HOW SUPERVISORS CAN IMPROVE THE EFECTIVENESS OF FINANCIAL EDUCATION

Interamerican Development Bank PLAC Network

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Global Affairs Canada Affaires mondiales Canada

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SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

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Overview of Presentation

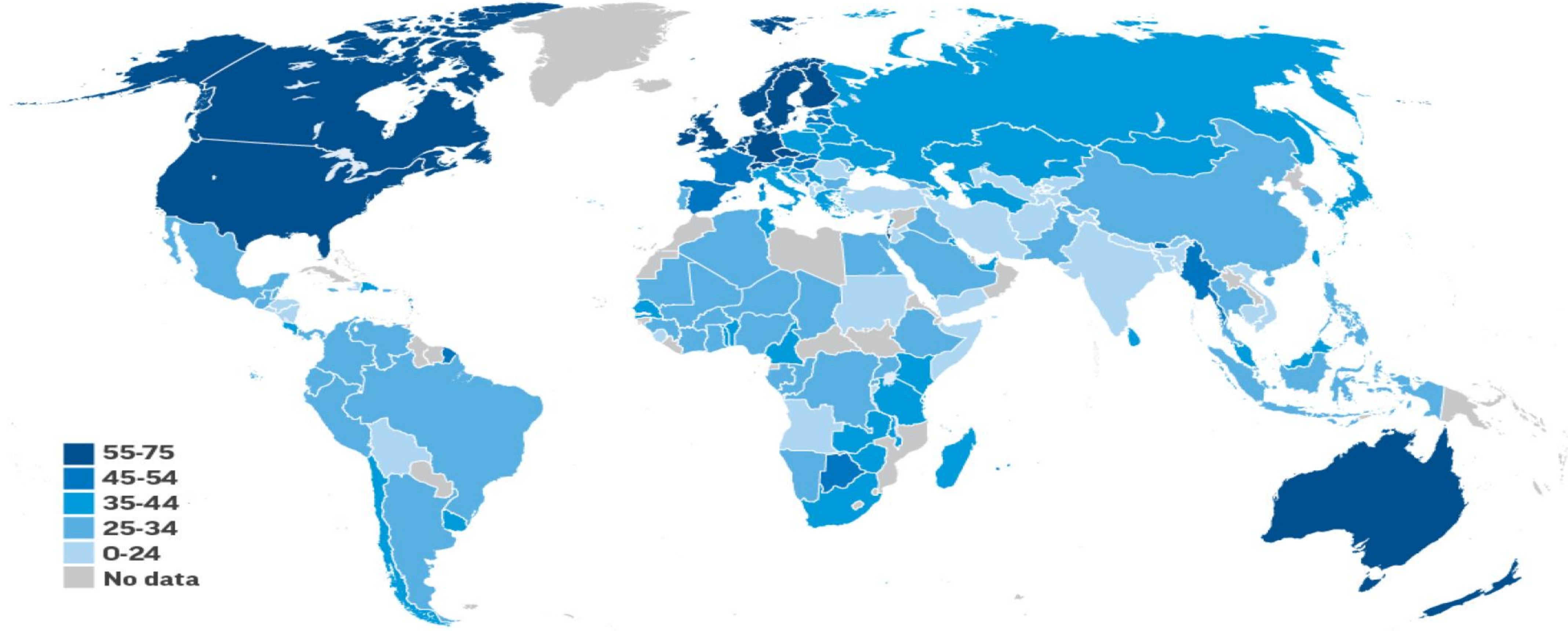
1. The scale of the problem

2. Case studies and examples

3. Key lessons from the Note

Across the world the scale of the challenge on financial literacy is huge

Percentage of population that can answer 3 out of 4 simple financial questions

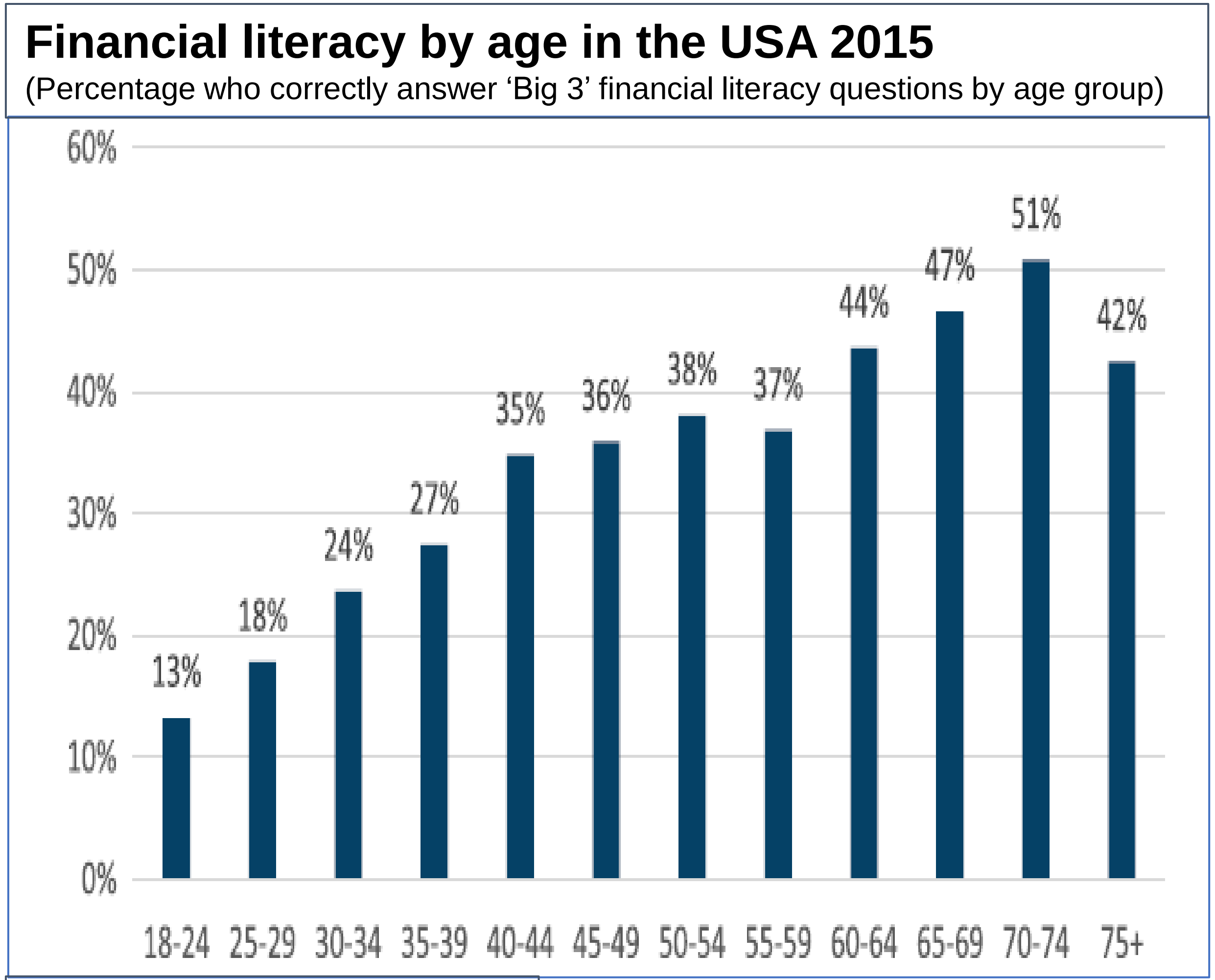


Source: S&P Global FinLit Survey

In addition to the scale of the challenge for all groups, some have greater gaps than others

"Across countries, financial literacy is at a crisis level, with the average rate of financial literacy ... at 30%". …

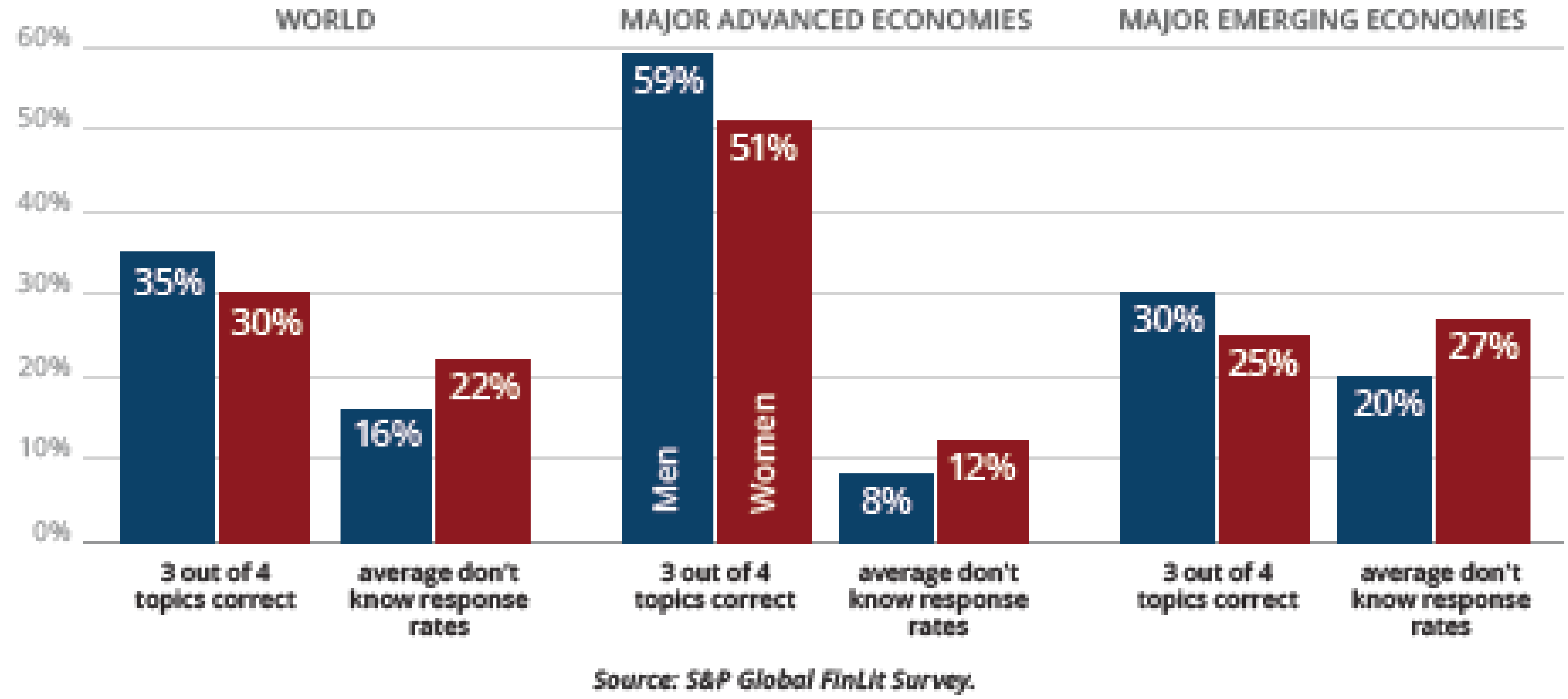
"The average hides gaps vulnerabilities of certain population sub-groups and even lower knowledge of specific financial topics. Furthermore, there is evidence of a lack of confidence, particularly among women…".



Source: Lusardi 2019

Gender gaps are common

Financial skills by gender: Percentage adults with ‘correct’ or ‘don’t know’ answers (men blue women red)



Although gender gaps are common – not so in all countries on all dimensions

"Our analysis has certainly highlighted some stark findings, including the substantial number of adults across the 31 participating countries who are unable to solve even quite basic financial problems.

There are striking differences across countries and between groups in these results, with men more financially adept than women, and the young performing better on the PIAAC* financial tasks than the old".

* PIAAC is OECD's Programme for the International Assessment of Adult Competencies

Gender Differences	Item A	Item B	Item C	Item D
Poland	**7%***	4%	**-5%***	1%
Russia	5%	2%	2%	1%
Finland	**5%***	-3%	-3%	**-7%***
France	**5%***	-2%	**-9%***	**-5%***
New Zealand	**4%***	-1%	**-8%***	**-10%***
Estonia	**3%***	0%	**-7%***	-2%
USA	3%	**-7%***	**-10%***	**-8%***
South Korea	3%	**-6%***	**-10%***	-2%
Ireland	3%	-3%	**-9%***	**-8%***
Denmark	2%	-1%	**-8%***	**-9%***
England + NI	2%	-5%	**-10%***	**-10%***
Spain	1%	-1%	**-9%***	**-9%***
Japan	0%	-2%	**-8%***	**-8%***
Italy	0%	-4%	-3%	-3%
Canada	0%	**-9%***	**-6%***	**-6%***
Singapore	0%	-3%	-7%	**-7%***
Israel	-1%	**-10%***	**-9%***	-5%
Norway	-1%	1%	-6%	**-14%***
Germany	-1%	**-11%***	-5%	**-13%***
Netherlands	-3%	**-10%***	**-11%***	**-12%***
Chile	-6%	**-7%***	-3%	**-9%***
Turkey	**-15%***	**-12%***	**-8%***	**-7%***
Average	**1%**	**-3%**	**-7%**	**-7%**

Source: Bhutoria and others 2018 PIAAC Working Report

Women have some specific challenges – including longer life expectancy – among many other issues

Table 6.1. Life expectancy and retirement ratios

Country	Income level	Males: Life expectancy at retirement	Males: Ratio - Entry age 20	Males: Ratio - Entry age varies	Males: Retirement age to equalise ratio @ 2[1]	Females: Life expectancy at retirement	Females: Ratio - Entry age 20	Females: Ratio - Entry age varies	Females: Retirement age to equalise ratio @ 2[1]
Canada	Low	20.8	2.2	2.3	63	23.0	2.0	2.0	65
	Average	21.1	2.1	2.1	64	23.4	1.9	1.9	66
	High	23.0	2.0	1.8	67	24.5	1.8	1.7	68
Chile	Low	17.7	2.5	2.7	60	28.3	1.4	1.5	65
	Average	20.0	2.2	2.2	63	30.2	1.3	1.3	67
	High	21.8	2.1	1.9	66	31.4	1.3	1.1	69
Great Britain	Low	19.6	2.3	2.4	62	21.7	2.1	2.2	64
	Average	20.1	2.2	2.2	63	22.6	2.0	2.0	65
	High	22.7	2.0	1.8	67	25.1	1.8	1.6	68
Korea	Low	20.2	2.2	2.3	63	28.3	1.6	1.7	68
	Average	22.1	2.0	2.0	65	29.7	1.5	1.5	69
	High	24.3	1.9	1.7	68	30.0	1.5	1.4	71
Mexico	Low	17.4	2.6	2.7	60	19.5	2.3	2.4	62
	Average	17.5	2.6	2.6	61	19.6	2.3	2.3	63
	High	17.6	2.6	2.3	63	22.8	2.0	1.8	67
United States	Low	17.4	2.6	2.8	60	20.9	2.2	2.3	64
	Average	18.6	2.5	2.5	63	21.2	2.2	2.2	65
	High	20.0	2.3	2.1	65	21.5	2.1	2.0	66

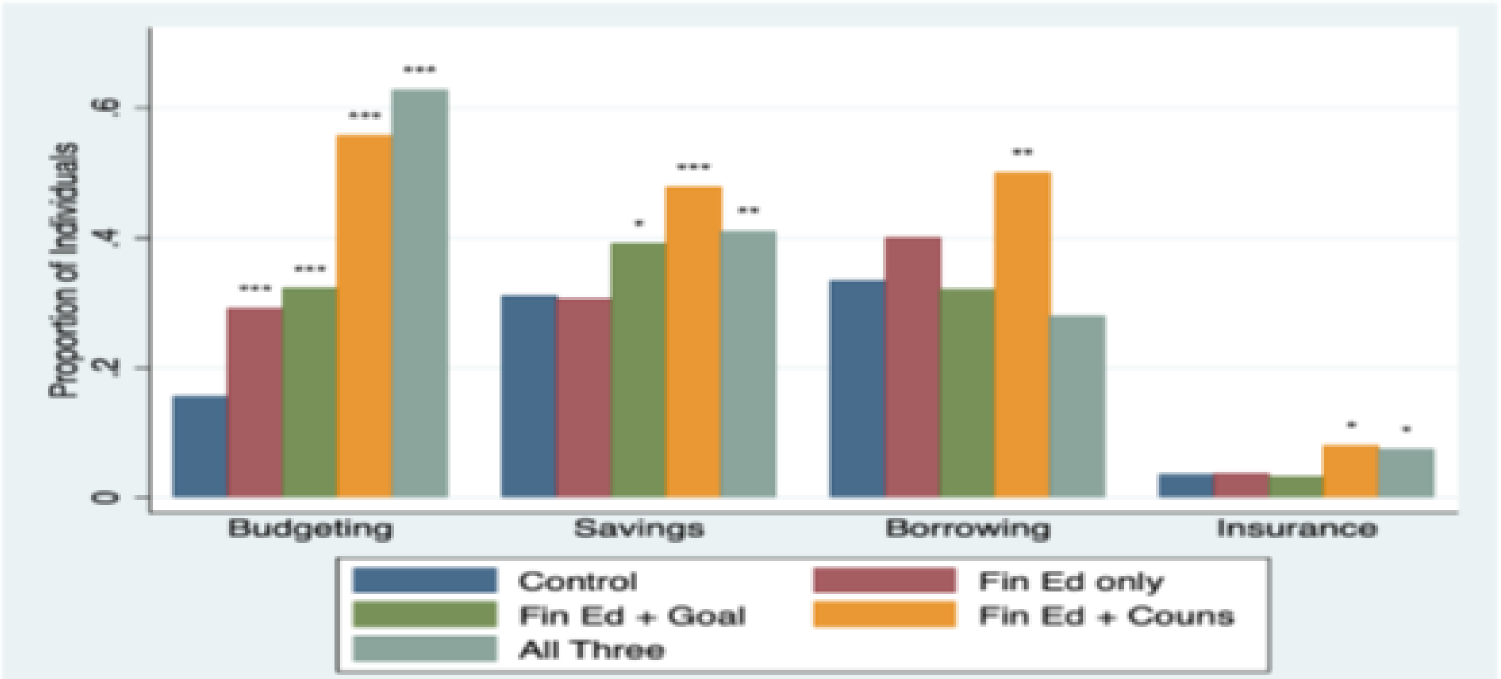
OECD Pension Outlook 2018

Supervisors can learn from practical examples of positive interventions

- This section highlights some practical and replicable examples of positive interventions.
- The key is testing and adapting, through pilots, before escalation.
- Different approaches can be used to design financial education tools.
- Academia recommends, when possible, an experimental design approach.
- Real-life field study that test a range of potential interventions, using random assignment to deliver more robust insights.
- These are more effective at both identifying positive impacts but also unexpected negative effects of well-intentioned reforms.
- Testing and adapting is critical, what will work in one market or one country may not work in another.

In general better outcomes are obtained combining financial education, counseling, and goal setting mechanisms

Carpena and Zia (2020) interventions on financial behavior



Outcomes: *Budgeting:* Made a budget in the last 6 months; *Savings:* Has a savings account; *Borrowing:* Borrowed for productive purpose (e.g., for business); *Insurance:* Bought life insurance in last 6 months

4 interventions were performed:
Financial education (FE) only
FE + Goal
FE+ Counseling
FE + Goal +Counseling.

- Do not expect significant impacts from launching a simple and generic financial education plan
- Better outcomes are obtained by combining financial education and counseling

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Bank accounts and credit cards: financial education, nudges and reminders can help to improve savings and debt reductions

- Giving access to financial accounts together with financial education can improve long term savings
  - ✓ Jamison and others (2018)-young individuals in Uganda

- Policies focusing only on expanding coverage of banking accounts may not have meaningful effects on improving savings and welfare.
  - ✓ Dupas and others (2018)-free access to bank accounts in Uganda, Malawi and Chile.

- Introducing consumer attention mechanisms can change the behavioral patterns of individuals.

✓ Debt payments reminder notifications by email, and goal setting mechanisms can help individuals to reduce household debt. (Karlan and Zinman (2012), Lusardi and others (2010))

✓ The FCA (2018) analyzes effective ways to increase credit card payments with a focus on customers with automatic minimum payments
  - ✓ Liquidity constraints were not an issue for individuals persistently paying the minimum payment
  - ✓ Among the testing mechanisms, the introduction of repay reminders in the form of "time to repay" nudges had a higher effect on responses.

Member financial statement and personalization are useful tools to improve financial outcome for members

- Personal statements are critical for transparency for all financial products.
- Financial services providers are mandated by law to send personal customers statements.
- The minimum content, standardized format, including common assumptions and timing of delivery are usually specified in legislation.
- So, this gives the opportunity to supervisors to change and test different contents and presentations to enhance positive behavior.
- Information can be delivered to stress the long-term outcome of the product.
- In the case of pensions, personal statements can be required to contain forward looking pension projections:
  - To help members to make effective decisions on their savings (Chile, México, Netherlands)

Measures to promote long-term savings by including forward looking information on the personal statement

- Personal pension statement in Chile includes once a year a pension projection to incentive contributions.
- The information provided is age specific. Also it takes into account that women retire earlier than men (60 versus 65 years old)

- Members up to 35 years old: general information on how the contributions made earlier in life have a larger impact on pension outcomes.
- Middle-aged individuals receive two projections, to compare the effect on pensions of making zero versus complete future contributions.
- Women above age 50 and men above age 55 receive information to compare the pension projection of retiring at the legal retirement age versus postponing retirement by three years.

¿Qué pasaría con su pensión si usted...

	Recibiría una Pensión Estimada de
...no cotiza nunca más y se pensiona a los **65** años?	**$113.018**
...sigue cotizando todos los meses por una remuneración de **$ 317.419** hasta pensionarse a los **65** años?	**$176.054**

Para el cálculo de la Pensión Estimada se considera una ganancia de sus ahorros del 5% al año y como beneficiario una esposa 2 años menor.

(Message sent to workers over 35 years with the quarterly statement)

Pension simulator as an interactive online tool to promote long-term savings

The Pension Simulator is an initiative of the Chilean regulator to improve knowledge and raise awareness about pensions

¿HOW DOES IT WORK?

Users access the tool in the SP website

The simulator uses members characteristics as input (e.g. sex, age, salary, total savings, etc.)

Data may be provided by the member or pre-filled using a password

The system delivers the expected pension and its associated risk

The system informs on measures to improve the projected pension:

postpone retirement, increase voluntary savings, increase participation, choose an investment path

An experimental evaluation to assess the simulator impact on savings

The Chilean Pension Regulator and J-Pal performed an experimental evaluation to test the impact of delivering personalized information about pensions in long-term savings.

Random experiment in which participants were assigned to two groups according to their ID

Customized Projection (Treatment Group)

General advice on pensions (Control Group)

- **Overall impact**. Positive and significant effect on voluntary contributions. 12,6% increase during the following 12-month observation period.
- **Medium to long-term**. The effects begin to disappear after the ninth month of the intervention.
- "**News" effect**. Optimistic individuals who overestimated their pension significantly increase their voluntary contributions by 16,5% (above the average effect)
- **Main takeaways**
- Delivering customized information may have a significant impact on savings and retirement behavior.
- Mechanisms must be in place to ensure that these decisions have permanent and not only short-term effects: introducing nudges, reminder emails, and facilitating voluntary savings within the tool.
- This type of tool and the recommendations that arise can be (easily) applied to different financial products

[Fuentes and others (2020) "Personalized Information as a Tool to Improve Pension Savings: Results from a Randomized Control Trial in Chile"]

Choosing an annuity

Simplified design for payout options to aid member education and choice

(The chart shows different providers, the monthly pension and the annual loss compared to the best option).

Inmediate Annuity

Option	Company name	Monthly pension in pesos	Annual loss
1	company 1	331.902	
2	company 2	331.086	-9.792
3	company 3	330.814	-13.056
4	company 4	328.910	-35.904
5	company 5	324.557	-88.140
6	company 6	321.564	-124.056
7	company 7	320.748	-133.848
8	company 8	319.660	-146.904
9	company 9	311.499	-244.836

- The authors' hypothesis is that sub-optimal decisions are mainly driven by the type of information and the way in which it is displayed.
- Result: The treatment effect increased the percentage of the sample selecting the highest offer to almost 60% from 25% in the control group.

(Duch and others (2020) "Choice Architecture Improves Pension Provider Selection")

Gender differences are relevant for financial outcomes

- Financial literacy tends to be lower for women and young individuals.
- Women has lower labor market participation compared to men.
- Women have lower income profiles and contributions densities.
- Women lives longer on average.
- Women face more financial challenges than men, with less access to formal financial markets and lower use of borrowing instruments.
- Improving women's financial literacy is key to promoting their financial security.

Taking into account gender differences

Some Considerations:

- The differences between gender are implicit when personalized information is given.
- In the examples related to pensions a woman would need higher savings to get the same pension target.
- The main determinants of the pension amount are gender specific: Income level and income profile, contribution density, and longevity.
- An interesting avenue:
- To incorporate and test if a gender-specific framing would improve outcomes beyond the ones when no distinction is made.
- Make gender-specific recommendations to improve outcomes even when the same tool is used for women and men.

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Taking into account gender differences

- Reference on gender differences related to credit market access by women.
- Example for the Chilean credit market: “Bad Taste: Gender Discrimination in Consumer Credit Markets”
- The paper investigates the consumer credit market and finds a significant bias against women with credit approval rates close to 20% lower compared to men.
- The research uses an experimental evaluation and gives recommendations on how this bias can be overcome.
- The result did not change even when information was given regarding the best repayment performance of women. (hypothesis was that this information would change the outcome)
- The solution in this case goes beyond education or having the proper information delivered and understood. The authors suggest that a change in attitude (of loan male officers) is needed.
- A couple of other examples/references indicate that savings are influenced by household decision making, the bargaining power, autonomy and pressure to spend within the household (couple).

The seven recommendations in the paper can all be targeted at inequalities in gender

1. Supervisors should decide on financial literacy initiatives only as part of an integrated (risk-based) supervisory assessment framework. Specific financial education and literacy initiatives should go ahead only if there is good reason to believe they will add value compared to other supervisory interventions.

2. Supervisors should prioritise interventions that build in a test-evaluate-adapt design. This will give a better idea of what works for them (and does not), in their specific country, market, target group and time period.

3. Supervisors should proactively prioritise the development of partnerships and tools that will enable the test-evaluate-adapt approach.

4. Supervisors should look for interventions that are not standalone but are combined with improvements in policy and design of a system.

The emphasis on testing and targeting, plus boosting other policies helps for focus on specific issues

5. Supervisors (and others) should avoid broad-based, generic financial education for adults in classroom settings, since this is rarely likely to be useful. Instead the focus should be on (tested and piloted) interventions that focus on making real decisions simpler to understand, easier to make and (potentially) mediated by trusted (and unconflicted) intermediaries.

6. Supervisors should support classroom interventions for children rather than adults – because when suitably developed and efficiently delivered they can have a positive cost-benefit impact.

7. Supervisors should supplement a focus on information and disclosure by using their own regulatory powers, or working with the relevant ministry, to improve the overall design of banking, insurance, securities and pensions. The aim should be simpler, safer and better value products that work well for consumers with low financial literacy.