Using Alarm Boxes to Combine Commitment and Reminders for Savings in Bolivia

Researchers:

Dean Karlan

Margaret McConnell

Jonathan Zinman

Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: La Paz

Sample: 2400 Ecofuturo clients with programmed and basic savings accounts

Outcome of interest: Household finance

Intervention type: Nudges and reminders Savings

Partner organization(s): Ecofuturo

In addition to a lack of banking infrastructure, there are many obstacles to saving money in low- and middle-income countries. Individuals may not foresee future events that they need to save for, or may lack a safe place to save money temporarily and require a means to curb impulsivity. In Bolivia, researchers investigated whether alarm boxes, designed to both remind people to save and to keep their savings safe, could have an effect on savings rates among microfinance clients.

Policy issue

In addition to the lack of banking infrastructure, many other constraints limit the availability and effectiveness of savings services for low-income individuals. There has been very little research to map the demand for services so that products can be designed with clients' needs and cash-flow in mind. These constraints in the supply and demand for savings service point to the need for specialized market research and product development efforts. Efforts to unveil the actual needs and perceptions of low-income clients to better devise products and incentives for them may result in more rigorous savings behavior.

The proposed intervention is based on the idea that individuals do not foresee events in the future and thus do not save for those unexpected needs in the present. Furthermore, individuals lack a safe place to save money temporarily and require a means to curb impulsivity. As a result, mechanisms to remind clients in a frequent and timely manner to save now, such as programmed alarms and lockboxes that do not allow for easy access to these savings, may improve the ability of clients to take future needs into account, stall unnecessary consumption in the present, and consequently change savings behavior.

Context of the evaluation

Although the gross domestic savings rate in Bolivia in 2009 averaged about 20 percent of the country's GDP, on par with its neighbors (Peru at 26 percent and Ecuador at 21 percent), Bolivia's savings rate has been historically much lower than those of other countries in Latin America, and access to savings services is severely constrained among low-income individuals.[1] Given the predominance of microfinance institutions (MFI) in the financial services sector in Bolivia, the responsibility of generating savings

products and services for low-income individuals generally falls on these institutions. Increasingly, due to the commercialization of the sector in Bolivia, the capturing of savings has become a major driving force behind MFI sustainability and growth.

Ecofuturo is a for-profit Bolivian microfinance institution that operates in many regions of Bolivia. Ecofuturo offers an array of individual credit, insurance, and savings products. These savings products range from basic non-programmed accounts to more complex commitment accounts that require the client to meet deposit quotas in order to qualify for rewards, such as higher interest rates. Working with Ecofuturo, IPA developed an innovative lockbox with a daily alarm that can only be turned off by depositing money. The lockbox acts as a psychological barrier to impulsivity by requiring its owner to visit the local bank branch where designated bank staff keep the key. By incorporating the use of alarms to the already familiar concept of lockboxes (i.e. piggy banks), IPA tested the impact of a technology that is both simple and cost-effective. The alarm acts like a reminder, not unlike a text message reminder to a cell phone, but over a period of time could prove to be more cost-effective and relevant for those who do not have access to a cell phone.



Female small business owner sitting in her store in Bolivia.

Photo credit: Sunshine, Shutterstock.com

Details of the intervention

IPA first tested the alarm box with a small pilot sample with plans to launch the product to approximately 800 Ecofuturo clients to evaluate its impact on savings behavior. In total, IPA worked with 2400 existing savings account holders. Two-thirds of the clients were randomly selected to get an offer of a lockbox, and of those clients, half will be offered boxes with alarms. The remaining group of clients served as a comparison group. The impact of an information wheel that clients can use to determine daily savings amounts required to ascertain a goal in a given time was also be assessed. Within each of the three groups (comparison, lockbox,

lockbox with alarm), half of the clients were randomly selected to receive the wheel. Savings rates and frequencies were measured amongst intervention and comparison groups after approximately one year.

Results and policy lessons

Results forthcoming.

---

1. The World Bank Group. https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS