Building a Financial Cushion With Microsavings

ideas42

Behavioral interventions promote the use of savings products

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In the Philippines, where more than one in five people lives in poverty, thoughtful interventions triggered an increase in formal, positive savings behaviors, creating a cushion for emergencies and a fund for key expenses.

Summary

The value of amassing a little savings is understood the world over. For countless under-resourced families, getting a small surplus means tucking cash into a hiding place, "banking" it in the form of livestock, or pooling it in an informal group collection. These casual, often short-term methods have limited utility and leave people living in poverty vulnerable to calamities from sick animals to theft. Ad hoc methods also result in less savings overall compared with the potential of making frequent small deposits in formal saving accounts. Yet families living in poverty tend not to use this financial product. According to The World Bank, only a quarter of the global poor have bank accounts, and only 43% of this group uses their accounts for saving.

Supported by Grameen Foundation, ideas42 piloted an intervention with CARD Bank, Inc., a financial provider in the Philippines. The intervention added steps to opening a savings account that were designed to encourage low-income families to effectively use their formal savings accounts to build a financial cushion. The program, which extended from November 2012 to October 2013, was part of Grameen Foundation's Microsavings Initiative (GFMI), a multi-year project funded by the Bill & Melinda Gates Foundation to enhance savings among the poor, mitigate poverty, and improve standards of living. Our role was to identify behavioral solutions that would encourage optimal use of a savings product, given CARD Bank's clients' fragile financial means.

Highlights

- Though the concept of savings is universal, the methods widely vary
- Families in poverty tend not to use formal savings acounts, and only 25% of that population has one
- Savings help families build a secure and reliable financial cushon, helping mitigate poverty and improve standards of living

Foregoing financial services

The banking and savings situation in the Philippines parallels that of many countries in South Asia, Africa, and Central America in that as of 2013, a mere 26% of Filipinos used formal financial services, and almost 40 percent of households reported not having any cash on hand for emergencies and unexpected expenses. For families, being unbanked and underbanked makes saving for expenses such as school fees, a roof repair, or an unforeseen emergency more difficult. Similarly, without a formal way to accumulate the needed capital, entrepreneurial efforts such as launching a subsistence business are far more likely to fail.

To attract clients in their target demographic, GFMI and CARD Bank rolled out a new type of microsavings account called Matapats. The savings product could be opened with a small initial deposit (100 Philippine pesos or about $2.25 U.S.) and offered a deposit "pick-up" option in which a savings collector essentially made house calls. Prior to the product launch, CARD Bank's low-income customers primarily banked through Pledge accounts, which were opened in conjunction with a microloan. Pledge account members are required to make a small deposit during regular mandatory group meetings and keep a small minimum balance linked to the loan amount.

Initially GFMI and CARD Bank asked us to focus on getting more low-income Filipinos to open Matapat accounts. The hidden assumption here was Matapat holders would naturally build their savings once they had an account. Working with our partners, we examined this underlying assumption and found that getting people to open Matapat accounts was not the primary issue. In fact, in just over two years, 34,175 people had signed up for one. Further diagnosis revealed, however, that after being opened, 58% of these accounts saw no activity whatsoever. Based on this finding, we redefined the problem question to ask how we could encourage Matapat holders to more fully and effectively utilize their new accounts. Our goal was to develop a package of behavioral interventions that would lead to more frequent and relatively larger deposits.

Capturing deep insights

We conducted transaction-level data analysis and qualitative research to discover what was behind clients' current patterns of behavior. Our research consisted of interviews with CARD Bank clients and staff, observations of clients' interactions with both Matapat and Pledge accounts, and small group discussions about everyday financial needs. Our process was highly iterative; we framed and refined hypotheses and tested them to capture many behavioral insights.

Our diagnosis revealed the following behavioral roadblocks:

- First, the small minimum deposit to open a Matapat account and the small required weekly Pledge deposits anchored clients to lower deposit amounts. A deposit of 80 PHP might seem large relative to the 50 PHP minimum deposit, even though it might not be large relative to what a client could be depositing.
- Second, we learned that clients opened a new Matapat account without an intention for their use. Clients linked opening a savings account with the concept of saving money. This led them to focus intently on achieving what was, in fact, an intermediary goal. Once they had opened the account, they relaxed, feeling they had accomplished their goal. Their motivation to take further action diminished, which led to account dormancy. Focusing on the intermediate goal also allowed them to avoid expending the mental energy required to make and carry out potentially uncomfortable savings decisions.
- The existence of the Pledge accounts also subverted Matapat use. Since clients made required minimum deposits into their Pledge account weekly in front of one another, they came to see these accounts as the primary, and therefore—subconsciously—most desirable accounts to use. They also bypassed one of Matapat's most convenient features: the savings pick-up option. Enrollment was not emphasized when an account was opened, the only time clients were presented with this choice.
- CARD Bank clients understood and articulated the value of saving. However, their savings goals were often abstract and remote in time. This led to a bottleneck between clients' intentions and their actions.

Linking intentions to actions

We believed these barriers could be overcome with a package of simple, targeted behavioral design solutions that would give substance to people's savings intentions and anchor them to a concrete savings plan. Our first intervention was a redesigned account application form. The new form leveraged our behavioral insights by asking clients **to set a specific saving goal.** Clients also made **a specific savings plan** by writing down the total they wanted to save, choosing an initial deposit amount, and describing the frequency and timing of their deposits. The form made clients' intentions clear and gave them a savings roadmap to follow. It also re-anchored them away from smaller initial and weekly deposits toward higher, but affordable, amounts. The form also asked clients **to sign their "pledge"** in front of a bank representative witness, who also signed. This small, public act represented a large commitment and created a personal connection with the bank representative to encourage follow-through. Finally, we highlighted the free savings pick-up feature prominently on the redesigned form.

Our other intervention was giving each client a free savings calendar. It provided spaces to track how much a family was setting aside to save each day and provided spaces to calculate their weekly and monthly subtotals. The calendar served as a useful tool, a marker of progress, and a visual reminder of the savings goal. As a "gift," it would also encourage reciprocity in the form of positive savings behavior.

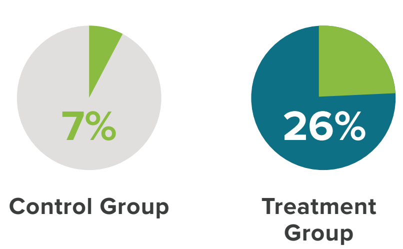
Rigorous testing

To measure the impact of the interventions, we conducted a randomized controlled trial over eight weeks with a sample of 525 CARD Bank customers distributed between the treatment and control groups. The treatment group received the whole package of interventions.

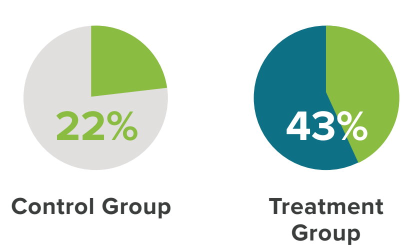
Clients more likely to initiate transactions

The behaviorally designed solutions led clients to make larger opening deposits, conduct more frequent transactions (although in smaller amounts per transaction), and ultimately build higher savings balances. For instance, although a mere 7% of the control group made an opening deposit larger than the minimum amount, 26% of the treatment group did so, increasing their opening deposit amount by about 15%. In the treatment condition, clients were also more likely to perform user-initiated transactions. While 22% of the control group made a user-initiated transaction during the pilot period, 43% of the treatment group did. At the end of the test period, the treatment group had higher average balances than the control group. Discounting outliers, we concluded that the effect of the treatment was to raise average savings balances by 37%.

OPENING DEPOSITS LARGER THAN THE MINIMUM AMOUNT



USER-INITIATED TRANSACTIONS



Potential going forward

The results of our work with GFMI and CARD Bank demonstrate that embedding the right behavioral levers into a financial product can trigger outsized changes in savings behavior. By diagnosing the problem carefully, we found the behavioral challenge was not overcoming a lack of understanding or willpower, but one of fostering action. Research into client psychology led us to the drivers of clients' financial behavior change: a focus on goal-setting, the feeling of having made a commitment, implementation intention, and a personalized experience. With this awareness, we were able to make small, inexpensive changes to existing products and processes that had a significant impact. Scaled, these improved microfinance savings interventions have the potential to help low-resourced families and individuals create or strengthen an important savings cushion and improve their financial wellbeing.