Mongolia Dissemination Workshop

Paving the road to better financial decision-making

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Presentation Outline

1. Background information
2. What are the key findings?
3. Policy recommendations
Background information
Financial Capability Survey

- 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.
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?

- 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 in Regions:

- 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

- 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?

- 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

- 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.

**Average financial capability scores**
Daily hardship can draw attention away from long-term needs

- 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.

Average financial capability scores, by household income

Average financial capability scores, by urbanization
Starting to build certain habits at an early age can have value

Average financial capability scores, by childhood savings behavior

- 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

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

Discrete frequency distribution of financial product usage

- 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?

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

- 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

- 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.

Relationship between financial inclusion and financial knowledge
Access and usage of financial products can be further constrained by specific financial attitudes and behaviors

- 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

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

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

% of respondents who are satisfied with services provided by FIs

Commercial Bank (N=2140) 95%
Insurance Company (N=742) 95%
Money Changers (N=685) 88%
MNG Stock Exchange (N=192) 78%
Microfinance Institution (N=270) 75%
Other Non-Banking (N=146) 75%
Brokerage Houses (N=86) 70%

Conflict prevalence in past 3 years (in %)

- Any Conflict
- Comp. Grievance
- Opt Out
- Legal Court
- Friends & Fam.
- Comm. Elders

- 52%
- 22%
- 20%
- 8%
- 2%
- 2%
4 Policy Recommendations
Survey results should inform design of 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

- 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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Target groups and their areas of weaknesses

- 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

Herdsmen
Target groups and their areas of weaknesses

- 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

- 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

Rural dwellers
Target groups and their areas of weaknesses

- 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

Illiterate groups
Target groups and their areas of weaknesses

- 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

Groups who did not save as children