CGAP

FOCUS NOTE

Applying Behavioral Insights in Consumer Protection Policy

Policy makers in emerging markets and developing economies (EMDEs) can draw on new consumer and behavioral findings and research tools to develop policies that better protect financial consumers while enabling advances in financial inclusion. By seeking to understand how personal, social, and environmental factors shape human behavior, behavioral research helps to reveal why individuals do not always act as one would expect or as they themselves intended to, and sometimes not even in the way that might be best for their welfare. Years of experiments conducted by academics and practitioners have identified common behavioral biases many people face. (Some of these biases help explain consumer financial behaviors; for a list and brief descriptions of biases particularly relevant to financial consumers see Annex 1.) This deeper understanding of some of the most commonly observed behavioral biases in EMDE markets also helps to identify and test new ways to improve financial behaviors and decision-making, often through relatively small changes in financial product design and delivery or regulations.[1]

While behavioral research is relevant for consumer protection policy in all markets, the increased use of behavioral research to develop consumer protection policies is especially important in EMDEs due to the nature of both their financial markets and many of their financial consumers:

1. EMDE markets are characterized by the fast pace of innovation and the large numbers of base of the pyramid[2] (BOP) consumers using formal finance for the first time. Traditional policy views of how financial markets work and how best to regulate them may fail to account adequately for the specific experiences of these consumers and the types of products and providers they use.
2. Having a low and variable income can significantly affect an individual's financial decisions. This is not necessarily because these segments experience particularly different behavioral biases than other consumer segments—in fact, research suggests that many cognitive biases tend to be widespread and do not align neatly with socioeconomic status.[3] Rather, these psychological factors and related behaviors can have more significant consequences for low-income consumers because of the circumstances of their lives, including limited economic bargaining power and choice of providers, personal and psychological challenges that stem from surviving on a tight and unstable budget or as a marginalized segment of society, and limited literacy and numeracy or prior exposure to formal financial services.
3. By focusing on common traits and patterns, behaviorally informed policies can subtly change discrete aspects of current market practices in ways that can change the behavior of many actors in similar ways, often at a very low overall cost. For example, simple wording changes that made the amount of, and process for receiving, a rebate more salient in an offer mailed to customers of a U.K. insurance provider, resulted in an increased uptake of the rebate offer by these customers (Adams and Hunt 2013).
4. Policy makers in EMDEs often lack significant resources, human or financial, to conduct large-scale or long-term consumer research that might help inform improved policy design and consumer protection policy implementation. In these instances, behavioral research may be a viable alternative because it leverages actual observed behaviors and seeks to subtly change discrete aspects of current market practices in ways that can influence the behavior of many actors in similar ways.

While policies will never overcome all of the personal and contextual challenges of poverty, consumer testing and behavioral tools can shed light on how

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1 Bertrand, Mullainathan, and Shafir (2004) describe a new framework focused on "channel factors" that can facilitate some behaviors while blocking others. Taking this argument a step further, Datta and Mullainathan (2012) demonstrate cases where a series of minor modifications of channel factors had substantial impact on the effectiveness of economic and social development programs and interventions.

2 "Base of the pyramid" describes a consumer profile, as well as a portion of the financial market and financial services and products directed at this consumer profile. The consumer profile includes a number of related and overlapping potential vulnerabilities including low or variable incomes, low levels of financial literacy and capability, and limited access to or experience with formal financial services. Often, these characteristics correlate with other factors such as lower education levels, illiteracy, language differences, minority racial or ethnic status, and longer distances from major population centers.

3 An important caveat is that context will always matter to some extent. For example, some societies' social and economic structure differs so greatly from the norm that these behavioral patterns do not hold. See, for example, Watters (2013).

these contextual factors affect the financial behaviors and decision-making of BOP consumer segments. This will help policy makers hone in on priority consumer protection problems, identify key intervention points, and select more effective solutions that target consumers, providers, or both.[4] Governments will be better equipped to address underlying behaviors as a means of improving consumer protection policies—and ultimately, outcomes—for low-income or inexperienced financial consumers.

This Focus Note presents emerging evidence on selected behavioral biases relevant to financial consumer protection,[5] their consequences, and how market conduct regulation and other measures might best reduce abuse and produce better services and ultimately better outcomes for consumers. It also proposes specific ways to incorporate insights from behavioral research into policy-making and implementation of consumer protection regulation and supervision. This Focus Note explores how behavioral research can offer important tools for effective policy-making in four priority consumer protection topics that are relevant in virtually all settings, but have specific implications in BOP settings (see, also, Box 1): (1) disclosure, transparency, and product choice; (2) complaints handling and recourse; (3) credit market regulation and debt stress; and (4) fair treatment. Each of the four sections reviews emerging evidence and experience from behavioral research and offers specific advice for policy and regulation deriving from these behavioral insights (although the current level of knowledge varies considerably across these topics). This Focus Note closes with reflections on consumer protection-related priorities and challenges in EMDEs that would benefit from further applied behavioral research and field experimentation.

I. Disclosure, Transparency, and Product Choice

In markets with a nascent consumer protection framework, one of the common starting points

Box 1. Why effective protection matters more at the BOP

Particularly noteworthy among the behavioral evidence that might sway policy makers toward intervention is a new body of research described by Mullainathan and Shafir (2013) as “the psychology of scarcity and poverty.” This work explores how the decision-making of people with low and variable incomes is affected by their overall condition of scarcity, lack of assets, and limited fallback options, such as savings, future income, or insurance. Recent research has revealed that the mere fact of being poor can undermine consumers’ ability to make sound financial choices, even though their limited resources—and therefore margin for error—make them the very consumers for whom the most is at stake. Even if the decision-making of lower-income consumers does not differ discernibly from their better-off peers when the choices are less material, they may suffer more from suboptimal decision-making when the financial consequences are greater.

There is also evidence that the deleterious effects of decision-making when faced with scarcity may be cumulative. Over the course of a day, if a person is making multiple decisions that carry great economic significance—and therefore stress—their mental acuity, and so financial decision-making, can suffer. As has been documented in research such as that of Collins, Morduch, Rutherford, and Ruthven (2009), low-income households in developing countries often juggle many different formal and informal financial tools while living in a context of economic uncertainty and scarcity. The emerging insights from the growing research base on the role of scarcity in financial decision-making for low-income consumers may call for policies that would better protect consumers from providers. For providers, this may include improved financial product design so consumers have access to products that help manage scarcity, such as through opt-in and default settings in savings products that address issues such as present bias or choice conflict by steering consumers toward a limited set of decisions. For policy makers, more proactive, behaviorally informed consumer protection policies can help consumers cope with scarcity and limit the negative consequences it can have on their lives resulting from poor choice, debt traps, and decision fatigue.

4 Consumer protection policies and measures are more likely to work if they are informed by an understanding of how new financial consumers perceive and experience the market. Collins, Jentzsch, and Mazer (2011) stressed how first-hand knowledge of low-income and low-access financial consumers can have a positive impact on consumer protection policy and regulation.

5 See, for example, Barr and Mullainathan (2008).

for policy makers is improving disclosure and transparency of retail financial products, such as consumer credit, savings, and insurance. From a theoretical perspective, universal and comprehensive disclosure and product transparency should support informed consumer decision-making, as well as encourage fair competition by pressuring firms to compete on price and quality, by increasing the customer base of those that offer better services. Disclosure as a principle for a consumer protection regime is also less controversial or complicated to implement than other policy measures that may seek to improve customer outcomes, such as suitability requirements or restrictions on certain product features or pricing structures. This is because disclosure is based on the underlying principle of "caveat emptor" or "buyer beware," which assumes that if information is transparent and readily accessible, the burden of choice and subsequent outcomes should fall predominantly on the customer.

However, evidence of the actual impact of disclosure policy on consumer and firm behavior is mixed and limited. More critically, there is emerging evidence that consumers do not always make decisions based solely on financial information, they may not always understand available product information, and firms may comply with disclosure rules yet still present a biased picture of the product's features during the sales process by obscuring certain terms or overemphasizing others. For EMDE policy makers, it is a high priority to better understand how to design and implement disclosure rules that more effectively inform and positively affect consumer choice, as well as product design, marketing, and sales practices by providers.

Two of the more fundamental questions—and areas of insight—for disclosure from recent behavioral research are as follows:

1. Do consumers shop around when seeking a financial product?
2. Why, when they shop for financial products, do they often fail to make the decisions that are best for them from a financial standpoint?

1. Behavioral challenges to disclosure and transparency regulation

Comprehensibility of how information is presented and its effects on consumer choice. Information may be disclosed in formats or using terms that are not easily understood or relatable to consumers' financial lives or how they make decisions. For example, research in Mexico found that simply presenting fees for consumers' public pension accounts in pesos instead of annual percentage rates allowed financially illiterate participants to better understand and use information on fees for different investment funds to select funds with lower average fees (Hastings Tejeda-Ashton 2008). These findings were confirmed in a similar experiment, also in Mexico, where expressing the cost and yield of credit and deposit products, respectively, in Mexican peso values rather than percentages led consumers to more easily identify the lower-cost options among similar products (Gine, Martinez, and Mazer forthcoming). A less well-developed, but relevant topic of research in this space is how to best disclose product information to low-literacy and illiterate consumers, who make up a large portion of BOP financial consumers.

Nonfinancial factors that can override product value or features. This can include factors such as personal connections to a provider's employee or agent, one's perception of how well he or she was treated by an agent or in the branch, or the advice of friends. Providers can use behavioral triggers unrelated to the product price or features to shape consumer choices. For example, a study in South Africa found that people receiving consumer credit solicitations by mail often responded to nonfinancial information more strongly than financial information when deciding whether to accept a credit offer (Bertrand et al. 2010).[6] This is not news to advertisers and marketers, but it demonstrates how policy makers' traditional approaches to financial product disclosure requirements—complex, percentage-driven terms, and unexciting formats—may not be working for consumers. Thus, a redesign based on insights as to how consumers actually think about

6 Participants in this study showed greater likelihood to accept the loan offer when they were presented with one (instead of several) options for product terms, and male respondents showed increased uptake when the mailing included a photo of an attractive female.

financial decisions, and what information and formats resonate most, could be more successful.

Another issue to consider is that personal preferences for product selection will not always align with what would appear to be the most economically beneficial choice among financial products. A study of U.S. credit union members found that many members used high-cost payday loans even when they had cheaper sources of liquidity available, such as remaining credit card balances or savings, resulting in higher financing costs paid for the credit used (Carter, Skiba, and Tobacman 2010). Similar observations have been made in EMDEs where consumers will finance a need through high-cost credit even when they have savings, as they do not want to give up the security they feel from having some savings at their disposal, even if financially it may seem wiser to use savings than to borrow.

Overemphasis on the short-term, and over-confidence in long-term outcomes. Consumers demonstrate a bias toward what they will receive immediately, and tend to pay less attention to future consequences, or develop overly optimistic assumptions about their future situation (e.g., "I will be making more money in a year, so I can afford this expensive credit"). To be effective, disclosure should seek to both focus the consumer's attention on the full cost of the service over time and to induce customers to consider the likelihood of future repayment difficulties (whether for a loan, an insurance policy premium, or a periodic required contribution to a pension or long-term savings product that might otherwise trigger punitive penalties or loss of value). An experiment with payday borrowers in the United States found that a simple disclosure at the point of sale that compared charges between payday loans and credit cards in dollar costs and showed the costs growing over several time periods (from one week to three months), led to an 11 percent reduction in subsequent borrowing (Bertrand and Morse 2010).[7] Similarly, new credit card disclosure rules in the United States require that monthly credit card statements show how long it would take consumers to pay off their debt if they made only the minimum monthly payment, and the total amount they would pay the credit card company over the life of the loan if they made only the minimum payment each month. The intention is to make consumers think twice about their monthly payments by showing them in clear and individualized language how much they end up paying by minimizing their monthly installment. There has even been discussion in some jurisdictions of using "warning signs" or similar such advertisements on high-cost

Figure 1. Most effective cost disclosure approach for payday lending

How much will it cost in fees or interest if you borrow $300

PAYDAY LENDER (assuming fee is $15 per $100 loan) If you repay in:		CREDIT CARD (assuming a 20% APR) If you repay in:	
2 weeks	$45	2 weeks	$2.50
1 month	$90	1 month	$5
2 months	$180	2 months	$10
3 months	$270	3 months	$15

Source: Bertrand and Morse (2010)

7 It is noteworthy that the "treatment" that achieved this behavior shift was simply the addition of a basic table on the envelope that contains the borrower's loan disbursement.

or high-risk products to get consumers' attention. (See example in Figure 1.)

Choice or information overload. Excessive or complex product information can "freeze" consumers' decision-making, so they end up deferring a financial decision or basing their choice on incorrect or less relevant information. This can hinder decisions about an individual product or efforts by consumers to compare the features of multiple products on offer. A recent experiment in Mexico conducted by CGAP, the World Bank, and CONDUSEF, Mexico's financial consumer protection authority, tried out different disclosure approaches to help low-income financial consumers select the best option from among several products for either consumer credit or current account offerings (Gine, Martinez, and Mazer forthcoming). In this experiment, consumer ability to select the optimal product from a comparative table decreased in both savings and credit products when the number of products was increased from 5 to 10—demonstrating choice overload. Similar consumer research by CGAP with EMDE regulators revealed that consumers often prefer, and make better use of, summary information of key terms and features rather than complete details on all terms and conditions of a financial product.[8]

Provider biases about low-income or low-knowledge consumers. Providers' perceptions of personal characteristics of consumers, including perceived financial knowledge, social status, or even type of dress, can impact the treatment, information provision, or product recommendations these consumers receive. During mystery shopping[9] exercises in India on life insurance products (Anagol, Allen, and Shayak 2012) and in Mexico on credit and savings products (Gine, Martinez, and Mazer 2014), researchers used different consumer profiles to measure how sales agents' perceptions of individual consumers biased the product information and end products they offered.

In India, term-life insurance is a better financial option for consumers than whole-life insurance products, but it also yields lower commissions to agents. In a series of experiments using trained mystery shoppers, researchers varied consumers' profiles in ways that included a stated preference for term or whole-life policies, reference to the agent with whom they had done comparison shopping, and the level of the consumer's demonstrated knowledge of insurance products.[10] The study found that insurance agents were more likely to recommend a product for which consumers stated a preference, even if the other insurance product was more suitable. Agents also offered better advice when consumers mentioned having shopped around with other insurance agents, and they offered inferior advice to consumers whom they perceived to have lower levels of financial knowledge. In Mexico, a similar study for consumer credit, savings, and current accounts also found that inexperienced consumers receive less product information during the sales process.

2. Tips for policy makers to improve disclosure policy

From the perspective of consumer protection policy, the behavioral challenges described above impact two core elements of any consumer protection regime: consumers' ability to determine the product that best fits their needs and their capacity to shop around and compare across products with ease. Policy makers can apply relevant findings from recent behavioral research to the disclosure regimes that they put in place, so as to reduce the

8 See, for example, Collins, Jentzsch, and Mazer (2011).

9 Mystery shopping is a tool that involves sending consumers to businesses, government agencies, or other service providers to simulate a typical customer inquiry. This can be a useful financial consumer protection tool to measure how well sales staff comply with disclosure regulations, the types of products offered, and quality of customer attention and financial advice. CGAP, the World Bank, and others are using mystery shopping methods that train consumers to portray certain personal, social, or financial profiles, to measure how sales staff perceptions of consumers change the type and quantity of information delivered during the sales process. This reveals underappreciated personal biases or preferences of sales staff that impact the end result of sales visits for consumers. See Mazer, Gine, and Martinez (forthcoming).

10 The profiles used in this experiment are based on a combination of actual and simulated consumer information. Actual information includes income level, outstanding debt, and occupation, while simulated information includes training shoppers on certain key phrases to mention or questions to ask to convey financial experience and needs or intended use for the product sought. Through a one-day training and pilot visits to institutions, consumers learn their respective profile, and how to complete a questionnaire after the visit that measures all product information provided and the manner in which it was provided.

impact of these biases and "nudge" consumers toward better decisions on product suitability and more productive comparison shopping. Further consumer testing using methods such as those referenced above will lead to improved disclosure rules, product information at the point of sale, and a better understanding of the role of incentives and biases in the marketing and sale of financial products to consumers. Along with disclosure rules, this research can also provide a knowledge base to improve sales practices.

For policy makers seeking to develop improved, behaviorally informed disclosure policies, the following lessons offer a good starting point.

Simplify terms and standardize both formats and product features through consumer testing. One way policy makers can seek to make disclosure more behaviorally informed is to require providers to present product terms in language that is easy to understand. By simplifying product terms required in disclosure and standardizing the way the terms of similar products are presented, both individually and in comparative tables, if possible, will go a long way to reaching BOP consumers. It is essential to first test existing or new disclosure terms and formats on consumers in the field or in a lab setting. Through "rapid prototyping" methodologies, policy makers can develop a quick understanding of what formats, language choices, messaging, and delivery mechanisms resonate with consumers.[11] It is important to focus on not just the preferences customers report but rather how different disclosure designs are used by customers and affect their behavior. Observing how customers interact with different types of disclosures, what questions arise as they interact with providers, and what behaviors result from the interventions is critical to improving the design, execution, and delivery of disclosure.

Make disclosure concepts fit consumers' frame of reference, rather than try to teach consumers new concepts. Making disclosure approaches fit the cash-flow and time cycles of consumers' own personal and household finances can help consumers consider not just their immediate needs, but the relative cost of a product and its long-term utility. This could include, for example, developing "usage profiles" to better demonstrate costs on savings accounts, such as maintenance fees and withdrawal fees in product summary sheets or comparative tables.[12]

The most salient information for consumers will vary across the product lifecycle. Disclosure should not focus solely on the point of sale. It is important to consider the different points in the product lifecycle, such as shopping around, preagreement summary information, and post-purchase disclosure. In all cases, the particular channel that will best reach consumers at that moment, the type and volume of information that is appropriate or needed, and the format the information is presented in, should be customized to match a particular point in the product lifecycle to maximize saliency for the consumer. Similarly, disclosure rules should be designed to target well-identified moments of weakness and other key moments in consumer decisions. In Peru, for example the government has explored specific marketing campaigns around events such as Mother's Day, when consumers feel particular pressure to spend and may be overexposed to consumer credit.

Provider incentives and sales practices may limit impact of disclosure measures. Customer-focused interventions alone may not be sufficient to improve the effectiveness of disclosure. Disclosure regulation can also benefit from improved understanding of the incentives for firms and sales staff to offer or to not offer certain products, to describe their merits and down sides in an even-handed manner, and to determine how these affect provider-side behavior and, in turn, consumers' financial choices and outcomes. Regulators can analyze such incentives and their role in the behavior of firms and individuals by consulting with sales staff, using mystery shopping, and reviewing providers' incentive structures for different product types. Disclosure alone may be insufficient, however, to overcome provider incentives and other nonfinancial factors. Different

11 For more on rapid prototyping methods and other techniques to integrate consumer input more effectively, see McKay and Seltzer (2013).

12 The previously mentioned study in Mexico, Gine, et al. (2013), tested these types of use profiles for current accounts. It found that consumers benefitted from disclosure of current account costs that showed what those costs would be if the consumer had average activity levels on the account (e.g., number of transactions, average balance, etc.), as it made the potential charges that could accrue through typical monthly activity more salient than separating out interest earnings from the various account fees.

policy measures, including rules on sales commissions, marketing practices such as door-to-door sales, or restrictions on product terms and features may be better suited than disclosure regulations to address certain behaviors.

Continue to test and monitor impact of the disclosure regime in the market. Once new formats have been tested, biases evaluated, and new rules enacted, continued use of market research will help policy makers monitor their impact on consumer and provider behaviors. Behavioral design of policies is an iterative process that will benefit from continued observation, testing, and revision. In 2011 the Philippines Central Bank, in partnership with CGAP, tested draft formats and reforms to the Truth in Lending Act with low-income consumers in three regions of the country. This led to the 2011 Truth in Lending Act Reform, which took effect for providers on 1 July 2012. To measure the impact of the reforms on market practices, CGAP and the Central Bank trained low-income women to conduct mystery shopping visits in the month before the reforms took effect, and then to visit these same institutions one year later to measure any changes in practices related to the new law, such as displaying Truth in Lending Act posters in bank branches and calculating interest using the Effective Interest Rate method. These findings are currently being evaluated, with the intention of informing any further policy measures aimed at more effective implementation of the Truth in Lending Act.

II. Recourse and Dispute Resolution

Effective recourse and dispute resolution systems play a vital role in protecting consumers and instilling trust in the formal financial sector. The data they generate can provide valuable information for market monitoring by policy makers and supervisors seeking to detect undesirable practices and problematic product features and conditions. However, designing the recourse systems so that they are accessible and well-used by low-income consumers is a significant challenge. Challenges relating to location, channels, timing, and coverage of different provider types often limit the practical accessibility and use of recourse systems by these consumers. This represents a significant gap in the current state of financial consumer protection globally, and in particular for EMDEs. These BOP-specific challenges are analyzed in detail in Chapman and Mazer (2013), which also considers the challenges policy makers in EMDEs face in implementing recourse systems, such as resources to handle complaints, regulatory coverage of diverse financial institution types, and provider capacity to handle disputes internally.

Behavioral research should have fairly direct influence on the reach and effectiveness of recourse systems. However, experience applying behavioral research tools to recourse channels is limited, making this one of the areas in consumer protection most suited for further work with behavioral research tools and the application of any available research findings to improved policy design. In particular, deeper exploration is needed on consumers' personal, social, and psychological barriers and how these barriers interact with and may often hinder awareness, access, and ease of use of recourse channels. The results can lead to more efficient, cost-effective, and better-used recourse systems.

1. Behaviorally relevant challenges in recourse system design and implementation

Channels and access points can hinder use. Resolving a problem or dispute with a financial service provider is often a multistep process that requires consumers to inquire through several channels. These steps create built-in barriers and hassle factors that reduce the likelihood that financial consumers will be able and willing to follow through on their complaint until they are fully satisfied. Low-income or less-experienced consumers may face additional psychological factors, such as lack of trust in financial or governmental institutions (e.g., leading to the "what good will complaining do anyway?" perspective on recourse) (Kempson 2012).

In Ghana, behavioral research unearthed several such barriers to submitting a formal complaint:

- Because banking is predicated on a personal relationship, many consumers felt comfortable submitting a complaint only to someone they knew, which prevented them from doing so if the complaint had to do with that banking representative or if they did not have the time or resources to visit the branch to speak to another representative. Similarly, many consumers stated a strong preference for resolving issues—especially financial matters—face-to-face instead of through channels such as hotlines or complaints boxes, limiting their effectiveness in facilitating consumer complaints.
- Since consumers were rarely given a complaints reference number or case code, if the complaint was not handled immediately, consumers felt that the likelihood of resolution was quite low, and some consumers therefore did not follow up on the complaint if additional steps were required.

Trust is crucial to effective recourse systems. Trust—in government and in financial institutions—can play an important role in whether BOP consumers use recourse systems. For example, in the case of the Financial Systems Mediator (FSM) in Armenia, direct consumer feedback illuminated such trust issues and their role in whether a consumer submitted a complaint or not. In outreach to encourage financial consumers to use its services, FSM has observed significant trust gaps due to low consumer confidence in both the financial system and the financial system regulator based on negative experiences with government agencies during and after the collapse of the Soviet regime. More specifically, they noted that consumers in Armenia believe that if a service is free (as is the FSM service), the quality of the service must be inferior. In this case, while one might assume that free services would be a plus, instead they were perceived negatively. This demonstrates that the past or present political context can disprove commonly held assumptions about consumer behavior and use of recourse services.

A broader challenge is limited trust in financial services compared to other products and services. In the Ghana research, consumers often referred to financial loss as "the way it is" for financial products, leading them to accept loss related to financial products without making a formal complaint. By contrast, some of these same consumers could describe cases where they were more persistent in seeking resolution of a complaint for a nonfinancial product than they had been for a financial product.

Personality and cultural factors can determine a consumer's propensity to complain. Beyond barriers in system design, channels, or processes, there may be inherent personality or cultural barriers that shape whether a consumer uses recourse channels. The United Kingdom's Financial Sector Ombudsman surveyed consumers who had presented or not presented complaints when they had problems with banks. The survey found that individual personality characteristics—"Am I a person who feels control over my life?" "Am I the type to complain until I get what I want?"—were stronger determinants than demographic factors, including socioeconomic status in predicting whether a consumer presents a complaint or not. In Ghana, consumers shared how traditional cultural and social norms made submitting complaints to financial service providers more complicated: Ghanaians are expected not to become upset in public or display anger. This may hinder their willingness to initiate recourse and succeed in it when they have had a serious negative experience with a financial service provider.

2. Tips for policy makers to improve recourse systems

Address channel barriers by making consumers comfortable with the complaints process. Consumers, and especially BOP consumers, should have access to recourse channels in the form that best suits their preferences and capabilities. Simple redesigns of the channels, location, and mediators can have significant positive impact on the use of these channels by low-income consumers.

- *Make the complaints process salient and accessible.* Consumers need to know where and how to submit complaints. The location should be visible and available to all consumers, the process should be publicized, and the provider should offer multiple channels for consumers to use, depending on preference and capacity. Together, these conditions will make it easier for consumers to immediately begin the process (thereby taking advantage of biases toward the immediate) and avoid procrastination. Beyond physical accessibility, making the types of complaints that can be presented and their potential benefits more salient to the consumer's personal context can help encourage use of recourse systems. An experiment by the Financial Conduct Authority and a financial institution in the United Kingdom tested how different designs of a letter notifying consumers that they may have qualified for a refund on cancelled insurance policies affected the likelihood that they would follow up to seek resolution. The study identified several behaviorally informed modifications that improved the response rate, including prominently displaying the amount of the refund and contact information as bullets at the top of the letter (+3.8 percent), reducing text by 40 percent (+1.4 percent), highlighting that the refund decision would be made in five minutes (+1.4 percent), and sending a reminder letter 3–6 weeks later to those who did not act (+12 percent) (Adams and Hunt 2013).
- *Use trusted and local figures to make consumers more comfortable complaining.* Emerging evidence from the rise of agent and mobile-banking services for unbanked and underbanked low-income consumers in the developing world indicate that recourse may function better when channels are linked to individuals or offices that consumers trust and use regularly. Eko, a mobile and agent-banking provider in India, uses its agent network to directly receive and forward consumer complaints to its complaint handling department, allowing consumers to present their issues through the most familiar channel, whether it is the customer service point where they transact (often a local store) or one of the Eko agents who visits all customer service points daily. Similarly, a mobile phone operator in Africa had at least five different physical channels through which complaints regarding its mobile money products could be presented.
- *Use social structures to build more comfortable complaints processes for consumers.* Microfinance consumers in the Philippines who participated in CGAP-run focus groups often cited their easy access to the Barangay Captain, a local leader common in communities across the Philippines, as helpful in resolving financial disputes. While Barangay Captains do not have an official role in financial recourse in the Philippines, they appear to be a preferred, and potentially effective, channel for resolving financial disputes for low-income Filipinos. In Ghana, consumers interviewed as part of a behavioral mapping study by CGAP frequently cited radio talk shows as a way they would prefer to be able to present their complaints. One respondent described how she would like to be able to call the talk show to explain her situation and ask other listeners what she should do and whether the bank was being fair or not before attempting to present a formal complaint.
- *Follow-up with the customer to build commitment.* Simply providing the consumer with a reference number, giving the name of a representative, or calling the consumer to follow up on the complaint increases trust that the complaint has been documented and will be handled. It may also increase the likelihood that consumers themselves will follow up on the matter by making the complaint physical and salient.

Simplify and right-size the process. Minimizing the number of steps in the grievance process and automating the process for escalating complaints when they are not resolved at the first stage can have similarly positive impacts on successful use of recourse channels. CGAP research in Kenya found that the popular mobile financial service M-PESA had invested up-front in building agent capacity to provide customer service, which has helped M-PESA to efficiently resolve problems or complaints directly with the local M-PESA agent or by a consumer hotline in less than 24 hours. For the relatively small-value disputes that are common for M-PESA, making the amount of time involved match the amount at stake can help increase consumers' likelihood to use the channel (Collins and Zollman 2011).[13]

Integrate behavioral metrics into complaints data. Many financial sector recourse systems already have data capture systems that not only track consumer complaints by type, provider, or status of the complaint, but also compile consumers' basic demographic information. In many markets these data have proven useful beyond just tracking complaints resolution, such as "hot-spotting" of problems in particular products, provider segments, or geographic regions. The analysis can inform consumer protection supervision and enforcement efforts. There is reason to expect that expanding data collection to consider a range of personal or behavioral issues—for example, level of education, geographic location, level of financial experience, transaction types—could yield useful insights into issues such as trust and different use of recourse channels by particular segments of consumers.

There are three practical approaches policy makers can take to capture this type of behavioral data:

1. Incorporate a basic set of behavioral questions or metrics into the information that is required to be collected from consumers when a complaint is received. This could include questions on sense of agency or self-control, trust in authority figures, and self-perceived financial literacy or social status.
2. Since many recourse systems use customer satisfaction follow-up surveys, the behavioral data on individual consumers could be analyzed against data on outcomes of their complaints to see if certain personal factors or aspects of the recourse process impact the likelihood of an acceptable outcome for consumers. This type of analysis could yield insights into topics such as which complaints channels will work best for different types of individuals.
3. As resources permit, policy makers could consider the use of randomized surveys of the general population that probe deeper into psychological questions to capture, for example, personal or behavioral differences in groups such as those who present complaints versus those who do not, or those who use a financial ombudsman service versus those who complain directly to their financial service providers or a third-party consumer rights organization. Even with a fairly limited sample, these studies can help to pinpoint relatively minute drivers of behavior or design impacts that may not be perceptible through existing complaints data.

III. Consumer Credit and Debt Stress

Credit can be a valuable tool for low-income households and entrepreneurs to access working capital for a business, smooth income and consumption, cover relatively large and predictable expenses such as school fees, and meet emergency needs such as medical care. However, when low-income households that already live in a context of chronic scarcity find themselves facing over-indebtedness, the consequences are even worse than for those with higher and more stable income or assets. BOP households may be forced to cut back on consumption, sell productive assets, pull children out of school, or forgo preventive health care. They also put at risk future access to formal credit. On the supply side, when BOP lenders extend credit recklessly, they threaten their own solvency and potentially the stability of retail credit markets.

Credit is thus a double-edged sword. While access to credit for immediate needs is helpful for those with low and erratic incomes in the short run, the additional cognitive burden of debt stress could exacerbate their already suboptimal choices in the long run. From the perspective of EMDE policy

13 This research also found evidence that M-PESA's recourse system played an important role in building trust and increasing use of mobile money, in part explaining M-PESA's rapid expansion and popularity with middle- and low-income consumers. In their consumer survey, Collins and Zollman (2011) discovered that M-PESA users found the frequency of the transactions, the ability to quickly test the product via small transactions, and receive immediate support and dispute resolution, to be key elements in building their trust in, and by turn, loyal use of, M-PESA.

makers, rapid growth in credit access for previously unbanked and inexperienced consumers is both a financial inclusion opportunity and a potential risk to be mitigated.

1. Behavioral issues in consumer credit markets and debt stress

Behavioral research is exploring the many underpinnings on both the demand and supply sides that play into over-indebtedness at the individual and household level. It can also provide powerful evidence and insights for improved policy approaches to monitoring and overseeing consumer credit markets. Behavioral issues of particular relevance to credit market regulation include the following.

Tunneling. Tunneling is when a single need becomes so important that an individual focuses a disproportionate amount of attention on addressing this issue, at the expense of other issues. Mullainathan and Shafir (2013) have documented how tunneling can lead to debt traps for BOP consumers. In an experiment with low-income market traders in India, Mullainathan and Shafir tested whether a one-time infusion of "savings" could help market vendors escape the pattern of borrowing money to buy stock in the morning and repaying the money with interest in the evening. One group received one-time grants to purchase its stock debt-free. After the infusion of cash, the treatment vendors did get out of debt and increased their savings in the short term compared to the control group vendors. However, over time these vendors ended up regressing to the same debt level as their peers, as the grant recipients depleted the one-time financial cushion through higher spending, including by focusing on social obligations, such as weddings or funerals, when determining how to allocate their new higher savings amounts.

Temporal discounting. In 2012, the Central Bank of Chile introduced a discounting exercise into its annual household finance survey, to test whether it was possible to segment consumers based on their ability to defer immediate rewards for future benefits. The survey asked participants to imagine that they won a lottery equivalent to a year's salary, with the payout to occur a year later. Participants then indicated whether they would accept a discount of 2 percent, 5 percent, 10 percent, 20 percent, or beyond 20 percent to receive payment of their lottery winnings today. Cross-referencing these responses with questions regarding survey participants' debt levels and interest in obtaining credit revealed that discount rates decrease along with income (the more money you have, the more patience you feel). Furthermore, those who performed better in the discounting exercise (i.e., were more patient) were less likely to have current debt. More interesting still, the worst performers were those who wanted but could not access debt, rather than those with current debt (Cifuentes 2013).[14] By integrating tools to measure behavioral traits such as discounting and risk aversion into their survey, the Central Bank of Chile has been able to identify which segments of the population may be most at risk to get overextended with credit, which can help to develop targeted consumer protection and financial education efforts for these segments.

Future research and regulation should also take into account implications of credit delivery through agent and mobile banking, as well as the entry and rapid scale-up of new providers such as retail goods stores or credit card issuers that are for the first time targeting BOP consumers. The nature of the channel and perhaps even the provider could affect the common behavioral biases linked to temptation and immediacy described above. It is possible that the nature of the borrowing process would also affect the "salience" of the offer to the customer and the likelihood of borrowing, for example, when her loan application is approved relatively "instantly" due to rapid credit models combined with SMS notification and disbursement. Innovation in credit technology also presents opportunities to improve consumer outcomes in retail credit markets, for example, by enabling an SMS service to help consumers quickly and easily search for multiple credit offers (bearing in mind behavioral cautions about information overload).

14 These results also held across a similar measurement of risk aversion where those with the highest risk aversion were least likely to have current debt.

2. Tips for policy makers addressing debt stress in consumer credit markets

At a minimum, the new methods for measuring and understanding the contextual factors of consumers' behavior around debt can help policy makers better understand which particular segments of the population are more at risk of debt stress. This can lead to more focused policy measures targeting the main providers and products that serve BOP segments of the market, including suitability provisions, increased disclosure requirements such as warning labels for high-cost consumer credit products, or even prudential measures such as additional loan loss provisioning requirements on consumer credit portfolios.

The question, however, is whether improved analysis of consumer debt trends is likely to be sufficient to better address the risks of debt stress at the household and market levels. Policy makers may therefore need to explore larger and more complicated questions that go beyond measurement: What do these insights into the lives of BOP consumers and drivers of their credit behavior mean for the development of measures to encourage proper debt management at the individual or communal level? In particular, if the context of scarcity has such a strong impact on consumers' decision-making and debt management, is it reasonable to expect that policy interventions—no matter how well-informed and targeted—can override these behaviors in the absence of more fundamental changes in the consumer's well-being?

It is possible to make the argument that more than debt management advice, many BOP borrowers may need improved social safety nets to address income shocks and unexpected expenses, reducing the compounded penalties imposed by scarcity by providing a basic set of minimum human needs. In fact, CGAP experiences with a series of Graduation pilots targeting those too poor to qualify immediately for enterprise loans found that the provision of basic necessities such as food and durable assets may be more important at the initial stage than microcredit.[15] Perhaps it is overly simplistic to expect that a series of "nudges" can address modern societies' tendencies to borrow beyond their means. However, there may be benefit in integrating the understanding of behavioral patterns with debt by BOP consumers into policy measures to monitor market saturation and manage systemic credit risk. The evidence remains limited on this topic in EMDEs, but recent insights into effective delivery of financial capability programs, discussed below, point to some possible ways in which grassroots outreach and simple but well-placed information can lead to behavior change among financial consumers.

IV. Beyond Disclosure and Recourse: The Role of "Fair Treatment" and "Suitability" Principles and Rules

Behaviorally informed disclosure regimes—particularly those that seek to offset the inherent bias and incentive problems that undermine product transparency and effective consumer choice—can set the foundation to improve protection of financial consumers in EMDEs. Similarly, well-designed recourse and dispute resolution mechanisms can help consumers quickly and effectively resolve problems and questions as they arise. Both these consumer protection approaches have a critical limitation, however. The responsibility rests with the consumer to proactively seek out and review relevant information on products that might meet their needs, to judge the objectivity of advice they receive (since providers and sales personnel have interests that may conflict with their own), to make the right choice for their individual needs, and to successfully act on their rights as consumers to demand recourse when problems arise.

Recent behavioral research has helped to increase understanding of the primary limitations of these approaches in practice. In particular, it has shed light on two common behaviors in the provision of financial services that demonstrate how approaches such as disclosure and recourse, while important, are not always sufficient to protect consumers:

- Providers and their sales staff may have incentives that do not lead them to recommend the most

15 http://www.cgap.org/blog/how-can-poor-embark-pathway-sustainable-livelihoods

suitable or appropriate product for a consumer.[16] Consumers often assume that financial advisers or sales staff will make reasonable efforts to recommend the most appropriate product for them. Yet evidence, including mystery shopping for basic savings accounts in India and Mexico, suggests that this may not always be the case.[17] The reasons for this misalignment of provider and consumer incentives can include a range of factors, such as short-term profit motivations that do not align with long-term financial well-being of the consumer, commission structures that incentivize sales staff to push a particular product over others, and even subconscious biases based on perceptions of a consumer's knowledge, income, or social status.

- Even when consumers seek to optimize their benefit in choosing a financial product or service, personal factors can get in the way of their ability to do so. This Focus Note has described numerous behavioral barriers—such as present bias, choice conflict, procrastination, hassle factors, and availability bias—that interfere with this rational choice or "caveat emptor" model that has disclosure and recourse as its foundations. For example, consumers may overly rely on the advice of nonexperts, such as family and friends, or delay taking action to resolve a problem with a financial provider even when it is in their best interest to pursue resolution of this problem.

From a behavioral standpoint, these provider and consumer limitations raise the question: "Which is likely to be more effective, trying to change consumers (with their often ingrained behavioral biases, cognitive gaps, and other blind spots) so they can better 'self-protect' or placing the responsibility on providers to design their products and systems with these behavioral realities in mind?" For consumer protection policy makers these insights into actual consumer and sales staff behaviors are motivating jurisdictions in developed countries and EMDEs to assign to providers an affirmative obligation to sell products to financial consumers that are appropriate and meet their needs, circumstances, and preferences, and to do so in a responsible fashion.

The hallmark of this approach is the shift in responsibility to providers, to ensure that the products they sell are appropriate, adequately suited to consumers' needs and circumstances, and delivered in a responsible fashion. Importantly, these policy measures sometimes define consumer segments that are more vulnerable and more subject to unfair treatment or for whom providers are expected to assume a greater level of responsibility. Providers that fail to adhere to these expectations may face sanctions and penalties that can include the forced withdrawal of a product from the market, the overturning of a loan agreement by the courts, or even the withdrawal of the right to offer financial services.

In some legal systems, the principle of fair treatment is of long standing in law and common law (e.g., the concept of "unconscionable" contract provisions or rules on acceptable debt collections practices) or has been defined in regulation for some products (most commonly, certain investment and insurance products). However, three newer trends are apparent in an increasing number of jurisdictions.

The first trend is translation of the general legal principle of fairness into more specific rules. This may include the requirement that providers not sell "unsuitable" products to consumers[18] or, more ambitiously, that they ensure that products sold are affirmatively "suitable."[19] It may also include

16 See, for example, Mullainathan, Nöth, and Schoar (2012).

17 By law, all banks in Mexico must offer a low-fee basic savings account, to help unbanked, low-income consumers enter into formal savings. However, while the profile and preferences presented by half of the savings mystery shoppers suggested a good fit for the basic savings account, sales staff offered such an account to the shopper in only two of 54 visits. Product information from the financial institutions demonstrates why this is the case: Basic Savings Accounts (with no activity) yield for a consumer an average annual return of 0.15 percent, while other current account products yield an average annual return of -7.51 percent. The consumer's interests for low-cost savings do not align with the provider's profit incentives (Gine, Martinez, and Mazer 2014). Similarly, in India a recent mystery shopping study found significant resistance by some sales staff to provide to interested consumers the basic savings account required by Indian Law. This included "one-fourth of eligible shoppers being rejected when banks refused to offer an alternative low-cost product [to the basic savings account], or refused to accept the customer's legally acceptable documentation [to open the account]" (Mowl and Boudot forthcoming).

18 See, for example, the approach of the Australia Securities and Investment Commission to ensure responsible consumer lending.

19 In its approach to responsible lending, the Central Bank of Ireland requires that lenders sell loans that are suitable to the specific borrower only, by considering a wide range of factors that extend beyond repayment capacity.

policy oversight of product governance, that is, the process that providers go through to design, test, and sell new financial products and services. Some supervisors either approve new products or reserve the right to intervene with individual providers or the sector when they observe products that pose excessive risk of consumer detriment. In addition, new rules might be put in place to address the incentives problems described above and reduce the incidence of mis-selling or financial advice that is not in the best interest of the consumer.

A second trend is the extension of affirmative provider obligations for consumer welfare (or avoidance of consumer detriment) to additional types of products, such as responsible lending requirements (or reckless lending prohibitions) for extension of consumer credit. A third trend is implementation of a Treating Customers Fairly (TCF) approach, where each financial service provider is expected to develop its own internal set of policies and procedures to ensure this objective is achieved, the adequacy of which is then assessed by the supervisor. Malaysia, South Africa, and the United Kingdom, among others, have put in place or are planning TCF frameworks.

Experience in translating the fair treatment principle into regulation is nascent in most EMDEs, especially for the range of financial services that tend to be financial inclusion priorities. It is also quite possible that the capacity required to effectively supervise providers' implementation of these rules is even more demanding than that required for the disclosure and recourse measures discussed so far. For these reasons, it is premature to provide specific guidance to EMDE policy makers in this area.

Behavioral research can, however, help policy makers increase understanding of sales practices and consumer behavior so as to build the evidence base to identify severe cases of provider incentives overriding consumer interests where stronger measures, such as product regulation, should be considered (see Box 2). However, the efficacy of more prescriptive measures to offset behavioral biases such as regulation of product features or standardization of sales practices is not well understood, and research suggests their impact is subject to the influence of a wide range of context factors, including social relationships, formality of dress, and the setting for the sale that need to be considered in new policy measures.[20]

One of the key aspects of a behavioral diagnostic approach is the development of a clear problem definition that can be explored through direct observation and measurement, and against which new policies or interventions can be tested. However, the concept of a "fair" outcome can be quite context-specific to a particular consumer, a particular financial product, and a moment in time. As such, where possible, policy makers should strive toward as clear a definition of the "unfair" practices or outcomes they are seeing in the market before using behavioral diagnostic methods. To achieve this, new types of diagnostic tools may be needed to determine whether outcomes such as fair treatment

Box 2. Applying behavioral methods for consumer protection policy: Insurance sales in Malaysia

Behavioral mapping can be a particularly effective tool for exploring customer experiences during the sales process; the incentives of sales staff; and how policies, such as disclosure, suitability assessments, and product regulation can be leveraged to help improve the sales experience and consumer outcomes. For example, Bank Negara Malaysia has partnered with CGAP to pioneer a behavioral mapping method as part of its review of disclosure and sales practices in the insurance sector. This behavioral diagnostic, the first of its kind in emerging markets, used a variety of methods, such as review of complaints data, mystery shopping with BOP insurance customers, and interviews of insurance sales staff and customers to identify potential behavioral issues relevant to disclosure and sales practices. Bank Negara is using this initial diagnostic to help develop subsequent consumer research to test possible improvements to disclosure, consumer education, and related policy measures.

Note: Final results of this diagnostic process and related consumer protection insights are forthcoming.

20 Indeed, some jurisdictions have instituted "cooling-off" periods or other measures to allow consumers to reconsider their decision outside the pressures of the sales process. Other approaches, such as a mandatory post-purchase product activation hotline, could allow each consumer to consider his or her purchase at a distance from the sales setting, perhaps resulting in a more thorough and objective consideration of the costs and benefits.

and suitability are being achieved in a market before seeking to determine the behaviors that are causing these outcomes.

Much more experimentation is also needed on how to implement these policy approaches effectively in EMDEs, particularly in the face of limited supervision capacity and limited customer knowledge of their rights and ability to pursue them through the courts if necessary. This paper, therefore, encourages policy makers and researchers to push for greater use of behavioral methods as they seek to develop or expand fair treatment approaches in financial consumer protection, to advance understanding of its utility and limitations in resolving issues of fair treatment and product suitability.

Finally, many jurisdictions view interventions to improve consumer financial capability as highly complementary to the consumer protection regulatory and supervision approaches described so far. While this topic is beyond the scope of this Focus Note, it is certainly relevant to consider the role that such interventions might be able to play in addressing observed behavioral biases and shifting them in directions that could produce more desirable consumer protection outcomes. Box 3 presents the current nascent state of financial capability practice and knowledge in EMDE contexts, evidence on changes in financial behaviors, and very preliminary lessons from application of behavioral insights to financial capability program design and delivery.

Box 3. The role of financial capability in protecting consumers and lessons from behavioral research

Traditionally, governments' approaches to improving adult consumers' financial capability have focused on increasing knowledge. Typical initiatives, often delivered in classrooms and other formal settings, teach financial concepts and facts such as compound interest or attributes of financial products. However, recent evidence indicates that general consumer education initiatives may not provide high return on investment relative to their performance in improving financial capabilities and influencing behaviors (Fernandes, Lynch, and Netemeyer 2013).[a] This insight has prompted new approaches that focus less on increasing the knowledge and understanding of specific financial literacy content, and instead on building consumers' financial capability in a broader sense and influencing their behavior.

It is particularly important that EMDE regulators—who typically have ambitious agendas and limited resources to discover and test new programs or delivery models—are equipped with the latest evidence about what works and for which segments. The following points suggest ways in which policy bodies that back financial education and capability interventions might draw on insights from behavioral research to achieve better returns for their investments relative to more traditional methods.

Make content salient to consumers' financial lifecycle. To improve retention and trigger behaviors, financial education may be better delivered in real-world settings and timed as closely to an actual decision or purchase as possible. For example, when the U.S. Army designed a financial education program for young soldiers, the sole topic in the multifaceted curriculum that effectively improved their decision-making was the module on how to buy a car, which resulted in the treatment group taking smaller loans and making higher down payments from savings. The evaluation concluded that many of the soldiers were in a phase of their lives during which buying a car would be a high priority—and that the car-buying lesson stuck because it was perceived as relevant, in contrast to the other modules (Bell and Hogarth 2010).

The context in which messages are delivered may matter as much as the message. New research underscores how much the mode of delivery can improve the effectiveness of financial education. For example, entertainment education is an engaging delivery channel that shows some promise. A recent study analyzed the impact of financial education messages on debt management that were integrated into the storyline of *Scandal!* a televised soap opera in South Africa. The narrative vividly portrayed the financial distress that results from financially irresponsible behavior such as excessive borrowing through hire-purchase (i.e., rent-to-own) arrangements and gambling. The evaluation found that *Scandal!* viewers were almost twice as likely to borrow formally (rather than through hire-purchase arrangements) and reduce their gambling. Moreover, qualitative focus group research highlighted the importance of viewers' emotional connections with the leading character as the motivating factor behind their behavior changes (Berg and Zia 2013).[b] In EMDE markets, recent advancements in the delivery of information to low-

Box 3. The role of financial capability in protecting consumers and lessons from behavioral research *(cont'd)*

income individuals via SMS and VOIP may also prove useful in reducing the cognitive burden required for individuals to receive and process information and also to help trigger new behaviors.

Focus on helping people take action rather than providing them with more information. Financial education approaches that focus on traditional numeracy and accounting-based curricula may not be as effective as lessons organized around simple but powerful habit and behavior changes. In a recent field experiment, a leading microfinance bank in the Dominican Republic tested two types of financial education: traditional accounting training focused on how to manage a balance sheet, and simplified "rule of thumb" training based on good practices, such as separating personal and business accounts. Those who received the rule-of-thumb training outperformed those in the accounting training substantially on key behaviors, such as separating business and personal cash, keeping records, and calculating monthly revenues. They also demonstrated higher weekly revenues in their businesses than the control group.

Link financial capability to core consumer protection functions. In the case of disclosure in EMDE contexts, rules could require that providers give clear and concise information before purchase, when it will be most useful and salient for consumers (e.g., interactive product comparison tools in waiting areas). In the case of recourse, where many consumers are in fact seeking information rather than registering complaints, providers could train complaints-handling staff on effective approaches to deliver the right information and light-touch financial education to consumers through face-to-face, phone, and online interactions.

Some behavioral biases may be too strong to overcome through education alone. Some behavioral tendencies—such as temporal discounting, procrastination, and information overload—can be so strong that financial capability interventions produce very limited change in consumers' behaviors. This has important implications for policy efforts to strengthen consumer protection. For example, one area where this has radically changed policy makers' thinking is in promoting savings and retirement planning. A series of experiments on retirement saving in the United States produced significantly higher uptake of existing voluntary savings and retirement plans by employees; the sole change was simplifying the enrollment process so that instead of an open decision on how much to save, participants were offered a single option that they could either choose or reject (Beshears, Choi, Laibson, and Madrian 2013). This finding is similar to lessons from design of commitment savings accounts, which are relevant in many EMDEs. Experiments have shown that better savings outcomes result when participants can sign up for accounts where their savings are "locked away" for a fixed time, reducing the temptation to tap savings for short-term expenditures (Brune, Gine, Goldberg, and Yang 2013).

a. Fernandes, Lynch, and Netemeyer (2013) conducted the first systematic metadata analysis on the effectiveness of financial education. Based on 168 papers covering 201 prior studies, the researchers found that "interventions to improve financial literacy explain only 0.1% of the variance in financial behaviors studied, with weaker effects in low-income samples." The researchers conducted empirical analysis of the data from previous studies, but this time controlled for psychological traits that were omitted in prior research or controlled for omitted variables, and found that what little benefit had been attributed to financial education interventions disappeared quickly. The researchers posit, "[E]ven large interventions with many hours of instruction have negligible effects on behavior 20 months or more from the time of intervention."
b. This study was not covered by the meta-analysis study of Fernandes, Lynch, and Netemeyer (2013).

V. Conclusion

Increasingly, behavioral research is being deployed as an approach to improve consumer protection policy-making. This trend is highly relevant for EMDE policy makers, especially in contexts where financial systems are evolving rapidly and integrating large numbers of BOP consumers with limited formal financial experience. By starting to apply behavioral research tools and insights, policy makers can gather insights to inform policies and improve market outcomes even when time and resources are limited initially. This can aid design and implementation of low-cost, high-impact interventions by using direct market evidence to help focus on the right priorities and channel limited policy resources into the most promising solutions.

Knowledge and experience on which approaches will work best to protect financial consumers is very limited at this time. However, evidence suggests the power of several key behavioral concepts to improve outcomes:

- **Scarcity.** Generating and applying insights into the role scarcity plays in financial and other decisions taken by many BOP consumers, and designing policies that factor in its effects.
- **Improved information for consumer choice and use.** Simplifying information and/or choices to improve effectiveness of consumers' comparison, selection, and use of financial products.
- **Salience.** Making financial information more relevant to consumers' personal context to improve consumer understanding and decision-making. Connections to different points in consumers' daily activities or lifecycle events can make information more meaningful, increase consumer receptivity to the messages, and bring greater changes in consumer behavior.
- **Beyond information.** Recognizing that increased information is not always the best way to facilitate consumer decision-making and understanding, putting in place additional measures such as default options that nudge consumer behavior and improve outcomes.
- **The intention-action gap.** Probing to understand how contextual issues—both perceived and subconscious—contribute to gaps in individuals' preferences and decisions and the behaviors they exhibit and using this analysis to design policy measures that tackle the underlying issues.
- **Drivers of provider behavior.** Exploring the factors that affect behavior of financial service providers and their staff, which may reflect a complicated mix of short-term incentives as well as their perceptions of consumers, to design policy measures that shift providers' behavior and incentives and produce better long-run outcomes for consumers (and often for providers, too).

Given the promise of these approaches, it is critical to increase experimentation with behaviorally informed consumer protection policy-making in EMDEs and to build better tools and a stronger evidence base. Globally, two priorities stand out for governments, funders, and researchers. The first is support and capacity-building for interested policy makers to use existing techniques (e.g., mystery shopping) and the next generation of research tools (e.g., behavioral mapping and rapid prototyping methods that are currently being field-tested by CGAP in select markets) to identify and understand the behavioral drivers of market outcomes.

The second is to apply behavioral insights to improve implementation of consumer protection measures that are inspired by findings from initial behavioral research. Pilots and field-testing of measures such as those identified in this Focus Note would be particularly valuable. This type of evidence-based work to implement improved disclosure and recourse regimes, for example, would accelerate efforts to see what works and inspire policy makers in other jurisdictions to try this approach.

One overarching message for policy makers is that even when resources are limited, some behavioral research may be better than none since it permits greater confidence about the efficacy and scalability of the regulatory and supervision measures ultimately adopted. Rather than proposing a one-size-fits-all approach to behaviorally informed consumer protection policy making, this Focus Note has provided some starting hypotheses on how behavioral biases may shape consumer protection problems and potential solutions, while stressing the importance of sourcing and applying insights specific to each market and key consumer segments within those markets. Context matters. In the end, rather than trying to bring about wholesale changes in deep-seated human behavior, this approach aims first to better understand how certain contexts draw out these behaviors, and then to adapt the contexts to help improve behavioral outcomes at a large scale.

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Annex 1. Behavioral Biases of Particular Relevance to Financial Products

Biases	Explanation	Example
Psychology of scarcity	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.	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	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.	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	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.	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	Greatly discounting future costs or benefits relative to immediate costs or benefits.	Expensive consumer credit seems like a good deal to cover short-term needs, even if the long-term costs are significant.
Information and choice conflict	An increase of options may make it more difficult for consumers to select a single option.	Consumers who want to purchase insurance may end up not doing so when presented with *too many* plans or options presented in diverse ways, making it difficult to compare choices.
Positive framing	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.	Messaging that links money with specific goals leads to higher savings rates than if savings intentions are left vague or broad.
Present bias	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"!	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	Behaviors and actions that are driven by actual or perceived behavior of a peer group.	Informing citizens how many of their peers have already paid taxes increases the likelihood they will pay their own taxes.

Note: This list 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.

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