Coimisiún um Iomaíocht agus Cosaint Tomhaltóirí

Competition and Consumer Protection Commission

Improving Financial Well-being through Short-term Savings

A Guide for Financial Providers to Help their Customers Save

Introduction

Unexpected expenses can mean that consumers need to forego essentials or borrow at high interest rates. Six in 10 Irish consumers face unexpected expenses every year[(1)] and having a financial buffer can help. Competition and Consumer Protection Commission (CCPC) research has shown active saving to be a key behaviour in improving financial well-being. When consumers actively maintain a short-term savings account and use those savings to meet unexpected expenses, they have increased resilience against financial shocks and are less likely to have to resort to expensive forms of credit.

This short guide from the CCPC contains advice for financial providers and other stakeholders on how to help their customers save for the unexpected and improve their financial well-being. This guide is based on findings from a large-scale randomised controlled trial (RCT)[(2)] with real consumers. The trial was designed and analysed by the Economic and Social Research Institute's (ESRI) Behavioural Research Unit and was facilitated by Bank of Ireland (BOI)[(3)]. The advice in this guide is based on strong real-world evidence of what works to help consumers in Ireland save for financial shocks. There is also a checklist for providers to use to see how their savings account application form enables their customers to make good decisions in relation to saving.

(1) Nationally representative survey of 1,000 adults carried out in December 2020 by the ESRI for the purposes of informing the behavioural savings trial.

(2) The full trial is reported in the ESRI Working Paper "Combining nudges and boosts to increase precautionary saving: A large-scale field experiment" by Shane Timmons, Deirdre Robertson and Pete Lunn.

(3) Bank of Ireland were selected as partner for the trial following an open call-for-partners issued to banks, Credit Unions and Fintech companies in March 2020 as they best fulfilled the criteria for partners.

An Evidence-Based Guide for Financial Providers to Help Their Customers to Save

Results from the trial show that applying behavioural science to communications with customers and savings account application forms can increase uptake in savings accounts by over 25%. Detailed analysis also suggests greater benefit among customers on lower incomes, who are most vulnerable to the negative effects of financial shocks.

The following are seven lessons that emerged from the research programme:

1 Allow ‘unexpected expenses’ as a specific goal

People find it easier to save when they earmark money specifically for savings, particularly when they have a specific goal in mind. However, the framing of savings goals can matter. Some ways of thinking about a financial buffer can be ambiguous; for example, people may have fuzzy definitions of what constitutes a “rainy day.” The behaviourally-informed application form tested in the RCT with real customers reframed the emergency savings goal as saving for an “unexpected expense”.

2 Ask about start dates early on in the application form

The order in which people make decisions can affect their behaviour. Encouraging customers to think about when they will start to save early in the decision process can make the act of saving less abstract. Doing so also allows customers to see that they can choose to start saving at a time that suits them, for example after their next payday – or even the following one. One simple change on the successful application form in the behavioural RCT was to move the decision about when to start saving from the final page of the form to the first page.

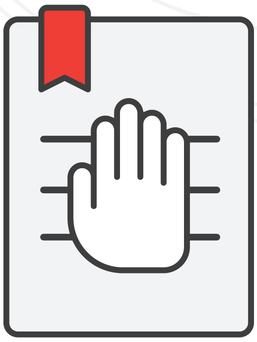
3 Provide interactive calculators to help customers choose how much to save per month

People find it difficult to estimate how money accumulates over time, with implications for understanding debt repayments as well as savings. Interactive calculators can help. The calculator included in the RCT on saving used three variables: the customer's total savings target, the date they wanted to reach their goal and how much they wanted to save each month. Users could input any two of these figures and the calculator would show them the value of the third. Customers who opened a savings account were 10% more likely to have used the calculator than those who started an application form but didn't complete it.

4 Include 'point-of-sale' financial advice

Many websites and financial education programmes offer financial advice. This advice can be more effective if given at the 'point-of-sale' (i.e. when the customer is about to open their savings account). The successful application form in the behavioural RCT included standard financial advice throughout the form under relevant questions. For example, when asked about their savings target customers were given advice to aim to cover three to six months' worth of expenses.

5 Offer 'soft' commitment devices



Studies show that 'hard' restrictions on withdrawals from savings accounts (e.g. restricting withdrawals until a specified date is reached) can boost totals saved, but some customers may avoid accounts with these features. Offering customers the chance to make 'soft' pre-commitments to withdraw only for specific reasons (e.g. a car breakdown) can be an equally effective way to commit them to their savings and is more appealing to vulnerable customers.

In the behavioural RCT on saving, customers had the option to use a 'pledge tool' to commit to themselves reasons they judged acceptable for withdrawals and reasons they might be tempted to withdraw from their savings but would later regret. Use of the tool did not affect access to their funds; it functioned solely to help them think about these reasons ahead of time. Those who opened an account were over 2.5 times more likely to have used the optional pledge tool than those who started the application but didn't complete it.

6 Signal flexibility

One likely explanation for 'soft' commitments described above working is that vulnerable customers need flexibility with their savings. Accounts that offer such flexibility should advertise it upfront. The successful savings account in the behavioural RCT was described to customers as offering “flexibility in how much you save, when you start and when you can withdraw.”

7 Highlight likelihood of financial shocks

For changes to application forms to be effective, customers must first want to save, but there are multiple cognitive biases that work against motivations to save for unexpected expenses. These biases can be overcome using techniques from the science on risk communication to illustrate the risk of financial shocks.

Customers sent emails with infographics that illustrated financial shock statistics were 20% more likely to open a savings account compared to customers issued emails encouraging them to save for their financial well-being. The main idea was that, although the risk of a specific financial shock might be low, the risk of facing any shock is much higher.
The infographics used ‘natural frequencies’ to communicate risk (e.g. that six in 10 people face an unexpected expense each year) and animations showed that few people avoid financial shocks in any given year. These emails and associated digital ads had almost 10% higher “click-through” rates.

The behavioural RCT with real customers showed that each of these interventions can help them save when used in combination, with a benefit that is much larger than typically seen in behavioural tests of individual interventions.

Providers’ Checklist

There is strong evidence that the way online application forms are designed can make a large difference in terms of whether customers take out an account. The following is a list of actions that providers can take to ensure their savings account application form helps customers in their decision to save:

Providers' Checklist

- Prompt customers to set a goal for 'unexpected expenses'
- On the first page of the form ask customers to set:

  (1) a target savings amount

  (2) a date by which they want to achieve their target and

  (3) the date they want to start saving
- Include relevant financial advice when asking questions (e.g. to save enough to cover three to six months of necessary expenses and to choose a start date soon after a regular payday)
- Provide interactive tools (e.g. a calculator) to help customers understand the relationship between the amount they save per month, how long they save for and the total saved by the time they wish to have reached their goal
- Offer 'soft' pledges to customers, to allow them to commit in advance to reasons they judge acceptable to withdraw from their savings account (and emphasise that any reasons they give will not affect their ability to make withdrawals)
- Offer and emphasise flexibility in when customers can start saving, how much they can save per month and when they can withdraw