Behavioural Economics & Financial Services: Improving Customer Outcomes

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7 Questions:

1. What is Behavioural Economics?
2. Why does it matter to financial services?
3. What’s the regulator’s take on it?
4. What has the FCA published so far?
5. Which malpractices is the FCA targeting?
6. What does this mean for customer experience?
7. What are the best-practices for applying behavioural insights?
1. What is behavioural economics (‘BE’)?

**To the purist:**
- A branch of economics which emphasises the irrationality and bias of economic decision-making

**In popular use:**
- A catch-all term for a range of applied academic disciplines, including social psychology
- Once synonymous with nudging, it’s increasingly being replaced by ‘behavioural insight’ or ‘behavioural science’
1. What is behavioural economics (‘BE’)?

- Conceptually, BE divides human decision-making into:
  - Automatic
  - Fast
  - Intuitive
  - Emotional
  - Associative
  - Effortful
  - Slow
  - Deliberate
  - Logical
  - Serial

- “Irrational” System 1 often trumps “rational” System 2, leading to errors and biased choices – including flawed financial decisions
2. Why does it matter to financial services?

- Inherently complex products
- Products involve a trade-off between present and future
- Decisions often require assessing risk and uncertainty
- Decisions can be emotional, and have long-term implications
- Many people are unfamiliar with financial products
3. What’s the regulator’s take on BE?

“The FCA is interested in behavioural economics as it can (1) help the regulator understand the mistakes consumers make, (2) how firms respond to these mistakes, (3) how this affects competition, and (4) what interventions the FCA might consider.”
4. What has the FCA published so far?*

1. Key overarching ‘Occasional Paper’

9. Shorter papers, 5 of which are based on applied studies & RCTs**

*October 2015
**Randomised Controlled Trials
5. Which malpractices is the FCA targeting?

1. Rip-offs
   Products that have un-competitively high margins i.e. unessential add-ons

2. Suckers
   Products with concentrate profits that take advantage of a small group of vulnerable customers

3. Bargains
   Innovative products that appear very cheap but have hidden charges or exclusions

4. Traps
   Contract features that specifically target behavioural bias i.e. teaser rates, cancellation charges, default add-ons
5. Which malpractices is the FCA targeting?

1. Rip-offs
   Widespread reports of consumer regret across social media & complaints channels

2. Suckers
   Evidence of consumers making choices against common sense or provides poor value for their needs

3. Bargains
   Products unnecessarily complex in structure i.e. consumers unable to explain key product features

4. Traps

5. Regret

6. Folly

7. Confusion
6. Which malpractices is the FCA targeting?

- The FCA is also looking out for discrepancies. It recommends that companies examine customer choices in order to ensure that:

  A. Choices do not contradict reasonable and uncontroversial assumptions about what consumers value (i.e. choices imply that consumers prefer higher returns or lower prices)

  B. Choices of a novice consumer are not different to those of experienced consumers.

  C. Choices made via default options match the options that consumers choose when given the opportunity to make an active choice.

  D. Consumers’ actual behaviours do not contradict stated preferences (i.e. stated preference for low risk, yet putting all money in high risk investments)
6. What does this mean for customer experience?

- If we assume customers are behaving rationally, then providing ‘info X’ is sufficient to support good financial decision-making.

- If we recognise customers are subject to psychological biases, it’s no longer about the information; it’s about the entire experience.

- Consideration of contextual variables (messaging, imagery, timing, format etc.) becomes essential.
6. What does it mean for customer experience?

- This has lots of implications for customer experience best-practices – as well as regulatory legislation.

THE SMALL PRINT. If we start measuring and analysing how customers **actually behave** rather than how they **should behave**, it has all sorts of implications for compliance and existing practices. Take **Ts&Cs** for instance. We all know that hardly anyone reads them. But if information provision isn’t enough, what else should companies do? Where does the buck stop? Just how much cognitive effort can customers be expected to make?
7. What are the best-practices for applying behavioural insights to financial services?
“Regulatory change represents a challenge to business models, but businesses should also recognise the potential for strategic opportunities for growth…”
Behavioural insight and research

- Analysing existing data and carrying out additional research to accurately understand existing customer decision-making and behaviour.
- This isn’t a nice to have. These insights should be the lifeblood of your organisation – informing marketing, customer experience, products and services.

“What consumer research or data analysis has the firm done to determine what consumers needs are and how the product meets them?”
Messaging and content creation

- Using communications and content marketing to educate customers and equip them to make better financial choices.
Experimentation and optimisation

- Using scientific methods to test different approaches and facilitate behaviours that are good for customers and the bottom line.
- From digital optimisation to offline experimentation, firms should take a holistic approach to improving customer outcomes.
- The results of my first commercial experimentation with applied behavioural economics #whatIwenttoschoolfor

Case study:
Prime Decision helped Wesleyan to improve customer outcomes via experimentation in the contact centre.

69% increase in booking rates for Annual Financial Reviews

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Employee training and workshops

- Training employees in behavioural science enables teams to better support the external needs of customers.
- The most evolved organisations also apply these insights internally; facilitating employee behaviour change and fostering a healthy internal culture.
“The best financial service companies, the most consumer-focussed… make sure their customers are steered towards the best products and the most suitable. We should applaud these firms and learn from them.”
Behaviour change | Why force it?

Next step: prime-decision.com/behavioural-economics-financial-services