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The Lessons from DECFP Impact Evaluations
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Our latest note looks at how supplementary interventions can make financial education work more effectively.

The ABCs of Financial Education: Experimental Evidence on Attitudes, Behavior, and Cognitive Biases

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Financial literacy - the ability to make informed decisions regarding money - plays a critical role in ensuring both the well-being of households and the stability of the financial system. As financial services expand across the world, there are concerns that many financial consumers lack the knowledge to judiciously utilize the new financial products at their disposal.

Consequently, numerous private institutions, non-profit organizations, and governments have responded by implementing financial education programs. However, empirical evidence on the efficacy of such programs provides only mixed results, and little is known about which aspects of financial education initiatives successfully enhance financial behavior and financial outcomes.

We combined financial education with cash incentives for learning, non-compulsory goal-setting, and personalized financial counseling services to study the attitudinal, behavioral, and cognitive constraints that can stymie the link between financial education and outcomes.

Key Research Questions

We aim to understand the following two related questions:

1) What barriers prevent individuals participating in financial education programs from translating financial knowledge into action?
2) What mechanisms are most effective in delivering financial education interventions that meaningfully improve financial behavior?

Data and Study Design

Our study sample included 1,300 urban poor households in Ahmedabad, a metropolitan city in the state of Gujarat, India. The research design consisted of four main components:

Intervention 1: Financial Education

Two-thirds of the study sample was randomly assigned to a comprehensive **video-based financial education** program consisting of five modules over five weeks of classroom engagement. The remaining one-third of the sample was assigned to a similar video-based health education program to control for the Hawthorne effect.

Intervention 2: Pay for Performance

Within each of the above video groups, half the participants were randomly offered a "**pay for performance**" treatment, which paid them for correct answers on test questions related to their program.

Intervention 3: Financial Goal Setting

Among participants who were assigned to financial education videos and independent of other treatments, half were randomly assigned to receive a **financial goal-setting** treatment, in which participants chose non-binding financial goals with target dates then made visible on a calendar.

Intervention 4: Financial Counseling

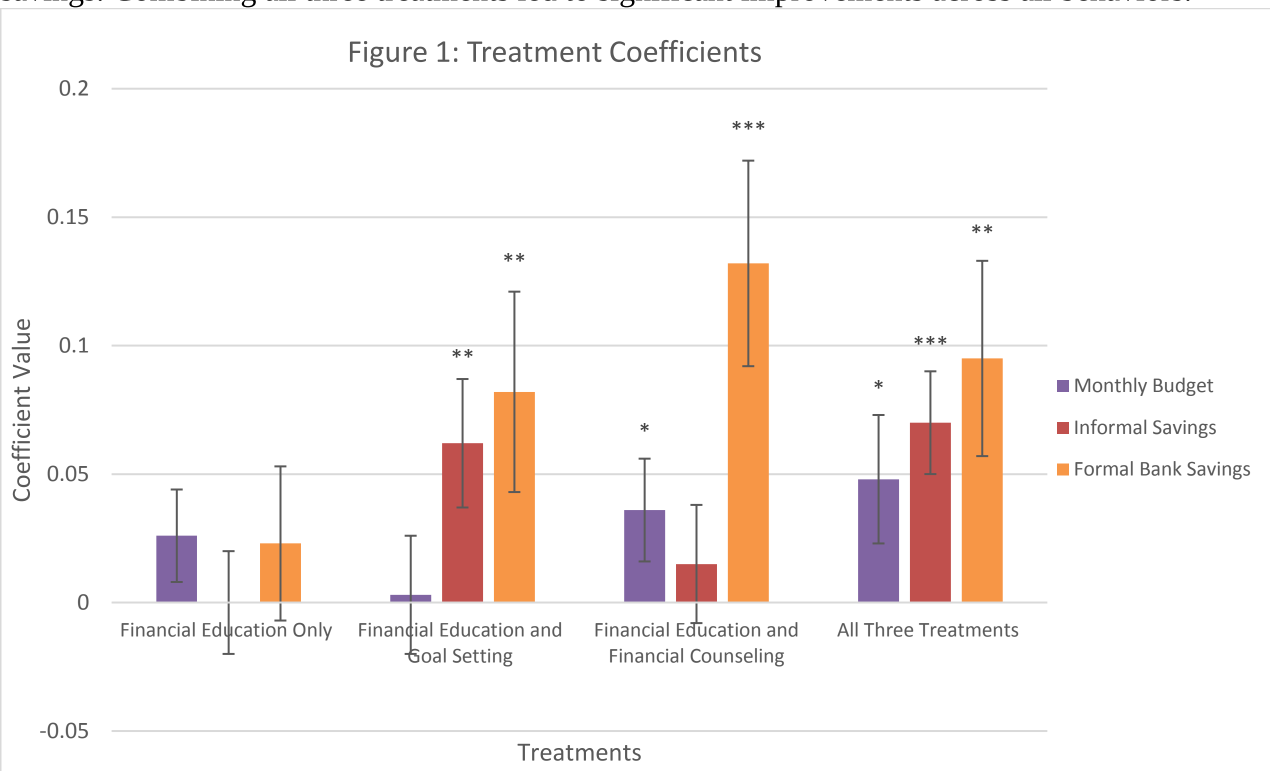
Finally, among participants who were assigned to financial education videos and independent of other treatments, half were randomly assigned to receive **individualized financial counseling services**, in which a trained financial counselor visited the homes of participants to provide one-on-one financial advice.

Do you have a project you want evaluated? DECRG-FP researchers are always looking for opportunities to work with colleagues in the Bank and IFC. If you would like to ask our experts for advice or to collaborate on an evaluation, contact us care of the Impact editor, David McKenzie (dmckenzie@worldbank.org)

Results

The results show that financial knowledge improves across all treatment groups, however, the marginal impact of "pay for performance" is economically and statistically insignificant in both the short and long-run. These results indicate that participant motivation is not a critical barrier in impairing financial knowledge.

The key findings on financial behavior are presented in Figure 1 below where the regression coefficients on the main outcomes of interest are plotted across the different treatment categories. The results indicate that the type and intensity of the intervention has a significant influence on key behaviors of budgeting and savings. First, financial education alone does not significantly influence any of the measured financial behaviors, however, adding goal setting and/or counseling to the mix results in markedly improved outcomes. Participants who received goal setting in addition to financial education were 6 percentage points more likely than the control group to save informally and 8 percentage points more likely to save formally at a bank. Financial counseling resulted in sustained and significant improvements in monthly budgeting and formal savings. Combining all three treatments led to significant improvements across all behaviors.



Policy Implications

While our study corroborates previous findings that financial education alone is largely ineffective in changing financial behaviors, we find that certain small changes to financial education can strengthen the "link" between education and outcomes. Simple non-binding goals can address some of the hard-to-change financial behaviors, and financial counseling facilitates further sustained action such as opening formal savings accounts and making household budgets.

<u>For further reading see</u>: Carpena, Fenella, Shawn Cole, Jeremy Shapiro, and Bilal Zia. (2015) "The ABCs of Financial Education: Experimental Evidence on Attitudes, Behavior, and Cognitive Biases" World Bank Policy Research Working Paper no. 7413

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