Text Messages and Reminders to Save in Ecuador

Researchers:

Dean Karlan

Margaret McConnell

Miguel Paredes

Dylan Ramshaw

Jonathan Zinman

Sector(s): Political Economy and Governance

Fieldwork: Innovations for Poverty Action (IPA)

Location: Ecuador

Sample: 2700 existing FINCA clients with basic savings accounts

Outcome of interest: Household finance

Intervention type: Nudges and reminders

Research Papers: Remembering to Save: Timing of SMS Reminders in Ecuador

Partner organization(s): FINCA International

Savings can provide a safety net for low-income individuals, allowing them to create a cushion against risks, build assets for their future, and smooth income during periods of low income. Working with a microfinance institution in Ecuador, researchers investigated whether providing timely reminders to save via text message can help people save more.

Policy issue

Savings can provide a safety net for low-income households, allowing them to create a cushion against risks, build assets for their future, and smooth income during periods of decreased income. However, the majority of the world's low-income population does not have access to formal savings mechanisms, and instead are forced to save informally through such methods as hiding money in their homes, or purchasing assets such as jewelry and livestock. These methods tend to be risky, inefficient, and costly. In addition, there has been very little research on how to design appropriate products taking into account the specific needs of low-income individuals and to incentivize more disciplined savings behavior.

Context of the evaluation

The proposed intervention is based on the idea that individuals do not foresee events in the future and thus do not save for those expected needs in the present. As a result, mechanisms to remind clients in a frequent and timely manner to save now, such as a text message after a pay-period, may improve the ability of clients to consider future needs, stall unnecessary consumption in the present, and consequently save for the future. Salient and timely reminders can refocus attention from current activities to investment for longer term goals and lead to improved client savings behavior.

FINCA Ecuador is one of many microfinance institutions (MFIs) that provides financial services to the Ecuador's lowest-income entrepreneurs so they can create jobs, build assets, and improve their standard of living. These services include microenterprise

loans, health and home insurance, and health services via third party providers for clients and their families. More recently, FINCA Ecuador became a regulated bank and, as a result, is required to offer savings services to its clients.



Man looking at text messages in Ecuador.

Photo credit: DFLC Prints, Shutterstock.com

Details of the intervention

The study sample of 2700 clients was drawn from FINCA's database of existing savings clients with cellular phone information and new clients who opened accounts during the first five months of the study. Baseline data was collected from new clients at the moment they opened the account. The baseline survey collected information such as current financial activity, savings goals, and banking preferences (i.e., preferred banking hours/days). Eligible clients were required to have a cell phone but were not required to have a certain income or savings balance, apart from the minimum balance required by FINCA to open an account. After the baseline data was collected, clients were randomly assigned to a treatment or comparison group.

Clients in the treatment group received text message reminders to save via cell phones. The messages varied across several dimensions, including (a) Frequency: the interval at which messages are sent e.g., weekly vs. monthly (b) Duration: the length of time over which the messages are sent e.g., two months vs. four months (c) Timing: the moment at which the messages are sent e.g., time of day (morning vs. afternoon) or day of the week (Monday, Wednesday, Friday) (d) Content: the substance of the message e.g., phrasing of text. The messaging intervention lasted for eight to ten months depending on the treatment. During the intervention period, the research team tracked the frequency of deposits, average account balances, and bank transaction data for the entire sample.

Results and policy lessons

Results forthcoming.