

High Cost Short Term Credit (HCSTC): Can users' attitudes be changed?

Darren Duxbury

Behavioural Research in Finance (BRiF), Newcastle University Business School

Karim Aldohni

Newcastle Law School

Short abstract

The limited access to consumer credit in the UK market, post 2008 financial crisis, has been associated with a prolific growth in the number of high cost short term credit (HCSTC) providers. The Government response has been to impose regulatory changes to address areas of perceived problematic business practice (e.g. affordability checks and cap on cost of credit). While regulatory reforms have a role to play in protecting HCSTC consumers, little attention has been directed to examine ways in consumers' attitudes to HCSTC might be changed. Behavioural interventions based on construal level theory (Liberman and Trope, 1998) and regulatory focus (Higgins, 1998) are designed to examine the effect of manipulating consumers' perceptions of the opportunity cost of using HCSTC. The findings, based on questionnaire administered to 163 users/non-users of HCSTC in conjunction with the Newcastle Citizens Advice Bureau, suggest that consumers' attitudes can be influenced by ways of making people think differently about opportunity costs associated with use of HCSTC. While construal level has a marginally significant effect, with a lower attitude to the use of HCSTC under abstract than concrete construal, the interaction of construal level and regulatory focus is statistically significant; under a promotion focus, abstract construal is associated with a significantly reduced attitude to the use of HCSTC than concrete construal.

Extended Abstract

The limited access to consumer credit in the UK market, post 2008 financial crisis, has been associated with a prolific growth in the number of high cost short term credit (HCSTC) providers. The Government response has been to impose regulatory changes to address areas of perceived problematic business practice (e.g. affordability checks and cap on cost of credit). While regulatory reforms have role to play in protecting HCSTC consumers, little attention has been directed to examine ways in consumers' attitudes to HCSTC might be changed. Consuming today while borrowing against the future (hence accessing credit) can be construed as another manifestation of this impatience. The behavioral economics literature has examined the success of commitment mechanisms as a form of self-control to tie individuals to their original intentions to save (e.g. Thaler and Benartzi, 2004). Such commitment devices are difficult to legislate for in a regulatory framework, hence we examine the provision and framing of information at the credit decision point.

The provision of financial information in credit decisions has been examined in the context of credit card repayment decisions. Stewart (2009) reports a strong and causal relationship between minimum repayment size and actual repayment behaviour, demonstrating that minimum repayments act as psychological anchors, while McHugh and Ranyard (2012) find that individuals repay significantly more when information concerning the long-term consequences of repayment options (i.e. associated total cost and loan duration) is provided. In the case of HCSTC, such costs are explicit in the case of total cost and duration and of little

relevance in the case of minimum repayment size. As such, we examine ways of making salient the trade-off between current consumption on credit and forgone future opportunities, focusing on the provision and framing of information pertaining to such opportunity costs.

Liberman and Trope's (1998) construal level theory distinguishes between objects or events that are perceived as temporally proximate and those that are distant, with the former construed on a *concrete*, contextual level, while the latter are construed on an *abstract*, schematic level. Relative to a concrete construal (with the emphasis on "how" to achieve one's objectives), evidence suggests that an abstract construal (with the emphasis on "why" objectives are important) promotes self-control and inhibits temptation, thus increasing the desirability of larger rewards in the future than smaller rewards now. Evoking an abstract construal has been associated with the pursuit of future benefits rather than immediate needs. Perhaps counterintuitively, therefore, interventions designed to evoke abstract thinking of the associated opportunity costs of credit may be expected to reduce the attraction of HCSTC, relative to concrete thinking.

The principle of regulatory focus (Higgins, 1998) distinguishes between two strategies for goal attainment—*promotion* focus and *prevention* focus. Within a promotion focus attention is directed at the attainment of positive outcomes, whereas attention is directed at the avoidance of negative outcomes within a prevention focus. Pennington and Roese (2003) link regulatory focus and temporal distance, suggesting that temporal distance to a goal influences the extent to which evaluations are framed in terms of promotion or prevention. Temporally distant goals are associated more with promotion than prevention, while temporally proximate goals are associated more with prevention than promotion. In this latter case, prevention exerts a greater influence on self-regulation as events become closer in time. Pennington and Roese (2003) hypothesize that inducing a promotion rather than prevention focus (with attention directed at the attainment of positive outcomes rather than the avoidance of negative ones), would lead an individual to devote increased consideration to a temporally distant event. Interventions designed, therefore, to encourage a promotion focus may cause an individual to give increased consideration to the temporally distant opportunity costs of credit and so may be expected to reduce the attraction of HCSTC, relative to a prevention focus.

Method

A bespoke questionnaire was administered to 163 users/non-users of HCSTC in conjunction with the Newcastle Citizens Advice Bureau. The questionnaires elicit individuals' attitudes to and experiences of HCSTC (e.g. purpose of credit, essential versus non-essential), along with a range of relevant demographics (e.g. age, gender, marital status, dependents, income, etc.). Interventions are modified across respondents in an experimental design intended to examine the effect of manipulating opportunity cost along the dimensions of construal level theory (abstract versus concrete) and regulatory focus (promotion versus prevention), along with a control sample not exposed to an intervention.

Results

The findings suggest that attitudes can be influenced by ways of making people think differently about opportunity costs associated with use of HCSTC. While construal level has a marginally significant effect, with a lower attitude to the use of HCSTC under abstract than concrete construal, the interaction of construal level and regulatory focus is statistically significant; under a promotion focus abstract construal is associated with a significantly reduced attitude to the use of HCSTC than concrete construal.