Retention among Financial Coaching Participants at Financial Opportunity Centers:

Behavioral Audit Report

2016

Executive Summary

Project Background

A growing body of literature suggests that financial coaching helps participants to achieve financial stability and to improve their financial well-being. In the specific case of Financial Opportunity Centers (FOCs), LISC has identified a positive relationship between levels of attachment to financial services at the FOCs and measures of financial well-being, such as improvements in credit scores. In light of these lessons, LISC is interested in identifying ways to increase retention among financial coaching clients, specifically in using insights from behavioral economics to amplify the benefits of financial coaching among FOC participants.

The Common Cents Lab at the Center for Advanced Hindsight (CAH) is a behavioral science research center focused on applications of behavioral economics to financial decision-making. At the heart of behavioral research are the questions of how the environment in which individuals make decisions affects their behavior, and how individuals use shortcuts or heuristics to make those decisions. Through this lens, CAH started a process of exploring the steps involved in participants' interactions with the FOCs and the environment in which they take place. From there, we identified the psychological barriers that could be preventing the desired behavior at each step on participants' way to retention.

Behavioral Audit Methods

CAH informed this exercise with site visits to 20 FOCs in Detroit, Indianapolis, Houston, Chicago, and San Diego. During the site visits we met individually with staff at each site and conducted 33 interviews with coaching clients that provided us with a body of understanding for how clients interact with the FOCs. We also gathered insights from behavior mapping sessions with staff from all participating FOCs, in which financial coaches and other members of the staff outlined the interactions of participants with their FOC. During this exercise they also identified the barriers that could be preventing further engagement among financial coaching clients. Finally, we complemented these observations with individual-level data analysis from LISC's ETO system and a comprehensive review of existing literature from behavioral science.

Project Scope: Retention among Financial Coaching Participants

Clearly defining our outcomes is essential to measuring the success of our eventual intervention. For this project, we are measuring the number of clients who are enrolled in the financial coaching program **who attend two (2) in-person, one-on-one sessions with a financial coach, and complete a third (3) session either in-person or on the phone within a six (6) month timeframe.** Note that any observed changes to client outcomes regarding financial well-being will be measured as secondary outcomes and are therefore not the primary focus of this project or behavioral diagnosis.

Behavioral Barriers to Increased Retention

Our behavioral audit identified a number of key barriers to retention. Many of these barriers are step-specific, meaning they are directly connected to a particular aspect of the client's journey. Others, however, are more generalized and likely to impact a client's willingness to fully engage with financial coaching throughout their journey. Some of the barriers are logistical and arise from the situations that FOC clients are going through. Primarily, though, our diagnosis focuses

on psychological barriers for engagement in financial coaching, which are deeply rooted in how individuals conceptualize coaching and how the environment influences their behavior.

Barriers to preparing participants appropriately for first session

1. Financial coaching is sometimes presented in ways that don't fully convey how financial coaches can work with participants.
2. The way of presenting the bundling model to participants whose primary interest is not financial coaching can reduce their motivation and engagement in the financial coaching process.
3. In some cases, the intake process for FOC services is long and requires that the participants share a large amount of personal information. This might lead participants to think of financial coaching as an arduous and long process.

   Behavioral Economics Principles: Decision Paralysis, Framing, Relativity, Tunneling, Opportunity Cost Neglect, Friction Cost, Availability Bias

Barriers to engagement during the first sessions

1. Negative experiences in the past with social services or financial providers make it hard for participants to fully trust the financial coaches initially.
2. Participants avoid talking about their financial hardships with others at the beginning of their relationship with the FOC.
3. Small factors or cues in participants' experience with financial coaching affect how much trust they put in the coaches.
4. Clients decide to put off working with a financial coach because they are overly optimistic that they will be in a better position to work with a financial coach in the future.

   Behavioral Economics Principles: Trust, Loss Aversion, Ostrich Effect, Availability Bias, Planning Fallacy, Hyperbolic Discounting

Barriers to continued engagement in the coaching process and goal attainment

1. Financial coaching offers benefits that materialize in the future, so participants may give up if they do not feel they're making progress early on.
2. Clients simplify their engagement with an FOC by choosing to work with the one coach that they best developed a relationship with, and sometimes this is not the financial coach.
3. Many clients are asked to track their expenses between their first and second sessions without the proper tracking tools to simplify the process.

   Behavioral Economics Principles: Hyperbolic Discounting, Friction Costs, Self-Herding, Procrastination, Loss Aversion, What-the-hell Effect

Other barriers to attending sessions

1. When clients don't complete their assignment from the first session, they might avoid showing up for the following ones.
2. Some participants do not show up for the second or third session because they might want to avoid talking about their expenses and credit score.

3. For clients who are working on a specific issue or crisis, the relationship with the coach ends once it is solved.
4. Participants might think that financial coaching is for "other types of people" who are in worse situations than them. In addition, participants might not want to tell family or friends that they are seeing a financial coach.
5. Seemingly small friction costs can deter participants from scheduling or re-scheduling appointments.
6. Participants lack free time or have schedules that leave them exhausted and can make attendance difficult.
7. Participants might lack access to transportation necessary to facilitate attendance

   Behavioral Economics Principles: Ostrich Effect, What-the-Hell Effect, Tunneling, Opportunity-Cost Neglect, Self-Herding, Status Quo Bias, Social Norms, Logistical Barriers

Opportunities: Avenues for Testable Interventions

We have identified some areas of opportunity to address most of the barriers presented above using tools from behavioral economics. The following is a list of potential interventions aimed at increasing retention among financial coaching participants, as defined above:

- Redesigning introduction to financial coaching and how the bundling model is presented.
- Introducing behavioral economics into the design of the intake forms.
- Introducing cues in the physical environment where participants receive coaching.
- Making progress more tangible and immediate during sessions and follow-up.
- Redesigning expense-tracking sheets.
- Messaging and reminders around milestones and sub-goals.
- Messaging and reminders for attending sessions
- Introducing implementation intentions when scheduling meetings.

The list of potential interventions presented here respond to the questions of which tools from behavioral economics can be used to increase retention among financial coaching clients. Following the review of this report, CAH will discuss with LISC about which areas would be feasible and impactful to intervene on, and which of the areas are more suitable for proposing general changes. Following this conversation, CAH will design and prototype a testable intervention aimed at increasing retention of financial coaching participants.