Why Do People Fail to Act on Financial Plans?
A Behavioural Lens on Financial Planning

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1. Executive Summary

Financial planning is designed to help people increase wealth, prevent losses, and smooth consumption overtime*. However, roughly 40% of Canadians feel a lack of control over their financial future, and around 30% feel overwhelmed with their financial options**, and many Canadians who get a financial plan written fail to implement them. Given the complexity of the financial industry and individual difficulties with planning for an uncertain future, financial planners have noticed the persistent “intention-action gap”*** from their clients throughout the process. Clients fail to do the appropriate thing in two specific ways (gaps):

- **Gap One**: many potential clients who would like to get plans but fail to do so; and
- **Gap Two**: many clients who get plans written but fail to implement them (implementation gap). For the purpose of the study, we will be focusing on the latter one: the implementation gap.

Our analysis shows that the implementation gap can be caused by
(a) behavioural frictions experienced by the client;
(b) behavioural frictions experienced by the planner, and
(c) the interaction of the two.

The goals of this report are to:
(1) Understand the behavioural underpinnings of the implementation gap
(2) Integrate the relevant behavioural science into a framework, and
(3) Propose some recommendations to address the gap.

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** Financial Planning Standards Council (2017, October 18). Financial Blind Spots: Close to 40% of Canadians Feel Their Financial Futures Are Not Under Control.
1.1 About This Report

There are two gaps between intention and action in the domain of financial planning process.

This report will focus on Gap Two: the implementation gap - after financial planners write the financial plan, clients do not follow through with the process and fail to convert their plans into action. In particular, we will

- Identify various explanations for the Implementation Gap
- Link the implementation gap to three antecedents
  - Behavioural factors linked to the client
  - Behavioural factors linked to planners
  - The interaction of these two
- Develop recommendations based on academic literature and design interventions to bridge the implementation gap

The findings in this report will allow financial planners and their organizations to move forward in creating a more sustainable financial future for Canadians.
2. The Financial Planning Landscape

A comprehensive financial plan with appropriate guidance can provide a road map towards greater financial and emotional well-being*. However, a significant number of Canadians fail to pay attention to their personal finances and more than 40% of Canadians feel their financial futures are not under their control**.

To help Canadians improve their financial wellbeing, there are more than 170,000 Certified Financial Planner (CFP) professionals who are devoted to going through the multi-step process of financial planning with individuals***. There are over 200 events and 1,200 workshops, seminars, and events across Canada each year to raise awareness for the importance of financial planning. Yet, despite all of these signals that encourage individuals to plan, many financial planners indicate that getting clients in the door is the most difficult stage of the typical financial planning process.

When the client does decide to meet with a certified financial planner, they will go through a 6-step Financial Planning Process with the planner. Today, the 6-step Financial Planning Practice Standards established by the CFP Board in 1995 is widely adopted across Canada.

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**Financial Planning Standards Council (2017, October 18). Financial Blind Spots: Close to 40% of Canadians Feel Their Financial Futures Are Not Under Control.

2.1 The Intention-Action Gap

One central theme in behavioural economics research is the presence of an intention-action gap; an inconsistency between what people say they plan to do and what they actually do. The gap results in a segment of financial planning clients who have every intention to act, but simply fail to do so.

The intention-action gap can be explained through Thaler and Shefrin’s dual process model*. This model conceptualizes individuals as an organization having two sets of agents; a planner who is concerned with lifetime utility, and a series of doers who exist only for one period. According to this model, the farsighted planner determines the long-term goal but is dependent on the doers to accomplish the goal. Conflicts exist as the doers are myopic (selfish and live in the present) and hence have no incentive to comply with the planner**.

In the world of financial planning, there are two intention-action gaps. Gap One: many potential clients who would like to get plans written but fail to do so. Gap Two: many clients who get plans written but fail to implement them. We call the latter the implementation gap.

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2.2 Two Manifestations of the Intention-Action Gap

There are two gaps between intention and action in the domain of financial planning process.

- **Gap 1**: Intend to get a financial plan written but never get it done.
- **Gap 2**: Get a plan written but fail to execute on it.
2.3 Possible Causes of Gap 1*

**Procrastination**
Clients want to get the plan, but are experiencing the behaviour of delaying or postponing the task.

**Unsure of procedure**
Clients don't know how to begin, or they simply have a lack of knowledge on the entire financial planning process.

**Problem too distant**
The future problem is far away from present, clients do not think much about the future problems, and do not recognize the need to save for retirement and other needs in the domains of personal finance.

**Benefits too vague**
Clients may begin with a perception that the costs of using a financial planners are larger than the benefits. Clients may also feel that planners are not acting in their best interests.

**Fear of unknown**
Most clients who use financial services are not experts in the field and some may have little prior knowledge of the space in general. Fear of the unfamiliar area may prevent them from starting the process.

*Appendix A provides a brief description of each of these phenomena*
2.3 Possible Causes of Gap 2: Implementation Gap*

**Licensing effect**
Clients' past good deeds (e.g. having the plans written) can liberate individuals to engage in behaviours that are immoral or problematic (e.g.: not following through with the plan in the financial planning process)

**Overchoice**
Clients are presented with too many choices in the financial planning process, leading to choice deferral such as avoiding making a decision

**Conflicting goals**
Clients may have to decide between saving for retirement and their child's education. In their desire to balance between such conflicting goals they may end up in a deliberative mindset, which could prevent them from deploying efforts to implement these goals

**Procrastination**
Clients have the plan, but are experiencing the behaviour of delaying or postponing the task

**Lack of salience in benefits**
Clients have the perception that the costs of using a financial planner are larger than the benefits. Clients may also feel that planners are not acting in their best interests

**Ambiguity**
Clients have a sense of ambiguity and lack of knowledge in the financial planning process when they have unrealistic expectations about the process and timeline

**Information Complexity**
Clients have difficulty when confronting large quantities of information or choice options

*Appendix A provides a brief description of each of these phenomena*
3. Three Segments in Behaviour Change Marketplace*

- An intention-Action gap results in three segments in behavior change.
- The third segment (Naïve Intenders) is the largest and the most ignored segment. Informational approach or rational approach to changing their behavior are often counterproductive.

**Motivated Enthusiasts**
People who make sure they act on plans at the soonest possible opportunity

**Diehard Opponents**
People who might be opposed to the behavior change that is being asked of them based on beliefs or philosophical grounds

**Naïve Intenders**
People believe in what is being asked of them and fully plan to do it, but their intentions might never convert into action

3.1 Different Strategies for Different Segments

**Motivated Enthusiasts**

*Strategy:* Do not need to do much for the motivated enthusiasts except reinforce their positive behaviours

**Diehard Opponents**

*Strategy:* Might use education and evidence to slowly convert the diehard opponents

**Naïve Intenders**

*Strategy:* Naïve intenders do not need to be influenced by education or evidence; they simply need help in making things happen. Financial planners need to recognize that these people simply need behavioural crutches (or choice architecture interventions) to help them convert their intentions into actions

3.2 Closing the Implementation-Action Gap: A Case Study

The Save More Tomorrow (SMarT) program* is a prominent program created by two behavioural economists that addresses the intention-action gap in retirement saving.

Situation: While a vast majority of people say they would like to save more, only a small fraction of them actually do so. Even when individuals are able to curb their most impulsive spending habits, many are still worried that the act of saving more would lead to an unpleasant cutback in present consumption.

Solution: In light of this worry, these economists created the SMarT program to encourage participants to make a commitment to increase savings at a later date. In particular, participants commit to setting aside a percentage of every future salary increase into a separate savings account. Using the parlance of the Planner-Doer Model**, this program alleviates the planner’s worries by ensuring that participants are “smoothing” enjoyment from consumption across time. In addition, the doer doesn’t need to remember to increase or otherwise “mess with” the contributions.

Result: By easing the decision making process in this domain, this program has created a prodigious amount of savings. Specifically, recent estimates suggest that the Save More Tomorrow program might be solely responsible for an increase of about $29.6 billion in retirement accounts since its inception.

4. The Framework: 
Gap 2 has Multiple Segments

Non-starters

Early enthusiasts

Lost in the woods

Fully compliant

Despite good intentions, no action is taken at all after a plan is prepared

Action started on multiple fronts but no perseverance

Action started and perseverance on some fronts, but falls prey to “middle slump”*

Client acts at the beginning, and continues to persevere on all fronts over time

4.1 Behaviours of Fully Compliant Clients

We first identify what the necessary conditions are for our dream client – the client that fully complies with the plan and optimizes their financial security.

- **Motivation Kept High**
  Clients stay highly motivated from the beginning to the end

- **Perceptions of progress conveyed**
  Clients can visualize their progress in the financial planning process

- **Plan provides not just a “what” but a “when-how”**
  Clients not only know the outcomes of financial planning, but also know when to do what at each stage

- **Plan consistent with broader narratives in clients lives**
  When setting a goal, instead of saying “two years from now”, planners can make it more relevant/salient by saying: “when your kids graduate”

- **One Battle at a Time**
  Getting clients to focus on one goal at a time

In subsequent pages (section 4.2 – 4.4) we identify which of these conditions are not met by other segments.
4.2 The Implementation Gap for “Non-starters”

**Cause attributable to client behavior (C)**
- Client should realize that having the plan written is just the starting point of the financial planning process - the good behavior is following through with the plan in the entire process.

**Cause attributable to planner behavior (P)**
- Client and planner could periodically review the progress of the plan and have checklists and breakdowns of an achievement.
- Planner could ensure clients have fewer goals to work towards, which allows for easy tracking of goal achievement and deviations without challenging cognitive resources.

**Licensing effect**
- When people are in the middle of a goal-oriented task, they work harder towards accomplishing the goal when it is in sight. Consequently, reminding people of their goal or making the goal more salient/visual increases motivation.

**False sense of achievement**
- Planners usually have multiple goals and tasks that require attention and action. As it isn’t always possible to work towards all these tasks simultaneously, they end up prioritizing some over others.

**Multiple competing tasks**
- Non-starters
- Lack of a roadmap
- Multiple competing tasks
- Fully compliant
4.3 The Implementation Gap for “Early Enthusiasts”

Cause attributable to client behavior (C)

Lack of motivation
Reminding clients of their goal or making the goal more salient or visual helps sustain motivation in the financial planning process

No markers of progress to goal
Regular feedback on client’s progress as well as peer comparisons helps improve goal attainment

Distraction and limited attention
Precommitment to the future meetings and planned actions may reduce distraction in the financial planning process

Cause attributable to planner behavior (P)

Early enthusiasts

Fully compliant

Planners usually have multiple goals and tasks that require attention and action. As it isn’t always possible to work towards all these tasks simultaneously, they end up prioritizing some over others.
4.4 The Implementation Gap for “Lost in the Woods”

Clients are more motivated to accomplish the task when they receive feedback about the progress they have made. Their motivation is driven not only by actual levels of progress, but also by their perception of progress. Visualizing the actual levels of progress and constantly checking the client’s perception of progress may keep the enthusiasm high.

Actual monitoring and feedback mechanisms between the client and planner may help sustain the client’s belief in the structural integrity of plan predictions.

Reduced beliefs in structural integrity of plan predictions can be counteracted by simplifying information attributes or the number of available options. Visualizing the actual levels of progress and constantly checking the planner’s perception of progress may keep the enthusiasm high.

Clients are more motivated to accomplish the task when they receive feedback about the progress they have made. Their motivation is driven not only by actual levels of progress, but also by their perception of progress.

Information overload can be counteracted by simplifying information attributes or the number of available options. Actual monitoring and feedback mechanisms between client and planner help sustain plan’s belief in the structural integrity of plan predictions.

*Zhou, Rongrong and Dilip Soman (2003). “Looking Back: Exploring the Psychology of Queuing and the Effect of the Number of People Behind?” Journal of Consumer Research, 29 (March), 517-530*
5. Recommendations:  
Two Approaches for Financial Planner: Diagnosing and Improving Practice*

There are two approaches to using behavioural insights to improve practice, one is to identify behavioural problems and solve them using choice architecture. i.e. BI as problem solver. The second one is to redesign the product and process to minimize the behavioural problems in the first place, i.e. BI as designer **.

- **Approach 1:** BI as Problem Solver
  
  Diagnosis: Apply tools to diagnose existing clients and change behaviour by using potential interventions to tackle the behavioural phenomena

- **Approach 2:** BI as Designer
  
  Improving Practice: Apply tools to change the practice for new clients and prevent dropout

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Details can be found in Appendix B

5.1 What Can a Planner Do Differently?

To help client better act on a written plan, a planner can package the plan differently and pay attention to the ongoing communications with clients.

Packaging the plan

1. How the plan is presented to the clients: should the plan be written in concrete versus abstract language?
2. Design of the plan: should the plan be a consolidated detailed plan versus a collection of short-term brief plans?
3. Readability and medium choice of the plan

Ongoing communications with clients

1. Timing: When is the right time to remind client?
2. Medium: Do I communicate through email, meetings, or phone calls?
3. Choice architecture: How do I embed positive choice architecture in the ongoing communication? Specifically, how can I frame my messages to elicit action?
6. Conclusion

Despite the importance of financial planning and efforts of financial planners, a large percentage of the Canadian population still has trouble planning for their financial futures. Even when planners are successful in attracting clients, many of these clients fail to implement their plans. Planner and their organizations can work under the existing system, using behavioural insights as problem solver to proactively design the 'choice context' in such a way as to steer or nudge clients to act on the written plans. Alternatively, planners can use behavioural insights as designer to redesign the system: either change the way the plan was written out or redesign the ongoing communications strategies when interacting with clients.

This report examined the behavioural frictions experienced by the clients and planners in the financial planning process. Recommendations described in the previous section are the first step in mitigating the effects of these behavioural frictions. Moving forward, planners and their organizations must have strong capabilities for measurement and a stomach for the risks inherent in experimentation. We also encourage interested organizations to “start small” in their interventions, relentlessly test, learn and adapt their ideas, and build out experimentation capabilities over time. Managers dedicated to integrating behavioural science capabilities into their organizations will need to engage with behavioural scientists when building out more ambitious tests and experiments. More importantly, we also encourage practitioners to think small - small frictions in the environment often trip up well-intentioned clients, and hence a pursuit to understand small frictions and eliminate them will be worthwhile!
# Appendix A. Glossary List*

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<tr>
<th>Term</th>
<th>Idea in Brief</th>
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<tbody>
<tr>
<td>GOAL VISIBILITY</td>
<td>When people are in the middle of a goal-oriented task, they work harder towards accomplishing the goal when it is in sight. Consequently, reminding people of their goal or making the goal more salient or visual increases motivation.</td>
<td>As financial plans often entail long term savings goals, a goal/task can seem far away. This may discourage clients from pursuing said goal/tasks. Framing long term or slow-burning goals/tasks in such a way that the end is always in sight, or breaking down goals/tasks into shorter temporal frames can help keep clients motivated to pursue their plan until the end.</td>
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<td>CHOICE OVERLOAD</td>
<td>The standard assumption is that the more choice the better; the consumer will be more free to make the best option they can make. However, more choice increases confusion, decreases confidence in one’s choice, makes one more likely to stick with the status quo, increases distance between choice and what makes you happy, and most importantly can delay choice making or stop choice making entirely.</td>
<td>The amount of options available to someone seeking financial help can be overwhelming; from the amount of end goals they can choose, to the financial options available. This overwhelming feeling can lead to an overall dissatisfaction with the chosen goals/options, or to a delay of choice early on in the process. Simplifying and reducing the objectives/options for the client based off of their needs can help ease this negative effect, and lead to more satisfied and committed clients.</td>
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*Adapted from: Soman, Dilip, Bing Feng, and Yaakov Spivak (2019). Possible Drivers of the Intention-Action Gap in Financial Planning, Toronto, Canada: Behavioural Economics in Action at Romtan (BEAR)*
## Appendix A. Glossary List (Cont.)

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<tr>
<td>LICENSING EFFECT</td>
<td>Also known as ‘self-licensing’, the licensing effect is evident when people allow themselves to do something bad (e.g. immoral) after doing something good (e.g. moral) first.</td>
<td>Having gone through the first few meetings (i.e. spending time with the financial planner) and receiving the financial plan (something that is “morally” good), clients may experience the licensing effect. Simply receiving the plan could license/afford them the ability to slack off and not pursue the plan. The financial planning can help negate this effect by stressing to the client that the majority of the “good/noble” work and accomplishments lie ahead.</td>
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**Reference**


| VIRTUAL PROGRESS        | People in a goal-oriented task are more motivated to accomplish the task when they receive feedback about the progress they have made. Their motivation is driven not only by actual levels of progress, but also by their perception of progress. | Throughout most of the financial planning journey, there aren’t many active things for the client to do (especially for a long term plan). This can result in the client feeling that they aren’t making any progress in their tasks (even if funds are slowly accumulating). Regular feedback on how the client is doing, putting their task achievements into perspective, and having an accessible platform where clients can easily see their progress in relation to their short/long term goals can help clients stay motivated throughout. |

**Reference**

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<tr>
<td>INFORMATION OVERLOAD</td>
<td>A term used to describe the difficulty of understanding an issue and effectively making decisions when one has too much information about that issue. A single firm subjected to a disclosure mandate may deliberately induce such information overload to obfuscate financially relevant information, or engage in product complexification to bound consumers’ financial literacy.</td>
<td>For clients that have minimal experience in dealing with financials (or even for those who do have some experience), the amount, complexity, and presentation of the financial information presented in a plan can hinder their ability to effectively make decisions and be committed moving forward. See slide 25 for recommendations on how to mitigate this problem.</td>
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<tr>
<td>REPRESENTATIVENESS/CONSERVATISM</td>
<td>Strength refers to such aspects of the evidence as salience and extremity, whereas weight refers to statistical informativeness, such as sample size. When making forecasts, people pay too much attention to the strength of the evidence they are presented with (representativeness/overreaction) and too little attention to its statistical weight (conservatism/underreaction). Perhaps people are not updating their beliefs about the planner’s model relative to a rational Bayesian.</td>
<td>It is important to educate clients (in an accessible way) on which events constitute a rational investment reaction. For example, trends have high strength but low weight, while the latest earnings announcements carry significant statistical weight. Educating clients on the difference between salient information and statically significant (weighted) information can help curb their negative/positive dispositions in relation to eye-catching, news stories.</td>
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<tr>
<td>PROCRASTINATION</td>
<td>Procrastination is the action of delaying or postponing something. These self control problems arise when preferences are inconsistent across time or context (also known as hyperbolic discounting). People pervasively devalue the future and tend to prefer a ‘smaller/sooner’ reward over a ‘larger/later’ one when the sooner reward is close in time. The perceived value of the sooner reward is larger than the perceived value of larger/later when one is closer in time to the SS reward due to this discounting of the future.</td>
<td>Waiting for the larger/later reward— in this case, future savings – can induce a sense of deprivation in the present. Hence, clients might succumb to the temptation of relatively trivial present spending needs, or to the temptation of present pleasures over the ‘costs’ of putting together and following through with a financial plan. Consistently reminding clients of the bigger picture (future savings) and how one might later regret not following through with a plan now, and setting hard deadlines for action items can help mitigate self-control issues.</td>
<td>Ariely, D., Wetenbroch W. 2002. “Procrastination, Deadlines, and Performance: Self-Control by Precommitment”. <em>Psychological Science</em>, 13(3), 219-24.</td>
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<tr>
<td>FEAR OF UNKNOWN / Decision Making under Uncertainty</td>
<td>Some people have irrational thoughts and beliefs about situations that they perceive to be strange or foreign. After making a decision under uncertainty, a person may discover, on learning the relevant outcomes, that another alternative would have been preferable. This knowledge may impart a sense of loss, or regret, and can lead to people deciding not to enter the decision making arena entirely.</td>
<td>Most clients who use financial services are not experts in the field and some may have little prior knowledge of the space in general. This fear of the unfamiliar area may prevent them from starting the process. Education clients on financials is key, and can be relayed in a personal, accessible manner.</td>
<td>Bell, David E. 1982. Regret In Decision Making under Uncertainty. <em>Operations Research</em>, 30(5), 803-1022.</td>
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<td>AMBIGUITY</td>
<td>Ambiguity aversion (also known as uncertainty aversion) is a preference for known risks over unknown risks. The Ellsberg paradox is generally taken to be evidence of this: people overwhelmingly prefer taking risks in situations where they know specific odds rather than an alternative risk scenario in which the odds are completely ambiguous. They will choose a known probability of winning over an unknown probability of winning even if the known probability is low and the unknown probability has a better chance of being higher.</td>
<td>Clients have the sense of ambiguity and lack of knowledge in the financial planning process when they lack realistic expectations about the process, timeline and risk values of the financial options. Ensuring that they understand when objectives are to be met, how the roadmap will look, how frequent their involvement in the process will be, and what the risk levels are can make clients more content and satisfied to make decisions, and help them stay committed to the financial plan.</td>
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<tr>
<td>CONFLICTING GOALS</td>
<td>A mindset refers to the style with which the human brain processes information. When a person has approached a large number of events with a view to getting them done (implemental mindset), they are more likely to get the next event done, as opposed to when they are just thinking about them (deliberative mindset). Conflicting goals can get people into a deliberative mindset, which can hinder implementing a decision.</td>
<td>Clients may have to decide e.g.: between saving for retirement and their child’s education. In their desire to balance between such conflicting goals they may end up in a deliberative mindset, which could prevent them from deploying effort to implement these goals. Narrowing down the clients’ primary goals through conversation and needs based assessments can help reduce goal conflict and increase the chance of implementation for a given financial plan. Also, people who are more likely to come up with creative integrations of conflicting goals are more likely to meet their goals. This can also be considered when it comes time to managing and deciding which combination of conflicting goals to pursue.</td>
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</table>

**Reference**


Cantor, N., & Blanton, H. 1996. Effortful pursuit of personal goals in daily life. In P. M. Gollwitzer & J. A. Bargh (Eds.), The psychology of action: Linking cognition and motivation to action (pp. 338-359). Greenwich, CT: JAI Press
Appendix B. Four Approaches to Behaviour Change*

Restrictions – Restrict unwanted behavior. Eg: Make option A unavailable to move people to choose Option B

Incentives - Incentive wanted behavior. Eg: Impose a tax on choosing Option A or provide a benefit for choosing Option B

Information - Persuade people. Eg: Provide people with the right information and a good, compelling reason to choose Option B

Choice Architecture – Nudge people into better choices. Eg: Create an environment where it is easy for people to choose Option B rather than Option A

Customized to each segment will be based on a nuanced analysis of the literature as summarized on part 1 and 3

References