

Beyond Financial Education

New Research on Financial Health and Consumer Protection

Dean Karlan

Professor of Economics and Finance, Northwestern University

Founder and President, IPA

www.poverty-action.org



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

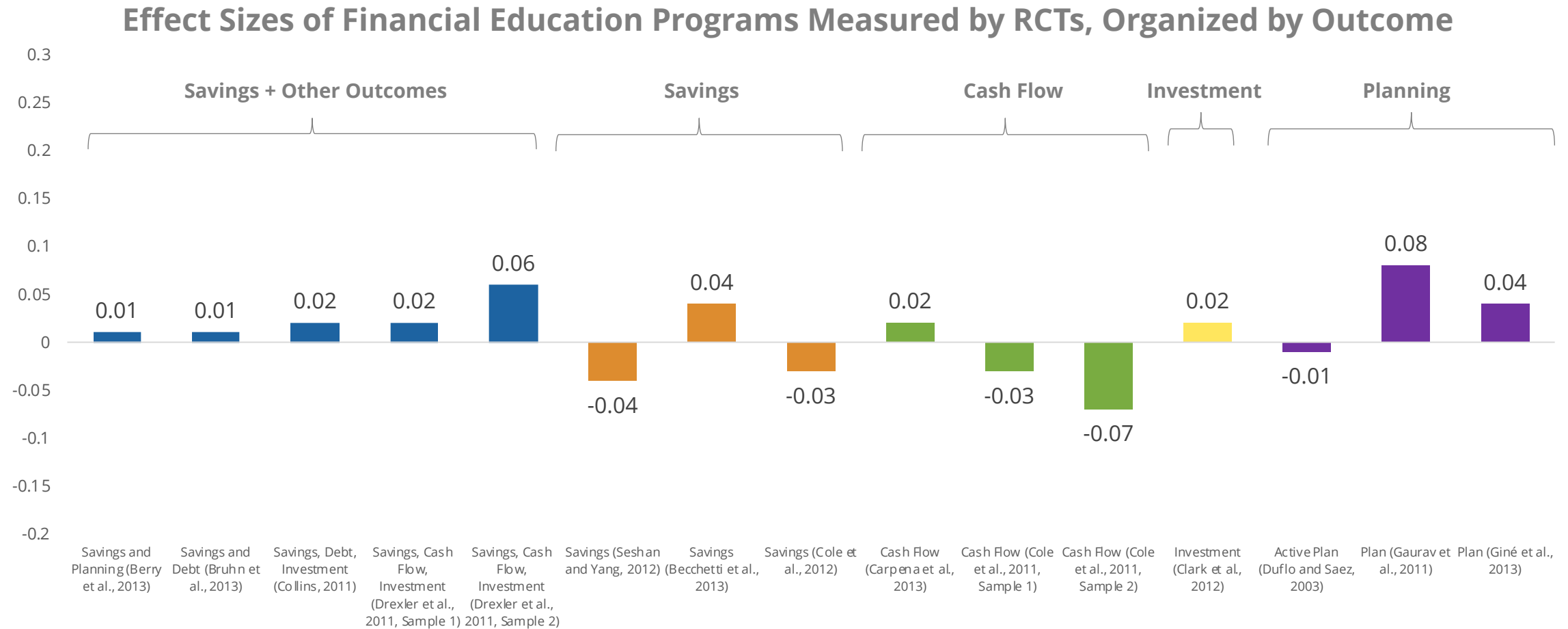
How Financial Education Works “in Theory”



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

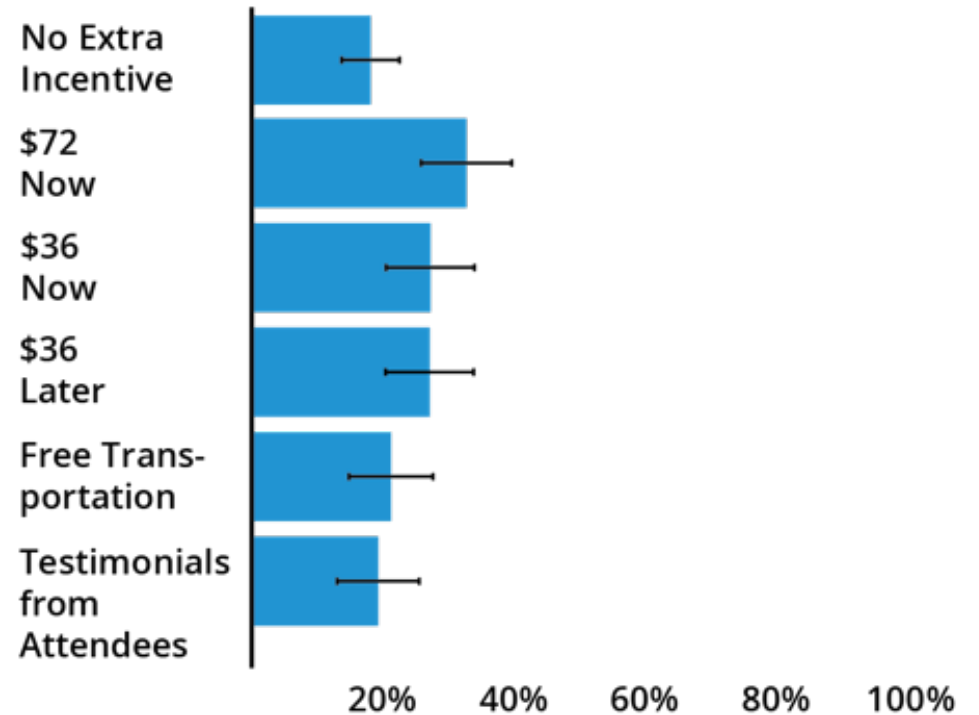


Source: Fernandes, Daniel, John G. Lynch Jr, and Richard G. Netemeyer. "Financial literacy, financial education, and downstream financial behaviors." *Management Science* 60, no. 8 (2014): 1861-1883.

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

Financial Literacy Training
Take-Up Rates by Incentive Group



Bruhn, Miriam, Gabriel Lara Ibarra, and David McKenzie. "The minimal impact of a large-scale financial education program in Mexico City." *Journal of Development Economics* 108 (2014): 184-189.

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

2

Financial Health

Consumer Protection

Information Asymmetry between Financial Institutions and Customers

Less informed
customers



Better informed
financial institutions

Implications for Financial Consumers

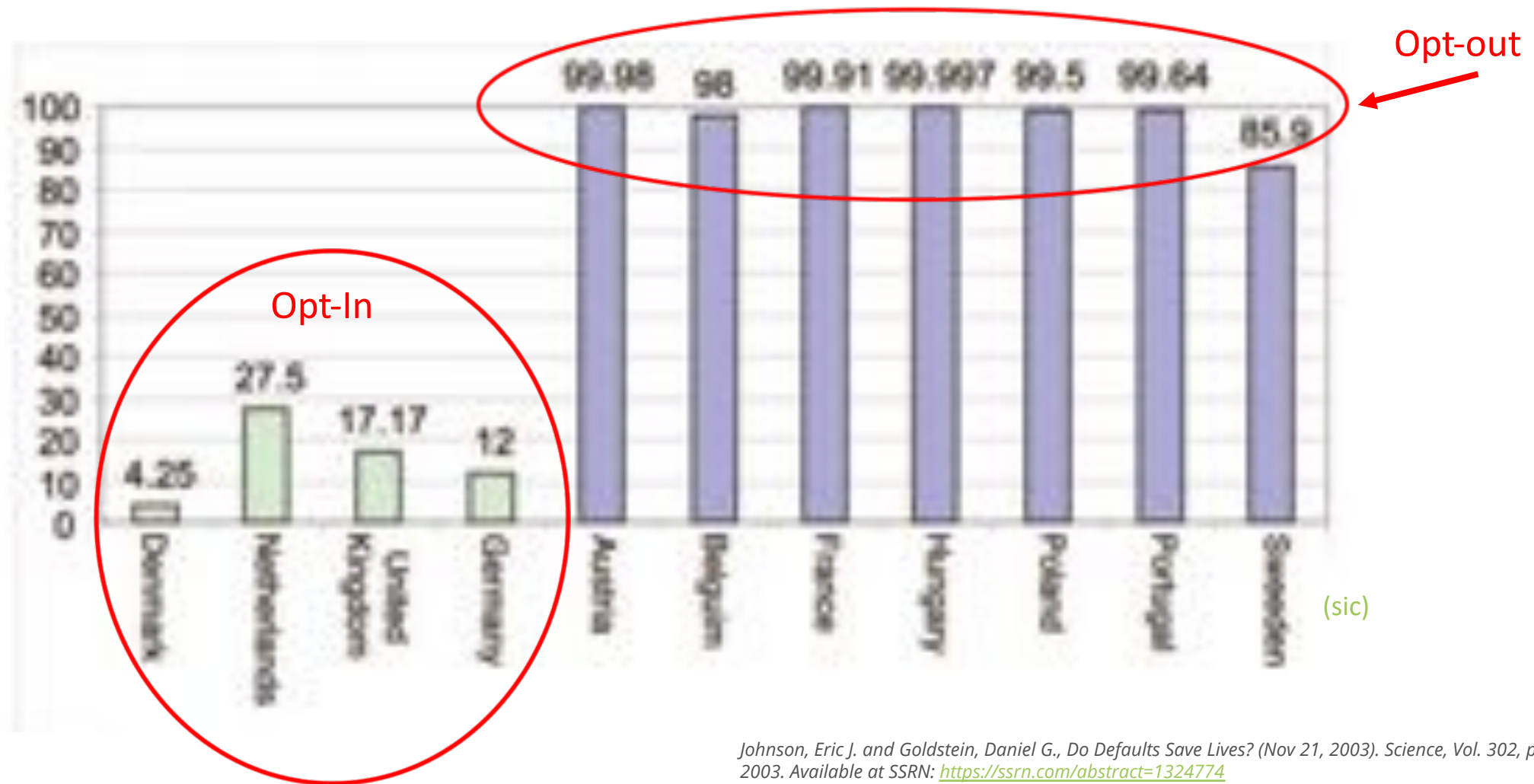


Decision Context



1. Promote nudges for good
2. Watch out for nudges for bad

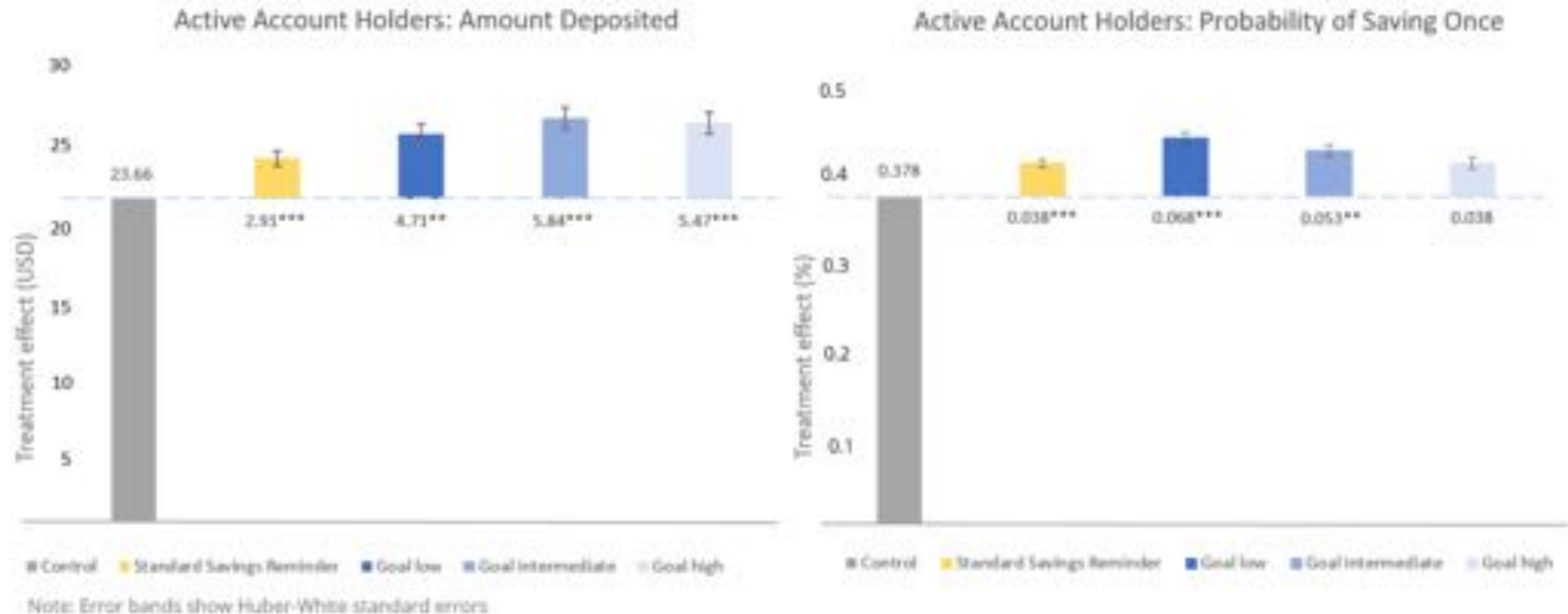
A Nudge for Good: Organ Donor Consent in Europe



A Nudge for Good: Increasing Retirement Contributions with SMS Messages in Colombia

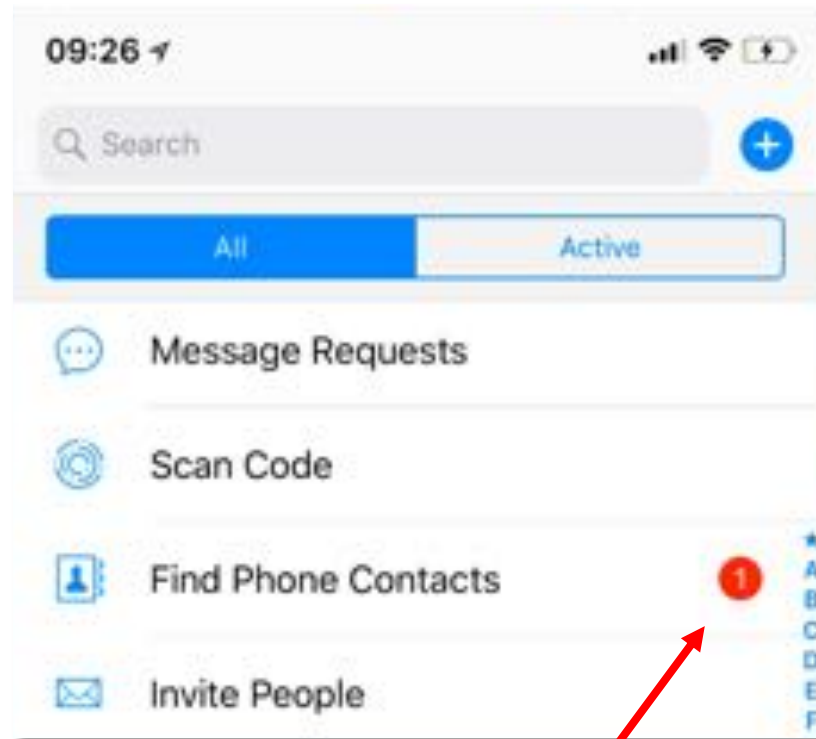
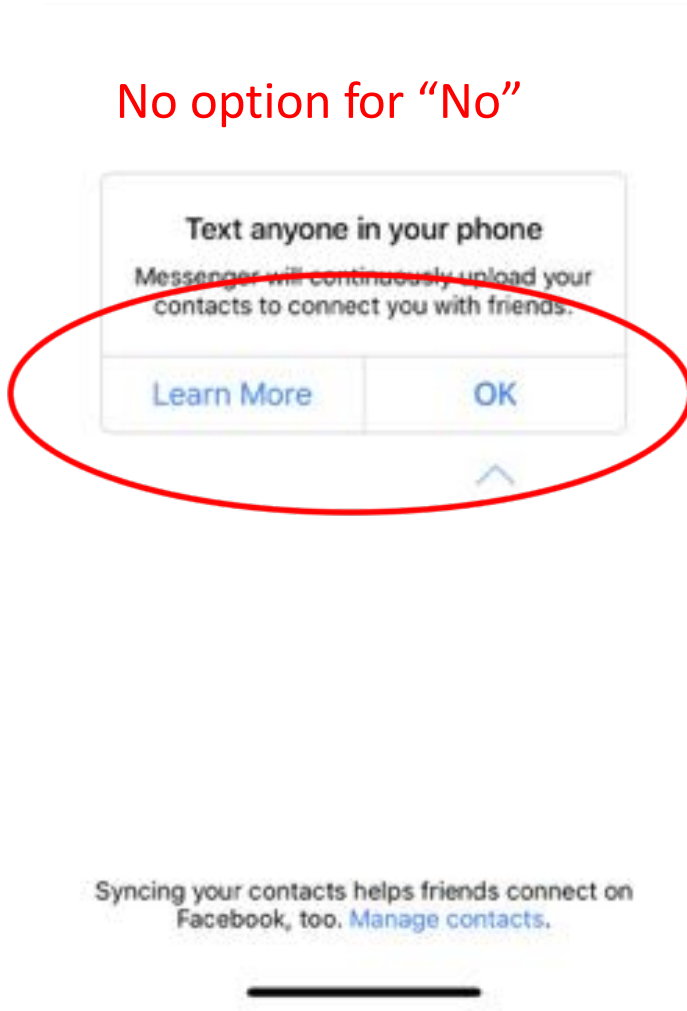
Intensive margin: Intermediate and high goals increase savings amounts

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

*Xavier Giné, Nidia García, and José Gómez-González. "Financial Information in Colombia."
World Bank Policy Research Working Paper #7998.*

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

*Xavier Giné, Nidia García, and José Gómez-González. "Financial Information in Colombia."
World Bank Policy Research Working Paper #7998.*

Are Disclosure Designs Effective?

Nutrition Facts	
8 servings per container	
Serving size	2/3 cup (55g)
Amount per serving	
Calories	230
% Daily Value*	
Total Fat 8g	10%
Saturated Fat 1g	5%
Trans Fat 0g	
Cholesterol 0mg	0%
Sodium 160mg	7%
Total Carbohydrate 37g	13%
Dietary Fiber 4g	14%
Total Sugars 12g	
Includes 10g Added Sugars	20%
Protein 3g	
Vitamin D 2mcg	10%
Calcium 260mg	20%
Iron 8mg	45%
Potassium 235mg	6%
<small>* The % Daily Value (DV) tells you how much a nutrient in a serving of food contributes to a daily diet. 2,000 calories a day is used for general nutrition advice.</small>	

- Mandated disclosures may fail if poorly designed
- Test!

Comparison Shopping Tools



The screenshot displays the 'Cost of Credit Calculator' app interface for the Kenya Bankers Association. The app is presented in three views: a desktop view at the top, a tablet view in the middle, and a smartphone view at the bottom. The desktop view shows a form with fields for 'Loan Amount', 'Loan Term', and 'Interest Rate', along with a 'Calculate' button. The tablet and smartphone views show a simplified version of the same form. The app is titled 'Cost of Credit Calculator' and 'Kenya Bankers Association'. Below the app views, there is a paragraph of text explaining the app's purpose and a note about the Central Bank of Kenya's requirements.

Cost of Credit Calculator
Kenya Bankers Association Limited Finance

Download on the App Store
GET IT ON Google Play

Kenya Bankers Association

This app provides you with information on the Total Cost of Credit and features and simple Cost of Credit Calculator, which loan applicants can use to estimate the total cost of a particular loan.

Banks are required by the Central Bank of Kenya to provide you with a Total Cost of Credit breakdown as well as a loan repayment schedule.



The screenshot shows the LendingTree website's loan comparison tool. The header includes the LendingTree logo, a navigation menu with links for Refinance, Mortgage, Auto Loans, Personal Loans, Business Loans, Credit Cards, and All, and a search icon. The main headline reads 'Compare Loan Offers in Minutes!' followed by '5/1 ARM Rates as low as 2.63% (2.97% APR)'. Below this, there are two dropdown menus: 'Loan Type' set to 'Refinance' and 'Home Type' set to 'Single family home'. A large orange button labeled 'Get Personalized Rates' is positioned below the dropdowns. To the right of the button is a cartoon character of a green man with a large orange nose, wearing a white shirt and a blue tie. At the bottom left, there is a link for 'Privacy Secured | Advertising Disclosure'.

lendingtree
800-480-8100 | Lenders Join our Network | Sign Up | Sign In

Refinance | Mortgage | Auto Loans | Personal Loans | Business Loans | Credit Cards | All

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

Privacy Secured | Advertising Disclosure

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

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

Designing Better Disclosures in Mexico



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.

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

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

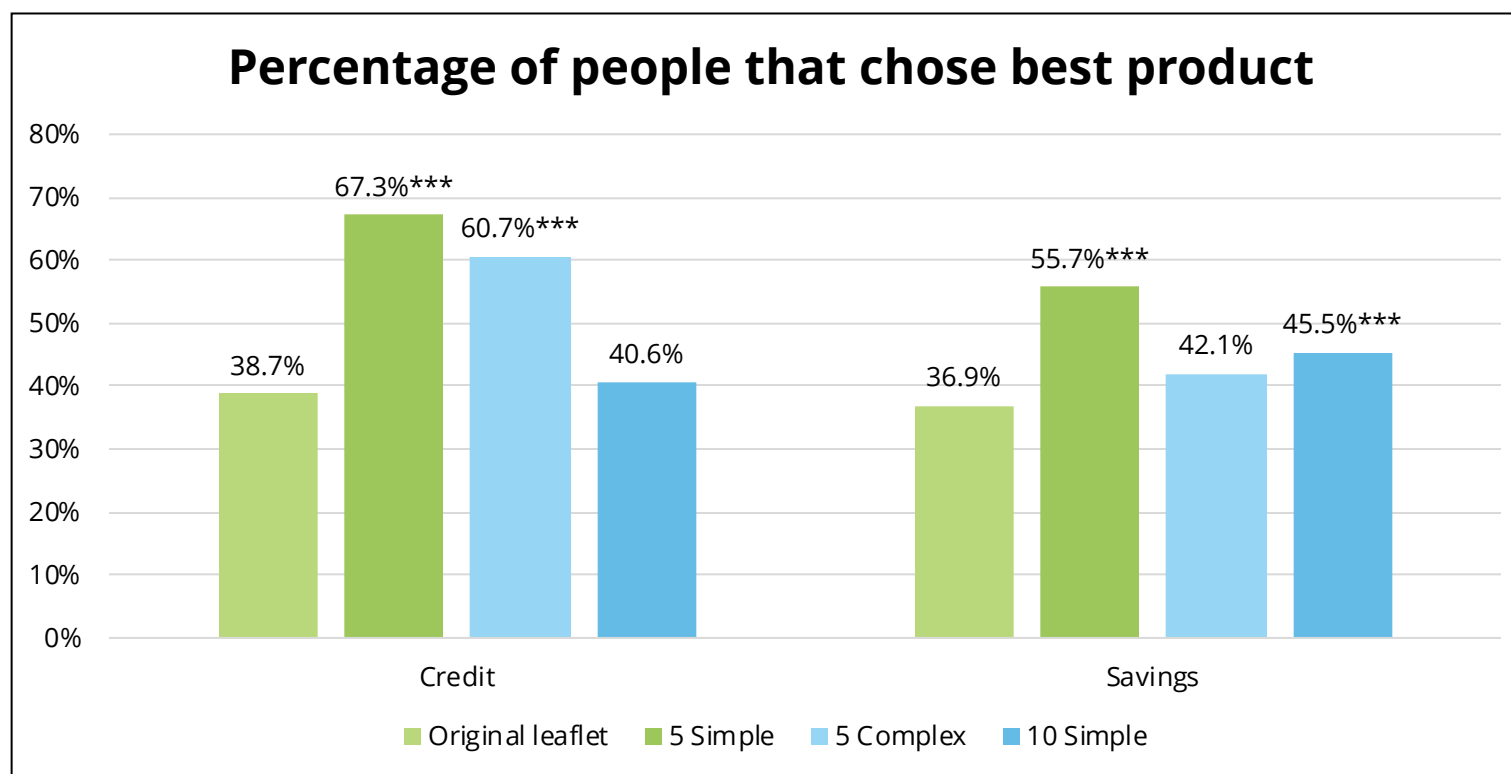
* GAT (Ganancia Anual Total) es un porcentaje que representa el dinero obtenido de una inversión o ahorro durante un año, se obtiene de restarle al rendimiento generado las comisiones cobradas

** 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

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

Designing Better Disclosures in Mexico

5 choices better than 10.
Simple better than Complex.



Xavier Giné, 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

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?

Sule Alan, Mehmet Cemalcılar, Dean Karlan, and Jonathan Zinman. "Unshrouding Effects on Demand for a Costly Add-on: Evidence from Bank Overdrafts in Turkey." Journal of Finance (2018).

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

4

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

