

# MODULE 5

FINANCIAL  
CAPABILITY



# Acknowledgments

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This is a culmination of more than five years of work by CGAP to pioneer behavioral research methods for consumer protection in emerging markets. This includes technical assistance with consumer protection policymakers in more than 10 jurisdictions and training of hundreds of policymakers on behavioral research and design methods. Please visit [cgap.org](http://cgap.org)'s publications page for even more on this topic.

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# What is financial capability?

“The internal capacity to act in one’s best financial interest, given socioeconomic environmental conditions. It therefore encompasses the knowledge, attitudes, skills, and behaviors of consumers with regard to managing their resources and understanding, selecting, and making use of financial services that fit their needs.”

Responsible Finance & Consumer Protection,  
World Bank Group

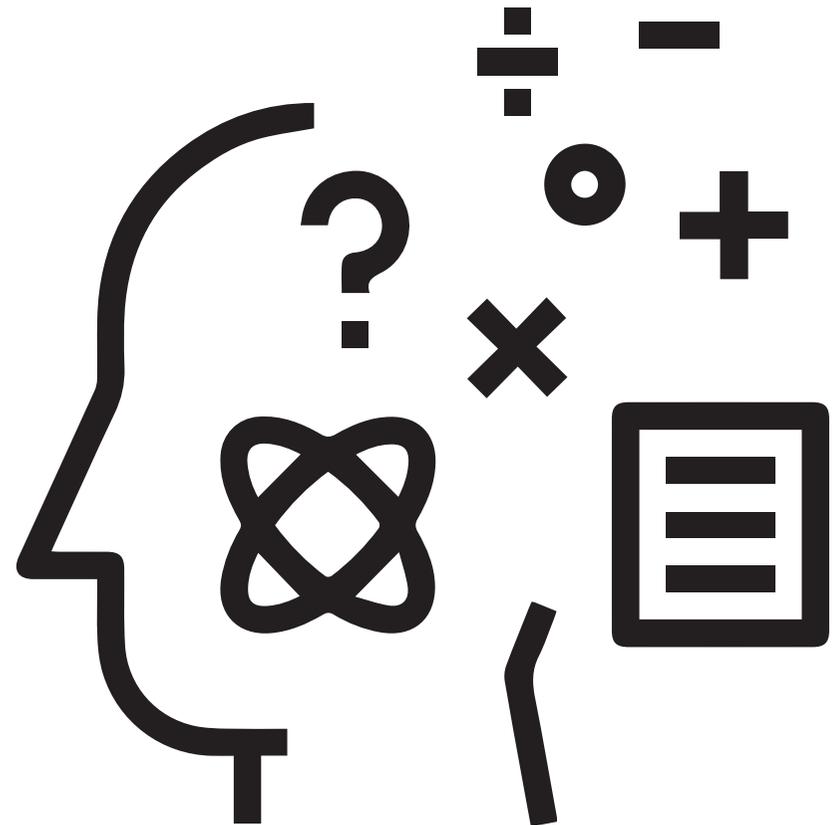
# Traditional financial education is not working

- The effects of financial education interventions are short term and do not lead to long-term behavior change.
- Researchers recommend just-in-time financial education tied to specific behaviors it intends to help rather than general financial education that is not linked to specific behaviors.
- Financial literacy and capability interventions can have a positive impact in some areas (e.g., increasing savings) but not in others (e.g., reducing loan defaults) because of several factors, including behavioral biases and delivery channels.
- Financial literacy programs do not seem to be of value to low-income participants, many of whom already know how to stick to a budget and avoid financial mistakes.

# Three Considerations for Financial Capability

How information is presented matters as much as what information is presented.

- First and foremost, consumers need access to clear, simple financial information. In some cases, consumers will need to take action to improve their understanding of financial concepts.



# Three Considerations for Financial Capability

Consumers need to practice financial skills to be able to apply them in real life.

- Simply learning about improved financial skills (debt management, comparison shopping, etc.) may not be sufficient to help consumers improve their behaviors.
- Financial education interventions should give consumers opportunities to practice these skills.



# Three Considerations for Financial Capability

**Financial capability should focus on consumers' observed behaviors and action, not just on their financial knowledge.**

- Closing the knowledge action gap is critical if you want to demonstrate improved financial capability.
- To do this, clearly define the desired financial capability outcomes:  
What financial behaviors are you hoping to see or not see in your markets?
- Present bias and time inconsistency financial education interventions should be timed to help consumers when they need to make financial decisions.

# From Financial Education to Financial Capability

## Traditional Financial Education Model

- Generally is classroom or workshop-based.
- Focused on sharing information and educating consumers.
- Curriculum focuses on training consumers in accounting, budgeting, math, and product-specific information.

Classroom-based education for adults does not have a strong track record of instilling effective financial behaviors. Specifically, this methodology “does not always take into account the time constraints, learning styles, social norms, literacy levels, and other characteristics of base-of-the-pyramid customers.”

# From Financial Education to Financial Capability

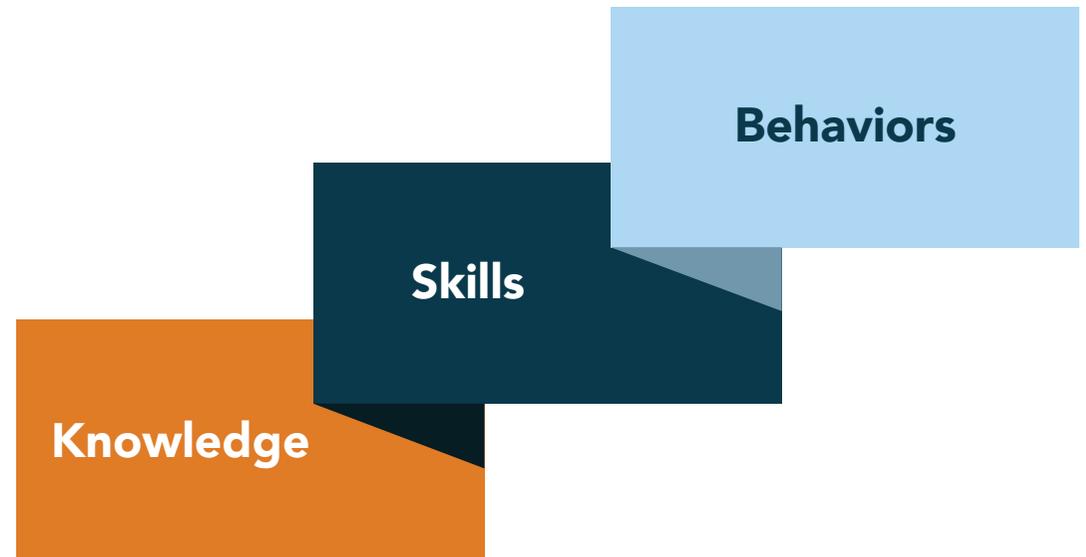
## Financial Capability Model

- Delivered via multiple channels and various touch points (edutainment, SMS, financial advisory services, workshops, etc.).
- Focused on financial behaviors, as well as increasing awareness, understanding, skills, and attitudes.
- Allows consumers to close the knowledge-action gap by building strong financial behaviors.

# From Financial Education to Financial Capability

Improving financial capability calls for broadening the concept of financial literacy needs—beyond financial understanding and knowledge, to include financial skills and competences, attitudes, and behavior.

Source: "Bringing Financial Literacy and Education to Low and Middle Income Countries," World Bank, 2010.



*"Ultimately, financial capability supports financial empowerment and financial health, and must be measured based on whether or not the customer is better off."*

# Behavioral research matters for financial capability

- The effects of financial education interventions are short term and do not lead to long-term, behavior change. “Like other education, financial education decays over time; even large interventions with many hours of instruction have negligible effects on behavior 20 months or more from the time of intervention.”
- Consumers are challenged to move from increasing knowledge (improved financial literacy) to improving financial behaviors (financial capability).
- The behavioral research and design methodology uncovers teachable moments and opportunities for learning-by-doing that are consistent with existing practices and behaviors.
- Behavioral research helps providers identify the behavioral biases that affect consumers’ behaviors and ways to close the knowledge-action gap.



# Innovations in Learning

Innovations like “edutainment” bring learning content to consumers, where and when they need it. In one example, financial lessons were embedded into a soap opera aired in South Africa. The storyline focused on gambling, avoiding debt, getting out of debt, and practicing sound financial management. Consumers who watch the program:

- Were more likely to borrow from formal sources.
- Were able to retain what they learned.

This type of approach is easy to scale up because mass media caters to a much wider audience as compared to traditional delivery channels like classroom learning, or telephonic instructions.



The South African soap opera Scandal featured a sub-plot about debt and gambling that had a definite impact on a selection of viewers



# Personalized financial advice can come in the form of simple digital reminders

Well-timed, targeted financial messages can help improve financial behaviors.

In Bolivia, Peru, and the Philippines, new savings account customers were randomly assigned to receive financial messages on their mobile phones.

Evidence found that getting reminders increases the likelihood of meeting one's commitment to save, and weaker but suggestive evidence found that reminders increase savings amounts as well.

There was evidence that messages featuring both a savings goal and a financial incentive are particularly effective.



# Digital channels enable users to customize their learning

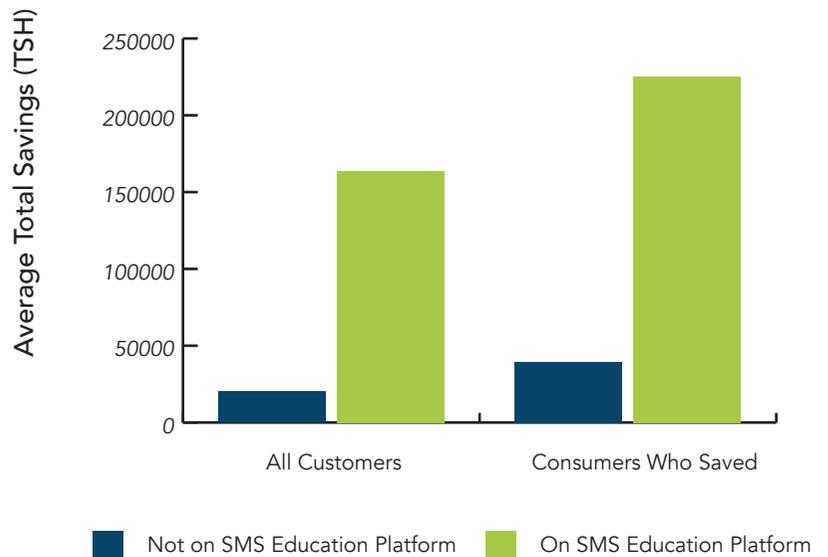
- In one example, farmers in Tanzania who used the M-Pawa mobile savings and credit product were invited to access free SMS learning content.
- Consumers were randomly assigned to different learning methods: fact-based, narrative, social norms, and single learner.
- Behavioral design insights were used to test the effect of different messages on response rates.



# Large Impact from Small Messages

Farmers who accessed the content significantly improved their savings and borrowing behavior compared to those that did not opt-in to this learning program. Farmers in the program:

- Increased savings balances by Tsh 4,447.
- Made first loan payments that were Tsh 1,730 larger.
- Took out loans that were Tsh 1,666 larger, yet repaid these loans 5.5 days earlier.



Average Total Saving for M-PAWA Customers



Average Total Loan Amount: Disbursed and Repaid



## Case Study

# Armenia Rural Financial Heuristics Program

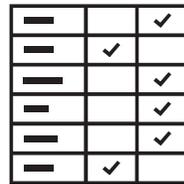


# Objective

Develop financial education interventions for the Central Bank of Armenia (CBA) to address challenges low-income rural Armenians face.



Over-indebtedness



Lack of comparison shopping



Poor savings behavior



Lack of budgeting and long-term financial planning

# Discover Phase

## Understanding Financial Behaviors and Aspirations

Researchers team used participatory qualitative research methods to understand the target consumers and their existing financial knowledge, skills, and behaviors.

In-depth individual or household interviews were conducted with rural families, small business owners, and local leaders.

During the interviews, the research team used interactive activities like expense and income mapping, seasonality mapping, and card sorting to help uncover behavioral insights.



Photo credit: GRID Impact LLC, 2016

# Research insights led to behavioral consumer segmentation

- Many families lack healthy financial behaviors, are over-indebted, and display behaviors related to financial scarcity.
- Predictors of financial success: Going from 1 regular income stream to 2 is a predictor of financial success, while 3 regular income streams is a strong predictor of financial success. Income streams were considered regular in terms of amount and frequency. (SCARCITY and stability of income)
- Personas represent various segments
  - Underwater borrower (example follows)
  - Indebted family beleaguered by setbacks
  - Salaried self-starter (example follows)
  - Entrepreneurial business owner

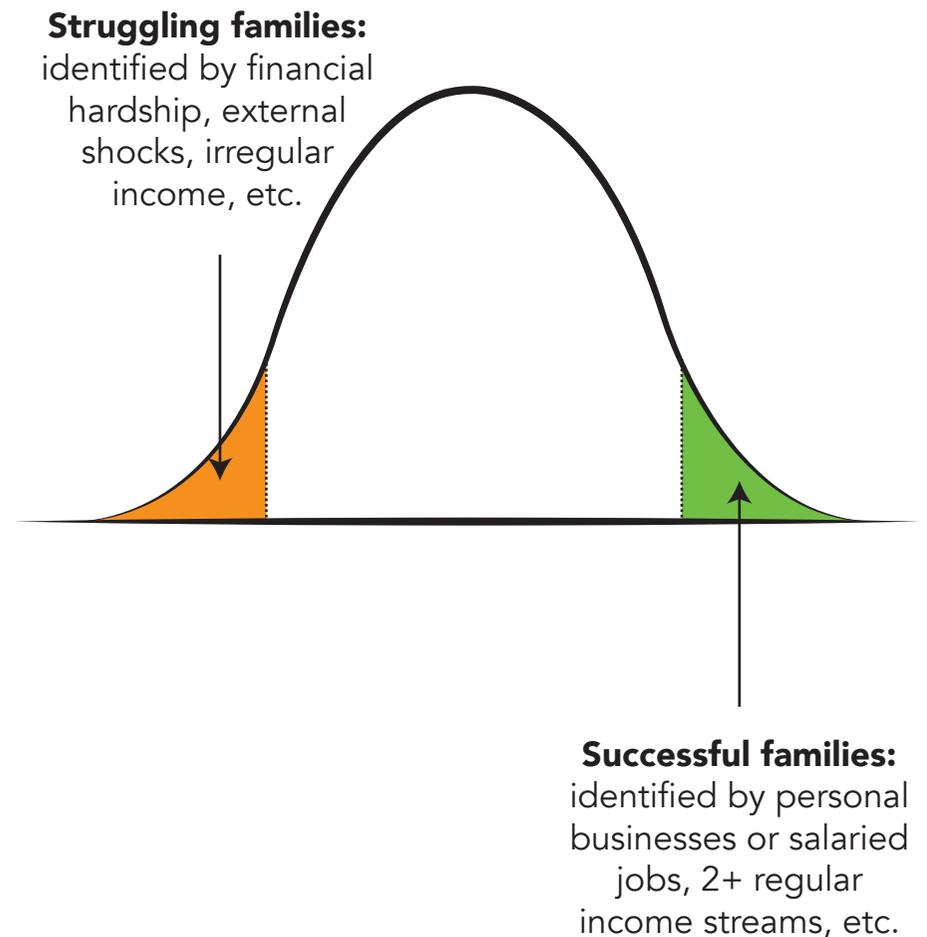


Photo credit: GRID Impact LLC, 2016

# The Underwater Borrower



## INCOME

- Only 1 regular income stream (social payment or salary)
- No one in household receives a pension
- Seemed to be doing OK until a major unforeseen setback which they were unable to recover from (medical, mudslide, refugee, pig disease, etc.)
- Takes income in one lump sum (does not keep any on a card)



## PLANNING

- Does not have a regular plan for paying expenses
- No savings

*“Saving? Who does that?”*

*“Writing down our budget would make us even more nervous than we already are”*



## DEBT

- Does not comparison shop for loans (Sees value in comparing loans but takes whatever is easily available when in need)
- Multiple loans, highly indebted (multiple borrowings)
- Does not keep track of loan terms or fees

*“We chose the loan that was the easiest and did not require collateral”*

*“It’s not possible to live without loans”*

# The Salaried Self-Starter



## INCOME

- Salaried Income Plus
- 1+ additional regular income streams (2+total)
- If relying on remittance as one of 2 income streams, it is regular in amount and schedule.
- Salary might be quite low but they aren't experiencing major financial stress.
- 1+ household members receives a pension



## PLANNING

- Saves occasionally at home
- May keep partial income on a card (does not always take out at once)
- Has a plan for paying expenses

*"If we don't do calculations, we won't service with our money"*

*"When we take our remittance by card it gives us the opportunity to not take all at once this way. Life experience teaches us that if you have cash, you always spend it"*



## DEBT

- Is aware of some loan terms and fees
- Keeps loan papers safe
- Takes 1 loan at a time, and for a specific purpose

*"We keep our loan papers where even the mice won't find them"*

*"We think and plan before we take a loan, so that we are sure we can pay it back"*

*"We don't take loans without goals because we need to pay interest for it"*

# From Consumer Insights to Design Concepts

To begin generating potential solutions, researchers converted insights about rural Armenians and their financial behaviors and experiences into opportunity statements, expressed as questions. For example:

- How might we leverage the savings practices of rural Armenians?
- How might we replicate the summer-savings for winter-spending mentality among low-income Armenians?
- Is there a way to mimic the local tradition of putting money into jars designated for specific costs to smooth consumption and reduce financial security?

# How Might We statements are used to brainstorm design solutions: physical (e.g., savings jars), a broader concept (e.g., making winter hardship more salient in summer), and so forth

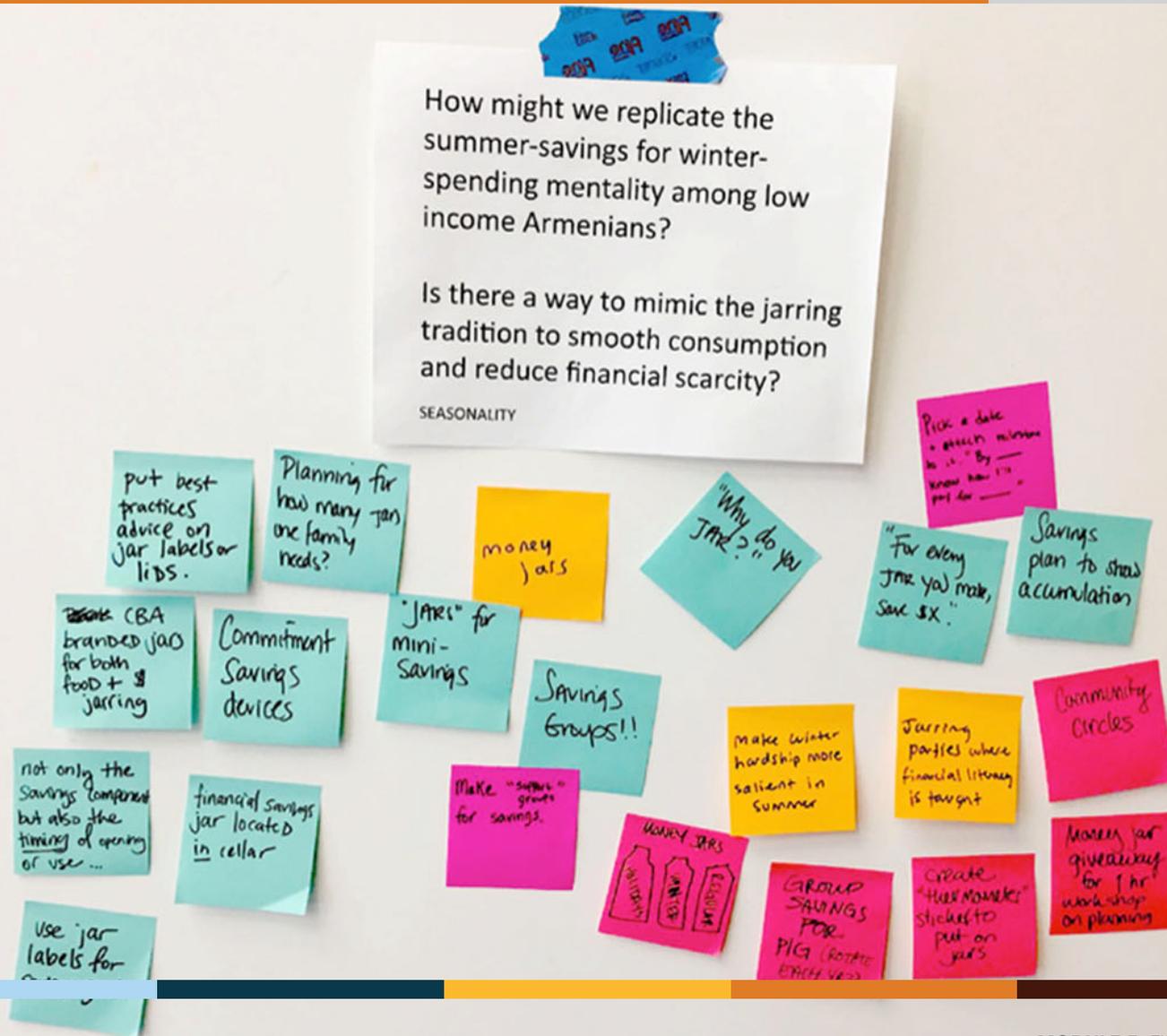


Photo credit: GRID Impact LLC, 2016

# Segmentation for Design

- Segment users during the design process to ensure specific solutions and interventions fit the needs of this group.
- Use a multi-pronged approach to address the needs, attitudes, and contexts of the diverse rural population.

# Overview

## Concept and Prototype Phases

Generate ideas for new interventions that address the opportunities and challenges identified in the Discover phase.

1. Focus on quantity. Generate as many ideas as possible.
2. Refine your ideas until you have concepts that may be viable solutions.
3. Explore the potential of these concepts and quickly communicate their value. Don't spend a lot of time and effort on a concept that might be a dead end.

# Design Phase

## Prototyping Financial Heuristics

Based on the discovery research, the research team created prototypes and identified financial heuristics (financial rules of thumb) that help reinforce positive habits and leverage best practices. These evolved over the course of the design phase:

1. Assign a role to every note that comes in
2. Stock up a little savings each week to help get through leaner times
3. Take 5 minutes to plan what you want to borrow
4. Find one more option before you take out that loan
5. Make a payment every month or pay the penalty
6. Make more money by adding up what you're really earning

# Design Phase

## Iterating the Financial Heuristics and Communications Materials with Users

Through collaborative design and prototyping, we refined the financial heuristics and created a series of visual communication materials to help educate the target consumers about priority financial behaviors.



Photo credit: GRID Impact LLC, 2016

# Final Financial Capability Intervention Package

## The final intervention package includes several elements:



**Loan resource kit.** A simple kit distributed by the Village Authority that includes items like “Before You Borrow” information, information about an online financial helper and upcoming demonstrations, financial heuristics brochure, and other resources.



**Brochure-Poster.** A brochure-poster (poster with a pocket that holds brochures) displayed near Village Authority entrances that gives information about the loan resource kit, the online financial helper, the CBA helpline, and financial heuristics.



**Workshop on Financial Heuristics.** An in-person, interactive workshop focused on teaching rural Armenians about financial heuristics and how to apply them in their personal lives. The workshop is three hours long and held in local village schools and Village Authorities.

Photo credit: GRID Impact LLC, 2016

# Evaluation and Next Steps

- CBA is running a randomized controlled experiment to test the efficacy of the financial heuristics program targeted at rural Armenians compared to traditional financial education interventions.
- All regions in Armenia will be included in the experiment, and village participants will be randomly assigned to receive the financial heuristics treatment.

# Lessons Learned from the Armenia Case

- It helps to collaborate with a central bank that has a strong research capacity, as did CBA, which took ownership of the work, participated in the field testing, and led the evaluation design.
- It can be difficult to keep a broad view (e.g., rural consumer education) for segmentation and research, but doing so enables design flexibility to meet the needs of different customer segments.
- A lack of proximity to users and data can be a challenge so you need to find intermediaries and partners (like local Village Authorities).
- It is possible to design a broad consumer intervention based on behavior.

# Key Lessons

The main challenge in your market may be in disclosure/transparency, for example, but this may warrant a financial education intervention.

Because financial capability spans many other areas in consumer protection, it may be linked to other domains presented in this guide: Transparency and Disclosure, Recourse and Complaints Handling, and Fair Treatment and Sales Practices.

# CONGRATULATIONS!

You have completed the Financial Capability Learning Module  
Click on the Learning Module you want to take next:

Transparency  
& Disclosure

Recourse and  
Complaints  
Handling

Fair Treatment  
and Sales  
Practices