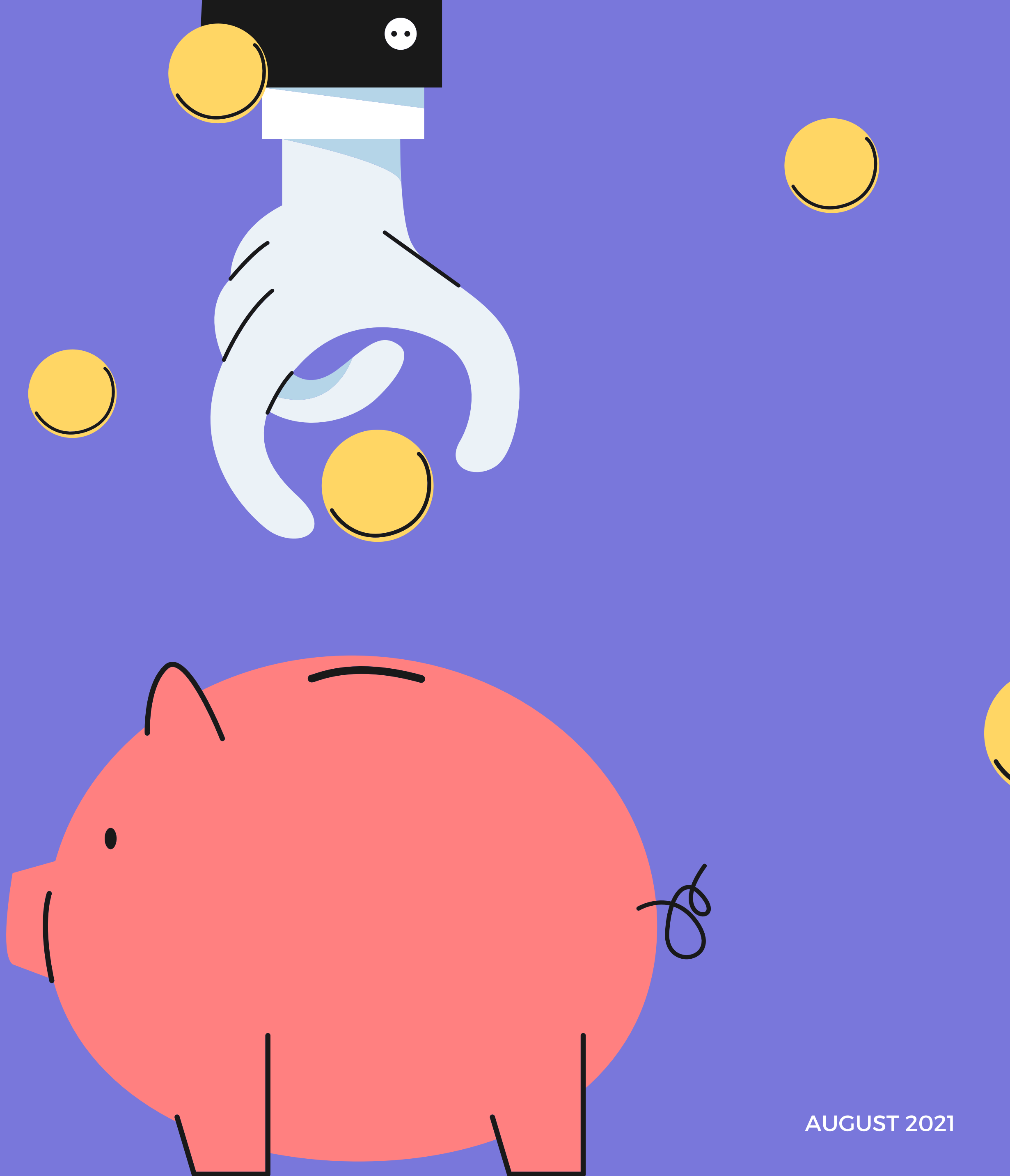
BEHAVIORAL SCIENCE FOR BETTER FINANCIAL DECISIONS

How behavioral science can improve financial decision making in Tunisia



SPINEL LAB

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THE RESEARCH OBJECTIVES

01 Determining the background on which Tunisians base their financial decisions and providing a framework for better personal finances' management.

02 Helping Tunisians take control of their spending and tactically improve their debt choices, uses, and repayments.

03 Providing organizations, particularly those in the financial services sector, with insights to transform their way of serving and supporting Tunisian citizens.

04 Improving Tunisians' ability to fully manage money.

THE REPORT CONTENT

Qualitative Research

What are the barriers and drivers of our desired behavior?

Behavioral Insights

What Behavioral science concepts could help us in designing effective nudges?

Intervention Design

What low-cost interventions could help us create a sustainable behavior change?

THE CHALLENGE

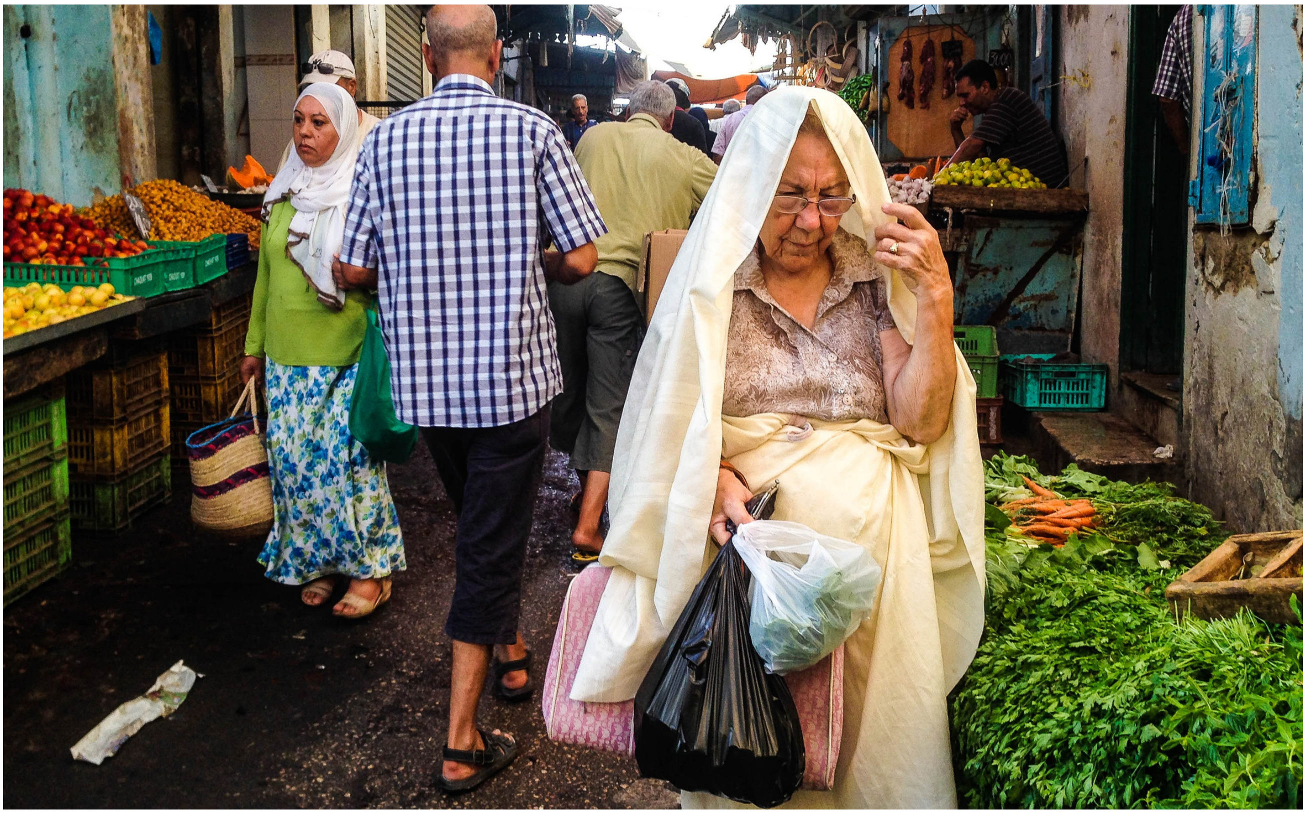

PHOTO BY TAHA LOUKIL ON UNSPLASH

The first financial challenge the Tunisians face is the mismanagement apparent in people's overspending. According to the Central Bank of Tunisia, consumer spending in Tunisia increased to 83090.30 TND Million in 2019 from 76118 TND Million in 2018. Consistently this demonstrates Tunisians' unwillingness to save. Savings, which correspond to the household income saved during a certain period of time, are considered low in Tunisia with an actual of 1443.00 TND THO. Furthermore, overdrafting which refers to withdrawing over what is on the current account and struggling to repay credits is a weighty complication leading to Tunisian maladministration of money.

The second challenge is the unawareness due to a lack of financial knowledge and proficiency in managing finances, which makes making a financial decision a complicated process. Finally, serious financial issues are generated due to external factors like unexpected bills or monthly expenses related to health care, children and car expenses.

THE RESEARCH APPROACH

QUALITATIVE RESEARCH

The main purpose of the research study is to provide behavioral insights and interventions for organizations and financial institutions to help Tunisians make better financial decisions and improve the way they manage their money.

We opted for inductive reasoning based on qualitative research methods since a complex and detailed understanding of the inquiry is needed, the encouragement of individuals to share their stories is essential, and limited similar pieces of research are available in the Tunisian context.

RESEARCH METHODS AND TECHNIQUES

Data collection	**Expert interviews, individual interviews, focus groups, observations.**
Sampling	**Simple random sampling**
Sampling Size	**Data saturation was considered to be attained when no new themes appear and no new information or ideas related to the study objectives and questions.**
Data Analysis	**Thematic analysis method**

RESEARCH FINDINGS

I plan to save each month but my expenses are too high.

Participants claimed to have intentions to save after receiving their salary, yet at the end of the month, they would end up with nothing and sometimes would even resolve to overdrafting. In general, participants struggle to budget their finances and manage their monthly expenses.

It's a repetitive and unpleasant cycle.

Participants managed to successfully save money every few months, but would always wind up spending those savings either on unexpected expenses like car maintenance, entertainment, and celebratory expenses (family celebrations, vacations, travel, etc..). Afterward, getting back on the saving track would become increasingly difficult; resulting in lost efforts and thus frustration.

I'm just living the moment.

Participants from different age groups indicated that they never consider saving for the purpose of fully enjoying their lives. This is explained by different factors: their claims range from their incapability of saving due to their income barely ensuring an enjoyable life; passing by their desire of fulling living in the present in contrast with the future (*"I only live once."*); to their lack of financial responsibility (kids, debts, etc...); to finally their limited finances that could only cover little enjoyable experiences in contrast with ambitions and big plans.

Another recurring idea expressed by participants is their belief in the unlikelihood and rarity of saving-worthy events such as major accidents, unexpected circumstances or illnesses. This reasoning parallelly developed with the pandemic.

RESEARCH FINDINGS

I have support

Participants revealed their reliance on friends and family in the case of unexpected events or bills which, as a result, would lessen the necessity or the urge to save. However, they also acknowledged the burden of paying back, sometimes earlier than expected, thus putting them in a pressing situation.

No one is saving those days

Participants indicated that with life becoming increasingly difficult and the deterioration of individuals' purchasing power, saving is almost impossible. This reluctance is enforced by them imitating their acquaintances, coworkers, and even the general public. The former is not necessarily indulging and lavishing, but this no constraint lifestyle is rather assumed due to the observation of spending habits (restaurants and hotels are fully booked, people are wearing trendy and expensive clothes, people on social media are consuming a lot from self-care to travel). On the other end of the spectrum, there are those with financial difficulties. The combination of the two enforce the no-saving decision

It's hurting our couple.

One part of the study focused on financial decision-making in couples. A number of participants claimed that they see their money matters from different perspectives. For example, a person tends to overspend (extravagant) while his partner tends to save (sacrificing). This situation causes the couple stress and generates arguments. Participants even claimed that money is one of the most recurring issues they fight about, if not the most (from small daily budgeting decisions to big purchases like furniture and cars...)

RESEARCH FINDINGS

Banks are hard to understand and are sometimes scammers.

One part of the study focused on financial institutions' services and communication. Participants confessed the mistrust of their banks, particularly attributed to high fees, bad services, and unhelpful advisors who would incentivize debt services rather than saving programs. Moreover, participants expressed how challenging and complicated the manipulation of websites and mobile apps can be. This inferior functionality dissuaded from relying on them when making a decision or needing service.

Participants considered money management very stressful. When expenses are frequent, it is hard to budget and be frugal, especially that society is all about spending even for the little pleasures (these spending habits are also imposed by social media). Subsequently, this could lead to anxiety, stress, and depression.

It's very stressful.

According to them, decision-making is complex and the right thing to do is not always clear. Thus, the following questions surface: isn't it the right thing to do is enjoy time with friends and family or buy something I really want, instead of saving months for emergencies or buying a house? What if the right thing is to private myself from many great things in life to protect my family from future problems?

MORE RESULTS TO BE PRESENTED THROUGHOUT THE REPORT

BEHAVIORAL INSIGHTS AND INTERVENTIONS

What behavioral insights could help us create cost-effective interventions?

1. The default

Research studies proved default options to be 23% more likely than any other substitutes, not only in finance-related matters such as investing but also in vital matters such as organ donation.
Given the likelihood of the default option, it can be helpful in the Tunisians' overspending issues. By defaulting them to save rather than to spend, people can make a responsible and rational judgment when it comes to their finances.

THE DEFAULT

The default effect describes a person's inclination to take the default option, which refers to our tendency to take actions without active thinking and prior consideration. It is based on minimal effort to automatically opt for a course of action unless an alternative is specified.

This could be implemented by governments, local banks, and financial institutions in the form of default, automatic accounts that help debtors pay off their credits. The most prominent example of the efficiency of the automation tactic is the UK having more than 9 million people enrolled in a pension plan. Moreover, research conducted by Duke University demonstrated that, for long-term savings, automatic enrollment and default contributions have been the biggest factor in increasing savings rates by increasing participation from 34% to 90%.

Automation as a stand-alone practice is not enough as the right default must be set not for banks and financial institutions' maximum profit but rather to benefit consumers. For example, the most typical default contribution rate for auto-enrollment retirement plans is 3% to 9%. On the other hand, experts advise people to save closer to 15% of their income in order to be appropriately prepared for retirement.

Saving as a default option is especially possible because the intention is there; yet to be met and fulfilled due to excessive expenses and charges. This gap is referred to as **the intention-action gap** which, as its name indicates, is the difference between what people would like to do (saving) and what they end up doing (overspending).

Evidence suggests that changing intentions are unlikely to lead to big changes in behavior. As there are many barriers and biases that make it difficult for even the best among us to follow through on our intentions.
Another area where carefully choosing the right defaults is important is debt: taking on debt and paying it back.

2. Present Bias

In the context of this report, proper financial decisions such as saving are increasingly difficult and this is not only because of the present versus future gratification preference but also because of the appeal of immediate, concrete, and tangible gains in contrast with intangible-future gains. In other terms, the long-term benefits of saving are undervalued in comparison with the instant gratification of spending. Examples of the present bias being positively or negatively applied to the financial system are numerous.

THE PRESENT BIAS

The present bias refers to our tendency to overemphasize the present and think of its value to preponderate the future. Thus, we end up taking no account of our long-term plans while focusing on making instant, delightful and fitting decisions.

The negative implications include forgoing higher possible interest rates while the positive applications include allocating a portion of future salary increases towards retirement savings (perceived to be of a lesser impact) compared to agreeing to part with money now thus leading to higher savings.

The natural motivation by present wants and desires rather than possible needs in the future can be advantageous if agents of the financial system **reframe** future savings as an opportunity to “earn” money (**perceived immediate benefit**) especially that the benefit can also be intangible: emotional, reputational, social, or psychological.

Other limitations for which the present bias does not practically make any sense are those involving cases of poverty. Indeed, **scarcity** can exacerbate present bias because when struggling to get by, managing the current situation is prioritized over long-term benefits resulting from saving. The quality of the financial decisions is insignificant in comparison with survival. Furthermore, poverty can magnify the effect of any encountered small obstacle called **hassle factors** which can easily tip the scale toward inaction (in this case not saving) when someone is focused on the present moment and low on bandwidth. This is equivalently true even when the benefits of action objectively outweigh the costs of overcoming a hassle (note that this is a universal phenomenon rather than a poverty-specific pattern).

DECISION FATIGUE

Even when the present bias is successively surpassed, the effort that was consumed by restricting one's self can eat someones' mental bandwidth and leave them with limited self control to make better financial judgments. The former case of someone's decision-making ability deteriorating after a number of previous decisions were made is called decision fatigue.

3. Choice and information overload

Our brains' limited processing capacity: taking in information, assessing it, and making rational decisions based on it causes choice and information overload. This means that the ability to evaluate information regarding the advantages and disadvantages of many options and effectively juggle them in order to arrive at the best possible decision is limited.

The financial system being complex by nature: think of the different debt options, the different saving accounts types, the saving plans, and the overly detailed transactions is a favorable environment to develop choice and information overload. Its effects encompass, for example, citizens not taking advantage of tax benefits, not properly investing pension savings, overestimating what they can afford all leading up to their expenses exceeding their earnings.

STATUS QUO

status quo refers to the tendency to hold to inaction and favoring things remaining unchanged;

In this regard, the immense load of information could also engender passivity manifesting in people sticking to the status quo which refers to their tendency to hold to inaction and favoring things remaining unchanged; accordingly, translating into people settling for an inefficient finances' management.

Floundering in a maze of overwhelming information also leads the way for **Information avoidance**. It refers to the situation where people avoid available information because of various reasons. Indeed regret could be one of those reasons as research suggests that for painful events, such as mortgage arrears or other debt problems, there is a wish to avoid feelings of regret thus avoiding information about their situation storing up more problems for the future.

4. Salience and simplification

Salience is the emphasis that something is directed to be conspicuous and noticeable. Along with simplification, which could be the solution to **information overload** by ensuring people are getting what they need to be able to make better decisions. Removal of unnecessary information and distractors as well as highlighting relevant facts thus boosting the brain's processing capacity can support a more reasonable decision making.

These decisions can be specifically financial ones that tend to be overly detailed citing all the aspects of the purchased product or service: thick terms and conditions booklets, complicated contracts, technical terms, difficult to manipulate financial instruments, etc. This causes disengagement, low comprehension, and confusion. On this note, financial institutions should communicate understandable, attention-grabbing, and material to dismiss information ignorance, especially that 90 % of online experiment participants ignored the additional information offered about standing orders before making a saving decision.

Communicated details related to desired actions should be simplified and made salient to steer away from shutting down, taking the path of least resistance, or defaulting to something familiar.

Added to that, the opportunity of explanation and simplification of complex concepts -inherently present in the financial system- should be made available. By being mindful of the huge amount and timing of information financial institutions convey thus stripping the mind's processing capability and wearing out its short-term memory, the financial system agents should make an effort to identify and communicate only the pertinent and important information in a suitable format. Another experiment proving salience effectiveness in inducing better financial decisions is a BIT field trial that reduced a 50–100 page pension "wake-up pack" to a single-sided "Pension Passport" with clear, salient, and individualized information, as well as a checklist of next steps. This was sent to those nearing retirement, and it resulted in a tenfold rise in the number of people seeking advice on what to do with their pension at this critical juncture.

Even now, straightforwardness is not enough, physical as well as digital materials communicated should be non-technical and understandable at lower levels of educational and linguistic background. Indeed, a person's numeracy influences their ability to make financial decisions. For example, work on US mortgages borrowers between 2006 and 2007 proved that those with inferior numeracy were much more likely to default on their debts. Failure to pay proved to be highly associated and correlated with Financial literacy, which is also dependent on numeracy

On a related note, professionals should beware of their "curse of knowledge" and refrain from it by seeking external feedback from the intended audience: the creditors and depositors.

5. Pre-commitment and commitment

As well as any other vital part of life, people are also committed to their finances: for individuals, it is mainly the commitment to pay for products and services and the commitment to pay off loans at a due date. To increase the likelihood of meeting one's commitments, one should set appropriate goals: managing his/her spending habits.

COMMITMENT

Commitment refers to people's tendency to behave in a way that goes in accordance with their previously made decisions and past behaviors.

In fact, there is a range of insights from behavioral science that can be used to help us achieve our goals. The first is having the right **Implementation intentions** which are simple plans that help people work towards their goals that take the decision burden off one's brain and support the specified action execution.

The second is carrying out **commitment devices** to ensure there are costs or accountability if a plan is not carried out or a goal is not reached; they could involve economic loss (such as requiring a donation to charity if the commitment is not met) or psychological losses (such as the feeling of causing disappointment), accordingly limiting the tendency to make spending decision " at the moment" and discouraging certain behavior, such as withdrawing savings, spending, accepting credit offers or exceeding a pre-set limit.

For example, in one study, accounts that allowed customers to restrict access to funds until a specified future date resulted in more savings. The third includes reminders such as applications' notifications and public sharing of plans to increase accountability and control. These behavioral insights are implemented by well-budgeted individuals to functionally manage their money.

6. Loss aversion

LOSS AVERSION

Loss aversion is a dominant economic notion that defines the preference for avoiding losses over gaining comparable gains. Individuals are so afraid of losing money that they focus more on avoiding it than on acquiring money: their dislike of losing money is almost twice as strong as their desire for equal gains

This behavioral observation can be harnessed by financial institutions to persuade people to deposit more savings whether directly or virtually. One of the techniques that could leverage loss aversion is framing, which is a cognitive bias referring to one's choice of an option on the basis of the positive or negative undercurrent related to it. Positively framing saving, while conversing with clients or on an institution's online materials, as a future gain rather than a present loss can be a motive for responsible, constructive, and maintainable financial behavior.

The most famous example of this is the “Save More Tomorrow” program, which altered the way in which an increase in pension saving was framed: instead of presenting the option to increase pension savings as a drop in take-home pay. The program established a link between increases in pension saving and future salary increases, thus reframing the increased savings as slightly reduced increases in take-home pay in the future.

7. Social Norms

SOCIAL NORMS

Social norms refer to the behaviors of social groups that are considered allowable and admissible.

We are highly influenced by the courses of conduct of the people surrounding us, especially the ones we find ourselves relating to. This is owing to the fact that we think of their behavior to be the right and the safe option to follow since the majority are adhering to it.

On this train of thought, not saving can be simply an imitation of the apparent social norms (relatives, friends, Tunisians in general not saving) which are far from accurate as, culturally, people do not share information about their finances and subsequently their saving behaviors.

Unfortunately nudging on those norms to persuade individuals to make more responsible financial decisions leading to increased savings is inefficient. A study conducted by ING Group found that while households who received the social norm nudge to increase their financial buffer (a financial wall built between oneself and economic insecurity), visited the online landing page 26% more often; their financial buffer still remained unchanged.

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