

Testing behaviourally-informed messaging to increase rates of contact between mortgage lenders and customers facing arrears

*A report by the Behavioural Insights Team for the Department for Communities,
Northern Ireland*

June 2018

Minor edits for typographical errors: 26 February 2019

1. Executive Summary	3
2. Introduction and background to the project	15
2.1 This report	16
2.2 About The Behavioural Insights Team	17
3. Designing the interventions.	19
4. Trial 1: Lender 1, long-term arrears	24
4.1 The intervention	24
4.2 Methodology and implementation	25
4.2.1 Implementation challenges	26
4.3 Outcome measures and analysis	27
4.4 Findings	27
4.4.1 Primary result – rates of contact across UK customers.	27
4.4.2 Secondary analysis	28
4.4.3 Customer response	29
5. Trial 2: Lender 1, Early Arrears	31
5.1 The intervention	31
5.2 Methodology and implementation	32
5.2.1 Implementation challenges	33
5.3 Outcome measures and analysis	35
5.4 Findings	35
5.4.1 Primary result – rates of contact across UK customers.	35
5.4.2 Secondary analysis	36
6. Trial 3: Lender 2, Early Arrears	38
6.1 The intervention	38
6.2 Methodology and implementation	39
6.2.1 Implementation challenges	40
6.3 Outcome measures and analysis	41
6.4 Findings	41
6.4.1 Primary result – rates of contact across UK customers.	41
6.4.2 Secondary analysis	42
7. Conclusions	44
Appendix A: Interventions	49

1. Executive Summary

Highlights:

- We demonstrate that behavioural insights can be used to improve correspondence between lenders and customers facing arrears, leading to large and statistically significant increases in successful contact rates, with no detrimental impact on payment rates.
- Implementation of the studies was challenging, particularly where the lenders were required to adopt manual processes to send out new versions of correspondence within the confines of a controlled experiment. As such, though we would encourage lenders to adopt an ‘innovate and test’ approach and undertake further experimentation, this can be burdensome for some lenders who lack sophisticated, automated systems.
- Where lenders cannot easily undertake further testing, this evidence, alongside wider evidence from similar trials in comparable contexts, provides a strong case for adopting the behavioural approaches tested here (which are summarised on page 12).

1.1 Introduction

In the build-up to and aftermath of the 2008 financial crisis, Northern Ireland was hit particularly hard by a housing boom and bust. Many homeowners still face negative equity, arrears, and ultimately risk of repossession. One of the key behavioural challenges is encouraging homeowners at risk to engage proactively with their lenders (as well as advice providers and, if necessary, the courts), so that earlier solutions can be found. The Behavioural Insights Team (BIT) has been commissioned by the Department for Communities Northern Ireland to develop and test a range of behavioural interventions to increase customer contact and engagement. An earlier report outlined the nature of the problem, the behavioural and psychological challenges involved, and presented a range of recommended interventions.¹ This report follows on from this earlier work, and presents the results from three field trials conducted in collaboration with two lenders, to test some of these ideas in the field.

1.1 The three trials

Three randomised controlled trials have been undertaken to test the impact of ‘behaviourally-informed’ communications between lenders and their customers facing arrears. The objective was to increase the rate of successful contact between banks and customers entering or already in arrears. Successful contact includes inbound contact from the customer, and outbound contact from the bank being answered. Of secondary importance, payment behaviour was also monitored to ensure it did not reduce as a consequence of our correspondence, though increasing payments was not a focus of the interventions.

In undertaking these trials we have collaborated with two lenders with a customer base across the UK including within Northern Ireland. Throughout this report we refer to these as ‘Lender 1’ and ‘Lender 2’.

Two trials were undertaken with Lender 1 (one with long-term arrears customers, and one with customers as they entered arrears), and one with Lender 2 (also with customers as they entered arrears).

1.2 Interventions tested

We developed bespoke communications in each trial to replace to supplement existing communications from the lenders (letters, emails and SMS reminders). Though each was unique to reflect the individual lenders’ systems and approach, all drew upon similar behavioural principles. Specifically, the interventions consisted of the following:

1.2.1 Lender 1, long-term arrears trial:

- A single, behaviourally-informed letter (sent in addition to, rather than replacing, any existing correspondence). The letter incorporated a direct ‘call

to action'ⁱ encouraging customers to make contact, and harnessed principles of personalisationⁱⁱ, loss aversionⁱⁱⁱ and reciprocity.^{iv}

- The letter was sent in a handwritten, coloured envelope to increase salience,^v with a handwritten post-it note attached to the letter imploring the customer to make contact.
- An SMS prompt was sent alongside the letter to encourage the recipient to open and respond to the letter.
- Where email addresses were available, a message drawing upon similar behavioural insights was also sent by email.

1.2.2 Lender 1, early arrears trial:

- Lender 1 sends a succession of letters to customers as they enter arrears and fail to either clear them, or make contact. We replaced the first three letters of this process with behaviourally-informed versions (the 'notice of arrears letter', the 'contact letter', and 'contact escalation letter'). These rewritten letters drew upon similar behavioural insights as the long-term arrears trial described above, namely simplification of the message, use of direct calls to action, social norm messages,^{vi} reciprocity, and loss aversion.
- SMS messages were also sent to coincide with each letter, prompting the customer to read the letters and get in touch.

ⁱ Much official correspondence is poor at communicating exactly what the recipient should do. We put the important actions (i.e. to make contact) in bold and at the top of the letter. Background and supplementary information comes after this.

ⁱⁱ We are more drawn to that which is personalised to us, and tend to ignore more generic correspondence.

ⁱⁱⁱ We are more sensitive to losses than to equivalent gains. Drawing attention to potential losses (which can be avoided) is therefore often disproportionately motivating.

^{iv} We tend to reciprocate kind and unkind acts done to us. By making it clear that the sender of a letter is trying to help, we aim to evoke a more helpful response in return. Similarly, if we make it clear we are making a concession for someone, they may also feel obliged to make a concession, and thus 'meet us in the middle'.

^v We are drawn to that which is novel and salient. This is relevant as one of the main barriers to overcome is customers' tendency not to open mail from their bank (particularly those who are facing stressful money problems).

^{vi} We are greatly influenced by what other people do. Simply telling people that most other people in their situation do the right thing, can influence a customer's actions.

1.2.3 Lender 2, early arrears trial:

- Similar to the early arrears trial with Lender 1 described above, we created alternative versions of the first and second letters sent to customers as they entered arrears, harnessing direct calls to action, loss aversion, reciprocity and social norms.
- SMS messages were sent to coincide with each letter, prompting the customer to read the letters and get in touch.

1.3 Implementation and challenges

In each case we ran a randomised controlled trial (RCT), the gold standard of impact evaluation methods in which customers are randomly split into two groups, one of which (the *treatment* group) receives the new correspondence (the intervention), while the other does not, receiving only business-as-usual correspondence (the *control* group). Random allocation into two groups ensures the groups are identical except for receipt of the letters. Comparing the two groups on our outcomes of interest (contact rates and payment rates) therefore allows us to attribute any differences in outcome to the impact of the intervention. All three trials drew on customers from across the UK as there were insufficient customers from Northern Ireland to provide adequate statistical power.

Each trial faced certain implementation challenges. These have been addressed during analysis. The nature of these studies is that we rely heavily on the delivery partners (i.e. the banks) to follow the trial protocols we provide, since it is ultimately the banks which must send out letters and manage the communications with their customers. However, this often proves challenging as it requires deviation from existing systems and processes, and manual intervention is often required, sometimes at considerable burden to the lenders. With the best of efforts, some human error is inevitable. The main implementation challenges were as follows:

- With Lender 1, the delivery was entirely manual as systems did not exist to automate different parallel communications procedures (as required in an RCT to compare the intervention to business-as-usual). In the long-term

arrears trial, some bias was inadvertently introduced as the lender felt it appropriate to exclude vulnerable customers on an ad-hoc basis from the treatment group but not from the control group. This was addressed by retrospectively removing vulnerable customers from the control group before undertaking final analysis, to ensure like-for-like comparison.

- In Lender 1's early arrears trial, implementation deviated from the plan, with many customers being sent the 'wrong' letters (specifically, many in the treatment group being sent the control letters, particularly for letters 2 and 3). An insufficient number of treatment letters 2 and 3 were sent to meaningfully analyse their impact. As such, we modify the analysis to look only at the impact of letter 1. Within letter 1, some error still existed (again, with some treatment accounts being sent the control letter). This contamination between groups was addressed using a widely accepted and standard approach of running an 'intention to treat' (ITT) analysis.
- The trial with Lender 2 was mostly automated leading to reliable allocation of letters to the treatment and control groups. However some human error led to the treatment letters being sent systematically slightly later than the control letters (by 1.5 days) for the first portion of the trial, until the issue was rectified a few weeks later. Discussed in greater detail later in this report, the consequence of this is to introduce a modest risk of bias, likely to be small, and if anything, erring the result towards a slight *underestimation* of the true impact of our letters. It is therefore not of concern as the findings of the study are not undermined.

1.4 Results

1.4.1 Lender 1, long-term arrears trial:

We found a large and statistically significant increase in the proportion of households making contact as a result of the new correspondence: from 45.9% of households in the control group, to 62.2% in the treatment group (an increase of 16.3 percentage points, or 35.5 per cent). Isolating households in Northern Ireland, the sample is too small to undertake robust analysis, but we find no evidence to suggest that customers in Northern Ireland were impacted differently to the wider UK sample. We also

analysed the likelihood of making a payment, and found no significant differences between the treatment and control groups.

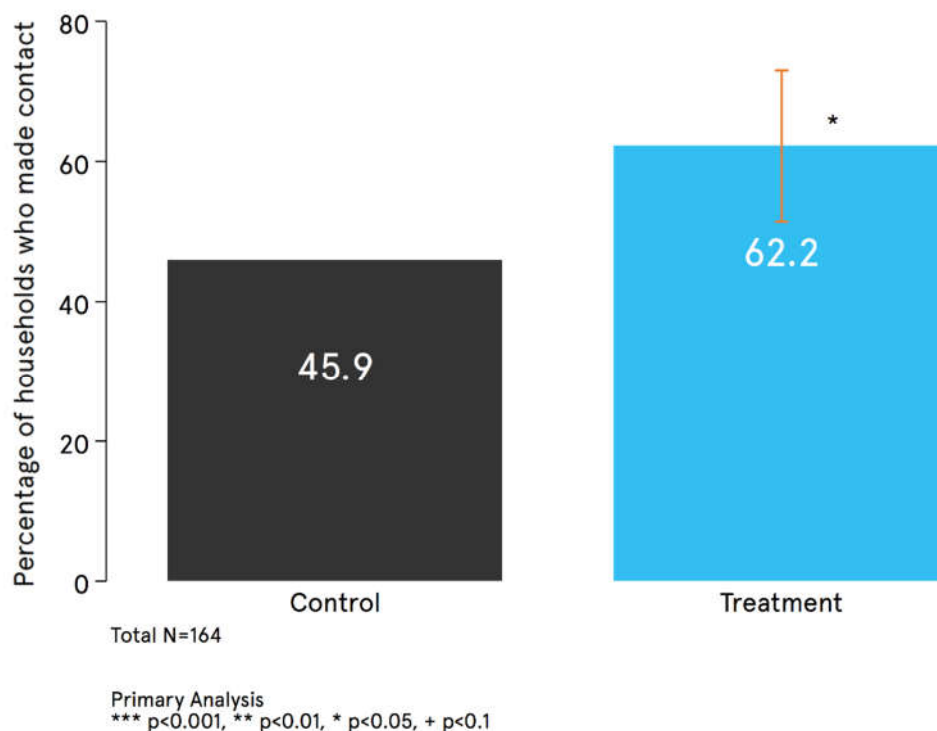


Figure 1: contract rates among Lender 1's long-term arrears customers in response to business-as-usual (control) and behaviourally-informed (treatment) correspondence.

1.4.2 Lender 1, early arrears trial:

Focusing our analysis on the impact of letter 1 only (as noted above, insufficient treatment letters 2 and 3 were sent to analyse) we find no effect on contact rates or on payment rates. This result reflects a diluted version of the intervention, since we are focussing on just one letter within an intervention which was intended to consist of three letters which gradually escalated in the strength of language used. We therefore cannot say with confidence whether the full intervention would have been effective or not. However, based on available data, the indication is that letter 1 alone did not have any impact. Though the sample is too small to draw robust conclusions, we find no evidence to suggest customers in Northern Ireland responded differently to the intervention than the wider UK cohort.

We do not undertake secondary analysis on payment behaviour in light of the need to restrict our analysis to a 17-day window after sending letter 1 (in order to exclude the impacts of letter 2 and 3), which is not long enough to capture a full payment window (requiring at least one calendar month).

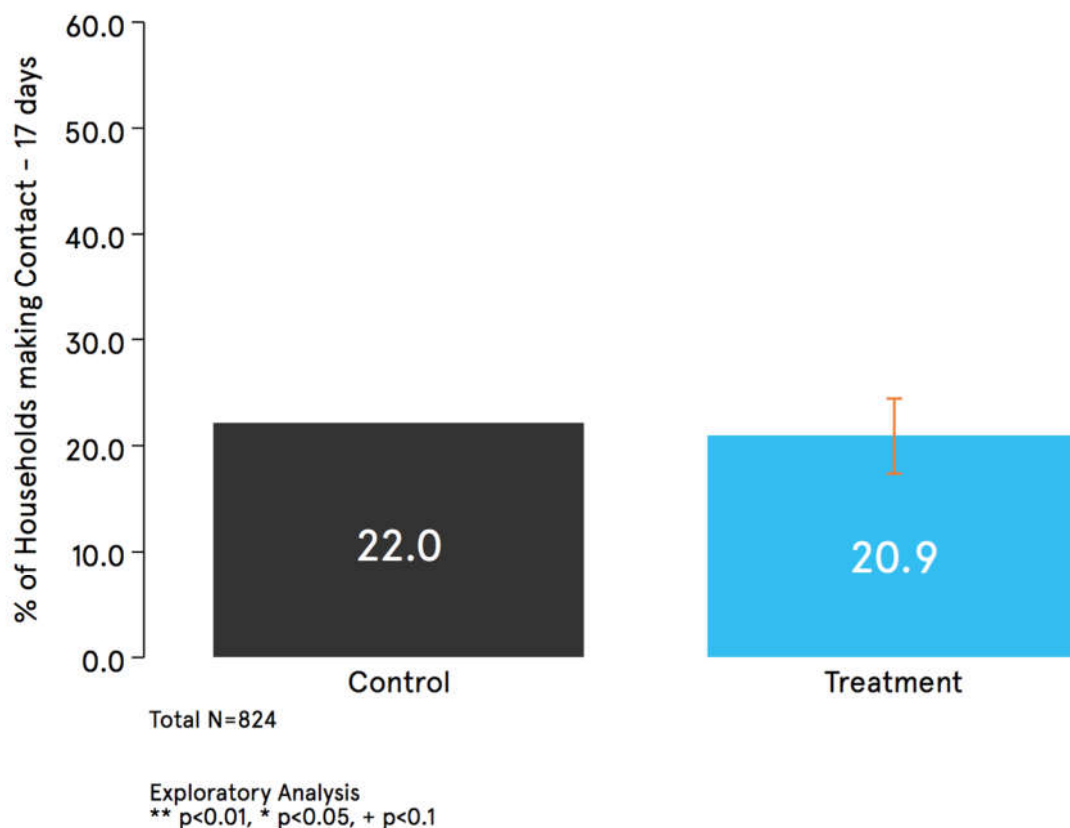


Figure 2: contract rates among Lender 1's early arrears customers in response to business-as-usual (control) and behaviourally-informed (treatment) correspondence.

1.4.3 Lender 2, early arrears trial:

We found a large and statistically significant increase in the proportion of households making contact as a result of the intervention: from 24% of households receiving business-as-usual correspondence, to 31.3% with the behaviourally-informed letters, an increase of 7.3 percentage points, or 30%. Isolating customers in Northern Ireland, the sample is too small to draw robust conclusions, but we find no evidence to conclude that these customers responded differently to the wider UK cohort. Secondary analysis shows that the intervention had no impact on payment behaviour.

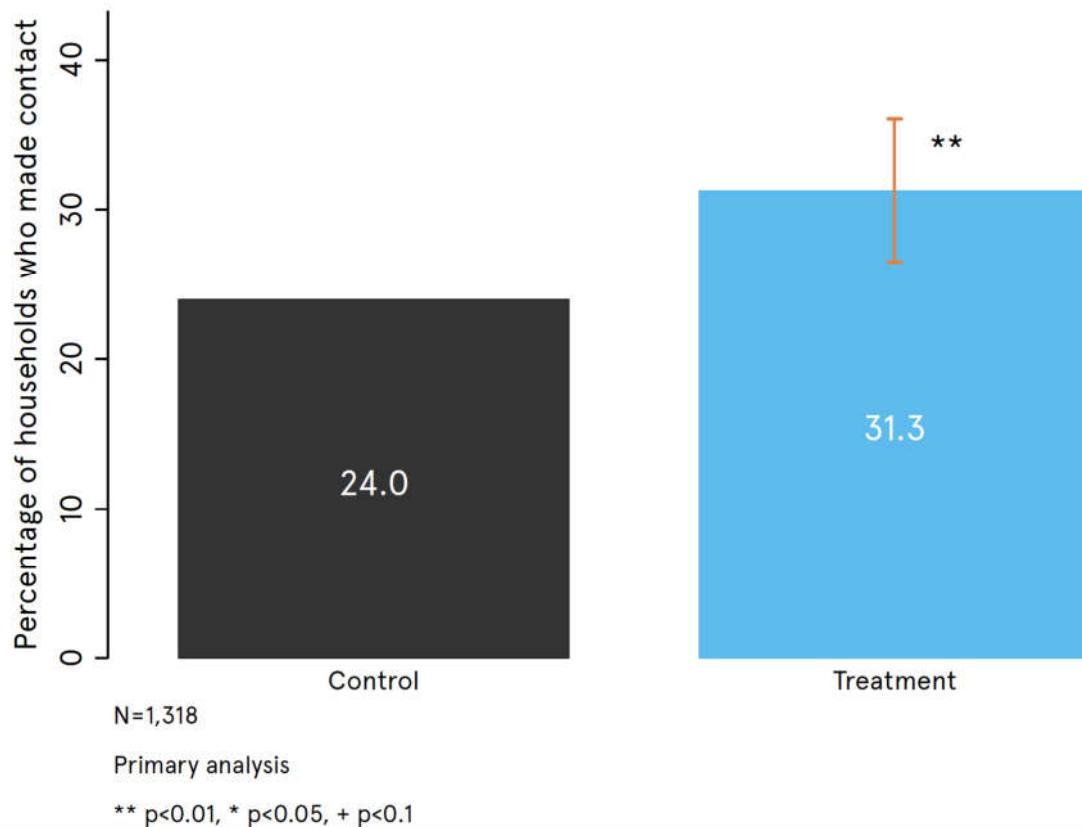


Figure 3: contract rates among Lender 2's early arrears customers in response to business-as-usual (control) and behaviourally-informed (treatment) correspondence.

1.5 Conclusion

We see strong and encouraging results in two out of three trials, demonstrating that behaviourally-informed messaging can successfully elicit contact from customers in arrears, both those in early arrears, and more 'hard to reach' customers in long-term arrears. One of the three trials, with Lender 1's early arrears customers, remains inconclusive due to major implementation challenges, but is likely to have been ineffective at least for the first of three letters (we can draw no robust conclusions about the impact of the second and third letters).

On balance, this body of work provides strong evidence that behaviourally-informed communications can be effective in this context. This is particularly encouraging given some of the profound psychological barriers we observed during the earlier phases of this work, and in particular customers' propensity to avoid speaking to their lender when facing arrears.

Across the three trials we see no impact of the intervention on customers' payment behaviour. This is neither surprising nor disappointing, since the purpose of the letters was to elicit contact rather than payments. However it is also reassuring, as it was important to demonstrate that the intervention does not *reduce* payments. This was a risk given the relatively soft and approachable tone the letters took.

We also received anecdotal validation from one Lender 1 customer that these letters are in fact preferred – by incorporating a human element to the letters (taking an understanding tone, offering help, and handwriting a post-it note), one customer responded with gratitude and positivity at the approach. Though a single case is far from robust evidence, it is valuable to note that rates of contact can be increased whilst also improving customer experience, by presenting the lender as approachable rather than threatening.

1.6 Recommendations

Given the success of these trials, and the minimal (or zero) marginal cost of sending altered communications, we strongly recommend that these techniques are adopted to encourage better communications between customers facing financial difficulty and their lenders. Specifically, there are two key recommendations from this work.

1. We recommend banks adopt an approach of innovating and testing. The methodologies used here (principally, Randomised Controlled Trials (RCTs), or more simply, A-B tests) provide the tools for lenders to continually adapt their methods of communication. However, this does require some effort in sending our multiple versions of letters in a controlled manner. This can be burdensome for lenders without automated systems.
2. Where ongoing testing is not practical for some lenders, we recommended adopting the behavioural techniques used in this report. Given that similar behavioural approaches were tested across all three trials, and the existence of evidence that similar techniques are often effective in other contexts,² we feel confident in distilling these results into some high-level 'how-to' guidelines for use in arrears communications. The key points are summarised in the following table.

Technique	Example from these trials
<p>Communications should wherever possible be simplified, removing jargon and unnecessary length.</p>	
<p>Required actions should be upfront and bold.</p>	<p>'You missed a payment – please contact us now – 020 XXX XXXXX' would be a typical <u>subject line</u> for a letter.</p>
<p>Project a tone of approachability and helpfulness to encourage contact, whilst maintaining a sense of gravity of the situation. Financial difficulty can cause a great deal of anxiety, and we are prone to avoid this by 'putting our head in the sand'. It is therefore important to appear helpful and reassuring, to elicit contact and overcome this 'information avoidance' and 'anxiety avoidance'. Threats from lenders risk merely exacerbating our tendency to avoid facing up to the issue. A more friendly, approachable, and helpful tone is therefore recommended.</p> <p>However, it is also important not to be so soft or dismissive of the problem that recipients' infer that the issue is not particularly pressing. We struck this balance by highlighting the gravity of the <i>situation</i>, without compromising the friendliness of the <i>bank</i>. This is an obvious point seemingly overlooked by many lenders: it is not necessary to be aggressive or threatening <i>as a bank</i> to highlight the seriousness of the situation the person is in. As such the language we used is overtly helpful (see 'reciprocity' below) and friendly, without diminishing the importance of making</p>	<p><i>"I can only help you avoid these ongoing charges if you get in touch, so please do contact me on 01923 XXXX"</i></p> <p><i>"You are currently being charged £53 every month... Please do get in touch and I'll do what I can to help. However I can't do anything until we discuss your account."</i></p> <p><i>"You will continue to be charged a fee of £53 every month you stay in arrears. I can still help you avoid these fees but you must call us immediately to discuss. Thank you."</i></p> <p><i>"We would like to help, and can often find a solution even if you cannot make the full payment this month, but I cannot do anything unless you contact us."</i></p> <p><i>"It's really important we get this resolved, as you are currently being charged £53 every month you fail to pay the minimum monthly instalment. You will also be paying additional interest and put your home at risk.</i></p> <p><i>These fees are avoidable if we are able to review your situation and put you on a new arrangement which you are able to maintain.</i></p> <p><i>Please do get in touch and I'll do what I can to help. However I can't do anything until we discuss your account."</i></p>

<p>contact to avoid potentially serious consequences.</p>	
<p>Evoke reciprocity. We are inclined to return a favour, and will often ‘meet someone in the middle’ if they try to help or concede for us (‘reciprocity of concession’). Thus, by expressing a sincere willingness to help the customer, or by implying you have done them a favour, customers are more likely to comply with the request to do their part (make contact). Even just stating that you want to help is a soft form of reciprocity.</p>	<p><i>“I’d rather not charge this fee to your account, and will do my best to help if you get in touch. In order to avoid this fee please either pay your overdue instalment before XX/XX/XXXX, or contact me so I can help set up a new arrangement which you are more easily able to keep to. Even if you cannot make the full payment this month, please do get in touch as I may be able to help.”</i></p> <p><i>“To assist you I’ve extended your payment window for 10 days beyond the original date, so if you can pay by then, you won’t be charged a fee of £25 and you’ll be back on track.</i></p> <p><i>“We would like to help, and can often find a solution even if you cannot make the full payment this month, but I cannot do anything unless you contact us.”</i></p>
<p>Harness social norms. We are greatly influenced by our perception of what most other people do.</p> <p>Where data exists and the majority do the right thing, there is much evidence that explicitly stating this fact can be effective, for example <i>“9 out of 10 people pay on time.”</i> In this case more generic norms such as ‘the majority of customers’ were used.</p>	<p><i>“The majority of customers who miss payments find that speaking to us really helps.”</i></p> <p><i>“Our customers have found that the earlier they contact us the more likely it is we can help them.”</i></p>
<p>Increase salience. Our attention is drawn to that which is novel and relevant to us. Moreover, one of the major problems with written communication is that people do not open it – in which case efforts to write an effective letter are wasted. Salience can be used to increase the odds of someone opening a letter.</p>	<p>In this instance we used handwritten coloured envelopes. The benefit of this approach is likely to fade if used repeatedly, and thus we recommend reserving this technique for occasional correspondence (e.g. targeting hard-to-reach long-term arrears customers).</p>

<p>Personalise. We respond more favourably to things which are personalised to us, and tend to ignore more generic correspondence. Simply putting someone's name on the letter (rather than 'dear sir/madam', for example) can have a marked effect.</p> <p>It also helps to personalise the correspondence from the sender. We are more likely to respond to a human being trying to help us, than a faceless organisation. This taps into aspects of reciprocity and social obligation.</p>	<p>A powerful way to personalise correspondence, used in this trial, was to include post-it notes on the letters, with handwritten messages, for example:</p> <p><i>"Toby, this is really important, please give me a call and I'll do my best to help. John. 019XX XXXXXX"</i></p> <p>Such post-it notes also have the benefit of being highly salient, and may act as useful reminders as they may be stuck to a fridge whilst the letter may be easily forgotten.</p> <p>Note that throughout the letters, we frequently wrote in the first person (see examples under 'reciprocity' above, which all imply "<u>I</u> am trying to help you..." Customers may hold a grudge against their bank, but are less likely to feel animosity towards an individual person who is trying to help.</p>
<p>Use loss aversion, with <i>avoidable</i> losses. We are generally more sensitive to potential losses than to potential gains. It is therefore worth highlighting the losses (fines, charges) associated with ongoing arrears.</p> <p>It is important to make it clear that the fee is avoidable by making contact – if the fee feels inevitable, or has already been charged, there is little point in acting.</p>	<p><i>"A monthly fee of £53 will be added to your account if you don't resolve this."</i></p> <p><i>"This will incur a £53 fee if the issue is not resolved before your next payment is due (on XXXXX). There is still time to avoid this fee..."</i></p>

- end of executive summary -

2. Introduction and background to the project

Northern Ireland has historically been one of the cheapest parts of the UK to buy a house, yet the years leading up to 2007 saw a boom in prices with the region becoming the third most expensive, surpassed only by London and South East England.³ However, this sudden increase in house prices was not supported by an increase in wages. At their peak, prices averaged at 9 times the median salary, with households spending an average of 64% of their income on mortgage repayments, despite 42% of these mortgages being interest-only.⁴ Many homeowners took advantage of the high property values to withdraw equity from their property with Northern Ireland having the UK's highest rate of equity extraction (74% of re-mortgaging activity was used to withdraw equity) in the years leading up to 2007.⁵

This boom was followed by an equally significant bust, with prices dropping to around 50% of their peak 2007 value.⁶ Furthermore, Northern Ireland has for several years had the UK's highest rate of unemployment (based on 2017 data, this remains the case).⁷ Combined with a population which has appeared to be more credit-hungry than other regions,³ and the result is a significant number of homeowners who have negative equity, mortgage payment arrears and are facing a real and growing risk of repossession. At the outset of this project in 2015, sixty percent of borrowers in Northern Ireland who had taken out a mortgage since 2005 were considered 'mortgage prisoners', unable to access the market for refinancing options due to their precarious or indebted financial situation.⁸ This is set to get worse if interest rates rise in the coming years.

In response to this crisis the Repossessions Taskforce was set up to gain a clear understanding of negative equity, arrears and repossessions in Northern Ireland, and to develop evidence-based recommendations for mitigating the impact. A key early

finding is that borrowers facing mortgage arrears typically leave it very late before engaging with their lenders or the advice sector for help. Such behaviour, whether through a reluctance to engage or an unawareness of the help that is available, limits the options available for resolution, putting borrowers' homes at greater risk of repossession and often creating enormous distress. Research suggests that engagement with the advice sector and attending court does improve the outcome for over-indebted individuals,⁹ but in contrast, that borrowers consider engagement with their lenders as ineffective.^{10 11 12} These findings highlight the importance not only of encouraging communication between debtors and advice services, but also of gaining an understanding of the behaviour of all parties involved in order to promote more productive engagement.

The above context provides the background to this work, with the Behavioural Insights Team (BIT) commissioned in 2015 by the Northern Ireland Department for Communities (Previously the Department for Social Development) to explore the behavioural and psychological factors underlying mortgage arrears.

The first phase of this work was a review of academic, policy and third-sector literature on consumer debt and arrears, alongside in-depth qualitative research including interviews and focus groups with lenders, borrowers, debt advice providers and the courts service in Northern Ireland. This work culminated in a report¹³ discussing some of the most pressing psychological factors underlying debt, and outlining a range of behaviourally-informed ideas for intervention to encourage customers to seek advice through advice agencies, to engage with their banks, and where necessary, to engage with and navigate the court process more effectively.

For more background to this project and a review of relevant literature and behavioural insights, we refer readers to this first report summarising the earlier phase of this work: **Applying Behavioural Insights to Encourage Earlier Engagement from Borrowers in Mortgage Arrears.**¹⁴

2.1 This report

This second stage of the project focuses on testing some of our ideas in the field, adopting rigorous scientific methodology. Of the many potential objectives emerging

from the first report, one was chosen: to increase engagement between customers in arrears and their lenders. This objective was chosen for a number of reasons, including the recognition that earlier intervention and engagement with lenders (i.e. before the situation reached the courts) is preferable. Moreover, though seeking independent advice is also a valuable outcome, tracking customer interactions between lenders and advice providers is less feasible for the purpose of testing interventions.

The output from this testing phase is summarised in this report. This work has involved collaborating with two lenders with customers in Northern Ireland and the rest of the UK, to test ideas explored in the initial report: namely, re-writing the banks' correspondence to harness what we know about human behaviour, and in particular the psychological barriers to dealing with personal debt.

Our focus is on rates of customer contact, rather than explicitly on payments (though this is also measured). This is because it is not always possible, or necessarily desirable, to increase payments, but better communication is beneficial for both parties in reaching new agreements and finding solutions, even if that is ultimately just a 'soft landing' into repossession. This perspective is based on prior research by the Department for Communities, suggesting earlier engagement from at-risk or indebted customers tends to lead to favourable outcomes.

This document summarises our findings from three field trials:

- Lender 1: Long-term arrears customers
- Lender 1: Early arrears customers
- Lender 2: Early arrears customers

2.2 About The Behavioural Insights Team

BIT is a unique company, starting life inside the UK Prime Minister's Office, No.10 Downing Street, as the world's first government institution dedicated to the application of behavioural sciences. The Team is now a world-leading consulting firm whose mission is to help organisations in the UK and overseas to apply behavioural insights in support of social purpose goals.

BIT is comprised of ex-civil servants, psychologists, behavioural economists, marketers and policy specialists. We draw on insights from behavioural science and ethnographic research we conduct ourselves and with our partners to gain a deeper understanding of how people behave in reality, rather than how policy makers and classical economists often assume they will behave. With this informed understanding of human behaviour, we are able to provide pragmatic and tailored guidance on the design of policy, public services and communications material, each designed to encourage or discourage certain behaviours. Wherever possible, we also turn these suggestions into real-world interventions, and empirically test the impact of those interventions, more often than not, with the use of Randomised Controlled Trials (RCTs). We have successfully applied behavioural insights – demonstrated by positively evaluated outcomes – to public and private sector operations in the UK and overseas across a wide range of policy areas, including housing and the financial services industry.

3. Designing the interventions.

Each of the three trials sought to test the impact of new ‘behaviourally-informed’ correspondence, either replacing, or adding to, business-as-usual letters sent by the two lenders to their customers in arrears. In each case the new correspondence consisted of some elements of:

- altered or new letters
- SMS messages
- emails
- different envelopes (some handwritten), and
- handwritten post-it notes attached to the letters.

All three trials drew upon similar behavioural insights in their use of language and salient elements such as handwritten envelopes and post-it notes. These insights are based upon:

- the findings of our previous work running focus groups and interviews with lenders, customers, advice providers and courts officials (summarised in our previous report¹⁵)
- a literature review on the psychology and behaviour of consumer debt (also summarised in our previous report¹⁶), and
- our existing expertise drawing upon over 500 trials testing behavioural interventions in a range of contexts, many of which involve the improvement of written communications.

The specifics of each intervention are detailed in subsequent sections of the report, and included in full in Appendix A. Below we outline the psychological underpinnings of the key elements of these interventions.

Simplification and the inclusion of a direct call to action. Often we are able to increase a desired behaviour by simplifying language and making the desired action more salient in correspondence. Too often, official letters are complex, unnecessarily long, and do not communicate what the recipient should do until *after* lengthy explanatory/introductory text. The existing letters written by Lender 1 and Lender 2 do not fall into this trap, and are generally well written, concise, and clearly state what the recipient should do. We have maintained this approach, but further simplified the letters where possible and included clear and prominent ‘calls to action’. In practice this involved using subject lines to the letters, in bold, along the lines of **‘You have missed a payment. Please contact us now on 0800 XXX XXX’**. This ensures that even the most cursory glance at the letter leads to an understanding of the problem and the required response.

Loss aversion. We are more sensitive to losses than to equivalent gains, and thus strongly motivated to avoid potential losses. Often there are charges associated with being in arrears, though some of the letters written by lenders failed to make these charges (and the customer’s ability to avoid them if they got in touch and found a solution) particularly salient. We have therefore referenced these charges more clearly within the letters whilst reassuring customers that the bank will try to avoid charging these fees if the customer pays or gets in touch to make an arrangement.

Personalisation and humanisation. Much of our past work has shown that personalising correspondence, both to the recipient, and from the sender, can encourage a positive response. We are much more likely to respond to something which is personal to us than to something which is generically to a ‘customer’ or ‘sir/madam’. Similarly, we are innately more inclined to respond to a human being than to a faceless organisation (and feel an element of social pressure to do so). There are various ways of harnessing this. At its most basic, personalisation may simply involve using the customer's name, and signing the letter from an individual sender rather than ‘customer services manager’ or similar. Taking this further, the letter can be written as though from an individual (in first person), for example: “I’m contacting you because... I would like to help...please contact me”. In this trial we also

used handwritten post-it notes, demonstrating that an individual at the bank is personally concerned about the situation and has taken the effort to write a short note. This also harnesses reciprocity (see below).

Reciprocity. If someone helps or does a favour for us, we have an innate urge to help them in return. For example, our previous work has shown that investment bankers were more likely to donate money to charity after given sweets alongside the request, and we are more inclined to sign up to the organ donor register if we are prompted to acknowledge that we might benefit from others having done so.¹⁷ Reciprocity can be explicit, through the giving of gifts, or free samples (a common marketing trick). However it can also be implicit, simply highlighting the fact that the bank (or the individual sending the letter) is making an effort to help – the implication being the recipient should reciprocate and make an effort in return, i.e. make contact. This is achieved in a number of ways, some quite subtle: the post-it notes mentioned above, for instance, demonstrate that someone has gone ‘above and beyond’ to help the recipient. Moreover, the language used is explicitly friendly and helpful, explicitly highlighting that ‘I am trying to help you’, encouraging the recipient to be helpful in return. ‘Reciprocity of concession’ describes the fact that if someone concedes for us, we feel inclined to do the same and ‘meet them in the middle’, a common negotiating tactic. This can be harnessed by highlighting the concessions that the bank has taken, for example extending the permissible payment window before imposing a fine.

Anxiety avoidance. The overall tone of the letters is kept friendly and approachable. This is in stark contrast to some lenders’ assumption that customers must be scared into action, highlighting the risk of repossession in sometimes threatening language (we note again that the two lenders we collaborated with are broadly the exception to this, though other lenders we spoke to during our earlier research defaulted to a very aggressive tone). Being in debt can cause a lot of anxiety, and the avoidance of anxiety is a powerful motivator – however, we tend to avoid anxiety not necessarily by resolving the problem (by making a payment or picking up the phone) but rather by avoiding the issue, i.e. ‘burying our head in the sand’. These phenomena of denial and avoidance are psychological defences against anxiety, but may not be in our interest as we fail to resolve the issue. Our approach is instead to encourage engagement and contact by maintaining a sense of gravity of the *situation*, without presenting the *bank* as unfriendly or unapproachable – our hypothesis was that we wanted

customers to both acknowledge the risk to their home *and* see the bank as a source of help and release from anxiety, not a source of antagonism and further anxiety.

Salience / Attractiveness. During phase 1 of this project we interviewed a number of borrowers from Northern Ireland who had gone into mortgage arrears. As noted above a common theme that emerged was a tendency for customers to bury their head in the sand ('motivated avoidance'). For example, many admitted to not opening letters they knew were from their bank. A well-written letter can have no impact if it is not being opened, and it is for this reason that we used hand-written, coloured envelopes. This not only differentiates it from generic, corporate-looking mail, but also highlights the fact that an individual has gone to the effort to make contact (as per 'reciprocity', above). The handwritten post-it notes are also highly salient.

Timely prompts. Procrastination was also identified as a major barrier to communication – we may have good intentions, but sometimes do not quite get around to following them through. We aimed to overcome this in two ways – firstly, the SMS prompts people to open the letter, and to call now. One major advantage of text messages is that they are short and immediate, catching people's attention in a manner which a letter on a doormat may not. They are best used for immediate or short-term behaviours, as a text message may be read once upon receipt, but soon forgotten or ignored as it moves down the phone's inbox. An SMS is therefore an effective way to prompt people to read the letter and to call. Secondly, the post-it note can act as a reminder, as though the letter may be left to one side and forgotten, some recipients may attach the post-it to the fridge, for example, with the intention of calling later. This is why we included the phone number on the post-it notes as well as in the letter and SMS.

Methodology – Randomised Controlled Trials

The main objective of this project is to learn, with a good degree of confidence, whether or not behaviourally-informed messages can encourage customers in arrears to make contact with their banks. In order to achieve this objective, rigorous research methods must be employed. In each of the three trials, we ran a Randomised Controlled Trial (RCT), the gold-standard of impact evaluation methodologies. Though each trial differed in important ways, they each shared the same core structure of an RCT.

When evaluating the impact of an intervention we must be careful to rule out the possibility that the observed change in behaviour would have happened anyway. An RCT seeks to achieve this by splitting the sample population into a ‘treatment group’ (who receive the intervention, in this case the behaviourally-informed messaging) and a ‘control group’ (who receive the business-as-usual communications). The presence of a control group creates a counterfactual condition, allowing us to understand ‘what would have happened without the intervention’. For example external events impacting a customer's mortgage situation, such as an economic downturn, would affect both groups equally, so a comparison between groups is a valid measure of an intervention's impact.

Moreover, we must ensure that any difference between the two groups is a result of the intervention, and not an artefact of pre-existing differences between customers. An RCT achieves this by randomising allocation into treatment and control groups, thus ensuring (if the sample size is adequate) that all observable and unobservable characteristics are equal between groups before the intervention is administered. Balance-checks are normally run after random allocation to ensure this assumption of equivalence between groups is met. Accordingly, we are able to conclude with confidence that any difference observed between the groups, on the rate of contact from customers, is a result of the intervention.

4. Trial 1: Lender 1, long-term arrears

This trial focused on customers in long-term arrears (defined as those in 2 months' or more of arrears) with Lender 1. This cohort was generally considered to be hard-to-reach due to large and sometimes longstanding debts. The trial ran from 10 October 2016 to 10 January 2017, and tested the impact of behaviourally-informed messaging on the likelihood that an account holder contacted (or was contactable by) the lender.

4.1 The intervention

The intervention consisted of a new piece of correspondence, sent once to all customers in 2 months' or more of arrears. This was a new instance of contact, and as such was not replacing any existing correspondence (which customers may have been receiving from time to time in addition). Specifically, the intervention consisted of:

- A single new letter sent to all long-term arrears customers in the treatment group, sent in a handwritten and coloured envelope.
- A handwritten post-it note attached to the letter.
- A single new email, sent to those for whom email addresses were available.
- An accompanying SMS message, sent to those in the treatment group for whom mobile telephone numbers were available, sent the same day that the letter was expected to arrive (1-2 days after mailing).

Images of the letter, post-it, SMS and envelope are below. The full letter is included in Appendix A with notes highlighting the behavioural insights that are used.

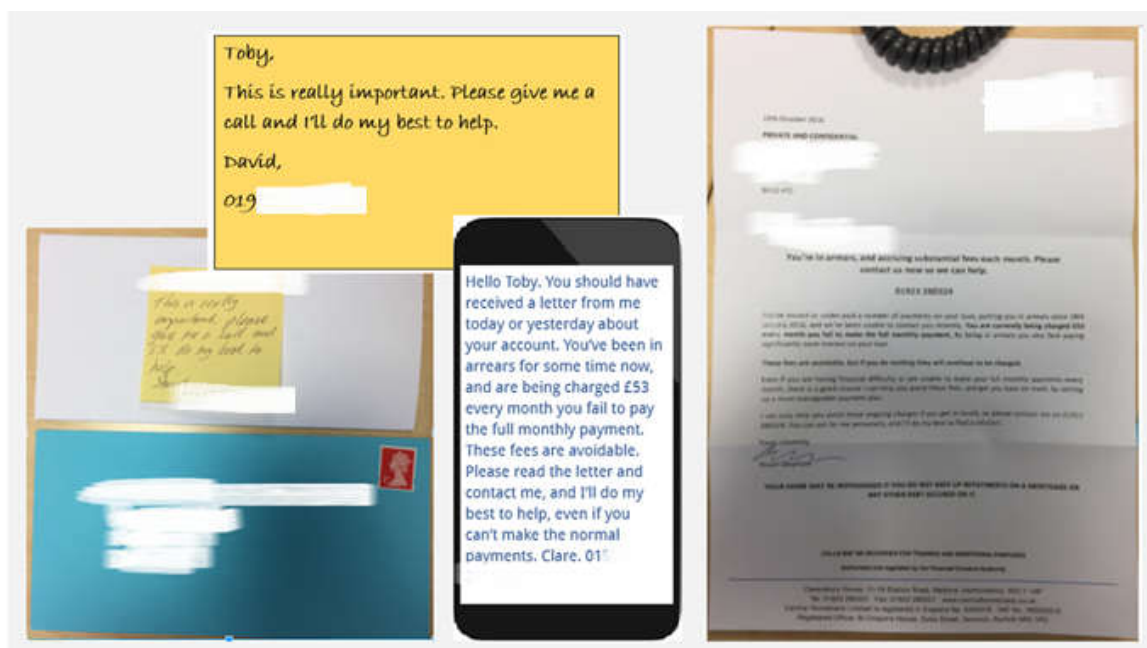


Figure 4: Each element of the intervention, for the Lender 1 long-term arrears trial.

4.2 Methodology and implementation

We ran an RCT in which customers in long-term arrears were randomly allocated to two groups, one of which received the above correspondence. Both groups would have continued to receive any business-as-usual correspondence from the lender.

More specifically, we ran a ‘cluster randomised controlled trial’ in which rather than randomly allocating individual accounts or account holders into the two experimental groups, accounts were clustered by household, with households being randomly allocated. This is advantageous to remove risk of interaction (or ‘spillover’) between our control and treatment group, which might otherwise occur if one account in a household fell into the treatment group, and another account in the same household fell into the control group. Had this occurred, there is a risk that someone in one group would see the communication materials from the other group, undermining our ability to make a clean comparison between groups, critical to an RCT.

The trial included all of the lender’s UK customers who, at the beginning of the trial period, were in long term arrears (defined as those with an arrears balance of more than 2 months’ instalments), and who were ‘disengaged’ (loosely defined by the Lender as those who they wanted to elicit contact from – customers who they already had productive ongoing conversations with were excluded). A list of these

customers was provided to BIT before the trial. This group was then randomised into treatment and control groups. Initially we anticipated this to be in the region of 500 customers, though it later emerged this number was overestimated, with only 164 customers ultimately included in the trial.

The trial delivery (sending of letters, SMS messages and emails) ran for 1 month, from 10 October 2016 to 10 November 2016, with each household in the treatment group receiving the intervention just once. The moment of contact for each customer throughout that month was determined by the lender, based on time of last contact (i.e. some households had been sent a letter just before the trial commenced, and so were sent the treatment correspondence later in the month).

Data collection continued for an additional two months until 10 January 2017, allowing us to detect lagged behaviour changes (since we cannot expect contact to necessarily be made immediately, and changes to payment behaviour may only emerge after some time, particularly if a new arrangement is set up).

4.2.1 Implementation challenges

During implementation the lender decided against sending the new correspondence to vulnerable customers, feeling it inappropriate to trial new messaging on this cohort. However, no such exclusion occurred within the control group (since they were receiving nothing new or additional). This leads to a potential bias: our treatment group contains no vulnerable customers, but our comparison group does. In order to address this problem, prior to undertaking final analysis the lender indicated which customers in the control group would have been deemed vulnerable based on the same judgement criteria. These were also excluded from analysis. This exclusion of vulnerable customers is part of the reason why the sample size ended up being smaller than anticipated: 164 homes, with 92 in the control group and 72 in the treatment group.

Balance checks were undertaken on the final sample on data provided at the beginning of the trial. Good balance was observed on account balance, remaining term of loan, monthly payment amount, number of times the household had been in arrears, whether the household had multiple accounts, and whether the household is in Northern Ireland vs. the rest of the UK. This suggests that although the sample size is quite small, randomisation was successful in creating comparable groups.

4.3 Outcome measures and analysis

Our key outcomes were as follows:

Primary outcome: whether contact was ever successfully made between 10 October 2016 and 10 January 2017. This lumps together all forms of contact including inbound emails, letters and calls, and successful (answered) outbound calls.

Secondary outcome: whether a payment was made between 10 October 2016 and 10 January 2017

We undertook analysis using an ordinary least squares (OLS) regression linear probability model on whether contact was ever successfully made (and a payment ever made for the secondary analysis on payment) during the trial period. Within this regression we control for household characteristics including whether the household has multiple accounts, loan balance at launch, remaining term at launch, instalment amount at launch, and number of times in arrears at launch. We ran this specification for all UK customers, and separately for households in Northern Ireland as part of our secondary analysis.

4.4 Findings

4.4.1 Primary result – rates of contact across UK customers.

Contact rates in the control group are 45.9% of households, compared to 62.2% in the treatment group. **This represents an increase of 16.3 percentage points, or 35.5%, in successful contact.** This improvement is statistically significant ($p < 0.05$). The intervention was therefore highly successful at increasing rates of successful contact.

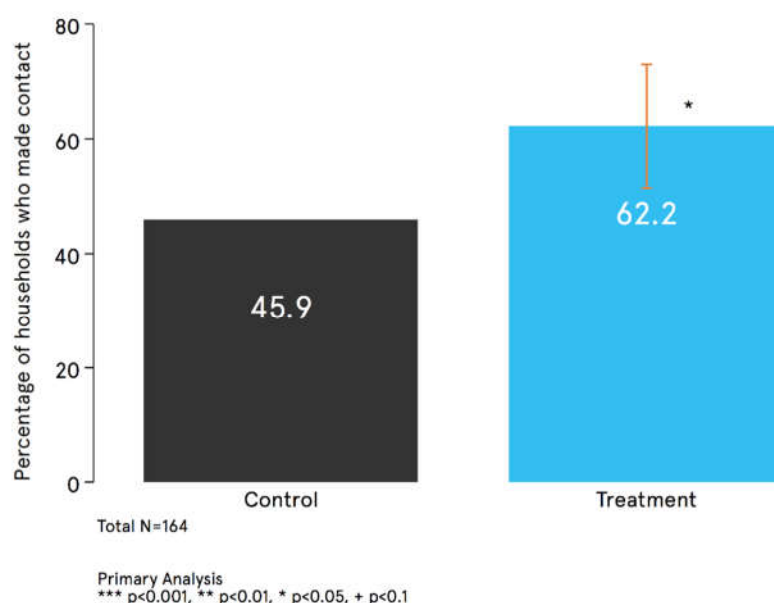


Figure 5: contract rates among Lender 1's long-term arrears customers in response to business-as-usual (control) and behaviourally-informed (treatment) correspondence.

4.4.2 Secondary analysis

Three secondary analyses were also undertaken, with the following findings:

- Contact rates specifically among customers in Northern Ireland are generally lower than those across the whole of the UK, but with a similar increase resulting from the intervention (36.3% in the control group and 48.3% in the treatment group). However this finding is not statistically significant: this is unsurprising, as the very small sample size (n=37) leaves the trial very underpowered for this specific segment analysis. Our conclusion from this result is that there is no evidence to suggest that customers in Northern Ireland responded any differently to the intervention than those from the wider UK, and as such the intervention was equally successful.
- Looking at payment rates across all UK customers, no statistically significant difference is observed between the two groups (81.4% and 79.3% of customers made a payment in the control and treatment group respectively). We therefore conclude the intervention had no impact on payment behaviour.
- Looking at payment rates among customers in Northern Ireland, no statistically significant difference is observed between the two groups (74.6% and 69.9% of customers made a payment in the control and treatment group respectively). Though at first glance this difference may look substantial, bear

in mind the very small sample size: with just 13 households in the treatment group and 24 in the control group, such differences easily occur by chance and as such there is no reason to believe the Northern Ireland cohort responded any differently to the wider sample. To put this in perspective, had one more household in the treatment group made a payment this would jump from 69.9% to 76.9% – as such these observed results are well within the bounds of ‘noise’, and we conclude that there is no evidence to suggest the intervention impacted payment behaviour among customers from Northern Ireland or the rest of the UK.

4.4.3 Customer response

RCTs are a very robust method for quantifying the average impact of an intervention on contact rates. However they do not provide rich insight into customers’ experience of an intervention or process: this normally requires supplementary research tools such as interviews and surveys, which were not undertaken as part of this research project. However, one response was received from a customer in long term arrears who received our behaviourally-informed correspondence. An anonymised version is given below.

Dear [REDACTED],

I would just like to thank you for your hand-written note, attached to the letter dated [REDACTED] October, which we received last Friday. I really appreciate the approach you have used to get in touch with us, and wanted to let you know how much it has helped that you did this, rather than start threatening court action, as most creditors would at this point. I commend you for doing such a good job, and for making my life just a little bit easier than it would have been, as a result of taking this particular approach to us.

Having dealt with us personally in the past, you will probably realise that something has happened in recent months that has prevented us from being in touch with you, as we have always endeavoured to let you know each time our situation changes, and to work with you to clear the arrears.

However, this has been an exceptionally bad time for us, and I am now in the process of writing to you to explain what has been going on, and why we were unable to speak to you. I hope to be able to email the letter to you later in the week. Once you know the situation, then we can perhaps speak over the telephone and try to work out a solution.

I have tried to make payments to you when, and where possible recently, and even managed to pay a small bit extra last month, but I may not be able to make a payment every month at the moment, due to the work situation, but please be assured that if we have the money, you will get it before anyone else.

I will be in touch again as soon as possible to give you full details of our current situation.

Thank you once again, and I think I may also write to your company to recommend you receive a promotion and a pay rise.

Kind regards,



Though the experiences of one customer is not necessarily representative, responses such as this are particularly gratifying given the common assumption among some of the lenders we spoke to during earlier research that threat of repossession is necessary, and aggression is the most effective strategy for eliciting contact from customers in arrears.^{vii} Our letters take the opposite approach, ensuring customers are aware of the gravity of the situation, but ensuring the language is explicitly friendly, helpful, and solution-focussed. Ultimately the application of behavioural insights is about injecting a more ‘human-centric’ understanding into service design, and this can both improve outcomes, and make these services better for the customers using them.

^{vii} The prevalence of this belief was revealed during the interview and focus-group work we undertook with lenders, advice providers, the courts service and customers in preparation of our earlier 2015 report. Note that Lender 1 and Lender 2 both appear to be exceptions to this trend, with their existing letters being far more amicable than some.

5. Trial 2: Lender 1, Early Arrears

This trial focused on customers as they entered arrears with Lender 1. The trial ran from 5 December 2016 to 5 June 2017. Like the previous trial, this trial tested the impact of behaviourally-informed messaging on the likelihood that an account holder contacted (or was contactable by) the lender. In this case, however, we aimed to test the impact of a suite of new correspondence replacing the first three letters which customers receive as they go into arrears.

5.1 The intervention

The intervention consisted of replacement correspondence for the following points in the customer journey:

- 'Initial Arrears Letter' (notifying the customer they have gone into arrears, forewarning them of a £53 fine and asking them to make contact or clear their arrears).
- 'Contact Letter' (a reminder letter, nominally sent a few weeks after the initial arrears letter if the arrears have not been cleared or an alternative arrangement made).
- 'Contact Escalation Letter' (a further reminder letter highlighting the potential escalation of the situation, nominally sent a few weeks after letter 2).

The behaviourally-informed correspondence sent to the treatment group consisted of the following:

- Re-written letters replacing each of the above letters, sent out on the same schedule, harnessing a range of behavioural insights.
- SMS messages sent to coincide with receipt of each letter.

The full letters and SMS messages are included in Appendix A with notes highlighting the behavioural insights employed.

5.2 Methodology and implementation

We ran an RCT with all accounts on Lender 1's books not presently in arrears at the beginning of the trial. All accounts were allocated into the treatment or control group based on their account number (odd/even). Account numbers are assigned arbitrarily, and so this approach is essentially random. Accounts were then only part of the trial if they entered arrears. This approach was designed to be simpler for the lender to implement compared to randomising accounts as they entered arrears, with the odd/even account number providing a simple indicator with which to generate letters as accounts entered arrears.

Accounts were not clustered by household. This approach was taken to simplify the implementation process, as clustering by household would have required the lender to cross-reference each account, as it entered arrears, to other accounts in the household in order to ascertain whether or not to adhere to the odd/even account indicator. This was deemed too onerous and too great a risk of implementation failure given the reliance on manual processes to send the correct letters. The downside to this simpler approach is risk of spillover, since a single household may receive both a treatment and control letter associated with different accounts. However this turned out to be unimportant as only a very small number of households had multiple accounts entering arrears during the trial.

The trial lasted for 6 months, after which no new accounts entered the trial. At this point accounts already within the trial (i.e. having been delivered the first or second letter shortly before the end of the 6-month period, but not yet 'out' of the three-letter customer journey) would remain in the trial until they completed treatment (receiving the third letter), or naturally exit the process by clearing their arrears or setting up a new arrangement. This process was equivalent for both the treatment and control group. Data collection therefore lasted for 9 months in total, extending 3 months after the last account could have entered the trial.

5.2.1 Implementation challenges

A number of issues arose during the implementation which were not detectable until after the final data was extracted at the end of the trial. The nature of these trials is that the delivery organisation (i.e. the lender) is unavoidably responsible for sending out letters and collecting data, however this is often a significant burden on their existing processes, particularly where automated systems do not exist and activity must be manual. This invariably leads to some human error despite the best of efforts from the lender.

In this instance, problems emerged from instances of the wrong letters being sent, against original treatment allocation. In particular, many control letters were sent to those in the treatment group, with the reverse error being much rarer. This most likely reflects the fact that the control letters are business-as-usual for the lender, and breaking this standard practice is challenging when processes are manual and depend on multiple individuals. The table below summarises the number of letters received within each group, relative to their original allocation – note the high numbers of accounts which were assigned treatment, but received control, across all three letters.

		Assigned Treatment	Assigned Control
Letter 1	Received treatment L1	478	79
	Received control L1	585	682
Letter 2	Received treatment L2	165	4
	Received control L2	1,297	1,344
Letter 3	Received treatment L3	88	6
	Received control L3	580	565
All letters	Average treatment letters received	1.1	.14
	Average control letters received	3.5	4.0

Note that this data has been cleaned. The raw data suggested many accounts in the treatment group received the control letter in addition to the treatment letter. Upon scrutiny and discussion with Lender 1 this was identified as a reporting error, with the system automatically flagging a control letter as being raised when it actually was not sent (since this is business-as-usual). These erroneous records have therefore been removed. Multiple instances of arrears have also been removed as per the original analysis strategy.

Two points of implementation error in particular are worth highlighting. These are outlined below, with an explanation of the analytical solution we have taken.

Failure to send treatment letters 2 and 3

Very few treatment letters 2 and 3 were sent, with most accounts assigned to the treatment group actually being sent the control (business-as-usual) letters 2 and 3. With letter 2, just 165 of the intended 1462 treatment accounts received treatment letter 2, and with letter 3, just 88 of the intended 668 treatment accounts received treatment letter 3. This precludes us from running a meaningful evaluation of the impact of letters 2 and 3.

We therefore analyse only the impact of letter 1. In order to do this we shorten the period of observation to analyse customer contact rates within 17 days after letter 1 is sent. 17 days is chosen because the data shows this was the average time before letter 2 is sent. This is a deviation from the original trial protocol, which specified analysis over 12 weeks' of data after the sending of letter 1, capturing the impact of all three letters. This original specification was also undertaken and is reported under 'secondary analysis' below. But we should note we would not expect this to reveal anything very different because beyond letter 1, the two groups have essentially been treated the same (i.e. mostly receiving the control letters only).

Contamination between groups with Letter 1.

Even restricting our analysis to letter 1, we note that many letters were sent to the wrong group: many treatment accounts received control letter 1, and a smaller number of control accounts received treatment letter 1.

Logically, two analytical solutions are available in this situation: either we ignore the original group allocation and compare accounts who *received* treatment letter 1 to those who *received* control letter 1, or we stick to the original allocation and compare groups based on their *intended* treatment.

We opted to take the latter approach, which is the most robust approach, and convention, provided there is a reasonably strong correlation between intended treatment and actual receipt of treatment. This is the case here, and so we run an intention-to-treat analysis (ITT). This approach is most robust because it adheres to the original random (unbiased) allocation, estimating the impact of the *intended* treatment. However it is also the most conservative approach, giving a diluted

estimate of the true impact of the treatment letter, since many in the treatment group were not actually treated. This issue is addressed by additionally undertaking a CACE analysis which accounts for this non-compliance. The ITT analysis is the main result summarised below. The CACE analysis is reported under secondary analysis.

5.3 Outcome measures and analysis

Our key outcomes are as follows:

Primary outcome (deviation from original protocol): whether contact was made within 17 days of receiving letter 1. This collates all inbound contact (by phone, email or letter) and successful outbound calls.

Secondary outcome: though the original intention was to analyse payment behaviour, due to the implementation challenges detailed above this was not possible.

We undertook analysis using an ordinary least squares (OLS) regression linear probability model and ran this specification for all UK customers.

5.4 Findings

5.4.1 Primary result – rates of contact across UK customers.

We find no effect of treatment. Contact rates among households in response to Letter 1, within the 17 days after sending Letter 1, are 22.0% in the control group and 20.9% in the treatment group.

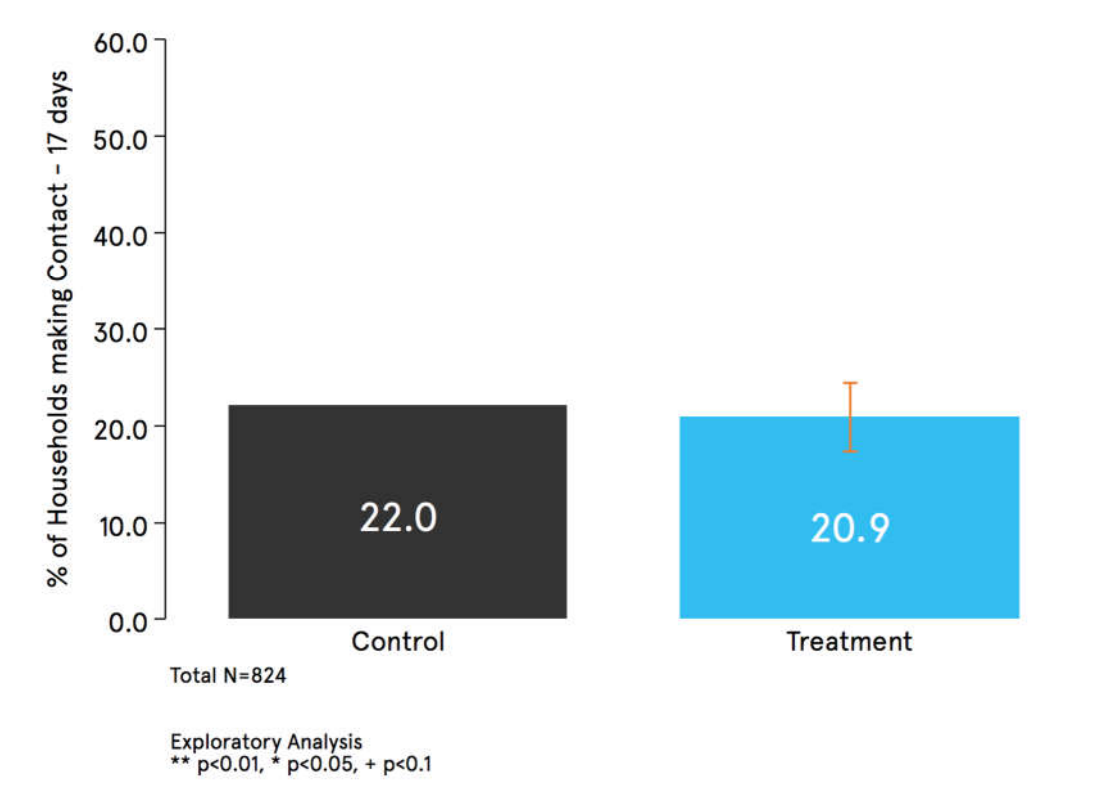


Figure 6: contact rates among Lender 1's early arrears customers in response to business-as-usual (control) and behaviourally-informed (treatment) correspondence.

5.4.2 Secondary analysis

We also ran additional secondary analysis, finding the following.

- We ran the analysis as originally outlined in the Trial Protocol despite the implementation challenges, i.e. analysing contact rates over a 12-week period after the sending of letter 1, during which all three letters would have been sent. Here we find contact rates are higher in both groups compared to the primary analysis summarised above (as expected, as households have had longer to make contact and have received more reminder letters), but with no difference between groups (also as expected, as we would not expect the effect of treatment to be different to the primary analysis, given so few households received treatment letters 2 and 3). Specifically, contact rates are 32.5% (control group) and 32.1% (treatment group).
- Looking solely at households in Northern Ireland, contact rates are 17.3% (control group) and 35.4% (treatment group). This result, though encouragingly large and in the desired direction, is not statistically significant, and should not

be interpreted as evidence of success as the sample of households in Northern Ireland was extremely small ($n=30$).

- Returning to the effect of letter 1 over a shorter 17-day period, we also ran a CACE analysis to account for the fact that many households assigned to the treatment group received the control letter. The CACE analysis aims to estimate the impact of the treatment letter on those who actually received it, rather than the impact on those who were intended to receive it (as with the ITT). Here we also find no significant effect of the treatment letter 1.

6. Trial 3: Lender 2, Early Arrears

This trial focused on customers as they entered arrears with Lender 2. The trial ran from 2 October 2017 to 16 February 2018, with data collection terminating on 27 April 2018. Similar to the previous trials with Lender 1, this trial tested the impact of behaviourally-informed messaging on the likelihood that an account holder made contact (or was contactable by) the lender. In this case we tested the impact of correspondence which replaced the first two letters of the arrears process.

6.1 The intervention

The intervention consisted of replacement correspondence for the following points in the customer journey:

- 'Letter 1' (notifying the customer they have gone into arrears, forewarning them of a £25 charge and asking them to make contact or clear their arrears). Nominally sent on day 4 of arrears, but potentially as late as day 10 if there is a backlog of letters to send.
- 'Letter 2' (a reminder letter, sent prior to the £25 charge, which is still avoidable). Nominally sent 10 days after Letter 1 if no contact has been made.

The behaviourally-informed correspondence sent to the treatment group, replacing the business-as-usual letters above, consisted of the following:

- Re-written letters replacing each of the above letters, sent out on the same schedule, harnessing a range of behavioural insights.
- SMS messages sent to coincide with receipt of each letter.
- The second letter was sent in a handwritten, coloured envelope, but the first letter was not. This approach was taken because:

- sending every letter in a coloured handwritten envelope would like lead to the novelty wearing off,
- by the point of receiving the second letter, the situation is slightly more severe, and
- the process of writing addresses is onerous for the lender, and there are many more Letter 1s sent out than Letter 2s, since many people clear their arrears before being sent the reminder letter.

The full letters and SMS messages are included in Appendix A with notes highlighting the behavioural insights employed.

6.2 Methodology and implementation

As per the previous two trials, we ran an RCT with accounts entering arrears randomly allocated to either receive business-as-usual correspondence, or treatment.

Only the first instance of arrears during the trial for a particular account was analysed. If accounts re-entered arrears, these repeat instances were excluded from analysis. This approach is necessary because we were randomising upon entry to arrears, and repeat instances of arrears would pose two problems: firstly, if we re-randomised them into the trial, we risk introducing contamination between treatment and control groups, for example sending someone who had previously been in the control group subsequently into the treatment group, or vice versa. Secondly, if we instead maintain their prior treatment allocation, we risk introducing bias to the sample, as it may be the case that the treatment group is less (or more) likely to re-enter arrears than the control group. Exclusively analysing the first instance only is therefore the appropriate approach.

A broadly similar implementation strategy was followed as the Lender 1 trial described previously: the trial nominally ran for 6 months, and at the end of this period no more accounts would enter the trial, but any accounts part-way through the trial, (i.e. having received letter 1, but not yet reached letter 2 or exited the arrears journey) would continue until they had done so. Data was collected for eight

months in total, extending two months beyond the point at which the last account could have entered the trial. This allows time for any account in the trial to have received letter 2 plus sufficient time to collect outcome measures.

6.2.1 Implementation challenges

Lender 2 had newly-developed systems which allowed partially-automated processing of communications and randomisation of accounts into different groups as they entered arrears. This meant that implementation was much less dependent upon manual process than with the Lender 1 trials. However, there were some teething problems and some manual processes meaning implementation did not go without some minor challenges. The risk of early problems was anticipated, and so a short 'pilot period' was included at the beginning of the trial to test processes. We stated in advance that if implementation went well (e.g. randomisation was balanced, and letters were sent according to plan), we would include pilot participants in the full study data; if it did not go well, pilot participants would be excluded from the trial. After analysing pilot data and a check-in with Lender 2, we agreed the pilot had gone well enough to include these data in the full trial.

Once the trial commenced, Lender 2 then provided regular data extractions for us to run balance checks on to ensure randomisation and letter delivery was going to plan. This monitoring illuminated a slight delay (by approximately 1.5 days) in the sending of treatment letter 1 relative to control letter 1. This introduces a risk of bias, because of the following situation: it is common for some customers to almost immediately clear their arrears without being prompted (to 'self-heal'), for instance if they had forgotten to pay but then immediately remember, or were waiting a day or two for an incoming payment before being able to pay. As such, the treatment group had slightly longer to self-heal before being sent Letter 1. This leaves fewer self-healers in the treatment group relative to the control group, i.e. a greater portion of the control group would be yet to self-heal, regardless of being sent the letter. This slightly inflates the apparent success of the control letter relative to the treatment letter. As such, to the extent this bias exists (it is likely to be minor) our analysis will slightly *underestimate* the true success of the intervention. In summary, because this bias is likely to be small, and errs the result towards a more conservative conclusion, we do not consider this to be an issue as it does not undermine the robustness of the findings.

Balance checks show good balance on most other variables including household occupancy, income, type of repayment plan, location (in Northern Ireland or not) age of mortgage and number of months out of the last 12 the account was in arrears. Modest imbalance was found on payment method, with the control group slightly more likely to pay by Direct Debit. Again, we suspect this is not an issue, but if it is, it is likely to bias the findings in favour of the control group, and thus poses no threat to the robustness of the conclusions.

6.3 Outcome measures and analysis

Our key outcomes are as follows:

Primary outcome

1. Whether contact was ever successfully made within 4 weeks of letter 1 being sent. This collates all inbound contact (by phone, email or letter) and successful outbound calls.

Secondary outcomes

1. Whether a payment is made within 8 weeks of sending letter 1,
2. The proportion of the outstanding balance (defined at the point of entering arrears) which was paid within 8 weeks of sending letter 1, and
3. 'Survival analysis' of the time until contact.

6.4 Findings

6.4.1 Primary result – rates of contact across UK customers.

We find a large and highly significant positive impact of the behaviourally-informed letters. Contact rates among households within 4 weeks of sending Letter 1 are 24% in the control group and 31.3% in the treatment group. This represents an increase of 7.3 percentage points, or 30 per cent. This finding is statistically significant ($p < 0.05$).

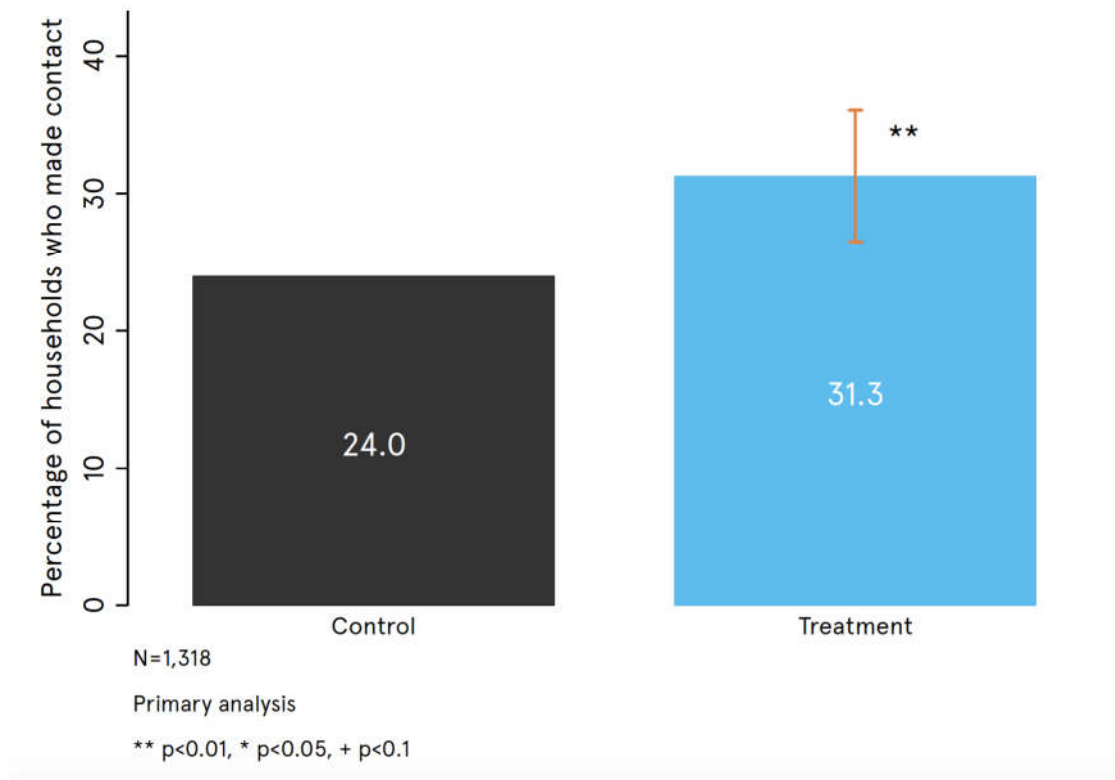


Figure 7: contract rates among Lender 2's early arrears customers in response to business-as-usual (control) and behaviourally-informed (treatment) correspondence.

6.4.2 Secondary analysis

We also undertake secondary analysis with results as follows:

- In order to ensure the results are robust, we repeated the analysis excluding accounts who made contact or a payment on the same day the letter was sent. Though this step was not part of our pre-specified analysis plan, these people are clearly 'self-healers' and are not acting in response to the letter (which could not have yet arrived). Removing this small number of individuals from the analysis has no bearing on the result.
- Isolating the effect on customers living in Northern Ireland, we observe no statistically significant effect (25% of customers in receipt of the control letter made contact compared to 27.3% of those in the treatment group). Note that a lack of significant effect here is not indication that the treatment did not work, as the sample is very small (just 104 accounts) and thus extremely underpowered and noisy. This result provides no reason to believe that account holders in Northern Ireland respond differently to the wider sample which we observe as responding positively to the treatment.

- Analysing whether or not a payment is made within 8 weeks of letter 1 being sent and the proportion of the arrears balance paid over the same period, we observe no difference between the two groups on either measure.
- We also conducted a survival analysis to estimate the likelihood of making contact for each day in the observation period. We find that on average treatment group participants are 32.7% more likely to make contact than the control group on any given day in the observation period. This is another way of framing the primary result, indicating that the treatment group were both more likely to make contact at all, and also tended to make contact earlier.

7. Conclusions

Overall, we find a significant effect of behaviourally-informed correspondence on the likelihood of customers making contact in two of the three trials. These trials also deal with quite different customer base – long-term arrears customers with Lender 1, typically considered quite ‘hard to reach’, and early arrears customers with Lender 2. The other trial, targeting early arrears customers with Lender 1, is somewhat inconclusive due to the implementation challenges faced by Lender 1, though it is most likely (and a conservative conclusion) that the first letter in isolation did not have an impact on contact rates.

On balance, the body of evidence represented by these three trials provides strong and very encouraging evidence that behaviourally-informed correspondence can be used to increase rates of contact between customers in arrears and their lenders. During our earlier fieldwork we came to understand the level of stress some of these customers are facing, and the distrust they often have in their lenders, and so achieving such a significant increase in the numbers making contact is, we believe, a very strong result. This is particularly true for the more ‘hard to reach’ customers in long-term arrears who have been failing to respond to prior communications.

We also note that this result was achieved despite the two lenders’ original letters being generally well-written, clear and approachable. The correspondence of some other lenders we witnessed during our earlier fieldwork were often much more legalistic, complex, and threatening, suggesting that there may be even greater scope for improvement across the industry.

We find no effect of our correspondence on the likelihood of making a payment. This is neither surprising, nor disappointing – payment behaviour was not the target of these interventions, and it is reassuring to note that the softer and more approachable tone taken with these letters does not seem to have led to a reduction

in payments. This addresses one potential concern from lenders who may otherwise be hesitant to adopt the approach described in this report.

We have not undertaken a cost-benefit analysis, as neither the costs nor the benefits are easy to quantify: having had no impact on payment behaviour, there is not an obvious quantifiable return on these efforts for the lenders. However, all banks we have spoken to unanimously believe greater contact with indebted customers is a positive achievement. The costs of these interventions are also very small or zero. For the most part we have replaced existing channels of communication (i.e. re-writing letters being sent anyway), with zero marginal cost. SMS reminders are also very cheap. The main cost is in staff time, particularly where we have used handwritten envelopes and post-it notes. In any case, we recommend using these techniques sparingly as their effect (partly reliant on the novelty factor) may wear off in time. We therefore suggest that these interventions are very much worthwhile in terms of their return on investment.

7.1 Recommendations

There are two recommended takeaways from these results. First, we stress the value of running rigorous trials to compare the impact of different communications, ideally using RCTs or A/B tests in a similar manner to those described here. Context is very important, and human behaviour is rarely predictable. This means we can rarely be totally confident that an intervention is going to have the expected impact, and experimentation and evaluation is therefore invaluable. We therefore encourage lenders to adopt these methods to improve their relationship with customers. Where automated systems are used which allow randomisation and simple A/B tests, this can become a matter of course with relatively modest staff time and skills required.

However, we recognise that not every lender will be in a position to adopt this methodology. As evidenced by the challenges faced in this project, delivery of controlled trials is likely to be a major challenge for some banks, particularly where processes are done manually. The second takeaway is therefore that lenders should adopt some of the behavioural messaging outlined in this report in their own communications. Though continued evaluation is always wise, the evidence presented here, bolstered by the substantial existing body of evidence from other trials and other contexts, provides a sufficiently convincing case that these

approaches are frequently effective. Summarised below are the key insights we recommend adopting (reproduced from the Executive Summary on page 12).

Technique	Example from these trials
Communications should wherever possible be simplified , removing jargon and unnecessary length.	
Required actions should be upfront and bold.	'You missed a payment – please contact us now – 020 XXX XXXX' would be a typical <u>subject line</u> for a letter.
<p>Project a tone of approachability and helpfulness to encourage contact, whilst maintaining a sense of gravity of the situation. Financial difficulty can cause a great deal of anxiety, and we are prone to avoid this by 'putting our head in the sand'. It is therefore important to appear helpful and reassuring, to elicit contact and overcome this 'information avoidance' and 'anxiety avoidance'. Threats from lenders risk merely exacerbating our tendency to avoid facing up to the issue. A more friendly, approachable, and helpful tone is therefore recommended.</p> <p>However, it is also important not to be so soft or dismissive of the problem that recipients' infer that the issue is not particularly pressing. We struck this balance by highlighting the gravity of the <i>situation</i>, without compromising the friendliness of the <i>bank</i>. This is an obvious point seemingly overlooked by many lenders: it is not necessary to be aggressive or threatening <i>as a bank</i> to highlight the seriousness of the situation the person is in. As such the</p>	<p><i>"I can only help you avoid these ongoing charges if you get in touch, so please do contact me on 01923 XXXX"</i></p> <p><i>"You are currently being charged £53 every month... Please do get in touch and I'll do what I can to help. However I can't do anything until we discuss your account."</i></p> <p><i>"You will continue to be charged a fee of £53 every month you stay in arrears. I can still help you avoid these fees but you must call us immediately to discuss. Thank you."</i></p> <p><i>"We would like to help, and can often find a solution even if you cannot make the full payment this month, but I cannot do anything unless you contact us."</i></p> <p><i>"It's really important we get this resolved, as you are currently being charged £53 every month you fail to pay the minimum monthly instalment. You will also be paying additional interest and put your home at risk.</i></p> <p><i>These fees are avoidable if we are able to review your situation and put you on a new arrangement which you are able to maintain.</i></p> <p><i>Please do get in touch and I'll do what I can to help.</i></p>

<p>language we used is overtly helpful (see 'reciprocity' below) and friendly, without diminishing the importance of making contact to avoid potentially serious consequences.</p>	<p><i>However I can't do anything until we discuss your account."</i></p>
<p>Evoke reciprocity. We are inclined to return a favour, and will often 'meet someone in the middle' if they try to help or concede for us ('reciprocity of concession'). Thus, by expressing a sincere willingness to help the customer, or by implying you have done them a favour, customers are more likely to comply with the request to do their part (make contact). Even just stating that you want to help is a soft form of reciprocity.</p>	<p><i>"I'd rather not charge this fee to your account, and will do my best to help if you get in touch. In order to avoid this fee please either pay your overdue instalment before XX/XX/XXXX, or contact me so I can help set up a new arrangement which you are more easily able to keep to. Even if you cannot make the full payment this month, please do get in touch as I may be able to help."</i></p> <p><i>"To assist you I've extended your payment window for 10 days beyond the original date, so if you can pay by then, you won't be charged a fee of £25 and you'll be back on track."</i></p> <p><i>"We would like to help, and can often find a solution even if you cannot make the full payment this month, but I cannot do anything unless you contact us."</i></p>
<p>Harness social norms. We are greatly influenced by our perception of what most other people do.</p> <p>Where data exists and the majority do the right thing, there is much evidence that explicitly stating this fact can be effective, for example <i>"9 out of 10 people pay on time."</i> In this case more generic norms such as 'the majority of customers' were used.</p>	<p><i>"The majority of customers who miss payments find that speaking to us really helps."</i></p> <p><i>"Our customers have found that the earlier they contact us the more likely it is we can help them."</i></p>
<p>Increase salience. Our attention is drawn to that which is novel and relevant to us. Moreover, one of the major problems with written communication is that people do not open it – in which case efforts to write an effective letter are wasted. Salience can</p>	<p>In this instance we used handwritten coloured envelopes. The benefit of this approach is likely to fade if used repeatedly, and thus we recommend reserving this technique for occasional correspondence (e.g. targeting hard-to-reach long-term arrears customers).</p>

<p>be used to increase the odds of someone opening a letter.</p>	
<p>Personalise. We respond more favourably to things which are personalised to us, and tend to ignore more generic correspondence. Simply putting someone's name on the letter (rather than 'dear sir/madam', for example) can have a marked effect.</p> <p>It also helps to personalise the correspondence from the sender. We are more likely to respond to a human being trying to help us, than a faceless organisation. This taps into aspects of reciprocity and social obligation.</p>	<p>A powerful way to personalise correspondence, used in this trial, was to include post-it notes on the letters, with handwritten messages, for example:</p> <p><i>"Toby, this is really important, please give me a call and I'll do my best to help. John. 019XX XXXXXX"</i></p> <p>Such post-it notes also have the benefit of being highly salient, and may act as useful reminders as they may be stuck to a fridge whilst the letter may be easily forgotten.</p> <p>Note that throughout the letters, we frequently wrote in the first person (see examples under 'reciprocity' above, which all imply "<u>I</u> am trying to help you..." Customers may hold a grudge against their bank, but are less likely to feel animosity towards an individual person who is trying to help.</p>
<p>Use loss aversion, with <i>avoidable</i> losses. We are generally more sensitive to potential losses than to potential gains. It is therefore worth highlighting the losses (fines, charges) associated with ongoing arrears.</p> <p>It is important to make it clear that the fee is avoidable by making contact - if the fee feels inevitable, or has already been charged, there is little point in acting.</p>	<p><i>"A monthly fee of £53 will be added to your account if you don't resolve this."</i></p> <p><i>"This will incur a £53 fee if the issue is not resolved before your next payment is due (on XXXXX). There is still time to avoid this fee..."</i></p>

Appendix A: Interventions

Lender 1– Long-term arrears trial. Email.

Subject line: Please contact us to avoid fees on your [REDACTED] mortgage
/ Please contact us to avoid fees on your [REDACTED] mortgage

Email content:

Dear Felicity,

Your account number: XXX XXXXXXX

I'm writing about the mortgage you have with us. You've missed or under-paid on a number of monthly installments recently, and I've been struggling to contact you to discuss your arrangement. It's really important we get this resolved, as **you are currently being charged £53 every month** you fail to pay the minimum monthly installment. You will also be paying additional interest and put your home at risk.

These fees are avoidable if we are able to review your situation and put you on a new arrangement which you are able to maintain.

Please do get in touch and I'll do what I can to help. However I can't do anything until we discuss your account.

You can reach me on 01 [REDACTED]

Best regards

Toby.

Subject line captures main action. Even people who do not open the email, or who view their inbox on a phone which may truncate the subject line, should see 'Please contact us to avoid fees', and thus be motivated to engage with the email.

First person and friendly tone, gives an approachable and 'human' element.

Soft form of reciprocity evoked by stressing that the sender is trying to help.

Personalised with name of recipient and name of sender.

Lender 1 – Long-term arrears trial. Letter.

Your account number:

Dear Toby

You are in arrears, and being charged substantial fees. Please contact us now so we can help.

019 [REDACTED]

You've missed or under-paid a number of payments on your loan account XXXXX, putting you in arrears since XXXX, and we've been unable to contact you recently.

You are currently being charged £53 every month you fail to make the full monthly payment. By being in arrears you also face paying significantly more interest on your loan.

These fees are avoidable, but if you do nothing they will continue to be charged.

Even if you are having financial difficulty or are unable to make your full monthly payments every month, there is a good chance I can help you avoid these fees, and get you back on track, by setting up a more manageable payment plan.

I can only help you avoid these ongoing charges if you get in touch, so please do contact me on 01 [REDACTED]. You can ask for me personally, and I'll do my best to find a solution.

Yours sincerely,

Lis

Strong personalisation and reciprocity.

Call to action is upfront – the required action is understood within a few seconds of glancing at the letter.

Gravity of the situation is highlighted, but bank comes across as approachable. Also harnesses reciprocity by expressing desire to help.

Fees harnesses loss-aversion.

Phone number is prominent and easy to find – no need to search the letter for the contact number.

Letter is simple and to-the-point. No unnecessary legalese or background.

Stressing the fact that the penalty is not inevitable.

Making it clear that everyone should get in touch, even if they're worried they'll just be pressured into making a payment.

Post-it note attached to letter, handwritten:

"Toby, this is really important. Please give me a call and I'll do my best to help.

019 [REDACTED]

SMS:

Hello Toby, you should have received a letter from me today or yesterday about your account. You've been in arrears for some time now, and are being charged £53 every month you fail to pay the full monthly payment. These fees are avoidable. Please read the letter and contact me, and I'll do my best to help, even if you can't make the normal payments. Lis. 019 [REDACTED]

Lender 1 – short-term arrears trial. Letter 1.

Initial Arrears Letter

Account number: XXXX
Upcoming Fee: £53
Current Arrears Balance: @0822
Current Loan Balance: @0833

Dear @0615

You've missed a payment - Please call now on 01 [REDACTED] or face a £53 fee

We haven't received your monthly payment that was due on @1035, putting you in £@0822 arrears. **A monthly fee of £53 will be added to your account** if you don't resolve this.

I'd rather not charge this fee to your account, and will do my best to help if you get in touch. In order to avoid this fee please either pay your overdue instalment before XX/XX/XXXX, or contact me so I can help set up a new arrangement which you are more easily able to keep to. Even if you cannot make the full payment this month, please do get in touch as I may be able to help - our customers have found that the earlier they contact us the more likely it is we can help them.

If you've made your full monthly payment in the last few days, thank you, and please disregard this letter.

Please help us to help you, and contact us on 019 [REDACTED] You can speak to me personally.

Yours sincerely,
@0609

You can also pay online at www [REDACTED]

Social norm

Call to action is upfront – the required action is understood within a few seconds of glancing at the letter.

Fees harnesses loss-aversion.

Phone number is prominent and easy to find – no need to search the letter for the contact number.

Letter is simple and to-the-point. No unnecessary legalese or background.

Strong personalisation (first person) and reciprocity throughout the letter (offering to help).

Stressing the fact that the penalty is not inevitable.

SMS:

Dear Toby. You've missed a payment on your loan. This will incur a £53 fee, but this is avoidable if you pay in the next few weeks, or contact me so I can help sort it out. I've sent a letter with more info. Please do read it, and get in touch. You can speak to me personally, and I'll do my best to help. Best regards, Clare. 019 [REDACTED]

Lender 1 – short-term arrears trial. Letter 2.

Contact Letter

Upcoming Fee: £53
Current Arrears Balance: @0822
Current Loan Balance: @0833

Dear @0615

Your account is still in arrears - Please call now on 019 [REDACTED]

We wrote to you on XXXXX to tell you that you missed your monthly payment, putting you in arrears. We've also been trying to phone you.

This will incur a £53 fee if the issue is not resolved before your next payment is due (on XXXXX). There is still time to avoid this fee, even if you cannot make the full payment, but I really do need to hear from you before I can help make alternative arrangements. Please call me on 019 [REDACTED] and I'll personally do my best to help.

The fee will not be applied if you make a payment of your monthly instalment before the next due date (on XXXXX).

If you are having financial difficulties, we can often help. On the rare occasion that other customers miss payments or fall into financial difficulty, we are much more likely to be able to help them if they contact us earlier. There are also many independent, government approved advice organisations who can give you guidance, or act as intermediaries allowing them to deal with us on your behalf. More info can be found at [www.\[REDACTED\]](#) or, speak to us on 019 [REDACTED]

Yours sincerely,
@0609

Call to action is upfront – the required action is understood within a few seconds of glancing at the letter.

Red is more salient and imparts urgency.

Phone number is prominent and easy to find – no need to search the letter for the contact number.

Letter is simple and to-the-point. No unnecessary legalese or background.

Strong personalisation (first person) and reciprocity throughout the letter (offering to help), despite highlighting the gravity of the situation.

Stressing the fact that the penalty is not inevitable.

SMS:

Dear Toby. You missed the last payment on your loan and we still haven't heard from you. This incurs a £53 fee. I'd like to cancel this fee but can only do so if you make your payment, or contact me so we can help set up a solution. Please do call me so I can help. Best regards, Clare. 019 [REDACTED]

Lender 1 – short-term arrears trial. Letter 3.

Contact Escalation

Upcoming Fee: £53
Current Arrears Balance: @0822
Current Loan Balance: @0833

Dear {firstname}]

URGENT - PLEASE CALL US TO AVOID FURTHER CHARGES

01 [REDACTED]

You need to pay £Y by {date} to avoid a **monthly administration fee of £53.00**.

Alternatively, we won't charge this fee if you contact us to arrange a new, approved payment arrangement that you pay on time.

There are many ways we might be able to help you even if you are having financial difficulty, so **please call us as soon as possible to discuss your account**. We would like to help, and can often find a solution even if you cannot make the full payment this month, but I cannot do anything unless you contact us.

Remember that you can always contact [Housing Rights NI, an independent housing and debt advice provider (028 9024 5640)] / [the Citizens Advice helpline (03454 04 05 06)], who offer free impartial advice and support.

Yours Sincerely

@0609

Customer Support Agen

Call to action is upfront – the required action is understood within a few seconds of glancing at the letter.

Red CAPS is more salient and implies urgency.

Phone number is prominent and easy to find – no need to search the letter for the contact number.

Letter is simple and to-the-point. No unnecessary legalese or background.

Strong personalisation (first person) and reciprocity throughout the letter (offering to help), despite highlighting the increasing seriousness.

Stressing the fact that the penalty is not inevitable.

SMS:

Dear Toby, We have repeatedly tried to contact you about your account. You missed the last payment and will soon be charged a fee of £53. You will continue to be charged a fee of £53 every month you stay in arrears. I can still help you avoid these fees but you must call us immediately to discuss. Thank you, Clare. 01 [REDACTED]

Lender 2 – short-term arrears trial. Letter 1.

Dear

Account(s): 1000000001

Balance overdue: £555.55

YOU'VE MISSED A MORTGAGE PAYMENT – WE CAN HELP FIND A SOLUTION. PLEASE
CONTACT US ON 0 [REDACTED]

I'm writing from the mortgage debt management team, and I want to help get your mortgage back on track. You missed your last mortgage payment (due on 1st May 2017), which means your account is now £555.55 in arrears.

If you do nothing you will be charged a fee of £25 within the next couple of weeks.

To assist you I've extended your payment window for 10 days beyond the original date, so if you can pay by then, you won't be charged a fee of £25 and you'll be back on track.

There are three convenient ways for you to make this payment, through our online payment service at [REDACTED].co.uk, by picking up the phone and paying by debit card, 08 [REDACTED] is free of charge or alternatively you can send a cheque made payable to [REDACTED] followed by your account number. Our address is at the top right hand corner of this letter.

Even if you can't pay the amount straight away, please get in touch and I'll do my best to help find a solution. If you avoid paying and making contact you could be faced with further fees and charges. The earlier you get in touch the sooner I can help you.

If you have paid the outstanding amount in the last few days, thank you, and please disregard this letter.

I look forward to hearing from you.

Regards,

(Name)

Call to action is upfront – the required action is understood within a few seconds of glancing at the letter.

Helpfulness and solution-focussed to encourage contact.

Fee harnesses loss aversion, and expressly attaches this fee to 'doing nothing'.

Strong reciprocity by stating that payment window has been extended.

SMS:

Dear (customer). You've missed a mortgage payment. [REDACTED] want to help find a solution. I'm reviewing your account and want to help. I can take your payment and avoid you incurring fees. Please get in touch. Call free on 08 [REDACTED]. Regards, (Agent name)

Lender 2 – short-term arrears trial. Letter 2.

Dear

Account(s): 1000000001

YOU ARE FACING A £25 FEE FOR YOUR MORTGAGE BEING £555.55 IN ARREARS. WE CAN HELP FIND A SOLUTION SO GET IN TOUCH TODAY. PLEASE CONTACT US ON 08 [REDACTED]

We were unable to contact you by telephone today but we sent a letter on 8th May 2017 to notify you that had missed a mortgage payment. We still have had no contact from you or received a payment.

We would like to help you, so please do give us a ring on 08 [REDACTED] (Freephone).

Customers who miss payments find that speaking to us really helps. If you are finding it difficult to keep up with your mortgage payments, we may be able to rearrange a more affordable payment plan.

If you are now able to pay, there are three convenient ways for you to make this payment, through our online payment service at [REDACTED].co.uk, by picking up the phone and paying by debit card, 08 [REDACTED] is free of charge or alternatively you can send a cheque made payable to [REDACTED] followed by your account number. Our address is at the top right hand corner of this letter.

Missing mortgage payments may put your home at risk of repossession. If you do nothing you could face further charges, as well as increased interest on your loan, so please do get in touch and I'll do my best to help.

If you have paid in the last few days, thank you, and please disregard this letter.

Regards,

(Name)

Call to action is upfront – the required action is understood within a few seconds of glancing at the letter.

Helpfulness and solution-focussed to encourage contact.

Social norm message.

Highlights gravity of the situation without being aggressive, maintaining helpfulness and approachability. Recipients should feel concerned about doing nothing, but not concerned about calling their bank.

SMS:

Dear (Mr customer). [REDACTED] got in touch recently because you missed a payment on your mortgage. You are now facing a £25 fee. This is still avoidable if you get in touch immediately and we're able to help you find a solution. If you don't get in touch your home may be at risk of repossession so please call me and I will do everything I can to help. 08 [REDACTED]. Regards, (Agent name)

¹<https://www.communities-ni.gov.uk/publications/applying-behavioural-insights-encourage-earlier-engagement-borrowers-mortgage-arrears>

² Behavioural Insights Team. (2014). EAST: Four simple ways to apply behavioural insights. *London: Behavioural Insights*.

³ Lloyds Banking Group, Historical House Price Data, downloadable at www.lloydsbankinggroup.com/media/economic-insight/house-price-tools/

⁴ LPS/NISRA, 2014; Halifax House Price Index

⁵ Cohen, N et al (2011) Owners Risked Homes as Crash Nearing [online]. Available from www.ft.com/cms/s/0/ea75635a-2827-11e1-a4c4-00144feabdc0.html?siteedition=uk

⁶ Nationwide (2014) House Price Index Q1 2014 [online]. Available from www.nationwide.co.uk/~media/MainSite/documents/about/house-priceindex/Q1_2014.pdf

⁷ Office for National Statistics (2017). Up-to-date data available from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/july2017>

⁸ FSA (2012) Mortgage Market Review Data Pack: Supplement to PS12/16. London: Financial Services Authority

⁹ Hartarska, V. & Gonzalez-Vega, C. (2006). Evidence on the effect of credit counselling on mortgage loan default by low-income households. *Journal of Housing Economics*, 15, 63–79

¹⁰ Walker, C.M. (1996). The psychology of debt in the 1990s. Unpublished PhD thesis: University of Exeter

¹¹ Wrapson, W., Mewse, A.J. & Lea, S.E.G. (2007). Social identity and attitudes in problem debt. In *International Association for Research in Economic Psychology (Eds.), Proceedings of the Symposium. Ljubljana*

¹² Mewse, A.J., Lea, S.E.G. & Wrapson, W. (2010). First steps out of debt: Attitudes and social identity as predictors of contact by debtors with creditors. *Journal of Economic Psychology*, 31, 1021–1034

¹³ Available to download at <https://www.communities-ni.gov.uk/publications/applying-behavioural-insights-encourage-earlier-engagement-borrowers-mortgage-arrears>

¹⁴ *ibid*

¹⁵ *ibid*

¹⁶ *ibid*

¹⁷ Behavioural Insights Team. (2012). Applying behavioural insights to reduce fraud, error and debt. Cabinet Office, London, 185, 186.