

# Weighing Anchor On Credit Card Debt

Benedict Guttman-Kenney, Jesse Leary, Neil Stewart & Paul Adams

University of Chicago Booth School of Business, Financial Conduct Authority, Warwick Business School

## Key Points

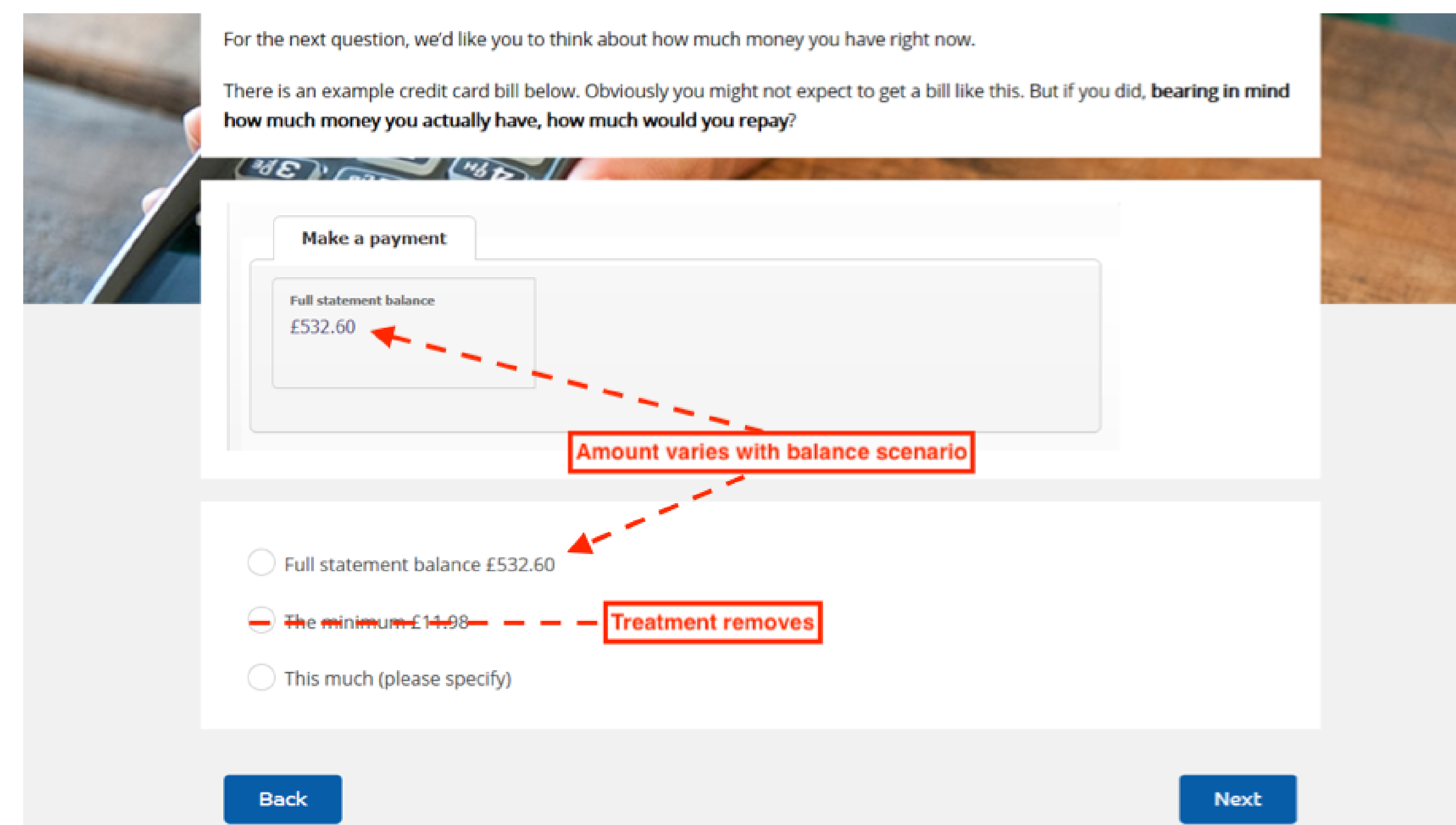
- **Experiment:** Test reducing salience of minimum payment amounts when making credit card payments.
- **Motivation:** Treatment intended to remove the anchoring effect of minimum payment amount acting as a 'bad nudge' (Sunstein and Thaler, 2008; Stewart, 2009). Experiment informed potential policymaking by UK consumer financial protection regulator (FCA).
- **Design:** Hypothetical credit card payment decision with 2x2 factorial RCT varying (i) 'treatment' whether minimum payment amount displayed (ii) 'balance amount' (£532.60 or £3,217.36).
- **Data:** Experiment on survey of UK credit cardholders (N = 3,044) not using autopay.\*
- **Key Results?** Treatment ↑ 44% average payment & de-anchors payment distribution from the minimum payment. Results consistent across balance amounts.
- **External validity** evaluated by linking the experiment's hypothetical payments with administrative data on cardholders' real-world payments. These are closely related!

\* For autopay experiments see Adams et al.; Guttman-Kenney et al., 2022.

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## Treatment shrouds minimum payment amount

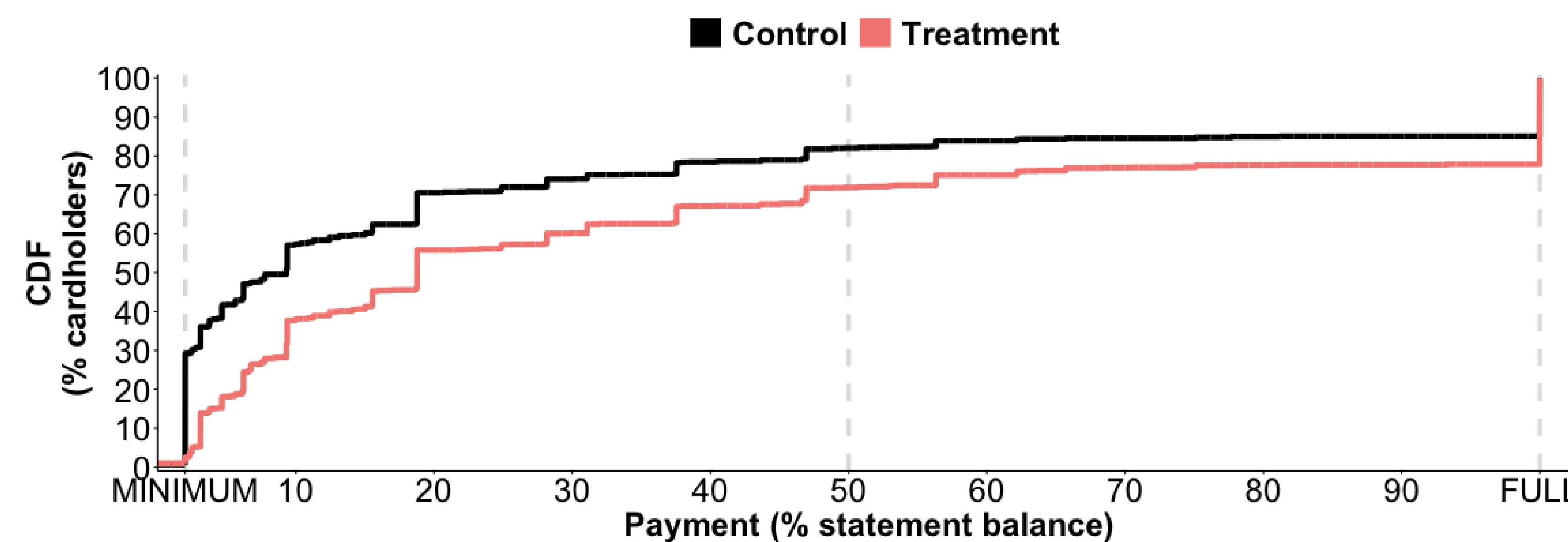
- Consumers make hypothetical credit card payment decision (balance amount randomly assigned).
- Control group shown minimum payment amount on credit card payment decision.
- Treatment group *not* shown minimum payment amount.



- In both control and treatment if payment choice is *less* than minimum payment amount a prompt is displayed showing the minimum payment amount and enabling revision of initial payment choice.†

## Treatment de-anchors payment distribution from the minimum

- **Payment (% statement balance) significantly higher:** 11.3 pp [95% C.I. 8.8, 13.8]: ↑ 44%.

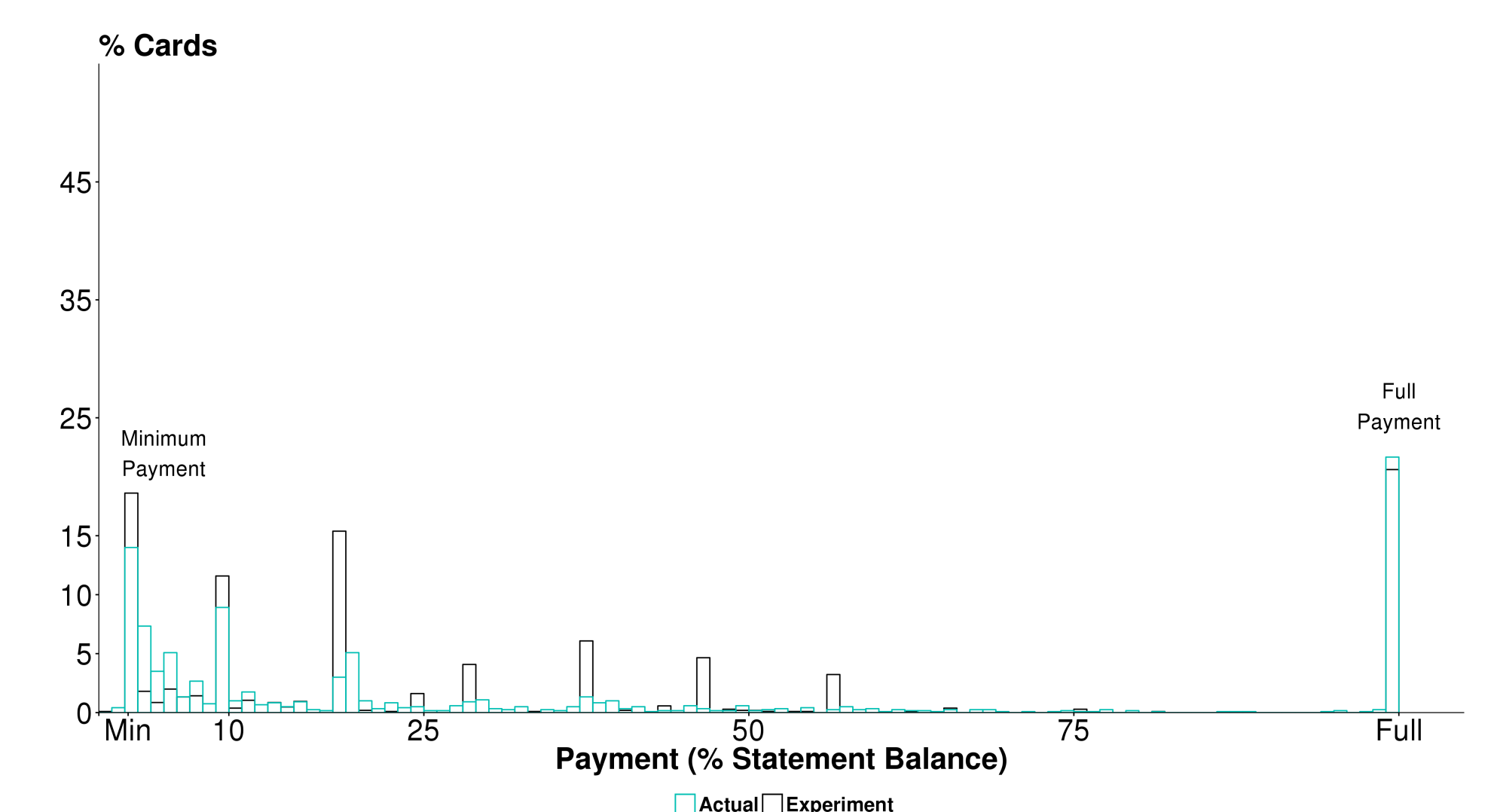


- **Payment in full more likely:** 7.1 pp [95% C.I. 4.4, 9.9]: ↑ 48%.
- **Payment exactly minimum effectively eliminated:** -27.0 pp [95% C.I. -29.3, -24.7]: ↓ 95%.
- **Payment below minimum no significant difference:** 0.0 pp [95% C.I. -0.3, 0.9].

† Such prompts were already used by credit card providers and their effectiveness is shown in Sakaguchi et al., 2021.

## External validity? Payments align with administrative data

- Evaluate external validity by comparing hypothetical payments to actual payments for control group (who experienced similar balance and payment environment in real-world).
- Find close relationship (correlation 0.4) between hypothetical (black) and actual (blue) payments.



## Contact Information

[www.benedictgk.com](http://www.benedictgk.com)  
Email: [benedict@chicagobooth.edu](mailto:benedict@chicagobooth.edu)  
Twitter: [@gk\\_ben](https://twitter.com/gk_ben)

## References

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