Text Message Reminders and Incentives to Save in Bolivia

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Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: La Paz, Bolivia

Sample: 9,652 clients of Ecofuturo's programmed savings accounts in 2008; 6,119 clients in 2009

Target group: Adults

Outcome of interest: Earnings and income Savings/deposits

Intervention type: Nudges and reminders Savings Non-monetary incentives

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

Partner organization(s): Ecofuturo

Researchers evaluated the effectiveness of sending text message reminders to clients holding programmed savings accounts.

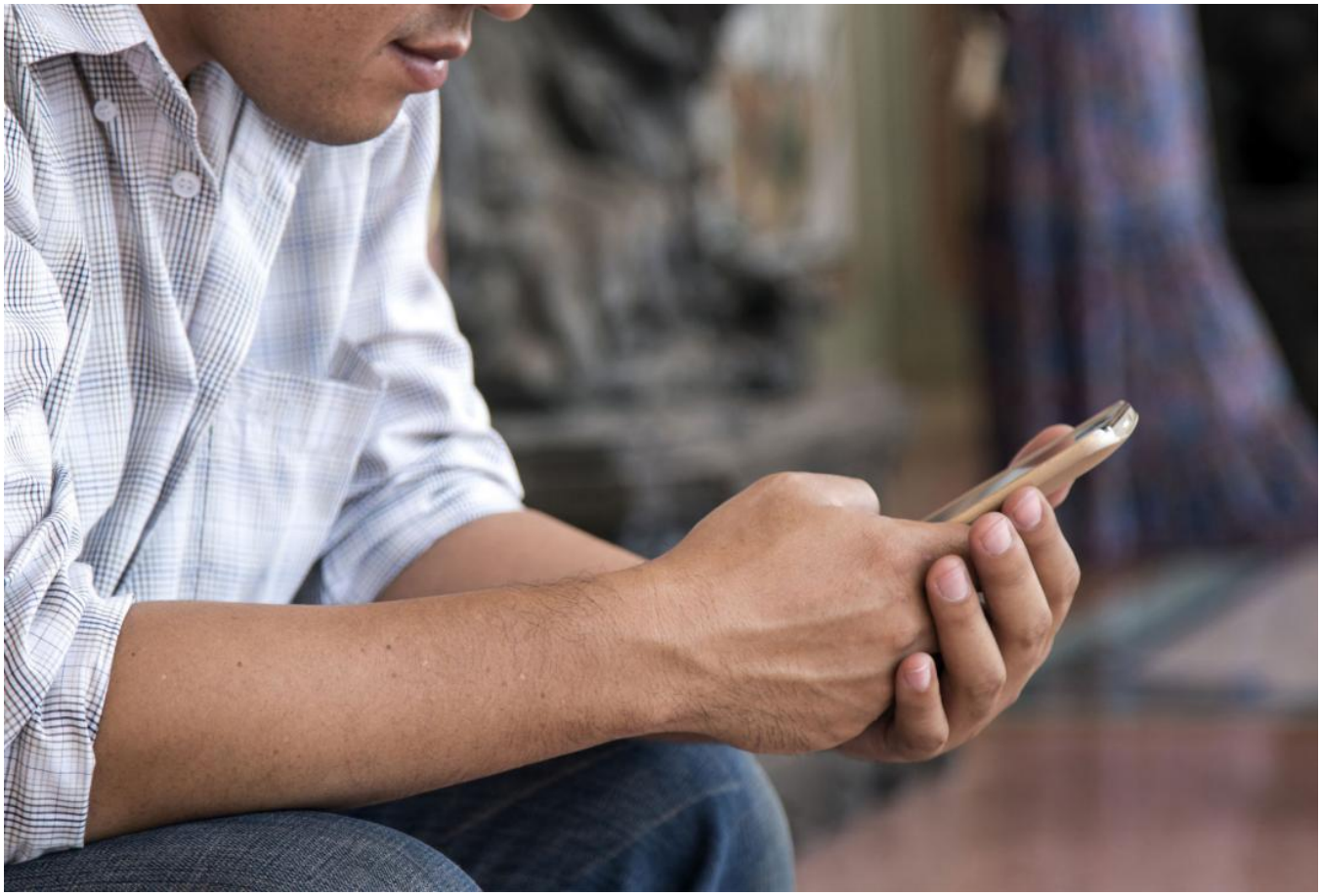
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Due to the absence of efficient credit and insurance markets, household savings are often a crucial determinant of welfare in developing countries. Without savings, households have few other mechanisms to smooth out unexpected variations in their income, and so shocks, such as health emergencies, can force households into selling assets or taking on debt. Additionally, since savings are one of the few means to accumulate assets in the absence of credit and insurance markets, the capacity to save becomes one of the main vehicles of social mobility and of enhancing future income-earning possibilities. Many people express a desire to save more in the future, but when the time comes, find it difficult to do so. Financial institutions have designed saving products to help clients commit to saving in the future, however, the effectiveness of many such products has yet to be evaluated.

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The savings rate in Bolivia is low compared to elsewhere in the South American region. Encouraging savings, however, can be costly and risky. Since microfinance institutions (MFIs) often struggle to control costs and are highly risk-averse, many MFIs in Bolivia have preferred to recapitalize their loan portfolio with "easy money" such as donor funds and concessionary loans. However, some MFIs in Bolivia are now beginning to realize that, while savings services seem to be more costly and risky relative to other sources of financing, they may be handicapping themselves by not developing robust deposit-taking services and the systems to support them. Clients of the for-profit bank Ecofuturo express a clear desire to save: over 56,000 clients held savings accounts in 2008, a greater number even than the approximately 42,500 active borrowers. One of the savings accounts offered by

the bank is a “programmed” savings account, which offers clients a favorable interest rate and free life and accident insurance in exchange for making regular deposits and accepting limits on withdrawals. In particular, clients must make a deposit each month and can withdraw funds from the savings account only in the month of December. Yet despite the popularity of the savings accounts, over 40 percent of savings clients fail to deposit each month as required.



Researchers evaluated the effectiveness of sending text message reminders to clients holding programmed savings accounts. Photo: Shutterstock.com

Doug Parkerson

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Researchers are working with Ecofuturo to measure the effectiveness of sending text message reminders to clients holding these programmed savings accounts. The evaluation focuses on a specific programmed savings account called Ecoaguinaldo that is similar to a Christmas Savings Club. The Ecoaguinaldo mimics the *aguinaldo*, the year-end bonus many salaried Bolivians receive at the year’s end. The Ecoaguinaldo is used by unsalaried workers and those who want to supplement existing savings accounts, as well as by small business owners who wish to ensure that they have sufficient funds to provide their employees with the expected holiday bonus. Clients typically open an Ecoaguinaldo account at the beginning of the year and withdraw the savings they have accumulated over the year in December. Receiving a lump sum in December allows clients to meet their end-of-the-year financial obligations. The text message reminders provide an opportunity to explore what types of messages are most effective at motivating clients to follow through on their desires to save.

Half of the savings clients with a listed cell phone number were randomly selected to receive a monthly text message reminding them about their Ecoaguinaldo account. There were four distinct messages, which combined a mention of either the savings goal (monthly goal amount in order to receive a year-end monetary bonus) or the reward (an active and free life insurance product if all monthly deposits made), and framed the message as either a loss or gain. The messages to the four treatment groups were:

1. *Goal-Gain:* Earn your Aguinaldo! With this month's deposit, you will be one step closer to reaching your savings goal.
2. *Goal-Loss:* Don't fail to earn you Aguinaldo! If you miss this month's deposit you may not reach your savings goal.
3. *Reward-Gain:* Earn your reward! Don't forget your deposit this month. Remember, you will earn a reward of X if you make all of your deposits on time.
4. *Reward-Loss:* Don't lose your reward! Don't forget your deposit this month. Remember, you will lose your reward of X if you do not make all of your deposits on time.

Half of the people who received messages in 2008 were in the comparison group the next year so that the impact of receiving messages one year but not the next could be measured. In the last three months of the project in 2008, the number of treatments was doubled to eight. Each of the four original treatments were split in half and preceded by the phrase “Ecofuturo supports your decision to save,” to one of the halves. Based upon the 2008 results, in 2009 only messages that focused on the reward were sent.

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Overall the reminder message increased savings balances weakly (not statistically significant) and the probability of meeting the savings goal of making one deposit a month by 3 percent. When results are pooled across similar experiments in Peru and the Philippines, we increase the power of our study, finding the same sized effects statistically significant at the 10 percent level for savings balances and the 1 percent level for the proportion of clients meeting their goal. Messages that mentioned the incentives of maintaining your life insurance policy and receiving reward interest were most effective, increasing savings balances by 10 percent. We see no difference between the effectiveness of messages framed with “gain” and “loss language.” Preliminary results from 2009 suggest that the effectiveness of reminders may decrease over time. The increase in savings due to the reminders was large enough to make it a profitable venture for the bank. Moving forward, reminders will be a standard component of the bank’s programmed savings accounts.

Karlan, Dean, Margaret McConnell, Sendhil Mullainathan, Jonathan Zinman. "Getting to the Top of Mind: How Reminders Increase Saving." Working Paper, Yale University, January 1, 2011.