Behavioral Insights for Business Models

Behavioral Insights in Practice: Lessons for the Financial Sector, Wednesday, September 28th

Jonathan Zinman
Professor of Economics, Dartmouth College
Academic Lead, IPA Financial Inclusion Program
Pain Points

“People won’t pay”

But... non-transparent revenue models are not sustainable

- Regulatory risk (CFPB, AGs, DoED)
- Legal risk (401k civil suits)
- Customer dissatisfaction
  - Attrition
  - Disengagement
Consumers will pay

Behavioral research can help

Transparent pricing is itself the route to earning customer trust
Will Consumers Pay?

People *do* pay for some financial services:
- Credit report management / identity protection
- Tax preparation
- Asset management
- Loan origination fees, etc.

Sometimes they are even fast and loose with their purse strings:
- Tipping the teller at the check-cashing window
- Cross-sells at tax time
Unlock Willingness to Pay

Marketing has strong track record of using (behavioral) tricks to unlock willingness to pay:

Get A Credit Card with a Great Rate

Citi® Platinum Select® MasterCard®
Apply now and start saving with:

- 0% Intro APR on balance transfers and purchases for 21 months. After that, the variable APR will be 11.99%-20.99% based upon your creditworthiness.¹
- Online Discounts with Extra Cash from Citi
- No Annual Fee²
Unlock Willingness to Pay

Marketing has strong track record of using (behavioral) tricks to unlock willingness to pay:

- “Low Monthly Payments”
- Teaser pricing
- Rebates
- Bundling add-ons

Tricks work because of they play on specific aspects of the psychology of consumer decision making

Harness understanding of the same aspects, for good
How to tap into latent willingness-to-pay?

Some possible tactics:

• Finder’s fee that is first charge on new credit card
• Fee bundled in / extracted from a lump-sum disbursement
• Monthly subscription, often starting with a teaser
• Money management fee
• Pay-for-performance: take a cut of what you save the customer
Behavioral science / testing can help:

- *Timing* the offer
- *Framing* the offer
- *On-ramping* from offer to take-up
It's Credit, Uncomplicated.
No Late Fees. Great Low Intro Rate.

Citi® Simplicity® Card

Apply now and start saving with:

- 0% Intro APR on balance transfers and purchases for 18 months. After that, the variable APR will be 12.99% - 21.99% based on your creditworthiness.
- No late fees and no penalty rate
- Direct access to a representative
- No Annual Fee