



Canadians and Their Money
A National Symposium on Financial Capability

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Symposium on Financial capability

- Implications for individuals ...
- How well do they do?
- What determines success in the financial market?

How difficult is it to make a decision?

Difficulty of a choice

$$D = \frac{\text{Challenge (complexity?)}}{\text{Response Capability}}$$

**Literacy and Numeracy
are BOTH needed**

Consumer Skill Level

**What is your
skill level?**

For buying an
apple

For buying
insurance?

“Literacy
education
empowers
individuals and
communities.”

--- > Ask

Reading –

The reading skills of 40% of Canadian adults are too limited to allow them to deal with the majority of written material encountered in everyday life.

“...a large number of adults, well over three million Canadians aged 16 to 65, have problems dealing with printed materials...”

What is the ability level to be brought to deal with *financial* documents?

StatCan: *The Daily*, May 11 2005

<http://www.statcan.ca/Daily/English/050511/d050511b.htm>

THE 25 YEAR VIEW

What does the evidence show
about consumer difficulty?

1981

Financial services were
found NOT to be difficult.

Claxton and
Richie

Rate “shopping
difficulty” for
each of 24
products or
services

Men rated financial
services 22nd and women
23rd from the top.

(Four pillars made it easy?)

Alberta's

Cashion Report:

“ Development of product lines has resulted in a bewildering array of new products and new types of products.

... Distinguishing between the hundreds of choices is confusing for all but a very few consumers.”

1998

<http://finservtaskforce.fin.gc.ca/research/recherch.html>.

Colbert and
others in
Kerton for the
MacKay *Task
Force on the
Future of
Canada's
Financial
Services
Sector*

A desirable score on the Flesch-Kincaid readability test is grades 6 to 10.

Grade
Needed

ATM Agreement

15

Loan Application

17

Life Insurance

20

THE AGE OF THE INTERNET SCAM:

- Consumers International Study found that 10% of all the various Internet purchases provided *nothing* to the consumer
- Financial lemons
- Nigerian bank scam
- Purchasing at a high price ... or low quality .. without knowing how to succeed

Numeracy

Reading and numeracy skills are closely related

- What fraction of the population has grade 15 or grade 17 - and understands the financial documents they signed?
- Simpler documents can attract consumers
... avoiding poor purchases
- GNP is lower than it need be.

The problem

Q: How many sellers should I visit?

- It costs time and money to search
- There is a benefit in the form of “money saved” or “quality found.”

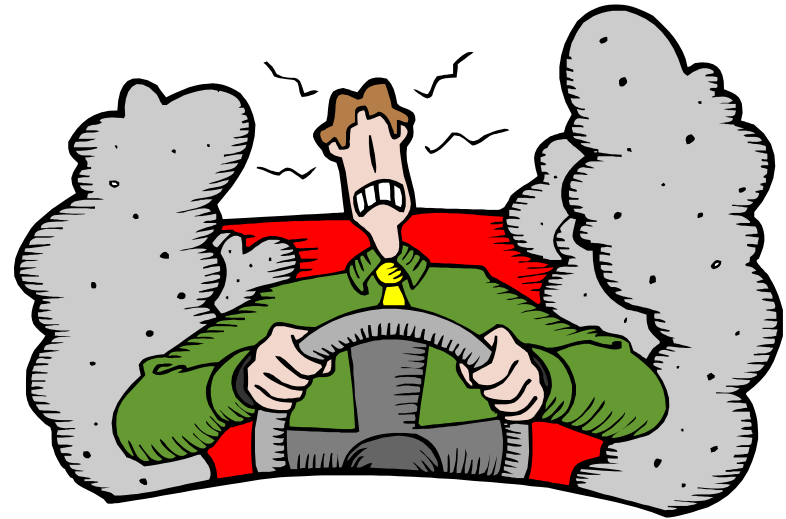
Type 1 Search

First:

info about want

*Eg what features
should I include for
my credit card?*

..or my car insurance?



Type 2 Search



Find a seller

[Who sells a basic banking account at the best price?]

Need more prices on an identified set of features

[Price of travel insurance in the US]

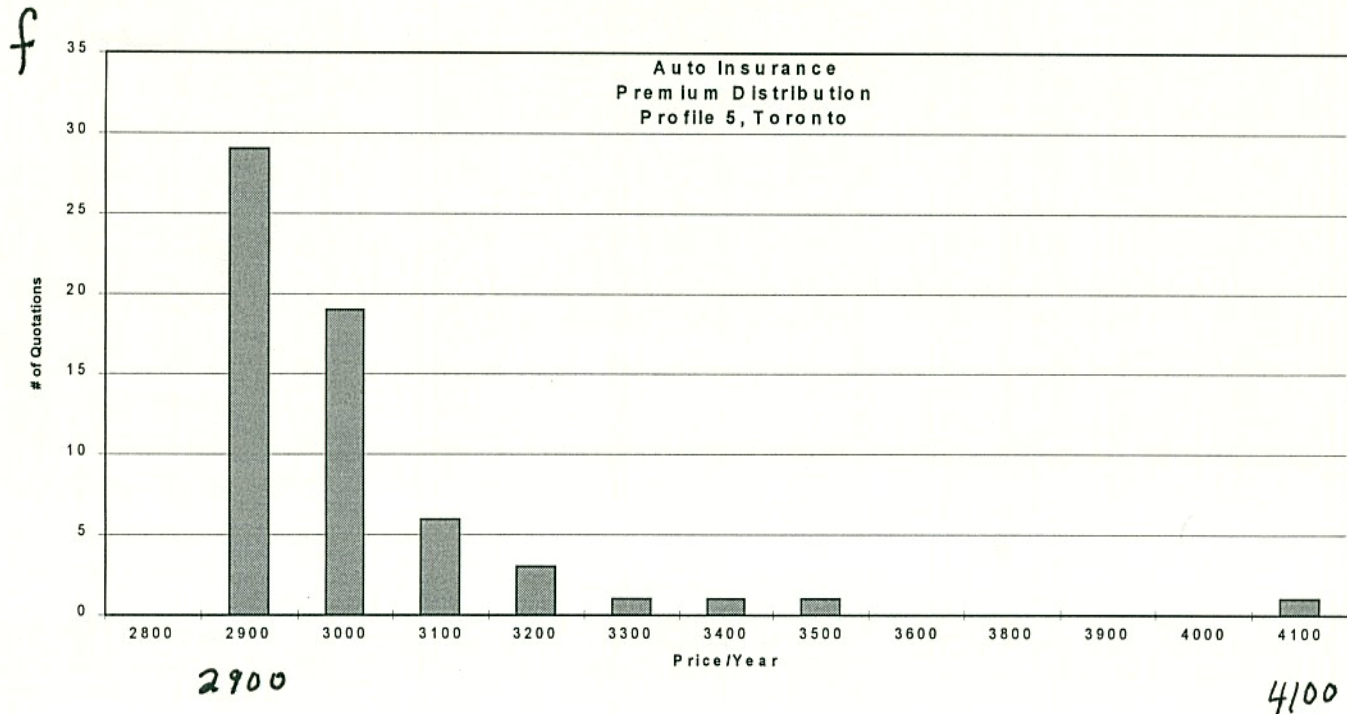
Ontario Insurance Commission shopped for auto insurance for a defined consumer and a specific car in May, 2001.

Results:

A consumer could easily pay more than **\$3,000** for the policy from a number of well known firms, or, if you searched every firm you could get the same policy from Co-operators General for **\$1,650**.

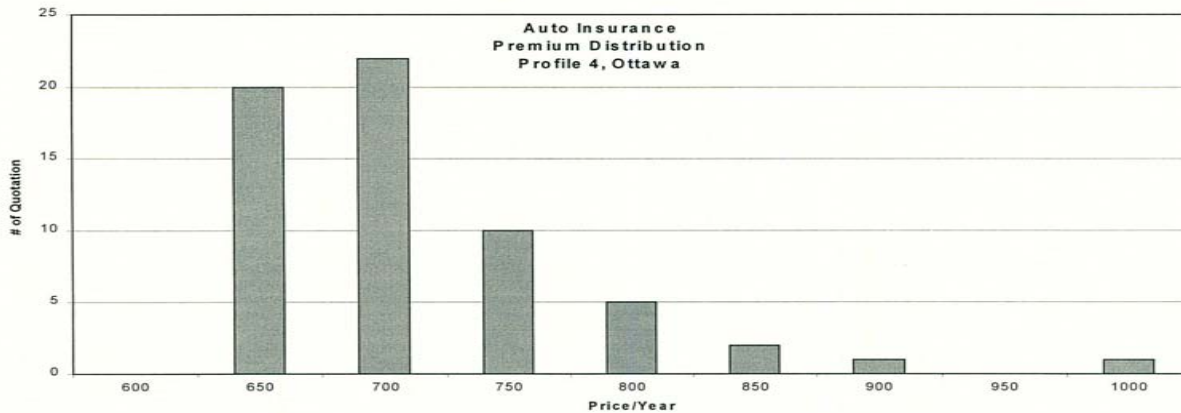
Q: How much should I search?

Senior, 1 vehicle



Frequency of quotes for car insurance premiums Ottawa. Original data from Ontario Insurance Commission.

<http://finservtaskforce.fin.gc.ca/research/research.htm>



Decision rule – from George Stigler

Continue to make an extra search so long as the expected benefit from the search exceeds the expected cost.

(In equilibrium $MB = MC$)

Satisfaction check

Check complaint experience re. quality

Eg e-Bay ratings

BBB ?

Blogs and flames

Finanztest (Germany) quality ratings

Eg: Ontario Insurance Commission

Overall Ranking in Service Quality

(Blue- improved most; red – declined most)

	1996	1997	2002
Resorts	n/a	n/a	1
Small Retailers	2	3	2
Credit Unions	1	2	3
Hotels	n/a	1	4
Restaurants	3	4	5
Courier Services	6	7	6
Auto Dealers	7	8	7
Large Retailers	11	12	8
Insurance Companies	8	9	9
Airlines	4	5	10
Postal Services	12	13	11
Banks	10	11	12

Source: National Quality Institute

DANGEROUS ASSUMPTION: IAKI

OVER THE LAST 10 YEARS,
THE QUALITY HAS

Source: Sentry Insurance

	IMPROVED	WORSENERD	SAME
SENIOR BUSINESS MANAGER N = 100	66	22	11
TOTAL PUBLIC N = 1510	27	61	8

The Economics of Noise

- Noise is a message that interferes with the consumer's ability to find the superior product or service (presume it is the one you are trying to sell)
- Noise is a method of increasing the consumer's search cost

Difficulty of a choice

$$D = \frac{T}{[K1 + K2]}$$

Building K1: consumer capability

- In schools
- On-line
- On site
- Financial Consumer Agency of Canada
- Cdn Foundation for Economic Education

Q: Could we improve overall GDP by 1% and the welfare of vulnerable consumers of financial services by 10 to 20% through the right mix of policies on literacy and transparency?

Building up K2. CCSK.....

Public Goods assisting consumer choice

- Ministry of Education: literacy numeracy
- Financial Consumer Agency of Canada
- Cdn Financial Services Ombuds Network
- Competition Bureau: monopoly; TiL TiA
- Office of Consumer Protection
- Options consommateurs

- Finanztest (Germany)
- US Fair Credit Reporting Act (FTC)

Consumer Rights

CONSUMER RIGHTS, accepted by Consumers International, a world federation of national consumer groups from 115 countries:

- the right to choice
- the right to be informed
- the right to safety
- the right to be heard
- the right to redress
- the right to consumer education
- the right to participate in marketplace decision making
- the right to have access to basic services
- the right to a sustainable environment

Thank you!