Whether he knew it or not, Tom Reid, a senior vice-president at Sun Life, made a case for the behavior modification concept 'Nudging' when he recently proposed auto-enrolling Canadians in his company's pension plans. Sun life cover 1.2 million Canadians, about 60% of the eligible employees.

According to Reid, automatically enrolling people, with an option to opt out, would dramatically increase participation and go a long way to improving retirement readiness. "We think we can do a better job of getting people into company plans and legislative accommodation would help that," Reid said. (Critchley, 2015)

Nudging: the principle applies whenever you want to change someone's behavior.

This principle has been recently adopted by the thriving field of behavior economics and acquired a new name: Nudging.

The most famous application of the theory is widely known. How to make people save more. Richard Thaler, popularized the concept of nudging through his book 'Nudge', impkroving decisions about health, wealth and happiness. An example from the book follows:

Example: *"Save more tomorrow"*

Q: Can you describe a nudge that is now being used successfully?

Thaler: *One example is the 'Save More Tomorrow program'. Firms offer employees who are not saving very much the option of joining a program in which their saving rates are automatically increased whenever the employee gets a raise. This plan has more than tripled saving rates in some firms and is now offered by thousands of employers.* (Sunstein)

UK account switching fails

Another more recent example of an attempt to nudge consumers is provided by the **UK's current account switching service (CASS).** The UK financial service industry invested in the region of $750 million, as per the recommendation of an 'Independent Commission on Banking'. (Finextra, 2015)

According the the FCA, two models were floated for delivering account portability: building it within the existing market structure and then running the additional infrastructure centrally, as is the case with Cass; or a new central utility model based on a shared platform. The work has now been passed on to the new Payments System Regulator.

Dave Sanderson, of the YBS group said, "I used CASS for the first time last month and found it faultless."

Canadian banks may fare the same as the UK's CASS, and it has nothing to do with the ease of switching. For example, I recently looked at two reports, one on bank fees and the other on the competitive threat of small banks to large ones, and, in real-world examples, switching was not the norm.

The following table outlines examples of Canadian nudges from the perspective of government, banks, insurance and consumers:

Objective	Actions	Theory	Result
Government			
Democratizing credit	• Facilitate ABS RMBS; • Regulatory support for CMHC; • Lower credit standards; • Reduce bank rate.	• Allowed financial institutions to slice and dice risk products and sell tranches to those most willing to bear the risk. • Protect FIs from credit risk.	More people can afford and be qualified for mortgages.
Improve consumer debt to income ratio	• Provide financial budgeting tools; • Text alerts; • Reduce available credit; • Charge more for credit; • Auto enrollment in savings programs; • Reduce support for CMHC.	Firms offer employees who are not saving very much the option of joining a program in which their saving rates are automatically increased whenever the employee gets a raise. This plan has more than tripled saving rates in some firms and is now offered by thousands of employers.	Task forces have been created and reported back; Hundreds of Web sites have popped up; Seminars have been launched and curricula developed; Financial fitness gurus emerged geared to providing solutions; One major drawback: it often doesn't work.
Stimulate economy	• Allow increased leverage; • Insure risky mortgages; • Lower bank rate; • QE; • Tax incentives.	Central banks create money by buying securities, such as government bonds, from banks, with electronic cash that did not exist before. The new money swells the size of bank reserves in the economy by the quantity of assets purchased—hence "quantitative" easing.	Asset bubbles, flood emerging economies with cash, raise economic activity (arguably).
Banks/merchants			
Increase sales/loyalty	• Pay-by-phone;	In the profit maximizing world of	Verified increase in consumer spending

	• Lay-away credit plans.	banking, the shift in the underlying choice architecture of banking was greeted mostly as a good thing. Enabling consumers to borrow now and pay later created a shift to on-demand credit that helped fuel record bank profitability and steady increases in dividends.	and increased same store sales over time. Many programs profitable, but some programs, such as fuel cards and individual store cards are not viable.
Sell more mortgages	Pre-approved mortgages;	94% of home buyers say getting pre-approved mortgage reduces stress of looking for a home. (Release, 2015)	Nine in ten first-time buyers plan to get pre-approved before purchasing a home
Increase fees for student accounts	Students must re-apply for student account every year	Consumers unlikely to switch accounts despite fees. (Sibthorpe, 2015)	RBC charge a fee of $1 to students that have used up your regular monthly allotment of debits and make a payment on a loan (or, unlikely, a mortgage). (Carrick, 2015)
Consumer			
Avoid bank fees: missing payments	• Automatic debits; • Credits; • Text alerts when balance low.	Consumers receive up-to-date financial information and can manage accounts on the fly.	Cost effect mechanism to avoid penalties and reduced fees.
Get healthy	• Bind people to their commitments (weight loss, fitness, savings or other); • Get consumers to agree to a penalty for failure: for example, a donation to a political party or	Psychological power of loss aversion and accountability to drive behavior change. The Commitment Contract concept is based on two well-known principles of behavioral economics: 1.People don't always do what they claim they want to do, and	Increase chances of success by up to 3X. (StickK, 2015)

	cause that the member might not agree with.	2.Incentives get people to do things	
Insurance			
Improve road safety	Install a small tracking device in their car which will monitor how fast they are driving; Penalties for speeding and incentives for safety.	Provide feedback and incentives to promote road safety.	Risk to privacy. Not clear if it improves road safety as it is opt-in.
Avoid price shopping	"best pricing" model or "no haggle" mortgage	A classic behavioural intervention that has helped make Manitoba credit unions among the most successful in Canada, holding almost 50 percent of the market.	

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