



Mongolia Dissemination Workshop

Paving the road to better financial decision-making

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Presentation Outline

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1

Background information

Financial Capability Survey

PAVING THE ROAD TO BETTER FINANCIAL DECISION-MAKING IN MONGOLIA

AUGUST 2013



FINANCIAL CAPABILITY AND CONSUMER PROTECTION SURVEY REPORT
FINANCIAL INCLUSION AND CONSUMER PROTECTION SERVICE LINE



THE WORLD BANK



USAID
FROM THE AMERICAN PEOPLE

- At request of Ministry of Finance
- Nationally representative survey of 2500 Mongolian adults aged 18+
- Oversampling of rural areas (to increase precision of results for herders)
- Implemented between August and October 2012
- Implementing survey firm: EEC Canada



What is Financial Capability?

A World Bank definition

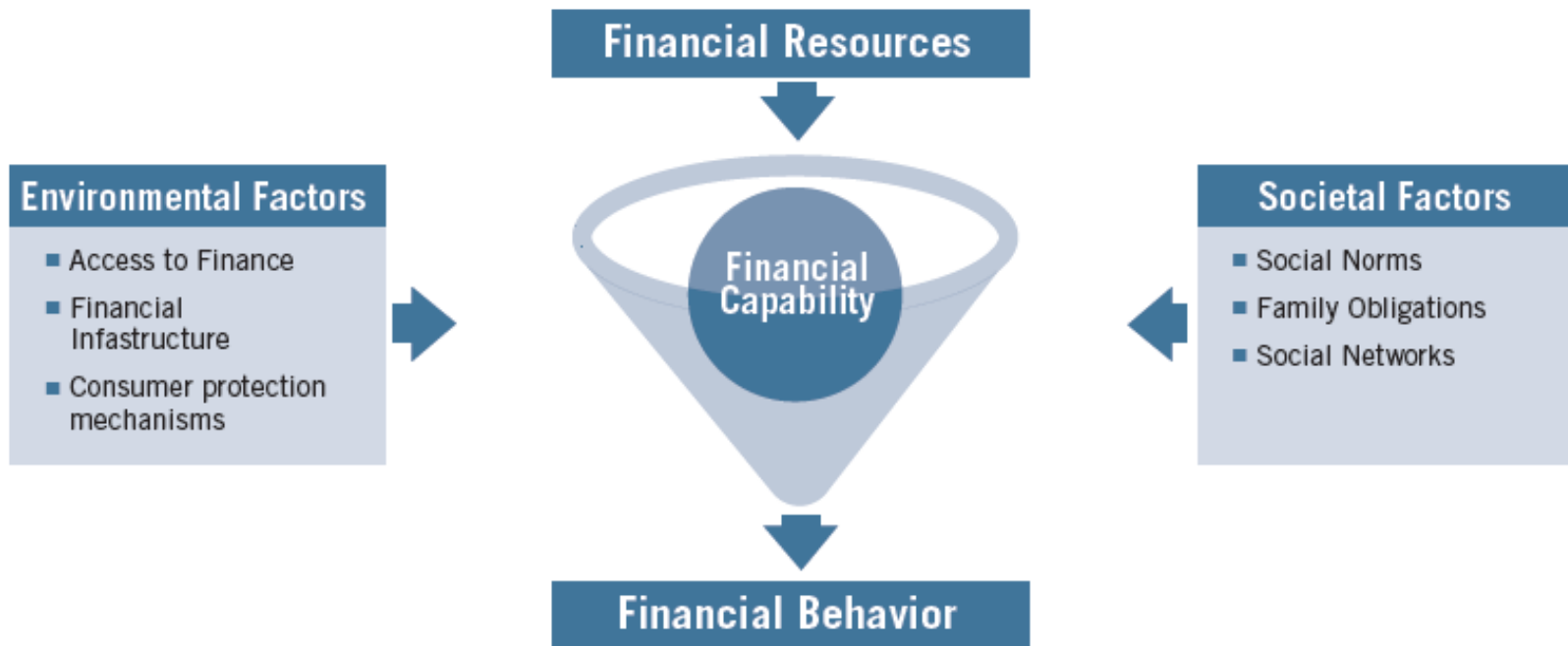
- Financial capability is the *internal capacity*
- to act in one's best financial interest, given
- socio-economic environmental conditions.
- It encompasses the *knowledge* (literacy), *attitudes*,
- *skills*, and *behaviors* of consumers with regard to
- managing their resources, and understanding, selecting,
- and making use of financial services that fit their needs.

The terms *financial literacy* and *financial capability* are often used interchangeably. The term financial literacy (also financial knowledge) is a narrower term that represents the level of aptitude in understanding personal finance, and often refers to awareness and knowledge of key financial concepts.



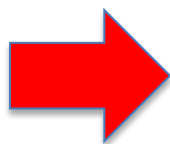
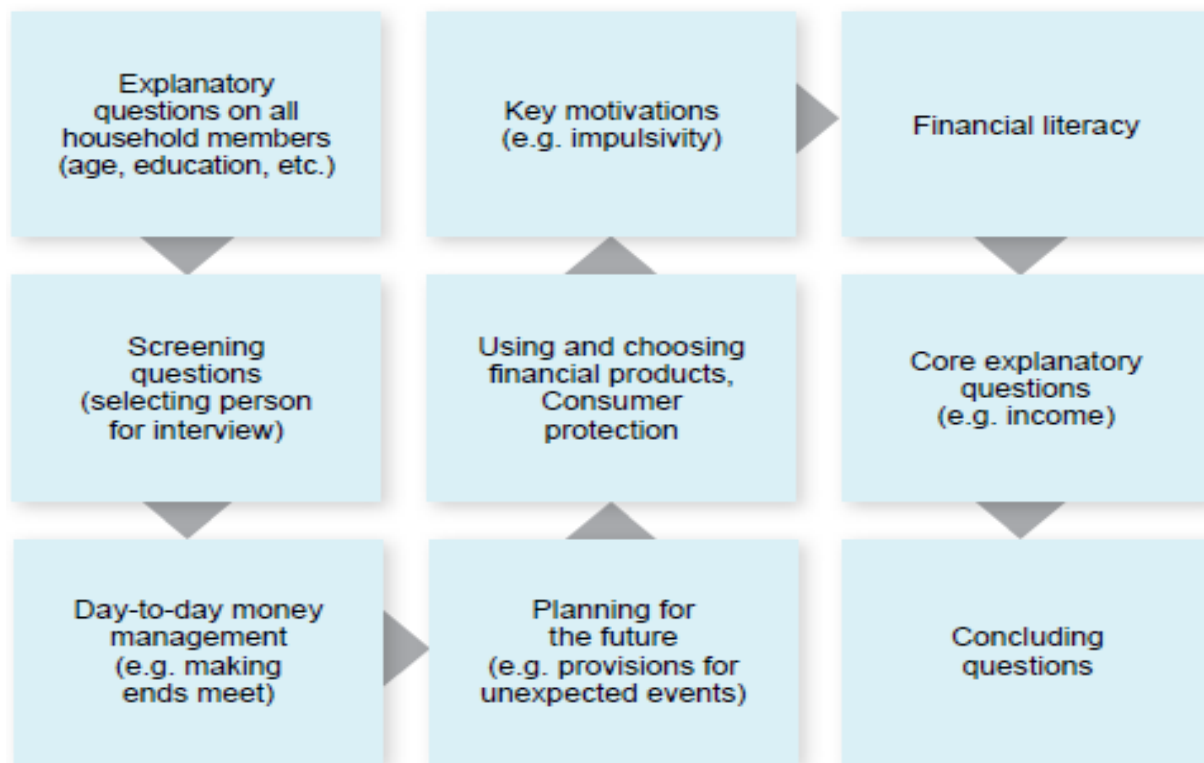
What is Financial Capability: External factors

Socioeconomic and environmental conditions can play an important role in constraining or facilitating individual financial capability.



In Papua New Guinea, for example, the *wantok* system is an unwritten social contract that serves as a safety net, in which people of the same village / town are obligated to help those who are in poor financial condition.

How is Financial Capability measured?



Survey instrument allows financial capability, inclusion, and consumer protection (external factors) issues to be assessed and measured



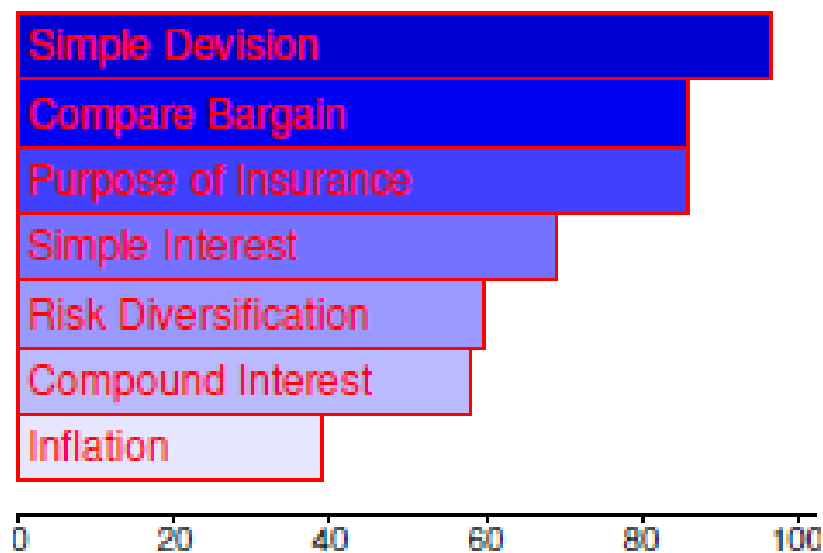


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What are the key findings?

Respondents can do simple calculations, but lack knowledge required for savings and investment decisions

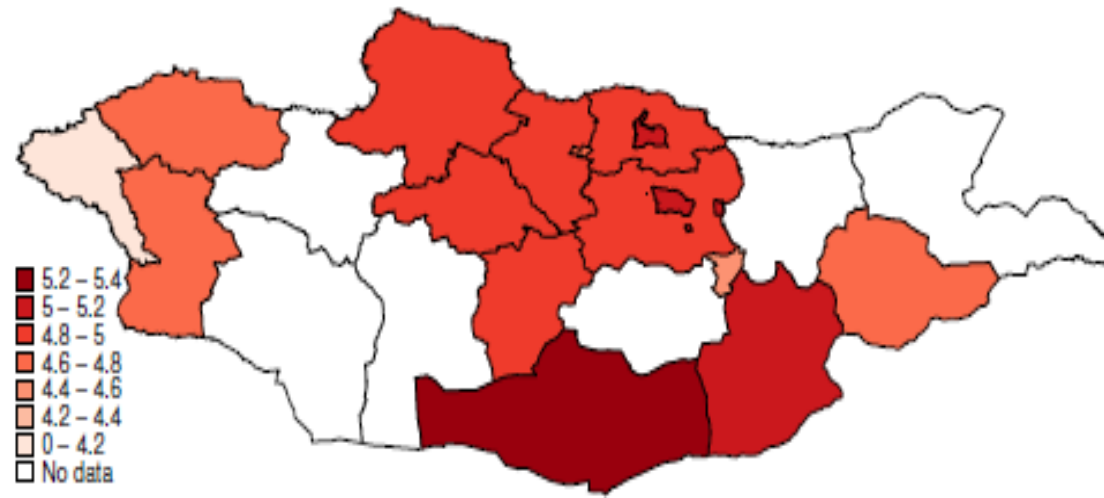
- ❑ Almost all Mongolians can perform simple divisions
- ❑ About 86% can do simple calculations to identify bargains
- ❑ About 86% understands main purpose of insurance policies
- ❑ Around 30% fails to understand the concept of simple interest rates
- ❑ 42% struggles to understand how compound interest work
- ❑ Less than 40% understands how inflation affects their savings



% of respondents who answered financial literacy questions correctly

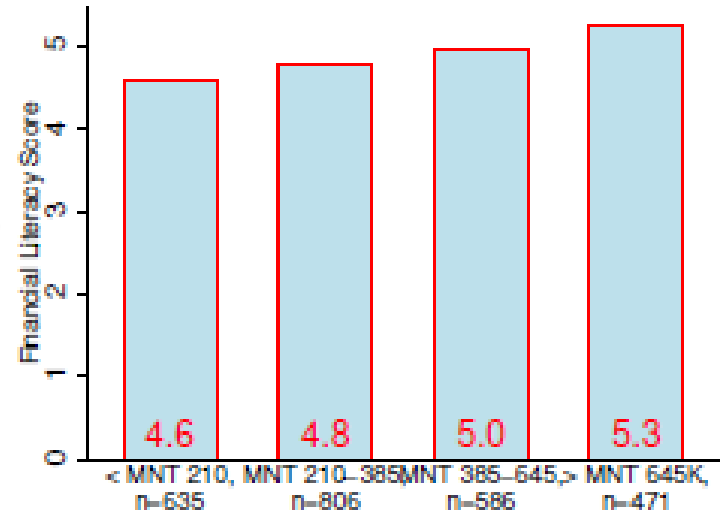


Which groups of survey participants have less understanding of financial concepts?



Average financial literacy scores in Regions

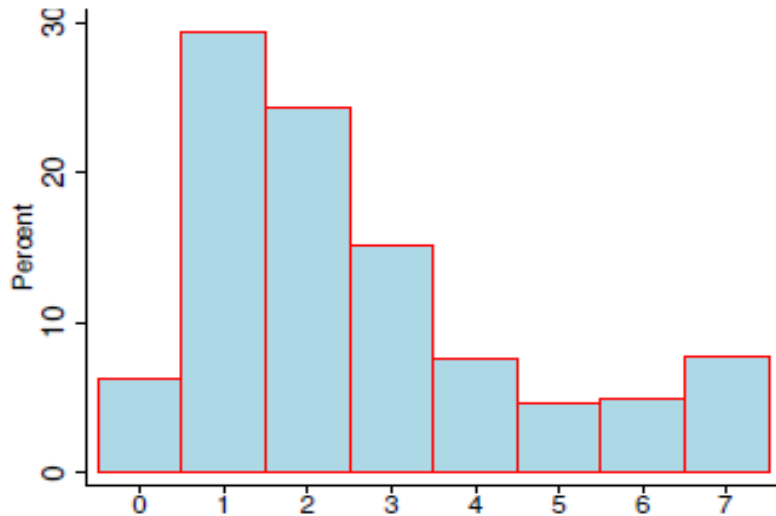
- Rural dwellers, in particular in Western Mongolia, struggle more than residents of UB
- Compared to residents of UB, residents from Dornogovi and Omnogovi seem to have a better understanding



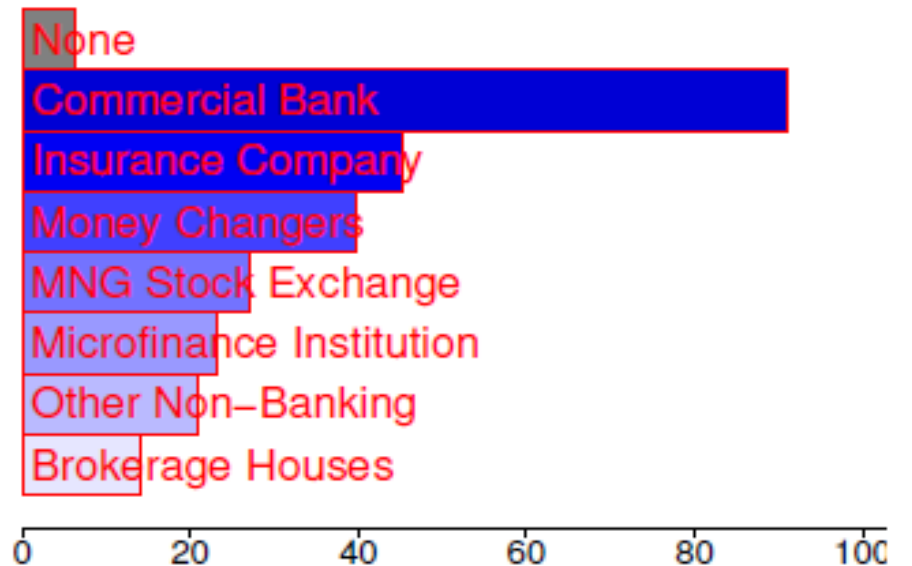
Average financial literacy scores by household income

- Respondents living on lowest incomes are more challenged in giving correct responses than high income groups

Awareness of broader financial services offered by providers other than commercial banks is limited



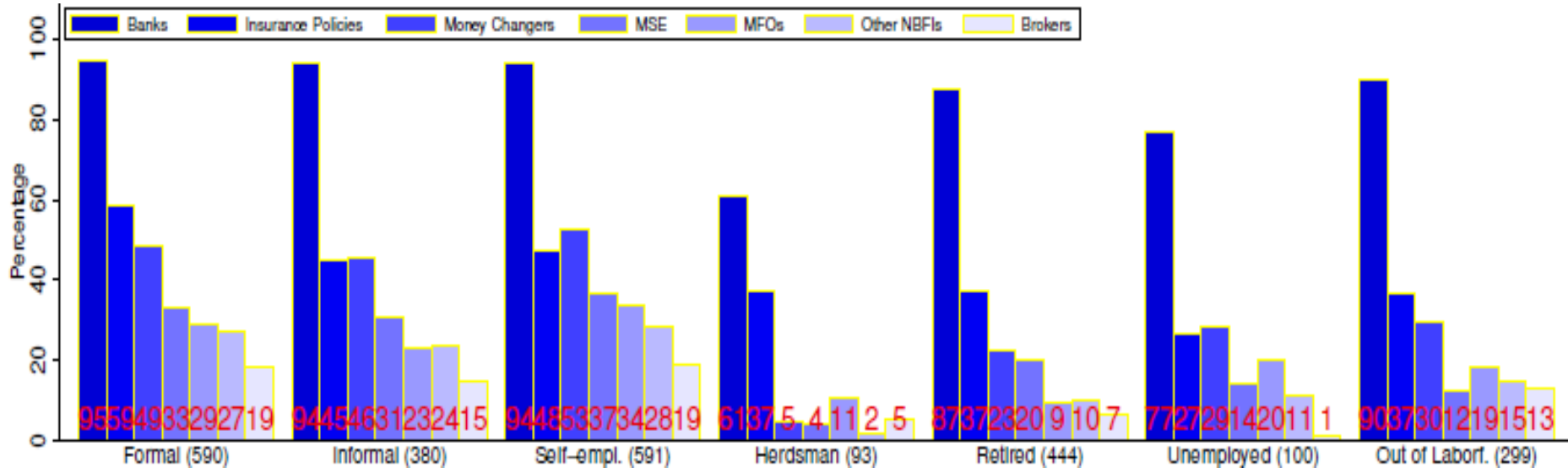
Distribution of knowledge about services offered by FIs



% of respondents who know about services offered by FIs

- ❑ On average, respondents are familiar with services provided by 2.6 types of FIs
- ❑ Commercial banks are widely known (90%)
- ❑ Insurers' or money changers' products/services are known by less than 50%
- ❑ Vast parts of respondents are not equipped with required knowledge to benefit from 2012 ETT shares distribution program (MSE services are known by 27%, those of brokerage houses by 14%)

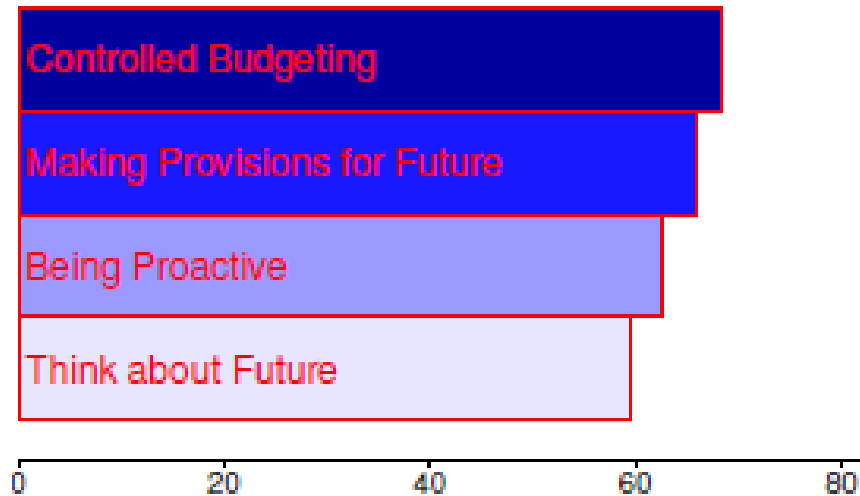
Which groups of survey participants have less understanding of financial concepts?



% of respondents knowing about services offered by FIs, by employment status

- Being familiar with services of different providers correlates with being formally or self-employed
- Herders and low income segments appear to be less familiar with products of different providers than other groups

Mongolians show high levels of financial capability in most areas



Average financial capability scores

□ 4 key areas were assessed:

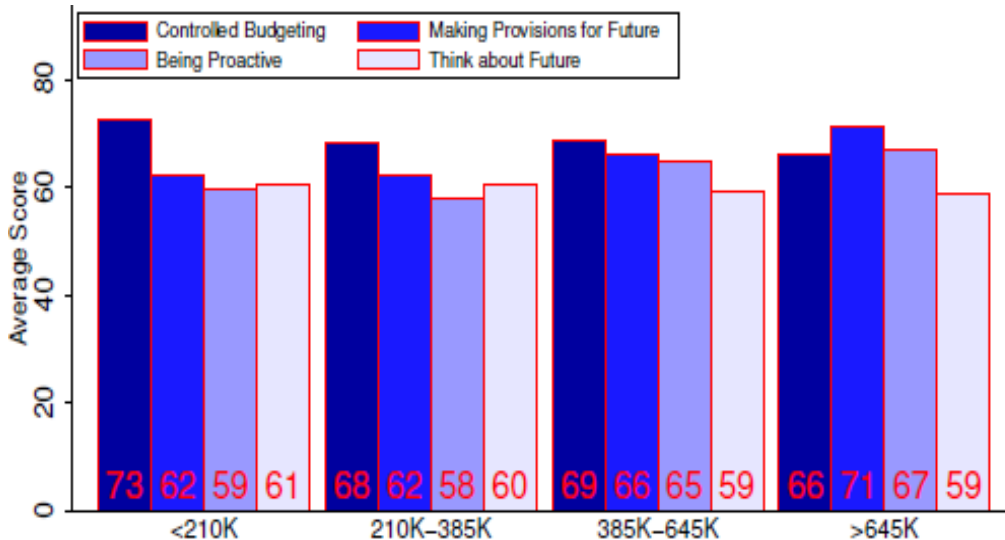
□ **Controlled budgeting** measures ability to budget, to stick to the budget, and to prioritize spending on essentials

□ **Making provisions for the future** measures ability to live within means, to cover for unexpected and old age expenses, and to choose appropriate financial products

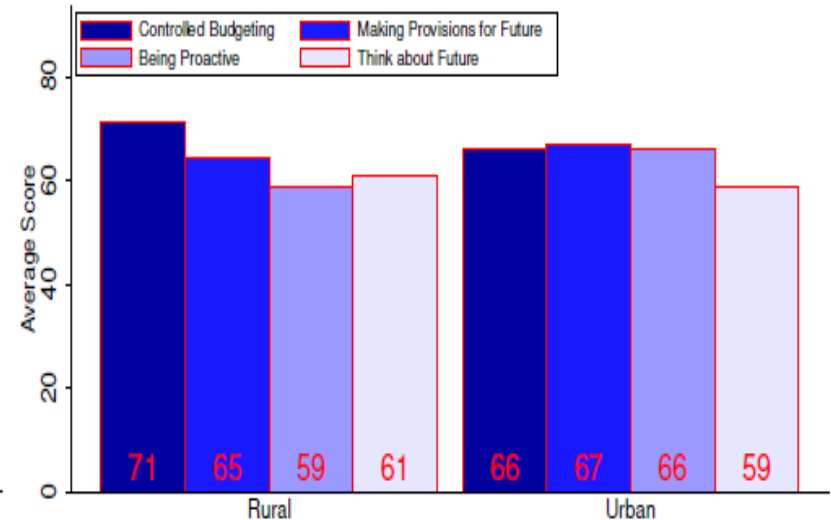
□ **Being proactive** measures inclination to save regularly, to seek information and advice, and level of achievement orientation

□ **Thinking about the future** measures levels of far-sightedness and impulsiveness

Daily hardship can draw attention away from long-term needs



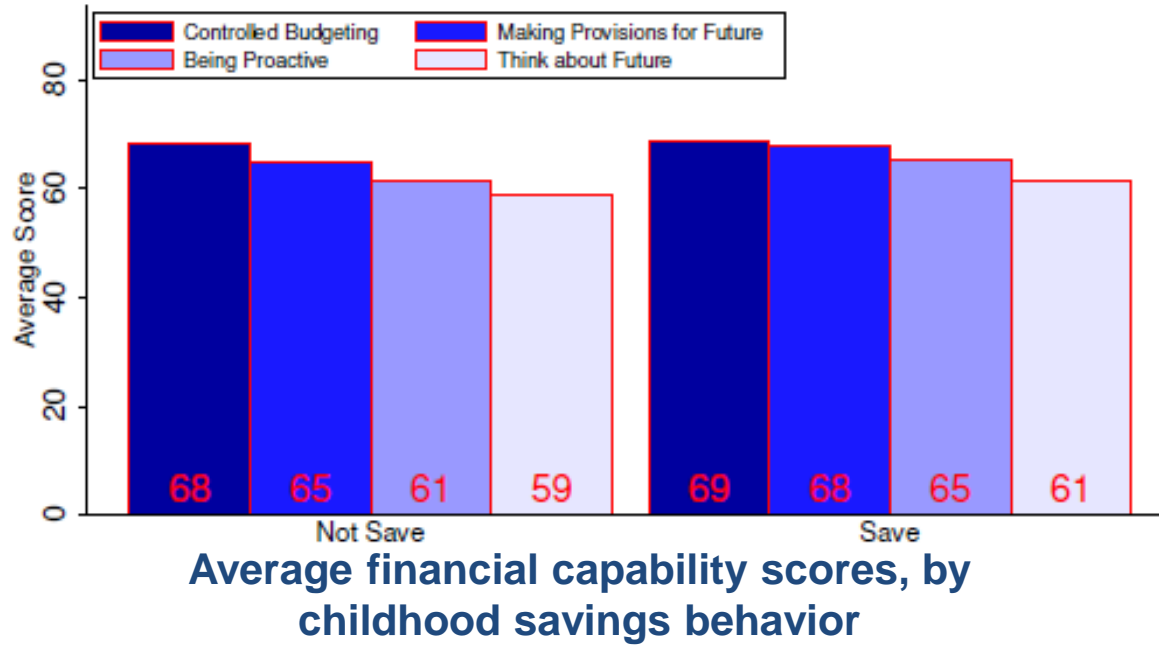
Average financial capability scores, by household income



Average financial capability scores, by urbanization

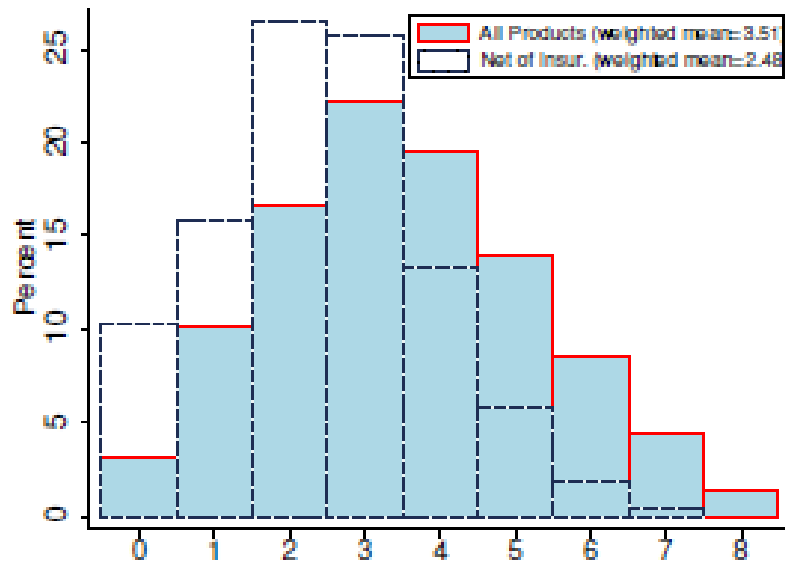
- ❑ Rural and low income populations are mastering the management of day-to-day finances, but struggle with putting money aside (being proactive) and planning for unexpected and old age expenses (making provisions for the future)
- ❑ Low scores have implications for people's ability to smooth consumption, to cope with economic shocks, to generate lump sums for productive investments, and eventually for their long-term wellbeing

Starting to build certain habits at an early age can have value



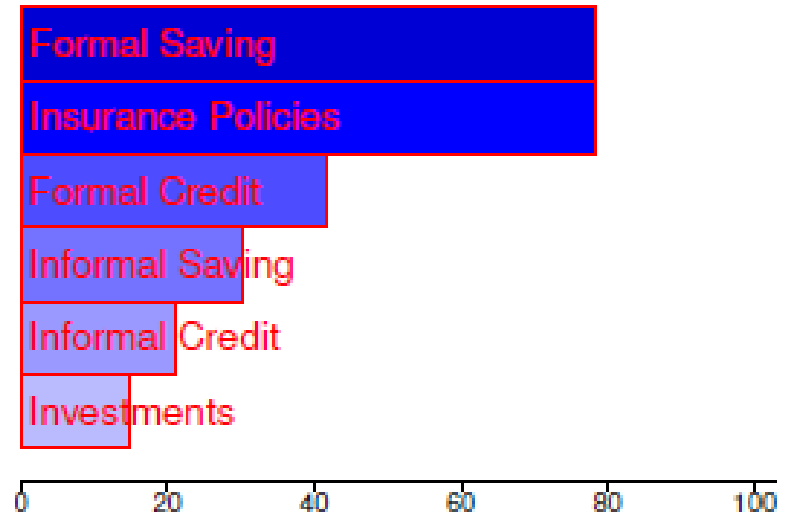
- ❑ Those who began savings habits as children outperform those who did not save in their childhood in almost all financial capability areas

Expansion of financial sector is reflected in high usage levels of formal savings and credit



Discrete frequency distribution of financial product usage

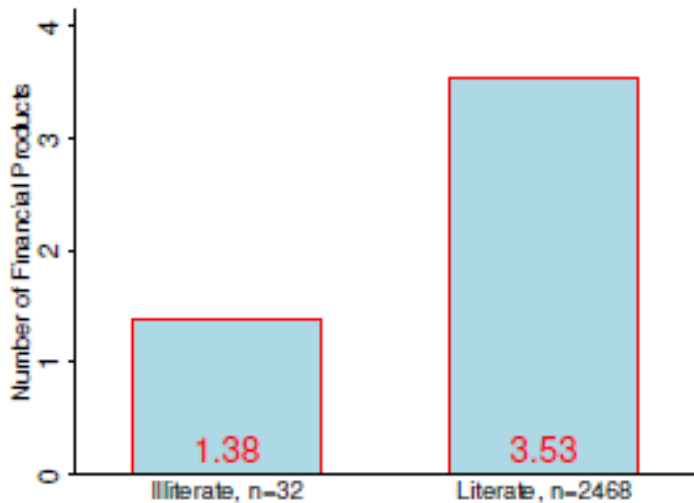
- ❑ On average, Mongolians hold 3.5 financial products
- ❑ Without compulsory insurance products they hold on average 2.5 products



% of respondents with different types of financial products

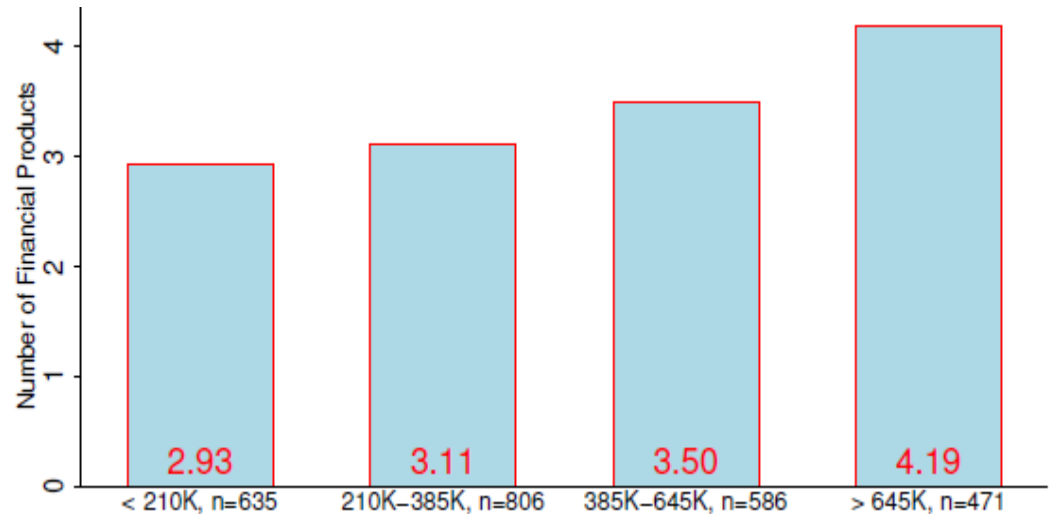
- ❑ 78% use some form of insurance
- ❑ Around 78% saves formally, 42% hold a loan from formal institution
- ❑ Compared to formal savings and loans, informal savings or borrowing mechanisms are less important
- ❑ Investment products are not widely used

Which segments of the populations are more financially excluded?



Average number of financial products used, by literacy

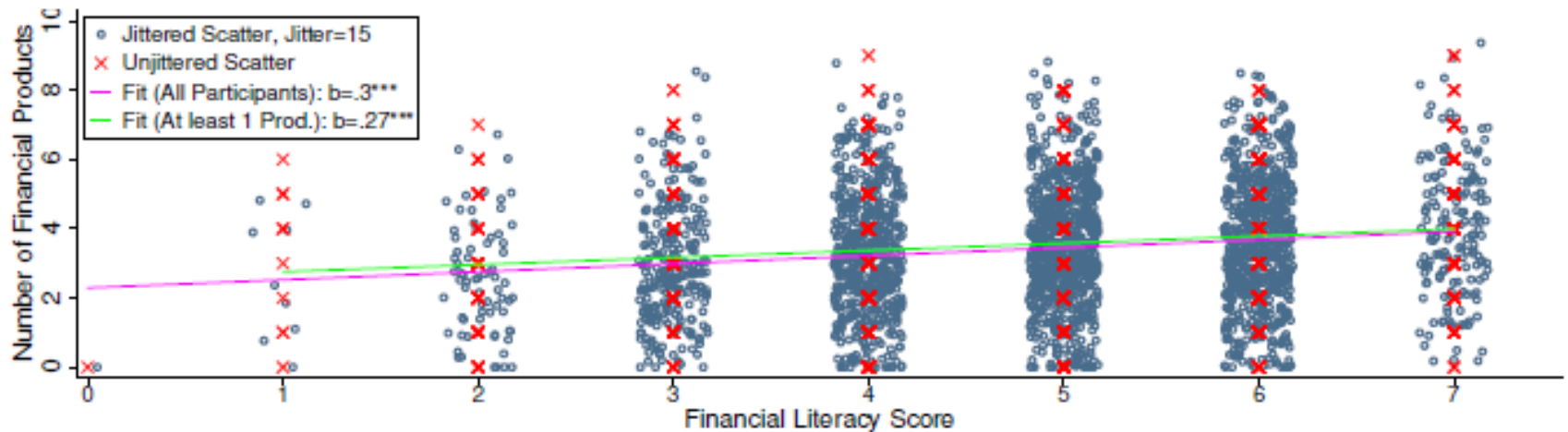
- ❑ Illiterate respondents hold fewer financial products than their literate counterpart group



Average number of financial products used, by household income

- ❑ Substantial differences in number of financial products held across income groups
- ❑ Likewise, compared to the rest of the population, herders and informally employed hold fewer financial products

Access and usage of financial products can be constrained by lack of financial knowledge

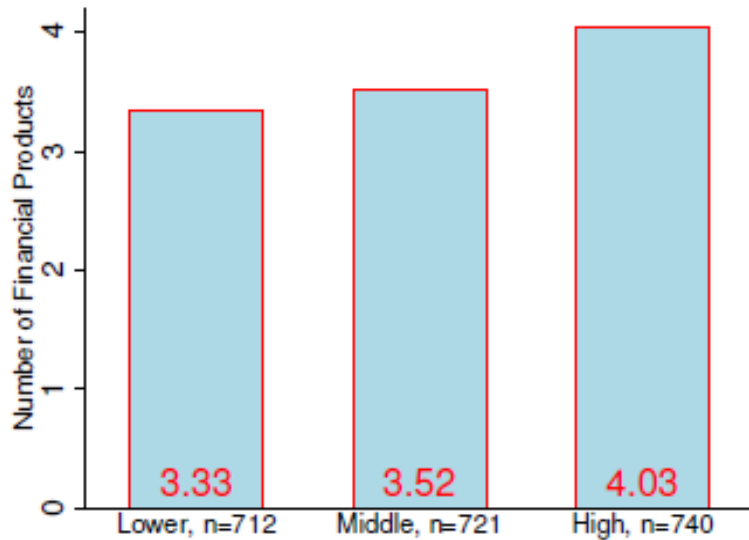


Linear fit without further controls. Significance levels: $p < .01^{***}$; $p < .05^{**}$; $p < .1^*$.

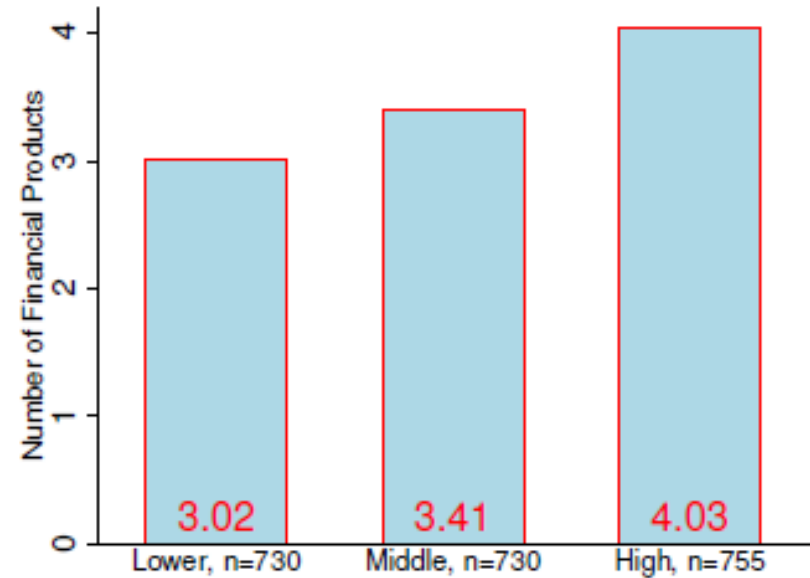
Relationship between financial inclusion and financial knowledge

- ❑ Mongolians who answered more financial literacy questions correctly tend to hold more financial products
- ❑ Similarly, higher financial literacy scores correlate with increased access and usage of different types of financial products

Access and usage of financial products can be further constrained by specific financial attitudes and behaviors



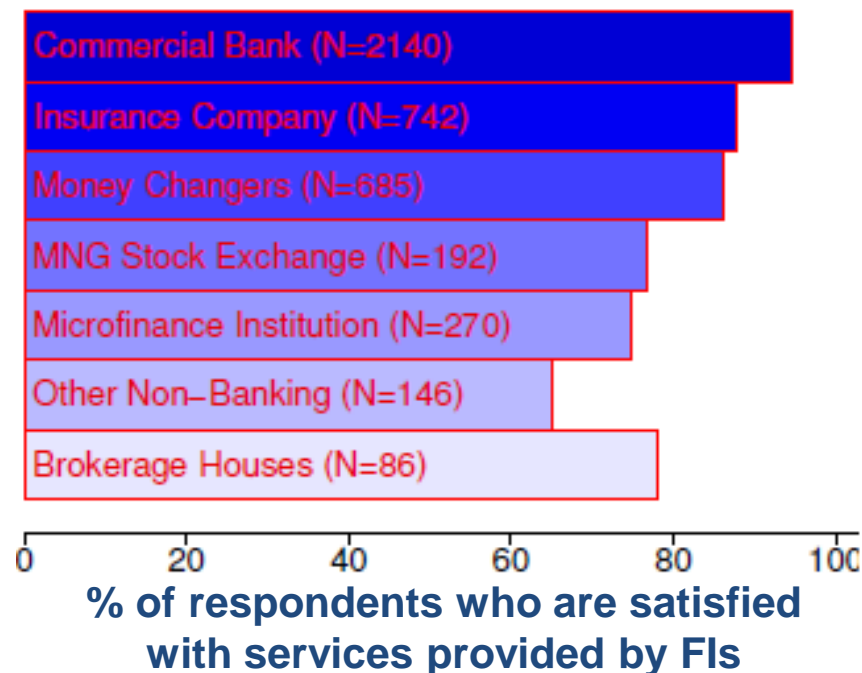
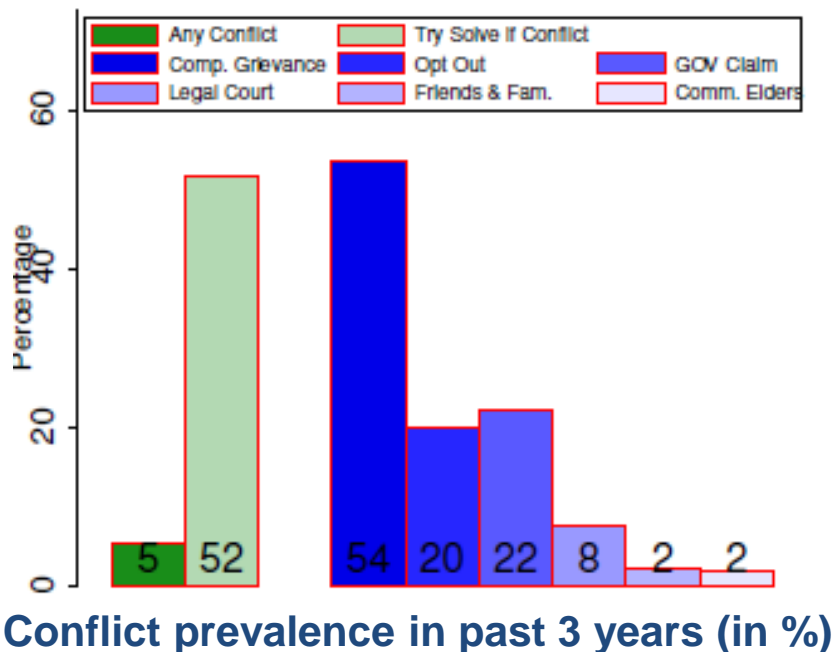
Average number of financial products, by 'making provisions' score



Average number of financial products, by 'being proactive' score

- ❑ Respondents who perform better in making provisions for the future tend to hold more financial products
- ❑ Similarly, people who tend to be more proactive have a higher level of participation in the financial sector

Respondents show low complaints culture, and high levels of satisfaction with most providers



- 5% reported a conflict in past 3 years
- Around 50% of those who reported a conflict tried to solve it
- Main reason for not trying to solve a conflict: FIs are perceived as too powerful

- Strikingly high levels of consumer satisfaction
- MFOs and NBFIs (credit co-operations) have the lowest satisfaction rates

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Policy Recommendations



Survey results should inform design of financial education strategy

Financial Education Strategy



- Development of strategy should have strong institutional champion and include a variety of stakeholders
- Strategy should outline a set of key priorities
- Implementation of strategy should follow a phased approach, utilizing pilots
- Financial education initiatives should incorporate impact evaluation methods from the outset
- The initiatives which prove to be the most effective should receive wide support and be widely publicized

Effective ways to improve Financial Capability

Program design



- ❑ Innovative and interactive measures, and ‘edutainment’ in particular, should be considered to reach adult target audience
- ❑ Financial education programs should take advantage of ‘teachable moments’
- ❑ Provision of financial education from early age should be encouraged
- ❑ In addition to primary target groups, financial education programs should also focus on their complements
- ❑ To increase uptake and beneficial use of financial products, financial education programs could be combined with available financial products
- ❑ Generic financial education programs may be ineffective, but when combined with other interventions they can be effective

International Examples

Zambia:
National Strategy on Financial Education
2012-2017



Brazil:
Financial education program in schools
(incl. impact evaluation)



New Zealand & Australia:
Financial literacy training for
remittances recipients and senders
(incl. impact evaluation)



South Africa:
Financial education delivered through popular
Soap opera (incl. impact evaluation)





Thank you for your attention!

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Appendix



Target groups and their areas of weaknesses

Herdsmen

- Limited awareness of products and services provided by different FIs
- Struggle with making provisions for the future and choosing appropriate financial products and services
- Lower participation levels in financial markets
 - Hold few products
 - Limited access and usage of formal savings products
 - Limited access and use of services provided by banks and other FIs

Target groups and their areas of weaknesses

Low
income
groups

- ❑ Limited understanding of financial concepts, (e.g. inflation, interest rates)
- ❑ Limited familiarity with products and services provided by different FIs
- ❑ Struggle with putting money aside regularly, with making provisions for the future, and with choosing appropriate financial products
- ❑ Low participation levels in financial markets
 - ❑ Hold few products
 - ❑ Limited access and usage of formal savings products
 - ❑ Limited access and use of services provided by banks and other FIs

Target groups and their areas of weaknesses

Rural dwellers

- Limited understanding of financial concepts, (e.g. inflation, interest rates)
- Limited familiarity with products and services provided by different Fis
- Challenged with making provisions for the future, and seem to have lower levels of achievement orientation
- Low participation levels in financial markets
 - Hold few products
 - Limited access and usage of formal credit products
 - Limited access and use of services provided by MFOs

Target groups and their areas of weaknesses

Illiterate groups

- Limited understanding of financial concepts, (e.g. inflation, interest rates)
- Limited familiarity with products and services provided by different FIs
- Struggle with controlling their budgets, with prioritizing their spending on essentials, with making provisions for the future, and with choosing appropriate financial products
- Low participation levels in financial markets
 - Hold few products

Target groups and their areas of weaknesses

Groups who did not save as children

- ❑ Limited understanding of financial concepts, (e.g. inflation, interest rates)
- ❑ Low inclination to set up a budget and to seek information; struggle with putting money aside regularly and with making provisions for the future
- ❑ Low participation levels in financial markets
 - ❑ Limited access and use of services provided by banks and other FIs