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’s publications page for even more on this topic.

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“Financial services providers and authorized agents should provide consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product. They should also provide information on conflicts of interest associated with the authorized agent....”

1. **Simplicity** to ensure comprehension. For example: Summarize all costs in a single calculation.

2. **Comparability** to make shopping around as easy as possible. For example: Mandate all banks to use the same consumer-tested format for their key facts statement.

3. **Timeliness and convenience** to reach consumers when and where information will most influence their decision-making. For example: Mandate a pre-agreement statement before issuing a contract.
Getting disclosure right can impact firm as well as consumer behavior.

Increasing public disclosure of credit card interest rates in Peru led to significant reduction in rates overall.


Comparative disclosure of credit cards rates in national media

Policy makers can start testing disclosure approaches with little effort

1. Consumer interviews and focus groups on choice and decision-making
2. Surveys on Price Awareness and Format Comprehension
3. Testing of Disclosure Formats

Low Effort | High Effort

MODULE 2: DISCLOSURE AND TRANSPARENCY/ LAB TESTING TOOLS
Lab Testing to Improve Product Comparison Tools in Mexico
Lab Testing Method

- Use a controlled environment to measure how consumers respond to different scenarios, information, or choices.

- Measure comparative impact of potential policy reforms being considered, without the risks and expense of live testing. Lab testing may be an important prerequisite to more impactful live testing.
Policy Challenge: Lender-developed materials do not properly disclose loan costs

Research Stage 1: Focus groups that CONDUSEF, the Mexican financial consumer protection agency, used to understand consumer decision-making showed that:

- Consumers do not use Total Annual Cost effectively when considering loan offers, because they don’t understand it.
- Hidden fees (e.g., maintenance fees on savings accounts) cause problems for low-balance savers.

CONDUSEF used lab testing to develop new disclosure formats to address these problems.

Total Annual Cost = 267%  Total Annual Cost = 107%

These lenders have “complied” with the requirement to disclose Total Annual Cost — but have they really made it easy for the consumer to find?
Lab Testing: New Disclosure Formats vs. Lender-Developed Materials

Six key facts statements tested and compared to see which worked better for consumers:

- **Format 1**: Provider marketing materials taken from branches
- **Format 2**: New Key Facts Statement designed by CONDUSEF
- **Formats 3-6**: Four types of product comparison tables

<table>
<thead>
<tr>
<th>Lab Testing Sample Distribution</th>
<th>Credit</th>
<th>Saving</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. testing rounds of formats with participants</td>
<td>1912</td>
<td>2372</td>
<td>4284</td>
</tr>
<tr>
<td>No. Participants</td>
<td>478</td>
<td>593</td>
<td>1071</td>
</tr>
</tbody>
</table>
Mexican consumers review loan and savings product key facts statements during lab testing.

Photos: Rafe Mazer
Consumers reviewed the key facts statements and chose the lowest cost product

**Credit lab experiment**
- Participants chose the best loan product for a 12-month, 10,000 peso loan.

**Savings lab experiment**
- Participants chose the best savings product to deposit 5,000 pesos based on their individual “use profiles.”

Participants were assigned to one of two use profiles:
- Profile 1: 2 inquiries and 2 withdrawals of 250 pesos/month.
- Profile 2: No monthly activity.
Savings Key Facts Statement Redesign: Comparative tables were developed to test different ways of presenting key product information.

Key differences in tables tested:
1. 3 product terms or 12
2. 5 savings products or 10
3. Presents Total Annual Earnings as % or Peso Value

<table>
<thead>
<tr>
<th>Producto</th>
<th>Institución</th>
<th>GAT (Ganancia Anual Total)</th>
<th>Ganancias en un mes sin ninguna actividad</th>
<th>Ganancias en un mes con actividad</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Batoamigo</td>
<td>0.02%</td>
<td>$0.50</td>
<td>$3.75</td>
</tr>
<tr>
<td>B</td>
<td>Finamigo</td>
<td>1.79%</td>
<td>$7.92</td>
<td>$4.88</td>
</tr>
<tr>
<td>C</td>
<td>Santander</td>
<td>0.68%</td>
<td>$1.00</td>
<td>$1.00</td>
</tr>
<tr>
<td>D</td>
<td>Banco Ahorro Famsa</td>
<td>0.08%</td>
<td>$0.17</td>
<td>$0.25</td>
</tr>
<tr>
<td>E</td>
<td>Financiera FinComun</td>
<td>0.63%</td>
<td>$0.42</td>
<td>$12.88</td>
</tr>
</tbody>
</table>

Participants informed of total annual earnings, and how this is impacted by account activity levels.
Loan Key Facts Statement Redesign: Comparative tables were developed to test different ways of presenting key product information.

Key differences in tables tested:
1. 4 product terms or 8
2. 5 loan products or 10
3. Presents Total Annual Cost as % or Peso Value

<table>
<thead>
<tr>
<th>Producto</th>
<th>Institución</th>
<th>Monto que recibes</th>
<th>Pagos mensuales</th>
<th>Monto que recibes</th>
<th>Monto que recibes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Crédito Familiar</td>
<td>$10,000</td>
<td>$1,150</td>
<td>Si</td>
<td>$13,796</td>
</tr>
<tr>
<td>B</td>
<td>Financiera Ayudamos</td>
<td>$9,611</td>
<td>$1,045</td>
<td>Si</td>
<td>$12,934</td>
</tr>
<tr>
<td>C</td>
<td>Dimex</td>
<td>$9,484</td>
<td>$1,075</td>
<td>Si</td>
<td>$13,419</td>
</tr>
<tr>
<td>D</td>
<td>Scotiabank</td>
<td>$10,000</td>
<td>$1,306</td>
<td>Si</td>
<td>$15,674</td>
</tr>
<tr>
<td>E</td>
<td>Bancomer</td>
<td>$9,602</td>
<td>$1,087</td>
<td>Si</td>
<td>$13,445</td>
</tr>
</tbody>
</table>

Showing Total Cost using monetary value not percentage increases probability of choosing the cheapest credit product by 8%
In both savings and credit products, fewer products and fewer terms improved consumer choice.

More information is not always better for consumer comprehension. Focus on essential information in Key Facts Statements — lab test to determine what information is most useful.
Consumers showed a stronger response to price when provided with the improved Key Facts Statements than they did with existing provider brochures.

Simple improvements to how Total Annual Cost is presented could have large consumer benefit.
Improved Key Facts Statement formats had more than twice the impact on choosing a low cost loan than a consumer having high financial literacy.

Could disclosure be a cheaper and more effective tool than financial education programs?
Three Policy Findings from Mexico Lab Testing

- Mandating **format**, not just **content**, could improve decision-making.

- Using monetary amount rather than percentages for Total Annual Cost (Credit) and Total Annual Earnings (Savings) could improve consumer search abilities.

- Improving disclosure formats may be a **more cost-effective policy option** than increasing consumer financial literacy.
Why use lab testing for disclosure and transparency policymaking?

- Large sample of consumer feedback in short time period.
- Quantitative methodology and controlled environment allow for measurement of impact (vs. qualitative nature of focus group discussions).
- Several formats can be tested simultaneously.
- Cost and complexity of experiment setup are relatively low.
Measuring Improvements in Transparency of Digital Financial Services in Kenya
Digital financial services are changing the manner of disclosure

- New interfaces require new types of digital literacy.
- Immediacy and ease of access via a phone or computer may lead to greater temptation or hyperbolic discounting.
- Opportunities for better standardization in timing and consistency of disclosure—presentation of key facts or a product no longer depends on sales staff compliance.
- Cost disclosure is often poor in digital finance, and policy makers need to develop and enforce new standards for disclosure.
Poor Disclosure Practices by Kenyan Mobile Money Providers

It’s not free to send Ksh 500 on M-Pesa.
So where is the disclosure of the fee?
When you pay your electricity bill with mobile money, you can find the fee only if you check your receipts—and if you have a calculator handy.

<table>
<thead>
<tr>
<th>Start Balance</th>
<th>21,741</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill Pay Amount</td>
<td>7,644</td>
</tr>
<tr>
<td>Expected New Balance</td>
<td>13,827</td>
</tr>
<tr>
<td>Actual New Balance</td>
<td>13,810</td>
</tr>
<tr>
<td>Implicit Transaction Cost</td>
<td>17</td>
</tr>
</tbody>
</table>
Low-income consumers were surveyed on their knowledge of price of M-Pesa and similar services.

Consumers shared 6 months of M-Pesa account activity. The data were analyzed to see whether consumers changed any behaviors after the major shift in M-Pesa prices.

### Natural Experiment: Safaricom Change in M-Pesa Tariffs, August 2014

<table>
<thead>
<tr>
<th>M-Pesa Transaction Value</th>
<th>Old Fee</th>
<th>New Fee as of August 2014</th>
<th>% Change in Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-49</td>
<td>3</td>
<td>1</td>
<td>-67</td>
</tr>
<tr>
<td>50-100</td>
<td>5</td>
<td>3</td>
<td>-40</td>
</tr>
<tr>
<td>101-500</td>
<td>27</td>
<td>11</td>
<td>-59</td>
</tr>
<tr>
<td>501-1,000</td>
<td>33</td>
<td>15</td>
<td>-55</td>
</tr>
<tr>
<td>1,001-1,500</td>
<td>33</td>
<td>25</td>
<td>-24</td>
</tr>
<tr>
<td>1,501-2,500</td>
<td>33</td>
<td>40</td>
<td>21</td>
</tr>
<tr>
<td>2,501-3,500</td>
<td>33</td>
<td>55</td>
<td>67</td>
</tr>
<tr>
<td>40K-45K</td>
<td>82</td>
<td>110</td>
<td>34</td>
</tr>
<tr>
<td>45,001-50K</td>
<td>110</td>
<td>110</td>
<td>0</td>
</tr>
<tr>
<td>50,001-70K</td>
<td>110</td>
<td>110</td>
<td>0</td>
</tr>
</tbody>
</table>
How price aware are consumers?

Analysis of the price awareness for person-to-person mobile money transfers showed:

- 46% recalled the M-Pesa tariff change.
- Only 3% and 2% could recall the new tariff for an M-Pesa mobile money transfer of Ksh 500 and Ksh 1,000.
- Consumers often cited the old, higher prices:
  - 38% of respondents cited the old Ksh 500 tariff
  - 17% of respondents cited the old Ksh 1,000 tariff
33% more high-frequency users than low-frequency users changed their transaction sizes to “optimize” their transactions. This indicates that price optimization is learned through frequent use because consumers are not told the price at the time of transaction.
Impact: Kenya’s Response to Study Outcomes on Pricing Transparency

A July 2016 notice issued by Kenya’s Competition Authority requires all DFS providers to disclose the costs of their products on a mobile handset.
Did transparency reforms make a difference?

To measure the effect of the Authority’s notice:

- A baseline survey of 825 Kenyan consumers was conducted before any DFS providers had complied with the Authority’s transparency notice.

- An endline survey of the same consumers was conducted after most providers had complied.
Consumers increased their knowledge of mobile money fees

- Percentage of respondents correctly estimating fee to send Ksh 500 increased from 14% to 37% for M-Pesa and from 71% to 83% for Airtel Money.

- Lack of transparency led consumers to assume fee to send Ksh 500 by M-Pesa was higher than it really was. 72% in baseline survey overestimated the fees, which works against the interests of both providers and consumers.
Consumers increased their knowledge of M-Shwari loan fees

- High use of digital credit in sample: 72% of baseline respondents and 79% of endline respondents used digital credit.
- The most recent digital credit loans taken by 64% of respondents in both baseline and endline were from M-Shwari.
- Dramatic increase in borrowers correctly remembering cost of loan from baseline to endline for Ksh 200, Ksh 500, and Ksh 1000.
Next Steps

How do you develop your own disclosure research? Answer these three questions to get started:

1. Review disclosure laws and formats for laws that may need to be enhanced. Are there good provider practices you should standardize?

2. Should you use focus groups, interviews, lab testing, live testing, or surveys? Which research firms can help you?

3. Who needs to be involved—research department, supervision, market conduct/consumer protection?
CONGRATULATIONS!

You have completed the Disclosure and Transparency Learning Module
Click on the Learning Module you want to take next:

- Sales Practices and Fair Treatment
- Recourse and Complaints Handling
- Financial Capability