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The Lessons from DECFP Impact Evaluations

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Our latest note tests how different ways of disclosing information affect comparison shopping for savings and credit products in Peru and Mexico.

The Power of Standardization: Testing Information Disclosure in a Multi-country Study

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Governments and academics have focused on financial education as a tool to improve financial wellbeing, but the efficacy of these initiatives is mixed. As an alternative to educating financial consumers, governments around the world have tried to encourage comparison shopping by introducing legislation to improve disclosure and transparency. An early example of mandated financial disclosure is the Truth in Lending Act of 1968 which required that consumers in the U.S. be presented with key financial terms for credit products, and standardized the calculation of certain key product terms and disclosure formats. Peru and Mexico introduced similar disclosure laws in 2005 and 2009, respectively.

The fact that large price dispersion still persists, however, indicates that these efforts may not have been successful. In addition, while disclosure regulation dictates what terms should be disclosed and how they should be calculated, the actual design of the forms is typically left to the financial providers.

1. Laboratory Experiment

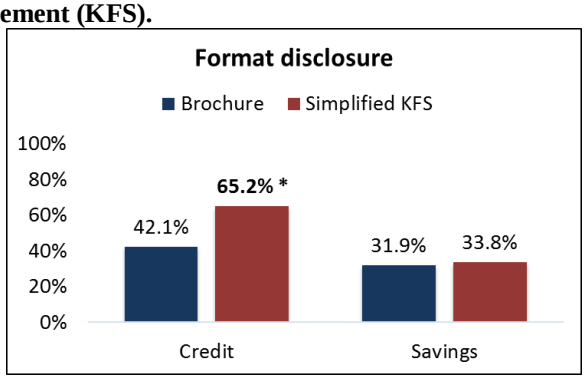
This study seeks to understand the role of disclosure formats in facilitating comparison shopping for savings and credit products by low-income consumers in Peru and Mexico.

We implement a laboratory experiment in which low-income consumers were assigned a profile and then incentivized to choose the product that best fit their needs from among 5 or 10 available products. In each round of decision-making, information about the products was presented in a different format, including current marketing materials gathered from financial institutions during sales visits by actual consumers, and a simplified key fact statement (KFS) designed using behavioral insights to facilitate comparison shopping.

2. Results

Our results show that the simplified KFS with its standardized format significantly improves consumer decision-making compared to the marketing materials currently provided by financial institutions. The effects are however much stronger for credit than savings products. The probability of choosing the cheapest loan increases from 42 percent using the marketing materials to 65 percent using the simplified KFS but it only increases from 32 percent to 34 percent for savings accounts (Figure 1).

Figure 1: The Probability of Choosing the Cheapest format is higher with a simplified key fact statement (KFS).



One reason is perhaps that individuals may not care about the total yield of the savings account and focus instead on other characteristics. After all, a consistent finding from the literature on savings is that the behavioral response to changes in the price of saving is not large. Alternatively, subjects evaluating savings products may not have had enough information as the lack of impact is concentrated in Mexico where the

simplified KFS did not contain the total yield earned by the savings account.

We also find that enhanced transparency in KFS increases price elasticity. The price elasticity of credit products is -1.04 using brochures and -3.19 using the simplified KFS, that is, about three times as large. For savings products, the price elasticity is 0.02 using brochures and 0.03 using the simplified KFS, and the difference is not statistically significant. In addition, non-price factors such as the (random) order in which savings products are presented to consumers matter more when brochures are used rather than simplified KFS, consistent with the idea that transparency allows individuals to focus on the price.

Finally, we show that financial education is correlated with better financial decision-making, but for credit products, the effect of the disclosure format is about three times as large as that of the effect of financial literacy. More importantly, the simplified KFS is particularly useful to financially illiterate individuals as financial literacy increases the price-elasticity of credit products by 58 percent when using brochures but only by 7 percent when using the simplified KFS.

3. Policy Recommendations

These results have the following relevant implications:

1) Regulators should not only mandate certain key terms but also the format in which these terms are presented to encourage comparison shopping and improve financial wellbeing. In recent years, some regulators have begun mandating standardized formats.
2) The laboratory setting approach taken suggests an effective mechanism to test the design of financial disclosure initiatives. This approach is not new. For example, the Consumer Financial Protection Bureau and the Federal Reserve of the U.S. constantly survey and test financial consumers on how they understand information, which information they think is useful, and finally how the information can be more effectively conveyed.
3) In addition, regulators in Mexico and elsewhere are requiring lenders to send detailed product information in a machine-readable format so that it can be downloaded by startups like ComparaBien, ComparaGuru, and rocket.la which provide timely comparative information to individuals looking for financial products. These channels also have the advantage of being fully digital, removing the time and travel burdens to shopping around, and making it easier to review and compare competing KFS on the same screen at the same time.
4) Finally, because KFS is most useful early on during the sales visit, policymakers should take care to develop rules regarding the timing of disclosures and monitor compliance with timely disclosure of KFS through mystery shopping and other market monitoring tools.

For further reading see: Giné, X. Martínez, C and R. Mazer "Information Disclosure and Demand Elasticity of Financial Products: Evidence from a Multi-country Study", World Bank Policy Research Working Paper 8210, October 2017