

Timothy Flacke

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So, I am a bit of an outlier here because today, the conversations have been a lot about transactions, remittances, payments, maybe account opening, and I am going to ask us to think about a different potential of mobile, which is around financial education, and I have to say, for the graveyard shift here after lunch, everybody seems to be doing well. I promise if you stick with me for the next 10 minutes, I will manage to weave a bankrupt celebrity into this talk, okay?

[laughter]

That is my commitment to you. We will see how I do here with the device.

Okay, just briefly, who are we? So, again, I am Tim Flacke; I represent Doorways to Dreams Fund, or D2D. We are a national non-profit. We are really an innovation shop, and we look for holes in the financial services world for underserved consumers and try to fill them. One brief example, we have -- as many others have -- noted the huge importance of tax refund season; about \$250 billion that comes back every year, about \$100 billion to consumers with incomes under \$40,000 but struggle with how to capture that as savings, through a lot of trial and error, have stumbled on the potential of a tried and true financial product -- the U.S. Savings Bond -- and through some pilot work and some very responsive administration officials, you all have the opportunity now to channel part of your federal refund into a U.S. Savings Bond beginning this tax year. So, it's a little advertisement; tell your friends, it's a nice thing. That is the kind of stuff that we do. So, let's talk about financial education.

So, briefly, put ourselves in the mindset -- we can conclude, or I would submit that we have a huge need in this country to be better educated consumers. So, here's some facts to back that up. According to a recent study by Masotti, Mitchell, and Hurto, fewer than a third of young adults answer basic questions on interest rates, inflation, and diversification correctly, okay? So, one data point: fewer than a third. Incidentally, if you have parents who don't have an investment account and have not been to college, you are 45 percent more likely -- 45 percentage points more likely not to answer those questions correctly. You can read the rest here.

So, how about -- how ready are we to deal with financial crises? Our founder and chairperson is a finance professor; he and some colleagues have done some research. Nearly half of the country reports that if they had to come up with \$2,000 in 30 days however -- beg, borrow or steal -- they don't believe that they could do that. So, as a country, about half of us are \$2,000 or less away from financial disaster. You know, and by the way, \$2,000 is, what? The cost of a transmission, right? Or it's the cost of new home repair for a -- no? I can see a shaking head.

[laughter]

[unintelligible]

Thirty-four hundred; okay.

[laughter]

So, you can get maybe two-thirds of a transmission. Right.

So, our knowledge level, not so good, right? And our readiness, not so strong. I think that we can make the case that the need to be educated consumers is ever-rising, right? So, this is now is not just cutting-edge news, but we can point to, as just one example, the movement from define benefit plans to define contribution plans as just an example of how, as consumers, we have more responsibility for our financial destiny, not less, right? Maybe a more up-to-date example, which Jennifer might have some comments on, is the world of pre-paid cards. It is kind of a new frontier, and it's not so clear yet what is a good product and what is not, and yet, this is a product that is oftentimes targeted to underserved consumers, and they need to figure out which one is the right one, what works.

So, if anything, we need to be better educated and there is more need for that. And as I mentioned a moment ago with the first study, generally speaking, the most vulnerable consumers have the greatest needs; not a big surprise there.

And what can we say about financial education today? There is a lot of it out there. We can say that in general, from a content perspective, the aspiration is comprehensiveness, right? So, you see curricula that are eight or 10 hours of content -- very comprehensive -- generally focused on imparting knowledge and skills. Okay, not a bad thing, but maybe not enough. Delivery is perhaps -- if the opportunity arises -- in person, in group settings, or it can be self-service, but that usually means clicking a mouse on a screen somewhere or potentially working through a workbook. And in terms of effectiveness, one literature review from last year from Collins and O'Rourke looked at 27 studies of financial education, and they didn't walk away impressed that there was a lot of evidence that financial education is working. So, here we have this great need, and I think that the second half of the slide is basically making the case that there is an opportunity.

Okay, but now let's talk about mobile technology and financial education. So, these may be sort of common sense points, but there are some things about mobile technology that are actually really interesting, and the first one is they are really personal. I just -- in the break, an hour ago -- I heard somebody say, with no prompting from me, "I love my phone." Right? How many people have heard somebody say that about their -- oh, come on, somebody -- okay, there we go.

[laughter]

Have you ever heard somebody say that about their PC? Maybe if there are some Mac users out there, right?

[laughter]

People have this personal connection to this thing, and it goes with the fact that there portable, that you carry it around with you, that you have got it with you all the time, that is there for you when you are checking, you know, whether your flight is late, that it's the device you look to see what your balance is on. So, it is this thing that is with you. Depending on how complicated they are -- well, even basic phones are interactive. This is true of other technologies, too, but it is a two-way street. And if we talk particularly about Smartphones, they are, of course, high-tech, right? I mean, we were talking earlier with a gentleman from PayPal about Palm Pilots; we thought that those were whiz-bang, but now-a-days, you know, you could practically launch a rocket with one of these Smartphones if you have the right application on there.

[laughter]

So, there is some potential.

So, what are the implications for financial education? Well, it is really two things: the first is delivery. That might be the one we think of first. We now have the potential for consumers to reach out for education or to be pushed education in a whole variety of settings at a much more continuous fashion. You have a few minutes waiting for your subway train to arrive; you know, you are potentially able to get some content. In addition, that allows for timing. On demand or at appropriate moments, you can deliver financial education or information. And what is useful -- in terms of our focus on this panel -- is that, as Jennifer and others earlier today mentioned, this is a technology that, if anything, skews heavily in favor of those we might most want to reach: young people, people who are vulnerable. So, that is an important piece.

On the content side, if we think about a workbook or being handed a workbook and told to educate yourself on matters of personal finance, this is the antithesis, potentially, right? A Smartphone application can be interactive; it can be personalized to you and whatever particular circumstance that you find yourself in or need that you have. So, it can be relevant, and it can range from the simple -- in theory, text messages are a form of education -- all the way up to something much more complex through our high-powered Smartphones.

Okay, so, here I would like you to just bear with me for a minute. What we have started to do is think about financial education in a different way, and we call it financial entertainment; you can read our little tag line there. But what does that mean? It means taking something that, oftentimes, that people have thought of like medicine -- it's good for you, but it doesn't taste very good -- and trying to flip it on its head and trying to make it, on its own, attractive content. Typically, that means it needs to be fun and engaging; it needs to be convenient, accessible. It needs to be timely, and it needs to be narrow rather than broad, right? So it is not too much. It needs to, typically, be delivered through technology. So, you can start to see, when you think about those attributes and you think

about, particularly, the mobile technology on the Smartphone-end of the range, there is a bit of an overlap, or at least there is a fit there.

More specifically, we have started this idea of financial entertainment. The first concrete instance of it is a casual video game, and now, a library of casual video games. If you are not a gamer -- and I will say that before we got into this work, or even to this day, I am not a particular a game-oriented person, video game oriented person -- but you will find that in the world of video games, there are the complicated hours of play in the basement, eating Doritos, and not coming out for three days kind of games, and that is not what we are talking about. Then there are much lighter games called casual games that typically have very low entry to get started; they are easy to understand and pick up. You can play them for a few minutes or you can play them for longer. They tend to have light and fun themes. That turns out to be where there is the most growth in the video game industry, and where we find that women, in particular, represent the majority of players. So, that is what we should be thinking about when we talk about -- at least, we believe -- financial entertainment games.

Why would we think about games? Well, it is interesting; if you think about how we learn as adults, particularly, we learn through interactivity; we learn through the ability to try stuff rather than passively receive information. We learn by getting feedback. So, the quicker the feedback, the better. So, we try something and we very quickly find out if it worked or not, and we learn through repetition. These are all attributes that a good game will support, and that is why we see such extensive use of gaming in training from the U.S. Military, to even the surgeons in the medical context, and certainly in schools.

So, what I would like to do is briefly describe one example of what we have done, and why I think it will end up is why this is a good fit for mobile. So, one more slide here before I get to the bankrupt celebrity. Or they may be able to see it coming now.

So, our first game, we wanted to target women ages 18 to 36. These tend to be your household decision-makers in vulnerable families, and we thought that they were important to go after. We decided, from a content perspective, to work on card use, credit and debit card use. A lot of money is, if you will, wasted on over limit fees, poor choices of APRs and so on, so we wanted something that, again, that was reasonably narrow but has a tangible impact. So, we came up with this motif of you are the manager for some spend-thrift celebrities, and it is your job to keep them happy and get them what they want, but also make sure that they don't go bankrupt. And what this allows us to do is you are in the role of making decisions and of, if you will, trying out behavior, which you don't have to do it by being the bad guy; you get to be the manager for the bad guy, right? So, you can make judgments about the person who you are trying to keep solvent as you go. So, what I can do -- let's do this now; let's watch just a brief explanation of how this concept works.

Okay, hold your ears; I am told it may be loud.

[music playing]

Okay, I think I am going to skip the second one in the interest of time.

So, this is not yet -- what you are looking at is not yet on a mobile device. It is on -- it's Flash-based, but it will be. The point is that it lends itself to a mobile device, right? All the elements that we talked about, about interactivity, the fact that we have this personal connection, and so turning to a device that we trust and use all the time for something fun like a game is not such a stretch. And that is just one example, right? The idea here is that there is a concept here that we have the opportunity to deliver education in new ways; ways that are going to attract people that might otherwise not be attracted to education and make a difference.

So, let's talk briefly about what it means to make a difference. We think in terms of this framework, some of which we have borrowed from many others, including the National - - NEFE; whatever NEFE stands for, I can't think right now. So, first of all, are we engaging people? Are they walking away with new knowledge and skills? Is it leading to a change in their self confidence and self efficacy? And then ultimate is it changing their financial behavior?

Other things that we think about are what is the role of frequency in achieving these outcomes? And how long will the impact last? If we were to look at these, I would say that mobile has a particular opportunity in the engagement question, that where something is easily accessible they -- folks are more likely to access it, and in the role of frequency, right? That if it is right there in your pocket and you are bored, you might pull it out, spend a few minutes, and get a little more of that repetition opportunity, that chance to learn through trial and error.

Okay, let me leave you with a few questions. So, whether or not what I am trying to sell you all -- the idea that mobile has this special role to play in financial education, particularly, for vulnerable consumers -- whether that turns out to be true, I think, hinges on these and probably some other questions. First of all, there is the question of adoption. I think we heard some good numbers today, but it is one thing to talk about mobile penetration, but it's another question to talk about Smartphone penetration, and I think the trend is pretty clear, but we don't yet know how long it will be before large numbers of low- and moderate-income consumers are carrying Smartphones with unlimited data plans. I have heard people say that it is coming sooner than we think.

Let's assume that we get there, then the next question is how do we get content like this out? How do we distribute it and in, you know, very large numbers? The third question is content. We have shown you one example of what we think is engaging, effective content, but there is a challenge there to produce enough of it and make sure it is good and that it is effective. And then what is the impact? It is true that personal, portable interactive devices lead to wider reach or greater reach? That repetitive engagement and timely engagement -- meaning in moments when consumers need information. If there is one more that is not in the slide, I would say there is this open question of who is going to deliver this and why? So, you can imagine it coming from industry, with pros and cons.

You can imagine it coming from government that sees itself in having a role in having an educated consumer base? Or from non-profits? And it does not have to necessarily be one, but we need to be thinking about that as well.

[end of transcript]