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The Lessons from DECFP Impact Evaluations

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Our latest note tests whether mandated disclosures are enforced and whether financial products offered are suitable to the needs of low-income customers in Ghana, Peru and Mexico. It builds on early results presented for one country in Impact note 28.

You Get What You Ask For: Testing Information Disclosure in a Multi-Country Study

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Financial consumers often fail to compare across different products and do not choose the most cost-effective product or the one most suitable to their needs. This is because the decision of which product to purchase may not only involve unfamiliar concepts but also because financial institutions shroud prices to maximize profits.

Many governments have tried to encourage comparison shopping by introducing legislation to improve disclosure and transparency (see impact note 43). In some cases, governments have also tried to reduce the cost of financial products by mandating that low-cost savings products be offered in the marketplace or have imposed usury laws capping the interest rate that can be charged on credit products. The fact that large price dispersion still persists, however, indicates that these efforts may not have been successful.

1. Mystery Shopping

In this study, we assess the enforcement of mandated financial information disclosures and the adequacy of products offered to consumers. We implement an audit study in Peru, Mexico and Ghana in which auditors visited branches of financial institutions seeking to acquire a loan or a savings product.

Each auditor was assigned one script to visit multiple branches. First, to study whether institutions provided products that met the needs of customers, some auditors were told to express a preference for an account where funds would be deposited for a minimum duration of one year. Another set of auditors requested loans that accounted for different shares of their household's annual income. Second, to study whether the staff provided information according to the perceived ability of customers to absorb it, some auditors were trained to use more sophisticated financial language and engage more during the visits (i.e. experienced auditors). Third, to study the degree to which the staff tailored the terms of products offered, a set of experienced auditors were instructed to mention that a competing institution had offered them better terms.

2. Results

Our results show that while savings auditors were offered products that matched their preference for maturity, they were rarely offered the cheapest product. By contrast, when faced with credit auditors requesting large amounts relative to household income, financial institutions significantly reduced the amount granted if the application was finally approved. Financial institutions thus lent responsibly.

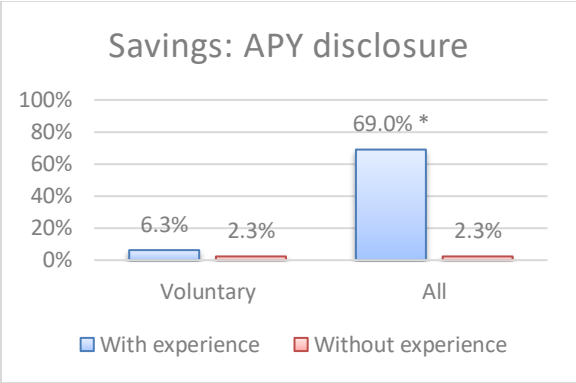
Notably, auditors were provided with too little information to allow them to compare across products, especially for non-experienced auditors that did not engage during the visits.

To measure the degree of information disclosure, we construct a transparency index that reports the percentage of the total cost of the product that was actually disclosed either voluntarily or after the auditor prompted the staff for the information. We find that regardless of the country's regulatory regime, very little voluntary information about the costs of the product is provided. The

transparency index with voluntary disclosure of information is 29 percent for transactional accounts and 18 percent for credit products. In addition, the correlation between the cost disclosed voluntarily and the total cost of the product is zero. When the index includes information prompted, almost 70 percent of the cost of savings products is disclosed to experienced auditors. The transparency index for credit products that includes information that was prompted increases to 41 for non-experienced auditors, and to 68 percent for experienced auditors as they ask more questions about the cost if the information is not provided voluntarily.

When assessing whether APR/APY is disclosed as mandated by the law in Mexico and Peru (but not in Ghana), we find that it is almost never disclosed voluntarily. For non-experienced users, APY is disclosed in only 2 percent of visits, while for experienced auditors, information is disclosed a little more often, in 6 percent of visits. Non-experienced auditors do not ask for the APY and thus remain uninformed, but experienced auditors did ask for it and received it in 69 percent of the visits (see Figure 1). Similarly, auditors are only told voluntarily about the APR in less than 8 percent of the visits. In contrast, when prompted, staff disclose the APR in 43 percent of the visits. This suggests that mandated disclosure is only partially enforced, and that staff does not discriminate on consumer sophistication by providing more information to clients that may be able to absorb it. Staff only provide information to those who ask for it.

Figure 1: Share of visits in which APY was disclosed, voluntarily or not, to experienced and non-experienced auditors



We argue that the reason why information disclosure is limited does not come from lack of staff literacy but rather the incentive to see as many clients as possible to meet their sales quota. Indeed, their income is subject to incentive schemes that reward the number of sales of certain products. This also explains why clients are rarely offered the cheapest product that met their needs.

3. Policy Recommendations

These results have the following relevant implications:

1) Enforcement of legislation that requires staff to voluntarily disclose APR and APY should be strengthened.

2) Basic guidance could be provided to consumers on the key questions to ask when looking for a credit or savings product, so can they make better informed decisions.

3) Disclosed information could be provided more transparently. In addition to disclosing the APR and APY to enhance comparability across similar products, staff could also be mandated to disclose usage fees because they can significantly impact the total yield and cost of products.

For further reading see: Giné, X. and R. Mazer "Financial (Dis-)Information: Evidence from a Multi-Country Audit Study", World Bank Policy Research Working Paper 7750, July 2016.

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