

CRACKING NEW ZEALAND'S GROWING STUDENT LOAN DEBT PROBLEM

How behavioural change research led a government agency to take brave action



New Zealand (NZ) prides itself on putting tertiary education within the reach of its citizens irrespective of their social or economic standing.

Our student loan scheme is crucial to this but its viability relies on borrowers repaying their loans. This has worked well domestically, however, a growing debt problem with overseas-based borrowers (OBBs) led the Government to seriously question the scheme's equity and sustainability. By mid-2011 there was more than \$400 million in rapidly rising defaulted debt, no small matter for a country of just 4.5 million people.

The Government could not ignore the growing debt as the next best policy options to reduce costs – such as restricting access to education – were politically unpalatable.

As the government agency tasked with managing borrowers' repayment obligations, Inland Revenue (IR) faced mounting pressure from government ministers. But even commercial sector debt experts doubted IR could recoup the costs of recovering the debt.

IR sought insights into the borrowers and their key influencers – what motivates borrowers, how communications could be used to access those motivations, and what initiatives would change compliance behaviour effectively.

It needed both commercial success (ROI) and social success – community support for its actions.

RESEARCH METHODS AND TECHNIQUES

A multi-stage, multi-method research project was undertaken with borrowers and key influencers including parents and the wider community. Critical to the successful outcomes was a smart segmentation approach synthesising survey data and IR administrative data, and a comprehensive behaviour change framework exploring environmental, social, and personal influencers of behaviour change.

'QUICK WINS' THROUGH COMMUNICATIONS AND EDUCATION

Research insight: OBBs are disconnected from their loan obligations

Borrowers didn't understand specifics of how the student loan scheme works, the financial consequences when they took a loan out, or the impacts on their lifestyle choices once they started working full time. They also had little appreciation of the costs of the scheme to NZ.

Prior to the research, IR started an online communications campaign targeting OBBs, with limited success.

"Then the Colmar Brunton research came out in July 2011. We learnt OBBs need to feel connected to NZ and therefore their student loan. We learnt that IR needed to make the loan more visible and tangible, and that there's a need to raise awareness about channels for queries about repayment options, as well as updating IR with contact information." Cristina Samson – (Former) Senior Marketing/Communications Advisor

To make borrowers feel connected to NZ and their student loan, IR developed brave new online ads featuring imagery created to evoke good feelings associated with being debt free. They compared being debt free with sunshine, clean sheets, kittens (!) and NZ cultural icons. This helped root the desired behaviour change in cultural relevance. The ads grabbed the target audience's attention and increased traffic to the IR website.

Online advertising to enhance sense of connectedness



IR added functional advertising to make student loans more visible and tangible. The advertising used a currency converter to 'nudge' borrowers into making repayments: it increased relevance by showing how much they owed in their local currency and inviting them to take advantage of the exchange rate to make repayments seem less onerous.*

*Diagram 3: Student loan debt currency converter



RESEARCH INSIGHT: DISTINCT SEGMENTS REQUIRE TAILORED STRATEGIES

Three distinct segments of OBBs emerged.

Diagram 4: OBB segments

 **26%** *"I'd like to be debt free as soon as possible."*
PRIORITISER

 **37%** *"I'll deal with my debt when I return to NZ."*
PARKER

 **37%** *"I see no reason to ever need to deal with my debt."*
PROCRASTINATOR

IR developed animated online advertising based on the segment personas. Tailored messages were used for each segment with the underlying message urging borrowers to take control of their student loan today.

Diagram 5: Animated online ads depicting segments



TOM THE PRIORITISER - looking set to pay off his loan in 10 years and save \$15,450 in the process. | **SAM THE PARKER** - saw her loan debt grow by \$14,800 because she ignored it while she was overseas. | **KATIE THE PROCRASTINATOR** - has a student loan debt that will nearly double (and become too much of a burden) if she doesn't pay it sooner.

TAKING BOLD ACTION WITH OPERATIONAL AND POLICY INITIATIVES

The research explored a wide range of possible operational and policy approaches to cater for all segments. A combination of ‘carrots and sticks’ was needed.

Operational approaches needed to ‘make it easy’ for Parkers to comply. IR subsequently promoted a range of payment options including a fee-free money transfer. Use of this option increased from 4% in 2011 to 32% in 2014.

To ‘assist borrowers to comply’ IR wanted to discuss their debt with them. To update borrower contact details, new legislation allowed IR to data match with the NZ Customs Service and the Department of Internal Affairs. 70% of OBBs started to comply after successful contact from IR.

Procrastinators can be so reluctant to pay that enforcement sanctions are needed to address their lack of sense of duty or urgency to pay. IR heeded a research recommendation that sanctions of ‘last resort’ require robust mechanisms to ensure the right borrowers are targeted.

An ‘arrest at border’ policy was introduced for borrowers who persistently default and attempt to leave the country. Although it was to be used sparingly, IR was very nervous about public acceptance. The research gave them confidence to proceed.

The border arrest policy, and data matching with other government agencies, required the NZ parliament to change legislation. Research findings were used heavily in debating operational and policy issues, shaping policy papers, and getting buy in from Ministers. The research helped IR escalate its service offering and enforcement. The research emboldened each step because they had the research to support decisions.



THE OUTCOMES

In the first two years after the start of the campaign, borrowers made more than \$120 million in additional repayments attributable to research informed initiatives – an ROI of more than 1000% (\$11.21:1).

A follow-up survey of borrowers in 2014 revealed the Procrastinator segment decreased from 37% to 30%.

In early 2016, the first student loan defaulter was arrested at the NZ border. Public and media reaction pointed to a high degree of community acceptance of this. In the following two months, there was a 50% increase in OBBs contacting IR and a 31% increase in OBB repayments (compared to the same period in the previous year).

ROI quickly grew to more than 2000% (\$20.65:1 YTD, May 2016). This was maintained (\$20.40:1 YTD, March 2017). As at March 2017, \$389.4 million in additional student loan repayments were made.

The biggest learning was the sheer power of a highly co-ordinated and integrated approach to behavioural change, immersed in behavioural insights.

Communications and marketing, policy, operations and service delivery, as well as research and evaluation, were all carefully co-ordinated to achieve the same end goal. For many months, we met weekly in a ‘situation room’ where we planned and strategised. Our conversations reflected a compelling curiosity to really understand the complex drivers and influencers of human behaviour. We knew we had to think differently to the past, and be prepared to take risks. We learnt that truly understanding how borrowers, and the wider community, think about student loan debt enabled us to manage those risks carefully, and retain greater control over the strategy and implementation of initiatives.

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