



GOVERNMENT GETS SERIOUS ABOUT CONSUMER PROTECTION

New consumer protection is grounded in behavioural science.

By The Behavioural Architects
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Think piece (/blog)

The UK's Financial Conduct Authority has **introduced new consumer protection grounded in behavioural science**. The new guidance comes at a time when there is an even greater need to ensure consumers' financial decisions and choices are optimal. Although aimed specifically at the finance industry, **there are lessons for any sector about the need to identify barriers to good consumer outcomes and remove them**.

4.22. Firms must understand and take account of behavioural biases and the impact characteristics of vulnerability can have on consumer needs and decisions. FCA

In July we saw the UK's Financial Conduct Authority (FCA) upgrading its guidance to financial organisations, introducing the **Consumer Duty** which centres on ensuring firms deliver good outcomes for consumers, such as being easily able to switch between services, being able to understand and act on key information and ensure they have supportive and timely customer service. Firms will need to comply by the July 2023 deadline.

It comes at a **time when there is already an even greater need to ensure consumer's financial decisions and choices are optimal** - the rising cost of living and recession is already changing financial habits, driving increased demand for credit products, dipping into savings, and pushing consumers to find new ways to manage and make their money go further. The move also keeps the FCA in step with the UK's Competition and Markets Authority who have been tackling similar poor consumer outcomes in other sectors.

Much of the new guidance draws on insights and findings from Behavioural Science; its deeper understanding of why people behave one way versus another is the foundation of several new guidelines. Behavioural science is a field which the FCA has been increasingly drawing on since 2013 (<https://www.fca.org.uk/news/press-releases/fca-publishes-occasional-papers-behavioural-economics-exploring-how-people-make>) (a selection of their publications is here

(https://www.fca.org.uk/publications/search-results?p_search_term=behavioural&category=research-occasional%20papers&sort_by=dmetaZ) to keep consumer welfare at the forefront of their values, a sensible shift given how relevant it is for financial services.

Financial decisions are difficult to navigate. **They are often infrequent or even one-off decisions** such as choosing where and how to invest a pension or choosing a mortgage provider, meaning most people have little experienced-based expertise and opportunities to practise and learn, leaving them more open to influence from behavioural biases. **Financial decisions also involve high degrees of uncertainty** - in market conditions, policy and regulation changes as well as people being understandably unsure of how their life will turn out. We typically dislike uncertainty and don't cope with well. Another difficult characteristic is how **financial decisions often require trade-offs** between present and future spending - people find it hard to project into the future whilst short term needs can feel more urgent and front of mind, a concept known as present bias.

The new guidance critically recognises that customers are susceptible to behavioural biases and other vulnerabilities which can impact their decision-making and choices and asks that firms should “**not seek to exploit customers' behavioural biases**”. The FCA goes further by **asking firms to demonstrate compliance, not by ticking boxes, but by demonstrating - proving - through objective measurement** that the majority of consumers have **good outcomes** when purchasing and using their products and services and that the behavioural science concepts at play - such as framing of information or present bias - are not leading to sub-optimal behaviour or decision making or outcomes. Specifically, these outcomes are broken down into **four areas** where firms must now work to ensure positive outcomes:

- the product and services outcome;
- the price and value outcome;
- the consumer understanding outcome; and,
- the consumer support outcome.

From these, three major areas stand out, where firms will need to demonstrate compliance and positive outcomes:

- “*make it as easy to switch or cancel products as it was to take them out in the first place*”.
- “*provide helpful and accessible customer support, not making people wait so long for an answer that they give up*”
- “*provide timely and clear information that people can understand about products and services so consumers can make good financial decisions, rather than burying key information in lengthy terms and conditions that few have the time to read*”

Behavioural science helps us to both identify and understand possible negative outcomes or challenges for the consumer that firms might be creating (unintentionally or even intentionally), but also address and eradicate them. It also provides a transparent language and widely adopted frameworks to show how consumer journeys and outcomes have been analysed, and how barriers to positive outcomes have been overcome. Specifically, behavioural science is **valuable across three applied areas**:

Behavioural audit

Understanding and analysing consumer journeys to identify where consumers' financial choices are affected by behavioural biases like present bias or status quo bias - when we prefer to stick with what we have rather than go to the effort of changing.

It can also help to understand the decisions and vulnerabilities of different age groups or those who are less numerate. Those less comfortable with numbers are more likely to make more emotional decisions based on how they feel; whilst older people are more likely to feel overloaded by complex information and high levels of choice. Although young adults tend to be better at processing new information, they can often be swayed by what their peers think and are doing, driving them to take risks.

Researchers are revealing new insights and nuances in our understanding of human decision-making week on week; our unique intelligence team monitors these new developments and findings so we can adapt and update how we approach our client work.

We run Behavioural Audits: Behavioural audits have always been the bread and butter of what we do and **we are Behavioural Architects.** We seek to understand and decipher consumer behaviour - through both qualitative research and quantitative testing - exploring the triggers and barriers behind different decisions, choices and behaviours and the cognitive biases underlying those.

Remove friction and dial up experience

Here the goal is to identify potential friction which might be preventing someone from buying a product or service that would benefit them or preventing them from cancelling or changing it - and remove it. This is especially important right now as consumers seek to pause or cancel '*nice to have*' subscriptions, such as streaming and gym memberships, to save money.

If a consumer journey or user experience, such as a call or online chat with customer support or an online application for a product is what's called '*high friction*', that is, it contains too many steps, is too complex, difficult to understand, time-consuming or even stigmatised, consumers are likely to simply drop out of the process. The FCA would class this as a poor outcome to be penalised even if unintentional on the firm's side.

To tackle this, applied behavioural scientists have begun developing what are becoming known as sludge audits or friction experience audits to rigorously analyse journeys step by step, identify and cut out these pain points to create a more seamless and satisfying user experience. For example, our **Friction & Experience Audit** deconstructs seven key components of the customer experience and provides a qualitative score for experiences that can be used to benchmark an entire category or competitor user experiences.

Solutions for removing or reducing areas of high friction might include using framing to help position information in a way that consumers can relate to, or use simple reference points or numbers to make prices make more sense. We also use reading age tools like the Fleisch-Kincaid score which ensure that whatever the level of someone's education, they will be able to understand and absorb all of the information provided. Any piece of comms is consumer tested - in context - to ensure high levels of comprehension and engagement. This is useful for tackling one of the FCA's targets - ensuring key information is understandable to consumers.

When we audited the onboarding journey for a retail bank's current account, we were able to identify drop-out points where there was high friction as well as weaknesses in comms materials which was creating confusion or stand-still. By redesigning the journey, we are able to achieve a 7 percentage point increase in desired behaviours versus control.

Similarly, these audits can also help identify when there is so little friction in a purchase journey, so easy and quick for consumers to obtain a product or service, that consumers may end up with products or services that do not meet their needs, or that are costly. When we analysed a retail bank's loan application journey using this process, we were able to pinpoint how the overly simple yet opaque process meant that consumers - who may have just been exploring different borrowing options - were finding their application had been accepted and money instantly in their account before they even realised their application had been formally accepted.

Remove friction from the consumer experience: We can ensure smooth consumer journeys to ensure consumers have good outcomes through our **Friction & Experience Audits**. These deconstruct key components of the customer experience and provides a qualitative score for experiences that can be used to benchmark an entire category or competitor user experiences. Once problem areas have been diagnosed, we design and apply evidence-based solutions for removing or reducing these areas of friction.

To upskill the organisation's employees in behavioural science

Some financial organisations have built in-house teams of behavioural scientists. They work across the organisation to make sure behavioural insights are taken into consideration at all levels and departments, from product design to customer service.

Others work with consultancies like ourselves to re-tool and train employees to build capability in applied behavioural science. For example, we have worked with several retail banks to build behavioural science-inspired communications toolkits to ensure any customer-facing comms is optimised to build maximum engagement and response rates, enabling client teams to apply behavioural science principles to communications in a structured, consistent way.

Build in-house behavioural science capability: We provide in-house training to upskill employees and ensure they are literate in applied behavioural science specific to their team. We also design customised **toolkits** to ensure products and services and the communications and customer support around those meets consumer needs.

The FCA's new Consumer Duty comes at a tough time for consumers - **high inflation, rising costs of living** and a **worsening recession**. In many ways the new guidance could be framed as an opportunity to help consumers, to build or maintain trust and loyalty in difficult times, ensuring

customer support is as smooth and helpful as possible, making key information easy to absorb, or making it easy to pause or cancel subscriptions that have become unaffordable.

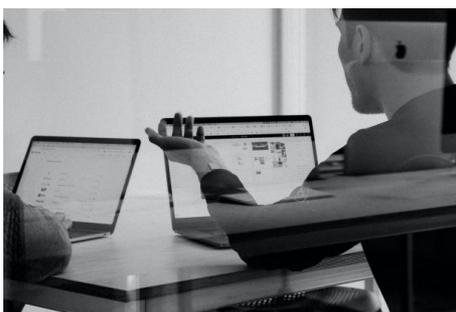
Insights from behavioural science are a highly effective tool for understanding glitches and friction in any consumer journey and ironing that out, meaning that consumers can still have good outcomes in this difficult time. This could vary from understanding the underlying drivers and barriers for consumer decision-making, to designing products and services using behavioural insights so that the consumer journey from purchase to use is optimised with minimal friction, and optimising consumer comms by framing and referencing information so that consumers can easily understand and absorb it. At a deeper level behavioural science can offer teams a new skillset to work with. Overall, insights from behavioural science are ideally suited to implementing the FCA's new consumer guidance.

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1 cited from <https://www.fca.org.uk/news/press-releases/fca-consumer-duty-major-shift-financial-services>

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