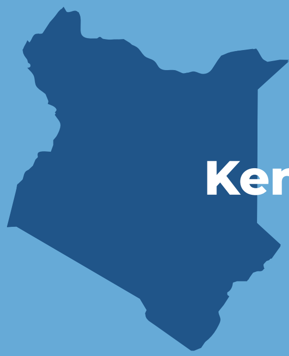
Behavioral Themes
Salience / simplicity, urgency / timing

Sector
Financial inclusion

Project Type
Field and lab experiments

Sample Size
1,834 participants



Behavioral barriers to searching and switching among banking services

Photo credit: Busara Center

BUSARA CENTER FOR BEHAVIORAL ECONOMICS

fsd Kenya


Photo credit: Busara Center

Can we support more switching and searching among banking services?

Over the past few years, the lack of competitive pressures in the Kenyan banking sector has been identified as a key area of concern. The Competition Authority of Kenya (CAK) and Financial Sector Deepening - Kenya (FSD-K) commissioned an inquiry into the appropriate course of action to identify and address any prevailing conditions that maintain an unfavorable status quo in the Kenyan banking sector.

This experiment aimed to identify whether interventions that reduce searching or switching costs were more effective in enabling consumers to identify optimal products. These experiments would then be used by the CAK to inform regulations in the banking industry.

A behavioral science approach

The ability to effectively search among competing offers in the banking sector is subject to a number of obvious structural and less obvious behavioral barriers. Information is often not standardized nor comparable, requires significant effort to track down, and is presented late in the negotiation process.

Each of these constrains a consumer's ability to make a simple and informed choice about the right banking product for them. In this task, we deployed a series of interventions in a lab environment simulating several potential policy responses. In each experiment, users had the ability to continue searching for new banking opportunities by completing an effort task, and ultimately benefited from selecting the lowest cost choice through a higher payout.

Design and Results

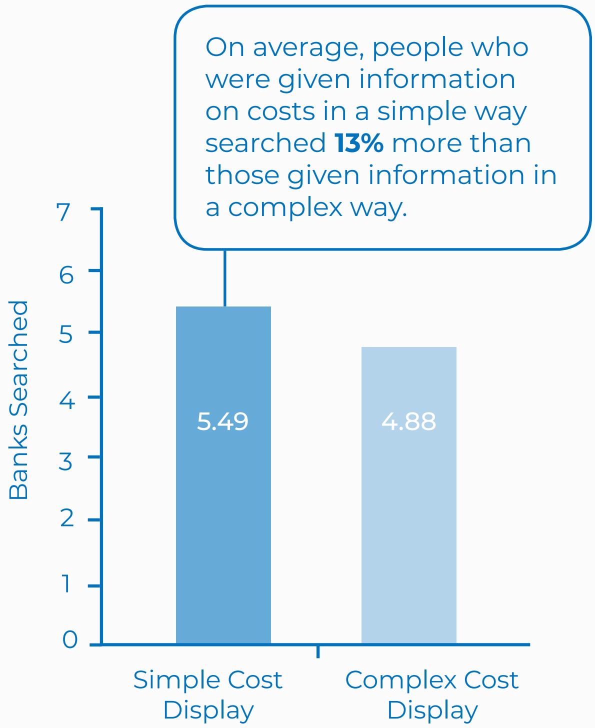
Lab Experiment

Simplified Cost Display

In this treatment, we varied the display to be more standardized and simplified as per Schumer Box / TCC standards. The belief here was that not having a standard set of terms may not only confuse consumers, but may leave them feeling less convinced that searching will be a useful exercise.

Treatment : Simpler list of information as well as monthly payments and total cost of credit. (N=200)

Control: Complexity and inadequacy of the status quo where costs are displayed but not added up. (N=200)



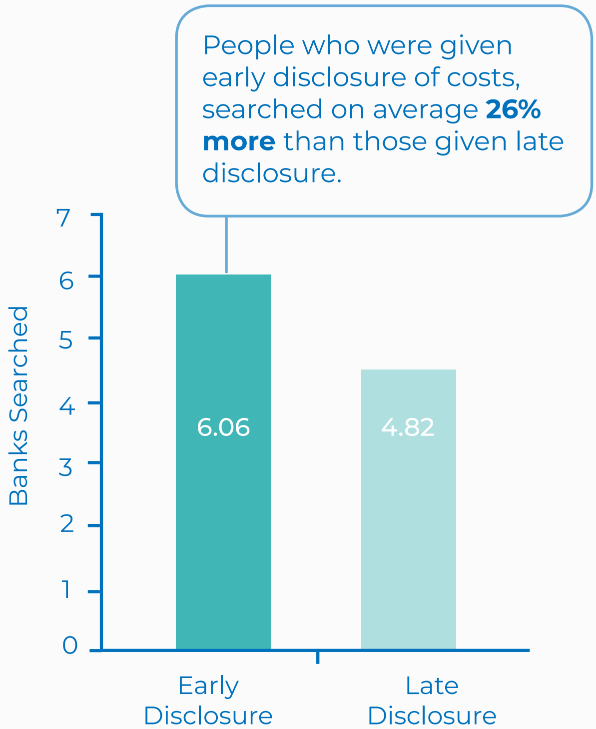
Lab Experiment

Early vs. Late Disclosure

In this intervention, we tried to simulate the market condition where terms were only offered at the end of the negotiation, such that prospective borrowers might feel some sense of sunk costs towards the loan in discussion, without having time to adequately view sufficient options. By offering basic terms up front, we believe we could encourage borrowers to search more and find better options.

Treatment (Early Disclosure): Giving people the price after completing a small effort task (N=200)

Control (Late Disclosure): Not giving people pricing information upfront but requiring them to first complete an effort task (N=200)



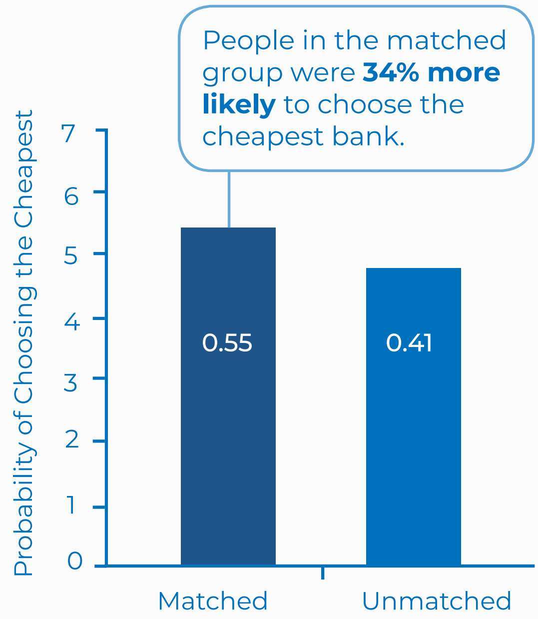
Lab Experiment

Matching Offer

In the intervention, we asked whether standardizing the ability to match your current offer at a new institution would increase your conviction to actually switch.

Treatment 1 : Respondents are shown information enabling them to determine that the cost of Bank Z is better in the same way as their previously chosen bank. (N=400)

Control: Respondents are shown information enabling them to determine that the cost of Bank Z is better in a different way from their previously chosen bank. (N=400)



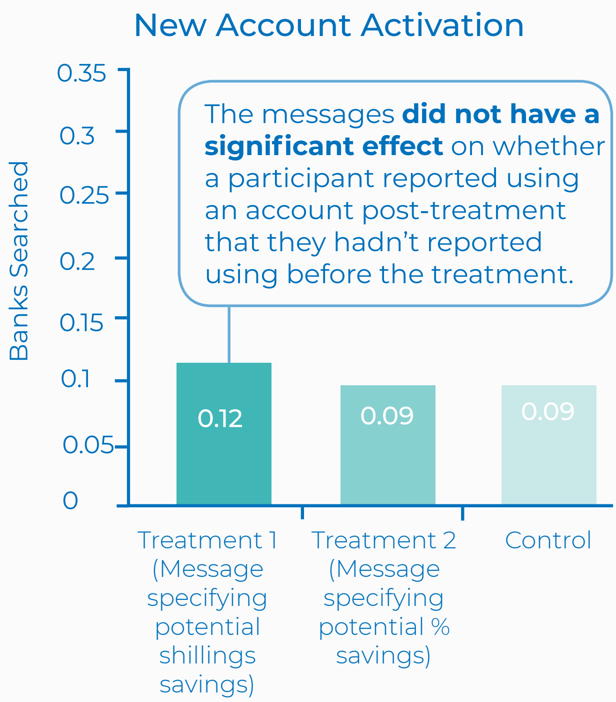
Field Experiment

Nudges to encourage searching

In this treatment, we wanted to understand whether a small nudge to encourage people to search for other options would increase searching and switching behavior among digital loan products. We also wanted to test whether the raw magnitude (KES saved) would be more effective than a share (%) of loan principal.

Treatment 1: Emphasizing potential earnings from shopping around (in KES) (n=266)

Treatment 2: Emphasizing potential earnings from shopping around (in percent) (n=266)



Discussion

Standardization and timing matter a lot, cost saving information seems to matter less

We find that the standardization of cost-displays, highlighting the total cost of credit, has a strong effect (12% increase) on the willingness of participants to search for further banking products. We also find that the timing of the disclosure matters quite a deal (25% increase). Lastly, we find that small nudges around potential cost savings do not lead to significantly higher searching or switching among digital products.

Focus on the point of sale, not broader communications

This leads us to believe that effective interventions to increase searching and switching can be implemented, but likely need to be at the point of the transaction with customers. This could be achieved through clear mandates or the facilitation of a third-party cost-comparison function.

Prioritize reducing search costs

Based on our interventions, we believe that reducing searching costs is likely to be a higher impact intervention on the banking industry at lower-cost to the regulator. Matching offers appeared to motivate switching behavior, but based on supplementary qualitative work, consumers reported a low tendency to close accounts as opposed to open new supplementary accounts due to the onerous timelines to get access to credit. Based on this, and the strong results from the searching interventions, we believe interventions improving the ability to effectively search and compare options would result in a more competitive marketplace.