## Promoting Retirement Savings among clients of *BancoEstado Personas*



## WHAT IS IT?

In Chile, the Pension Fund Administrators (AFP, for their Spanish acronym) and other authorized institutions such as insurance companies, securities brokers and banks can offer voluntary pension savings plans. This presents an opportunity to promote voluntary pension savings among low-income workers through financial intermediaries with whom these workers have greater interaction and trust, through the channels that best meet their needs. This is the case of *BancoEstado* in Chile, which serves most of the population, with an emphasis on middle- and low-income consumers. As the focus of global financial inclusion has for decades been to facilitate access to credit and loans for lower income households, many workers in this segment have a consumer loan through BancoEstado. In order to promote retirement savings, this intervention seeks to take advantage of both factors: the high penetration in the middle- and low-income segments of BancoEstado Personas and the greater liquidity these clients have upon finishing a loan repayment, which contributes to decreasing the feeling of loss that occurs when saving.

### **IMPACT**

There is not a statistically significant (5%) difference between treatment and control groups in any of the subgroups considered.

However, the campaign does seem to reduce the outstanding mortgage debt of those individuals whom we remind about the increased liquidity to come. This could indicate that individuals decided to save in the long term, but using a financial vehicle other than the one proposed.

#### TITLE

Promoting Retirement Savings among clients of *BancoEstado Personas.* 

#### TAGLINE

In theory, the end of a loan repayment period is an ideal time to start saving for retirement. As a person's liquidity temporarily increases, they have more funds available to contribute to their pension and are also less likely to experience the sense of loss commonly felt through saving. Through SMS, e-mail and browser pop-ups, we invited customers of BancoEstado about to complete a loan repayment to enroll in a voluntary retirement savings plan. Signing up for the voluntary retirement savings plan did not increase as a result of our intervention. However, individuals who received the invitations reduced their mortgage debt, suggesting that clients decided to save in the long term, but using a financial vehicle other than the one proposed.

#### **FIELD OF WORK**

Pensions and long-term savings.

#### **SUBTOPICS**

Retirement savings.

#### YEAR

2018

#### AUTHORS

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#### SUMMARY AUTHOR

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#### AIM

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The aim is to attract clients of *BancoEstado Personas* about to complete payment of a loan or who recently did so, to participate in a voluntary retirement savings plan, taking advantage of their increased liquidity and reduced loss sensation.

#### **BEHAVIORAL TOOLS**

Invitations to save in voluntary retirement savings products, taking advantage of a "savable moment".

#### **EXECUTING AGENCY**

BancoEstado Personas.

#### TARGET POPULATION

BancoEstado Personas clients.

#### **DELIVERY MECHANISM**

Text messages, emails and browser pop-ups on *BancoEstado*'s website.

#### SAMPLE SIZE

20,724 individuals.

#### **EVALUATION DESIGN**

Randomized Controlled Trial (RCT).

#### **FUNDING SOURCE**

IDB Lab and MetLife Foundation.

#### COST

Approximately 20 Chilean pesos (CLP) per SMS sent. The total cost of the intervention was less than CLP \$470,000, or approximately US \$700.

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> Voluntary Retirement Savings (APV, for its Spanish acronym) is a retirement savings mechanism that allows Chilean workers to save voluntarily for retirement, in addition to the mandatory savings contributions in the Chilean pension system, which are currently 10% of pre-tax income. APV can be an important supplement to mandatory savings, given the relatively low contribution rate and low mandatory contribution densities.

> Despite low replacement rates (20% without and 40% with state subsidies<sup>1</sup>), most workers in Chile do not voluntarily save for their pensions. According to the 2015 Social Protection Survey, only 13% of salaried workers and 8% of self-employed workers have made voluntary pension savings. For low-income workers, this percentage is even lower: among those in the third quintile of the income distribution, this figure does not exceed 4%, and it is even lower if the first and second quintiles are considered, among which voluntary pension savings is below 3%.

There are multiple reasons for these low voluntary retirement savings rates. On one hand, workers, especially low-income workers, perceive that they have limited capacity to save. There are also certain psychological and behavioral biases that can lead a person who wants to save to not do so. These biases range from loss aversion, to inaction in the face of the uncertainty of old age, to delaying the decision to save because of a lack of willpower. Additionally, people have limited attention spans, which makes them focus on more immediate issues.

The messages and the intervention were designed to counteract psychological biases that can limit long-term savings. Specifically, messages sent at a time of greater availability of liquidity, such as after finishing a loan repayment, seek to reduce the role of willpower problems and the sense of loss that usually conspire against the intention to save.

## **INTERVENTION DESIGN**

The intervention consisted of sending invitations to enroll in an APV plan with *BancoEstado*, sent by the bank through different mechanisms: text messages (SMS, both unidirectional and bidirectional), emails, and a banner (a notification within the personal web space of the client on BancoEstado's website). These invitations were sent to bank customers who shared the following characteristics: (1) they recently finished paying off a consumer loan with BancoEstado or were close to completing it, and (2) they were not eligible for new loan offers. Excluded from the analysis were those clients who had already signed up for an APV product at *BancoEstado* before the intervention, and clients within five years or less of the legal retirement age (that is, men over 60 and women over 55).

To give an example of messaging contents, the email was the following: "Name, after paying off your loan at BancoEstado, it may be the moment save for your future. Sign up for an APV with us 100% online or through the BancoEstado service network".

After the intervention, APV enrollment was monitored until November 2018. At the beginning of the study, 20,724 people

who met the above conditions were randomly assigned to a control group and a treatment group. The individuals were divided into two groups: group A, which corresponds to individuals whose loans expired between January 2017, and February 2018, and group B, which includes those with loans that expired between March and June 2018. The invitations were sent in two rounds: the first, on January 22, 2018, and the second, on May 22, 2018. Individuals in group A received invitations in both rounds, while those in group B received them only in the second round.

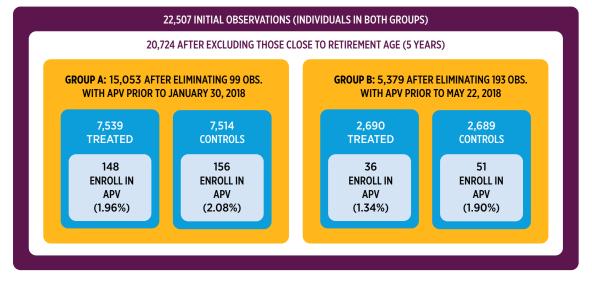
The impact of the interventions was measured through the probability of purchasing any APV product at any time between February and November 2018. For group A, the impact was measured in the periods from February to May 2018, from June to November 2018 and from February to November 2018. In the case of group B, only the effect on the probability of enrolling in an APV plan between June and November 2018 was measured. Figure 1 shows the distribution of people in the different groups and the APV enrollment rate.

<sup>1.</sup> Benavides and Valdes (2018), "Pensiones en Chile: Antecedentes y Contornos para una Reforma Urgente", Escuela de Gobierno, Universidad Catolica de Chile.

#### FIGURE 1

INDIVIDUALS BY GROUP

(APV observed until November 2018)



## IMPACT

Message campaigns had no effect on APV enrollment. No statistically significant (5%) difference was found between the control and treatment groups or in any of the subgroups considered. This could be explained by both groups having been exposed to other types of communication or advertising interventions. In this context, it should be noted that *BancoEstado* increased its sales of APV products by 130% between 2017 and 2018, so its standard strategy of promoting savings products through conventional service desks could have been more effective in selling APV, which could have blurred any messaging effect.

However, we find evidence consistent with our hypothesis that completing the repayment of a loan is a good moment to offer savings products. Specifically, we show that the probability of enrolling in an APV plan is higher for those clients whose loan is closer to expiring. That is, receiving a message just before the loan ends (when liquidity increases) is more effective than receiving one months earlier.

Finally, we found an unexpected effect. Although it was not possible to motivate customers to sign up for APV, those who received messages were more likely to save in other long-term vehicles. In particular, the intervention had an impact in reducing both the amount and presence of customers' outstanding mortgage debt (group B). It is possible that the intervention reminded message recipients of their increased liquidity, and they took the opportunity to make a larger mortgage payment or to contract fewer loans, or for smaller amounts. Specifically, the treated individuals show a decrease of CLP \$238,000 (CLP \$581,000 among the clients closest to loan repayment) in mortgage debt (US \$300 or US \$734, respectively). Likewise, a decrease of 0.7 percentage points (1.8 percentage points among clients closest to loan repayment) is observed in the probability of having a mortgage debt. This comes, in part, from a lower probability of taking out new loans among those who did not initially have this type of debt (0.8 percentage points lower likelihood to contract among nearby customers). There is also a lower probability of remaining in debt among those who had this type of liability at the beginning of the intervention (11.2 percentage points less likely to have debt at the end of the period between "close" treated individuals and controls).

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> The results of the intervention suggest that there was no positive effect on the probability of enrolling in an APV plan. In fact, in some cases, the effect seems to be negative, although not statistically significant. Moreover, the probability of enrolling in an APV plan (either as a result of our intervention or the general campaign of *BancoEstado*) is higher among individuals whose loans expire close to the time of the intervention. This is consistent with the hypothesis that an anticipated spike in liquidity after finishing paying a loan is a positive factor in savings decisions.

> We believe that, by calling the client's attention to the availability of recent or imminent liquidity, the intervention may have led to treated individuals reducing their mortgage debt levels, partially in detriment to an enrollment in an APV plan. It is important to mention that the intervention was carried out in the context of a broader campaign by *BancoEstado* to promote their APV products through their general commercial channels. This alternative route, while costlier, but with more direct contact with the clients, could have overshadowed any possible effect of our informative intervention.

It is key, among other actions, to continue to promote voluntary pension savings, so that workers can contribute for a period or amount, and with an administrative institution, of their choice. These and other measures would have direct implications on the level or adequacy of pensions, allowing benefits to increase in a sustainable manner. One of the most important elements is to maintain informational and educational campaigns over time, instead of promoting retirement savings through isolated or time-limited interventions. A cultural change is required regarding this issue, which can only be achieved through long-term efforts. Another essential element to consider is the life stage of a recipient who receives this information, with younger people being more receptive to messages promoting pension savings than older individuals. A final fundamental element is the increased involvement of APV administrators, employers and the state in delivering information about pension savings as well as about relevant tax incentives, in an effort to improve people's long-term savings decision-making.



