

# **How to Double Savings Rates: A Case Study in Nudging for Good**

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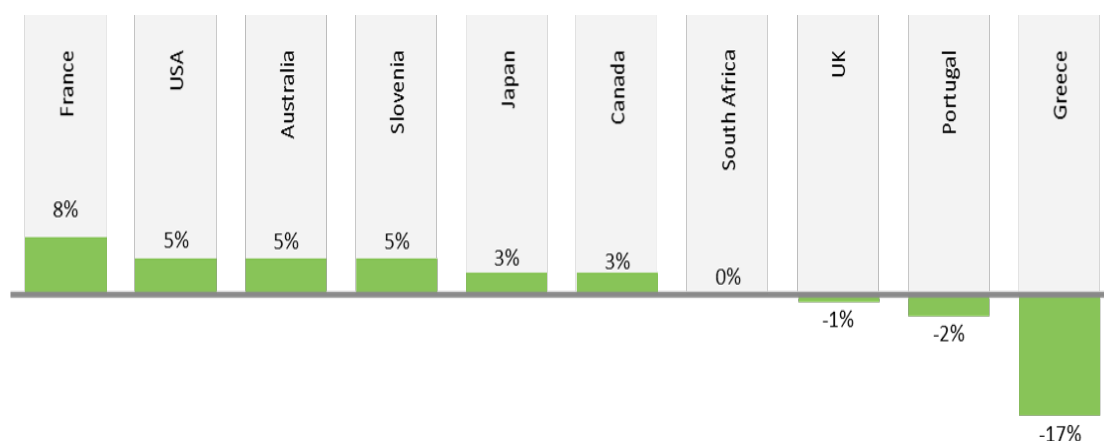
## Introduction

Richard Thaler, the 2017 Nobel Prize winner in economics, and Shlomo Benartzi are famous for creating a pension programme that dramatically increased the number of people who saved towards their retirement. Since then, their Save More Tomorrow programme has been adopted by more than 60% of large companies in the United States and has informed policy on a global level, but in the words of Benartzi, “there is still a lot more to do” (Benartzi, 2011).

While many studies, such as those by Thaler and Benartzi, have focused on encouraging more people to save, one of the most fundamental behavioural challenges around saving money is that people do not save for long enough to reach their goals. Many people start, and very few finish. In this case study we retell the story of one of our private sector clients whose customers were withdrawing their savings prematurely, and how we used behavioural insights to nudge customers towards saving more.

The partnership between London Economics and Genesis Analytics has seen several successful projects being completed in Africa, Europe and the United Kingdom to nudge consumers towards making good financial decisions. In the last ten years we have worked closely with regulators such as the European Commission and the Financial Conduct Authority (see box 1), as well as large and small financial service providers. For us as a team, the challenge of encouraging savings is an interesting one because it allows us to deliver exceptional value to our commercial clients in terms of increased product profitability (19 times their investment), while at the same time solving a core financial problem experienced by millions of people in almost every geographical market.

It is well known that savings rates are generally low, with most countries reporting an average savings value of less than 10% of household income, and some countries – in the developing world and in the developed world – reporting negative savings rates (OECD, 2018).



**Figure 1:** Savings as a percentage of household income

While many practitioners have focused on helping people to start saving money (Fiorillo et al., 2014), we have focused on the other end of the journey: helping people to continue saving or increase their savings contributions. Data provided to us by our clients show that most cus-

tomers with long-term savings products, such as education plans or pensions, will never see their product reach full term. Somewhere along the path they cancel or disinvest.

As the second largest in the world, the UK asset management industry manages £8.1 trillion in assets of which over £1 trillion is retail investment products (HM Treasury, 2017). In 2017, the Financial Conduct Authority (FCA) found that there was weak competition in the market. In terms of this, charges were not always visible and investors would not always pay sufficient attention to, or understand the impact of charges on, their returns (FCA, 2017).

European regulatory requirements introduced in early 2018 now require asset managers to provide more information to investors. However, as behavioural insights tell us, information provision does not always increase consumer understanding. This is especially true when dealing with large volumes of information (such as in terms and conditions of service) or asymmetric information (such as in insurance contracts).

The FCA commissioned our team to design and implement an online behavioural experiment to test a series of possible treatments to inform the FCA's future policy interventions in the market. These behavioural treatments included prominently placed warning messages about the impact charges can have on investor returns, combined with graphical presentation of the impact of charges over time.

Following the experiment outcomes, the FCA stated that firms should consider the results when thinking about how their disclosures are working, and the FCA will consider changing rules and guidance to mandate certain forms of disclosure following the outcomes of the Investment Platforms Market Study which is currently underway (FCA, 2017).

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**Box 1:** Now you see it: drawing attention to charges in the asset management industry (2018)

The negative implications of this are twofold. First, the consumer is no longer saving for the future, be it for retirement or another long-term financial goal. For instance, in South Africa one of the most common reasons for taking out a long-term savings product is to save for a child's education. Therefore, with one in two people cancelling such policies within the first two years, this behavioural challenge is driving a much larger social issue faced by most developing countries – a lack of access to education.

Second, financial service providers are losing customers and the revenue they derive from them. With average annual persistency rates lower than 60% in most environments, this means that companies are losing hundreds of millions of dollars every year due to early cancellations or disinvestments.<sup>1</sup>

Our work on this behavioural challenge has spanned various geographies and consumer segments, and yet the key behavioural barriers associated with encouraging larger savings pools remain very similar:

1. Customers sometimes need short-term access to cash and don't consider the benefits of long-term saving, which is essentially a *present bias* challenge
2. The process for cancelling a savings product is typically quite quick and easy, making it an unconscious, automatic *system 1-based decision*

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<sup>1</sup> Figures provided confidentially by our clients.

3. Consumers choose how much of their savings to withdraw based on the amount they have available rather than on how much they need; the decision is *anchored poorly*

To address these behavioural barriers in each context, the team has designed a series of impactful nudges, often testing them at scale.

## Overcoming Present Bias

To overcome the present bias barrier associated with early savings withdrawals and product cancellations, the team designed nudges that would help the customer connect their current self to their future self. As shown by Goldstein *et al.* (2008), helping people to understand how the investments and savings that they undertake today determine their wellbeing in the future, motivates people to improve their current saving behaviours.

When tackling this behavioural barrier in a contact centre environment, the team was tasked with embedding this nudge in the conversation by making inexpensive changes to the contact centre scripting. To help customers connect their current selves to their future selves, the contact centre agents were trained to encourage customers to reflect on why they would need these savings in the future; speaking through goals such as building a new home or achieving a comfortable retirement.

We have also worked with cancellation documents to achieve a similar aim. When customers begin to fill out a cancellation form, the first three questions were designed to encourage them to think about the long term: “What was your goal for this savings account?”, “Does this goal still exist?”, etc. We have found that these kinds of exercises change behaviour dramatically.

## System 1 and 2 as Tools for Change

One can design the architecture in a way that reduces decision inertia and automatic thinking. This is achieved by carefully including additional decision points throughout the decision-making journey, subtly encouraging customers to reconsider their decisions.

In a branch environment, this inclusion of additional decision points has been achieved by introducing in-branch collateral which customers need to complete as part of the cancellation process. These presented all the options available, and were designed in a way that enabled customers to select alternative means of accessing money. The customer’s decision-making process became more deliberate and calculated, and they saw that cancellation was not the only option available.

## Using Anchoring Effectively

To ensure that the customer’s decision to withdraw from a savings product was made based on the funds needed rather than the funds available, the withdrawal choice was designed to avoid anchoring. This is because, based on the nature of anchoring, once the customer has been exposed to the total value available to them, it becomes difficult to encourage them to withdraw only what is necessary.

In branch environments we have seen how commitment devices can be hugely impactful in encouraging customers to withdraw only the amount needed. For example, in one case, cus-

tomers were required to agree to a withdrawal amount upfront, before finding out how much was available in the product.

The graphic below summarises the three key behavioural barriers discussed, and examples of how we have addressed them through the design of behaviourally informed materials:

BEHAVIOURAL BARRIER	UNDERLYING NUDGE	TACTIC 1	TACTIC 2
1 <b>Present bias:</b> People need short-term access to cash and don't consider the benefits of long-term saving	Help connect the current self to the future self	<b>Visualisation in a contact centre script:</b> Encourage customers to reflect on why they'll need the savings in the future	<b>Anchoring in a form:</b> Ask customers to calculate how much they'll need to reach their financial goals before they cancel
2 <b>Insufficient decision points:</b> The process for cancelling a savings policy is too quick and easy	Include additional decision points to encourage reconsideration, and the activation of System 2	<b>Self-generation in a branch:</b> In-branch collateral that allows customers to self-select into an alternative option	<b>Consistency bias in a contact centre script:</b> Encourage customers to reflect on the original reason for the policy
3 <b>Mis-anchoring:</b> As people don't consider how much they need, they are anchored on how much savings they have	Influence perception of how much is needed as early as possible	<b>Commitment devices in a branch:</b> Get customers to think first about how much they need, and then about how much they have	<b>Anchoring in a statement:</b> Remind customers how much they'll have at maturity if they continue saving

**Figure 2:** Summary of behavioural barriers, nudges and applications

To measure the impact of these nudges, the team ran a number of randomised controlled trials across various environments.

As an example, the team recently completed a project that involved optimising the full value-chain associated with a savings product cancellation process. Trials such as this have proved that these nudges were able to increase savings values by more than 155%, on a consistent and sustainable basis, delivering 19 times their investment for our client.

For our client, this delivered exceptional value in terms of increased product profitability, but by far the most important impact was on the customers themselves. Our work showed that by using behavioural insights in cancellation processes we could help people save more towards retirement, educate their children, and ultimately reach their personal financial goals.

Shlomo Benartzi was quite right that "there is still a lot more to do". We hope that the work we continue to do for financial regulators and financial service providers makes important strides towards delivering on the promise of behavioural economics.

## The Authors

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