



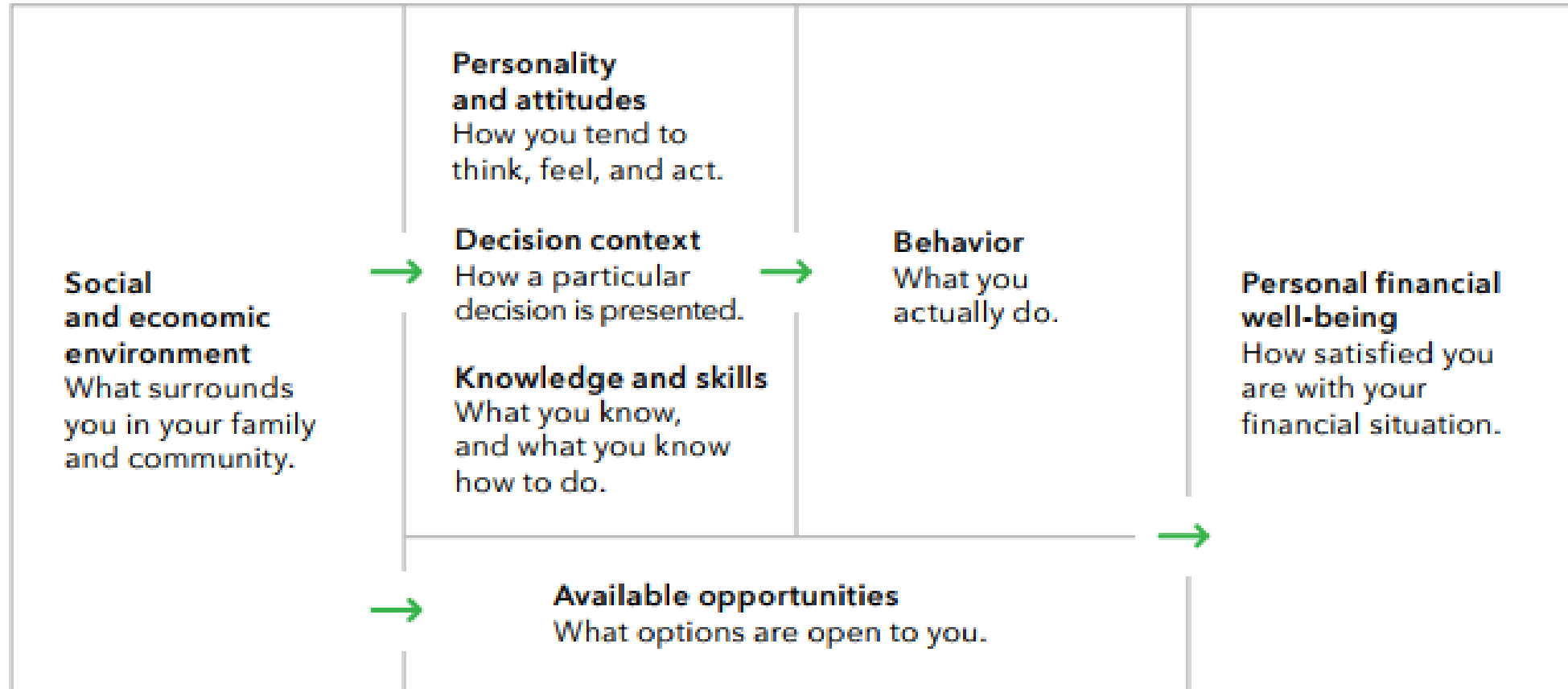
Beyond the Classroom: Digital Finance and Financial Health

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Financial Health Ecosystem

Knowledge is only one of many factors

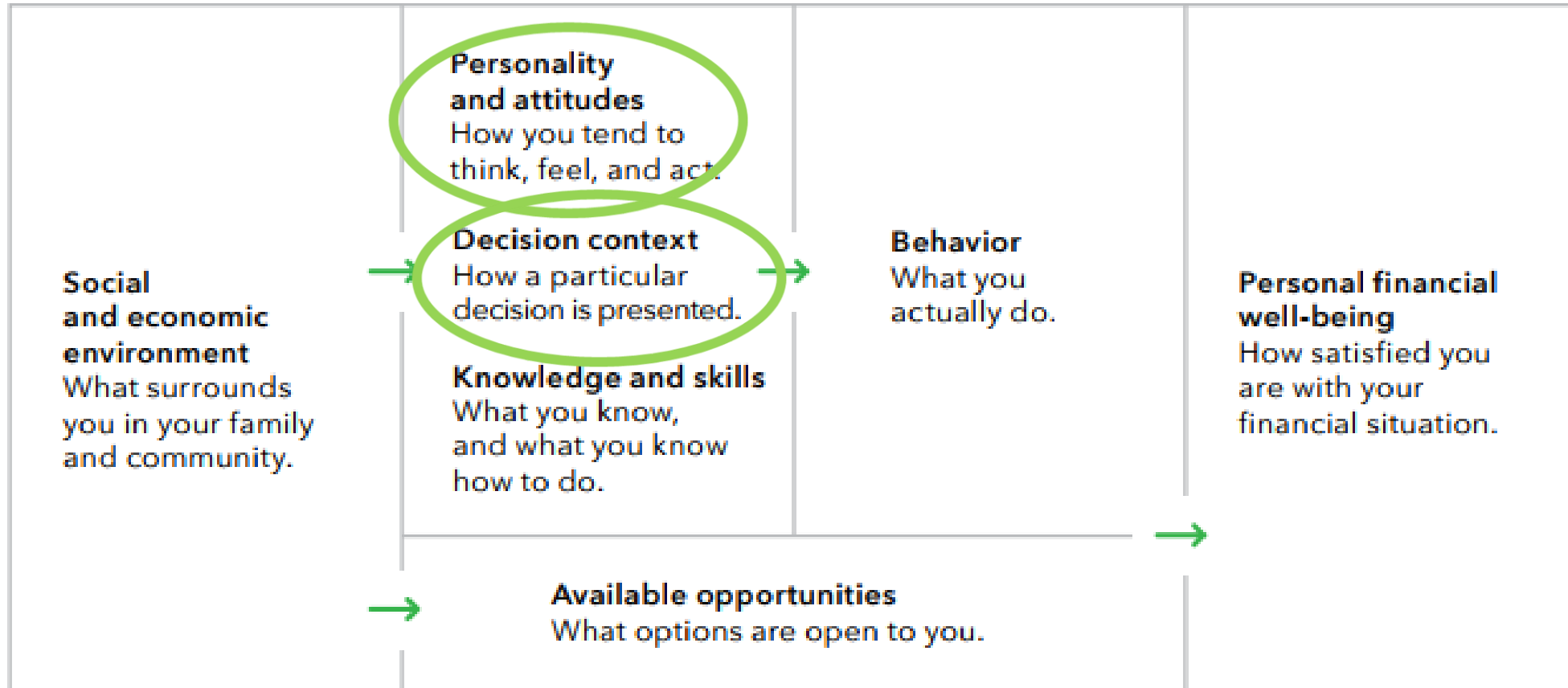


Knowledge and Skills: Not Enough

- What you know, and what you know how to do
- Traditional approach to financial capability: financial education
- Cost-effectiveness:
 - Increased knowledge doesn't always lead to behavior change
 - Costly to implement; take-up and attendance are challenges
 - Doesn't address information asymmetry, bad actors
 - Doesn't address behavioral biases which impact actions



Promising Research on Digital Financial Tools



Behavioral Economics 101

Maybe the most important lesson of the day:

Humans are irrational



Despite good intentions, people often make less-than-optimal choices

An example: Exercising!

- I know it's good for me
- I want to do it, I will feel good and be healthier
- I have a goal to exercise once a day in the morning before I go to work



But in the morning, when it's time to wake up and go to the gym....



- I'll just sleep a bit longer today
 - I'll go tomorrow instead



Better Product Design can Help

Introducing... “Clocky” !



Incorporating Nudges into Digital Products

Behavioral biases can get in the way when trying to reach financial goals... nudges can help!

- Reaching a savings goal
- Paying off debt
- Household budgeting
- Product selection



Mobile-izing Savings in Afghanistan

- Study by Blumenstock, Callen, & Ghani (2018)
- Afghanistan: Low formal savings rates
 - 14.5% of adults have a formal bank account
 - 0.9% of adults have a mobile money account
 - 3.7% of adults saved at a formal financial institution in the last year
 - 14% of adults say they saved any money at all in the last year



Automatic defaults for saving



- Automatic enrollment, or setting the default to “opt-out”, can significantly increase participation in retirement and savings plans.
- In Afghanistan, a large employer randomly assigned a group of workers make automatic savings deposits from their salaries
- Employee savings rates at start are 1%



Automated savings vs. other incentives

- Automated savings – 2 groups
 1. 5% automated savings per pay period
 2. Half assigned to status quo
- Cash incentives – 3 groups
 1. 50 percent match (up to 10% of salary)
 2. 25 percent match (up to 10% of salary)
 3. No match



Results

- After 2 months:
 - Automatic group 40 percentage points more likely to save
 - Automated savings impact equivalent to a 50% employer match
 - More effective than a 25% match
- After 6 months:
 - Automatic group still 33 percentage points more likely to save



Takeaways: Defaults & Automation

- Defaults and automation may solve for behavioral barriers like self-control, procrastination, inertia
- New technology in emerging markets gives us more tools than ever to automate
- Defaults and automation can also apply to loan repayment, other behaviors



Digital Platforms and Influencing Decisions

Future Research

- A/B testing for more effective design on web/mobile
- Improve decision-making: product comparison tools, price comparison



Digital Platforms and a More Level Playing Field

Future Research

- Remove perverse incentives: Mystery shopping in Peru, Colombia, and Mexico shows that loan officers may not offer the most appropriate products for customers due to sales incentives
- Remove bias: Sales staff less likely to disclose complete information to less “sophisticated” clients; bias against certain groups
- Automate supply-side decision-making
- Remove information asymmetry



Consumer Protection

- Obtaining consumer consent
- Nudges never restrict or remove choices
- Disclosures and presentation of information
- Nudges for harm – how to regulate?
- Are algorithms and digital data unbiased?



We're Looking for Partners!

Thank you

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