

# COMMON CENTS LAB END OF YEAR 2016 REPORT



# INCREASING ACCESS TO GOOD DEBT (KIVA)



## PROJECT AT A GLANCE

*PARTNER TYPE*  
*FIN-TECH*

*PROJECT TYPE*  
*EXPERIMENT*

*PROJECT STATUS*  
*COMPLETED*

Kiva U.S. crowdfunds interest-free loans to small businesses in the United States. Kiva U.S. approached Common Cents Lab and asked how they could increase the number of potential borrowers who complete the funding process.

## Behavioral diagnosis

To diagnose this problem, we conducted an in-depth review of each step of the application process. In addition, we analyzed conversation rate data at each step of the application process to understand where the key barriers existed.

## Key insights

Through our behavioral diagnosis, we found a number of key insights that could be boiled down to one key concept: the application process was filled with unnecessary barriers.

To qualify for a loan, applicants must fill out eight pages of information. This includes detailed information about the business' revenue and accounting, a picture of the business, and social media information about the business. This is obviously a multi-step setup process, and it results in many

small businesses starting the application, but failing to complete it, leading to a low conversion rate of just 20%.

## **Our approach**

Our behavioral diagnosis led us to one key question: How could we increase the likelihood that an applicant completes the application and gets access to a 0% interest loan?

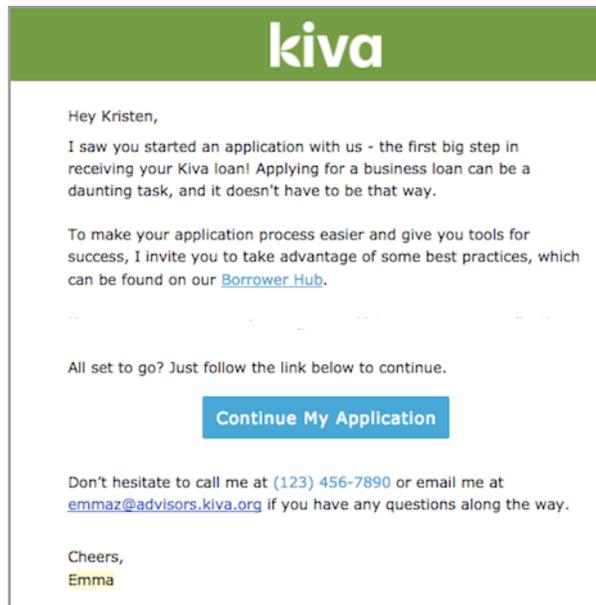
It's possible that an applicant might start the application and realize that they want to take time to diligently fill it out while carefully considering each step. Maybe they even want to have other people review their application before formally submitting it.

On the other hand, it's also possible that an applicant might start the application and stop, believing they will have more free time in the future. This is called time discounting. The perceived cost associated with our effort diminishes when the task gets farther in the future. Of course, that time in the future never comes. They continue to procrastinate which results in never completing an application at all.

To understand which of these scenarios was actually happening, our team proposed adding a deadline to the application process. If the process required a small business owner to invest significant amounts of time, then adding a deadline should decrease the number of applicants. People just won't have time to fill out the forms and they would miss the cutoff date. However, if people instead forget to complete it or are procrastinating, the deadline may be a helpful way to clarify their thoughts, create an action plan and complete the application.

To test these alternative hypotheses, we created a short email experiment. Applicants received one of two emails: one with a deadline and one without.

## Control



## Experiment

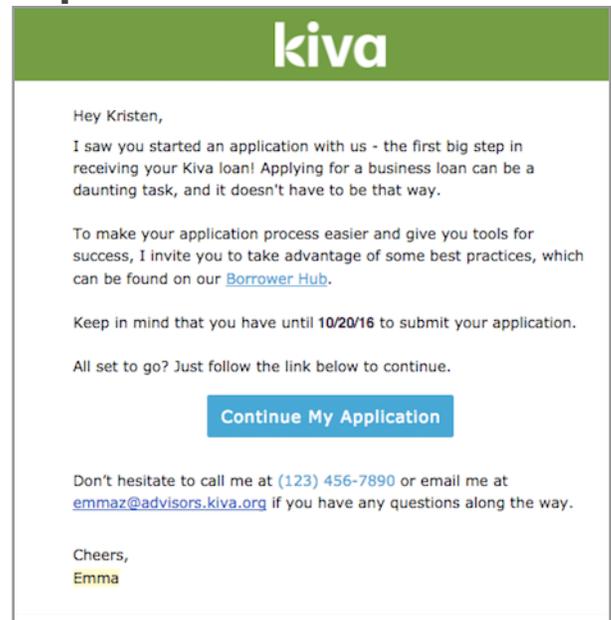


Figure [16]: Screenshot of emails sent to loan applicants.

The results were clear: the experiment condition received 24% more completed applications than the control. Our experiment resulted in at least 12% more small business owners receiving a 0% interest loan.

These results suggest that these new Kiva U.S. customers didn't require significant amounts of time to complete the application; they just hadn't prioritized it.

For our next test, the Kiva U.S. team incentivized even earlier completion by pairing a new, earlier deadline with a benefit. By submitting the Kiva loan application a week before the final deadline, applicants would move to the front of the line. Instead of punishing lateness, this intervention rewards the early bird.

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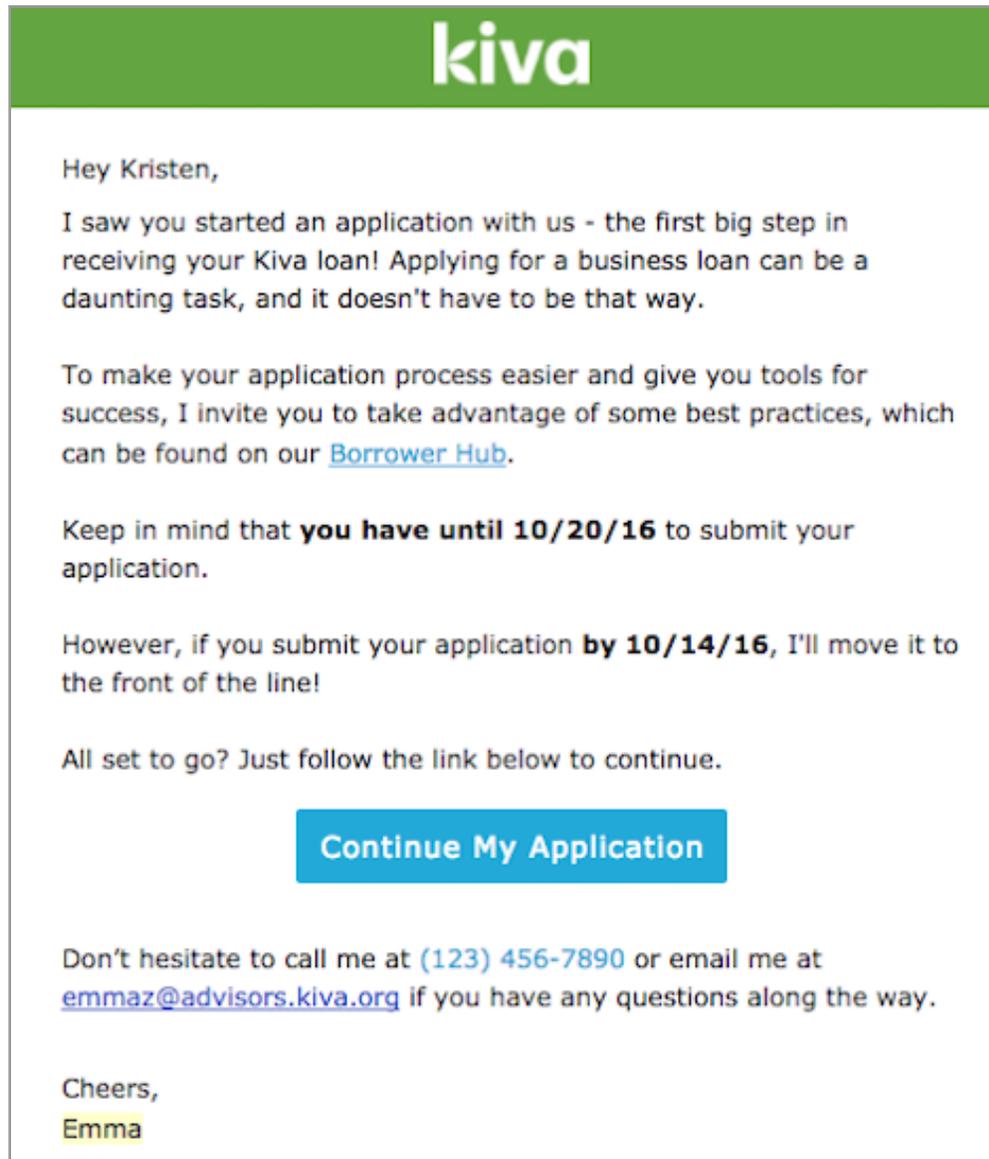


Figure [17]: Screenshot of revamped email.

By including two deadlines and rewarding good behavior,

**WE WERE ABLE TO INCREASE THE NUMBER OF COMPLETED APPLICATIONS BY 26% OVER JUST HAVING ONE DEADLINE.**

The majority of tasks we procrastinate on are usually high in immediate costs, but low in immediate benefits, thus making them unattractive in the short run. This additional benefit may have helped make the task of applying become more attractive and thus less likely to be in danger of procrastination.

These small changes will help hundreds of qualified borrowers achieve their small business dreams by getting access to good credit. Our small interventions led to over \$190,000 in additional credit to LMI small business owners, 80% of whom are women and minorities.

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