

**Financial Education:
Opportunities and
Challenges**

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Good morning. While I am sorry I cannot be with you I am delighted to have had the chance to prepare this presentation for you.

I have been engaged in financial education since 2002. At the time there was limited interest in this space. This has very recently changed and in the last two years there has been increasing interest in financial capabilities, financial literacy and financial education. Indeed, it is fast entering the mainstream. Quite a shift in a small amount of time.

Why Today's Push for Financial Education?

- **Financial Crisis:**
 - Over-indebtedness
 - Consumer Protection
- **Advancing Financial Inclusion Agenda**
- **Institutional developments**
 - Competing microfinance providers
 - Diversification of products

Perhaps most visible of the “push” factors has been the financial crisis, which has illuminated the dangers of over-indebtedness as a consequence of aggressive lending in highly competitive markets. Not unrelated has been a growing debate around consumer protection, an area of engagement that is primarily led by national policymakers seeking to regulate the industry.

Another area of influence is the growing adoption by many governments of a financial inclusion agenda. The goal is to bring the unbanked and ‘underbanked’ into the formal financial system. Branchless banking makes this agenda more attainable given its potential to penetrate areas where traditional banking has failed to reach – further down the income scale and out towards more remote areas.

Lastly, the attitude toward financial education has evolved in tandem with recent developments in microfinance. Financial Diaries studies demonstrates, most people are good financial managers, albeit in the context of their familiar environments, primarily the informal sector. However, in today’s rapidly changing world where the number of appropriate formal financial products is growing as are the delivery channels for financial products and services, many poor consumers find themselves at a disadvantage. They do not always know when, how or if to use these new options. Financial education offers them the tools to sort this out and make informed decisions.

What is financial education?



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So what do we mean by financial education?



This definition of financial education is about personal financial management, providing people with the tools to better manage their money. Three observations are in order before we dig deeper.

First, financial education is about behavior change, a subject on which we will elaborate later in this presentation.

Second, personal financial management can occur with or without access to financial services. Indeed, research has suggested that changing savings practices is different from changing behaviors around banking, . i.e. moving money from a mattress account to a bank account requires a different set of behaviors than putting money aside and holding onto it.

Thirdly, the acquisition of new behaviors does not occur in isolation, simply through exposure to key financial education messages. Instead, it also requires the opportunity to practice these new behaviors, which in turn depends on access to financial products and services, both informal and formal. This interactive process is what we often refer to as building financial capabilities.



Some argue that financial education refers only to knowledge. In fact, financial education has a much broader meaning. It is about behaviour change, brought about by the acquisition of not just new knowledge such as explaining what banks are, but also the learning of new skills such as how to use budgets, and a shift towards new attitudes. A key one is building confidence in financial institutions for which many poor people have little trust.

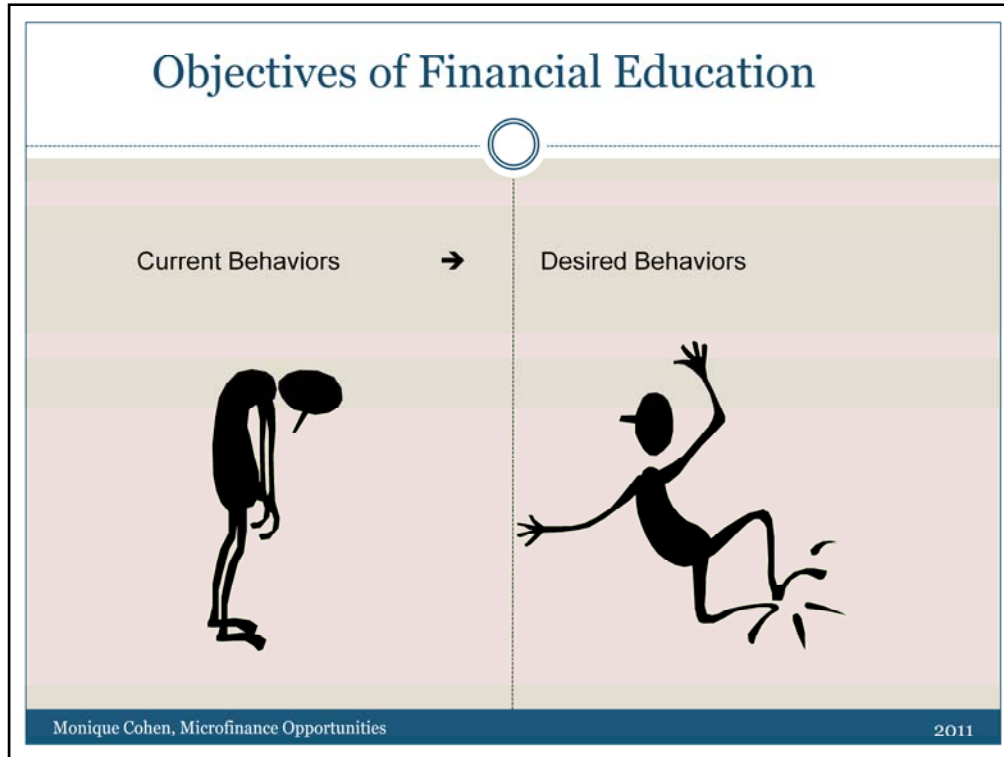
The next two slides illustrate what behaviour change can mean.



**“I cannot talk
about money
with my
husband.”**

**“My husband
and I plan
our expenses
every week
together.”**

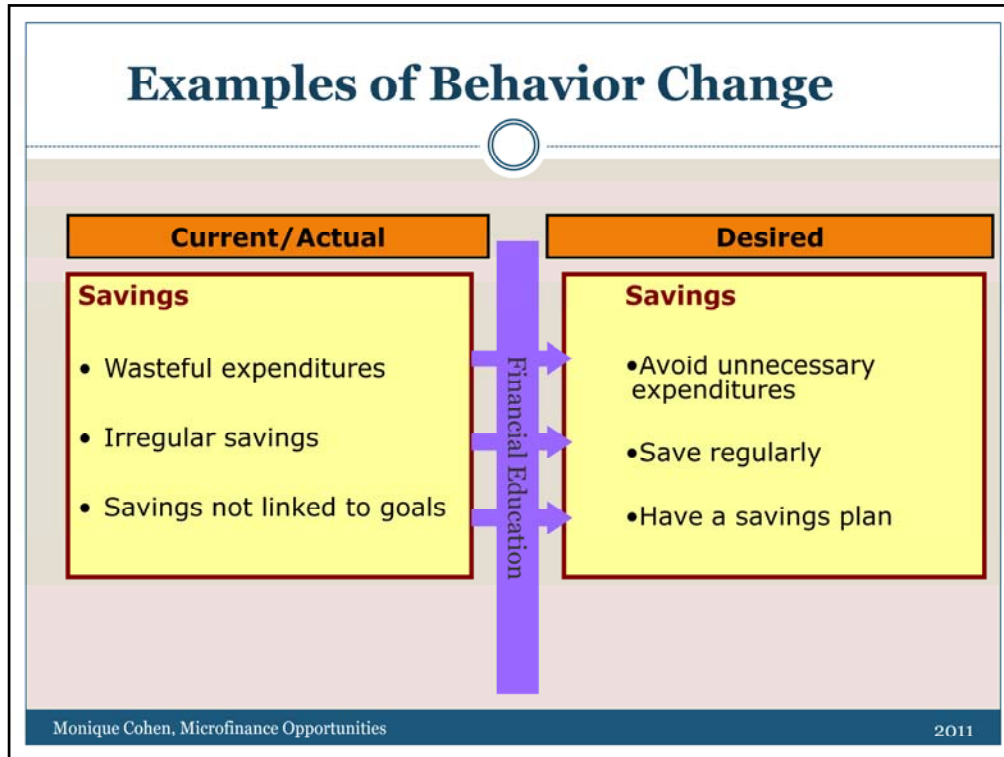




If the objective of financial education is to promote a change in behavior, how do we do this?

The starting point is where people are with respect to personal financial management. As already noted, most people at the bottom of the pyramid are savvy money managers, albeit mainly outside the formal financial system.

Market research has identified that a popular behavior for many of the poor when faced with a crisis is the primary use of “reaction” or “reactive” strategies. They resort to selling assets, borrowing money from a money lender—all high cost actions. The same market research also identified desired behaviors, in this case, how some people incorporate “protection” or proactive strategies into their management of risks. These might include saving, buying insurance or joining a mutual aid group. Providing someone with the tools to move along a path from current behaviors to desired behaviors is what financial education seeks to achieve through the introduction of new knowledge, skills and attitudes.



Let's look for a moment more closely at an example associated with savings behavior. Most people *want* to save and have savings goals but find it almost impossible to do so.

Reasons for this were:

- Wasteful expenditures,
- Irregular savings,
- Savings not linked to goals.

When we look at the behaviors of successful savers, we observed that their success reflects:

- Avoidance of unnecessary expenditures,
- Development of a savings plan,
- Practice of saving regularly.

These observations led to the development of a learning session aimed at helping participants move along a trajectory towards the achievement of what for them is now a set of achievable savings goals.

Remember, the ultimate objective of financial education is financial behavior change.

The Content

The Trinity

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- **Other themes:**
 - Financial negotiations
 - Use of Banks
 - Remittances
 - Youth Financial Education
 - Risk Management and Insurance
 - Housing
 - Consumer Protection
 - Ponzi schemes

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The most commonly taught financial education topics are the “trinity”: budgeting, savings and debt management.

Financial education, however, is broader than this. For example, amid the enthusiasm for financial inclusion at the bottom of the pyramid, many people ignore the obvious-- much of this population lacks familiarity and trust of banks and other formal financial institutions. This market segment does not necessary rush in because a bank opens a branch in a low-income neighborhood. Financial education has a role to play in building the trust necessary for this wary consumer to become a customer.

This trinity lies at the center of many policymakers’ advocacy of financial education and building financial capabilities. But this is too limited. For the consumer using formal financial services, the focus of financial education needs also to address the rights and responsibilities of the consumer. There needs to be a strong emphasis on the consumer’s contractual obligations and what that means. The goal is not just to inform the consumer, but also to build consumers’ confidence to stand up for their rights. Not a minor issue given that the consumer lives in a world of information asymmetry that favors the financial service provider.



No less important than determining content, is how that content will be delivered. Informing this decision should be market research on how people learn, what channels of communication work best for them, and the time when people are most receptive to financial education messages. Levels of literacy are clearly important, as are the appropriate pedagogical tools. For someone with only four years of school, classroom training may not be the best route.

What we learn from such market research is often a surprise. For example, Microfinance Opportunities was tasked with exploring how financial education might be delivered to factory workers in Cambodia. This is a largely illiterate population of young women. These young women's preferred channel for receiving financial education was in a magazine because they live in dormitories where there is always someone who can read. More importantly, information in a magazine is deemed serious and worthy of consideration. Furthermore, the dormitory mode of living lends itself to group discussion.

Let us now look deeper into alternative delivery channel choices.



Many people closely associate the delivery of financial education with a Workshop format. This form of direct delivery of key messages offers an in depth articulation of the issues. Participants enjoy it and it offers an interactive pedagogical approach that lends itself to high message retention. However, it is also expensive to do on a big scale.

Faulu Bank, Kenya has recently embedded financial education into its business model. The Bank sees financial education as a way to assist its clients on how to use Faulu services – which now include savings and transactional products more appropriately and wisely.

Faulu took an important step and integrated video into this direct training. A few years ago Mediae, a communications firm, added four financial education episodes to its widely popular and long serving soap opera, Makuto Junction. Subsequently, selected clips were recycled into training videos that Faulu Bank has integrated into its financial education training sessions.

FINANCIAL ADVISOR'S HANDBOOK: CONSUMERS INTERNATIONAL

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Key themes:

- Consumer Protection,
- Financial Services,
- Budgeting,
- Savings and;
- Debt Management

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Consumers International is a global advocacy group that seeks to influence the national policy agenda of a range of topics. As part of this 2011 agenda, they are paying more attention to financial services. In Kenya and Tanzania, they are complementing their national outreach plan with on-the-ground activities involving individual counseling. A handbook has been developed to enable financial counselors to address clients' issues on a one-on-one basis, focusing on their individual needs. The key themes include: consumer protection, financial services, debt management, savings and budgeting.



Posters, magazine articles and other printed matter are widely used to disseminate financial education messages. They have the capacity to reach large numbers. As the experience in Cambodia also suggests, literacy levels are not always a constraint. One popular vehicle across cultures for engaging people using print, is comics. Agent Penny and Will Power in Operation Finance has been widely distributed in Asia. The Instituto de Formacion Bancaria has similarly published a series featuring the adventures of Papo, a typical microcredit client in Peru.

MicroEnsure is an insurance intermediary dedicated to serving the poor throughout the developing world. They work with retailers of insurance products and use comics to explain to potential policyholders the benefits of insurance. They use comics as a low-cost way to educate the public about a new and often distrusted product—microinsurance.



Mass media clearly has the power to reach large numbers of people. It is a powerful for generating consumer awareness but is limited to the extent to which it can address key issues in depth.

Radio offers a valuable alternative vehicle for disseminating financial education awareness and messages. The wide penetration of both radio ensures extensive outreach, especially when the program is in the vernacular. This channel has been widely used in Kenya to Vietnam, in an attempt to introduce and create an awareness of the benefits of different financial products such as microinsurance, credit, and savings.

What is the impact of Financial Education?

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Impact Path

IMPACT AT THE CONSUMER LEVEL



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The overall trend of financial education is positive but caution is needed. Emerging evidence from financial education programs does point to changing behavior. But, the impact of financial education remains a controversial issue. Several studies using that randomized control trials methodology, have found limited, if negligible impact on behaviour change. Other evaluators using different research methods have attributed several changes in client behavior to their training. SPEED Ghana notes an increase in the number of bank accounts; AMFIU (Uganda) and OIBM (Malawi) attribute an increase in savers as well as changes in self-esteem directly to financial education efforts.

A review of pre and post tests taken by participants in financial education training at two MFIs in Bolivia (CRECER and ProMujer) and one in Sri Lanka (SEEDS) indicated positive change in knowledge about managing debt (ability to calculate one's debt and identify causes of over-indebtedness and capacity.)

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What Makes Financial Education Effective?

1. Quality and frequency of education
2. A context in which people can exercise their new financial behaviors
3. Appropriateness of available financial products
4. The opportunity to use this education
5. Relevance of education to the target population

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A first step in evaluating impact is understanding the input side of the equation—the financial education intervention. So what have we learned so far about the effectiveness of financial education?

We know that people save; the challenge is holding on to savings in light of the ongoing day-to-day stresses from family members to use that money. In Bolivia, the data showed that the financial education was effective in achieving savings goals. The evidence confirms that the quality and frequency of the financial education had been appropriate, but did not result in the opening of savings accounts.

The evaluation found that the macro-economic context matters: In Bolivia, the financial education took place during a time of inflation and rising food prices. While the result may not have been optimal for the banks, it is in keeping with findings elsewhere that the key driver of financial behavior is day-to-day cash management for survival of the household. The increased savings went to food thus reducing vulnerability.

Suitable savings products were available but access was limited as a result, and many participants could not readily exercise what they had learned. Women in Bolivia did not judge accessible products to be user-friendly.

Another conclusion drawn from an evaluation is that effective financial education requires that the content be relevant to the target population. If messages are to stick, it is desirable that the messages be delivered at an opportune time i.e. at a 'teachable moment,' such as when a consumer is transitioning to a new financial service, or a young person enters the work force.

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Challenges

- Adaptation
- Limited functional literacy
- Scale
- Sustainability

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The future of financial education is here today. From an empty space a decade ago, financial education is surfacing on every agenda, and that points to exciting times ahead. As we move from what has primarily been a period of research and development to full-scale implementation, there are number of challenges to be overcome.

Financial education in developing country contexts was originally conceived of and introduced to the financial community as a service to its clients. We know the basic content, the newer challenge is adapting it to the different market segments. Experience has demonstrated that many organizations engaged in the delivery of financial education are constrained by their lack of capacity to do this.

The bottom of the pyramid is increasingly perceived as a new market. To sell products in this market, commercial financial institutions are embracing financial education as part of their business proposition. New technologies are enabling different actors to offer financial transactions to low-income markets. Telcoms, grocery chains, and superstores like Walmart and are moving into technology-enabled financial services. However, this market is not just about the number of people it holds; to be effective in their outreach, these new players will need more than convenient ways for the poor to manage their scarce resources. Many of these new technologies seeking to introduce branchless banking assume the consumer can leap frog into the banking system. This is not so obvious on the ground and it is here that financial education has a role to play.

Cost-effective delivery of financial education remains an open issue. Linked are the factors of sustainability and scale. Governments are beginning to look at integrating financial education into cash-transfer programs. Ministries of Education will gradually incorporate it into their national school curricula. Government is also the key to effective consumer protection. In this a rapidly evolving landscape that will engage thousands who have never used financial services, with an array of entities that have never before been provided to them. As consumer protection gains traction, so too will financial education as an important tool to enable consumers to carry out their roles and responsibilities in this space. Moreover, informed consumers are important for another reason: they can make demands on institutions, exerting pressure for good customer service, appropriate pricing and transparent and clear contracts.

FINO, India

The Barriers to Adoption: the Customer's Perspective

1. Amounts of money seem too small to save in a bank
2. Not sure if it is a debit or ATM card
3. Not sure if interest is earned and rate of interest
4. Perceived as a government program
5. Do not understand that FINO agent is a link to a bank

Let me share a couple of pertinent examples. First is about FINO, which works in the branchless banking space. FINO's key product is the biometric smart card which can be used for opening and managing a bank savings account. FINO's challenge is that usage rates among accountholders are low (15%). Fewer than 10% of the target population has formal loans and most save at home in small amounts and frequently or invest in gold/jewelry as a hedge against emergencies.

Early on FINO concluded that financial education was essential to uptake and usage of electronic cards by their clientele, poor, illiterate rural women. The goal is to help women understand what it means to use a bank and then utilize the cards to save in a bank. To get there, the financial education will have to address hurdles identified above by the market research.

So what is their solution to these challenges? The market research had also found that for the consumers there are many touch points with the FINO agents or "bandhus". Each touch point provides an opportunity or 'teachable moment' to build the financial capabilities of the consumer. The financial education product of choice is a 'flip book' that guides the bandhu with frequently asked questions and the customer with pictures together along a conversation path to build women's confidence in ultimately moving their money from a mattress account into a bank account.

**At the national level,
XacBank:
Building on
Classroom
Training**



**The Starting Point: School-based
classroom training**

New Actions:

- Diversifying XacBank product line to include boys
- Expanding outreach and delivery through:
 - TV,
 - Girl Scouts of Mongolia,
 - Ministry of Education.

Second, is going to scale. Two years ago XacBank introduced Temulal, or Aspire, a savings product targeting adolescent girls 14-24 years of age. The purpose of the financial education (FE) was to populate this new account. Financial education is offered in a classroom setting, after school and targets girls both in and out of school. The FE course is 8 sessions, one a week. The trainers were university students. The FE was very popular. Opening of accounts which was the goal, was slow but is now beginning to accelerate. As important as the catalytic role of financial education with XacBank has been its role outside. Success has led to expansion by XacBank of financial education and savings products to boys. Building on this experience with financial education, is the theme of new television programs, a girl scout badge and has influenced the Ministry of Education to explore how it might integrate financial education into the school curriculum.

Financial Education Outreach Microfinance Opportunities 2006-2010

Direct Training	# of Trainers Trained	21,000
	# of Low-income participants trained	547,000
Mass Media		>20,000,000

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In four years, Microfinance Opportunities has trained 21,000 trainers and 500,000 consumers through direct training and reached over 20 million with financial education messages using mass media.

We are now working with national governments in developing countries to help implement national financial education strategies, as well as working with donors on their financial capabilities initiatives.

Global Financial Education Curriculum

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Core Curriculum

- Budgeting
- Savings
- Debt Management
- Bank Services
- Financial Negotiations



Specialized Modules

- Risk Management and Insurance
- Young People
- Remittances
- Consumer Protection

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I would like to conclude with a few comments on my organization, Microfinance Opportunities, and its engagement in financial education.

We entered the financial education space eight years ago. Since that time we have been engaged in the design, delivery and evaluation of financial education for low-income populations in the global south. Our global financial education resources manuals cover nine themes, (budgeting, savings, debt management, financial negotiations, use of banks, remittances, youth, risk management and insurance, and consumer protection). The first five and some of the others are in English French, Spanish, Arabic, Chinese, Russian and Portuguese.



THANK YOU!

For more information contact:

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