

Promoting effective disclosure of digital credit products

Kenya



Partner
CGAP

Sector
Financial inclusion

Project Type
Lab experiment

Sample Size
400 participants

Behavioral Themes
Active choice



Photo Credit: Annie Spratt

How can disclosure be improved in digital credit?

Digital credit services have expanded rapidly in Kenya, enabling low-income consumers who were previously unserved to access credit. However, the impact has not been universally positive for customers, which raises several key questions on the impact of digital credit products:

- How do consumer borrowing behaviors and the associated risks change with the ease of accessing credit through a mobile phone?
- What are the consumer protection risks, given how information on credit is presented to consumers?
- How does the framing of messages about credit affect the likelihood of consumers to repay their loans?

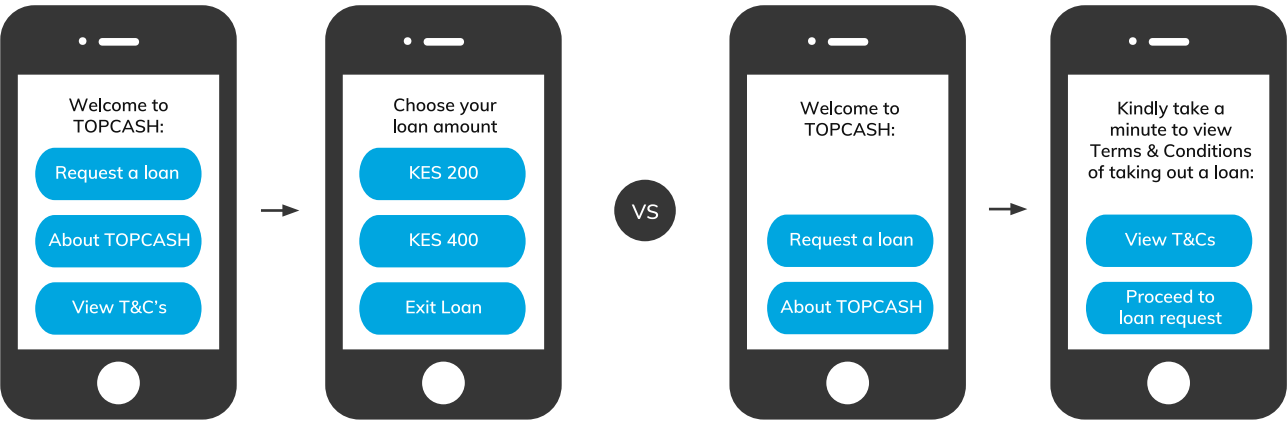


A Behavioral Science Approach

Mandatory disclosure is a simple and attractive form of regulation due to its low controversy and ease of implementation. Yet from a behavioral science perspective, simply sharing more information is rarely sufficient to ensure consumers make informed decisions. For example, limited attention, our tendency to follow defaults, and biased assessments of probability can undermine the goal of improving consumer choice through more information (Loewenstein et al, 2014¹).

This project aimed to explore how an understanding of these biases might lead to a effective design of disclosure and an improved digital credit experience for consumers.

Design and Results Terms and Conditions Viewership

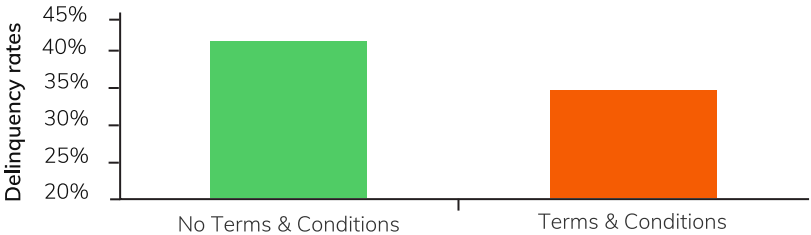


Customers were randomized into two groups, one where the Terms and Conditions (T&Cs) were a menu option and one where consumers had to actively choose to view or to skip summary T&Cs screens. Consumers could still skip the T&Cs if they wanted, but we hoped that the simple task of actively choosing to do so might make them more likely to stop and read them.

Making consumers actively choose to view or to skip summary T&C screens increased the viewership from 8% to 24%

Subsequently, we wanted to evaluate if T&Cs impacted loan repayment. We couldn't evaluate those who had actively selected into viewing the terms and conditions from the first experiment due to selection bias so we ran a second experiment. In this new sample, users were randomly assigned to either being required to view the T&Cs before selecting a loan, or not having any access to them. We then monitored their repayments rates in the loan simulation in the lab.

We find that those viewing the T&Cs had slightly lower delinquency rates among digital borrowers.



¹ Loewenstein, G., Sunstein, C. R., & Golman, R. (2014). Disclosure: Psychology changes everything. *Annu. Rev. Econ.*, 6(1), 391-419.



Discussion

Defaults vs. active choice

While defaults are often an attractive avenue for behavioral scientists, our fear in this example was that by setting viewership as the default, you would obviously see higher rates of navigating the terms and conditions, but less active review of the terms.

We found that the active choice both increased the number of users who engaged with the terms and conditions, but more importantly, led to improved loan selection and ultimate repayment. This may beg the question of whether mandatory disclosure, particularly for digital tools, may be as effective as prompting consumers to make an active choice.

