Using Encouragement to Overcome Psychological Barriers to Saving in Peru

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Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: Bolivia, Peru, Philippines

Sample: 5,000 anticipated clients of Caja Ica

Target group: Adults

Outcome of interest: Savings/deposits

Intervention type: Nudges and reminders Savings Non-monetary incentives

AEA RCT registration number: AEARCTR-0001350

Research Papers: Getting to the Top of Mind: How Reminders Increase Saving

Partner organization(s): Caja Municipal de Ica (CMAC Ica), Catholic Relief Services (CRS), Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa (COPEME), Ford Foundation

While much of the focus of microfinance has been on microcredit, formal savings services can also have a dramatic impact on the lives of the poor. Researchers examined the impact of an initiative to promote savings, through financial incentives, reminders, and messaging, on the savings behavior of the urban poor in Peru. Preliminary results found that the initiative increased the probability that clients reached their savings goals; negatively framed messages appear to be more effective than positive messages in getting people to save.

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Microfinance has generated worldwide enthusiasm as a possible strategy to help people living in poverty get the resources they need to start a business, receive additional education, or make investments. While much of the focus of microfinance has been on microcredit, formal savings services can also have a dramatic impact on the lives of the poor. Savings are important both as insurance in the case of illness or other economic shocks, and as a way to purchase productive assets. Savings can also substitute the need for loans among clients who have enough funds to finance their expenditures themselves. But savings strategies are less tested than credit services, and microfinance institutions struggle to effectively expand their savings services.

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The semi-urban poor living in Ica and Ayacucho, cities in southern Peru, often earn income through small enterprises and self-employment. In Ica, agriculture represents the most important industry, while Ayacucho is well known for its artisans and handicrafts. Many of the poor in this part of Peru save through informal means. They often keep savings in their own homes, a

practice referred to as a colchn banco (mattress-bank), or join Merry-go-Round savings groups called ROSCAs, where members pool their money into a pot, and each week or month a different member takes home the pot. Due to their informal nature, both of these savings practices can be risky and unreliable.

The semi-urban poor living in Ica and Ayacucho, cities in southern Peru, often earn income through small enterprises and self-employment. Photo: Shutterstock.com

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Researchers will examine whether an initiative to promote savings can help individuals save more and switch from informal savings to formal sector methods. The study is implemented by the Caja Ica, a bank designed to serve the needs of poor clients with microsavings and microcredit programs, with program support from Catholic Relief Services (CRS) and technical assistance from COPEME. The Caja Ica is offering a new commitment savings product called "Ahorro Programmado". Clients who choose to participate in this service commit to saving an amount of their choosing, amounting to at least 20 soles (US$6.50) per month for six, twelve, eighteen, or 24 months. As an incentive for meeting their savings commitment, clients receive a preferential interest rate of more than twice what the normal interest rate is for savings accounts.

This research will examine various product designs, beyond the already increased financial incentive, to see which are more effective at encouraging clients to complete their savings commitment. Each of the estimated 5,000 clients expected to enroll in the program will be randomly assigned to receive one or more of the following: (1) reminder letters before the due date of their payment, (2) token gifts upon payment to bring forward the "benefit" of saving, (3) positive or negative incentive messages on each deposit slip, or (4) no services, serving as a comparison. This study will determine the commitment device that most effectively encourages clients to meet their savings goals.

النتائج والدروس المستفادة بشأن السياسات

Results forthcoming

Karlan, Dean, Margaret McConnell, Sendhil Mullainathan, Jonathan Zinman. "Getting to the Top of Mind: How Reminders Increase Saving." Working Paper, October 2014.