



Why You Promise to Start Saving “Tomorrow”

A Glossary: Behavioral Biases that Help
Explain Financial Habits

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Psychology of Scarcity

Explanation

Day-to-day challenges and stress, especially those associated with poverty, leave little room for error and can drain mental resources and actually make it difficult to make good decisions.

Example

Consumers of different income levels perform equally well when presented with low-value financial decisions, but performance of lower-income consumers deteriorates when the value of the financial decision increases.



Availability

Explanation

The memories that come to mind are not always the ones that are most helpful, or even the ones a person wants to remember. Instead, some memories are simply more likely to come to mind, especially those that are associated with strong emotions.

Example

Consumers have greater recall of negative experiences of peers presenting complaints to financial institutions, and so are disinclined to attempt to have their own complaint resolved.



Hassle Factors

Explanation

Small barriers such as filling out forms or waiting in lines. While these costs may seem trivial, reducing or relieving them can have an outsized impact.

Example

Consumers may fail to submit a complaint due to perceived inconveniences like having to speak with someone in a branch or fill out forms.



Hyperbolic Discounting

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Behavioral Bias

Explanation

Greatly discounting future costs or benefits relative to immediate costs or benefits.

Example

Expensive consumer credit seems like a good deal to cover short-term needs, even if the long-term costs are significant.



Information & Choice Conflict

Explanation

An increase of options may make it more difficult for consumers to select a single option.

Example

Consumers who want to purchase insurance may end up doing so when presented with too many plans or options presented in diverse ways, making it difficult to compare choices.



Positive Framing

Explanation

Presenting information or choices in a way that accentuates positive aspects of the consequences or outcomes. Whether a choice is framed in a positive or negative way can have a huge impact on how people evaluate the choice. Framing the future in a positive way can motivate people to work hard to attain the positive outcome.

Example

Messages that links money with specific goals leads to higher savings rates than if savings intentions are left vague or broad.



Present Bias

Explanation

Weighing present concerns more than future ones. People make plans to do unpleasant tasks “tomorrow” – and make the same choice to put the action off when “tomorrow” becomes “today!”

Example

A consumer opens a savings account with the intention to deposit regularly, but her balance quickly reduces to zero as she fails to deposit each day in favor of paying for daily, present temptations and expenses.



Social Norming

Explanation

Behaviors and actions that are driven by actual or perceived behavior of a peer group.

Example

Informing citizens how many of their peers have already paid taxes increases the likelihood they will pay their own taxes.

Note on Behavioral Bias



This glossary is meant to be indicative, not exhaustive. Additionally, specific biases likely manifest in different ways depending on context so this is representative, rather than definitive. It is also difficult to link an observed behavioral tendency with one single explanation from behavioral research, often, multiple psychological biases can help to explain and understand a specific human behavior, rather than just one.

Credits:

Slide 2: Bir Azam

Slide 4: Nayan Sthankiya

Slide 6: Trung Vo Chi

Slide 8: Andi Muhammad Imran

Slide 10: Joydeep Mukherjee

Slide 12: Zakir Hossain Chowdhury

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