BEHAVIOURAL APPROACHES IN OECD COUNTRIES: PRACTICES, CHALLENGES AND BUILDING TRUST

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“The global financial and economic crisis has uncovered major failings in governance and regulation, **which have undermined trust in public and private institutions alike**. Amid ongoing economic uncertainty, establishing a well-functioning national regulatory framework for transparent and efficient markets is central to re-injecting confidence and restoring growth.”

Angel Gurría
Secretary-General of the OECD
Context of Report

Regulatory Policy and Behavioural Economics

Pete Lunn

OECD
UK Behavioural Insights Team

- Internal unit of behavioural researchers based in the UK Cabinet Office... now “spun out”
- Designs behaviourally informed policies and conducts experiments and trials
  - Fine collection
  - Subsidised loft clearance
- Empirical approach integrates policymaking and evidence gathering
- Some general principles emerge
Examples in Publication

- Over 60 behaviourally informed policies cited in review as a whole
- Many events designed to raise awareness of behavioural principles among policymakers
- Influence of BE is often *implicit* rather than *explicit*
Application of Behavioural Science in Improving Policy Effectiveness

Simplification of information

“know before you owe” simplified information disclosure for mortgages, credit cards and student loans, Consumer and Financial Protection Bureau, USA

Defaults and Convenience

“Kiwisaver” Auto-enrolment in 2007 led to 50% pension coverage increase, New Zealand

Salience and Attention

Reduction in alcohol purchases by tax made salient on price tag vs. equivalent tax levied at the till (Chetty, Looney & Kroft 2009)

Debiasing and Decision Quality

US Fuel Economy Labels – regulation by US Environmental Protection Agency to have gallons per 100miles and annual fuel cost labels in addition to miles per gallon. (Larrick and Soll 2008)
1. People are capable of acting against their own financial interests where they perceive unfairness (risk negative consequences through non-cooperation)

2. Most individuals are generally willing to incur costs for the greater good provided they are confident that others are doing the same.

In 2009 HM Revenues and Customs in the UK also conducted research into segmenting their market to increase compliance and reduce the cost of non compliance (HMRC, 2009). They found that the four possible dimensions of segmentation were awareness of one’s obligations, motivation to comply, ability to comply and opportunity not to comply.

They found that
- 8% of their regulated subjects were unaware;
- 12% were reluctant conformists;
- 4% were “dodgers”;
- 18% needed help; and
- 58% were willing conformists

Behavioural Insights: in the future

• What is scope and challenges for behaviourally informed risk regulation?

• How can behavioral insights be used in different types of regulatory interventions?

• Is behavioural economics more relevant for regulatory agencies in implementation than in regulatory design?