insight2impact
Advancing Financial Inclusion

Behavioural interventions that advance financial inclusion

March 2018

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Established by
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Focus Note

Financial service providers (FSPs) are continually looking for innovative ways in which they can design and deliver financial services to reduce cost and increase the overall value of these services to customers. In this context, FSPs are increasingly translating new insights from behavioural science – particularly on financial decision-making – into practical and implementable interventions. Such interventions have proven to effectively reduce the cost of acquiring new customers, improve the retention of existing customers and reduce the occurrence of customers that use financial services but that increase the cost of providing those services (e.g. through inactive bank accounts or low savings balances).

A recent study[1] identified **18 unique behavioural interventions** that FSPs can implement to influence the savings, credit, payment and insurance decisions of individuals. These interventions can be implemented with customers across several typical promotion, sales and servicing interaction points. The interventions have been grouped into four broad intervention areas below.

Figure 1: Behavioural interventions

Intervention areas	Interventions
1. Client choice architecture	Opt-in/opt-out (default choices)
	Prompted choice
2. Commitment features	Commitment devices
	Implementation intention
	Earmarking/labelling
	Goal-directed
	Social enforcement
	Self-identification priming
3. Pricing and financial benefits	Standard incentives
	Discounting
	Loss or gain framing
	Prize-linked
4. Client communication	Messenger
	SMS reminders
	Affect
	Social norms
	Anchoring
	Virtual reality

Source: Smit, H. 2017

> “A behavioural intervention is any customer interaction that has been explicitly designed to influence the financial decision (or behaviour) of an existing or potential customer.”

1 Smit, H. (2017) Influencing the financial decisions of individuals: A systematic review of behavioural(ly informed) interventions.

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

   - **Opt-in/opt-out default choices** are pre-selected product options (e.g. savings contribution levels) that will prevail, unless the consumer selects an alternative.
   - **Prompted choice** is where customers are prompted to make an active choice (e.g. choosing a monthly loan repayment amount) rather than being given a default option.

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 salary.[2]

2. **Commitment features** are product features that commit customers 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:

   - A **commitment device** restricts or disincentivises a set of future choices (e.g. an early savings withdrawal penalty fee or restricted access to payday loans on Friday evenings).
   - **Implementation intention** refers to an if-then or when-then plan that specifies the intended behaviour at a specific time and place (e.g. when I get my salary on Friday, I will deposit 10% into my savings account).
   - **Earmarking/labelling** refers to the labelling of financial services products for an intended purpose (e.g. education or holiday savings).
   - A **goal-directed intervention** is where a pre-defined goal is selected (e.g. repayment date, savings amount, etc).
   - **Social enforcement** is where the financial decision of the individual is made known to the individual's peers or social network (e.g. inform peers when a loan is repaid).
   - In the case of **self-identification priming**, the identity of the decision-maker is made salient to both the decision-maker and financial services providers (e.g. the use of unique identifiers, such as biometrics, when originating a loan).

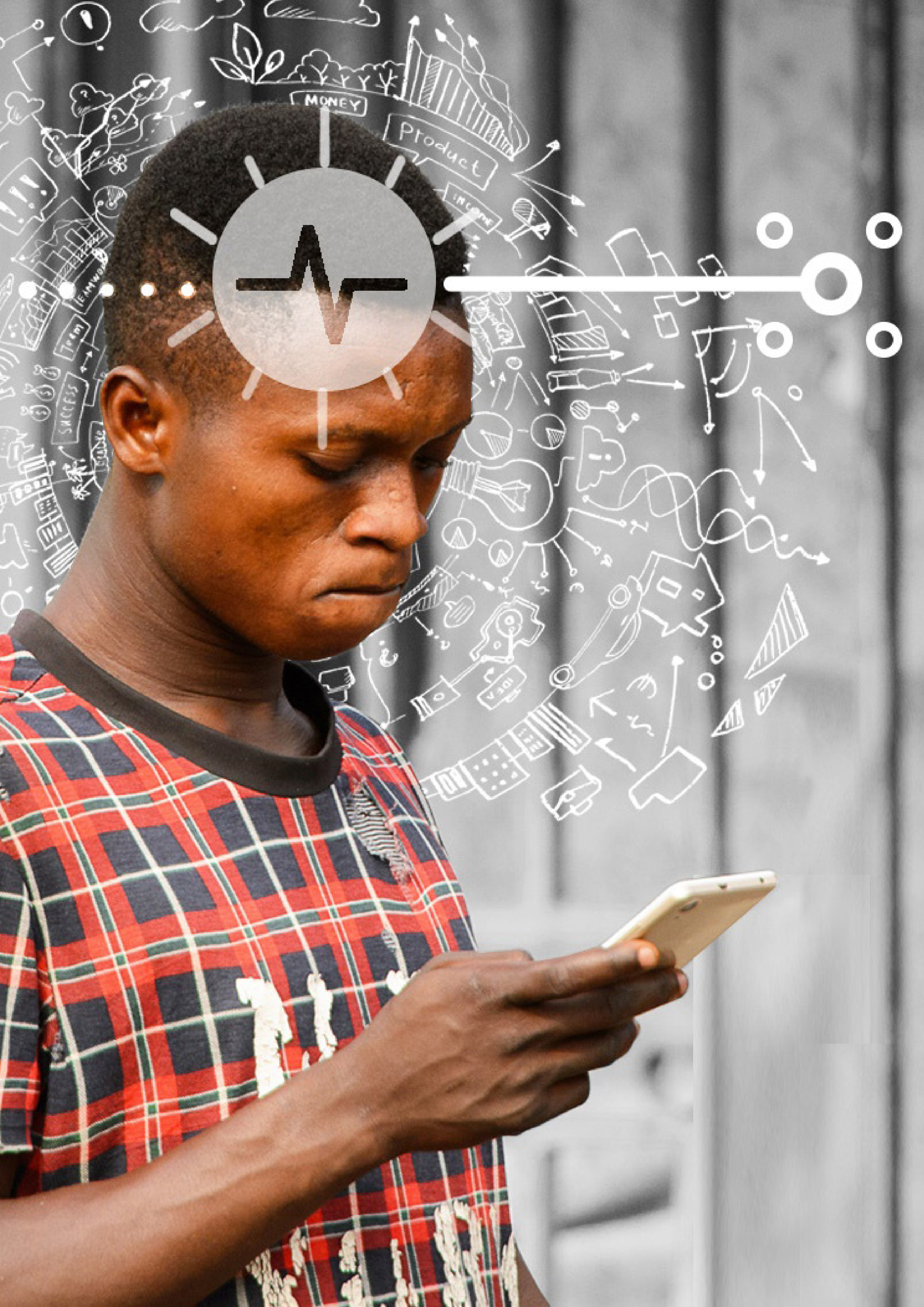
Filipino migrants in Rome are willing to remit 15% more to family members in the Philippines if the transfer is labelled for education purposes.[3]

Malawi farmers, particularly those with low repayment rates, are 7.3 percentage points more likely to repay their agricultural loans if their biometrics (fingerprints) are captured during the loan application process.[4]

2 Blumenstock,J., Callen, M., and Ghani, T. (2016). Mobile-izing Savings with Automatic Contributions: Experimental Evidence on Dynamic Inconsistency and the Default Effect in Afghanistan.

3 De Arcangelis, G., Joxhe, M., McKenzie, D., Tiongson, E., & Yang, D. (2015). Directing remittances to education with soft and hard commitments: Evidence from a lab-in-the-field experiment and new product take-up among Filipino migrants in Rome.

4 Giné, X., Goldberg, J., & Yang, D. (2010). Identification Strategy: A Field Experiment on Dynamic Incentives in Rural Credit Markets.


MONEY
Product

3. The **Pricing and financial benefits** intervention area is where the price of the product is amended or a financial incentive is provided to individuals to take up or use the financial services in a particular way.

- **Standard incentives** comprise monetary and non-monetary incentives to promote or discourage behaviour (e.g. a transport voucher for every bank account opened).
- **Discounting** refers to the provision of a product or product feature at a discounted rate (e.g. a 50% reduction in insurance premiums).
- **Loss or gain framing** is where an outcome is phrased 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).
- A **prize-linked** intervention could be where a lottery confers a prize to a financial services account holder if they meet certain conditions (e.g. individuals being eligible for a USD5,000 monthly lottery if they deposit more than USD100 into their savings accounts).

> Free 90-minute international calling cards nearly doubled the value of remittances sent by migrants living in Ireland.[6]

4. **Client communication** can be initiated or amended in several ways to influence financial decisions:

- Selecting a credible or relatable **messenger** (e.g. an employer advises on a pension contribution)
- Delivering **SMS reminders** to a customer's mobile phone (e.g. Remember to pay your outstanding loan this month)
- Soliciting an emotional response **(affect)** from the customer (e.g. advertising material makes use of aspirational images to position a credit or savings product)
- Making the customer aware of **social norms**, i.e. the average behaviour or the behaviour of a reference group (e.g. the average pension contribution percentage in your organisation is 15%)
- **Anchoring** by communicating a reference point to the customer (e.g. minimum monthly repayments on your credit card)
- Using a **virtual reality** headset to convey information to the customer before or during a financial decision

> In Colombia, SMS reminders sent monthly increased savings balances by 28%, and when sent twice a month increased savings by 43%.[7]

> Removing minimum required repayment information from credit card statements in the United Kingdom led to a 70% increase in credit card instalment repayments.[8]

For more information on how these behavioural interventions have been applied, visit insight2impact's behavioural interventions for financial services database[5].

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5 http://access.i2ifacility.org/Behavioural_Science

6 Batista, C. & Narciso, G. (2013) Migrant Remittances and Information Flows: Evidence from a Field Experiment.

7 Rodríguez, C. & Saavedra, J. E. (2016). Nudging Youth to Develop Savings Habits: Experimental Evidence Using SMS Messages.

8 Stewart, N. (2009). The Cost of Anchoring on Credit-Card Minimum Repayments.

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