A Change in Behavior

Innovations in Financial Capability

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Chapter 1

The Changing Landscape of Financial Capability Building

Successful financial inclusion requires financially capable consumers who use products actively for their own benefit. A rapidly expanding number of first-time customers, many from traditionally unserved population segments, will begin using formal financial services over the next decade. According to the Global Findex, 700 million customers were added to the rolls of people with some form of formal financial account between 2011 and 2014, and CFI projects that if this trend continues, another 800 million could be added by 2020.[1] The expansion of financial services offers an enormous opportunity for benefits to both customers and providers, if the new customers can use the products in a healthy, effective manner. On the other hand lack of customer financial capability can lead to dormant accounts, over-indebtedness and other serious problems. The scope and scale of this challenge can hardly be exaggerated.

Meeting the financial capability challenge will involve many solutions and stakeholders. This report reviews the current landscape of financial capability interventions – a diverse landscape, with interventions by financial service providers, online services, social organizations, governments and others. These interventions vary widely in aim, method, scale and effectiveness. There are exciting new developments to report, and an urgent need to broaden the awareness of these innovations so they can reach more people.

Above all, this report highlights a trend still in its early stages that ties financial capability interventions more closely to actual customer behavior, especially at critical decision-making moments, and particularly when signing up for and using financial products. This trend also takes into account insights about how people learn and the kinds of support they need to achieve their goals. Expanding this behaviorally-informed approach, which is already occurring to varying degrees, will require creativity beyond the traditional modes of financial education that dominate the scene, and it will require greater involvement by providers, who are uniquely placed to meet clients at those critical decision moments.

As a reflection of current status, this paper includes both stellar examples and interventions that do not necessarily receive top marks. It reveals a major task ahead to shift resources into the more promising channels, and a need for greater application of metrics so that effectiveness can be better understood.

About the Study

For this paper, CFI carried out a search for effective financial capability interventions around the world with special attention to Mexico and India – two quite different countries with a lively range of financial capability activities. It also gathered opinions from financial capability experts. Inputs included:

- 40+ interviews with financial service providers, regulators, and financial capability practitioners, especially in Mexico and India.
- 20+ expert interviews at the global level.
- Review of research and writing on financial capability, financial education, and financial literacy.
- Feedback from participants in roundtable discussions of the draft paper in Washington, Mexico City, and New Delhi.

The findings in this report speak to three main audiences: financial service providers, who have an opportunity to lead these efforts and who are assured that interventions can be compatible with their business models; governments, who are advised to support a greater role for providers and to take creative advantage of their own touch-points with consumers; and actors in the social sector, who are encouraged to incorporate the practices described here into their work.

- **Chapter 1** discusses the global context and current thinking about effective approaches to building financial capability, particularly those informed by behavioral economics.
- **Chapter 2** catalogues interventions we found in our global scan, with emphasis on Mexico and India. It notes both the aspects that appear to be both effective and replicable, as well as some aspects that are less promising.
- **Chapter 3** recommends six shifts by major category of actors (financial service providers, social service organizations and non-profits, and governments) needed to create a massive response commensurate with the scope of the challenge to support a financially capable global citizenry.

KGFS field staff in India offer financial counseling to poor rural clients as they deliver financialservices, reaching customers at teachable moments. (Photo Credit: KGFS)

What Is Financial Capability and Why Does It Matter?

In this study, financial capability is defined as 'the combination of knowledge, skills, attitudes, and behaviors a person needs to make sound financial decisions that support well-being.'[2] CFI first adopted this definition in its Financial Capability Roadmap as part of the Financial Inclusion 2020 Project in 2013. It reflected a consensus among the working group of financial capability experts who created the Roadmap, and an emerging view of financial capability, which has only gained deeper acceptance since. It is a definition that turns attention toward the outcome of improved financial health and well-being. That view contrasts financial literacy and financial education, which are concerned with knowledge, skills, and information, with capability, which encompasses attitudes and, most importantly, behavior.

The distinction between financial education, financial literacy, and financial capability is not widely recognized. In this paper we refer to financial capability interventions as designed with explicit attention to the path from intervention to behavioral change.

Financial capability also encompasses the opportunity to apply those behaviors to financial decisions. Skills, attitudes, and behaviors count for little if opportunity is missing. This view opens the concept of capability to include efforts to make financial services available to new customers and therefore is sometimes hard to distinguish from financial inclusion generally. In this paper, while acknowledging the importance of opportunity for use, as a research strategy we focus on specific efforts to build the customers' abilities and change behavior. In doing so, we advance solutions that, for example, pair information with products designed to meet client goals. Often, capability interventions can – and should – go hand-in-hand with product delivery.

Interest in financial capability has increased tremendously over the past few years, as providers and policymakers increasingly want to ensure that their new customers are capable in money management, product use, and understanding their consumer rights and responsibilities, especially during a time of rapid introduction of new technologies. The provider case for addressing the financial capability of low-income customers rests on the risk reduction, enhanced product use, and long-run opportunity for growth that a capable clientele can bring. The policy case involves the government's role as custodian of a safe and stable financial system that appropriately protects the vulnerable. And for the consumer, the case is greater confidence in using financial services in a way that promotes the ultimate outcome of financial health.

Until recently, the traditional financial education paradigm dominated thinking, as shown in a 2012 Monitor Institute study which noted that it would cost upwards of $10 billion to provide a basic financial education course to all the customers who have recently accessed the financial system – not to mention those entering soon. Recognition of the high cost of training, coupled with disappointing results from studies on the effect of such training (discussed below), led many to see the problem as unsolvable.

At the same time, investigations of the financial lives of the poor, such as *Portfolios of the Poor* and many earlier studies, point out that poor people already perform complex financial management. Thus, financial capability already exists among the newly included. A more customer-centered approach would recognize customers as active agents who come to financial services with their own pre-existing capabilities and objectives. Nevertheless, many people need assistance in learning how to operate in the formal financial system.

Proponents of financial education and financial capability as alternate approaches often have different ultimate goals in mind, and we identified three distinct but overlapping categories of objectives:

- Development of lifetime skills for money management and financial goal-setting. (Many traditional financial education programs focus here.)

- Ability to use financial services confidently and as intended for one's benefit—such as managing daily financial lives, addressing unexpected emergencies and shocks, and meeting long-term goals. (This is often the goal of financial capability proponents, as discussed throughout this paper.)

- Awareness of consumer risks and consumer rights and responsibilities. (This is often the rationale for government involvement.)

The cost and difficulty of delivering against the broad first objective, together with the recognition that people already have many financial management skills, suggest a focus on the second, more limited purpose, which can be integrated into product delivery and result in immediate changes in behavior, making it a more cost-effective approach. Some observers believe the more limited type of objective fits with consumers' own desires to improve their capability. According to financial capability expert Monique Cohen, many low-income people seek financial capability assistance to solve specific problems rather than to acquire broad skills.

The third purpose, protecting consumers, despite its importance, received surprisingly little explicit focus among the interventions we observed.

A Customer Viewpoint

In this paper we review approaches directed at the full range of un- and under-served people, while keeping some of the most challenging customers in our sights, including those whose personal and financial life is precarious and whose education is limited. While many of the interventions we found are suitable for significantly better-off customers, it is also possible to assist customers like the one profiled here (see box) to move toward financial capability.

Building financial capability is especially important for populations that have little or no experience with formal financial services. (Photo Credit: KGFS)

Priya's Story
Janalakshmi client, Bangalore, India

Priya (not her real name) arrived at her local Janalakshmi (a microfinance institution) branch with her daughter and granddaughter. Wearing a bright orange sari, she sat down and looked apprehensively at the computer on the table. Priya had just been approved for her first individual loan. As part of the Jana Foundation's Community Connect Program, she was required to spend an hour with a financial counselor to discuss her income, expenses, and long-term financial goals. Never speaking above a whisper, Priya began to explain that her husband had three other wives and she hadn't heard from him in months. Her daughter, whose own three-year-old daughter squirmed in her arms, was present as her co-signer. It soon became clear that Priya did not understand what 'income' was intended to mean, leading to a discussion on the importance of separating business and personal income. In addition, she struggled to understand how to set aside enough daily savings to meet her five-year goal of buying a new house. Initially, she said she could save 500 rupees a week, a large figure given her modest sari business. Working with the counselor, she listed all her fixed expenses, which helped her set a more realistic savings goal. The counselor will meet with Priya every three months to support her in sticking to her plan and using the tools to her advantage.

This experience differs from traditional financial education in several ways. Janalakshmi customers like Priya walk away with a personalized understanding of their financial situation assisted by a visual summary; financial tools such as a monthly budget and savings plan; ongoing support; and a loan that can help them reach the goals they set for themselves.

The Shift from Financial Education to Financial Capability

Although it remains the dominant approach, the fundamental critique of financial education, backed by extensive research, is that information transfer alone does not adequately engage people in the active learning and practice that makes its way into behavior.

This paper is not the place for an extended review of the research, but we urge readers to delve into the works cited here, which demonstrate results such as the following:

- Limited effect of classroom training on long-term behavior (Miller; Xu and Bilal; Fernandes and Lynch)[4]
- Participants' limited attention and capacity to process financial education information (Lusardi; Roa)[5]
- Putting adults in a classroom does not have a lasting effect on financial behavior (Mandell)[6]

Several meta-analyses suggest that classroom education might work in some areas (Miller).[7] Of course, not all classroom education is the same, and there are times when it is delivered by gifted teachers who integrate behavioral insights into a curriculum that has been thoughtfully designed to address the needs of clients.

One revealing indicator is how few adults are interested in participating. Even with incentives, take-up rates are often very low. Online training offered by U.S. credit card companies or banks yield less than a 1 percent uptake. A randomized experiment with a financial institution that offered a course in Mexico City found that fewer than one in five people who received phone calls and personal invitations attended the course. Even gift cards and free transportation increased uptake only to 28 percent. In this case, training attendees showed increased financial knowledge, but behavior change was minimal: a temporary effect on savings and none on borrowing. Customers often perceive classes merely as a hurdle before getting a loan, rather than a path to master skills they care about.

In addition to the basic problem of the disconnect of classroom training from action, instructional quality is also frequently wanting, and adult learning techniques that would increase relevance and engagement are often missing. Much financial education content lacks practical relevance. This is a reality in regions where traditional rote learning techniques are the norm and instructors may themselves be poorly trained or lack financial capability.

Financial educators reading this report may argue that the information conveyed in most financial education offerings is important and useful, and that, other things being equal, a more financially literate person (and certainly a more numerically literate one) may act in a financially capable way. However, if people operating in the informal sector often already have substantial financial management abilities, then they may only be interested in interventions that help them use new kinds of products or reinforce self-discipline. Research suggests that to lead to greater impact, substantial changes are needed to traditional financial education models. Thus, we support financial education, but we call for substantial changes in the way it is applied, and we advocate the use of interventions to build financial capability that would not normally be considered part of financial education.

What Does It Take to Build Capability?

If standard classroom techniques do not produce the desired results, what would? Behavioral economists, such as Dan Ariely, Daniel Kahneman, Sendhil Mullainathan, Eldar Shafir, Cass Sunstein and others, have deeply explored the important gap between knowing and doing. They argue that human biases often inhibit our ability to make good decisions, even resulting in decisions we know to be against our best interests. People tend to value the present over the future; need frequent reminders to apply what they have learned or resolved; and follow habitual routines to navigate day-to-day life. Research findings indicate that:

- Low financial capability often has more to do with psychology than knowledge. (Sherraden)[11]

- A person's self-confidence, group identity, and ability to process information, among others, have a direct impact on decision-making. (Bruhn, Ibarra, and McKenzie)[12]

- Behavioral factors, such as mental accounting and procrastination, among others, affect our ability to persevere to meet goals. (Mukherjee, Tiwari, and Singh)[13]

These factors, and other such predispositions, shape financial behavior. They are not unique to low-income or unbanked people. Everyone has such behavioral biases, and can probably point to examples in their own lives where biases prevented translating knowledge into action.

In addition, social and cultural norms are an under-appreciated aspect of financial capability. Attitudes and practices learned from parents and peers strongly shape a customer's behavior, in sometimes positive and sometimes negative ways. While they are often discussed in the literature, cultural norms and peer influence are less often considered when designing interventions, though it is clear that successful interventions will consider both the customer and the communities in which the customer interacts.

These insights point to the need to design capability interventions that address the knowing-doing gap and take psychological and cultural factors into account. In addition to adult learning practices to improve knowledge retention, we see an arsenal of tools emerging that focus directly on the behavioral gap, and that provide mechanisms for on-going support to reinforce healthy behaviors for the long-term. The key practices behind these tools are outlined at the end of this chapter.

Where the Field Stands Today

The field of financial capability is growing in scale and recognition, but it is not yet mature. Existing financial capability interventions are a scattershot of practices and are often compartmentalized away from product delivery and use. But as the financial services world moves beyond traditional 'brick and mortar' retail toward an agent and technology-led delivery model, there is perhaps an analogous shift needed in approaches to financial capability that takes vital financial information out of the classroom and finds new ways for customers to learn, apply, and change. Financial capability requires giving consumers information they need with a product designed around their needs so they can put the information into action, overcoming the intention-action gap.

Despite mixed evidence on classroom-based financial education, a majority of interventions are delivered in a classroom or group setting, and these methods absorb the overwhelming majority of resources devoted to financial capability. This resource deployment continues because classroom-based education is well-known, materials exist for easy implementation, and behavior-oriented solutions are still not widely understood. The inertia behind traditional interventions is understandable.

As providers, governments, and social agencies strive to both expand and improve financial capability interventions, they will continue to face two core problems: finding interventions that can be sustainably scaled without external subsidy, and ensuring that interventions are effective through improved metrics.

With regard to financial viability and scale, one of the bright spots on the scene is that technology is making this transition much more feasible for financial service providers. It offers a means of integrating interventions into product delivery at little added cost. This can allow interventions to reach scale and in some cases be justified commercially through improved customer uptake and use of services. With rapid penetration of smartphones in emerging markets, opportunities will increase for providers to enrich consumer engagement and capability through mobileapplications (apps) and interactive platforms that allow consumers more control, convenience, and management of their money. Chapter 2 of this paper provides many examples of technology used in groundbreaking ways.

Behaviorally informed methods have mainly been applied to boutique projects that have yet to go to market. To succeed in transforming their valuable consumer insights into large-scale implementation, there are important internal constraints within financial institutions, many of which are intrinsic to any large-scale change effort. Efforts will need to shift to better understand how to incorporate these features fully within institutions to make them sustainable.

On effectiveness, the challenge is to improve metrics for measuring impact of financial capability. While there are many high-quality studies, we also found disappointing levels of attention to measurement. Many of the evaluations of interventions described in Chapter 2 fail to address behavior change and instead focus on self-reported data (often unreliable) or are limited to initial product enrollment. On the whole, we found that providers rely on very basic data points.

The importance of financial capability calls for all financial inclusion stakeholders to be involved in developing effective, scalable solutions. Financially capable people, particularly those with low, irregular incomes, have to fight a lot of battles to maintain financial discipline. The least we can do as financial inclusion professionals is to work together to develop products, policies, and strategies to make it easier to be financially capable.

Practices of Effective Financial Capability Interventions

A number of behaviorally informed practices, when applied, have the potential to make financial capability interventions more effective. At least some of these practices can be used by any type of service provider. We present the practices here to help providers of financial capability interventions find ways to shift how they interact with customers. They apply equally to a financial service provider's intervention design and to revision of existing financial education programs seeking to become more effective. In the study's landscape scan, summarized in Chapter 2, a major part of the search was to find examples where these practices are being applied. Some of these examples are mentioned here and further described in Chapter 2.

1. Teachable Moments. Reaching consumers at the right time is perhaps the core practice for the approach we are discussing, and the right time is when a person is about to make an important financial decision or use a financial service. Research shows that information provided when it is about to be used results in greater retention and influence on behavior. The teachable moments concept is one of the strongest arguments for provider involvement in financial capability, as providers are uniquely present when customers are using their products. Every customer touch point is a potential teachable moment.[15] Teachable moments also lead to the strategy of targeting people in specific situations – prospective emigrants, welfare recipients, or, as in the case of KIWI (see Chapter 2), people in need of specific medical treatments.

2. Learning by Doing. Practice, whether through technology-enabled simulations, or in real life with the supervision of a front-line staffer or banking agent, will perfect use and build confidence so the customer can use the product properly on her own. Many organizations profiled here promote learning by doing, either within a group setting, or through interactive games and tools. RevolutionCredit's videos ask customers to create budgets using an online platform. Fundación Capital helps low income women get comfortable using ATMs.

3. Nudges, Reminders, and Default Options. Forgetfulness is a universal human phenomenon, and is even more likely when temptation lurks. We intend to save and pay bills on time. But things get in the way, and we don't. Behavioral economists suggest that timely reminders, whether by SMS or in person, can enable customers to stick to their goals more often.[16] An experiment in the Philippines found a shift in behavior among savings customers who received reminder messages about a self-determined goal, and this is only one of many such trials.[17] A tool like PayGoal removes behavioral roadblocks by automatically deducting savings from wages. Commitment savings helps incentivize behavior with little effort on the part of the provider.[18] A commitment savings product offered by Green Bank in the Philippines increased the average savings balance by 42 percent after six months and by 82 percent after one year.[19] Nudges and reminders, when well crafted, are among the easiest and least costly of these practices for financial service providers to incorporate into their operations.

4. Rules of Thumb (Heuristics). Heuristics are mental shortcuts that make it easier to apply learning in real-life situations. A familiar heuristic for using a screwdriver is 'righty tighty, lefty loosey.' In fact, the seven practices we are now describing constitute heuristics that you, the reader, can use in considering the examples in this paper, and applying when designing future interventions.

5. Make It Fun. Financial education can be dull, but staying awake through the learning process is important! Games can spark and retain interest. Cognitive research shows that humor activates the brain's reward system,[20] which is linked to both motivation and long-term memory.[21] Because games are goal-oriented, people may stay interested longer, and games can also beused for learning by doing. Doorways to Dreams (D2D), a U.S.-based non-profit working on financial services strategies for low-income consumers, found that 'gamification' – turning tools into games – increases retention. CRISIL engages its customers through games. Some technology-enabled solutions are designed to be fun, like Agent Piggy.

6. Customize It. Much classroom-based financial education is generic and therefore may not be relevant for the recipient. Tailored interventions may powerfully shift the learning from passive to active. It is one thing to know you should set a household budget or even how to do so; it's another to have a tool that simplifies and automates that process. We see personalized interventions taking place through automated analysis of a person's own financial transactions (HelloWallet) and through face-to-face interviews (KGFS and the Janalakshmi pilot described above). SmartyPig provides users with personalized information, encourages individualized goal-setting, and gives advice based on customers' actual financial needs. Moneyworks and Level Money show users where their money goes through engaging charts and graphs. The Urban Institute, ideas42, and others show that tailoring on-going support to a customer's situation leads to higher impact. Goal visualization can create motivation when goals are set by the customer. Research shows that self-defined goals can help overcome behavioral biases.[22]

7. Make It Social. Financial capability interventions can leverage the power of social forces in many ways, starting with perhaps the most obvious – the relationship between a staff member and a customer – and moving to relationships within families and among peers in communities. Peer-to-peer support can help individuals overcome behavioral biases.[23] Janalakshmi and KGFS train community members to become staff and promote conversations about financial services among customers. HERFinance trains factory workers to pass along financial information to their peers. Social media can reinforce behavior. HelloWallet lets customers compare their financial wellness scores to those of their peers. SmartyPig lets users post their saving progress on Facebook and Twitter.

Finally, a good litmus test for financial capability programs overall is to ask whether they move beyond knowledge gains to spark behavior changes, such as increased savings or loan performance. Has the customer improved his or her financial health?

Chapter 2

A Scan of the Field – Finding Innovations that Work

This chapter – and the accompanying 'Catalogue of Innovations' – examines models from around the world, with emphasis on Mexico and India, including both those that are applying the behavioral practices and others that are not. This is a state of the practice analysis rather than an endorsement of specific examples. There is wide diversity, with interventions that range from personal counseling to mobile apps to soap operas. The interventions vary widely in quality, scale and potential for replication. A complete list of examples can be found in the 'Catalogue of Innovations.' This chapter recounts the some of the best examples and provides commentary on the full range of what we found.

Financial Service Providers

Financial service providers – whether banks, microfinance organizations, payment companies or mobile network operators – are well positioned to enhance the capability of consumers. They interact with their customers on a large scale, and those interactions generate the revenue that sustains the intervention. Moreover, the interactions take place at the very 'teachable moments' where interventions can have the greatest impact on behavior. Financial service providers have many opportunities to design products and embed relevant information into their platforms in a way that promotes better habits and behaviors even as it builds customer relationships.

Given their reach, resources, and structure, banks could play an important role in promoting financial capability. Many banks interviewed did not recognize what financial capability is and why it is important, let alone how to incorporate interventions into their business models. Many banks are concerned that financial capability building will be costly and unsustainable. While a fair concern, the examples here illustrate small and large ways in which financial service providers can incorporate financial capability into their operations, in a cost-effective way. Some offer both scale and sustainability.

Three Banks in Mexico

We examined three banks in Mexico: **BBVA Bancomer** and **Banamex**, the country's two largest banks, and **Banco Azteca**, a retail bank specialized in the middle to lower market segments. All have millions of customers, offer a full range of financial services, and are expanding into un- and underserved segments.

These banks began their financial capability work with massive traditional financial education programs providing one-way information delivery, such as Banco Azteca's live extravaganzas that provide 'infotainment' to several thousand people at a time and its online financial education resource hub, Aprende y Crece ('Learn & Grow').[24] Today, while continuing to operate these programs, the banks are searching for more effective and product-linked methods of financial capability building. They are beginning to experiment with capability building efforts built into product delivery. BBVA Bancomer recently partnered with Juntos, a behaviorally focused mobile platform (more on Juntos below), to encourage customers to increase their account balances which went out in its first phase to 28,000 customers.

Banamex's Saldazo Account. This account shows how a bank can integrate product-related capability building into delivery systems. Saldazo is a transactional account based on a Visa card, with an optional mobile service. It is co-branded with OXXO, the largest convenience store chain in Mexico. The product allows customers to save, check balances, send money, make payments, buy airtime, and withdraw funds at ATMs. By June 2015, over 2 million Saldazo accounts had been opened, with growth of over 100,000 customers per month. Transactions at OXXO outlets exceeded 2 million per month. Saldazo uses text messaging and a call center to inform customers, answer queries, collect information and encourage product use. Customers who provide their mobile number receive an SMS after each transaction. Messages encourage account usage and provide tips. Messages are timed and tailored to the customer account lifecycle: new, frequent-use, and inactive customers all receive different messages. Tellers are trained to answer questions on the account but the preferred option is to refer customers to the call center.[25]

Banco Azteca retains a high touch element by training front-line staff to provide basic capability building support to customers.
(Photo Credit: Banco Azteca)

As an example of the potential benefit of developing this kind of rich customer engagement, Banamex and OXXO sought to solve a problem of low use of the Saldazo card at retailers other than OXXO. After Banamex used the existing customer interfaces to send a blitz of targeted messaging, card transactions at other retailers increased by 30 percent. The Saldazo account brings additional revenue and generates savings for Banamex while providing vast amounts of customer information that Banamex and OXXO can leverage.

Microfinance Institutions in India

Microfinance institutions (MFIs) serve lower-income customers, many of whom are new to formal banking services. As such, MFIs have a critical responsibility – and opportunity – to address financial capability. MFIs have the potential to empower millions of low-income people through effective financial capability interventions.

Microfinance institutions have always integrated some customer education into their products, especially when working through groups. They must train customers to operate in groups, and subsequently, groups provide a convenient and socially reinforced mechanism to help build better habits and skills. In this process, front-line staff play a critical role as deliverers of information and responders to queries. They work through social networks and front line staff. Most MFIs provide information directly related to the use of products and some of them also provide content aimed at longer term financial well-being.

As MFIs diversify their products and use technology-supported channels, they bring this orientation to customer education with them.

Janalakshmi Financial Services (JFS)

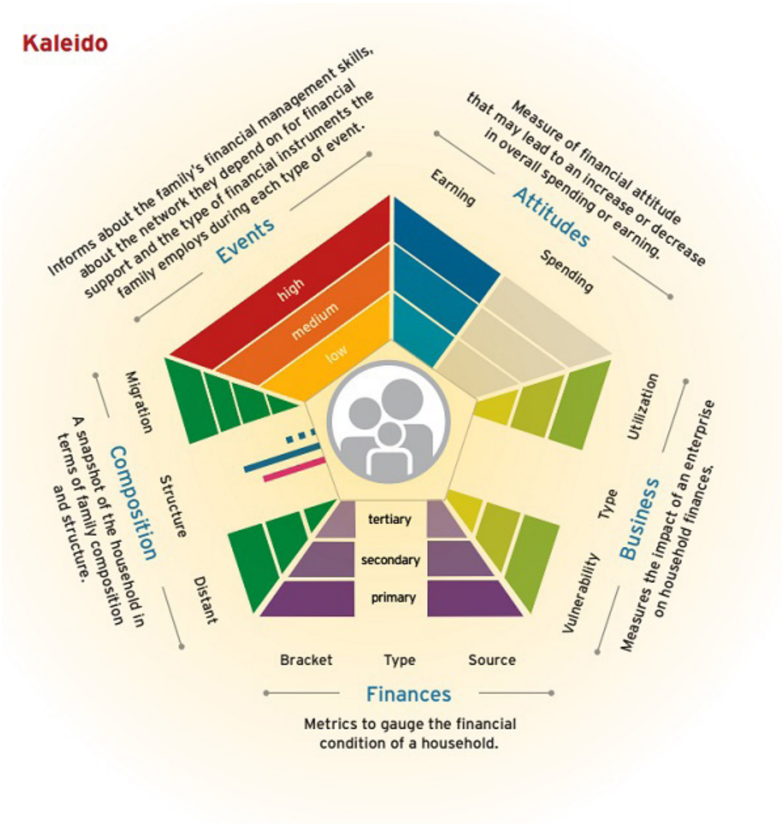
Janalakshmi started financial education with classroom training, and other traditional approaches. For example, JFS branches screen financial education videos on topics like money management, budgeting, and bookkeeping, so customers can watch them while waiting for a staff member.

JFS embarked on a series of experiments using both traditional and new approaches side by side. While promising, the following behaviorally-informed experiments are still in pilot stages:

- Janalakshmi and Innovations for Poverty Action (IPA) have launched a program to simplify content into rules of thumb modules, delivered through mobile phones with the aim of reducing cost while reaching customers at key moments. Modules are delivered through pre-recorded calls in eight sessions. If customers have follow-up questions, they can leave a message and an expert will call them back with personalized advice. The pilot is under way with 2,500 customers. In the first month, JFS received about 500 customer calls with questions.

- Janalakshmi and CGAP are building a tool, Kaleido, to gather in-depth household information and provide advice based on the results. The tool looks at household income, assets, and financial decision-making. Data is gathered and analyzed in a two-hour customer interview, and customers receive immediate feedback. For instance, a customer with two sons working and living at home realized that she needed to start saving. If her sons moved out, her household income would plummet. JFS uses the data to segment customers and offer them relevant financial services.

This cash separation heuristic is taught as part of Janalakshmi's Financial Heuristics based training curriculum. Practicing the cash separation heuristic allows small business owners to know how their business is doing. [Photo Credit: IFMR-LEAD, ideas42, Professor Antoinette Schoar, Professor Shawn Cole]



Janalakshmi's Kaleido builds a customer profile using nuanced information about each client, achieved by mapping the financial context of a household. The name comes from 'kaleidoscope' and is used as a metaphor to describe the changing dynamics of a household or family. (Photo Credit: Janalakshmi)

- In another pilot, customers attend one-on-one counseling sessions with a trained staff member. During the first session an applicant is asked to map out her household income and set up financial goals, such as saving for a new home or school fees. The session helps customers understand how to break down a seemingly impossible goal, like buying a new house, into weekly or daily savings actions. The product operates through a pre-paid debit card and doorstep savings collection.

- JFS plans to introduce a program called Payments Plus to encourage customers to use debit cards in local stores for bill payment, mobile recharge payments, and money transfers.

Cost is one of JFL's key issues for the future. Most of these interventions depend financially on the Jana Foundation, an independent non-profit which makes use of external grant funding. The voicemail education modules and financial education videos are much less expensive than personal counseling.

KGFS

IFMR Rural Channels, through its KGFS model program, has been offering financial services in rural villages since its first branch opened in Tamil Nadu in 2008. Today, KGFS operates across three states in India, reaching about 600,000 households. The KGFS model delivers a full range of financial services, which can include savings, investments, short-term loans, working capital, insurance (life, health, and livestock) and pensions. In India, one organization cannot be licensed to offer this range of products, so KGFS operates primarily as agents of larger financial institutions.

KGFS in India uses in-depth household data to customize recommendations of financial products. (Photo Credit: KGFS)

From a financial capability perspective, KGFS is an audacious experiment to see whether field staff can deliver financial counseling and financial services at scale to poor rural customers, through a profitable model.

The core KGFS model centers on the front-line staff, called 'wealth managers.' KGFS enters a village and convenes sessions to let all villagers know about their services. If a prospective customer is interested, the wealth manager conducts a detailed interview, gathering both basic household information and financial information sufficient to create a rough household cash flow statement. On this basis, the wealth manager recommends a suite of relevant products. For instance, if a household is dependent on one person for income, the wealth manager is primed to recommend life insurance. Or, an agricultural wage laborer may be offered an insurance product rather than a credit product, since his only asset is his physical labor. Of the 600,000 customers enrolled, approximately half have at least one active product.

Financial capability development is further built into the model through the use of data analytics. Data captured from customers is used in many ways – from tailoring messages to the needs of individual villages; to identifying customers at risk; to providing customer insights to the KGFS partners who supply the products it offers. Often, an entire village's households are captured in the system, providing unique insights into the financial needs of rural households in India.

KGFS also uses social networks to build financial capability. When it enters a village, it intentionally generates conversations among neighbors to generate social support for increasing familiarity and comfort with financial services. KGFS does not provide skill building. Wealth managers are discouraged from spending time teaching customers specific money management skills.

The KGFS model is expensive because of the intensive staff training required, the investment in technology, and the development of data analytics. Branches that meet the model's enrollment targets generally break even within 18 months. As the organization learns, it may be able to reduce this time.

KGFS is not the only Indian organization to approach base of the pyramid (BoP) customers through interviews and counseling. SEWA Bank, one of the earliest experimenters with financial education, today offers individual planning sessions through bank saathis (relationship managers) at the time of product sale. Bank saathis work with customers to understand their household finances, set goals and increase the regularity and amount of savings. For instance, SEWA's micropension product is presented along with financial education about planning for older age.

A Few Comments

What do we take away from these examples? Most importantly, we see that these banks and MFIs recognize that financial capability building is a necessary part of successfully serving the lower income market. They are willing to devote resources – in some cases quite substantial resources – to the task. To make this work, the institutions are systematically experimenting with ways to improve efficacy and reduce added expense. Not all experiments succeed, but the deliberate and iterative search to get it right will undoubtedly yield results.

It may be surprising that in several cases these providers are integrating financial capability deeply into their business models. Individualized financial planning is the heart of the KGFS model; Janalakshmi is retooling operations to incorporate similar features. Banamex makes SMS-based dialogue an integral part of its customer interface for savings and payment accounts, and so does BBVA Bancomer, with the collaboration of Juntos.

Intensive capture and use of customer data is a common theme. Customer data is used to segment customers (Banco Azteca), develop specific product recommendations (KGFS), and hone messages (RBL – see 'Catalogue of Innovations').

A question that arises for financial service providers is whether and how to involve front-line staff. Particularly for the lowest income segments, assisted learning is an important way to help people become comfortable with new technologies (Pro Mujer – see 'Catalogue of Innovations') or develop a financial plan (KGFS). Evidence shows that many unbanked people remain unbanked because they do not trust the bank or banking agents, but if staff can gain trust, this will increase the likelihood of uptake.[27]

But tailoring advice and face-to-face contact is costly. KGFS solves the cost problem by linking financial planning directly to product sales. The banks in Mexico, which serve a better off and more tech-familiar clientele, have moved much further toward electronically enabled interactions, through SMS, call centers, and websites. (But, note that technology is relevant even for the lower end customers of Pro Mujer and Swadhaar.)
All the organizations spend resources and time on training front-line staff and ensuring that they are themselves financially capable. While training is costly and time consuming, and some of these examples were initiated with grant funding, the examples show that the expense can potentially be integrated into sustainable business models with careful, iterative design.

Financial Capability Design and Testing Organizations

Microfinance Opportunities (MFO)

MFO specializes in 'embedded' financial education. It works with financial institutions to take advantage of every contact with consumers to deliver or reinforce key money management messages.[28] A method favored by MFO, for example, is to provide flip books with simple scripts and pictures that equip banking agents to explain products to customers. This helps ensure that banking agents, who may receive relatively cursory training, still provide accurate, consistent and complete information.

In the Philippines, MFO found that branchless banking customers who received financial training through interactive flip charts became active users of the service. Preliminary results from MFO's work in Zambia with VisionFund, an MFI, and Zoona, an electronic payments platform, suggest that providing education at specific consumer touch points improves knowledge, skills and attitude towards money management, leading to more prudent borrowing behavior and financial planning. MFO found that this change in behavior measurably reduced VisionFund's portfolio at risk. A critical element of this approach entails building the capacity and structuring incentives of front-line staff and agents.[29]

MFO's flip books equip banking agents to explain products accurately to customers. (Photo Credit: Microfinance Opportunities)

Innovations for Poverty Action (IPA)

IPA uses randomized control trials to assist financial institutions in testing behavioral elements in product design. Many of the organizations mentioned in this paper work with IPA to test the efficacy of their interventions. For example, savings is an area where there is often an intention-action gap. IPA has tested product features such as automatic and targeted reminders, incentives, and commitment devices to allow savings to be easier and more goal-oriented.

Afghani telecoms company Roshan automatically deposits a percentage of employees' salaries into mobile-based savings accounts. (Photo Credit: Jan Chipchase)

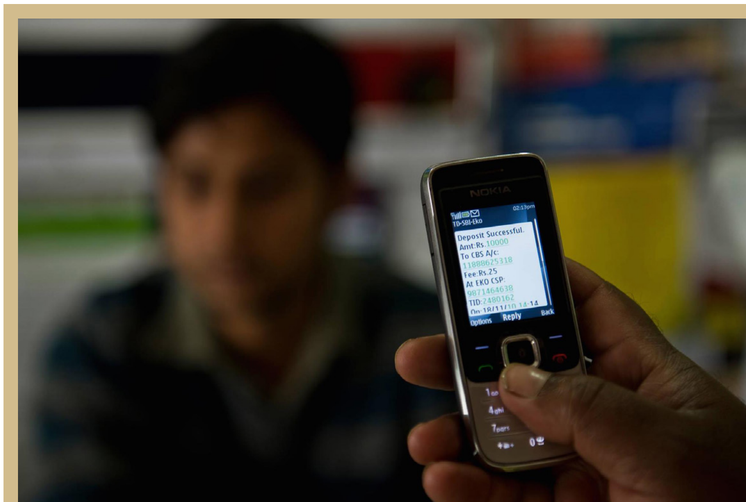
Roshan

Roshan, a telecommunications provider in Afghanistan, deposits up to 10% of employees' monthly salaries directly into their savings accounts as a default option, using the M-Paisa mobile money platform, and facilitating employer-sponsored matching contributions. After the introductory period, 45% of employees opted to continue even without incentives.

Automatic payments and default options make repetitive financial decisions easier for consumers. The expansion of electronic payments and mobile money creates opportunities to implement such mechanisms. Since these two initiatives are pilots in progress, insights on impact are pending.

Juntos

Silicon Valley-based Juntos is a strong example of how to pair relevant information with a product to encourage better habits and behaviors. Juntos provides an SMS-based service that enables low-income, often first-time, bank customers to learn about banking services and ask questions based on their real-life needs. Juntos initiates a conversation to introduce the service to the customer via SMS. It uses nudges and reminders to help clients change their behavior and self-perception. Designed to seem like a new friend or advisor, Juntos aims to build trust with the customer over time. Initial messages establish trust and demonstrate the features of the service. When Juntos first launched in Colombia, only about 4 percent of their customers responded to 'cold' SMS messages. Within 3-4 months, through building trust and word of mouth, over 30 percent responded.



Juntos provides an SMS-based dialogue with customers tailored to their real-life needs. The text messages are low-cost and encourage customers to work toward their financial goals. (Photo Credit: Juntos)

As customers begin to ask questions, their financial goals and constraints are revealed. Juntos uses this information, along with data on the customer's financial transactions, to deliver personalized information, help customers make progress toward goals, and track their behavior over time. Juntos is designed to be active over a period of several months, after which usage typically drops off.

Because communications go both ways, Juntos helps the customer better understand the products, and helps the provider understand customers, opening ways to increase transactions. Over 8-12 weeks, Juntos tests many different conversations with a small cohort of customers, learning what resonates and often discovering unexpected insights.

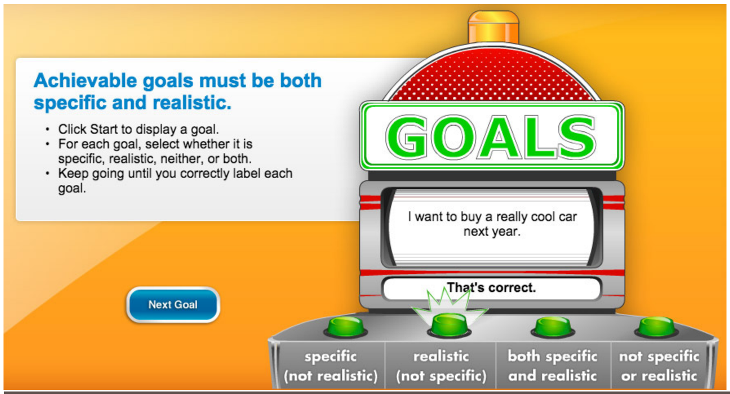
Juntos measures behavior change directly by tracking the response rates of customers and indirectly through data its partner banks share on account activity. In addition to seeing an increase in account activity and deposits among those who actively participate in conversations, Juntos has found that many people who do not reply still benefit from the service and engage more actively with the bank compared to the control group. During customer interviews and in small groups, Juntos has found that small things, like being able to check an account balance on the phone – and actually doing it – build customer confidence to the point where people will begin to try different types of transactions.

Juntos' main value proposition to institutions is that it drives usage after account opening. The aim is to create a long-term connection with customers and an environment with ongoing touch points (albeit automated). As dormancy is a huge challenge faced by financial service provides worldwide, particularly those providing digital financial services, the Juntos solution certainly resonates. Its business is expanding from South America to a recent partnership with Tigo in Tanzania.

Juntos' business model is highly adaptable to diverse partners, including banks, like BanColombia and BBVA, and telcos, like Tigo. For this reason, Juntos does not integrate into the core processes of financial providers. Since it never touches the accounts themselves, very little effort is required on the part of the partners to change how they do business to accommodate Juntos.

RevolutionCredit

This data analytics company partners with financial institutions and employers in the U.S. for the benefit of the partners' customers or employees. It creates behavioral data on the fly to help individuals with mid-range credit scores (540-740) and those without a score to establish or improve their financial identity through demonstrating their intentions and knowledge to financial institutions. In other words, RevolutionCredit provides a platform for customers to prove they are more than their credit score by providing them with product-linked opportunities to learn and establish new behaviors. Founded in 2012, RevolutionCredit has by now reached hundreds of thousands of people.



RevolutionCredit's 'Goal Slot Machine' allows customers to set specific goals in a fun and easy way. (Photo Credit: RevolutionCredit)

RevolutionCredit offers personal financial management modules in the form of interactive 10-minute videos using actors and cartoons and covering topics on savings, budgeting, credit scores, and goal setting. RevolutionCredit offers three types of products:

- Extra Credit is offered at decision points such as when a person applies for an increased credit limit or reduced interest rate. Customers are invited to watch a financial management video, after which the financial service provider can deem them eligible for the change they seek.

- Credit Boost is an add-on to any online mobile banking application that enables RevolutionCredit to keep a pulse on consumers by tracking financial activities. Consumers can demonstrate their good intent by acting responsibly.

- One-minute credit clinics are stand-alone videos that can be placed prior to a financial transaction. RevolutionCredit recognizes that a brief, focused message may be more memorable than a long, diffuse one.

RevolutionCredit's staff view it as a behavioral analytics platform focused on personal financial management rather than a financial education organization. However, they see financial education as the perfect vehicle to measure two key metrics for building a financial identity: intent and aptitude.

To measure intent and aptitude, RevolutionCredit takes advantage of natural interaction points – like applications, transactions, and account management. At each of these points, RevolutionCredit offers a customer a module with a question that signals intent (e.g. 'Do you want to watch a short video on emergency savings?'). If a customer selects yes and completes the video, RevolutionCredit records this in its financial identity file for that customer. Over time, a consumer increases financial knowledge and skills while gaining access to better financial products.

RevolutionCredit adds value to both its partners and their customers, which makes its model sustainable and replicable domestically in the U.S. and globally. For banking partners, RevolutionCredit increases their consumer base. For customers, it allows them to prove they are better than their credit scores and gain access to better financial services.

RevolutionCredit has run RCTs to test the impact of its videos. The tests look at delinquency and frequency of failure to make the first payment. Each RCT has shown that delinquency and first payment default is significantly lower for consumers who complete the videos – those with the lowest credit scores show the biggest drop in first payment default. Surprisingly, the RCTs also showed better performance among those who received the video but did not complete it, though those who completed the video showed a much bigger impact.

Stand-Alone Financial Capability and Advice Providers

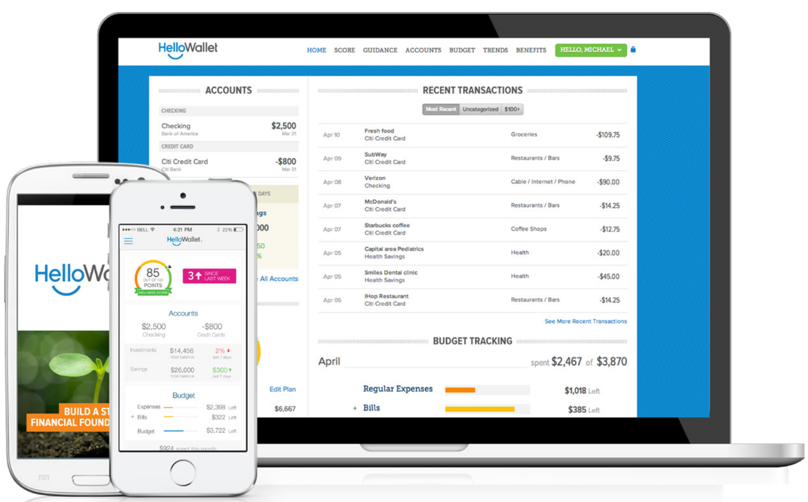
A number of financial capability programs are free-standing, that is, they work directly with individuals regardless of the person's financial service provider. Most of these examples are online tools and apps, and in more developed economies they often interact with a user's bank account. While there is a greater incidence of such models in the U.S. and OECD countries, they offer lessons to inform the design of interventions for other markets as well. While these program mix and match features, we sort them into three broad categories: personal financial management, savings promotion (really a subset of the former), and information delivery.

An advantage of free-standing sites is that they offer unbiased advice. However, they face two core challenges: how to get customers and how to pay for their services. Working with employers is a frequent way to solve both challenges, as employers have a stake in the financial health of their employees. Some sites, like IndianMoney.com and MoneyMenttor, begin as independent, but in the search for clients and revenue, they begin partnering with financial institutions that want to sell services.

Online Personal Financial Management Tools

HelloWallet

HelloWallet partners with some of the largest minimum wage employers in the U.S., large manufacturers, and technology companies, including Salesforce. It provides information and personalized advice to help employees manage their finances and take full advantage of company benefits, with the aim of less financial stress for employees. As people move from job to job, especially in high turnover industries, they often withdraw money from retirement plans, and a surprisingly high proportion of employees borrow against their retirement accounts. This is the kind of behavior HelloWallet addresses.



HelloWallet gives each user a Wellness Score based on his or her financial activity, debt, and savings. As banking behavior is tracked, the Wellness Score is updated. HelloWallet also shows users their spending patterns to help them see exactly where their money went and calculate how much money they need to save for retirement. Through HelloWallet, users set goals and make personalized savings and spending plans. (Photo Credit: HelloWallet)

HelloWallet gives each user a Wellness Score, based on her financial activity, debt, and savings, obtaining that information through links to bank and other accounts. The score assesses seven areas: spend less than you earn, emergency savings, credit card balance, health coverage, other loans balance, retirement, and insurance coverage. HelloWallet shows users their spending patterns to help them see exactly where their money went and calculate how much money they need to save for retirement. HelloWallet compares this score to peer averages, using peer incentives for change. Through HelloWallet, users set goals and make personalized savings and spending plans. As banking behavior is tracked, the Wellness Score is updated. Because HelloWallet's advice is linked to bank accounts, it is based on real numbers and applicable to everyday life.

Initially, HelloWallet struggled to take off in a marketplace filled with similar, often free, products. In seeking to differentiate the product, HelloWallet's designers incorporated behavioral techniques (and tested them through RCTs). For instance, anticipating that many people simply don't want to maintain a budget or check daily transactions, HelloWallet does that for them, pulling in transaction data and automatically updating customer budgets.

HelloWallet is almost exclusively made available through employers who buy the product and then provide it to their employees for free. Users who leave their employers and do not transition to another HelloWallet-enabled employer but wish to continue using the product can do so by paying a fee of $100 per year. This model is important for HelloWallet's sustainability, but could be a barrier for low wage workers whose employers do not provide HelloWallet.

Many other examples offer online, personal financial analysis similar to HelloWallet.

MoneyMenttor provides infographics that visualize a customer's finances, offers advice to help customers cut down spending in certain areas, and suggests financial products. With links to customers' financial data, MoneyMenttor is seeking ways to optimize its wealth of behavioral information.
(Photo Credit: MoneyMenttor)

MoneyMenttor

This Mexican online platform and app provides infographics that visualize a customer's finances and gives tips on how to improve. It advises customers how to cut spending in certain areas, and suggests financial products. The majority of MoneyMenttor's customers are relatively well-off and tech-savvy. MoneyMenttor plans to introduce its own financial products, acquiring and gathering information on customers through the money management service. After three years, MoneyMenttor reports around 10,000 active customers in any one month.

Kubo.financiero

While Kubo.financiero, in Mexico, is a peer-to-peer lender rather than a stand-alone, we mention it here because it incorporates similar features. It puts customers through a personal financial diagnostic process in which educational elements are intertwined with applications for credit. The diagnostic uses profiles drawn from credit bureaus, and customers are introduced to the concept of credit bureaus, with which they may not be familiar. Kubo helps applicants visualize their debt load and suggests steps to improve their financial health. Once candidates review Kubo's suggestions, they can apply for credit. Kubo can also be accessed through live promoters who walk applicants through the diagnostic tool using a tablet.

These examples illustrate how technology can be leveraged to help clients understand, visualize, and manage their finances. Given that they are either U.S.-based or aimed at middle class customers, their application in base-of-the-pyramid markets may still be a few years off, but providers can take lessons from these examples by creating personalized, interactive money management tools for in-person training or work with financial counselors.

Savings Promotion Tool

AgentPiggy

AgentPiggy, a virtual piggy bank from Chile, provides a platform for parents to discuss financial topics with their children and teaches children how to create and work toward financial goals. The activities prompt learning by doing as children set goals and manage their money. AgentPiggy provides detailed advice to parents and its tools allow parents to create a starting balance and weekly allowance amount for their child's virtual piggy bank. Children can earn money through completing parent-created challenges, such as household chores. Using heuristics and animation, the AgentPiggy site includes 10 golden rules for financial management for children.

Product Information Site

IndianMoney.com

Created to address insurance fraud, IndianMoney.com provides free personalized financial advice through a call center helpline. Consumers call with questions about everything from health insurance, to financial planning, to retirement savings. The calls are meant to provide clients with unbiased, personalized advice they can use to take specific financial actions. IndianMoney.com connects consumers with service providers only at the request of the client; its primary focus is on educating consumers. Clients typically call a couple of times before they begin to trust that IndianMoney.com isn't selling. Client knowledge is measured over the course of each call – whether the client asks different kinds of questions or follows up to verify information received from another source. Calls are randomly selected and monitored by the quality assurance team to verify that the information is accurate and target specific topics or employees for additional training. As of February 2016, IndianMoney.com had 1.6 million clients.

IndianMoney provides free personalized advice to middle-income Indians through a call center helpline.
(Photo Credit: IndianMoney.com)

IndianMoney.com recently launched a financial education pilot with Karnataka Vikasa Grameena Bank. IndianMoney.com clients can sign up for a series of two- to three-minute phone lessons that cover financial topics of their choice at a rate of 1-2 rupees per minute. At the end of each call, they are given the option to sign up for a product or service with a bank that is connected to the financial education module. The local branch is notified and reaches out to the client. IndianMoney.com's decision to partner with the bank reflects both its desire to reach more people with its services, and its need for cost recovery income for itself.

The Potential of New Fintech Entrants

As consumers make the leap from cash to digital financial services, there is tremendous opportunity for new entrants in the financial services sector, such as fintech start-ups, mobile network operators, payments providers, and others to leverage technology, behavioral research, and data analytics to increase engagement and enhance the capability of customers. In fact, it is imperative for these players to inspire changes in consumer financial habits if they are to win their trust, build relationships, and encourage usage of digital financial services. We have already noted examples such as Kubo, the online lender in Mexico, and Tigo, the mobile money provider which is partnering with Juntos.

Digital savings circles have emerged as a promising innovation that mimics the behavioral and peer-to-peer connections of traditional savings circle, drawing on practices such as a commitment to save, a strong network of friends and family, and the habit-forming nature of peer pressure. A growing number of U.S. innovators, such as eMoneyPool, Yattos, Puddle, and a few in emerging markets, such as Magadarsi in India, are digitizing savings circles to make them more accessible and transparent.

While many fintech start-ups and a few mobile network operators are working to build healthy financial habits, technology-enabled actors could do much more to take advantage of behavioral insights, data analytics, and opportunities for real-time interaction to improve the capability of consumers. This is a missed opportunity.

Many fintech providers have at their disposal access to rich data on client behaviors and sophisticated algorithms that can deliver a more personalized customer experience. They are better able to target customers in new ways, which is creating opportunities to tailor services to specific customer segments. And they have the technology to facilitate real-time interactions with these customers and deliver useful information and targeted messages at the moment it is needed. Tanzanian mobile money provider Tigo Pesa's recent partnership with Juntos is a recent example of a partnership that is leveraging customer data to deploy mass-customized, automated, two-way SMS to increase usage in newly opened accounts and spur loyalty among current users. As other mobile network providers attempt to reduce churn and encourage customer 'stickiness,' it will be interesting to see how their business models evolve to enhance consumer engagement.

Counseling and Coaching

According to a Financial Clinic study in the U.S., customers who receive financial coaching are more likely to have a financial goal and be more confident in their ability to achieve that goal. An increasing number of social sector organizations also offer individually customized financial counseling. An important benefit of financial counseling is that unlike public financial education, it protects participants' privacy – something customers value highly. We have already seen examples of financial counseling and coaching offered by providers in models such as KGFS and Janalakshmi's Kaleido.

A project developed by the European Bank for Reconstruction and Development (EBRD) provided free financial coaching to remittance recipients in Armenia, Kyrgyzstan, Moldova, and Tajikistan to help consumers develop personal finance skills while encouraging them to open bank accounts. The initiative served more than 119,000 people, with nearly 20,000 opening accounts. It attracted more than US$20 million in deposits over 10 months.

The Local Initiatives Support Corporation (LISC) embeds financial coaching services in the delivery of social services. Their centers provide bundled financial and employment services in 76 communities around the U.S. LISC's study found that 60 percent of customers either increased their credit score or acquired a credit score for the first time, and nearly 60 percent of those who started with zero or negative net income moved to positive net income.[31]

A recent World Bank study confirmed that individual counseling and personalized financial education leads to significant and economically meaningful improvements in ongoing budgeting and holding a formal bank account.[32] It found that the personalization helps individuals overcome certain costly tendencies, like procrastination and forgetfulness. Individuals who received financial education with counseling and individual goal-setting had larger positive effects than those who received financial education alone. Yet the labor intensity of counseling and coaching limits scale and sustainability, unless, as with KGFS, it can be integrated with product delivery. There is a tradeoff between non-tailored programs that are cheap to deliver and personalized and targeted approaches that cost more but have greater impact.

Mass Media and Entertainment

Drama and storytelling are powerful means of conveying complex messages and engaging people in the long-term cultural processes of shifting attitudes and behavior. Emerging evidence shows that incorporating information about finances into a compelling plot or character in television shows, movies, and comics can be effective in addressing cultural attitudes, which play a role in capability building. Mexican banks use such techniques in their 'infotainment.'

Mass media channels are attractive because of their scale. However, because mass media involves one-way communication and diffuse messages, there may also be a tradeoff between scale and impact.

Scandal! To address the household debt problem in South Africa, the National Debt Mediation Association (NDMA) partnered with Ochre Media, a media production company, and financial capability experts to integrate financial messaging into the popular South African soap opera, ‘Scandal!’ The story features a character borrowing excessively and then seeking help to manage her debt responsibly. It aired over two months, after which a World Bank study evaluated viewers against those who watched a soap opera with no financial storyline. Results showed an increase in likelihood of borrowing through formal channels as well as a greater likelihood to borrow for productive reasons. The evaluation concluded that the emotional connection formed with the main character led to message retention months after the story aired. The show helped cost-effectively deliver financial education messages at scale.[33]

‘Makutano Junction’, a Kenyan soap opera, integrated financial-education messages into its storyline, leading 138,000 women viewers to open accounts during the four-month campaign. (Photo Credit: Makutano Junction)

Makutano Junction, a widely viewed soap opera in Kenya, integrated financial education messages developed by Women’s World Banking into its storyline. Building on the show’s popularity, Women’s World Banking worked with the show’s producers and three banks, Equity Bank, Kenya Women Finance Trust, and Family Bank to launch an awareness campaign alongside the show to encourage women to open accounts and to communicate the benefits of formal financial services. A study found that 138,000 women viewers opened accounts during the four-month campaign. While this is a good step, the study did not collect information on usage or dormancy of accounts.

Leveraging Social Connections

A number of organizations have created effective programs that leverage social relationships, as we have already seen through the use of groups to reinforce messages in microfinance.

- **Moneythink** in the U.S. provides financial education using trained college students as teachers for high school students – creating relationships between peers. They equip youth and young adults with skills to navigate the financial decisions of adulthood and achieve financial independence. Moneythink uses a mobile gamified financial education tool designed to enhance and supplement face-to-face mentorship.

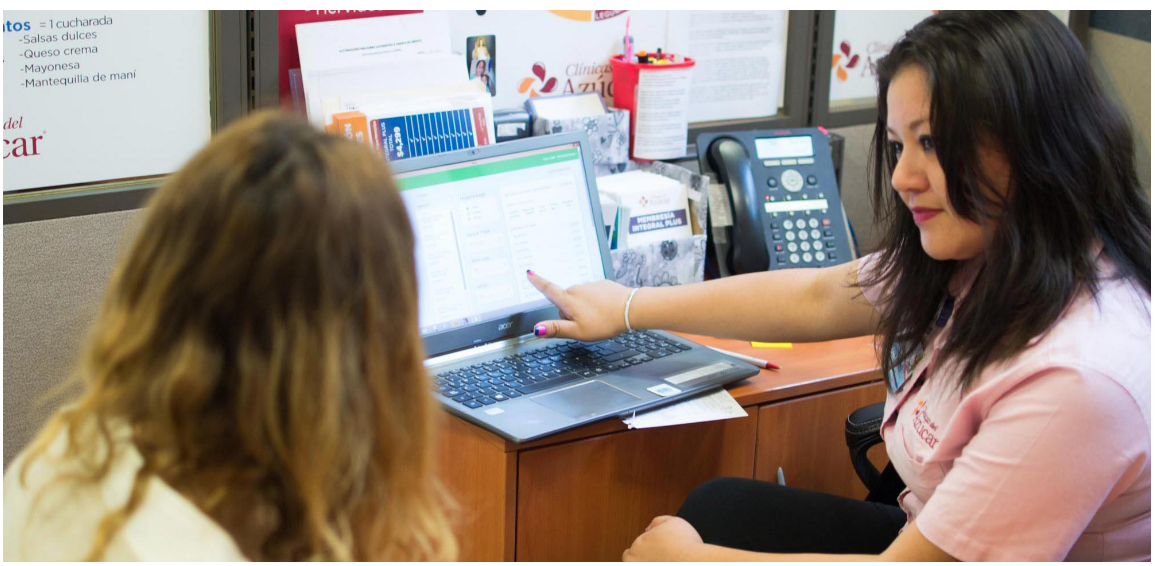
- **HERFinance,** a global pilot program, trains women factory workers to pass along financial information to their peers. The program provides workplace-based financial education focused on the specific needs of low-income salaried workers, such as savings and ATM usage. The program claims significant impact on women’s household decision-making saving behavior. The peer-to-peer model builds on existing trust between colleagues.

Programs that Link to Social Services

The teachable moments practice suggests that interventions will be more effective if they are connected to real-life activities or decisions a person is actually making. This points toward opportunities to reach people through social service organizations that work with people in particular situations, whether they concern health, housing, immigration, or simply low income. In some cases this approach also has the cost advantage of piggy-backing on touchpoints that already occur. While there are many such programs, we would like to see many more, and believe that this is a highly promising area for further development

KIWI

KIWI, in Mexico, is an online system that provides structured commitment-savings plans for a variety of consumers to purchase goods and services they cannot immediately afford. It has so far focused on health-related services (e.g., cataract surgery, diabetes treatment and dental treatment). KIWI links with health service providers to enroll customers who would not otherwise be able to afford a particular medical treatment. KIWI's value proposition benefits both service providers and customers. KIWI trains service providers (sales points) to inform customers how the savings plans work and where they can make deposits. Customers receive a card for making installment payments at a variety of agents/retailers. KIWI sends one-way SMS reminders to customers or alerts if they are falling behind. With KIWI, clinics, doctors, and hospitals expand their customer pool and reach lower-income segments, while customers benefit from saving and receive necessary treatments. Although in early stages (with a mere 1,000 customers), uptake by both health care providers and customers has reportedly been satisfactory.



KIWI works with health clinics in Mexico to enable low-income patients to save for upcoming medical procedures. (Photo Credit: KIWI)

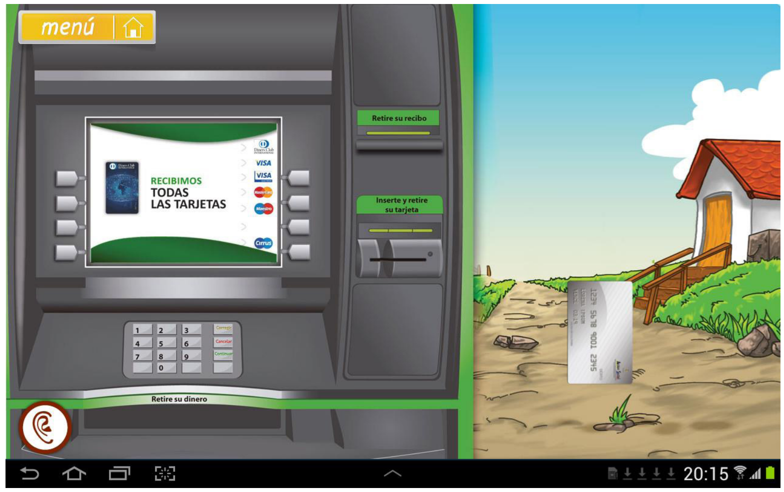
A slight extension of this concept brings us to programs like those of Fundación Capital that target recipients of conditional cash transfers (CCTs), whose common situation is the need to manage their benefit payments effectively. (With CCTs, cash payments from the government are conditional upon certain behaviors, such as regular school attendance or regular health center visits.)

Fundación Capital

Fundación Capital (FC) assists participants in the CCT programs in 12 countries in Latin America. Its program Iniciativa LISTA aims to change attitudes towards and provide knowledge about financial services. Developed in rural Colombia in 2012, the program is now being scaled to 100,000 households under Colombia's Más Familias en Acción program. Similar programs are being prepared or implemented in Brazil's Bolsa Familia, the Dominican Republic's G2P programs, and Mexico's PROSPERA.

For LISTA, FC developed a tablet loaded with financial education modules and games, including an ATM simulator and other practice exercises. A local female community leader monitors tablet usage among 20 families in her village, and each family keeps a tablet for a few days. The content is focused on savings, thrift habits (conserving electricity, growing vegetables, etc.), healthy debt, and insurance, as well as tips on the CCT programs such as how to use their benefit payment cards. The tablets also aim to dispel damaging myths about government programs, such as that savings will cause the government to stop sending payments.

The primary goal is to reduce fear of ATMs and increase confidence around technology. The confidence barrier is large and can lead to financial exclusion among poor women. The ATM simulator is the most popular element on FC's tablet, which also suggests that it is the most useful. FC found that the tablets were especially popular among youth.



Fundación Capital's tablet includes an ATM simulator and other exercises that allow recipients of social benefits to learn by doing. Each family keeps a tablet for a few days. (Photo Credit: Fundación Capital)

However, FC found that they did not work well in public settings, such as bank branches, because of users' desire for privacy. Preliminary data shows that users have learned to use ATMs and increased their knowledge about savings. However, it does not yet confirm increased frequency or higher proficiency. IPA has been asked to study the impact on behavior over time.

Despite its clientele of under-banked women, FC's tablet has not been seen as a barrier and even adds to the learning experience among reputedly technology-averse users.

Whose Job Is It Anyway? The Roles of Providers, Government, and the Social Sector

Many people see government as having lead responsibility for financial capability building. Financial service providers often do not want to take on the burden, while the broader public often fears that providers will provide biased, self-interested advice. In both cases, government is seen as the solution.

This paper argues that there are unique advantages to getting providers more involved. Providers are often the best-placed entities to intervene effectively (at teachable moments), sustainably or at least cost-effectively (through integration into business models), and at scale (through interactions with millions of customers).

Moreover, providers have a major stake in more financially capable customers. We see the interests of customers and providers as two overlapping circles with a large shared interest in the healthy use of products. We call for providers to rethink marketing as involving assisting customers to be able to use products in ways that improve their lives. For many of the providers we spoke to, getting customers to see the value of their products – promoting uptake and use – is a big challenge. Traditionally, marketing is seen as a one-way message from advertiser to potential customer, but new avenues described here open up the possibility of a two-way dialogue that benefits both customers and providers. Social marketing is already a well-known concept which suggests how marketing tools can be used to influence behaviors for social good, and it uses many of the same behavioral techniques we cite in this paper.[36]

That said, provider and customer interests are not identical, and the differences point to areas where government is especially important. We see four major areas where governments should take the lead, sometimes with the added involvement of the social sector:

- Promoting a national financial capability strategy
- Ensuring that financial capability efforts promote consumer protection
- Incorporating financial capability into primary and secondary education
- Taking advantage of touchpoints with citizens, from welfare programs to health systems and beyond

National Financial Capability Strategies

In recent years, a number of governments, and particularly financial sector authorities, have developed national strategies to build financial capability, sometimes as part of broader financial inclusion strategies. These strategies assign roles to the many stakeholders that should be involved and assist in coordinating actions.

Given that there is still too little understanding of how to support financial capability, these strategies should include public funding for systematic experimentation. Another good use of those funds is to assist providers to develop greater know-how and pilot-test approaches.

Data collection and impact research should be significant part of a national strategy. Governments can themselves measure and monitor financial capability in the population, or incentivize others to do so. The only way to know if customers are building financial capability is through measurement, iteration, and assessment.

In developing such strategies, it is important that the stakeholders be involved, and that strategies take into account the readiness of those stakeholders and the best avenues for their involvement.

An example from Ecuador shows the delicate balance a government must exercise between endorsing a strong provider role in building financial capability and avoiding mandates that are difficult to implement. Ecuador introduced sweeping regulations for financial education in 2013, requiring financial institutions to educate Ecuadorians on eight topics. While the recognition of the importance of financial capability is praiseworthy, banks were not, in fact, prepared for the mandate, missing the opportunity for the kind of engagement we advocate here. Similarly, the Indian government's initial approach to financial capability was to require banks to hold financial education 'camps' that assembled massive numbers of people. Some efforts are now under way, funded by GIZ, to assist banks to make these sessions more effective.

Financial Capability for Consumer Protection

It is in protecting consumers that governments directly address the disjunctions in incentives between providers and consumers. This means that consumer protection regimes should include efforts to enable consumers to protect themselves by teaching them how to comparison-shop, how to spot frauds, how and where to complain, and by building up their confidence and ability to do so. In addition to the direct provision and distribution of information on consumer rights (such as in the case of Bank Negara Malaysia, for example), active interactions that employ the practices laid out here are essential, such as the establishment of debt counseling services and expanding the availability of ombuds through call centers. Funding from consumer protection budgets can enable social service organizations to provide many of the interventions described here.

Incorporating Financial Capability Building into Education

The integration of financial education into school curricula has been at the top of the list of actions in many national financial capability strategies. Banking authorities are cooperating with Ministries of Education in a substantial number of countries, such as Brazil and Peru, and significant public money is channeled in this way. Compared to stand-alone financial education for adults, financial education for children may have greater long-term effect, as it reaches people when habits are being created. However, even here, it would be important to incorporate the behavioral practices we articulate if these efforts are going to make a real difference. Examples of better practices in this area are:

Learning by doing by linking education to opening and use of youth bank accounts. IPA is testing the effectiveness of this approach in Uganda and Ghana, and it has shown short-term results (too early to measure long-term). Junior Achievement (JA) in Nigeria incorporates an active element at every level – from learning how to interview for a job to shadowing professionals through workplace mentoring. Though no rigorous impact study has been conducted, a study found that students changed their attitudes towards their communities.[37]

Make it social. A high school financial education program in Brazil showed greater behavior change when reinforced by parental involvement.[38]

Make it fun. Peru's Superintendency of Banking developed a teacher training program and financial education curriculum throughout primary and secondary schools in 2007, and has continually worked to make it fun by integrating elements such as stories, games and characters.

Using G2P and Social Service Touchpoints

As noted in the section on linking to social service programs, government agencies of many types interact with large numbers of people, often at specific teachable moments, such as when a person is enrolling in a pension plan. G2P payments, for example, offer an important opportunity for governments to help citizens at the base of the pyramid build capability. As in the Fundación Capital example, governments can work with the financial service providers that handle G2P payments to incorporate messages to encourage account use or provide support at customer touchpoints. In Chile, the government provides personalized pension information via self-service kiosks in eight government offices in Santiago. To test the efficacy of the intervention, IPA is randomly selecting individuals to receive either generic information or a personalized simulation session which shows how changing current contribution levels affects expected retirement savings balances.

Social Sector Organizations

Throughout this paper, social sector organizations have been quietly present, often providing the expertise behind the innovations described here, measuring the effects, or delivering interventions directly. Among social sector actors as a whole, while traditional financial education methods still dominate, we are encouraged to see a trend to incorporate more behavior-oriented features, coupling instruction with opportunities to act on the lessons delivered, focusing on teachable moments, and leveraging technology for greater cost effectiveness. Social sector organizations can roll out programs affordably to more people through tablets and mobile phones to offer personalized learning without costly specialized trainers. Learning via digital channels can allow people to learn at their own pace or repeat modules until they feel confident. Given that money management is a personal matter, digital platforms can provide privacy. But low-touch digital platforms may not be the best delivery mechanism for all capability building interventions, especially with populations that are new users of financial services and technologies.

Chapter 3

Six Recommendations for Change

Those promoting financial capability among new and prospective customers at the base of the pyramid face enormous challenges. They are tackling a task that all actors in financial inclusion see as essential – working to improve the capability of the newly included – but they must acknowledge that results from traditional tools have generally disappointed. Major shifts are needed in the ways resources are deployed – and who deploys them – to move from strategies that have yielded weak results toward strategies that, while still lacking in scale, appear to be more promising. Fortunately, as this paper shows, we are no longer at the beginning of the process. We know a great deal more about how to build financial capability today than even a few years ago, and there are many organizations around the world innovating to apply recent learning.

We recommend six major changes in how the financial inclusion community approaches financial capability and allocates resources. We recognize that each of these shifts will require an enormous amount of dedication and effort on the part of many players:

1. Bring financial capability efforts closer to the use of financial services by enabling providers to take a greater role.

2. Strengthen the government's focus on promoting shared responsibility among all stakeholders, in addition to its own role.

3. Engage organizations serving the BoP, from social service agencies to employers to non-profits.

4. Incorporate proven elements that support behavior change into existing financial education efforts.

5. Measure results rigorously.

6. Foster customer-led financial capability.

We expect to see these changes take hold across the global financial inclusion sector, with smart and sustained effort. If they do, they will help make the entire financial inclusion effort more successful and beneficial for all parties.

1. Bring financial capability efforts closer to the use of financial services by enabling financial service providers to take a greater role.

Banks already have many of the competencies needed to support customer financial capability – especially in their marketing departments – and financial capability efforts need not be a complex and costly add-on. After looking at efforts by many banks and microfinance organizations, we have gleaned suggestions about how banks can proceed, starting with relatively easy wins.

Find the 'no-brainers.' We have identified a few proven solutions that financial service providers can fairly easily deploy without investing in deep financial capability expertise. We hope to see solutions such as these proliferate rapidly so that they are used by most banks, especially when dealing with BoP customers. These efforts are likely to pay for themselves in active product use and fewer problems or complaints.

- **Reminder messages.** Reminders work, whether aimed at loan repayment or savings, and they are especially effective when coupled with a customer's personal goals. They can be delivered in many ways. Cell phone messaging provides an accessible and cost-effective channel.

- **Practice opportunities.** For new technologies and customers unfamiliar with formal financial services, opportunities to practice, either with a staff person to assist or through apps, help build confidence and bridge the important gap between signing up and actively using a product.

- **Call-in service.** For many customers, figuring out new products or technologies is a long process. The ability to ask questions as they occur rather than later can ease the learning process. A call-in service – with either live or pre-recorded frequently asked questions – is an easy and inexpensive way to provide information and identify customers' barriers.

- **Financially capable front-line staff.** An investment in the financial capability of staff could increase staff satisfaction and enable staff to provide support to the financial capability of their customers.

- **Simple products and processes.** For new customers, especially those with limited education, complex product terms and interfaces can be a major stumbling block. Terms and conditions and even bank forms should be intuitive, simple, and adjusted to the literacy levels of customers.

We would like to see more efforts to draw on the existing knowledge on financial capability to create a menu of easy actions for providers. Given the vast numbers of providers, and their current limited exposure to capability building, simple solutions that institutions can readily implement are essential for global impact.

Prepare the organization. Going deeper, institutions will need to invest in analytics, product design, marketing, and staff. If an organization adopts the premise that every customer touchpoint is an opportunity to encourage better financial habits, it becomes clear that many of the required resources are already built into marketing and product delivery budgets and business processes and, therefore, financial capability support can be substantially integrated into existing business models. A few areas for deeper investment include:

- **Customer data analytics.** Most of the successful financial capability interventions profiled here are built around close observation of customers, including detailed segmentation that allows tailoring of interventions. When a KGFS agent assists a family to develop a financial plan, the advice offered is backed by detailed data analysis of thousands of families with similar characteristics.

- **Iterative product design.** HelloWallet, Juntos, RevolutionCredit, Janalakshmi, Arifu, RBL and others all take an iterative approach to design and delivery. First products are rarely perfect. Even sliced bread had a couple of prototypes. These companies have built into their business models the time and resources to test and refine their financial capability interventions, often using techniques such as human centered design (HCD).

- **Front-line staff.** Many of the financial capability interventions profiled here depend on front line staff (and sometimes agents), who must be trained to handle interactions that may require more critical thinking than transaction processing. This is a tall order. Scripts and flip books, such as those promoted by Microfinance Opportunities, can be helpful. And front-line staff may need to develop their own financial capability to be better equipped to assist others.

Use technology. The increasing availability of technology for communication with customers dramatically changes costs, allowing providers to incorporate financial capability into product delivery. These technologies create possibilities that simply did not exist a decade ago. Many of the apps described in Chapter 2 illustrate how technology can be leveraged in new ways to nudge and remind customers (many examples), to deliver financial education messages (see Janalakshmi), and, when linked to data analytics, to deliver personalized financial advice (see Kubo.financiero and MoneyMenttor).

A Swadhaar client visits a local Airtel Mobile Money Stand accompanied by a peer educator. Swadhaar and Accion launched a mobile money pilot with Airtel Money and Axis Bank to enable customers to repay loan installments using mobile money. (Photo Credit: Swadhaar FinAccess)

Providers may incorporate financial capability features directly into their digital delivery channels, or they may prefer to collaborate with a third-party provider, such as Juntos or RevolutionCredit, that specializes in financial capability.

Of course, a range of challenges must be met, particularly for the least sophisticated markets and market segments. Moreover, many of the more personalized of these interventions require internet access through smartphones or tablets: RevolutionCredit, HelloWallet, and AgentPiggy are all accessed online. This points to an important gap: most of the technology-based tools are aimed not at the poor but at the segment above, and few are available in emerging or frontier markets. Given the overwhelming enthusiasm for technology-led interventions, it is important to remember that for some of the world's poor, basic literacy is an issue. For many low-income women, cultural norms prohibit them from using a mobile phone even if they do have access to one. Mission-led organizations such as Janalakshmi and others have found ways to integrate technology into their products for poor customers, and it will take organizations like this to innovate for those on the fringes of technology. At the same time, we can look forward to the rapid spread of smartphones and tablets. Even a country as poor as Myanmar, for example, is moving directly to a smartphone-based telecoms industry. This shift will make more sophisticated forms of intervention feasible in many more countries within a few years.

2. Strengthen the government's focus on promoting shared responsibility among all stakeholders, in addition to its own role.

In many countries, governments are assigned primary responsibility for building financial capability. We have argued instead for an 'all hands on deck' approach in which all involved stakeholders have important roles, in keeping with the scale of the challenge and the unique positions of different stakeholders. Governments may articulate and allocate stakeholder roles through national financial capability strategies, and provide support to other stakeholders. And of course governments also have their own very important direct opportunities and responsibilities.

We advise that governments direct more resources to assisting providers to become better at building the capability of their customers. Providers will need to learn and change in order to incorporate capability building elements into their operations, and government support could be critical to get this process started, whether through workshops and knowledge-sharing, subsidies for pilot projects, or other forms of assistance. At the same time, governments need to be careful not to issue mandates that providers cannot successfully implement. Just as with the issue of government oversight of new financial technology, it is important for governments to work closely with providers and other organizations to understand their capabilities and operational challenges. At the same time, governments should continue their own financial education efforts. There is a unique and important role for governments to incorporate financial education in primary and secondary education. Math education should receive special emphasis, as basic math skills have been shown to correlate with financial capability.[41] Governments are also well positioned to support mass media efforts such as soap operas, talk shows, and children's programming. And governments must uphold consumer protection, ensuring that consumers are made aware of risks.

3. Engage organizations serving the BoP, from social service agencies to employers to non-profits.

Teachable moments for financial capability occur around critical life events – starting education, having children, setting up a household, immigrating, a serious illness, a new job, aging. The many organizations that accompany people during these life events need to be brought into the financial capability building effort. National financial inclusion strategies should identify opportunities for connections between social service agencies, employers, and financial institutions, and public resources should be available to facilitate their financial capability building efforts.

An employer can encourage employees to save for retirement. A hospital can deliver (or organize another entity to deliver) financial counseling to a family experiencing a health shock. For example, KIWI works closely with health clinics in Mexico to enable low-income patients to save for upcoming medical procedures, thereby teaching customers to save and preventing shocks that could lead into debt and poverty.

Nowhere is this engagement more urgent than in the G2P payments of government benefits. Digitization of G2P payments is fast bringing millions of people access to accounts. Programs like those of Fundación Capital to assist people to use their new accounts are needed throughout the world.

4. Incorporate proven practices that support behavior change into existing financial education efforts.

Given the ubiquity of traditional financial education, there are many groups with a vested stake – not to mention competence – in delivery of financial education. The best way forward for these financial educators is urgently to incorporate adult learning and behaviorally informed practices. Dreary lectures with one-way information flow, delivered by instructors that are themselves neither very financially literate nor master teachers must go! Many curricula need to be overhauled from top to bottom. We have repeated the key practices of behaviorally informed interventions, many of which can be incorporated into financial education.

- Offer rules of thumb. Five memorable phrases will help people know what to do when the time comes, while hours of explanations will not.
- Connect training to real life opportunities. If training incorporates opening a bank account or carrying out transactions, it will make a greater difference.
- Assist participants to understand their own situation and set their own goals, by adding a coaching or counseling component.
- Use the social context. Peers can teach and motivate each other. Sensitivity is needed, however, to allow people to keep the details of their financial lives private.
- Make it fun. Games, contests and humor can easily be integrated into programs.

An experiment in the Dominican Republic found significant impact on microentrepreneurs that received the rules of thumb training when compared to those that did not.[42] As for making it fun, CRISIL Foundation in India uses board games to teach crucial financial management lessons, and in the U.S., D2D Fund and RevolutionCredit use games to teach and entertain. These interventions involve financial education content, but none deliver the content in a traditional way. We could go on and on, as there are a multitude of examples and possibilities, many listed in the 'Catalogue of Innovations.'

The increasing availability of technology for communication dramatically changes costs, allowing providers to incorporate financial capability into product delivery. (Photo Credit: Arifu)

5. Measure results rigorously.

We call on those engaged in building financial capability to continue testing and learning. Despite the many innovations described here, we still know relatively little about what works. Several of the organizations cited above gather data continually and use it to tailor services, refine financial capability tools, or segment customers. Far fewer gather and analyze data to examine impact. We would like to see more efforts such as the research carried out by the World Bank through the Russia Trust Fund, and the many randomized control trials completed or underway, especially through IPA as noted above. We encourage providers to measure efficacy and impact of their products through an iterative and collaborative design process, regular data gathering, and rigorous analysis of longitudinal data. Governments, donors and investors must also do their part to fund and support impact evaluation, and to direct resources toward programs that show evidence of effectiveness in building financial capability in a way that meets client needs and leads to improved financial health.

6. Foster customer-led financial capability.

This recommendation is harder to implement than it sounds, because the 'we-know-better' presumption often creeps into financial capability work, both traditional and innovative, without intent. Financial capability providers recognize that newly included customers have little exposure to formal financial services and often limited education, and this leads them towards telling people what they (sincerely) believe customers need to know. This tendency also occurs when behavioral economics is involved, given that it is built on the recognition of – and correction for – human foibles and that it views 'rational man' as a construct more than a reality.

Nevertheless, as the Financial Diaries and other research reveals, people who operate largely in the informal sector manage surprisingly complex financial lives and therefore already have many financial capabilities.[43] Moreover, they have their own goals, which may not be the same as those imagined by a program designer.

The remedy is to listen more often and with a more open ear. Financial capability interventions are of most interest to customers when they help them solve problems, get things done, and reach their goals. Everyone involved in designing financial capability interventions needs to keep this in mind, design interventions only after hearing from customers and prospective customers, and build feedback mechanisms into their interventions that continually refresh that input or allow customers to navigate according to their own choices and priorities. A number of the interventions highlighted in Chapter 2 illustrate this principle at work.

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