Financial Conduct Authority

Research Note

July 2018

Addressing redress letters: evidence from a field trial

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FCA Research Notes

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Acknowledgements

We would like to thank Jamie Pickering for his help with statistical analysis and review.

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Abstract

We carried out a field trial in collaboration with a financial services firm. The firm wrote to customers, encouraging them to consider whether they may have received unsuitable advice and therefore whether they wanted to opt-in to a review process which could result in redress. We tested four letter variants, using behavioural tools such as simplification and salience, against a control letter written by the firm and measured the response rate. None of the letters performed better than the control and one letter (a variant which highlighted the opportunity for a review) actually reduced response rates. This differs from previously published redress research which trialled similar interventions with positive effects. The very high overall response rate (67%) may suggest that the control letter already optimised consumer attention or that the interventions were not strong enough. Older people were more likely to respond, in line with previous research, as were couples.

We are publishing this paper because of our commitment to research transparency and fighting publication bias. This paper adds to the debate on the effectiveness of communications in redress interventions.

1 Trial

Background

Building on the results of previous trials to investigate the impact of customer letters on rates of compensation (Adams & Hunt, 2013; Smart, 2016), the FCA partnered with a firm which was writing to its customers inviting them to opt in to a review of financial advice they had received over a five-year period. If the customer opted in and was found to have received unsuitable advice, they may receive compensation, depending on the current value of their investments.

Unlike in some other compensation cases, not all customers were due redress. For this reason, the letter was designed to increase opt-in rates by those who were ultimately deemed eligible for redress, without encouraging those who would be ineligible to respond. The firm had not made any assessment in advance about who should receive redress.

In particular, we wanted to test the effectiveness of simplification and salience of key information. These interventions have been shown to improve response rates in similar situations (Adams & Hunt, 2013; Behavioural Insights Team, 2014) and are supported by behavioural theory (Erta, Hunt, Iscenko & Brambley; Adams & Smart, 2016).

Method

Customers were randomised into five similarly-sized groups, which each received a different version of the letter over a three-year period. Customers were mailed in age-descending order with some exceptions due to logistics.

We tested five different letters:

1. **Control**: standard letter written by the firm
2. **Action**: Replacing "IMPORTANT INFORMATION" with "ACTION REQUIRED" in summary box at the top of the letter
3. **Simplify**: moving detail into an annex
4. **Visual**: Summary box highlighted in red and coloured, numbered sections with titles
5. **Opportunity**: Highlighting the opportunity to ask for a review

Results

Customers ranged in age from 17 to 103, with a mean age of 67. Half the customers invested as a couple and half as individuals. Over one third of the customers (39%) had more than one investment and hence received more than one letter (in the majority of cases, all letters received by one customer were the same version; 1,135 anomalies were removed). To avoid double-counting, all of the analysis was carried out at the level of the

customer, rather than the investment. Deceased customers (n=480) were also excluded, leaving a total of 31,774 customers.

Balance checks showed randomisation worked as a whole and means were balanced across treatment groups including for age (see Table 2). However, visualisation of age distributions showed imbalance at higher ages (see Figure 3) and a statistical comparison of the distributions also showed them to be different. Given this, we also present results controlling for age (see Table 5).

Overall, 21,119 customers (67%) responded to the letter, of which 7,553 (24%) opted-in to the review. Of those customers who opted in, 26.4% were found to be eligible for compensation. Table 1 shows the number of customers in each group.

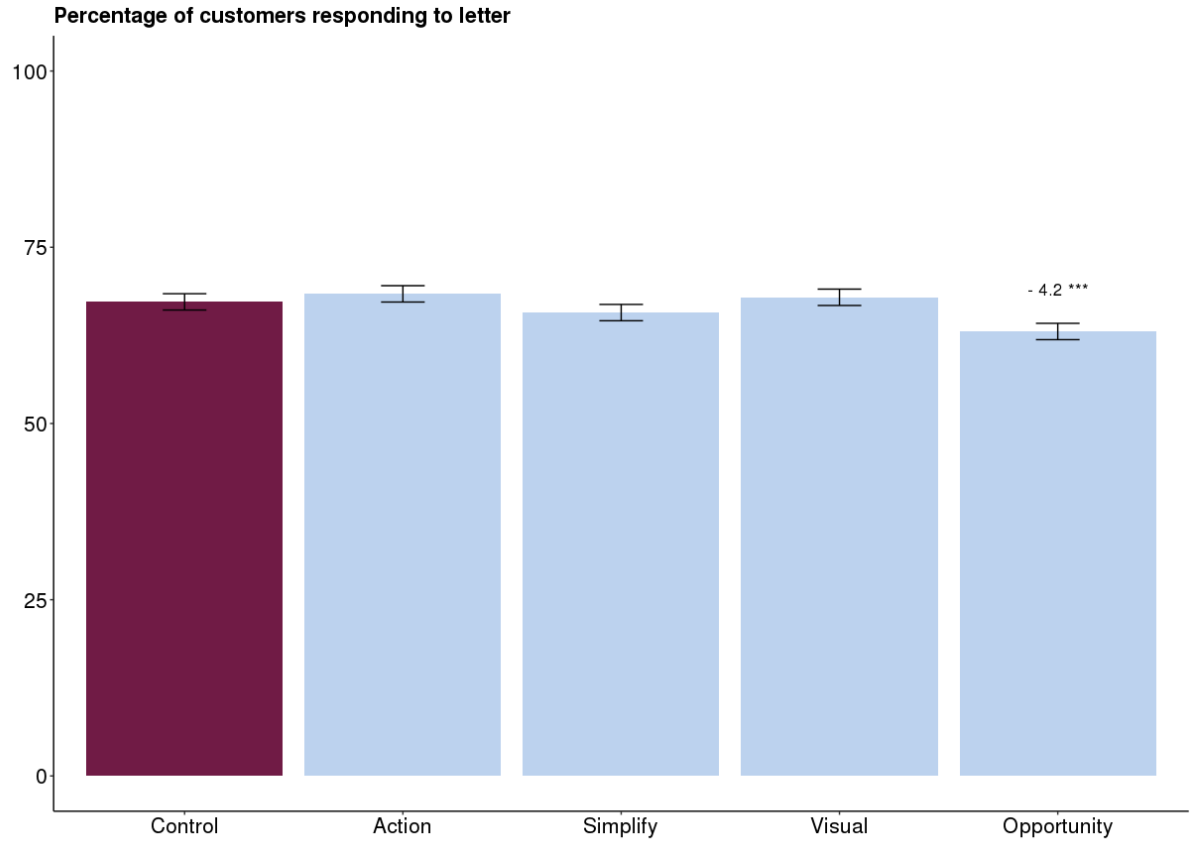
Table 1: Overall response rates and eligibility of opt-ins

	Responded		Didn't respond/gone away
	Opt-in	Opt-out	
All	7,553 (24%)	13,566 (43%)	10,655 (33%)
Of which: judged eligible	1,996 (26.4%)*	No review undertaken – eligibility unknown	
Of which: judged ineligible	5,461 (72.3%)*		

*Eligibility for 96 customers (1.3%) was unknown

There were no significant differences between the different letter versions on the proportions of customers responding to the review, except for the **Opportunity** letter, which reduced responses by 4.2 percentage points, from 67.3 to 63.1. This effect persists even when controlling for age. Those receiving the **Opportunity** letter were also less likely to opt in, by 3.5 percentage points (from 24.3% to 20.8%) and took 1.5 days longer to respond (mean of 25.7 days instead of 24.2 days).

Figure 1: Estimated probability of responding by treatment



Because in this case, not all customers were eligible for redress, we were also interested in whether the different letter versions encouraged eligible customers (those who had received unsuitable advice and subsequently redress), as opposed to ineligible customers, to opt in. We were unable to observe the eligibility of those who opted out or did not respond, as they did not take part in the review.

The **Opportunity** letter reduced the average proportion of eligible customers opting in from 6.1% to 5.3% and the **Action** letter increased it to 7%.

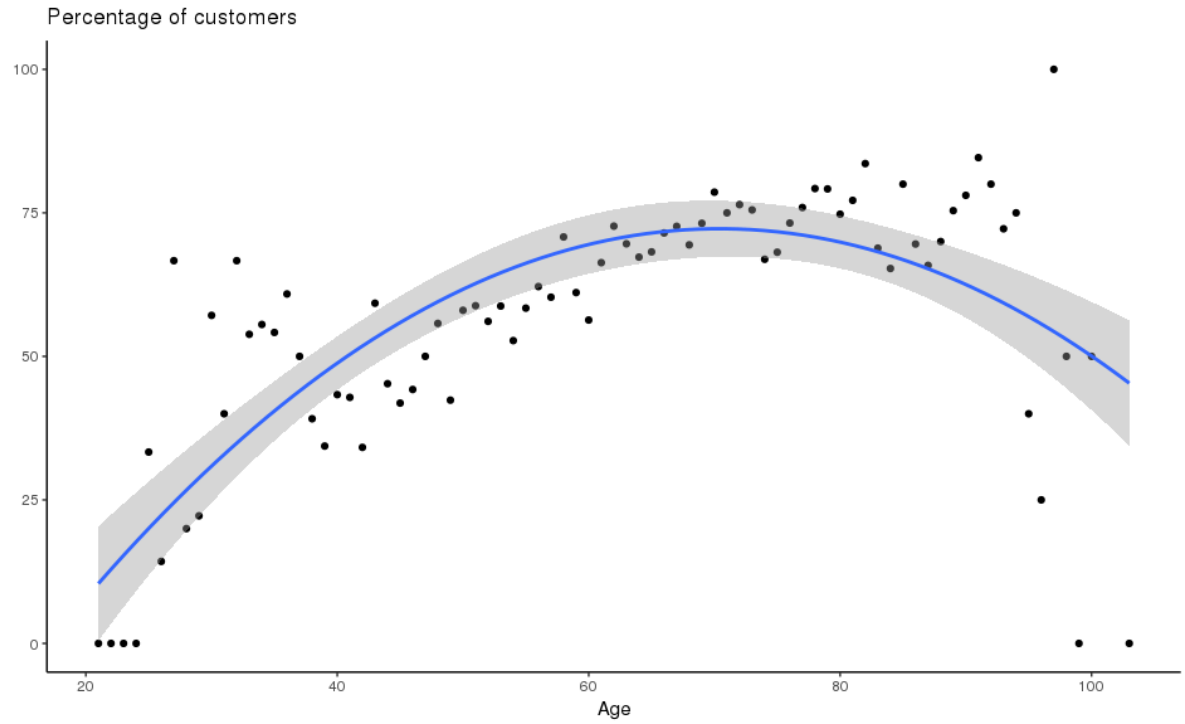
We also investigated the effect of the letter variants on subsequent internet-banking log-ins. There were no statistically significant effects.

A few factors not related to the letters are linked with a higher response rate:

- Being older (see Figure 2)
- Investing as a couple rather than alone
- Holding a greater number of investments with the firm (and hence receiving a greater number of letters)

However, all three factors are strongly correlated; older people are more likely to be in couples and more likely to hold more investments and couples are more likely to hold more investments, so one of these factors may be the main driver of increased responses.

Figure 2: Customers responding to letter by age



Conclusions

The baseline response rate for this exercise is high – 67% compared to a range of 1.5 – 51% in similar exercises (Adams & Hunt, 2013; Smart, 2016). This might be explained by the value of the potential redress, the demographics of the customers (who are older and wealthier than the UK average) or the number of letters received (one third of customers received more than one letter, for different instances of advice). This means that implications from this trial may not necessarily apply to other cases.

We do not find support for the simplification and salience devices used in our letters to encourage action. In fact, some changes, such as highlighting the opportunity to claim redress, actually reduced the proportion of customers who respond. This could be because the message was less forceful.

This may indicate that the control letter already optimised response rates and so the variants made little additional difference. The fact of the letter may have been more important than its content to its recipients.

Alternatively, the changes to the letters may have been too minor to have a positive effect. While it is difficult to make any definitive conclusions about eligibility, it is likely that the letters could have better encouraged eligible customers to respond while not encouraging ineligible customers. Since only 26% of those opting in were eligible for redress and 72% opted in but were ineligible, there may be room for improvement, building on more recent behavioural research.

Annex 1: Balance checks

Table 2: Means of demographic variables and tests of equality of means.

Treatment	Description	Amount invested (£)	Customer 1 gender (% male)	Customer 1 age
Control	Mean Standard error P-value	103,058 (1134.3) -	55 (0.02) -	66.9 (0.119) -
Action	Mean Standard error P-value	104,169 (1609.8) 0.490	54.7 (0.029) 0.489	66.7 (0.170) 0.434
Simplify	Mean Standard error P-value	102,914 (1603.7) 0.929	54.3 (0.028) 0.276	66.8 (0.169) 0.842
Visual	Mean Standard error P-value	104,987 (1604.9) 0.229	55.1 (0.028) 0.716	66.8 (0.169) 0.939
Opportunity	Mean Standard error P-value	105,337 (1597.3) 0.154	55.8 (0.028) 0.883	66.8 (0.169) 0.894

Figure 3: Density plot for customer 1 age across all treatment groups. Imbalance is observed at higher ages.

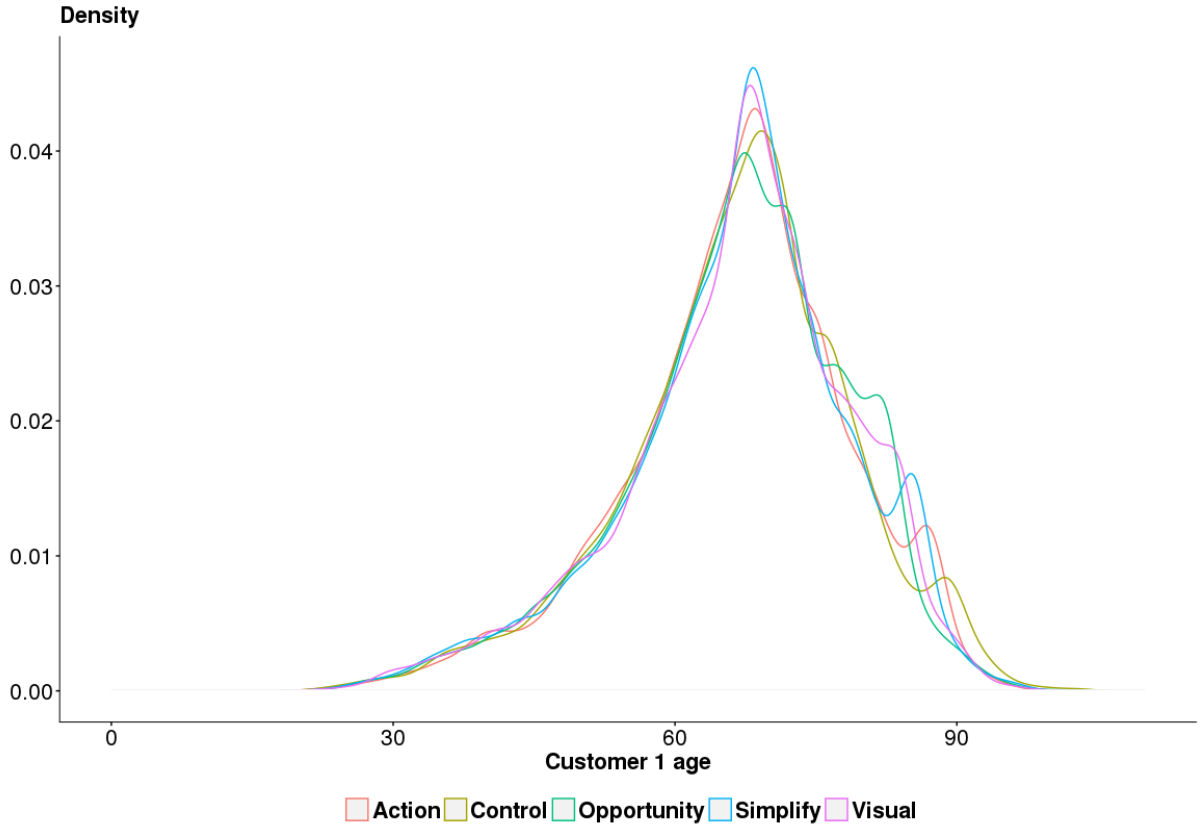


Table 3: Test of difference for distribution of ages for treatments compared to control group (Kolmogorov-Smirnov test)

Treatment	Description	Values
Action	D-statistic P-value	0.033 <0.001***
Simplify	D-statistic P-value	0.025 0.004**
Visual	D-statistic P-value	0.029 0.001**
Opportunity	D-statistic P-value	0.042 <0.001***

P-values: <0.001 = ***, <0.01 = **, <0.05 = *

Annex 2: Regressions

Table 4: Regressions for trial outcome variables. Robust standard errors are presented in brackets.

Treatment	Responded to letter	Opted in and judged eligible	Opted in	Log-ins to online banking (counts)	Time to respond to letter (days)
Constant	0.673*** (0.006)	0.061*** (0.003)	0.243*** (0.005)	6.641*** (0.130)	25.736*** (0.321)
Action	0.011 (0.008)	0.009* (0.004)	0.014 (0.008)	-0.338 (0.178)	0.210 (0.543)
Simplify	-0.015 (0.008)	0.006 (0.004)	0.003 (0.008)	-0.292 (0.180)	0.960 (0.508)
Visual	0.007 (0.008)	<0.001 (0.004)	-0.007 (0.008)	-0.331 (0.178)	0.102 (0.456)
Opportunity	-0.042*** (0.008)	-0.009* (0.004)	-0.035*** (0.007)	-0.003 (0.184)	1.454** (0.499)
Observations	31,774	31,774	31,774	31,774	31,774
R-squared	0.002	<0.001	0.001	<0.001	<0.001

P-values: <0.001 = ***, <0.01 = **, <0.05 = *

Table 5: Regressions for trial outcome variables controlling for age. Robust standard errors are presented in brackets.

Treatment	Responded to letter	Opted in and judged eligible	Opted in	Log-ins to online banking (counts)	Time to respond to letter (days)
Constant	-0.499*** (0.048)	-0.025*** (0.023)	-0.231*** (0.038)	6.709*** (0.945)	46.258*** (4.354)
Action	0.012 (0.008)	0.009* (0.004)	0.013 (0.008)	-0.340 (0.178)	0.264 (0.544)
Simplify	-0.016 (0.008)	0.006 (0.004)	0.003 (0.008)	-0.298 (0.179)	0.974 (0.509)
Visual	0.007 (0.008)	<0.001 (0.004)	-0.007 (0.008)	-0.333 (0.178)	0.106 (0.457)
Opportunity	-0.042*** (0.008)	-0.010* (0.004)	-0.04*** (0.007)	-0.004 (0.184)	1.500** (0.501)
Customer 1 age	0.031*** (0.002)	0.002*** (<0.001)	0.016*** (0.001)	-0.016 (0.033)	-0.609*** (0.133)
Customer 1 Age²#	0.0002*** (<0.001)	<-0.001*** (<0.001)	-0.0001*** (<0.001)	<0.001 (<0.001)	0.004*** (0.001)
Observations	31,774	31,774	31,774	31,774	31,774
R-squared	0.045	0.003	0.006	0.001	0.002

P-values: <0.001 = ***, <0.01 = **, <0.05 = *

#We controlled for the quadratic function of age due to the distribution observed in Figure 2.

Annex 3: References

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