



# SMS Messages Nudges to Help the Poor Achieve Their Financial Goals

*A call for partners to test and scale up text messaging for improved financial behavior.*

From the United States to Uganda to Indonesia to Peru, the poor face many difficulties in managing their finances to best achieve their life goals. Low income may seem like the biggest obstacle, but in fact, it is only part of the story. The efficient management of one's resources becomes all the more critical when there is little surplus to spare. However, for many reasons, optimal financial decisions are difficult to make. People often have incorrect information on savings products or compelling temptations for current consumption. They may be inattentive to their future needs or have incomplete information about future income or expenses. They may simply be inattentive to the daily tasks necessary for saving, like setting aside cash or going to the bank. These factors often result in lower savings levels than individuals say they would like to have, given their resources.

## The Opportunity: Text Messages

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The expansion of mobile phones presents financial institutions and telecommunications firms with an opportunity: whereas direct communication used to be costly, now it can be achieved simply and cheaply through text messaging. SMS is a widespread and reliable delivery platform that is already familiar to mobile phone users all over the world, and the client needs nothing more than a phone and an active SIM card. IPA has already begun to test the application of SMS messages for improved financial behavior in several settings, but there is much yet to learn.

## The Existing Evidence: Pilots in Four Countries

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Three randomized evaluations of over 14,000 savings account holders in Peru, Bolivia, and the Philippines found that simple and frequent reminders were effective in raising savings balances and helping people reach their savings goals. When the message mentioned a specific savings goal, balances increased by 14 percent.<sup>1</sup>

In two randomized evaluations of borrowers, text messaging also led to increased repayment: in Uganda, a monthly SMS sent to microborrowers before the repayment date resulted in a 7-9 percent increase in the probability of paying on time.

In short, mobile phone reminders are easy to implement, inexpensive, scalable, and effective. Yet there is much still to be learned about how best to use messaging to help guide people to improved financial decisions.

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<sup>1</sup> Karlan D., M. McConnell, S. Mullainathan, and J. Zinman. 2012. "Getting to the Top of Mind: How Reminders Increase Saving." Working Paper. Available at: <http://karlan.yale.edu/p/Top%20of%20Mind%202012mar.pdf>

## Designing Effective Messaging Campaigns

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The IPA Messaging Replication Program will test this promising service and derive a robust set of prescriptions on how best to use messages to help people make optimal use of financial services. A comprehensive set of tests will explore many aspects of the theory on why messaging can change behavior.

Understanding the underlying theory is helpful for one critical reason: with a clearer understanding of why messaging changes behavior, more robust prescriptions can be made for new institutions in new settings, to help design optimal strategies for interacting with clients. Can messages be informational, and if so, how does one best convey credible, relevant, and needed information? Do messages increase attention to tasks, or future needs, or future income uncertainty? Do messages persuade people to value future consumption more, or current consumption less, thus encouraging higher savings now? Naturally there is no generic message for which the answer is the same for all people, and the tests are designed to be sensitive to different groups.



In the end, we aim for a set of guidelines, backed by evidence, which will help financial institutions design their own messaging campaigns. In turn, they will help improve their relationships with their clients by helping them use financial services efficiently both in the short run and in the long run.

## A Call for Partners

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The Messaging Replication Program is seeking partners who are interested in exploring these questions with us and in scaling-up a messaging program for their clients. Potential partners include:

- Financial institutions that provide deposit services and/or loan products
- Bank intermediaries or agents with direct client contact (e.g., agents that accept deposits)
- Organizations that deliver training in financial literacy or financial management skills
- Telecoms with an interest in improving the financial practices (e.g., mobile money) of their subscribers

Ideal partners will have over 20,000 clients, an aim to serve the poor, and a robust Management Information System (MIS) to track administrative outcomes, such as savings and/or loan balances. If your institution fits this description and is interested in improving the savings and payment practices of your clients, please contact us. The IPA Messaging Project is led by Gharad Bryan (LSE), Aaron Dibner-Dunlap (IPA), Dean Karlan (Yale), Jake Kendall (Bill & Melinda Gates Foundation), Margaret McConnell (Harvard) and Jonathan Zinman (Dartmouth).

*The Global Financial Inclusion Initiative at IPA* seeks to identify and evaluate products and programs that enhance poor households' use of improved financial services. For additional information on the Initiative, visit [www.poverty-action.org/financialinclusion](http://www.poverty-action.org/financialinclusion).

*If you are interested in participating in or supporting this project, please contact Aaron Dibner-Dunlap at [addunlap@poverty-action.org](mailto:addunlap@poverty-action.org) or send an email with your inquiry to [gfi@poverty-action.org](mailto:gfi@poverty-action.org)*