

BEHAVIORAL RESEARCH: THE SECRET INGREDIENT FOR CONSUMER PROTECTION POLICY



September 20, 2017

9:00-10:00 a.m. ET



MICROFINANCE
GATEWAY

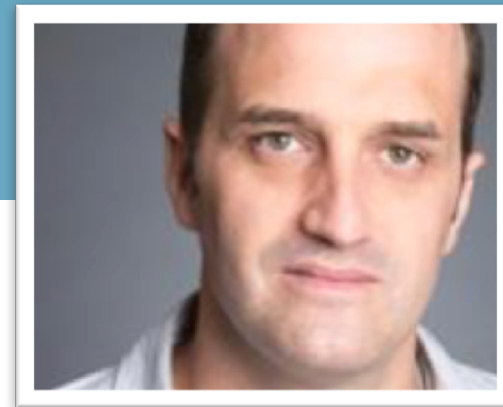
WEBINAR

SPEAKERS



Stan Zmitrowicz

Central Bank of Brazil

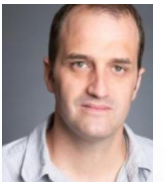


Rafe Mazer

Moderator, CGAP

What is Behavioral Research?

*Behavioral Research seeks to **understand** the **psychologies** that affect how we make decisions, form intentions and whether or not we follow through with them.*



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CGAP

Key aspects of behavioral science

1. People have **inconsistent preferences**
2. People have **inconsistent behaviors**. The “Intention to Action Gap”
3. Small, often overlooked, **non-economic factors** play a large role in our behavior
4. Insights about **why** people do what they do can significantly improve products and policies

POLL

**How familiar are you with
behavioral research
methods?**

Behavioral economics matter in financial consumer protection because...

- Financial products are **particularly complex**
- **Trust is key** for products and financial sector overall
- Certain business models **exploit consumer biases**
- **Economic consequences of financial mistakes** particularly harmful for low-income consumers

Which consumer information do you think reduced repeat borrowing the most?



Annual interest rates on different types of loans

	Median Annual Interest % (from government surveys)
Payday Loan	443%
Installment Car Loans	18%
Credit Card	16%
Subprime Mortgages	10%

How much it will cost in fees or interest if you borrow \$300

PAYDAY LENDER (assuming fee is \$15 per \$100 loan)		CREDIT CARD (assuming a 20% APR)	
If you repay in:		If you repay in:	
2 weeks	\$45	2 weeks	\$2.50
1 month	\$90	1 month	\$5
2 months	\$180	2 months	\$10
3 months	\$270	3 months	\$15

Source: Marianne Bertrand and Adair Morse. 2011. *Information Disclosure, Cognitive Biases, and Payday Borrowing*. The Journal of Finance: 1540-6261.



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11% reduction in repeat borrowing

Source: Marianne Bertrand and Adair Morse. 2011. *Information Disclosure, Cognitive Biases, and Payday Borrowing*. The Journal of Finance: 1540-6261.



Fernandes, et al (2014): Meta-analysis of 201 studies.

“Interventions to improve financial literacy explain only .1% of the variance in financial behaviors studied, with weaker effects in low-income samples.”

Source: Fernandes, et, et al, 2014. *Financial Literacy, Financial Education and Downstream Financial Behaviors* Management Science. 60(8)



Heuristics Approach to Financial Capability: A path to behavior formation?

Two financial education programs:

1. Standard accounting training

No significant effect on business practices except setting aside funds for business expenses

2. Rule-of-thumb

6-12% Increase in separating business/personal account, accounting records and calculating revenues

Source: Drexler, et al. 2014. *Keeping it Simple: Financial literacy and rules of thumb*.
American Economic Journal: Applied Economics, Vol. 6, No 2.



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POLL

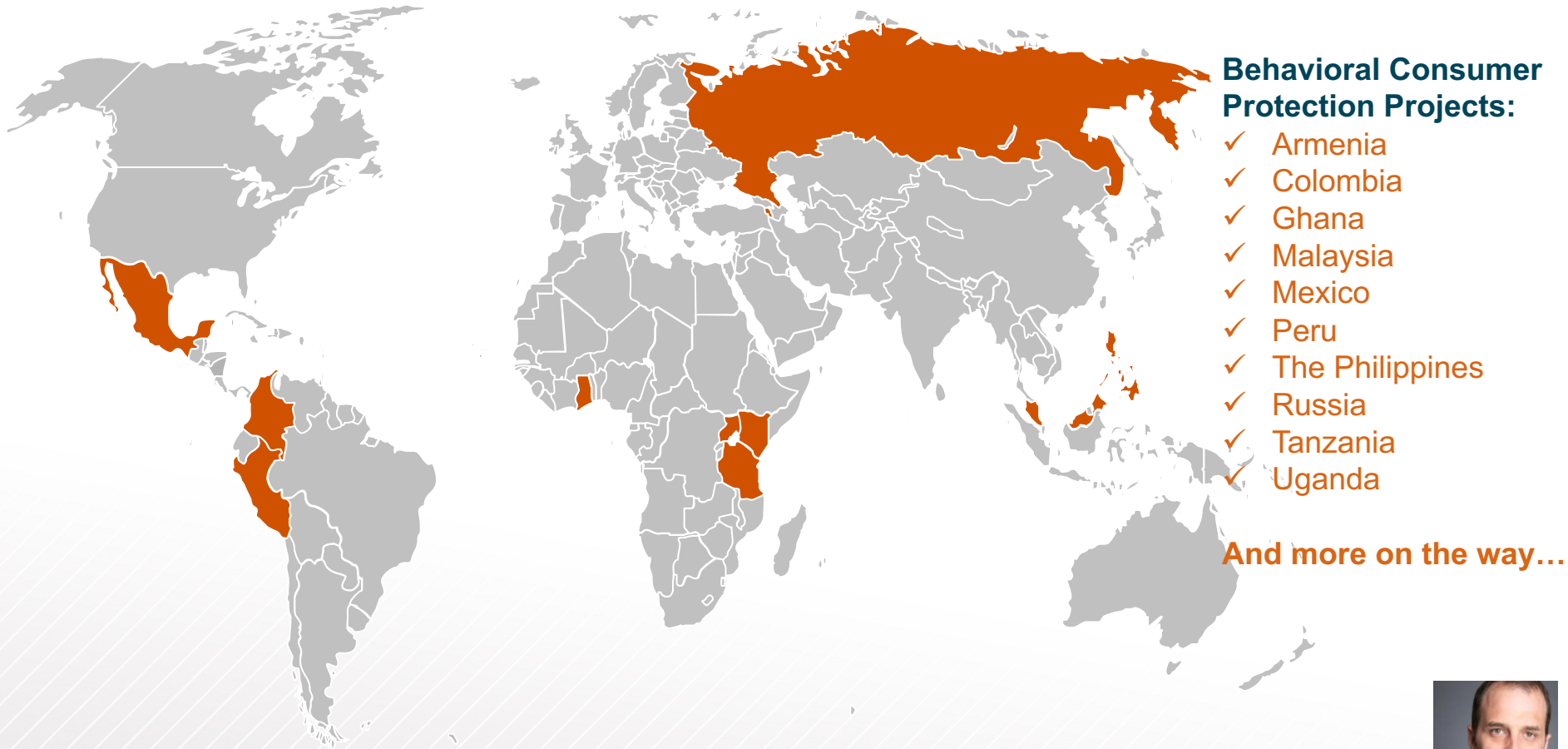
What aspect of consumer protection do you think can most benefit from behavioral research?



How is behavioral research improving consumer protection?

Case studies from collaborations with policymakers

Policymakers Are Utilizing Consumer and Behavioral Research to Improve Consumer Protection Policymaking Globally





Peru: Mystery Shopping for Financial Services

What is mystery shopping?

Mystery shopping measures a provider's processes by consumers' experiences in a detailed and objective way.

Mystery shoppers perform specific tasks such as: purchasing a product, asking questions or shopping around, registering complaints.

For more information see CGAP's Technical Guide: [Mystery Shopping for Financial Services](#)

How do we make mystery shopping more behavioral?

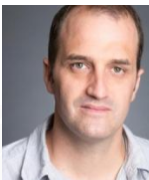
Use actual shoppers

- Match key socioeconomic profile and financial history
 - Lower-income Peruvians
- Suitability: Are most appropriate service being offered accordingly to needs of consumer types?
 - Savings of USD 680 either with intent to leave in place or move money around
 - Loans for 20% to 70% of their household income

Develop “signaling” scenarios for shoppers to act out

- Financial knowledge (low or high)
- Shopping around

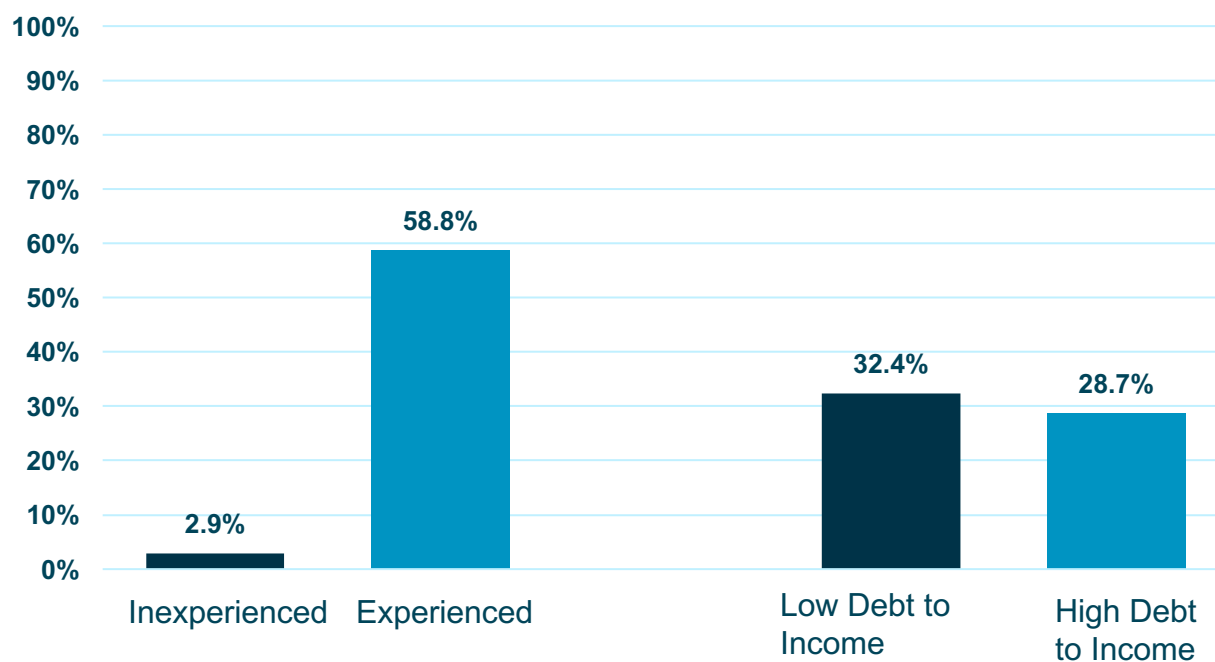
Source: Xavier Gine and Rafe Mazer. 2016. *Financial (Dis)-information: Evidence from a multi-country audit study*. World Bank Policy Research Working Paper



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Peru Mystery Shopping: Total Cost of Loan Often Hidden During Sales Visits

Shoppers Informed of Total Cost of Loan

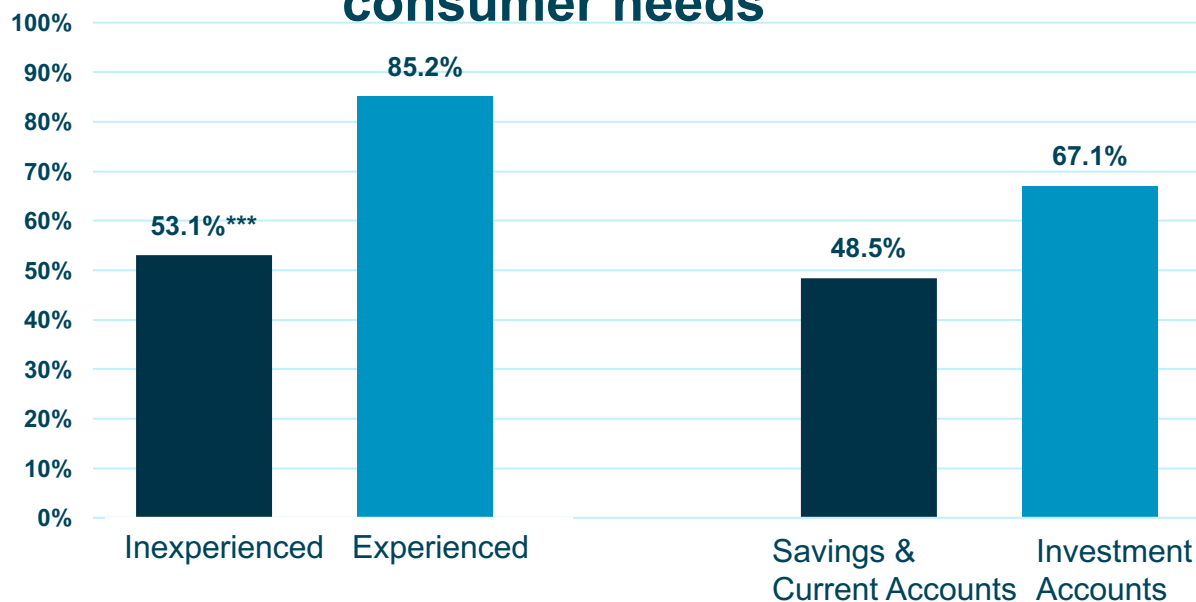


Source: Xavier Gine and Rafe Mazer. 2016. *Financial (Dis)-information: Evidence from a multi-country audit study*. World Bank Policy Research Working Paper



Peru Mystery Shopping: Sales staff ability to match consumer needs varies by product and consumer profile

Financial service is appropriate to consumer needs

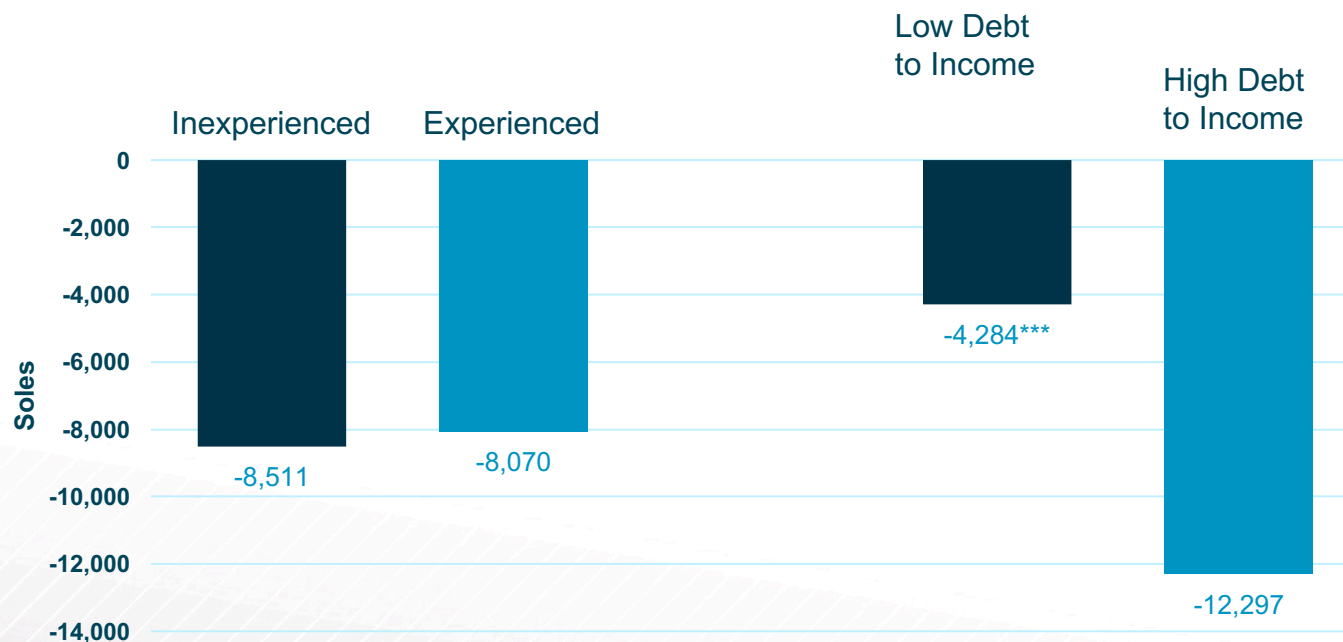


Source: Xavier Gine and Rafe Mazer. 2016. *Financial (Dis)-information: Evidence from a multi-country audit study*. World Bank Policy Research Working Paper



Peru Mystery Shopping: Sales staff responded effectively to high debt to income loan requests

Difference Between Credit Amount Requested and Received



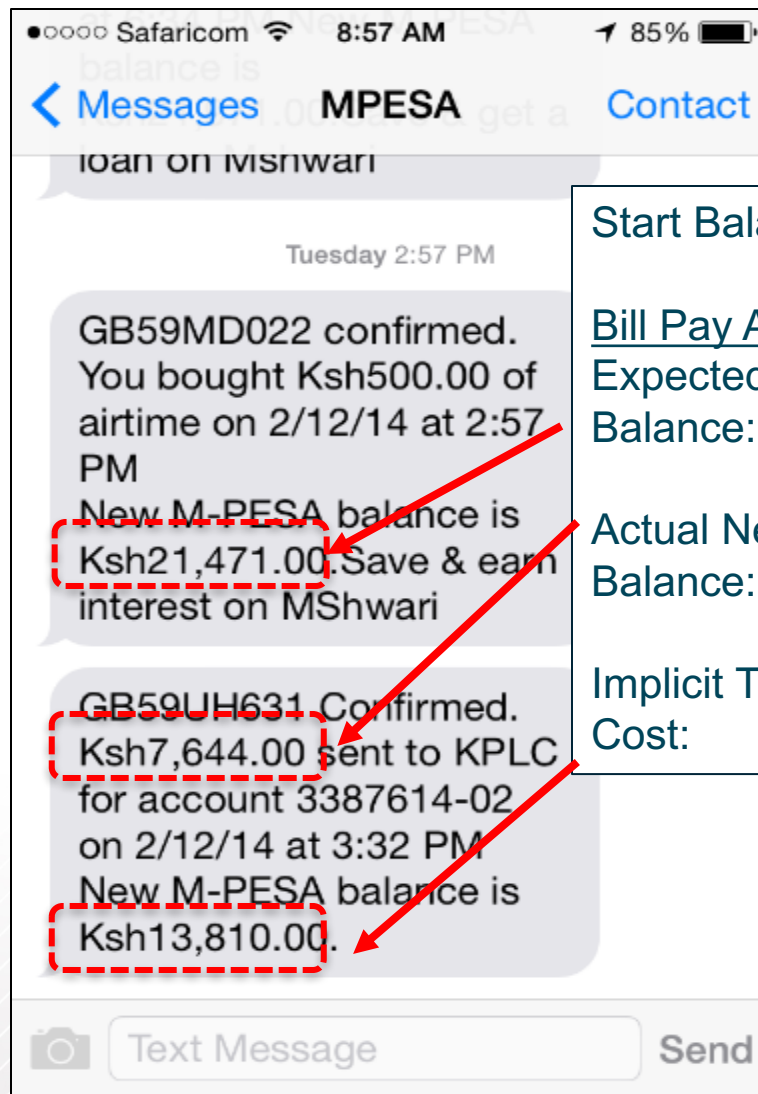
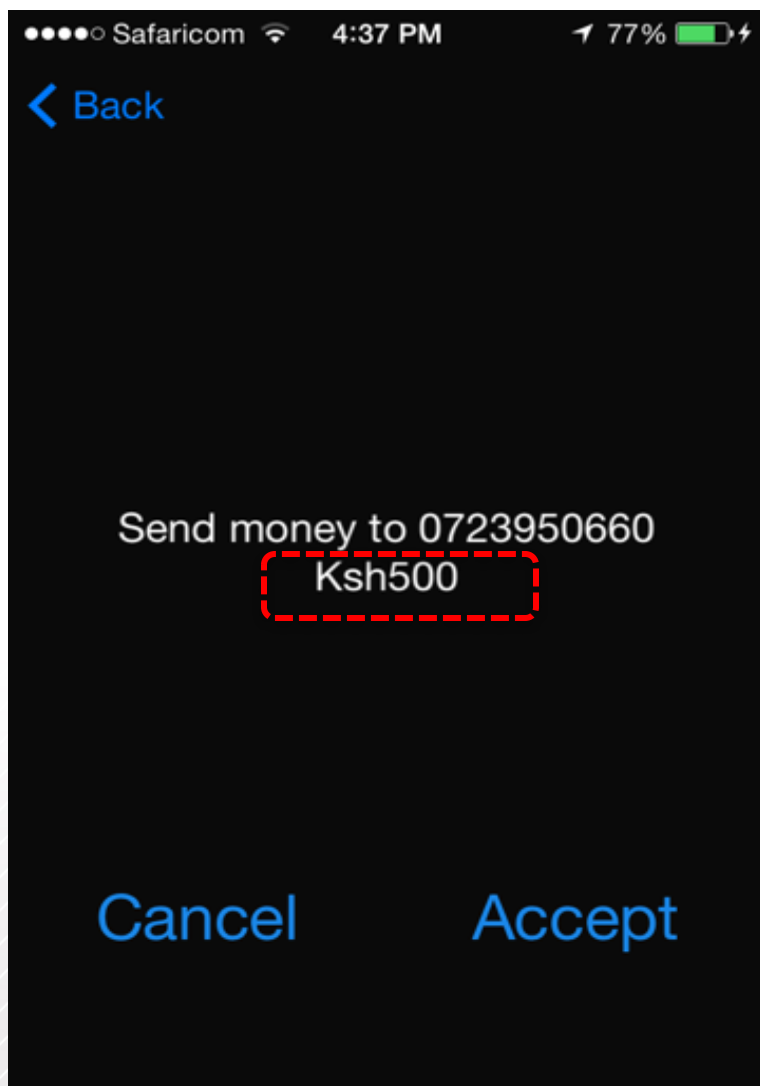
Source: Xavier Gine and Rafe Mazer. 2016. *Financial (Dis)-information: Evidence from a multi-country audit study*. World Bank Policy Research Working Paper





Kenya: Measuring Consumer Price Sensitivity in Mobile Money

Poor disclosure practices by Kenyan mobile money providers



Start Balance: 21,471

Bill Pay Amt.: 7,644

Expected New Balance: 13,827

Actual New Balance: 13,810

Implicit Transaction Cost: 17



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Natural Experiment: Safaricom Change in M-Pesa Tariffs, August 2014

P2P Transaction Value	Old P2P Fee	New P2P Fee	% Change in Fee
10-49	3	1	-67%
50-100	5	3	-40%
101-500	27	11	-59%
501-1,000	33	15	-55%
1,001-1,500	33	25	-24%
1,501-2,500	33	40	21%
2,501-3,500	33	55	67%
40K-45K	82	110	34%
45,001-50K	110	110	0%
50,001-70K	110	110	0%

Cost to Send Ksh50 + Ksh60: Ksh6

Cost to Send Ksh 110: Ksh 11

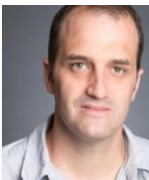
Natural Experiment: Safaricom change in M-Pesa Tariffs, August 2014

Consumer Survey of Low-Income M-Pesa Users, Nairobi, December 2014 (n=500)

- 46% recalled tariff change
- Only 3% and 2% knew P2P tariff for Ksh500 and Ksh1,000
- 38% anchored to old Ksh500 tariff, 17% to old Ksh1,000 tariff
- **Higher frequency users changed transaction sizes to “optimize” by 33% more than lower frequency users.** Price optimization is learned through frequent usage.

What do consumers know about bill pay fees?

- 40% used paybill on e-money before
- 35% thought fee of last transaction was zero
- \$8.6 a year in fees per user for this sample



Competition watchdog orders mobile cash firms to reveal fees

SHARE BOOKMARK PRINT RATING ☆☆☆☆☆



Competition Authority of Kenya director-general Wang'ombe Kariuki. PHOTO/FILE

By MUGAMBI MUTEGI

Posted Saturday, October 29 2016 at 15:46

IN SUMMARY

- Mobile telecoms operators like Safaricom will be required to disclose all transaction charges to customers just before they effect the payment and issue a receipt.
- Commercial banks will also have to highlight just how much they bill for mobile loans, mobile-to-bank transfers, account balance enquiries, airtime top-up, utility payments among many other mobile-based services.

Source: <http://www.businessdailyafrica.com/news/CA-orders-mobile-cash-firms-to-reveal-fees/539546-3434244-6qmjew/index.html>



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Separating finance fees leads to better borrowing decisions

Choose your repayment plan:

- 1.Repay 228 in 45 sec
- 2.Repay 236 in 1min and 30sec
- 3.Repay 244 in 2min and 25sec

VS.

Choose your repayment plan:

- Repay 200 + 28 in 45 sec
- Repay 200 + 36 in 1min and 30sec
- Repay 200 + 44 in 2min and 25sec

Clarifying interest rates led to a **reduction in default rates** on first loan cycles from **29.1% to 20%**

Source: Ariana Keyman, Rafe Mazer, James Vances. 2015. Finding Win-Win in Digitally-Delivered Credit. CGAP Blog.www.cgap.org/blog/finding-win-win-digitally-delivered-consumer-credit



Lab Testing is an Important Tool for Behavioral Research in Consumer Protection

Active choice approach increases viewing of T&Cs and reduces delinquency rates

Welcome to TOPCASH:

1. Request a loan
2. About TOPCASH
3. View T&C's



Choose your loan amount:

- KES 200
- KES 400
- Exit Loan

VS.

Welcome to TOPCASH:

1. Request a loan
2. About TOPCASH



Kindly take a minute to view Terms and Conditions of taking out a loan:

1. View Ts&Cs
2. Proceed to loan request

1. Terms and Conditions viewing increased from **9.5%** to **23.8%** by making it an active choice

2. Reading the Terms and Conditions led to a **7% absolute drop in delinquency rates**

Source: Ariana Keyman, Rafe Mazer, James Vances. 2015. Finding Win-Win in Digitally-Delivered Credit. CGAP Blog. www.cgap.org/blog/finding-win-win-digitally-delivered-consumer-credit



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Jumo integrated these insights into their new USSD menus in 2016

1. Separation of finance charges and principal

Choose your repayment plan:

- 1.Repay 1000
+ **35** in 7 days
- 2.Repay 1000
+ **170** in 14 days
- 3.Repay 1000
+ **205** in 21 days
- * Back

2. Separate line of loan fees with percentage

Loan term details:
Loan: 1000
Loan Fees: 135 (13.5%)
Loan term: 7 days
Repayment: 1135 to be deducted from Airtel Money Wallet on <date>
Confirm
***Back**

3. New screen with late payment penalty

Failure to repay your loan by the due date will result in a late payment fee of <pct> being added. You may also lose access to KopaCash
Next
*** Back**

4. Active choice to view T&Cs, old version had web link only

Agree to the T&Cs below in order to proceed with your loan application.
tc.jumo.world/akec
Agree
View T&Cs
*** Back**



Armenia: Using Behavioral Design to Improve Financial Education Programs

Central Bank of Armenia Financial Capability Project



Source: https://www.afi-global.org/sites/default/files/publications/2016-08/2016-grantsnapshot_armenia.pdf

Central Bank of Armenia survey on impact of financial education programs included behavior change metrics

DIMENSION	THEME
1 Knowledge - a cognitive understanding of financial concepts	A Economic impact - Financial & macroeconomic concepts
2 Skills - ability to apply knowledge	B Personal budget management
3 Attitude - willingness to apply knowledge and skills	C Saving and long-term planning
4 Behavior - the act of using financial products and services	D Debt management E Shopping around F Personal rights protection G Safe usage of financial services (fraud)



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CGAP and GRID Impact supporting behavioural redesign of Central Bank of Armenia's adult financial education programs

Stages of Behavioral Design Process Utilized by GRID Impact with Central Bank of Armenia

1. Discover

- Field research with target consumers, data collection, training observations

2. Concept Ideation

- “Is there a way to mimic the jarring tradition to smooth consumption and reduce financial scarcity?”

3. Prototype

- Test concepts with consumers

4. Experiment

- Finalize interventions and delivery channels
- Develop robust method for testing and measuring impact

Field Testing of Concepts Can Take Many Forms



Co-Design Workshops



Ranking Activities



Card Sorting Activities



Role Playing



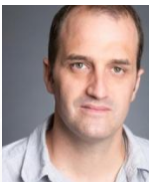
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Rapid Prototyping Should be a Requirement for Consumer-Facing Policies!



Testing of Heuristics Prototypes at Village Authority Offices in Armenia

- ✓ Stock up a little savings bit by bit to help get through leaner times
- ✓ Think deeply before taking a loan: Make a plan and compare your options
- ✓ Know your loan options: Avoid penalties and overpaying the banks by knowing your payment options paying early, or more than the minimum
- ✓ Know your money-making options
- ✓ Being a guarantor is like taking a loan: If they don't pay, you do
- ✓ Protect your family's future: Loans are an expense and not an income



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The Next Step: Expanding the policymaker-researcher community

June 2017: Innovations for Poverty Action launches consumer protection policy research grant round

IPA and CGAP Host Behavioral Research for Consumer Protection Policymaking Workshop

May 18, 2017

Nairobi, Kenya

Appropriate consumer protection is becoming ever more central to ensuring the financial wellbeing of the poor. Ensuring that consumers are able to select and use financial products to their best advantage is a key component of financial inclusion. Without a robust consumer protection framework, even the most educated and capable consumer is likely to have difficulty making prudent financial choices. It is vital that policies aiming to protect consumers account for lessons from behavioral economics and be subject to testing before they are nationally scaled. IPA's Financial Inclusion Program in collaboration with CGAP held a one-day workshop to discuss the current state of evidence and guide the direction of investments in research in this space.



DETAILS

LOCATION
Amber Hotel
Nairobi Kenya

Possible Influence & Impact Model:

1. Policymaker Trainings
2. Policymaker-Researcher Matchmaking
3. Research Funding Mechanisms
4. Joint Researcher-Policymaker Proposals
5. Evidence Base for Improved CP Policy



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How Can Consumer Protection Policymakers Use Behavioral Economics?

Two Roles of Consumer Protection Authority: Service Provision vs. Rule-Making

1. Provide effective services to the public

- Financial capability programs and tools
 - Use of heuristics (rules of thumb)
- External complaint handling
 - Management behavior
 - Empowering consumers

2. Standardize market procedures

- Disclosure
 - Enable comparability
 - Awareness of prices / conditions
- Internal complaint handling
 - Effective procedures
 - Empowering consumers



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Central Bank Brazil

Even the simplest financial service is complex...

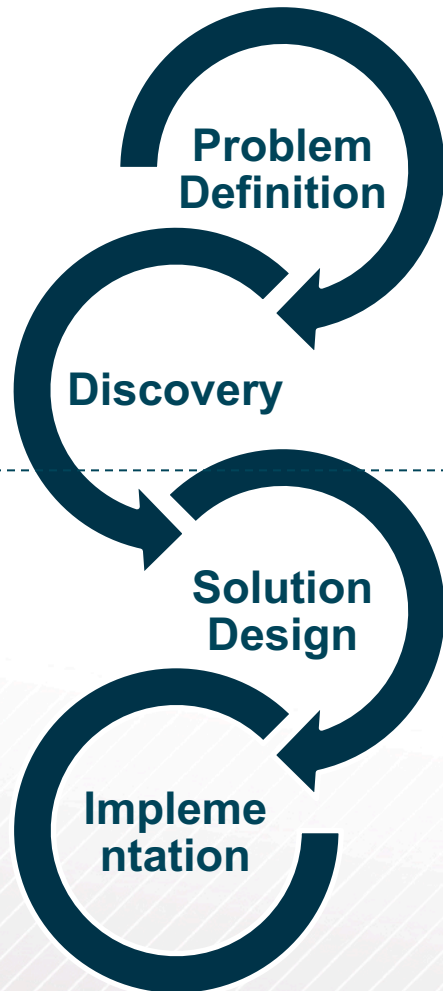
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30/JUN/2015	
DISPONIVEL	
= TOTAL DISPONIVEL(A)	14,944,88
+ CONTA CORRENTE	1,00
+ INVEST. FACIL	2,530,03
+ DEMAIS INVEST.C/BX AUTOM.	12,413,85
BLOQUEADO	
= TOTAL BLOQUEADO(B)	20,00
+ VINCULADO DO DIA C/C	20,00
TOTAL DE RECURSOS(A+B)	14,964,88
SALDO DISP. P/INVEST.	1,00
DEMONSTRATIVO INVESTIMENTOS	
CDB-FACIL V ATZ.....(**)	12,413,85
INVEST FACIL BR.....(**)	2,530,03
LIMITES DE CREDITO	
CHEQUE ESPECIAL	4,000,00
LIMITE UTILIZADO	0,00
LIMITE A UTILIZAR	4,000,00
CREDITO PESSOAL	4,000,00
LIMITE UTILIZADO	0,00
LIMITE A UTILIZAR	4,000,00
(**) INVEST C/BX AUTOM	

← Total Available

← Total Amount

The process... Does it look complicated?

STAGES



RESEARCH TOOLS

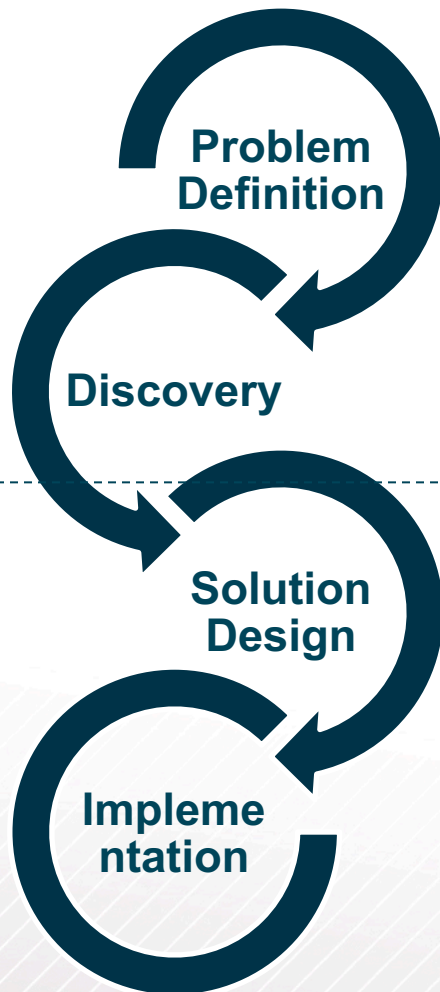
In-depth interviews
Behavioral mapping
Mystery shopping
Data analysis

In-depth interviews
Rapid prototyping
A/B testing

Random control trial
Pre-post testing
Lab testing
Field experiments

Behaviorally informed vs. behaviorally designed

STAGES



TYPE OF POLICY

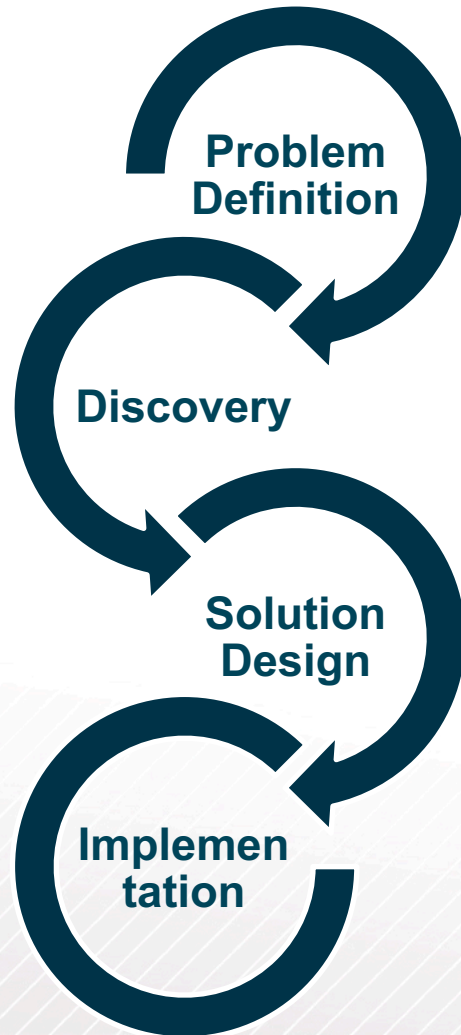
BEHAVIORALLY INFORMED

- Do not necessarily correct market conduct issues
- Issues go beyond consumer choice, needing more forceful policy measures

BEHAVIORALLY DESIGNED

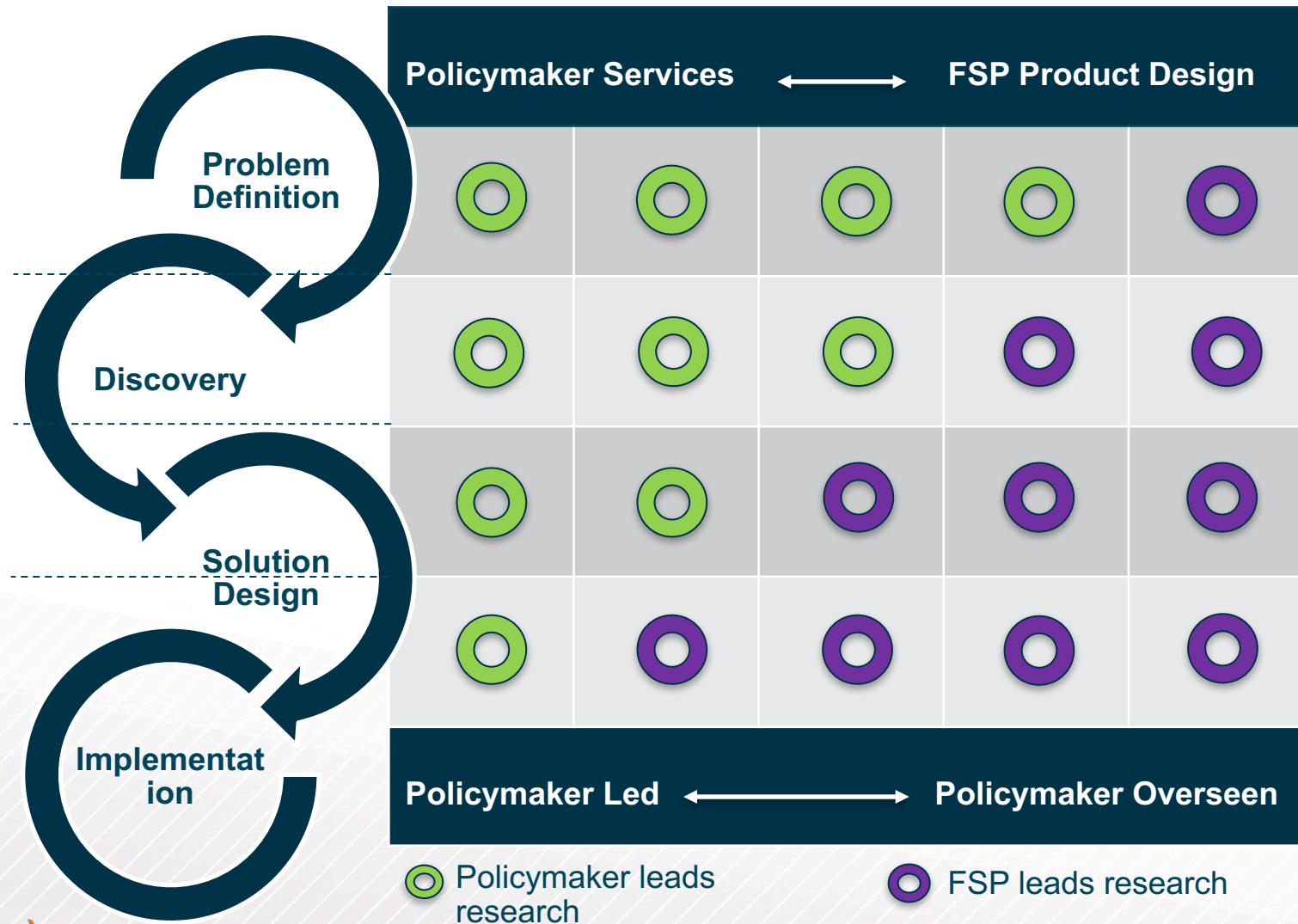
- Principles of design to help choice (nudges, default setting, choice framing)
- Consumer-facing aspects of market conduct

What is the role of the policymaker in behavioral research?



**Should I do research,
outsource it or
mandate it?**

Policymakers can set their level of effort according to their needs and capacities



High-touch or low-touch can both work for key consumer protection topics

	<div>High Touch ←</div> <div>→ Low Touch</div>				
Type of intervention	Policymaker services	Prescriptive rules - standards	Behaviorally informed policies	Regulation by outcomes	Ex-post policy decision
Goal	Provide effective service to public	Standardize market procedures	Action policymaker research towards FSPs	Set goals to be achieved by FSPs	Pipeline research results from FSPs to policymaker
Areas in which have been/ can be applied	External complaint handling; Financial capability	Disclosure; Internal complaint handling	Incentives; Interest caps; Supervision	Disclosure; Suitability	Sandboxes; Product approval
	<div>Policymaker Led ←</div> <div>→ Policymaker Overseen</div>				

Policymakers and Researchers Don't Always Agree...

1. Mystery shopping can be used to fine financial service providers
2. Randomized control trials are best for testing different approaches to financial consumer protection
3. Access to consumer and account data is essential for proper experimentation



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Central Bank Brazil

Behavioral Research Can Start Small—It just needs to start!

1. These methods can lead to better policy interventions
2. Diversity of research methods for all budgets and interests are available
3. Growing community of firms and academics policymakers can collaborate with
4. Be on the lookout for more trainings and research funding in financial inclusion space soon!



Stan Zmitrowicz
Central Bank Brazil

Additional Resources

- [Applying Behavioral Insights in Consumer Protection Policy](#) (CGAP)
- [Applying Behavioural Economics at the Financial Conduct Authority](#) (FCA)
- [Behavioural Insights and Public Policy](#) (OECD)
- [Behavioural Economics and Financial Services](#) (European Commission)

Thank you

cgap.org

microfinancegateway.org