



Day 1, Session 4 - Knowing Ourselves and Our Clients Through Behavioural Experiments

Saugato Datta, Managing Director, ideas42:

Good afternoon, everyone. So, Roger's already given away the first thing I was going to tell you which is that we have, in fact, already done an experiment on you and it's probably something that you don't know but you will find out about soon enough.

So, here is an e-mail that hopefully most of you may remember receiving. It's an e-mail that was sent out to all participants, everyone who'd registered for this symposium, about a month ago. And, of course, there's some useful logistical information in the e-mail. And, there's this little bit about meals in the body of the e-mail which all of you probably saw if you opened the e-mail. What you may not have seen is there was an * that led down to the bottom. And, what the * said was that all of us have been opted into a rather unappetizing-sounding healthy meal. And, if we don't want this healthy meal, we need to e-mail an address that was provided and opt out.

Now, I think this e-mail was sent to about 350 people. How many people do you think actually responded to this e-mail? Well, I actually have their names in front of me. *[Laughter]* And, it's not a long list. Tim Ogden and Megan Gash were the only two people *[Laughter]* of the 350-odd people *[Applause]* who got this message who actually responded.

And, actually, if you read all the way to the bottom, there was this bit about Symposium participants who read all the disclosures being eligible for a prize. And, again, not a lot of people responded. Four people this time out of 350-odd; Netyln Bernard, Benson Wanyoike, I'm sorry if I mispronounced that; Sybil Chidiac and Nelly Elimbi. So, all of you, the four of you, are, in fact, going to get a little bit of MasterCard Foundation swag, which I think you can pick up at the Registration Desk afterwards.

But, really the reason that we did this and that we made all of you guinea pigs in this little experiment, was that I wanted to show you something really, really fundamental about human behaviour that we overlook all the time, which is that as human beings, we are incredibly inattentive. We're incredibly inattentive not just to things that don't matter, but often to things that do matter.

Now you might say, you know, a meal at a conference, they probably are not actually going to give me desiccated carrot and soy cheese. So, I probably didn't need to respond to this e-mail. But, the lesson from many years of research, and you heard a lot about this from Eldar this morning, is that we actually do not pay attention to things that actually do matter.

This is something that I think is actually quite important for us to think about in the context of financial services. Because, so much of what is done in financial services is premised at least partly on the assumption that people are paying attention. That when we tell people how something works, we tell people how they can actually use something, it is something they are going to pay attention to. And, what we found through many years of research is that this isn't the case.

Okay, that was the experiment we already did. Now, we're going to do another really quick experiment. And this, we're going to do live right now. And, I need you to participate.

So, on your screen you see, in this case, a circle. What colour is the circle? Everyone, please. *[Blue - Everyone]* Great. So, I'm going to flash a bunch of images like this on the screen. And, I want you to immediately say as loudly as you can what colour you see on the screen. Okay? So, this is blue. *[Participants state the different colours on the screen]* *[Laughter]*.

All right. So, I think that explains itself. So, what we did here actually was our version of a very classic test of executive control. This is the Stroop test. And, if I were to sum it up in a line, I would say what this is trying to do is it's showing you that all of us have sort of System 1, a kind of more automatic way of thinking, and a more deliberate way of thinking. And, it's difficult for us to override our automatic way of thinking and do what our deliberative or more considered mind would like us to do.

So, you notice what happens here is you're instinctively saying what you see on the screen, which you're sort of instinctively reading. And then, you need to override that and say no, no, no. I actually have to say, "red". You can sort of hear most people saying "blue" and some people saying "blue, blue, blue, red", right? That's fascinating because what it's saying is even for something as simple as this, you need to exert a certain amount of mental and cognitive resources to actually overcome your instinct. And, of course, this is sort of a fun experiment. But, it's actually really fundamental because this kind of executive control is something we need to exert over and over again in the context of the kinds of decisions that need to be taken financially.

Actually, Eldar and his co-authors have some wonderful research that shows exactly how applicable this is in the kinds of context many of you work with. So, they actually ran these kinds of tests with farmers in India before and after the harvest, right? Before the harvest, the farmers actually were very cash poor. It's very, very constrained, is in the situation of what Eldar described this morning. It's scarcity. And, what you find is that the same farmer does a lot better

on the Stroop test and on other measures of executive control and other kinds of cognitive function when he's cash rich.

So, what this is telling you is that this has a lot of consequences for how we are able to deal with information how we're able to make decisions. And this is then correlated with the kinds of decisions that people make. So, what is the takeaway for something like this just in a sentence for people who work in financial inclusion? It's not just about the product that you offer people, it could also be about when you offer that product. What sort of situation in terms of scarcity and cognitive bandwidth is the person in? Are they in a position to actually take this on, or are they not going to be able to do that?

All right. The next experiment. These will require you to use your clickers. So, I think Roger showed us earlier how the clickers were to be used. So, I urge you all to hang on to your clickers, and the question on the screen.

Supposing you're going to buy a mobile phone. The numbers are fairly arbitrary. And, you go to a shop and the shop assistant tells you, well, the mobile phone you want costs \$100 here. But, if you are willing to travel 30 minutes, you can get it for \$50, or for \$50 less. So what I want you to do is to say, would you go to the other store to get the cheaper phone: 1 if yes 2 if no. All right. Let's open up the voting and, you have about 45 seconds.

So, click 1 if you would go to the other store and 2 if you wouldn't. All right. It's going to tell me when voting is closed. And then, we should be able to see the results. All right. Here we go, all right. So, 75% of you, that's a big margin, said you would travel to the other store. And, about a quarter of you said that you wouldn't.

Let me ask you a sort of similar question. Now it's a similar question in saying: supposing you were buying this kind of expensive leather jacket. I don't think I've ever bought a jacket for \$400. But, let's imagine you were doing this. You went to the store. You found a leather jacket and then the assistant said you can buy this here for \$400, or you can buy it for \$350 if you travel for 30 minutes. Same question. Would you go to the other store to save \$50? Yes or no. All right. Voting's open. Use your clickers.

All right. We should be getting the results fairly soon. All right. Here we go. So, a few of you are still the majority said that you would travel. So, it's about 57%, almost half of you, but 40% said that you wouldn't. What is this telling you though? Think about the question. The question is asking you whether 30 minutes of your time is worth saving \$50, right? It's the exact same thing that is happening in both cases and yet, like most people, most of you were much more willing to do that when that discount was a larger fraction, it was a larger percentage discount. But really, those two choices were exactly the same, right? So, it made one feel like a bigger discount than the other in percentage terms, and people were more willing to travel for that.

Now interestingly, I can actually show you the figures you see on the screen. We've asked very similar questions to people from different income brackets in a number of cities across the world.

So, these are results from Lima and Peru. This is joint work that I did with Alaka Holla at the World Bank for the 2015 World Development Report. And, what you see actually here is very interesting.

When you ask people in upper-income brackets, they more or less behaved as you would. When you ask people in the lower-income brackets, however, they're actually more consistent. They are able to see very clearly that it's the same amount of money that they might be saving if they travelled, if they didn't travel. And so, they either travel or they don't travel. And so, unsurprisingly the people in this room behaved more like the upper-income people in Lima than the lower-income people.

But, this is just to say a couple of things. One, we actually have some important differences in how these kinds of biases play out depending on people's economic circumstances. And, sometimes that can be that rich people are actually more prone to some of these biases than poor people - that's worth keeping in mind.

In some sense the kind of...the basic thing I want to say here, which is really important for all us to think about, is we often think about financial products; financial services, as things that appeal to people on the basis of a fundamental value proposition. And, of course, there's some truth to that. But, what behavioural science tells us, over and over again, is that there are these inconsistencies in the way people value things. That a lot of what people value, a lot of what people use to make their decisions, depends not on the true or rational or calculated comparison between various options, but on how options are framed, how things are presented to them, and what else is happening.

In the previous panel, we heard a lot about context, and context is terribly important. Context could be the context of your life overall. Are you living in poverty or are you not? But, it could also be the context of exactly the situation in which you're being asked to make some of these choices. So, this is, again, I think, an example of something, this is a classic behavioural experiment, probably first done some 30 or 40 years ago, has been replicated in a variety of settings across the world and, we see this. But, it's something that as financial service providers and those who try to serve customers in different parts of the income distribution, it's worth keeping in mind and keeping in mind all the time when we design these products.

All right. We have one final little experiment. And now, I'm offering you a hypothetical choice. I should add there's no money that's going to be handed out to anybody. But, supposing, I would say to you: would you prefer me to give you \$100? In this hypothetical example, I'm just giving you the money. There's nothing you have to do. You can take it, you can leave it. It's up to you. Would you prefer a \$100 today or a \$105 a month from today? Okay? Would you prefer a \$100 today or a \$105 a month from today? Please use your clickers to vote. Voting is open.

Abstract from all of that, just think of this in whatever currency you would like, wherever you might be. You could get a \$100 today, you could get a \$105 a month from now. It's hopefully a fairly simple question. What would you prefer? So, hopefully everyone's voted and here we go.

Most people, unsurprisingly...this is actually what you see in most settings. Say, you know what? Give me the \$100 today. I'm not going to bother waiting another month to get an extra \$5, or whatever currency we're talking about.

Now, let me ask you a similar question. Supposing I would offer you a \$100 in six months or a \$105 in seven months. Which would you prefer? Okay? So, you could take a \$100 in six months. In that case, you can Press 1. You could take a \$105 in seven months, Press 2. You can vote now. Pretty simple choice. We'll find out soon enough what people said. All right. Okay.

How interesting. You guys are a textbook behavioural science audience. *[Laughter]* I just love this because these are real experiments. Sometimes people, and you'll see, I'll show you an example where people don't quite behave as you might expect them to. But, here we go. So, think back. What happened was most of you said you would rather take the \$100 today than wait a month. But, when I gave you the option, when you had to wait that extra month in the future, most of you suddenly decided that you would rather wait, right? So, it's really the same choice again. It's saying, would you wait an additional month to get an additional \$5? But, you're much more willing to wait for that when it's in the future.

This captures this idea of time and consistency, or sometimes we call it 'hyperbolic discounting', which is essentially, if I were to describe it, is the idea that we are much more patient in the future, at least we think we are much more patient in the future, than we are in the present moment, right? And so, what that means when you think about it is that we're...a lot of decisions that we have to take revolve around doing something a little bit annoying or painful today to get some payoff in the future, right? So, for a lot of people education is like this. You have to slog because some day in the future something good is going to happen to you.

Saving is exactly like this. It involves giving up something today to get something in the future. And, what this means is that people are actually quite unwilling to do this kind of trade-off in the moment. But, if you ask them about their future selves, their future selves are just patient and hardworking and they do everything on time and they go to the gym, and they never eat that extra piece of cake, and that is not how they behave in the present. And, this is, again, an example here as part of that same study. We asked people in Nairobi the same question. And here, you can see there's the same kind of pattern that all of you exhibited and it actually doesn't vary very much by incomes. In fact, all people across the income spectrum displayed the same kind of inconsistency. They're much more willing to wait in the future than they are in the moment.

That was the last experiment I wanted to do. But, I want to leave you with, hopefully, not just the pessimistic idea that as human beings we're all flawed and we're inconsistent and we're inattentive and we're impatient and we never do the things that we meant to do, but, also to say that sometimes these very ideas can lead to ways to solve these problems.

So, I want to tell you about...you know, I mentioned savings and I said well, nobody really wants to save today. But, they're quite willing to say I'll save in the future, right? So, their future self is always willing to save. So, Richard Thaler at the University of Chicago came up with an ingenious

idea. He said people don't save enough for retirement. And, one of the reasons they don't do that is they don't put enough of their money into their deductions for retirement savings. So, what if we devised a different program. We said okay, you can save a small amount of your income today, but let's think to the future when you get a pay raise. Would you like to put some of that pay raise, in the future when you get it, towards your pension? And, surprise, surprise, the vast majority of people say of course. When I get a raise, I would put more of that towards pension. So then, they say fine, here's the form, sign it now. Commit to your future income being a bit more of it being put towards your pension. And, it's actually been a remarkably successful program because, as we know, people are willing to do this. So, people do this and when that raise arrives, they're actually pre-committed so a larger proportion of it goes towards their saving.

So, that's the last experiment. That's my last slide.

I just want to leave us with this basic reflection about what it means to think about people in a behaviorally-informed way. It means that we recognize that people do not behave like calculating machines. They have a lot of interesting and sometimes predictable susceptibilities to the way things are framed, the way things are presented. They're inattentive, but if you can grab their attention at the right time, you might be able to get them to do things that are good for them. They're really, really willing to believe good things about themselves in the future and actually do things that live up to that.

And so, if we think about people in this way, we are able to actually design products, design services that tap into these tendencies and use them for people's own benefit. And, we're going to be able to cater much more closely to what people are actually going to take up and use, and that can help really advance the agenda of financial inclusion and create products and services that actually are used, are taken up, are beneficial to people, more so than we would be able to do if we didn't take these things into account.

So, with that, I'll close here. You've been extremely cooperative and, as I said, a textbook audience. I'd like to preserve some those results slides to present to some people later. But, thank you all very much for playing along and for your participation in today's session. *[Applause]*