LEARNING FROM RURAL CLIENTS
A Learning Lab Workshop

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Behavioral Design: Inclusive Financial Services

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Behavioral Design: Inclusive Financial Services
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1) Who are Busara and ideas42?

1) Traditional Financial Product Design

1) What is Behavioral Science?

1) Profiling the End User

1) Key Behavioral Design Principles
Before we go on, a little game…
BLUE
Understanding what drives human behavior is complex
What is Busara?

We are a behavioral research and advisory firm that works with partners to identify core behavioral biases and structure programs, products and policies around these barriers.
We do behavioral research…

Identifying new barriers and unpacking their mechanisms in emerging markets

Cross-cultural Validation of Known Biases
Decision Science Research Methods
The Psychology of Poverty and Stress
...And provide advisory services to clients

Applying behavioral evidence and a rigorous approach to answering organizational challenges
What is ideas42?

We use the theories of behavioral science to design solutions to some of the world’s most persistent social problems.
We were born out of Harvard in 2008…

…by leading academics in the fields of behavioral economics and psychology

Eldar Shafir    Antoinette Schoar    Sendhil Mullainathan
We work with many partners in many different domains...
All across the globe…
Understanding what drives human behavior is complex
We use the behavioral approach to design for the end user
Creating effective designs is hard work...

So, I just put my $$ in and walk away??!!!
Financial products are designed to meet people’s expressed needs

To help provide people with short and long term liquidity, financial institutions developed credit and loan products.

To help people save their money securely for future needs, banks developed savings accounts.
… But sometimes that doesn’t lead to product take-up

A recent J-PAL / IPA meta analysis found that take up rates of MFI products in 7 experimental studies ranged from 13% to 31% - Much lower than the partner MFI’s had originally forecasted

Despite providing access to savings accounts, we find a lot of dormancy

CARD Bank, Philippines

Nov 2011 - Feb 2013: 34,175 savings accounts opened

58% had no activity
And sometimes, these solutions are not getting us the results we want…
Why do we see these behaviors?
Behavioral science helps us see the unintuitive reasons for people’s decisions & actions
Models for human behavior

odd choice.
What do we mean by inconsistent?
How did context affect you? Decoy Effect

Scenario:
If you had to select a vacation package, let us know which one you would choose?

Treatment 1
• Rome
• Berlin

Treatment 2
• Rome
• Berlin
• Berlin (without breakfast)
Vacation Package

![Graph showing vacation package comparisons between Rome and Berlin.]

- **Treatment 1:**
  - Rome: 0.8
  - Berlin (No Breakfast): 0.2
  - Berlin: 0.2

- **Treatment 2:**
  - Rome: 0.5
  - Berlin (No Breakfast): Not applicable
  - Berlin: 0.5
How did context affect you? The power of free

Scenario:
If you had to choose between two beverage choices for future workshops, a premium wine vs. a basic wine option, which would you choose.

Treatment 1
- Premium ($2.00 / glass)
- Basic ($0.25 / glass)

Treatment 2
- Premium ($1.75 / glass)
- Basic ($0.00 / glass)
The Power of Free

% Preferring Basic Option

Basic (Free) | Basic ($0.25)
I have a question for you: Do you aspire to eat healthy?

1. Yes

1. No
I have a question for you: Do you have a concrete plan?

1. Yes

1. No
I have a question for you: Did you follow your plan today at lunch?

1. Yes
1. No
What does healthy eating have to do with financial product design?
ideas42’s project with CARD Bank was built on the same principle

Behavioral Insight:

• Most clients had an intention to save, but no concrete savings goal

• Research shows that people find it extremely hard to follow through on goals that are not concrete
Goals, plans and commitments increased savings

Client balances were 26% higher in the treatment group seven weeks after account opening
How people in Lima, Peru view travelling for a S/. 50 discount on a cell phone

Cost of Phones
- S/. 200
- S/. 1,000

Lower income

Upper income
How did this affect you? Price sensitivity

Scenario:
You have the choice between two off-site activities, one that is 2 hours away and one that is 30 minutes away, but slightly cheaper.

Treatment 1
• Close (0.5 hours) - $240
• Distance (2 hours) - $210

Treatment 2
• Close (0.5 hours) - $40
• Distance (2 hours) - $10
Price Sensitivity

% Incurring Delays

- $10-$40
- $210-$240
Suppose I offer you a choice…

$100 today

Or

$105 next month
Which would you choose?

1. $100 today

1. $105 next month
Now suppose I offer you the following choice…

$100
In 6 months

Or

$105
In 7 months
Which would you choose?

1. $100 in 6 months
1. $105 in 7 months
Hyperbolic discounting: Evidence from Kenya

• Only 31% of people are willing to wait a month when it is now vs. 1 month, but 50% say they’d wait for an additional month 6 months out.

Two important considerations when designing for low-income populations

The context of scarcity

The context of income volatility
The psychology of scarcity…

Focus

“An Englishman’s mind works best when it’s almost too late”
- Winston Churchill

Inattention

“To photograph is to frame, and to frame is to exclude”
- Susan Sontag
Poverty impedes cognitive function...

Scarcity is most problematic when income is unpredictable...
Financial products often don’t work within these constraints...

“I can’t afford this insurance product.”

= 

“I can’t afford this insurance product this month.”
5 behavioral principles for building financial products for the underserved
Pay attention to the consumer’s inattention

You might think that your customer is making an active choice not to use your product. Are you sure s/he considered it?
Drawing attention to increase savings

Behavioral Challenge and Insights

• Limited take up and low rates of savings.

• Mobile money savings weren’t salient to the savers.
Drawing attention to increase savings

Providing golden coins to scratch off and enhance the saliency of weekly savings was by far the most effective way to increase savings. Savings quintupled over 6 months.
Today’s focus is tomorrow’s neglect
The pressing needs of today are far more important than what might arise three months from now.
Small hassles can have large effects

Small hassles can trigger the “not now” response, and lead to procrastination and inaction.
Be flexible with your customer’s context

Product flexibility is key for customers with volatile cash flows.
Trust builds consumer engagement

Build reciprocity so users are compelled to stay loyal when financial trouble hits.
On your own, think of examples of these behavioral principles in your work to share with the group (2 min)
5 behavioral principles

1. **Inattention:** You might think that your customer is making an active choice not to use your product. Are you sure s/he considered it?

1. **Present Bias:** The pressing needs of today are far more important than what might arise three months from now.

1. **Hassle Factors:** Small hassles can trigger the “not now” response, and lead to procrastination and inaction.

1. **Flexibility:** Product flexibility is key for customers with volatile cash flows.

1. **Reciprocity / Trust:** Build reciprocity so users are compelled to stay loyal when financial trouble hits.
THANK YOU

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