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Clearing the Path to Financial Capability in Latin America

This cross-post with the [Center for Financial Inclusion's blog](#) was written by Beniamino Savonitto, Project Director of the [Citi IPA Financial Capability Research Fund](#).

The [Financial Inclusion 2020 project](#) at the Center for Financial Inclusion at Accion is building a movement toward full financial inclusion by 2020. Accordingly, this blog series will spotlight financial inclusion efforts around the globe, share insights coming out of the creation of a roadmap to full financial inclusion, and highlight findings from research on the “invisible market.”

There are many obstacles on the road to good financial decisions. Financial choices are complex, and so are many of the products and tools available. Low-income households with little education, scarce experience in the formal financial sector, and an irregular income may have an especially hard time. They also have very little room for mistakes.

Last month, in our effort to identify ways to improve financial capability, we brought together a select group of researchers, managers of financial institutions, and policymakers from all over Latin America to discuss the merits of existing financial capability solutions and to brainstorm new ones. During two days at Universidad del Pacífico in Lima, over 150 experts attended [Evidence on Innovations in Financial Capability](#) and engaged in conversations around the evidence from recent evaluations, the scope of promising innovations, and questions in the financial capability space that remain unanswered.

We began, of course, with the type of intervention people may think of first: programs that seek to improve what people know about financial management and financial concepts. [One study](#) we spoke on, which was implemented in Mexico, examines why voluntary financial education is so unpopular. Finding very low attendance rates to a general purpose workshop on financial education, researchers conclude that not attending might indeed be an optimal choice for beneficiaries. Focusing on alternative channels for delivering basic financial education to the general population might be more promising.

[Another study](#) looked at the effectiveness of disclosure policies in Mexico. This study opened the doors for discussion on the quality of information given to consumers when they are shopping for financial products. The study finds that regulation is not sufficient to guarantee

proper disclosure of financial information. To work best, disclosure policies need to find ways to align incentives for financial institutions and their employees with the best interests of consumers.

The conversation proceeded to discuss forces that push us to make sub-optimal decisions even if we know better. We refer to these as behavioral biases. We looked at a first set of innovations in product design that can help individuals improve control and fight temptation. Several studies on [commitment savings](#) demonstrate how voluntarily restricting one's future choices through improved product design can help individuals save more. Another study on [remittances](#) in El Salvador confirms how improving the sender's control over future use of the money sent home greatly increases the volume of transfers and savings by transnational households. A second set of product innovations seek to address problems of inattention and procrastination. [Reminders](#) to deposit via text messages or simple labels on savings accounts are cost-effective means to improve savings deposits. Finally, another study that was examined finds that simple changes in the [timing of cash transfers](#) can be an effective way in which bulk payers and government transfer programs can help beneficiaries overcome inertia and improve their behavior.

The Lima conference was preceded by a [matchmaking program](#) in which a small group of researchers and practitioners participated in a workshop on rigorous research methods and worked together to explore new partnership opportunities. The conference also convened researchers and practitioners to exchange ideas and explore new research partnerships to learn about effective solutions and foster innovation on financial capability. Now that we have all returned to our universities, microfinance institutions, banks, and government offices, we hope to continue this work via the second [Call for Expressions of Interest](#) of the Citi IPA Financial Capability Research Fund, supported by the Citi Foundation.

To learn more about the Research Fund and to submit Expressions of Interest, [click here](#). To learn more about the Lima conference and the studies mentioned in this post, visit the [conference website](#) and Innovation for Poverty Action's [YouTube page](#), where you can find all presentations and videos from the event.

For more information on Financial Inclusion 2020, and to explore becoming roadmap contributors or reviewers, [sign up for project updates](#).

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