

Optimal mindlessness: RCT evidence for the value of adding choices to an automated investment service

Abstract

Choosing not to choose and taking the path of least resistance is often appealing when making financial decisions. Automated financial services and default options can remedy this by nudging people towards securing their financial well-being. Although these nudges increase investments, they deprive users from the experience of making investment decisions, learning from the outcomes, and thereby building sound financial habits. We hypothesized that adding an element of choice to an automated investment service would increase its effectiveness. This hypothesis was tested in a randomized controlled field experiment among 825 users of a micro-investment service at an Estonian retail bank. The participants received weekly emails offering an opportunity to double or quadruple their micro-investments from the past week, or make a freely chosen investment if there were no micro-investments from that week. For 16.4% of the e-mails, one of these options was chosen. A mixed linear regression revealed that the availability of a choice to multiply the weekly micro-investments lead to 20-36% increase in the average investment per participant. Participants who used an opportunity to freely choose a top-up amount increased their mean investments by 371.7%. The email response rate declined but did not disappear during 12 weeks, and the treatment received positive qualitative feedback from the participants. The treatment effectiveness did not depend on any financial, socio-economic or personality characteristic other than higher income. We conclude that adding elements of choice to automated investment services has significant potential to increase investments and improve financial well-being.