



FINANCIAL INCLUSION BOOK BRIEF

The Power of Doing Nothing

How defaults can improve customer savings behavior

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: DEFAULTS

Automatic (“opt-out”) enrollment is a simple product design modification in which consumers are informed they will be automatically enrolled in a product or service unless they choose to opt out. Setting the default to “opt-out” instead of “opt-in” has been shown to significantly increase uptake of certain savings products and lead to behavior change through automation, for example by increasing participation in retirement and savings plans. It is important that financial services providers use these tools with care, fully and conspicuously inform their customers about the product or service into which they will be enrolled, and give customers full freedom to make a different choice or opt out at any time.

WHY DO DEFAULTS WORK?

- People prioritize today over tomorrow**
People tend to get caught up in their busy lives and systematically fail to make decisions today that will only affect them in the future.
- People put off taking action on complex tasks**
People often avoid taking action on tasks that seem daunting or complex, and financial transactions like choosing a 401(k) plan are no exception.
- People suffer from inertia**
People have a strong preference for the status quo, regardless of whether it is better or worse for them than available alternatives.

WHERE CAN PROVIDERS AND NON-PROFITS APPLY DEFAULTS?

The most common use of defaults in the United States are automatic (“opt-out”) enrollment in defined contribution retirement plans and regular escalation of contribution rates. Some other promising applications of defaults include:

- **Automatic deposits into savings:** For clients who have opened savings accounts, banks can automatically deposit a portion of their paycheck into their savings account, unless they opt out.
- **Automatic inclusion of savings add-ons:** Institutions can include add-on savings programs for clients unless they opt-out.
- **Automatic loan repayment:** Institutions can help clients pay down a loan by setting up automatic regular monthly payments for consumers, unless they opt-out.

Although defaults can also be applied to savings contribution rates, optimal contribution rates vary for different individual units.

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This brief is part of IPA's Nudges for Financial Health series, which is available as a combined booklet [here](#). The other briefs in the series can be downloaded individually: [Top of Mind](#), [Count on Commitment](#).

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