

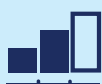
# Reducing consumer harm through regulatory experimentation

Protecting vulnerable consumers from risky investing –  
Financial Conduct Authority



Level:

**Moderate**



Industry:

**Finance**



Location:

**UK**



## Overview

Ineligible consumers were increasingly investing in high-risk products designed for experienced investors. The Financial Conduct Authority (FCA) trialled a range of positive frictions to reduce the number of ineligible consumers accessing these risky products.

## Key finding

Self-certification of ineligible consumers reduced by 36%.

## Outcome

New consumer protection measures proposed, including more robust screening questions and risk warnings on advertisements.

## Evaluation method

Randomised control trial.

## Background



### The Financial Conduct Authority (FCA) wanted to understand how to protect ineligible consumers from investing in high-risk products.

FCA is responsible for ensuring UK financial markets work well: protecting consumers, promoting competition and enhancing the integrity of the UK's financial system.

During the COVID-19 pandemic, an increasing number of consumers invested in high-risk products without necessarily understanding the associated risks. To invest in these products, consumers must self-certify as either 'high net worth' or 'sophisticated' (experienced with investing).

FCA sought to determine whether positive frictions (intentional obstacles in a process that encourage more thoughtful decision-making) would reduce the number of ineligible consumers self-certifying and consequently accessing high-risk products.

## Intervention and outcome



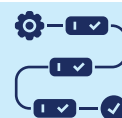
### The introduction of positive frictions reduced ineligible self-certification by 36%.

FCA conducted an online randomised control trial to assess consumer self-certification practices. The trial tested a range of positive frictions including commitment checkboxes to confirm that criteria had been met, a requirement for a written evidence declaration, and the imposition of a time delay before consumers could submit their certification statement.

All approaches were successful in significantly reducing self-certification. The checkboxes and evidence declaration in combination were the most effective, cumulatively reducing selfcertification by 36%. These results informed the proposal of a range of consumer protection measures.

These included asking consumers more robust questions about their investment knowledge and experience, and improving risk warnings on advertisements.

## Key steps for successful experiments



### ✓ Communicate early and transparently to secure additional resources.

By communicating the limitations of the online experiment to their policy colleagues early in the research process, the FCA research team was able to bolster the study with additional measures. For example, they added a survey to establish a reliable baseline measure of how many people in the experiment sample would genuinely self-certify.

**Consider identifying and communicating potential risks and limitations of your research early on to build support for introducing effective mitigation measures.**

### ✓ Consider using an online experiment.

Online experiments are often cheaper and faster to run compared to field experiments. However they typically have less external validity compared to experiments run in the real world.

**Consider running an online experiment in situations which require a rapid response to emerging policy challenges, or as a pilot to inform more robust follow-up experimentation.**

## Overcoming lack of reliable baseline

FCA didn't have verified information on whether participants met the certification criteria. This would have reduced the reliability of the findings.

To address this, FCA randomly assigned some participants to a survey to establish a baseline measure of genuine certification. This approach helped them understand the true eligibility of the participants and ensured that the findings were more accurate and relevant for policy insights.