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 undersave 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.

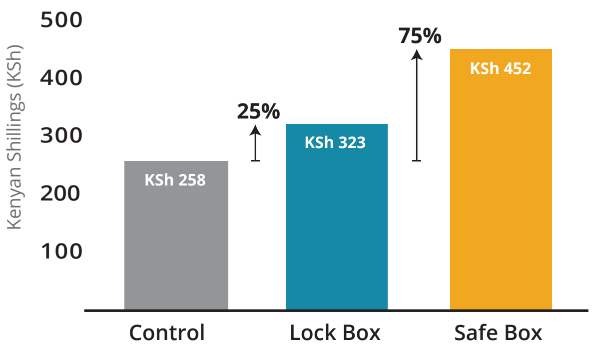
THE EVIDENCE

Rigorous evidence suggests that many clients voluntarily sign up for commitment savings products when offered them, and some even pay for the opportunity to commit. Across a diverse range of contexts and product types, commitment savings devices have helped people save more than they would have otherwise. Yet not all commitments work all the time; studies suggest that people would rather be nudged than shoved into saving. Here are two examples:

Simply labeling savings for health expenses helped families invest more in preventive health products in Kenya.

In Kenya, researchers found that simply providing people in pre-existing savings groups with a safe box (a metal box with a key they controlled), increased preventive health product investments by 75 percent in the following year. However, a hard commitment device—where people put money for preventive health in a locked box, and could not withdraw it for emergencies—had a much smaller impact over the same one-year period.[1]

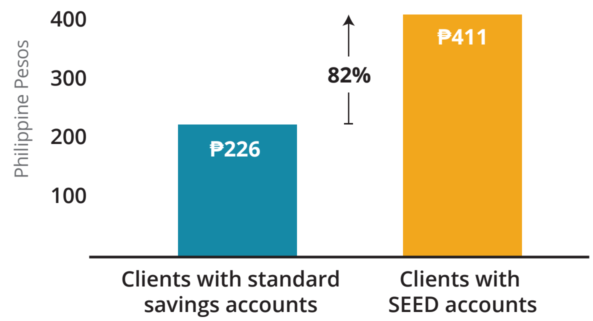
Amount spent on preventive health products



Goal-oriented commitment savings accounts increased savings in the Philippines.

A commercial bank in the Philippines offered a savings product called SEED (Save, Earn, Enjoy Deposits) that prevented clients from accessing their funds until they reached a certain goal—either an amount or time period, *decided by the client*. Around one in three people offered the account opted to open one, and one in nine made regular deposits. A year after the offers went out, clients offered the accounts had increased their account balances 80 percent more than those with normal accounts.[2]

Amount saved in one year



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.

1. Dupas, Pascaline, and Jonathan Robinson. "Why don't the poor save more? Evidence from health savings experiments." *The American Economic Review* 103, No. 4 (2013): 1138-1171.
2. Ashraf, Nava, Dean Karlan, and Wesley Yin. "Tying Odysseus to the mast: Evidence from a commitment savings product in the Philippines." *The Quarterly Journal of Economics* (2006): 635-672.

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