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Psychology of the defaulter

Psychological insights for motivating debtors to pay

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In collaboration with Syncasso

Report RUGCIC 201602
 ISBN 978-90-367-8260-9





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Management summary

Psychology of the defaulter





Defaulter's costs are expensive to companies

- › Companies are constantly trying to convince people to perform a certain behavior. Think of commercials that want to motivate people to buy something, or conversations with suppliers to make them sell something.
- › A situation in which it is hard to convince people to act, is the one of a creditor that wants a debtor to pay: the last one has already received a service or product but still has to pay... **how do you get him to do that?**
- › In this report, the central question is 'how can creditors convince debtors to pay?'. By means of extensive experiments, different hypotheses are tested, with as a goal to offer knowledge and techniques to creditors to make their debtor management more effective in order to prevent the loss of big amounts of money.



Four studies about debtor behavior

- › The central question in this study is: when does emphasizing positive or negative consequences of payment delays lead to the biggest effect on debtor behavior?
- › This research project exists out of field experiments about debtor behavior that have been carried out in collaboration with Syncasso BV and their legal predecessor Incassade, a national bailiff and collection agency.
- › Four field experiments are aimed at different aspects of the central question mentioned above. In this RUGCIC research report, these experiments are discussed in four different chapters.



Summarizing main conclusions

- > A message leads to behavioral change if these consequences are paired with the desired behavior...
- > *However*, in different situations, different messages are effective. There is not one type of message that is always successful. The situation of the debtor is determining:
 - + Positive messages stimulate people to exhibit desired behavior by pointing out the (attractive) consequences. **This is especially effective when the debtor has a reachable goal.** However, in a situation where this goal has become less reachable (for example the debt has become higher) emphasizing positive consequences leads to less result.
 - Negative messages stop people from undesired behavior by pointing out the (unattractive) consequences. This is effective when these are big and clear (for example in case of a summons or eviction). **When the negative consequences are less clear, emphasizing these are less effective.**



Recommendations for better paying behavior

- › How can we pick the most effective message?
- › Two essential questions are of importance here:
 1. Which goal is the debtor that I am trying to motivate striving for? Is this goal easily reachable for him?
 2. Which pressure means can I use to motivate the debtor? Are these concrete enough and close enough to be motivating?
- › The answers for these questions give a strong indication of the emphasis that should be put in a motivating message: i.e. can you give a debtor an attractive, reachable goal; i.e. should obvious negative consequences of non-payment be emphasized?
- › After this there are many practical examples...



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Psychology of the defaulter

An overview of relevant literature about financial behavior

