Incentivizing Savings through Default Deposits and SMS Reminders

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Sector(s): Finance

Sample: 6,000 bank clients

Outcome of interest: Empowerment Household finance

Intervention type: Nudges and reminders Savings

AEA RCT registration number: AEARCTR-0000792

Partner organization(s): Banco Estado

Can automatic monthly transfers from a checking account into a dedicated savings account help bank clients meet their savings goals? Can monthly SMS reminders to save or short "rules of thumb" based financial training do the same at a lower cost? Researchers are partnering with Banco del Estado, a state-owned but independently run bank in Chile, to evaluate the impact of default deposits, SMS reminders to save, and short financial training for bank clients in low-income urban areas on saving and spending decisions.

Policy issue

Consistent savings contributions can help poor families afford large, lump-sum purchases and hedge against unforeseen expenses without having to resort to loans. However, making regular saving contributions can be difficult. As day-to-day expenses arise, individuals often prioritize current spending over saving for future expenses. Smart product design, however, may be able to help mitigate these barriers. Setting up regular, automatic deposits into a dedicated savings account, for instance, could help clients commit to future savings and prevent these psychological barriers from affecting savings decisions. In addition, regular text message reminders may help refocus clients' attention on their savings plans, and well-designed financial training may further encourage clients to prioritize savings.

Context of the evaluation

This study takes place in urban municipalities in and around Santiago that have a high poverty rate or a large portion of families receiving social welfare subsidies. While most adults in Chile have access to formal financial services, just 15 percent of Chileans saved money at a formal financial institution in 2014. As the poor were even less likely to have had any formal savings,[1] inadequate saving is likely a major concern for many households in the study communities.

A woman withdraws cash from an ATM.

Photo credit: Paul Smith, J-PAL/IPA

Details of the intervention

Researchers are partnering with Banco del Estado to test the impact of default savings deposits, text message reminders to save, and financial training on clients' savings decisions. Current and new Banco del Estado clients at 23 participating branches in and around Santiago will be asked by bank workers to complete a short questionnaire on a tablet, which will randomly assign them to one of four study groups:

1. *Default Deposit Group:* clients will receive an offer to set up an automatic savings plan that makes monthly transfers from their checking account to a separate savings account.
2. *Reminder Group:* clients will receive monthly text messages that remind them of their motivation for saving as expressed in the initial questionnaire.
3. *Training Group:* clients will watch a short financial training video and take home a tool kit that highlights rules of thumb for financial management. Clients will also receive monthly text messages that reinforce the message of the video.
4. *Comparison Group:* clients will not receive any of these programs.

The researchers will use in-person surveys and administrative data from Banco del Estado on participants' account balances and transaction records to measure how the programs being tested affect participants' saving habits over time, as well as their spending decisions, employment outcomes, empowerment within their households, and their self-esteem. The researchers will

also work with Banco del Estado to conduct a cost-benefit calculation for each intervention.

Results and policy lessons

Study ongoing; results forthcoming.

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1. Demirguc-Kunt, Asli, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden. 2015. “The Global Findex Database 2014: Measuring Financial Inclusion around the World.”