

EVIDENCE-INSIGHTS-POLICY

Moral Incentives:
Experimental Evidence from
Repayments of an Islamic
Credit Card

**DO PEOPLE CARE
ABOUT MORALITY
WHEN IT COMES TO
ECONOMIC DECISIONS
WITH HIGH FINANCIAL
STAKES? AN
EXPERIMENT WITH AN
ISLAMIC BANK'S
CREDIT CARD
CUSTOMERS AIMED TO
FIND OUT.**



CONTEXT:

Economic literature has paid little attention to the role of morality in debt repayment behavior. However, throughout history from ancient philosophy to contemporary debates, issues of debt and morality have often been closely intertwined. Kanz, Bursztyn, Fiorin and Gottlieb (2017) shed light on the moral considerations of debt payment. Their study demonstrates how simple interventions on moral appeals can mitigate credit risks, by conducting a field experiment on the credit card customers of a large Islamic bank in Indonesia.

INTERVENTIONS:

In the experiment, late-paying credit card customers received text messages that contained various moral appeals and alerted them to the moral implications of non-repayment.



Timeline of payment deadline and the intervention:

One day after missing the minimum payment due date, the bank automatically sends a reminder text for credit card payment to all late-paying customers. Customers have a 10-day grace period after the due date and before the payment deadline. Customers who fail to make a payment by the end of this grace period are considered delinquent by the bank and are reported to the Indonesian credit registry. Utilizing this setting, the authors sent a second text message containing moral appeals to the treatment groups two days before the end of the 10-day grace period. The control group received only the initial reminder text.



Baseline treatment condition:

Late-paying customers received a text that highlighted the moral implications of non-repayment, using a quote from a well-known Islamic religious text.

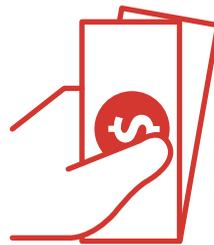


Alternative treatment conditions:

In the baseline treatment condition, people may change their repayment decisions not because of the moral appeal but because they receive a simple reminder of the deadline (“reminder placebo effect”) or recall their religious attitude of the credit contract (“religious placebo effect”). To isolate an impact of the moral appeals from these effects, the authors sent various messages, including a neutral reminder and a quote from a religious text that does not refer to debt repayment. Moreover, to test whether a religious connotation in a sentence affects people’s repayment rate, the authors experimented with texts with and without religious connotations.

DATA:

Between February 2015 and April 2016, 12,104 credit card customers delayed their minimum payments due by more than one week. Some customers were delayed more than once, thus, the total observation in the sample was 13,428. In the study, 4,120 customers were assigned to the control group and 9,308 to one of the treatment groups.



12,104

Customers delayed payments due by more than one week

FINDINGS:

The moral appeals significantly increased repayment. In the baseline specification, receiving the moral message reduced delinquency by 4.4 percentage points from a baseline share of 66 percent delinquency among late-paying customers in the control group. This effect is economically large: A benchmarking exercise suggests that the bank would have to pay customers a cash rebate equal to at least 6 percent of the monthly income of the median customer to make the cash rebate statement as effective as moral incentives. Additional interventions rejected the reminder placebo effect and the religious placebo effect. Additionally, removing the religious connotation from the text message did not change the results, suggesting that the moral appeal of the message did matter more than the religious connotation. This result implies that a bank can leverage simple information interventions through moral appeals to manage default risks.