

## Choice Architecture in Debtor Psychology

We've all been faced with it. You're standing in the cereal aisle of your local grocery store. Puffed rice or cracked wheat? Fruit circles or chocolate nuggets? Too many choices can lead to choice overload, which is when people are faced with so many choices they make no choice at all. The same can be true for debtors when they can't decide on a payment plan. They may wind up declining to choose.

In his book, *We All Benefit: How Debtor Psychology Will Change Debt Collection for Good*, Dr. Peter R. Gillies explores options for creditors to solve this dilemma. One solution is to offer a default option. The Default Effect is characterized by people staying with a default option in a decision tree. You can have five different payment plans listed for your debtor, but it can be often hard to read. Throw in a bonus payment option, and they may not respond at all. However, if you offer a "Default Payment" that is "Recommended" in the middle of the list, you might get better results.

"Now you have drawn the reader's eyes to the middle ground of payments," Gillies says. "This plays nicely into another bias called 'Aversion to Extremes'—we usually don't want to opt for 'too little' or 'too much,' even when paying back debt."

Another technique is anchoring, in which a less-than-desirable, even irrelevant option is presented, creating a mental anchor. Once in place, the anchor makes other alternatives seem more acceptable. This is also known as alternative positioning. "By choosing to set up the payment plans this way," Gillies says, "you are using anchoring to send a message to the debtor as to what is desirable, possible and acceptable."

The Feedback Effect is another form of anchoring. People tend to change behavior or continue behavior when feedback is accurate and timely. For example, one option can have a footnote that "most small businesses pay this amount and are debt-free in less than 18 months." This brings immediate feedback to the anchoring and drives the right choices even if the choices are too numerous.

A debtor-friendly payment plan that gives debtors more confidence, and is therefore more effective, may include:

- A wide choice
- A default option, which is not at the extremes of the range of choices
- Feedback about the choices in relation to other business owners

"Just by using clever Choice Architecture, you are able to help a debtor help himself out of debt quicker, as well as satisfy your client with faster repayment and a payment scheme chosen by the debtor," Gillies says.

Source: *We All Benefit: How Debtor Psychology Will Change Debt Collection for Good*, Dr. Peter R. Gillies, published by GMD Thinking.