The True Potential Centre for the Public Understanding of Finance

The Open University Business School

Green Paper: Saving us from ourselves – how can we make the UK more financially resilient?

OVERVIEW

Untold time and resource has been devoted to quantifying and analysing the UK's low level of personal saving – and recommending ways to change it for the better. Yet despite the concerted efforts of academics, policymakers, industry and others, the number of people in the UK with few or no savings remains stubbornly high. When we do decide to save, we are prone to making poor decisions about where to put our money.

The UK's low level of personal saving has been the subject of a great deal of research and debate – and a great many bad news headlines. The problem is well-understood and well-evidenced – but we know much less about what actually works to improve consumer outcomes in saving and investing. As a result, the UK remains poorly prepared for unexpected events and for retirement.

On the face of it, 'doing the right thing' when it comes to saving and investing is straightforward and involves two basic steps. Step one, build up a pot of easily-accessible 'resilience savings' to provide a financial safety-net if things go wrong or else help pay for some of the nicer things in life. Step two, build up a pot of longer-term savings and invest it wisely: for example, in diversified, low-fee investments that offer high returns over the long-term. Investment choice is the key for long-term savings, as interest compounds and fluctuations smooth over a longer time horizon, whereas for shorter-term resilience savings the most important part is the saving, not where you put it.

There are various reasons why we don't 'do the right thing' when it comes to saving and investing, which mean we end up under-saving and making poor investment decisions. Behavioural economics shows that a big part of the underlying problem is how we think and feel about saving and investing – and how firms respond to our attitudes and behaviours.

This Green Paper sets out our ideas for an exciting and ambitious research programme to help shape solutions to save us from ourselves when it comes to saving and investing. There are five themes, with strong threads of technology, regulation, and behavioural 'nudges' running through them:

1. Improving the public understanding of personal finance

2. Helping children and young people form good money attitudes and habits

3. Making it easy to save

4. Simplifying the products and information that savers and investors receive

5. Using defaults to improve consumer investments when they choose not to choose

We have already started to build an exciting network of individuals and organisations who want to work together on these challenging questions. If you want to find out more please do get in touch with Will Brambley: **william.brambley@open.ac.uk** or Sharon Collard: **sharon.collard@open.ac.uk**

16 million Brits 'living on the edge' with zero savings

Money Advice Service, 24.1.14

Why do we need saving from ourselves?

The UK's low level of personal saving has been the subject of a great deal of research and debate – and a great many bad news headlines.

The problem is well-understood and well-evidenced. In terms of non-pension saving, official statistics show that 41% of the UK population do not actively save money;[1] while 80% do not have the recommended 3 months' income saved to help them weather redundancy or other unexpected events.[2] 25% of British households have negative net financial wealth – which basically means that the amount of money they have saved and invested (excluding pensions and private property) is less than their financial liabilities.[3]

As a result, significant numbers of people in the UK are poorly prepared for unexpected events such as a drop in income or an emergency, and may have to borrow money instead – incurring additional costs at a time they can ill afford them. This is particularly damaging as people systematically underestimate their likelihood of getting ill or being made redundant. It is estimated, for example, that 13 million people in the UK do not have enough savings to support them for a month if they experience a 25% fall in income.[4]

Without resilience savings, financial shocks can result in problem debt,[5] which has been called "the most serious social problem facing the UK today"[6], with the lack of basic savings to cover unexpected events cited as a primary cause.[7]

1 Rowlingson, K. & McKay, S., 2014. *Financial Inclusion: Annual monitoring report 2014*, Birmingham: University of Birmingham.
2 Money Advice Service, *Financial Capability Strategy for the UK: The Draft Strategy*, 2014, London
3 ONS, 2014. *Wealth in Great Britain Wave 3, 2010-2012*. Chapter 5: Financial Wealth. Financial wealth comprises formal financial assets excluding pensions and current accounts in overdraft; informal financial assets; and endowments for the purpose of mortgage repayment. Financial liabilities comprise non-mortgage borrowing and arrears on these and/or other household bills.
4 StepChange Debt Charity, 2014. *Life on the Edge*.
5 StepChange Debt Charity, 2013. *Statistical Yearbook.*
6 Ibid.
7 Centre for Social Justice, 2014. *Restoring the Balance: Tackling problem debt.*

> **The great British pension chasm: Millions face stark choice of working into old age or surviving on far less than they think**
>
> Mail Online, 28.1.14

The picture is similarly gloomy when it comes to saving for retirement

Government analysis estimates that 11.9 million people are not saving enough to maintain their standard of living into old age[8] – although a large number of these could improve their situation by saving 'a little more'. While automatic enrolment has brought five million people so far into workplace pensions,[9] once in a pension scheme members are unlikely to make any active investment choices or switch investments.[10] For example, almost all the assets under management (over 98 per cent) for NEST's one million members rest in the default option.[11] Members may of course make an informed choice to remain in a default fund. But far more likely they have little awareness or interest about how their pension savings are invested, which means they may lose out on the chance of a better outcome.

As a result, retirement can be something that people dread or fear, rather than look forward to. In a survey of defined contribution pension savers, only 28 per cent said they were looking forward to retirement, with finances and health being the two main worries.[12] Moreover, just as with younger age groups, the financial situation of the over-50s is a powerful indicator of their mental wellbeing. Over-50s who 'Find it very difficult' to manage financially have almost eight times the odds of poor mental wellbeing compared with those who say they are 'Living comfortably'.[13]

So, how can we 'do the right thing' when it comes to saving and investing?

On the face of it, 'doing the right thing' when it comes to saving and investing is pretty straightforward and involves two basic steps.

Step one, build up a pot of easily-accessible 'resilience savings' that can provide a financial safety-net if things go wrong or else help pay for some of the nicer things in life, like a holiday. Experts recommend aiming for three to six months' worth of household expenditure in this type of rainy day fund. It is estimated that having £1,000 in savings could have prevented half a million people from falling into problem debt[14] – but even small savings can offer financial and psychological benefits.

Step two, build up a pot of longer-term savings and invest it wisely: for example in diversified, low-fee investments that offer high returns over the long-term, such as multi-asset funds. Here, the decision about where to save or invest matters a great deal more than with short-to-medium term 'resilience savings'. Earning just 1% more in interest over a lifetime can make a very big difference to the eventual outcome, because the interest is compounded (that is, interest is calculated on the money you save and the accrued interest).

While it sounds simple, the twin problems of under-saving and poor investment decisions mean that many of us don't do the right thing – in fact, we often don't do anything.

8 DWP, 2014. *Scenario analysis of future pension incomes* https://www.gov.uk/government/publications/scenario-analysis-of-future-pension-incomes
9 NEST, 2015. *NEST Insight 2015: Taking the temperature of auto enrolment.*
10 See for example, Collard, S., 2009. *Individual investment behaviour: A brief review of research.* University of Bristol, Personal Finance Research Centre; and Collard, S. and Moore, N., 2010. *Review of international pension reform.* DWP Research Report 663. London: HMSO.
11 NEST, 2014. *NEST Members' Panel annual report 2013/2014.*
12 Barclays, 2014. *Steps towards a 'Living Pension'.*
13 Collard, S. and Hayes, D., 2014. *Financial well-being in later life: Evidence and policy.*
14 StepChange Debt Charity, 2015. *An Action Plan on Problem Debt: How the next UK Government can reduce the £8.3 billion social cost of problem debt.*

But why don't we 'do the right thing' when it comes to saving and investing?

There are various reasons why we don't 'do the right thing' when it comes to saving and investing, which mean we end up under-saving and making poor investment decisions.

Plausible reasons for under-saving range from three decades of easy borrowing in the UK which has generated a 'no need to save culture', to high living costs and squeezed incomes in more recent years. There is also a certain amount of 'doublethink' around saving and saving policy which means it is not always clear what the 'right thing' is: we are told we don't save enough, but also that it's cheap to borrow, and it doesn't pay to save (at least in cash savings); we're told we spend and borrow too much, but also that the UK's economic recovery depends on us continuing to spend and borrow; and we're told we're not very good at planning ahead, but we are now expected to do this more than ever before – not only for retirement but also to make sure we are protected in the event of unemployment, ill-health and other life changes.

Similarly, the reasons why we shy away from making investment decisions (including taking out investments in the first place), or make poor decisions, are well-known. In recent consumer research commissioned by the Open University Business School, 51% of respondents were reluctant to invest because they believed it was too complicated or too scary. Many of them felt that investing simply wasn't for 'people like them'.[15] Other reasons range from low consumer trust in financial services, to how investments are regulated and sold.

But while these are all valid reasons for under-saving and poor investment decisions, behavioural economics shows that a big part of the underlying problem is how we think and feel about saving and investing – and how firms respond to our attitudes and behaviours.

Some of the root causes lie much closer to home

We know why people **under-save**: the bottom line is that saving requires us to forgo things we want to buy now in order to benefit at some undefined time in the future. It is human nature to be present-biased, to want benefits now and overlook future costs. Just as many people find it difficult to forgo chocolate or cakes in order to lose weight, giving up things you want in order to save is psychologically difficult.

Many other factors (or in behavioural economics terms, other biases) combine with this to create a powerful psychological hurdle to saving. For example, we underestimate how likely something is to go wrong, such as losing our job or getting ill (called optimism bias), and we mistakenly believe that preferences and circumstances will persist, so if I'm currently well-off I will continue to be (known as projection bias or over-extrapolation).

15 'Are you pro or anti austerity with your household budget? Open University Business School News Release, 1 May 2015.

What's the problem?	What's the underlying cause or bias?
Poor choice of investment	Use of mental shortcuts (e.g. rules of thumb) and firms' responses to these
	Mistaken beliefs such as optimism bias[16] and projection bias/over-extrapolation[17]
Under-saving	Present bias

We also know the **poor decisions** that investors commonly make, and why. Faced with a vast array of investment choices, all with different risk profiles and levels of return, many with complex features and fee structures, we tend to use mental shortcuts (called heuristics), we rely on fairly crude rules of thumb, and our decisions may be led by our feelings rather than any reasoned consideration of the options. These mental shortcuts lead us to make predictable mistakes. Three common mistakes that we make are:

- We focus on the headline figure and choose savings accounts with the highest introductory bonus rates, in the usually-mistaken belief that we'll switch when the bonus rate ends.
- We assume that because pensions are large and important they need to be invested safely, when in reality fluctuations tend to even-out in the long-term, meaning the biggest risk to retirement income is often our reluctance to take investment risk which in turn may jeopardise our longer-term objectives – known as reckless conservatism.[18]
- When we do invest in risky assets, we tend to buy high and sell low because we assume things that have done well will continue to do so and things that have fallen in value will continue to fall, even though the evidence says the opposite is more likely.

In addition, when it comes to investment decisions where our capital is at risk, we have a tendency to 'catastrophise'. This means that people *'see the chance that their money is at risk as the same as the chance of losing everything'*[19] which is likely to be borne partly from a poor grasp of probability in relation to investment risk, and partly from a natural emotional response to the idea of financial loss. This again leaves us open to the risk of reckless conservatism.

16 Optimism bias is a tendency for people to overestimate their likelihood of experiencing a wide variety of pleasant events, such as enjoying their first job or having a gifted child, and somewhat underestimate their risk of succumbing to negative events, such as getting divorced or falling victim to a chronic disease. (Buehler, R., Griffin, D., & Ross, M. (1994). Exploring the "Planning Fallacy": Why People Underestimate Their Task Completion Times. In: *Journal of Personality and Social Psychology*, 67(3), 366–381.)

17 The mistaken belief that preferences and circumstances persist which together with optimism bias goes a long way to explain our mistaken predictions of the future.

18 Pensions Institute, 2014. *How do savers think about and respond to risk? Evidence from a population survey and lessons for the investment industry.* Cass Business School.

19 NEST, 2014. *Improving financial confidence in saving for retirement. Page 9.*

Consumer behaviour interacts with financial firms and regulation

> **'What people choose to know and what they do with their knowledge may primarily depend on their intrinsic psychological attributes.'**
>
> **D. de Meza et al, 2008. *Financial Capability: A Behavioural Economics Perspective.* FSA Consumer Research Report 69.**

The problems caused by these behavioural factors are exacerbated when you add financial services firms to the mix: faced with predictable, human behaviour, firms have a strong incentive to exploit these traits for profit – especially when their competitors are doing so. This is not to imply that firms intentionally exploit consumers. From their point of view, firms are selling products that consumers choose to buy, using advertising that consumers respond to. For example, consumers actively choose – even demand – savings accounts with appealing introductory offers, putting competitive pressure on firms to supply them.

This is why the market is so heavily dominated by savings accounts with introductory 'teaser' rates, by increasingly complex products that are difficult to compare, and by advertising that focuses on extras, rewards and past performance rather than boring-but-important features such as fees and long-term interest rates. For this reason intervention from regulators or the government, in addition to changes by financial firms, is needed to help set the right framework and incentives for firms and make competition more effective at driving positive outcomes for consumers.[20] The problem is structural, not simply one of firm conduct.

Current regulation aims to address this, but falls far short. In the UK and elsewhere, disclosure rules have proved largely ineffective at empowering consumers to shop around and demand products that work for them. It is even possible that, faced with information overload, the additional disclosure required by regulation may do more harm than good. Promoting regulatory principles that focus on consumer outcomes (such as 'Treating Customers Fairly') in conjunction with the FCA's new powers to promote effective competition in the interests of consumers, could have a much more positive effect. Radical reform is needed if regulation is to be successful in addressing these problems and improving consumer outcomes.

As well as cognitive biases, our emotions and attitudes also play an important role

Emotion is central to what's called our 'cognitive functioning': the mental processes by which we acquire knowledge, and put it into practice when making decisions. There is a wealth of evidence to suggest that emotions affect the quality of our decisions, for better and for worse. Research has shown for instance that positive feelings, such as contentment, tend to drive more optimistic decisions. Conversely, negative emotions, such as boredom, are linked to pessimistic decisions. Fear and anger can have significant – and opposite – effects on our perceptions of risk. And emotions such as anxiety or regret also influence financial purchases. For example, many of us buy insurance cover for the peace of mind it offers.

Attitudes refer to a person's feelings, opinions and general approach to a subject or person. Research suggests that people who perceive money as security (like a security blanket) are more capable of planning their resources than those who do not associate money with security. They also have lower odds of experiencing adverse financial events (such as bankruptcy or credit refusal) than people who associate money with power.[21]

20 Martin Wheatley, Chief Executive of the FCA, Mansion House speech, 2014: https://www.fca.org.uk/news/competition-in-the-interests-of-consumers

21 Von Stumm, S., Fenton-O'Creevy, M. and Furnham, A., 2013. Financial capability, money attitudes and socio-economics status: risks for experiencing adverse financial events. In: *Personality and Individual Differences*, 54(3), pp344-349.

What can help save us from ourselves?

While there has been extensive research into the problems of under-saving and poor investment decision-making, we know much less about what actually works to improve consumer outcomes in saving and investing. And in this modern era of consumer responsibility, we are in dire need of some solutions. Even small improvements – in products, in policies, in consumer behaviour – could yield big benefits – for consumers, for firms and for the regulator.

There are a range of things that might help save us from ourselves – such as education, advice, product innovation, and policy changes. Below we discuss some of the most promising ideas that form our five research themes:

1. Improving the public understanding of personal finance

2. Helping children and young people form good money attitudes and habits

3. Making it easy to save

4. Simplifying the products and information that savers and investors receive

5. Using defaults to improve consumer investments when they choose not to choose

These themes have strong threads of behavioural ‘nudges’, technology and regulation running through them. Solutions need to work with our behavioural biases, even using them as part of solutions, rather than trying to ‘fix’ human behaviour itself. While it may well be possible to help people develop better habits or make better choices, it is unrealistic to assume we can solve problems of under-saving and poor investment decisions by focusing on consumers alone.

Technology presents exciting new opportunities to improve consumer outcomes in saving and investing. Digital technology and product innovation are obvious examples, but technological advances enable wider solutions, such as tailoring information and services to people’s needs through all channels – face-to-face, on paper, by email or online.

Regulation can act both as a barrier to innovative solutions and as a mechanism to enact ideas that aid consumers but may impact the profits of financial firms. In some places, regulation may need to be relaxed to enable solutions to flourish, such as around advice, information disclosure and aspects of product innovation. In other areas, where firm incentives act against potential solutions, regulation may have to be reformed or tightened to change the market at a structural level. Some of the changes necessary are likely to be radical if regulation is to be effective in safeguarding consumers and improving their outcomes.

In our programme of research, we plan to identify, research and test promising ideas and initiatives, in order to support efforts to improve the UK’s financial resilience. We set out below some ideas that we hope to explore. Regulation is a crucial concern in considering how to address under-saving and poor investment decision-making. In our analysis of potential solutions, therefore, we intend to consider what kind of market or regulatory reform might be needed to make these ideas happen.

Theme 1: Improving the public understanding of personal finance

A common mantra is that financial education gives people knowledge, which in turn results in positive action to improve their personal finances – such as starting to save. But while financial education may improve our knowledge and understanding, there is not much evidence that it can help correct the sorts of ingrained behavioural biases described above. We often know what we should do – we know we should eat healthier, exercise more, save more – but doing something about it depends a lot on our psychological make-up.

True Potential PUFin's free, online personal finance modules are designed to give adults the knowledge and tools they need to make better financial decisions, in bite-size chunks of learning. To date, around 45,000 people have registered for Managing My Money (which gives people the foundations for good personal finance management), and the feedback from learners has been overwhelmingly positive. Learners report positive changes in behaviour such as making money-saving changes and starting to budget for the first time. Managing My Investments, which looks in-depth at the theory and practice of investment and pension decisions, launched in May 2015 on Future Learn, with over 19,000 registering for the six-week course.

As part of our research programme, we plan to explore in more detail the short and long-term effects of Managing My Money and Managing My Investments on learners' attitudes, behaviours and, where possible, their behavioural biases. This will provide valuable evidence what works, and what doesn't work, in improving people's understanding of finance and, more importantly, how they use that new-found understanding.

Theme 2: Helping children and young people form good money attitudes and habits

Research shows that our money habits are set by the age of seven. Studies find that early experiences provided by parents, caregivers and teachers which support children in learning how to plan ahead, be reflective in their thinking and be able to regulate their emotions can help promote healthy financial behaviour.[22]

Technology provides exciting opportunities to produce the sorts of simple and playful parenting and teaching resources that the research calls for. Examples include Osper, a prepaid debit card for young people aged under 18, with a mobile banking app for the family. It is designed to make it easy for young people to track their spending and save for things they want.[23] Join Sam is a money service for children and their families where money and value can be stored, and children and their families can add to that money by earning rewards and through cashback.[24] Co-created by young people, the Money Advice Services' Wishfund Savings Goal app is designed to give young people aged 16 to 19 a visual incentive to save for what they want and cultivate a mentality of 'save, spend, then save again'.[25]

In our research programme, we plan to review the financial technology that exists to help children and young people become 'money smart'. We are also keen to work with providers to explore the impact that their resources have on children, young people and their families – combining academic research and insight with exciting fintech innovation and real-life experience to enhance the evidence base on 'what works' to improve financial capability.

22 Whitebread, D. and Bingham, S. 2013. *Habit Formation and Learning in Young Children.* London: Money Advice Service
23 https://osper.com/
24 http://www.joinsam.com/
25 https://www.moneyadviceservice.org.uk/en/corporate/wishfund-app-yphub

Theme 3: Making it easy for adults to build up a pot of 'resilience savings'

Product innovation – developing new financial products and services or adapting existing ones – holds promise in terms of helping UK adults build up a pot of 'resilience savings'.

The influential Behavioural Insights Team emphasises how important it is to 'Make It Easy' to encourage people to take an action. The Save More Tomorrow programme in the US has done just that, to produce a significant increase in pension savings- with average savings rates for participants rising from 3.5% to 13.6% of salary.[26] Employees who enrolled in the programme committed to increasing their pension contribution at their next pay rise. By committing to future increases, employees didn't have to change anything now, removing any issue of present-bias. And by linking it to future pay rises, employees don't feel like they have less money, removing the risk of loss aversion that might cause people to opt out.

Another way to 'Make It Easy' to save is to encourage borrowers to continue making repayments once they have repaid a loan – but with the money going into savings instead. Similarly some credit unions have shown that 'soft compulsion' can encourage saving at the point of lending.[27] So when a loan agreement is made, the credit union agrees with the borrower a set amount of money to be paid into savings by direct deduction at the same time as their loan is being repaid. For example, if a loan repayment is £26 per month, the credit union could suggest rounding this up to £30, with £4 going into a savings account.

A final 'Make It Easy' idea is the use of digital technology to enable people to save small amounts at the touch of a button on their mobile phone. By encouraging people to save on impulse, in the same way they might buy a coffee or donate to a charity, and using behavioural techniques such as positive feedback or gamification to reinforce this, it could nudge people to save more and spend less. One example of this is impulseSave©, developed by True Potential LLP. We hope to examine the user experience and consumer outcomes from technology such as impulseSave© as part of our research programme.

In our research programme, we are keen to work with industry, the civil society sector and consumer organisations to explore ways to 'Make It Easy' to build up resilience savings and to identify and assess the key features of successful schemes. For example could Save More Tomorrow or a debt-to-savings product increase resilience savings? How well do reward or incentive schemes work, and who they work for? Do the new possibilities opened up by digital technology translate into better saving behaviour? And what are the costs and benefits of running a communications or marketing campaign alongside a savings product?

26 Thaler, R. H., & Benartzi, S. (2004). Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving. In: *Journal of Political Economy*, 112(1), 164–187.

27 Collard, S., Hale, C. and Day, L., 2010. *Evaluation of the DWP Growth Fund.*

Theme 4: Simplifying the products and information that savers and investors receive

When it comes to helping people make better investment decisions, simplification seems to be key: in terms of the choice of products that people face, and the product information they receive. But achieving greater simplicity is anything but simple, because it requires a sensible balance to be struck between the needs of the regulator, firms and consumers. We set out below some of the ideas we would like to explore and test in our research programme.

We face a vast array of possible options when choosing long-term investments like our pensions: equity, debt, property, commodities, structured products, active or passive, types of fund, brand names, fund managers etc. When faced with many options, we know that people tend to make worse choices, or avoid making a choice altogether, than when faced with only a few options.[28] This is often referred to as 'analysis paralysis'.

'I think too little time is still spend thinking about, you know, how clients perceive information, how they interpret, how they assimilate it and how they translate it to their own minds.'

Advice industry representative

Overcoming 'analysis paralysis' and its associated mistakes requires either a radical change in how the investment market works and the options open to consumers, or much simpler information to enable consumers to make better decisions.

As we reported in our recent White Paper on people's understanding of risk[29], while information disclosure is fundamental to consumer protection and competition, it is hard to strike a balance that works well for consumers and the industry. The stakeholders and advice industry representatives we interviewed for the White Paper raised concerns about the information that investment customers receive, including suitability reports that are produced by financial advisers for their clients and the information that comes with investment products. In a nutshell there's too much of it; customers rarely read or understand it; and as a result there is a real risk that important information about investments goes unnoticed or ignored.

The FCA (the UK financial services regulator) is exploring whether disclosures generally can be made simpler and work better for consumers.[30] **In our research programme, we are interested to work with industry to explore how information could be simplified or framed in different ways, to help consumers make better investment decisions.** This could, for example, look at the efficacy of risk warnings in their current form.

In addition, following on from our White Paper, we have been working with consumer and industry experts to explore possible new approaches to risk profiling. For example, this might involve moving away from risk profiling as a process which seeks to reveal an individual investor's risk preferences to a life profiling process which aims to support investors in constructing appropriate risk preferences through a learning journey that takes into account their goals, family circumstances, financial circumstances etc.

28 Iyengar, S. S., & Lepper, M. R. (2000). When Choice is Demotivating : Can One Desire Too Much of a Good Thing? In: *Journal of Personality and Social Psychology*, 79(6), 995–1006.
Iyengar, S. S., Jiang, W., & Huberman, G. (2003). *How Much Choice is Too Much? Contributions to 401(k) Retirement Plans.* Pensions Research Council Working Paper 2003-10. The Wharton School, University of Pennsylvania.

29 Collard, S., 2015. *White Paper: Towards a common understanding of risk.* True Potential PUFin/OUBS.

30 *FCA Business Plan 2014/15.* London: *FCA; Smarter consumer communications* DP 15/5, www.fca.org.uk/news/dp15-05-smarter-consumer-communications#

Encouraging people to use their own personal data is another potential way to help consumers select the right investment product for them. The government-backed 'midata' initiative, for example, aims to allow consumers to access their data in a safe and secure way and to make better decisions that reflect their wants and needs.[31] As a result, customers of the UK's big banks can now use their own data to compare current accounts.[32]

Looking to the future, conversational agents are a form of artificial intelligence that are capable of engaging in conversation with humans, employing the same verbal and non-verbal means as humans such as gesture and facial expression. Conversational agents offer a means of human-computer interaction that could potentially help people make choices and decisions, such as investment decisions.

Theme 5: Using defaults to improve consumer investments when they choose not to choose

Simplifying information and improving investor tools is unlikely to result in every investor making an informed, sensible active choice. Analysis paralysis is pervasive even in many much simpler decisions, meaning a significant proportion of people are likely to choose not to choose – to accept the default option, take the product offered to them, or do nothing at all. It is vital to get the default option right for those who choose not to choose, to make sure it is at least a sensible option for most people. It may even be that investment products with default or limited options of portfolios could attract consumers and help them to make better investment choices. **In our research programme, we are interested to work with stakeholders (such as employers, NEST) to explore the use of default investment in pension funds, to test the effects of different defaults and explore the outcomes for the consumer of investing in a default fund compared to making an active choice.**

31 https://www.gov.uk/government/news/the-midata-vision-of-consumer-empowerment
32 http://www.which.co.uk/news/2015/03/midata-which-first-look--399235/

Our research

This Green Paper sets out our ideas for an exciting and ambitious research programme to help shape solutions to save us from ourselves when it comes to saving and investing. We believe there are three steps to delivering evidence about what works in promoting resilience saving and better investment decisions:

- First, to use quantitative and qualitative research to identify the groups most at risk from poor outcomes when it comes to saving and investing, and be clear on what outcomes need to change
- Second, to identify specific solutions that offer the most promise to change things for the better
- Third, to test these solutions in field trials, experiments, and quasi- or natural experiments, using the Test, Learn, Adapt approach recommended by the Behavioural Insights Team.

We have already started to build an exciting network of individuals and organisations who want to work together on these challenging questions. If you would like to find out more, please do get in touch with Will Brambley: **william.brambley@open.ac.uk** or Sharon Collard: **sharon.collard@open.ac.uk**

About The True Potential Centre for the Public Understanding of Finance

The True Potential Centre for the Public Understanding of Finance (True Potential PUFin) is based at the Open University Business School (OUBS). True Potential PUFin is a pioneering centre of excellence for research and teaching related to personal finance capability. It brings together academics with expertise in fields such as regulation, taxation, consumer attitudes, motivations and behaviours, and social marketing.

The establishment and activities of True Potential PUFin have been made possible thanks to the generous support of True Potential LLP. True Potential LLP has committed to a five-year programme of financial support for the Centre. Views expressed by True Potential PUFin are those of the academics involved and do not necessarily reflect those of True Potential LLP.

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About The Open University Business School

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For more information, please visit
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About True Potential LLP

Formed in 2007, True Potential LLP is one of the fastest growing and most innovative financial services organisations in the UK today.

Through its group of companies – True Potential Wealth Management LLP, True Potential Associate Partners Ltd., True Potential Investments LLP and True Potential Adviser Services LLP – they work with close to 20% of UK Financial Advisers and their clients.

They also offer an online investment service that empowers UK consumers to take control of their finances – True Potential Investor. Along with being able to set real goals for your money and giving you the ability to invest in some of the world's leading funds and track their progress 24/7, True Potential Investor offers the firm's unique ImpulseSave® top-up feature.

By harnessing technology, True Potential provides simple, effective and unique solutions that can change the way people save.

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