



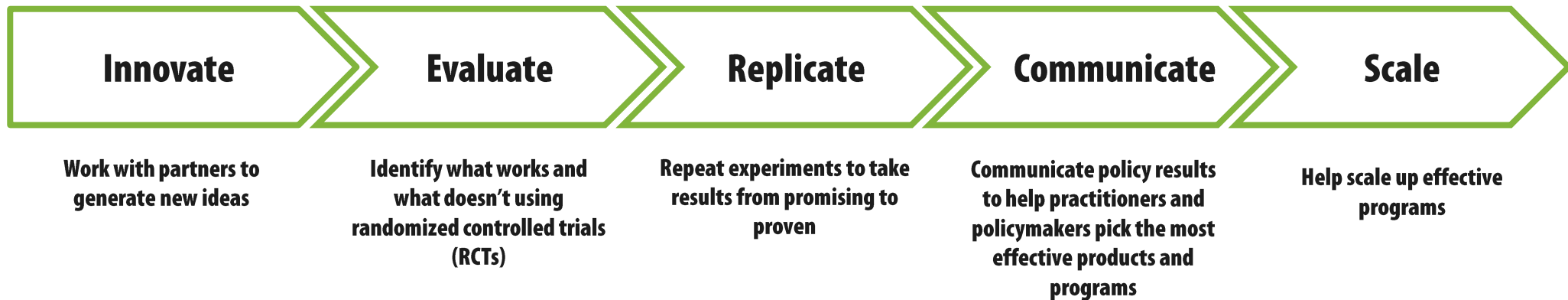
Nudges for Financial Health: Global Evidence for Improved Product Design

Kyle Holloway
Program Manager
March 9th, 2017

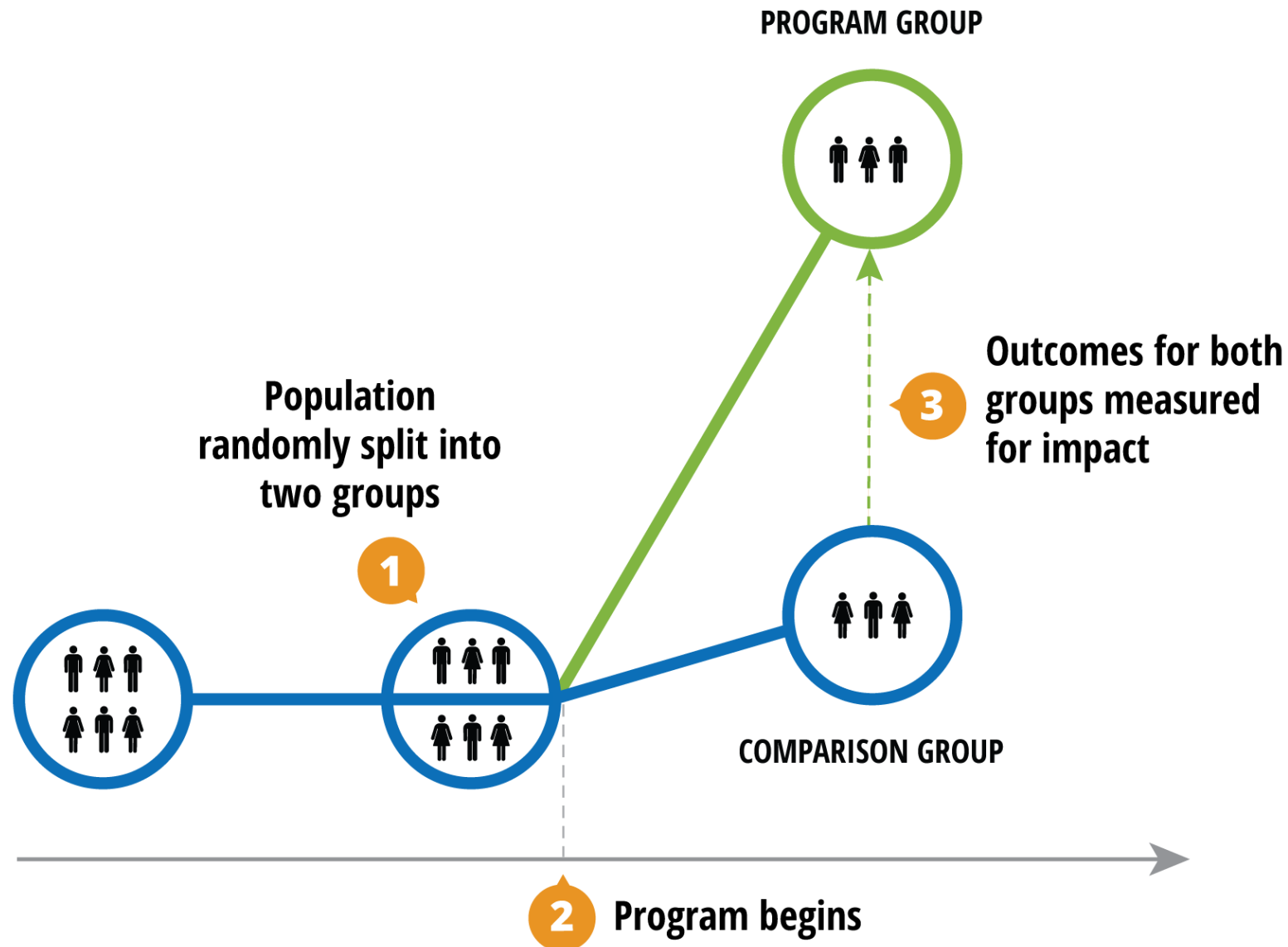


Innovations for Poverty Action (IPA)

IPA is a research non-profit that was created in 2002 to discover and promote effective solutions to global poverty problems.



Randomized Controlled Trials (RCTs)



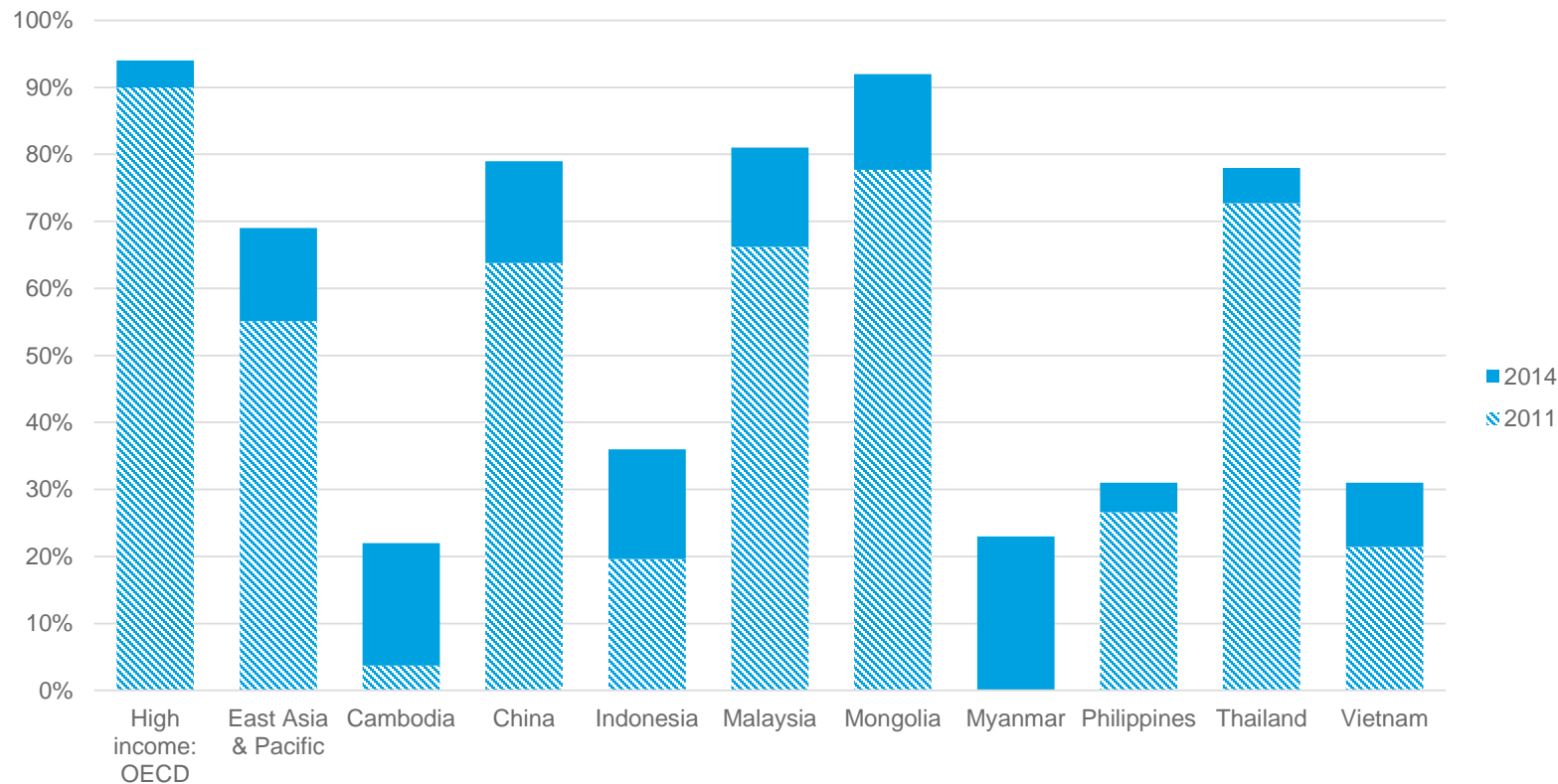
Presentation Outline

- State of financial inclusion, DFS, and savings in East Asia & Pacific
- Behavioral Biases
- Design features to increase voluntary savings



Account Ownership

Account ownership
Adults with an account (%)



Account ownership is rising, and East Asia and the Pacific has the **highest rate of account ownership** among developing regions.

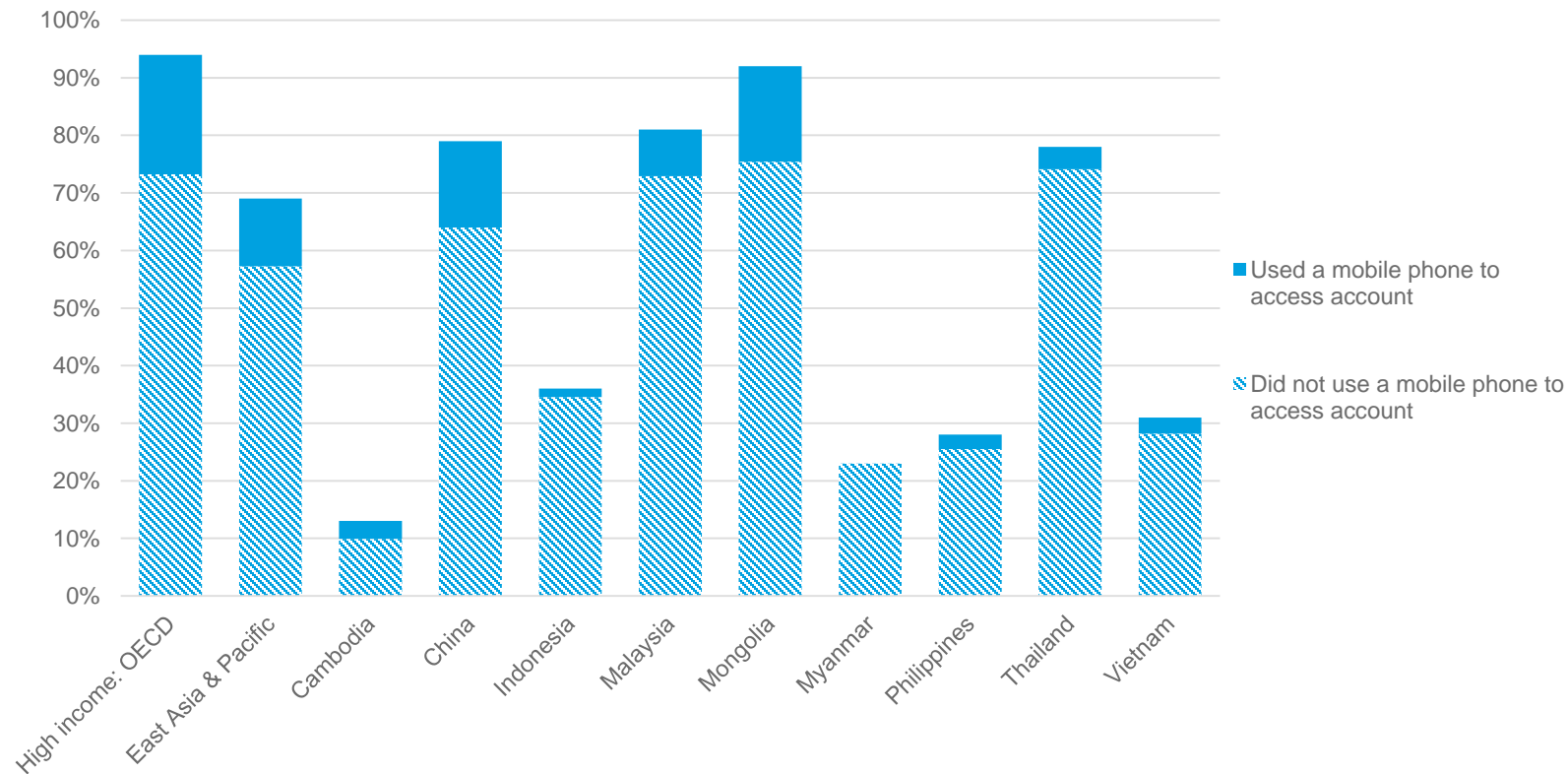
Smallest gender gap (4pp) in the developing world.

Account ownership among the poorest 40% of households rose 22% from 2011 to 2014, but **the rich and poor remain separated by a 13 pp gap.**



Account Use

Made transaction from an account at a financial institution in the past year



17% of account holders make payments from their bank account using a mobile phone.

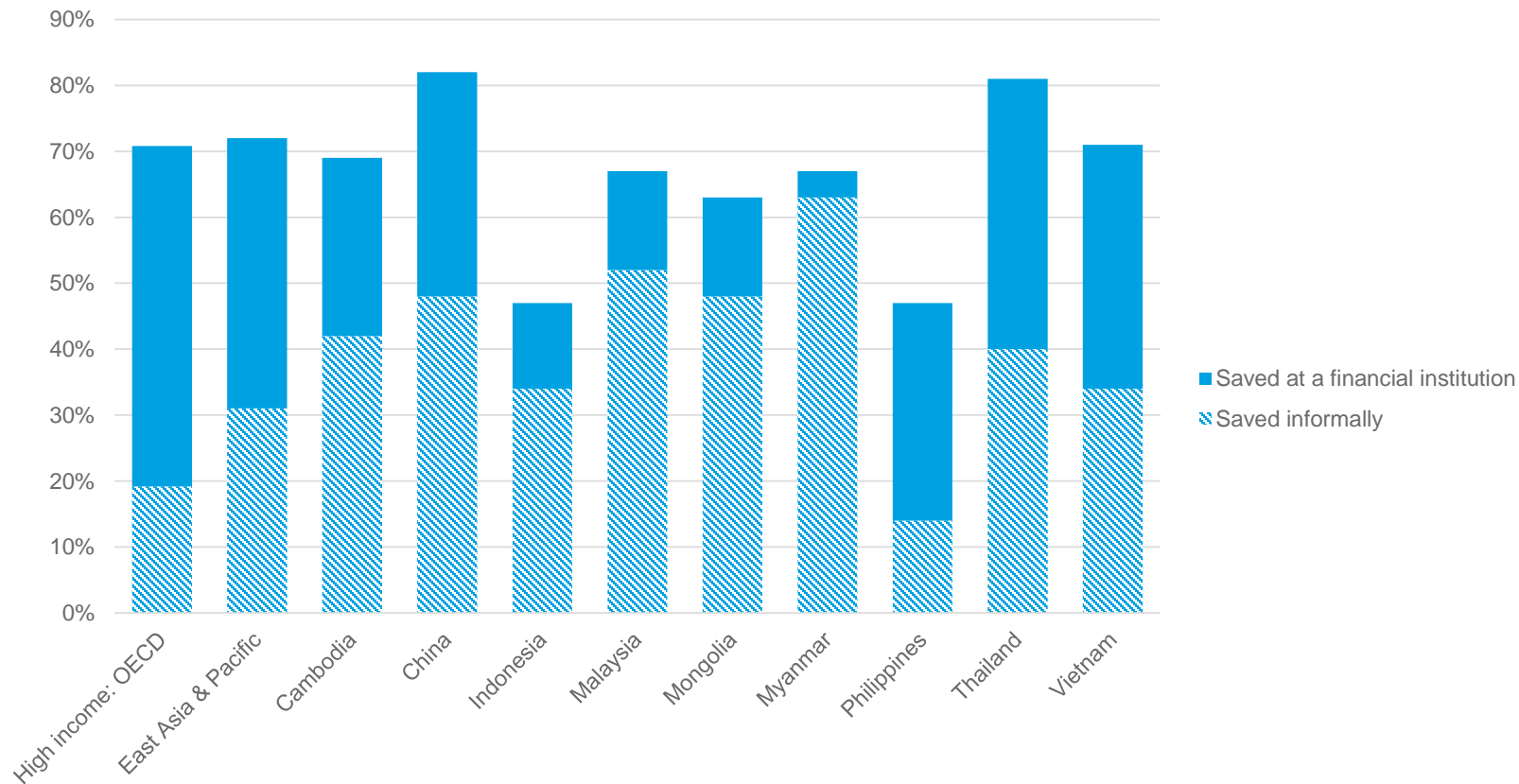
43% of wage recipients have their earnings directly deposited into an account.

55% of adults who receive government social benefit transfers, receive them into an account.



Savings Behavior

Saved any money in the past year



About 71% of adults reported having **saved money in the past year**, compared with just 54% in developing economies overall.

This relatively high rate holds across gender and income.

37% of adults in the region **save for old age**, compared with 21% who report doing so in developing economies overall.



Self-control

How many people in the past week have:

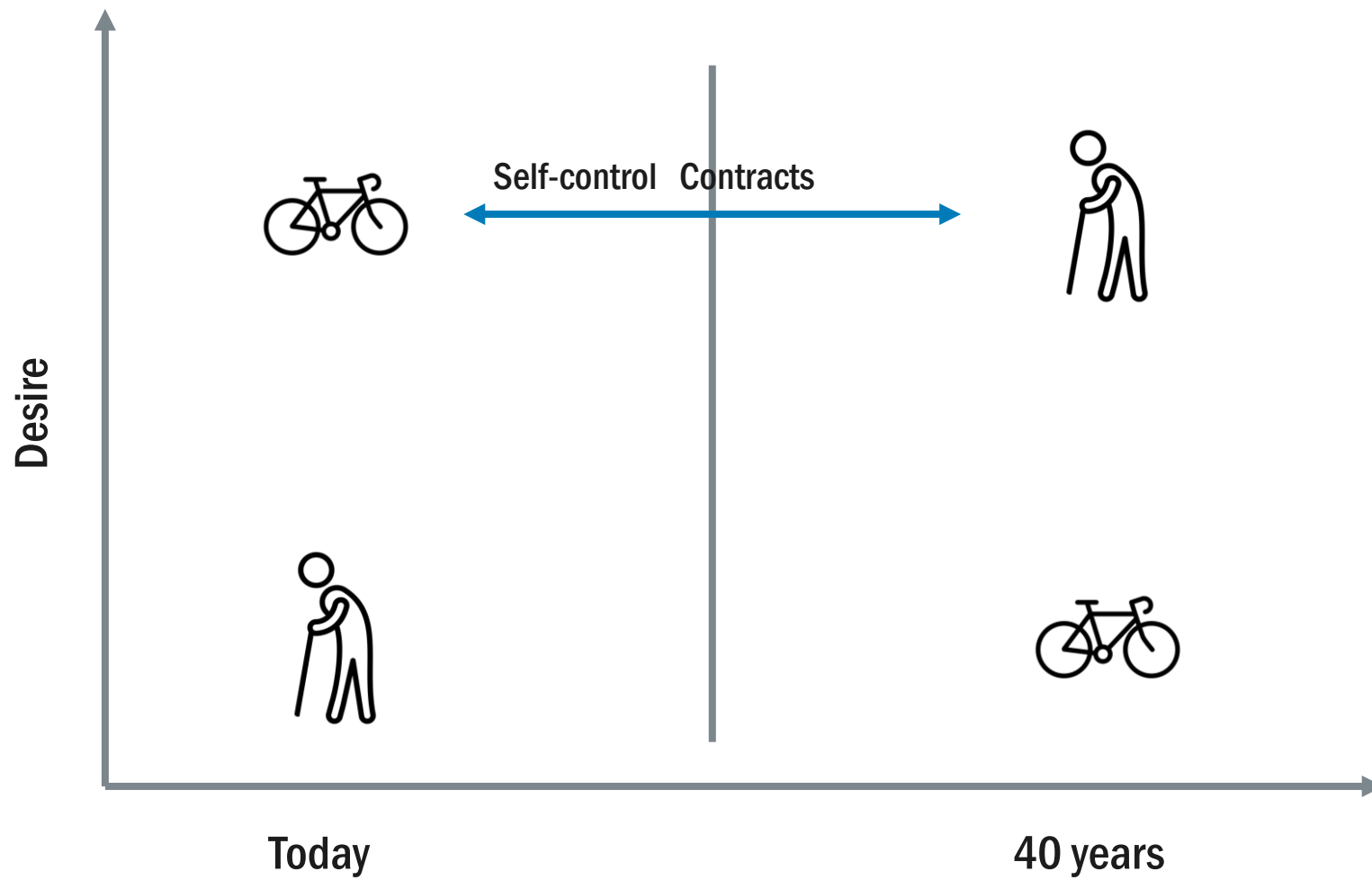
- procrastinated more than you wish you would have?
- eaten more than you wish you would have?
- exercised less than you wish you would have?

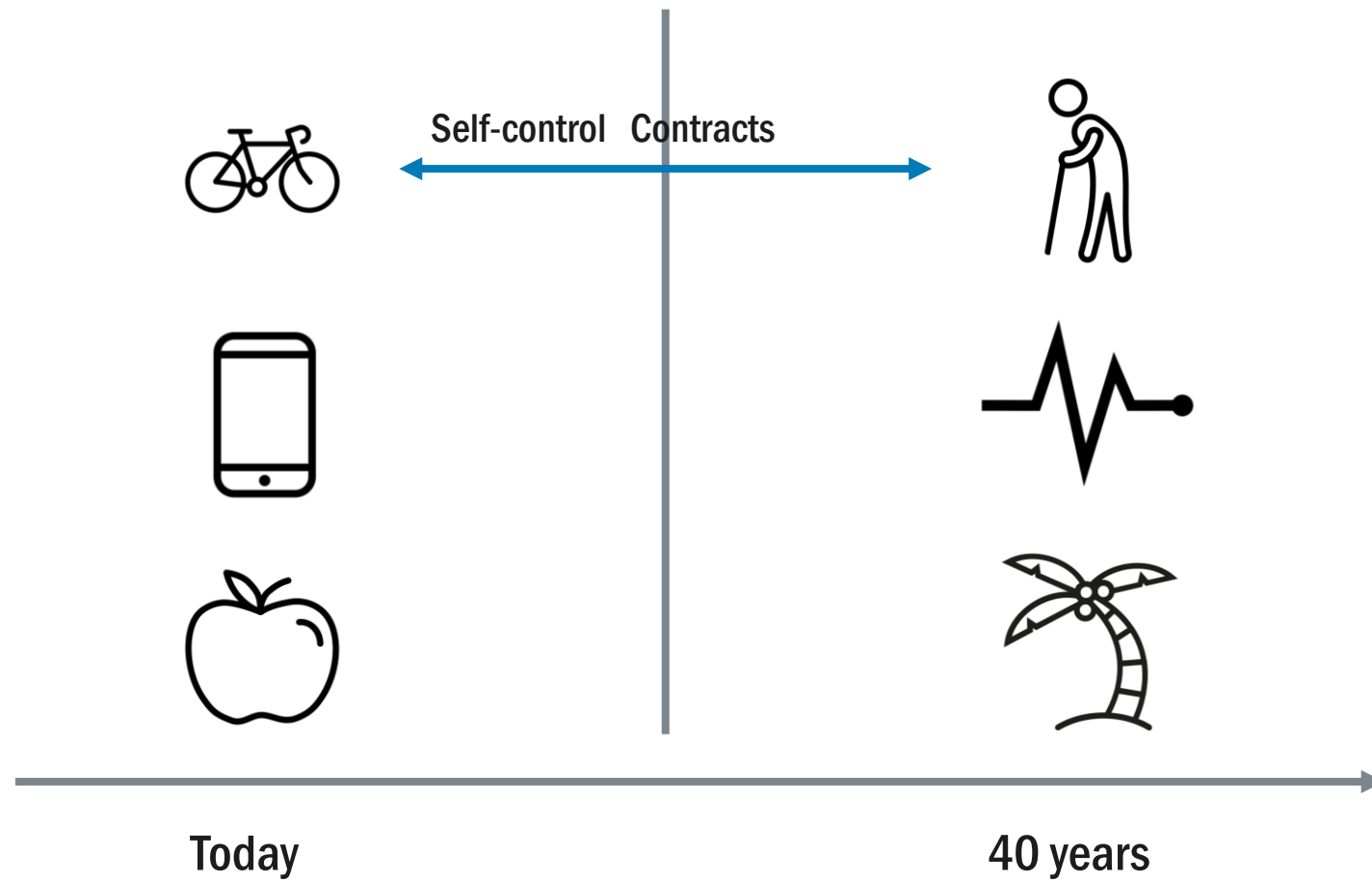






Present Bias









\$11 PENDING TO GOP
\$832 TOTAL DONATED
WPA ENABLED/E*TRADE

ALARM SET 6:30AM
6:15:29 AM

SNÜZNLÜZ



Behavioral Biases



People are “present-biased” People prioritize today’s desires and needs over tomorrow’s and, as a result, systematically fail to make choices that will only benefit them in the future.



People are inattentive to the future People often undersave because they don’t think about how much money they’ll need in the next month, year, or decade.



People lack self-control People often intend to save money for a bigger expense, but find themselves spending it on more tempting and gratifying things, instead.



Social pressure prevents some from saving Many people face pressure from their family and friends to share their earnings and savings.



People suffer from inertia People have a strong preference for the status quo, regardless of whether it is better or worse for them than available alternatives.



Design Features to Increase Voluntary Savings

Commitments

Commitment devices can help address behavioral and social obstacles to saving by providing a mechanism that forces people to save according to their self-set plans.

Reminders

Reminders are a cost-effective tool in fighting procrastination and helping people follow-through on their goals. They can help individuals save more, repay loans, and follow through on important actions.

Defaults

Automatic enrollment, or setting the default to “opt-out”, can significantly increase participation in retirement and savings plans.



Commitments

Commitment devices can help address behavioral and social obstacles to saving by providing a mechanism that forces people to save according to their self-set plans.



- In the **Philippines**, a commercial bank offered a savings product called SEED (Save, Earn, Enjoy Deposits) that prevented clients from accessing their funds until they reached a certain goal—either an amount or time period, decided by the client.
- A year after the offers went out, clients offered the accounts had **increased their account balances 80 percent** more than those with normal accounts.
- Women with low bargaining power who were offered a commitment savings account **increased expenditures on female-oriented durable goods** such as sewing machines and kitchen appliances



Reminders

Reminders are a cost-effective tool in fighting procrastination and helping people follow-through on their goals. They can help individuals save more, repay loans, and follow through on important actions.



- In **Bolivia**, **Peru**, and the **Philippines**, clients with commitment savings accounts who received messages reminding them of their savings goals saved more and were more likely to reach their goals.
- The reminders produced an average **3 percentage point increase in savings** (on a base of 55 percent).
- Since the text reminders were so inexpensive to administer, this approach was **cost-effective** for financial service providers.



Defaults

Automatic enrollment, or setting the default to “opt-out”, can significantly increase participation in retirement and savings plans.



- In **Afghanistan**, a large employer informed workers that, unless they chose to opt out, 5 percent of their paycheck would be automatically deposited into a mobile savings account.
- Employees in this program were **40 percentage points more likely to accumulate short-term savings** than employees who had to opt in, equivalent to a much more costly 50 percent employer match.
- When the study ended and the default enrollment was removed, 45 percent of **employees continued to contribute** to their accounts.



Thank you



References

1. Ashraf, Nava, Dean Karlan, and Wesley Yin. (2006). "Tying Odysseus to the mast: Evidence from a commitment savings product in the Philippines." *The Quarterly Journal of Economics* (2006): 635-672.
2. Ashraf, Nava, Dean Karlan, and Wesley Yin. 2010. "Female Empowerment: Impact of a Commitment Savings Product in the Philippines." *World Development* 38(3): 3334.
3. Blumenstock, Joshua Evan, Michael Callen, and Tarek Ghani. "Mobile-izing Savings with Automatic Contributions: Experimental Evidence on Present Bias and Default Effects in Afghanistan." (2016).
4. Demirguc-Kunt, Asli, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden. (2015). "The Global Findex Database 2014: Measuring Financial Inclusion around the World." Policy Research Working Paper 7255, World Bank, Washington, DC.
5. Karlan, Dean, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman. (2016). "Getting to the top of mind: How reminders increase saving." *Management Science* (2016).
6. Various fantastic artists from the Noun Project.



Appendix

IPA's Financial Inclusion Program

IPA's [Financial Inclusion Program](#) team:

Partner with service providers, governments, and researchers

Design and rigorously test financial services, products, and programs to encourage healthy financial behavior among the poor

- Innovative financial products
- Product design / features
- Financial capability programs
- Consumer protection regulation



The Impact of Digital Payments

Efficiency and Transparency

The increased efficiency and transparency of digital payments can lead to cost savings for both senders and receivers.

Risk Management

Digital payments can help households smooth unexpected income shocks by providing access to money or support from a broader social network.

Women's Empowerment

Digital payments can provide recipients with greater privacy and control over transfers, which in turn can promote women's economic participation and empowerment.

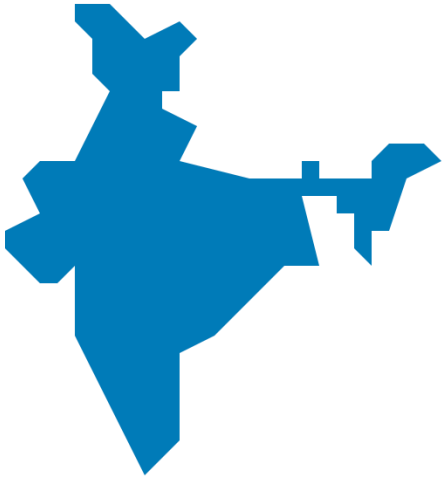
Building Trust

Digital products, which allow users to monitor funds, may encourage confidence and trust in financial institutions and increase account use.



Efficiency and Transparency

The increased efficiency and transparency of digital payments can lead to cost savings for both senders and receivers.



- In **India**, digitizing social security pension payments via smart cards resulted in an estimated \$38.7 million reduction in annual leakage.
- The time beneficiaries in areas assigned to digital payment system spent collecting pension payments fell by 19 percent.



Risk Management

Digital payments can help households smooth unexpected income shocks by providing access to money or support from a broader social network.



- In **Kenya**, following a shock, households with access to M-PESA received funds from a larger network of senders (friends and family) located further away.
- M-PESA users were able to absorb large negative income shocks without any reduction in household consumption, while statistically comparable households not connected to M-PESA experienced, on average, a 6-10 percent reduction in consumption in response to similar shocks.



Women's Empowerment

Digital payments can provide recipients with greater privacy and control over transfers, which in turn can promote women's economic participation and empowerment.



- In **Niger**, delivering transfers electronically, compared to manual cash transfers, increased the likelihood (from 8 to 47 percent) that the recipient, who was a woman, was solely responsible for obtaining the transfer.
- Additionally, there is evidence that households which received their transfer electronically increased their diet diversity.
- In **India**, targeting a direct benefits transfer into female-owned bank accounts and providing basic financial training led to significant increases in both work and economic engagement especially among women particularly limited by prevailing gender norms.
- Women who received the treatment were 7 pp more likely to have worked for pay in the past year, had 30% higher earnings, and were 0.1 SDs more likely to make purchases with their own money.



Building Trust

Digital products, which allow users to monitor funds, may encourage confidence and trust in financial institutions and increase account use.



- In **Mexico**, beneficiaries of a CCT program used newly acquired debit cards to check their balances frequently and as a result are 10 percentage points more likely to report trust in the bank.
- Over time, as their reported trust in the bank increased, the number of times they checked their balance decreased and their savings increased by 5% of income relative to the control.



Barriers Faced by Women

Demand Side Barriers	Supply Side Barriers	Legal & Regulatory Barriers
Lack of bargaining power within the household	Inappropriate product offerings	Account opening requirements that disadvantage women
Concentration in lower-paying or unpaid economic activities	Lack of gender-specific policies and practices for product design and marketing	Barriers to formal identification
Lack of assets for collateral	Inappropriate distribution channels	Legal barriers to owning and inheriting property and other collateral
Reduced mobility due to time constraints or social norms		Lack of gender-inclusive credit reporting systems
Lower rates of cell phone ownership among women to access digital products		



Closing the Gender Gap

Remove Barriers to Entry

Simplified, or no-frill, low-cost accounts may be a way to reduce the cost barrier to entry and improve account ownership among women. However, evidence of providing these simplified accounts is mixed.

Increase Privacy and Control

Design features which provide recipients with greater privacy and control over finances can promote women's economic participation and empowerment.



Remove Barriers to Entry

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- In **Nepal**, offering easily accessible, no-fee accounts to female heads of household living in slums led to **84 percent of women opening an account** and **80 percent making at least two deposits in the first year**.
- While there was no evidence to suggest the accounts led to an increase in assets, women in the treatment group did **increase spending on education and meat and fish purchases**.
- Follow-up research suggests that financial access among these unbanked female heads of household led to an **increase in schooling levels of daughters** and also **helped households better respond to health emergencies**.



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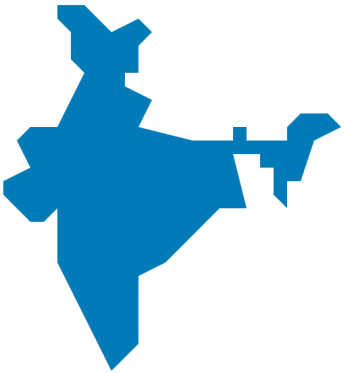


- Conversely, a study in **India** targeting low-income women as part of a public welfare program found that simply providing basic savings accounts had **no observational impact on women's employment, earnings, or even the rate of utilization** of these accounts.
- Researchers did find, however, basic training on account features led to increased use, suggesting that **basic literacy and technical know-how might have been a barrier to account use** rather than simple access.



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Event: Meridian Digital Finance Future: East and Southeast Asia

Date / Time: Thursday, March 9th, 2017 from 10:30am – 2pm

Location: Meridian International Center

Audience: Attendee target = 30-35:

- diplomats (Economic/Political Counselors) from the region
- Philanthropists, NGOs and Entrepreneurs in the digital finance/economic development/financial inclusion space
- Think Tanks and Multilateral Organizations with expertise in financial inclusion and digital technologies

Topic: Behavioral Nudges for Financial Health [[Jay K. Rosengard](#)] to present on technology regulation (RegTech) in East and Southeast Asia

Objectives: This presentation seeks to achieve the following objectives:

- Engage Washington, DC's diplomatic corps and other influential decision-makers across the city to explore how digital financial services can and are being used to catalyze economic growth and inclusion for all people in all nations.
- Educate, at minimum, the diplomatic corps on the opportunities for policy making and influencing around digital finance.
- Examine strategies for overcoming cultural and behavioral barriers to the adoption and use of digital financial services

Format: Two 10-15 minute presentations (Kyle and Jay) followed by a 20 minutes of break-out discussions (organized by Meridian).

