

Weighing Anchor On Credit Card Debt

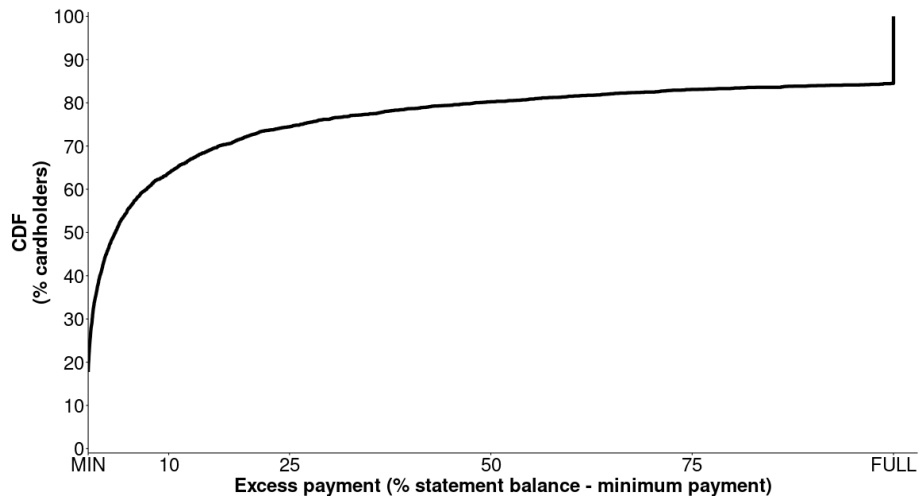
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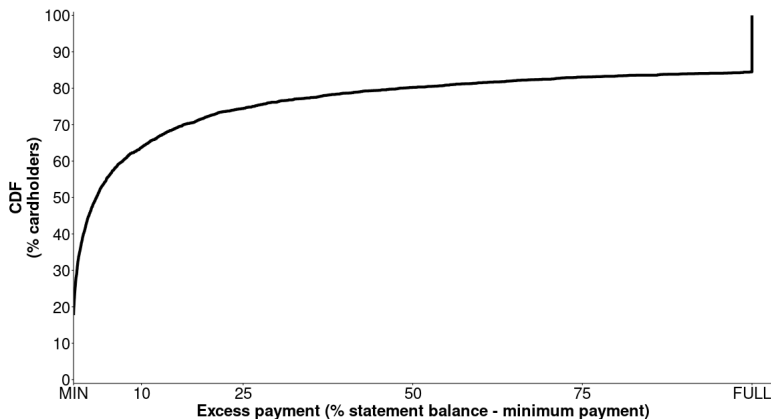
SCP2022 #WeBelieve

Views should not be interpreted as reflecting those of the Financial Conduct Authority (FCA).

Motivation: UK credit card payments often at/just above minimum



Objective: Increase credit card payments for those who can afford to pay more



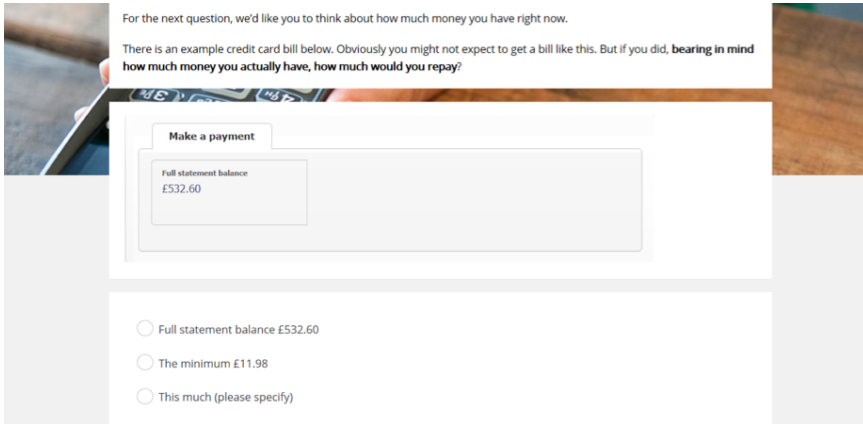
Why only pay minimum?

- **ECONOMICS:** Budget constraint binds at minimum payment amount
(Gross & Souleles, 02; Agarwal et al., 15; Keys & Wang, 19; Guttman-Kenney et al., 22).

Minimum payment amount anchors payment (control)

Why only pay minimum?

- **PSYCHOLOGY:** Minimum payment amount a 'bad nudge' (Sunstein & Thaler, 2008)
→ anchoring (Stewart, 2009) or targeting (Bartels & Sussman, 2018) effects.



For the next question, we'd like you to think about how much money you have right now.

There is an example credit card bill below. Obviously you might not expect to get a bill like this. But if you did, **bearing in mind how much money you actually have, how much would you repay?**

Make a payment

Full statement balance
£532.60

☐ Full statement balance £532.60

☐ The minimum £11.98

☐ This much (please specify)

Policy (treatment) shrouds minimum payment amount

Ex-ante test potential UK Financial Conduct Authority (FCA) de-anchoring policy

CONTROL

For the next question, we'd like you to think about how much money you have right now.

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£532.60

☐ Full statement balance £532.60

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☐ This much (please specify)

Back Next

TREATMENT

For the next question, we'd like you to think about how much money you have right now.

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Make a payment

Full statement balance
£532.60

☐ Full statement balance £532.60

☐ This much (please specify)

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If choose amount less than minimum then prompt reveals minimum amount enabling to revise initial payment choice (both control & treatment) Sakaguchi et al., 2022.

Experiment design

Wanted to run a field experiment...
...But no UK firm willing/able.



Experiment design

Wanted to run a field experiment...

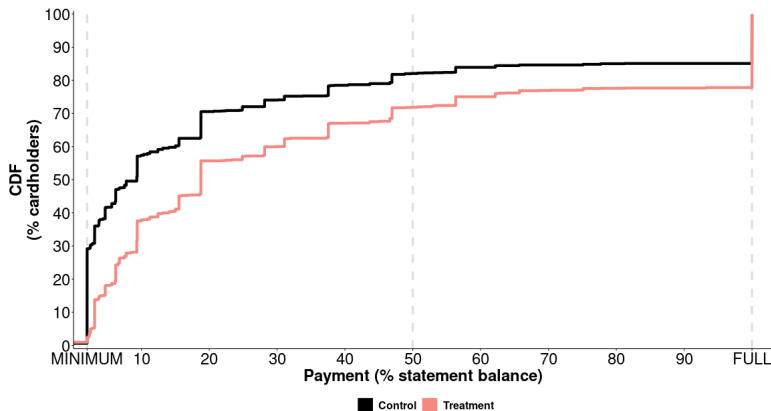
...But no UK firm willing/able.

Instead **lab-in-the-field** experiment:

- Survey UK credit cardholders.
- Hypothetical payment decision.
- RCT (i) treatment (ii) balance amount.
- Innovations on prior literature:
 - Testing across 2 balance amounts.
 - Larger & higher quality sample (active credit cardholders without autopay).
 - 3k survey responses matched to administrative credit card data.

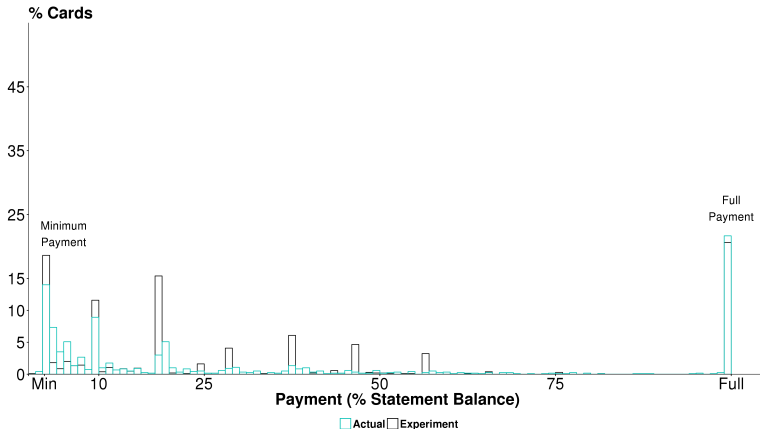


Result: Treatment increases payments & shifts distribution away from minimum



- Payment in full more likely 7.1 pp [95% C.I. 4.4, 9.9]
- Payment exactly minimum effectively eliminated -27.0 pp [95% C.I. -29.3, -24.7]
- Payment below minimum no significant difference. 0.0 pp [95% C.I. -0.3, 0.9]

External Validity? Hypothetical choices (for control group) closely related to actual, historical choices in administrative data



Use relationship to adjust estimates to provide lower bound on treatment effect.

Thank you! Any follow-ups:

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- **POLICY MOTIVATION:** Experiment designed to inform UK credit card policymaking.
- **ACADEMIC MOTIVATION:**
 - Testing de-anchor payments.
 - Evaluating external validity of hypothetical experiment.
- **METHOD:** Lab-in-the-field experiment (RCT).
- **DATA:** 3k survey responses matched to administrative data.
- **KEY RESULT:** Policy ↑ credit card payments & de-anchors from minimum.
- **EXTERNAL VALIDITY:** +ve correlation experiment responses & administrative data.