THINK FORWARD INITIATIVE

2018 Summit: Breakout sessions summary

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Breakout Session 1- Big Spending Decisions: Housing and Homes

Background information

Housing forms the most substantial expense category for most households, therefore the relevance for financial well-being is significant. The typical situation in many European countries is that housing is increasingly scarce. In many cases, new supply is not meeting demand and house prices, particularly in big cities are one the rise. At the same time, incomes are increasingly insecure, affecting individuals ability to buy a home. How can individuals and households best cope with these challenges? Are there smarter ways to achieve housing outcomes, perhaps via online platforms?

Outcomes Breakout session

After discussing the points of view from consumers, banks, regulators, politicians and industry stakeholders, the main threats, opportunities and potential research questions identified by the Summit group were:

Threats:

- Housing opportunities for people with low and average income are very scarce in big cities.
- Further house prices rises can cause a bubble and might cause a crisis with serious financial consequences for several groups of consumers.
- A temporary housing price fall may cause consumer income loss and increase the probability of default.

Opportunities:

- Banks have the opportunity to create new (housing / mortgage related) products that fit to a more flexible labour market.
- A low interest environment could be a great moment to restructure interest-only mortgages.
- Consumers could use equity released (value at sale minus mortgage debt) to pay pension, care and still stay in their house.
- Politicians and regulators should aim to protect consumers against long term risks related to mortgages and the housing market.

Potential Research Questions:

- How can online platforms connect people with assets to people who need assets?
- What problems do people of lower income face when it comes to their housing?
- How can we organise cities to avoid clustering of house prices?
- Can financial products like mortgages adapt to changing personal financial situations?
- Can financial engineering help mortgages customization?
- Do consumers actually feel the need for new products related to housing funding?

Breakout session 2 - Sharing Economy & Consumer Platforms

Background information

The Sharing Economy (SE) captures non-ownership based types of consumption, where people provide or consume shared goods and squeeze more utility out of a given product. Consumer platforms have emerged where peer-to-peer collaborations are enabled, and aside from these platforms, individuals have also shifted their focus from private consumption/ownership to consumption decisions involving others. This could be to lower the cost of access to goods, limiting waste of resources, and potentially creating a source of revenue. It is predicted that by the year 2025 half of the world's economy will be involved in the sharing economy and collaborative consumption models. Moving to the sharing economy seems a smart and fruitful step for future commerce.

Outcomes Breakout session

After discussing the points of view from consumers, banks, regulators, politicians and industry stakeholders, the main threats, opportunities and potential research questions identified by the Summit group were:

Threats

- Diffusion of responsibility. Who is responsible for the exchange and outcomes? Consumers, the platform, and/or regulators?
- Level of control over exchange and outcomes. Can sharing platforms, politicians and/or regulators control the interaction between two consumers?
- Potential negative impact on safety, environment and quality of goods.

Opportunities

- Access to wide range of goods and chance to make more conscious decisions.
- Access to goods for less money, hence the opportunity to save money or use money for more goods.
- Opportunity to raise money or create income for people sharing their resources/assets.
- Banks could help to ensure the trustworthiness of exchanges.
- Initiatives with a global reach (digital), but local practice could have the best impact.

Potential Research questions

- Who participates and why? To have a better understanding of the sharing economy's impact on people's finances.
- What is the life cycle of sharing economy platforms? What factors influence it?
- What are the consequences of the sharing economy (micro and macro level)? Including: financially (individual, corporate, banking); and behaviourally.
- How does the SE change the demand for traditional forms of consumption (e.g. transport – Will it reduce private car usage or public transport rates?)
- What are the drivers of trust on SE platforms and how can trust be promoted
- What policies need to be developed among regulators? (Rule based vs. Principle based?)

Breakout session 3 - Artificial Intelligence, Data and Trust

Background information

AI and Data are promising technologies for the next decade. Intelligent computers and systems make decisions based on patterns in huge databases and might replace traditional human decision making. These systems can find patterns that continuously improve the accuracy of the algorithms but it might also reveal important relationships that we as human beings would prefer to ignore. Can these algorithms be trusted? Many machine learning and artificial intelligence systems still lack the ability to precisely explain how they work and make decisions. Intelligent systems can just as easily fail in discovering important relationships and produce recommendations that lead us astray or that suffer from biases in the realm of gender, ethnicity and so forth. In the past several years, machine learning and AI have made enormous strides in accuracy. Yet regulated industries remain hesitant, often prioritizing regulatory compliance and algorithm interpretability over accuracy and efficiency. Some businesses and regulators even consider the technology untrustworthy, or dangerous. How do we cope with these sort of challenges and make use of opportunities?

Outcomes Breakout session

After discussing the points of view from consumers, banks, regulators, politicians and industry stakeholders, the main threats, opportunities and potential research questions identified by the Summit group were:

Threats

- Consumers lose control over the use of their private individual data
- Consumers lose agency as increasingly more decisions are essentially being done (automatized) for them
- Regulator face difficulties in regulating AI and big data design and use

Opportunities

- Consumers receive more personalised advice and recommendations for decision making
- Consumer could decide how to trade their own data enabled by the right regulations on ownership and privacy
- Big data can increase transparency/simplification of financial and make financial decisions more simple
- Consumers are able to make more informed decisions if they are able to access for example peer-to-peer comparison

Potential Research Questions

- How can the use of personal data be optimised so that it can create social value?
- What do we need to know about optimising the combination of human and machine decision-making? What can be improved to help people?
- To what extent and why are people afraid (reluctant) of technological changes?
- How can we let sources of data communicate in the best possible way to help people?

Breakout session 4 - Labour Market Flexibility and the Gig Economy

Background information

Globalisation and technology have disrupted the notions of work, employment, and income in important ways. The increasingly more flexible and on-demand economy is challenging people to find ways to adjust the impact of various new structures of work in their life. This can affect workers financial decision making, as well as their work-life-income balance. Many workers must balance freedom and flexibility with uncertainty and a lack of security. Today, in Europe, 15-25 percent of workers are estimated to gain their income from the 'atypical' labour market, and those numbers are growing. This shifting from the traditional workplaces to an on-demand economic environment brings both benefits and losses. Research is needed to better understand and foresee the advantages and disadvantages for workers created by flexible work arrangements. Strategically-minded financial institutions should also react to the changing labour market to enable people to manage their finances in the best way.

Outcomes Breakout session

After discussing the points of view from consumers, banks, regulators, politicians and industry stakeholders, the main threats, opportunities and potential research questions identified by the Summit group were:

Threats

- Workers face higher income fluctuations, which makes their future increasingly uncertain and may make them more financially vulnerable
- Flex and gig workers may suffer of short-sightedness in their financial planning and decision-making
- Inequality is likely to increase due to lower market power of workers
- Workers have less social security and regulators are not able to pursue the goal of improving their welfare

Opportunities

- New sources of income arise and workers may have new opportunities to further develop their careers
- Banks should innovate and offer financial solutions to workers in the new economy
- With the use of better technologies, data and platforms, better predictions of income and work-life balance can be made
- Platforms/financial institutions may provide tools for better financial planning in line with the requirements of the new economy

Potential Research Questions

- Who are the independent/flex/gig workforce? How do these workers manage their short and long term finances?
- What financial fluctuations and uncertainties do workers face in the new economy? What should/could governments and financial institutions do and offer to better deal with these fluctuations and uncertainty?
- How could innovation in these areas co-exist with benefits and employment security for flex and gig workers?
- What are the differences in wealth/income between workers in the gig economy and 'traditional' workers? Are there policy interventions needed to counteract potential higher inequality?

Breakout session 5 - The Effects of Longevity on Financial Vulnerability

Background information

Living longer sounds like good news, but it brings about important challenges. People need to adapt their savings behaviour to future expectations and institutional changes. If they do so insufficiently, retirement funds may be insufficient to maintain an unchanged lifestyle. Researchers from the Group for Research in Applied Economics (GRAPE) estimated the effects of longer life expectancy on future poverty and inequality in six Central European countries, in which the pension systems were reformed into a defined contribution scheme. Since lower pensions are expected under this new pension system, incentives for additional savings should rise among the working population of today to finance their retirement. However, the results suggest that many individuals will not foresee this, or won't be able to do so. Savings will not increase enough, income and consumption inequality will grow, and poverty rates could double when the generation of Millennials retires. Fostering access to savings instruments could help reduce poverty and wealth inequality in the future.

Read more details from this research here.

Outcomes Breakout session

After discussing the research findings and various perspectives, several recommendations and potential practical solutions were suggested:

- For consumers, a tool to get short and long term insights, with a focus on visual insights that compare our own personal pension savings in comparison to peers or surrogates. Also to receive positive examples and nudges to improve an individuals own savings behaviour.
- For financial services organizations, more experimental research on the behaviour of their customers regarding saving products is needed, to identify what people actually do and how they respond to nudging.
- Regulators and politicians could develop/facilitate a social platform for exchanging information regarding pension funds and non-financial savings plans of consumers.
- YOLT (the money management app) could introduce a new feature that gives an indication of personal pension savings.

Breakout session 6 - Leveraging Behavioural Science to Reduce Unnecessary Spending Behaviour

Background information

People often buy more than they need or can afford. This is especially true in cashless environments such as online shopping. By reducing this type of overspending, people could improve their financial futures.

Researchers from University of Pennsylvania studied the influence of nudging in the form of warnings during people's online spending decisions. More specifically, they investigated both the content and timing of the message, and tested which combination reduces people's online payments the most. In a randomly controlled experiment, it was found that a pop-up message reduces online spending behaviour. The amount spent on online purchases decreased the most when the pop-up message was displayed in the pre-shopping phase and contained information that made people aware of a future loss.

Researchers from IBM studied the effectiveness of warnings on (responsible) spending decisions in an online environment. It was suggested that spending can be reduced by sending a warning right before making a purchase, because it should increase the pain that comes with paying. The findings of this research reveal that severe warnings, evoking more negative emotions, are most effective in reducing the amount that people spend online. These warnings thus affect them in such a way that people will spend their money more responsibly.

Read more details from this research here and here.

Outcomes Breakout session

After discussing the research findings and various perspectives, several recommendations and potential practical solutions were suggested:

- For consumers, personalised warnings could be part of different online payment systems (e.g. IDEAL).
- For consumers, a 'cooling down' period would allow people to think more and possibly decide against a purchase.
- For consumers, a self-set budget could help people to not spend more than a certain amount.
- Banks could introduce tools that compare consumers to peers to nudge them and encourage an environment of healthy spending.

Breakout session 7 - Winners and Losers of Marketplace Lending

Background information

Marketplace lending (MPL) platforms offer online direct contact between individual borrowers and individual lenders. We witness a significant emergence and growth of these peer-to-peer lending platforms, in the context of relatively light regulation in this area. There is a real and currently unassessed risk of unknown and potentially dangerous effects on society, but possible positive effects should also be taken into account.

Researchers from the Georgia Institute of Technology analysed both the benefits and drawbacks of these peer-to-peer loans. Using data from approx. 1 million US based MPL borrowers, the results show that these borrowers have twice the consumer debt compared to the average American. MPL borrowers mostly use the peer-to-peer loans to pay down expensive credit card debt, which after three months decreases by over 60%. The findings suggest, however, that borrowers with a high credit risk (subprime borrowers) are more likely to revert to using their credit cards after this short period and, in fact, they are very likely to end up even more indebted after one year.

Read more details from this research here.

Outcomes Breakout session

After discussing the research findings and various perspectives, several recommendations and potential practical solutions were suggested:

- For consumers, participate in peer-to-peer lending platforms that create communities to promote and facilitate 'good' financial behaviour.
- For banks, identify customers that use peer-to-peer platforms to pay down credit card or personal debts.
- Regulators could act to reduce possibly risky cross lending, by creating a database of households total indebtedness and checking overfunding of lending platforms by banks.
- Politicians could create new policies to reduce over-indebtedness.
- More research to better understand the possible 'addiction' to debt of society is needed to come up with practical solutions that help tackling this problem.

Breakout session 8 - The Role of Personality Traits in Households Borrowing Behaviour

Background information

Personality impacts financial behaviour of both consumers and lenders. In lending, this may lead to both false positive (loan approved or taken, but shouldn't have) and false negative (loan denied, but shouldn't have) decisions by both consumers and lenders. False positive and false negative loans decisions have a negative impact on financial futures.

Researchers from Goethe University Frankfurt explored how personality traits are related to the borrowing behaviour of Dutch households. The results, based on a household survey conducted between 2005 and 2017, reveal that more extrovert and agreeable people have better expectations if they need to borrow money from family or friends. More self-aware people and those who believe they're the master of their own lives (internal locus of control) have better prospects for being approved for a loan from a financial institution. Although many households regret having taken a loan (21%), more open, agreeable and neurotic individuals are more likely to express these regrets.

Read more details from this research here.

Outcomes Breakout session

After discussing the research findings and various perspectives, several recommendations and potential practical solutions were suggested:

- For consumers, an app that assesses personality and gives consumers insight into the financial decisions of people with similar personality traits.
- For banks, differentiating terms and products based on personality traits, for instance specific lending requirements or a loan process that includes a 'cooling down' time period. However, this could lead to discrimination risks based on personality traits, so it needs to be further investigated.
- For politicians, If personality assessments would be used for product customization, regulations against personality discrimination would be needed.