Beyond the Classroom: Digital Finance and Financial Health

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Financial Health Ecosystem

Knowledge is only one of many factors

Source: United States Consumer Financial Protection Bureau 2015
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

Source: United States Consumer Financial Protection Bureau 2015
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

Findex 2017 data
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%

Blumenstock, Callen, et al., 2018
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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