Panel 6: Information and Disclosure

Melissa Knoll

CFPB Research Conference | December 16, 2016

Consumer Financial Protection Bureau

Paper 1: Financial (Dis-) Information

- 3-country audit study (Ghana, Mexico, Peru)
- Trained local residents as auditors
  - Varied scripts on 4 dimensions (account type, sophistication, competition, dress code)
- Key questions:
  - What is the quality of the information provided?
  - Do financial institutions offer the best product for the customer?
- Key findings:
  - Enough info provided to open account/apply for loan, but little voluntary disclosure of cost
  - Auditors rarely offered the cheapest product
- "...staff only provides information when prompted..."
- "...financial institutions do not engage in informative marketing."

Paper 3: The Display of Information and Household Investment Behavior

- Retirement/mutual fund market in Israel
- Exploits natural experiment from regulatory change (regression discontinuity)
  - Change from 1-month return display to 12-month return display
  - 12-month display became default
- Key findings:
  - Sensitivity to 1-month returns decreased after display shock
  - Decline in overall trade volume after display shock
  - Net flows into riskier accounts increased after display shock
- "…regulators may be granting power to disclosing entities unintentionally."

Paper 2: Attention, Search and Switching

- 5 RCTs using regulated financial institutions in the UK
- Tested interventions to encourage switching to higher-paying savings products
- Some interventions were effective (all modest effects)
  - front-page switching box ✓
  - reverse-page switching box ✗
  - switching form ✓
  - Digital/SMS reminders ✓
- Some evidence for heterogeneous effects
  - Switching level in control groups higher for those with more to gain
  - Switching level in control groups higher for those aged 60+ (retired)
- "…attention to disclosure is low"

What is known vs. What is knowable

- Paper 1: All of the information is *knowable*, only information explicitly requested is *known*
  - Naïve auditors don't ask, sophisticated auditors do
- Paper 3: 1-month information is *knowable*, only 12-month information is *known*
  - (I argue) Less-sophisticated investors would have a hard time figuring out 1-month return
- Paper 2: Info on reverse-page switching box is *knowable*, info on first-page switching box is *known* (somewhat)
  - Scarcity? Sophistication?
  - Bigger question: How much is known at all on average?
    - Limited attention to disclosures in general

Information Disparities

- Can choice architecture lead to information disparities between more- and less-sophisticated consumers?
  - In all papers the information is *knowable*, but are less-sophisticated consumers less likely to *know*?
  - Unintended consequences of disclosures?
- Libertarian paternalism
  - "…it is both possible and legitimate for private and public institutions to affect behavior while also respecting freedom of choice (Thaler, 2003)"
    - Is respect for freedom of choice enough?
    - Should we pay more attention to who is likely/able to exercise choice?

Topics for Future Research

- Heterogeneous nudges?
  - Perhaps shift away from blunt nudges toward customizable choice architecture
- Knowable vs. known
  - Do consumers seek out additional information?
  - Disclosures with links to additional information
    - Are some consumers more likely to seek out information than others?
    - Potential for information disparities based on ???
- Context of information provision
  - Interactions between customer and institution that could lead to less attention, engagement, less comprehension

Monthly fee	Per purchase	ATM withdrawal	Cash reload
$5.99†	**$0**	**$0** in-network **$1.99** out-of-network	**$3.99***

ATM balance inquiry (in-network or out-of-network)	$0 or $0.50
Customer service (automated or live agent)	$0 or $0.50* per call
Inactivity (after 12 months with no transactions)	$1.00 per month

We charge 4 other types of fees. Here are some of them:

[Additional fee type]	$0.50 or $1.00
[Additional fee type]	$3.00

† No monthly fee with direct deposit or 30 transactions per month.
* This fee can be lower depending on how and where this card is used.

You may be offered overdraft/credit after 30 days. Fees would apply.
Register your card for FDIC insurance eligibility and other protections.

For general information about prepaid accounts, visit *cfpb.gov/prepaid*.
Find details and conditions for all fees and services inside the package, or call **800-234-5678** or visit ***xyz.com/prepaid***.