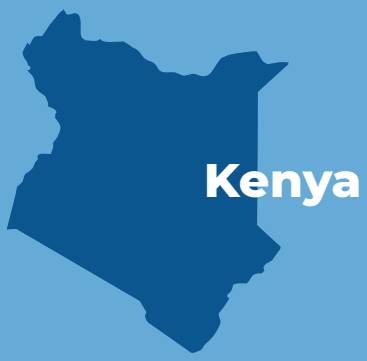
Behavioral Themes
Identity

Sector
Financial inclusion

Project Type
Field experiment

Sample Size
1,987 participants



Message framing to improve digital credit repayment rates

BUSARA CENTER FOR BEHAVIORAL ECONOMICS


Photo credit: Bennett Tobias

How can social obligations be induced on a digital platform?

Digital credit offers a compelling opportunity to lower the costs and barriers to accessing Credit. Recent research has suggested that this increased access has led to improved household resilience to shocks (Bharadwalj, 2019)[1].

Yet, timely borrower repayment is a challenge for credit institutions. Stringent policies such as blacklisting, have been adopted to drive timely repayments and finalize collections, however, they have proven quite expensive and can have negative long-term impacts on borrowers.

Recently, cost effective approaches have been sought out such as the use of behavioral nudges. Particularly in the peer-to-peer market, the use of social levers have the potential to encourage borrowers to prioritize repayment based on social responsibility.

A behavioral science approach

The decision to repay a loan is often subject to both a consumer's ability, but more importantly, willingness to pay. That willingness is naturally subject to a number of competing priorities and behavioral barriers. Uncertainty about the consequences, lack of salience of the repayment terms, or unclear links to their perception of self can all inhibit timely repayment.

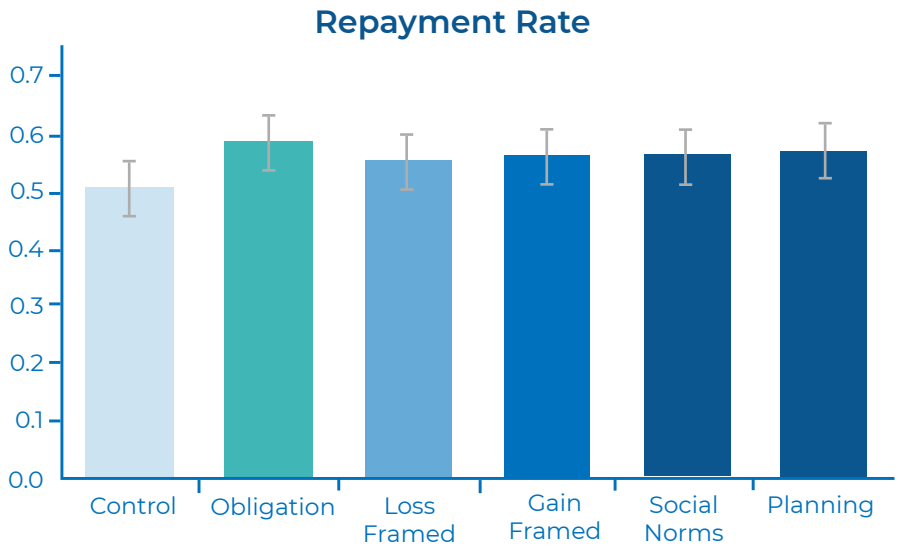
Fortunately, evidence has shown that small changes such as conveying a sense of obligation, visualizing clear plans and goals, and automating deductions can create an easy avenue to help customers avoid costly fees associated with late or nonpayment. In this project, Busara was commissioned to design a set of behavioral interventions that would improve the likelihood that borrowers repay their digital loans on time.

1 Bharadwaj, P., Jack, W., & Suri, T. (2019). Fintech and household resilience to shocks: Evidence from digital loans in Kenya (No. w25604). National Bureau of Economic Research.

Design

We deployed a series of interventions that tested whether small changes to the framing of repayment reminders could encourage higher repayment rates. These tests were not conducted on a live loan product, but a simulated experience where borrowers were given KES 50, with the opportunity to be paid KES 200 two weeks later if they paid the KES 50 in two KES 25 intervals at a set payment schedule. This simulation allowed us to quickly recreate a low cost loan experience without exposing the lender to a large number of new borrowers.

We found that most frames had minimal impact on improving repayment, but the social obligation was the most motivating, leading to a slightly higher (and statistically significant) repayment rate.



Treatment	Design
Control	Simple reminder to make the loan repayment.
Obligation	An individual (Mercy) has selected you to receive the loan, make sure to pay it back for her.
Loss framed	Message emphasizing that you don't want to miss out on your KES 200, so make sure to pay on time.
Gain framed	Message that emphasized the potential gain of KES 200, so make sure to pay on time.
Social norm	Message framing that most have already paid back at this point.
Planning	Message encouraging simple planning and mindfulness to pay back on time.

Discussion

Loss-framing less effective in inducing a consistent, reactive behaviors (i.e. repaying a loan)

Loss-framing messages had no measurable impact on repayment. We have seen this now across a few experiments in digital financial services (see “Promoting adoption of new mobile payment services”), which suggests that loss-framed messaging may be less effective in promoting consistent, reactive behaviors, as opposed to one-off conversion.

Obligation still powerful even on digital

A tiny tweak to the message indicating that someone else was depending on your action had a significant positive effect on repayment. This suggests that even small tweaks to language that induce a sense of obligation can have powerful impacts.

Photo credit: Random Institute