CREDIT CARD DEBT MANAGEMENT: IMPROVING RE-PAYMENT RATES WITH BEHAVIORAL SCIENCE

BE*works* CASE STUDIES / FINANCIAL SERVICES

How can we help Customers re-pay their debt?

Background

When was the last time you went out to dinner with friends, took out your wallet, and paid in crumpled cash notes? Nowadays, credit cards replace the arduous task of counting paper money and doing mental math. Card swipes and Apple wallets have made payments incredibly easy—perhaps a bit *too* easy.

In much of the Western world, credit cards have become the new way of life. Between access to easy funds, online shopping, and a desire to increase credit ratings, credit cards have become synonymous with the art of modern living. Certainly, this is true in America, with 83% of adults owning at least one credit card.

At their core, credit cards are essentially short-term loans offered by banks and companies to their users on the premise that a minimum balance will be repaid each month, and any remaining balance will accrue interest. While some people pay off the full balance each month, many do not, resulting in significant debt. About half of all American credit card owners carried a balance in 2020, and in 2019, the average credit card debt was $6,194 per person.[1,2]

Mutual trust between lenders and borrowers allows credit transactions to take place in a secure and reliable manner, but when card holders fail to make the minimum payment required, the collections process begins—usually via some sequence of emails, letters, and phone calls. In some cases, the collections process can go on for months, increasing in intensity as card owners continue to accrue debt and interest while carrying a balance. But what happens when this tactic fails to deliver the intended payback result, and instead only helps to alienate the very customers companies want to attract?

In this study, BEworks explores new and innovative psychology-based strategies for credit companies to increase consumer payback rates.

1 Federal Reserve. *Economic Well-Being of U.S. Households in 2020.* (May 2021). https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-banking-and-credit.htm

2 White, A. (2022). *Alaskans carry the highest credit card balance—here's the average credit card balance in every state.* CNBC. https://www.cnbc.com/select/average-credit-card-balance-by-state/

Challenge

A high-profile retail company with a financial services arm noticed an uptick in credit card holders defaulting on their payments during a time of economic recession and high unemployment.

The company was in a bit of a bind; they wanted to increase credit card collections, yet many of the traditional collection approaches (constant or even aggressive phone calls or letters) had the potential to alienate their current client base. For a retail company, this was particularly concerning; not only might customers stop using their cards, but they might also stop visiting the store, thus lowering the lifetime value of each customer.

The company was interested in applying behavioral science approaches to find more effective, and less alienating, ways to increase collections.

Our Approach

We started by conducting an in-depth analysis of the method currently employed to collect payments.

One element of their strategy included IVR (Interactive Voice Response), an automated phone system technology that allows callers to use pre-recorded messages to access information through speech recognition and keypad selection without the need for an agent. This channel was prioritized for our project because it presented us with a unique opportunity for experimentation. The easily controlled environment of the IVR system would allow us to quantify results with a small margin of error.

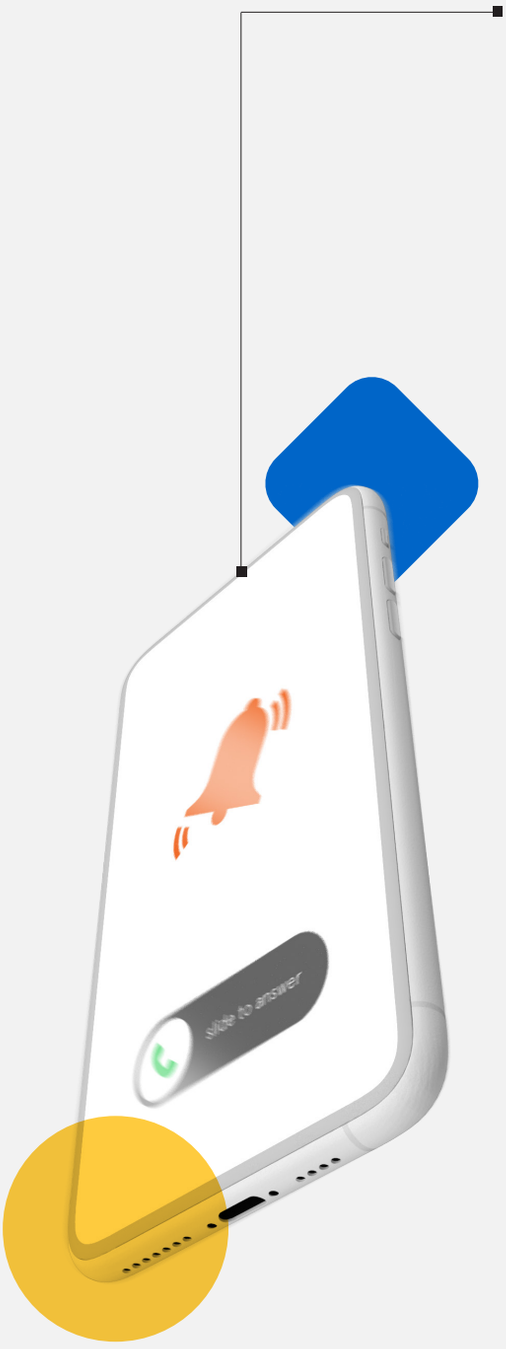
We analyzed the IVR collections call for a wide sample of customers and discovered key barriers in two stages of the call process:

1. **Authentication:** The first step was to have the customer answer the phone, which was hard enough. Getting them to stay on the line and authenticate their identity by pressing a keypad number so that they could proceed to listen to the collection message presented yet another barrier.

2. **Promise to Pay:** The second goal was for the customer to acknowledge an overdue payment and commit to paying it within a specified timeframe, yet we found that many people did not promise to pay during the call or did not make a payment after the call ended.

We also found that people were becoming increasingly frustrated and overwhelmed by the process.

We hypothesized three possible reasons for these barriers to collection:



1. **People tend to avoid debt collections calls.**

   Due to a cognitive bias called the "ostrich effect," people tend to avoid negative information, even when this feedback could help them monitor their goal progress, and thus may avoid answering debt collections calls.[3]

2. **The call script lacked a sense of urgency.**

   Even when customers did answer the call, a large number would hang up right after the first sentence. We realized this was partly because the call script did not evoke a degree of urgency sufficient for customers to stay on the call and listen long enough for stage two: payment.

3. **The payment intention was not clearly specified.**

   In stage two, customers were asked if they would make a payment within 3 days. Even among customers who agreed to pay within this timeframe (via the keypad on their phones), many still failed to make a payment. While 3 days is a short period of time, the framing does not cue people to think about when or how in the next 3 days they might make a payment. It is an easy timeframe to agree to, but without thinking about a plan, it is also easy to forget.

4. **There was no clear commitment being made.**

   Lastly, we noticed the call recording came to an abrupt finish at the end and did not reiterate the customer's consent to payment. Upon hanging up, the customer lacked clear commitment, which made it easier to put it off.[4] Think of having to do laundry, and how doing it "later" always seems to beat out the option of doing it "now."

3 Galai, D. & Sade, O. (2005). The 'ostrich effect' and the relationship between the liquidity and the yields of financial assets. *SSRN*. https://dx.doi.org/10.2139/ssrn.666163
4 Cialdini, R. B. (2007). *Influence: The Psychology of Persuasion*. HarperCollins.

Solution

We worked with the company to create behavioral interventions that could be embedded into its IVR, email, and text communications. Using principles from social psychology, we modified the IVR call script to facilitate the consumer decision-making process and drive the following targeted behaviors.

1. Emphasize urgency and credibility.

During the first stage in the call process, we wanted customers to stay on the line long enough to authenticate. To do this, we emphasized a sense of urgency in our word choice and repeated the person's name to assert the company's credibility. This was also to avoid being flagged as a spam call, which would lead people to hang up.

2. Increase specificity of intention.

People are more likely to complete a behavioral task if the intention is specific rather than general.[5] By giving customers a set of timeframes (24 hours, 48 hours, 72 hours), we encouraged them to think about what they will be doing over the next few days, and when and how they might fit a payment into their plans. This made the intention more specific and memorable because it required focused planning.

A customer with a specific intention would ideally think, "Out of all the options, making my next payment within 48 hours makes most sense to me because . . ."

3. Incorporate a pledge.

We tend to experience cognitive dissonance (the mental discomfort arising from holding two conflicting beliefs) when we break a promise. By incorporating a payment pledge, we encouraged people to complete the payment to avoid the mental discomfort of breaking a promise.[6] This also serves as an opportunity to repeat the intention, increasing memorability.

4. Instill a sense of authority.

In the recording, we included the voice of an authority figure in the company to emphasize the legitimacy and importance of the pledge.

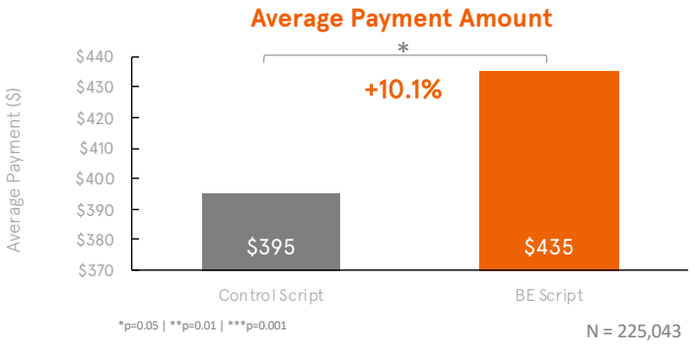
5 Gollwitzer, P. M. (1999) Implementation intentions: Strong effects of simple plans. *American Psychologist, 54* (7), 493–503. https://doi.org/10.1037/0003-066X.54.7.493

6 Harmon-Jones, E., & Mills, J. (2019). An introduction to cognitive dissonance theory and an overview of current perspectives on the theory. In E. Harmon-Jones (Ed.), *Cognitive dissonance: Reexamining a pivotal theory in psychology* (pp. 3–24). American Psychological Association. https://doi.org/10.1037/0000135-001

Did It Work?

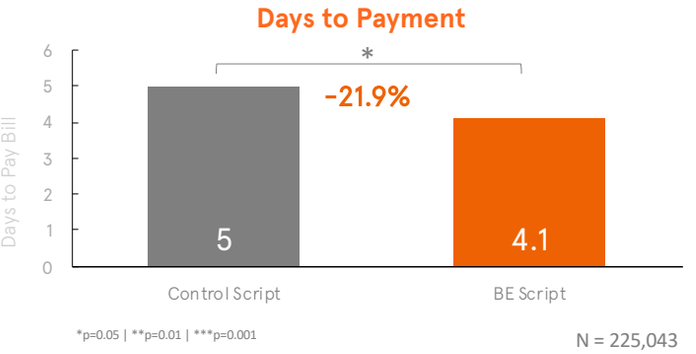
Using the new, behaviorally informed IVR script:

The number of customers making a payment increased by 7%.



Of customers who completed a payment, those who interacted with the new script paid $40 more on average than those who received the original script. For a company with 200,000 customer accounts, that's a potential *$8 million* increase in payment collections.

On average, customers paid one day sooner, reducing days-to-payment by one day. Additionally, phone hang ups decreased by 9% and authentications (getting the right person on the phone) increased by 7%



Interestingly, although the new script made the overall call time *longer*, it far outperformed the previous script in payment completion, faster repayment, higher payback contribution, fewer hang-ups, and higher authentication.


PRINCES MAY BE EXILED
GUARDSHIPS ALSO GO OVER
Socialists Are Demanding That Every Sovereign in the Empire Shall be Dethroned.
Those Protecting Mines in the Great Belt and the Baltic Abandon Their Posts.
MARDI
16
OCTOBRE 1917

Why This Matters

Helping clients manage their debt is never easy. Communication matters; and mastering the art of effective messaging can prove to be an asset in any business setting.

Behavioral science can help streamline compliance, while preserving good client relationships and brand affinity. Understanding how best to communicate with customers, even during tricky situations like debt repayment, can help companies develop messaging that resonates with them and increases their lifetime value

Interested in how BEworks can help you?

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