Beyond Financial Education

New Research on Financial Health and Consumer Protection

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IPA’s Financial Inclusion Approach

• IPA: More evidence → Less poverty
  - Create and share evidence
  - Equip decision-makers to use right-fit evidence

• IPA Financial Inclusion Program:
  - Collaborates with both financial institutions and regulators
Financial Education
How Financial Education Works “in Theory”

People make financial decisions that are detrimental to their financial health

To solve this problem, governments, non-profits, and FSPs introduce financial education programs

People attend financial education programs

The financial knowledge of people improves

People apply their new knowledge to their financial decisions

The financial health of people improves
What does rigorous evidence tell us about financial education?

- Fernandes et al. (2014) conducted meta-analysis of financial education interventions
- 15 randomized controlled trials (RCTs)
- Studies look at outcomes including savings, planning, debt, cash flow, investment
Evidence on Financial Education: Small, Inconsistent Impacts

Effect Sizes of Financial Education Programs Measured by RCTs, Organized by Outcome

High Cost, Low Demand

- Expensive to scale
- Low take-up rates
- In Mexico, IPA studied incentives to attend - offering $72 to attend was most successful, but fewer than half attended

Some Program Design Tweaks Improve Outcomes, But is it Worth it?

Available evidence suggests that successful programs have one or more of the following characteristics:

- Simple and Actionable
- Personalized
- Timely
- Convenient and Entertaining
- Targeted to Youth and Young Adults
Financial Health
Are There Better Ways to Achieve Financial Health?

First: Define What Financial Health Is

- People make financial decisions that are detrimental to their financial health
- To solve this problem, governments, non-profits, and FSPs introduce financial education programs
- People attend financial education programs
- The financial knowledge of people improves
- People apply their new knowledge to their financial decisions
- The financial health of people improves
Task: Construct Indices of “Financial Health”

Potential Uses:
• Common measurement
• Identify key predictors of future outcomes
• Identify important financial health “intangibles”
• Policy diagnostics (targeting, market diagnostics)
• Program evaluation

First Challenge: Need to define “financial health”
Task: Construct Indices of “Financial Health”

Access + Behaviors = Outcomes

**Access**
Measures use of formal products—assume more access is better

**Behaviors**
Measures of good behaviors. Candidate questions cover:
- Regular savings
- Planning for the short and medium run; goals for the long run
- Good borrowing and credit repayment behavior
- Self-control with regard to spending
- Autonomy over spending

**Outcomes**
Ultimate manifestation of financial health: ability to raise liquidity quickly and affordably. Captures to what extent finances enable or get in the way of individuals consumption preferences.
## Financial Health Scores Vary By Context (1-8 Point Scale)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th># HOUSEHOLDS</th>
<th>POPULATION</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominican Republic</td>
<td>578</td>
<td>Clients of microfinance bank</td>
<td>6.1</td>
</tr>
<tr>
<td>Colombia</td>
<td>192</td>
<td>Clients of microfinance bank</td>
<td>6.1</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1,200</td>
<td>Applicants to a government migration lottery</td>
<td>5.7</td>
</tr>
<tr>
<td>Ghana</td>
<td>4,565</td>
<td>Nationally representative households in a panel</td>
<td>4.4</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>622</td>
<td>Public school teachers</td>
<td>4.1</td>
</tr>
<tr>
<td>Peru</td>
<td>500</td>
<td>Borrowers with at least 1 formal debt product</td>
<td>3.8</td>
</tr>
<tr>
<td>Uganda – Host</td>
<td>844</td>
<td>HHs in communities surrounding Rwanwanja</td>
<td>2.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>600</td>
<td>Ultra-poor HHs in Negros Occidental province</td>
<td>2.5</td>
</tr>
<tr>
<td>Uganda – Refugees</td>
<td>786</td>
<td>HHs in the Rwanwanja Refugee Settlement</td>
<td>2.4</td>
</tr>
</tbody>
</table>
Consumer Protection
Information Asymmetry between Financial Institutions and Customers

Less informed customers

Better informed financial institutions
Implications for Financial Consumers

"It is a standard contract - sign at the bottom. The first clause forbids you to read any of the others!"
Decision Context

1. Promote nudges for good
2. Watch out for nudges for bad
A Nudge for Good: Organ Donor Consent in Europe


(sic)
A Nudge for Good: Increasing Retirement Contributions with SMS Messages in Colombia

**Intensive margin:** Intermediate and high goals increase savings amounts

**Extensive margin:** Low and intermediate goals increase probability of depositing once

Active Account Holders: Amount Deposited

<table>
<thead>
<tr>
<th>Goal</th>
<th>Treatment effect (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>23.66</td>
</tr>
<tr>
<td>Standard</td>
<td>2.91**</td>
</tr>
<tr>
<td>Goal low</td>
<td>4.71**</td>
</tr>
<tr>
<td>Goal intermediate</td>
<td>5.84***</td>
</tr>
<tr>
<td>Goal high</td>
<td>5.47***</td>
</tr>
</tbody>
</table>

Active Account Holders: Probability of Saving Once

<table>
<thead>
<tr>
<th>Goal</th>
<th>Treatment effect (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>0.378</td>
</tr>
<tr>
<td>Standard</td>
<td>0.038***</td>
</tr>
<tr>
<td>Goal low</td>
<td>0.068***</td>
</tr>
<tr>
<td>Goal intermediate</td>
<td>0.053**</td>
</tr>
<tr>
<td>Goal high</td>
<td>0.038</td>
</tr>
</tbody>
</table>

Note: Error bands show Huber-White standard errors
A Nudge for Evil (giving up data): Facebook

No option for “No”

Grabs your attention

Reminder messaging
IPA’s Consumer Protection Research Initiative

Three priority areas

1. Fraud in digital finance
2. Insufficient consumer redress in digital products
3. Product information and choice
IPA’s Consumer Protection Research Initiative

Two main activities

1. Market monitoring and data analysis
2. Testing and impact analysis of new solutions
Experimental Approaches to Consumer Protection
Sales Conduct in Colombia

• Goal: Inform financial regulatory authorities about sales practices
• Research Questions:
  • Do lenders in Colombia issue credit responsibly?
  • What is the quality of information provided to low-income consumers?
  • Do financial institutions offer the product that best meets the customer’s needs, esp. cost and intended usage?
• Methodology: Mystery Shopping

Sales Conduct in Colombia

Results

• Product disclosures don’t always work
  • Staff may not disclose product information accurately
  • Design of information affects whether / how consumers act upon it
• More needs to be learned about how product information and disclosures should be designed and delivered

Are Disclosure Designs Effective?

- Mandated disclosures may fail if poorly designed
- Test!
Comparison Shopping Tools

Cost of Credit Calculator

This app provides you with information on the Total Cost of Credit and features and simple Cost of Credit calculator, which loan applicants can use to estimate the total cost of a bank loan.

Banks are required by the Central Bank of Kenya to provide you with a Total Cost of Credit breakdown as well as a loan repayment schedule.
Designing Better Disclosures in Mexico

- Low-income individuals
- Lab experiment
- Tested several types of disclosure forms:
  - Either 5 or 10 product options
  - Simple or complex information
- Outcome: Participants identify best product

## Antes de abrir tu cuenta

### Infórmate y compara

| Producto | Institución | Monto mínimo de apertura | Comisión por apertura | Comisión por manejo de cuenta | Saldo promedio mensual requerido | Comisión por no mantener el saldo mínimo requerido | Comisión por consulta de saldo en cajeros propios del banco | Comisión por retiro de efectivo en cajeros propios del banco | Comisión por inactividad | Tasa de interés anual | GAT (Ganancia Anual Total)* | Ganancias en un mes sin ninguna actividad ** | Ganancias en un mes con actividad*** |
|----------|-------------|--------------------------|-----------------------|-----------------------------|---------------------------------|---------------------------------------------|-------------------------------------------------|-------------------------------------------------|---------------------------------|------------------|-----------------------------|-----------------------------|-----------------------------------------------|-----------------------------------------------|
| A        | Libertad Servicios Financieros | $100 | $20 | $9 | $250 | $45 | $9 | $1 | $0 | 2.0% | -0.61% | -0.43% | -0.48% |
| B        | Financiera FinComun | $650 | $15 | $7 | $300 | $40 | $0 | $8 | $0 | 1.0% | -1.01% | -0.39% | -0.43% |
| C        | Banco Compartamos | $750 | $20 | $0 | $950 | $90 | $0 | $0 | $0 | 1.5% | 1.06% | 0.11% | 0.13% |
| D        | HSBC | $200 | $0 | $0 | $900 | $55 | $0 | $0 | $0 | 1.8% | 1.77% | 0.14% | 0.15% |
| E        | Caja Popular Mexicana | $400 | $15 | $2 | $300 | $66 | $0 | $3 | $0 | 1.6% | 0.78% | -0.04% | -0.04% |

* GAT (Ganancia Anual Total) es un porcentaje que representa el dinero obtenido de una inversión o ahorro durante un año, se obtiene de restarle al rendimiento generado las comisiones cobradas.

** Incluye dos consultas y dos retiros al mes de 250 pesos cada uno, sin ninguna penalidad por no mantener el saldo promedio mínimo mensual requerido.

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Designing Better Disclosures in Mexico

Designing Better Disclosures in Mexico

Designing Better Disclosures in Mexico

5 choices better than 10.
Simple better than Complex.

Marketing Overdrafts in Turkey
Marketing Overdrafts in Turkey

Research Question: Discounted interest rate → More or less borrowing?

• Advertising a 50% discount → LOWER overdraft use
• Advertising availability of loan → HIGHER overdraft use
  • Why?
    • Put price top of mind?

Improve Salience of Existing Tools in Peru

• IPA & Superintendencia de Banca in Peru

• Challenge: Improve salience of customer credit reports

• Experiment: 25,000 consumers receive SMS messages about their credit score

• Will we observe changes in borrowing and repayment behavior?
Digital Finance in Tanzania

• Will mobile savings wallets and digital credit reduce information asymmetry?
• What new disclosure issues will emerge with digital finance?
• IPA Tanzania is developing a project to test product information disclosure with a mobile health insurance provider
Areas for Further Research in Latin America
Facilitating Complaints and Redress

Areas for Further Research in Latin America

• Chatbots & other digital solutions?
• Alternative dispute resolution models?
• Independent consumer advocates?
Promoting Consumer Knowledge of Choice

Areas for Further Research in Latin America

• Ease consumer transaction auditing?
• Publicize service and fee comparisons?
• Other ways to address overindebtedness, especially among youth?
New Methods of Data Use for Market Monitoring

Areas for Further Research in Latin America

• Automated complaint and portfolio monitoring?
• Systematic mystery shopping?
• Empowering independent organizations to monitor?
• Social media?
Thank you