

Beyond the Classroom

Evidence on new directions in financial education

Innovations for Poverty Action

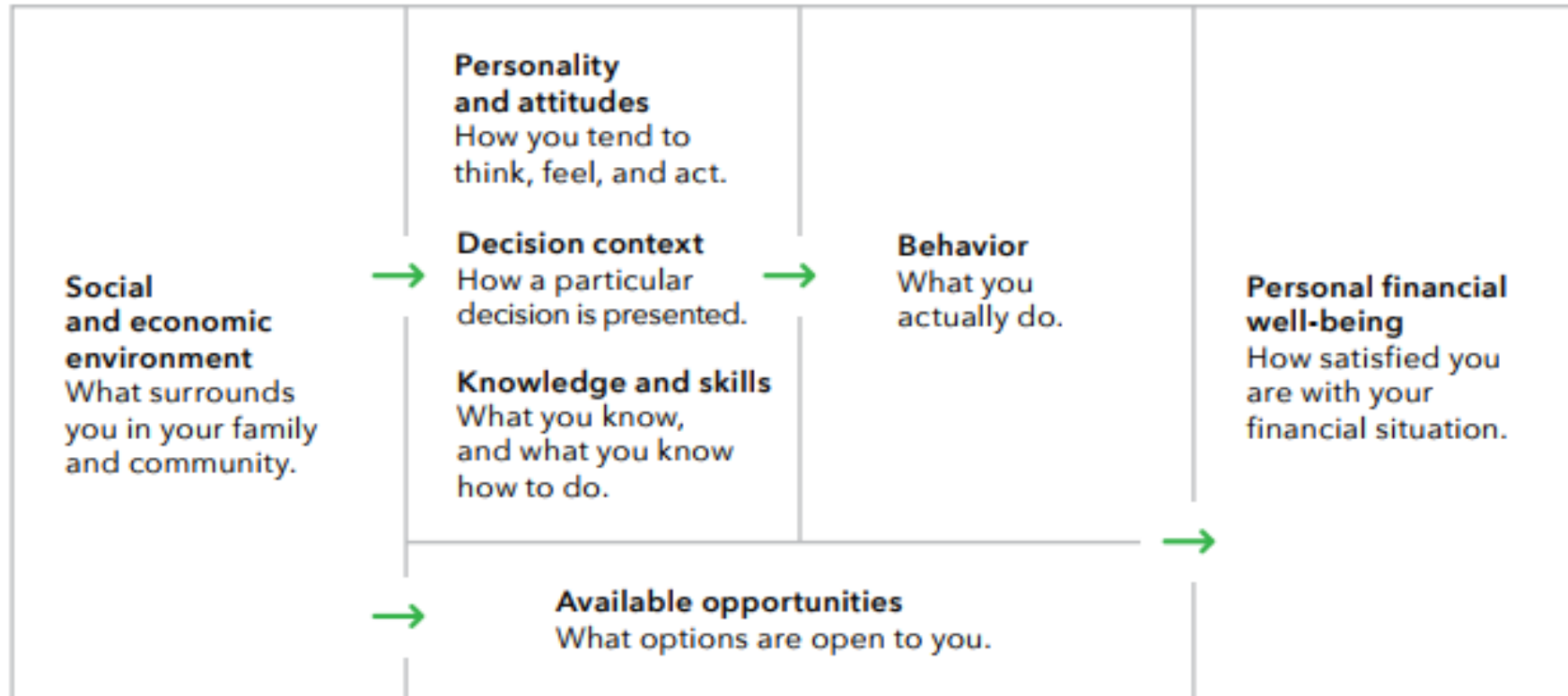


Nassreena Sampaco-Baddiri
Country Director, IPA
Philippines

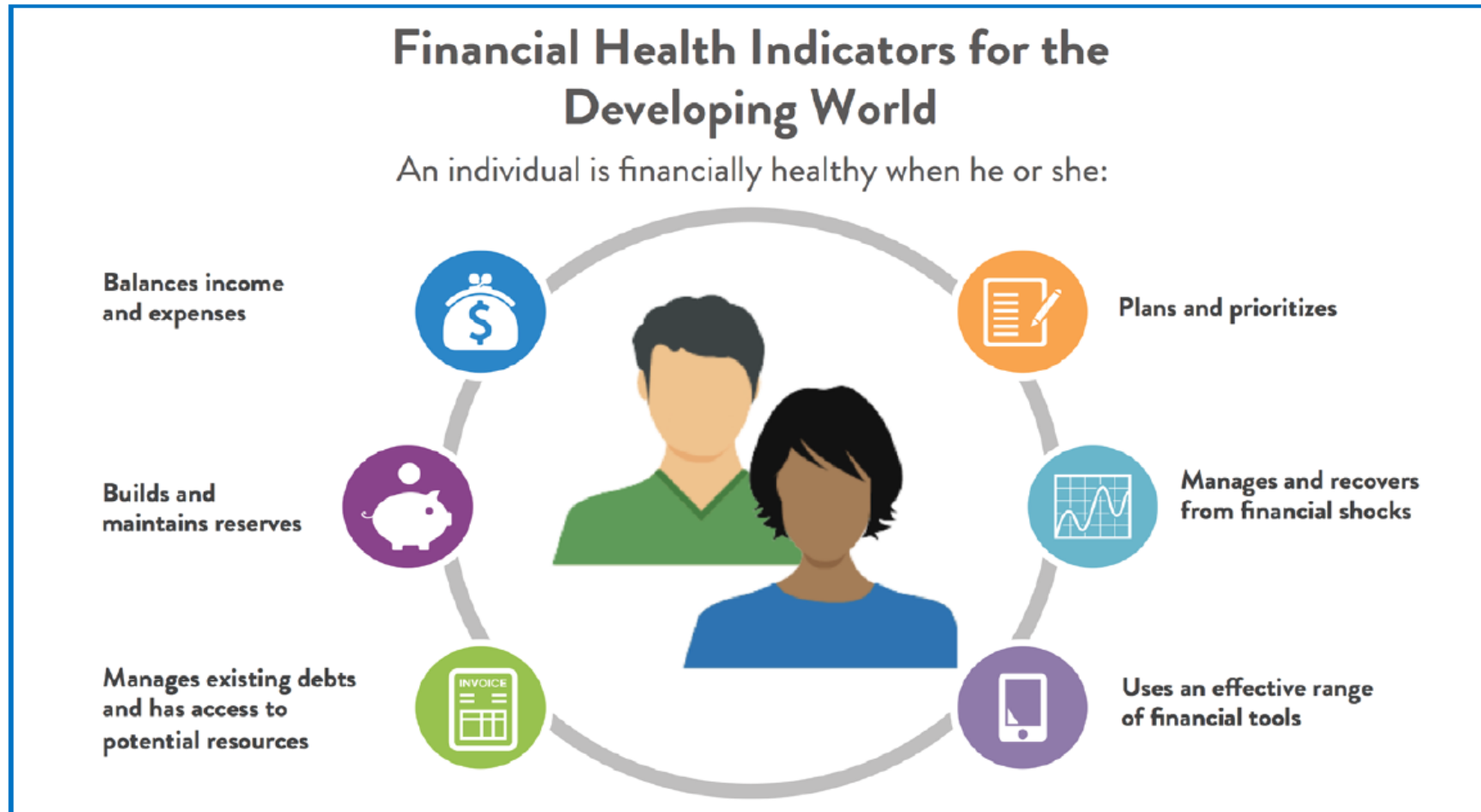


What influences financial wellbeing?

Note: knowledge is only one of the factors

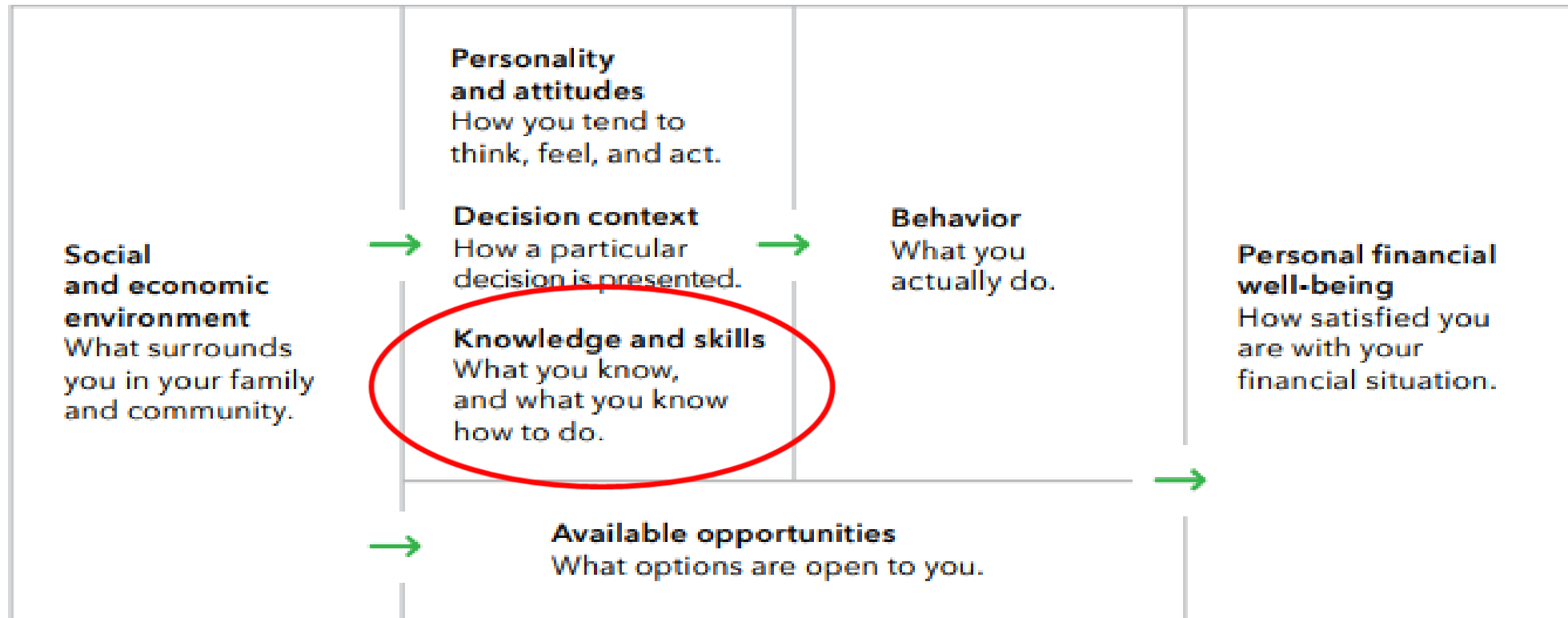


Ideal financial behavior



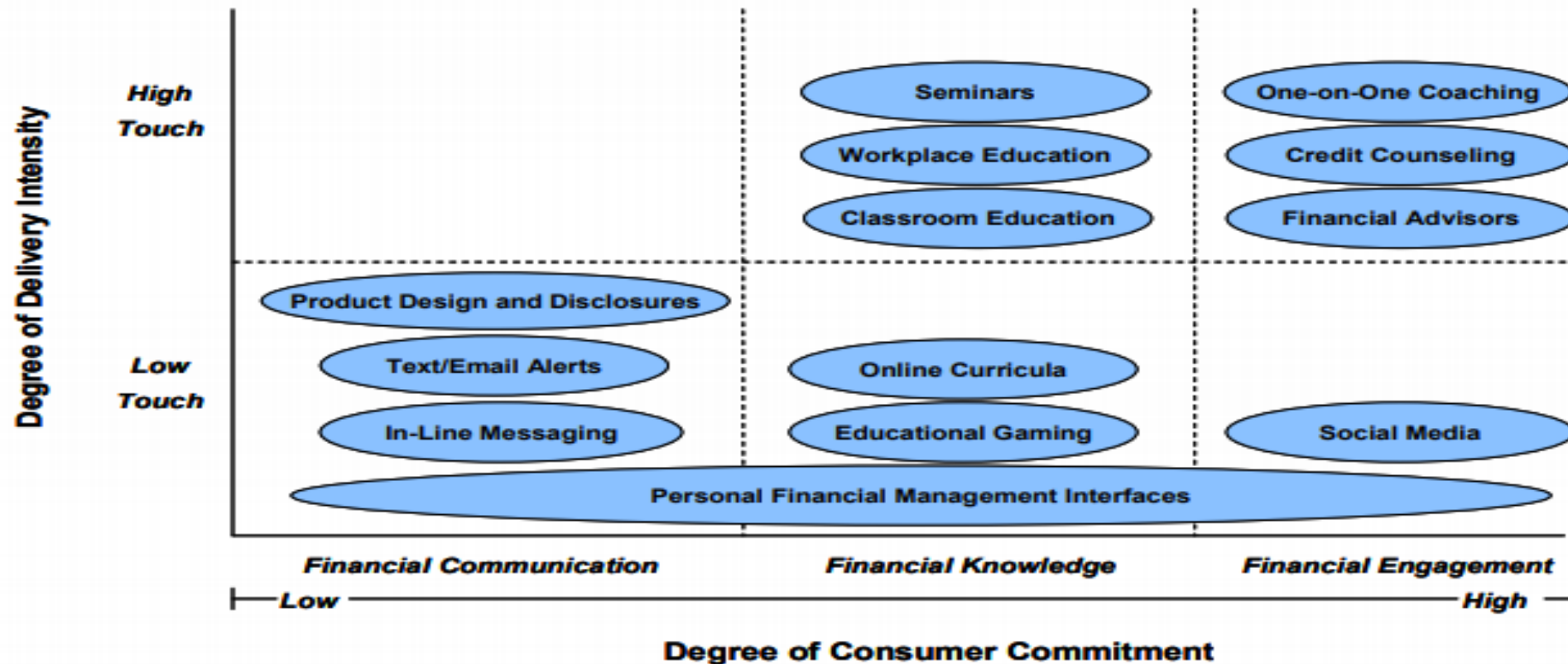
Traditional Approaches: Financial Education

Traditional approaches focus only on knowledge



Investment in financial education programs

- There is significant public investment in financial education programs.
- Is this a cost-effective intervention to improve financial health?
- Trade-offs in program design.



Evidence on financial education

IPA has funded a portfolio of impact evaluations to better understand what matters for the design and implementation of financial education programs.

We identify 5 promising characteristics across programs:



**Simple and
Actionable**



Personalized



Timely



**Convenient and
entertaining**



**Targeted to youth
and young adults**

Simple and actionable

Challenges:

- Some concepts are too complicated.
- The material is not clearly-linked with real-world situations.

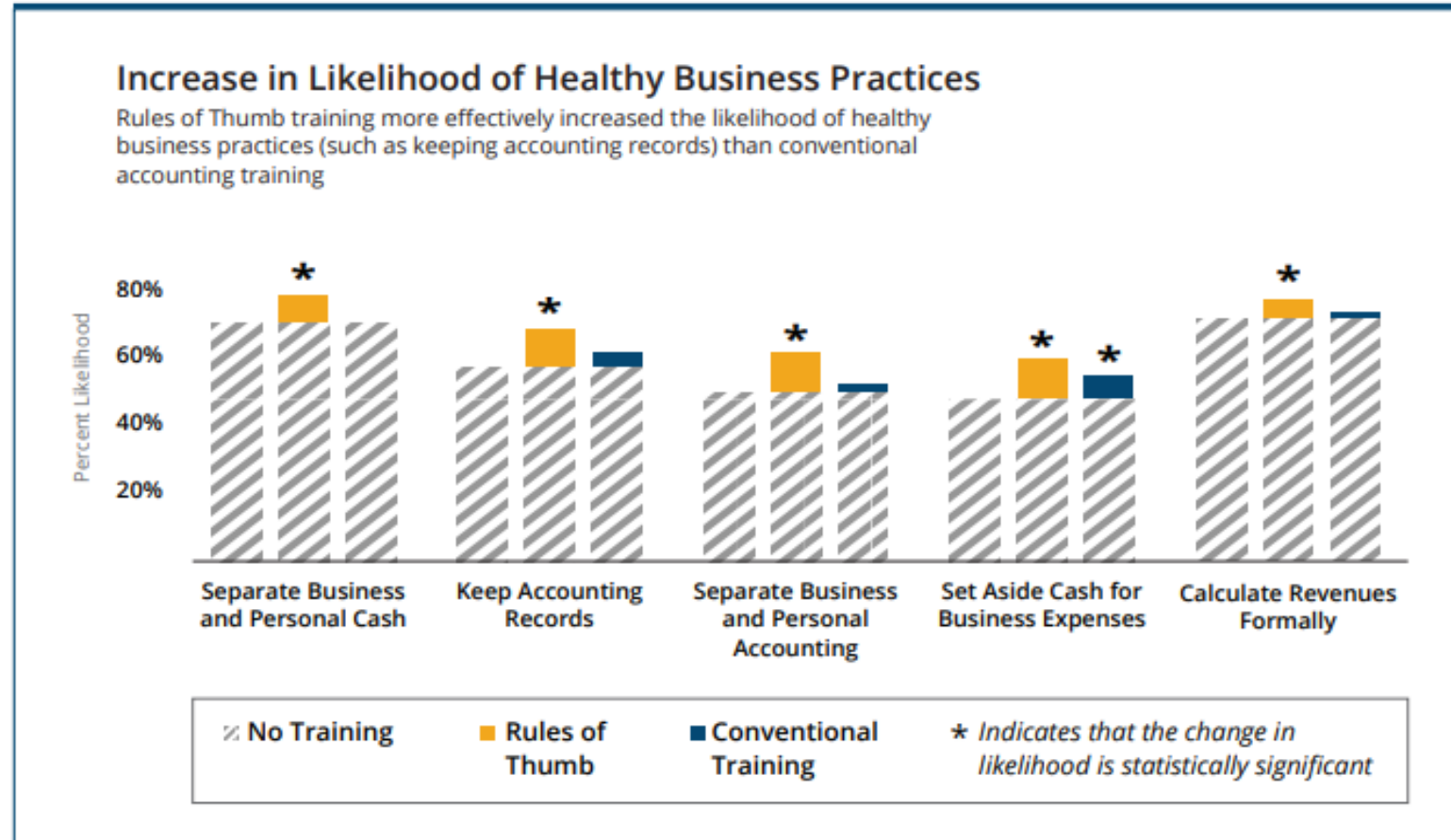
Solutions:

- Simple rules of thumb to make good financial decisions.
- Practical case studies related to the real world.



Simple and actionable

Example: ADOPEM Bank in the Dominican Republic



Personalized



Challenge:

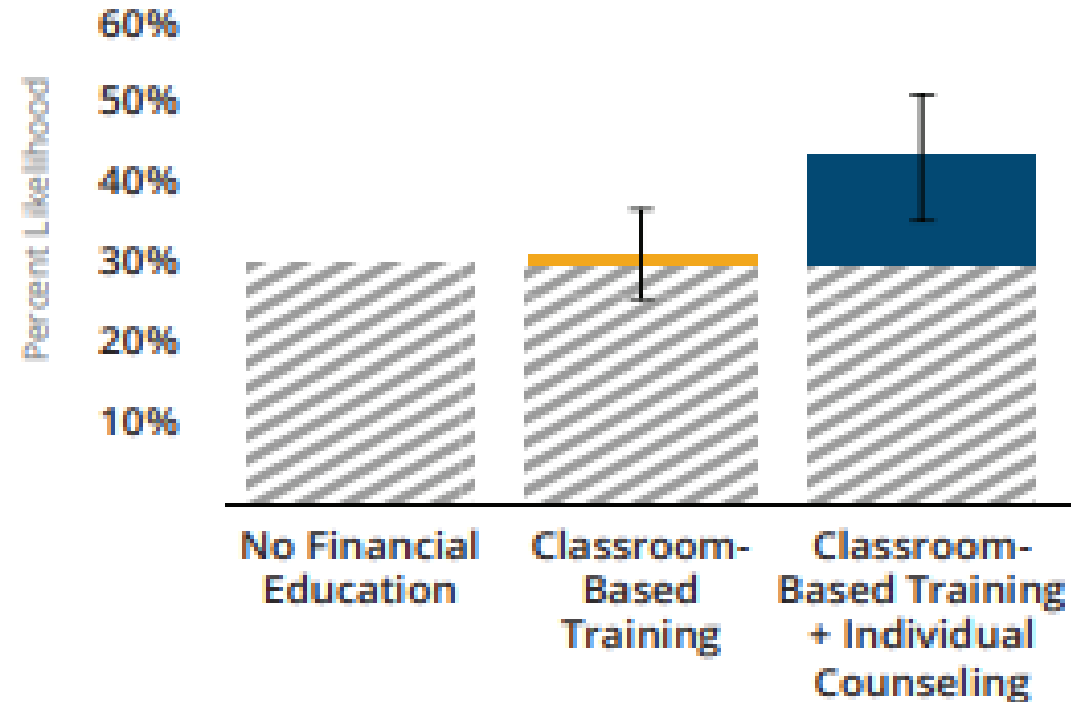
- Covering a wide range of topics to appeal to a wide swath of people.

Solution:

- Personalize content according to:
 - Particular needs.
 - Financial situations.

Make it personalized

**Impact of Financial Education on
Likelihood of Savings Account Ownership**
10 Months after Program Conclusion



Make it timely

Problem:

- People quickly forget the knowledge gained from financial education.

Solution:

- Offer financial education to coincide with a financial decision.
- Programs that offer **training at critical moments** have been successful.



Make it timely

A short course on compound interest was offered in China *(it seemed to boost low levels of investment in pension funds).*

Participants were asked to decide how much to contribute to their pension fund.

Contributions increased by 15% - 40% among those who received the training.

Make it Convenient to Access and Entertaining to Experience



Challenge:

- Opportunity cost of financial education is high.

Solution:

- Allowing people to access content when they find it convenient can improve acceptance levels (e.g. LISTA Program).
- Making programs entertaining can also help.

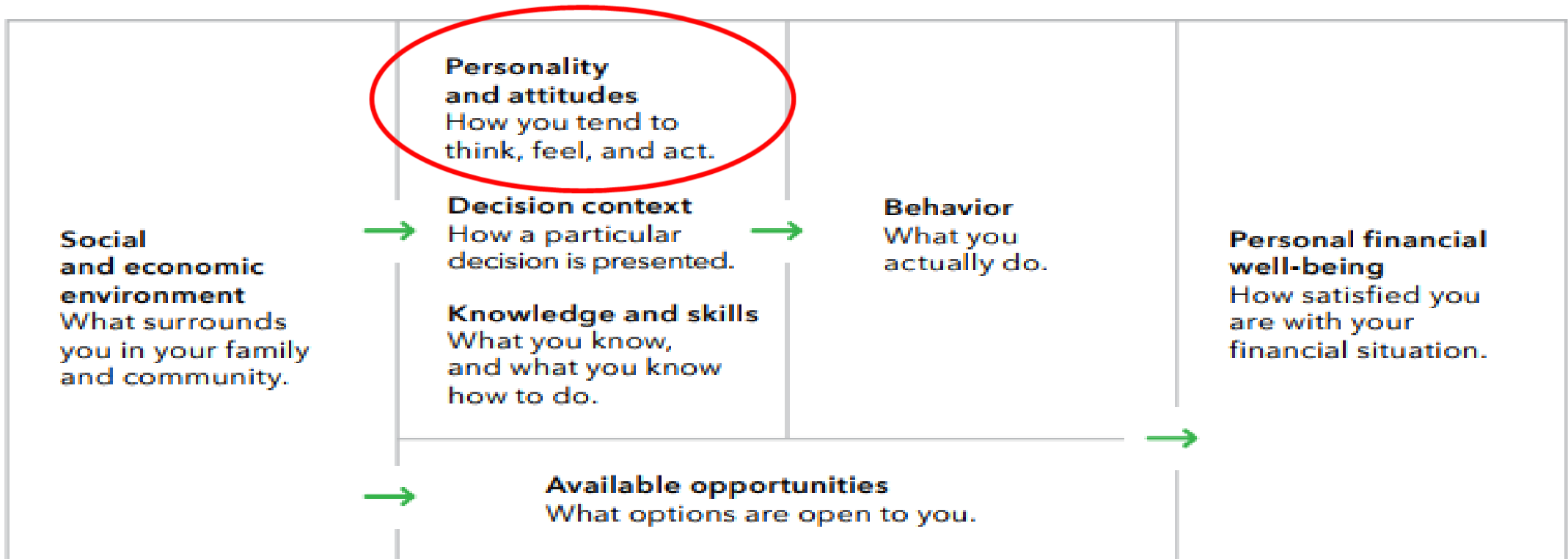
Target Youth and Young Adults

- Young people can be reached through schools and youth groups.
- Some researchers theorize that it is easier for them to learn financial skills.
- If they develop healthy financial habits, it will benefit them for the rest of their lives.



Innovation: Insights from behavioral economics

What happens when we know what to do, but we behave differently?



Using Commitment Devices to Stick to a Plan

Commitment devices are voluntary, binding arrangements that people make to reach future goals that may otherwise be difficult to achieve. Commitment devices provide a mechanism that forces people to act according to their self-set plans.

Hard Commitments

Fines/penalties

Forfeited financial incentives

Soft Commitments

Labels

Social pressure

Commitment contracts for an 80% increase in savings balances.

- A commercial bank offered a savings product that prevented clients from accessing their own funds until they reached a given goal (time or amount) decided by the client.
- One year after the offer was made, customers who were offered the account had increased their savings balances by 80% more than regular accounts.
- Women with low bargaining power who were offered a savings account with commitment increased the consumption of durable goods targeted at women, such as sewing machines and kitchen implements.

Reminder Messages to Counteract Limited Attention

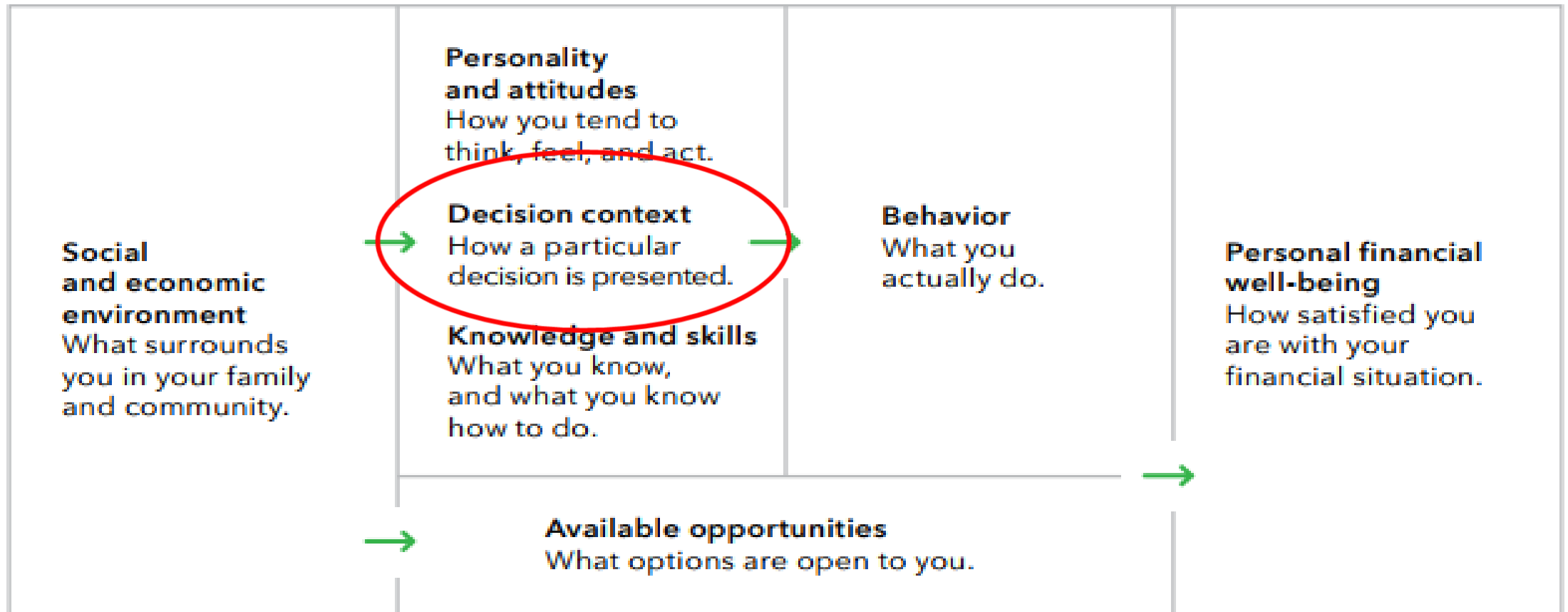
Reminders are a cost-effective tool in fighting procrastination and helping people follow-through on their goals. They can help individuals save more, repay loans, and follow through on important actions.

Reminders lead to a 3 percentage point increase in savings balances

- In Bolivia, Peru and the Philippines, clients with commitment saving accounts received messages reminding them of their saving goals.
- Clients with reminders saved more and were more likely to reach their goal.
- Since text message reminders were so cheap, this approach was cost-effective for financial service providers.

New frontiers: Creating evidence on consumer protection

How do we improve the decision context of the consumer?



Thank you

