



Centre for
Public Impact
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Briefing Bulletin:
Behavioural Insights

What is 'behavioural insights'?

In standard economic models, decision-makers use information in an unbiased way. They deliberate carefully about all the available choices and their possible consequences. They are assumed to be completely rational. In reality, human beings make decisions imperfectly.

Decision-makers are fallible; their behaviour varies across time and space, and it is subject to cognitive biases, emotions and social influences. We are frequently more altruistic, less objective and more error-prone than economists would like. Decisions are the result of less deliberative, linear and controlled processes than they would care to believe. We are, in fact, thoroughly human. Figure 1 shows concrete examples of the types of fallacies and biases that afflict decision-making, as well as intervention examples.

While this may sound obvious, it has not been applied to the field of economics – until now.

What skills are required to use behavioural insights?

- **Understanding of biases and fallacies:** A comprehensive understanding of behavioural economic theory is necessary to create the hypotheses and interventions to be tested
- **Human-centred design thinking:** Creating interventions that operationalise a testable hypothesis about human behaviour requires design skills
- **Experimentation design and analysis:** Each behavioural intervention must be piloted and then measured against a control group. This requires the ability for government to run statistical analysis and have a mechanism to treat two groups differently

Why should policymakers care?

The standard assumptions about human behaviour that are embedded in economic models tend to be over-simplified. Better results can be achieved by accounting more accurately for how humans actually behave, as well as understanding why they behave in this way. These include the tactical – such as tailoring government forms to make them more effective – and also strategic policy design – for example, using carrots instead of sticks to create the desired behaviour. Behavioural interventions such as setting default choices deliberately, which change the salience of information, are examples of behaviourally-motivated interventions.

The literature on behavioural interventions can only help generate hypotheses for what may work in any specific case. This is why behavioural insights teams need the organisational ability to test the impact of proposed interventions in a structured way. Only after testing, using Randomised Control Trials or other methods, can policymakers reach an evidence-based decision.

As behavioural economics is a new discipline, the legitimacy of using such interventions for public policy goals is still being debated. The question whether a particular intervention is appropriate needs to be decided on a case-by-case basis.

Where to next for behavioural insights?

- **Mainstreaming the use of evidence.** The behavioural insights movement has championed the greater use of evidence in policymaking. That the majority of new policies remain untestable, even post hoc, shows just how far the broader policymaking community has to travel on this dimension.
- **Shifting focus to prevention.** This is in stark contrast to the majority of social policies and public services, which focus on picking up the pieces when things go wrong, despite the fact that prevention is invariably cheaper and preferable for all concerned.
- **Using a human-centred approach.** Too often the debate around public service reform can be framed in terms of macro-level systems and structures, such as the creation of new organisations or the introduction of market mechanisms. Such thinking diminishes the importance of human relationships and behaviours – which, after all, lie at the heart of all public service.

PROMINENT ORGANISATIONS

UK Behavioural Insights Team

Social & Behavioral Sciences Initiative, Office of Science and Technology Policy, The White House, USA

Behavioral Insights Group, Center for Public Leadership at the Harvard Kennedy School



Behavioural biases and interventions

Bias/fallacy	Description	Example	Policy principle & intervention example
Status quo bias	People are very likely to continue the same course of action, even if it is clearly not be in their best interest	▶ Magazine companies offer free trials and then begin charging the customer until he/she actively ends the subscription – which relatively few do	Inertia Deliberate default choices; auto-enlist
Herd mentality	People are heavily influenced by the actions of others	▶ Voters who are told turnout is expected to be high are more likely to vote themselves	Social proof Messages describing desired behaviour as a social movement
Anchoring	People rely too heavily on one trait or piece of information	▶ Individuals often guess the population of cities based on knowledge of their own	Framing Choices presented with emphasis on particular considerations
Availability heuristic	People predict the frequency of an event based on how easily an example can be brought to mind	▶ People think that homicides occur more than suicides, as examples of homicides are more readily available	Peak-end Principle Interactions with beneficiaries (e.g. jobseekers) end on highly positive note

Examples of behavioural interventions

	1. Reframing information changes payday borrowing decisions	2. Personalisation and reciprocity make text messages significantly more compelling	3. Auto-enrollment into pension schemes increases savings
Problem	High payday loan usage ¹	Low jobseeker turnout rate to job centres	Low savings rates
Intervention	Send rollover requests using an envelope that compares the relative costs of the payday loan and credit card borrowing ²	Send a personalised SMS that includes claimant name, advisor name and states an appointment has been booked	Change the default from un-enrolled to enrolled
Outcome	Borrowers are 11% less likely to borrow in the next four months ³	Jobseekers are 17 percentage points more likely than control group to turn up to job centre	Participation rates rose from 61% to 83%

¹High payday loan usage – Country: USA. Source: Bertrand, Marianne, and Adair Morse. 2011. “Information Disclosure, Cognitive Biases, and Payday Borrowing.” *The Journal of Finance* 66(2011): 1865-1893.

²Rollover request – Country: UK. Source: The Behavioural Insights Team. 2015. “Update report 2013-2015”.

³Low savings rates – Country: UK. Source: Department for Work and Pensions. 2013. “Automatic enrolment opt out rates: findings from research with large employers”.

FURTHER READING

Books:

Nudge: Improving Decisions about Health, Wealth and Happiness, Richard Thaler and Cass Sunstein

Thinking, Fast and Slow, Daniel Kahneman

Predictably Irrational – The Hidden Forces that Shape our Decisions, Dan Ariely

From Centre for Public Impact

What has ‘behavioural insights’ done for us?, Adrian Brown

BITs and pieces, Julia Fetherston



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