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Three Experts Look into the Future of Digital Finance

Digital technology is rapidly changing the way we design and offer financial products. Consumers who were unreachable by brick-and-mortar banks can now access formal financial services quickly and cheaply through their mobile phones or prepaid cards. But while digital financial services (DFS) offer a multitude of benefits for the poor, they are not without their own set of challenges.

Experts from over 30 countries recently met in Antalya, Turkey for Responsible Finance Forum VI (RFF VI) to discuss these challenges and devise a set of actions to address them. Co-organized by Innovations for Poverty Action and several other global development organizations, RFF VI fostered an evidence-based, interactive discussion among regulators, practitioners, researchers, and development experts on advancing inclusive and responsible financial services, financial capability programs, and consumer protections in a digital world.

We spoke to Xavier Giné (World Bank), Greg Fischer (London School of Economics), and Dean Karlan (Yale University) about the key lessons from research for responsible digital finance.

Providing clear and accurate information about products can help consumers choose products that best serve their needs, and disclosure is therefore a key theme within consumer protection. Xavier, what are the implications of your research for improving the effectiveness of mandated disclosures?

Xavier: When we sent undercover research staff to financial institutions to audit their services, we found that bank agents tend to provide basic details, such as fees, only if explicitly requested. One solution is to give consumers a checklist with key questions to enable them to effectively compare products within and across financial institutions.

Studies also show that the way information is presented is important. Standardized formats, in which costs associated with products are clearly stated, are almost **twice** as effective at helping people choose the right product as commonly-used marketing materials, even when they contain the same information. Effective disclosure also depends on delivery timing, e.g. before individuals make a decision.

Many entities continue to invest in adult financial education, though evaluations

have cast doubt on its effectiveness. Greg, how might we design future financial education programs more effectively?

Greg: Existing evidence suggests that we need to rethink how we design and implement adult financial education programs. Recently, attention has turned to several broad themes for improving impact, including providing **simple and concrete information**, **targeting teachable moments**, harnessing **community support**, and using **creative ways to reach more people**. We should explore these directions, but we need to address low attendance – adults are generally not willing or able to attend and complete financial education courses – and we need to get better at identifying teachable moments when consumers are open to learning (e.g. just before a financial decision is made).

Ultimately, we should focus on making finance work better for people, and less on financial literacy for its own sake. One solution might be to approach financial well-being like we do public health: identify and promote simple rules for healthy behaviors, encourage consumers to seek expert help when necessary, and regulate potentially harmful products.

We heard repeatedly that practitioners should be providing products that better serve consumers. Dean, what does the research tell us about how products should be designed?

Dean: We are not the rational beings that traditional economic theory assumes. Behavioral biases, like the desire for instant gratification or procrastination, often win out against foresight when we make decisions about our futures. Financial institutions and regulators need to accept the reality of these biases and design products and policies around them.

Also, we see a tension between flexibility and rigidity of products. Making microloans more flexible by introducing a grace period before repayment started has been shown to improve business investment, profit, and income, while making savings accounts more rigid by allowing customers to make a savings commitment has helped them save more. We don't always know ahead of time how products will affect consumer behavior, and that's why experimentation is key to the design process.

For more information about Responsible Finance Forum VI: Evidence and Innovation for Scaling Inclusive Digital Finance, including presentations and a summary of event outcomes, visit https://responsiblefinanceforum.org/rffvi/.

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