Too Little, Too Late:
The Impact of Timing on the Effectiveness of Mandated Financial Disclosures

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INTRODUCTION

Federally regulated financial institutions are legally required to disclose key terms on their lending products in summary tables *(see below)* prior to any agreement with a consumer. On typical banking websites, these tables are made available during the application process for the product but are conspicuously absent from the informational materials leading up to it. This research tests for differential impacts of delayed disclosure on attention and product uptake across heterogenous consumer needs (i.e., what information is most relevant to them) on an imitation banking website.

METHOD

- Incentive-compatible study on a realistic replica banking website (N = 1,923)
- Task: find the best credit card (out of 8 cards) onsite for assigned scenario (relevance of rates)

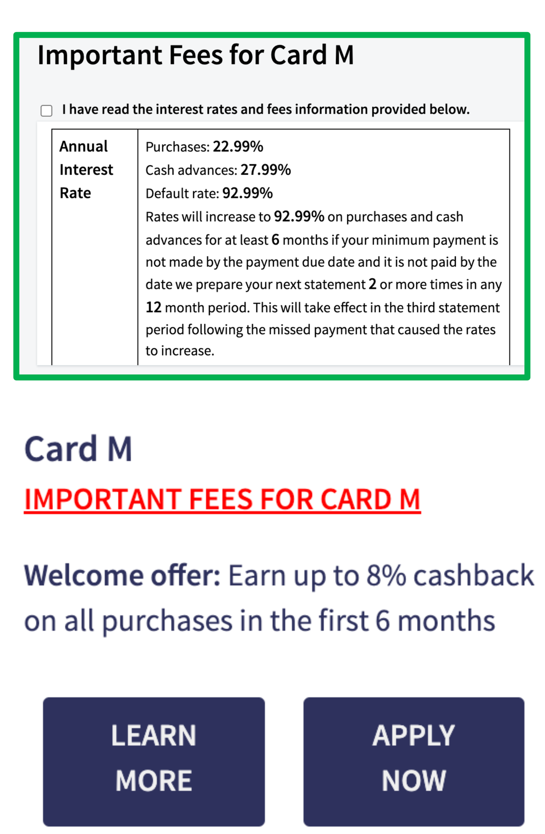
2 (relevance of rates) x 2 (ease of accessing table)

IRRELEVANT: ALWAYS make card payments (should focus on rewards info)

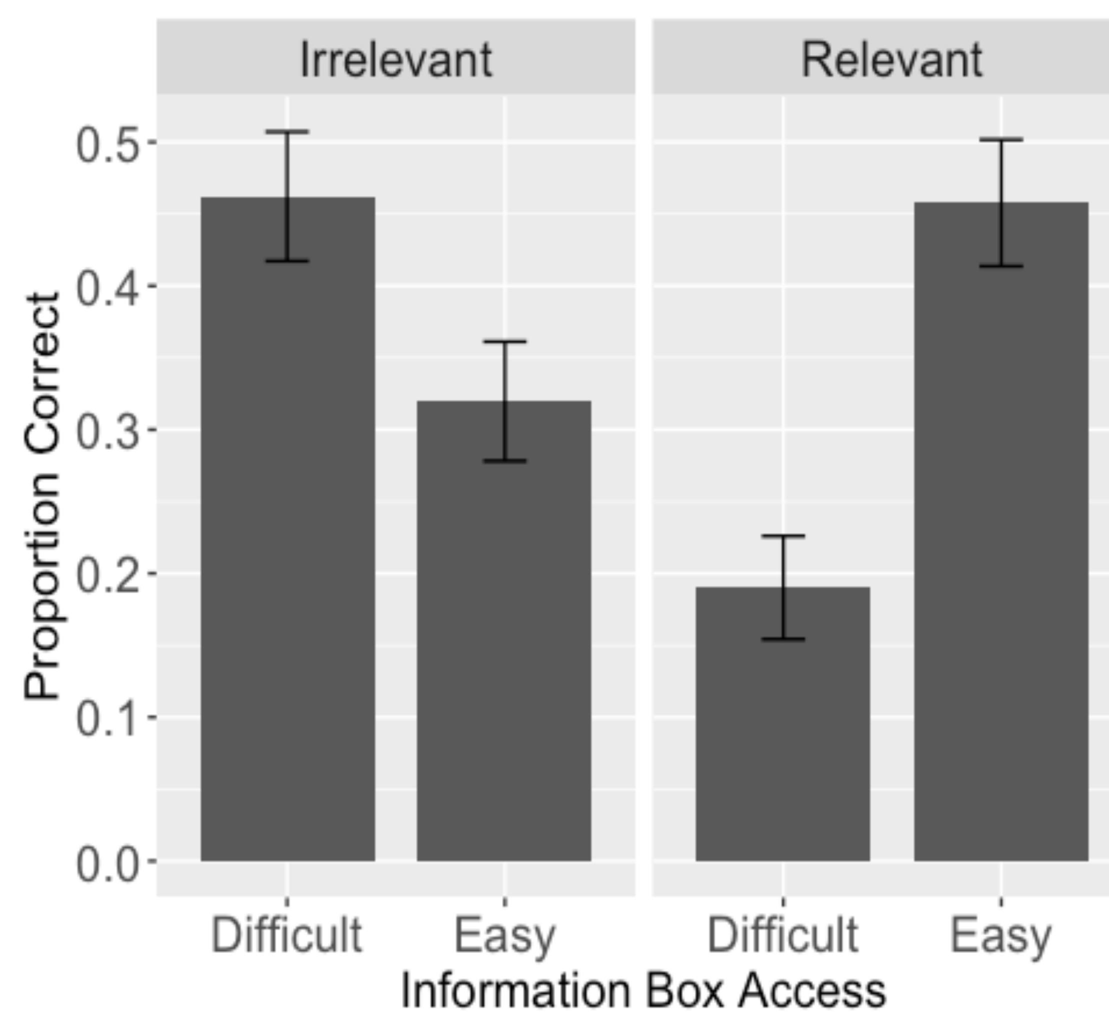
RELEVANT: NEVER make card payments (should focus on default rate)

EASY: disclosure table accessible during search via red, salient hyperlink

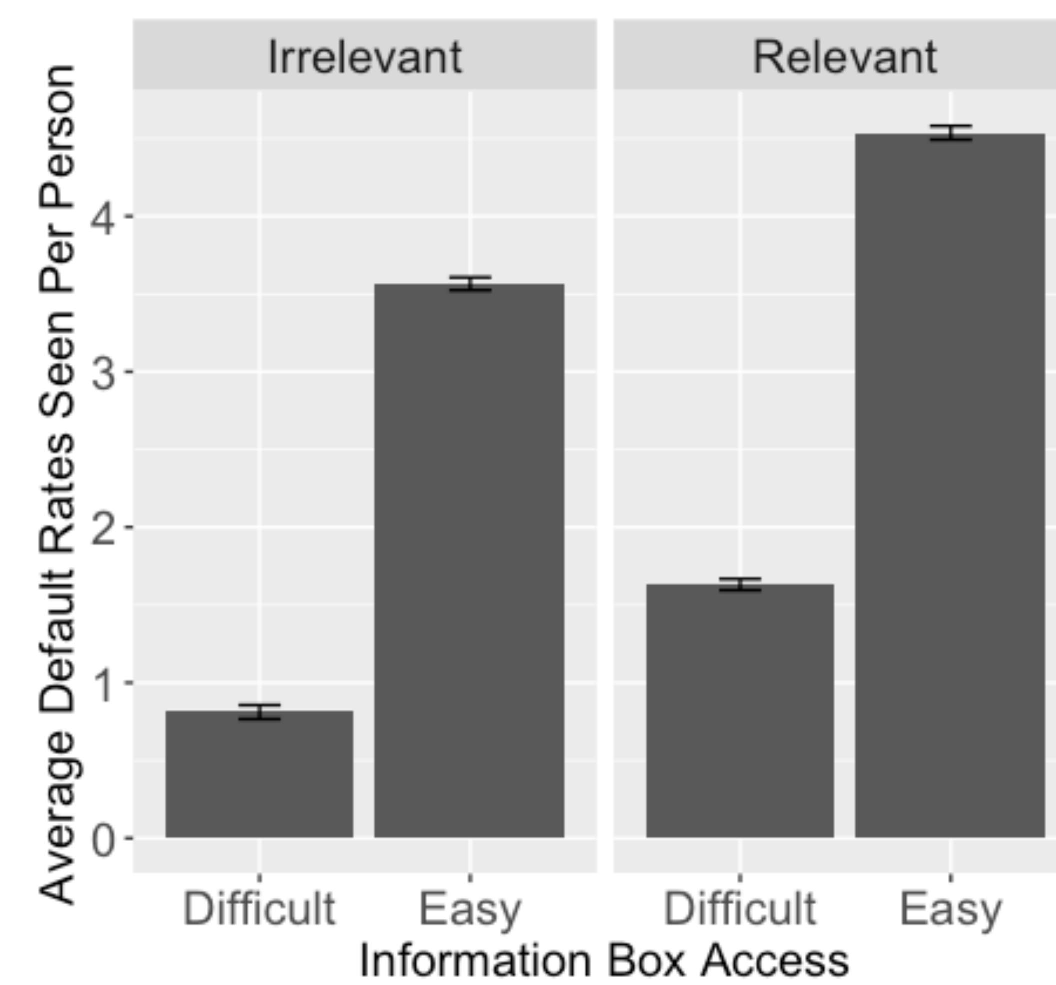
DIFFICULT: disclosure table withheld until the end (no red link)



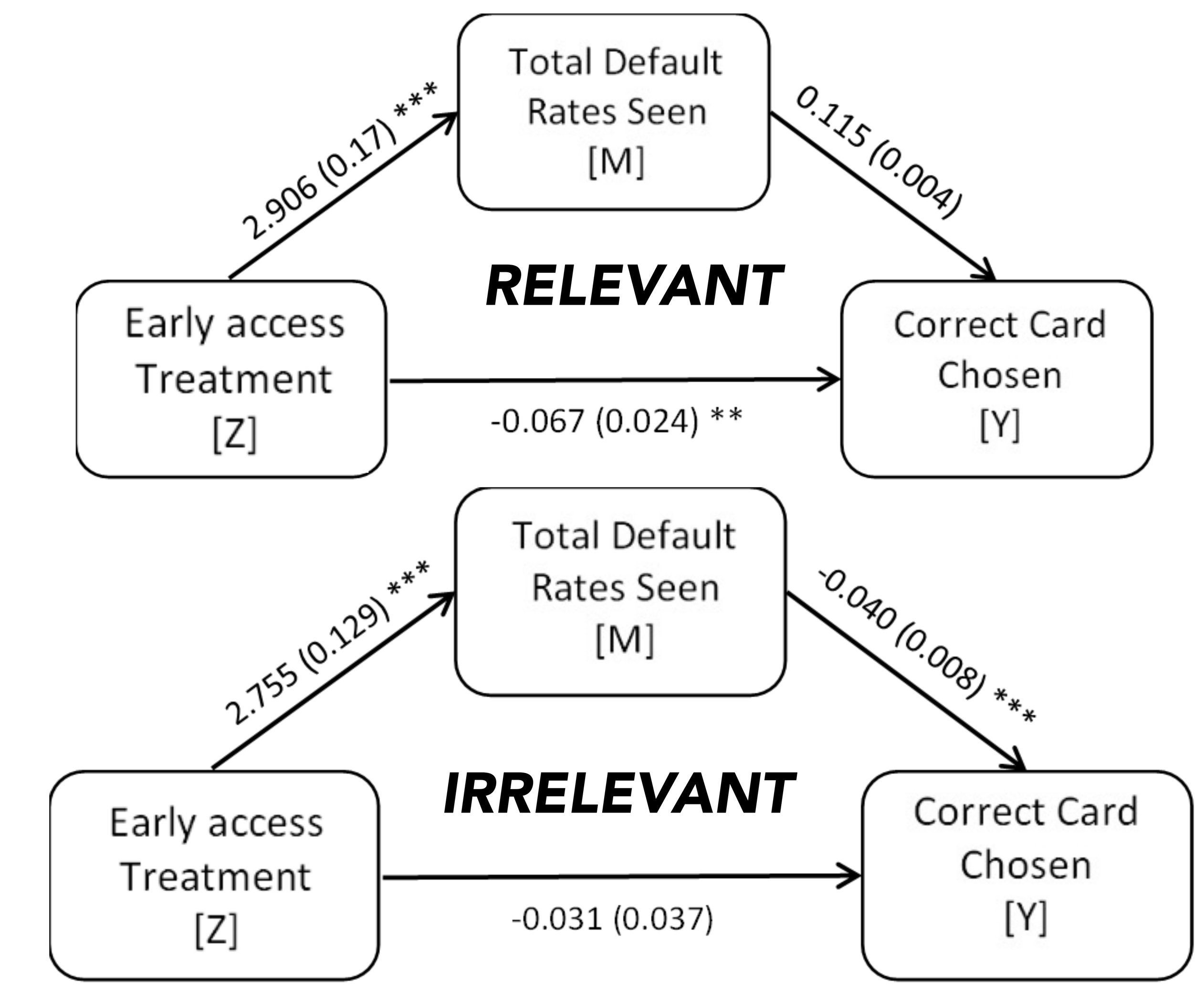
RESULTS



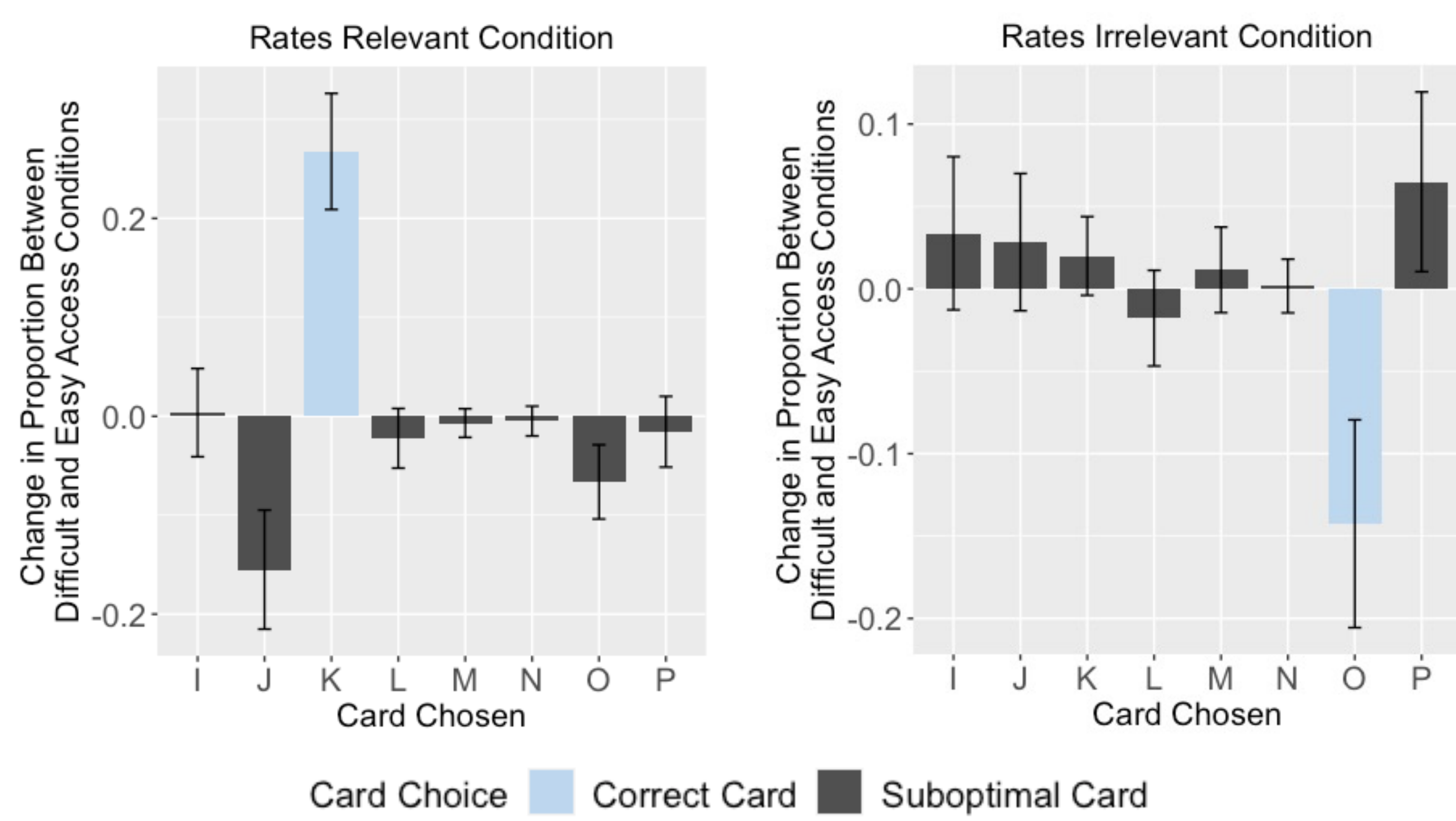
Easy access to cost info helped 'rates relevant' participants, but harmed 'rates irrelevant' participants.



Easy access to cost info helped both conditions access more default rates (found in the disclosure tables)



The effect of easier access on correct card choice is mediated through number of default rates viewed (fully – relevant, partially – irrelevant).



When rates are relevant, easy access to disclosures points consumers to their *correct card (K)*. When rates are irrelevant, easier access takes them away from their *correct card (O)* and scatters choice across other suboptimal cards (where rates are lower but rewards are also worse)

SUMMARY

- Easy access to cost disclosure tables led to better choices when costs were relevant and worse ones otherwise
- Giving early/easy access to irrelevant information distracts consumers away from more relevant information, resulting in suboptimal choice
- Individuals with higher financial literacy are better able to determine what information is relevant, compared to low financial literacy participants
- One-size-fits-all information disclosures that don't account for heterogeneity across consumers might backfire
- Customized disclosures and individualized shopping experiences would likely yield better consumer decisions

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