Abstract:

Behavioral interventions to increase the take-up and utilization of savings products are increasingly popular in developed and developing countries. We use two randomized controlled trials in Malawi to study different types of “defaults” thought to increase savings and reduce temptation spending. The first is a nudge, a type of intervention that affects behavior by changing the decision-making environment. In our context, it involves making a windfall transfer via direct deposit into a bank account, instead of paying beneficiaries in cash. The second intervention studies the endowment effect, testing the idea that choices depend on what people already possess by studying take-up of a less costly savings product by customers who were randomly selected to be endowed with and subsidized for a savings account with high monthly fees compared to those who did not previously own any account. We find that nudging customers to save by directly depositing money into their accounts shifts savings towards bank accounts from other strategies, but does not change the total value of savings or affect the level or composition of savings. However, the endowment effect is strong within the same population. Customers who were randomly chosen to receive subsidized savings accounts were significantly less likely than their peers to switch to a less costly account when the subsidies ended. Our results emphasize that the differences between the design and implementation of defaults intended to influence financial savings and spending have important implications for their effects on customers’ financial behaviors.