Informing Consumers with Limited Attention: A Case Study from Turkey

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Consider this scenario

• You have a regular savings/checking bank account in ABC Bank which has a line of credit tied to it as an overdraft facility. It is called a “Flexible Account.”
• This allows you to go into negative balance up to a limit and you have to pay interest on the negative amount until you pay it back fully.
• You have many expenses coming up this month and many day-to-day issues to deal with and are worried about your account balance being low.
• You may or may not know that you have a “flexible account” (or you forgot that you have one).
You get an SMS from the Bank

Use your Flexible Account and we will give you back half of your Flexible Account accrued interest. This offer ends in 3 months.

We remind you that for your immediate cash needs, you have a Flexible Account with a $2,000 limit.
Which message is more likely to make you use your line of credit?

1. Message 1
   “Use your Flexible Account and we will give you back half of your Flexible Account’s accrued interest. This offer ends in 3 months.”

2. Message 2
   “We remind you that, for your immediate cash needs, you have a Flexible Account with $2000 limit”

3. Neither. You would never use your line of credit.
Behavioural Barriers: Limited Attention and Inattention

• People pay (rational?) limited attention to features of financial products

• People are often inattentive towards long term or not immediate financial goals
Overcoming the Barriers

Core Idea:

• Most advertisements and marketing material target people’s emotional system (fast reacting, intuitive) whereas good information processing calls for a more rational slow thinking system.

• Financial decisions can be made more salient by sending reminders or using other techniques to draw people’s attention to rare or far-in-the-future expenses.
Evidence from Randomized Evaluations

• People respond to *frames* and *cues* so advertising content matters a lot!
  – Study in South Africa: Credit demand responds to content (e.g. picture of a female)

• Reminders (SMS or other means) can mitigate problems of inattention by bringing what is IMPORTANT to top of mind.
  – Study in Philippines: Personal touch in messaging increases loan repayment
  – Study in Bolivia, Peru, Philippines: Reminders that mention savings goals increase saving
A Case Study in Turkey

• **Direct marketing experiment** on a standard **bank overdraft product** with one of Turkey’s largest banks

• **Product = Flexible Account**:  
  – Line of credit tied to a checking account  
  – Overdraft transactions happen automatically (no opt-in)  
  – Interest charges start immediately (typically very high APR)
A Case Study in Turkey

Say you have checking account in this bank and a line of credit tied to it with 60% APR. You may not always know your account balance or realize that you’re using the overdraft.

This is a case your limited/in-attention can cost you a lot of money!
A Case Study in Turkey

• Randomly varied the messaging and pricing (promotional offers) sent by the Bank, via SMS, to 108,000 existing checking account clients.

• Examples of messages:
  “Use your Flexible Account and we will give you back half of your Flexible Account’s accrued interest. This offer ends in 3 months.”
  “We remind you that, for your immediate cash needs, you have a Flexible Account with $2000 limit”
Expected Behavior Change

• Will consumers change their overdraft usage?
• Will their response depend on the content of the message and offer?
• Will the timing and frequency of the messages affect their response?
• Will any changes in consumer behavior persist after the messaging campaign ends?
Q1: How does overdraft price promotion affect demand?

- About half of the sample were offered a big discount: “Use your Flexible Account and we will give you back half of your Flexible Account’s accrued interest...”

- What do you think this did to overdraft usage?
  - Increased?
  - Decreased?
  - No effect?

Result: Offering discount decreased overdraft usage by about 2% relative to messages that do not offer the discount.
Interpretation of perverse price effect

• This is a striking finding: offering a price reduction on a commodity reduces demand for that commodity.

• Possible explanations:
  – Advertising price does not just change the price, it also draws consumers’ attention to the price!
Q2: How does overdraft availability promotion affect demand?

• About 1/6 of the sample received a promotion that highlighted the availability of the overdraft facility:
  “We remind you that, for your immediate cash needs, you have a Flexible Account with a $2000 limit...”
• What do you think this did to overdraft usage?
  – Increased?
  – Decreased?
  – No effect?

Result: Availability promotion *increased* overdraft usage by about 4%, relative to messages that do not mention overdraft at all (and relative to overdraft cost-mentioning messages).
Interpretation of Overdraft Reminder Effect

• Overdraft facility (not just price) far from top of mind for consumers

• Could be that the Availability Reminder distracts consumers from thinking about price => consumer overreacts to availability

• Reminding someone that it is there for “cash needs” increases the salience and therefore the use of the add-on feature
Q3: Does Behavior Change Persist Post-Experiment?

No: little evidence of habit formation

The treatments induced some consumers to overdraft more, and some to overdraft less, but we find little evidence that these behavior changes persisted for more than a few weeks after the treatments stopped (Contrary to the UK Financial Conduct Authority’s assertion).
Implications for Shrouding Models

• Banks have incentives to shroud add-on prices i.e. no price competition
• Results support the motivating assumption of consumer confusion and/or inattention at baseline
• Results partially support the shrouding models’ key assumption that consumers tend to underestimate add-on charges
Implications for Policy

• Lack of incentives for price competition is concerning
• Evidence of limited consumer attention, limited memory/knowledge should be taken into account when designing information material
• Regulation on transparent pricing and reminders
  – Caution: how will banks respond? Flood with other info? How tightly can one regulate the requirement? Costs w/r/t email/texting close to zero if not zero.
Thank you!