

FINANCIAL INCLUSION OVERVIEW

Count on Commitment

Helping clients stick to their goals and increase their savings balances with commitments

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: COMMITMENT SAVINGS DEVICES

Commitment devices are voluntary, binding arrangements that people make to reach specific goals that may otherwise be difficult to achieve. When built into savings products, commitment devices can help address behavioral and social obstacles to saving by providing a mechanism that forces people to save according to their self-set plans. These devices vary in terms of commitment activity, consequence for failing to fulfill the commitment, and control over how savings are spent. “Hard” commitments feature financial penalties for failure, whereas with “soft” commitments, the penalty is primarily psychological, as in letting down oneself or one’s community.

WHY DO COMMITMENT DEVICES WORK?

- People are “present-biased”**
People prioritize today’s desires and needs over tomorrow’s and, as a result, systematically fail to make choices that will only benefit them in the future.
- People lack self-control**
People often intend to save money for a bigger expense, but find themselves spending it on more tempting and gratifying things, instead.
- People are inattentive to the future**
It can be difficult to remember the future. People often underestimate because they don’t think about how much money they’ll need in the next month, year, or decade.
- Social pressure prevents some from saving**
Many people face pressure from their family and friends to share their earnings and savings.

TIPS FOR PROVIDERS IN DESIGNING COMMITMENT DEVICES

Commitment devices are not a new concept for financial service providers. From “Christmas club accounts” designed to help people save for holiday expenses, to certificates of deposit (CDs), U.S. providers have been offering commitment savings products for decades. Yet there are many more opportunities to integrate commitment savings products. When designing devices for their clients, providers should keep these three considerations in mind:

- 1. Make sure there is a cost to not saving:** Commitment savings products must make saving the optimal choice for clients. That means devices must increase the monetary or psychological cost of not saving.
- 2. Don’t scare away people who might benefit:** Providers do not need to make commitments extraordinarily expensive or taxing for clients. If devices tie people’s hands too tightly, they might not sign up for them.
- 3. When it comes to restrictions, less can be more:** Commitment devices do not always have to impose restrictions to improve saving practices. Psychological commitments, like labeling savings for specific purposes or making non-binding public commitments to family or friends, can help people save more.

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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: [The Power of Doing Nothing, Top of Mind](#).

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