Creating Financial Resiliency in Latin America: Behavioral Challenges and Opportunities Facing Digital Work Platforms

Common Cents Lab
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Introduction

While independent work (gig work and business ownership) has provided a lifeline for many in Latin America, workers have struggled to build financial resiliency and thrive.

The COVID-19 pandemic hit Latin America, and particularly independent workers and small business owners, hard. At almost four times the magnitude of the 2008 financial crisis, the recent COVID-19 pandemic represents the worst economic crisis in the region's history.

The devastating effects of the pandemic have exposed significant weaknesses in the fabric of household financial security: households lacked emergency savings, insurance coverage, and additional protected sources of income.

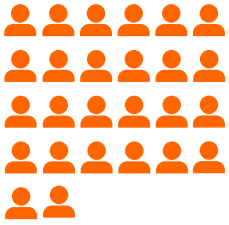
Behaviorally-informed interventions, that seek to impact behaviors and improve financial resilience directly, are desperately and urgently needed to transition workers from coping to thriving. The opportunity is now.

At Common Cents Lab (CCL), we understand **financial resilience** as the capacity of individuals, households, and organizations to fulfill their ongoing financial commitments, prepare for financial shocks, deal with them when they occur, and recuperate afterward.

Achieving **financial resilience** occurs by helping workers increase their earnings, short-term and long-term savings, and use of insurance products.

The Pandemic by the Numbers

In 2020 alone, economic activity suffered a massive 6.8% contraction.



Close to 26 million Latin Americans lost their jobs.

Unemployment reached an all-time high of 51.8%.

2x

The employed still saw a 16.2% reduction in their hours, almost double the global average.

About half of platform workers reported having stopped working due to insufficient demand.

75% of SMEs experienced losses and half closed indefinitely.

Leveraging Behavioral Science

> It is time to move towards behaviorally informed interventions that leverage research on what impacts behavior and improves financial resilience directly.

The strides made by digital work platforms (gig platforms, marketplaces, and financial technology companies) to boost financial inclusion and resiliency in Latin America have largely focused on structural barriers. The behavioral barriers that independent workers face are receiving less attention.

Fintech companies have been active in providing access to affordable and inclusive financial services to the underbanked and underserved. Digital work and marketplace platforms have created new earning opportunities and facilitated the inception and growth of small and medium-sized entrepreneurs.

However, due to the nature of independent work, new and unique challenges have emerged for gig workers and entrepreneurs. Many are operating in environments that do not support and encourage choices that contribute to their financial resilience and wellbeing. It is time to move towards behaviorally informed interventions that leverage research on what impacts behaviors and improves financial resilience directly.

Leveraging insights and evidence from the behavioral sciences is critical to unraveling underlying behavioral biases and heuristics that explain some of these challenges.

These interventions are not only more effective than traditional approaches focused on education and financial incentives but also often easier and cheaper to implement.

According to research by Nobel laureate Richard Thaler and colleagues, comparing the return on investment (ROI) of behaviorally informed interventions, or nudges, with that of traditional ones, nudges are substantially more cost-effective, sometimes by as much as 100 times more effective per dollar spent.

The Behavioral Science Approach

We are not as rational as we think we are. A wealth of evidence from the Behavioral Sciences shows that the context in which we make decisions matters a lot. Often more so than the information available to us at any given time and despite our intentions. Making minor changes to the environment in which people make decisions can have a powerful impact on our ability to prepare for and respond to financial shocks.

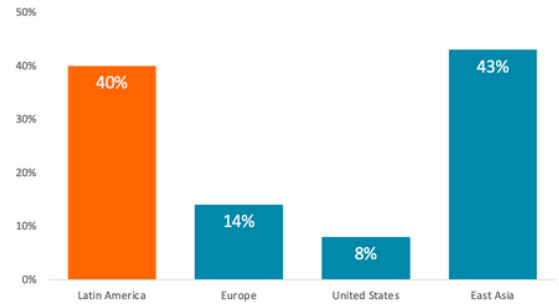
By considering cognitive biases that shape our actions, the behavioral science approach focuses on making meaningful, and sometimes small, changes to the contexts in which we make decisions rather than changing people's minds to generate behavior change.

The Opportunity for Platforms

Independent work is the backbone of Latin American households and national economies. The opportunity for a significant impact is undeniable.

Independent workers account for about 40% of all workers in the region, a rate higher than Europe (14%) and the US (8%) and just below East Asia (43%). Micro, small, and medium-sized entrepreneurs account for a staggering 99.5% of all firms in the region and employ about 60% of all formal workers. While it varies from country to country, about 25% of gig-workers in the Latin-American region rely on gig work as their only or primary source of income.

Fig. 1. Percent of workers who are independent workers, by region



Moreover, these numbers are only poised to grow. According to recent estimates by Mastercard, the gig-economy alone is estimated to reach $455 billion in gross volume globally by 2023.

In this context, there is an equally valuable opportunity for digital work platforms and financial services providers to continue to foster financial resilience in the region.

Organizations and platforms are uniquely positioned to help workers genuinely thrive. But this requires that they address behavioral barriers and design products that minimize the impact of inevitable financial shocks and maximize the chances of recovering afterward.

Financial Education Isn't the Solution

Traditional financial education approaches are not enough. A robust body of evidence compiling the findings of hundreds of studies shows that while content-based financial education interventions have a positive and statistically detectable effect on financial knowledge, its impact on actual financial behaviors is so minuscule that it lacks meaningful practical implications.

Put simply, for every $100 dollars a person saves, only $0.42 cents can be explained by a financial education intervention. Furthermore, the evidence suggests that this effect becomes even smaller when focusing on exclusively low-income households and can wear off over time.

We have identified three of the most pressing behavioral barriers that independent workers face from a behavioral sciences perspective:

1. Independent workers face too much choice and many work responsibilities;
2. Independent workers struggle with planning fallacy and income targeting; and
3. Independent workers struggle to forecast future shocks and prepare for the future.

Read on for the concrete strategies we have laid out to design meaningful and effective solutions to overcome them.

Challenge 1: Too Much Choice & Fewer Benefits

The most distinctive challenge that independent and gig workers face is regularly dealing with a massive number of work-related decisions. In more traditional work arrangements, employees typically have access to administrative resources, are provided with a schedule, and are given a curated list of benefits from which to choose.

In contrast, independent workers must decide when and for how long to work each day, how best to market themselves to secure existing and new sources of income, how to manage their bills and tax obligations in an accurate and timely manner, when and how to maintain or upgrade any equipment or supplies required to do their work, which medical insurance provider best fits their needs, how best to keep track of their business sales and expenses while keeping separate their personal finances, and the list goes on and on. Some of these decisions are particularly challenging, time-consuming, and may require specific technical skills. This list does not include the remaining personal responsibilities shared by all workers.

Too many complex choices leads to a phenomenon called **Decision Paralysis**. This can add additional stress and reduce the likelihood for positive long-term decisions for a population already experiencing financial precarity.

> Some of these decisions are particularly challenging, time-consuming, and may require specific technical skills.

Time and resource-constrained independent workers can further develop a **Scarcity Mindset**: a feeling of not having enough time, money, or mental resources to meet one's needs. This constant concern of not having enough impedes our ability to focus on things other than what we lack.

While the extra focus may be helpful in the short term, scarcity is damaging because it forces us to unintentionally neglect other decisions that are important but not urgent. It also significantly reduces people's overall cognitive capacity, taxing their already limited mental bandwidth. Evidence from Mani and colleagues shows that the scarcity mindset can cause a 13-point drop in IQ, which is equivalent to operating as if one had not slept at all the night before.

Behavioral Insight: Decision Paralysis

As the number and complexity of decisions grow, the available cognitive resources become scarcer. This means that the more choices we face and the more information we have to process, the more difficult it becomes to make a decision. Sometimes we fail to take action even when motivated by the best of intentions, which can result in putting off critical financial decisions. In other words, too much choice can be paralyzing.

For example, research on retirement contributions of nearly 800,000 individuals shows that when people are offered just two retirement fund options, close to 75% start saving. But when the options grow to 59 choices, participation rates drop to 60%.

For individuals whose primary or only source of income comes from independent work, scarcity and decision paralysis are further exacerbated because they must always bear the entire economic risk and responsibility for their work.

The lack of financial slack and access to proper safety nets magnifies the consequences of every decision. Dan Ariely's research shows that when there is too much at stake, actual performance and productivity drop, particularly for mentally complex tasks involving creativity and concentration. Ultimately, independent workers living under constant extreme pressure can develop severe physical and mental health consequences.

Strategy 1: Make the right behavior automatic

Making a behavior automatic is the single, best cure for cognitive overload and has the biggest potential for sustained behavior change. Automating behavior, like automatically sending a portion of earnings to savings, is effective because it is the easiest and most seamless version of choice. By eliminating all mental effort involved in the choice process, automaticity bypasses many barriers and biases that make many behaviors difficult and frees up cognitive bandwidth.

Let's take the example of enrolling in a retirement savings plan. The complexity of the decision typically involves deciding: whether to enroll in savings or not, how much money to save on each payday, where to invest those savings, and when to complete the enrollment forms. Consequently, only about 37% of employees complete their enrollment in the retirement savings plan in the first six months of employment.

By contrast, when switching the design decision from asking new hires to enroll to automatically enrolling them with pre-defined contribution rates with the option to opt-out, about 85% of employees end up saving in their retirement plan within their first six months of employment.

This 48-percentage point increase in participation rates happens because of thoughtful design, not because of any significant changes to the economic circumstances of the decision.

Example from the Field: Retirement Savings with IADB

The Interamerican Development Bank's (IADB) Retirement Savings Laboratory in Latin America increased retirement and emergency savings through automaticity.

Collaborating with a ridesharing company in Peru, they found that after three months, 96.7% of drivers were still participating in an automatic savings program. Likewise, with a pension fund manager in Chile, only 3% opted-out of the retirement savings program after six months.

Not only can automatization increase the likelihood of people adopting positive financial behaviors, but interventions also remain sticky over time. In comparison, IADB's work also shows that messages and reminders, while relatively inexpensive and easy to implement, have more minor and temporary effects on recurrent behaviors such as saving.

Strategy 2: Simplify decision-making

One of the best ways to simplify decision-making is to use a potent mechanism called "smart defaults." Given that choice involves mental effort and it is usually easiest to not choose, people tend to go with the default or pre-set option.

Using defaults wisely consists of purposefully pre-defining specific conditions and parameters of a given behavior so that whenever an action needs to be taken, sticking with the status quo represents engaging in a desirable behavior. Because many of the key aspects of a decision are predetermined, defaults are also powerful because they drastically reduce mental effort.

Behavioral Insight: Default Bias

People typically take the easiest path ahead of them. This means that they often rely on the default, or pre-selected, option. Defaults and status quo options are particularly attractive because of four underlying mechanisms:

Friction Costs - defaults reduce the amount of effort someone would need to do to select that option. And adds effort to switch away from the default.

Loss Aversion - losses are more painful than the pleasure we get from an equal gain. A default can make someone think about what they're losing if they switch away from it.

Implicit Recommendation - a default also implies that this is the right choice, which is helpful when it's a decision that the person may have little experience with.

Limited Attention - we can only pay attention to so much, so we tend to stick with the default, whether we actually want to or not.
Note: We do not recommend defaults that rely on this last mechanism, as it will frustrate users and erode trust.

To put this principle to the test, we partnered with Qapital, a financial technology app that allows users to create a variety of automatic savings rules to reach their savings goals. We focused on helping people start building their emergency savings.

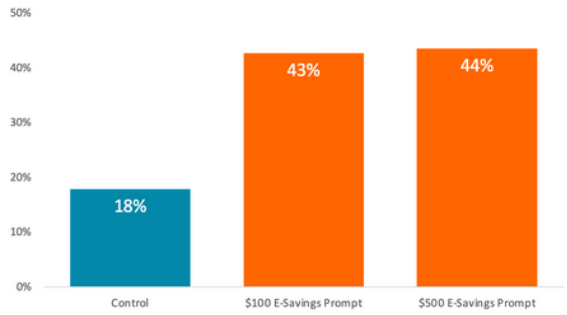
This study explored whether prompting users to create an emergency savings goal with pre-defined target values could increase the number of users saving. Over 6,500 users were randomly sorted into three groups. Each group was shown one of three conditions:

- Receiving a prompt to set up an emergency savings goal with a $100 pre-defined target.
- Receiving a prompt to set up an emergency savings goal with a $500 pre-defined target.
- Receiving no prompt at all.

We found that users who were prompted with either of the pre-defined values were more than twice as likely to create an emergency savings goal than those in the control condition (44% versus 18%), with no significant differences in take-up rates between the $100 and $500 targets.

Three months after conducting the experiment, those in the pre-defined target conditions still contributed to their emergency savings at a significantly higher rate than those in the control group.

Fig. 2. Percent of Qapital users with Emergency Savings goal



Challenge 2: Planning Failures & Reduced Income

The second challenge that burdens independent work is related to unavoidable volatility and income uncertainty. Independent and gig work is inherently flexible; their income often depends on when and for how long they decide to work. However, recent evidence from gig platforms shows that rather than working when earning potential is highest, self-scheduling workers tend to use **income targeting**.

Income targeting refers to when self-scheduled workers stop working after meeting a target amount of earnings, regardless of their current hourly rate. For instance, a ride-share driver might stop earlier on a high-demand day because they reached their target of $100 quickly. And then they may drive long hours on slow days to try to reach their target of $100. This means that their hourly earnings are less overall than if they drove more on high-demand days and less on slow days.

From a platform perspective, income targeting also leads to an estimated 17% of understaffing for on-demand platforms.

Behavioral Insight: Optimism Bias

Optimism bias is a pervasive tendency to make over-optimistic plans for the future and fail to live up to them. This is closely related to Planning Fallacy where we repeatedly only plan for the best-case scenarios.

The evidence suggests that independent workers are largely unaware of how this cognitive bias affects their working routines - they are notoriously bad at predicting their total income. A recent study shows that gig workers on digital platforms systematically overestimate their gig-related earnings by about 20%. While workers make accurate predictions about their hourly earning rates, their overestimates are explained by their over-optimistic expectations about the number of hours they will dedicate to their gig work. In behavioral science, this is referred to as **optimism bias**.

> Independent workers are largely unaware of how this cognitive bias affects their working routines - they are notoriously bad at predicting their total income.

Entrepreneurs and small businesses also suffer from optimism bias. In a recent working paper, researchers found that 76% of low-performing small businesses in Mozambique were overconfident about their performance compared to similar firms in their area. They regularly used their last performance as a reference point and therefore missed out on available strategies to grow their business.

Evaluating one's performance is difficult, so people look for reference points in the environment, something to compare to. In the absence of information about others, we rely on our own previous experiences.

Strategy 1: Establish new goals and reference points

Digital platforms have the potential to help users overcome reference dependence to maximize their earnings. These platforms have the opportunity to assist worker decision-making around when and how long to work, as well as make other relevant information readily available. Many ride-sharing platforms have been testing multiple behavioral principles to encourage drivers to work longer hours and benefit from increased demand. While some of these approaches have shown positive short-term effects, the long-term benefits or effects for drivers are less certain. There is an opportunity to personalize messages and nudges to help them better meet the drivers' financial and personal goals.

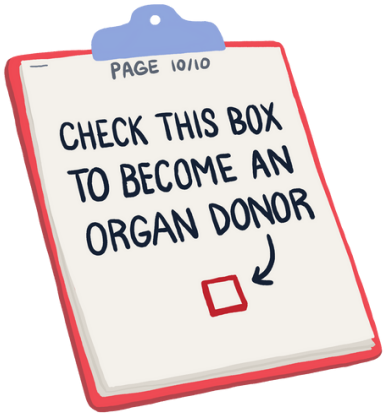
In response to the finding about low-performing small businesses in Mozambique, researchers found that using a combination of information about their performance ranking and peer information about other firms created new goals and reference points. This increased the revenue of these low-performing firms by 136%. This was powered by business owners working longer hours, adopting more effective price strategies, and improving their relationships with strategic business partners. When the current reference point leads us to make biased decisions, a new reference point, in this case, information about others, can help us improve our behaviors.

Example from the Field: Setting Earning Goals with Steady

In a recent study we conducted in collaboration with Irrational Labs and Steady, an app that connects people to gig opportunities, we explored how to increase the earnings of platform users. We found that helping users set up new earning goals resulted in an additional $7 to $20 income per week for each worker. Steady has since scaled this feature to their users and we estimate that this behaviorally informed product feature contributed to helping 36,000 users increase their monthly income by $28 to $80 in the first year of the feature rollout.

Strategy 2: Make it easy to communicate preferences

In certain settings, information asymmetry between workers and employers or platforms, where one party knows more than the other party, can further exacerbate their income volatility and planning fallacy. Making concrete detailed plans in advance, however, can serve as a strategy to encourage people to follow through on their intentions and achieve their goals.



As such, there is an opportunity to make sure that the relevant information is provided for

users to make more accurate work and financial decisions. In a field study we conducted in 2018 with Homebase, a scheduling platform for hourly workers and businesses, we found that decreasing the friction for workers to report their desired working hours ahead of time increased the share of workers reporting them by 58%

By doing so, workers were more likely to work on their desired hours, minimizing conflicts with other commitments and maximizing their weekly earnings.

Similarly, ride-sharing and delivery platforms could help workers plan their working schedules based on estimated demand, decreasing the unexpected volatility of their earnings and aligning to their income goals.

Behavioral Insight: Social Norms

People often take cues from those around us to understand what we should and should not do in a given situation. When people are presented with evidence of what other people are doing, that is called ***Social Proof.*** It typically works best when it is correcting a misbelief about other people's behavior and making a comparison to people with whom the user identifies.

Injunctive Norms- These are the things that people *should* do. They are the greater cultural norms that shape our ideas of right and wrong, like morals.

Descriptive Norms - These are the things that people *actually* do, regardless of whether they are *supposed* to or not, like speeding or overspending.

In-group/out-group bias - Both injunctive and descriptive norms can vary by social group. We naturally want to follow the norms of our "in-group" and will actively reject the norms of our "out-group."

Cautionary Tale: Using Social Norms

One of the most common ways that companies try to provide a new reference point for people is through the use of social proof, providing examples of what other people are doing as a way to influence the decision-maker.

Social proof relies on social norms, the unofficial rules guiding behaviors in groups and societies. Social norms both describe what other people typically do and what is expected from us to do in a particular setting. Previous research has shown that highlighting social norms can reduce water consumption in hotels and energy consumption in hotels.

However, evidence suggests that social norms might be more complex when influencing financial behaviors. In a second study we ran with Steady, we tested communicating the total number of workers using an "Income Booster" feature, which provided bonuses for workers completing specific actions on the platform, versus communicating the total amount given to users through this feature. Neither message was effective in increasing the number of Steady users taking advantage of the income boosters.

Another study found that using social norms to increase retirement savings rates backfired when low-income workers were compared to high-income workers within an organization.

These results, and the results with Steady, could be explained by a key characteristic of social norms - identifying the appropriate reference group for the peer comparisons. This is crucial to expanding the use of social norms for financial decision-making.

Challenge 3: Forecasting & Preparing for the Future

Financial resilience for gig workers and entrepreneurs means preparing them for future financial shocks. However, it is difficult to prepare if estimations of future financial shocks and the associated expenses are not accurate.

Evidence shows that independent workers tend to be over-optimistic about their future expenses, including those related to their work. A series of studies show that people systematically under-predict their weekly and monthly future overall expenses compared to their actual expenses by about 15%. While financially constrained individuals tend to make more accurate estimations about their future expenses, people of all socioeconomic backgrounds and levels of financial literacy tend to overlook the impact of future expenses on their future financial situation.

The inability to accurately predict future expenses has real-world consequences. For example, individuals, including gig workers, who struggle with predicting future expenses accurately are more likely to have taken out a high-interest payday loan, less likely to be adequately insured, and less likely to save for retirement. In sum, overconfidence and unrealistic expectations for the future can result in financial behaviors that hinder financial resiliency and overall financial wellbeing.

Behavioral Insight: Availability Bias

We tend to make judgements based only on things that easily come to mind. Those can be things that are recent, memorable, or frequent. Availability bias may partially explain one's inability to accurately predict expenses because people unconsciously substitute the complex mental calculation of predicting possible future expenses for the much simpler task of thinking about typical and recurrent expenses from the past that they can easily recall. Notably, when participants were asked to explain how they came up with their anticipated expenses for the following week, only about half referred to future or unexpected expenses while almost 85% talked about their typical past purchases.

Additionally, people may fail to keep track of some of these expenses either because some are small enough to ignore or because they are so embedded into our routines that we fail to notice them all together. For example, grabbing a cup of coffee every morning could represent a small enough purchase that we neglect to account for it or it could be so embedded into the morning routine that we fail to even notice it. Still, over time, these individual expenses can add up to have an outsized impact on our budgets. According to a survey we conducted, it's usually these small tempting purchases that we can control that are the ones we regret the most.

Importantly, the inability to predict future expenses does not improve over time. In the same study that showed that people systematically under-predict their future weekly and monthly expenses, the study participants failed to correct this error over a five-week period. At the beginning of each week, participants were asked to estimate their overall spending for the upcoming week and provide data on their actual expenditures for the prior week. Week after week, participants under-estimated their future expenses and they reported that their expenses for the upcoming week would somehow be more "typical" than their expenses from the past week. Week after week, the prior week was exceptional and the next week would be typical.

Consistent with this evidence, inaccurate expense predictions seem to be primarily explained by failing to account for the number of unique expenses rather than the cost of each expense. In other words, people are more accurate at predicting how much it would cost them to go out for dinner or fix their car if it breaks down than at anticipating how often these will occur in the future.

> **Week after week, the prior week was exceptional and the next week would be typical.**

Furthermore, people are less accurate in predicting unexpected or exceptional expenses, like a medical bill or a car repair, than more frequent and ordinary ones, like grocery shopping or eating out. However, having people predict expenses over the next year leads to more accurate predicts than just the next week or the next month.

Strategy 1: Pre-commit today for the right choice tomorrow

An effective strategy to overcome **present bias**, our hyper-focus on the here and now, is to pre-commit our future selves to making the right choice when the moment arrives. Our tendency to over-prioritize immediate gratification causes us to behave differently in the present than we would like to behave in the future. Pre-committing ourselves to making specific choices in the future helps align intentions with actions and provides a clear and pre-defined course of action.

In a study with Digit, a FinTech that builds savings by automatically moving money into savings when you are least likely to miss it, we

Behavioral Insight: Pre-commitment

People are typically more willing to commit their future self to do things that are important but not fun or urgent, like starting a new exercise routine or sign up for insurance. Once someone has pre-committed their future-self, they are more likely to follow-through later.

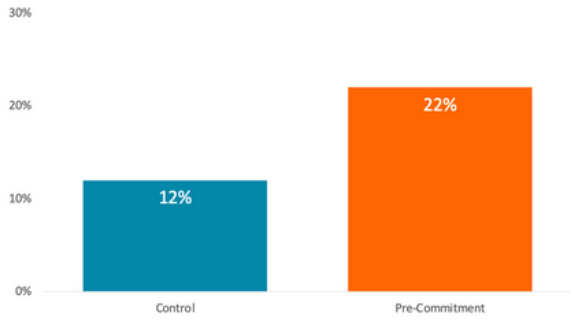
tested whether we could increase saving from ones tax refund in the United States using pre-commitment. In the U.S., this can be one of the largest single payments that a household receives all year.

In the control condition, Digit users were notified that their tax refund was received and were asked what percent of their refund they wanted to save. Digit then moved that amount into savings.

In the pre-commitment condition, Digit users were notified at the beginning of tax season that they might get a tax refund and asked what percent of their refund they wanted to save if they did receive a tax refund. Digit then moved that amount into savings if and when that user received their tax refund.

In both conditions, about 10% of users wanted to save something. But when users were committing their future self to saving, they were willing to save significantly more. They were willing to save 22% of their tax refund. When people already had the refund in their account, they were only willing to save 12%.

Fig. 3. Tax Refund Savings Rate (excluding 0s)



This intervention alone generated over $1 million in savings and 85% of the savings were still there three months later. It is worth noting that the primary difference between these two interventions was just the timing of an SMS message, further highlighting how cost-efficient behaviorally-informed interventions can be.

Strategy 2: Make future benefits attractive today

People tend to discount future benefits, making small immediate rewards more attractive than large future benefits. This phenomenon is called **present bias**. This principle explains why we choose to eat unhealthy food, why we fail to save for our retirement, and why we procrastinate on important tasks.

One way to overcome present bias is to make the costs of future-oriented decisions seem smaller and simpler. For instance, prior research on retirement savings shows that framing savings as a daily amount, rather than its equivalent monthly amount, increases

Behavioral Insight: Reward Substitution

When most benefits are far off in the future, it is sometimes more effective to emphasize any immediate benefits, even if they are smaller or less important. We are often compelled to do the right thing for the wrong reason - like wearing our seatbelt to stop the beeping or brushing our teeth for the mint.

participation in savings programs and savings rates, especially among low-income individuals.

Similarly, setting up savings goals based on a percentage of their income, instead of a fixed amount, could help maintain motivation during volatile periods. Gig workers and independent workers are less likely to have consistent and predictable income - it can fluctuate by season, month, and even week. This makes it extremely difficult to know in any given month how much can be saved. By earmarking savings to a percentage of earnings, it allows the savings to fluctuate in the same way as earnings - saving more when earnings are higher and saving less when earnings are lower.

Another way is to bundle choices that have future benefits with activities or rewards that are tangible in the present. This is referred to as temptation bundling or reward substitution.

Research in the health domain shows that restricting an enjoyable activity only to be done with exercise increases people's gym visits by 29% to 51%. Temptation bundling combines the immediate rewards of the enjoyable activity with the future benefits of a less enjoyable but important activity, like exercising. Similarly, car insurance companies are leveraging this insight by offering tangible services, such as towing, maintenance discounts, and inspections.

There is a significant opportunity to leverage temptation bundling and reward substitution in the financial domain. Most behaviors that lead to financial resiliency are painful in the moment and have long-term, future benefits.

Cautionary Tale: Budgeting May Not be Effective

When people struggle to predict their future expenses and prepare for financial shocks, the most common proposed solution is budgeting. However, recent evidence shows that it is not particularly effective for helping someone control their spending.

In a recent study we conducted with a FinTech, we tested whether traditional approaches to budgeting help people reduce their expense and save money. Over 9,000 users were randomly presented one of three different budget strategies:

1. A simple one-number budget where they defined their overall spending target for the week;
2. A category-by-category budget where they defined a target amount across common categories, like groceries, entertainment, and eating out; or
3. An information-only version where they did not set any spending target.

In all three versions, users had access to a dashboard with information about their spending habits, their overall weekly spending, and a breakdown by categories.

We found no difference in spending reductions between the groups. Active budgeting did not lead people to spend less than just providing information. Interestingly, we also found that users generally overspent the amount they budgeted by about 1.3 to 1.4 times more than they intended for budgeted categories.

Budgeting can even potentially backfire. In a lab study, we randomized people to either complete a short budgeting exercise, complete a long budgeting exercise, or just read an article about budgeting. We found that those who completed either of the budgeting exercises actually felt less confident and psychologically ready to make changes in their spending behavior.

The Way Forward

Understanding human behavior and psychology unlocks significant opportunities to help gig and independent workers build financial resiliency in this particular moment of re-emergence after the COVID-19 pandemic.

However, the cautionary tales about financial education, social norms, and budgeting all show that learning what does not work is equally as important as understanding what works. It reinforces the need for constant experimentation and rigorous evaluation to test our intuitions of what helps users make better financial choices and ensure that the interventions do not backfire.

> Learning what does not work is equally as important as understanding what works.

Far from claiming that all budgeting is flawed, we continue to experiment with behaviorally-informed interventions to understand and improve budgeting practices. Evidence from the lab suggests that budgeting rules of thumb - like "only eat out two times per week" - are more effective in terms of how confident people feel about controlling their expenses.

Similarly, creating physical budgets by splitting income into categorical spending accounts, like bills, needs, and wants, is another promising practice. Aligning expenses with income schedules could also be more effective in handling both household and business finances.

We also continue to explore how different designs for budgeting visuals influence how individuals perceive their personal finances and form behavioral interventions.

Understanding what works and what doesn't is the route to addressing the challenges facing independent and gig workers. Behavior change is easier said than done - even when motivated by the best intentions. Currently, there is not enough evidence in the field of how to move the needle for gig and independent workers.

Therefore, we need to continue to creatively design and test platform changes that help workers build financial resiliency by automating good behavior, using smart defaults, setting appropriate reference points, reducing friction to communicate preferences, encouraging pre-commitment for tough decisions, adding immediate benefits for good decisions, and more. This growing body of evidence can better guide digital platforms in the process of optimizing their resources and investing in positively impacting their workers' financial lives.

In our commitment to improving financial resiliency and in partnership with Mastercard's Center for Inclusive Growth, we are working alongside leading and rising digital platforms committed to making entrepreneurs and independent workers thrive in the digital economy across Latin America.

In the first year of this initiative, we partnered with Mercado Libre, Mexico's leading digital marketplace, to help small and medium sellers reap the benefits of end-of-year peak sale seasons by highlighting the economic benefits of increasing their stock. Using two different communication channels and a behaviorally-informed message, we learned that helping sellers adapt to market trends requires additional efforts, such as reducing the friction to increase shipments and building trust with sellers.

At the Common Cents Lab, we believe that knowledge is a resource best harnessed when shared to tackle the daunting task of behavior change. By sharing insights from behavioral sciences on what works and what doesn't, we can collaboratively design, test, and scale behaviorally informed digital products and interventions to foster financial resilience effectively and efficiently while sustainably helping companies seize this growing opportunity.

About Us

The Common Cents Lab is a financial decision-making research lab at Duke University that creates and tests interventions to help low- to moderate-income households increase their financial well-being. Common Cents leverages research gleaned from behavioral economics to create interventions that lead to positive financial behaviors.

The Common Cents Lab is part of the Center for Advanced Hindsight at Duke University. Common Cents is comprised of researchers and experts in product design, economics, psychology, public policy, advertising, business administration, and more.

To fulfill its mission, Common Cents partners with organizations, including Fintech companies, credit unions, banks, and non-profits that believe their mission could be better acheived through insights gained from behavioral science.

To learn more about Common Cents lab, visit advanced-hindsight.com/commoncents-lab/

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