

Nudge & Behavioral Insights

- How the small interventions (ideally with no or small cost) can change people's behavior/decisions?
- Applications extend ...
Consumer choice, tax compliance, enhanced productivity of workers, energy, environment, health, smoking, finance, transportation choice....

Nudge

- Positive reinforcement and indirect suggestions to try to achieve non-forced compliance can influence the motives, incentives and decision making of groups and individuals, at least as effectively than direct instruction, legislation, or enforcement.

Behavioral Insights

Result from multidisciplinary research in fields such as economics, psychology and neuroscience to understand how humans behave and make decisions in everyday life.

Behavioral Insights Team

- <http://www.behaviouralinsights.co.uk/>
- Conservative Member of Parliament, UK
- [BIT partners](#)

BIT: Objectives

- making public services more cost-effective and easier for citizens to use;
- improving outcomes by introducing a more realistic model of human behavior to policy; and wherever possible,
- enabling people to make 'better choices for themselves'

BIT Case Study 1: Tax

Problem: How does British government can encourage self-employed people to pay tax on time.

Background: For taxpayers who have to file a return, payments are required on Jan. 31 and July 31. If not received on time, 1. reminder notice, 2. letters, 3. phone calls, 4. legal action.

Question: Is it possible to design the first notice to encourage people to pay as soon as possible?

Which sentence is the most effective on the reminder notice?

1. The great majority of people in the UK pay their taxes on time.
2. The great majority of people in your local area pay their taxes on time
3. You are currently in the very small minority of people who have not paid their taxes on time.
4. The great majority of people in the UK pay their taxes on time, and you are one of the few that hasn't paid on time.
5. Original text (control group)

4. "The great majority of people in the UK pay their taxes on time, and you are one of the few that hasn't paid on time." is the winner.

More than 5% increase in the number of taxpayers who made their payments within 23 days. => caused Governmental savings of 9 million British pounds.

BIT Case Study 2: Energy Choice

- Switzerland
- Municipal electric utilities companies
- Changed its default electricity mix to a greener tariff (100% renewable energy = mainly from hydropower).
- Other options: cheaper (nuclear), expensive (new renewable energy- photovoltaic/wind).

=> **Most people stayed with the default.**

BIT Case Study 3: Health

- Latvia
- Disease Prevention and Control Center with Min. of Health.
- Prevention of youth smoking.
- Introduction of **an App** providing a calculation of the **(daily, monthly and annual) savings** that can result from cutting down smoking.
- Savings presented as attractive goods (laptop...) **"This is just one of the things you will be able to buy with the money you spend on cigarettes"**
- **Framing, Salience**, to combat **Immediate Gratification, Present Bias**

BIT Case Study 4: Transport

- Switzerland
- Aiming at breaking existing mobility habits
- Local residents were encouraged to hand over their car keys for 2 weeks, in exchange for a **free electric bike and free use of the local mobility car-sharing scheme.**
- Try out car-ownership free lifestyle
- **Break their habits**, increase **availability**

Nudge Case Study 1: Health

- Flu shot
- Group 1: opt-in “Check the box if you would like to receive a flu shot this fall”
- Group 2: active choice condition “Check one
I will get a flu shot this fall
or
I will not get a flu shot this fall”

Group 3: active choice with loss message

I will get a flu shot this fall to reduce my risk of getting the flu and I want to save \$50.

or

I will not get a flu shot this fall even if it means I may increase my risk of getting the flu and I will not save \$50.

- Group 1: 42 % are willing to get a flu shot
- Group 2: 62%
- Group 3: 75%

=>loss aversion

Nudge case study 2: procrastination

Fact: **\$ 2 billion** worth of gift certificates are not used by the expiration dates.

Experiment: Gift certificate \$6 for coffee and cake at a high-quality local bakery store.

Condition 1: expire in 3 weeks

Condition 2: expire in two months

Q1: Customers under which condition are happier about their gift certificates?

Q2: Customers under which condition redeemed their gift certificate on time?

Condition 2 customers were happier when they received and 70% claimed that they would use it before the expiration date.

However....

Condition 1 customers used their certificate 5 times more than condition 2 (longer expiration) customers.

Take home message:

If you want to increase the responses, set the “last day” of action (RSVP, expiration...) sooner, not later.

People Procrastinate.

Nudge case study 3: customer decision

- “should I stay or should I go” questions asked by potential customers.
- Phone calls for customer services
- Crowded restaurant
- Distribution of free items (wait in the long line)
- As a company, you want customers to stay on-line. But How?

- Psychology of people waiting in the line
“I could have done alternative activities I could be accomplishing instead of waiting” = “loss”

<= They leave the line to avoid further “loss”.

=> If you can reduce these “loss” feelings, you can keep your customers. But How?

- **Simply provide those in line with distractions and other basic activities for them to engage** in while waiting. => significant reduction in dropped calls.

e.g.

- Simple tips on money management
- Tips on activities for kids to teach them about money
- Activities for kids for the families waiting in the line
- Play (or sing) the customer’s favorite song.

Nudge case study 4: Health

- Cafeteria
- Arrangement of foods in the display increases/decreases the consumption of many food items by as much as 25%.



How would a shop keeper at a school cafeteria display their foods?

1. Arrange the food to make the students best off
2. Maximize the sales of the items from the suppliers that are willing to offer the largest bribes
3. Maximize profits
4. Random

Choice Architecture

the design of different ways in which choices can be presented to consumers. The presentation impact consumer decision makings.

i.e.

- number of choices presented
- the manner in which attributes are described
- the presence of default...

Libertarian Paternalism

It is possible/legitimate for private and public institutions to affect individual behavior while respecting freedom of choice.

Developed by Richard Thaler and Cass Sunstein in a 2003 article in the *American Economic Review*

"it tries to influence choices in a way that will make choosers better off, as judged by themselves"

"people should be free to opt out of specified arrangements if they choose to do so"

Nudge Case Study 5: Saving

"Save More Tomorrow"

- People often underestimate the needs for retirement savings and save significantly lower than necessary.

=>Libertarian Paternalism " How can we make people save more for their better future?"

Mechanism behind the under-saving

- Many participants say that they think they should be saving more, and plan to save more, but never follow through.
- Self-control restrictions are easier to adopt if they take place some time in the future (Many of us are planning to start diets soon, but not today)
- Loss aversion: people hate to see their paychecks go down.
- Inertia plays a powerful role.

Save more tomorrow plan

- Current savings rate: 5%
 - Ideal savings rate: 15%
- 1st Plan: Employees raise their saving rate by 5%. => about ¼ employees refused to sign up.
- 2nd Plan: Employees raise their saving rate by 3% the next time they got a raise, and continue to do so for each raise for up to four annual raises. => 78% agreed and signed up.

Saving rate of participants who	Initially	After first pay raise	Second pay raise	Third pay raise	Fourth pay raise
Declined offer of financial advice	6.6	6.5	6.8	6.6	6.2
Took the consultant's recommended savings rate	4.4	9.1	8.9	8.7	8.8
Joined the "Save More Tomorrow" plan	3.5	6.5	9.4	11.6	13.6
Declined the "Save More Tomorrow" plan	6.1	6.3	6.2	6.1	5.9

Case study in Copenhagen

- Green Footsteps



Results: Littering in the streets decreased by 46%



Note: Ethical Nudging

- The information provided to nudge people should always be true, should not be a lie or the result of manipulation.
- For more information:
“The Ethics of Nudging” by Cass R. Sunstein

Key Rules on Nudging

1. *If you want to encourage someone to do something, make it easy.*
(otherwise people simply procrastinate)
2. *We can't do evidence-based policy without evidence.*
(all interventions must be tested using Randomized Control Trials to test treatments' effects)

Small changes that will have Big impacts

Design Rules

1. The program designers have a good reason to believe that a portion of the population will benefit by making some change in their behavior.
2. The target population must agree that a change is desirable.
3. It is possible to make the change with one nearly costless action.

Possible Application in Turkey?

- Reducing university/high-school drop-outs
- Reducing missed-appointment
- Increasing the rate of filing income tax
- Making students eat healthy at schools
- Increasing productivity of employment
- Increasing the rate of recycling
- Increasing the rate of saving
- Decreasing the credit cards overspending
- Reducing the use of electricity
- Increasing voting rate
- * Enforce “no smoking beyond this point” policy at IIBF building!

References

- **NUDGE: Improving Decisions About Health, Wealth, and Happiness** by Richard H. Thaler and Cass R. Sunstein
- **Misbehaving: The Making of Behavioral Economics** by Richard H. Thaler
- **The small BIG: small changes that spark big influence** by Steve Martin, Noah Goldstein, Robert Cialdini