



# Five Barriers to Financial Inclusion: What can policymakers do?

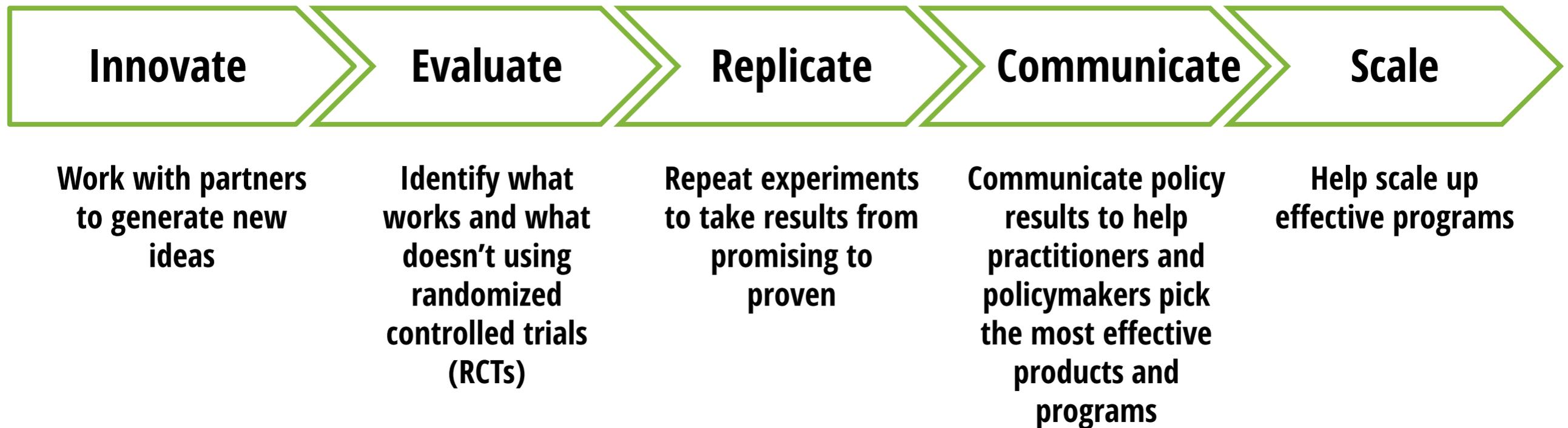
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Yale University and Innovations for Poverty Action

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# Innovations for Poverty Action (IPA)



**IPA was created in 2002 to discover and promote effective solutions to global poverty problems.**



## **Financial Inclusion Program (FIP)**

- Team within IPA that focuses on issues of financial inclusion
- Supported primarily by Citi Foundation, Bill & Melinda Gates Foundation

# What is financial inclusion?



## Financial inclusion means...

- Access to appropriate formal financial products
- Proper product information and disclosures
- Consumer financial capability

# Why care about financial inclusion?



## The poor face greater income risk like...

- Irregular and potentially seasonal income
- Vulnerability to shocks
- Difficulty saving large sums for investments

## Financial inclusion means...

- Access to appropriate formal financial products
- Proper product information and disclosures
- Consumer financial capability

## This could lead to healthier behaviors like...

- Achieving savings goals more frequently
- Defaulting less often on loans
- Making more appropriate product choices

## Which could help the poor...

- Smooth consumption
- Cope with income shocks
- Increase and diversify income
- Invest more in health and education

# Financial exclusion remains a problem

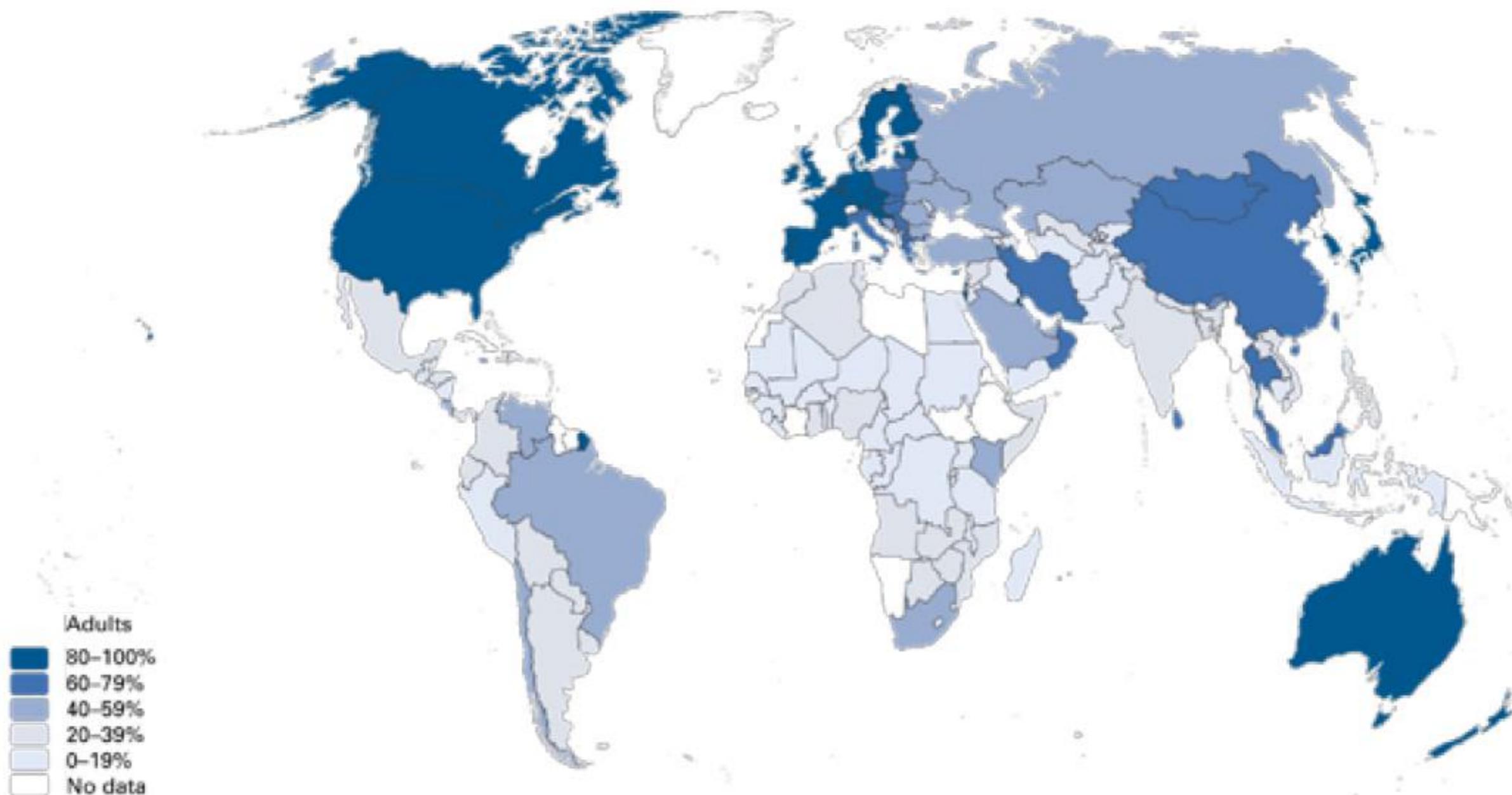


- The poor maintain complex financial portfolios to meet consumption and investment needs  
*Rutherford (2000); Banerjee, Duflo (2007); Portfolios of the Poor (2009)*
- But most are unbanked: 77 percent of adults living on less than \$2 a day report not having an account at a formal financial institution  
*Global Findex (2012)*
- Among those who have accounts, usage may still be low

# Financial exclusion remains a problem



**MAP 1.1** Adults with an Account at a Formal Financial Institution

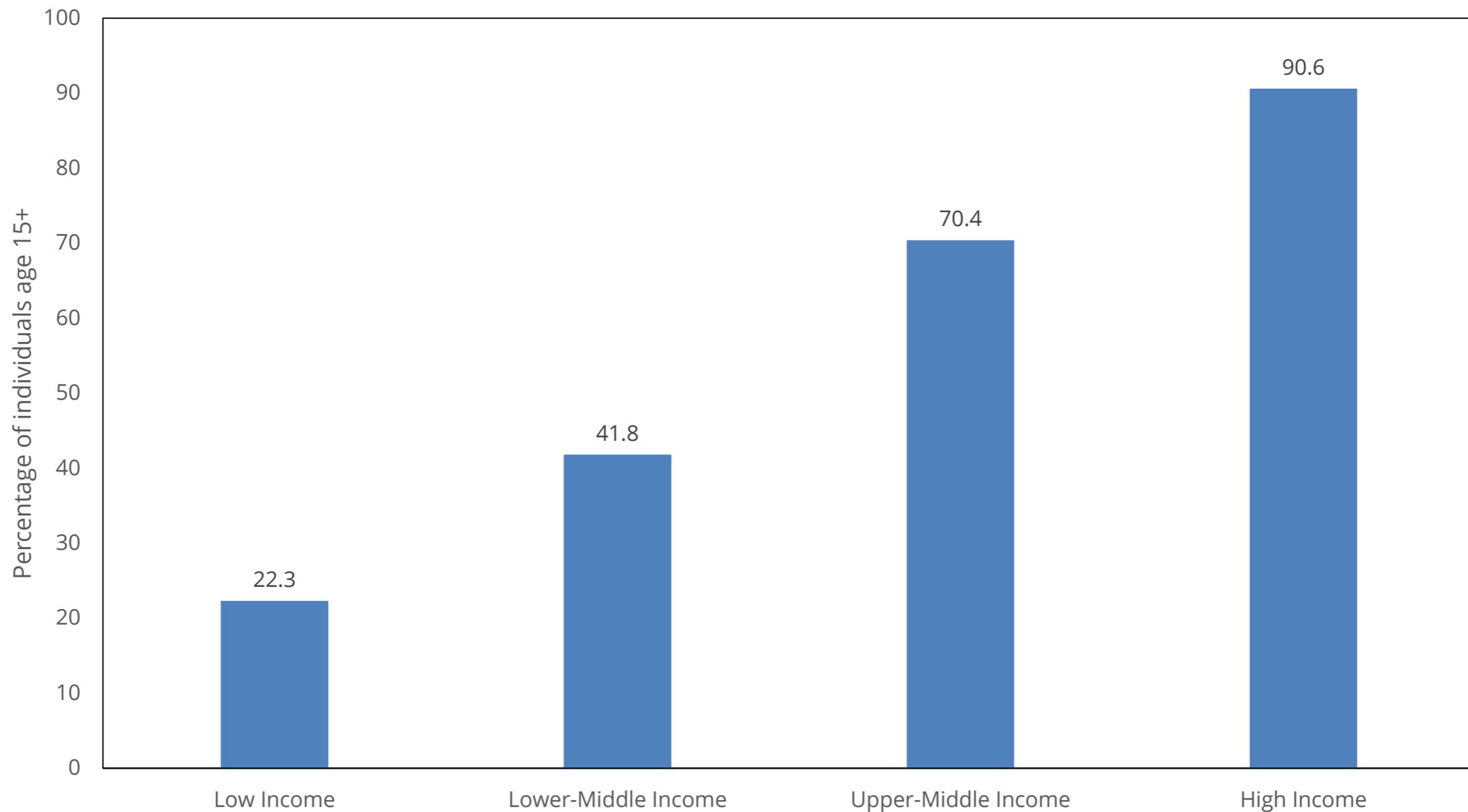


Source: Global Financial Inclusion (Global Findex) Database, World Bank, Washington, DC, <http://www.worldbank.org/globalfindex>.

# Disparities in access to finance



## Individuals with an Account at a Financial Institution



Source: Global Findex 2014

# Barriers to financial inclusion



## Saver Barriers (Demand)

- Information and knowledge gaps
- Lack of trust
- Other demands on money
- Transaction costs
- Social constraints
- Behavioral biases

## Provider Barriers (Supply)

- Regulatory barriers
- Corruption/Leakage
- Profitability (transaction costs)

**Can removing barriers produce tangible benefits for the poor?**

# Barriers to financial inclusion



- Behavioral biases
  - Self-control and present bias
  - Inattention
  - Biases in expectations
- Information and knowledge gaps
- High transaction costs
- Lack of trust and regulatory barriers
- Social constraints

# Key findings on behavioral biases



- Savings decisions not always rational - can be impacted by biases including:

- Time-inconsistent preferences & costly self-control/temptation

*Ashraf, Karlan, Yin (2006); Duflo, Kremer, Robinson (2010); Brune et al. (2013)*

- Inattention

*Karlan et al. (2012)*

- Biases in expectations

- Some financial products that account for behavioral biases have been successful

# Default enrollment in Afghanistan



*Photo Credit: Jan Chipchase*

# Default enrollment in Afghanistan



In Afghanistan, creating a simple phone-based savings account with automatic payroll deduction increased likelihood of contributing and total savings.

- Automatic payroll deduction: leads to large increases in short-term savings
- Making savings a “passive” decision is highly effective
- Equivalent to providing 50% match on contributions
- Consistent with results from developed economies
- Linked to dynamic inconsistency

*Joshua Blumenstock, Michael Callen, and Tarek Ghani. “Mobile-izing Savings with Automatic Contributions: Experimental Evidence on Dynamic Inconsistency and the Default Effect in Afghanistan.” Working Paper (2015).*

*This study is an IPA project funded by the Citi IPA Financial Capability Research Fund supported by the Citi Foundation.*

# Commitment savings



# Commitment savings



- Commitment = voluntary restriction of one's own set of choices
- Allow households to set aside money for predefined future goal
  - **Soft Commitments** e.g. “labeling” account for particular expenditure goal, with no explicit enforcement/penalty.
  - **Hard Commitments** might entail withdrawal restrictions or penalties for missed deposits.

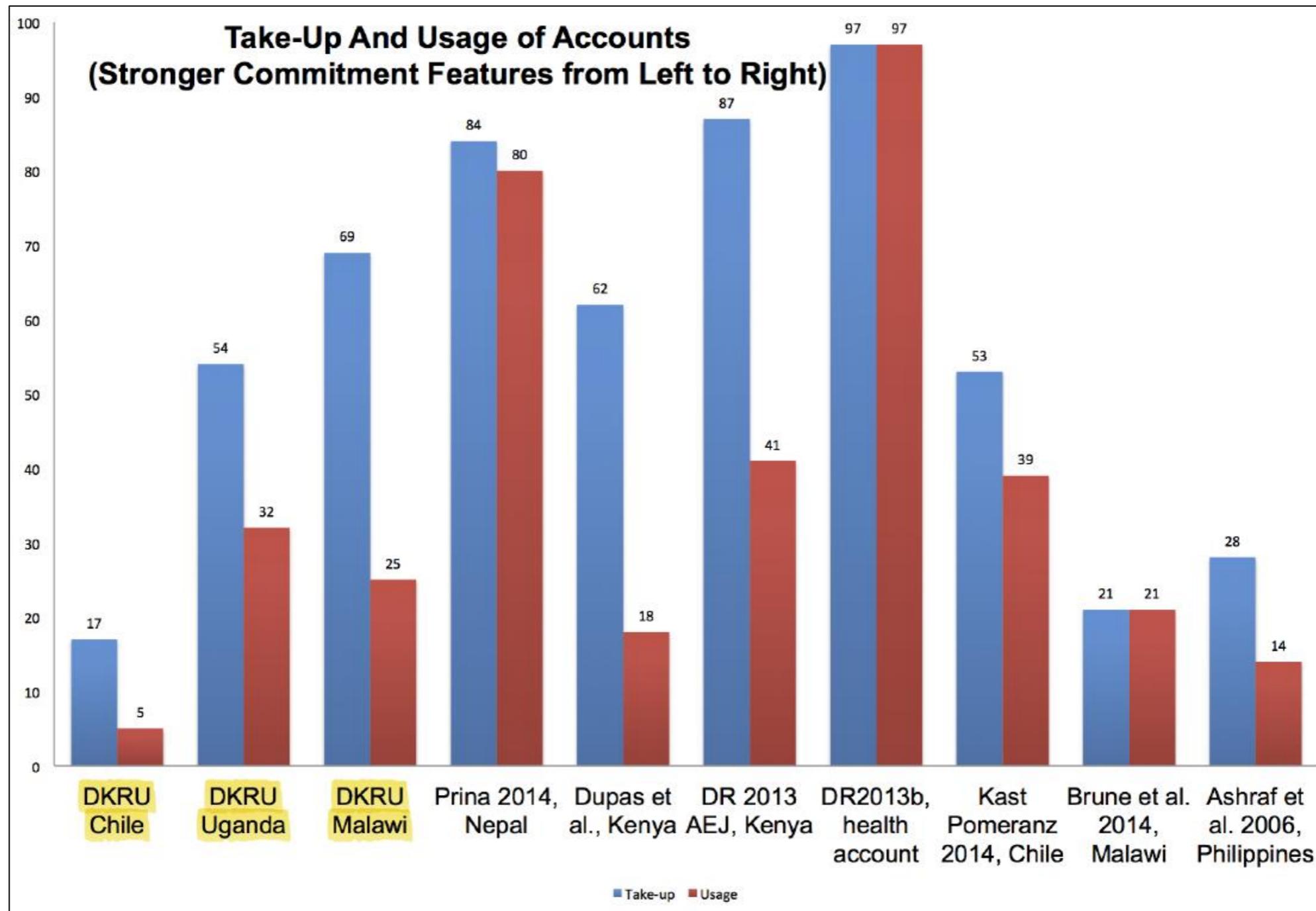
# Commitment savings



Studies in six countries showed that commitment savings can increase savings and investment.

- Studies conducted in the Philippines, Kenya, Malawi, Uganda, Ghana, and Bolivia
- Commitment savings accounts:
  - Increased savings levels
  - Increased investment in health, education, durable goods
- Is flexible commitment better?

# Commitment savings



*Pascaline Dupas, Dean Karlan, Jon Robinson, and Diego Ubfal. "Expanding Access to Formal Savings Accounts: Experimental Evidence from Uganda, Malawi, and Chile." Presentation (2015).*

# Reminder messages



# Reminder messages



Reminder messages prompted small but significant increases in savings, and improved repayment rates when they were personalized.

- For savings reminders:
  - Sending any type of reminder increased likelihood of reaching savings goal by 5%
  - Messages that mentioned savings goal and reward for saving worked best
  - In Peru, increased savings balances by 13%
  - In Bolivia, increased savings balances by 11%
- For repayment reminders, messages that included loan officer's name reduced likelihood of unpaid loan by 5.5 percentage points

*Karlan, Dean et al. "Getting to the Top of Mind: How Reminders Increase Saving." Working Paper (2014).*

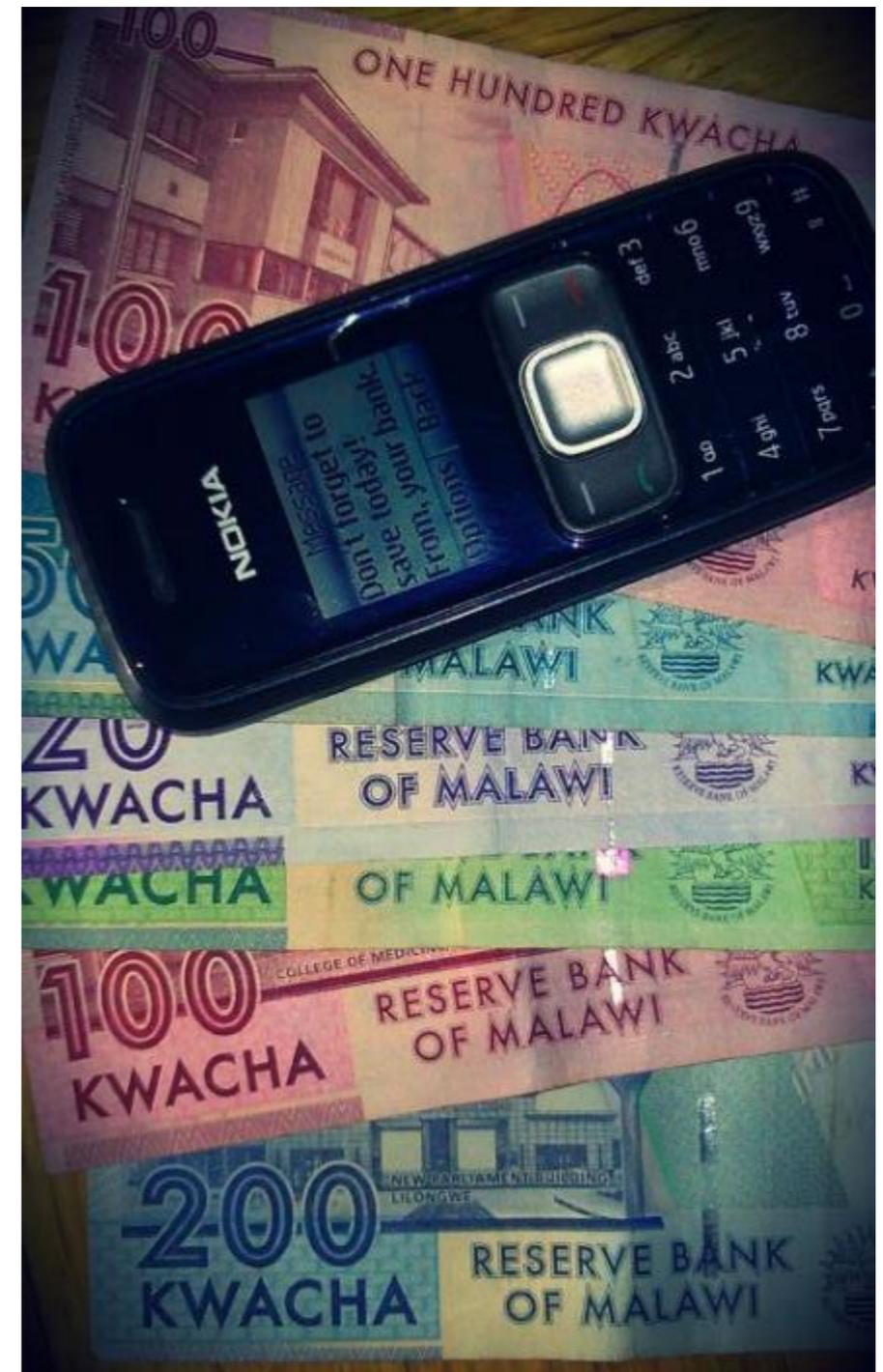
*Karlan, Dean, Melanie Morten, and Jonathan Zinman. "A Personal Touch: Text Messaging for Loan Repayment." Working Paper (2012).*

# Replicating reminders globally



- Replicating messaging in 8 countries to understand theory behind messaging impacts
- Testing variations on framing, timing, personalization, etc. to provide guidance on how best to implement effective messaging programs

*This study is an IPA project funded by the Citi IPA Financial Capability Research Fund supported by the Citi Foundation.*



# Barriers to financial inclusion



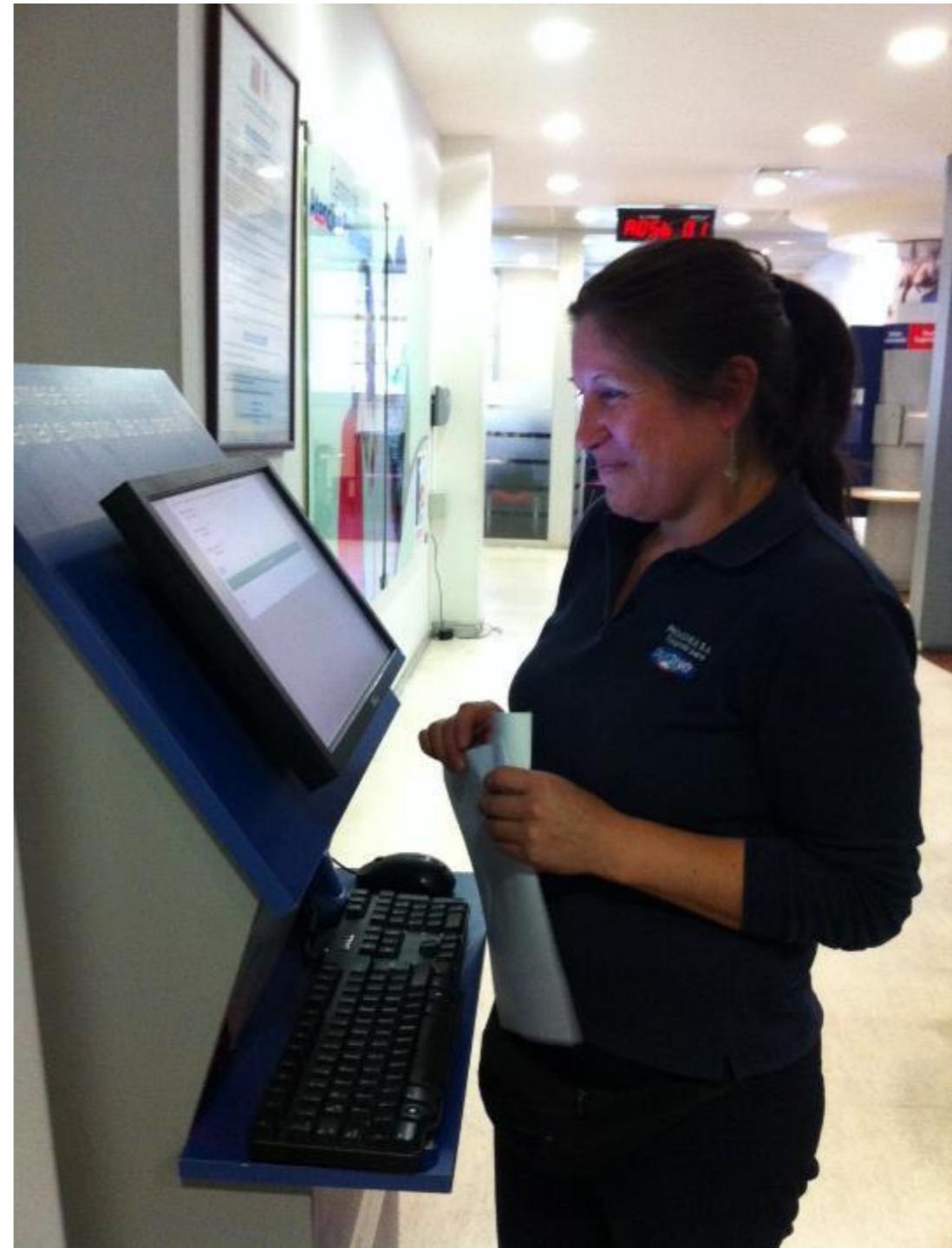
- Behavioral biases
- Information and knowledge gaps
  - Knowledge of financial concepts
  - Awareness and understanding of available products
- High transaction costs
- Lack of trust and regulatory barriers
- Social constraints

# Key findings on info/knowledge gaps



- Evidence on financial education is mixed:
  - Limited impact on adult behavior (larger relative impact on uneducated / marginalized populations)  
*Cole et al. (2011); Carpena et al. (2011)*
  - Short, simple, targeted trainings more effective
  - Small at best indications for children and youth  
*Karlan et al. (2014)*
- Product disclosures don't always work as intended
  - Audit studies show that staff may not disclose product information accurately
  - Design of information affects whether / how consumers act upon it

# Personalizing pension info in Chile



*Photo Credit: J-PAL LAC*

# Personalizing pension info in Chile



Concrete, personalized information about pension payouts can increase voluntary contributions.

- Voluntary contributions increased significantly, particularly among users who had initially underestimated their pension payouts
- Voluntary savings results stronger for younger individuals, women
- Results suggest that impacts continue for at least 8 months following the intervention
- No evidence of crowding-out of alternative savings channel; weak evidence of increased formalization of employment through survey
- Self-service modules worked best when an assistant was present to help users navigate the platform

*Olga Fuentes, Jeanne Lafortune, Julio Riutort, José Tessada, and Felix Villatoro. "Personalized Information as a Tool to Improve Pension Savings." In Progress.*

*This study is an IPA project funded by the Citi IPA Financial Capability Research Fund supported by the Citi Foundation.*

# Designing better disclosures in Mexico



# Designing better disclosures in Mexico



An audit study in Mexico and Peru showed that financial service provider staff tended to provide incomplete or inaccurate information, particularly to shoppers who appeared inexperienced.

- For shoppers who appeared experienced, staff did provide information about fees and commissions, but only when requested
- Shoppers were often offered more costly savings and credit products even when lower-cost options were available
- Incentives of bank staff and shoppers not aligned, thus disclosure and transparency policies difficult to implement successfully
- Can more effective disclosure forms be developed?

# Designing better disclosures in Mexico



- Low-income individuals tested several types of disclosure forms
- Several variations of forms:
  - Either 5 or 10 product options
  - Either simple or complex information about each product option
- Participants were asked to choose the best savings or credit product

# 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.

# 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

\* 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

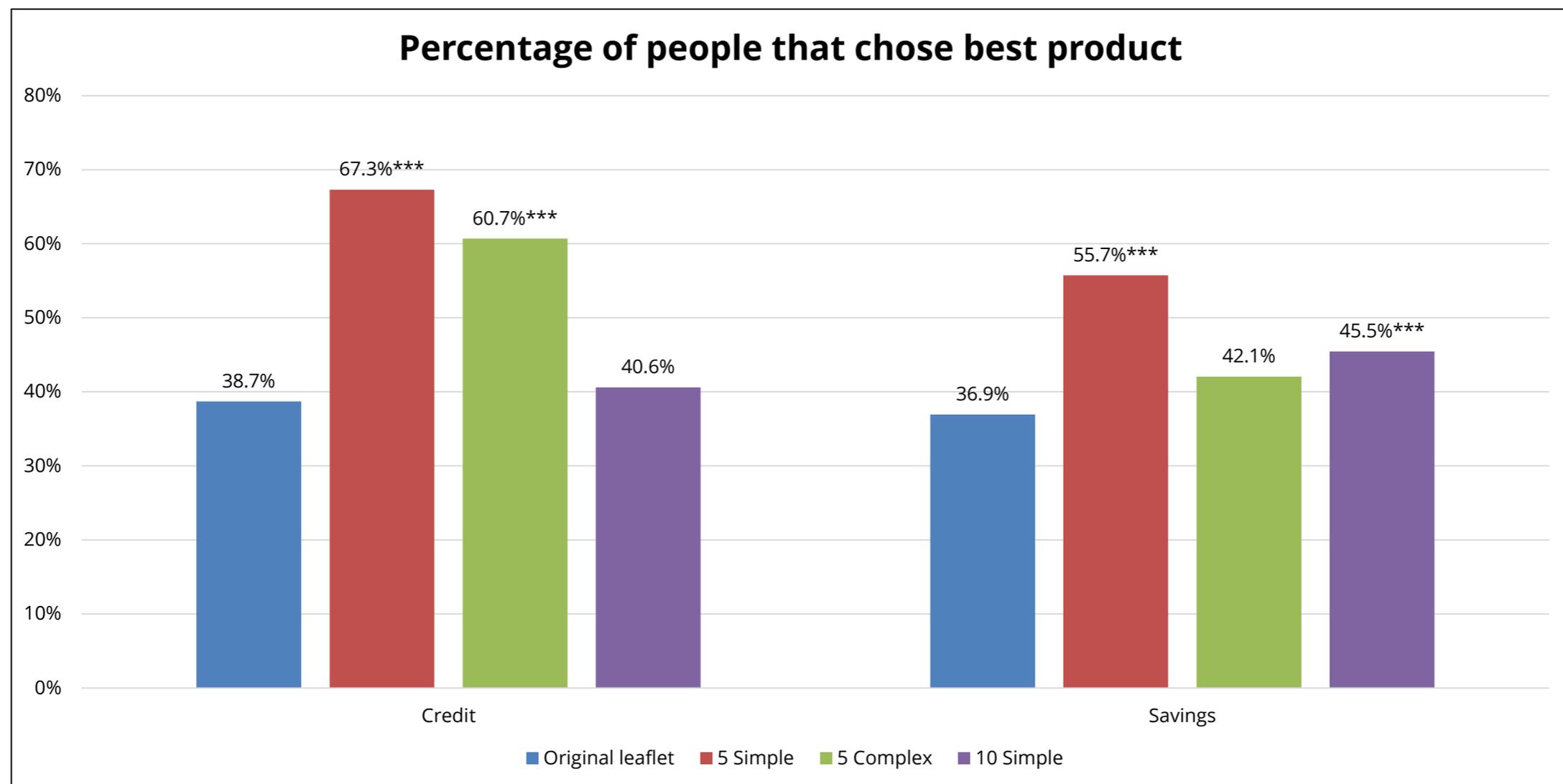
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Xavier Gine, Cristina Martínez, and Rafael Mazer. "Information Disclosure and Demand Elasticity of Financial Products: Evidence from Mexico." Forthcoming.

# Designing better disclosures in Mexico



The format in which the disclosures were provided had a significant impact on individuals' product choices.



Xavier Gine, 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



Consumers respond differently when advertising highlights different attributes of products.

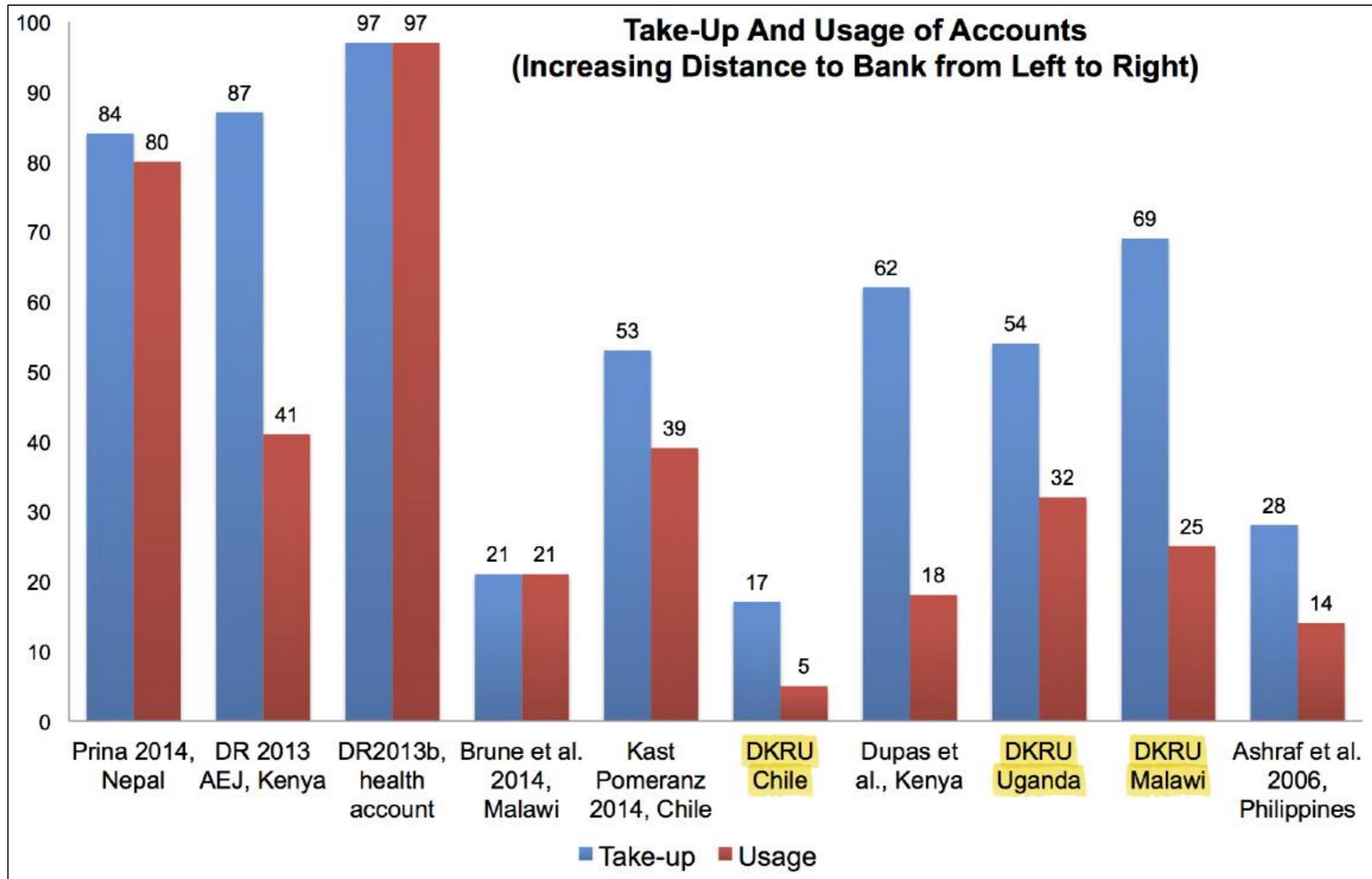
- Advertising a 50% discount on an overdraft product led to a decrease in overdraft use
- Promoting overdraft availability without mentioning price led to an increase in overdraft use
- More frequent and / or longer messaging intensified the impact of the marketing
- Effects dissipated over time – no detectable impacts 5 months later

# Barriers to financial inclusion



- Behavioral biases
- Information and knowledge gaps
- High transaction costs
  - Monetary costs
  - Non-monetary costs
- Lack of trust and regulatory barriers
- Social constraints

# Transaction cost of traveling to bank



Pascaline Dupas, Dean Karlan, Jon Robinson, and Diego Ubfal. "Expanding Access to Formal Savings Accounts: Experimental Evidence from Uganda, Malawi, and Chile." Presentation (2015).

# Policy lessons



- Addressing the barriers can impact financial decision-making of the poor
- Keys to improving take-up and usage: product design and cost
  - Everyone's needs are different!
  - Appropriate design is not always intuitive

# What should policymakers / FSPs do?



- Leverage transaction data
- Test new product designs
  - Integrate tests into design process
  - Conduct quick, low-cost, iterative tests
- Collaborate on disclosure policy

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[www.poverty-action.org/financialinclusion](http://www.poverty-action.org/financialinclusion)

