What an MIT professor learned analyzing 1 million credit card offers

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Credit: MIT Sloan School of Management

Shopping for a new credit card? MIT Sloan finance professor Antoinette Schoar has some advice: Read the fine print, or at least the Schumer box. And double-check that your financial adviser is looking out for your wellbeing.

Why investing in analytic infrastructure is important to your work

"Intellectually and from a science perspective, I've always been really interested in understanding how people's psychology and behavior influence all the decisions and choices they make, and it's very exciting in economics and finance nowadays that we're trying to model the human decisions much more realistically and much more holistically than ever before. And the big data that we have now that gives us so many dimensions of what people do also allows us to do that.

"Right now there's a huge rat race going on that all financial service companies, and companies in general, are now really trying to catch up in building internal teams, in building this analytic capability, to mine the data and to compete on all these dimensions.

"I think on the one hand it actually means that products will be more and more tailored to our needs, which is a good thing, right?"

Data that matters

"What we seemed to find in our study is that the [credit card] offers that are offered to less educated people rely in their pricing much more on these additional fees. Late fees, over limit fees, maybe default APRs that switch on once you've had a default. While people that are more educated, their cards seem to rely much more on the quite straightforward features, like they are paying an annual fee, and they're paying an interest rate, but they are relying much less on these late fees and over limit fees.

"We did differentiate or compare financial advisers who are what is called fiduciary standard advisers, so they are abiding by a fiduciary standards rule that means they have to put their client's interest first. And we compared those to advisers who are actually just brokers. And brokers in the U.S. only have to abide by a rule that forces them to not defraud the customer, but that's a very low bar if you think about it, right? And so we actually found that the fiduciary standard advisers were giving better advice than the brokers."

What should you focus on in the future?

"The more companies can model our behavioral biases, the more they can use them in extracting rents from us or catching us in moments when we're inattentive or when we are not necessarily focused enough on choosing the right credit card, the right mortgage, or any of these products."

Provided by MIT Sloan School of Management

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