Development Research Group
Monthly Research Highlights

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Theme: Financial Education

Redesigning financial education to engage and entertain audiences is delivering results

In 2013 the World Bank Group and over 30 partners pledged to achieve universal financial access by 2020. But without the tools to make good financial decisions, poor households will not achieve the full benefits of expanding financial access. In a recent talk, Bilal Zia, an economist within the research department, gave an overview of a decade's worth of research on what works and what doesn't in boosting households' financial capabilities. According to Zia, generic classroom-style training for adults has repeatedly failed to enable households to make better financial decisions. More recent research shows engaging, entertaining, and experiential approaches to financial education are more effective at equipping people with the tools to make better use of financial services and products.[1]

TRADITIONAL PROGRAMS

A free financial literacy class in Mexico City attracted few attendees

A free financial literacy course offered by a financial institution to its clients drew little interest. Even among a sample of those screened for interest in attending the training, most did not attend. Experiments to increase participation suggest this lack of participation is driven by individuals' belief that the benefits of attendance are low. Even though monetary incentives lead to more attendance, a follow-up survey suggests the increased financial knowledge did not change outcomes. Even among those who reported increases in savings, the effect dissipated quickly, and the training did not change credit card usage or borrowing behavior. This particular course offered in **Mexico City** has served over 300,000 people and has been offered throughout Latin America. The interventions for this course apply only to people offered incentives to attend that would not attend otherwise. The impacts for those who elect not to attend a program may differ from the impacts for those who choose to participate of their own accord, and likewise might be higher (or lower) for other financial literacy courses around the world. However, this study suggests the benefits of encouraging more people to participate in this training course are likely to be small.[2]

Incentives rather than knowledge created demand for formal financial services

Financial development is critical for growth. Given the compelling evidence that financial literacy is a good predictor of financial behavior in emerging market countries, governments,

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[1] Story | Video | Presentation | Policy Research Talks.

[2] The minimal impact of a large-scale financial education program in Mexico City, Miriam Bruhn, Gabriel Lara Ibarra, and David McKenzie, *Journal of Development Economics* 108: 184–89, 2014. (online appendix)

nonprofits, and firms have been promoting financial literacy to create demand for formal financial services. In this experiment in **Indonesia** and **India**, demand for financial education was high: 69 percent of those invited chose to attend the course, but it was not a cost-effective way to promote the use of bank accounts. The education program had modest effects and stimulated demand for bank accounts among uneducated and less financially literate households, but a second intervention that offered small subsidies demonstrates that, given proper incentives, many individuals would open accounts *without* financial literacy training. This study clearly demonstrates that individuals who open bank accounts in response to incentives tend to keep them open for the long term. A follow-up study two years later shows that those who were originally offered high incentives are significantly more likely to have used bank accounts in the past year to deposit, withdraw, send, or receive funds.[3]

Financial education programs work better when supported by complementary programs

A large-scale field experiment in **India** studied attitudinal, behavioral, and cognitive constraints and their effect on the link between financial education and financial outcomes by complementing financial education with the following: (i) financial incentives on a financial literacy test to affect participant motivation, (ii) financial goal setting to provide a psychological nudge, and (iii) personalized financial counseling to enhance the intensity of treatment. The analysis finds no impact of financial incentives on learning but significant effects of both goal setting and counseling on real financial outcomes. Complements to financial education like these that can bridge the gap between financial knowledge and behavior change.[4]

Financial products are often too complex for low-income clients to evaluate

This study examines the *quality* of information provided by financial institutions to low-income prospective customers and asks whether financial institutions *offer the product that best meets the customer needs* as it relates to cost and intended usage. The study took place in **Ghana, Mexico and Peru**, countries with similar levels of financial inclusion, but with different transparency requirements. Local residents were recruited and trained as credit auditors. The trained auditors visited multiple financial institutions seeking credit and savings products. The staff provided enough information to allow the auditors to apply for a loan or to open a savings account, but very little voluntary information about the costs of the product. When asked about cost, the financial staff disclosed less than one-third of the total cost. In fact, the cost voluntarily disclosed did not correlate with the high cost of the product. These “clients” were also rarely offered the cheapest product. These results suggest low-income clients do not receive enough information to compare products, and that disclosure and transparency policies may be ineffective because they undermine the commercial interest of financial institutions.[5]

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[3] Prices or Knowledge? What Drives Demand for Financial Services in Emerging Markets? Shawn Cole, Thomas Sampson, Bilal Zia, *Journal of Finance* 66 (Issue 6): 1933-1967, December 2011.

[4] The ABC’s of Financial Education: Experimental Evidence on Attitudes, Behavior, and Cognitive Biases, Fenella Carpena, Shawn Cole, Jeremy Shapiro, and Bilal Zia, Forthcoming in *Management Science* | Based on World Bank Policy Research Working Paper 7413.

[5] Financial (Dis-)Information: Evidence from a Multi-Country Audit Study, Xavier Giné and Rafael Keenan Mazer, World Bank Policy Research Working Paper 7750, July 2016.

NEW APPROACHES

Students save more after a high school financial education program in Brazil

A high school financial education program was delivered to high school students in **Brazil** through a randomized control trial, aiming to build financial management skills early on. The analysis combines administrative data on test scores and class graduation rates with multiple survey questions to measure financial outcomes. The trial was successful on many fronts but there is also cause for concern. On the positive side, financial proficiency increased and grade-level passing rates increased. Short-term changes in financial behaviors show mixed results. While students' savings and budgeting improved, and brought positive spillovers to parents, students also used credit cards and installment plans to make consumer purchases, with some evidence on late repayments.[6]

Migrant households save more when payers and receivers receive financial training together

Who are the best targets for financial literacy programs in migrant households? Migrants, remittance-receiving households, or both? A randomized experiment in **Indonesia** assigned female migrants and their families to a control group, a migrant-only training group, a family member-only training group, and a training group in which both the migrant and a family member were trained. Three follow-up surveys measured impacts on the financial knowledge, behaviors, and remittance and savings outcomes. Training both the migrant and family member together has large and significant impacts on knowledge, behaviors, and savings. Training the family member alone has some positive, but smaller effects, while training only the migrant leads to no impacts on the remaining family members. Financial literacy training is most effective when senders and receivers participate together.[7]

A soap opera in South Africa helped people in debt learn to budget

This research shows that entertainment media can reach millions of viewers with financial education messages that resonate. The script for a popular television soap opera in **South Africa** included episodes where the lead character deals with gambling and debt. The viewers who watched these episodes score significantly higher on financial knowledge, are more likely to borrow from formal sources and for productive purposes, and are less likely to use retail credit or gamble. Quantitative and qualitative analyses of mechanisms show strong recall of messages conveyed by the lead character, which supports theories of psychological and emotional influences on decision-making.[8]

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[6] The Impact of High School Financial Education: Evidence from a Large-Scale Evaluation in Brazil, Miriam Bruhn, Luciana de Souza Leão, Arianna Legovini, Rogelio Marchetti, and Bilal Zia, *American Economic Journal: Applied Economic* 8(4): 256-95, 2016.

[7] Who You Train Matters: Identifying Combined Effects of Financial Education on Migrant Households, Yoko Doi, David McKenzie, and Bilal Zia, *Journal of Development Economics* 109: 39-55, July 2014 | online appendix, replication files | 2-pager

[8] Harnessing Emotional Connections to Improve Financial Decisions: Evaluating the Impact of Financial Education in Mainstream Media, Gunhild Berg and Bilal Zia. *Forthcoming, Journal of the European Economic Association***.**