Application of Behavioural Economics to Interactions between Clients and Financial Institutions

Stephanie Au & Lucy Huo
Supervised by Professor J.C. Paradi

CMTE

Behavioural Economics (BE):

Draws on aspects of psychology and economics to understand everyday decisions made by individuals. Classical economics describe all human decisions to be rational; however in reality, the decisions made are often irrational.

Purpose:
Utilise BE to target client types and improve interaction points

Client Types:

- New clients
- Existing clients
- Renewals
- Switch-ins and switch-outs

Categorisations:

- Financial status
- Life-stages / life-styles
- Client needs and wants

Client Interaction Points (CIP):
Points of communication between the financial institution (FI) and the client used to improve client relationship and influence buying decisions

- Marketing
- Website and mobile
- FI branches

This project is subjected to terms as signed in the NDA; design contents are omitted

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Principles of Behavioural Economics for Client Actions

Social Influences and Behaviour

- Behaviour of individuals is strongly influenced by others
- Opinions are influenced by people in authority and people they like

Clients are influenced by word of mouth; the advice of those around them has a significant impact on how they build their beliefs

Tendencies towards Anchoring and Comparison

- Individuals naturally select anchors
- Impressionable products form anchors and result in biases during comparison

With an anchor, clients begin the process of comparison to competitive products and other institutions in a biased manner

Difficulties in Evaluating Circumstances

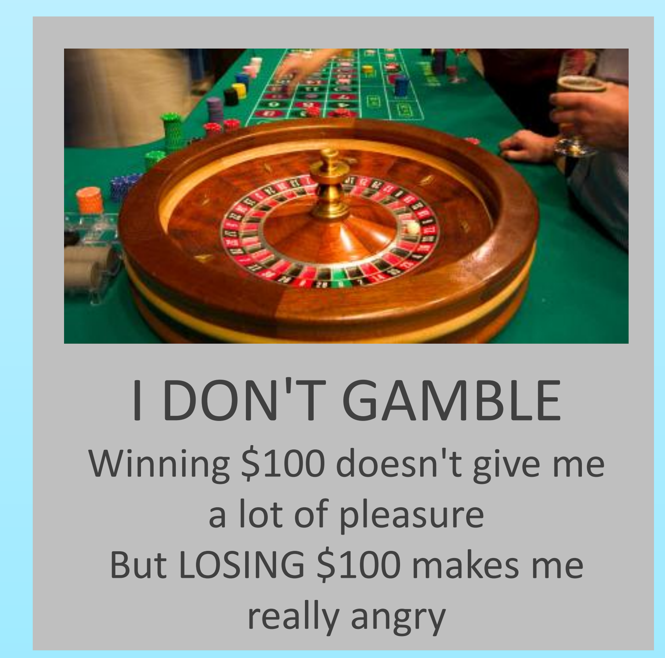
- Individuals are poor at computing and evaluating circumstances
- Under decision uncertainty, people oversimplify concepts

As clients evaluate options, they experience difficulties with grasping numerical concepts and fail to develop an accurate comparison

Loss Aversion and Framing

- Individuals are loss averse and will go out of their way to avoid losses
- Framing can greatly affect the outcome of a decision

Clients will select a choice that they believe results in the fewest losses



Individual Habits are Difficult to Overcome

- Status quo bias: established behaviour will not be changed without incentive
- Long-term goals deferred for immediate reward

When a product is finally adopted, clients will often rely upon the status quo and defaults, and lack motivation to make changes

Applications of BE to Capstone Project:

- BE sheds new insights on lending products for purchase decision and utilisation by targeting client types
- The project design easily connects customer needs to an almost custom response from the FI
- The ideal outcome is to decrease complexity, minimise financial stress to the client and reduce losses to the FI

Key Take-Away Findings:

1. *Client types*: FIs are aware of client types and use the information for product design, analysis and improvement
2. *FI-Client Interaction*: It is imperative to effectively target CIPs to enhance product / service performance and customer satisfaction
3. *Principles of Behavioural Economics*: BE creates a new perspective for advancing CIPs and guiding client types