FINANCIAL INCLUSION ISSUE BRIEF

Top of Mind

Reminders can increase savings deposits at almost no cost to providers

Despite good intentions, people often make less-than-optimal financial choices. In this series, we match insights from our global research in behavioral economics with specific financial product and service opportunities for U.S. providers. Providers can use these evidence-based insights to expand financial inclusion, improve client offerings, and continue to promote financial health.

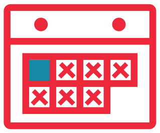
» FEATURED SOLUTION: REMINDERS

Providing access to savings accounts is an important step in bringing financial services to the poor, but access alone does not guarantee people will save. Many people struggle to develop good savings habits because they put off saving until a future time, or face so many seemingly urgent needs today that it is difficult to save for tomorrow, or they simply forget to save. Reminders that bring savings goals to the "top of mind" are a low-cost way to address these barriers and help clients reach their savings goals.

WHY DO REMINDERS WORK?

People tend to be inattentive to their future needs

People often fail to think about or budget for large future expenses—particularly "exceptional" expenses like a wedding or a new roof, or emergencies, which are hard to budget for.



People prioritize today over tomorrow

People tend to put their current desires ahead of their future needs, even when they are tempted to buy something they know they shouldn't. Temptation today makes saving for tomorrow particularly difficult.

People procrastinate

People often get caught up in their busy lives and delay taking action. They may intend to deposit money in a savings accounts, but never seem to find the time.

HOW CAN PROVIDERS AND NON-PROFITS APPLY REMINDERS?

Reminders have been proven to help people follow through on their goals and commitments. Providers can use them in various ways:

- **Helping clients save more:** Providers can use text messages (most cost-effective) or letters to remind savings account holders to save, or of specific savings goals.
- **Helping clients repay loans:** Text message reminders have been shown to increase the timeliness of loan payments and the amount of the loan that is repaid.[1] Importantly, in the one study, text messages were only effective when they included the name of the loan officer, which personalized the clients' obligation.
- **Helping clients follow through on important actions.** Personalized reminders have been effective in enforcing collection of unpaid taxes and submitting time-sensitive paperwork for financial aid in the US.[2 3] They could also be effective at helping people complete other actions, like opening and making deposits into a college savings account or refinancing a mortgage when rates go down.

THE EVIDENCE

Research from different countries shows that reminders—which are virtually costless when delivered by text—are a useful tool in fighting procrastination and helping people follow-through on their goals. In financial inclusion, they are a cost-effective way to increase saving balances. Outside of financial inclusion, they have been used by clinicians to help patients to follow through on weight-loss programs,[4] to quit smoking,[5] and to complete a full course of medication.[6] Below is an example of the impact of reminders on savings, from a study in three countries:

Featured Study: Getting to the Top of the Mind: How Reminders Increase Saving[7]

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 than clients who did not receive the messages. Each bank sent monthly reminder messages, either by letter (Peru) or text message (Philippines and Bolivia). The reminders mentioned a client's savings goals, a financial incentive, or both a goal and an incentive. 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.

What type of messages worked best?

- Messages that mentioned both a savings goal and a financial incentive were most effective.
- Messages that used positive versus negative motivation were equally effective.
- Regularly scheduled monthly reminders were effective. When a client was late in making a deposit and an extra reminder was sent out, it did not have any additional impact on savings.
- Mailing reminders was not cost-effective for providers.[8]

IMPORTANCE OF TESTING NEW PRODUCTS

Small tweaks to product design can make a large difference. Innovations like commitment features, defaults, and reminders can help improve consumers' wellbeing and have a positive impact on the bottom line for financial service providers. At the same time, understanding the impact of any new product design feature requires rigorous testing. The Financial Inclusion Program at Innovations for Poverty Action works with service providers, governments, and researchers to design and test financial services and products to fully understand their impacts. For more information, contact financialinclusion@poverty-action.org.

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3. Castleman, Benjamin L., and Lindsay C. Page. "Summer nudging: Can personalized text messages and peer mentor outreach increase college going among low-income high school graduates?." *Journal of Economic Behavior & Organization* 115 (2015): 144-160.
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6. Raifman, Julia RG, Heather E. Lanthorn, Slawa Rokicki, and Günther Fink. "The impact of text message reminders on adherence to antimalarial treatment in northern Ghana: a randomized trial." *PloS one* 9, no. 10 (2014): e109032.
7. Karlan, Dean, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman. "Getting to the top of mind: How reminders increase saving." *Management Science* (2016).

8. While using email or social media to deliver reminders hasn't been rigorously tested as far as we know, U.S. based providers may consider reaching clients through these avenues.

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