Mobile Savings and Defaults

Evidence from Afghanistan

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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.

130 + projects | 29 countries
Financial Capability

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

Colombia
- Interactive financial education for CCT beneficiaries - tablets

Uganda
- Financial education vs. savings for youth

Redesign Financial Products

Financial Skills & Knowledge

Improve Learning Programs

Improve Product Information

Supported by:
Citi Foundation
Financial Capability

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

supported by:
Citi Foundation

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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
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
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
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)
Savings is hard.

Daily behavioral challenges

- Self-control
- Present bias
- Inattention
- Procrastination
- Complexity
Launch of M-Pasandaz for 949 employees with monthly salaries disbursed through M-Paisa
Lottery assignment to default enrollment and matching contributions
Savings is hard.

Daily behavioral challenges

- Self-control
- Present bias
- Inattention
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- Complexity

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)
Default assignment increases by 40% increase the number of M-Pasandaz savers
Defaults lead to + 2,500 AFN ($50) contributions in 6 months
Defaults have a strong effect

- **White Plan (0% match)**: 46% of employees with default and no incentives still contribute 5%
- **Blue Plan (25% match)**: 46% of employees with strong incentives and no default still contribute 0%
- **Red Plan (50% match)**: Roughly equivalent to a 50% match

Roughly equivalent to a 50% match
They are not everything of course. Incentives also let to increase in enrollment.
## 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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For more information on the study:
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