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Nudging People Towards Better Credit in Peru

By: Gabriella Wong & Hugo Salas



According to [statisticbrain.com](https://www.statisticbrain.com), one of the most popular new year's resolution for 2017 was

to make better financial decisions. However, in Peru, nearly 1.2 million (16 percent of all the financial consumers that hold a debt in the regulated financial system), people who have debt are reported to be late on their payments. This could have negative implications for their financial future making borrowing harder or more expensive. This raises the question: can debtors be nudged towards better financial well-being?

Traditional approaches have tackled this problem through financial literacy training. But several impact evaluations have found that these policies are costly, unpopular, and only slightly effective. In Mexico, for example, a sample of individuals were offered 1,000 Pesos (72 USD) to participate in a set of financial education trainings. But even with the financial incentive, only a third agreed to participate and the program did not have any effect on their overall financial outcomes, as measured through credit reports (Bruhn, Lara Ibarra, & McKenzie, 2014). Two reviews looked at the impact of 120 financial literacy programs in several countries, and found that the programs rarely affected financial behavior and that the effects were significantly smaller in low and middle-income countries, relative to high-income countries.

Given this evidence, the Peruvian Government's Superintendent of Banking, Insurance Companies and Pension Funds (SBS) of Peru has adopted an alternative approach. It has created an online tool that allows users to monitor the status of their debts easily on demand. This tool, the SBS credit report portal, allows financial consumers to access their credit history data for up to the last five years, including credit ratings, total debt, total interests charged, and number of lines of credits. However, though close to 1 million users have already accessed the SBS credit report, only 38 percent of them have used the portal more than once, and only 10 percent of the those with debt has accessed it. Like the financial education interventions, offering information through portal seems good in theory, but may have less effect on people's lives in practice.

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One potential theory that could explain the low use of the portal comes from behavioral economics literature. This theory, the so called "Ostrich Effect", predicts that people will bury their heads in the sand, avoiding additional information when this is expected to bring 'bad news'. In a seminal article, Karlssoon, Loewenstein, & Seppi (2009) found, for example, that investors from the US and several Scandinavian countries monitor their investment portfolios less frequently when markets are down. Financial consumers might be acting similarly; instead of acting rationally and informing themselves about their credit, they may be avoiding the emotional pain of knowing by not looking at it.

An additional explanation is that financial consumers could be irrationally optimistic about their financial future (Waiter & Lovallo, 1999). In other words, debtors may firmly believe that their credit situation is too good to be concerned about. If they are overconfident, borrowers may believe that they do not need to keep an eye on their credit.

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To address these issues, Innovations for Poverty Action (IPA) Peru, along principal investigators [Dean Karlan](#), [Jonathan Zinman](#), [Kareem Haggag](#) and [Xavier Gine](#), is working closely with the SBS to conduct a rigorous impact evaluation: [Improving Credit Scores with Information in Peru](#). Specifically, IPA's researchers have designed a large-scale SMS information campaign to encourage users to access the SBS credit report portal to test. Half of the study sample, made up of 50,000 people, were randomly assigned to receive information about the portal via text messages (the treatment group) while the other half received no information (the comparison group). Additionally, in order to overcome these behavioral barriers that might be preventing users to checkup on their credit, several content will be tested to see which is most effective.

But looking at one's credit is only a first step towards improving outcomes. In addition to seeing whether and which messages encouraged increased use of the portal, researchers will also look at how entering to the portal could alter a set of financial outcomes: amount of debt, credit score and the amount paid in interests. The hope is to unpack the behavioral mechanisms at play that will aid consumers obtain useful information and nourish decision-making to help discover new insights towards improving people's financial well-being.

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