

Financial Research for Social Good

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Finance Research for Social Good?

- ▶ Our profession has received a lot of criticism especially after the 2008 crisis for being out of touch or not caring about real world problems in financial markets
 - ▶ Some of this is unjustified when people do not understand what we work on
 - ▶ But it is true that we often have little to say about actual solutions or policy implementation for financial problems
 - ▶ For a long time we did not focus on topics that are of importance for the broader society such as financial inclusion, regulation of abusive practices or building financial capabilities



Research Market Failures?

- ▶ In some of the most pressing problems in finance today private incentives might not align necessarily with social goals
 - ▶ Financial inclusion
 - ▶ Protection of financially less sophisticated or fragile borrowers
 - ▶ Role of new technologies for market access and regulation
 - ▶ **No immediate crisis and not much money in it**
 - ▶ Under-provision of innovation
 - ▶ Financial models for poor borrowers often have low margins, no intellectual property protection and can be easily imitated by others.
 - ▶ Low incentives for a single bank to innovate
 - ▶ Complicated long term problems ... not very glorious!
- Here more systematic coordination could be important



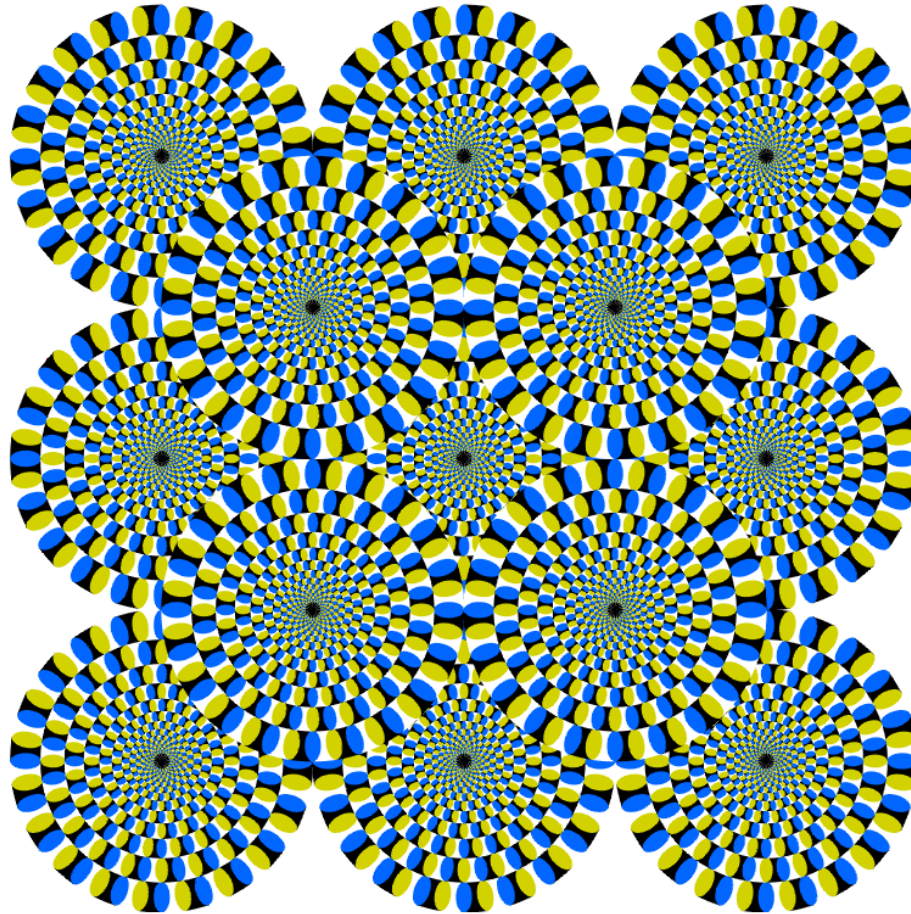
Basic Problem of Impact Evaluation

- ▶ What would the world be absent the program?
 - ▶ Sometime we *know* upfront
 - ▶ Sometimes we need to test it
- ▶ How do we compare a world in which a program happens to a hypothetical world in which it doesn't?
 - ▶ We usually cannot create a world in which the program never happened
 - ▶ So how do we measure this “Counterfactual”?
- ▶ Every impact evaluation establishes a counterfactual
 - ▶ We can try to identify group with “similar” shocks.
 - ▶ And measure their outcomes.

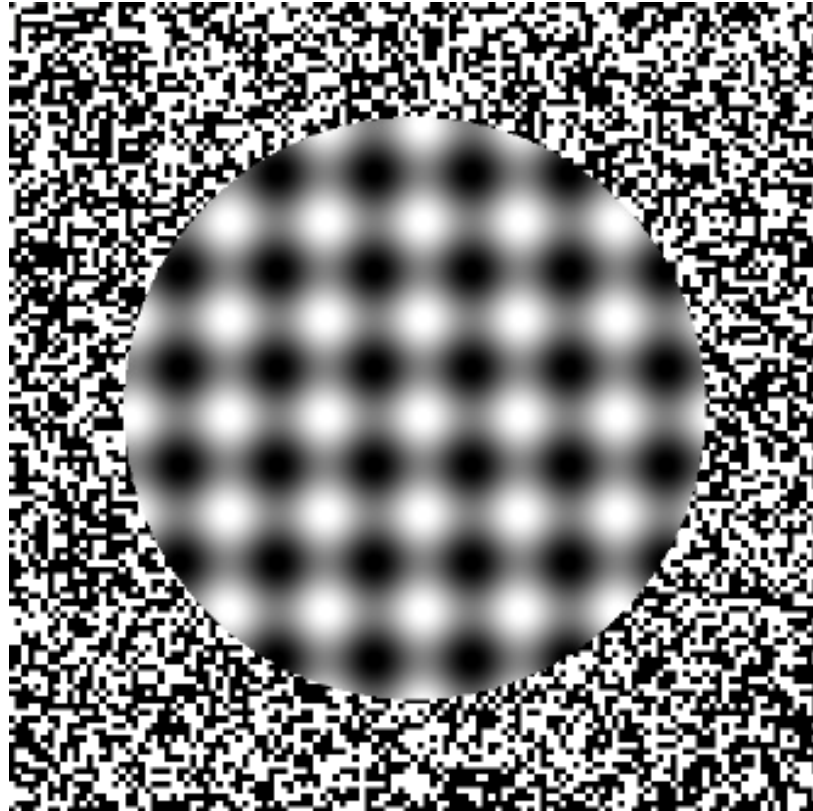
Fundamental Problem of Evaluation

- ▶ People/Firms differ on many *unobservable* characteristics
 - ▶ How good a comparison group can “matching” make?
- ▶ Selection problems
 - ▶ Programs select participants on unobservable characteristics such as motivation/predisposition
 - ▶ More motivated people self-select into program
- ▶ Confirmatory bias
 - ▶ Psychology evidence: we see what we want to believe
 - ▶ Basic desire to see programs work
 - ▶ Salience of positive outcomes

Just to make the point!



... and again! 😊

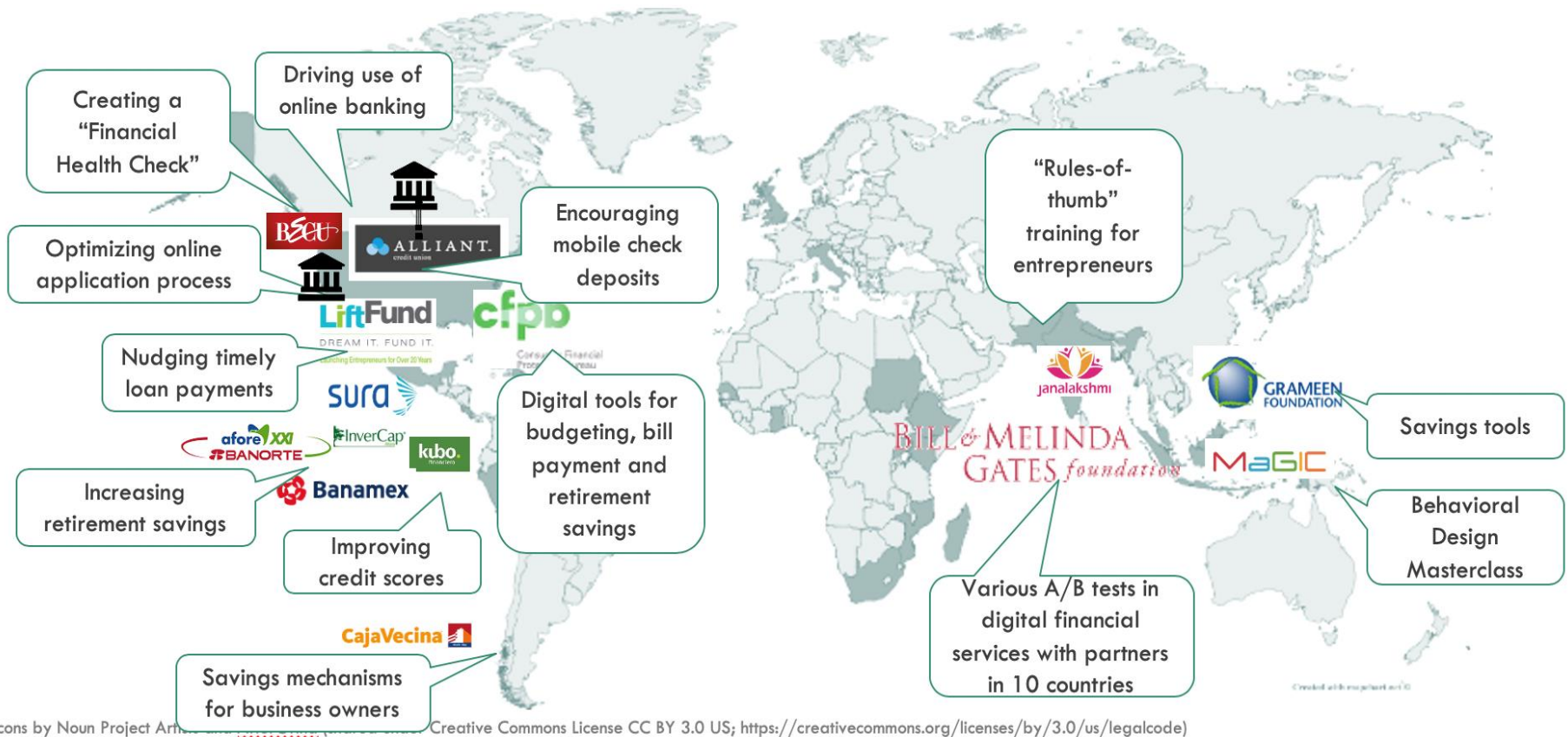


A personal example: **ideas42**

- ▶ **Non-profit that uses social science for solving social problems of financial inclusion, health, social justice**
 - ▶ Co-founded with Sendhil Mullainathan (Chicago Booth) and Eldar Shafir (Princeton)
 - ▶ Work with many economists, psychologists, AI researchers etc.
- ▶ **This initiative operates by:**
 - ▶ Working closely with private sector, banks and policy institutions to design new solutions or products
 - ▶ Combining practical operational knowledge with conceptual ideas based on scientific knowledge
 - ▶ Testing feasibility of products in carefully controlled pilots



Scope of Work



Example I: How to do FLT?

Traditional FLT programs show little impact on firm or household outcomes (Karlán, Valdevia 2010)

- ▶ What explains lack of impact for FLT programs:
 - ▶ Financial literacy cannot be taught well with current programs?
 - ▶ Financial literacy not important in helping people make better decisions?

- ▶ Who should bear the cost of trial or development?
 - ▶ Bank?
 - ▶ Customer?
 - ▶ Government or donor funding?

Traditional Accounting Training



...make it more in-depth?

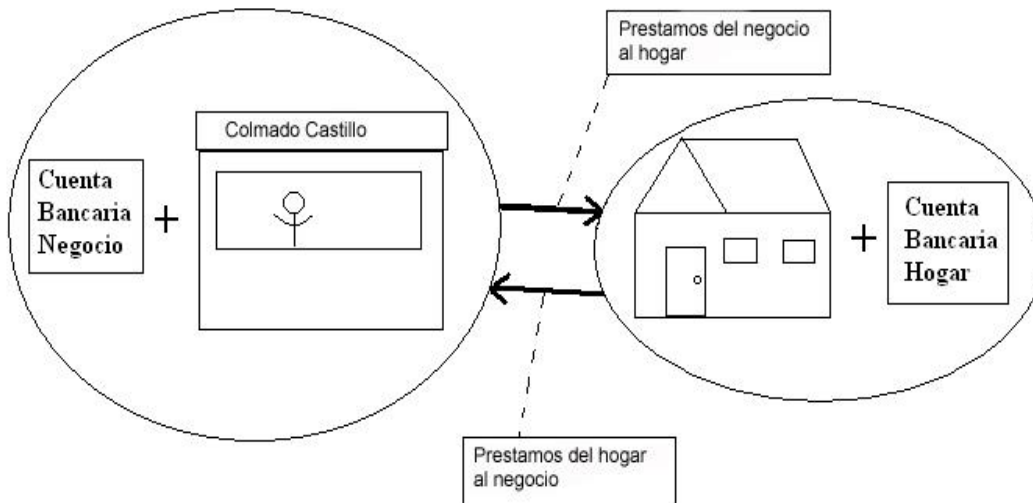
Traditional Accounting vs. Rules of Thumb

Traditional Accounting	Rule of Thumb
Produce income statement and profit projection for the business	Keep two “drawers” – one for the business and one for the home
Manage working capital needs	Assign yourself a wage for the month
In-depth cash management	Any “borrowing” from the business has to be paid back in three days and vice versa
Increase savings and reduce impulse purchases	Physically hide savings in places that are difficult to get to



Training looks like

In class sessions focus on role playing and client engagement to engrain the content



Research Design and Set up

- Conducted an RCT with ADOPEM a bank that lends to small businesses in the Dominican Republic
 - Selected 1200 bank clients in the Santo Domingo area
 - Classes were set up in several venues around the city to provide ease of access for customers
 - Provision of training was highly subsidized, entrepreneurs paid only a small fraction of the actual costs
- Clients were randomly assigned one of three treatments
 - Rule-of-thumb training
 - Traditional accounting training
 - Control group that did not receive any training

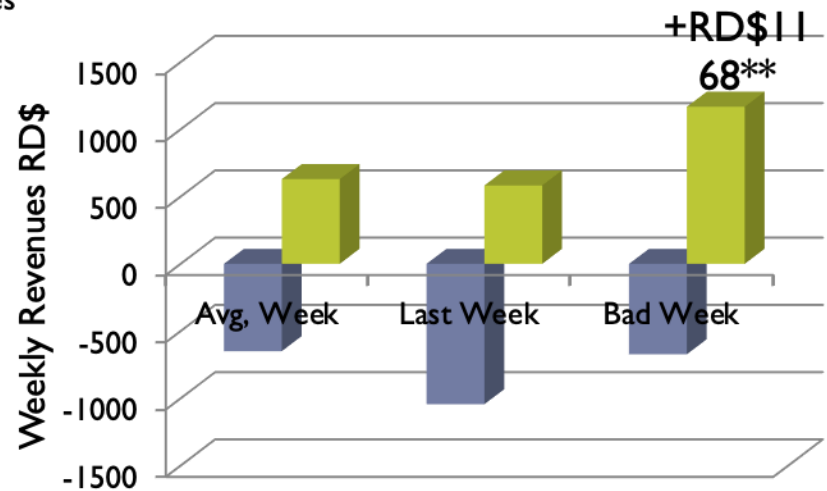
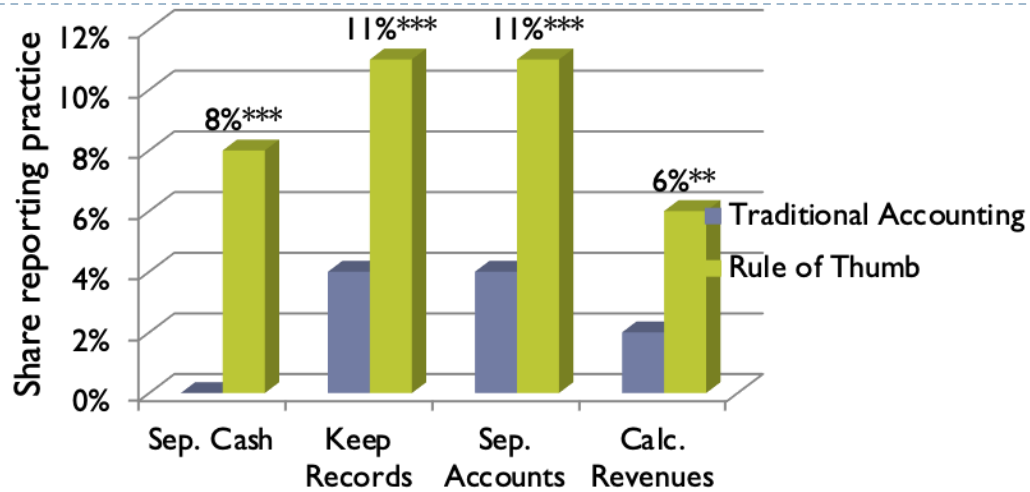


Improves financial practices



Improves revenue in bad weeks

Outcomes



Impact?

▶ Social impact

- ▶ Improvement in financial outcomes for small businesses
- ▶ Small businesses felt more confident in their decisions

▶ Financial impact

- ▶ No improvement in loan repayment rates
- ▶ But small businesses valued the service = greater loyalty

▶ Scale up

- ▶ Bank continued program but high cost of in-class teaching
- ▶ Developed mobile phone application of FLT
 - ▶ India, Philippines, Ethiopia funded but IFC and Worldbank



Example 2: Financial Health Check

FACILITATING FOLLOW-THROUGH



Financial Health Check

Schedule Free Consultation

A **light-touch, action-oriented approach to financial coaching** resulted in **a 34% increase in net savings deposits** among members of a large credit union in the US.

The Financial Health Check is a program designed to increase FREE consultations with trained specialists to help you manage budgeting and debt management in real-time during a core

<https://www.ideas42.org/wp-content/uploads/2018/03/Financial-Health-Check...>

Many American households are financially vulnerable

40%

of Americans with volatile incomes report at least one month in the past year when they struggled to pay bills on time

73
MILLION

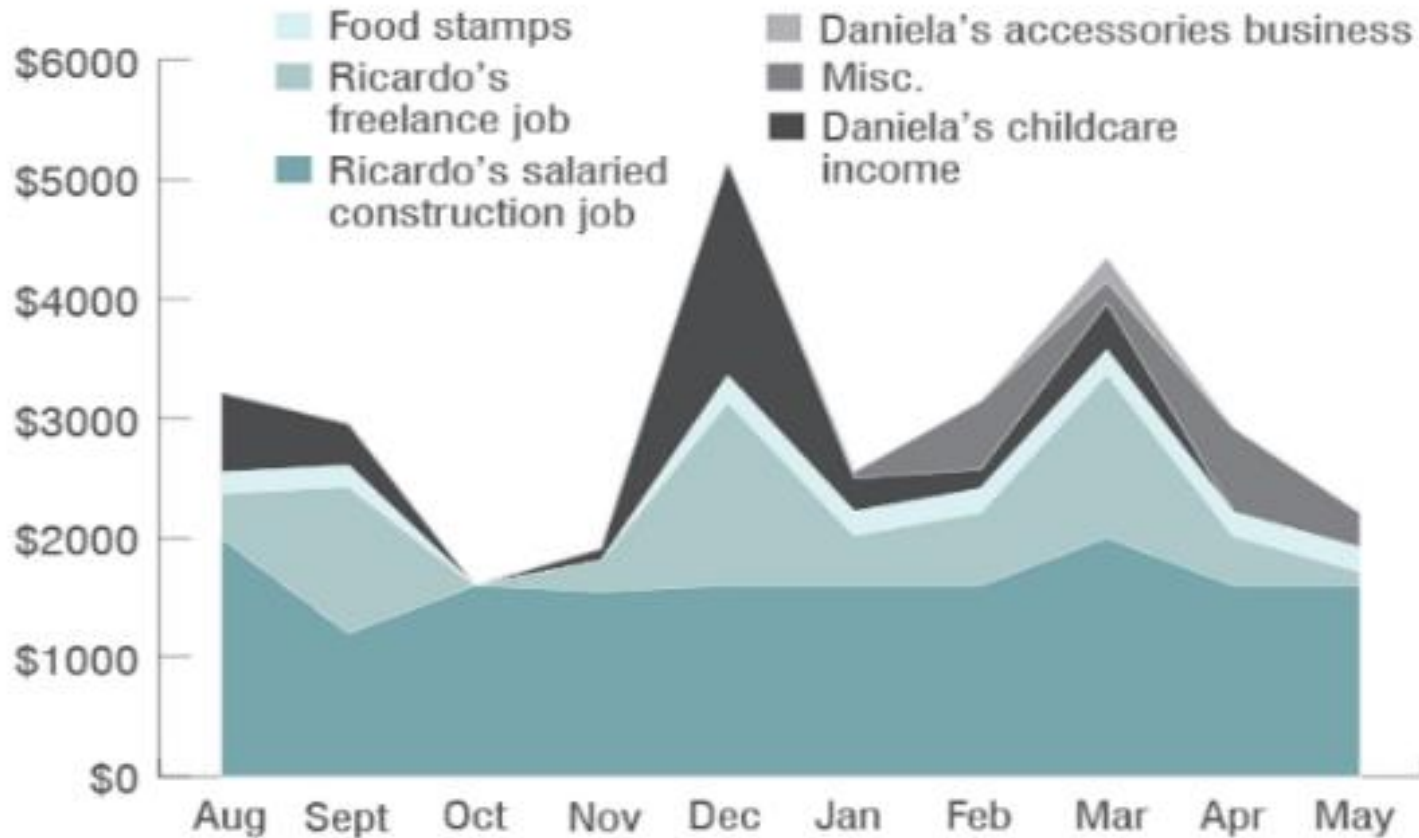
Americans are either “finding it difficult to get by” or are “just getting by” financially

44%

of Americans report that they could not cover a \$400 expense, or would cover it by selling something or borrowing money



Low income households face complexity



Financial Health Check: Light Touch Financial Planning

Key Features

- Confidential, one-on-one conversation for 30-60 minutes
- Focused on building liquid savings and reducing high-interest debt
- Support for automation and real-time action



Step 2: Label and bucket funds

Deposit Accounts

Account	YTD Interest	Current Balance
Checking 3600512235	\$5.00	\$688.72
Emergency Savings 3600512227	\$6.70	\$7,462.80
HOUSE! 3601050044	\$0.00	\$10.00
Totals	\$11.70	\$8,161.52

Named accounts
act as **visual
reminder**

**Better track
progress towards
goals**

**Partitions act as
barrier to spending
against goal**



Step 3: Facilitate action and automation

Coach helps member identify transfer amount

Transaction recurs automatically

Coach walks member through set-up

Transfer Funds Activity Log Out Preferences Help

i Tip: Saving is easy when it's automatic [Hide Tip](#)
Saving for a big trip, a new home or just a rainy day is just a few clicks away. Just select "Make Recurring" and you are set to go and grow.

Transfer details

Transfer Type: Between here and my accounts at other banks
 To someone else

Amount(\$): * **i**

Transfer

From: * BECU Checking #####2235 \$688.72 ▼

To: * Select Account ▼

[Add a New Account](#)

Send On: * 03/27/2017 [Make Recurring](#) ▼

Delivery: * Select a "From" and a "To" account to see delivery speeds

Click to edit source



Basic Statistics



1,291 sessions completed from 08/2015 to 05/2016;
more than **4,000 sessions** completed to date



38 minute average call time



~20% of sessions delivered to LMI members

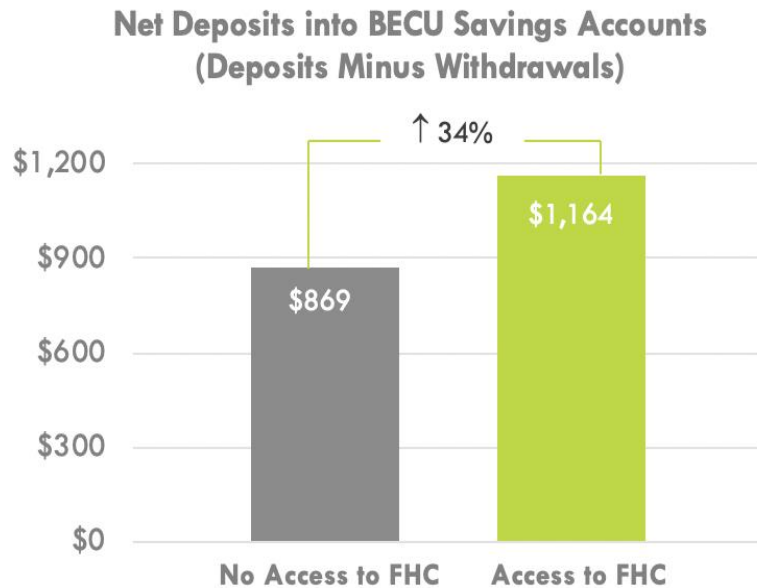


3-4 FTE over the course of the pilot



Impact on savings behavior

34% increase in net deposit amounts



p<0.10 significance

- RCT compares outcomes of members who had access to FHC appointments (regardless of session attendance) with outcomes of members who did not have access
- All were interested in working on financial goals
- Data cover the 12-month period following contact



Scaling of work

- The credit union is investing in the FHC with dedicated headcount and potential investment in technical solutions for scheduling and data collection
- Data analytics efforts can be harnessed to better identify, engage with, and monitor member needs
- ideas42 has engaged in follow-on work to support expanded service, with a focus on the areas below

Reach

How can we expand the pool of members that the FHC is serving?

Customization

Can we better meet specific member needs with customization?

Scalability

Can we make the FHC more light-touch with digital components?



Thank you



My question is: Are we making an impact?