Insights to Impact

HARNESSING BEHAVIOURAL SCIENCE TO BUILD FINANCIAL WELL-BEING

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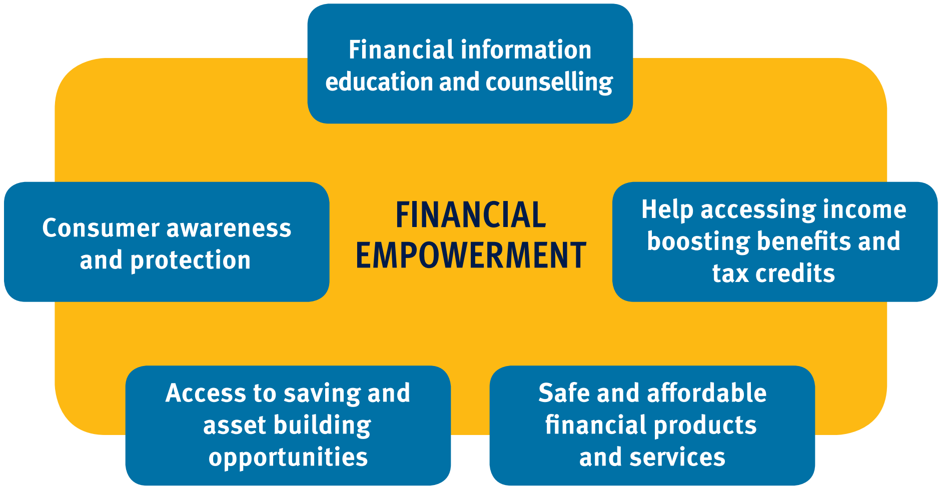
Introduction

This report offers what we hope will be a practical and useful introduction to behavioural thinking and the ways it can be used to strengthen financial empowerment supports for Canadians with low incomes.

Behavioural scientists have made remarkable progress in understanding why people behave the way they do, uncovering often surprising factors that influence the over 30,000 decisions we all make every day. Through their study of the cognitive processes that consciously and unconsciously shape the way we think, they have generated exciting new insights that challenge many traditional assumptions about how people behave and why.

These insights have particular relevance for the field of financial empowerment, which aims to strengthen the financial inclusion, capability, and opportunities of people with low incomes and to support their journey to greater financial security and well-being. Financial empowerment is a complementary new approach to poverty reduction that comprises an integrated set of interventions that have been shown to improve financial outcomes for people living in poverty when they are tailored to the needs of specific groups and integrated with other supports and services.



The goal of this report is to share new insights from behavioural science with financial empowerment practitioners so they can integrate behavioural approaches into their work and strengthen the design and delivery of financial empowerment supports for Canadians with low incomes.

In this report, we introduce the field of behavioural science, discuss key insights it has generated, explore behavioural "nudges" and other interventions that can be used to strengthen financial empowerment programs and services, discuss how practitioners can take a behavioural lens to their work, and provide illustrative case studies and resources for further learning.

This report is not a comprehensive review of the literature on behavioural science, but offers what we hope will be a practical and useful introduction to behavioural thinking and the ways it can be used to strengthen financial empowerment supports for Canadians with low incomes.

We are deeply appreciative to all those who contributed to this work through their participation on our Advisory Committee and project team. This project would not have been possible without the generous guidance and advice of the following academic and non-profit organizations working at the forefront of behavioural science: Behavioural Economics in Action at Rotman, the University of Toronto's Department of Economics, the Behavioural Insights Team, and ideas42. Our thanks as well to the Deloitte and Prosper Canada staff who prepared this report.

What is behavioural science?

Behavioural science is the study of human behaviour. It looks at how individuals process information and make decisions and it investigates how we interact, communicate and behave with other people.

Behavioural science is a broad term that cuts across many traditional disciplines, including psychology, cognitive science and economics.

Individuals make over 30,000 decisions every day (Hoomans, 2015), most of them unconsciously. How do we make these decisions? What factors influence our choices and subsequent behaviour? Traditionally, economists have assumed that people make choices in a rational way – that we consider and process all available information before making the decision that offers us the greatest benefit over the long term (Knoll, 2010). In reality, we often make choices that are not in our long term best interest. The question is "why?"

Behavioural science attempts to answer this question. Researchers are exploring how we really make choices and, in doing so, have uncovered a fascinating array of conscious and unconscious factors that shape our thinking and behaviour. One of the most critical insights arising from this work is that our brains routinely take various *shortcuts* to enable us to make decisions fast enough to function in our fast-paced and complex environment. These shortcuts are generally helpful – we could not function without them – but they also create *biases* that affect our decisions and may cause us to make choices that undermine our goals and best interests. By understanding these powerful cognitive shortcuts and biases and taking them into account, we can design and deliver more effective programs and services for the people we are seeking to help.

All over the world, practitioners in diverse fields are using behavioural insights to better understand the people they work with and to identify behavioural barriers or roadblocks that may be preventing them from attaining their goals. Behavioural science is also helping practitioners to develop simple and effective ways to eliminate or overcome these barriers.

There are many ways to apply behavioural science to eliminate or overcome barriers. One type of application is commonly referred to as a *nudge*. Nudges do not limit people's choices or change financial incentives. Instead, nudges simply change how information or choices are presented to help people make beneficial decisions and avoid harmful choices. They push us towards better behaviour by making that behaviour simpler, more intuitive or more attractive.

While nudges are the best known and most common application of behavioural science, they are only the beginning. Researchers and practitioners are also developing *decision tools* to help us make better decisions and follow through on them. For example, using research that originated in the academic world (Bertrand & Morse, 2010), the Government of Ontario developed a **decision tool** to help borrowers understand the long-term costs of their borrowing decisions (Latif, Ly, Chetty, & Soman, 2015).

Behavioural science can also lead to the design of entirely new products, programs and services that leverage our cognitive shortcuts, rather than trying to overcome them. For example, the program *Save More Tomorrow* enables people to use any raises they get in the future to increase their savings. Led by the famous behavioural economist Richard Thaler, the researchers who developed the program realized that, while people want to save more, many have already mentally "spent" (earmarked) all of their current earnings for various expenses. By setting up automated savings that are triggered by a future raise, the program successfully encourages savings in a way that works with, rather than against, our psychological predispositions (Thaler & Berartzi, 2004).

Over the past ten years or so, many applications of behavioural science have been developed, implemented and evaluated. A rich body of knowledge now demonstrates the effectiveness of behavioural approaches and governments, businesses, community agencies and others are taking notice. Behavioural science has particular relevance for financial empowerment, as financial behaviour has been a key area of focus for researchers and clear links have been drawn between persistent financial challenges, like low savings rates, and specific cognitive shortcuts. This report explores some of the key insights that behavioural science can contribute to financial empowerment and offers a number of case studies to illustrate the power of these approaches.

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Mental shortcuts and how to use them to change behaviour

Cognitive shortcuts and biases refer to common or predictable ways that our brains jump to a conclusion or action without going through a full critical, analytical process.

One of the founders of behavioural economics, Nobel laureate Daniel Kahneman, famously calls this *thinking fast* in his wonderful book *Thinking, Fast and Slow*. In his book, he explains that we all think in two distinct ways: fast and slow. When we think fast, we use cognitive shortcuts to reach immediate conclusions. When we see a picture of a person frowning, we know immediately that they are unhappy. We do not need to reflect on the furrows in their forehead, the shape of their eyes, etc. – we just know. This is fast thinking. On the other hand, if we are asked to multiply two large numbers, we do not 'just know'. We need to take time and expend mental energy to go through a step-by-step process to reason it out. This is slow thinking.

Our lives would be very difficult if we could not think fast. Social interactions would be slow and draining. Making basic decisions would be taxing. The trouble comes, however, when those who design programs, services and policies do not recognize our "fast thinking" and assume that we will "think slow."

So how do we think fast? What specific shortcuts are our brains taking for us? Researchers have conducted thousands of experiments in labs and in the field to identify, define and understand cognitive shortcuts and the biases that result from them. Dilip Soman, a leading behavioural scientist at the Rotman School of Management in Toronto, classifies the long list of shortcuts that researchers have uncovered into three broad categories: context, procrastination and inertia (Soman, 2015). In this section of the report, we explore these categories, providing specific examples of cognitive shortcuts and illustrating how practitioners have developed behavioural solutions that offset or leverage them to achieve desired behaviour.

A. CONTEXT

Context refers to the importance of where we are, who we are with, and what is around us when we make decisions.

In simple terms, the way we think and act is informed by our surroundings and we rely heavily on them to form our preferences (Soman, 2015). Details that may seem trivial to us (i.e. number of people waiting in a line, the length of a form, the position of an item in a store), can actually have a profound impact on the decisions we make.

This section examines two of the most important contextual biases. The first, *social norms bias*, refers to our tendency to take the behaviour and choices of those around us as our guide, rather than carefully weighing the choices before us and their potential impact before making up our own mind, independent of the actions of others. The second, *salience bias*, means that our behaviours are strongly influenced by facts and ideas that come readily to our minds – that are more salient.

SOCIAL NORMS BIAS	
Key insight	**Our choices are strongly influenced by how our peers think and act.**
Description	It turns out that we really do want to "keep up with the Joneses." Rather than analyzing the costs and benefits of a decision for ourselves, we often take the shortcut of doing what our peers are doing. In addition to simplifying a decision, following our peers can also reinforce our deeply felt social and cultural identities. Peer groups exert considerable influence on our perceptions of what's acceptable (or not), as well as what's socially desirable. People get pleasure from doing the same things that other people they identify with are doing. This can create a challenge for programs if a client's peers are not experiencing the same learning and services. However, service providers can also capitalize on this concept by "nudging" clients towards positive financial practices that are applied or endorsed by their peers.
Behavioural solutions	**SOCIAL NORMS MESSAGING** – Where desired behaviours are common, communicating this fact can be quite powerful. For example, the UK tax agency used social norms messaging to increase tax payments. They added a single sentence to their reminder notices that "9 out of 10 people in your postal code pay their tax on time" and repayment rates jumped dramatically (Behavioural Insights Team, 2012). In using social norms messaging, it is critical to keep in mind people's expectations. Using social norms is only effective when the desired behaviour is more common than someone might expect. For example, if Britons expected that 99 per cent of their neighbours pay their taxes on time and learned it was only 90 per cent, they would be *less* likely to pay on time, not more. When trying to encourage families with low incomes to apply for a benefit, it could be quite impactful to note that "more than 90 per cent of eligible families have applied for and received the benefit in the last twelve months" (assuming this is true). Sharing this information allows clients to realize that applying for the benefit is the accepted normal behaviour and, therefore, they may be more likely to complete an application form. **SOCIAL COMMITMENT DEVICES** – A social commitment device is a type of decision tool that encourages people to stick to their goals by making a commitment or pledge to their peers. People are more likely to stick to their plan if there are social consequences for failing to achieve their goal. Social commitment devices capitalize on our desire to behave like others and makes the behaviour we are trying to follow the socially accepted norm. Savings circles are an example of a social commitment device in the financial empowerment space. In a savings circle, the group holds members accountable for setting specific savings goals and making small monthly savings contributions to achieve them. By doing it in a social setting, there is more pressure to meet commitments, which leads to greater savings.

SALIENCE BIAS	
Key insight	**We are influenced most strongly by the thoughts and ideas that come to our minds most readily or easily.**
Description	People are only able to pay attention to a limited number of things. As a result, we are likely to ignore information that does not stand out, even if it is really important. For example, when selecting a credit card, a consumer may be automatically drawn to the lower, short-term, interest rate that is prominently marketed and ignore the higher, long-term, interest rate in small print. As a result, they end up with long-term fees and rates they cannot afford. The long-term costs are less salient. We can promote desired behaviours by making key ideas or goals more salient. Simply providing consumers with information that draws their attention to both rates (making the short- and long-term costs salient) can prevent them from making a poor decision. (Although other biases may still apply, like "Short-term Bias," which is described below.)
Behavioural solutions	**REMINDERS** – One way to make something more salient is to remind people about it. By sending clients a note, email or text message, or by giving them a call at just the right moment, we can increase salience and change behaviour. For example, an adult education provider noticed that many students would stop attending partway through the course. The provider started sending out text message reminders and reduced the proportion of students who stopped attending class by 36 per cent (Chande, et al., 2015). **COMPARISON** – By strategically presenting information in the form of a comparison, we can alter which information people pay attention to and their resulting decisions. For example, telling someone that a payday loan will cost $50 may not convince them that it is too expensive. However, comparing that $50 to the prices of lower cost credit options, like a credit card, can make the high cost of the payday loan more salient and influence more people to avoid them (Bertrand & Morse, 2010). **POSITIONING** – Where a message is positioned can have a big impact on how it is received. We all tend to skim documents, focusing on information at the beginning of the document or key messages that are highlighted in some way. Clearly articulating critical information and calling it out in a prominent way, means that people are far more likely to read it and act upon it (Behavioural Insights Team, 2012). **PERSONALIZATION** – We are bombarded with emails, letters, phone calls, text messages and other types of communication all day long. It is, therefore, hard to ensure that key communications salient to our clients do not get lost. One simple and effective approach is to personalize our communications. This can include anything from a handwritten note on an envelope to using a client's first name in an email. For example, the Irish government added simple handwritten messages on "Post-It®" notes to a survey of small and medium-sized businesses, almost doubling the response rate from 19 per cent to 36 per cent (Department of Public Expenditure and Reform, Ireland, 2014).

B. PROCRASTINATION

We all procrastinate, putting off hard or unpleasant tasks and choosing short-term gratification at the expense of our longer term goals despite our best intentions (Soman, 2015).

SHORT TERM BIAS (PRESENT BIAS)	
Key insight	**We have trouble taking long-term outcomes into account when we make decisions and tend to be more concerned with short-term costs and benefits.**
Description	We've all been there – vowing for the fifth time to start saving money for that new car or to increase our RRSP contributions. Short-term (or present) bias explains why we find ourselves backtracking on the goals we've pledged to achieve so many times before. We start off on the right foot – opening a savings account and even putting a few dollars in it. But later that month we have to decide whether to go out with our friends or stay home and save money to meet our monthly goal. Typically, we choose the first option. Because we are hardwired to focus on short-term gains (spending time with friends), we put off the less pleasant option (saving) to the future. Our irrational side tells us that we can get to these goals later, but we rarely do. By keeping our innate desire to procrastinate in mind, we can apply nudges and other interventions that help people carry out actions they desire, but struggle, to complete.
Behavioural solutions	**DEADLINES AND COMMITMENT DEVICES** – One way to counteract our tendency to focus on the short term is to create shorter-term deadlines for longer-term goals. Two behavioural scientists, Tversy and Shafir (1992), illustrated this phenomenon by asking students to complete a questionnaire. Students who had a five-day deadline to submit the questionnaire were more than twice as likely (60 per cent) to respond as those who did not receive a deadline (25 per cent). Instead of asking clients to set goals for the long-term (e.g. retirement), consider whether goals can be shorter term (weeks or months). Social commitment devices were described in the section on Social Norms Bias above, but commitment devices can also help counteract Short Term Bias. By making an immediate, short-term commitment we can improve the chances of achieving our longer terms goals (in many ways this is similar to setting a short-term deadline). **DEPICTING THE FUTURE** – Our brains are hardwired to focus on the short term. However, researchers are finding innovative new ways to make the future seem more real and immediate, so that we take it into account more naturally. For example, researchers showed people images of their "future self" in a virtual reality environment by taking a current photo and using software to age the subject. When presented with this image of themselves in the future, people chose to allocate more than twice as much money for retirement savings as those who only saw the current picture of themselves (Hershfield, et al., 2011). While using computer software to generate aged versions of our clients is unlikely to be feasible for most service providers, this fascinating research shows the potential to put people in a frame of mind that is more focused on the future.

C. INERTIA

Our behaviour is also influenced by inertia. We tend not to make decisions until we are pushed to do so, preferring instead to "go with the flow."

Research suggests that people become irrationally comfortable with the *status quo*, regardless of the outcome (Dutt & Gonzalez, 2012). This is known as the Status Quo Bias. The resulting inertia can lead us to make the same decision repeatedly, even though we know the outcome will be problematic.

STATUS QUO BIAS	
Key insight	**We tend to keep things the way they are, even if they are not ideal or of our choosing, and avoid taking action despite the potential for a better outcome.**
Description	"When in doubt, do nothing." This age-old adage is surprisingly reflective of human behaviour. Whether we are deciding to try a new product or to refinance our mortgage, we tend to opt for the *status quo* and avoid taking action. This may be due to the complexity of the decision, an overabundance of options, fear of the unknown and/or the risks involved. People have many reasons to avoid making decisions. The end result, however, is that we are more likely to accept the *status quo* even if it will not lead to the best result. For example, employees will often fail to join an employer pension plan, even when it is easy to do and means their savings will be matched with "free money." Our knowledge that people are drawn to the *status quo* can help us to design interventions that overcome our tendency to do nothing.
Behavioural solutions	**SIMPLIFICATION** – The more difficult a task is, the more likely we are to put it off, especially when we are unsure of the benefits or consequences of an action or when these may occur. We can reduce this effect by making the task in question easier (by either reducing or simplifying the steps involved as much as possible). Examples of this approach include auto-filling portions of a form to decrease the amount of effort (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2009), streamlining application processes so clients can apply for multiple benefits with one form, or reviewing messaging to make sure clients understand what exactly is being asked of them. **DEFAULT OPTIONS** – The default option is the choice we make if we do not make a choice at all. When designing programs and services, we often assume that the default option doesn't matter as people will review all the options and pick the best one. *Status quo* bias tells us this isn't true and that it is more effective to allow participants to "opt out" of a desired choice (they check a box to not participate) than to invite them to "opt in" (they check a box to participate). For instance, automatically enrolling employees in a pension plan with an option to "opt out" rather than "opt in" increases participation rates by over 30 per cent. **PROMPTED CHOICE** – Where a default option is not feasible or goes too far (e.g. when the default might negatively affect some clients), you can consider using "prompted choices" as an alternative. A prompted choice requires the decision-maker to choose between the presented options before they can proceed. For example, if it is not possible to enrol clients by default in an automated monthly savings plan, consider adding a prompt that asks them whether or not they would like to join. While not quite as powerful as a default, the prompt is still likely to increase participation.

Impact of scarcity on behaviour

We all have a limited amount of brainpower to devote to decision-making at any given time and poverty imposes additional demands on our decision-making capacity with important consequences.

We are all susceptible to the biases outlined above. Our ability to resist these biases and make good decisions depends on a number of factors, including socio-economic factors. For example, people living in poverty experience the same cognitive biases as other people, but these are compounded by their experience of scarcity when it comes to money.

It is no secret that poverty imposes many physical, social, and emotional hardships, but we are only just learning about its effects on human decision-making. Individuals living in poverty are no less rational than the financially well-off. However, we all have a limited amount of brainpower to devote to decision-making at any given time and poverty imposes additional demands on our decision-making capacity with important consequences.

When people experience a severe lack of money they are forced to make constant trade-off decisions all day long to make ends meet. The mental "bandwidth" this consumes means they have much less available for other tasks. This leads to "tunnel vision" – the diminished ability to focus on other matters in their lives. It also means they are more likely to be focused on the short term rather than the medium or long term (they do not have the luxury of long-term planning). As a result, they are more likely to make decisions that are helpful in the short term, but potentially damaging in the long term (Shafir & Mullainathan, 2013). It is important to note that these behaviours are equally typical of people experiencing other types of scarcity (e.g., of food or time) – not just people living in poverty.

To build the financial capability of people living with financial scarcity, we need to acknowledge these factors and take them into account in designing and delivering financial empowerment programs. People experiencing acute scarcity have even less bandwidth than others to navigate complex processes and decisions so, while they may stand to benefit the most from some interventions, they may find them very difficult to access and manage. As a result, we need to address the immediate problem of scarcity before expecting people to engage in broader and longer-term financial issues. It is also important to go beyond simply providing financial information and education. We need to make processes as simple and barrier-free as possible and actively assist clients to navigate financial choices and actions. In developing financial empowerment programs, it is important to design each component with these realities in mind, rather than a more idealized vision of how we "should" make decisions (Latif, Ly, Chetty, & Soman, 2015).

Understanding the impact of scarcity on our cognitive capacity also points to the importance of *reducing scarcity*. While this report will focus on accommodating scarcity by making things simpler, we cannot overstate the tremendous value in programs, policies and services that directly alleviate poverty.

Building **behavioural thinking** into programs

It is easier for people to make good decisions and take positive actions if we first identify and address barriers that may get in their way.

Human behaviour is complex and difficult to understand, predict and change. However, building behavioural insights into your everyday work doesn't have to be complicated.

In this section, we propose five questions to help you make use of behavioural insights in your work. These questions invite you to put yourself in your clients' shoes and think about each step you are asking them to take to benefit from your program or service (better yet, go through the full experience yourself!). To illustrate, we'll use the example of a financial empowerment program that helps people with low incomes to identify and access government benefits they are eligible for.

What behaviour(s) are we trying to promote or discourage?

Starting out, it's important to clearly identify the specific behaviour or choice you are encouraging people to make. In our example, we want clients to identify, apply for and receive specific benefits for which they are eligible. While this question may seem simple, having a clear behavioural goal in mind is critical if you want to use behavioural insights and thinking to strengthen your programs. One tip for answering this question is to stay clearly focused on *behaviours* – what we want our clients to do. A behaviour might be filing taxes, applying for a benefit, opening a bank account. Not every goal is behavioural (e.g. building clients' financial confidence or increasing their awareness of financial products). While these goals are important, they are not behaviours and behavioural science approaches may not be effective.

What barriers are participants likely to encounter?

It is easier for people to make good decisions and take positive actions if we first identify and address barriers that may get in their way. In designing a program to improve client access to government benefits, the first step is to examine the journey people need to take to access those benefits. The diagram below maps out the stages of this journey. Armed with a detailed understanding of the process, we must then ask – What barriers are clients likely to encounter at each step? For example, how would someone become aware of an income benefit? Is the information easy to find online? Would the potential beneficiary have ready access to the internet? The diagram on page 16 illustrates some other potential barriers that clients may encounter.

Which barriers do we need to address?

Once you have identified potential barriers, they need to be assessed. How probable is it that clients will experience the barrier? How big of a problem is it if they do? Clients can get confused, frustrated or stymied at any step along the way and drop out. They can also make mistakes that make the process even longer and more onerous (e.g., needing to start the process over again with the right documentation).

The more complex, burdensome or counter-intuitive a step in the process is, the greater the likelihood that people will choose not to do it. As a result, you need to think relentlessly about how to eliminate or simplify each step or action in the journey you want your clients to take. One of the best ways to assess the barriers is to ask! Accompany clients while they work through a process and ask how they are feeling, what is confusing them, and what works well.

CLIENT JOURNEY TO ACCESS BENEFITS

Learn of benefit →

- Never receive any information
- Low literacy
- Language barrier
- No access to computer/internet
- Too much information to sort through

Assess eligibility →

- Difficulty understanding criteria
- Low literacy
- Language barrier
- Misinformation

Collect documents →

- Need to go to Service Canada
- Hard to get time off work
- Document fees
- Expenses (transit, lost wages, child care)
- Low literacy
- Language barrier
- Requires multiple steps

Apply →

- Difficulty understanding forms
- Literacy/language barrier
- No access to computer/internet
- Difficulty taking time off work if need to apply in person
- Benefit may not seem worth the effort
- Risk of garnishment for outstanding debts

Navigate issues that arise →

- Low self-efficacy
- Distrust of government
- Low literacy
- Language barrier
- Difficulty with technical terms and processes
- Unpleasant or onerous steps

Receive benefit

- No address
- No bank account
- Concern benefit will be garnished
- High fees paid to cheque cashers
- Additional steps required

BARRIERS ALONG THE WAY

What behavioural insights can I apply to reduce these barriers?

Each of the identified barriers presents an opportunity to think about cognitive shortcuts and behavioural interventions that can help to address them. When identifying potential interventions, it's useful to look to examples that have been used successfully in similar situations and ways you can tailor these interventions to meet your clients' needs. For example, if the available benefit information is too complex, you can perhaps translate messaging into simple visuals. Or, if the application form is too daunting, perhaps use software to auto-populate a portion of the form to reduce the complexity. These are both tried and true strategies with a strong body of evidence.

When thinking about how to address barriers, think "EAST." This is a simple framework created by the pioneering Behavioural Insights Team, where "EAST" stands for **EASY, ATTRACTIVE, SOCIAL** and **TIMELY** (The Behavioural Insights Team, 2010). When applied consistently, these four basic principles are a powerful way to build behavioural thinking and insights into program design for more effective interventions.

When developing potential "nudges" and other interventions, it is also worth considering whether they can be personalized. Interventions that involve personal encouragement from someone a client trusts or someone who cares about that client can have a larger impact (Oreopoulos, 2012).

1. EASY

This is the most important principle. The easier an action is to take, the more likely we are to take it. If we want people to understand something, we need to make our message short and sweet.

2. ATTRACTIVE

We are much more likely to do something if it grabs our attention. We are all highly selective as we quickly screen incoming information, getting rid of anything we find irrelevant. Strategically using images, colour, personalization or other engaging tactics can help you capture your client's attention and direct their focus to what matters most (carrying out the desired behaviour).

3. SOCIAL

Human beings are social creatures by nature and we can't resist comparing our own behaviour to others around us. By emphasizing what others are doing with respect to the desired action, we can often successfully encourage clients to do the same. The people we come in contact with on a day-to-day basis also shape our behaviours in powerful ways. By designing programs that strategically align clients with positive social networks, we can encourage the spread of desired behaviours.

4. TIMELY

It is critical to think about *when* your clients need support, tools, advice or assistance. Our attention spans and memories are limited and information, education and support are most effective when combined with actual opportunities for clients to take action. By providing the right intervention at the right time, we dramatically increase its effectiveness.

EAST

How can I tell if an intervention is working?

It is important to test and evaluate applications of behavioural insights. Behavioural scientists and practitioners use a variety of methods to evaluate interventions, including randomized controlled trials (RCTs), which provide very strong evidence. In an RCT, a randomly selected group of clients gets the intervention while another group gets "business as usual." By comparing the results between the two groups, you can see the difference the intervention makes (if the two groups are big enough, otherwise it will not provide good evidence).

RCTs do not need to be complicated or costly, and technology is making testing and evaluation a lot easier. For example, organizations can now conduct A/B[1] testing with their websites to see how design changes affect user behaviour. Even if it is not possible to do an RCT, you should try to find another way of evaluating the intervention by thinking about the *counterfactual* – What would happen if you did not make the change?

Testing and evaluation are very important because they enable us to understand and focus on what really works. If a new tool, product or "nudge" that you design is not having the desired impact, you need to know that and re-evaluate your approach. Where evidence suggests that a behavioural intervention is not working, experiment with different interventions until you find something that does.

We know that many organizations struggle to find the time and resources to evaluate. J-PAL (the Abdul Latif Jameel Poverty Action Lab) has a rich set of resources available at https://www.povertyactionlab.org/research-resources. It has also published a toolkit for running RCTs in the financial empowerment space in collaboration with IPA (Innovations for Poverty Action, 2015). We would also encourage you to reach out to the academic community for support and advice. In our experience, behavioural scientists are often willing to help think through and set up evaluation methods (along with providing other valuable advice).

1 A/B testing (also known as split testing or bucket testing) is a method of comparing two versions of a webpage or app against each other to determine which one performs better.

Behavioural science in action

Application processes matter. A long complex form can limit the impact of your program, especially for those who need it most.

CASE STUDY #1 — Increasing savings by simplifying forms, making plans and tracking goals

Project partners

- Grameen Foundation
- ideas42
- CARD Bank

Project context

Building savings is a challenge for most of us, but even more challenging for people with low incomes. This challenge can be exacerbated by financial exclusion and difficulty accessing financial services, like savings accounts.

In 2012, the Grameen Foundation (an organization dedicated to enabling the poor to create a world without poverty) and ideas42 (a non-profit organization that uses behavioural science to design scalable solutions to some of society's most difficult problems) partnered with CARD Bank (a rural bank in the Philippines). Together, they used behavioural science to develop and test ideas on how to increase savings and enable more people with low incomes to access formal financial services (Fiorillo, Potok, & Wright, 2014).

Behavioural intervention

The project began with a behavioural "diagnosis" to find out why many of CARD Bank's clients were not using their accounts more frequently and building savings. Identified barriers included:


NEW ACCOUNTS FORM

CARD Bank, Inc.

New Account

Personal Information

1. The Bank requires clients to make a small minimum opening deposit and subsequent weekly deposits to their savings account. This leads clients to deposit the minimum amount (the minimum serves as an "anchor" when clients are deciding how much to deposit). The goal was for clients to make deposits larger than the minimum.
2. Clients are opening new accounts without a savings plan.
3. Clients do not sign up for a savings collector to come to their home or business on a regular basis to collect savings deposits, because their attention is elsewhere when they open an account (salience bias).
4. Savings goals are distant and abstract; today's financial pressures and temptations feel more important (short term bias).

The researchers developed a set of behavioural interventions to counteract the barriers identified. They redesigned CARD Bank's account-opening process and provided goal-setting and planning tools:

- A **simpler account opening form** helped clients choose the correct savings account, plan to make their first deposit in their new account, and sign up for regular savings collection.
- A new **printed savings plan** prompted clients to set savings goals and think about actions that would help them achieve their goals.
- The savings plan also allowed clients to opt into **regular savings collection and text message savings reminders**.
- A **savings calendar** allowed clients to see their savings accumulate over time.

The behavioural interventions were implemented by CARD Bank staff. They included several of the intervention types or "nudges" profiled in Section 2 of this report, including Simplification, Reminders, and Positioning.

Results

The researchers used a Randomized Control Trial (RCT) to measure the results of their interventions. The trial lasted about two months and showed that clients who received the interventions:

- Had a 15 per cent higher average opening deposit than those who did not
- Engaged in approximately twice as many transactions as those who did not
- Had 37 per cent higher bank account balances than those who did not.

Key takeaways

- Getting your clients to open a savings account is not enough.
- Consider helping them to set savings goals, to plan and make their initial deposit, and to adopt a regular savings plan.
- To help them follow through on their plan, consider a tangible reminder like a printed savings plan and sending reminders by simple channels like text messages.
- Other approaches like automatic deposits should also be considered.
- The example also highlights the importance of policy-makers, financial institutions and community agencies working collaboratively to address financial and non-financial barriers to banking for people with low incomes. For example, all three of these groups can consider ways to promote clear and simple forms and disclosure statements.

CASE STUDY #2	Improving access to financial aid by helping client complete application forms
Project partners	• H&R Block • Eric Bettinger, Bridget Long, Philip Oreopoulos, and Lisa Sanbonmatsu
Project context	Despite the existence of both federal and state financial aid policies and programs in the U.S., low-income students are still significantly less likely to attend college than their wealthier peers. There are many reasons for this, but one is likely the application process itself. The complexity and inconvenience of the federal application for financial aid may deter students from applying, despite the substantial economic benefits of doing so (an example of short term bias). In order to test this theory, researchers Eric Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu conducted a field experiment with H&R Block, an accounting firm that provides tax preparation assistance (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2009).
Behavioural intervention	Families that were enrolled in the experiment completed their tax returns and were then split into three groups. Each group participated in a different set of behavioural interventions. • **GROUP #1:** Clients in this group received help completing the financial aid form. H&R Block also offered to submit their forms free of charge, or families could submit them later by mail themselves. Clients also received information about the amount of financial aid they were eligible to receive from federal and state governments, a written explanation of the amounts, and information on tuition costs for four local public colleges. • **GROUP #2:** Clients in this group received individualized aid eligibility estimates, a written description of their aid eligibility, and information on tuition costs for four local public colleges. Clients in this group did not receive any support in completing the financial aid form. • **GROUP #3:** Clients in this group were only provided with a brochure that had basic information about the importance of going to college and general information on costs and financial aid. This brochure was also given to Group #1 and #2 clients. Clients in this group did not receive any support in completing the financial aid form.
Results	This experiment shows that relatively small changes to the financial aid application process can have large impacts on college enrollment and the amount of aid that students receive. Specifically, this experiment demonstrated that: • **Providing only information** to clients (Group #2 and Group #3) **does not have an effect** on aid application submission rates or the amount of aid that students receive. • **Clients who get hands-on assistance** filling out the federal application for financial aid and receive information about aid (Group #1) **are substantially more likely to submit a financial aid application, enrol in college the following fall, and receive more financial aid**.
Key takeaways	• Sitting down and helping your clients fill out application forms for government benefits is much more likely to be effective than simply asking them to fill out their forms themselves and describing the benefits of doing so. • Application processes matter. A long complex form can limit the impact of your program, especially for those who need it most. • In addition to simplifying forms and processes, consider how you can work with other government organizations to pre-populate forms and reduce the burden on clients. • Fund programs that help finance the costs of providing form filling assistance or form/process simplification initiatives.

CASE STUDY #3	Increasing savings of low-income households by separating savings from other cash and providing visual reminders of savings goals
Project partners	• Dilip Soman and Amar Cheema
Project context	Increasing savings is especially challenging for people who lack access to formal bank accounts and are paid in cash on an irregular schedule. Researchers Dilip Soman and Amar Cheema conducted a field study at an infrastructure construction project in rural India with the goal of increasing savings rates through interventions that made it psychologically more difficult for people to dip into their savings. This approach used salience bias in a positive way, making the savings goal more salient and combatting the short-term bias that leads us to save too little (Soman & Cheema, 2011).
Behavioural intervention	The research study included 146 labourers from a construction project who were earning cash wages. The researchers tested two different interventions to increase savings rates among the labourers (participants): • The first intervention was using a visual reminder to encourage participants to save more and not use their savings for other purposes. They did this by putting a photo of the participant's child on the front of their savings envelope. A photo of the child was used because, in most cases, participants indicated they were saving so their children would have money for the future. The researchers expected that putting a photo of each participant's child on the front of their envelope would make participants feel guilty if they dipped into their savings and make them less likely to do so. • The second intervention was physically separating each participant's savings into two envelopes to encourage participants to save more. The researchers expected that physically separating the savings into two envelopes, as opposed to keeping all the savings in one envelope, would result in the participants saving more because they would feel guiltier about taking money out of two envelopes, as opposed to just one (an example of how to use a framing / positioning nudge).
Results	The results of these interventions were significant and showed that physical cues in our environment do impact our financial decisions. By making it psychologically difficult to access the savings (by having to break open multiple envelopes or look at a picture of the child for whom they were saving), they increased the amount participants saved. In particular: • When a picture of the saver's child was on the envelope dedicated to saving money, participants saved more; • Savings were also higher when the money earmarked for savings was physically separated into two envelopes; • The effects of physically separating the money into two envelopes were even greater when the envelopes had a picture of the saver's child on them; and • Once they opened a savings envelope, there was more spending from that envelope. Once the physical barrier was broken the first time, it lost much of its effect.
Key takeaways	• It may not be enough to communicate the importance of saving money. • We may also want to provide tools and techniques that create psychological barriers to participants spending money that they seek to save. • Guilt is a powerful driver in our financial behaviour so, when we have tangible reminders of our intent to save money, spending it is much harder.

CASE STUDY #4	Increasing access to the Canada Learning Bond through SmartSAVER
Organization	• Omega Foundation
Project context	Lower-income families are less likely than higher-income families to take advantage of programs to encourage education savings. As a result, the benefits of these programs are disproportionately going to those who need them least. The SmartSAVER program is tackling this challenge by expanding access to education savings programs by children and youth from low-income families. SmartSAVER is a program of the Omega Foundation, whose mission is to promote financial self-sufficiency. SmartSAVER was launched in 2009 to increase the number of lower-income families opening Registered Education Savings Plans (RESPs) and, through these, accessing the Canada Learning Bond (CLB) and Canada Education Savings Grants (CESG). These are generous grants and savings incentives designed to help parents and guardians save money for their children's education. Unlike the previous three case studies, this one was not designed or evaluated by academic researchers. We wanted to also highlight some of the innovative approaches that are being adopted "on the ground" (Nayar Consulting, 2013).
Behavioural intervention	The SmartSAVER program was delivered as a pilot project over the course of three years (2009-2012). Since then, it has been scaled up and is now an ongoing program. The key behavioural interventions the program used were: • Working with financial institutions to overcome process barriers to opening an RESP; • Creating multi-media online information resources to improve understanding of RESP benefits; • Developing easy-to-understand RESP information tailored to lower-income consumers; • Marketing RESPs for lower-income families through ethnic media and social networking; and • Engaging community organizations to promote enrolment in the CLB.
Results	The SmartSAVER program did not include a randomized control trial or other experimental method, so it is hard to precisely evaluate the results of the interventions. However, over the course of the three-year pilot in Toronto, uptake of the CLB increased from 28 per cent to 39 per cent of eligible recipients.
Key takeaways	Although government programs offer many potential benefits to people with low incomes, access can be a major challenge. Many barriers exist in applying for or signing up for programs. By raising awareness, dedicating resources to clearly and simply explain programs, and working with partners to remove barriers, community agencies can have a major impact on the uptake of benefits.

Conclusion

Understanding the shortcuts our brains take and the resulting biases helps us to understand why we find it so hard to make sound financial decisions. This understanding can also help us overcome these shortcuts and other barriers for our clients, enabling us to strengthen financial empowerment programs, services and supports and enhance their impact.

Behavioural science offers compelling new insights into how we take in information, make decisions and behave. Behavioural scientists have identified specific shortcuts our brains take to make decisions quickly. These shortcuts are usually helpful, saving valuable time and mental energy. However, they can also influence our decision-making in ways we are not aware of, creating biases that lead us, at times, to make poor choices that undermine our goals.

Many of these biases affect our ability to make good financial decisions. For example, our tendency to focus on short-term gains at the expense of the long term explains why many of us do not save enough for our retirement. All people are subject to these cognitive biases, but they are even more significant for people in a position of scarcity. The money scarcity people with low incomes experience requires them to devote mental "bandwidth" to constant trade-off decisions all day long in order to make ends meet. This means they have less "bandwidth" available for other tasks which makes it challenging for them to focus on the longer term.

Understanding the shortcuts our brains take and the resulting biases helps us to understand why we find it so hard to make sound financial decisions. This understanding can also help us overcome these shortcuts and other barriers for our clients, enabling us to strengthen financial empowerment programs, services and supports and enhance their impact.

Through this report, we have attempted to provide new and powerful insights and ideas to those developing and delivering programs and services for people with low incomes, so they can use them to strengthen their interventions and eliminate or reduce barriers to prosperity for their clients.

We also hope that funders will continue to invest in research to further explore the forces that shape our financial decisions and ways we can more effectively support people to make optimal financial choices for their future. This includes ways we can improve the design and delivery of our public benefit programs to remove barriers and facilitate their uptake by people with low incomes.

Behavioural science will continue to generate new insights. Our challenge now is to turn these insights into action.

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and additional resources

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ADDITIONAL RESOURCES

If you are interested in learning more about the world of behavioural science, there are a wealth of resources available to you.

Behavioural Economics in Action at Rotman provides an array of how-to-guides and educational resources: https://www.rotman.utoronto.ca/FacultyAndResearch/ResearchCentres/BEAR/Behavioural-Insights/How-To-Guides

The **Behavioural Insights Team** has published leading frameworks, including the "EAST" framework referenced in this report, and many useful case studies: http://www.behaviouralinsights.co.uk/publications/

ideas42 has published extensively on its work, including many applications relevant to financial empowerment (our favorites are "Reimagining Financial Inclusion" and "Poverty Interrupted"): http://www.ideas42.org/publications/

Many wonderful books have been authored by leaders in the field aimed at the general audience. You may wish to pick up copies of:

- *Thinking, Fast and Slow* by Daniel Kahneman
- *Predictably Irrational, The (Honest) Truth About Dishonesty* and others by Dan Ariely
- *Nudge* by Cass Sunstein and Richard Thaler
- *Misbehaving* by Richard Thaler
- *Scarcity: Why having so little means so much* by Eldar Shafir and Sendhil Mullainathan
- *The Person and the Situation* by Lee Ross and Richard E. Nisbett

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