Beyond Financial Education

New Research on Financial Health and Consumer Protection

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Founder and President, IPA
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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”

1. People make financial decisions that are detrimental to their financial health.
2. To solve this problem, governments, non-profits, and FSPs introduce financial education programs.
3. People attend financial education programs.
4. The financial knowledge of people improves.
5. People apply their new knowledge to their financial decisions.
6. 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
Consumer Protection
Information Asymmetry between Financial Institutions and Customers

Less informed customers

Better informed financial institutions
Implications for Financial Consumers
Decision Context

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

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
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

LendingTree

Compare Loan Offers in Minutes!

5/1 ARM Rates as low as 2.63% (2.97% APR)

Loan Type: Refinance

Home Type: Single family home

Get Personalized Rates
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

<table>
<thead>
<tr>
<th>Producto</th>
<th>Institución</th>
<th>Monto mínimo de apertura</th>
<th>Comisión por apertura</th>
<th>Comisión por manejo de cuenta</th>
<th>Saldo promedio mensual requerido</th>
<th>Comisión por no mantener el saldo mínimo requerido</th>
<th>Comisión por consulta de saldo en cajeros propios del banco</th>
<th>Comisión por retiro de efectivo en cajeros propios del banco</th>
<th>Comisión por inactividad</th>
<th>Tasa de interés anual</th>
<th>GAT (Ganancia Anual Total)*</th>
<th>Ganancias en un mes sin ninguna actividad</th>
<th>Ganancias en un mes con actividad**</th>
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</table>

* 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.

## Designing Better Disclosures in Mexico


### Infórmate y compara

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<tr>
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<th>Ganancias en un mes con actividad**</th>
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<tr>
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<tr>
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<td>Batoamigo</td>
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<td>-$6.00</td>
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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