



Mobile Savings and Defaults

Evidence from Afghanistan



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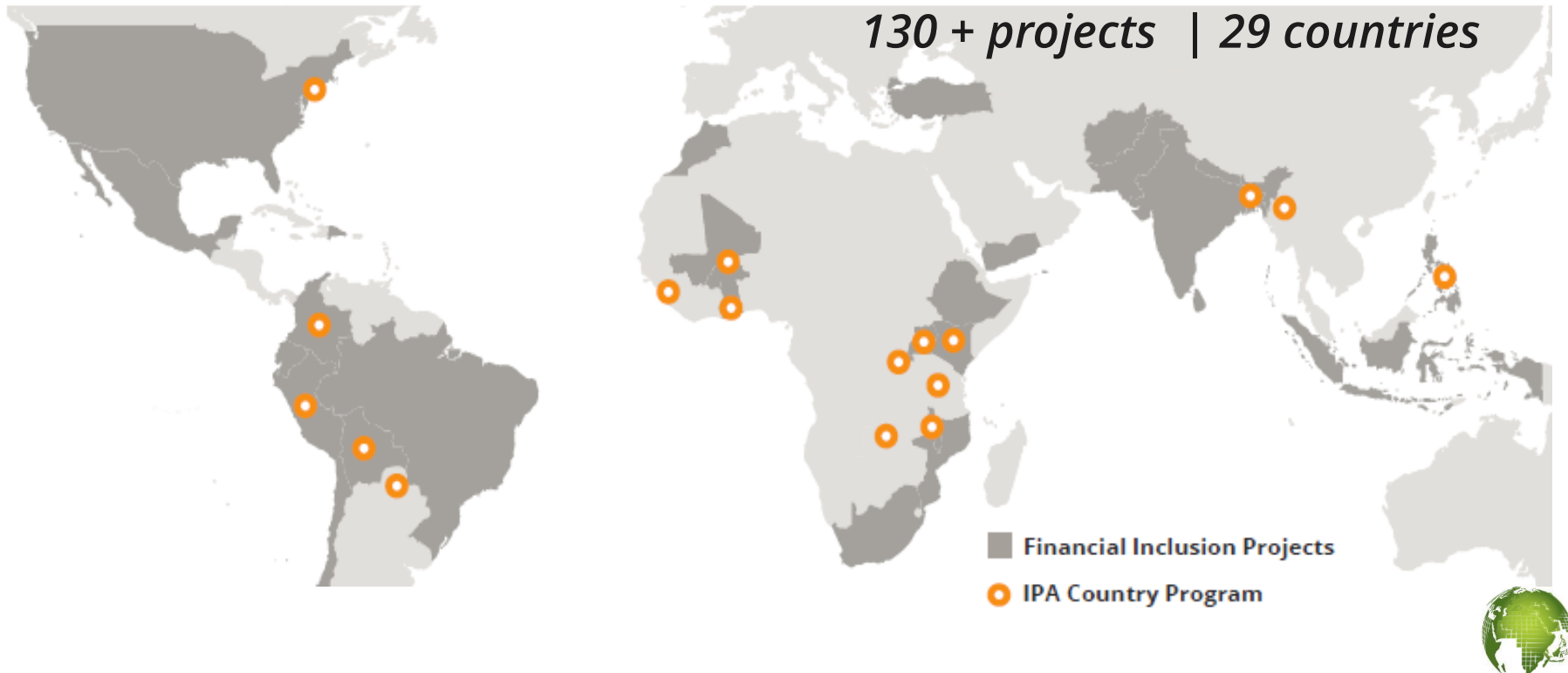
#18MCSummit



Innovations for Poverty Action

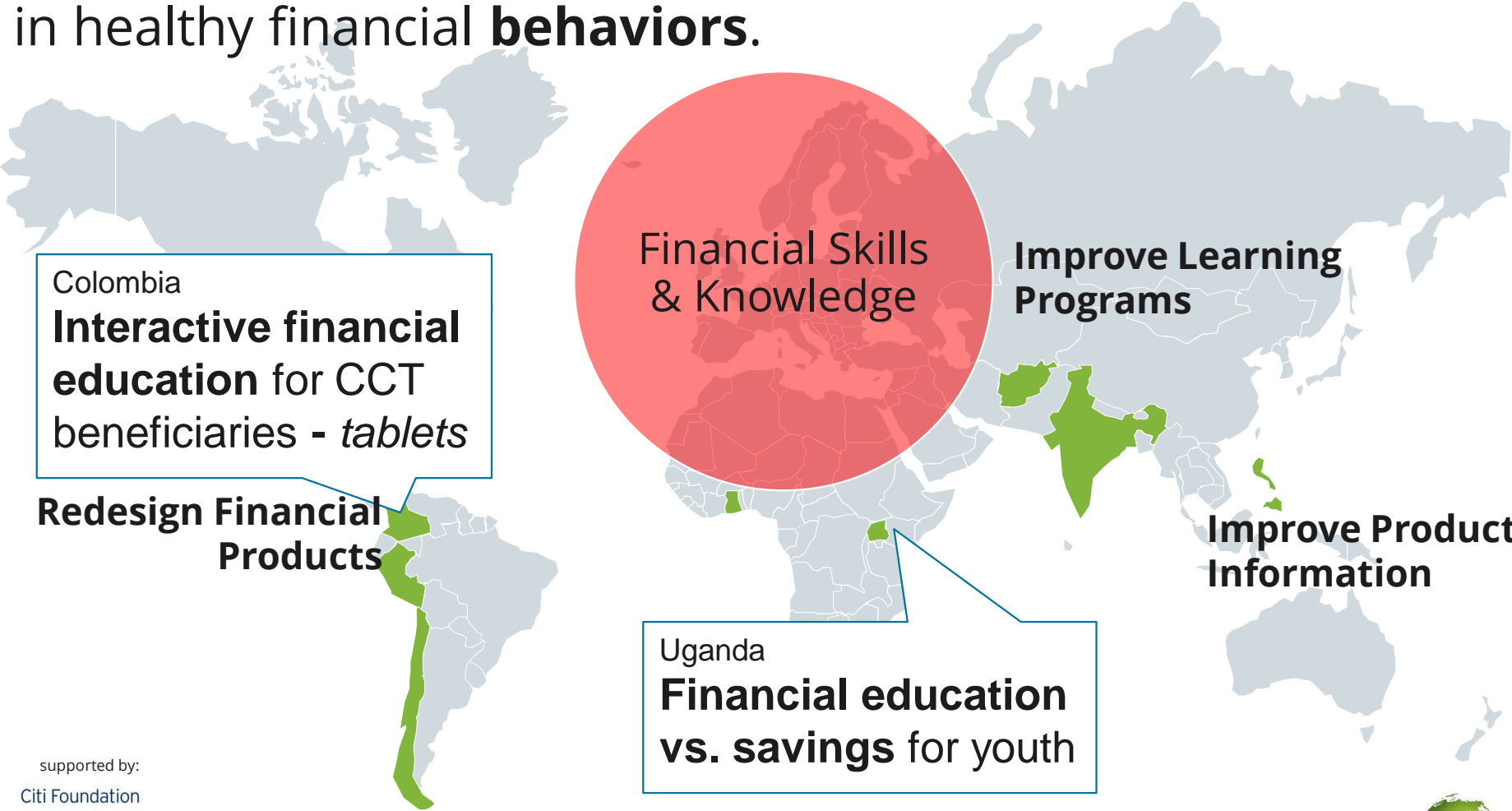
Discovering & promoting effective solutions to global poverty problems.

IPA's **Financial Inclusion Program** partners with service providers, governments, and researchers to design and rigorously test financial services and programs encouraging healthy financial behavior among the poor.



Financial Capability

The ability to make informed financial **decisions** and engage in healthy financial **behaviors**.

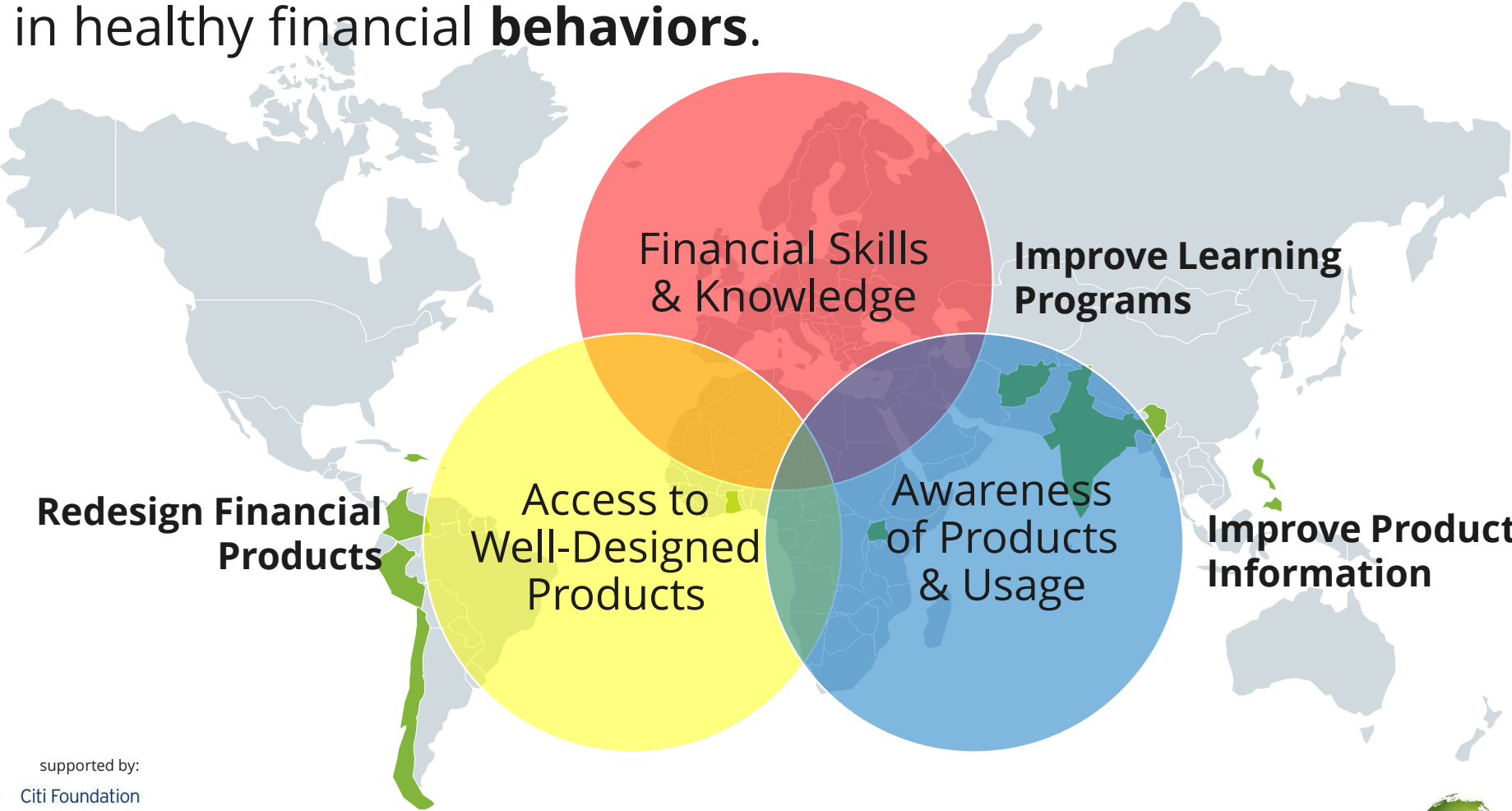


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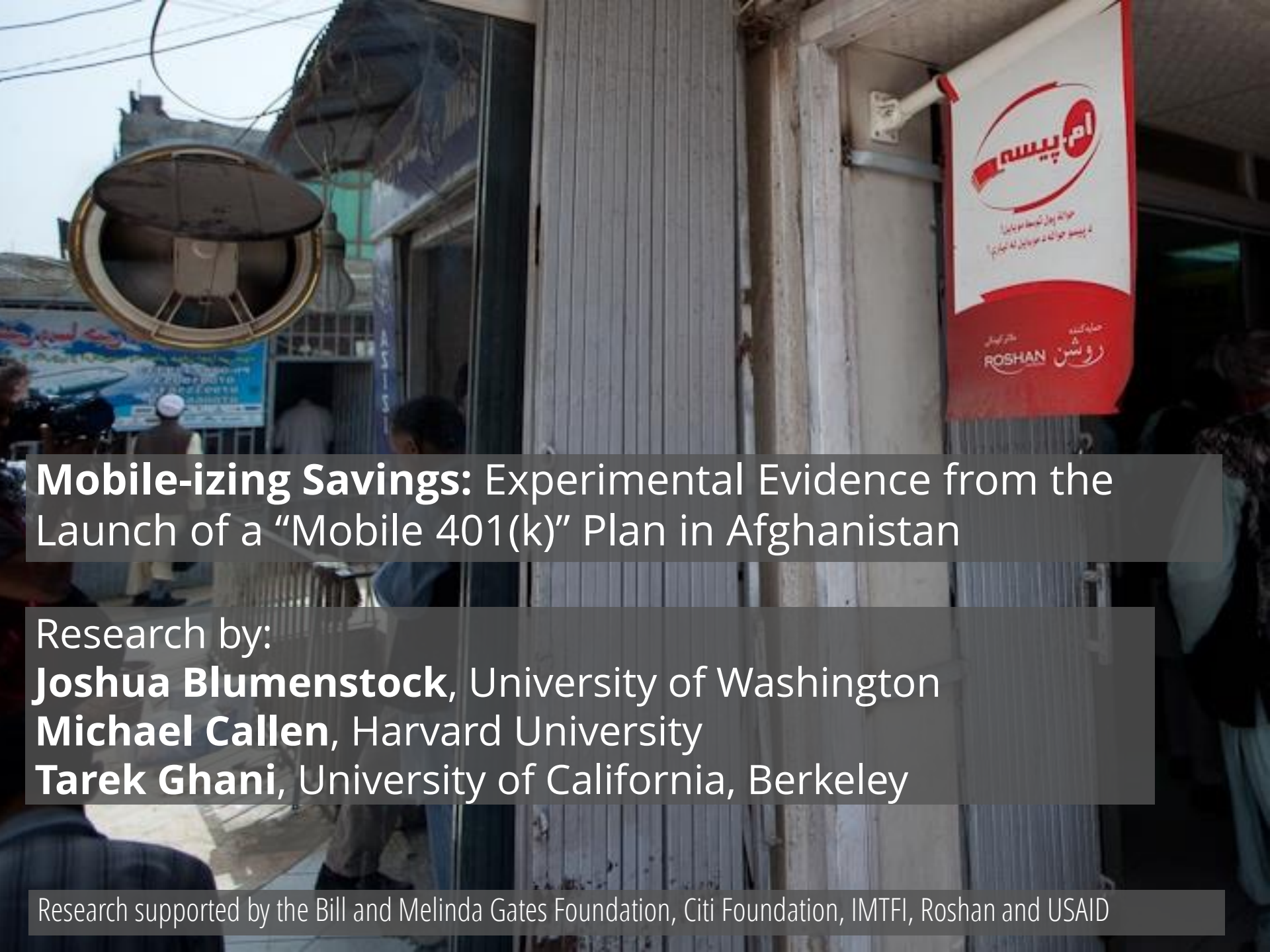
Financial Capability

The ability to make informed financial **decisions** and engage in healthy financial **behaviors**.



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Mobile-izing Savings: Experimental Evidence from the Launch of a “Mobile 401(k)” Plan in Afghanistan

Research by:

Joshua Blumenstock, University of Washington

Michael Callen, Harvard University

Tarek Ghani, University of California, Berkeley

Research supported by the Bill and Melinda Gates Foundation, Citi Foundation, IMTFI, Roshan and USAID

Context | **Afghanistan**

Limited infrastructure

- 9% banked, 30% literacy

Low savings

- 4% save formally

Widespread mobile phones

- 40-75% cellular penetration
- 4 operators
- From 25,000 subscribers in 2002 to 20M+ now

Widespread instability, violence, and corruption

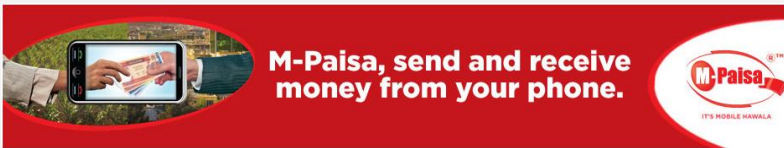


Partner | Roshan



Largest telecom, 6M+ subscribers

Launched M-Paisa in 2008



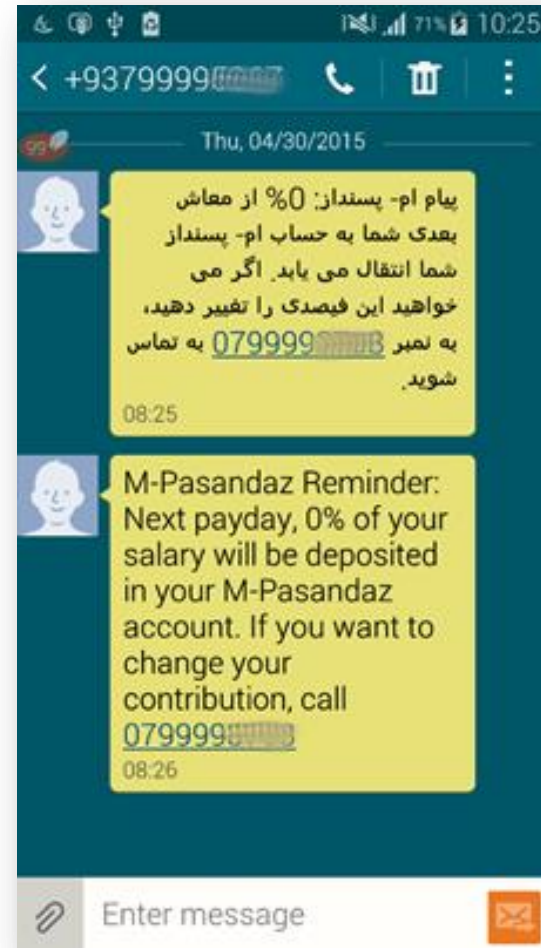
→ Became a popular salary disbursement platform



Product Innovation | **M-Pasandaz**

Money-based savings account called "M-Savings"

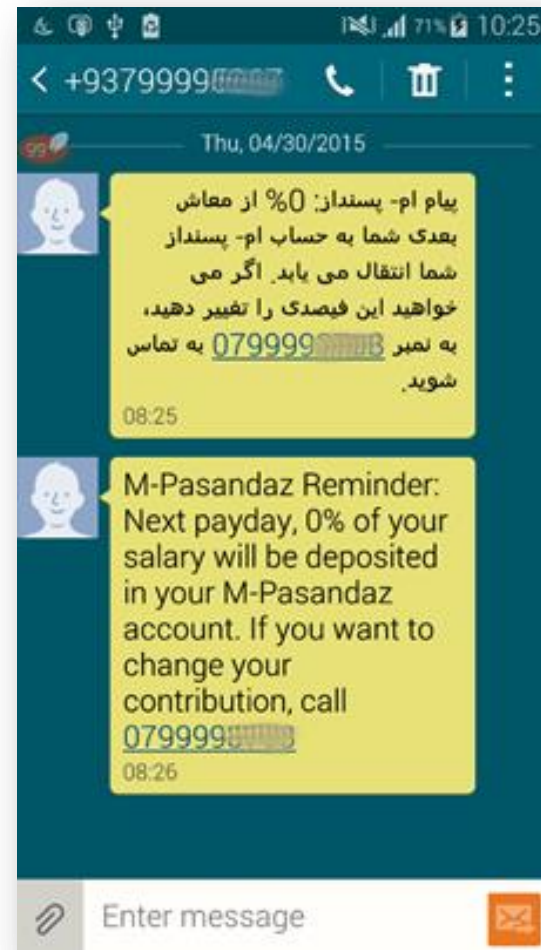
- Secondary mobile money account
 - basic functionalities (check balance, transfers)
- Automatic payroll deduction option
 - Up to 10% of monthly salary
 - Allows for matching incentives provided by employer



Product Innovation | M-Pasandaz

The fine print

- Withdrawals are free and instantaneous
- Any withdrawal forfeits all incentives
- Incentives paid at end of 6-month “trial” period
- Payroll deduction is the only way to deposit to M-Pasandaz
- Contribution rate can be changed at any time (takes 2-3 minutes)



Product Innovation | **Automatic Deductions**

Savings is hard.

Daily behavioral challenges

- Self-control
- Present bias
- Inattention
- Procrastination
- Complexity



Product Test | **Design**



Launch of **M-Pasandaz** for **949 employees** with monthly salaries disbursed through M-Paisa

Lottery assignment to **default enrollment** and **matching contributions**



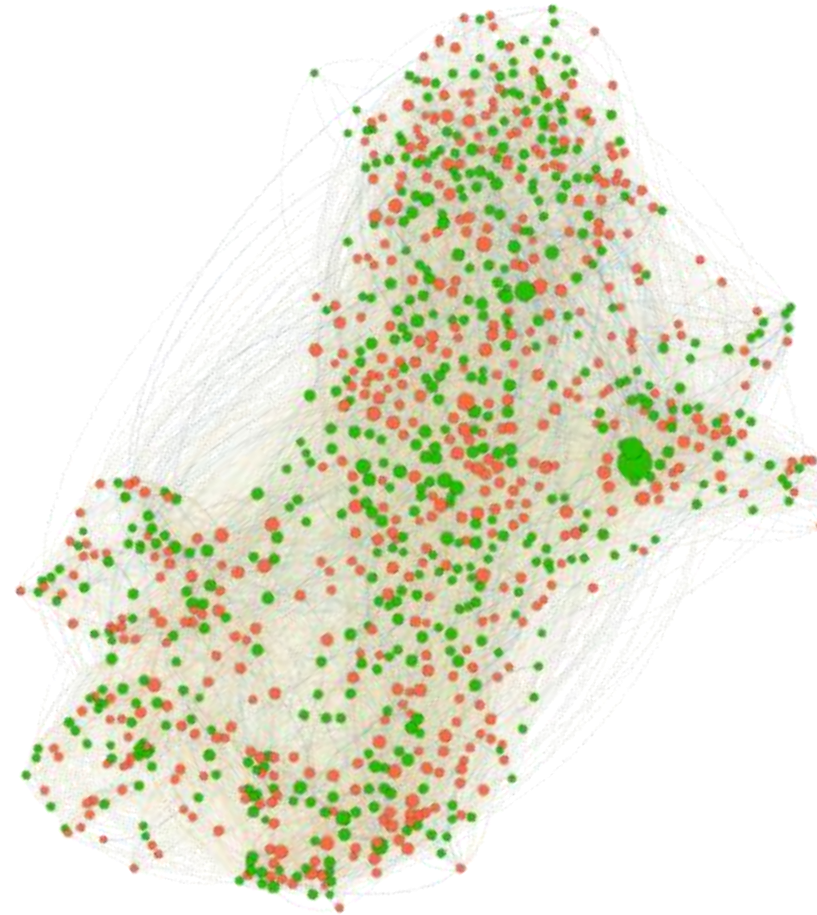
Product Test | **Design**

default enrollment

- No default enrollment
- 5% salary deposited
(modifiable at any time, up to 10%)

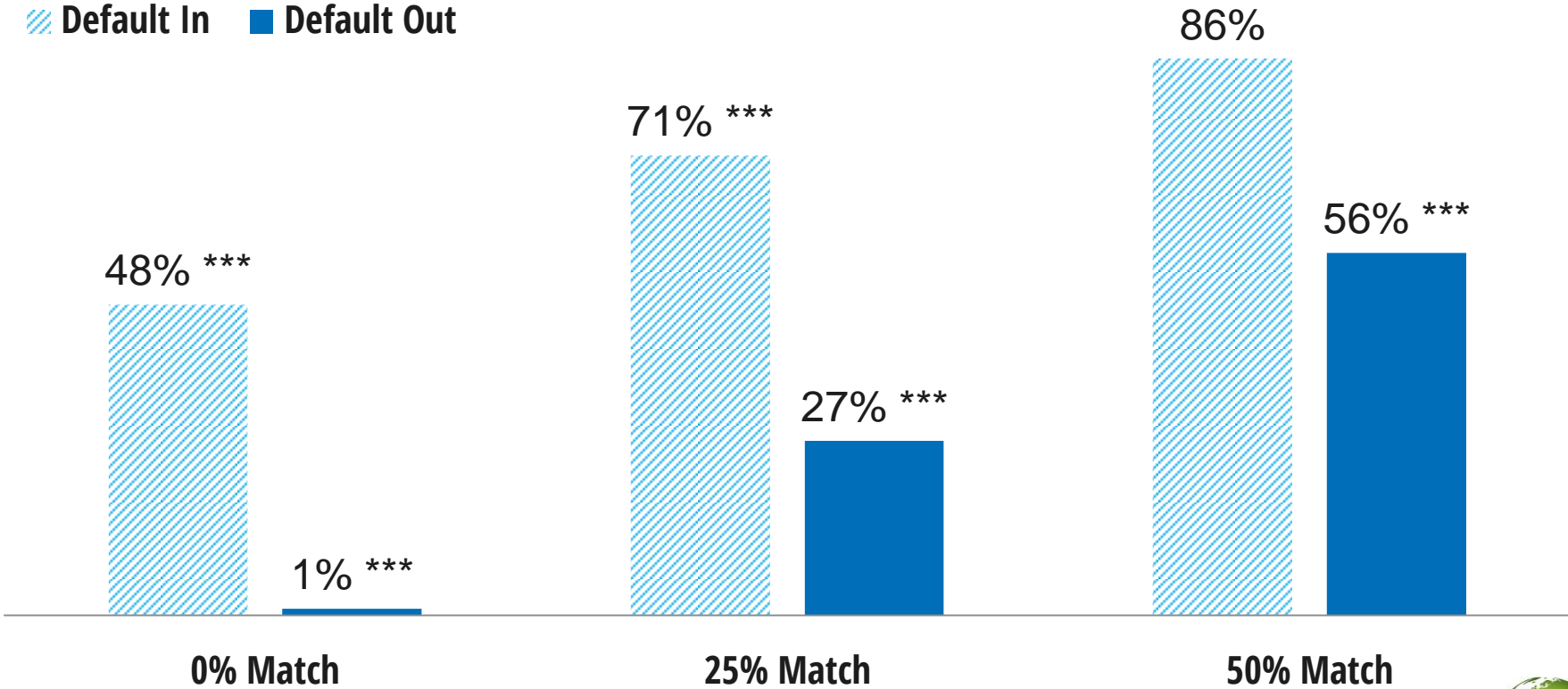
matching contributions

- No match
- 25% match
- 50% match
(for a 6 months pilot period)



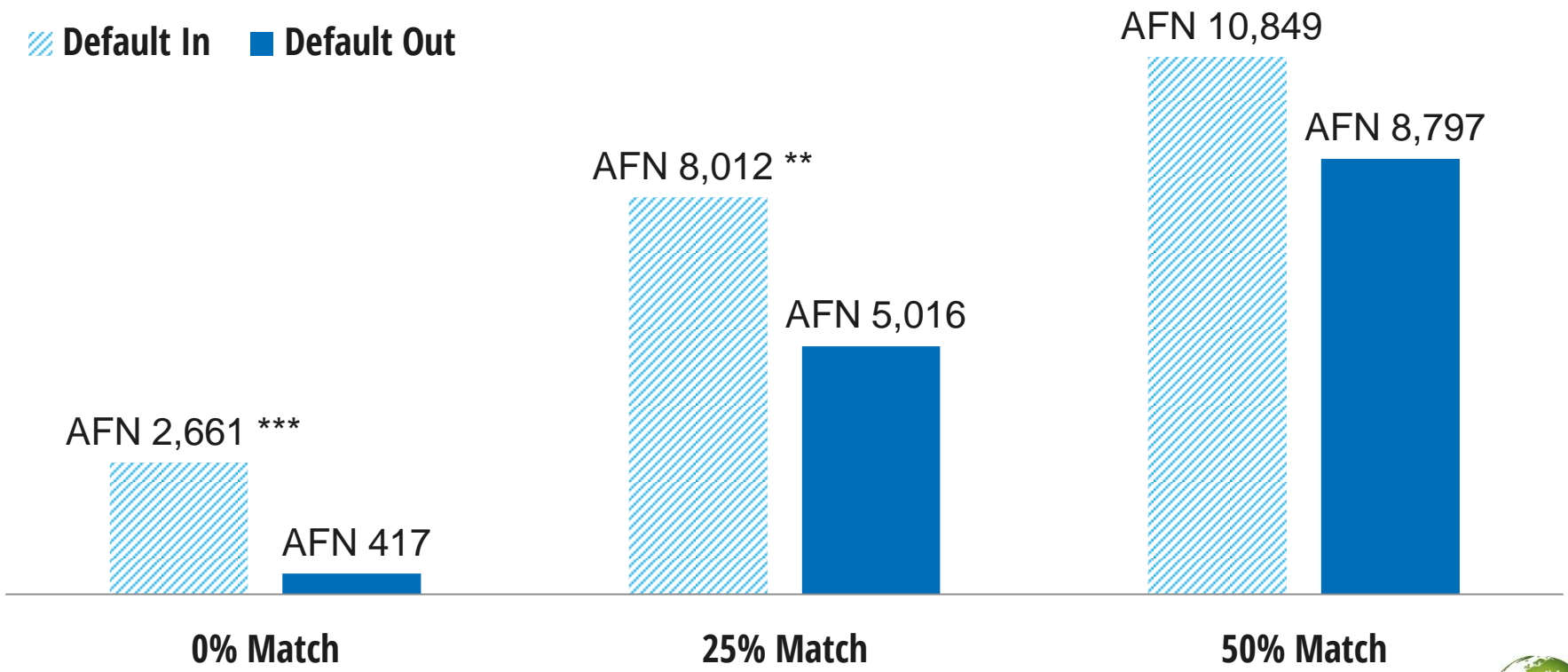
Product Test | **Results** (1 of 5)

Default assignment increases by 40% increase the number of M-Pasandaz savers



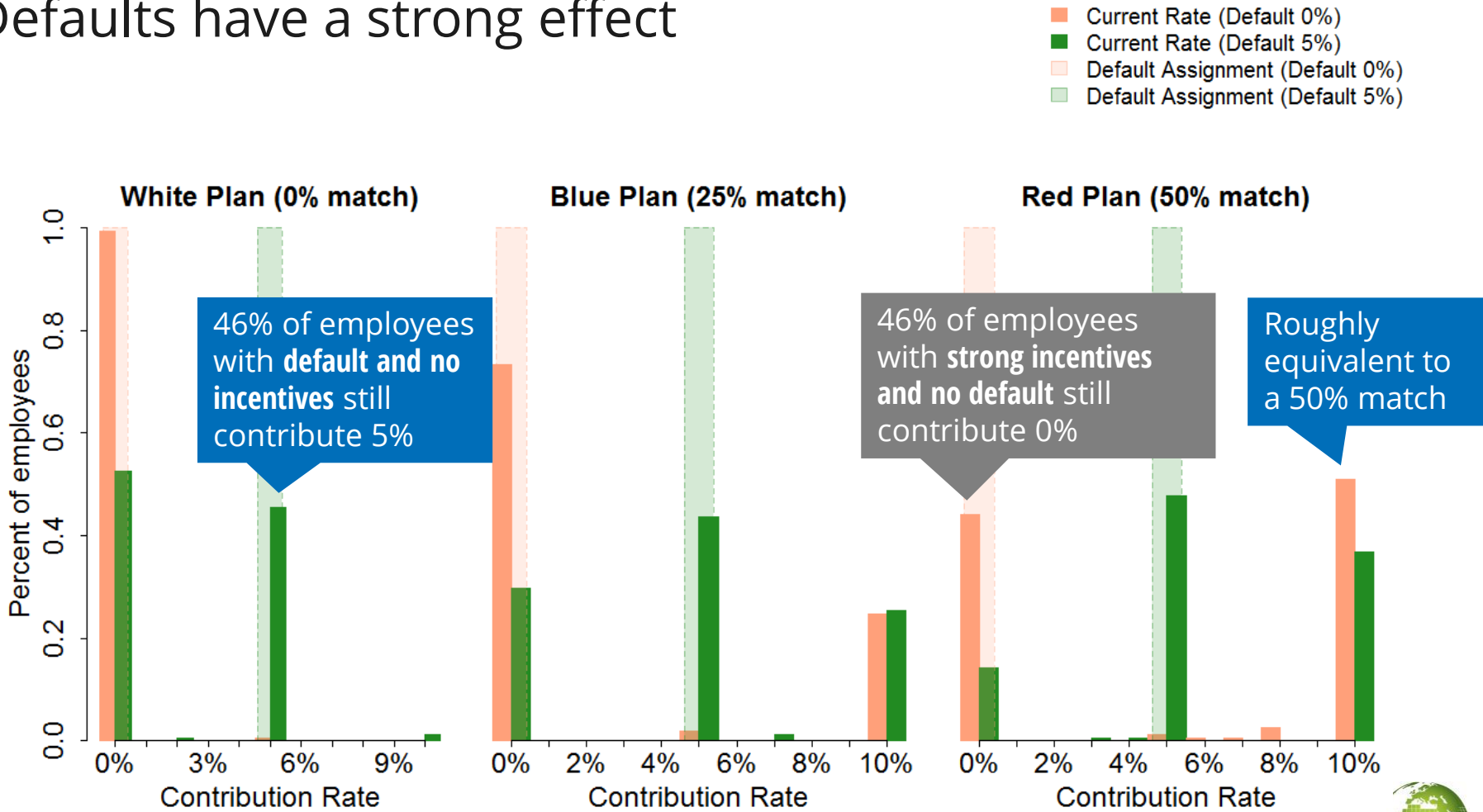
Product Test | **Results** (2 of 5)

Defaults lead to + 2,500 AFN (\$50) contributions in 6 months



Product Test | **Results** (3 of 5)

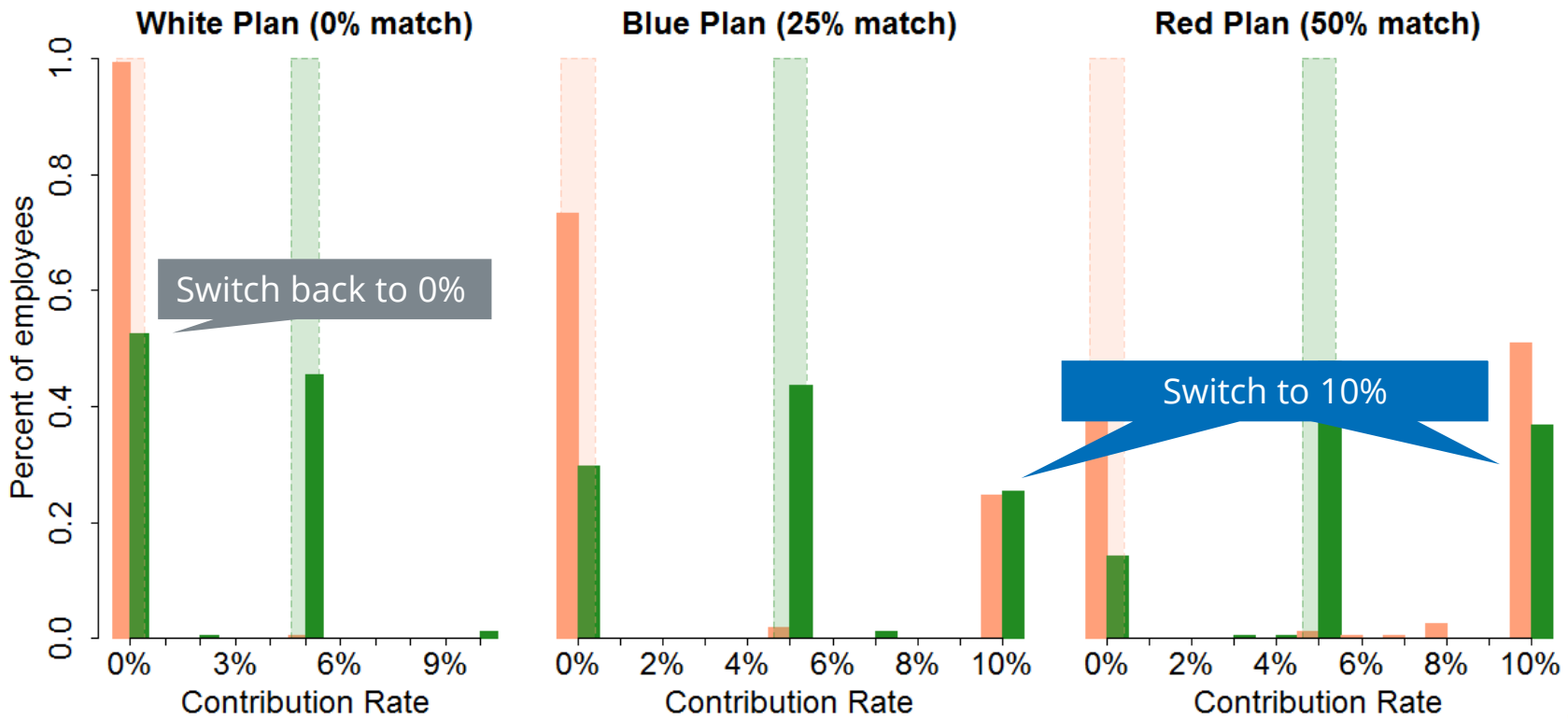
Defaults have a strong effect



Product Test | **Results** (4 of 5)

They are not everything of course. Incentives also let to increase in enrollment.

- Current Rate (Default 0%)
- Current Rate (Default 5%)
- Default Assignment (Default 0%)
- Default Assignment (Default 5%)



Product Test | **Results** (5 of 5)

M-Pasandaz increased total savings.

- Avg. participating employee saved 37% of monthly salary
- No evidence that employees reduced other savings

Lasting Impact?

- Short term study
- 45% want to continue contribute after match is over
- Higher for default in group (habit formation?)

Financial health

- + 7 pp increase in employees reporting being good financial health
- + 4 pp increase in employees confident that they will meet obligations

Savings Purpose?

- 47% hadn't withdrawn the money at endline
- Majority is *general savings*

Why Do Defaults Work?

Defaults are an effective tool to help deal with **procrastination** and self-control / present-bias.

→ these individuals are less likely to change contribution and to respond to incentives



In comparison:

SMS Reminders (attention) → 2.6% switch in contributions

Financial Consultations → 11.3% switch in contributions



Conclusion

First experimental evaluation of automatic savings contributions in a poor country.

Automatic deductions are an effective means of stimulating savings. (Particular context but results are consistent with research in advanced economies, eg. 401k.)

→ increasing volume of digital payments in the world: gov't payments [Chile Banco Estado], agricultural workers [Malawi Tea Estates]

Default options – a product / policy design insight. Maintain freedom of decision but effective tool at encouraging a specific behavior [Insurance, product bundles etc.]



Thank you!

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