Improving Credit Scores with Information in Peru

Researchers:

Xavier Giné

Kareem Haggag

Dean Karlan

Jonathan Zinman

Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: Peru

Sample: 49,900 individuals

Target group: Adults

Outcome of interest: Earnings and income Credit balance/repayment

Intervention type: Credit Digital and mobile Information Nudges and reminders

AEA RCT registration number: AEARCTR-0002354

Partner organization(s): Superintendencia de Banca y Seguros de Perú

Credit reports may help low-income borrowers better understand their credit histories and allow them to make better borrowing decisions. However, even when credit report tools are freely available, borrowers rarely check their scores. Awareness campaigns may make credit reports more salient to consumers and in turn increase the use of credit reports in financial decision-making. In Peru, researchers are conducting a randomized evaluation to measure the impact of an SMS reminder campaign on the frequency of credit report checks, credit scores, total debt levels, and interest rates paid on debt.

Policy issue

Overindebtedness is an increasing problem among borrowers in low income countries. Better information on credit scores may reduce consumers' inclination to take on risky levels of debt, but even when credit report tools are freely available, borrowers rarely check their scores. There are several potential explanations for this: Individuals may be too occupied with other tasks to remember to check their scores, they may be reticent to receive the information if they suspect it will be bad, or they may not be aware of the importance of keeping a good credit score. Simple reminders may help increase the salience of credit reports and encourage consumers to use them in their financial decision-making. Researchers are conducting a campaign of SMS reminders to understand what sort of messages can encourage more frequent checking of credit scores, and if knowledge of these scores leads to less risky financial decisions.

Context of the evaluation

Like many Latin American countries, Peru has seen its level of consumer debt increase in recent years, particularly among low-income individuals. A 2010 report by the Center for Microfinance at the University of Zurich classifies Peru as having a "relatively

elevated…risk for overindebtedness", higher than other countries in the region.[1], Similarly, a 2016 publication by Smart Campaign on Peruvian consumers parallels these findings, reporting that the average household surveyed spends 26 percent of their monthly income on debt repayment. For rural consumers, this figure is 35 percent.[2]

To give potential borrowers better information on their risk and the rates they will face, the Superintendencia de Banca y Seguros del Perú (SBS)—the Peruvian financial regulator—has created an online portal and a mobile app that allow consumers obtain their credit history for the previous five years. The reports include an overall credit score as well as the status of each of a borrowers' lines of credit. Despite media campaigns to advertise the portal, consumers use rates have been low. Although 1.3 million Peruvians have already logged in into the portal, less than a quarter have logged in more than once.

Details of the intervention

Researchers are partnering with SBS to conduct a randomized evaluation to measure the impact of a text message reminder program on usage of the credit history portal, overall level of debt, and credit scores.

Using data from SBS, researchers will randomly select 49,900 individuals to participate in the SMS study. Half of the participants will be drawn from those who have checked their credit score at least once, while the other half will be drawn from those who have never checked their score.

25,000 participants will receive one of five randomly chosen reminder messages, each designed to address a different reason for lack of attention:

- Neutral message: "Get your free SBS credit score here." • Positive comparison: "Get your free SBS credit score here [link]. Did u know that [n] out of 10 people have the lowest score?"
- Negative comparison: "Get your free SBS credit score here [link]. Did u know that [n] out of 10 people have the highest score?"
- Ability to change score: "Get your free SBS credit score here. Improve it today by paying off any late debts."
- Framing as question: "Get your free SBS credit score here. Do you know your score?"

Additionally, half the individuals who received a text message (12,500 in total) will also receive a reminder that SBS has not checked their score. The remaining 25,000 participants will serve as the comparison group and will receive no message. Researchers will evaluate participants on the number of times they access their free credit report, credit scores, total debt levels and interest rates paid on debt.

Results and policy lessons

Study ongoing; results forthcoming.

---

1. University of Zurich Center for Microfinance. 2010. *Over-indebtedness and Microfinance – Constructing an Early Warning Index.* https://www.researchgate.net/publication/299565497_Over-indebtedness_and_microfinance_Constructing_an_early_warning_index

2. The Smart Campaign. 2016. *Client Voices – Peru Country Report*. https://www.centerforfinancialinclusion.org/wp-content/uploads/2024/02/Voices_from_Peru_V2.pdf