

DISCUSSION

**Why Do Defaults
Affect Behavior?**

**Experimental Evidence
from Afghanistan**

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Mathematical Models in Finance
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Summary | Default options for policy design



Puzzle & Policy-relevant insights

Puzzle : Sub-optimal retirement savings

Insight : **Default assignments** impact behaviors (Madrian 2014)

Literature : Organ donation, vaccine use, exercise, retirement savings decisions



Experimental Design

Context : Field experiment in Afghanistan with **phone-base savings** account “M-Pasandaz”

Method : 949 employees randomly assigned to 0% or 5% **savings rate** & 0%, 25% or 50% **match**

Goal : Prove the **nudging effect of defaults** on passive savings to later improve saving prospects for people left out of formal financial ecosystems



Default option impact

“Default enrollment increases participation by **40 p.p.** which is equivalent to providing a **50% matching** incentive” (*Blumenstock et al. 2018*)



Testing the default effect causes

Endorsement effect (Choi et al. 2014)

RATIONAL

Mechanical frictions

Cognitive cost (Lusardi & Mitchell 2011)

Salience (Karlan et al. 2016)

BEHAVIORAL

Present bias (O’Donoghue & Rabin 1999)

Strengths | Five major strengths of the article



Poor Country

Current body of research on default savings is from rich countries (6 in the US, 1 in Denmark, 1 in Australia and 1 in Chile)

-> **New contribution to generalize the effect of default options**

The poorest and least sophisticated individual respond most strongly to default in rich countries (Madrian & Shea 2001)

-> **Policies designed for wealthy nations can be applied globally**

4% formal savings, yet demand for savings with 25% reporting in-kind or cash savings (Demirguc-Kunt et al. 2015)

-> **Provide financial institution through mobile money platforms**



Field Experiment



In depth Analysis








Controlled Setting



Qualitative Insights

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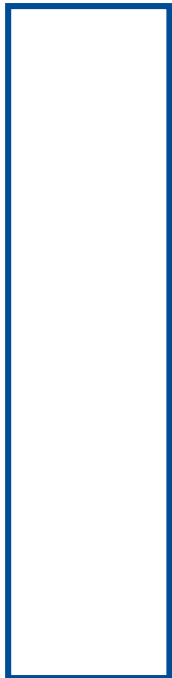
Strengths | Five major strengths of the article

				
Poor Country	Field Experiment	In depth Analysis	Controlled Setting	Qualitative Insights
	<p>Field experiment with nation's largest mobile money network, Roshan Telecom (949 participants assigned to 6 groups randomly)</p> <p>-> Actionable insights, extend to 1.2 million customers</p> <p>Mobile salary payments since 2010 for participants, SMS confirmation of payments, corporate information sessions</p> <p>-> Clear setting and easier to interpret results</p>			

Strengths | Five major strengths of the article



Poor Country



Field Experiment



In depth Analysis

Analysis of the price of default relative to financial incentives
-> **Sizing of the cost saving potential of default options**

Analysis of the mechanisms underlying the default
-> **Highlight importance of cognitive cost and present bias**

Analysis of the impact of default on future savings decisions
-> **Shows that employees' perception changed with default savings**

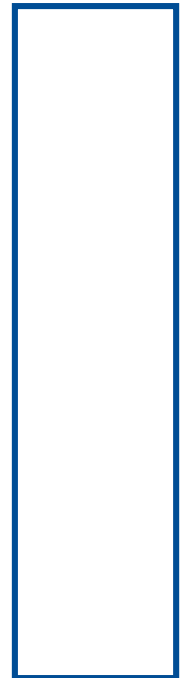
Consideration of alternative explanations (Signal, relative fairness, ...)
-> **Set grounds for discussion**








Controlled Setting



Qualitative Insights



Strengths | Five major strengths of the article

				
Poor Country	Field Experiment	In depth Analysis	Controlled Setting	Qualitative Insights
			<p>The cooperation of Roshan Telecom enabled the researcher to control the field experiment environment and investigate specific questions</p> <p>Examples:</p> <ol style="list-style-type: none">1. Mechanical Friction - Simple call to RH to change contribution rate2. Salience - Text messages and surveys3. Endorsement - Communication around random assignment4. Cognitive Costs - Financial consultation	

Strengths | Five major strengths of the article



Poor Country



Field Experiment



In depth Analysis



Controlled Setting



Qualitative Insights

Follow-up surveys, calls and interviews strengthen the quantitative results with **better interpretation thanks to qualitative insights**

Examples:

1. No evidence that M-Pasandaz crowded out other savings
2. Clear understanding of random assignment (no endorsement)
3. Clear awareness of contribution and how to change it
4. Experience of savings changed employee's perception

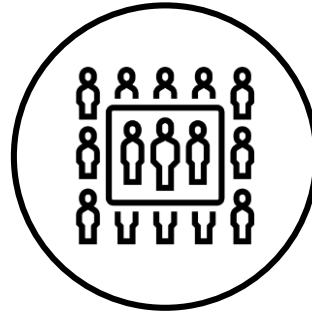
Limitations | Areas for improvements



Simplistic context

In this field experiment, there are no tax considerations and no asset mixes to choose from

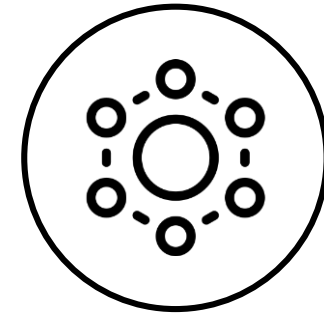
*It prevents us from **characterizing** inertia resulting from defaults work because we cannot **generalize** to rich countries*



Unrepresentative sample

The sample is significantly wealthier than the average Afghan (9x average GDP/cap)

*The **magnitude** of the default effect and its **price relative** to financial incentives might not hold*

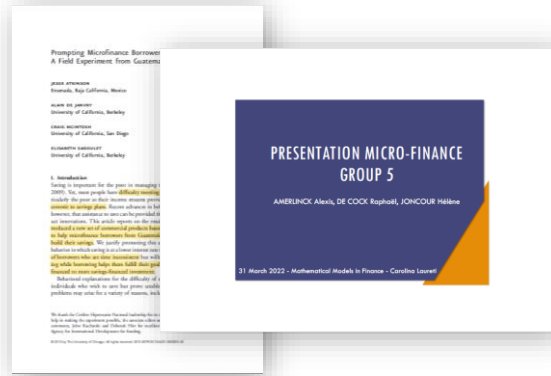


Lack of cross effects

The field experiment design is meant to get rid of endorsement, mechanical friction and salience effects

*It prevents us from understanding the **interaction effects** between the different drivers mechanisms*

Cross effects | Endorsement, mechanical friction & salience



Endorsement

Individuals, especially with low financial literacy can perceive the default saving rate as a **recommendation**

They are also less likely to give in to self-control problems because the rate seems less **arbitrary**

Atkinson, J., De Janvry, A., McIntosh, C., & Sadoulet, E. (2013). Prompting microfinance borrowers to save: A field experiment from Guatemala. *Economic Development and Cultural Change*, 62(1), 21-64.



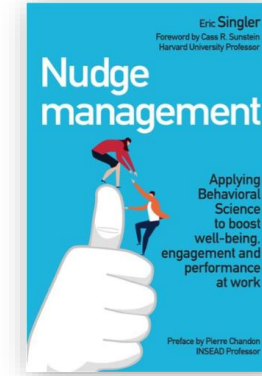
Mechanical Friction

Mechanical friction can be seen as the **hassle cost** of an action

Intentionally designing such costs is a great way to change the **choice architecture**

Ex: plug your cell phone far from your bed to avoid bedtime procrastination

Salzer, S. (2021, April 25). Your Commitment Devices Database. Fetched on Behavior Design Hub: <https://medium.com/behavior-design-hub/your-commitment-devices-database-35a54df3a64f>



Salience

The **salience bias** represents the fact that people only use the **most recent** information in their brain to take their decisions

The role of nudging is thus to **bring back** important decision **criteria** to the top of their mind

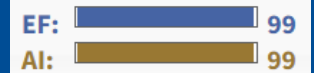
Singler, E. (2018). *Nudge management: Applying behavioural science to boost well-being, engagement and performance at work*. Pearson.



Thank you for your attention

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