

SMS Messages

A Research Agenda
for Nudges to Save & Pay Down Debt



A call for partners to test and scale up text messaging for improved financial behavior

THE PROBLEM: UNDERSAVING

From the United States to Uganda to Indonesia to Peru, people often report lower savings levels than they would like to have, given their resources—but we often can't determine why. Sometimes individuals have incorrect information on savings products or compelling temptations to spend pocket money. They may not be mindful of future needs or unsure of future income or expenses. In a world where people are bombarded by distractions, they may simply be inattentive to the daily tasks necessary for saving, like setting aside cash or going to the bank.

THE OPPORTUNITY: MOBILE PHONE MESSAGES

Today, direct client communication has never been easier over mobile networks. SMS is a global, reliable, and familiar delivery platform, and the client needs nothing more than a phone and an active SIM card. In addition, many mobile banking apps have push messaging functionality built in. Used intelligently, these capabilities can be harnessed to encourage improved financial behavior. IPA has already begun tests of client-facing messages in several settings.

THE EVIDENCE SO FAR: PILOTS IN FOUR COUNTRIES

Three randomized evaluations of over 13,500 savings account holders in Peru, Bolivia, and the Philippines found that simple and frequent reminders were effective in raising savings balances and helping people reach their savings goals. When the message mentioned both a specific savings goal and a monetary incentive to deposit, balances increased by 11-13 percent.ⁱ

In two randomized evaluations of borrowers, text messaging also led to increased repayment: in Uganda, a monthly SMS sent to microborrowers before the repayment date resulted in a 7-9 percent increase in the probability of paying on time.ⁱⁱ In the Philippines, text messages sent before each payment date were effective in reducing the number of loans with unpaid balances by over 40 percent, although these effects were only found when the SMS was signed by the account officer.ⁱⁱⁱ

In short, mobile phone reminders are easy to implement, inexpensive, scalable, and effective. Yet there is much still to be learned about how best to use messaging to help guide people towards improved financial decisions.

TESTING MESSAGING CAMPAIGN EFFECTIVENESS

IPA's Messaging Replication Project uses a rigorous yet agile evaluation framework to investigate how messaging works for clients of financial services. IPA works with its research partners to design promising SMS campaigns drawn from theory and evidence on how messaging affects behavior. Then, a series of rigorous rapid-fire tests among account holders will evaluate the relative effectiveness of these campaigns. In the end, we aim for a set of guidelines, backed by evidence, which will help financial service providers design their own messaging campaigns.

IMPROVE YOUR CLIENT FOCUS—AND YOUR BALANCE SHEET

By partnering with IPA, an institution can benefit from an improved understanding of how their clients respond to nudges to save or pay down debt. With a clearer understanding of why and what kind of messaging changes behavior, more robust prescriptions can be made to help design optimal communication strategies. Can messages be informational, and if so, how does one best convey credible, relevant, and needed information? Do messages increase attention to tasks, or future needs, or future income uncertainty? How long should campaigns last to encourage sustained habit formation? How are client segments differentially impacted?

Our research partners also stand to improve their balance sheets, since the campaigns are designed to encourage deposits. The SMS campaigns in our pilot tests were profitable for the implementing banks. By refining the messages over time, we seek to improve the return on investment.



A CALL FOR PARTNERS

The Messaging Replication Program seeks research partners who are interested in exploring these questions with us. Ideal partners will have over 50,000 clients, an aim to serve the poor, and a modern management information system (MIS) to track administrative outcomes. Potential partners include:

- Financial institutions that provide deposit services and/or loan products
- Bank intermediaries with direct client contact (e.g., deposit-taking agents)
- Telecoms with an interest in improving the financial habits of their mobile money subscribers

If your institution fits this description and is interested in improving the savings and payment practices of your clients, consider joining our network.

IPA's Messaging Replication Project is led by Gharad Bryan (LSE), Aaron Dibner-Dunlap (IPA), Dean Karlan (Yale), Jake Kendall (Bill & Melinda Gates Foundation), Margaret McConnell (Harvard) and Jonathan Zinman (Dartmouth).

The Financial Inclusion Program at IPA seeks to identify and evaluate products and programs that enhance poor households' use of improved financial services. For additional information on the Program, visit www.poverty-action.org/financialinclusion.

To join our research network or for more information, contact Aaron Dibner-Dunlap at addunlap@poverty-action.org or send an email to financialinclusion@poverty-action.org.

ⁱ Karlan D., McConnell M., Mullainathan S., and J. Zinman. 2014. "Getting to the Top of Mind: How Reminders Increase Saving." Working Paper. Available at: <https://www.poverty-action.org/sites/default/files/top-of-mind-2014revisionfinal-anon.pdf>.

ⁱⁱ Cadena, X. and A. Schoar. 2011. "Remembering to Pay? Reminders vs. Financial Incentives for Loan Payments." NBER Working Paper no. 17020. Available at <http://www.nber.org/papers/w17020>.

ⁱⁱⁱ Karlan, D., Morten, M., and J. Zinman. 2012. "A personal touch: Text messaging for loan repayment." NBER Working Paper no. 17952. Available at <http://www.nber.org/papers/w17952>.