Report to Authors

The Role of Regret in Prize-Linked Savings: Experimental Evidence from Kenya

Summary

This paper reports results from a field experiment on savings with 311 individuals with the Busara center in Nairobi, Kenya. In the experiment, respondents sent airtime to a project account via their phone, and received an incentive for the amount saved. Incentives were (as I understand it) calculated on a daily basis. In the control group, savers received a 5% daily interest rate on this savings. In the prize-linked group, they received 10% daily interest with probability 0.1, 100% interest with probability 0.01 and 200 times the amount saved with probability 0.001, and received 0 the rest of the time. Within the prize-linked group, the researchers further randomized whether participants were aware that they would have won or not (even if they didn't save that day), i.e. researchers sent out lottery numbers whether or not the participant saved. The authors find that people in the prize-linked group saved more often but didn't save more in total, and they find that about 20% of this effect can be explained by regret (based on the difference between the group that was informed whether they would have won or not, and the group that was not informed).

Main Comments

This is an interesting study. I've heard a lot about prize-linked savings but haven't seen a lot of good research on it, and so I found this study intriguing. This is a nice piece of work.

While I think this is a nice study, on the whole I think this study has more of the flavor of a "lab experiment in the field" and perhaps might be a better fit for more of an experimental journal. The main reason I say this is because there have been a huge number of savings papers in the last 10-15 years, and in my opinion the best types of studies these days have large samples and long enough timeframes, and they measure the real impacts of savings on people's overall lives. In addition, to be policy relevant, papers should focus on financial products that are available to people in real life, and which aren't particular to the experiment (even if interesting).

So to me, as much as I think this paper is interesting, I do have some concerns. A first issue is that the sample is small and the sample isn't representative. While early papers in the development literature had small samples like this, they also were investing resources into comprehensive surveys; and anyway, by now the size of the stronger experiments have grown by a lot. Earlier papers also tended to focus on a particular group of people, such as small-scale entrepreneurs, or in some cases representative samples of people living near banks. By contrast, the sample here seems more like a convenience sample, and there isn't any discussion of how these individuals compare to the average person in Kenya.

A second issue is that the main outcome seems to be saving in the treatment account. An important test in savings studies is measuring the extent to which the experimental account crowds out other savings. In cases where the experimental account offers higher interest (like this one), it seems near-certain that this would happen – that people actually *should* transfer money from some other account to this one that offers 5% daily interest. In many cases, researchers might put in a table showing treatment savings, then other savings (like saving at home or in other places), and then total savings. As far as I understand it, the main results in the main tables is only for the treatment account; and I think the crowd out effects are deep in the appendix (in Appendix Table 11). This seem to show some negative effects on PLS (not significant), which might make sense if people are switching money around to get the high interest rate.

In any case, I think a clearer discussion of this could be helpful. I initially thought Table 3 was only savings in the experiment, but then in the intro on p.3 the authors note that they find no change in *total* savings, and argue that this shows there is no displacement. But if the effect in Table 3 is for experimental savings, then there isn't any displacement to worry about, since the experiment had no effect on even experimental savings.

A third issue is that these accounts weren't that natural. The interest rate appears to be astronomical – 5% per day. Why did the researchers pick such a high number? But on the flip side, the account is not very natural – my reading is that the account is essentially just a cell phone where people were texting airtime (not mobile money even), and then were getting this money sent back. While I think this was an interesting idea to set this up, I'm not sure how practical this is outside of this context.

(By the way, a related question I have here is about the legality of holding people's deposits – my understanding was that holding deposits required certification from regulatory agencies, which is why many MFIs don't hold deposits. I understand that this was just a small experiment with only 300 people, but could the authors comment on this? I could be mistaken on this point.)

The effects seem pretty modest. The amount saved is surprisingly low given the stakes, just a few dollars, which might be because of the frictions involved with making these transactions, or trust issues. But the prize linked savings doesn't have an effect on total savings. And as I mentioned above, my main interest is in whether an intervention like this would have effects beyond savings in any case.

And finally, the timeline of 60 days is short, much shorter than other papers in this area.