The Effectiveness of Financial Disclosure in the United Kingdom

Researchers:

Paul D. Adams

Stefan Hunt

Christopher Palmer

Redis Zaliauskas

Sector(s): Finance

Location: Uk and Ireland

Sample: 124,000 savings account holders

Target group: General

Outcome of interest: Credit balance/repayment Savings/deposits

Intervention type: Consumer protection Digital and mobile Information Nudges and reminders

AEA RCT registration number: AEARCTR-0004053

Research Papers: Testing the effectiveness of consumer financial disclosure: Experimental eviden..., The Last Mile of Monetary Policy: Inattention, Reminders, and the Refinancing C...

Partner organization(s): UK Financial Conduct Authority

Disclosure—the practice of providing information to support decision-making—has been widely mandated in public policy, but consumers often ignore this information and firms may try to conceal it. Researchers partnered with financial providers in the United Kingdom to evaluate the effectiveness of various disclosure designs aimed at supporting consumers' financial decisions across savings products. Although most disclosures increased the number of consumers that switched to higher-yielding savings account, the effects were relatively modest—even among those who received the most effectively designed disclosure and those with substantial financial incentives to switch. These findings suggest that low attention limits the potential of financial disclosures and that disclosures need to be more explicitly designed to better capture consumers' attention.

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Consumers often stick to their original decision, rather than switching to a better choice, which poses a challenge to consumer disclosure efforts. Disclosure—the practice of providing information to support decision-making—is one of the most common financial regulation interventions. However, little is known about the effectiveness of providing financial disclosures on consumer's financial behavior. More evidence could inform the design of these popular interventions.

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In the United Kingdom, most households save through cash savings accounts: 93 percent of consumers have a savings account. In total, this amounts to £700 billion (US$1.071 trillion) in savings, equivalent to 37 percent of the UK's Gross Domestic Product. One of the simplest account types is instant-access savings accounts, which offer interest on account balances, but providers offer different interest rates, even across nearly identical products. Despite these differences, consumers rarely switch, even though

they report being most concerned with obtaining the highest possible interest rate from their savings accounts. In this study, participants had an average account balance of between £8,000 and £38,000 (US$12,240–58,140) and had the potential to earn between £70 and £230 (US$107–352) more from switching to accounts with higher interest rates.



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In partnership with the UK Financial Conduct Authority and five retail financial institutions, researchers evaluated multiple disclosure designs to understand their impact on consumer behavior. They tested what information on the interest rates of comparable products, and how to deliver it, would be useful for consumers and lead them to switch to a higher-yielding savings accounts. Each of the five financial institutions had a different intervention. Across the five interventions, researchers randomly assigned over 124,000 savings account holders into the various groups, as outlined below:

Intervention 1: Evaluating the effect of placing the account switching information on the front page of the annual statement. Customers with this bank already received a low interest rate on their savings account and were due to receive their annual statement in Fall 2015. About 62,000 customers were randomly assigned into five equally sized groups:

- Program groups received information with one of the following:
    1. Encouragement to shop around for another account
    2. Best internal rate that compared their current rate with the highest rate available for a comparable account with their current provider

3. Best competitor rates that compared the highest rate offered by their current provider and the average of three highest rates for comparable accounts with competitor providers
4. Visualization of the potential monetary gains from switching

- A comparison group received an annual statement with no additional information on switching accounts.

Intervention 2: Evaluating the effect of placing account switching information on the back page of a letter. In the summer of 2015, the bank was lowering the interest rate on the account and was mandated to inform consumers about the rate decrease. All letters were sent more than two months ahead of the rate decrease. About 13,000 customers were randomly assigned to one of five equally sized groups:

- Four program groups received additional information about the best available interest rate with the current provider on the back page of the letter, formatted into a call-out box (the "switching box"). These four groups differed by whether the disclosure was personalized by using each individual's balance at the time of mailing to illustrate the potential gains and whether it included information on the best external competitor rates (e.g., the average of the three highest rates on comparable accounts). In total, there were four possible combinations:
    1. Personalized
    2. Personalized + information on best external competitor rates
    3. Non-personalized
    4. Non-personalized + information on best external competitor rates

- A comparison group received a letter which notified the customer of the rate decrease on all affected instant-access accounts in the early summer of 2015. The letter included no additional information about internal or external rates.

Intervention 3: Evaluating the effect of providing a switching form that can be completed and returned to the bank. In August 2015, the provider sent a letter with a switching form to encourage long-standing customers to switch to an equivalent, higher-yielding account with the same provider. About 4,000 customers were randomly assigned into two equally sized groups:

- An intervention group received a letter with a tear-off return form, pre-filled to switch accounts, and a prepaid, addressed envelope. This was intended to lower the expected time taken to switch.
- A comparison group received a letter with a switching box that included the best internal rate, the best competitor rate, and the potential gains from switching based on a non-personalized account balance example.

Intervention 4: Evaluating the effect of digital (email or SMS) reminders. The provider scheduled a rate decrease for customers in June-September 2015. About 15,000 customers were randomly assigned into three equally sized groups:

- Two intervention groups received either email or SMS reminders, in addition to receiving the same letter as the comparison group. The bank sent reminders on the same date to all consumers, falling between seven weeks before and eight weeks after their rate decrease.
    1. An email reminder included information about the rate decrease, along with the best interest rate available on a comparable account with the same provider. This reminder was similar in content to the letter sent to all groups.
    2. An SMS reminder had information on the rate decrease but was shorter than the email reminder and included no information on interest rates.
- A comparison group received only an initial letter sent at least sixty days before the rate decrease, as mandated by the current regulation.

Intervention 5: Evaluating the effect of SMS reminders and timeliness of the decision. Researchers tested the effect of an SMS reminder at different times of a scheduled rate decrease in early summer 2015. About 30,000 customers were randomly assigned to one of five groups:

- Four intervention groups received an SMS reminder of the rate change either:
    1. One week before the rate decrease
    2. One week after the rate decrease
    3. On the day of the rate decrease, and the SMS included encouragement to switch accounts
    4. On the day of the rate decrease, and the SMS stated that there was no higher rate on a comparable product available
- A comparison group received no further communication following the initial letter sent sixty days or more before the rate decrease.

Researchers collected administrative data on consumer demographics, account balances, account closures, new account opening, and online banking behavior from each of the five financial institutions before, during, and after each intervention.

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Although most disclosures increased the number of consumers that switched to higher paying financial products, the effects were relatively modest.

Consumer behavior: The various disclosure interventions had modest impacts on consumer behavior. The average disclosure increased switching behavior by less than 1 percentage point (from 8.7 percent in the comparison group to 9.5 percent in the program group).

Receiving a pre-filled, detachable switching form, in addition to the informational disclosure about better available rates (Intervention 3), led to a 9 percentage point increase in the likelihood of consumers switching accounts, up from three percent to 12 percent. This result suggests that the cognitive costs or displeasure of filling out paper work may prevent consumers from making more optimal choices. Improving processes, such as pre-filling out paperwork, may be an effective way to tackle this problem.

Search and comparison across products: Prominent disclosures—in particular readable front-page information on better available products (Intervention 1)—had small positive effects, raising switching behavior by 1.9 percentage points compared to 2.6 percent in the comparison group (a 73 percent increase). Disclosure not on the front page of a mailing (Intervention 2) had no effect on switching behavior.

Reminders: Email and text message reminders (Intervention 4) were equally effective and increased switching behavior by an average of 4.7 percentage points compared to 40 percent in the comparison group. Likewise, the SMS disclosure in Intervention 5, on average, increased any switching by 1.6 percentage points compared to a comparison group average of 6 percent. In terms of timing, effects were strongest for emails received zero to two weeks before the rate decrease in intervention 4, while smallest for SMS messages received on the day of the rate decrease in intervention 5.

Behavior changes by age or account balance: Consumers regardless of age or account balance seemed equally as likely (or unlikely) to switch. For instance, switching remained low even among consumer with the highest balances in the sample (e.g., those who would have the most to gain from better interest rates). However, consumers less than 40 years of age were more responsive to text message disclosures than any other age groups.

One reason the various consumer disclosures had modest effects may be consumer's limited attention. Follow-up surveys with a subset of consumers revealed that many often did not remember the disclosure information or remembered it incorrectly. Consumers also overestimated the time it took to switch accounts, foregoing substantial additional interest income as a result.

These findings suggest limited potential of financial disclosure interventions and greater motivation for regulation on disclosures with more explicit information that can better capture consumers' attention.