger proportion of their

customers as repeat users and repeat users in financial difficulty, meaning the average borrowing and charges are typically lower compared to a firm that applies more stringent thresholds and identifies fewer repeat users and repeat users in financial difficulty in their customer base.

For this analysis we obtained account-level data from a sample of 6 firms. **Our data shows that average balances and charges tend to decrease over time for those who are enrolled in the repeat use and financial difficulty strategies, in line with our expectations**.

As well as observing trends in outcomes, we have attempted to quantify the causal impact of the strategies by comparing outcomes for those on a strategy to a counterfactual scenario which predicts their outcomes had they not received treatment on the strategy. **Our causal estimates suggest that 4 of the 6 firms in our sample were successful in reducing borrowing and charges for repeat users through their repeat use strategy**. We could not find statistically significant reductions for some of the firms (Firm 3 and Firm 5 for charges and Firm 1 and Firm 5 for borrowing).

Financial difficulty strategies at 4 of the 6 firms reduced charges relative to being on the repeat use strategy. For 5 out of the 6 firms, financial difficulty strategies reduced borrowing relative to being on the repeat use strategy in the given firm. To estimate the impact of the financial difficulty relative to being on no strategy, we add the impact of the repeat use versus no strategy and the impact of the financial difficulty versus the repeat use together. Doing this **we find the financial difficulty strategy at 5 of the 6 firms has reduced charges and at 6 of the 6 firms it has reduced borrowing**.

Our approach for strategies at firms 1, 3, and 6 is to estimate the impact on accounts that just qualify for the strategy. We expect that account holders that use their overdraft more intensively will respond more strongly to a repeat use or financial difficulty strategy, as they have more margin for improvement in their financial position. Therefore, our estimates should be considered as a lower bound of the average impact for all account holders on the strategy. We use an alternative approach for strategies at Firm 2, 4, and 5 due to data limitations. The estimate recovered for these firms is likely to be closer to an average effect for all account holders on the strategy.

Looking at the short-term repeat use and short-term financial difficulty strategies of Firm 5, which return no significant reductions in balances and/or charges, the accounts they are targeting have on average lower balances and charges meaning they have less margin and incentive for improvement in their outcomes. This may explain why we cannot find a statistically significant reduction in their borrowing and charges.

Table 3, below, shows the number of consumers who qualified as a repeat user during the sampling period, their average balances and charges upon entering the strategy, the estimated charges saved over the 12 months after entering treatment (being identified as a repeat user/repeat user in financial difficulty, and receiving help on the strategy), and the estimated reduction in their overdrawn balance after 12 months as a result of the treatment. Columns 4 and 7 show the change in the average charges and borrowing for treated accounts after 12 months on each firm's strategy, with negative values showing a fall in charges/borrowing. This is 'non-causal': we cannot attribute all observed change to the strategy, as there may be other factors that cause the averages to change over time. Columns 5 and 8 show the causal impact of each firm's strategy on charges

and borrowing over the same first 12 months in treatment. This is measured against a counterfactual scenario where the account did not enter the strategy, therefore the observed changes can be attributed to the strategy itself.

Table 3: Summary of effects on repeat users by firm - volume, average charges and balance, and estimated treatment effects

Firm	Number of accounts treated by repeat use strategy during sampling period	Average charges upon entering repeat use	Average change in charges after 12 months (non-causal)	Charges saved over 12 months due to strategy (causal)	Average OD balance upon entering repeat use	Average change in borrowing after 12 months (non-causal)	Effect on borrowing after 12 months due to strategy (causal)
Firm 1	595,000	£28 / month	-£8.50	**-£177**	£964	-£238	*No significant reduction*
Firm 2	429,000	£27 / month	-£4.77	**-£48**	£1,247	-£305	**-£389**
Firm 3	158,000	£32 / month	-£8.31	*No significant reduction*	£988	-£129	**-£63**
Firm 4	145,000	£32 / month	-£11.57	**-£74**	£1,143	-£416	**-£251**
Firm 5	Long term: 1,221,000	£16 / month	+£1.00	*No significant reduction*	£801	-£77	*No significant reduction*
	Short term: 209,000 (Strategy removed in Jan 2021)	£18 / month	-£4.27	*No significant reduction*	£818	-£267	*No significant reduction*
Firm 6	Long term: 729,000	£13 / month	-£3.73	**-£44**	£410	-£74	**-£400**
	Short term: 168,000	£6 / month	-£2.37	**-£8**	£24	+£54	**-£37**

Source: FCA analysis of PCA data

Despite not finding a causal impact for all the repeat use strategies, we do observe that average balances and charges tend to decrease over time for those who are enrolled in the strategies. We show this in columns 4 and 7 of the table above, and in the 'Data and descriptive statistics' section of Chapter 5. This is the case for almost all the strategies of all 6 firms. At Firm 5 we observe a small increase in charges and a reduction in balances for consumers falling under the firm's long term repeat use strategy. At Firm 6 we observe a small decrease in charges and small increase in balances for consumers falling under the firm's short term repeat use strategy. These two strategies typically target a large number of overdraft users, and given the increases are small, we expect those entering the strategy with higher average balances and charges do see a decrease.

We also looked at average outcomes for those enrolled in the financial difficulty strategies. As with the repeat use strategies, the firms had different criteria through which they qualify consumers for their financial difficulty strategies, meaning different types and volumes of people were affected at each firm. The difference in approaches is

in line with our repeat use remedies, which were based on firms developing their own strategies to deliver fair outcomes for overdraft borrowers.

We estimated the effect of Firm 1, 3 and 6's financial difficulty strategy on outcomes for consumers that marginally qualified for the financial difficulty strategy versus the outcomes consumers who marginally did not qualify for the financial difficulty strategy. The consumers who marginally did not qualify for the financial difficulty strategy, did qualify for the repeat use strategy. Therefore, the effect we calculate for the financial difficulty strategy, is the effect versus being on the repeat use strategy. For firms 2,4 and 5, we use a different approach, but our control group still consists of accounts in repeat use, so our estimate is of the impact of the financial difficulty strategy versus the repeat use strategy. To estimate the impact of the financial difficulty strategy versus not being on any strategy, we add our estimate of the impact of the repeat use strategy to our estimate of the impact of the financial difficulty strategy.

Table 4 shows the number of accounts treated in each strategy over the period, their features, and the estimated savings versus staying on the repeat use strategy (`repeat use strategy counterfactual', columns 5 and 9) and versus not being on any strategy at all (`no-strategy counterfactual') column 6 and 10) over the 12 months following treatment.

When comparing against the repeat use strategy counterfactual, we found a reduction in charges at 4 of the 6 firms. When comparing against the no-strategy counterfactual, **we found that the financial difficulty strategies reduced charges at 5 of the 6 firms and monthly borrowing at all 6 of the firms**. For Firm 5, despite finding a statistically significant causal impact for only one strategy, we do observe that average balances and charges tend to decrease over time for those who are enrolled in either of their strategies.

Table 4: Summary of effects on consumers in actual or potential financial difficulty by firm - volume, average charges and balance, and estimated treatment effects

Firm	Number of accounts treated by financial difficulty strategy during sampling period	Average charges upon entering strategy	Average change in charges after 12 months (non-causal)	Charges saved over 12 months vs RU due to FD strategy (causal)	Charges saved over 12 months vs no strategy due to FD strategy (causal)	Average OD balance upon entering repeat use	Average change in borrowing after 12 months (non-causal)	Effect on borrowing after 12 months vs RU due to strategy (causal)	Effect on borrowing after 12 months vs no strategy due to FD strategy (causal)
Firm 1	273,000	£38 / month	-£9	-£246	**-£423**	£1,256	-£251	-£1,232	**-£1,232**
Firm 2	299,000	£32 / month	£0	-£58	**-£106**	£1,560	-£154	-£64	**-£453**
Firm 3	30,000 (up to Jan 2021)	£48 / month	-£19	-£74	**-£74**	£1,567	-£429	-£140	**-£203**
	8,000 (Feb 2021 onwards)	£40 / month	-£8	-£105	**-£105**	£1,355	-£118	-£243	**-£306**
Firm 4	LT: 100,000	£22 / month	-£8	*No significant reduction*	**-£74**	£810	-£223	*No significant reduction*	**-£251**
	ST: 35,000	£39 / month	-£13	-£7	**-£82**	£1,360	-£343	-£88	**-£338**
Firm 5	LT: 703,000	£34 / month	-£3	*No significant reduction*	*No significant reduction*	£1,410	-£215	*No significant reduction*	*No significant reduction*
	ST: 209,000 (up to December 2020)	£13 / month	-£1	*No significant reduction*	*No significant reduction*	£540	-£98	-£38	**-£38**
	Updated ST: 541,000 (January 2021 onwards)	£18 / month	-£4	*No significant reduction*	*No significant reduction*	£780	-£254	*No significant reduction*	*No significant reduction*
Firm 6	201,000	£18 / month	-£8	*No significant reduction*	**-£44**	£208	-£232	*No significant reduction*	**-£400**

Source: FCA analysis of PCA data

Compliance costs

We did not explicitly assess the implementation cost of our evaluation. Nonetheless, prior to publishing PS19/16, we invited firms to comment on our cost estimates from the CBA in CP18/42. We did not receive any comments on the accuracy of our cost estimates at

that point, or during our further engagement with firms. We therefore believe that our initial estimates have not underestimated the compliance costs of our remedies.

Finally, our benefit estimates for both pricing remedies and repeat use remedies substantially exceed the estimated compliance cost. The savings in the first year from pricing remedies amount to £500m under our central scenario, which is 4.5 times the estimated year 1 cost of the policy. We estimate that repeat use remedies have resulted in savings of between £412m and £489m in the first 22 months since implementation. This is between 8.9 and 10.6 times the estimated compliance cost of the policy in the first 2 years. Therefore, even if costs were significantly underestimated, our rules are still likely to deliver net benefits.

Lessons learned

We identified the following lessons learned during the course of this evaluation:

- Regulatory action on pricing practices can result in significant savings for consumers without strong evidence of negative consequences in terms of access to credit.
- Our policy has acted to both make the price of overdrafts simpler. This is likely to be the driving factor behind the reduction in borrowing we see in response to our remedies. We also see that less deprived consumers reduced overdraft balances more relative to more deprived ones. Less deprived consumers appear more responsive to our pricing remedies than we originally modelled. This finding can be used to better inform our assessment of the distributional effects of interventions in retail credit markets in the future.
- The repeat use strategies were varied on a number of dimensions, making it difficult to identify why the impacts differed between lenders. However, we are engaging with firms to understand what they have learnt about what is and is not effective and using some of our findings to inform these discussions. In particular, based on the evidence of this evaluation, past FCA research and engagement with firms, we think strategies that use a range of methods to communicate with customers are more likely to be effective. Furthermore, if firms are finding they are very successful at helping the customers in their strategy, marginally expanding the definition may bring similar benefits to customers who would not have otherwise qualified. The optimal level of thresholds determining repeat use is difficult to pin down and firms may want to take our results as a starting point in their own assessment of their strategies.
- Despite the varying size of effects by firm, outcomes for repeat users, in general, appear to be improving following treatment. This is both when we use the definition of a repeat user in CP18/42 (an individual that uses their overdraft in every one of the previous 12 months) and when we use the firms' own definitions. This is evidence that a non-prescriptive outcomes-based intervention, like the repeat use remedy, can be successful at delivering the outcomes we are seeking. This type of intervention has the advantage of avoiding setting requirements centrally, which may be time-consuming and require extensive research in the policy-design stage. When firms comply with these outcomes-based remedies, they can quickly identify the best way, from their own perspective, to achieve the outcomes sought.

Structure

The rest of this paper is structured as follows:

- Chapter 1 sets out the background to our 2019 overdrafts intervention and the harm it aimed to address
- Chapter 2 sets out how we expected our intervention to reduce harm and describes the methodology we use to evaluate it
- Chapter 3 provides selected descriptive statistics of the overdraft market
- Chapter 4 presents our evaluation results for pricing remedies
- Chapter 5 presents our evaluation results for repeat use remedies
- Chapter 6 concludes and sets out some wider lessons learned from the evaluation

A separate Technical Annex provides a full description of our econometric approach, a full set of results, as well as additional descriptive statistics of the overdraft market.

1 Why we are evaluating our overdrafts intervention

The overdraft market

Overdrafts are a form of consumer lending offered by providers of personal current accounts (PCAs). They allow consumers to withdraw more money than the available funds in their current account. In return, banks and building societies (collectively referred to as firms) charge an interest rate on overdrawn balances as well as potentially levying other fees and charges.

Most PCA providers distinguish between overdrafts that are arranged or permitted up to a certain limit in advance, and those that are unarranged or unauthorised. Before our intervention, unarranged overdrafts tended to attract higher effective prices (the amount paid per pound borrowed).

We estimated that 32 firms provided arranged and unarranged overdrafts at the time of consultation (see CP18/42). In CP18/42 we estimated that of the 52 million personal current account holders in the UK in 2017, 36% used arranged overdrafts each year, while 26% used unarranged overdrafts. In that year, firms made an estimated £2.4bn in revenue from overdrafts, with around 30% of the revenue originating from unarranged overdrafts.

The harm before we intervened

Our cost benefit analysis (CBA) in CP18/42 set out the evidence of harm in the market for overdrafts:

- Prices for unarranged overdrafts were high in relative and absolute terms. The interest rate on unarranged overdrafts was significantly higher than arranged overdrafts and regularly exceeded the equivalent of an interest rate of 10% per day. For 15% of unarranged overdraft users the interest rate exceeded the equivalent of 20% per day. Moreover, interest rates were significantly higher than comparable forms of unsecured lending such as credit cards.
- There was a high incidence of unarranged overdraft charges and refused payment fees among vulnerable consumers. Households living in the most deprived areas of the country were consistently more likely to incur unarranged overdraft charges and refused payment fees. For example, consumers living in the 10% most deprived areas paid on average refused payments of more than 3 times the level of consumers living in the 10% least deprived areas.
- Repeat use of overdrafts was associated with high cumulative charges. Our analysis found that repeat use of overdrafts led to a very high total cost of credit, especially for consumers who used their arranged overdraft every month. Repeat use of

overdrafts was also associated with deteriorating financial position of consumers, including increasing credit card debt.

Our analysis identified that the market failures driving this harm were complexity of information for consumers, behavioural distortions which affect how consumers make decisions, and a lack of competition in the retail banking sector. Together these market failures meant that consumers could not or did not compare prices between different overdraft providers, leading to inadequate competitive pressure on prices and charges, especially for unarranged overdrafts. The structure of fixed overdraft charges also meant that very small amounts of increased borrowing could lead to significant charges, which resulted in a very high price relative to borrowing for some consumers.

Our intervention

Our overdrafts intervention, finalised in PS19/16, comprised 2 main elements:

- pricing remedies
- repeat use remedies

Pricing remedies
The pricing remedies sought to simplify both arranged and unarranged overdraft pricing structures. We required firms to price overdraft services using a single interest rate on each account, without fixed fees or monthly charges (refused payment fees are still permitted). The interest rate for unarranged overdrafts could be no higher than that charged for arranged overdrafts. We also required prices to be presented in a standardised comparable format, including a representative annual percentage rate (APR). Finally, we reminded firms that refused payment fees should reasonably correspond to the cost of refusing payments.

Repeat use remedies
Our repeat use remedies required firms to develop a strategy to monitor and reduce cases where the frequency and depth of overdraft use by a consumer result in high cumulative charges. Within their strategy, we required firms to identify (i) repeat users with signs of actual or potential financial difficulties, and (ii) all other repeat users. For consumers in the first category, the firm must seek dialogue with the customer, and present options for reducing their overdraft use. For customers in the second category, the firm must communicate with the customer to highlight their pattern of use and the potential high avoidable costs it may be causing. Although firms must share their repeat use strategies with us, the rule is not prescriptive on method; each firm is able to develop its own approach to identify repeat users among their customers.

Timing
We first identified harm in the market in CP18/13: High-Cost Credit Review: Overdrafts, published on 31 May 2018. Our finalised overdraft pricing and repeat use rules were published on 7 June 2019 with PS19/16. The refused payment fee guidance came into

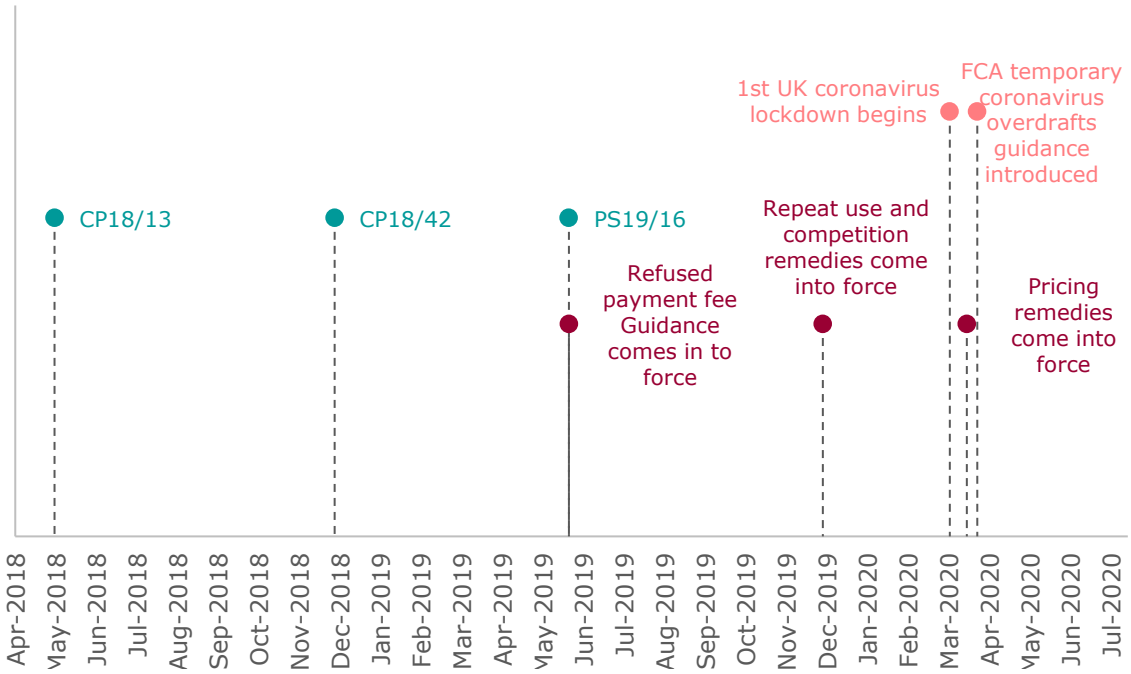
force immediately while the repeat use rules came into force on 18 Dec 2019 and pricing rules came into force on 6 April 2020.

Table 5 summarises our remedies and indicates which ones are included in this evaluation, and Figure 4 summarises the timing.

Table 5: Summary of remedies and inclusion in the evaluation

Group	#	Summary of remedy	Included in this evaluation?
Pricing remedies	1	Prevented firms from charging higher prices for unarranged overdrafts than for arranged overdrafts.	✓
	2	Banned fixed fees for borrowing through an overdraft.	
	3	Required firms to price overdrafts by a simple annual interest rate.	
	4	Required firms to advertise arranged overdraft prices with an APR to help customers compare them against other products.	
	5	Guidance that refused payment fees should reasonably correspond to the costs of refusing payments.	×
Repeat use remedy	6	Required firms to develop and implement a strategy to identify and reduce repeat overdraft use, including consumers showing actual or potential financial difficulty.	✓

Figure 4: Timeline of our intervention and other events affecting the overdraft market



Other interventions not in scope of this evaluation

The overdrafts and wider consumer credit markets were subject to other regulatory changes between 2018 and 2020, both by the FCA and other regulatory bodies. These are outside the scope of this evaluation but are important to note as they are part of the policy context around our remedies.

Our package may result in more or in less benefits depending on what other requirements there are on firms at the time of implementation. For example, one of the interventions preceding our pricing rules was balance alerts (see below). If this intervention was successful in reducing the incidence of fixed fees due to accidental borrowing, we would expect that our remedies result in lower benefits compared to a world where balance alerts were not mandated. Our causal analysis estimates the additional benefits from pricing and repeat use over and above the existing policies in the market. The most relevant policy changes apart from pricing and repeat use remedies are:

- Before our intervention, the CMA issued rules affecting overdrafts as part of its Retail Banking Investigation. Since February 2018 the CMA required larger firms to alert consumers before they entered an unarranged overdraft, and to provide a grace period in which consumers can transfer money to avoid a charge. The CMA also mandated that firms must specify the maximum relevant charges that could accrue in a month from exceeding or attempting to exceed an overdraft limit. Since our sampling period begins in May 2018, the CMA's intervention was already fully in place. Hence our estimates of change occurring during our sampling period are not affected by these policies.
- As well as consulting on our pricing and repeat use rules, CP18/42 also finalised rules about consumer engagement and awareness of overdrafts. These were referred to as our competition remedies and concerned the automatic enrolment of consumers into overdraft alerts, how general information was presented to customers, and preventing any available overdraft from appearing in descriptions of a customer's available funds. These remedies came into force on 18 December 2019, pre-dating our pricing rules by four months. In Chapter 4 we present evidence that overdraft outcomes were stable in the period around the introduction of our competition remedies, hence the evaluation approach we apply uncovers the additional impact of pricing and repeat use remedies achieved over and above of the impact of competition remedies. In other words, our counterfactual is a world where competition remedies were adopted, but pricing remedies were not.
- In April 2020, shortly after our pricing rules came in to effect, we issued temporary guidance on overdrafts in response to the pandemic in the UK. The guidance required firms to ensure overdraft customers who were moved onto the new pricing regime were not worse off than before the intervention. The other principal measure was a requirement to provide interest-free overdrafts for those in difficulty due to the impacts of the pandemic. These requirements were lifted in October 2020, although other more general consumer credit guidance still applied. To ensure that temporary guidance does not interfere with our results, we define our post-intervention period from November 2020 onwards.

Why we are evaluating this intervention

Evaluation is an important part of understanding the impact of our rules and whether they have had the impact we expected. Testing the effectiveness of our remedies helps us make better decisions. In April 2018 we published a framework outlining the way we measure the causal impact of our interventions.

We committed to evaluating the impact of our overdraft remedies at least 12 months after they came into effect for several reasons:

- Our overdrafts intervention was a far-reaching intervention in a large and important retail financial market. We are therefore keen to understand if it has reduced consumer harm to the extent that we expected.
- There were significant economic developments since we made our rules, most notably the pandemic in the UK from 2020. This evaluation is concerned with distinguishing the impact of our rules on the overdraft market from the impacts of these wider developments.
- In addition, our evaluation sheds light on some of the uncertain effects of the intervention, particularly how the market would adapt and distributional effects.
- Finally, we are keen to understand whether outcomes-based policies such as the repeat use remedies can reduce consumer harm to the desired extent.

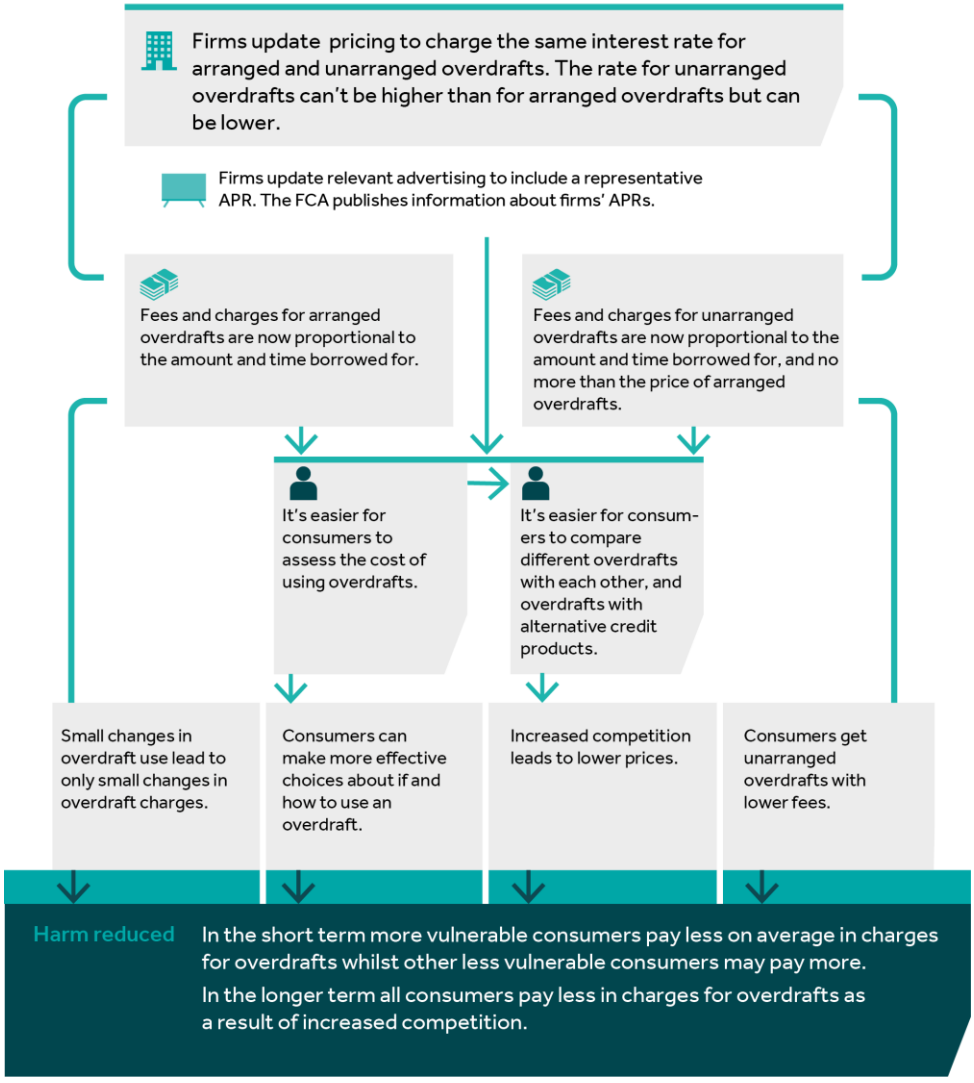
2 Our evaluation approach

This section sets out how we approach the evaluation of our 2019 overdrafts intervention, and what the approach allows us to conclude about our intervention.

How we expected our intervention to work

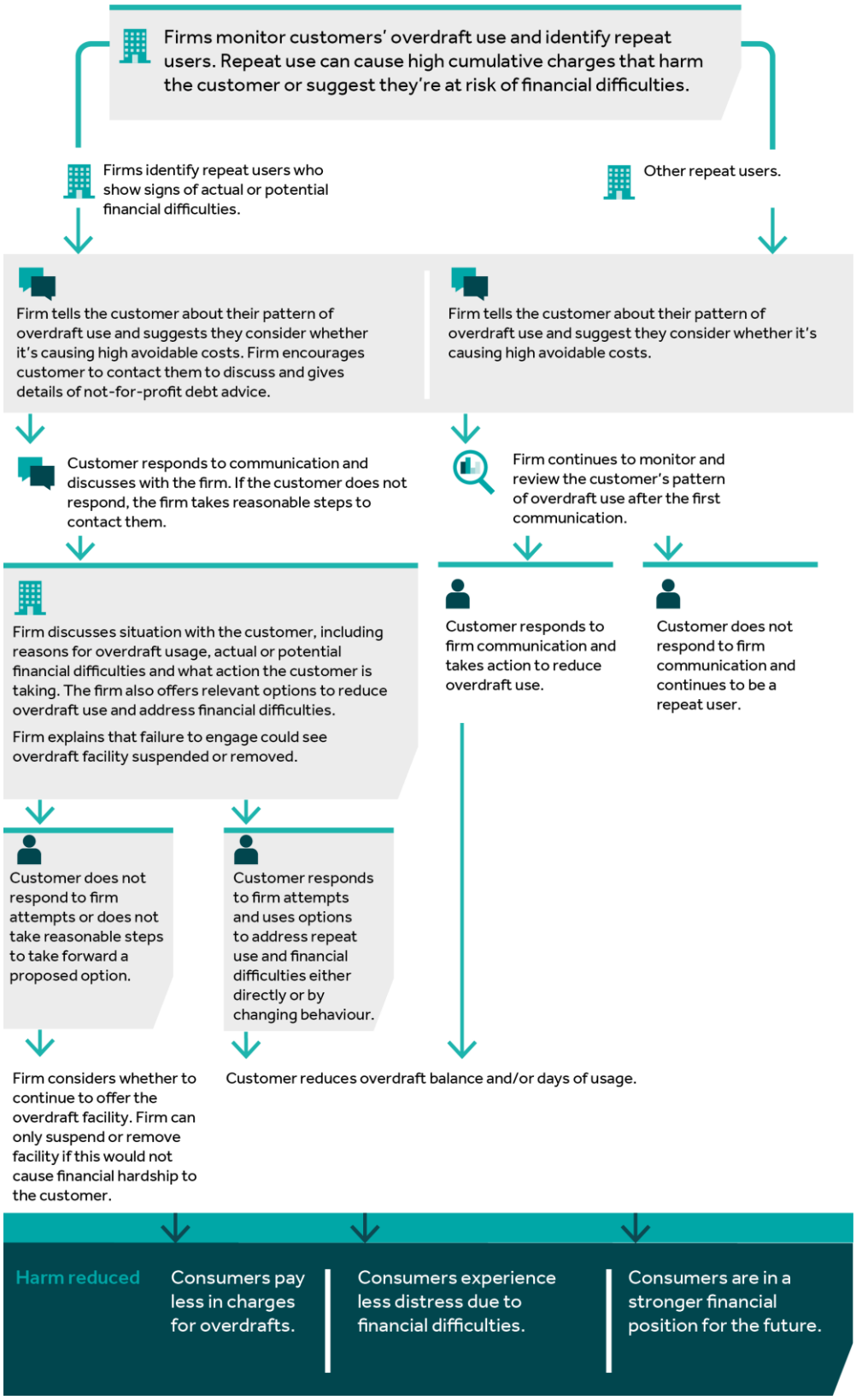
The ultimate aim of our rules was to make overdraft pricing simpler and ensure a fairer distribution of charges among users. Figure 5 and Figure 6 present the causal chains for the pricing and repeat use parts of our intervention as per CP18/42.

Figure 5: Causal chain of our pricing remedies



Source: CP18/42 High-Cost Credit Review: Overdrafts consultation paper and policy statement

Figure 6: Causal chain of our repeat use remedies



Source: CP18/42 High-Cost Credit Review: Overdrafts consultation paper and policy statement

Outcomes and expected benefits

We expected our overdraft rules to have a number of impacts.

Pricing rules

For our pricing rules, we expected that:

- charges for overdrafts would fall significantly
- firms may increase the interest rates charged on arranged overdrafts to recover any loss in revenue
- charges for overdrafts would relate more directly to the amount overdrawn and the duration of the loan
- in the longer term, all consumers would pay lower interest rates for overdrafts as a result of increased competition around transparent interest rates
- consumers would make more informed choices about whether and how to use their overdraft facilities

Overall, we expected our pricing rules to lead to redistribution of total overdraft costs between consumers. To reflect the uncertainty around the dynamic reaction of firms' pricing, we estimated 2 pricing scenarios in our CBA in CP18/42. Under our central scenario, we assumed that the APR offered on overdrafts would stabilise towards the higher end of interest rates observed in the market prior to our intervention. Under our optimistic scenario, we assumed that interest rates would stabilise towards the lower end of observed APRs. Under both the higher and lower APR assumptions, we expected our rules would disproportionately benefit vulnerable consumers on average, whereas we expected any net higher costs of borrowing to be concentrated among less vulnerable groups.

Under the higher APR assumption, we expected the 30% of PCA consumers living in the most deprived areas in the UK, as measured by the Index of Multiple Deprivation (IMD), to pay £101 million less in overdraft charges per year. Under our optimistic scenario we expected that consumers from all IMD deciles would see monthly overdraft charges reduce by approximately £15 per person per year, leading to c. £757 million in aggregate annual consumer savings.

We showed in CP18/42 that our policy would break even with compliance costs (£105.7 million one-off and £6.2 million ongoing cost) in the higher APR (central) scenario if welfare weights are applied to the predicted change in charges. Welfare weights assign a higher value to savings for individuals on lower incomes to account for the fact that an additional £1 of consumption is valued more by consumers on lower incomes. In CP18/42 we showed that the implied welfare weights at the break-even point were significantly lower (i.e. more conservative) than those recommended in HM Treasury's Green Book.

Repeat use rules

For our repeat use rules, we expected that repeat users of overdrafts would:

- pay less in charges for overdrafts

- reduce the frequency of overdraft use
- reduce the total volume borrowed
- face a lower total cost of borrowing
- experience less distress due to financial difficulties

We expected that our repeat use remedies would benefit consumers in the same way as pricing remedies but will be targeted at those consumers who use overdraft for long periods of time. The main expected benefit from the repeat use rules was a reduction in the total overdraft fees and charges incurred by consumers. We anticipated that these benefits could arise from less repeat overdraft use by consumers, but also the actions of firms such as applying forbearance or offering consumers cheaper alternative credit.

In our CBA, we estimated that 4 million consumers would be affected in the first year, and an additional 1.3 million in subsequent years. We estimated that the total one-off costs of our repeat use interventions to the industry would be £34.9m with an ongoing cost of £5.7m. We did not quantify the benefits expected to arise from repeat use remedies in CP18/42. However, we estimated that for the remedies to break even given the estimated costs, the total saving to affected consumers must be an average of £3 per repeat user.

Unintended consequences

As well as the outcomes that our rules intended to bring about, we want to test for three main unintended consequences of our rules in this evaluation. These are whether:

- consumers in less deprived areas, who we expected may lose out from our rules, are bearing a higher cost than expected
- consumers substitute towards using more expensive forms of credit in response to the policy
- there was a loss of access to credit

Other factors affecting the overdraft market

Our remedies will interact with other factors that affect the overdraft market. Our benefit estimates could be different in a different policy context. Nonetheless, our results estimate the additional impact of pricing remedies over the other changes that took place in the market.

Firstly, the pandemic in the UK, and the associated restrictions and economic consequences from March 2020, have had profound effects on household finances. The Bank Rate was cut from 0.75% to 0.1% over the course of 10 days in early to mid-March 2020 in response to the anticipated effects of the pandemic.

Secondly, overdraft providers were subject to our Temporary Covid guidance from April 2020 until October 2020 inclusive (see Chapter 1). The guidance is likely to have exerted a downward pressure on interest rates. For example, the guidance set an expectation that customers affected by the pandemic should not be charged interest on the first £500 of any overdraft borrowing they had.

In addition to this, CP18/42 also finalised rules about consumer engagement and awareness of overdrafts. These were referred to as our competition remedies and concerned the automatic enrolment of customers into overdraft alerts, how general information was presented to consumers, and preventing any available overdraft from appearing in descriptions of a customer's available funds. These remedies came into force on 18 December 2019, pre-dating our pricing rules by 5 months.

These developments in the overdraft market interact with our policy. For example, we may expect that if overdraft alerts were effective at reducing accidental borrowing, the benefits from banning fixed fees would be lower compared to a world where there are no overdraft alerts. Nonetheless, our methodology, described in the next section, is designed to isolate the causal effects of our remedies only. It therefore provides an estimate of the marginal benefits of our policy over those stemming from other interventions in the market.

Evaluation approach – pricing remedies

We evaluate our pricing remedies (with the exception of the refused payment fee guidance) together as a package. These remedies were implemented simultaneously by firms in our sample (with the exception of one early adopter), and all target the same set of consumer outcomes. Our pricing remedies were applied to all UK overdraft customers.

Research questions

Our key research questions when we evaluate the impact of pricing remedies are:

- did pricing remedies reduce total monthly overdraft charges and by how much?
- how did total overdraft borrowing change as a result of our pricing remedies?
- how did the effective price of overdrafts change as a result of our pricing remedies?
- how do these effects vary across IMD deciles?

We also look at whether there were any unintended consequences:

- are consumers in less deprived areas, who we expected may lose out from our rules, bearing a higher cost than expected?
- did overdraft limits reduce in response to our remedies?
- were there any increases in borrowing on other high-cost credit products (such as store cards and rent to own products) as a result of our remedies?

Econometric method

To quantify the benefits from our intervention, our approach exploits variation in how much individual consumers were affected by our pricing rules. This variation arises because, before our rules took effect, consumers paid different levels of fees and charges, depending on which PCA provider they were using and the particular product that they held with it.

Some consumers paid low or no fixed fees before our intervention and so were weakly affected by our rules. Meanwhile, consumers who paid higher fixed overdraft charges experienced a radical change in pricing structure when our rules were implemented.

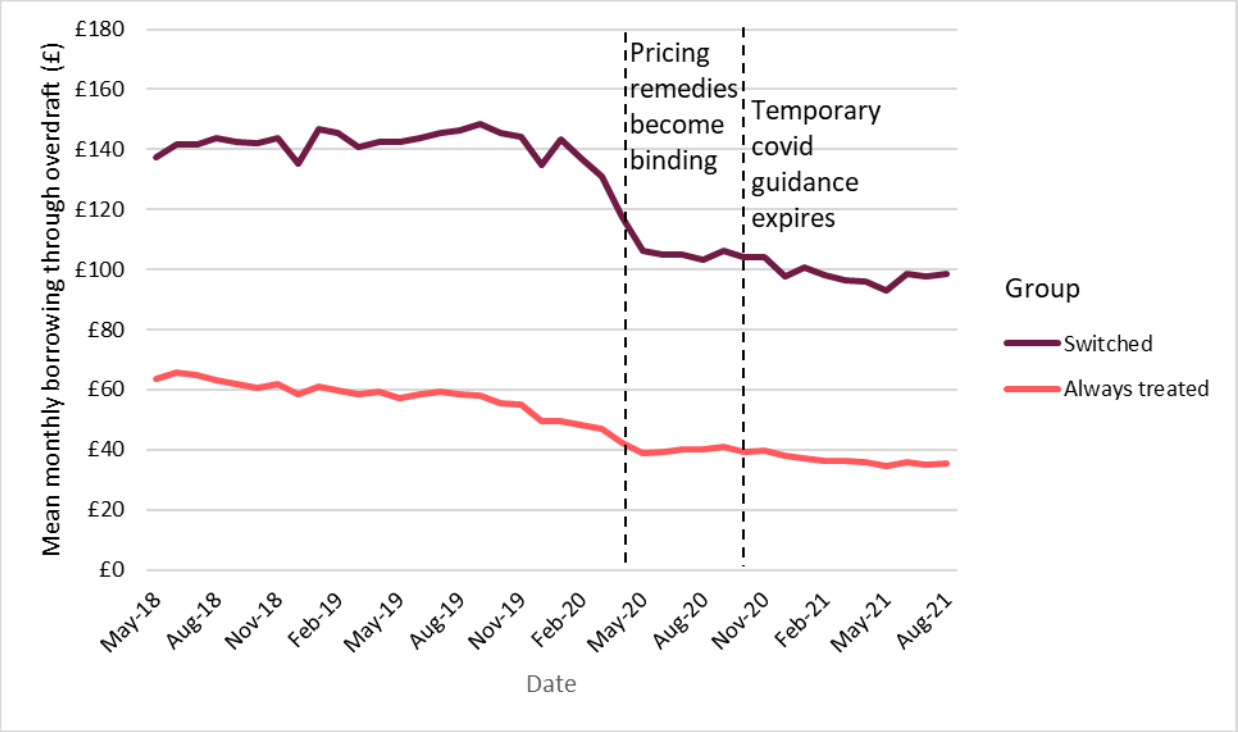
This difference in exposure to the policy allows us to isolate the effect of pricing remedies from other factors that may have affected the outcomes of interest. We give the full detail behind our model and the assumptions in the Technical Annex to this publication. Here we illustrate the main aspects and assumptions.

To illustrate how our approach works, we define a group that did not pay fixed fees prior to the intervention and a group that paid some positive level of fixed fees. The former group is referred to as the "always treated" group, while the latter group is referred to as the "switched group". Our remedies have a small marginal effect on the pricing structures faced by the always treated group, but a high impact on the switched group.

Figures 7, 8 and 9 show that around the time of implementation, borrowing, charges, as well as effective price fell by a much larger amount for the consumers that were switched compared to the group who never paid fixed fees. Meanwhile, in the preceding time period as well as after implementation, the two groups were following the same trends in outcomes. This allows us to attribute the difference in the change in outcomes between the two groups to our remedies.

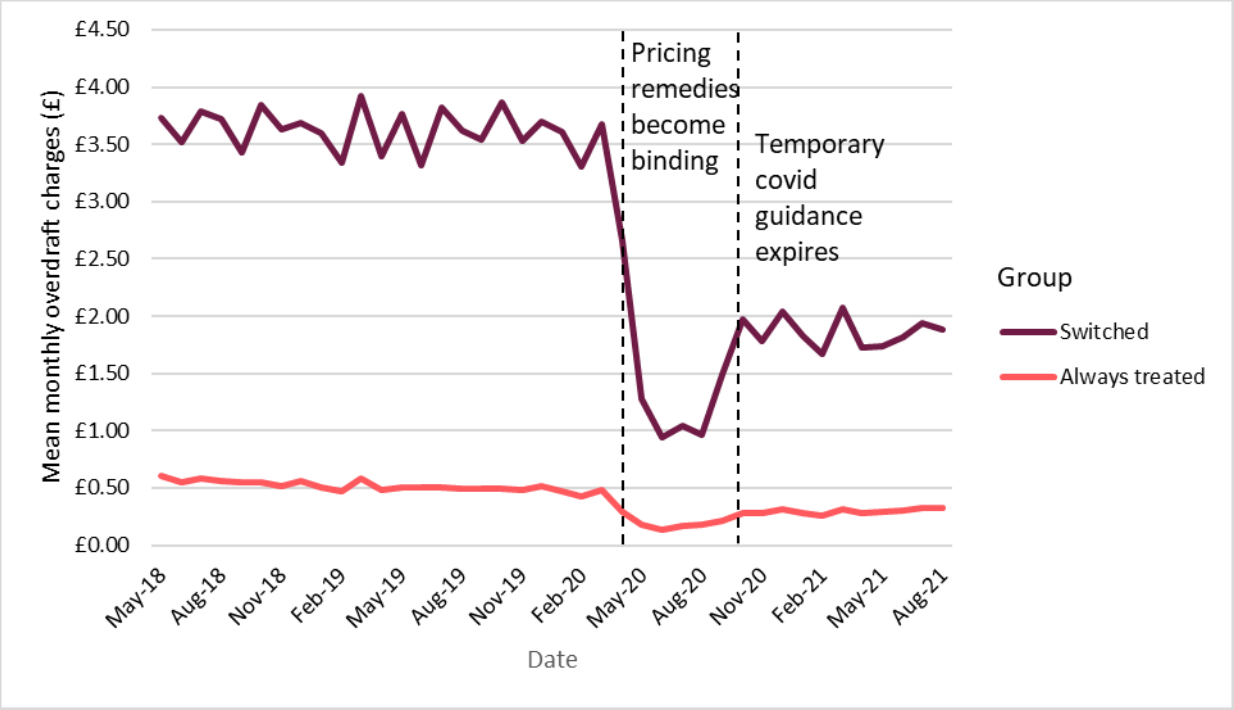
This approach to estimation is referred to as difference-in-differences (DID) in the causal inference literature. The first difference is the difference in the outcome from the pre-intervention to the post-intervention period. The second difference is the difference between the group with a high policy exposure to the group with low policy exposure. We use this approach to estimate the causal response to the policy at the consumer level and then extrapolate to the population affected by the policy.

Figure 7: Trends in monthly borrowing - always treated vs. switched group



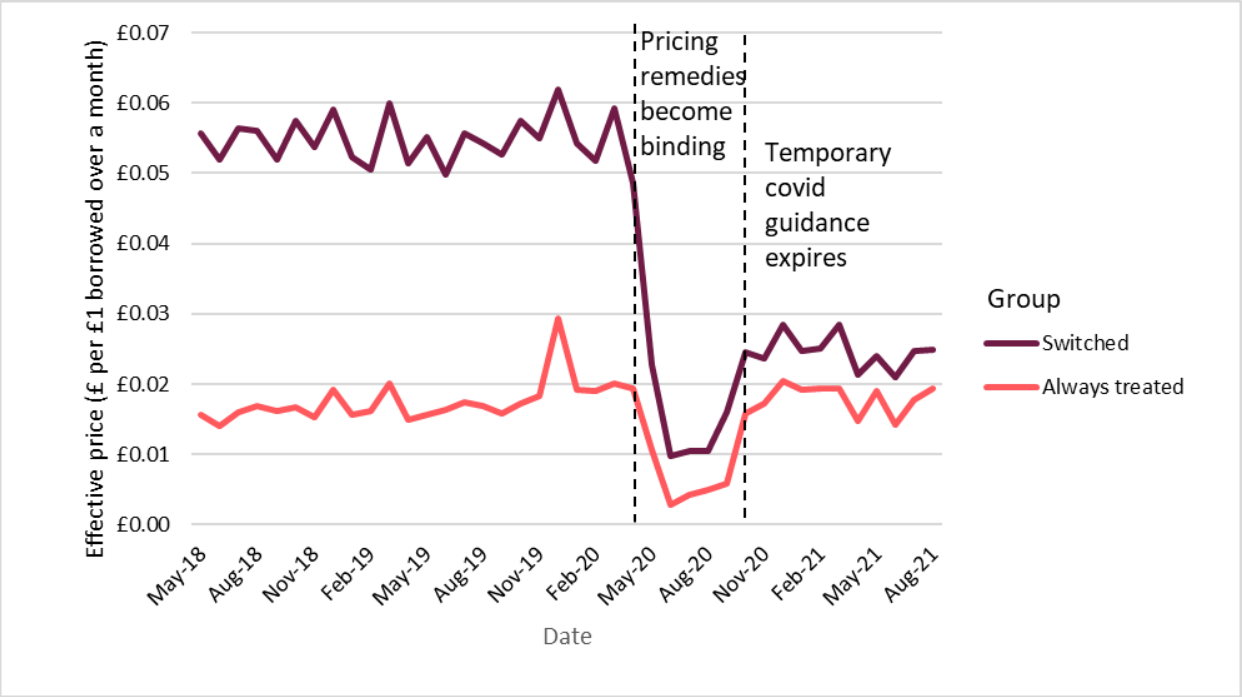
Source: FCA analysis of PCA data

Figure 8: Trends in monthly charges - always treated vs. switched group



Source: FCA analysis of PCA data

Figure 9: Trends in effective price - always treated vs. switched group



Source: FCA analysis of PCA data

Figure 9 perhaps most clearly illustrates how our estimation strategy works. While the effective price is relatively stable before and after the intervention for the group that never paid fixed fees (the always treated group), the effective price for the switched group drops dramatically. Since otherwise the movement of the two lines is parallel, we would expect that in the absence of the intervention, the effective price for the switched group would have also remained at its pre-intervention level. The difference between the actual value and this counterfactual is our estimate of the effect of the policy.

We see that across all outcome variables, the switched group, for whom our rules were binding, see much larger movements compared to the control. In all cases, the movements are in line with our expectations and demonstrate evidence of a strong treatment effect due to the ban on fixed fees.

Comparing the simple differences in outcomes of the switched group to the always treated group can be used to estimate the benefits of the policy and we do this as a robustness check to our main results (see section on alternative approaches below). However, the model can be further specified so that it breaks down the changes in outcomes to changes in each pricing component at the consumer level. The principle is the same – differences in outcomes between consumers who saw big changes and consumers who saw small changes in a particular pricing component are used to estimate the causal relationship between that pricing component and the outcome of interest.

To do this we define treatment as the changes in pricing components (arranged and unarranged interest rates, arranged and unarranged daily fees and arranged and unarranged monthly fees) from the pre- to the post-intervention period. We then statistically model the relationship between price changes and changes in the outcomes of interest. For example, we estimate that a £1 reduction in arranged daily overdraft fees

is associated with a £0.51 reduction in monthly charges. Since the average reduction in arranged daily fees in the sample is £0.67, we know that the banning of arranged daily fees in particular is associated with a reduction in monthly charges of £0.34 on average. We present the full set of results from this approach in the Technical Annex.

In the above example, our estimate that "£1 reduction in fixed daily fees is associated with £0.51 fall in monthly charges" reflects the true causal relationship between these variables only as long as the time-varying components determining overdraft use are the same for those who paid high arranged daily fees and those who paid low or no arranged daily fees. This assumption is likely to hold given the trends in outcomes we report in Figure 7, Figure 8 and Figure 9. The parallel trends, especially after the intervention when both groups are subject to similar pricing structures, indicate that time-varying drivers of overdraft use are the same for the two groups.

Alternative approaches

As mentioned above, we also report results from comparing the outcomes for the switched group to those of the always treated group. When we take this approach, treatment is effectively defined as simply the removal of fixed fees – this is because the other elements of the policy (e.g. the ban on charging higher interest rates for unarranged borrowing) apply to both groups.

When taking this approach, we assume that the changes to pricing components would have been similar for these two groups in the absence of the ban on fixed fees. Under this assumption, the method recovers the effect of banning fixed fees net of the other pricing remedies. The assumptions when applying this method are strong and we show in our Technical Annex that this estimate is likely biased and that the direction of the bias is difficult to assess. However, we would expect that this bias is small relative to the benefits arising from banning fixed fees. The removal of fixed fees was an important component of pricing remedies, and we would expect the benefit estimates via this method to have the same sign as, and represent a significant proportion of, our central benefit estimates.

Under the assumption that our method accurately isolates the benefits of fixed fees, this approach is also a lower bound on the full effect of the policy. We show in our results section that using this method, benefits from banning fixed fees are estimated to be 84% of our preferred approach.

Evaluation approach – Repeat use remedies

We evaluate the impact of our repeat use rules separately from our pricing rules. These rules were applied in a different way and affected only a specific subset of overdraft users. Each firm was asked to develop and implement a strategy to identify and provide support to customers who are repeatedly using their overdraft and paying high cumulative charges (the 'repeat use strategy'), and a second strategy to identify and provide support to customers who are repeatedly using their overdraft and are also showing signs of actual or potential financial difficulty (the 'financial difficulty strategy'). We refer to customers who enter one of these strategies as being 'treated' on that strategy. There was some direction from us about what these strategies should entail,

but it was left to firms to identify which of their customers fall under each strategy, as well as when and how to reach out to them. Some firms decided to create 'sub-strategies' to capture short- and long-term repeat users, and to capture short- and long-term repeat users in actual or potential financial difficulty. We evaluate the impact of each of the 6 firms' (sub-) strategy separately.

Research questions

Our research questions when we analyse repeat use remedies are:

- did our remedies reduce total monthly overdraft charges for repeat users?
- did our remedies reduce total monthly overdraft charges for customers identified as being in actual or potential financial difficulty?
- did total borrowing reduce as a result of receiving repeat use communications?
- did total borrowing reduce as a result of receiving communications after being identified as a customer in actual or potential financial difficulty?

Econometric method

Firms' implementation of our repeat use rules creates data-based thresholds over which consumers are classified as repeat users or in financial difficulty, and under which they are not. This allows us to estimate the impact of the repeat use rules by comparing outcomes for consumers just over and just under the threshold. These consumers share many other characteristics, so any subsequent diversion in outcomes among the treated group can be attributed as a causal effect of the intervention. This approach also allows us to estimate a treatment effect for each firm in our sample individually. Due to limitations with the data submitted, we were only able to apply this approach to 3 of the 6 firms we sent an information request to.

Individuals could cross the thresholds for treatment at any point, so could enter treatment at any point in our sampled timescale (October 2019 – September 2021). In the first month when firms started to apply these strategies, we restrict our sample to those individuals who just qualified as a repeat user and those who fell just short of triggering the criteria. We then compare outcomes for those that just qualified for the repeat use strategy to those who fell just short. We attribute the difference in outcomes to the repeat use strategy.

To estimate the effects of the policy in the second month of treatment, we compare individuals in their second month of treatment to the same control group from the first period. As some of the individuals in the control group may themselves qualify as repeat users in the second period, we apply a 'decontamination' procedure. This procedure subtracts the previous month's treatment effect from the individuals in the control group that became treated in the second period. We explain this in more detail in the Technical Annex to this paper. We then compare outcomes for accounts in their second period of treatment to the decontaminated control group. We repeat this process up to 12 months post-intervention. With each iteration forward, a larger portion of our control group becomes treated, and must be decontaminated, so the confidence bounds around our estimation grow larger the further from the initial treatment period we go.

For firms 1, 3, and 6 we used our primary evaluation approach. This method produces a local average treatment effect. This is the treatment effect on accounts that are close to the threshold for qualifying for the strategy. These accounts will typically have lower average balances and charges than accounts that qualify for the strategy by far exceeding the selection variable criteria. Figures 25 to 28 and tables 12 and 13 in the results section show that the strategies tend to have a larger effect on accounts with higher average charges and borrowing. Therefore, we consider our treatment effect estimates to be towards the lower end of all the treatment effect on treated individuals.

Alternative approaches

For the 3 firms where we cannot apply the first approach, we follow an alternative estimation strategy. We use the fact that our rules required firms to set their own definitions of repeat use and financial difficulty. The repeat use strategies that firms have implemented share many similarities, drawing on a range of account information such as overdraft frequency, current account balances and repeat lending. However, the details of each firm's strategy differ. This means that, for a small fraction of consumers, individuals in very similar financial situations might be treated as a repeat user at one firm, but not at another. Therefore, for treated individuals at one firm we can construct a control group from untreated, but otherwise similar customers, from a mix of other firms. As long as consumers' choice of firm is as good as random, then comparing the outcomes of these individuals, controlling for any observable differences, should provide a robust estimate of the effect of the repeat use rules. This treatment effect can be estimated over several time periods to examine the longevity of the impact of the rules.

For firms 2, 4 and 5 we did not have sufficient data on some of the treated accounts to execute our primary approach. Instead, we use our secondary approach. To perform this approach, we could only use accounts that we had data on in every period. This meant discarding a portion of our treated accounts, so we did not use this approach for the other firms.

We explain these approaches in more detail in the Technical Annex to this paper.

Data

We evaluate the two sets of remedies using a dataset collected specifically for this evaluation. The sample comprises account and transaction-level data from the 6 biggest PCA providers in the UK, which collectively account for c. 83% of the UK's personal current accounts. We refer to this dataset as the PCA data.

The main sample used for the construction of various descriptive statistics comprises of 1.6 million consumers. For c.570,000 of these consumers, we observe all accounts that they may hold with one of the six providers. This subsample is the main dataset used for the evaluation of our pricing remedies.

The variables we observe include individual transactions, daily account balances, savings account balances, as well as daily information on the prices applied for borrowing through a given account. We give full detail of these data in our Technical Annex.

For our repeat use evaluation, we requested a separate sample. We asked participating firms to provide us with account data aggregated at the monthly level on accounts that met, or came close to meeting, the firms' repeat use and financial difficulty definitions over a given period, resulting in a total sample size of c. 3.6m consumers.

For each firm, this period starts from the point when the firm started assessing accounts against their definitions (which for most firms is December 2019) to September 2021. The data contained the overdraft charges paid in the month, the average end of day balance for the month, an indicator of whether or not the account was on one of the strategies in the given month, and some further metrics which related to the criteria used by the firms to assess whether or not the account qualified for the repeat use or financial difficulty strategy.

We performed extensive data quality checks, ensuring that data from the 6 participating firms was in a standard format, that all values supplied were within the expected ranges, and that there were no missing values. The data collection exercise took place over 6 months, and firms were given two resubmission attempts. Data quality issues were referred to the firms and iteratively addressed at each resubmission.

We linked our PCA sample with consumer-level data we hold from a major credit rating agency (CRA). We refer to this dataset as the CRA data. This dataset is the source of the consumers' full postcode, based on which we map consumers to their Index of Multiple Deprivation (IMD) score. The CRA dataset also contains the year of birth and balances on credit products such as credit cards, rent to own, and store cards, which we analyse in Chapter 4 to test for unintended consequences of the rules.

As in CP18/42, our preferred proxy of consumer vulnerability is the IMD decile of consumers. It is a national statistic that measures the relative deprivation of local areas based on a number of indicators including income, employment, health, and education. Local areas are then ranked in terms of relative deprivation score. We use the data in deciles, with decile 1 representing the 10% least deprived parts of the country and decile 10 the most deprived (to align with CP18/42). Since each statistical office of the UK creates separate IMD rankings, we use only data from England when we break down the analysis by IMD decile. Nonetheless, when we report aggregate results by IMD decile, we scale to the entire population of UK PCA holders by assuming that the deprivation distribution in England is representative of the UK.

In total, we are able to identify the geographical location of ca. 91% of consumers in our sample. English residents represent about 87% of the sample for whom we can map the geographical location.

Further details of the data and cleaning procedure are set out in the Technical Annex.

3 The UK overdraft market

This Chapter sets out selected **non-causal** descriptive statistics of the overdraft market from 2019 to 2021. Where we present figures at the market level, these are extrapolated from the estimated market shares of the firms in our sample. To ensure we focus on main accounts, as in CP18/42 we restricted our descriptive analysis to all UK PCA accounts with median monthly deposits greater than £500 in a given year. The full detail around the calculation of figures we present here is in the Technical Annex to this publication.

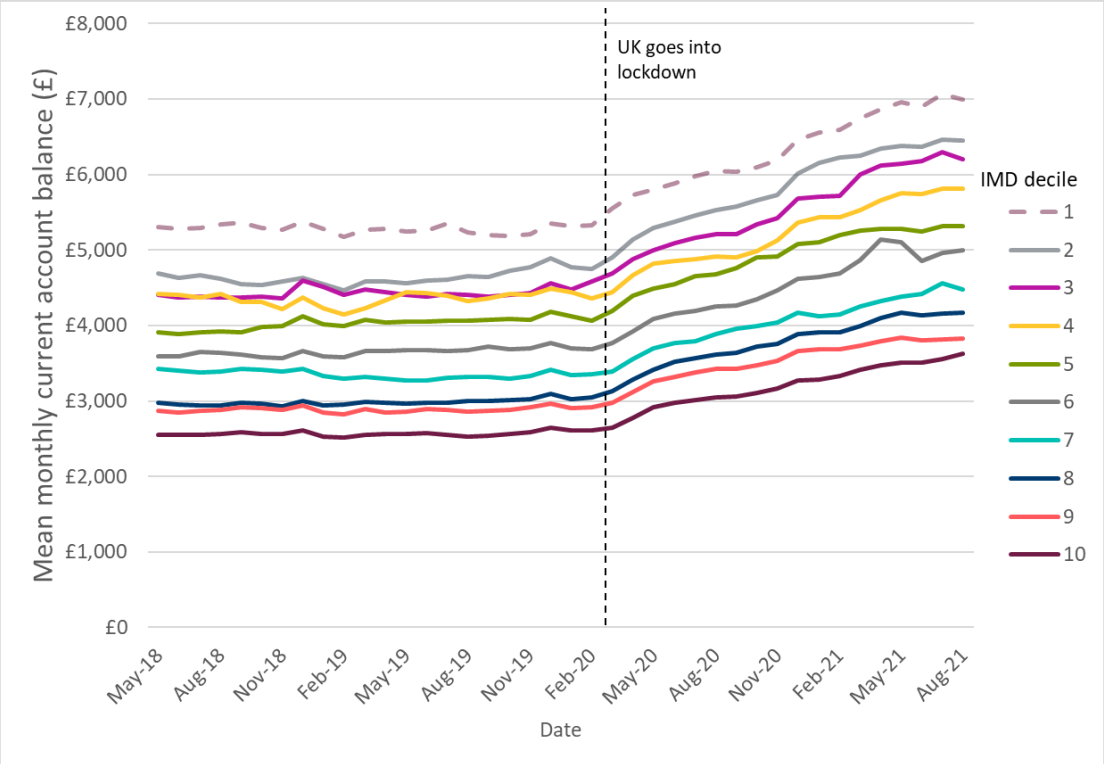
These trends are likely to reflect both the effect of our intervention, the impacts of the pandemic, and macroeconomic environment. Our causal analysis in Chapters 4 and 5 aims to isolate the causal effects of our rules.

It is important to note that the trends in the overdraft market we present here may have changed due to the cost-of-living crisis. In particular, we would now expect current account balances to be lower and overdraft borrowing to be higher.

Trends in overdraft pricing

We begin our description of the overdraft market by looking at current account balances. Figure 10 shows the monthly mean account balances on accounts belonging to people in each of the 10 IMD deciles. Balances for all deciles were flat up until the beginning of the pandemic and averaged between c. £2,500 to £5,300 depending on the IMD decile. After March 2020, we observe a steady increase in average balances for all deciles lasting until the end of our sampling period. This is likely driven by the impact of the pandemic on spending patterns. We note that differences in the average level of balances reflect differences in deprivation – average account balances tend to be higher for less deprived deciles. This indicates that IMD is a strong predictor of financial vulnerability.

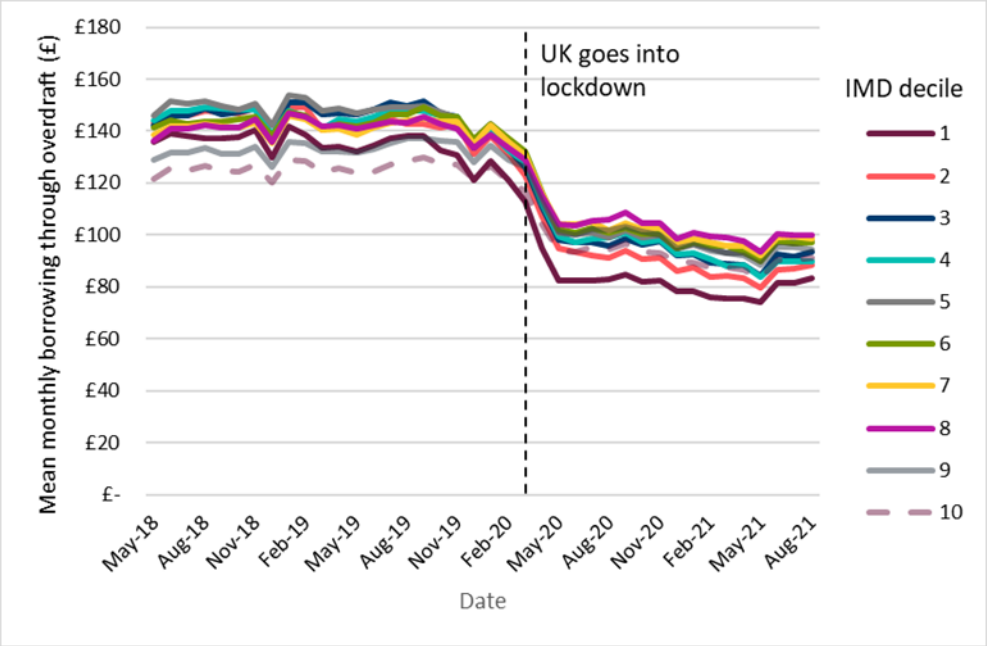
Figure 10: Mean monthly current account balance by IMD decile, all PCA accounts



Source: FCA analysis of PCA data

Consistent with the increase in mean balances, we also observe a decrease in the average overdraft borrowing balance. Figure 11 shows that borrowing through overdraft was on average between £120 to £140 per month for those accounts that had a negative balance on at least one day in the sampling period. This goes down to between £80 and £100 after March 2020.

Figure 11: Mean monthly borrowing through overdraft by IMD decile, accounts that had a negative balance on at least one day in the sampling period

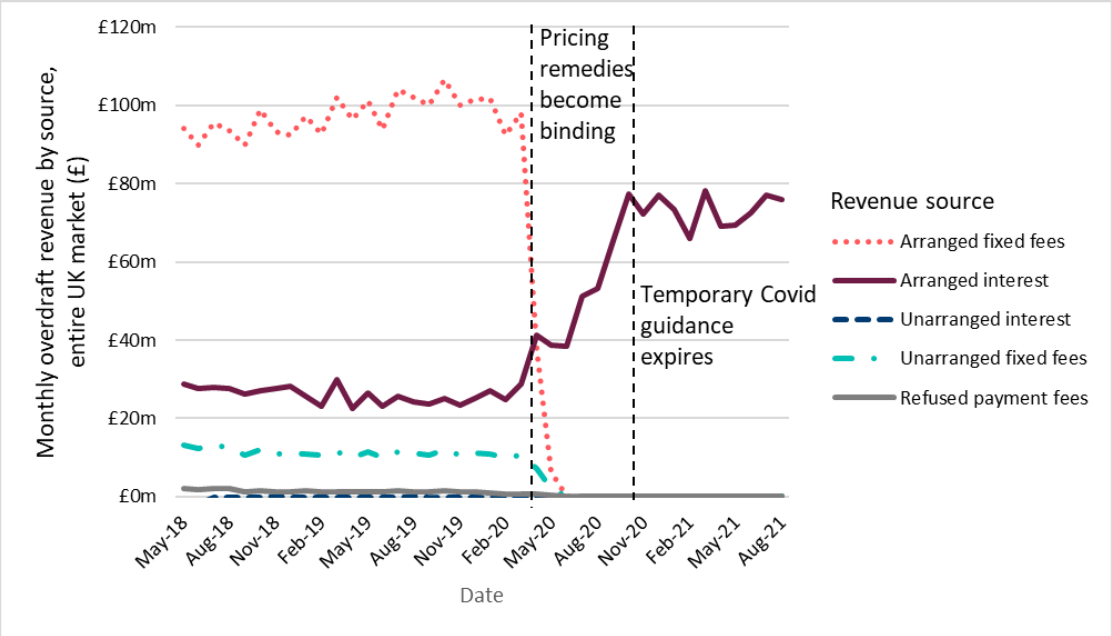


Source: FCA analysis of PCA data

We next look at the dynamics of overdraft revenue. Figure 12 breaks down overdraft revenues for the entire UK market by source. The figure shows that prior to our intervention, arranged overdraft fixed fees were the biggest component of overdraft revenue. The next biggest source was the arranged overdraft interest, followed by unarranged fixed fees. We note that unarranged overdraft interest and refused payment fees comprised a very small proportion of total overdraft revenues.

We see that shortly after our rules became binding, revenues from both arranged and unarranged fixed fees fell to 0, consistent with full compliance with our policy. As expected in C18/42, revenue generated through arranged overdraft interest rates rose following the introduction of our rules to compensate for the loss of fixed fee revenue. The increase in revenue from arranged interest rates was gradual as our temporary Covid guidance would have prevented sharp increases in interest rates. We see that arranged interest revenue had its steepest increase in October 2020 when our Temporary Covid guidance expired.

Figure 12: Overdraft revenue by source – entire UK market

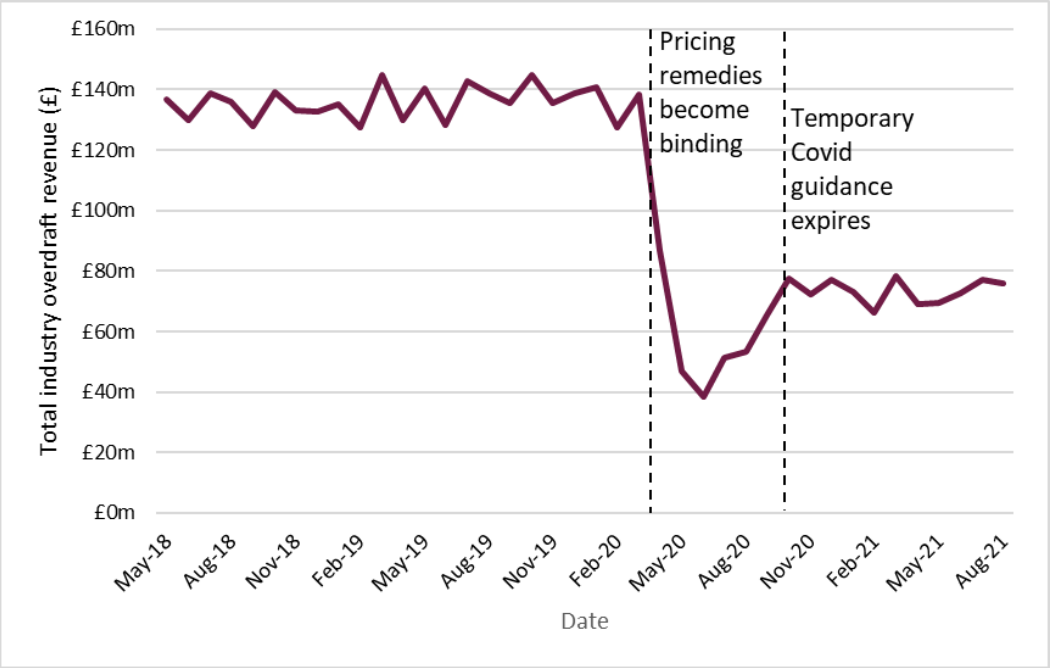


Source: FCA analysis of PCA data

Despite arranged interest rates increasing (as we had predicted they would, in CP18/42), total firm revenue from overdrafts fell markedly in early 2020. Figure 13 combines the 5 disaggregated sources to present total industry revenue from overdrafts. Average monthly industry revenue was £136m (£1.6bn per year) in the period May 2018 – March 2020 inclusive. Revenues fell sharply around April 2020, before rebounding to a lower level - around £73 million per month (0.9bn per year) in the period October – August 2021.

This decrease in revenue will be partly driven by our pricing remedies (the effect of which is illustrated in Figure 12) and partly because of the drop in overdraft borrowing due to factors such as the pandemic. In Chapter 4 we report that our remedies have reduced total charges (and therefore revenue) by approximately £500m per year or £42m per month.

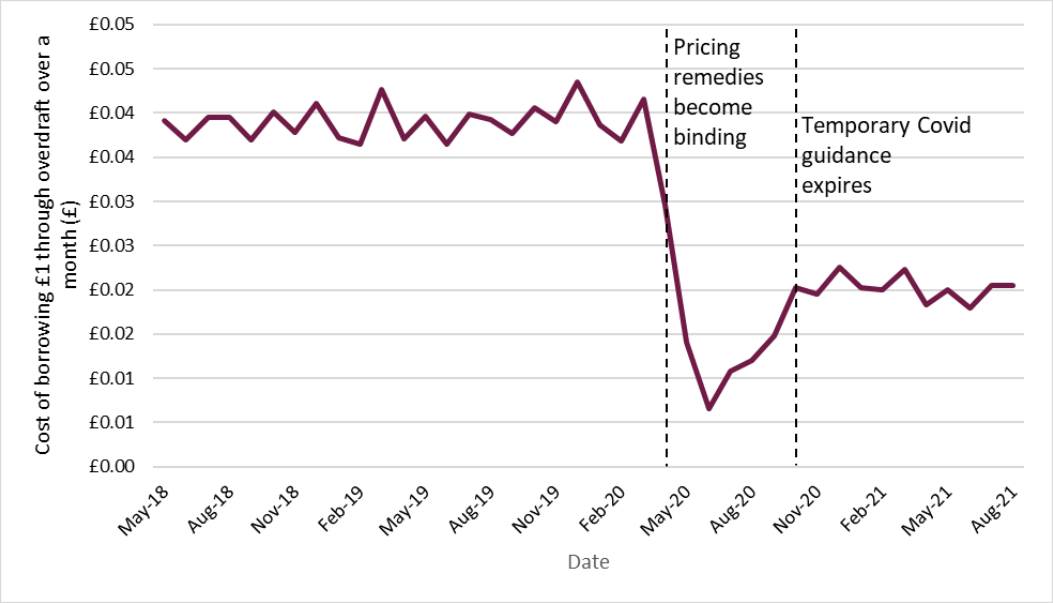
Figure 13: Total overdraft revenues – entire UK market



Source: FCA analysis of PCA data

We are also interested in the cost of borrowing. We measure this by a metric we refer to as the effective price. The effective price is calculated as total charges in a month divided by the average monthly borrowing in that month at the consumer level. The resulting figure can be interpreted as the cost in £ per £1 borrowed over a month. Figure 14 shows the average effective price consumers paid over the sampling period. The effective price has followed a similar pattern to that of total overdraft revenues with cost of borrowing £1 over a month falling from around 4p in 2019 to around 2p in 2021.

Figure 14: Estimated cost per pound borrowed – entire UK market

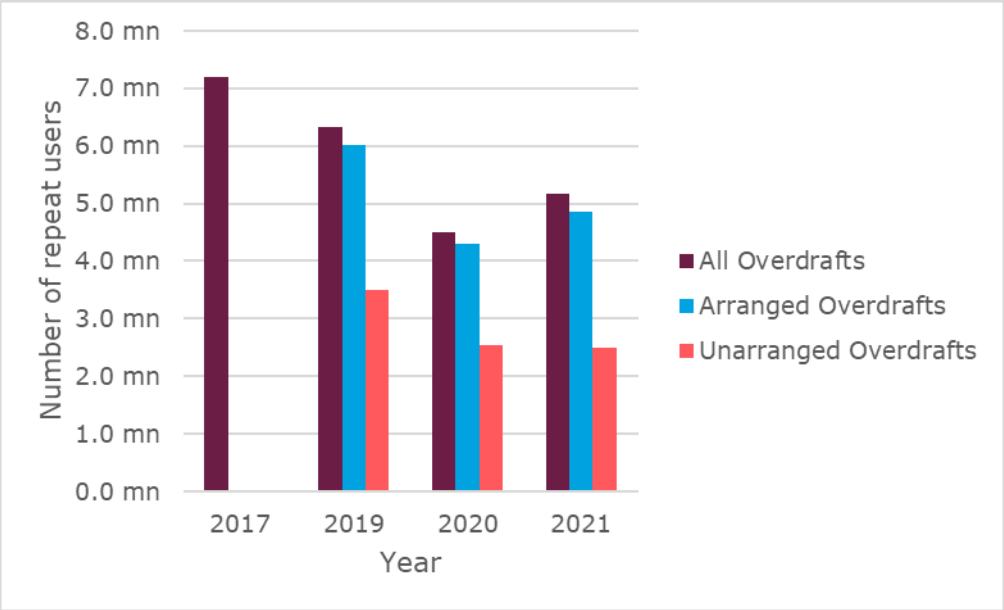


Source: FCA analysis of PCA data

Trends in repeat use

In this section we look at the trends in repeat use. The number of repeat users as per our definition in CP18/42 (customers who use overdraft in 12 consecutive months) has been declining over time. In CP18/42 we estimated just over 7.2 million people were classified as repeat users under this definition in 2017. Figure 15 shows that the number of repeat users appears to have fallen to around 6.3 million by 2019, and subsequently fell further in 2020 before rising slightly in 2021. In 2021 5.2 million people used their overdraft in every month of the year, roughly 10% of all PCA customers.

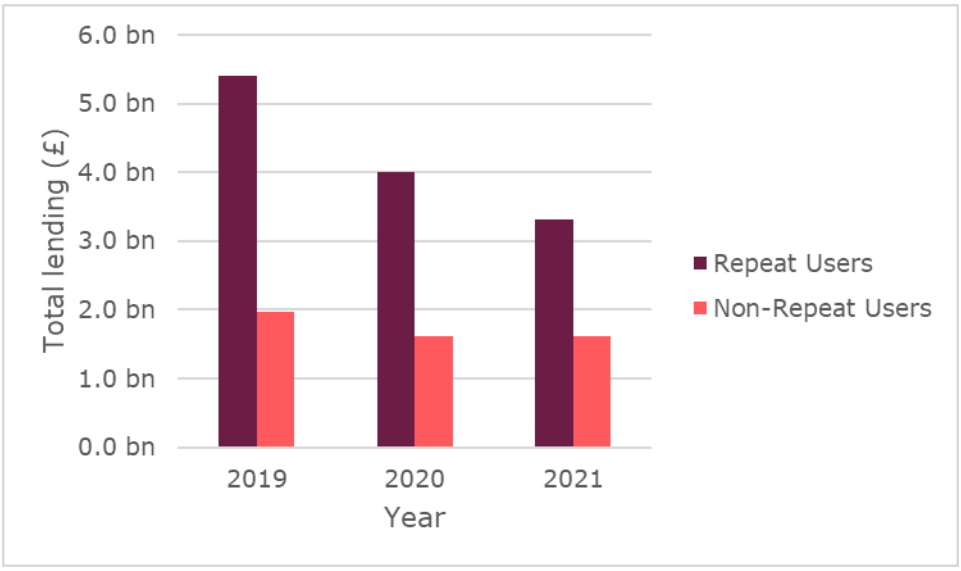
Figure 15: Number of PCA customers who are repeat users



Source: FCA analysis of PCA data

Figure 16 shows net daily lending has fallen from £7.4 billion in 2019 to around £4.9 billion in 2021. Lending to repeat users fell from around £5.4 billion to £3.3 billion over this period. Borrowing by repeat users as a proportion of all borrowing by PCA users fell from around 73% to 68% over the same period. Average daily lending for repeat overdraft users fell from around £854 to £521 between 2019 and 2021. However, it still remained considerably higher than for non-repeat users (for whom average daily lending fell from £37 to £31 between 2019 and 2021).

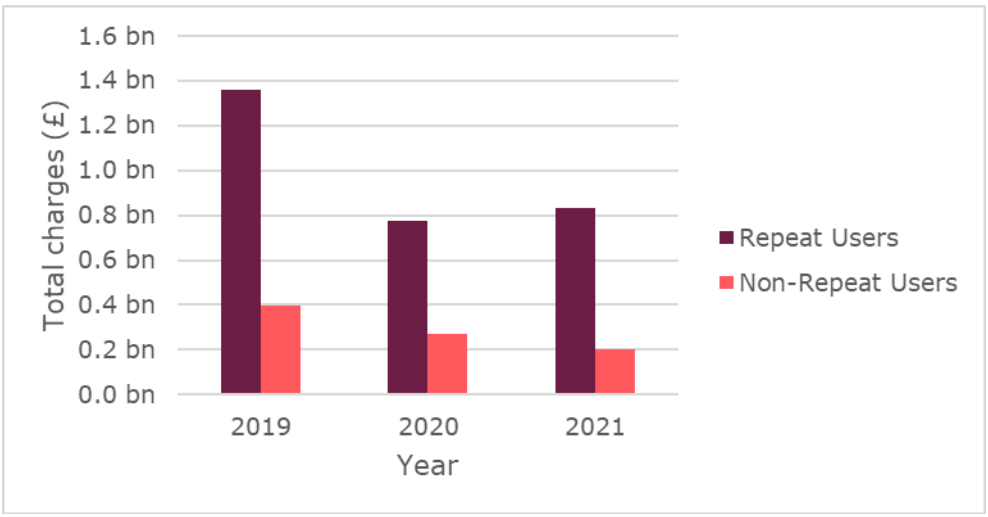
Figure 16: Net daily lending balances for repeat and non-repeat users



Source: FCA analysis of PCA data

Figure 17 shows estimated total monthly charges. Repeat users paid around £1.4bn in total in fees and charges in 2019, or around £215 on average, compared to around £0.8bn, or £161 per repeat user, in 2021. Non-repeat users paid £0.4bn in 2019 (£8 on average) and £0.2bn (£4 on average) in 2021.

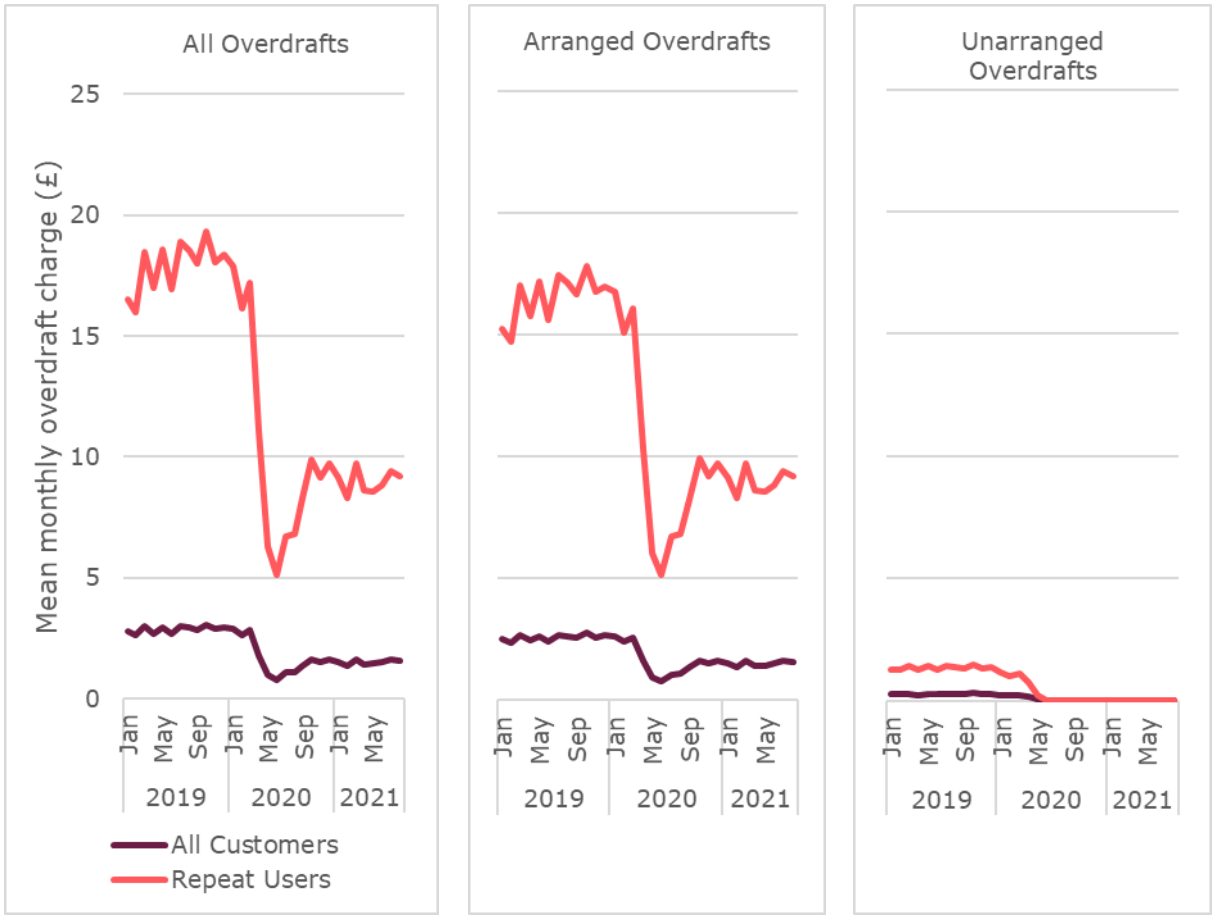
Figure 17: Total charges paid by repeat and non-repeat users



Source: FCA analysis of PCA data

Figure 18 shows the average monthly charges for repeat users compared to all PCA holders and broken down by type of borrowing. Charges fell for both arranged and unarranged lending. Repeat users saw the average charge fall from c. £17 per month prior to March 2020 to roughly £10 per month after October 2020. Unarranged charges fell from an average of £0.27 to practically 0 after October 2020.

Figure 18: Mean monthly overdraft charges paid by repeat users and all customers, by overdraft type 2019-2021

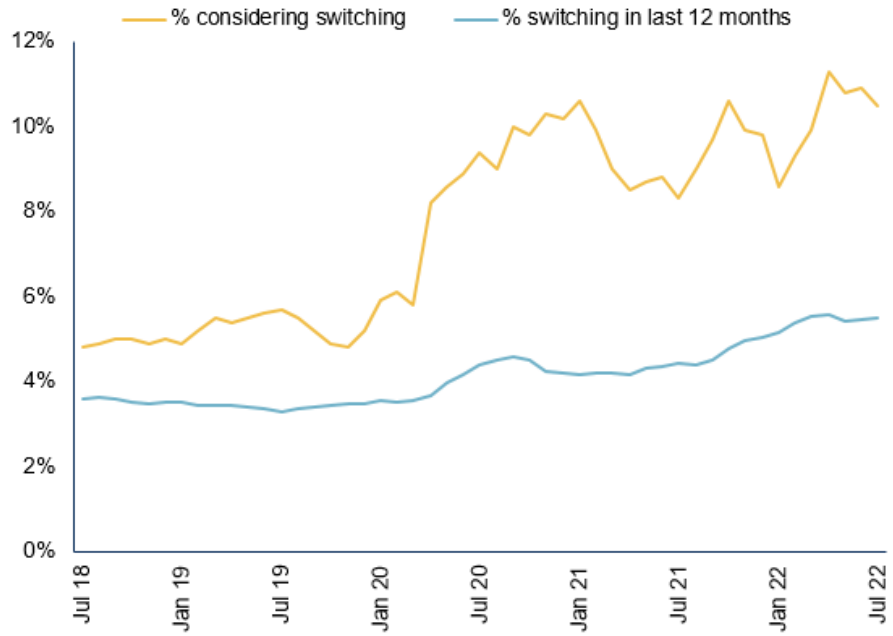


Source: FCA analysis of PCA data

Competition

Our overdrafts intervention was also intended to improve competition in the market for overdrafts. One proxy for competition and demand-side engagement is the switching rate. Figure 19 shows that the estimated proportion of consumers switching or considering switching current account has increased since 2020, suggesting there might be a positive effect on competition. However, the increase in switching likely reflects a variety of factors. Survey evidence from the July 2022 Ipsos Current Accounts Insight Report suggests that branch location and hours are the biggest motivators of current account switching while 'attractive rates of credit' was only cited by 12% of respondents switching to a new current account provider.

Figure 19: Estimated proportion of consumers switching or considering switching their current account



Source: Ipsos Current Accounts Insight Reports

4 Results of our evaluation of pricing rules

This chapter sets out the results of the causal impact of our pricing remedies. While in Chapter 3 we showed overdraft use and the effective price of borrowing have declined, the analysis in this chapter estimates the changes that are **attributable to our pricing rules** rather than other factors.

Data

Our analysis of pricing rules is based on a subsample extracted from the PCA data and aggregated at the consumer level. Our sampling was based on asking firms for information on all accounts held by customers born on 1 of 12 randomly selected birth dates. 5 of the birth dates we asked for are the same for every firm. We therefore filter our sample to consumers with a birthday on one of these 5 dates. This allows us to observe all accounts these consumers may have across the 6 participating firms and build consumer-level measures of borrowing, charges, and effective price. We give more detail on variable definitions in the Technical Annex.

Our sample consists of all consumers who had an arranged or unarranged facility in both periods regardless of whether they used it or not. We define our sample in this way as the policy may have affected consumers who did not borrow in either the pre- or the post-intervention period. Our sample is therefore representative of the affected population.

Table 5 summarises the key descriptive statistics for this subsample for the pre- and post-intervention periods defined as May 2018 – October 2019 and November 2020 – August 2021 respectively.

The data only cover the period up to August 2021 and given the cost-of-living crisis and other significant market changes, statistics presented here do not necessarily reflect the current or future situation. The cost-of-living crisis is likely to change patterns of overdraft use, and therefore the effect of our policy.

Table 5: Descriptive statistics of consumer-level subsample, by pre- and post-intervention period

	Pre-intervention				Post-intervention			
Variable	**Sample size**	**Mean***	**Min**	**Max**	**Sample size**	**Mean***	**Min**	**Max**
Monthly charges (£)	314,089	3.03 (10.70)	417	728	314,089	1.55 (9.03)	-540	890
Monthly borrowing (£)	314,089	126.49 (531.74)	0	81,512	314,089	86.53 (471.88)	0	79,940
Arranged limit (£)	314,089	725.23 (1,281.56)	0	96,291	314,089	662 (1,176)	0	56,996
Proportion eligible for unarranged borrowing	314,089	49% (48%)	0	1	314,089	45% (49%)	0	1
Current account balance (£)	314,089	6,118 (19,264.96)	-81,512	2.4m	314,089	8,365 (27,980)	-79,941	5.5m
Savings account balance (£)	214,510	16,139 (63,867)	-3,621	7.9m	208,517	18,535 (70,788)	-114	7.6m
Effective price (pence per £1 borrowed)	155,126	4.14 (7)	0	100	101,982	1.89 (0.03)	0	89

Source: FCA analysis of PCA data

We observe that in this subsample, the total charges per month were on average £3.03 in the pre-intervention period, falling to £1.55 post-intervention, average current account balances were £6,118 increasing to £8,365 post-intervention and average borrowing was £126 in the pre-intervention period falling to £87 in the post-intervention period. We also observe that the effective price per pound borrowed was 4.1p in the pre-intervention period, falling to 1.9p post-intervention.

The cost per pound borrowed reported here can be converted to an APR by the following formula: $(1 + effective\ price)^{12}$. This means that the average APR in the sample before our intervention was 62%[1] and fell to 25% post intervention. We note that when we compute the effective price, the number of observations reduce as we can generate this variable only for consumers that have positive levels of borrowing in both periods.

Table 6 below gives an overview of the movements in pricing components that we observe in our sample.

[1] $(1 + 0.041)^{12} = 1.041^{12} = 1{,}62$

Table 6: Descriptive statistics of pricing at the consumer level, by pre- and post-intervention period

	Pre-intervention			Post-intervention		
Variable	**Mean**	**Min**	**Max**	**Mean**	**Min**	**Max**
Arranged interest (EAR)	7.7%	0	20%	31%	0	50%
Arranged daily fee (£)	0.67	0	3	0	0	0
Arranged monthly fee (£)	0.51	0	6	0	0	0
Unarranged interest (EAR)	1.7%	0	22%	3.1%	0	40%
Unarranged daily fee (£)	1.98	0	6	0	0	0
Unarranged monthly fee (£)	2.52	0	72	0	0	0

Source: FCA analysis of PCA data

Fixed fees fall to zero in the post-intervention period, consistent with full compliance with the policy.

The average arranged interest rate increased from 7.7% on average to 31% from the pre- to the post-intervention period in our sample. This is consistent with our finding that overdraft revenues from interest rate payments have increased since the intervention (see Figure 12). We note that even though post-intervention the average interest rate applied to accounts is 31%, the average effective price of 1.9p per pound borrowed implies an APR of 25%. This may be due to consumers who face lower than average interest rates using their overdrafts more, as well as to interest free buffers, which we do not explicitly control for. We also note that the maximum interest rate faced by consumers in the post-intervention period is 50%. This is below the average effective price expressed as an APR (62%) in the pre-intervention period.

In the pre-intervention period, the average unarranged interest rate was 1.7%, However, the unarranged fixed fees were very high. The average unarranged daily fee of £1.98 was 3 times higher than the daily fee for arranged borrowing. The average unarranged monthly fee of £2.52 was 5 times higher than the average arranged monthly fee. These differences in fees contributed to the high cost of unarranged overdrafts in the pre-intervention period. In the post-intervention period, we see these fees disappear.

Overall results

We estimate the impact of our pricing rules on the following 3 outcomes (see Technical Annex for specific definitions): average monthly borrowing; total monthly charges; and the effective price of overdrafts (calculated as charges over borrowing in a given month). To do this we follow the methodology described in Chapter 2 .

Our results suggest pricing remedies have led to a reduction in borrowing, charges and the cost of borrowing. Table 7 sets out our estimates of the average treatment effects of our pricing rules on our 3 outcome variables. We report results from our preferred model, which controls for customers' IMD decile and their age.

For borrowing, our central estimate is a £7.45 reduction in monthly overdraft balances. We find that despite the large sample size, the direction in which borrowing reacts is very volatile, hence the 95% confidence intervals for borrowing are large relative to the other 2 variables. The lower bound we estimate is a £4.20 reduction, while the upper bound is £10.70 reduction in monthly borrowing. Nonetheless, results are significant and both the lower bound and upper bound have a negative sign, indicating that the policy has caused a reduction in balances with high certainty.

For charges, our central estimate is £1.45 reduction in monthly charges per person. Our lower bound estimate for this model is £1.40, while the upper bound is £1.50.

When the dependent variable is the effective price of borrowing, we estimate our pricing rules caused an average reduction of 2.8 pence per pound borrowed with lower and upper bounds of 2.7 and 2.9 pence, respectively.

Table 7: Estimates of the average treatment effect of our pricing rules

Model	Outcome variable	Central Average Treatment effect (ATE) estimate
1	Average monthly borrowing	-£7.45 Lower bound: -£10.70 Upper bound: -£4.20
2	Total monthly charges	-£1.45 Lower bound: -£1.50 Upper bound: -£1.40
3	Effective price	-£0.028 Lower bound: -£0.029 Upper bound: -0.027

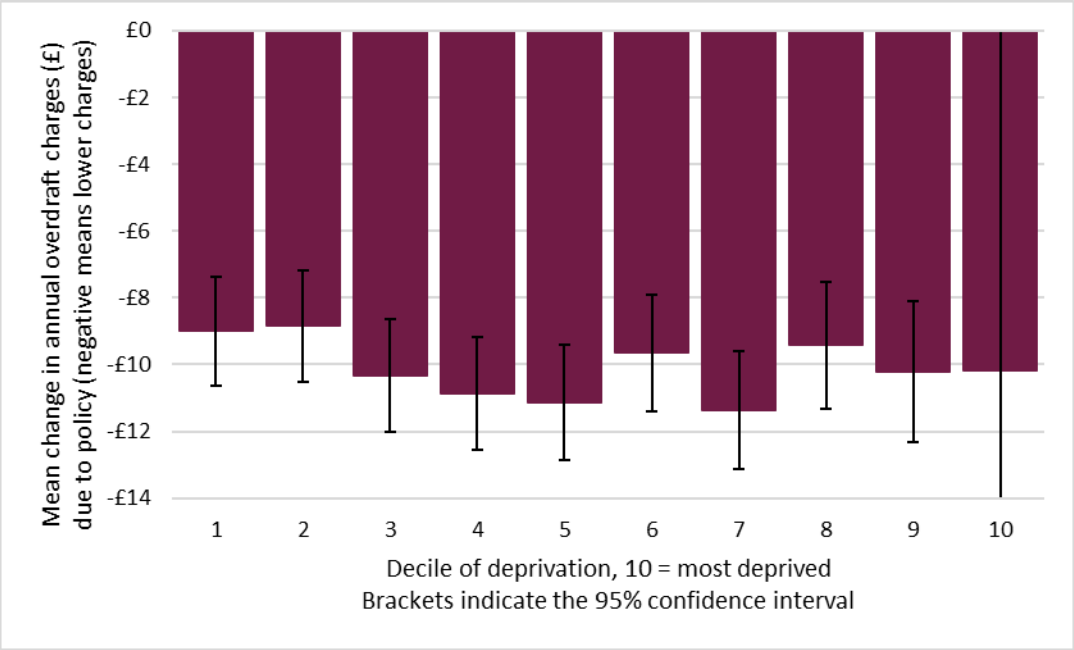
Source: FCA analysis of PCA data

Results by IMD decile

We are interested in the distribution of these effects across IMD deciles, which we use as a proxy of vulnerability. We therefore re-run our main model in a way that estimates the treatment effects within each IMD decile.

When we do any analysis at the IMD decile level, we use data for English residents only, as IMD scores for Scotland, Wales and Northern Ireland are produced on a different scale, and do not allow for direct comparisons across UK regions. When we extrapolate results by IMD decile to the population of PCA holders, however, we use the whole adult UK population and assume that the deprivation distribution in England is representative of the UK. This is the same approach we took in CP18/42.

Figure 20: Distribution of changes in annual charges due to pricing remedies by IMD decile, all PCA holders



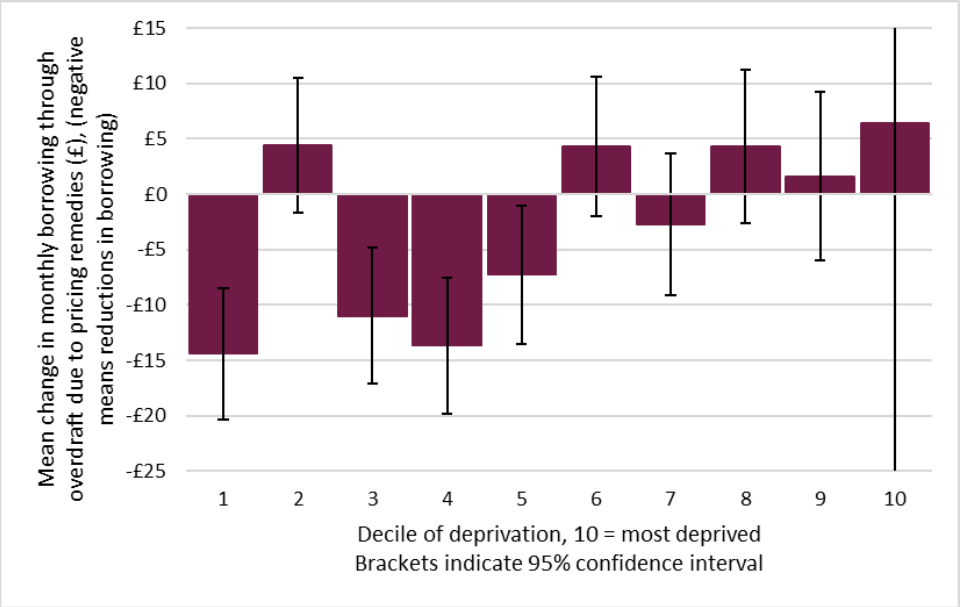
Source: FCA analysis of PCA data

We note that for consistency with analysis in CP18/42, we report results averaged over the population of PCA holders, not just the ones with an overdraft facility.

Figure 20 shows that reductions range from £8.80 to £11.40 per year and there is no discernible pattern in annual savings across IMD deciles. The average reductions for the 3 most deprived deciles are £9.90, while for the 7 least deprived deciles they are £10.10 per year. Reductions in charges for the 3 most deprived deciles are in line with or slightly exceed predictions under our central scenario in CP18/42. The less deprived deciles appear to be benefitting more in line with the optimistic scenario in the original consultation.

The ability of less deprived IMD deciles to save by more than we predicted in the central scenario could be explained by their greater ability to reduce overdraft balances. The pattern of balance reductions across IMD deciles in Figure 21 shows that the less deprived half of consumers have reduced overdraft borrowing by more than the most deprived 5 deciles (for whom we do not find significant changes in borrowing). This necessarily translates to lower charges for the less deprived deciles.

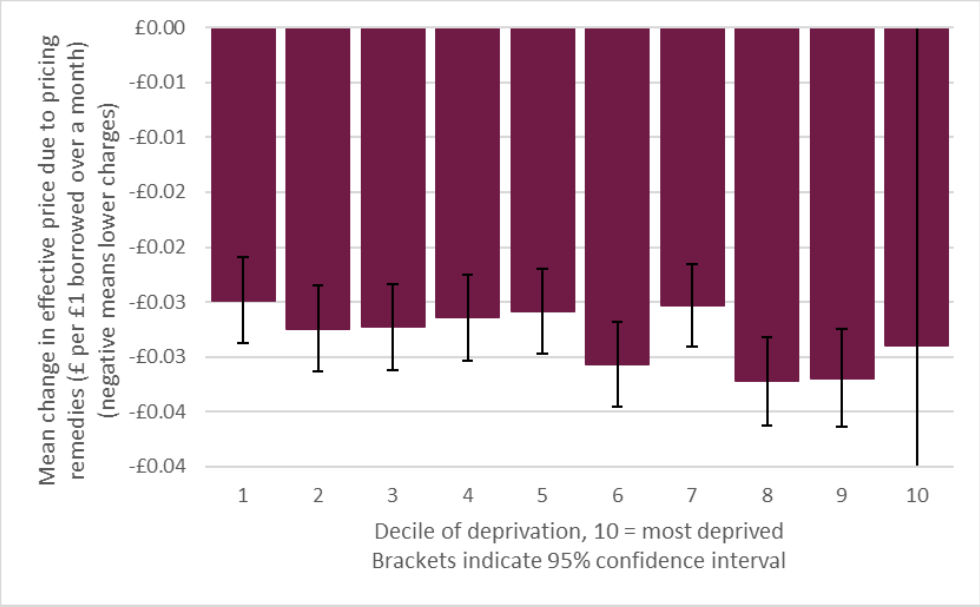
Figure 21: Distribution of changes in monthly borrowing per person due to pricing remedies by IMD decile, consumers with an overdraft facility



Source: FCA analysis of PCA and CRA data

We have seen that reductions in charges are more uniformly distributed over IMD deciles despite reductions in borrowing balances by the least deprived deciles. This is likely because the direct effects of the policy are more important for more deprived deciles – our analysis in CP18/42 showed that these deciles were more likely to incur high unarranged borrowing charges, which our policy will have prevented. Our findings with respect to effective price in Figure 22 below are consistent with this view as they show larger reductions in the cost per pound borrowed for more deprived deciles, compared to the less deprived deciles.

Figure 22: Distribution of changes in effective price due to pricing remedies by IMD decile, consumers who incurred overdraft charges



Source: FCA analysis of PCA and CRA data

The average reduction in effective price for the three most deprived deciles is 3p per pound borrowed while for the three least deprived deciles it is 2.65p. When converted to an APR, 2.65p per £1 borrowed is equivalent to a 37% APR, while 3p per pound borrowed is equivalent to a 42.5% APR, indicating that once we account for borrowing, the benefits of the policy are concentrated on the more deprived consumers.

Scaling

Our pricing results can be scaled from our sample to the UK population to estimate the total benefits of our pricing rules. We scale by multiplying the range of estimated treatment effects for the sample by the total relevant population. This includes PCA holders in the UK who either have an arranged overdraft facility or are eligible for unarranged borrowing. In doing so we assume that the deprivation distribution in England is representative to that of the UK.

The data provided by firms show that 54% of the sample have an arranged overdraft facility or are eligible for unarranged borrowing. Applying this to the 53 million UK PCA holders gives 28.7 million consumers in the population to which our remedies apply.

Overall, we estimate that total monthly borrowing has fallen by between £1.5 billion and £3.7 billion as a result of our pricing rules. We estimate consumers have benefitted from lower charges by saving between £473 million and £525 million per year.

Table 8: Scaling of our results

Outcome	Base	Base (N)	Range	Average treatment effect (monthly)	Estimated monthly total	Estimated annual total
Average monthly borrowing	All PCA holders with an arranged or unarranged overdraft facility	28.7 million	Low	-£10.70	-£307m	£3.7b
			Central	-£7.45	-£214m	£2.6b
			High	-£4.20	-£121m	£1.5b
Total charges	All PCA holders with an arranged or unarranged overdraft facility	28.7 million	Low	-£1.50	-£44m	-£525m
			Central	-£1.45	-£42m	-£500m
			High	-£1.40	-£40m	-£473m
Effective price of borrowing	All overdraft users	N/A	Low	-£0.029	-	-
			Central	-£0.028	-	
			High	-£0.027	-	-

Note: any discrepancies in scaling are due to rounding
Source: FCA analysis of PCA

The estimated scale of the benefits to consumers from lower charges is large compared to our anticipated impact of the pricing rules. Under our CBA central scenario, we

expected that the 3 most deprived deciles would save £101 million per year in charges. Instead, we find that savings for this group of consumers are £153 million.

Unintended consequences

We want to ensure that our remedies have not resulted in negative unintended consequences such as a reduced ability to borrow through overdrafts or a substitution towards more expensive forms of credit.

We re-run our analysis with consumers' total overdraft limit as the outcome variable and find that our policies have resulted in a £129 increase in overdraft limits on average. We interpret this result as evidence that ability to borrow through overdrafts has not decreased in response to the policy.

To check whether there is substitution towards more expensive forms of credit we link the PCA subsample used for the pricing analysis to an internally held Credit Rating Agency (CRA) dataset. By doing this, we obtain the average monthly balances on nine credit products that we observe with a monthly repayment frequency. We re-run our main analysis with a model where the outcome variable is the change in balance on these credit products from the pre-intervention to the post-intervention period. In each iteration we restrict our sample to holders of the particular consumer credit product we are interested in.

We note that results in this part of the analysis are based on an external data source, which we do not observe with the same frequency as the PCA data. While we build our monthly overdraft borrowing variable from daily end of day balances, borrowing on credit products is observed at the end of each month, which introduces measurement error. Where we find significant effects, we interpret these as indicative, rather than as robust estimates of treatment effects.

Table 9 summarises our findings. We report the average balance levels on the given product in the post-intervention period, as well as the estimated treatment effect. The last column reports whether the estimates are statistically significant at the 95% significance level.

Table 9: Average treatment effect on credit product balances due to pricing remedies

Product	Average balance in post-intervention period	ATE estimate on product holders	Coefficients jointly significant at the 95% level?
Credit cards	£3,822	-£17.59	Yes
Charge cards	£2,712	-£1226.02	No
Rent to own	£1,863	-£137.32	No
Mail order	£978	£36.78	Yes
Personal loans	£10,368	-£21.04	Yes
Store cards	£639	£13.47	No
Home collected credit	£209	£0.24	Yes
Consumer hire	£2,725	£415.46	No
HCSTC	£373	-£89.04	Yes
All credit products	£6,571	-£87.66	Yes

Note: results are for holders of the respective product within the sampling period
Source: FCA analysis of PCA and CRA data

The only statistically significant increases in credit balances with a large magnitude is that on mail order products. Here we find that the average balance in the post-intervention period is £978 per month, with a treatment effect of £37, implying the counterfactual value of £941. Mail order is not an insignificant market as approximately 40,000 consumers out of the 314,089 in our sample held this product. However, as a percentage of the post-intervention balance, the treatment effect is 3.8%. In contrast, the treatment effect on overdraft balances is 8.67% of the post-intervention average balance (based on a £7.45 average reduction and an average balance of £87 in the post-intervention period – see Table 7).

We also note that we estimate significant reductions in credit card balances and high-cost short term credit (HCSTC) balances. When we sum the balances on all credit products, we estimate a decrease in average balances of £88 compared to post-intervention balances of £6,571. We interpret this result as a lack of evidence that a significant increase in borrowing on more expensive products has happened as a result of the policy. We do not conclude that our pricing rules have caused a reduction in other forms of borrowing due to the study design limitations described above.

We also point out that our CRA data do not include unregulated buy now pay later (BNPL) products, which may also serve as a substitute for overdraft borrowing. Finally, the substitution towards other products may look different in the context of the cost-of-living crisis when demand for consumer credit may increase.

5 Results of our evaluation of repeat use rules

This chapter sets out the results of our analysis of the causal impact of our repeat use remedies. The analysis in this chapter estimates the changes that are **attributable to our repeat use rules** rather than to other factors.

We asked firms to regularly review their strategies and are regularly engaging with them to ensure the strategies remain appropriately designed for the challenges consumers face. We do not intend to use this evaluation as a direct comparison between firms, or a tool to call out good and bad strategies, as we do not believe this to be the most appropriate channel to do this. However, we have used some of the findings from this evaluation to inform the engagement we have with the firms about their repeat use and financial difficulty strategies.

Data and descriptive statistics

We asked firms to produce at least two strategies to help overdraft users. One should identify and provide help to repeat overdraft users, the other should identify and provide support to repeat overdraft users who are in financial difficulty. In practice, some firms then created sub-divisions of these two strategies to help longer term and shorter-term repeat users and repeat users in financial difficulty. As a result, all firms have at least 2 strategies (a repeat use strategy and a financial difficulty strategy), but some firms have up to 4 (long-term and short-term version of each).

For this analysis, we use data supplied by the 6 largest PCA providers on their customer accounts that entered one of their 'repeat use' or 'financial difficulty' strategies. We also include a number of accounts that came close to meeting the criteria for qualifying but did not. We refer to customers who enter a strategy as being 'treated' on that strategy. The data was aggregated to the monthly level, and the submissions from all the firms included the average end of day balance, total charges, and repeat use treatment status for each month. Where 'monthly borrowing' is referred to, this is the monthly average of an account's end of day overdrawn balances. If borrowing is reduced, then the average end of day overdrawn balance is closer to £0. The data for each firm spans from when the strategies were introduced to September 2021. Firms had to introduce the strategies by December 2019, meaning the latest we see treated individuals is January 2020. However, some firms introduced as early as October 2019.

Number of accounts in each strategy

We expected 4 million accounts to be treated by the strategies in the first year, and a further 1.3 million in each year thereafter. Table 10 below shows how many were treated since the strategies were introduced. We have estimated a range for the total number treated based on two assumptions. In our CP we assumed the six firms evaluated would

pay 70% of the total industry costs, so for our upper bound we assume they treat 70% of all repeat users and repeat users in financial difficulty that are treated by the industry. For our lower bound we use the market share of the six firms, 83%, and assume this is the same as the proportion of all repeat users and repeat users in financial difficulty treated by the industry.

Table 10: Number of accounts in the repeat use and financial difficulty strategies

Strategy	Period	Number in sample (millions)	Estimated industry total (millions)
Repeat Use	2019 (October – December)	1.9	2.3 - 2.8
Repeat Use	2020 (January – December)	1.4	1.7 – 2.0
Repeat Use	2021 (January – September)	0.3	0.4 – 0.5
Financial Difficulty	2019 (September – December)	0.5	0.6 – 0.7
Financial Difficulty	2020 (January – December)	0.9	1.1 – 1.3
Financial Difficulty	2021 (January – September)	0.9	1.1 – 1.3
Combined	2019 (September – December)	2.4	2.9 – 3.5
Combined	2020 (January – December)	2.3	2.8 – 3.3
Combined	2021 (January – September)	1.2	1.5 – 1.8

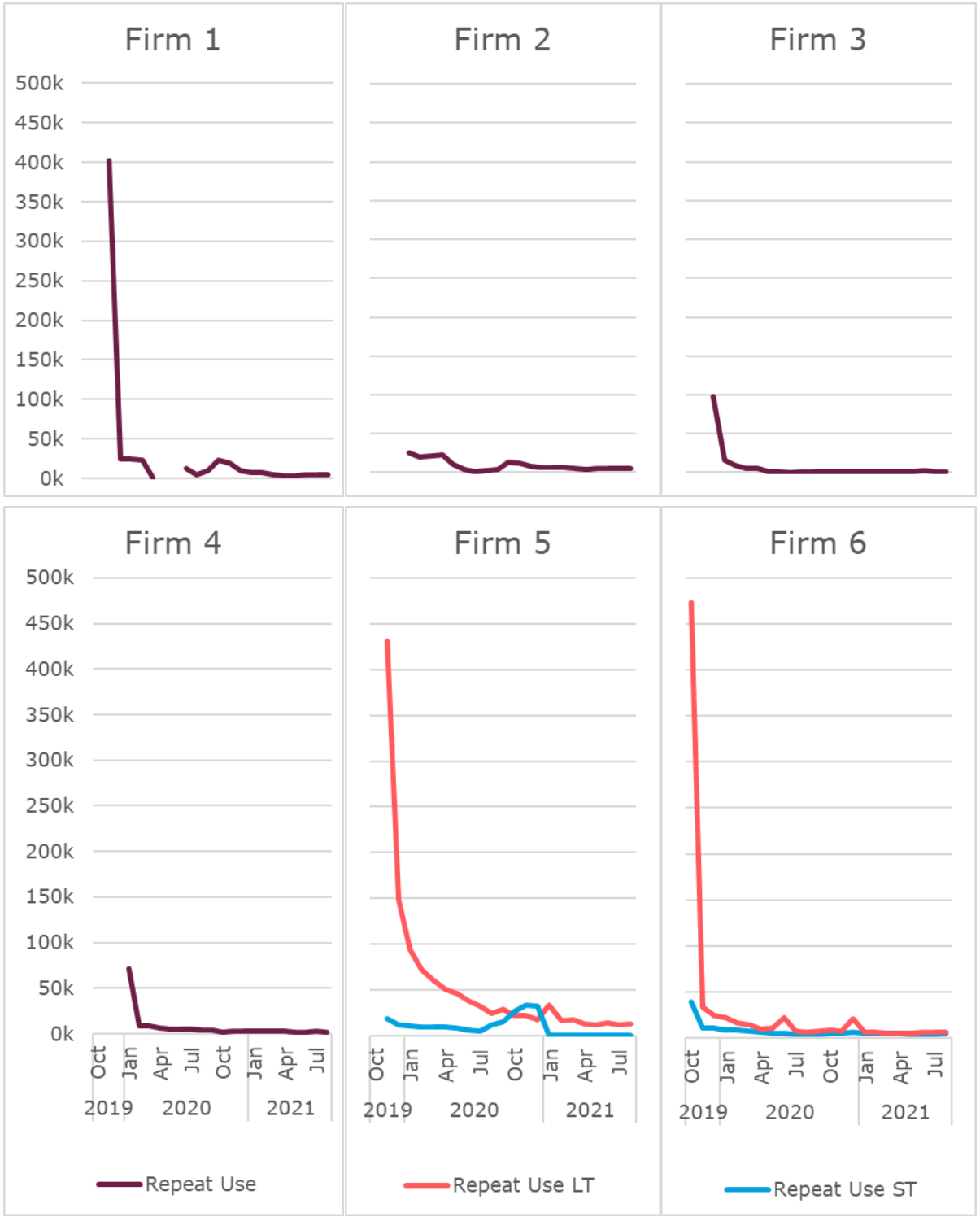
Source: FCA analysis of PCA data

In our sample of 6 firms a total of 4.7 million accounts are treated in the first 15 months on either strategy, and 1.2 million in the next 9. There are some accounts who are treated on both.

The two main differences between the firms' strategies are the methods they use to communicate with customers, and the number of accounts that they treat through the strategy. We would expect some differences as the firms have different numbers of total accounts, however the differences in the rules they have set for qualifying for the strategy also means some firms have treated many more accounts than others. Figure 23 shows the number of people firms are treating each month through their repeat use

strategies. The figure shows the number of new entrants – individuals who have not been treated before.

Figure 23: Number of accounts entering the firms' repeat use strategies between October 2019 and September 2021

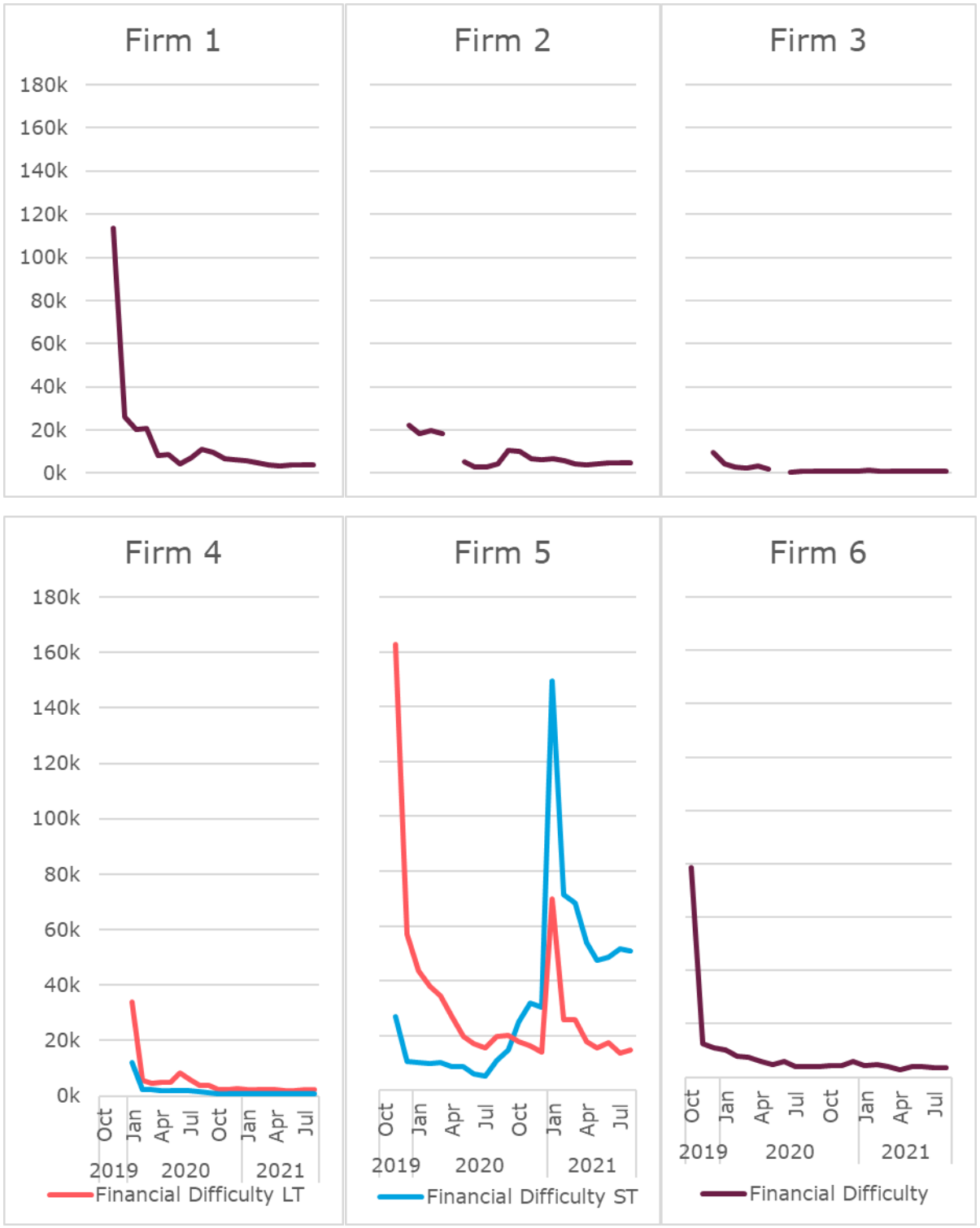


Source: FCA analysis of PCA data

We see a large number of accounts being identified to be meeting the criteria for the strategies and entering them when they are first introduced. Thereafter, only accounts

that hadn’t previously met the threshold enter the treatment, so the number falls. The graphs show that firms 1, 5, and 6 treat a similar number of people through their strategy, Firms 3 and 4 treat considerably fewer. Figure 24 shows the number of accounts being treated each month by the firms through their financial difficulty strategies.

Figure 24: Number of accounts entering the firms' financial difficulty strategies between October 2019 and September 2021



Source: FCA analysis of PCA data

As with the repeat use strategies, a large number of accounts enter the financial difficulty strategies in the first few months after they are introduced, before falling to a more stable number of new entries per month. Firms 1, 2, and 6 treat a similar number of customers, Firm 5 treats considerably more, and Firm 3 and 4 treats fewer. Firm 5 treats about 40 times as many people as Firm 3.

Changes to average outcomes over tenure for repeat use strategies

The objectives of the repeat use policies were to reduce the amount consumers pay in charges and place them in a stronger financial position. The graphs and table below show how average monthly charges and borrowing changed over the first 12 months of a consumer's tenure in each of the strategies at the firms. We calculate borrowing in a month as the average of all the end of day overdrawn balances for an account. If borrowing reduces, then the average overdrawn end of day balance is closer to £0.

These figures are balanced over time. To balance them we calculate the average overdrawn balance and the average charge in their first month of treatment for accounts that entered the strategy in September 2019. Then we calculate such first-month averages for accounts that entered in October 2020, and so on to September 2021. We then take an average of these averages. We then repeat this for the second month of treatment, up to the twelfth. Balancing in this way means that any seasonal or time-period specific effects (for example, Covid-19) have the same impact on the figure for 1 month since entering treatment as they do on the figure for 2 months since treatment, and all subsequent months. Therefore, any changes over the tenure are not a result of external, market wide shocks.

In the section below we show how the average charges for accounts treated on the repeat use strategies change over their tenure in the strategies. We find that across almost all the strategies, monthly borrowing and charges reduce with tenure. Strategies where the accounts entering treatment have, on average, higher average charges and balances typically have higher reductions in average charges and balances. Table 11 shows the average figures for the first month and the change by month 12.

Table 11: Average monthly borrowing and charges for accounts entering the repeat use strategies

Firm	Average borrowing month 1 (£)	Change in average borrowing after 12 months	Average charge month 1	Decrease in average charge after 12 months
Firm 1	964	-238	28	-9
Firm 2	1247	-305	28	-5
Firm 3	988	-129	32	-8
Firm 4	1143	-416	32	-12
Firm 5 Long Term RU	801	-77	16	+1
Firm 5 Short Term RU	818	-267	18	-4
Firm 6 Long Term RU	410	-74	13	-4
Firm 6 Short Term RU	24	+54	6	-2

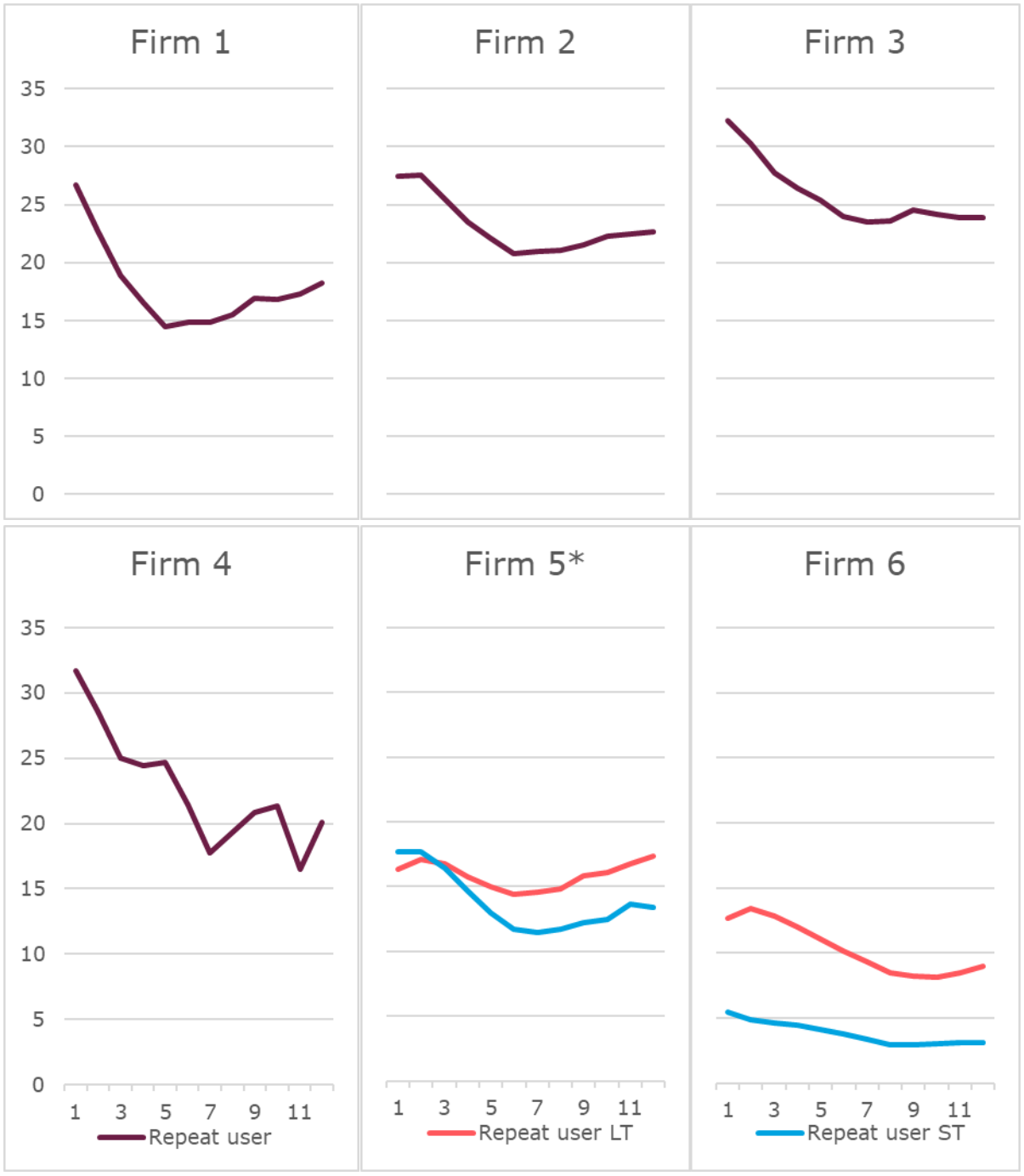
Source: FCA analysis of PCA data

The table shows that the average fall in balances and charges was largest for Firm 4's strategy. Only the average balances for accounts of the short-term repeat use strategy for Firm 6 increased, however this was from a relatively low starting point, and their charges reduced.

Average monthly charges

Figure 25 shows how the average charges change over time for the accounts on the repeat use strategies.

Figure 25: Average charges for accounts in the repeat use strategies over the first 12 months in the strategy (£)



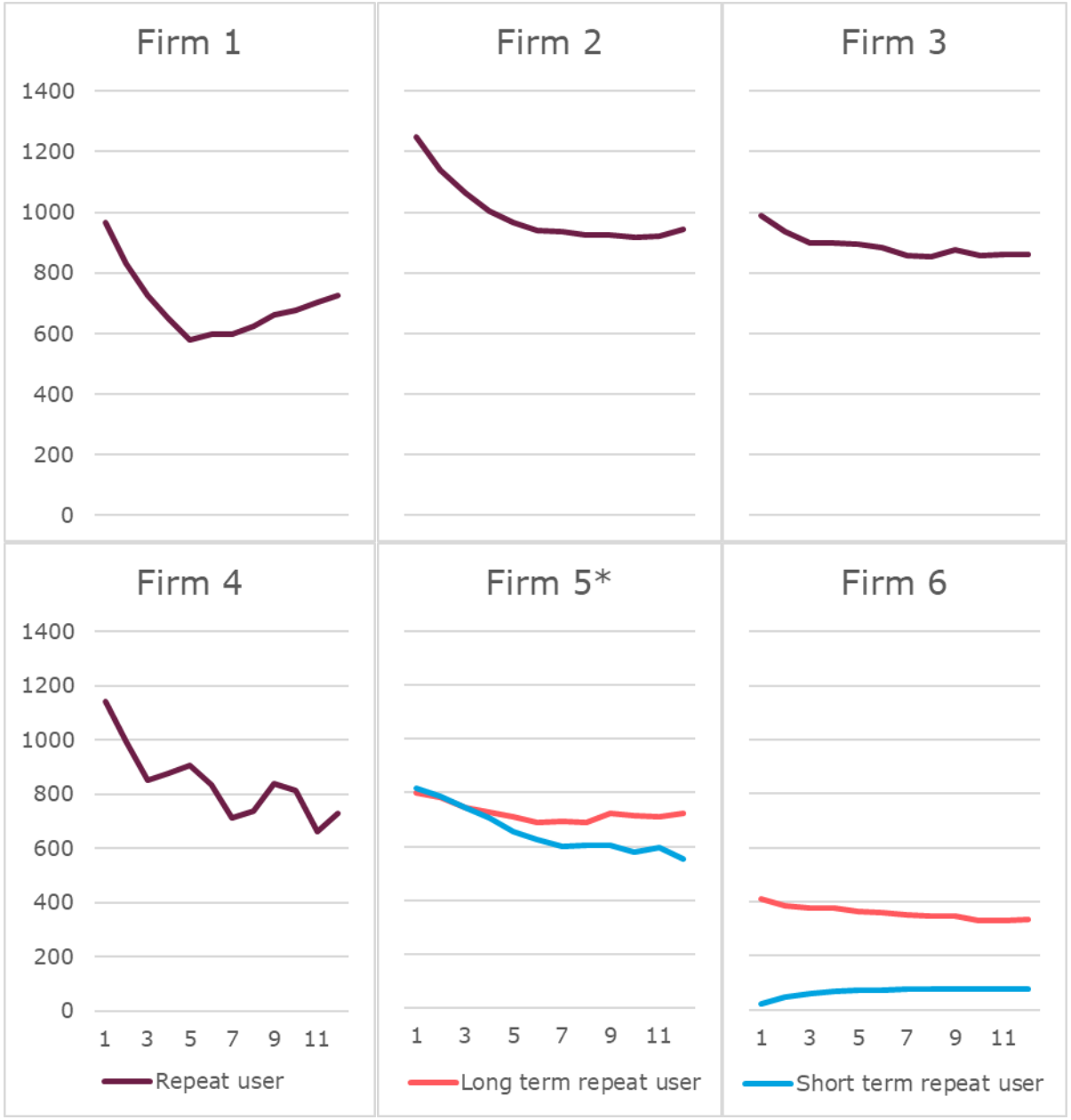
Source: FCA analysis of PCA data

*Short-term repeat use strategy discontinued in January 2021

In all but one strategy, average monthly charges fall for consumers, compared to when they entered the strategy. This is most pronounced for the consumers paying the most. We do observe that there are some firms where the falls are modest. These are firms where the average charges on entry are lower than the other strategies, and they are targeting many more customers.

Average monthly borrowing

Figure 26: Average monthly borrowing for accounts in the repeat use strategies over first 12 months in the strategy (£)



**Short-term repeat use strategy discontinued in January 2021*

Source: FCA data collection

As with charges, average overdrawn balances fall over the consumers' tenure in the strategy. Again, this is true for almost all the strategies, and is most pronounced for strategies where average borrowing is high when the consumers enter the strategy.

These graphs show that individuals meeting the repeat use definitions set by banks, on average reduce their borrowing and charges following entry to the banks' strategies, so fulfilling the objective of the repeat use policy.

Changes to average outcomes over tenure for financial difficulty strategies

The graphs and table below show how average monthly charges and balances change over the first 12 months of a consumer's tenure in each firm's financial difficulty strategy. These figures are also balanced over time in the same way as the repeat use statistics.

Table 12: Average borrowing and charges for accounts entering the financial difficulty strategies

Firm	Average borrowing month 1 (£)	Change in average borrowing after 12 months (£)	Average charge month 1 (£)	Decrease in average charges after 12 months (£)
Firm 1	1,361	-251	36	-9
Firm 2	1,225	-154	26	0
Firm 3	1,355	-118	40	-8
Firm 3 Pre Feb 2021	1,567	-429*	48	-19*
Firm 4 Long Term	816	-223	23	-8
Firm 4 Short Term	1,250	-343	36	-13
Firm 5 Long Term	1,339	- 215	29	-3
Firm 5 Short Term	540	-98*	13	-1*
Firm 5 Short Term Pre Jan 2021	820	-254	17	-4
Firm 6 Long Term	758	- 232	21	-8

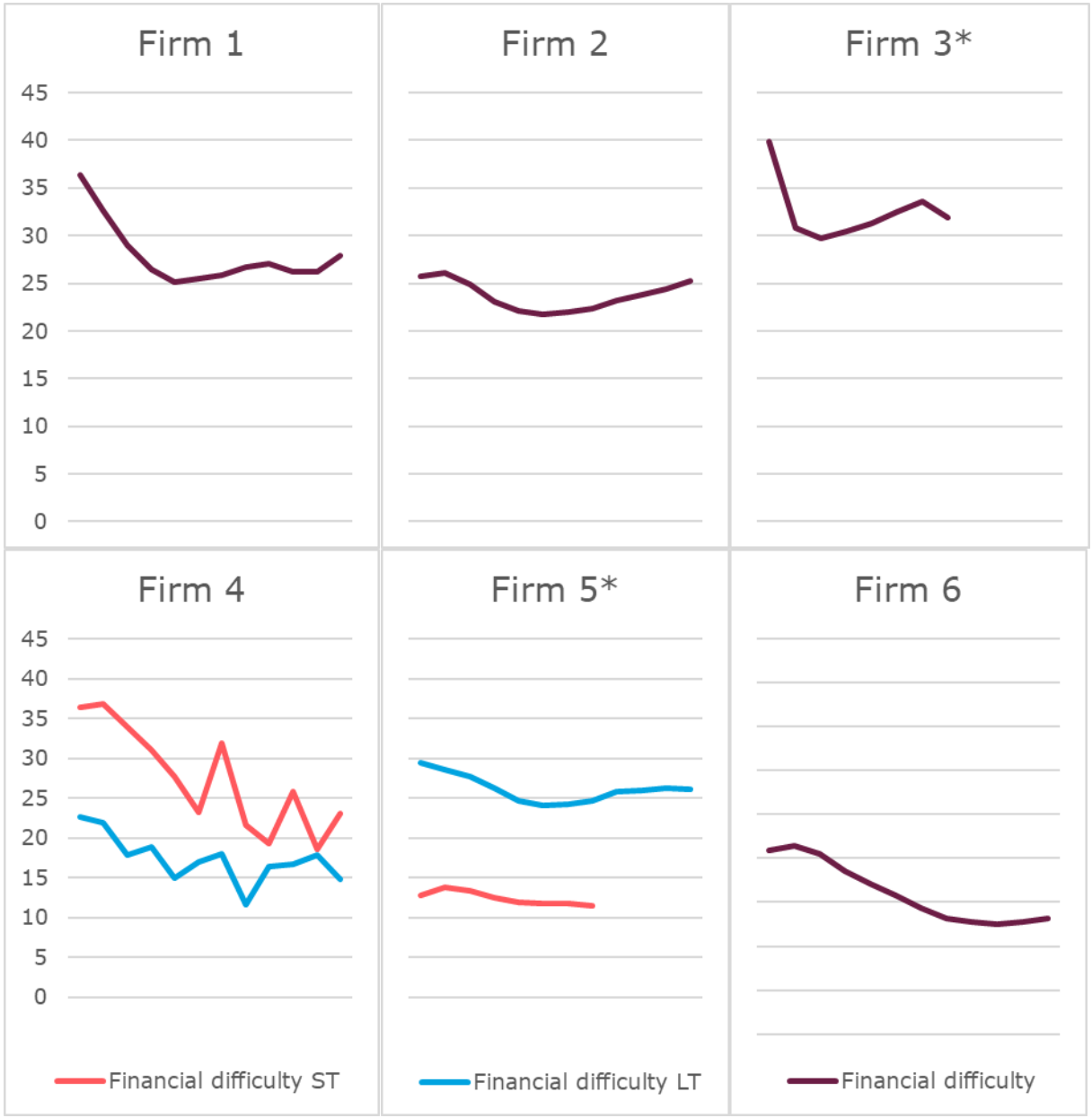
Source: FCA data collection.
***Change after 8 months**

The average borrowing for accounts on all the firms' financial difficulty strategies fell 12 months after entering the strategy. Average charges fell for all strategies except Firm 2's.

Average monthly charges

Figure 27 shows how average monthly charges change over the accounts' tenure in the financial difficulty strategy.

Figure 27 Average charges for accounts in the financial difficulty strategies over the first 12 months on the strategy (£)



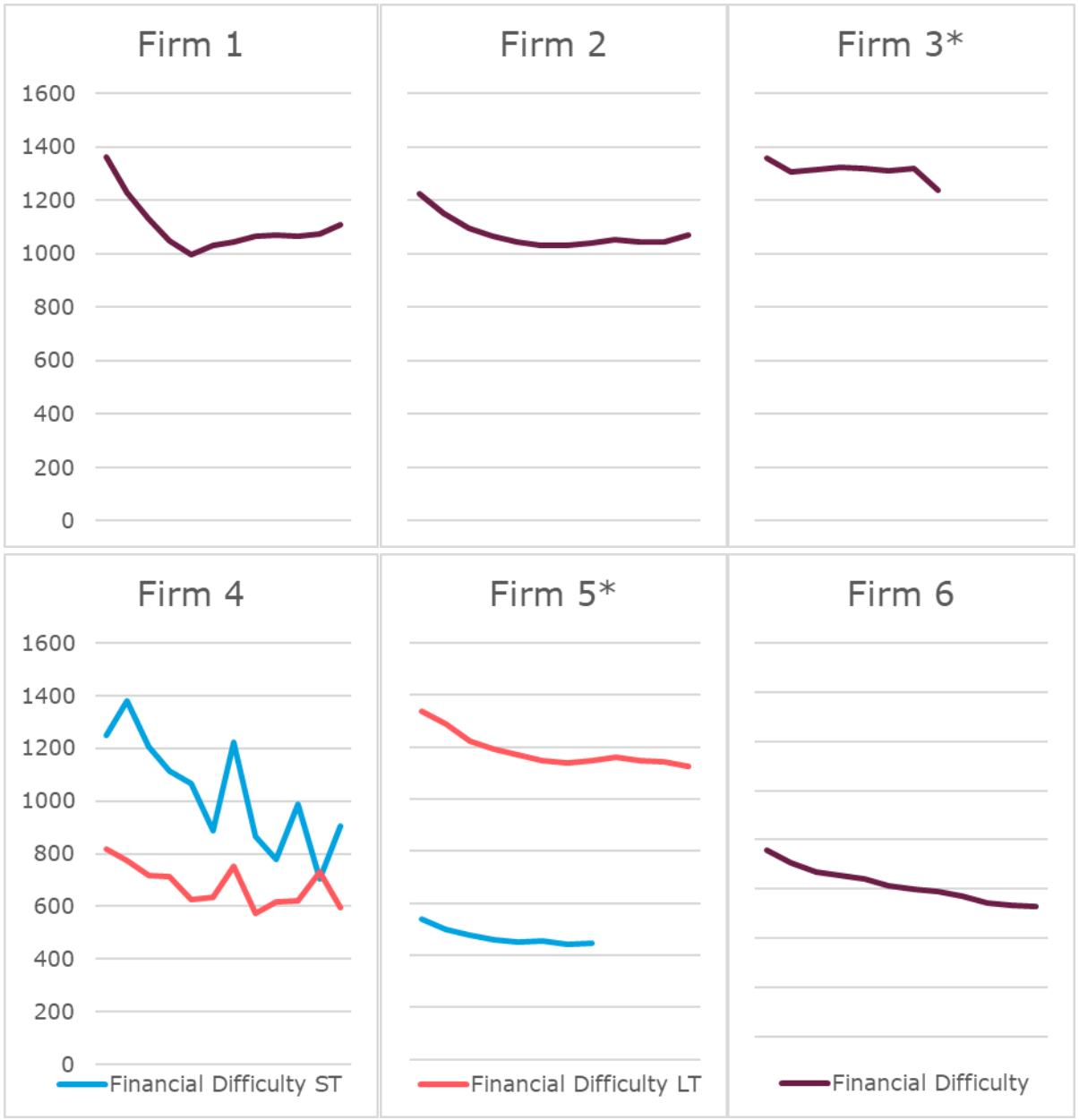
Source: FCA data collection
***Short-term financial difficulty strategy started in January 2021 for Firm 5 and February 2021 for Firm 3**

Across all the firms, charges reduce for accounts in the financial difficulty strategy. As with the repeat use strategies, this reduction is most pronounced for firms that on average enrol accounts with higher charges on their strategy. Average charges for accounts on Firm 2's financial difficulty strategy did fall in the first few months after entering the strategy, but they then rose to the same level as in month 1.

Average monthly overdrawn balances

Figure 28 shows the average borrowing for accounts on the firms' financial difficulty strategies and how this changes over time since they entered the strategy.

Figure 28 Average borrowing for accounts in the financial difficulty strategies over the first 12 months in the strategy (£)



Source: FCA data collection
***Short-term financial difficulty strategy started in January 2021 for Firm 5 and February 2021 for Firm 3**

The graph shows that average borrowing fell for all financial difficulty strategies. Most of the strategies see the largest changes in the first few months on the strategy, before borrowing levels off at a lower level. There are some signs that accounts at Firm 1 begin increasing their borrowing again after the first 4 months.

Repeat use strategy causal evaluation results

This section covers the results of the causal analysis we have undertaken to evaluate the impact of the firms' repeat use strategies. Although figures Figure 25 to Figure 28

provide a good indication that the repeat use policy is meeting its objectives through the repeat use and financial difficulty strategies, they do not tell us the extent to which we can attribute the changes to the strategies themselves. An individual in a strategy may have reduced their borrowing and charges independently even if they had not been enrolled. To estimate the impact of the strategy, we need to estimate the counterfactual, i.e. what would have happened had the individual not entered the strategy, then calculate the difference between where they are, and where the counterfactual suggests they would've been. We implement the evaluation approach described in Chapter 2 to do this.

In the following sections we present an overview of the results for all the firms, before presenting more detail on the effect on borrowing and charges over time. We estimate the impact of the repeat use strategies on the following 2 outcomes: average monthly borrowing and total monthly charges (see Technical Annex for specific definitions) for average individual account.

We estimate the net benefits for all the accounts affected over the entire sampled period (December 2019 to September 2021) by first estimating individual account yearly saving then multiplying this by the number of accounts treated over the period.

We then estimate the total yearly saving going forward by taking an average of the number of accounts treated per month between January 2021 and September 2021. We then multiply this by 12 to get the estimated number of accounts treated per year, then multiply this by the estimated yearly savings per average individual account.

At the start of the sampling period, Firm 5 had a long-term user and short-term user strategy for both repeat users and repeat users in financial difficulty. In January 2021, they lowered the threshold to qualify for the short-term repeat user in financial difficulty strategy and removed their strategy for short term repeat users not in financial difficulty. We have calculated the effect of the short-term strategies before and after this point separately. We use the effect after January 2021 to estimate the ongoing impact of the strategy for short term repeat users in financial difficulty.

In January 2021, Firm 3 adjusted the criteria for their financial difficulty strategy, changing the type of consumer it affected. We present estimates for the effect of the strategy, before and after this change. We use the effect after the change to calculate the ongoing impact.

Where these changes have taken place, we do not have 12 months of data to estimate the annual effect of the strategy. To estimate the impact over 12 months, we take the average impact in the months we do have data for and assume that the effect is the same in each month thereafter. To estimate overall consumer savings going forward, as explained, we use the most recent update of the strategy only.

The repeat use strategies were similar across the firms in the following respect: once a firm identifies a customer as a repeat user, it sends them a notification that they may be using their overdraft facility inappropriately and points them towards resources to help them reduce use. This is followed up with further communication if the customer takes no action. The main differences are in the variables they use to select accounts, the value of that variable the account must meet to qualify, and the communication methods used (a selection of SMS, emails, letters, in-app notifications).

Overall results

Our results, summarised at Table 13 suggest the strategies for 4 of the 6 firms, saved the account holders money and led to reduced borrowing over the 12 months following entry on to the repeat use strategy. In this table, a negative number represents the value for the treated group is less than the value for the counterfactual scenario where the account did not receive treatment. Therefore, a negative value represents a reduction in charges or borrowing caused by the policy. The charges saved over 6 or 12 months are the sum of the charges saved by each customer in the first 6 or 12 months following entry onto the strategy. The numbers in the brackets below show an estimate of 95% confidence interval around the estimate. Where the estimate is marked with an asterisk, this means the estimate is likely to be statistically significant to the 95% confidence level. We give more detail on why this is a best approximation of the confidence level in the Technical Annex to this paper.

The differences in the effect may be explained by the types of accounts targeted and by different communication channels. Although all the firms communicated broadly the same information and, at similar points in time, some used a variety of channels to do this including SMS, letters and emails. We do not have enough strategies affecting similar accounts to compare to reliably conclude which channels are most effective. But we hypothesise that using a range of channels, including digital channels like banking app alerts and SMS messages, is likely to increase consumer engagement with the strategy. This hypothesis is supported by engagement we have had with the banks, and FCA research.

Table 13: Repeat use strategies overview and average effect on account outcomes

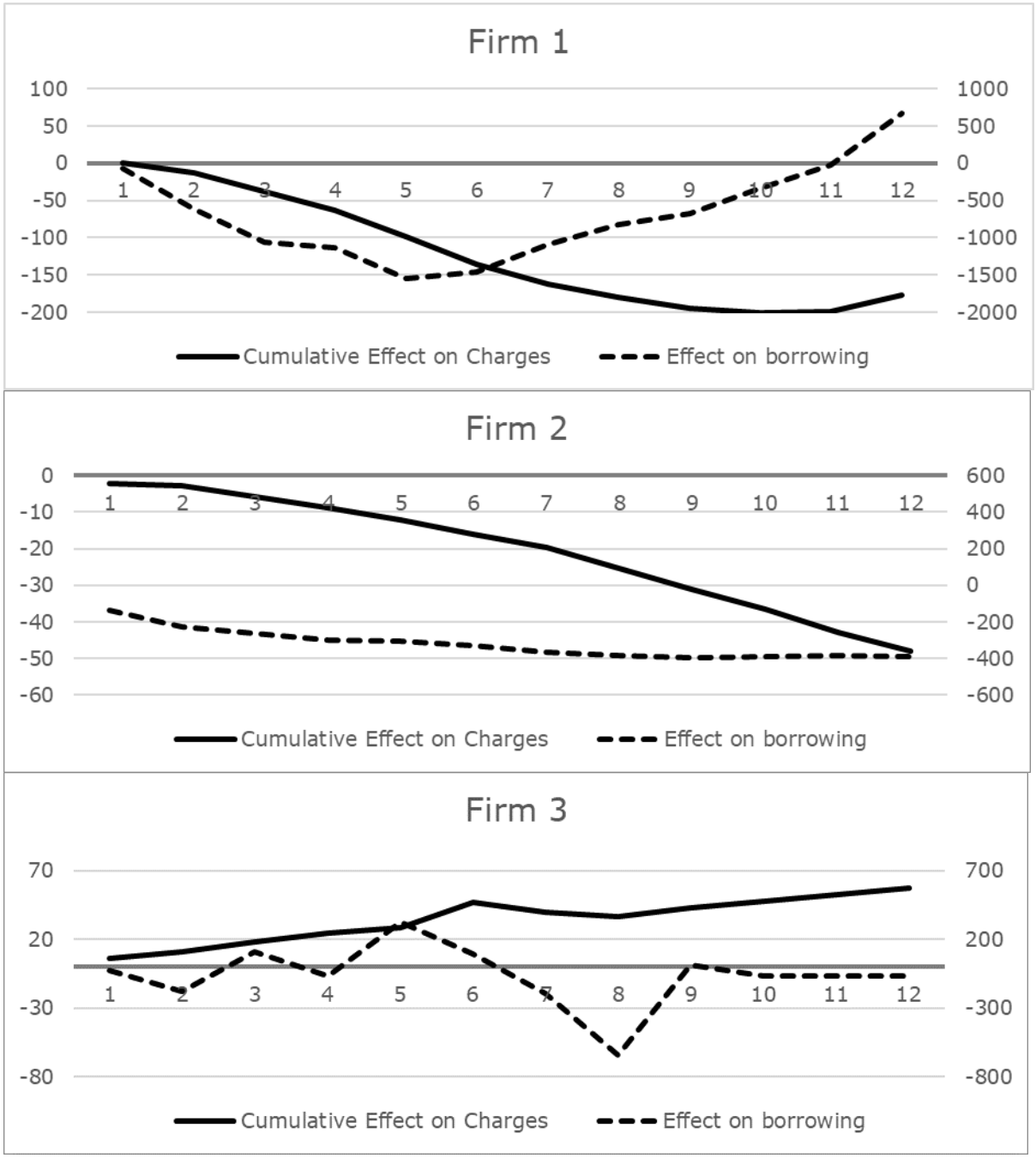
Firm	Number treated by Repeat Use Strategy during data collection period	Charges saved over 6 months	Charges saved over 12 months	Effect on borrowing after 6 months	Effect on borrowing after 12 months
Firm 1	595,000	-£135* (-£207 - -£45)	**-£177 (-£326 - £34)**	-£1467* (-£1899 - -£794)	*No significant reduction measured*
Firm 2	429,000	-£16* (-£19 - -£13)	**-£48* (-£55 - -£41)**	-£333* (-£354 - -£311)	**-£389* (-£419 - -£359)**
Firm 3	158,000	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	**-£63 (-£892 - £1062)**
Firm 4	145,000	-£33* (-£35 - -£31)	**-£74* (-£79 - -£70)**	-£398* (-£409 - -£370)	**-£251* (-£262 - -£220)**
Firm 5	LT: 1,221,000	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*
	ST (up to Jan 2021): 209,000	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*
Firm 6	Long term: 729,000	-£8* (-£12 - -£5)	**-£44* (-£54 - -£34)**	-£191* (-£219 - -£161)	**-£400* (-£451 - -£346)**
	Short term: 168,000	-£3 (-£4 - -£3)	**-£8* (-£10 - -£6)**	-£26* (-£31 - -£20)	**-£37* (-£52 - -£22)**

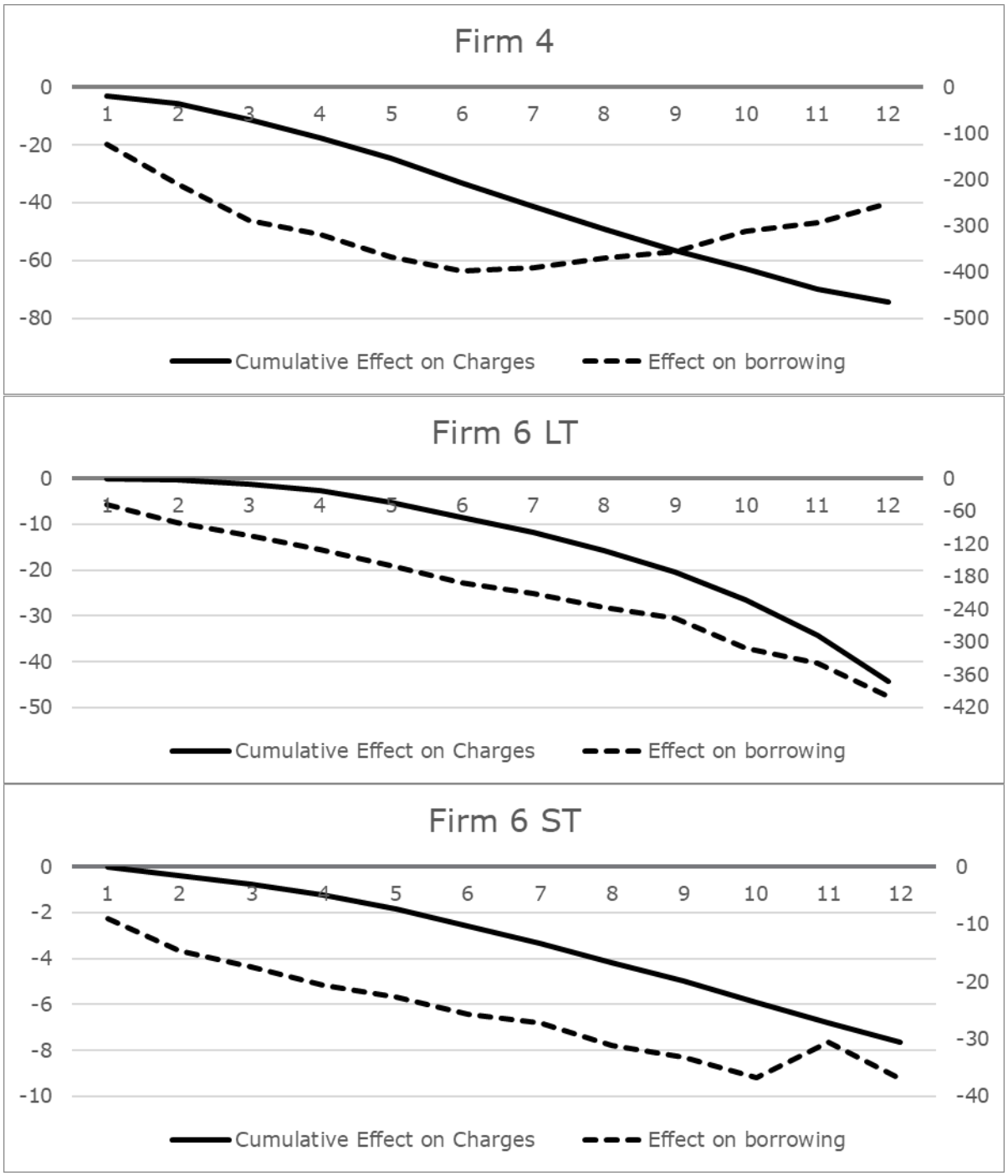
**significant at the 95% level*
Source: FCA analysis of PCA data

Charges and borrowing

Figure 29 below shows how each firm's repeat use strategy affected the charges paid and average monthly borrowing in each month after treatment. A negative value for the "Cumulative Effect on Charges" indicates that the consumer has saved that amount in the number of months up to the month plotted on the x-axis. The charges saved are indicated on the right-hand axis. Similarly, a negative value for the "Effect on Borrowing" indicates that the overdrawn balances for those on the strategy have reduced by the given amount in the related number of months since treatment. This is indicated on the left-hand axis. The expectation was that the balances and charges would decrease over time.

Figure 29 Repeat use strategy treatment effect on charges and borrowing (£)





Source: FCA analysis of PCA data

Our estimates suggest the largest savings from reduced charges were at firms 1, 2, 4 and 6. We observed an effect on borrowing at firms 2, 3, 4, and 6.

At Firm 1 we see that the treatment effect on borrowing wanes after 6 months. When we look at the descriptive statistics, we do not see evidence of an increase in the average balances for accounts on this strategy after 6 months. This suggests then that untreated individuals in the control are reducing their balances independently 6 months after 'near-treatment'. From this we might conclude that individuals in treatment would've done the same had they not received treatment, but receiving treatment instead accelerated their action to reduce their borrowing, by four months.

Scaling

This estimation approach for Firm 1, 3 and 6 gives us a local average treatment effect, meaning it only applies to those close to the threshold. However, we would expect those further from the threshold to experience a greater treatment effect than those close to it. This is because their incentive to take advantage of the strategy's help is greater, and their absolute charges and balances will be greater. This assumption is strengthened by the differences in results between firms – those that target accounts paying more in charges and borrowing more, typically have a bigger treatment effect. If we consider our estimated treatment effects as a lower bound for the average treatment effect, then we can calculate a lower bound for the aggregate treatment effect per year, for those who have been treated between October 2019 and September 2021, as shown in the second column of Table 14.

We have estimated what the yearly treatment effect is likely to be going forward by multiplying the effect calculated here, and shown at Table 14, by the number of people treated by the strategies per year. We observe that the number of people in the strategies falls over time before stabilising, as the number of repeat users reduces as a result of the strategies. We use the number of people treated per month in the last nine months of our sampling period as a representation of the number of people likely to be treated per month going forward. We might expect the number of people treated to decline going forward, as the strategies change the behaviour of some of the repeat users, so this monthly figure is just our best estimate. We are confident it will be accurate in the medium term, as the number entering per month is relatively stable over the last 9 months of the sampling period, across the banks. Column 3 of table 14 shows the yearly aggregate charges saved by accounts on the strategies at each firm.

Table 14: Lower bound estimate of aggregate treatment effects of repeat use strategies

Firm	Aggregate charges saved in first 12 months of treatment for all those treated during sampled period	Yearly aggregate charges saved in the first 12 months
Firm 1	£177 x 595,000 = £105.4m	£177 x 103,000 = £18.3m
Firm 2	£48 x 429000 = £20.6m	£48 x 73000 = £3.5m
Firm 3	*No significant reduction*	*No significant reduction*
Firm 4	£74 x 145,000 = £10.8m	£74 x 35,000 = £2.6m
Firm 5 ST	*No significant reduction*	*No significant reduction*
Firm 5 LT	*No significant reduction*	*No significant reduction*
Firm 6 ST	£8 x 168,000 = £1.3m	£8 x 56,000 = £0.4m
Firm 6 LT	£44 x 729,000 = £32.2m	£44 x 89,000 = £3.9m
Total for 6 firms	**£170.4m**	**£28.8m**

Source: FCA analysis of PCA data

Table 14 shows that **between October 2019 and September 2021** repeat use strategies led to a total of **£170.4m** saved in overdraft charges, and we expect **ongoing savings of £28.8m per year**.

Financial difficulty strategy causal evaluation results

As with the repeat use strategy, we were able to estimate effects for 6 of the firms. We present an overview of the results, then a more detailed look at the effect on balances and charges over time for each of the firms.

The financial difficulty strategies follow a similar process to the repeat use strategies. Firms send communication to those they identify as repeat users in financial difficulty, offering them help and pointing them towards resources. If those customers do not take any action, the firms will follow this up with further communication. Some of the firms chose to offer customers relief on interest, payment plans to reduce debt, reduce the size of the overdraft facility or to refer the customers to free debt advice.

Overall Results

We estimate that only 4 of the firms had financial difficulty strategies thar saved consumers money versus staying on the repeat use strategy. Two of these reductions were statistically significant. This suggests that for those who marginally qualify for the financial difficulty strategy, there is little benefit compared to staying on the repeat use

strategy in terms of saved charges. We see that strategies at 4 of the 6 firms lead to reduced borrowing after 12 months. We expect consumers to begin saving money in charges after this point. The financial difficulty strategy can be seen as a 'step up' from the repeat use strategy as those that trigger the financial difficulty strategy meet the definitions for repeat use, and a few definitions in addition. The control against which we have measured the effects of the financial difficulty strategy are all individuals in repeat use. Therefore, Table 15 shows (excluding cases where we measure no statistically significant reduction) the effect of the financial difficulty strategy compared to if the consumer had just stayed on the repeat use strategy. We have estimated the effect of the financial difficulty strategy versus not being on any strategy as the sum of the repeat use *and* financial difficulty strategy treatment effects, which is shown in Table 16. If an individual is in the FD strategy, they will receive communications relating only to this, not repeat use, in other words the two groups of individuals are distinct.

Table 15: Financial difficulty strategies overview and average effect on account outcomes versus staying on the repeat use strategy

Firm	Number treated by Repeat Use Strategy during data collection period	Charges saved 6 months	Charges saved 12 months	Effect on borrowing after 6 months	Effect on borrowing after 12 months
Firm 1	273,000	-£89* (-£98 - -£81)	**-£246*** **(-£264 - -£229)**	-£841* (-£866 - -£771)	**-£1232*** **(-£1275 - -£1112)**
Firm 2	299,000	-£28* (-£32 - -£25)	**-£58*** **(-£66 - -£50)**	-£144* (-£170 - -£118)	**-£64*** **(-£94 - -£33)**
Firm 3	30,000 (up to Jan 2021)	-£25 -£69 - £22)	**-£74** **-£153 - £13)**	*No significant reduction measured*	**-£140** **-£315 - £65)**
	8,000 (Feb 2021 onwards)	-£44 -£100 - £35)	**-£105** **-£222 - £75)**	-£233 -£488 - £351)	**-£243** **-£509 - £175)**
Firm 4	LT: 100,000	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*
	ST: 35,000	*No significant reduction measured*	**-£7** **(-£18 - £3)**	-£52* (-£81 - -£18)	**-£88*** **(-£123 - -£43)**
Firm 5	LT: 703,000	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*
	ST: 209,000 (up to December 2020)	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	**-£38** **(-£204 - £127)**
	ST: 541,000 (January 2021 onwards)†	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*
Firm 6	201,000	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*

**significant at the 95% level*
Source: FCA analysis of PCA data

Table 16, below, shows the estimated effect of the financial difficulty strategy compared to the account receiving no communication at all. We calculate this as the sum of the

financial difficulty effect and the repeat use effect. This is an approximation, and likely an underestimate, as the estimate of the repeat use effect is for those that marginally qualify for repeat use – the group that qualify for financial difficulty are likely to be using their overdrafts far more intensely, so would be likely to benefit more from the repeat use strategy than someone who marginally qualifies.

Table 16: Financial difficulty strategies overview and average effect on account outcomes versus no intervention

Firm	Number treated by Repeat Use Strategy during data collection period	Charges saved after 6 months	Charges saved after 12 months	Borrowing reduction after 6 months	Borrowing reduction after 12 months
Firm 1	273,000	-£224	**-£423**	-£2,308	**-£1,232**
Firm 2	299,000	-£44	**-£106**	-£477	**-£453**
Firm 3	30,000 (up to Jan 2021)	-£25	**-£74**	£0	**-£203**
	9,000 (Feb 2021 onwards)	-£44	**-£105**	-£233	**-£306**
Firm 4	LT: 100,000	-£33	**-£74**	-£398	**-£251**
	ST: 35,000	-£33	**-£82**	-£449	**-£338**
Firm 5	LT: 703,000	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*
	ST: 209,000 (up to December 2020)	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	**-£38**
	ST: 541,000 (January 2021 onwards)†	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*	*No significant reduction measured*
Firm 6	201,000	-£8	**-£44**	-£191	**-£400**

†The post treatment data for Firm 5's ST only covers the first 9 months after treatment, for Firm 3's ST it only covers 7. We forecast the remaining months, based on the averages for the previous months.

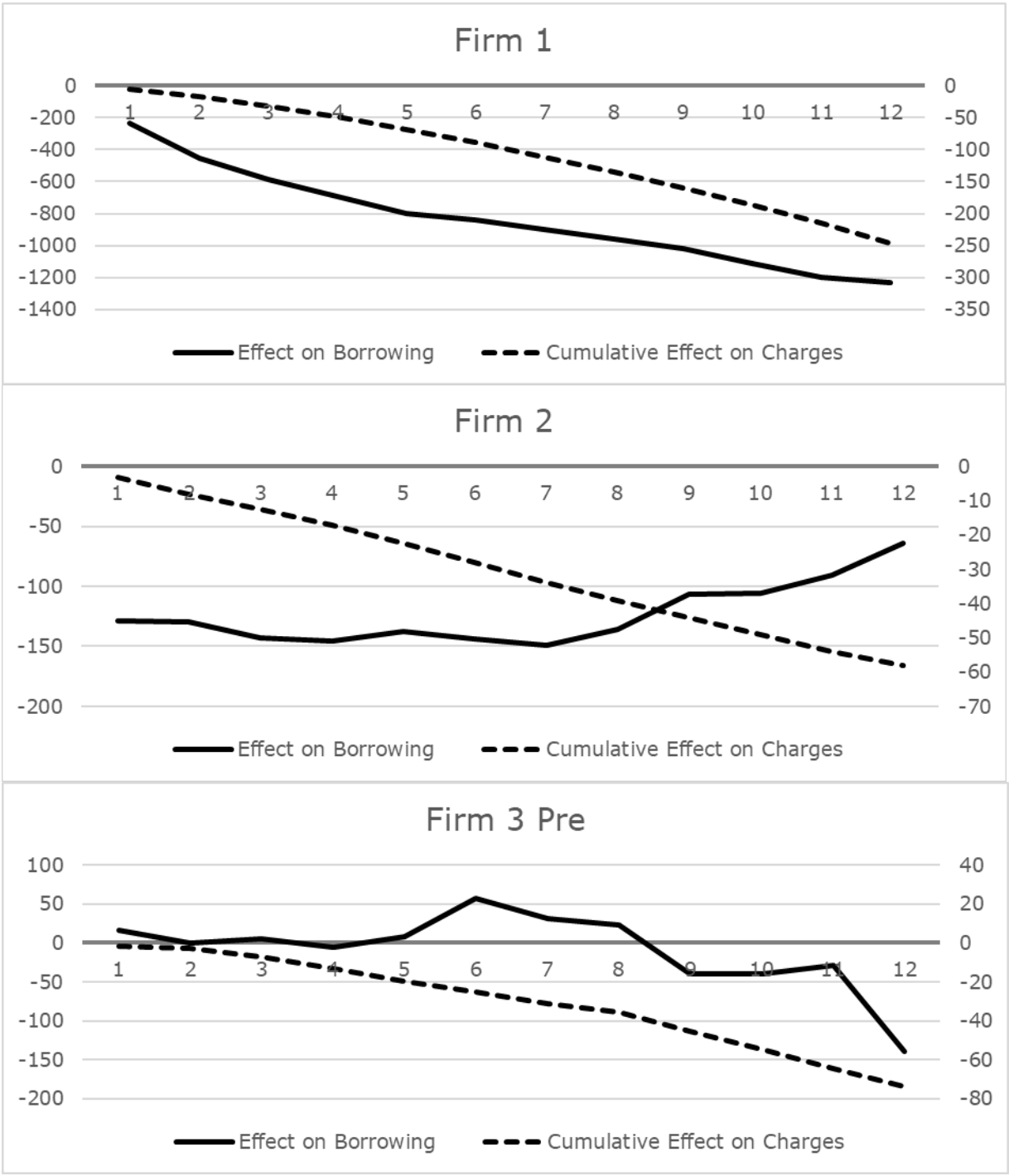
Source: FCA analysis of PCA data

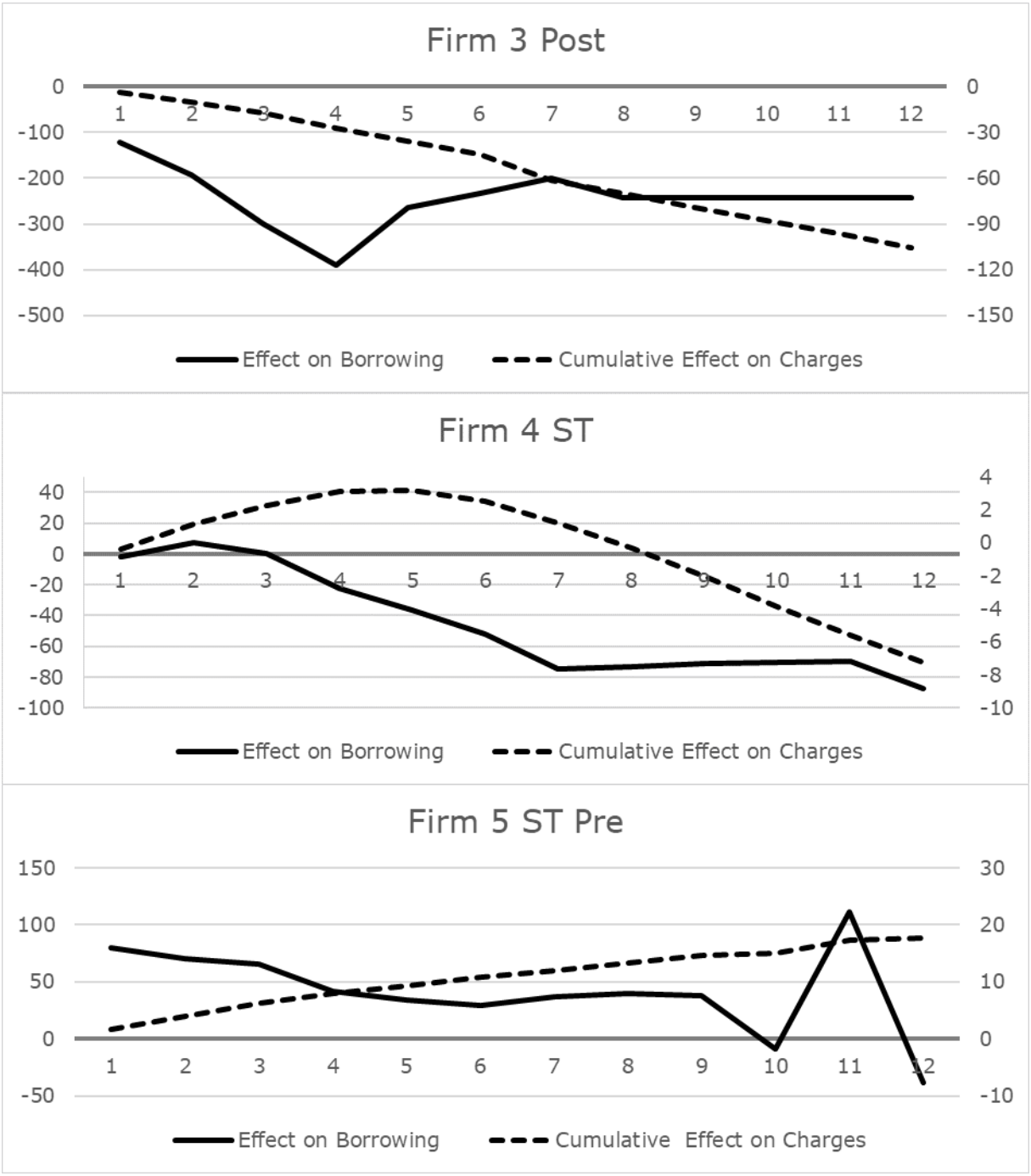
Charges and borrowing

Figure 30 shows the effect of the firms' financial difficulty strategy vs the repeat use strategy on the charges paid by and borrowing of consumers who marginally qualified for the strategy. The control group for these individuals are all in repeat use strategies, as the financial difficulty strategy is a step up from this. So the values displayed in the graph are in addition to the effect from the repeat use strategy. As with the repeat use graphs, a negative value for the "Effect on Charges" indicates that the consumer has saved that amount in the number of months up to the month plotted on the x-axis. This

is shown on the right-hand axis. Similarly, a negative value for the "Effect on Borrowing" indicates that the overdrawn balances for those on the strategy are lower than the counterfactual amount by the plotted value. This is indicated on the left-hand axis. The expectation was that the balances and charges would decrease over time.

Figure 30 - Financial difficulty strategy effect on charges and borrowing (£)





**Forecast after 9th period based on average effect in first 9 periods.*

Source: FCA analysis of PCA data

The graphs shows that financial difficulty strategies at firms 1, 2, 3 and 4 (ST) saved consumers charges over 12 months versus staying on the repeat use strategy.

Scaling

We have calculated what this might represent as a lower bound for the amount saved in the first year of treatment, for all the accounts treated during the sampled period. We have assessed the effectiveness of the financial difficulty strategy by comparing individuals in the strategy to similar individuals in the bank's repeat use strategy. Doing this gives the benefit of the financial difficulty strategy, in addition to the effect of the

repeat use strategy. To calculate the effect of the financial difficulty strategy against not being in any strategy, we have summed together the benefits of the repeat use, and financial difficulty strategy. This gives us an estimate of the overall annual savings that are due to the financial difficulties strategies introduced in 2019 and 2020, (versus a counterfactual of no treatment). We expect these costs to be an underestimate of the true benefit as for 3 of the firms we estimate the impact to those who marginally qualify for the treatment. We would expect account holders with larger balances and charges, and therefore more incentive and margin for a reduction in borrowing and charges, to respond more to the prompts of the strategy than an individual with lower borrowing and charges.

Table 17: Lower bound estimate of aggregate treatment effects of financial difficulty strategy

Firm	Aggregate charges saved in first 12 months of treatment for all those treated during sampled period	Yearly aggregate charges saved (based on number entering treatment per month between January 2021 and September 2021)
Firm 1	RU: £177 x 273,000 = £48.3m FD: £246 x 273,000 = £67.1m **Total = £115.4m**	RU: £177 x 72,000 = £12.8m FD: £246 x 72,000 = £17.8m **Total = £30.6m**
Firm 2	RU: £48 x 299,000 = £14.4m FD: £58 x 299,000 = £17.4m **Total = £31.8m**	RU: £48 x 67,000 = £3.2m FD: £58 x 67,000 = £3.9m **Total = £7.1m**
Firm 3 Pre	RU: *No significant reduction measured* FD: £74 x 30000 = £2.2m **Total = £2.2m**	*N/A*
Firm 3 Post	RU: *No significant reduction measured* FD: £105 x 8,000 = £0.9m **Total = £0.9m**	RU: *No significant reduction measured* FD: £105 x 11,000 = £1.2m **Total = £1.2m**
Firm 4 LT	RU: £74 x 100,000 = £7.4m FD: *No significant reduction measured* **Total = £7.4m**	RU: £74 x 33000 = £2.4m FD: *No significant reduction measured* **Total = £2.4m**
Firm 4 ST	RU: £74 x 35,000 = £2.6m FD: £7 x 35,000 = £0.3m **Total = £2.9m**	RU: £74 x 11,000 = £0.8m FD: £7 x 11,000 = £0.1m **Total = £0.9m**
Firm 5 ST Pre	*No significant reduction measured*	*N/A*
Firm 5 ST Post	*No significant reduction measured*	*No significant reduction measured*
Firm 5 LT	*No significant reduction measured*	*No significant reduction measured*
Firm 6	RU: £44 x 201,000 = £8.9m FD: *No significant reduction* **Total = £8.9m**	RU: £44 x 49,000 = £2.2m FD: *No significant reduction* **Total = £2.2m**
Total for 6 firms	**£169.5m**	**£44.4m**

Note: Figures are calculated then rounded

Source: FCA analysis of PCA data

Table 17 shows that a total of **£169.5m was saved in charges between December 2019 and September 2021 due to the financial difficulty strategies**. Based on the data, we would expect ongoing savings from the financial difficulty strategy of **£44.4m** per year in overdraft charges.

Combined Savings from the Strategies

Our lower bound estimate of charges saved for customers on the repeat use and financial difficulty strategies at the 6 firms is £339.8m between December 2019 and September 2021. Going forward, our lower bound estimate for charges saved by consumers at the 6 firms is £73.1m a year.

In our Cost Benefit Analysis (CBA) we estimated the combined costs of setting up the repeat use and financial difficulty strategies for the large PCA providers (the 6 firms evaluated in this paper). We estimated one off costs of £24.2m, and ongoing costs of £4.2m at those firms. The lower bound estimate of benefits of the financial difficulty and repeat use strategies over the 22-month period we evaluated exceeds the one-off cost and 2 years of ongoing costs associated with the intervention over that period (£24.2m + 2 x £4.2m = £32.6m). Further, our lower bound estimate of the ongoing benefits exceeds the CBA ongoing cost estimates considerably, as our figures suggest an ongoing benefit of £73.1m for the customers of these 6 firms, which is more than fifteen times the cost.

We can scale our benefits to the entire market in 2 ways. First, we can look at the proportion of industry costs that are accounted for by the evaluated firms and assume they account for the same proportion of benefits. In the CBA we estimated one-off and ongoing costs to the industry of £35m and £6m respectively. The 6 evaluated firms therefore account for 70% of the ongoing and one-off costs. Scaling this way would give **an estimated benefit of £485.5m between November 2019 and September 2021, and an estimated ongoing benefit of £104.5m, therefore net ongoing benefits of £98.5m.**

Alternatively, we can assume the benefit per account was the same at the evaluated firms as the firms we have not evaluated. Therefore, we can scale by looking at the market share of the evaluated firms. The evaluated firms account for approximately 83% of all PCAs. Scaling using this figure would lead to **an estimated benefit of £409.4m between November 2019 and September 2021 and an estimated ongoing benefit of £88.1m, which would mean net ongoing benefits of £82.1m.**

We thus expect the industry lower bound estimate of combined net ongoing benefits of the strategies to lie within the range of £82.1m to £98.5m a year.

6 Conclusions and lessons learned

Conclusions

Our pricing rules appear to have delivered benefits from lower charges consistent with our optimistic modelling in CP18/42

Overall, our evaluation findings are consistent with our cost benefit analysis in CP18/42 for pricing rules. On charges, our results suggest the effect of pricing remedies fell closer to our lower APR (i.e. optimistic) scenario in CP18/42, with less deprived IMD deciles benefitting by more than we initially predicted in our central scenario.

Under the central scenario with higher APR, we had anticipated no average reduction in charges, with increases in charges for consumers in less deprived areas offsetting decreases in more deprived areas. Our modelling under that scenario predicted savings of £101m per year for consumers in the 3 most deprived IMD deciles. In contrast, our evaluation estimated benefits of £153m for consumers in those deciles.

Under the more optimistic (lower APR) scenario, we originally estimated that average monthly charges per consumer could fall by an average of between £5 and £25 per year, depending on IMD decile. Our results suggest an average reduction of between £8.80 and £11.40 per year depending on the IMD decile with less deprived deciles benefitting by more than originally expected.

Heterogeneous responses to pricing changes

The higher reductions in charges for the least deprived deciles appear to be driven by their better ability to reduce overdraft balances in response to pricing changes. The reductions in borrowing are larger than those we anticipated in CP18/42. They may be driven by the ability of consumers in less deprived areas to use other ways to smooth consumption such as liquid savings, or access to credit cards or personal loans.

Robustness of findings to other policy changes

Our analysis is robust to other policy changes. We show evidence that the outcomes we analyse are stable before and after our intervention, indicating that they are not directly affected by policy changes happening within our sampling period. In our Technical Annex we present evidence that changes in the pricing structures were large and discrete, occurring at the time when our rules became binding. We are therefore confident that the changes in prices that we observe are entirely driven by our policies, rather than by external factors.

Additionally, we present evidence that the treated and control group we use in our estimation exhibit the same time trends in outcomes. This indicates that the time-varying determinants of overdraft use are the same for the two groups. Analysing the differences

in outcomes between them, therefore, ensures that other events such as the pandemic and the lowering of the BoE base rate are not affecting our estimates.

Finally, we perform a robustness check on our results by defining treatment as the removal of fixed fees (and therefore switching to an interest rate-based pricing structure). This approach suffers from certain methodological limitations as we assume that pricing components would have moved in the same way for the two groups in the absence of the fixed fees rule. Applying this approach, however, we would expect to obtain a total benefits figure that is in line with our central estimates. In the technical annex to this publication we show that £427m of the £500m in total benefits is due to the removal of fixed fees under the above assumptions. We attribute the difference between the two estimates to the effects of banning unarranged interest rates that are higher than arranged ones, the effect of pricing overdrafts with a single interest rate and the requirement that overdrafts are priced with a representative APR.

Welfare implications of overdraft pricing and borrowing

Our pricing rules estimates suggest that the effective price of borrowing and the volume of overdrafts borrowing have simultaneously fallen, which may seem counterintuitive. This can be explained by consumers' understanding of overdraft prices. Despite a decrease in the effective price of overdrafts, the fact that firms are obliged to price overdrafts with a single APR may have resulted in consumers perceiving the price as higher.

Our analysis by IMD suggests that there are no deciles that lose out on average. This is strengthened by the fact that the highest APR we observe in the post-intervention period – 50% is lower than the average effective price pre-intervention – 62%.

We interpret the reductions in average balances as welfare improving. We observe that the effective price of overdrafts has decreased across IMD deciles, so consumers are able to borrow more cheaply if they need to in the post-intervention period. We find that consumers are unlikely to be hindered in doing so as the policy has acted to increase the average arranged overdraft limit. Finally, we do not find evidence of substitution towards more expensive forms of credit, which suggests that, on average, consumers' ability to smooth consumption has not been hindered by our pricing intervention.

We observe falling balances and charges for repeat users

Our analysis shows that between 2019 and 2021 the average charges and balances fell for consumers that used their overdraft in every month of the year (repeat users) and that the number of a consumers using their overdraft in every month of the year also fell. We expect this is due to a combination of the effect of balance alerts, the pricing rules and the repeat use strategy.

We also find that for customers the 6 participating firms identified as repeat users and repeat users in financial difficulty, average balances and charges fall following their entry onto the firms' strategies. We expect the primary driver of this is the repeat use strategies and looked to confirm this through a causal analysis.

We can attribute a significant proportion of this fall to firms' repeat user and financial difficulty strategies

We have been able to estimate a significant reduction in charges caused by the repeat use strategies at 4 of the 6 firms, and the financial difficulty strategies at 5 of the 6 firms. These savings are sizeable at some of the firms, and more modest at the others, ranging between £8 and £177 in the first 12 months of treatment per account for the repeat use strategies, and between £44 to £423 in the first 12 months of treatment per account for the financial difficulty strategies. We expect these estimates of the savings to be at the lower end of the treatment effect on treated individuals, due to the econometric approach we are using.

Wellbeing

In addition to the financial impacts of borrowing, growing research suggests that indebtedness is also associated with individuals' wellbeing. Debt can potentially lead to stress, anxiety or overall reduced life satisfaction. Research we commissioned in 2020 attempted to estimate and monetise the impact of different types of debt on subjective wellbeing. The research found that:

> *"[] high-cost debt is associated with lower levels of wellbeing. This effect is magnified for individuals who are economically inactive. Among the products which may be driving the relationship, current account overdrafts stand out."*

A 1% increase in current account overdraft debt was associated with approximately a 0.00025 point reduction on a 1-10 life satisfaction scale[2]. This estimate may not be causal due to methodological limitations the authors point out:

- measurement error – individuals with lower wellbeing may over-report the extent of their indebtedness
- omitted variable bias – not all factors determining the relationship between indebtedness and wellbeing can be controlled for
- reverse causality – lower wellbeing may be causing higher indebtedness

Due to these limitations, we cannot quantify the impact of our policies on wellbeing with a great degree of reliability. However, we use the results from the study to give an indication of the wellbeing effects of our remedies.

Our results suggest that the reduction in monthly overdraft borrowing due to the pricing remedies is 8.92%, which would imply a 0.00208 point improvement on a 1-10 life satisfaction scale and a sizeable impact on wellbeing. HMT's Green Book estimates the monetary value of subjective wellbeing for a 1-point improvement is worth £13,000. Therefore a 0.00208 point improvement is worth c.£27 per person per year.

[2] The model is a 'log-linear' model. The increase in wellbeing is calculated through the following equation:

$$\Delta W = -0.025 \times \ln\left(100 + \left(100 \times \left(\frac{B - \bar{B}}{\bar{B}}\right)\right)\right) \approx -0.00025 \times 100 \times \left(\frac{B - \bar{B}}{\bar{B}}\right)$$

$$\Delta W = -0.025 \times \ln\left(100 + \left(100 \times (0.0892)\right)\right) = 0.00208$$

Where ΔW is the change in wellbeing, B is the value of the debt and $\bar{B}$ is the value of the debt under the estimated counterfactual (where no intervention took place). The approximation is accurate for small percentage changes but becomes less so for larger percentage changes. We have used the full formula to calculate the wellbeing improvements given in the text and tables.

Table 18 shows the wellbeing improvements for individuals on each of the repeat use strategies:

Table 18 - Wellbeing effects of the repeat use strategies (per individual on the strategy)

Firm	Percent reduction vs counterfactual	Wellbeing improvement	monetary value of improvement (£)
Firm 1	*No significant reduction*	*No significant reduction*	*No significant reduction*
Firm 2	28%	0.0081	106
Firm 3	7%	0.0018	23
Firm 4	26%	0.00	96
Firm 5 LT	*No significant reduction*	*No significant reduction*	*No significant reduction*
Firm 5 ST	*No significant reduction*	*No significant reduction*	*No significant reduction*
Firm 6 LT	54%	0.0196	254
Firm 6 ST	32%	0.0097	126

Source: FCA analysis of PCA data

Table 19 shows the wellbeing improvements for individuals on each of the financial difficulty strategies:

Table 19 - Wellbeing effects of the financial difficulty strategies (per individual on the strategy)

Firm	Percent reduction vs counterfactual	Wellbeing improvement	monetary value of improvement (£)
Firm 1	53%	0.0187	243
Firm 2	30%	0.0088	115
Firm 3 Pre	14%	0.0039	51
Firm 3 Post	27%	0.0079	103
Firm 4 LT	46%	0.0153	199
Firm 4 ST	39%	0.0125	163
Firm 5 LT	*No significant reduction*	*No significant reduction*	*No significant reduction*
Firm 5 ST Pre	5%	0.0013	17
Firm 5 ST Post	*No significant reduction*	*No significant reduction*	*No significant reduction*
Firm 6	60%	0.0231	301

Source: FCA analysis of PCA data

The above calculations suggest some significant improvements in wellbeing overall may be arising from our policy on top of the reductions in charges. However, these figures rely on the assumption that the association between indebtedness and wellbeing we found is causal, of which we cannot be certain due to the limitations outlined above.

Overdrafts are classified as a form of non-arrear debt. The challenges with estimating the wellbeing effects of non-arrear debt are that consumers borrow to obtain goods and services that they expect to increase their wellbeing, but it is not possible to completely observe and statistically control for these uses in the research, which means that estimates could be subject to bias. The underlying research was also undertaken before the pandemic and the experience of being in debt during the pandemic (the period of time which we are evaluating) may be different to the experience prior to the pandemic. However, we would still expect a wellbeing benefit to reducing debt.

Comparison of costs and benefits

We have not gathered new information on the implementation costs incurred by firms. Though we did not ask about costs explicitly, we note that our original consultation formally requested feedback on our CBA. Of the responses received, none indicated that our original analysis may have underestimated costs. Furthermore, the 6 firms we engaged with to collect data for this evaluation did not flag anything that may suggest that costs were higher than estimated in the CBA in CP18/42.

For illustration, we compare the quantified costs we estimated before we intervened with the benefits, we have quantified in this evaluation.

Table 20: Quantified ex-ante compliance costs and estimated ex-post benefits

		Estimated before our intervention	Estimated after our intervention
Pricing remedies	One-off compliance costs	£106m	-
	Ongoing compliance costs	£6m	
	Ongoing benefits from lower charges (prior to cost-of-living crisis)	-	£500m
Repeat use remedies	One-off compliance costs	£35m	-
	Ongoing compliance costs	£6m	
	Ongoing benefits from lower charges (prior to cost-of-living crisis)	-	£88m - £105m

Source: FCA analysis of PCA data

Lessons learned

We identified the following lessons learned during the course of this evaluation:

- Regulatory action on pricing practices can result in significant savings for consumers without strong evidence of negative consequences in terms of access to credit.
- Our policy has acted to both make the price of overdrafts simpler. This is likely to be the driving factor behind the reduction in borrowing we see in response to our remedies. We also see that less deprived consumers reduced overdraft balances more relative to more deprived ones. Less deprived consumers appear more responsive to our pricing remedies than we originally modelled. This finding can be used to better inform our assessment of the distributional effects of interventions in retail credit markets in the future.
- The repeat use strategies were varied on a number of dimensions, making it difficult to identify why the impacts differed between lenders. However, we are engaging with firms to understand what they have learnt about what is and is not effective and using some of our findings to inform these discussions. In particular, based on the evidence of this evaluation, past FCA research and engagement with firms, we think strategies that use a range of methods to communicate with customers are more likely to be effective. Furthermore, if firms are finding they are very successful at helping the customers in their strategy, marginally expanding the definition may bring similar benefits to customers who would not have otherwise qualified. The optimal level of thresholds determining repeat use is difficult to pin down and firms may want to take our results as a starting point in their own assessment of their strategies.
- Despite the varying size of effects by firm, outcomes for repeat users, in general, appear to be improving following treatment. This is both when we use the definition of a repeat user in CP18/42 (an individual that uses their overdraft in every one of the previous 12 months) and when we use the firms' own definitions. This is evidence that a non-prescriptive outcomes-based intervention, like the repeat use remedy, can be successful at delivering the outcomes we are seeking. This type of intervention has the advantage of avoiding setting requirements centrally, which may be time-consuming and require extensive research in the policy-design stage. When firms comply with these outcomes-based remedies, they can quickly identify the best way, from their own perspective, to achieve the outcomes sought.

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