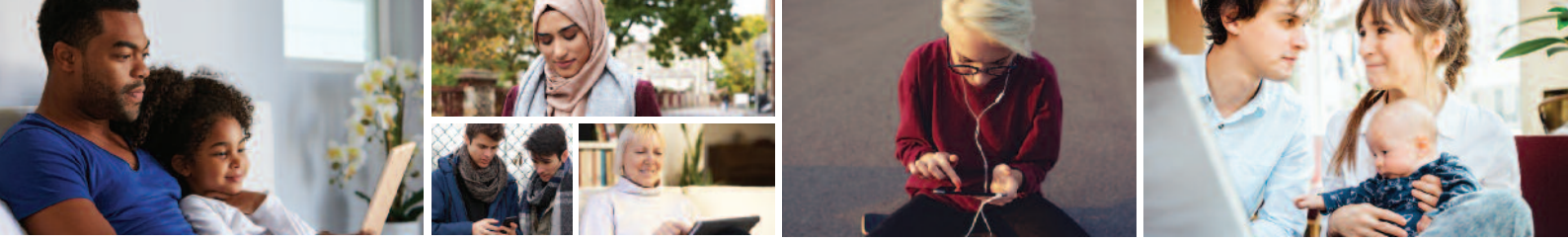

Working with you to improve the financial well-being of your customers

CASE STUDY

"Nudging" customers to higher credit card payments

One in sixteen customers (c.2 million) will be incurring interest and only making the minimum payment on a credit card for at least a six-month period*.

An early intervention to reverse a trend can make a big difference to debt accumulation.

It is expected that at least half of these customers would take more than 5 years to pay off the balance, incurring large amounts of interest cost in the process. By not paying down the card they make themselves vulnerable to accumulating unmanageable debt with a multitude of anxiety inducing effects. An early intervention to reverse a trend can make a big difference to debt accumulation.

The first hypothesis being tested was that suggesting a relatively small monthly increase and making it easy to respond would "nudge" customers towards a higher regular payment. A second hypothesis was to test whether there would be a materially different response to the concept of "reducing debt" (reducing a negative) or "having a better balance" (creating a positive).

Capital One worked with the Fairbanking Foundation on this problem and applied the test to small balance customers on the maximum limit, currently paying the minimum payment of £7. A test was conducted which suggested altering the direct debit to a specific higher amount or "enter your own amount". Three alternative versions were tested with £10, £15 and £25. Around 30% of customers that opened the e-mail took an action to increase the direct debit and c. 60% of those customers chose the suggested amount.

The e-mail contained a table which showed customers that it would take 7 years to repay on the

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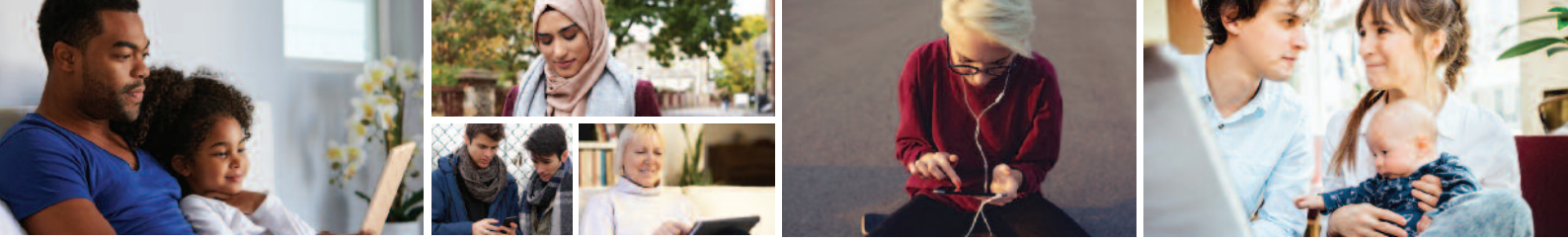

minimum payment (£7) ranging down to 10 months if they paid £25. There appeared to be little engagement with the table in the decision i.e. it was driven by the ease of choosing the suggested amount, whether £10, £15 or £25.

The conclusion reached was to emphasise the shorter period and cost savings and propose the £15 monthly payment. It cut the period of payment from c.7 years to c. 1.5 years and reduced the amount of interest paid by the customer by 82%.

Two approaches were taken for presenting to customers and there was a significant difference in the customer response (hypothesis 2). Almost a third (32%) more customers opened the e-mail when it had the "look forward to a better balance" message compared with "keep on top of your debt". Having opened the e-mail, more than a quarter (26%) more of the "better balance" customers took an action by signing up to the higher direct debit. Therefore, framing the solution in terms of credit card balance management had a much better effect than framing it as debt reduction. Given that these credit cards were at the maximum balance and are likely to be only one element of a customer's debt, the scale of the difference was not obvious in advance of the test. It points to the challenge of referring to "debt" i.e. it is likely that mere reference to this topic will have the effect of turning some customers away from taking any action. They may not want to think about debt at all, if it can be avoided.

This work was more successful than had been anticipated, particularly the high action rate of those opening the e-mail encouraging them to increase their payment. It remains the view of the Fairbanking Foundation that the potential to "nudge" customers to act in their best interests is underutilised by the financial services industry. We were very pleased to be able to help Capital One to support their customers in this way.

The potential to "nudge" customers to act in their best interests is underutilised by the financial services industry.

*FCA Credit card market study (July 2016)

The Fairbanking Foundation's Advisory Services team would be happy to discuss how the above application of behavioural economics techniques could improve your debt collection customer experience and recovery rates. For further details please contact:

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