THE TANTALIZING PROMISE OF FINANCIAL LITERACY
A range of meta-analyses & studies document minimal impacts and low demand


What next?
RECENT ATTENTION HAS TURNED TO FOUR THEMES

- **Simplify** information & make it concrete
- **Target** teachable moments
- **Harness** community support
- **Expand** reach creatively
In the Dominican Republic we tested standard accounting training vs. simple and concrete rules of thumb
- E.g., write down every sale; keep business & personal accounts separate
- Simple, concrete advice changed behavior and improved outcomes
- This finding appears in many other areas: it's a pillar of many public health campaigns
Daily behaviors are relatively easy to build.

But many important financial decisions are episodic:

- Investing in one's business; saving with lumpy income; buying weather insurance; etc.
How do we determine what rule is right for a particular person at a particular time?

How do we identify & target critical moments?
FINDING RULES: HOW LARGE OF A MORTGAGE?

- A housing cost rule of thumb:
  - Payments shouldn't exceed 28% of income
- Probably made sense when only mortgage was 30-year, fixed rate
- Less useful when evaluating interest-only, ARM with 2-year teaser rate

Identifying and teaching rules is a lot easier when the rules are universal.
Financial literacy program for Indonesian workers about to migrate abroad increases savings

Workplace financial education in the United States increases retirement savings
Machine learning can use our digital histories to predict what we need and when.

This is technically demanding but many organizations are up to the task.

Real challenge is incentives:
- Critical moments are also where we're most vulnerable.
- Those offering services are typically better placed to identify these moments.

CAN TECHNOLOGY HELP IDENTIFY TEACHABLE MOMENTS?
In some cases, reinforcing messages through social networks can be helpful:

- In Brazil, involving both parents & children in financial workshops increased savings rates.
- In Indonesia, training both migrants and family members increases savings.

This finding is common in other areas.

Some financial issues may be challenging:

- E.g., commitment savings seems to work by shielding funds from social network claims.
VOLUNTARY FINANCIAL EDUCATION IS WIDELY AVAILABLE & SELLDOM USED

Rules of Thumb: Dominican Republic

~6,000

1,200

27%

Potential Clients

“Interested”

Completed the course
Bruhn, Ibarra & McKenzie sent letters inviting 40,000 clients of a large financial institution to a free, 4-hour financial literacy course. 42 expressed interest.
6,500 credit card holders at risk of delinquency were offered a free, online financial literacy course.

Credit card issuers in the United States:

- 28 (0.4%) attempted to log-in
- 2 (0.03%) completed the course
Messages on debt management were delivered through a popular soap opera in South Africa. The debt story line ran for two months. And people watched it! Viewers seem to have changed behavior and improved knowledge specific to storyline. But there was little traction beyond immediate interest.
The few success stories we've seen have not been about literacy.

They've been about basic tools and changing a few simple behaviors.

Do we care about financial literacy per se?

Or do we just want finance to work better for the people who need it most?
We don't expect people to be their own doctors.

**Public health campaigns:**

- Identify & promote simple rules where applicable
- Encourage seeking expert help when necessary
- Regulate potentially harmful products

**CONSIDER A MODEL OF “FINANCIAL HEALTHCARE”**