



The World Bank Group  
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# Financial (Dis-)Information: Evidence from a Multi-Country Audit Study

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# Motivation

- The combination of technology, financial liberalization and public and private partnerships have brought about a proliferation of financial products.
- About 2,000 million individuals could enter the financial system in the next 20 years.
- Yet, it is not clear that individuals are well-equipped to make sound financial decisions
  - Financial consumers may not necessarily choose the most cost-effective product or the one most suitable to their needs

# Motivation

- Mistakes in financial decision-making would not be a concern if market forces led to a set of relatively cheap financial products.
- But this is rarely the case...

# The cost of financial services

	Mexico				Peru				Ghana			
	N	Mean	p25	p75	N	Mean	p25	p75	N	Mean	p25	p75
<i>Credit Product</i>												
Total Annualized Cost with unavoidable fees only	46	102.96%	34.49%	155.89%	56	57.1%	30.9%	70.3%	73	49.4%	40.3%	79.7%
Total Annualized Cost inclusive of avoidable fees	46	113.72%	35.86%	164.69%	56	60.0%	24.8%	82.5%	73	82.6%	46.7%	94.7%
Number of Products per institution		3.3				1.8				1.2		
<i>Investment Account</i>												
Total Annualized Yield with unavoidable fees only	35	1.01%	0.75%	4.32%	40	3.3%	0.6%	5.2%	59	21.4%	13.2%	29.3%
Total Annualized Yield inclusive of avoidable fees	35	0.50%	0.38%	4.17%	40	1.5%	-4.0%	4.9%	59	-9.0%	-25.0%	3.9%
Number of Products per institution		1.9				1.7				1.0		
<i>Checking Account</i>												
Total Annualized Yield with unavoidable fees only	90	-7.51%	-7.20%	0.25%	84	1.3%	0.5%	2.0%	141	0.1%	0.0%	5.0%
Total Annualized Yield inclusive of avoidable fees	90	-9.25%	-9.58%	0.00%	84	3.3%	-7.0%	0.6%	141	-24.6%	-24.0%	-19.6%
Number of Products per institution		5.0				3.5				2.3		

# Consumer Protection

- In the United States, in 1968, the “Truth in Lending Act” (TILA) was passed,
  - By which consumers have to be informed of the APR/YPR of the product they are to purchase.
- In 2009 Mexico introduced similar disclosure requirements through modifications to the Law for Transparency and Regulation of Financial Services
- Yet, problems persist, and it is unclear whether these disclosure modifications are effective

# Example: Credit

FINANCIERA **equipa-T**  
www.equipat.com.mx

Préstamos desde **\$4,000.00 pesos.**

**¡Festeja con nosotros equipando tu negocio!**

EN ESTAS FIESTAS PATRIAS QUEREMOS APOYARTE

Solicita tu crédito y llévate un regalo sorpresa\*

*5.7% mensual*

*12 meses*

*Los Maria*  
55 4242 7746

COTIZACIÓN DE CARÁCTER INFORMATIVO, SUJETA A AUTORIZACIÓN.

CAT DESDE EL 267% INFORMATIVO, CÁLCULO AL 15 DE AGOSTO DE 2011.  
\*REGALOS LIMITADOS A CLIENTES CON CRÉDITO APROBADO EN SEPTIEMBRE Y HASTA AGOTAR EXISTENCIAS.

**Préstamos para tu negocio, fácil y rápido.**  
5080 5050 Ciudad de México 01800 508 0505 Lada sin Costo

FINANCIERA **equipa-T**  
www.equipat.com.mx

Préstamos desde **\$7,000.00 pesos.**

**GRANDES BENEFICIOS para tu micronegocio establecido**

Obtén un préstamo con pagos a tu medida para hacer crecer tu negocio

¡EQUIPA-T me ayuda a impulsar mi negocio!

TE PRESTAMOS	PAGOS QUINCENALES PRÉSTAMO A 6 MESES	PAGOS QUINCENALES PRÉSTAMO A 9 MESES	PAGOS QUINCENALES PRÉSTAMO A 12 MESES
\$7,000	\$866	\$661	\$548
\$8,000	\$1,012	\$755	\$627
\$9,000	\$1,139	\$850	\$705
\$10,000*	\$1,265	\$944	\$783
\$12,000*	\$1,518	\$1,133	\$940
\$15,000*	\$1,898	\$1,416	\$1,175
\$20,000*	\$2,530	\$1,888	\$1,567
\$25,000*	\$3,163	\$2,360	\$1,958
\$30,000*	\$3,795	\$2,832	\$2,350

COTIZACIÓN DE CARÁCTER INFORMATIVO, SUJETA A AUTORIZACIÓN.

CAT DESDE EL 107% INFORMATIVO CÁLCULO AL 15 DE AGOSTO DE 2011.  
\*SUJETO A LA CAPACIDAD DE PAGO, SE REQUIERE UN CÁLCULO SOUTERNO PARA PRÉSTAMOS MAYORES A \$10,000.

**Préstamos para tu negocio, fácil y rápido.**  
5080 5050 Ciudad de México 01800 508 0505 Lada sin Costo

# Example: Credit

CAT= 267%

¡Con EQUIPA-T mi negocio está bien surtido!

FINANCIERA **equipa-T**  
www.equipat.com.mx

Préstamos desde **\$4,000.00** pesos.

**¡Festėja con nosotros equipando tu negocio!**

EN ESTAS FIESTAS PATRIAS QUEREMOS APOYARTE

Solicita tu crédito y llévate un regalo sorpresa\*

*5.7% mensual*

*a 12 meses*

*Los Maria*  
*55 4242 7746*

¡Pregunta por nuestros microseguros!

Acércate. Somos tu solución.

**CAT DESDE EL 267%** INFORMATIVO, CÁLCULO AL 15 DE AGOSTO DE 2011.  
\*REGALOS LIMITADOS A CLIENTES CON CRÉDITO APROBADO EN SEPTIEMBRE Y HASTA AGOTAR EXISTENCIAS.

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5080 5050 Ciudad de México 01800 508 0505 Lada sin Costo

CAT= 107%

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# Why aren't financial products transparent?

- Financial products are inherently complicated
  - But then firms would have an incentive to make simpler products or to provide information
  - Is government intervention needed in this case?
- Firms purposefully make products more complicated to maximize profits
  - Firms make more money when pricing is not transparent
  - In this case, firms will resist transparency initiatives



# What do we do?

- Implement two studies to answer the following question:
  - What is the *quality of information* provided to low-income customers interested in savings and credit products?
    - Does information vary by the type of consumer?
    - Are financial institutions complying with the new transparency rules? Are they offering the cheapest products that meet the customer needs?

# Study I: Audit Study

- Trained low income “shoppers” interested in credit and savings products visit financial institutions to assess the (quantity and quality of) information provided by the staff
- Savings Scripts differed along:
  - Specific savings needs: Around USD 400 in a Checking account or Fixed Term deposit.
- Credit Scripts differed along:
  - Over indebtedness: Asked for a loan representing 20% or 70% of their household income.

# Audit Study

- Both Scripts differed along:
  - Financial Literacy: Neophytes and Experienced
  - Awareness of Competition: Among experienced shoppers, half mention a previous high interest rate offer, the other half mentioned a low interest rate.
  - Formal dress: Shoppers were encouraged to dress formally on alternate interactions with the lender.

# Setup

- Collaborative effort with CONDUSEF (Mexico), SBS (Peru) and Bank of Ghana
- Peri-urban areas in the capital city and 2 other cities per country.
- III FIs
  - Commercial Banks, Low income banks, MFIs
    - SOFOMS, SCAPS, SOFIPOS (Mexico), Cajas Financieras (Peru)

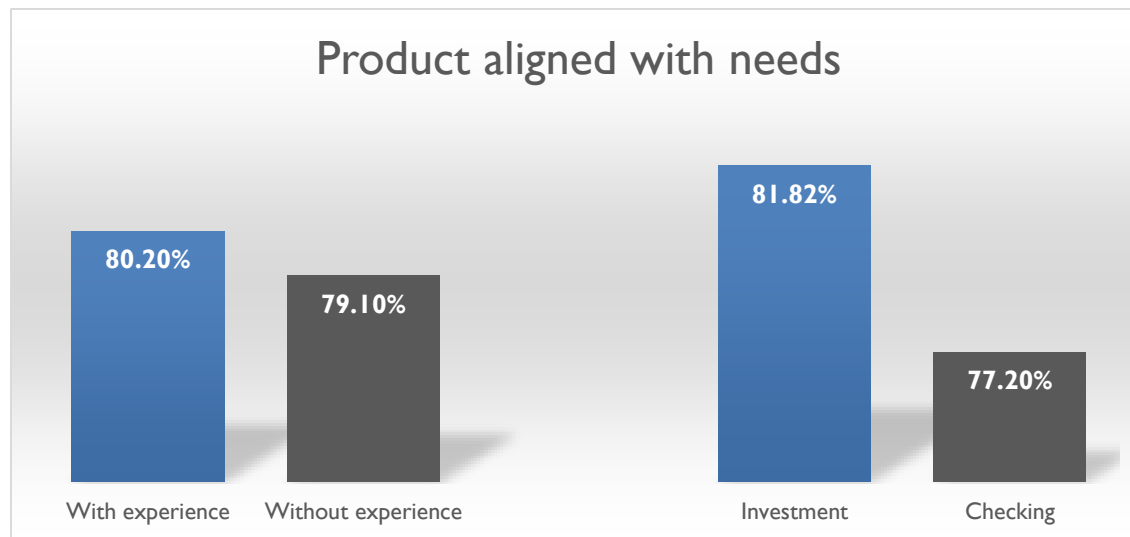
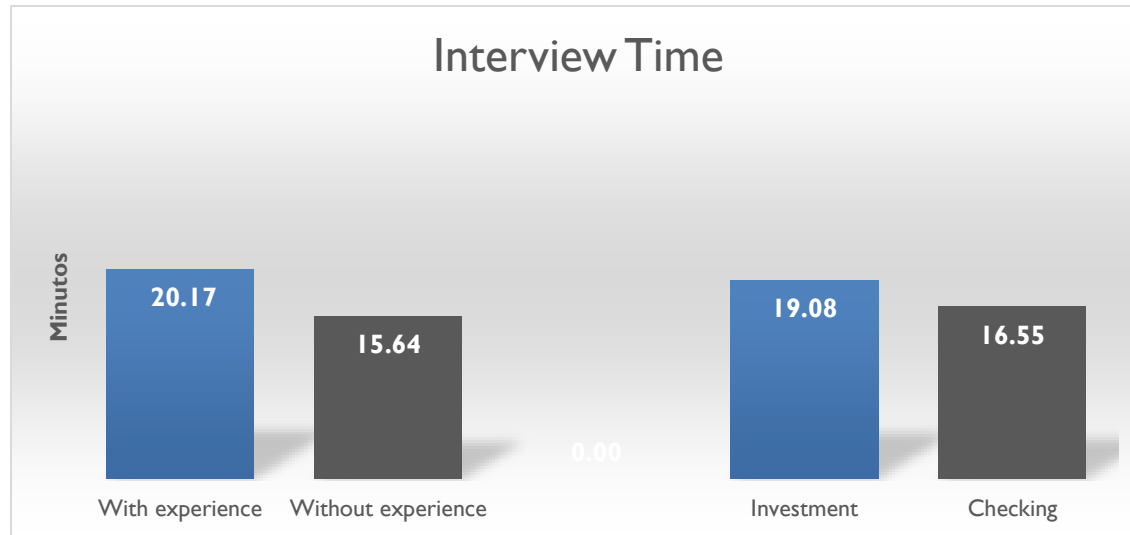
# Audit Study

- Trained 76 low income “shoppers” interested in credit and savings products visit financial institutions to assess the (quality of) information provided by the staff
- Savings Scripts differed along:
  - Specific savings needs: 780 USD in Peru, 350 USD in Mexico and 215 USD in Ghana in a Checking account or Fixed Term deposit.
- Credit Scripts differed along:
  - Over indebtedness: Asked for a loan representing 20% or 70% of their household income.

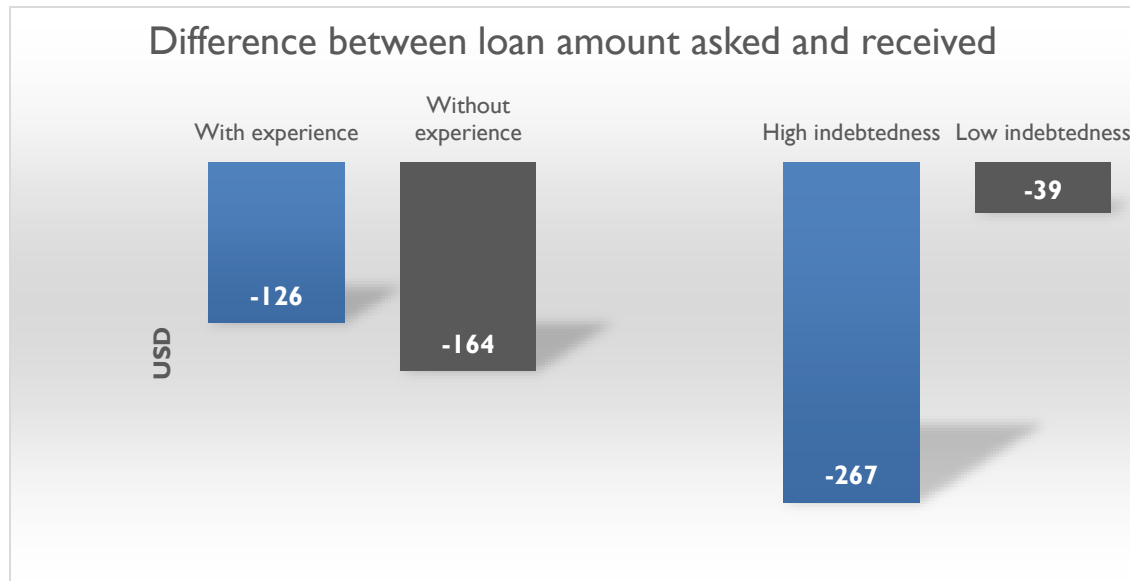
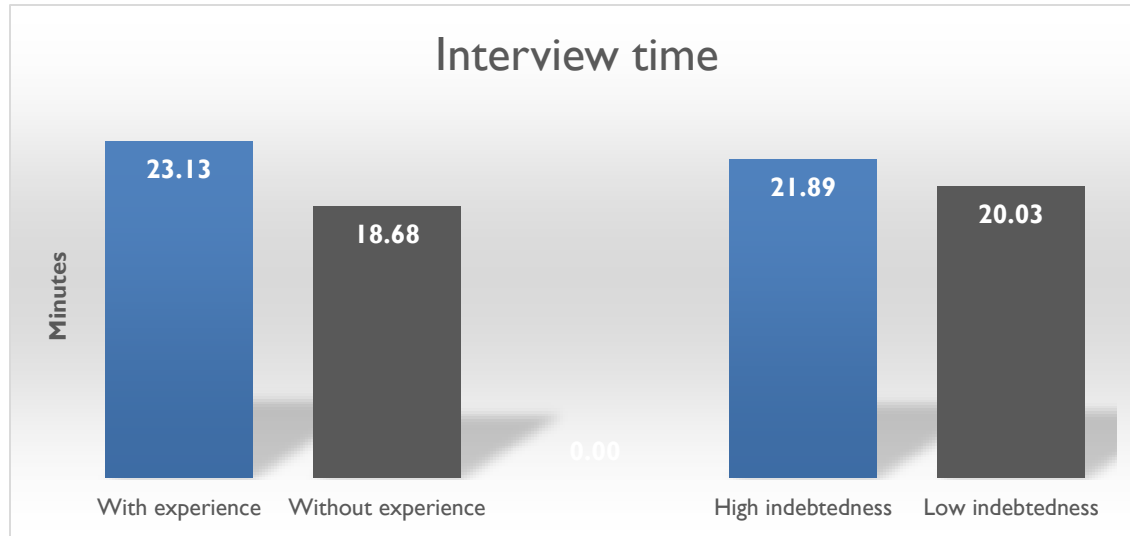
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# Savings

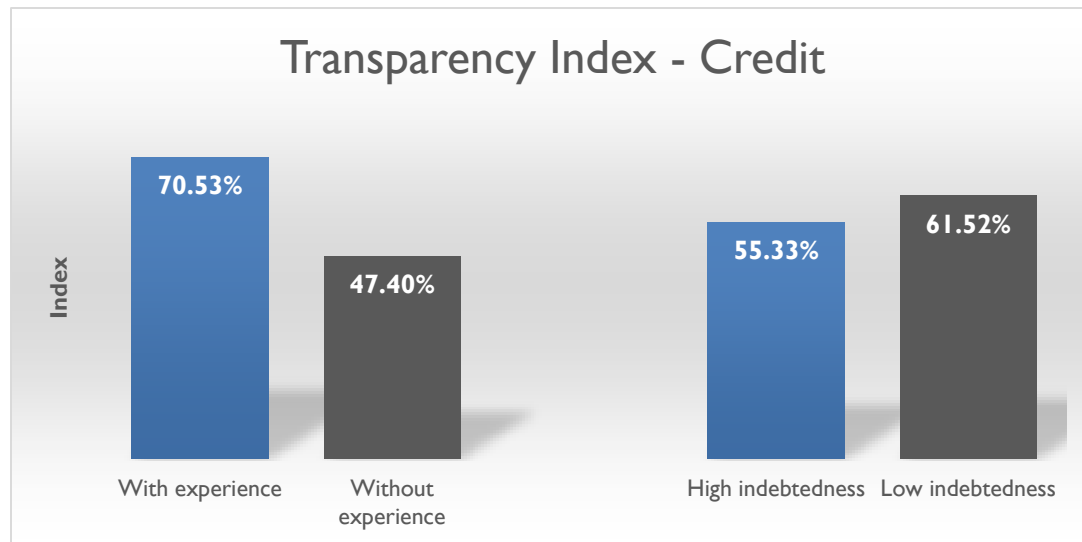
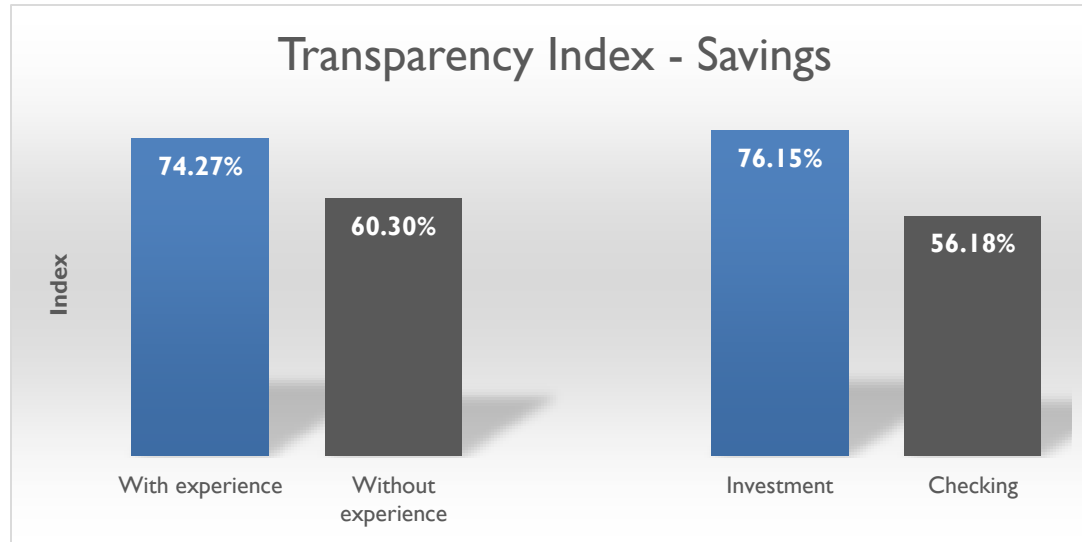


# Credit



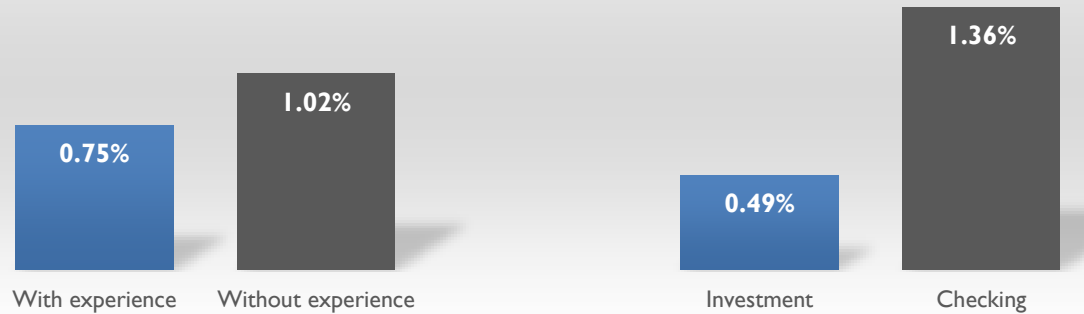


# Transparency Index



# Savings: Products offered

Difference with best APY possible, w/ usage fees



Difference with best APY possible, w/o usage fees



# Summary of Results

- Despite the difference in regulatory frameworks, staff across countries behave similarly.
  - Staff does not disclose information unless prompted, resulting in too little voluntary provision of product information
- Misalignment of incentives between staff and potential client
  - Potential client typically ends up with more expensive product