Advancing Financial Inclusion

Behavioural interventions for financial services

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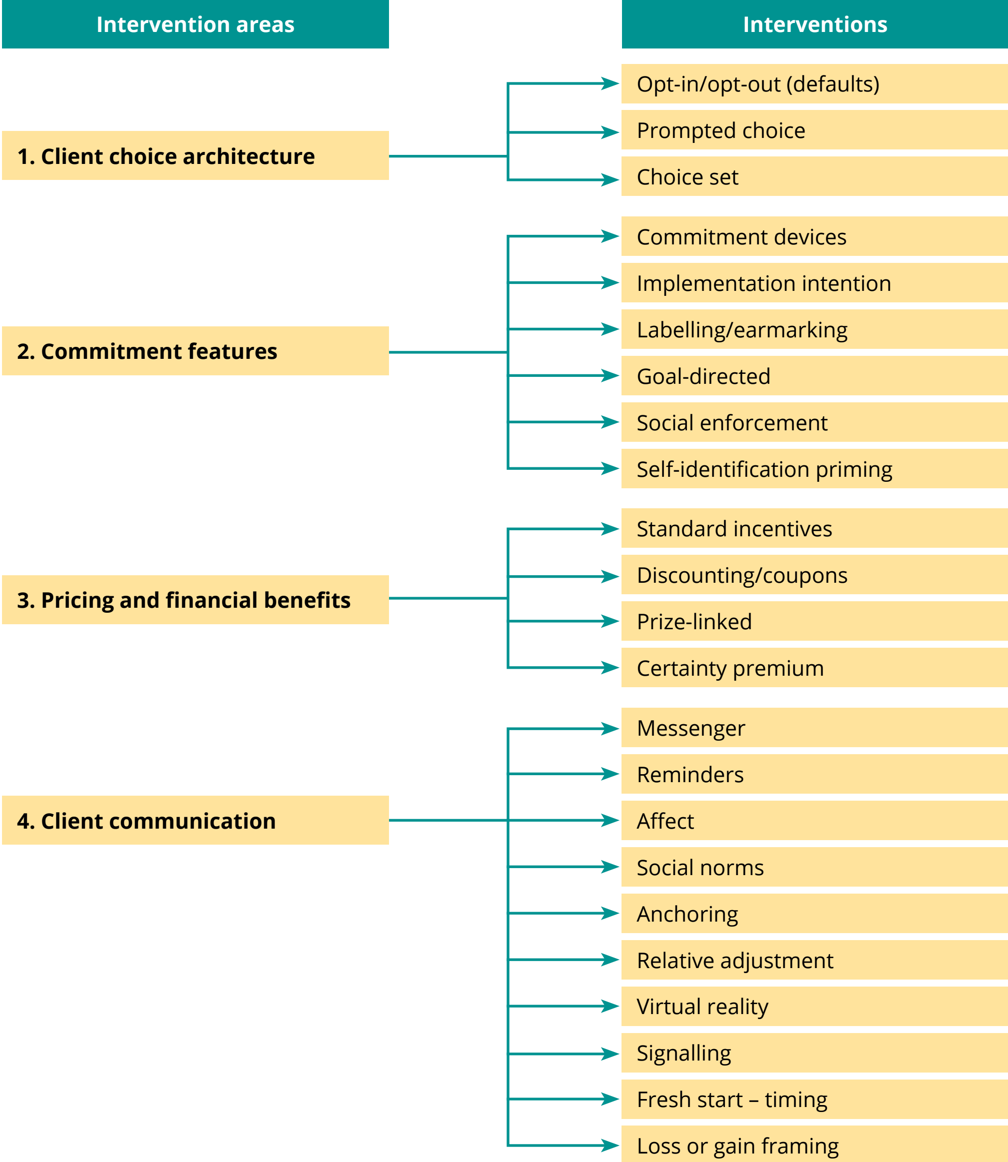
Focus Note

Financial service providers are increasingly seeking to translate new insights from behavioural science into the design and delivery of financial services. This guide seeks to describe a set of behavioural interventions that have reduced the cost of acquiring new customers, that improve the retention of existing customers and that have assisted in achieving positive customer outcomes, such as timely credit repayments and improved savings.

What is a behavioural intervention? It is any customer interaction that has been explicitly designed to influence the financial decision (or behaviour) of an existing or potential customer.

Two systematic reviews (conducted in 2017 and 2018) identified 23 unique behavioural interventions for financial service providers. These interventions were tested by 311 behavioural scientists across 42 countries, regarding the savings, credit, payment and insurance decisions of financial service customers. These interventions were implemented across several typical promotion, sales and servicing interaction points between providers and their existing or potential customers. They have been grouped into four broad intervention areas, as illustrated in Figure 1.

Figure 1: Behavioural interventions



1. **Client choice architecture** relates to how product choices (e.g. loan sizes or monthly pension contribution levels) are presented to the customer during the sales or services process.

- **Opt-in/opt-out default choices.** These are pre-selected product options (e.g. savings contributions levels) that will prevail unless the consumer selects an alternative.
- **Prompted choice.** Customers are prompted to make an active choice (e.g. to indicate a monthly loan repayment amount) rather than being provided a default option.
- **Choice set.** Changes are made to the ordering, frequency or number of choices presented to new or existing consumers (e.g. increasing or decreasing the number of product features to choose from).

Employees in Afghanistan are 40 percentage points more likely to contribute to a mobile savings account when their default monthly contribution is set at 5%, as opposed to 0%, of their salary.[1]

2. **Commitment features** relate to product features that commit an individual to a predefined course of action or goal. They can be classified broadly into hard commitments that cannot be easily reversed or soft commitments that allow customers more flexibility:

- **Commitment device:** Restricts or disincentivises a set of possible future choices (e.g. early savings withdrawal penalty fee, or restricting access to payday loans on Friday evenings).
- **Implementation intention:** Connects a future situation with a specific goal-directed behaviour, specifying in advance when/where and how the goal will be achieved (e.g. when a person gets their salary on Friday, they will deposit 10% into their savings account).
- **Labelling/earmarking:** Labelling financial service products for an intended purpose (e.g. education or holiday savings).
- **Goal-directed:** Committing behaviour towards achieving a specific goal or the selection of a predefined goal (e.g. repayment date, savings amount or retirement age).
- **Social enforcement:** Communicating the financial decision (or behaviour) of an individual to members of the individual's social network (e.g. informing peers when a loan is repaid).
- **Self-identification priming:** The identity of the decision-maker is made salient to both the decision-maker and the financial service provider (e.g. the use of unique identifiers, such as biometrics, when originating a loan).

The probability that South African microfinance lenders repaid their loans on time increased materially when information on their repayment status was given to their peers[2].

Malawi farmers are 8%[3] more likely to repay their agricultural loans if their biometrics (fingerprints) are captured during the loan application process[4].

1 Blumenstock, J., Callen, M. and Ghani, T., 2015. Mobilizing savings with automatic contributions: Experimental evidence on dynamic inconsistency and the default effect in Afghanistan.

2 Karlan, D. S., Zinman, J., and Bryan, G. (2012). You can pick your friends, but you need to watch them: loan screening and enforcement in a referrals field experiment. Discussion Paper, Economic Growth Center, No. 1009.

3 This change in likelihood was estimated by using the odds ratio calculation with the author's coefficients as inputs.

4 Brune, L., Giné, X., Goldberg, J. and Yang, D., 2016. Facilitating savings for agriculture: Field experimental evidence from Malawi. Economic Development and Cultural Change, 64(2), pp.187-220.

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3. **Pricing and financial benefits** amend the price of a product or provide monetary or non-monetary incentives for take-up or use of the financial services.

- **Standard incentives:** The use of monetary and non-monetary incentives to promote or discourage behaviour (e.g. a transport voucher for every bank account opened).
- **Discounting or coupons:** Providing the product or product feature at a discounted rate (e.g. 50% reduction in insurance premiums) or providing a coupon that entitles individual access to a discounted price.
- **Prize-linked:** A lottery confers a prize to a financial services account holder if they meet certain conditions (e.g. an individual is eligible for a USD5,000 monthly lottery if they deposit more than USD100 into their savings accounts).
- **Certainty premuim:** A guarantee added to a product that reduces or eliminates future uncertainty for the customer (e.g. removing exclusion-related insurance pay-outs).

The savings of rural households in Mozambique increased by 25% when savings contributions were fully or partially matched[5].

5 Carter, M.R., Laajaj, R. and Yang, D., 2015. Savings and Subsidies, Separately and Together: Decomposing Effects of a Bundled Anti-Poverty Program.

4. Client communication relates to communication and marketing strategies that can be initiated or amended in several ways to influence financial decisions.

- **Messenger:** Using an influential source of information (credible or relatable messenger) to promote or discourage behaviour.
- **Reminders:** Reminders via mobile phone, post, SMS or in person to prompt and remind clients to act (e.g. remember to pay your outstanding loan this month).
- **Affect:** Soliciting an emotional response from the customer (e.g. advertising material makes use of aspirational images to position a credit or savings product).
- **Social norms:** Making the customer aware of the average behaviour or the behaviour of a reference group (e.g. the average pension contribution in your organisation is 15%).
- **Anchoring:** Presenting an initial anchor or reference point to the customer (e.g. minimum monthly repayments on the client's credit card).
- **Relative adjustment:** Communicating a change related to a specific metric (e.g. progress towards a goal or a change in the client's credit score).
- **Virtual reality:** Using technology to produce age-progressed renderings of customers' future selves.
- **Signalling:** Use of status, quality or in-group attributes (e.g. platinum cards or gold medical aid package) to influence financial decisions.
- **Fresh start – timing:** Using temporal landmarks that represent new beginnings (e.g. new year, birthdays) to promote future-oriented behaviour.
- **Loss or gain frame:** Phrasing an outcome in terms of negative (loss) or positive (gain) features, e.g. stating the interest charges saved (gain frame) when paying higher monthly repayments on outstanding credit.

Brazilian credit card customers were 8.9% more likely to repay their monthly instalment when they received push notifications via a smartphone app.[6]

Chilean microcredit customers made, on average, 3.7 times more savings deposits per month and almost doubled their savings balances when they were informed of the savings balances of their peers.[7]

American account holders reduced their expenditure by 10.7% when they were informed of the impact of their expenditure on their monthly cash flow.[8]

Individuals in the United States preferred insurance contracts that were marketed as being gold plans (and thus seen to be premier) over silver or bronze plans, regardless of the cost and feature differences between the contracts.[9]

American university employees increased their retirement contributions by 22% when they were provided the option to start savings after their birthday.[10]

For more information on how these behavioural interventions have been applied, visit insight2impact's behavioural interventions for financial services database.

6 Median, P. C. 2017. Selective Attention in Consumer Finance: Evidence from a Randomized Intervention in the Credit Card Market.

7 Kast, F., Meier, S. and Pomeranz, D. 2018. Saving more in groups: Field experimental evidence from Chile.

8 Levi, Y., 2015. Information Architecture and Intertemporal Choice: A Randomized Field Experiment in the United States. UCLA.

9 Ubel, P. A., Comeford, D. A. and Johnson, E. 2015. Healthcare.gov 3.0 – Behavioral Economics and Insurance Exchanges.

10 Beshears, J., Dai, H., Milkman, K.L. and Benartzi, S., 2017. Framing the future: The risks of pre-commitment nudges and potential of fresh start messaging. Working paper.

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