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**A personal touch in text messaging
can improve microloan repayment**

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Summary. Because payment delays and defaults significantly affect both lenders and borrowers in fragile economies, strategies to improve timely loan repayment are needed to help make credit markets work smoothly. We worked with two microlenders to test the impact of randomly assigned text message reminders for loan repayments in the Philippines. Messages improved repayment only when they included the account officer's name and only for clients serviced by the account officer previously. These results highlight the potential and limits of communication technology for improving loan repayment rates. They also suggest that personal connections between borrowers and bank employees can be harnessed to help overcome market failures.

For credit markets to work, borrowers must repay banks enough for banks to make a profit. When banks don't expect enough repayment to make a profit, they lend less and a market failure ensues. Microlenders, banks that make small loans to low-income borrowers, are often plagued by late repayment problems. This costs those lenders and, inevitably, their customers. For banks, frequent late payments add an expensive administrative burden, due to the need for additional account monitoring and lawsuits, which may reduce the assets available for additional loans. For borrowers, missed payments can lead to late fees and possible legal action. Long-term patterns of delinquency may reduce their creditworthiness and ability to borrow again. To help avoid such troublesome outcomes for both parties,

we investigated a new, technology-based strategy to encourage timely loan repayment.

Our research suggests that text messaging can be a simple and inexpensive but powerful nudge in this realm. Significantly, our findings also show that some message content is superior to others, even within the constraints of a 160-character limit. The success of low-touch interactions, such as text messaging, may be dependent upon high-touch interactions, such as personal contact between a borrower and an employee at the lending institution. Messaging that acknowledges personal ties, in our research, shows particular promise.

These insights are relevant to another set of important questions in the microlending field: What drives borrowers to default? Does it stem from conditions beyond borrowers' control? Or do borrowers simply decide not to meet their commitments? If repayment messaging is ineffective, this could support

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A Personal Touch: Text Messaging for Loan Repayment

We worked with two microlenders to test impacts of randomly assigned reminders for loan repayments in the “text messaging capital of the world”. We do not find strong evidence that loss versus gain framing or messaging timing matter. Messages only robustly improve repayment when they include the loan officer’s name. This effect holds for clients serviced by the loan officer previously but not for first-time borrowers. Taken together, the results highlight the potential and limits of communications technology for mitigating moral hazard, and suggest that personal obligation/reciprocity between borrowers and bank employees can

be harnessed to help overcome market failures.

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