

Strengthening Financial Capability in Colombia

Behavioral Approaches Using Digital Technologies

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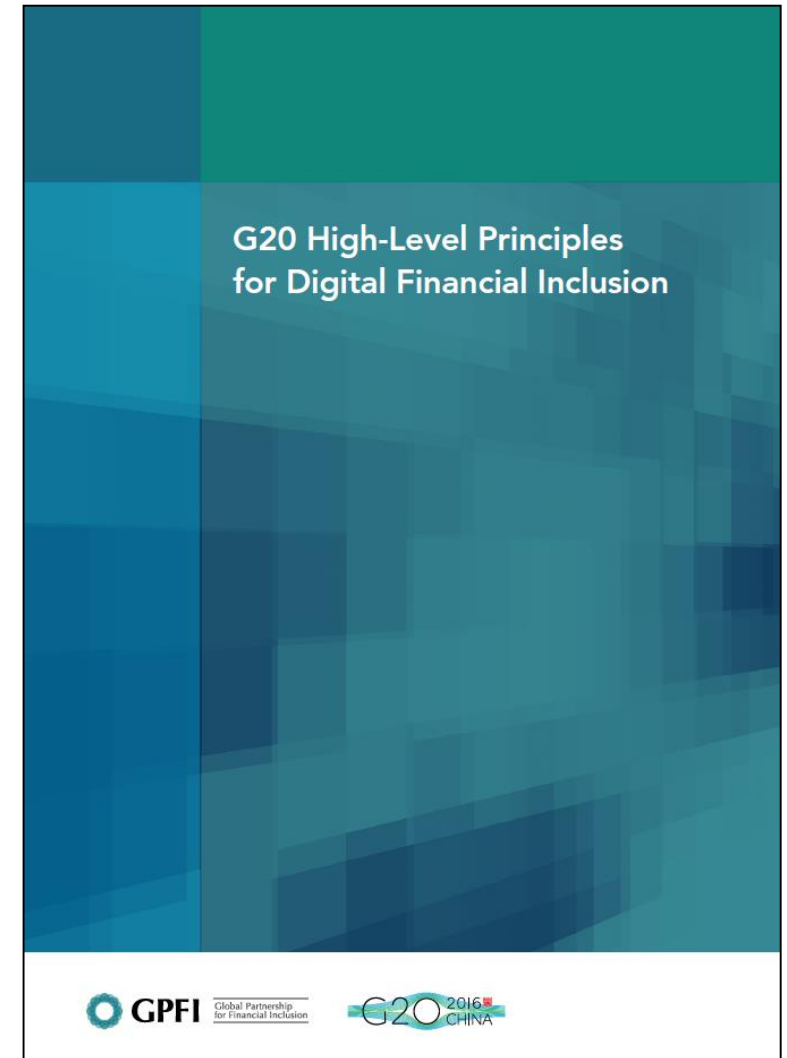
Organization of presentation

- I. Financial capability as part of a comprehensive approach to financial inclusion
- II. Developing a strategy for financial capability for DFS in Colombia leveraging behavioral insights
- III. Using digital tools for financial capability

I. Financial capability as part of a comprehensive approach to financial inclusion

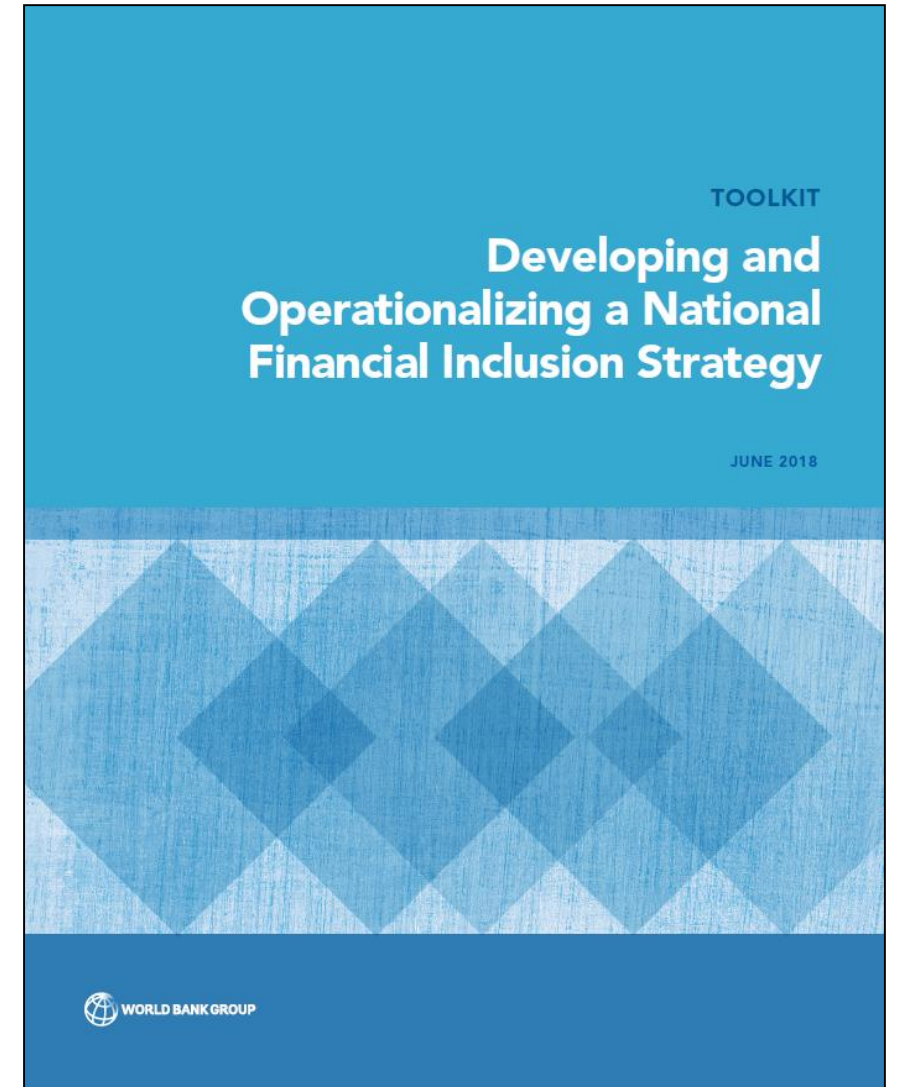
G20 High Level Principles for Digital Financial Inclusion

1. Promote a digital approach to financial inclusion (action plans, national strategies)
2. Balance innovation and risk to achieve digital financial inclusion (assess and monitor risks)
3. Provide an enabling and proportionate legal and regulatory framework for digital financial inclusion
4. Expand the digital financial services infrastructure ecosystem
5. Establish responsible digital financial practices to protect consumers
6. **Strengthen digital financial literacy (capability) and awareness**
7. Facilitate customer identification for digital financial services
8. Track digital financial inclusion progress

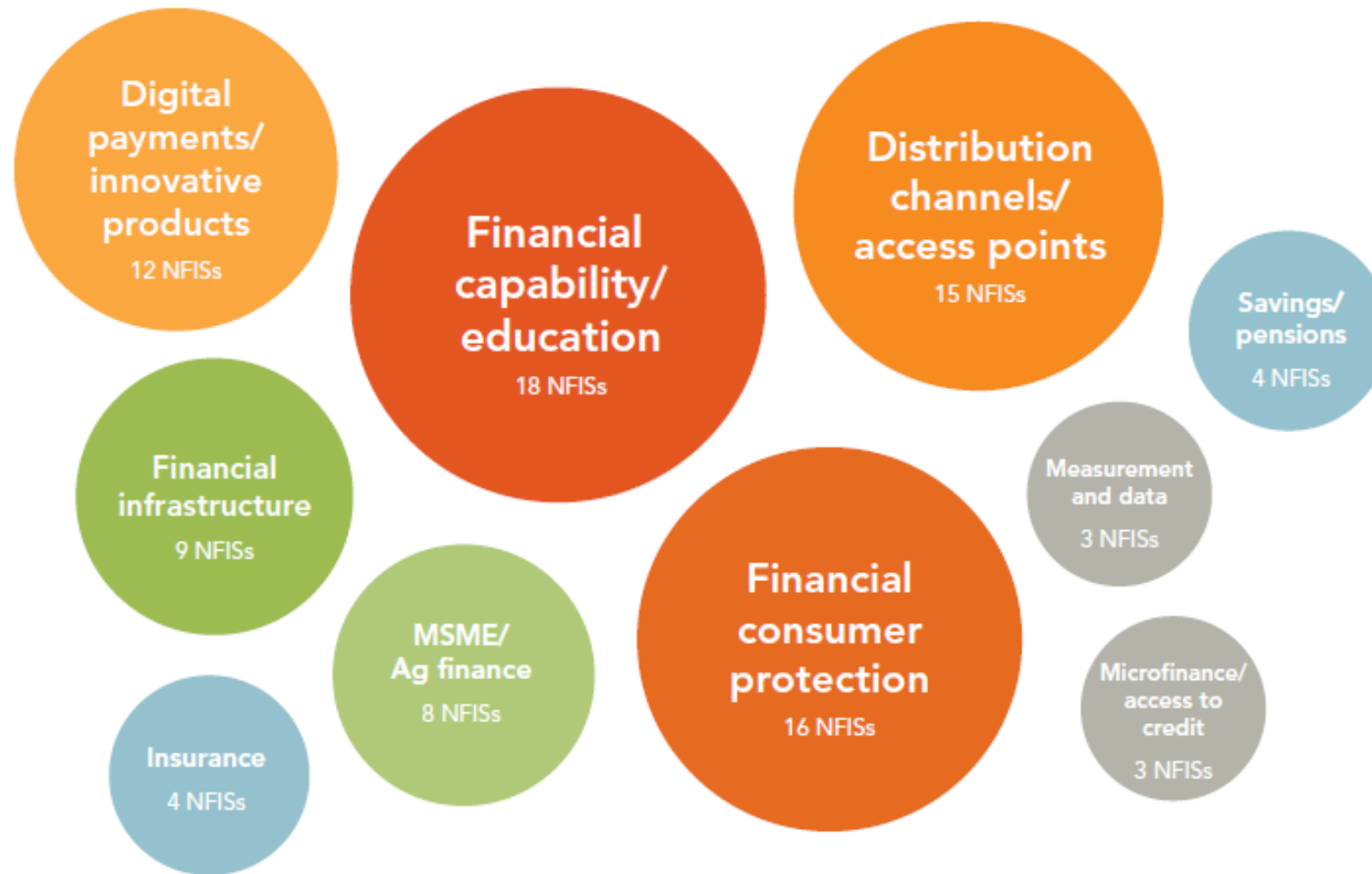


National Financial Inclusion Strategy

1. Coordination, stakeholder management, data, M&E
2. Digital financial inclusion, often with a focus on digital payments and credit infrastructure
3. Diversified financial services adapted to country needs and priorities (agrifinance, MSME finance, women's financial inclusion, fintech and microfinance are examples of topics)
4. Consumer protection and financial literacy / capability



Common NFIS policy areas



II. Developing a strategy for financial capability for DFS in Colombia leveraging behavioral insights

Definition of financial capability

- **Financial capability** is the internal capacity to act in one's best financial interest, given socioeconomic environment conditions. It encompasses the knowledge, attitudes, skills, and ***behaviors*** of consumers with regard to managing their resources and understanding, selecting and making use of financial services that fit their needs.

★ Financial capability interventions are designed to positively impact consumer financial behaviors

- Related to financial products and services
- Related to financial sector policies and programs
- Related to broader social norms



Positive impact from a consumer welfare standpoint, not profit of financial provider

Financial capability is relevant for all population segments and financial product categories but with limited public resources....

Scope of financial capability interventions

Payments and remittances
Savings
Credit
Risk management / insurance
Investments and pensions
Financial management

High Income

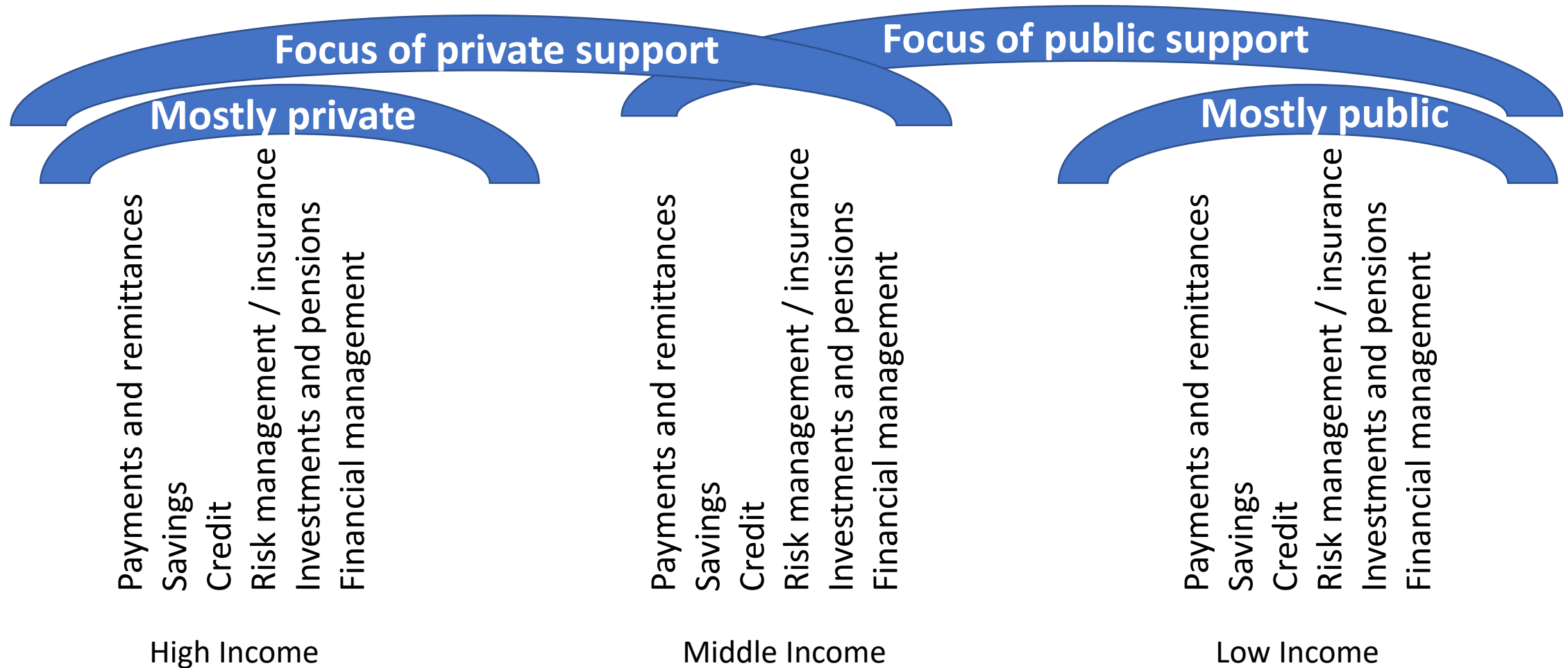
Payments and remittances
Savings
Credit
Risk management / insurance
Investments and pensions
Financial management

Middle Income

Payments and remittances
Savings
Credit
Risk management / insurance
Investments and pensions
Financial management

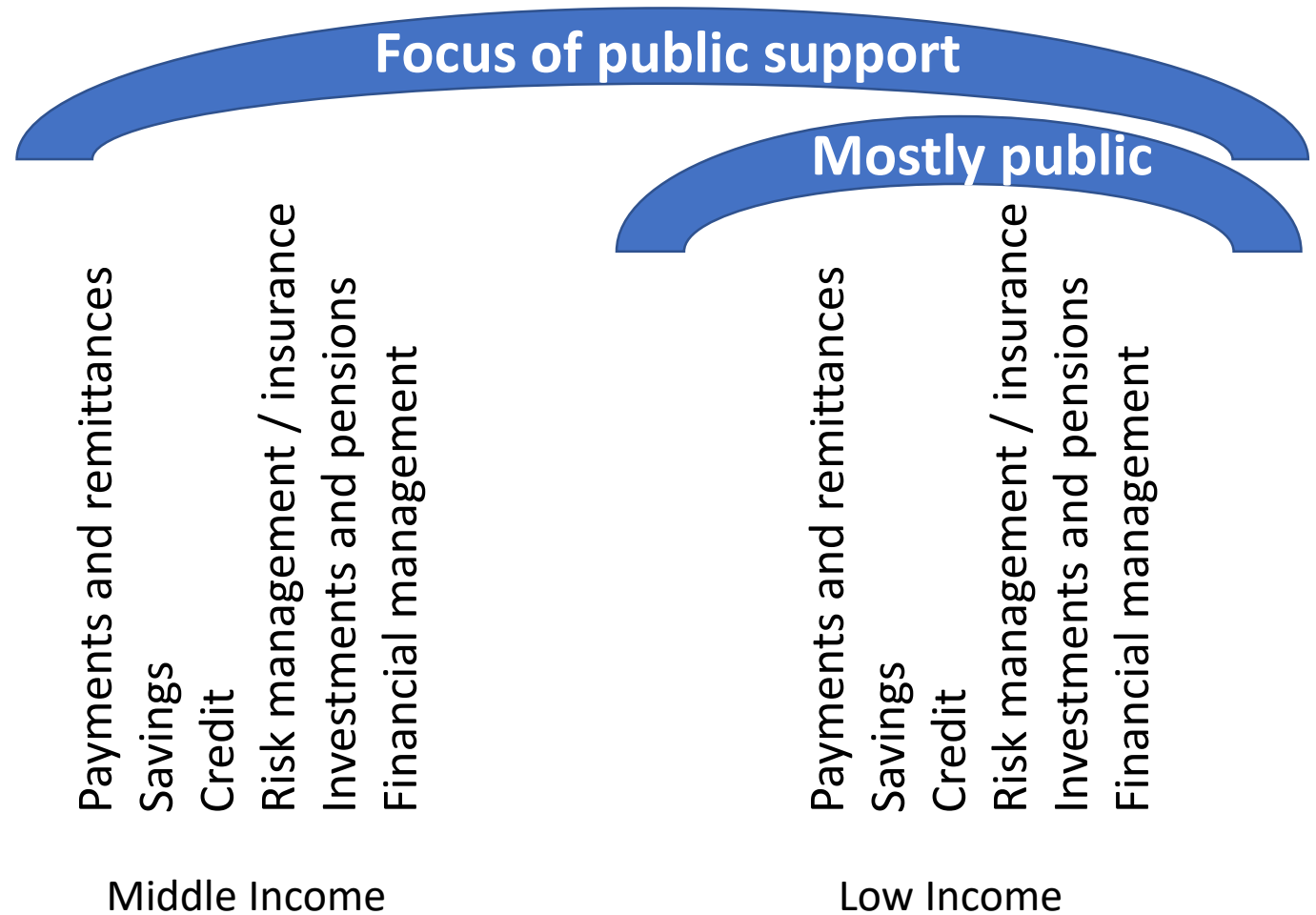
Low Income

Financial regulators and other public agencies typically focus on middle and lower income consumers



Financial regulators and other public agencies typically focus attention on middle and lower income consumers

- Most vulnerable consumers
- Less educated
- Less familiar w/ formal finance
- Least able to pay for advice
- Often targeted for financial abuse



Guidance for effective financial capability interventions

- Use a behavioral approach (Vera's presentation)
- Research the target population to understand the constraints / knowledge gaps linked to the behaviors (focus groups, interviews, previous studies, surveys)
- Utilize existing networks for rapid scaling, trusted partners
- Leverage “teachable moments” when financial decisions are taken
- Ensure that other challenges are being addressed (G20 HLPs) so that the behavior change by the consumer can be acted upon

Example: Familias en Accion

- **Number of participants: 2.4 million families nationwide**
- **Policy objectives:** Increase responsible use of fully functional digital transaction and savings accounts by program recipients.
- **Specific financial goals** for Familias en Accion clients could include:
 - Increased levels of digital savings
 - Increased levels of total savings (if possible to measure)
 - Leaving funds in digital accounts for future use in payments or for savings
 - Improved financial management (for example improved budgeting, savings, payments behaviors)
 - Increased access to, and use of, responsible credit products
 - Increased access to, and use of, responsible insurance products

Behavioral Approach

- Starts by asking questions to the affected population, doing research
- Understanding not only about knowledge barriers but also broader emotional, psychological and social context
- Addresses issues such as trust, power dynamics in the household, organization of society

Example: Does digital payment signify more or less financial control for a woman receiving benefits or salary?

What are the obstacles to reaching this policy objective for Familias en Accion beyond financial capability?

- **Laws or regulations** that impede achieving this goal (for example legal or regulatory limitations to using mobile phones for payments)
- **Program restrictions** for that need to be changed or adapted (for example, in the case of Familias en Accion, limitations on building savings or taking out credit while receiving benefits)
- **Ecosystem limitations** such merchants unwilling to accept digital payments in communities where beneficiaries reside or lack of an adequate agent network for cash-in, cash-out services
- **Consumer protection concerns** (for example, that beneficiaries will be targeted for abusive credit offers if they adopt / use the digital account)
- **Digital infrastructure gaps** including lack of access to mobile phones or internet, poor network coverage or high costs associated with text messages or data which would be required to access DFS

Financial capability for Familias en Accion

- Clarify the behavior change objective, in consultation with the families
- Ensure that other obstacles to the objective are being addressed
- Undertake research to understand the behavioral obstacles to change and to develop insights on the best ways to reach the target population
- Design the intervention based on research and resources available
- Leverage existing (trusted) networks, channels to reduce costs, increase impact
- Include a monitoring and evaluation framework and impact evaluation if possible and adjust as needed to increase effectiveness

Familias en Accion

- Which agencies / ministries would need to be involved? Where would budget for financial capability for Familias en Accion likely come from?
- What role can the financial services providers play in the provision of financial capability interventions?
- Are there existing financial capability programs that could provide inputs, insights?
- Is there a policy reform or program change that could serve as the impetus for financial capability outreach?
- Are there sub-populations (geographic areas, higher risk populations within Familias en Accion, etc.) which should be the initial focus of efforts or pilots?
- What is the timeframe for action, based on policy objectives and program characteristics?
- How would CIEEF and its members support this intervention, enhance accountability for results, impart good practices / behavioral approaches, share lessons learned?

Based upon prioritization exercise with CIEEF, financial capability priorities may also include:

- DFS for Micro-, Small- and Medium-Size Enterprise (MSMEs) including related to value-chains
- DFS for agriculture and other related rural producers, including related to value-chains
- DFS for youth (initial focus in schools)
- DFS for taxes and other government-related payments (to and from government)
- DFS for pensions and similar programs such as BEPS

Challenges for digital finance/financial inclusion – regulatory responses also require support from financial capability interventions

Issue	Behavioral/Psychological Reason	Potential Regulation
Overindebtedness & other cons. protection issues	Consumers may make hasty or emotionally-charged decisions	A “cooling off” period during which a customer can back out of a deal/contract
Data protection and privacy	Consumers may not fully understand data and their protection/privacy rights, especially if they are inexperienced with technology	Full disclosure and consent form that is in simple language and easy to understand
Competition policy	Consumers might find it hard to compare between products and be overwhelmed by complicated choices	Regulate the language companies use in marketing their products so that it is easier to comparison shop
Lack of financial capability	Consumers may not understand how certain financial services are relevant to them	Make financial education engaging and relevant to consumers’ every day lives

For national priorities and policies and where the goal is to change social norms, mass media can be an effective tool

- **Issue:** **Financial literacy** is important for individuals to know what financial services options are available and how to use them. There have been attempts to improve financial literacy through **financial education**, but it is debated the best way to reach people and make lessons stick.
- **Solution:** World Bank collaborated with a **popular television soap opera** in South Africa, *Scandal!*, to include financial education messages. The leading character made poor financial decisions and ended up in distress before finally seeking help.
- **Outcome:** After watching *Scandal*, individuals had **significantly higher financial knowledge**. *Scandal* viewers were almost twice more likely to borrow from formal sources, less likely to engage in gambling, and less prone to enter hire purchase agreements.

Source: Berg, G., & Zia, B. (2013).



III. Using digital tools for financial capability

Digital approaches to financial capability

- Robo-advice
- Gaming
- Text messages
- Online resources and websites
- Digital narratives – radio, TV, film, online video, cartoons
- Social media for information, support (video testimony)

Importance of developing an evidence base for what works in financial capability for digital financial services

- Evidence thus far is limited
- Experiments show new challenges from mobile / digital services
- Long-term impacts unknown



Colombia can contribute to this knowledge!!