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SUBTLE FEATURES OF ONLINE LOAN CALCULATORS CAN INFLUENCE CONSUMER CHOICES

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INTRODUCTION

As online banking becomes more popular, many consumers now use online calculators and price comparison tools to apply for financial products. These online tools often feature default figures that the consumer sees when they first reach the webpage, such as the default repayment term for a personal loan. Findings from behavioural economics suggest that these kinds of default settings can have surprisingly strong influences on people's decisions. In collaboration with the Competition and Consumer Protection Commission (CCPC), the ESRI's Behavioural Research Unit designed a controlled behavioural experiment to test whether the default repayment terms set on loan calculators and search tools influence the loans that people choose.

METHOD

A representative sample of 180 consumers took part in a controlled laboratory experiment. Their task was to imagine that they were looking for a loan of €10,000 and to use a simulated online calculator and search tool to choose both a provider and how long to take to repay the loan. For half the participants, selected at random, we set the default repayment term that they first saw when starting to use the tool to 5 years. This is the default term typically set by lenders. For the other half, we set the default term to 1 year, which is more typical of independent price comparison websites. Participants were asked to select the loan they would be most likely to purchase in real life and were free to use the calculator as much as they liked.

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This Bulletin summarises the findings from: Timmons, S., McGowan, F. P. & Lunn, P. D. (2019). Setting defaults for online banking transactions: Experimental evidence from personal loan repayment terms, *Journal of Behavioral and Experimental Finance*, 23, 161-165, available online: <https://doi.org/10.1016/j.jbef.2019.06.002>

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RESULTS

The consumers who saw the default term set at 5 years subsequently chose loans with longer repayment terms than those who saw the initial term set at 1 year. This difference was not because they failed to change the setting: compared to consumers who encountered the 1-year default, those who saw the 5-year default were more likely to choose 3- and 4-year loans. The overall effect was quite large. To illustrate, approximately 15% more consumers chose a loan of 4 years or longer when the default term was 5 years compared to when it was 1 year. Choosing a longer loan would have cost the average consumer in our experiment a minimum of €470 in additional interest costs on a €10,000 loan.

CONCLUSION AND IMPLICATIONS

The findings imply that the default settings on online financial calculators can influence consumer choices away from what they might otherwise choose. Behavioural economists believe these kind of effects occur because default settings are treated like advice, or as signals of what other people would choose. When people are unsure, they can be influenced by such signals.

While some consumers might benefit from choosing longer terms, which reduce monthly repayments, the effect we demonstrate could be costly for consumers who can afford repayments. As more consumers search for financial products online, the study suggests that seemingly innocent presentational factors need careful consideration if consumers are to be protected. Controlled experiments can be used to make sure that lenders' systems are fair and to support tighter regulations where needed.

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