

THE SEMBLANCE OF SUCCESS IN NUDGING CONSUMERS TO PAY DOWN CREDIT CARD DEBT

RAND BEFi 2019

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NOT NECESSARILY REFLECTING POSITIONS OF THE FINANCIAL CONDUCT AUTHORITY (FCA), AFM OR CMA.

Ex-ante test of potential regulation by UK Financial Conduct Authority (FCA) to reduce persistent credit card debt holding.

Pre-registered RCT with behaviorally-informed treatment.

Field experiment on 40.7k credit cards from large UK lender.

2nd UK lender stopped after one week of fieldwork.

FIXING MONTHLY PAYMENTS ABOVE MINIMUM PRODUCES BIG SAVINGS

Example: £1,000 debt (18.9% APR, no further spending)

Payment	Time to Repay Debt (years,months)	Interest Cost
Minimum Payment	18,6	£1,265
£25	5,1	£509
£50	2,0	£191

MINIMUM PAYMENT CALCULATION

Minimum payment = max{£5, total interest + fees + 1% balance}

Repeated minimum payers often enrolled in **automatic minimum payments** (type of 'Autopay'/'Direct Debit')

Automatic minimum payments...

'Good' - prevent forgetting to make payment

'Bad' - little debt pay down

[Sakaguchi, Stewart, & Gathergood, 2018]

DESIGN

CONTROL: AUTOMATIC PAYMENT OPTIONS WHEN OPEN CREDIT CARD (OPT-IN)

Automatic minimum, full + fixed payment options (or none)

Pay your card bill

Make a payment

Set up a Direct Debit

To set up a Direct Debit you'll need to be the account holder and be able to authorise payments from the account. Not the account holder or need joint signatures? Just download the Direct Debit instruction form fill it out and return it to us by post. If your joint account only needs one signature, just complete the form below.

How much would you like to pay each month?

The amount will be reduced by any payments received since your last statement



The minimum

It will take longer and generally cost more to clear your balance this way. If you make extra payments, your direct debit will only collect the difference needed to reach the minimum



Statement amount

You will clear your balance this way. If you make extra payments your direct debit will only reduce the difference to your last statement



This much

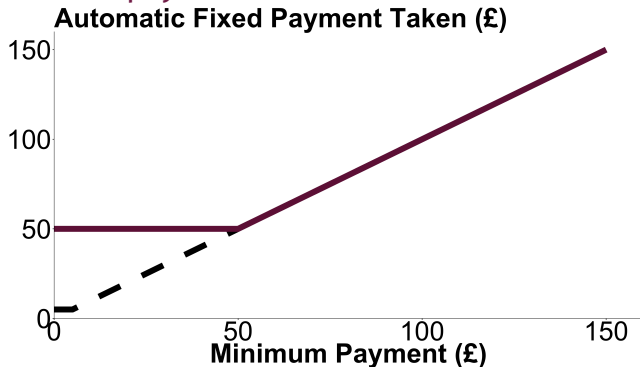
£

We'll collect your fixed amount or the minimum payment due, whichever is the greater. If you make extra payments, your direct debit will still collect the fixed amount or the remaining balance if this is lower

WHAT IS 'AUTOMATIC FIXED PAYMENT' OPTION?

Automatic fixed payment taken = $\max\{\text{fixed } \pounds \text{ amount, minimum payment}\}$

E.g. $\pounds 50$ automatic fixed payment



$\pounds 5$ automatic fixed payment \equiv automatic minimum payment

Why? *Minimum payment = $\max\{\pounds 5, \text{total interest} + \text{fees} + 1\% \text{ balance}\}$*

TREATMENT: NO EXPLICIT AUTOMATIC MINIMUM PAYMENT OPTION

Automatic full + fixed payment options (or none)

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TREATMENT DESIGNED TO AUTOMATICALLY REDUCE DEBT

Increase automatic fixed payment enrolment



Increase automatic payments



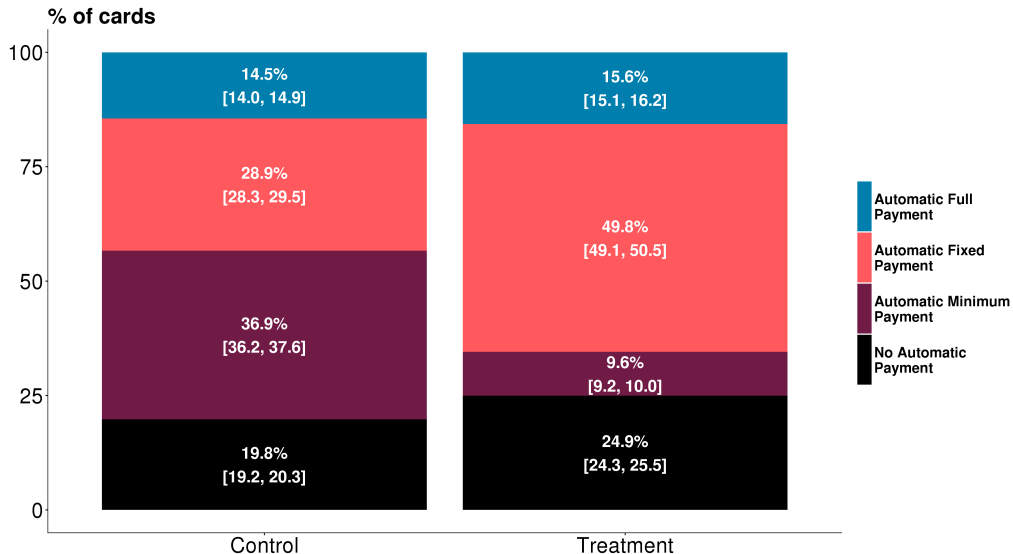
Increase payments above minimum



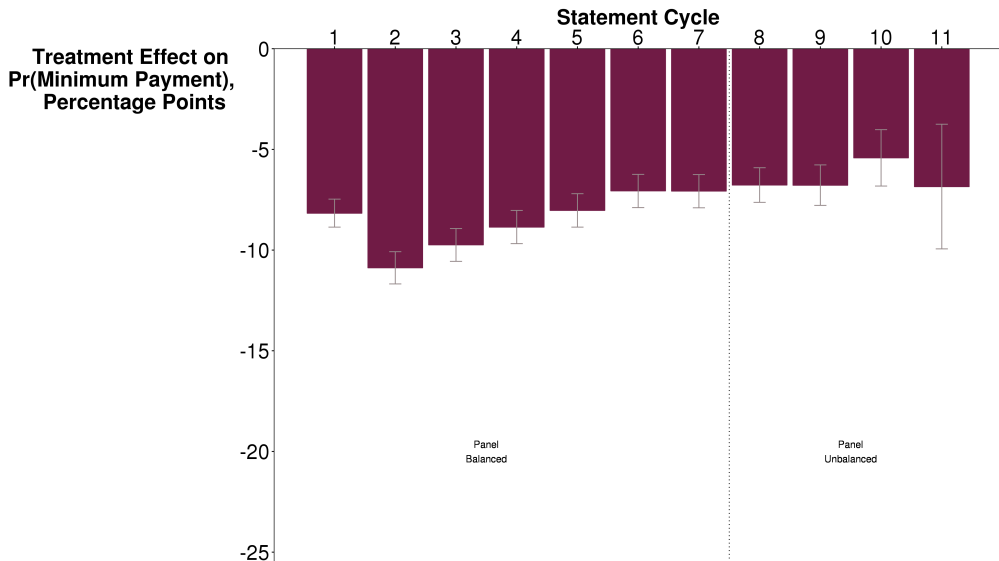
Decrease debt + interest costs

RESULTS

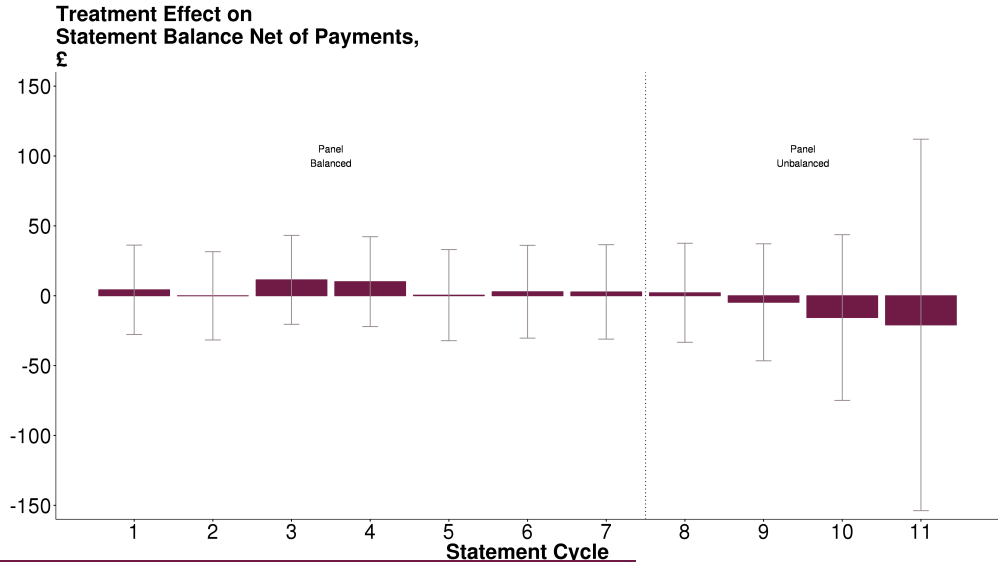
+21PP (+72%) AUTOMATIC FIXED PAYMENT ENROLMENT (STATEMENT 2)



-7PP (-24%) PAYING EXACTLY MINIMUM (AFTER 7 STATEMENTS)



NO CHANGE IN DEBT (AFTER 7 STATEMENTS)



WHY NO DEBT REDUCTION?

1. Automatic fixed payments set 'too low'

+17 pp automatic fixed payment enrolment

but only...

+8.7 pp where fixed payment not binding at minimum

(after 7 statements)

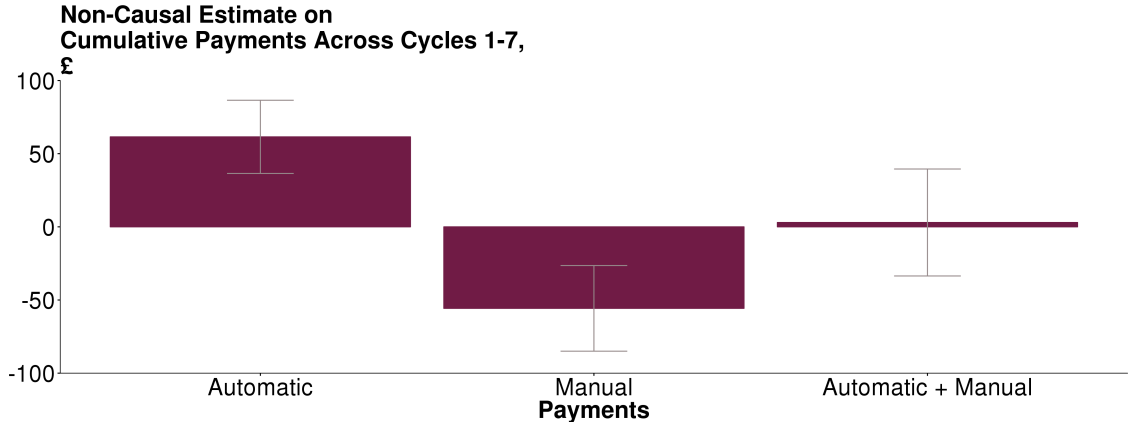
3 OFFSETTING CONSUMER RESPONSES

1. Automatic fixed payments set 'too low'

2. Manual payments decrease

DECOMPOSING FOR SUBSET **WITH** AUTOMATIC PAYMENTS (ENDOGENOUS, NON-CAUSAL ESTIMATE)

Automatic payments increase, manual payments decrease, zero net effect



ADDITIONAL MANUAL PAYMENTS INFREQUENT BUT LARGE

Of those with automatic payments set up...
..Manual payments are...

INFREQUENT: 8.5% make a manual payment

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INFREQUENT: 8.5% make a manual payment

LARGE: 40% of total (automatic+manual) payment value

	Automatic Payment	Manual Payment
Mean Payment Value	£110	£440
Median Payment Value	£50	£120

Note: Mean, median conditional on positive payment and rounded to nearest £10.

3 OFFSETTING CONSUMER RESPONSES

1. Automatic fixed payments set 'too low'
2. Manual payments decrease
- 3. Enrolment in any automatic payment fell**

-4.3 pp any automatic payment enrolment

+0.3 pp missing (forgetting) a payment

I. REGULATION IS HARD

Sometimes evidence-based policy to not make policy.
Test big interventions. But which? How much evidence needed?

II. CONSIDER OFFSETTING EFFECTS OF NUDGES

Offsetting effects can reduce effectiveness of nudges.
Measure longer-term outcomes not just initial choices.

III. MORE RESEARCH INTO CREDIT CARD BORROWING

Borrowers less inert than first appeared. Rational inattention?
What motivates + constrains timing + amounts of manual payments?