Unpacking the Links from Financial Education to Financial Behaviors in India

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Sector(s): Finance

Fieldwork: Centre for Micro Finance (CMF)

Location: India

Sample: 1,328 households

Target group: Urban population

Outcome of interest: Savings/deposits Take-up of program/social service/healthy behavior

Intervention type: Financial literacy Training Monetary incentives

AEA RCT registration number: AEARCTR-0000173

Partner organization(s): Saath

Financial education programs often seek to change financial decision-making, but evidence on which components of these programs affect behavior is limited. Researchers conducted a randomized evaluation of a video-based financial education course on participants' financial behaviors in India to study which components of financial education programs are most effective. While the course alone had no impact on participants' abilities to carry out financial calculations, it influenced their awareness of and attitudes towards financial products. Additionally, personalized supplements to the course increased effects on budgeting and saving.

Policy issue

The growth of microfinance and mobile money have expanded access to financial products in many parts of the world. However, access alone does not ensure that individuals can make good financial decisions. Thus, policymakers, firms, and non-profit organizations have invested many resources into financial education programs to enable low-income individuals to better understand and use financial products. Nonetheless, evidence about the effects of these financial education programs on financial decision-making is scarce and presents mixed results.

There are many barriers that might prevent financial education from having an effect on financial decision-making. Participants in financial education may not be sufficiently motivated to change their existing financial habits, traditional financial education interventions may not be sufficiently tailored to each individual's unique needs, or participants may simply procrastinate or forget to use the knowledge they gain from financial education. How can financial education programs best improve financial knowledge and ultimately improve consumers' abilities to use financial products?

Context of the evaluation

Only 24 percent of Indian adults were financially literate in 2014.[1] Ahmedabad, a city in Gujarat where this evaluation took place, is no exception to the low financial literacy rates throughout the country. For example, less than 10 percent of individuals surveyed in 2009 were able to calculate interest rates on a financial knowledge quiz.

For this evaluation, researchers partnered with Saath, a charitable organization that runs urban development programs in various sectors including livelihoods, affordable housing, health, education, and microfinance. Saath is based in Ahmedabad and provides services throughout the states of Gujarat, Rajasthan, and Maharashtra.

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Details of the intervention

Researchers conducted a randomized evaluation measuring the impact of a financial education program on participants' financial literacy and financial behaviors. Two-thirds of the 1,328 individuals enrolled in Saath programs were randomly assigned to receive five weeks of financial literacy training. The training consisted of a five-week video series covering budgeting, savings, loans, and insurance. Members of the comparison group received a five-week, video-based training on health topics in order to ensure that both groups of participants experienced the same level of "disruption" in their everyday activities.

Researchers evaluated three complementary interventions to test potential barriers to financial knowledge and the application of financial education:

- *Financial motivation*: In order to test whether low motivation might limit the impacts of financial education, half of participants were randomly selected to receive compensation for correct answers to questions related to the videos they watched and half of participants received compensation for correctly answering questions unrelated to their training.

- *Individual counseling*: To test the impacts of personalized information and more intense training, half of participants were randomly assigned to receive personal visits from financial counselors who assisted participants with financial tasks including preparing a budget, opening a bank account, or paying off loans.
- *Goal setting*: To test whether procrastination impedes individuals from improving their financial behaviors, half of the financial education participants were randomly assigned to receive a household visit during which they set concrete financial goals and marked target dates on a free calendar.

Researchers collected data on three measures of financial literacy: financial numeracy skills (e.g., computing interest rates), basic financial awareness (e.g., requirements to open a bank account), and attitudes toward financial decisions (e.g., belief in the value of insurance products).

Results and policy lessons

Overall, financial education alone increased participants' awareness of the details and benefits of financial products, but only influenced financial behaviors when paired with personalized supplements such as goal-setting or counseling. Results suggest that traditional financial education programs may not equip individuals with the tools they need to bridge the gap between financial knowledge and financial decision-making, but that personalized additions can allow these programs to meaningfully impact both financial literacy and financial behaviors.

Financial education alone: The financial education videos increased participants' basic financial knowledge and attitudes but not abilities to carry out financial calculations. The training improved participants' basic financial knowledge score by 6.9 percentage points, a 9.9 percent improvement over the comparison group. The financial knowledge score included fundamental financial planning concepts and details of financial products, such as the requirements for opening a bank account and the purposes of a household budget. Participants were also significantly more likely to offer appropriate financial advice to a friend making a hypothetical financial decision about insurance, budgeting, or productive loans.

Economic incentive: Payments for correct responses did not improve participants' performance on any measures of financial literacy suggesting that low motivation is not the primary reason that participants struggle to understand financial training. Instead, financial literacy may be inherently difficult to teach, possibly because it involves numeric computations and is hard to apply to specific experiences in participants' daily lives.

Individual counseling: Financial education plus individual counseling had significant positive effects on participants' financial behaviors. Participants who received both financial education and individual counseling were 38 percentage points more likely to have attempted to make a budget and 3.8 percentage points more likely to make a regular monthly budget than the comparison group, a 71.6 and 9.9 percent improvement, respectively. Participants who received counseling were 13.8 percentage points more likely to open a formal bank savings account, a 46.6 percent increase over the comparison group. However, they were no more likely to save money informally or take out a loan than the comparison group.

Goal setting: Financial education plus goal setting had significant positive effects on participants' financial knowledge, but did not have a significant impact on budgeting behavior or the likelihood of opening a bank account. Participants who set goals were more likely to hold either informal or formal savings than the comparison group, although the effects of goal setting on formal savings were half as large as the effects of counseling. These results suggest that counseling may be a better tool for enabling participation in the formal financial sector.

Use of results: Because this evaluation demonstrated that its clients might be willing to increase their savings levels, Saath has since launched a series of new products. Another direct outcome of this evaluation is that Saath has continued to use one-on-one counseling to educate its clients about the financial products it offers. Moreover, Saath does not use classroom-based financial education, as the evaluation demonstrated that this type of financial education does not have significant effects on financial behaviors.

Carpena, Fenella, Shawn Cole, Jeremy Shapiro, and Bilal Zia. "Unpacking the Causal Chain of Financial Literacy." The World Bank Policy Research Working Paper 5798, September 2011.

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1. Klapper, Leora, Annamaria Lusardi, and Peter van Oudheusden. 2016. *Financial Literacy Around the World: Insights from the Standard & Poor's Ratings Services Global Financial Literacy Survey.* Accessed 17 November 2016. https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf