# **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



#### **Behavioral Economics Can Help**

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:

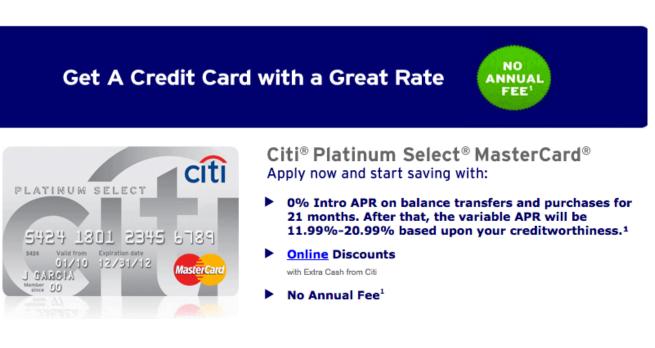
- Tipping the teller at the check-cashing window
- Cross-sells at tax time



### **Unlock Willingness to Pay**

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







## **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



## Making it Work

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<sup>®</sup> Simplicity<sup>®</sup> 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

