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**Timeline**

2015

**Sample Size**

450 visits to financial institutions (first stage); 75 credit officers (second stage)

**Research Implemented by IPA**

Yes

# Shopping for Financial Products in Colombia

## Abstract

Financial products have the potential to help the poor, yet most financial institutions are driven by commercial goals, and their staff may not be incentivized to offer products most suitable to low-income clients. This audit study aims to determine the types of information institutions provide to low-income financial customers in urban Colombia, and identify any differences in institutions' treatment of customers based on perceived financial knowledge.

## Policy Issue

Evidence suggests that lack of transparency and low quality information provided by financial institutions might have negative consequences for low-income consumers. Research from Mexico found that financial institutions, driven by commercial interests, routinely fail to voluntarily provide information to clients about avoidable fees, especially to people lacking financial knowledge, and clients are almost never offered the cheapest product. Many clients, meanwhile, lack the necessary understanding of financial products to engage in sound financial decision-making. Less informed customers may not be able to navigate this territory to find products that best suit their needs.<sup>1</sup> This study, conducted with the same methodology to others performed in Ghana, Mexico, and Peru will contribute a body of evidence on the type of information and offers financial institutions provide to low-income customers.

## Context of the Evaluation

The World Bank, Colombia's central bank (Banco de la *República*), and the government

agency responsible for overseeing financial institutions and markets (Superintendencia Financiera de Colombia) have partnered to improve consumer protection policy and practices in the Colombian market for financial products and services. This includes work to improve product disclosure and transparency for credit and savings products. These institutions are seeking high-quality data on existing practices, notably the quality and type of financial information and advice offered to low-income individuals by Colombian financial institutions that provide savings, individual term credit products, and credit cards.

This study is being conducted at financial institutions in a low-middle income district of Bogota (Kennedy), and the cities of Pereira and Tunja.

## Details of the Intervention

This audit study aims to determine the types of information institutions provide to low-income financial customers, and identify any differences in institutions' treatment of customers based on perceptions of their financial knowledge.

The study had two phases. First, a variety of individuals<sup>2</sup> carried out 450 visits to randomly selected financial institutions, including commercial banks, lending institutions and microfinance institutions in three cities, where they pretended to be shopping for different financial products. Following scripts that involved using language and behaviors that signaled high or low levels of financial knowledge, they either requested a savings account, a term credit product, or a credit card. Immediately following each visit, the participants completed questionnaires on what information the institutions provided to them and in what forms. They also gave their personal impressions of the quality of information, advice, and customer service.

In the second stage, surveyors carried out interviews with staff at all the institutions where the exercises were conducted to obtain information on the staff members' socio-demographic characteristics, their perceptions of clients, their financial knowledge, as well as the salary and incentives structure at the institutions. Researchers are merging results from this study with findings from closely related studies in Peru, Mexico and Ghana.

## Results and Policy Lessons

Results forthcoming.

## Sources

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[1] Giné, Xavier, Cristina Martinez Cuellar, and Rafael Keenan Mazer. "Financial (dis-) information: evidence from an audit study in Mexico." *World Bank Policy Research Working*

*Paper 6902 (2014).*

[2] The group of “shoppers” was equally divided between men and women, people of less than 30 years of age and people of 30 or more, formal employees and independent workers, among other characteristics.

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