BEHAVIORAL DESIGN FOR FINANCIAL HEALTH

Please use the Innovation Conference Event App to check-in to this session S665
AGENDA

1 | WHO ARE WE?
2 | WHAT IS BEHAVIORAL ECONOMICS?
3 | CASE STUDIES
CENTER FOR ADVANCED HINDSIGHT
MAKING PEOPLE HAPPIER, HEALTHIER, AND WEALTHIER WITH BEHAVIORAL SCIENCE
THE COMMON CENTS LAB

We use these insights to design products and services to

Increase short-term savings
Increase long-term savings
Improve cash flow management
Decrease expenses
Decrease debt
WHAT IS BEHAVIORAL SCIENCE?
Classic Economics assumes people:

- Accumulate information
- Account for probabilities
- Accurately weights costs & benefits (across domains and timeframes)
- Maximize our own utility
- Have stable preferences
Financial Education Classes

Register NOW for the Fall series of Money Management Mentoring classes at:

Starting Thursday, Oct 30
5:30–7:30pm
The Benefits of Investing Early and Often

LIFE INSURANCE AWARENESS MONTH

STATISTICALLY SPEAKING...

As of this year the average American will die at 78\(\frac{3}{4}\) years old.

STATISTICS OF LIFE EXPECTANCY

after $2500 initial investment
Buying your first home?

Do your homework first!

Our Home Buyers Guide makes buying for the first time easier.
It’s full of valuable information, including checklists and tips to help you make good choices.

Contact us today for your FREE guide.
In reality, people:

- Don’t save enough money
- Take on too much debt
- Don’t exercise enough
- Text & drive
- Overheat/cool our homes
- Drive when we could walk
- Throw recyclables in the trash
“I should have computed the historic co-variances of the asset classes and drawn an efficient frontier. Instead….

I split my contributions fifty-fifty between bonds and equities.”

—Harry Markowitz, Nobel Laureate
KNOWING INFORMATION DOES NOT LEAD TO BEHAVIOR CHANGE
BUT DOES IT WORK?
0.1%

The percent of variance in financial behaviors explained by content-based, financial education interventions*

* Based on a meta-analysis of 188 research studies, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors*, 2014
WHAT DOES CHANGE BEHAVIOR?
WHAT DOES CHANGE BEHAVIOR?

The environment in which we make our decisions.
What do we mean by “environment”
Timing

What do we mean by “environment”
What do we mean by "environment"?
What do we mean by “environment”
EXAMPLES FROM THE FIELD
CASE STUDY 1

Timing
Your payment is $250.

$217 is for your loan and $33 goes into a savings account you can access at anytime.

Does that sound ok?

SIMPLE DEFAULT

LOSS AVERSION DEFAULT

Your payment is $250.

$217 is for your loan and $33 goes into a savings account you can access at anytime.

You’ll have $1,330 at the end of your loan.

Does that sound ok?
PAIN OF PAYING

Some purchases are more painful than others, and people will try to avoid those types of purchases (incremental, cash, separated as a fee, and frequent).
If these findings hold, the members with loans will have saved $1.5M \textit{(in the aggregate)} over the term of their loan.

Members who agreed to round-up

![Graph showing the percentage of members who chose Simple Default and Loss Aversion Default for Car Loan and Personal Loan.]

- **Car Loan**: Simple Default: 25%, Loss Aversion Default: 40%
- **Personal Loan**: Simple Default: 25%, Loss Aversion Default: 50%

\(N=220; p=0.058\)
Control

Business as Usual

Loan Savings Wallet

Auto/default rounded up payment

Wallet + Credit Building

Auto/default rounded up payment + explained that it’s to help build credit
CASE STUDY 2

Choice Structure
Most states disperse SNAP benefits 1x per month

![Monthly Balance Consumption Graph](image_url)

- **Ideal**
- **Actual**
OPPORTUNITY COST
NEGLECT

People tend to ignore what they give up when they make choices.
Recommended Weekly Budget

$45

$199.32
Food Stamps

$0.00
Cash

Next deposit expected on November 3

Take our 2-minute weekly survey for a chance to win a $100 Walmart gift card!

Latest Activity
Benefit Deposit
+ $194.00
10/03/2016

Latest Activity
Rosedale Green Farm
- $8.50
09/23/2016
Users in experimental condition reach 20% balance almost **2 days later**
“I know you feel like talking about your finances is a little overwhelming. It’s perfectly normal to feel like that. In fact, many of the other clients I’ve worked with in the past felt that way too. They found that by working with me and following Navicore’s guidance, they were able to get through the month without relying on their credit cards. If we work together on this, I am confident that we can help you do that too.”
SOCIAL PROOF

People’s behavior is impacted by what their peers do.
Willing to take survey is proxy for feelings of reciprocity.

Found no impact on likelihood to complete the call or likelihood to enroll in Debt Management Plan

N=1065; p=0.007
Disclosure is proxy for feelings of trust. (Marginally significant)

N=1065; p=0.18
CURIOUS ABOUT HOW TO PARTNER WITH US?
CHARACTERISTICS OF PARTNERS

✓ Do you directly serve people earning low- to moderate-incomes?

✓ Do you currently have more than 1000 clients?

✓ Are you willing to rigorously test the idea using random assignment?

✓ Are you happy to share the findings more broadly with the field?

APPLY!
OUR PAST PARTNERS

On the financial side, we work with **fintech** companies, **non-profits**, **credit unions**, and other direct financial service providers.
APPLICATIONS OPEN!

1. Visit commoncentslab.org
2. Click on the APPLY button.
3. Fill out the **short** application!

Questions:
info@commoncentslab.org
You can earn 10 points toward the Innovation Game right now!

Please go to “Schedule” in the mobile app, find this session, and take a short survey to provide feedback.

Surveys will remain open for 2 hours.

Check in code is S665