

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”

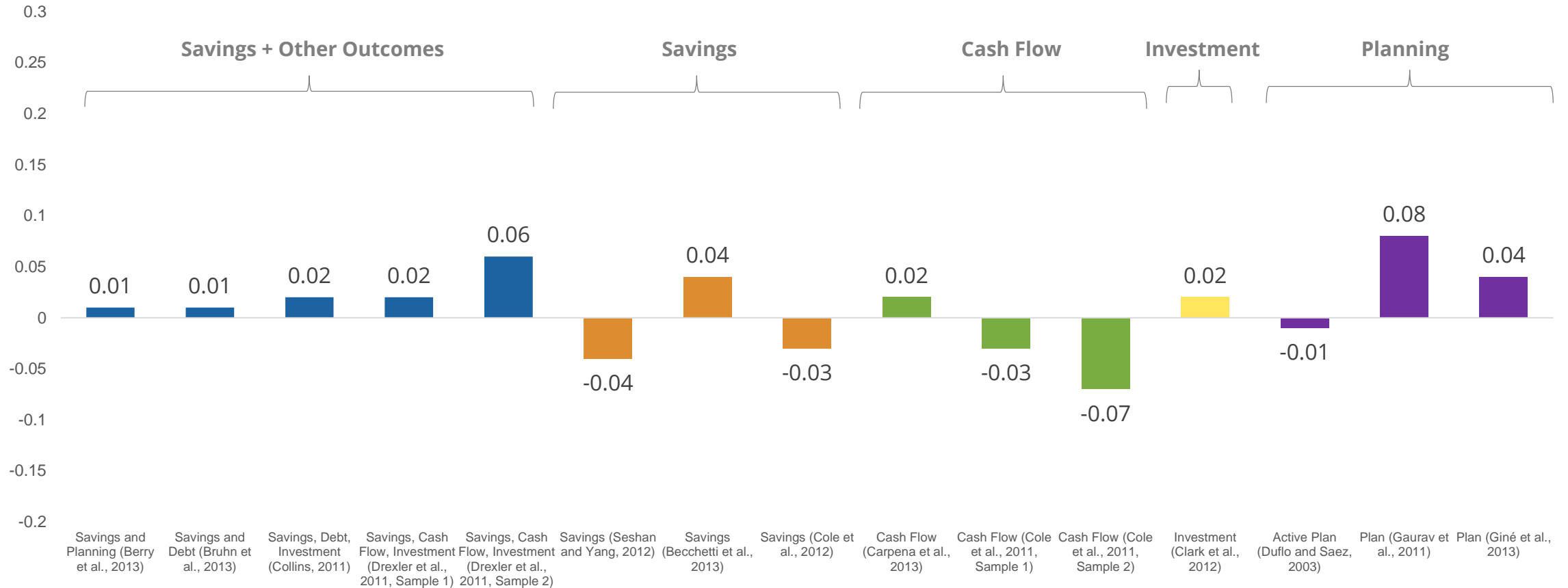


What does rigorous evidence tell us about financial education?

- 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

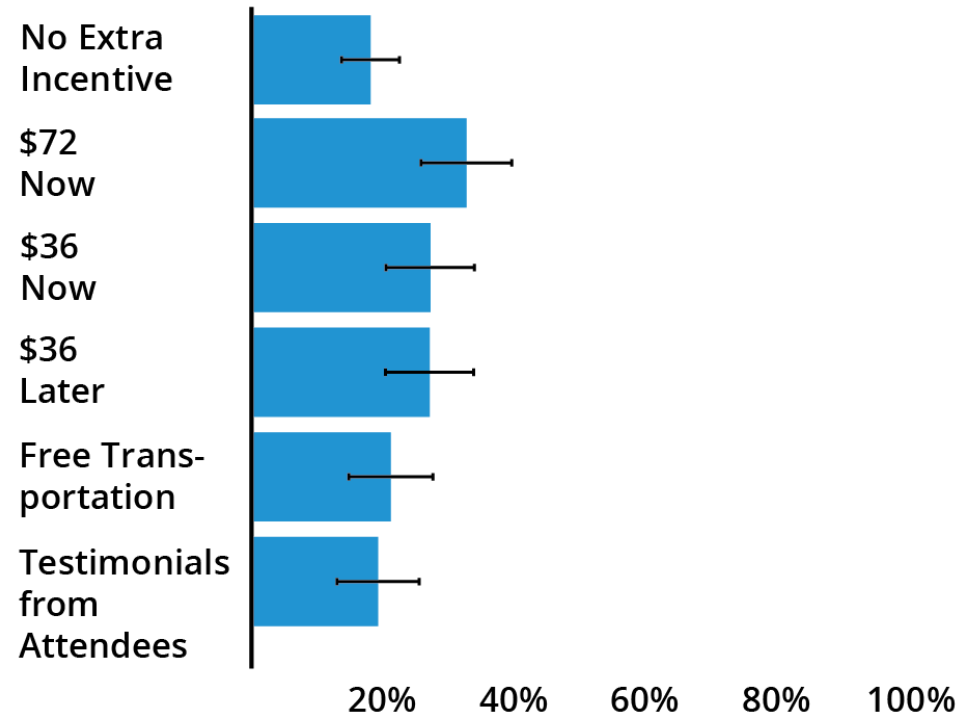


Source: Fernandes, Daniel, John G. Lynch Jr, and Richard G. Netemeyer. "Financial literacy, financial education, and downstream financial behaviors." *Management Science* 60, no. 8 (2014): 1861-1883.

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

Financial Literacy Training
Take-Up Rates by Incentive Group



Bruhn, Miriam, Gabriel Lara Ibarra, and David McKenzie. "The minimal impact of a large-scale financial education program in Mexico City." Journal of Development Economics 108 (2014): 184-189.

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

2

Financial Health

Are There Better Ways to Achieve Financial Health?

First: Define What Financial Health Is



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

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)

COUNTRY	# HOUSEHOLDS	POPULATION	SCORE
Dominican Republic	578	Clients of microfinance bank	6.1
Colombia	192	Clients of microfinance bank	6.1
Bangladesh	1,200	Applicants to a government migration lottery	5.7
Ghana	4,565	Nationally representative households in a panel	4.4
Afghanistan	622	Public school teachers	4.1
Peru	500	Borrowers with at least 1 formal debt product	3.8
Uganda - Host	844	HHs in communities surrounding Rwanwanja	2.8
Philippines	600	Ultra-poor HHs in Negros Occidental province	2.5
Uganda - Refugees	786	HHs in the Rwanwanja Refugee Settlement	2.4

A large, semi-transparent green number '3' is centered in the background of the slide.

Consumer Protection

Information Asymmetry between Financial Institutions and Customers

Less informed customers



Better informed financial institutions

Implications for Financial Consumers

CHEAP LOANS LTD



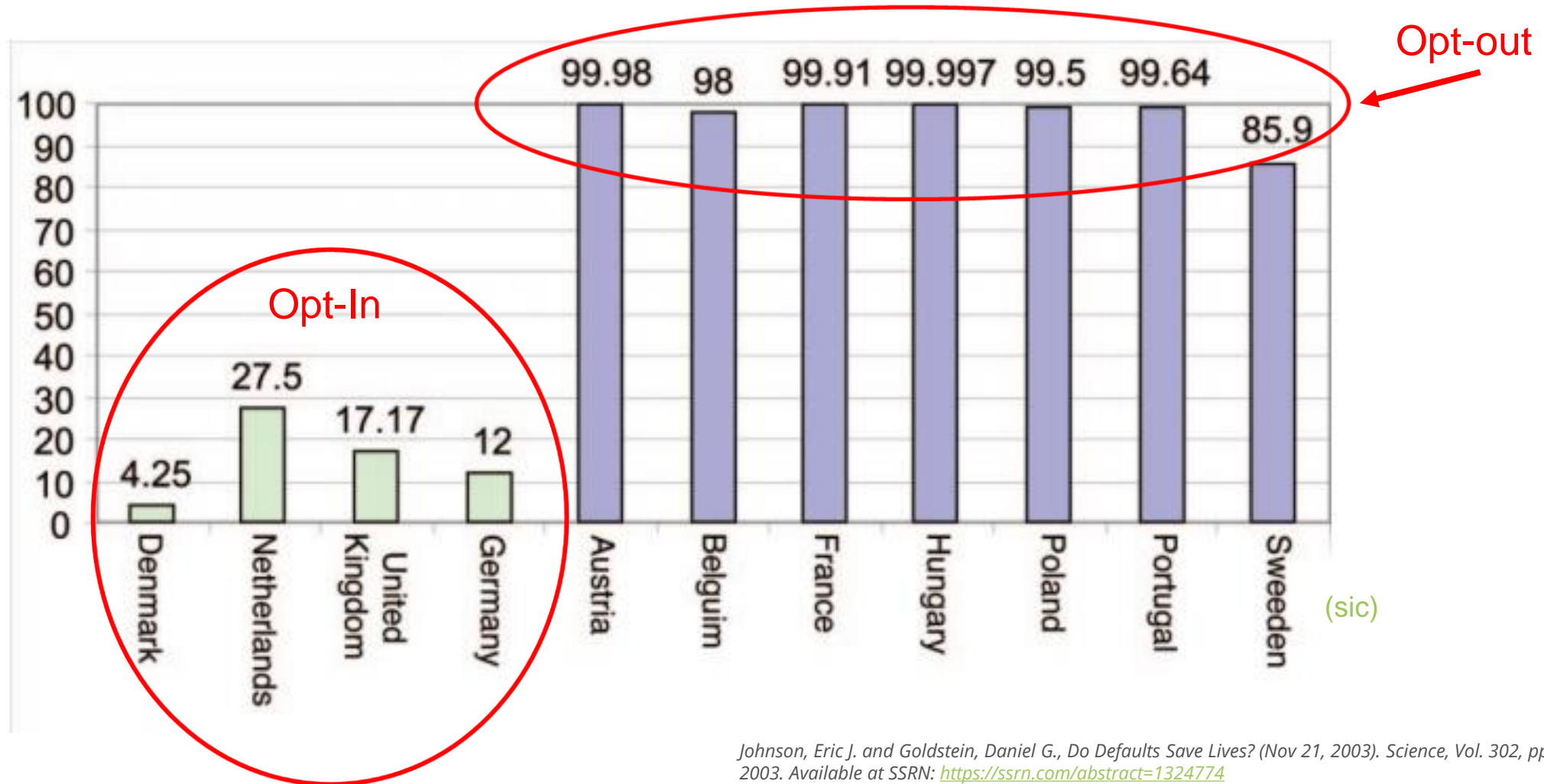
"It is a standard contract - sign at the bottom. The first clause forbids you to read any of the others!"

Decision Context



1. Promote nudges for good
2. Watch out for nudges for bad

A Nudge for Good: Organ Donor Consent in Europe

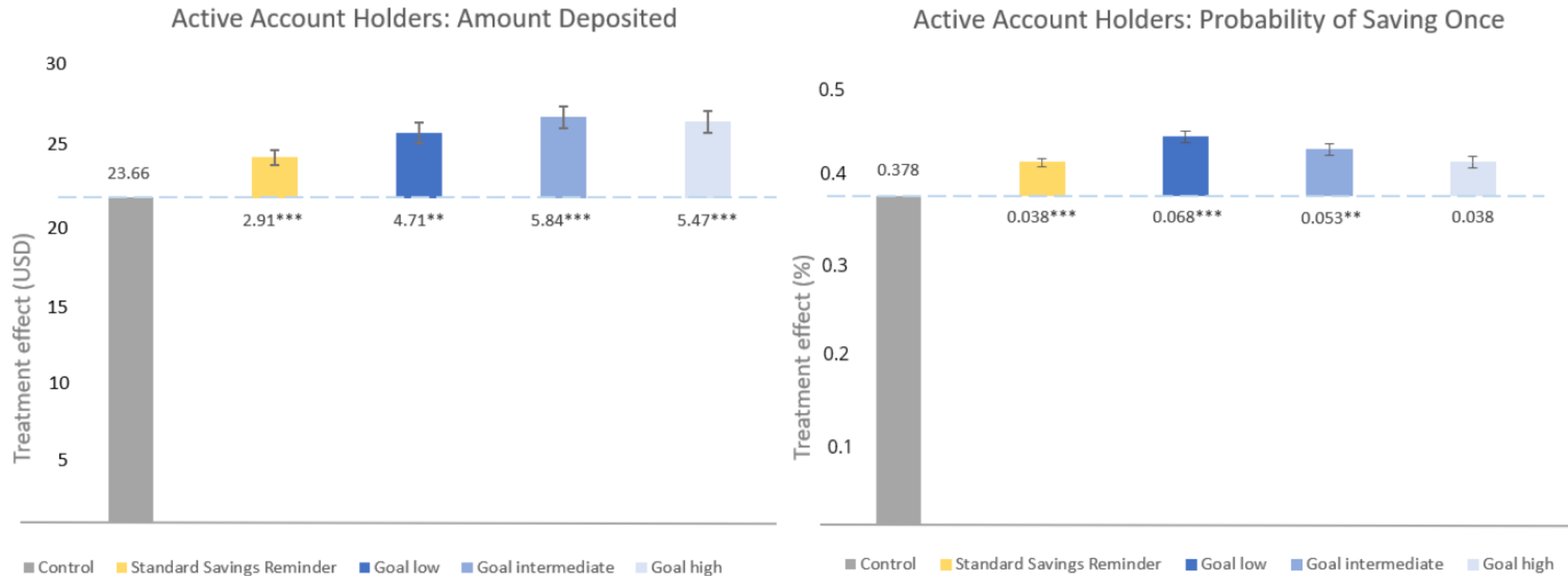


Johnson, Eric J. and Goldstein, Daniel G., Do Defaults Save Lives? (Nov 21, 2003). *Science*, Vol. 302, pp. 1338-1339, 2003. Available at SSRN: <https://ssrn.com/abstract=1324774>

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

Intensive margin: Intermediate and high goals increase savings amounts

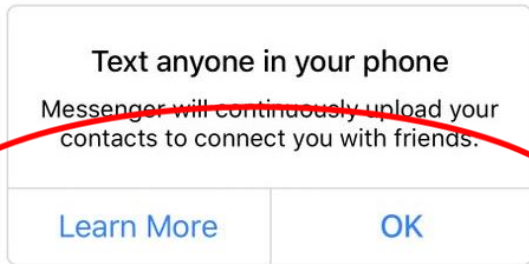
Extensive margin: Low and intermediate goals increase probability of depositing once



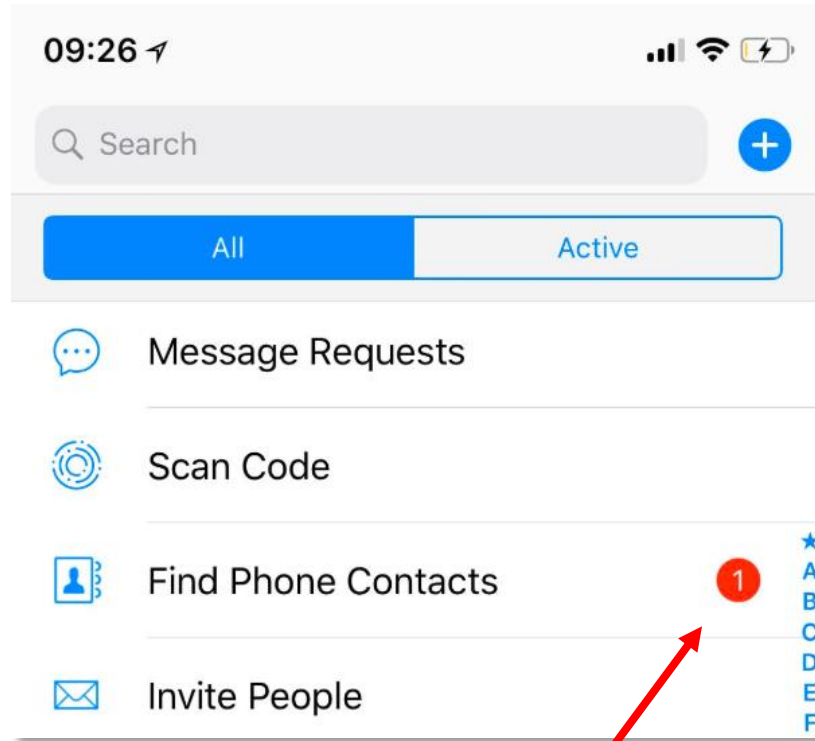
Note: Error bands show Huber-White standard errors

A Nudge for Evil (giving up data): Facebook

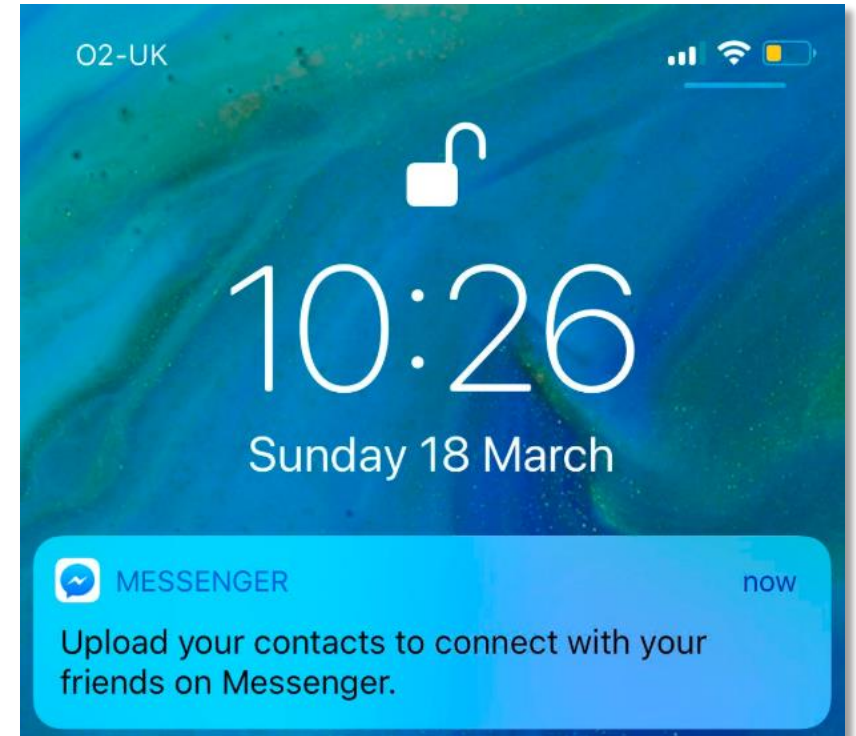
No option for “No”



Syncing your contacts helps friends connect on Facebook, too. [Manage contacts](#).



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

*Xavier Giné, Nidia García, and José Gómez-González. "Financial Information in Colombia."
World Bank Policy Research Working Paper #7998.*

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

*Xavier Giné, Nidia García, and José Gómez-González. "Financial Information in Colombia."
World Bank Policy Research Working Paper #7998.*

Are Disclosure Designs Effective?

Nutrition Facts	
8 servings per container	
Serving size	2/3 cup (55g)
Amount per serving	
Calories	230
% Daily Value*	
Total Fat 8g	10%
Saturated Fat 1g	5%
<i>Trans</i> Fat 0g	
Cholesterol 0mg	0%
Sodium 160mg	7%
Total Carbohydrate 37g	13%
Dietary Fiber 4g	14%
Total Sugars 12g	
Includes 10g Added Sugars	20%
Protein 3g	
Vitamin D 2mcg	10%
Calcium 260mg	20%
Iron 8mg	45%
Potassium 235mg	6%
<small>* The % Daily Value (DV) tells you how much a nutrient in a serving of food contributes to a daily diet. 2,000 calories a day is used for general nutrition advice.</small>	

- Mandated disclosures may fail if poorly designed
- Test!

Comparison Shopping Tools

The screenshot shows the app's interface with the following elements:

- Header:** Kenya Bankers Association logo, "Farwell Consultants Limited Finance", and a 7-star rating.
- Buttons:** "Add to Wishlist" and "Install".
- Main Content:** Three panels showing the calculator interface. The central panel displays "Loan Information" with fields for Facility Type, Facility Currency (KES), Credit Repayment Frequency (Monthly), Proposed Security for the Facility (None), and Interest Rate (%). It also includes a "Help" button and a "Host" link.

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.

The screenshot shows the LendingTree website with the following elements:

- Header:** LendingTree logo with the tagline "WHEN BANKS COMPETE, YOU WIN". Navigation links include Refinance, Mortgage, Auto Loans, Personal Loans, Business Loans, Credit Cards, and All. Contact information: 800-460-8109, Lenders: Join our Network, Sign Up, and Sign In.
- Main Content:** A green banner with the text "Compare Loan Offers in Minutes!" and "5/1 ARM Rates as low as 2.63% (2.97% APR)".
- Form:** Two dropdown menus for "Loan Type" (set to Refinance) and "Home Type" (set to Single family home). A prominent orange button says "Get Personalized Rates".
- Image:** A green Muppet character on the right side of the banner.
- Footer:** "Privacy Secured | Advertising Disclosures".

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

Xavier Giné, Cristina Martínez, and Rafael Mazer. "Information Disclosure and Demand Elasticity of Financial Products: Evidence from Mexico." Forthcoming.

Designing Better Disclosures in Mexico

Antes de
abrir tu cuenta



Infórmate y compara

Producto	Institución	Monto mínimo de apertura	Comisión por apertura	Comisión por manejo de cuenta	Saldo promedio mínimo 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	\$65	\$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.

Xavier Giné, Cristina Martínez, and Rafael Mazer. "Information Disclosure and Demand Elasticity of Financial Products: Evidence from Mexico." Forthcoming.

Designing Better Disclosures in Mexico

Antes de
abrir tu cuenta



Infórmate y compara

Producto	Institución	GAT (Ganancia Anual Total)*	Ganancias en un mes sin ninguna actividad	Ganancias en un mes con actividad**
A	Inbursa	-1.07%	-\$3.83	-\$4.25
B	Caja Popular Mexicana	-0.28%	\$0.17	-\$0.25
C	HSBC	0.12%	\$1.08	\$0.88
D	Banco Compartamos	0.86%	\$4.58	\$4.13
E	Financiera FinComun	-1.07%	-\$3.00	-\$5.50
F	Banco Autofin	-1.65%	-\$6.67	-\$7.00
G	Banamex	1.27%	\$7.50	\$6.75
H	BBVA Bancomer	-1.10%	-\$3.58	-\$3.63
I	Libertad Servicios Financieros	-1.30%	-\$5.33	-\$41.50
J	Batoamigo	-1.88%	-\$6.00	-\$8.00

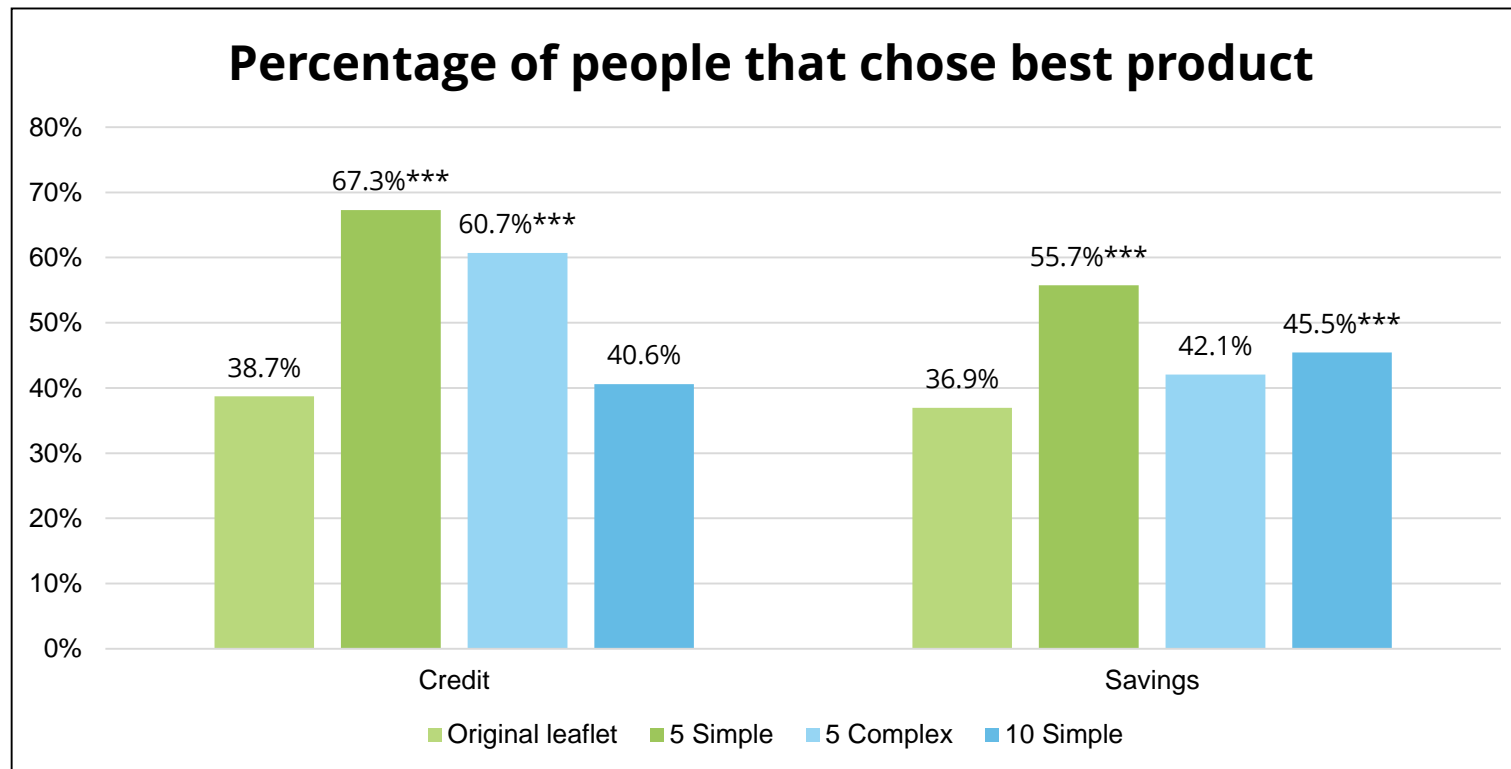
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Designing Better Disclosures in Mexico

5 choices better than 10.
Simple better than Complex.



Xavier Giné, Cristina Martínez, and Rafael Mazer. "Information Disclosure and Demand Elasticity of Financial Products: Evidence from Mexico." Forthcoming.

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?

Sule Alan, Mehmet Cemalcılar, Dean Karlan, and Jonathan Zinman. "Unshrouding Effects on Demand for a Costly Add-on: Evidence from Bank Overdrafts in Turkey." Journal of Finance (2018).

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

4

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



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INNOVATIONS FOR
POVERTY ACTION