

Nudge Challenge: Helping Students Improve Their Financial IQ

Organization: Royal Bank of Canada (RBC)

Problem Statement:

The purpose of this challenge is to improve the financial wellbeing of RBC's student clients. As RBC has served the financial needs of students around the world, it has become evident that **a student's understanding of personal finances can vary based on a number of individual and contextual circumstances**. Some students are highly attuned to the details of their banking products, and understand that there are financial consequences associated with certain behaviours, such as skipping a credit card payment. However, other students have a more limited understanding of financial products, and do not fully appreciate the short and long-term implications associated with certain financial behaviours.

In an attempt to sustain the long-term financial wellbeing of its clients, RBC is looking for creative and innovative ways to **nudge students to avoid certain financial behaviours which are harmful to their financial wellbeing**. These behaviours are not in the best interest of students, and bear a number of immediate and future costs. In the short-term, these costs might include paying extra fees or more in interest. In the long-term, these costs can be more pronounced, such as a lower credit score. Overall, it is in the best interest of students to avoid behaviours which are detrimental to their financial wellbeing.

Desired Outcome:

Students avoid financial behaviours which are detrimental to their current and future financial wellbeing (and engage in behaviours which are beneficial to their financial wellbeing).

Target Behaviours:

Three of the most common behaviours students tend to engage in which are harmful to their financial wellbeing include:

1. *Students failing to make the minimum payment on their credit card balance.*
2. *Students failing to pay the full balance on their credit card without fully understanding how the interest rate applies to their balance.*
3. *Students spending excessively and maxing out the limit on their credit card.*

Nudge Challenge:

Using principles from behavioural science, design an intervention to:

- **Prevent students from skipping the minimum payments on their credit card balance.**
 - How this helps students: *When students skip minimum payments on their credit card balance, they will pay more in interest, and their credit score will suffer.*

- **Encourage students to pay the full balance on their credit card.**
 - o *How this helps students:* When students pay the full balance of their credit card, they will not spend any money paying interest and will improve their credit score.
- **Prevent students from spending excessively and maxing out the limit on their credit card.**
 - o *How this helps students:* When students max out their credit card limits, they may be unable to pay for monthly expenses, may be unable to pay their full credit card balance, or may even face negative credit instances (i.e. bankruptcy).

Levers:

- Client Communications
 - o (e.g. meetings with advisor, emails, mail, texts, phone calls, online banners)
- Online Banking Experience – Mobile App / Student Mobile App / Online Banking
 - o (e.g. online banners, alerts, insights, online design)
- Social Media Messaging / Marketing
- Events (i.e. financial literacy session)

Variables which cannot be manipulated:

- The interest rate on student credit cards
- The minimum payment on student credit cards
- The credit limit on student credit cards

Links to additional resources:

<https://www.rbcroyalbank.com/personal.html>

<https://www.rbcroyalbank.com/student-solution/find-the-right-account.html>

<https://www.rbcroyalbank.com/student-solution/credit-cards.html>

<https://www.rbcroyalbank.com/student-solution/banking-accounts.html>

<https://www.rbcroyalbank.com/ways-to-bank/online-banking/index.html>

<https://www.rbcroyalbank.com/ways-to-bank/mobile/rbc-mobile-app/index.html>

About RBC:

“RBC is one of Canada's biggest banks, and among the largest in the world based on market capitalization. RBC has over 88,000 full and part-time employees who serve 17 million clients in Canada, the United States, and 27 other countries. RBC is one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services, and capital markets products and services on a global basis.”