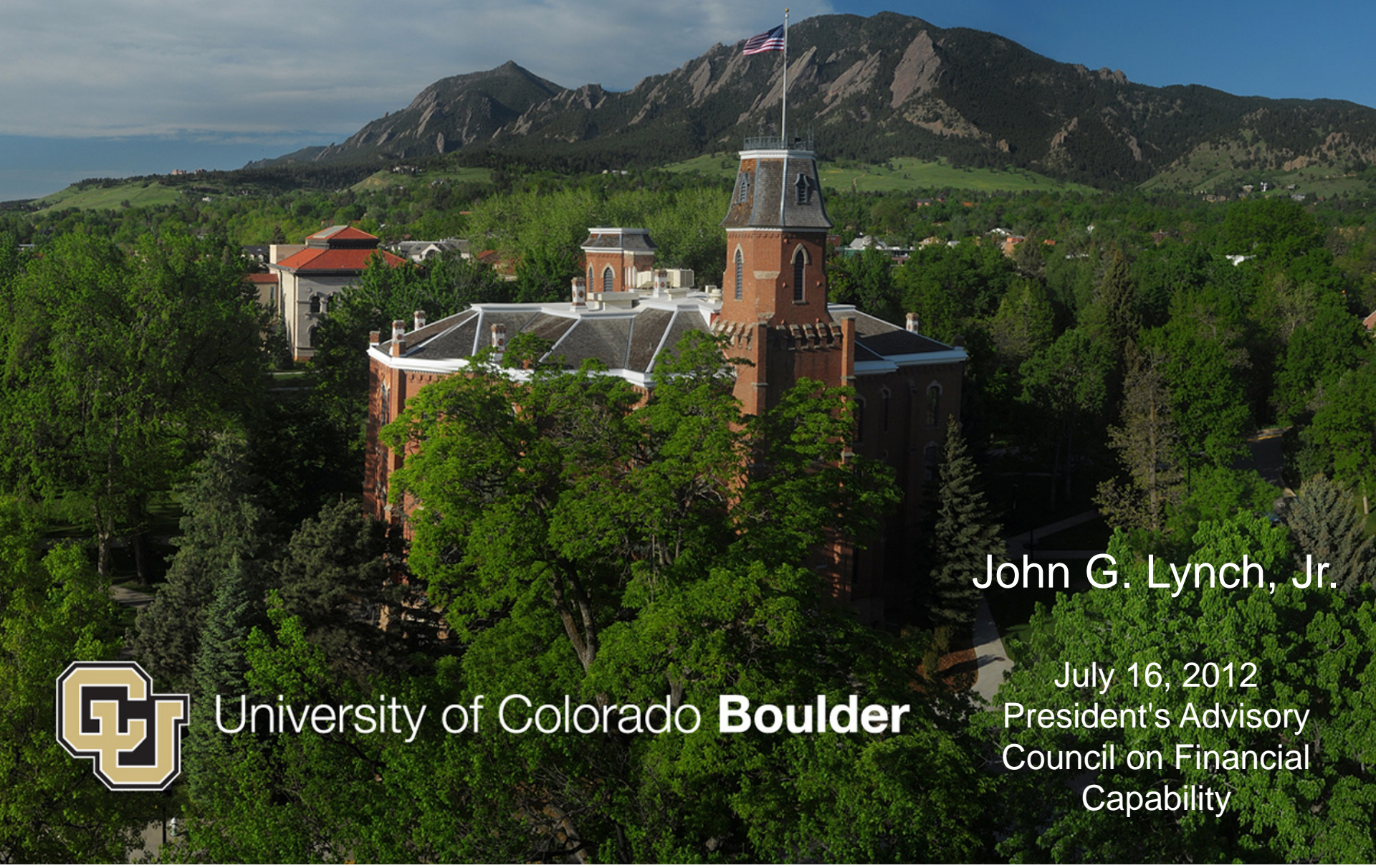


“Just In Time” Financial Education in the Form of Financial Decision Support Systems



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Thank you

- National Endowment for Financial Education
- Opinions expressed are my own

A Psychologist's Look at Public Policy Around Consumer Financial Decisions

- Upstream v. Downstream Help
- The Consideration Set as the Key Dependent Variable in Consumer Decisions
- Recommender Systems to Nudge Consumers' Consideration Sets
 - “Just in Time” Financial Education plus Decision Support to make unfamiliar tradeoffs & facilitate shopping

Problems with Financial Education

- Too far upstream from decisions it is intended to change
- Decays with time... needs to be just in time
- Human inability to map from lesson in one context to another with same deep structure

Role of Financial Education in Toolkit

- Financial Literacy is a “better info” remedy
 - What’s the half-life?
- “Nudges” & “Just in Time Financial Ed”?
 - Nudge / defaults when consumers homogeneous
 - JIT Financial education + active choice when needs heterogeneous ... but technology can assist
- Illustrate by “mortgage recommender” system

Consideration Sets, Screening & Comparison

- For a mortgage option to be chosen
 - option must be considered
 - buyer must not consider better-liked option
- Consideration set is more influential than info about details of alternatives
- Can regulation protect consumers by “nudging” them to consider “safe” alternatives and to make consideration of “unsafe” alternatives less likely?

Recommender System as Nudge

(Lynch, Woodward, Goldstein, DeBruyn, Deggendorf)

- 1 Elicit personal circumstances that affect risks
- 2 Person-specific risk feedback for different types of mortgages in market (JIT Financial Ed)
- 3 Measure consumer's tradeoffs of mortgage features to derive weights of utility function
- 4 Sort database of loans from best to worst wrt person's utility function. Provide contact for top 5 (JIT Financial Ed)
- 5 Shopping advice (JIT Financial Ed)

Advantages of Recommender Systems

- Change the consideration set
- Built to deal with consumers with heterogeneous preferences
- Reduce the costs of shopping, search, & matching
- Provide “just in time” financial education
 - Not forgotten (like financial ed)
 - Not ignored due to mapping problems
- Promote competition. Screened options
 - more similar in utility than unscreened
 - Translate multidimensional products to 1 dimension

Thank you

Backup

What's Wrong with Disclosure Regime?

- 2nd-order effect on preference *given* consideration; don't change consideration set
- What's the mistake?
 - a. buying more house than one can afford?
 - b. wrong mortgage for selected house?
- Disclosures solve neither problem
 - too late to derail house choice
 - disclosures provide no alternative mortgage
 - even with disclosures for 2 or more products, too tough to process information (Lynch & Ariely; Woodward)
- Nobody tests effects on choice

Disclosure to Consumers or Infomediaries

- Honest disclosure to consumers will not overcome confusion in choosing among multidimensional products
- Require disclosure to regulator, and provide decision support tools to help sort options for fit with personal risks & tastes.
 - e.g. medicare.gov for drug plans
 - Baker & Johnson's tools for choosing health insurance
 - Thaler's "smart disclosure"

Proposed Randomized Experiment

Form of Assistance x Timing

	Start of Home Shopping	Closing
Know Before You Owe	Group 1	Group 3
Mortgage Recommender	Group 2	Group 4

Outcomes to Measure

- Percent fixed v riskier mortgages selected
- Average home price & LTV
- Number of mortgages considered / shopped
- Default rates 1 year later

Challenges to Recommender Systems

- How to deliver at right point in time?
- How to compel firms to provide complete product information? (Thaler)
- Government or private industry?
 - Billshrink.com, Kayak
- If private industry, will seller self-interest obliterate potential benefits to consumers?