When Commitment Fails – Evidence from a Field Experiment

ANETT JOHN†

October 2018

Commitment products can remedy self-control problems. However, imperfect knowledge about their preferences may (discontinuously) lead individuals to select into incentive-incompatible commitments, which reduce their welfare. I conduct a field experiment where low-income individuals were randomly offered a new installment-savings commitment account. Individuals chose a personalized savings plan and a default penalty themselves. A majority appears to choose a harmful contract: While the average effect on bank savings is large, 55 percent of clients default, and incur monetary losses. A possible explanation is that the chosen penalties were too low (the commitment was too weak) to overcome clients’ self-control problems. Measures of sophisticated hyperbolic discounting correlate negatively with take-up and default, and positively with penalty choices – consistent with theoretical predictions that partial sophisticates adopt weak commitments and then default, while full sophisticates are more cautious about committing, but better able to choose incentive-compatible contracts.

Keywords: commitment, hyperbolic discounting, partial sophistication

JEL classification: C93, D03, D14, O12

*I would like to extend my gratitude to Oriana Bandiera, Maitreesh Ghatak, and Gharad Bryan, for their invaluable support and advice. I am deeply indebted to Dean Karlan, Ann Mayuga, Faith McCollister, Megan McGuire, Yoeri Suykerbuyk and Eva Ghirmai of IPA Philippines, without whom this project would not have been possible. I am grateful to the editor John List, the associate editor, and three anonymous referees for detailed comments. I further thank Nageeb Ali, Douglas Bernheim, Andrea Canidio, Kristina Czura, Stefano DellaVigna, Jonathan de Quidt, Paul Heidhues, Alex Imas, Supreet Kaur, David Laibson, Matthew Levy, Lance Lochner, George Loewenstein, Johannes Spinnewijn, Séverine Toussaert, Erina Ytsma, and various seminar audiences for helpful feedback and discussions. I finally thank 1st Valley Bank of Cagayan de Oro, Philippines, for a productive collaboration. I gratefully acknowledge the financial support of the Yale Savings and Payments Research Fund at Innovations for Poverty Action, sponsored by a grant from the Bill & Melinda Gates Foundation. This research further received generous support from the Royal Economic Society. All errors and omissions are my own.

†CREST Paris, email: anett.john@ensae.fr. This paper was previously circulated under the name Anett Hofmann.
1. Introduction

Contrary to predictions of the standard neoclassical model, the last decade has seen a surge of evidence documenting a demand for (self-)commitment contracts - roughly understood as a voluntary restriction of one’s future choice set, in order to overcome intrapersonal conflicts. Applications are as broad as the scope of human ambition, and range from gym memberships, diet clubs and pension savings to self-imposed binding deadlines for academic papers. More informal arrangements include taking only a fixed amount of cash (and no credit cards) when going shopping, or not keeping chocolate in the house. In developing countries, documented demand for commitment devices goes back to the literature on rotating savings and credit organizations (Anderson and Baland (2002), Gugerty (2007)), and the wandering deposit collectors of South Asia and Africa (e.g. Besley (1995)).

Why do people self-commit? Commitment entails the voluntary imposition of constraints on future choices, thereby putting a cost on flexibility. Among the most frequently cited models to rationalize a demand for commitment are those of quasi-hyperbolic discounting (Laibson (1997) and O’Donoghue and Rabin (1999)). They suggest that agents procrastinate activities that involve immediate costs and later rewards (going to the gym), and do too much of activities that involve immediate gratification but later costs (using high-interest credit cards). If agents realize their time-inconsistency, they will have a positive willingness to pay for commitment devices which eliminate tempting options from their future choice sets (or make them more expensive), and thus increase long-run welfare. Empirically, commitment devices have been shown to increase savings levels (Ashraf et al. (2006)), agricultural input use (Duflo et al. (2011), Brune et al. (2016)), pension contributions (Benartzi and Thaler (2004)), preventative health investment (Dupas and Robinson (2013)), and chances of successful smoking cessation (Giné et al. (2010)), as well as to reduce heavy daytime drinking (Schilbach (forthcoming)).

But are people good at choosing the ‘right’ commitment contract? By construction, correctly choosing a welfare-improving contract requires knowledge about one’s future preferences: To determine whether a contract will enable her to follow through with a plan, the agent needs to anticipate how her future selves will behave under the contract. Telling her social network that she plans on running a marathon, for instance, requires the agent to assess whether the threat of embarrassment upon withdrawal is sufficient to overcome her laziness. If the agent is overconfident, the contract may result in undesirable behaviour (she does not run the marathon), and she may be harmed rather than helped (she gains no health benefits, but pays the cost of embarrassment). The very nature of most commitment contracts is to impose monetary or social penalties for undesirable behaviour. Thus, adopting a commitment device that is ill-suited to one’s preferences may backfire and become a threat to welfare. The argument extends to other types of naiveté regarding the costs and benefits of commitment: Depending on the setting, overconfidence about attention constraints, own income, or the arrival of shocks may all lead agents to choose incentive-incompatible commitment contracts, or to adopt commitment when it is not optimal at all (Laibson (2015)).

This paper argues that commitment can be harmful if agents select into the wrong commitment contract - and presents evidence that they frequently do. Focusing on imperfect knowledge about time-inconsistent preferences, I

\[1\] See DellaVigna and Malmendier (2006) for gym memberships, Benartzi and Thaler (2004) for 401(k) pension savings, and Ariely and Wertenbroch (2002) for academic assignments. For an overview of commitment devices, see Bryan et al. (2010).

\[2\] Models of temptation and self-control (Gul and Pesendorfer (2001)) and dual-self models (Fudenberg and Levine (2006)) also predict a demand for commitment, with similar implications for observed behaviour.

\[3\] Examples of monetary penalties include any type of commitment contract with front-loaded fees, such as retirement savings products with acquisition or management costs, or gym memberships. Early cancellation of such contracts typically results in negative returns.
first outline theoretically why offering commitment improves the welfare of fully sophisticated agents, but may harm partial sophisticates. Given a binary savings decision and a continuous penalty, this effect is discontinuous at full sophistication, as any amount of naiveté leads agents to select into contracts which violate their incentive constraints. Furthermore, commitment adoption increases in naiveté, as naïve agents underestimate the cost of effective commitment. Second, I conduct a natural field experiment in the Philippines where individuals could sign up for a new commitment savings account with fixed regular installments. Adopters choose the stakes of the contract (in form of a default penalty) themselves. I find that the average effect on bank savings is large and significant: The Intent-to-Treat (ITT) effect on bank savings is roughly three times that of a conventional withdrawal-restriction product that was offered as a benchmark treatment. However, the median client appears to choose a ‘harmful’ contract: 55 percent of clients default on their savings contract, and incur the associated penalty. The magnitude and timing of defaults is difficult to reconcile with rational expectations and idiosyncratic shocks (a ‘bad luck’ scenario). Instead, it is suggestive of individuals making mistakes in contract choice. A possible explanation that is supported by the data is that the chosen stakes were too low (the commitment was too weak) to overcome clients’ self-control problems. In addition, both take-up and default are negatively predicted by measures of sophisticated hyperbolic discounting. This is consistent with the notion that those who are fully aware of their bias realize the commitment is too weak for them, and stay away. The results from a repeat marketing stage with the offer of ‘pre-ordering’ the product for a second round support the hypothesis that a significant share of clients took up the commitment contract by mistake. I discuss theoretical and empirical arguments for alternative mechanisms including aggregate or heterogeneous shocks, income optimism, household conflict, attention and transaction costs, and marketer persuasion.

I partnered with 1st Valley Bank, a rural bank based in Mindanao, Philippines. The sample population of 913 individuals was obtained by conducting a door-to-door baseline survey in low-income areas in proximity to two selected bank branches. One week after the baseline survey, all individuals received a marketing treatment, which included a personalized savings plan for an upcoming expenditure and a free non-commitment savings account with 100 pesos (U.S. $2.40) opening balance. Personal savings plans featured a self-chosen goal date, goal amount, and a weekly or bi-weekly installment plan (see Figure A1). The idea was to encourage individuals to save for their lump-sum expenses (such as school fees, business capital, or house repairs), rather than following the common practice of borrowing at high informal moneylender rates. At the end of the marketing visit, a randomly chosen 50 percent (the ‘Installment Savings’ group) were offered a new installment-savings commitment account (‘IS account’). This account committed clients to make fixed weekly or bi-weekly deposits and pay a penalty upon default, which effectively made all features of the personal savings plan binding. The default penalty was chosen by the client upon contract signing, and framed as a charity donation. The interest rate was equal to the standard market interest rate.

As a benchmark treatment, 25 percent of the sample (the ‘Withdrawal Restriction’ group) were offered the commitment savings account studied in Ashraf et al. (2006), Giné et al. (2010), and Brune et al. (2016). This withdrawal-restriction account (‘WR account’) allowed individuals to restrict withdrawals before either the goal date or the goal amount from their savings plan had been reached. The account did not include any obligation

---

4 Conditioned on an awareness that one cannot save without commitment. The latter rules out perfect naïveté.

5 Due to widespread skepticism towards banks, giving the penalty revenues to the bank would have undermined the interpretation of the product as a self-commitment device (see footnote 18). The idea to donate penalties to charity comes from Giné et al. (2010) and is also used in StickK.com contracts.

6 As of September 2012, the interest rate was 1.5 percent p.a. for all offered accounts. The inflation rate for 2012 was 3.1 percent.
to make further deposits after the opening balance. The remaining 25 percent of the sample (‘the control group’) received no further intervention after the marketing treatment, and none of their savings plan features were binding. Since individuals’ expenditures were due at different times, the outcome of interest are individuals’ savings at the time of their goal date. The study concluded with a comprehensive endline survey, as well as a repeat marketing stage where IS clients could opt to ‘pre-order’ the product for a second round.

Demand for commitment is high, even in a general low-income population with little previous bank exposure: Take-up rates were 27 percent for the installment-savings account and 42 percent for the withdrawal-restriction account, despite the prior universal provision of free standard savings accounts. Offering a commitment to install-ments was more effective at increasing savings: By the time individuals reached their goal date (an average of 130 days later), bank savings in the IS group had increased by 429 pesos (U.S. $10.20, ITT) relative to the control group. The corresponding effect for the WR group was 148 pesos (U.S. $3.50).7 The control group saved an average of 27 pesos. The scale of effects suggests that a commitment product with fixed regular installments is highly effective at increasing savings on average. However, these averages hide a lot of heterogeneity in the case of both products: 55 percent of IS clients defaulted on their savings contract, incurring penalties between 150 and 300 pesos - the equivalent of a day’s wage. More than half of defaults occur immediately after account opening, such that few defaulters benefitted from the savings contract via higher savings. Similarly, 79 percent of WR clients made no further deposits after the opening balance. While default is not formally defined for the WR product, abandoning the contract is costly: For those who had chosen a binding goal amount (45 percent), their initial savings were tied up indefinitely, or until the bank would exhaust their account with dormancy fees.8

I show that installment-savings completion is strongly bi-modal, in that most clients either (i) stop depositing immediately after the opening balance or (ii) complete their savings plan in full. I interpret this as evidence against a (simple) shock explanation, where individuals rationally default following large random shocks to their income or expenditures. To investigate mechanisms, I use a novel measure of sophistication, adapted to a field setting in a developing country. It consists of an interaction of two established measures – one of observed time-inconsistency, and one of perceived temptation. The resulting data suggests that present-biased preferences by themselves do not predict take-up of a commitment product, but they do predict default. In contrast, sophistication drives both take-up and default: For a given level of time-inconsistency, more sophisticated agents are less likely to adopt commitment. Conditional on take-up, sophisticates choose stronger commitments (higher penalties), and are less likely to default. This is consistent with the theory: Sophistication increases both the perceived cost of commitment and the agent’s ability to choose an incentive-compatible contract.

This paper builds and expands on the literature in several ways. To the author’s knowledge, it is the first study to link heterogeneous effects of commitment contracts to a proxy measure of (partially) sophisticated time-inconsistency. This makes it closest in spirit to DellaVigna and Malmendier (2006), who show that U.S. consumers choose gym contracts which are cost-inefficient given their attendance frequency. The study further relates to Heidhues and Kőszegei (2009), who show theoretically that commitment is likely to reduce welfare when agents are partially sophisticated. The key difference of the model presented here is that the trade-off between commitment and flexibility is endogenized. High penalties may be prohibitive in the face of uncertainty, and thus near-sophisticates

7The ITT effect accounts for any penalty charges. An increase of 429 pesos (148 pesos) corresponds to approximately three days (one day) of wages, 20 percent (7 percent) of median weekly household income, or 18 percent (5 percent) of their median savings goal.
8Dormancy fees are very common with Philippine banks, and commonly start after two years of inactivity.
may avoid commitment. The group most at risk of negative welfare effects are near-naifs, who widely adopt weak commitments and then default. Other related theoretical contributions are DellaVigna and Malmendier (2004), Heidhues and Kőszege (2010) and Eliaz and Spiegler (2006), who address supply-side responses to partial sophistication.

In the realm of commitment savings, the literature has largely focused on positive average effects. I suggest that these effects may be very heterogeneous, including the possibility of a majority being hurt by the product. While not a focus of previous work, my results are in line with previous findings: Ashraf et al. (2006) find that a withdrawal-restriction product increased savings by 81 percent on average, but 50 percent of the clients made no further deposits after the opening balance. Out of 62 clients who selected an amount goal, only six reached this goal within a year. Giné et al. (2010) offered smokers in the Philippines a commitment savings contract in which participants forfeit their savings if they fail a nicotine test after 6 months. Offering the contract increased the likelihood of smoking cessation by 3 percentage points. However, 66 percent of smokers who took up the product failed the nicotine test, forfeiting an average of 277 pesos in savings.

Table 1 provides a more systematic review of the commitment device literature, reporting both the observed demand for, and ‘follow-through’ on, commitment contracts. The table restricts to ‘pure commitments’ without added benefits, which would not be attractive to time-consistent agents (this excludes e.g. Dupas and Robinson (2013)). Due to considerable heterogeneity in the design of commitment contracts, I propose ‘follow-through’ measures based on the individual setting. Importantly, successful completion of a commitment contract should not be equated to welfare, since adopters may benefit from trying even if they fail to meet a binary threshold of success. A final distinction is that follow-through is automatic in commitment designs which eliminate tempting options, rather than make them more expensive (Brune et al. (2016); Toussaert (2018) and others). Table 1 reveals that follow-through rates well below 50 percent are widespread. A notable exception is Kaur et al. (2015), which had (exogenously) large stakes, and (self-chosen) conservative targets.

A second contribution concerns the design of commitment: The paper provides the first analysis of an installment-savings commitment product in a randomized setting. The product design mimics the fixed installment structure found in loan repayment contracts. Empirical evidence suggests that microloans and high-interest informal loans are often taken out for consumption purposes, or for recurring business expenditures - rather than as a one-off investment (Ananth et al. (2007), Rutherford (2000)). The idea that time-inconsistent agents benefit from commitment to regular fixed installments has been discussed by Fischer and Ghatak (2016), Bauer et al. (2012), John (2017), and Afzal et al. (2017). If a significant share of the demand for loans is a demand for commitment to fixed installments, then the introduction of a fixed-installment microsavings product should result in (i) increases in saving and (ii) a reduction in loan demand. I find strong support for an increase in savings, and (less precisely estimated) reductions in loan demand at the top 10th, 20th and 30th percentile. Furthermore, the paper provides the first direct comparison of an installment-savings commitment with a withdrawal-restriction commitment. The WR account in this study is identical to Ashraf et al. (2006)’s SEED, and their effect on savings replicates within a 4 percent margin. The three-fold larger effect of the IS account is consistent with the theoretical work of Amador et al. (2006): When individuals value both commitment and flexibility, the optimal contract involves a minimum (per-period) savings requirement.

The paper proceeds as follows. Section 2 outlines a model of commitment under partial sophistication. Section 3 describes the experimental design. Section 4 outlines the empirical strategy. Section 5 presents empirical results. Section 6 discusses alternative explanations. Section 7 concludes and discusses policy implications.
<table>
<thead>
<tr>
<th>Paper</th>
<th>Commitment Domain</th>
<th>Commitment design</th>
<th>Take-Up %</th>
<th>Follow-through measure</th>
<th>% follow-through (out of adopters)</th>
<th>Cost of not following through</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashraf et al. (2006)</td>
<td>Saving</td>
<td>Withdrawal</td>
<td>28%</td>
<td>(1) Meet goal amount in one year (amount-based accounts)</td>
<td>(1) 10%</td>
<td>Savings frozen</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restriction (WR)</td>
<td></td>
<td>(2) Any deposit after opening balance</td>
<td>(2) 50%</td>
<td></td>
</tr>
<tr>
<td>Jones and Mahajan (2015)</td>
<td>Saving</td>
<td>Pre-commit to deposit future tax refund in WR account</td>
<td>37%</td>
<td>Once received, deposit tax refund into WR account</td>
<td>43%</td>
<td>US $75 (relative to pre-committing not to deposit)</td>
</tr>
<tr>
<td>Brune et al. (2016)</td>
<td>Saving</td>
<td>Automatic deposit of harvest proceeds into WR account</td>
<td>5.5%</td>
<td>not defined (commitment enforced automatically)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>[this study]</td>
<td>Saving</td>
<td>1. Installment Savings (IS) with self-chosen default penalty 2. WR account</td>
<td>IS: 27%</td>
<td>IS: Complete installment plan</td>
<td>IS: 45%</td>
<td>IS: Chosen penalty (P150–300)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>WR: Any deposit after opening balance</td>
<td>WR: 21%</td>
<td>WR: Savings frozen</td>
</tr>
<tr>
<td>DellaVigna and Malmendier (2006)</td>
<td>Health (gym attendance)</td>
<td>front-loaded membership fee, zero marginal cost</td>
<td>Sample of adopters</td>
<td>Attend often enough so that average fee per visit &lt; flat fee</td>
<td>&lt;20% (monthly contracts)</td>
<td>not consumed (average forgone savings $600 per membership)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>WR: Any deposit after opening balance</td>
<td>&lt;25% (annual contracts)</td>
<td></td>
</tr>
<tr>
<td>Giné et al. (2010)</td>
<td>Health (smoking)</td>
<td>WR savings plus Nicotine test</td>
<td>11%</td>
<td>Pass nicotine test after 6 months</td>
<td>34%</td>
<td>savings lost</td>
</tr>
<tr>
<td>Royer et al. (2015)</td>
<td>Health (gym attendance)</td>
<td>Pledge not to go 14 days without attending gym</td>
<td>12%</td>
<td>Never go 14 days without attending gym</td>
<td>63%</td>
<td>Lose stakes (mean $58, max $300)</td>
</tr>
<tr>
<td>Bai et al. (2018)</td>
<td>Health (hypertension)</td>
<td>Pre-paid preventive doctor visits</td>
<td>13.7% - 14.1%</td>
<td>Attend at least one pre-paid visit</td>
<td>34%</td>
<td>visits paid but not consumed (Rs. 90 – 135)</td>
</tr>
<tr>
<td>Schilbach (forthcoming)</td>
<td>Health (alcohol)</td>
<td>Incentives conditional on blood alcohol test (BAC)</td>
<td>49% (when free)</td>
<td>Passing BAC after choosing BAC-conditioned incentives</td>
<td>63%</td>
<td>exp. payment forfeited (Rs. 30 – 60 per day)</td>
</tr>
<tr>
<td>Ariely and Wertenbroch (2002)</td>
<td>Academic output</td>
<td>Self-imposed deadlines Study 1: Academic essays Study 2: Paid proofreading</td>
<td>Study 1: 68% Study 2: Unavailable</td>
<td>On-time submission (Note: Late submission penalized but possible)</td>
<td>Study 1: 100% Study 2: Unavailable</td>
<td>Study 1: 1% grade penalty per day late Study 2: 15 penalty per day late</td>
</tr>
<tr>
<td>Kaur et al. (2015)</td>
<td>Work output (data entry)</td>
<td>Dominated work contracts (low output penalized)</td>
<td>36%</td>
<td>Meet work target</td>
<td>97.4%</td>
<td>Daily earnings reduced by half</td>
</tr>
<tr>
<td>Bisin and Hyndman (2018)</td>
<td>Work output (lab task)</td>
<td>Self-imposed deadlines Study 1: 1 Task Study 2: 3 Tasks</td>
<td>Study 1: 31% Study 2: 48% (on first task)</td>
<td>On-time submission (Note: Late submission not allowed)</td>
<td>Study 1: 57% (ITT) Study 2: 37% (ITT)</td>
<td>Option value of completing late (payment $15–$20 per task)</td>
</tr>
<tr>
<td>Toussaert (2018)</td>
<td>Work distraction (lab task)</td>
<td>Eliminate access to tempting story during tedious work task</td>
<td>38.3% (when free) 25.8% (when costly)</td>
<td>not defined (commitment enforced automatically)</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**Notes:** Statistics on commitment demand and follow-through are taken from the corresponding paper where available, and otherwise obtained from the authors. Follow-through is conditional on commitment adoption, unless labeled ‘ITT’, in which case it refers to the average in the group offered commitment. Full sources and derivations, as well as the selection criteria for papers, are provided in Appendix III.
2. Theory: Commitment under Partial Sophistication

The following section presents a simple model of commitment under partial sophistication. It sheds light on (i) why sophisticated hyperbolic discounters can benefit from commitment, (ii) why commitment reduces welfare if it is too weak to be effective, (iii) why partially sophisticated hyperbolic discounters are likely to select into such weak commitment contracts, and (iv) why those with high perceived degrees of time-inconsistency may avoid commitment.

For expositional ease, I use a three-period linear-utility model, with one planning period and two consumption periods. A linear model is sufficient to highlight the basic mechanism, and provides a reasonable approximation for small stakes. All main results hold in a model with concave utility. Concave utility and three or more consumption periods are needed to illustrate the consumption smoothing benefits of an installment-savings product, at the expense of tractability. John (2017) studies these benefits for the case of full sophistication.

2.1. The Model

Consider an agent with a normalized per-period income of \( y_t = 1 \). The agent chooses whether to consume a divisible numeraire good, or to save for a nondivisible good which costs the lump-sum \( 1 < p \leq 2 \) and yields a benefit \( b > p \). She cannot borrow. The agent lives for 3 periods, \( t \in \{0,1,2\} \), where \( t = 1,2 \) are consumption/savings periods, and \( t = 0 \) is a planning period in which the agent may choose to adopt commitment (Section 2.3). Throughout, assume the interest rate is \( R = 1 \) and \( \delta = 1 \) for simplicity. Define \( s_1 \) as the amount of savings that she sends from period 1 to period 2, so that \( c_1 = y_1 - s_1 \geq 0 \). Lifetime utility as evaluated in each period \( t \in \{0,1,2\} \) is given by the discounted stream of future consumption:

\[
U_t = c_t + \beta \sum_{k=t+1}^{2} E(c_k). \tag{1}
\]

For \( \beta < 1 \), the agent is present-biased: She exhibits a lower rate of discount over current trade-offs (\( t \) vs. \( t+1 \)) than over future trade-offs (\( t+s \) vs. \( t+s+1, s > 0 \)). Up to this point, the savings model resembles the autarky savings framework in Basu (2014) (where autarky refers to the absence of banking). I now generalize the model to allow for partial sophistication and stochastic income, thus creating a need for flexibility. Following O’Donoghue and Rabin (1999), the agent’s degree of sophistication about her present bias is captured in the parameter \( \hat{\beta} \in [\beta,1] \), which she believes she will use in all future periods. In particular, the agent believes in period \( t \) that her utility function in period \( t+s \) will be

\[
U_{t+s} = c_{t+s} + \hat{\beta} \sum_{k=t+s+1}^{2} E(c_k). \tag{2}
\]

For a fully sophisticated agent, \( \hat{\beta} = \beta \). A fully naive agent believes she will behave time-consistently in the future, captured in \( \hat{\beta} = 1 \). A need for flexibility is introduced through stochastic income shocks: With a per-period probability of \( \lambda \), the agent loses her income in that period, such that \( y_t = 0 \). This shock has a variety of interpretations: It can be interpreted directly as a loss of income, e.g., from redundancy, bad business, or illness of an income-earning household member. With a minor modification, it can be interpreted as a reduced-form taste shock.\(^9\) The implication of a shock is that the agent’s lifetime income is reduced to 1 (or zero in case of multiple shocks), which means

---

\(^9\)Suppose the sudden illness of a family member changes preferences such that utility stays unchanged if a hospital visit (at cost 1) is consumed and paid for, and drops to \( u(c) = -\infty \) without a hospital visit.
the nondivisible good can no longer be purchased. When a shock hits, any plans to save are abandoned, and any existing savings are consumed. This results in a third interpretation: More generally, the shock $\lambda$ corresponds to the probability that, for any time-consistent reason, the agent no longer finds it optimal to save for the good.\textsuperscript{10}

Following O’Donoghue and Rabin (1999), an agent’s welfare is understood to be the lifetime utility of the agent from an ex-ante perspective: $W = E[c_1 + c_2]$. The advantage of this convention is that no particular period is favoured.

2.2. No-Commitment Equilibrium

The model is easily solved using backward induction. In period 2, the agent will buy the nondivisible whenever she can afford it, i.e., whenever $y_2 + s_1 \geq p$. Given $p > 1$, this requires $y_2 = 1$ (there is no shock) and $s_1 \geq p - 1$.

Additional savings $s_1 > p - 1$ are simply consumed, as are insufficient savings $s_1 < p - 1$.

In period 1, the agent realizes the good will be bought if and only if she sends $s_1 \geq p - 1$, and absent shocks. She responds by either sending $s_1 = p - 1$, or sending zero: In a linear model with $\beta < 1$, it is never optimal to shift excess consumption to the future. She prefers to save $s_1 = p - 1$ rather than zero iff

$$1 - (p - 1) + \beta[\lambda(p - 1) + (1 - \lambda)b] \geq 1 + \beta(1 - \lambda)$$

(3)

**Proposition 1.** In the No-Commitment Equilibrium, absent shock realizations, the nondivisible good is bought by sufficiently time-consistent agents, i.e., those with a time-consistency parameter $\beta$ above a threshold $\beta_{NC}$. The threshold $\beta_{NC}$ increases in the shock frequency $\lambda$ and the price $p$, and decreases in the benefit $b$.\textsuperscript{11} (All proofs are in Appendix II.)

The threshold $\beta_{NC} = \frac{p - 1}{\lambda(p - 1) + (1 - \lambda)(b - 1)}$ has an intuitive interpretation: It is the ratio of the cost of saving today, $p - 1$, to its expected benefit tomorrow, $\lambda(p - 1) + (1 - \lambda)(b - 1)$. Because $b > p$, a time-consistent agent will always save (i.e., $\beta_{NC} < 1$). The no-commitment equilibrium is invariant to the degree of sophistication (see footnote 14).

2.3. Introducing Commitment

For agents with high levels of time-inconsistency, the no-commitment equilibrium is inefficient: Saving for the nondivisible good is welfare-improving regardless of $\beta$, since the period 0 planner values consumption in periods 1 and 2 equally, and the benefit of the good exceeds its cost. However, agents with $\beta < \beta_{NC}$ cannot save on their own, creating potential gains from commitment. Suppose the individual is now given the possibility to commit to save, enforced via a penalty for non-compliance which the individual chooses herself ex-ante. While not the only form of commitment (see the discussion in Section 7), self-imposed conditional penalties have many applications: People tell their friends (or worse, their enemies) about a plan to lose weight, and then suffer an embarrassment cost when they are seen eating fast food. They join ROSCAs, knowing there will be social sanctions when they fail to contribute. Monetary penalties appear in most commitment contracts with front-loaded fees (see footnote 3).

In the current setting, individuals commit to a self-chosen default penalty, imposed if they fail to follow a regular installment savings plan. Applied to a simple three-period model, the period 0 agent can choose a penalty

\textsuperscript{10}Time-consistent explanations to abandon savings plans include state-dependent preferences.

\textsuperscript{11} Apart from the added shocks $\lambda$, the no-commitment equilibrium result is shared with Basu (2014). The models diverge from here.
that is imposed on her in period 1 if she fails to meet the savings requirement, \( s_i \geq p - 1 \). Given \( D \), and absent shocks in period 1, period 1’s incentive constraint for saving becomes

\[
1 - (p - 1) + \beta [\lambda (p - 1) + (1 - \lambda) b] \geq 1 - D + \beta (1 - \lambda). \tag{4}
\]

Equivalently, she is willing to save if the penalty is higher than a minimum effective threshold, denoted \( D_{min} \), which bridges the gap between the current costs and the future benefits of saving. I.e., the agent saves for \( D \) such that

\[
D \geq D_{min}(\beta) \equiv \frac{(p - 1) - \beta [\lambda (p - 1) + (1 - \lambda) (b - 1)]}{\text{cost today}} \geq \frac{1 - D + \beta (1 - \lambda)}{\text{benefit tomorrow}}. \tag{5}
\]

**Proposition 2.** The minimum penalty that is effective in enforcing the savings plan, denoted \( D_{min} \), strictly decreases in the time-consistency parameter \( \beta \). Further, \( D_{min} \) strictly increases in the shock frequency rate \( \lambda \).

Note that \( D_{min} \leq p - 1 \leq 1 \) for all \( \beta \). A note on enforceability: The model assumes that the penalty \( D \) is fully enforceable, even if the agent loses her income to a shock, and is consequently unable to save. In this simple framework, full enforceability is required to prevent the agent from adopting infinitely large penalties, reasoning that she will never incur them on the equilibrium path. Empirical arguments support that commitment penalties can often be enforced irrespective of current financial resources: First, \( D \) may be a non-monetary cost, such as embarrassment towards friends. Second, \( D \) may represent a discounted stream of future losses, such as those from losing access to microfinance. Third, in settings with multiple periods, penalties can be enforced using the stock of past savings. What matters for the theoretical results is that the agent incurs the penalty with positive probability on the equilibrium path, due to future uncertainty which cannot be contracted upon.\(^{12}\) This creates a cost of commitment, and a demand for flexibility.\(^{13}\)

2.4. Commitment Choice in Equilibrium

The commitment adoption decision has two steps: The period 0 planner first identifies which commitment contract (which penalty) will enable her to save while maximizing flexibility. In a second step, she decides whether to adopt this contract. Commitment is costly: If a shock hits in period 1, the agent loses her ability to save. Default becomes unavoidable, and the agent incurs a loss of \( D \). This risk is referred to as ‘rational default’, as it occurs independently of time-inconsistency. The equilibrium behaviour with full sophistication is summarized in Proposition 3. Figure 1 illustrates the relationship between time-inconsistency and commitment adoption.

**Proposition 3.** Equilibrium with Full Sophistication: (a) Conditional on adopting commitment, individuals will adopt the minimum effective penalty, \( D_{min} \). (b) Commitment is adopted in an intermediate range \( \beta \in [\beta_{min}, \beta_{NC}] \): Individuals who are sufficiently time-consistent to save in autarky (\( \beta \geq \beta_{NC} \)) never adopt commitment. At very high levels of time-inconsistency (\( \beta < \beta_{min} \)), the minimum effective penalty is prohibitively high for adopting commitment. The adoption decision is summarized in the condition \( \lambda D_{min} \leq (1 - \lambda)^2 (b - p) \), where \( \lambda D_{min} \) represents the expected

\(^{12}\)Inability to contract on the arrival of shocks may be caused by unobservability or moral hazard.

\(^{13}\)The commitment versus flexibility trade-off discussed here differs from that in Amador et al. (2006). In the latter, agents can enforce the desired savings behaviour perfectly, i.e., the implied penalty is infinite, but never incurred. The demand for flexibility comes from taste shocks, rather than from the risk of being financially unable to save.
Figure 1 illustrates the relationship between time-inconsistency $\beta$ and commitment adoption $D$ assuming full sophistication, $\hat{\beta} = \beta$. The dotted line is the minimum default penalty that is effective in enforcing the savings plan, $D_{\min}$. The solid line indicates the range of $\beta$ for which $D_{\min}$ is adopted. Generalizing to partial sophistication ($\beta \leq \hat{\beta} \leq 1$), $\beta$ and $D_{\min}$ are replaced by $\hat{\beta}$ and $\hat{D}_{\min}$. Perceived values rather than actual values determine the choice of commitment. Thus, for those unable to save in autarky ($\beta \leq \hat{\beta} < \beta_{\text{NC}}$), commitment is attractive for high $\hat{\beta}$, and prohibitively expensive for low $\hat{\beta}$.

cost of commitment due to rational default, and $(1-\lambda)^2(b-p)$ captures the expected benefit of a successful savings plan. (c) With full sophistication, offering commitment weakly increases welfare (it strictly increases the expected welfare of adopters).

A key intuition is that period 1’s incentive constraint only depends on whether $D \geq D_{\min}(\beta)$, thus choosing the minimum penalty always dominates choosing larger penalties. Choosing $D < D_{\min}$ is strictly dominated by choosing no penalty at all, since period 1’s incentive constraint is violated, and default occurs with certainty. As a result, the period 0 agent chooses either $D = D_{\min}$ or $D = 0$. Further note that the ex-ante benefit of commitment, $(1-\lambda)^2(b-p)$, does not depend on the time-consistency parameter $\beta$. In contrast, $\beta$ determines the cost of commitment, $\lambda D_{\min}$. For agents who do not save in autarky (i.e., conditional on $\beta < \beta_{\text{NC}}$), commitment is most attractive to those with the lowest degree of time-inconsistency, as the penalty required to enforce the savings plan is small, and poses little risk in the presence of shocks. In consequence, agents adopt commitment for sufficiently high $\beta \geq \beta_{\min}$ (where $\beta_{\min}$ solves $\lambda D_{\min}(\beta_{\min}) = (1-\lambda)^2(b-p)$).

2.5. The Effect of Partial Sophistication

A partially sophisticated agent believes that her future selves will discount the future at rate $\hat{\beta} > \beta$ rather than at $\beta$. This corresponds to the classic pattern of procrastination, where an agent believes she will be patient enough to complete an unpleasant task (dieting, exercising, doing housework) tomorrow, but not today. The current setting examines the simplest form of partial sophistication, where beliefs are deterministic and incorrect. The result is that the period
planner underestimates the size of the penalty that will be required to induce her period 1 self to save, resulting in default and welfare losses. The results are robust to more stochastic types of partial sophistication (see Section 2.6).

**Proposition 4.** Equilibrium with Partial Sophistication: (a) Conditional on adopting commitment, partially sophisticated individuals will adopt penalties strictly below the required effective minimum, $\hat{D}_{\text{min}} < D_{\text{min}}$. As a result, adopters’ incentive constraints in period 1 are systematically violated, triggering contract default. (b) Commitment is adopted in the range $\hat{\beta} \in [\beta_{\text{min}}, \beta_{\text{NC}})$: Individuals who believe themselves to be sufficiently time-consistent to save in autarky (those with $\hat{\beta} \geq \beta_{\text{NC}}$) never adopt commitment. For those who realize they cannot save in autarky ($\hat{\beta} < \beta_{\text{NC}}$), sophistication negatively predicts commitment adoption: For a given $\beta$, commitment will be adopted above a threshold level of naiveté $\hat{\beta} \geq \beta_{\text{min}}$. (c) With partial sophistication, offering commitment weakly decreases welfare. It strictly decreases the expected welfare of adopters by $\hat{D}_{\text{min}}$.

All arguments are analogous to the case of full sophistication, except that the period 0 agent believes the period 1 agent will apply $\hat{\beta} > \beta$ in making intertemporal choices. Holding true $\beta$ fixed, a higher degree of naiveté $\hat{\beta} - \beta$ implies that a lower penalty is regarded as effective, which decreases the perceived cost of commitment. Conditional on $\beta$, as well as on the agent’s perceived inability to save without commitment ($\hat{\beta} < \beta_{\text{NC}}$), adoption monotonically increases with naiveté.

Given its relevance for the experiment, it is worth considering the impact of a lower bound on the penalty, $D$. The expected cost of commitment becomes $\lambda \max\{D, \hat{D}_{\text{min}}\}$, weighted against the expected benefit $(1 - \lambda)^2(b - p)$ (analogue to Proposition 3).

**Corollary.** Commitment adoption decreases with the introduction of a lower bound on the penalty, $D$. Defaults also decrease in $D$. Welfare effects of $D$ are negative for full sophisticates. For partial sophisticates, introducing $D$ increases welfare if it either deters them from adopting commitment, or imposes an incentive-compatible penalty ($\hat{D}_{\text{min}} < D_{\text{min}} \leq D$). For insufficient bounds $\hat{D}_{\text{min}} < D < D_{\text{min}}$, it reduces welfare by increasing the cost of default. All welfare effects are strict if the agent adopts commitment absent $D$, and zero otherwise.

### 2.6. Discussion and Extensions

The model studies a simple form of partial sophistication. The assumption of a deterministic and incorrect $\hat{\beta}$ was introduced by O’Donoghue and Rabin (1999), and suffices to highlight the main mechanism of undercommitment. In reality, individuals may have more complex belief distributions about their future preferences, or preferences themselves may be stochastic (see e.g. Ahn et al. (2017)). Appendix I.1 discusses the case of stochastic sophistication, and argues that the findings observed in the data are hard to reconcile with rational expectations about $\beta$: Comparing stochastic with full sophistication, commitment becomes less attractive due to the downside risk that a given penalty will not be effective. This leads to low commitment take-up, high conditional penalties, and low default rates. To reconcile stochastic beliefs about time-inconsistency with the observed low penalties and high default rates, one needs to allow for belief distributions which are systematically biased towards naiveté.

---

14 In a three-period model, the degree of sophistication only affects period 0 decisions: Period 2 makes no decisions about the future, and thus period 1’s belief $\hat{\beta}$ is irrelevant. In a multi-period model, additional coordination problems arise, as the agent may consume savings made by past selves rather than to accumulate them over time.
Is it plausible that individuals persistently hold incorrect beliefs about their time preferences, despite being able to observe their own past behaviour? Appendix I.2 discusses why Bayesian learning may fail (see also Ali (2011)). For instance, learning may be specific to context: An individual may realize from past observation whether she is able to save for the nondivisible good by herself (i.e., the inequality $\beta \geq \beta_{NC}$ is observed). However, she may be unfamiliar with her savings behaviour under commitment. Other impediments to Bayesian learning include self-serving beliefs and neuroscientific explanations (such as stress-induced time-inconsistency). Appendix I.3 discusses pessimistic beliefs ($\hat{\beta} < \beta$) and overcommitment.

3. Experimental Design

3.1. Study Setting and Sample

I designed and implemented the installment-savings product in cooperation with 1st Valley Bank, based in Mindanao, Philippines. 1st Valley Bank is a small rural bank that offers microcredit, agricultural insurance, salary loans, and pension products. The bank agreed to offer both the installment-savings product and the withdrawal-restriction product in two of their branches: Gingoog and Mambajao. Gingoog is a city of 112,000 people in northern Mindanao, and Mambajao is a municipality of 36,000 people on Camiguin Island. For these two branches, the IS and the WR account constituted new product additions.

The sample was obtained through door-to-door visits in all low and middle income areas in proximity to the bank branches. In each household, the survey team identified the person in charge of managing the household budget (usually the mother of the family). The baseline survey was completed with all such individuals who (i) had some form of identification, (ii) claimed to have a large upcoming expenditure (such as school fees, house repairs, or business expansions) and (iii) agreed to receive a visit from a financial advisor (to talk about how to manage household expenses). These screening rules were intentionally minimal: 81 percent of initial respondents were included in the sample.\footnote{5 percent of households were excluded because the household decisionmaker was not available, 6 percent due to lack of ID, 1 percent had no upcoming expenditure, and 6 percent did not agree to a visit by a financial advisor.}

After the baseline survey, individuals were randomly assigned to three groups: 50 percent of individuals were assigned to an ‘Installment Savings’ (IS) group, and 25 percent each were assigned to a ‘Withdrawal Restriction’ (WR) and a control (C) group. Participants were not aware that they are taking part in an experiment.\footnote{The experiment thus constitutes a natural field experiment in the terminology of Harrison and List (2004). This increases generalizability and precludes a “Treatment Specific Selection Bias”, as discussed in Al-Ubaydli and List (2015).}

Approximately one week after the baseline survey, individuals received a visit from a bank marketer. Marketers engaged individuals in a conversation about how to manage large lump-sum expenses, and talked about the benefits of saving. Focusing on one particular expenditure, individuals were encouraged to make a formal ‘Personal Savings Plan’, which contained a purpose, a goal amount, a goal date, and a fixed equal installment plan with due dates (see Appendix Figure A1). The median savings goal was 2400 pesos (close to the median household’s weekly income of 2125 pesos), with a median weekly installment of 150 pesos. Common savings goals were school tuition fees, house repairs, and Christmas gifts (see Appendix Table A2). The duration of savings plans was limited to 3–6 months (median: 137 days). In addition, everyone was offered a non-commitment savings account (henceforth called ‘ordinary savings account’), containing a free 100 pesos opening balance as a ‘welcome gift’, along with an encouragement to
use this account to save for the expenditure. Table A1 provides an overview of savings plan and account choices.

At the end of the visit, individuals in group IS were asked whether they wanted to commit to the fixed-installment structure outlined in their Personal Savings Plan by taking up the IS product, and the product features were explained. In contrast, individuals in group WR were offered to restrict withdrawals of their savings until they reached either the goal amount or the goal date specified in their Personal Savings Plan, implemented through the WR product. Clients were permitted to revise their savings goals upon accepting a commitment product. Up to the point of offering the commitment products, the marketing script was identical across groups IS, WR, and C.

Individuals were left to themselves during the savings period, without help from deposit collectors or reminders. After all goal dates had been reached, a comprehensive endline survey asked about savings, outstanding loans, expenditures, changes in income, and various types of shocks experienced. In addition, existing IS clients were offered to ‘pre-order’ IS for a second round, and told that the bank would continue the product conditional on sufficient demand. While the Pre-Order did not involve a financial commitment, it required the completion of substantial paperwork and a new savings plan (to deter cheap talk).

The study suffers from attrition at several stages: Of the 913 individuals who participated in the baseline survey, 852 could be re-located for the marketing visit. Of those reached for marketing, 788 individuals accepted the free ordinary savings account, and 748 agreed to make a savings plan. Several outcome variables (most notably, bank savings by the goal date) are only defined for those who made a savings plan. The endline survey reached 732 respondents. For outcomes which require both endline survey data and a savings plan (such as having purchased the stated savings goal), the sample reduces to their intersection of 615 observations. As shown in Table A5, the orthogonality of attrition to treatment assignment is not rejected at any stage. However, individuals in group WR were reached slightly more often than those in groups IS or C. Table A6 verifies that covariates are balanced across treatment arms at different stages of the sample (Table 2 does this for the full sample).

3.2. Commitment Savings Account Features

The installment-savings product committed clients to a fixed installment plan with their choice of weekly (84 percent) or bi-weekly (16 percent) due dates. An account was considered in default from the day the client fell three installments behind. In case of default, the account was closed, an ‘Early Termination Fee’ was charged, and any remaining savings were returned to the client. A termination fee that is directly linked to the installment structure

17 The 100 pesos constituted the minimum maintaining balance. During the period of observation, no client closed their account (a 50 peso closing fee applied to ordinary, but not to IS or WR accounts). 18 clients had previously existing 1st Valley Bank savings accounts. For these clients, 100 pesos was deposited in their existing account instead.
distinguishes the IS product from withdrawal-restriction or ordinary accounts, and represents its key commitment feature. The amount of the fee was chosen by the client upon signing the IS contract, and donated to charity in case of default. A variety of flexibility features allowed clients to adapt to changing circumstances: First, clients could fall up to two installments behind at any given time, making it theoretically possible to miss every other installment, and pay a double installment in alternate weeks. To encourage timely depositing, a small 10 peso ($0.25) admin fee had to be paid upon making up a missed past installment, but this fee did not accumulate over time. Deposits towards future weeks could be made at any time, as long as they were in increments of the weekly installment. This was a practical requirement, as the client’s progress was monitored by making ticks on a collection card for each successful week (see Figure A1). The possibility of making future deposits early effectively provided a form of insurance against uneven income streams. Withdrawals during the savings period were only possible by allowing default to occur.

Enforceability of the termination fee was facilitated through the account opening balance: To complete the opening of an IS account, clients had to deposit an opening balance equal to their first weekly installment, but at least 150 pesos (250 pesos) for savings goals below (above) 2500 pesos. Using the same threshold, clients could choose a termination fee as high as they liked, but no lower than a minimum of 150 pesos (250 pesos). Consequently, the minimum termination fee (chosen by 80 percent of clients) could always be enforced. Termination fees above the minimum could be enforced only if the client continued to save, or if their opening balance exceeded the minimum. By construction, all IS accounts were either successfully completed or in default by the goal date, and any remaining savings were transferred to clients’ ordinary savings accounts.

The withdrawal-restriction account was simpler in structure: Clients chose to restrict withdrawals before either a goal amount or a goal date was reached. The goal amount can be interpreted as the stronger restriction, since additional deposits need to be made in order to receive savings back. There was no time limit for reaching the goal amount. However, as is common for Philippine banks, significant dormancy fees were applied after two years of inactivity. The minimum opening balance for the WR account was 100 pesos – a slightly lower entry barrier than the IS opening requirement (see above), which may drive differences in take-up rates. For both IS and WR, opening balances were collected one week after contract signing. The practical motivation was to give individuals time to prepare for the expense. The theoretical motivation was to free the decisionmaker from temptation in the contract-signing period – a sophisticated hyperbolic discounter should choose a welfare-maximizing contract when asked in period 0, but not necessarily when asked in period 1. Finally, both products shared the same emergency provisions: In case of a medical emergency or death in the family, a relocation to an area not served by the bank, or a natural disaster, clients could close their account and access their savings without any penalties. Within the six months of observation, no client exercised this option.

---

18 Clients could choose between three national Philippine charities, which were intentionally generic and remote. Attitudes towards charities predict neither demand for the IS product nor default (see Table A7), and are controlled for in all regressions in Section 5.4.

19 Financially, the late collection just delayed when individuals entered the commitment contract. However, signing the contract was associated with substantial paperwork, as well as a non-financial commitment to the marketers, who personally collected the opening balance. Out of 159 (116) individuals who initially signed the IS (WR) contract, 45 (24) failed to deposit an opening balance.
<table>
<thead>
<tr>
<th></th>
<th>Installment Savings Treatment</th>
<th>Withdrawal Restr. Treatment</th>
<th>Control</th>
<th>F-stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (yrs)*</td>
<td>43.834 (0.603)</td>
<td>43.449 (0.821)</td>
<td>44.250 (0.841)</td>
<td>0.798</td>
<td></td>
</tr>
<tr>
<td>Female*</td>
<td>0.941 (0.011)</td>
<td>0.943 (0.015)</td>
<td>0.943 (0.015)</td>
<td>0.991</td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>0.862 (0.016)</td>
<td>0.873 (0.022)</td>
<td>0.851 (0.024)</td>
<td>0.795</td>
<td></td>
</tr>
<tr>
<td>Weekly HH income (pesos)</td>
<td>2890.89 (124.26)</td>
<td>2485.78 (165.13)</td>
<td>3194.43 (272.45)</td>
<td>0.045</td>
<td></td>
</tr>
<tr>
<td>No. of appliances owned</td>
<td>2.276 (0.084)</td>
<td>2.180 (0.110)</td>
<td>2.250 (0.124)</td>
<td>0.802</td>
<td></td>
</tr>
<tr>
<td>No. of HH members</td>
<td>5.107 (0.098)</td>
<td>5.197 (0.140)</td>
<td>5.500 (0.152)</td>
<td>0.077</td>
<td></td>
</tr>
<tr>
<td>Education (yrs)</td>
<td>10.556 (0.166)</td>
<td>10.392 (0.242)</td>
<td>10.564 (0.251)</td>
<td>0.836</td>
<td></td>
</tr>
<tr>
<td>Received real rewards*</td>
<td>0.503 (0.023)</td>
<td>0.522 (0.033)</td>
<td>0.526 (0.033)</td>
<td>0.817</td>
<td></td>
</tr>
<tr>
<td>Present Bias*</td>
<td>0.172 (0.018)</td>
<td>0.161 (0.025)</td>
<td>0.156 (0.025)</td>
<td>0.853</td>
<td></td>
</tr>
<tr>
<td>Perceived Temptation (range 0-10)</td>
<td>2.384 (0.089)</td>
<td>2.185 (0.112)</td>
<td>2.471 (0.121)</td>
<td>0.225</td>
<td></td>
</tr>
<tr>
<td>Impatience</td>
<td>0.333 (0.022)</td>
<td>0.413 (0.033)</td>
<td>0.349 (0.032)</td>
<td>0.126</td>
<td></td>
</tr>
<tr>
<td>Faces strong financial claims from others*</td>
<td>0.393 (0.023)</td>
<td>0.388 (0.032)</td>
<td>0.386 (0.032)</td>
<td>0.979</td>
<td></td>
</tr>
<tr>
<td>Risk aversion (range 0-6)</td>
<td>4.225 (0.093)</td>
<td>4.636 (0.122)</td>
<td>4.132 (0.129)</td>
<td>0.010</td>
<td></td>
</tr>
<tr>
<td>Cognitive ability (range 0-5)</td>
<td>2.937 (0.059)</td>
<td>2.886 (0.089)</td>
<td>2.934 (0.096)</td>
<td>0.887</td>
<td></td>
</tr>
<tr>
<td>Financial literacy (range 0-5)</td>
<td>1.856 (0.047)</td>
<td>1.838 (0.068)</td>
<td>1.851 (0.069)</td>
<td>0.977</td>
<td></td>
</tr>
<tr>
<td>Existing savings account</td>
<td>0.468 (0.023)</td>
<td>0.465 (0.033)</td>
<td>0.425 (0.033)</td>
<td>0.548</td>
<td></td>
</tr>
<tr>
<td>Donated to charity in the last 12 months</td>
<td>0.396 (0.023)</td>
<td>0.386 (0.032)</td>
<td>0.452 (0.033)</td>
<td>0.282</td>
<td></td>
</tr>
</tbody>
</table>

Global Signif. Test (P-value) | 0.96 | 0.18 | 0.58 | 913

Observations | 457 | 228 | 228 |

Note: A starred variable indicates that the randomisation was stratified on this variable. Individuals were classified as facing strong financial claims from others if they reported strictly above-median values for the financial requests they would face from relatives, friends and neighbours in a hypothetical scenario where they kept cash at home. Existing savings account is an indicator for holding a bank account with any bank at the time of marketing. Real rewards, impatience, and present bias refer to the time-preference elicitation: Real rewards is an indicator for receiving monetary incentives. Individuals are defined as present biased if the reward needed to make them wait for one month is larger in the present than in the future. They are classified as impatient if they always chose the earlier reward in all time preference questions. Perceived temptation is the difference between individuals’ ‘tempted’ and their ‘ideal’ allocation of 10 restaurant nights across 2 years, described in Section 3.3. Risk aversion represents the individual’s choice from a set of six lotteries with increasing expected value and variance, where the ‘no risk’ option yields a score of 6. Cognitive ability is the number of correct answers (0-5) from a culture-free intelligence test. Financial literacy is the number of correct answers (0-5) to basic numeracy questions.
3.3. Eliciting Time Preferences and Sophistication

In the context of a comprehensive baseline survey, I measured time-inconsistent preferences using standard multiple price lists (MPLs):\textsuperscript{20} Individuals were asked to choose between a fixed monetary reward (200 pesos) in one period and various mostly larger rewards (180 to 300 pesos) in a later period. A randomly chosen half of the sample received real rewards, for the others the questions were hypothetical (see Appendix VI for details of the time preference elicitation). After six questions using a near time frame (now versus one month), the same six questions were asked for a future time frame (one month versus two months). The outcome of interest was the size of the later reward necessary to make the individual switch from preferring the smaller earlier reward. I identify as ‘present-biased’ those who put a higher premium on waiting for one month in the present than in the future. Individuals who exhibit more patience now than in the future are ‘future-biased’. An individual who always prefers the earlier reward in all questions and time frames is classified as ‘impatient’. I find 16.6 percent of individuals to be present-biased, 18.9 percent future-biased, and 35.7 percent impatient.\textsuperscript{21} Offering real or hypothetical rewards does not significantly affect these proportions in the cross-section. However, incentivized measures do substantially better at predicting later behaviour (IS take-up and default).\textsuperscript{22}

In addition to a measure of preference reversals, the analysis requires a measure of sophistication which is not in itself derived from commitment demand. To the author’s knowledge, the only study which identifies $\hat{\beta}$ on an individual level using experimental data is Augenblick and Rabin (forthcoming). Their prediction task requires a sophisticated laboratory setting, which is not practicable in a field experiment with over 900 participants. Instead, I develop a survey-based proxy measure, adapted from the self-control measure proposed by Ameriks et al. (2007) (henceforth ACLT). ACLT infer sophistication from predictions about future temptations and behaviour. Simple hypothetical survey questions elicit individuals’ ideal, tempted, and expected allocation of a fixed resource over time. While designed to identify the parameters of the Gul and Pesendorfer (2001) model, the resulting measure reflects an individual’s perceived (rather than actual) self-control problems.

The setup is as follows: Respondents were presented with a hypothetical scenario of winning ten certificates for “dream restaurant nights”. Each certificate entitled the holder and a companion to an evening at any local restaurant of their choice, including an unlimited budget for food and drink, and all gratuities. The certificates were valid for two years starting immediately, and expired thereafter. Piloting revealed that the low-income setting avoided several confounds which might be present in richer countries: First, participants were used to eating in restaurants only on special occasions, preventing substitution of certificates into everyday consumption. Second, opportunity cost of time was generally low. Third, the restaurants that participants perceived as desirable tended to be family-friendly fast-food chains (e.g. ‘Jollibee’), which required neither advance bookings nor a babysitter. Restaurant vouchers were thus understood as a carefree temptation good. Using the wording of ACLT, I then asked for

\textsuperscript{20}See e.g. Ashraf et al. (2006). In a developing country field setting, MPLs were more practicable than the convex budget method recently introduced by Andreoni and Sprenger (2012). While MPLs fail to identify point values for $\beta$ and $\delta$, they do identify time-inconsistency, i.e., $\beta < 1$. Furthermore, the use of monetary payments in measuring consumption preferences has been questioned by Augenblick et al. (2015). While their criticism is valid here, severe liquidity constraints are widespread in the low-income study population, creating a tight link between cash inflows and consumption.

\textsuperscript{21}In their MPL benchmark, Andreoni and Sprenger (2012) find 16.7 percent present-biased and 10.7 percent future-biased. Kaur et al. (2015) find 17 percent present-biased. Using hypothetical questions, Ashraf et al. (2006) find 27.5 percent present-biased and 19.8 percent future-biased. Since future-biased and time-consistent preferences generate the same predictions for commitment demand, they are not distinguished in the regression analysis.

\textsuperscript{22}See Tables A16 and A17 for a comparison of real and hypothetical incentives, and Appendix V for a discussion.
1. the *ideal* allocation of the ten certificates to year 1, as opposed to year 2, and

2. the allocation individuals would be *tempted* to consume in year 1.

These questions provide the measure *Perceived Temptation* (from 2. − 1., *tempted − ideal*). In a $\beta\delta$-model (where costly self-control does not exist), it captures the difference between the ex-ante optimal allocation, and the allocation the agent expects to play in a subgame perfect equilibrium. This difference is a function of perceived time-inconsistency ($\hat{\beta}$ in Section 2). However, directly using *tempted − ideal* to proxy $\hat{\beta}$ is problematic in the presence of ‘self-control types’ (Toussaert (2018)), who behave time-consistently, but face a cost for resisting temptation. To capture sophistication about present-biased preferences (and filter out time-consistent self-control types), I interact *tempted − ideal* with an indicator for behaving time-inconsistently in MPLs. The resulting interaction ($\text{tempted} - \text{ideal}) \times \text{presentbias}$ proxies $\hat{\beta}$ for agents with $\beta < 1$.\(^{24}\)

A caveat is that sophistication is understood as $\hat{\beta}$ conditional on $\beta$, but that higher $\hat{\beta}$ may empirically correlate with higher $\beta$. When using ($\text{tempted} - \text{ideal}) \times \text{presentbias}$ in regressions (and controlling for *presentbias*), the interpretation of coefficients is facilitated by the fact that measures of *perceived* and *observed* time-inconsistency are empirically orthogonal: Surprisingly, *tempted − ideal* does not predict present bias in MPLs ($p = 0.9$, Figure A9 shows the bivariate distribution). The data suggests that it is plausible to increase $\hat{\beta}$ while holding $\beta$ constant.\(^{25}\)

Several factors may explain the lack of a correlation: First, individuals may use costly self-control to appear time-consistent.\(^{26}\) Second, all variables may be measured with error. Especially the MPL present bias measure is likely understated due to the high fraction (35.7 percent) of always-early choices, in addition to some recent concerns about monetary discounting (Augenblick et al. (2015)). Relatively, *tempted − ideal* is measured over the consumption domain, while *presentbias* is measured over money. If $\beta$ is highly domain-specific, a lack of correlation may result.

Third, individuals may be pessimistic about their degree of time-inconsistency (discussed in Appendix I.3).

In addition to measuring time-inconsistency, the baseline survey obtained measures of financial claims from others, risk aversion, cognitive ability, financial literacy, intra-household bargaining power, distance to the bank branch (via GPS coordinates), attitudes towards charitable giving, and frequency of income or expenditure shocks, as well as an indicator for having an existing bank account. These measures are discussed in Appendix VI.

Table 2 presents summary statistics. Randomisation into treatment groups occurred shortly after the baseline survey. Means were statistically different across treatment groups for income, household size, and risk aversion. Income and household size have no predictive power in any of the later regressions. In particular, wealthier individuals are no more likely to take up a commitment product than poorer individuals. Risk aversion does have predictive power for the take-up of the withdrawal-restriction account. Robustness checks are reported in Appendix V.

---

\(^{23}\) A third question asked for the allocation individuals *expected* to consume in year 1, taking into account both the ideal and the temptation. This yields a second measure, *expected − ideal* (from 3. − 1.). Questions 1, 2 and 3 correspond to questions (a), (c) and (d) in ACLT, respectively. Note that, in a $\beta\delta$–model, the answers to 2. and 3. should be the same. In practice, 82 percent claimed positive differences between *tempted* and *ideal*, while only 22 percent admit differences between *expected* and *ideal*. Suggestive evidence indicates possible image concerns towards the interviewer: Admitting that one is subject to temptation may be less embarrassing than admitting that one gives in to these temptations. The main text proceeds by focusing on the tempted allocation. Full details on all self-control questions and their distribution are reported in Appendix VI.2. Table A15 reports robustness checks of the main results with respect to the sophistication measure.

\(^{24}\) Note this interaction assumes domain-generality of $\beta$ across money and consumption. Temptation values are censored at zero (negative values occurred in 4 of 910 cases).

\(^{25}\) Ahn et al. (2017) show that, for individual 1 to be more naive than individual 2, both $\hat{\beta}_1 \geq \hat{\beta}_2$ and $\hat{\beta}_1 \leq \beta_2$ are required. Given the data limitations, this study uses $\hat{\beta}_1 \geq \hat{\beta}_2$ with $\beta_1, \beta_2 < 1$ to compare naïveté between individuals.

\(^{26}\) In a lab experiment, Toussaert (2018) finds between 23 and 36 percent of such ‘self-control types.’
4. Predictions and Empirical Strategy

The primary outcomes of interest are the demand for commitment contracts, savings levels, and contract follow-through (goal achievement or default). The theoretical framework in Section 2 predicts that partially sophisticated hyperbolic discounters are likely to adopt commitment, but then fail to save and default. Full sophisticates can successfully save with commitment, but may be less likely to adopt it, as low stakes are correctly perceived as ineffective, and high stakes may be prohibitive in the face of uncertainty. Going beyond the basic model, time-consistent agents who commit for other reasons, e.g. to protect savings from external claims, are likely to save more with commitment. This generates the following theoretical predictions:

a) There will be positive demand for commitment savings contracts. While not explicitly modeled, installment-savings commitments are likely to be more popular than withdrawal-restriction commitments if agents are constrained by self-control problems, since they commit clients to make future deposits. In contrast, withdrawal restrictions will be popular if ‘other-control problems’ are important, since they allow clients to safeguard savings (IS permits withdrawals at the cost of default).

b) Average treatment effects of the two commitment products on savings levels will be ambiguous, depending on the composition of partial and full sophisticates, as well as time-consistents.

c) Commitment follow-through (IS contract): The presence of partial sophisticates predicts substantial levels of default. With degenerate beliefs $\hat{\beta} > \beta$, default is deterministic – though this prediction softens with stochastic sophistication (Appendix I.1). Full sophisticates and time-consistents will default only in case of shocks.

d) Predictors of commitment demand and follow-through: The theoretical relationship between sophistication and commitment demand is non-monotonic over the range $\hat{\beta} \in [0, 1]$ (Figure 1). However, it will be monotonic and negative if present-biased agents cannot save without commitment, and are able to observe this fact (i.e., $\hat{\beta} < \beta_{NC}$).

Section 5.1 addresses part a) by reporting demand for the IS and WR contracts. Section 5.2 addresses part b). I study the average treatment effect of the two commitment products by running OLS regressions on

$$Y_i = \alpha_0 + \alpha_{IS} \cdot IS_i + \alpha_{WR} \cdot WR_i + \epsilon_i$$

where the primary outcome of interest $Y_i$ are participants’ savings at the partner bank, $IS_i$ is an indicator variable for assignment to the ‘Installment Savings’ group, and $WR_i$ is an indicator variable for assignment to the ‘Withdrawal Restriction’ group. Secondary outcomes include whether or not the respondent purchased their stated savings goal, and whether they borrowed to do so. A survey-measure of other savings checks for evidence of substitution across savings sources. The coefficients $\alpha_{IS}$ and $\alpha_{WR}$ estimate the Intent-to-Treat effect (ITT) – the causal effect of having been offered the corresponding commitment product.

---

27 See part (c) of Proposition 4. The sample population frequently borrows at very high interest rates to finance lump-sum consumption (this partially motivated the IS design, see introduction). Control group savings are close to zero (see Table 3).
Section 5.3 addresses c), using a descriptive analysis of the occurrence and timing of defaults. Section 5.4 addresses d). The probability for each choice is modelled as

\[ P(Choice_i = 1) = \Phi(\gamma_0 + \gamma_1 \cdot \text{presentbias}_i + \gamma_2 \cdot (\text{tempted} - \text{ideal})_i \cdot \text{presentbias}_i + \gamma_3 \cdot (\text{tempted} - \text{ideal})_i + \gamma_k \cdot X^k_i + \gamma_m \cdot m_i), \]

where \( Choice_i \) is the decision to take up the installment-savings account (within group IS), to take up the withdrawal-restriction account (within group WR), to default on the IS account, or to pre-order IS for a second round. The variables \( \text{presentbias}_i \) and \( (\text{tempted} - \text{ideal})_i \) are as defined in Section 3.3. Theory predicts that \( \gamma_1 = 0, \gamma_2 < 0 \) for IS demand (if \( \hat{\beta} < \beta_{NC} \) holds for a majority of present-biased agents, see footnote 27), and \( \gamma_1 > 0, \gamma_2 < 0 \) for IS default. It is silent on other coefficients. \( X_i \) is a vector of other individual characteristics, notably a subset which proxies ‘Other Control’ or safeguarding motives (facing strong financial claims from others, household bargaining power, education, risk aversion), a subset which proxies past and current shock arrival rates, and finally other demographics (age, female, marital status, an asset index, weekly household income, number of household members, impatience in MPLs, cognitive ability, financial literacy, having donated to charity, distance to the bank branch, and having an existing bank account). All binary choice regressions contain a vector of marketer effects \( \gamma_m \cdot m_i \) to filter noise from differences in marketer ability.

5. Results

5.1. Demand for Commitment

Despite the prior universal provision of free standard savings accounts, demand for commitment was high: 114 out of 423 respondents in group IS (27 percent) accepted the IS product.\(^28\) The IS product committed clients to the fixed-installment structure outlined in their Personal Savings Plan, which had been written during the preceding marketing stage in all treatment arms.\(^29\) Section 3.1 and Table A1 report summary statistics of savings plan choices. Chosen penalties ranged from 150 to 1200 pesos, with a median of 150 pesos (Figure A3).

In group WR, 92 out of 219 respondents (42 percent) accepted the WR product, which restricted withdrawals until either the goal amount or the goal date specified in the Personal Savings Plan was reached. 39 WR clients committed to the goal amount, the remaining 53 clients committed to the goal date. In sum, there is substantial demand for both types of commitment products, consistent with the presence of both ‘self-control’ and ‘other-control’ problems.

5.2. Average Treatment Effects on Savings

This section presents estimated average effects of the two commitment treatments. The primary outcome variable of interest is clients’ total savings balance at the partner bank, summed across ordinary savings accounts and any commitment savings products (IS or WR). The savings period is specific to each individual, starting with the date of the baseline survey, and ending with the goal date specified in an individual’s savings plan. The reason for focusing

---

\(^{28}\) One member of the control group was mistakenly offered the IS product, thus a total of 115 IS accounts were opened.

\(^{29}\) Clients were permitted to adjust their savings plans upon accepting a commitment contract. As a result, IS goal amounts are roughly 20 percent lower than those in the control group (see Table A1). Savings durations are the same across groups.
Table 3: Savings Outcomes (OLS)

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bank Savings</td>
<td>Purchased Savings Goal</td>
<td>Borrowed to Purchase Goal</td>
<td>Other Savings (survey-based)</td>
</tr>
<tr>
<td>Installment Savings Treatment</td>
<td>428.633***</td>
<td>0.116**</td>
<td>0.036</td>
<td>426.811</td>
</tr>
<tr>
<td></td>
<td>(65.587)</td>
<td>(0.049)</td>
<td>(0.0234)</td>
<td>(671.844)</td>
</tr>
<tr>
<td></td>
<td>[0.000]</td>
<td>[0.083]</td>
<td>[0.328]</td>
<td>[0.737]</td>
</tr>
<tr>
<td>Withdrawal Restr. Treatment</td>
<td>148.243***</td>
<td>0.134**</td>
<td>0.121***</td>
<td>-328.159</td>
</tr>
<tr>
<td></td>
<td>(40.927)</td>
<td>(0.056)</td>
<td>(0.034)</td>
<td>(705.461)</td>
</tr>
<tr>
<td></td>
<td>[0.100]</td>
<td>[0.075]</td>
<td>[0.003]</td>
<td>[0.631]</td>
</tr>
<tr>
<td>Constant</td>
<td>27.160***</td>
<td>0.407***</td>
<td>0.047***</td>
<td>63.451</td>
</tr>
<tr>
<td></td>
<td>(9.399)</td>
<td>(0.040)</td>
<td>(0.017)</td>
<td>(531.028)</td>
</tr>
<tr>
<td>R²</td>
<td>0.04</td>
<td>0.011</td>
<td>0.023</td>
<td>0.00</td>
</tr>
<tr>
<td>Observations</td>
<td>746</td>
<td>615</td>
<td>615</td>
<td>603</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses, *** \(p<0.01\), ** \(p<0.05\), * \(p<0.1\). Square brackets contain additional p-values corrected for Multiple Hypothesis Testing, following List et al. (2016). Bank Savings is the change in a client’s total savings balance at the partner bank, summed across ordinary savings accounts and commitment savings products (IS or WR). Two outliers are excluded, see footnote 30. The period of observation starts with the baseline survey and ends with the goal date specified in an individual’s personal savings plan (median duration: 137 days). Purchased Savings Goal is an indicator for whether the individual reported having purchased or paid for the savings purpose specified in their savings plan at the time of the endline survey. Other Savings is the change in self-reported savings at home and at other banks. Survey-based savings data are truncated at 1 percent.

on the goal date is that all savings are expected to be spent on the planned expenditure after this date. The cost of this choice is that it diminishes the sample to those 748 individuals who were willing to make a savings plan (attrition is orthogonal to treatment, see Section 3.1 as well as Tables A5 and A6).

Column (1) in Table 3 estimates that assignment to the installment-savings treatment group increased average bank balances by 429 pesos (U.S.$10.20) relative to the control group.\(^{30}\) This estimate is net of default penalties and the 100 peso gift contained in the ordinary savings account. The effect can be decomposed into a 380 pesos (1.82 deposits) increase in commitment account savings, and a 49 pesos (0.38 deposits) increase in ordinary account savings (see Table A1). Individuals assigned to the withdrawal-restriction group saved on average 148 pesos more than the control group – of which 114 pesos (0.71 deposits) in their commitment account, and 34 pesos (0.03 deposits) in their ordinary account. When normalized by the savings duration, the WR treatment effect replicates the result of Ashraf et al. (2006): Their SEED account increased savings by 34.25 pesos per month (411 pesos over 12 months), while the WR account increased savings by 32.88 pesos per month (148 pesos over 4.5 months). The terms and conditions of

\(^{30}\) The ITT estimate excludes two outliers, both in the IS group, whose savings increased by 15 and 18 standard deviations, respectively. Including these outliers changes the ITT estimate to 585 pesos.
SEED and the WR account were identical. The small but significant savings of 27 pesos in the control group may reflect the effect of marketing, specifically the universal provision of savings plans and ordinary savings accounts.

The ex-post probability that a research finding is true depends not only on the level of statistical significance, but also on the prior beliefs, the power of the study, and any replications (Maniadis et al. (2014)). Appendix IV.4 provides such ‘Post-Study Probabilities’ for a range of priors for the main experimental treatment effect on savings. Consistent with the discussion in Maniadis et al. (2014), the PSPs strongly increase in the fact that the WR treatment is a replication of Ashraf et al. (2006).

Treatment-on-the-Treated effects (TOT) can be obtained by instrumenting take-up of IS and WR with assignment to the corresponding treatment group. The identifying assumption is that the mere offer of commitment had no effect on savings (other than via encouraging people to use the products). The TOT estimates suggest that taking up the IS product increased savings by 1392 pesos, while taking up the WR product increased savings by 303 pesos. The increased gap in the TOT effects relative to the ITT effects is a result of the higher take-up rate for WR.

Six months after the baseline survey, when all goal dates had been reached, an endline survey asked whether individuals had purchased the good (respectively, paid for the expenditure) they had been saving for. Out of the 615 individuals who had a) made a savings plan and were b) reached by the endline survey (see Table A5), 307 reported to have bought the desired good. When asked how they paid for this expenditure, slightly below 20 percent of these declared to have used loans from formal or informal sources. Columns (2) and (3) in Table 3 present linear probability estimations of the effect of treatment on the likelihood of purchasing the good, and on borrowing for the purchase.

Table 3 confirms that both the IS and the WR treatment increased an individual’s chances of purchasing their savings goal. However, unlike the IS group, the WR group was significantly more likely (12.1 percentage points) to borrow in order to obtain the good. One possible mechanism is that signing either commitment contract (IS or WR) psychologically committed clients to purchase their savings goal, but only the Installment Savings product helped them to do so using their own funds.

An important concern is whether savings increases observed at the partner bank constituted new savings, or whether a simple substitution from other sources of savings (at home, or at other institutions) took place. Column (4) of Table 3 reports the change in an individual’s total savings balance outside of the partner bank, as measured in the baseline and endline survey: Individuals were asked about their savings at home, money lent out or safekept by others, informal savings, and savings at other institutions. An incentive of 30 pesos was paid for showing an existing bank passbook. The endline survey asked about savings kept around the goal date, as opposed to the survey date. Unfortunately, the survey data is noisy, and coefficients are estimated with substantial imprecision. The available evidence does not suggest a substitution between increased savings at the partner bank, and reduced savings at home or at other institutions. All coefficients are insignificant, and the sign on being offered IS is positive.

Appendix IV provides a number of supplementary analyses, including treatment effects on the cumulative

31 The study locations are 70km (2 hours by local bus) apart. The study populations differed: Ashraf et al. (2006) studied a sample of previous clients of the partner bank, while this paper studies a general low-income population with little previous bank exposure.

32 The effect of marketing as such cannot be identified. However, the non-negativity constraint on bank savings and the 27 pesos control mean suggest that the effect of marketing was likely small.

33 Probit estimations yield very similar results in terms of effect sizes and significance.

34 At baseline, 46 percent of the sample reported to have an existing savings or checking account with another institution. This number is partly driven by a formal requirement to open a savings account when obtaining microloans. More than one quarter of bank account holders reported not to have used their account in the last 12 months, and dormant accounts were common.

35 The savings data has been truncated at 1 percent, reducing the sample from 615 to 603 observations.
distribution of bank savings, total savings, outstanding loans, and expenditures (Figure A5 and Table A14). Table A12 presents quantile treatment effects. Table A11 examines treatment effect heterogeneity across a number of covariates, and finds that such heterogeneity is most pronounced for existing savings account holders – consistent with trust and basic familiarity with the banking system.

5.3. Heterogeneity: Descriptive Results

The IS results were strongly bi-modal: 51 IS clients (45 percent) successfully completed their savings contract, with goal dates between December 2012 and April 2013. They completed all scheduled installments with a median of 12 transactions, and reached savings goals between 950 and 7150 pesos (U.S.$23–$170). By design, accounts were closed after completion of the savings plan, and clients could withdraw their savings in order to pay for the planned lump-sum expenditure. Many of these clients pro-actively enquired at the bank to roll over their account into a new IS contract. While this was not an immediate possibility, the repeat marketing stage included the option to ‘pre-order’ the product for a second round. The pre-order contract was not financially binding, but included substantial official paperwork. Two thirds of the successful clients took up this offer, devised a new savings plan, and chose a new termination fee (see Tables A3 and A4). The bank has since offered new IS contracts to those enquiring about them.

The situation looked very different for the remaining 63 IS clients (55 percent) who defaulted on their savings contract. After falling three deposits behind, their accounts were closed, and the initially agreed termination fee charged. What happened? Two possibilities emerge: (i) Clients had chosen an IS contract which was optimal for them in expectation, and then rationally defaulted upon observing a shock (in other words, a ‘bad luck’ scenario). Or (ii), clients chose the contract by mistake.

If the ‘bad luck’ explanation is true, the timing of defaults should depend on the shock distribution: Assume that, as modeled in Section 2, savers get hit by large i.i.d. shocks with a per-period probability of $\lambda$, and that shocks force them to default. In this simple case, a fraction $\lambda$ of the surviving population should default each period. In other words, the default hazard rate should be constant over time. In sharp contrast, Figure 3 illustrates that clients had a tendency to default either right from the start, or not at all: Out of 63 defaults, 35 clients stopped depositing immediately after the opening balance, 8 clients deposited one more installment, and only 10 clients defaulted after depositing more than five installments. Figure 3 shows the default hazard rate by installments, where the number of defaults at installment $t$ is given by those who discontinued depositing after making $t$ installments. The number of defaults is divided by the active population at $t$ (i.e., those who have neither defaulted nor successfully completed their contract yet). Far from being constant, the default hazard rate spikes after the first installment, and trails off afterwards. The null hypothesis of a constant hazard rate is rejected at $p < 0.01$ despite using only 25 installment-observations.

Approximating installments with weeks (84 percent of clients chose weekly installments), Figure 3 further shows shock arrival rates estimated from the endline survey: The sample population was questioned about the occurrence of 17 types of common emergencies (sickness, loss of job, bad business, flood damage) including a flexible ‘other’ category. The survey also asked how many months ago the emergency occurred. 45% reported at

36Savings contracts had a median of 16 scheduled installments, with a range from 8 to 25.
37Subject to the enforceability constraint described in Section 3.2. Appendix Figure A3 shows the chosen and charged termination fees.
38Using installments like a time axis is a simplification: Individuals were allowed to fall two installments behind at any time. Consequently, time lags occur between the last completed installment and the official time of account closure. Furthermore, individuals could deposit multiple installments in a single transaction.
least one emergency within 6 months, with an average total of 0.72 emergencies (see Table A9). A simple proxy of i.i.d. shock arrival with emergencies yields a population hazard rate of 0.028 per week. This hazard rate is neither consistent with the overall frequency of defaults, nor with their steep timing. The dashed line in Figure 3 shows the reported timing of shocks (relative to individual savings plans) within the IS adopter sample. I.i.d. shocks are a highly simplistic assumption – more realistically, the shock arrival rate is heterogeneous among individuals, shocks may be correlated, and individuals may be naïve about shock arrival. These alternative assumptions are discussed in Sections 6.1 and 6.2. In short, while empirically plausible, they would not be sufficient to generate the observed data.

The second possibility requires a deviation from rational expectations: Individuals could have chosen their contract by mistake. Mistakes (defined as choices that are not optimal under rational expectations) can happen if individuals have incorrect beliefs about their future preferences or their income distribution, including the probability of shocks to either of the two. Section 2 outlines why a time-inconsistent agent with incorrect beliefs about the degree of her time-inconsistency is likely to select into a commitment contract that is too “weak” to overcome her self-control issues, leading to default. Section 6 discusses other types of forecast errors. Looking at the data, it is notable that 80 percent of individuals chose the minimum permissible termination fee for their savings goal (P150 for goals below P2500 (56 percent) and P250 for goals above P2500 (24 percent)) – though the goal choice itself likely captures a margin of commitment strength. The observed combination of minimum penalties and high default rates raises the question whether individuals underestimated the amount of commitment it would take to make them save. This is consistent with the observed tendency to default soon after account opening, as individuals start behaving according to their true degree of time-inconsistency upon entering the depositing phase. Could rational expectations about stochastic future time-inconsistency explain the data? If individuals had correct beliefs on average, they would realize which penalty will be effective for them on average. Building on the discussions in Section 2.6 and Appendix I.1, uncertainty in $\beta$ makes commitment less attractive. Theory predicts low commitment
take-up, high conditional penalties, and low default rates – in sharp contrast to the patterns observed.

For the WR accounts, both benefits and risks were less pronounced: Out of 92 accounts, only five reached the specified goal amount (3 out of 53 date-based accounts, and 2 out of 39 amount-based). Median savings were 100 pesos, equivalent to the minimum opening balance. 79 percent of WR clients (85 percent of amount-based accounts) made no further deposits after the opening balance. Similarly to IS clients, amount-based WR accounts effectively lose their opening balance if they do not continue to deposit. A difference between the two commitment products is that the penalty for discontinuing to save on an amount-based WR account increases with every deposit, while the IS default penalty is fixed. Out of 582 clients who exclusively had an ordinary savings account, one reached their specified goal amount. Summary statistics on account usage can be found in Table A1.

5.4. Heterogeneity: Regressions

In an attempt to resolve the puzzles presented in the previous section, this section analyses empirical predictors of the take-up, default, and pre-order decisions.

Predicting Commitment Demand & Default: Time Preferences  Column (1) of Table 4 presents a probit regression of the IS take-up decision on the time preference measures discussed in Section 3.3. It contrasts these with baseline variables which may capture an ‘Other Control’ (or safeguarding) motive – the leading alternative explanation for why people demand commitment.

IS take-up is predicted by the proposed measure of sophisticated hyperbolic discounting. Present bias on its own is not a predictor of take-up, consistent with the intuition that awareness of time-inconsistency ($\hat{\beta}$), rather than actual time-inconsistency ($\beta$), determines demand for commitment. Perhaps more surprisingly, the association of commitment take-up and sophisticated hyperbolic discounting is significant and negative. Recall from Section 3.3 that sophistication is measured as the interaction of present bias (observed using MPLs) and self-reported temptation. In other words, those who exhibit hyperbolic preference reversals, but at the same time report low levels of temptation, are more likely to take up the product. In contrast, those who report being strongly tempted tend to stay away. The negative link between sophistication and commitment adoption is consistent with the theoretical framework: Commitment is attractive for partially sophisticated agents, who anticipate that a low default penalty will be sufficient to make them save. In contrast, agents who perceive themselves as strongly tempted have two options: Either they choose a sufficiently large penalty, or they stay away from commitment. Non-adoption may be optimal if the required effective penalty is prohibitively high. An additional channel is that penalties were only enforceable up to the current savings level. An agent who anticipates that her first installment is not a sufficient stake to get her to make the second one, should also stay away. Before proceeding to the rest of Table 4, it is worth looking at IS contract choices as an internal margin of commitment demand. Columns (1)-(2) of Table 5 indeed confirm a positive association between sophistication and IS penalty choice, conditional on adoption. Present bias on its own is negatively linked to penalty choice. Aggregating the coefficients, present bias with low levels of sophistication predicts low penalties, while present bias with high levels of sophistication predicts high penalties (note present bias is binary, whereas temptation is in the interval $[0,10]$ with a median of 2). The variation in penalties is partly driven by the variation in savings goals: Choosing a larger savings goal (with a higher minimum penalty) in itself constitutes a stronger commitment choice. However, neither the savings goal choice nor the savings duration are significantly linked to the time preference measures. Due
### Table 4. Predicting Commitment Demand & Default (Probit)

<table>
<thead>
<tr>
<th>Commitment type</th>
<th>Installment Savings</th>
<th>Withdrawal Restr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dep. Var.</td>
<td>(1) Take-Up (IS-Sample)</td>
<td>(2) Default (IS-Sample)</td>
</tr>
<tr>
<td>Self-Control Motive</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present Bias</td>
<td>0.0827</td>
<td>0.1119*</td>
</tr>
<tr>
<td>Soph. Present Bias</td>
<td>-0.0631**</td>
<td>-0.0453**</td>
</tr>
<tr>
<td>(Pres.Bias*Temptation)</td>
<td>(0.0292)</td>
<td>(0.0230)</td>
</tr>
<tr>
<td>Perceived Temptation (0-10)</td>
<td>-0.0046</td>
<td>-0.0202*</td>
</tr>
<tr>
<td>Soph. Present Bias</td>
<td>(0.0125)</td>
<td>(0.0105)</td>
</tr>
<tr>
<td>Other-Control Motive</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faces strong financial claims from others</td>
<td>-0.0038</td>
<td>-0.0113</td>
</tr>
<tr>
<td>(0.0414)</td>
<td>(0.0330)</td>
<td>(0.0848)</td>
</tr>
<tr>
<td>HH Bargaining Power (0-5)</td>
<td>0.0053</td>
<td>-0.0116</td>
</tr>
<tr>
<td>Education (yrs)</td>
<td>(0.0113)</td>
<td>(0.0090)</td>
</tr>
<tr>
<td>Risk Aversion (0-6)</td>
<td>-0.0094</td>
<td>-0.0303</td>
</tr>
<tr>
<td>(0.0064)</td>
<td>(0.0053)</td>
<td>(0.0121)</td>
</tr>
<tr>
<td>#Emergencies last yr</td>
<td>-0.0161</td>
<td>0.0005</td>
</tr>
<tr>
<td>(0.0277)</td>
<td>(0.0213)</td>
<td>(0.0601)</td>
</tr>
<tr>
<td>#Emergencies since baseline</td>
<td>-0.0033</td>
<td>0.1156*</td>
</tr>
<tr>
<td>(0.0182)</td>
<td>(0.0087)</td>
<td>(0.0687)</td>
</tr>
<tr>
<td>Controls</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Marketer FE</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Mean Dep. Variable</td>
<td>0.2687</td>
<td>0.1468</td>
</tr>
<tr>
<td>Observations</td>
<td>402</td>
<td>402</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1. Entries in the table represent marginal coefficients. Variables are as described in Table 2. Additional controls include age, gender, marital status, weekly household income, number of appliances owned, number of household members, impatience, cognitive ability, financial literacy, distance to bank (via GPS), having an existing savings account, having donated to charity in the last 12 months. The coefficients for all control variables are reported in Tables A7 and A8. The sample is restricted to clients who could be located for the marketing visit (see Table A5). For robustness checks, see Table A15.

### Table 5. Predicting IS Contract Choices

<table>
<thead>
<tr>
<th>IS Penalty (pesos)</th>
<th>Goal Amount (pesos)</th>
<th>Savings Plan Duration (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Present Bias</td>
<td>-75.56**</td>
<td>-69.70**</td>
</tr>
<tr>
<td>(34.35)</td>
<td>(31.92)</td>
<td>(672.5)</td>
</tr>
<tr>
<td>Soph. Present Bias</td>
<td>30.69**</td>
<td>25.69**</td>
</tr>
<tr>
<td>(Pres.Bias*Temptation)</td>
<td>(13.34)</td>
<td>(12.78)</td>
</tr>
<tr>
<td>Perceived Temptation (0-10)</td>
<td>-7.324</td>
<td>-3.443</td>
</tr>
<tr>
<td>(9.490)</td>
<td>(7.383)</td>
<td>(156.5)</td>
</tr>
<tr>
<td>Demographic Controls</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>R²</td>
<td>0.019</td>
<td>0.084</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1. Demographic controls include age, weekly income, and education level. A histogram of the chosen IS penalties is in Figure A3. Savings Plan summary statistics are in Table A1.
to the selection issues involved in conditioning on take-up, the estimates should be seen as suggestive evidence only.

Moving back to Table 4, and proceeding with the IS default decision, column (2) predicts IS default among those assigned to the installment-savings group. Individuals who do not commit cannot default. Thus, the coefficients are best understood as predictors of who took up the commitment product ‘by mistake’, proxied by take-up and subsequent default. This interpretation notably abstracts from the possibility of rational default following a shock. The results provide further support to the partial sophistication hypothesis: Present-biased individuals are significantly more likely to take up the IS product and then default. This effect is particularly strong for agents who report low levels of temptation, representing naive and partially sophisticated hyperbolics. In contrast, more sophisticated hyperbolics are less likely to default: Aggregating the coefficients for present bias (0.11*), sophistication (-0.045**) and temptation (-0.02*) yields a lower likelihood of default for all present-biased agents with temptation values higher than the median of 2.

Columns (3) and (4) of Table 4 restrict the analysis to clients who took up the IS product, and should be interpreted with care: The regressions condition on an endogenous variable, and are likely subject to sample selection bias. In predicting default occurrence, the marginal coefficient on present bias has quadrupled, and kept its significance. The link between present bias and default seems to be stronger than the link between present bias and take-up, consistent with the intuition that awareness of time-inconsistency drives commitment adoption, while actual time-inconsistency determines the success of the contract. The temptation measure now has strong predictive power on its own, even when not interacted with present bias. Individuals who report feeling tempted but who do not exhibit hyperbolic preference reversals could be (i) time-inconsistent, but incorrectly classified by the MPLs, for instance because their switching point is beyond the measured range (35.7 percent of respondents chose the earlier reward in all MPL questions). Or (ii), they could have Gul-Pesendorfer preferences: They act time-consistently in MPLs, demand commitment, report high levels of temptation, and don’t default on the IS contract (see also Section 3.3).

Moving on to the pre-order (repeat take-up) decision, the coefficients on present bias (-0.49**) and sophistication (0.24**) are large and significant. The aggregate coefficient for a present-biased individual with the median value of perceived temptation is approximately zero. This has a convenient interpretation: Relatively naive hyperbolic discounters (those with below-median reported temptation) are unlikely to take up the IS product again. The same group is most likely to have defaulted on their previous contract. The result is encouraging, suggesting that individuals who ‘burnt their fingers’ learned about their true preferences (in addition to learning about the costs and benefits of the product). The reverse holds true for present-biased individuals with above-median reported temptation (sophisticated hyperbolics): They were more likely to pre-order IS for a second round, potentially following a positive experience with their first contract.

**Predicting Commitment Demand & Default: Other Covariates** Table 4 contrasts predictors relating to time preferences (‘Self Control Motive’) with predictors that are plausibly related to an ‘Other Control’ (or safeguarding) motive, as well as proxies for shock hazard rates. Other-control problems are the main theoretical alternative as to why people demand commitment (Anderson and Baland (2002)), and may also explain default in case of household

---

39Among defaulting clients identified as present-biased, 85 percent had below-median values of temptation, i.e. were relatively naive. Only 22 percent of defaulters are identified as present-biased (relative to 17 percent in the whole sample). However, the fact that below-median temptation correlates with default even for those not identified as present-biased suggest that the present bias measure may be understated -- see discussion below and in Section 3.3.
conflicts. Shock arrival rates may moderate commitment demand, and cause defaults (see Section 2).

Take-up of the IS product is predicted by few factors outside of time preferences: Neither the variables arguably grouped under other-control (facing strong financial claims from others, household bargaining power, education, risk aversion) nor a proxy for the baseline shock arrival rate (#Emergencies last yr) predict IS adoption. None of the demographic controls (listed in Table 4’s notes) predict adoption, with the exception of a positive relationship with cognitive ability (discussed in Section 6.6), and having an existing bank account at any local bank. Appendix Tables A7 and A8 report the full list of coefficients.

Exploring predictors of IS default outside of time preferences, the most obvious candidate – the occurrence of shocks during the savings period – finds some support in the take-up sample (#Emergencies since baseline, column (3)). The positive correlation of defaults with shocks, in combination with the fact that 45 percent of clients successfully completed their IS contract, suggests that a significant portion of clients likely did choose a contract which was optimal for them in expectation. The theoretical prediction that shock realisation should be irrelevant to the pre-order decision (as it does not affect contract optimality in expectation) is supported by the data (see column (4) of Table 4).

Further, at least within the take-up sample, IS default is strongly related to household bargaining power. Individuals may have learned soon after opening their account that it causes household conflicts to put aside a portion of the household budget every week. Clients with low bargaining power are likely to have yielded to these disagreements, and defaulted on their contracts. This can be interpreted as costly experimentation with a new savings technology, and is discussed further in Section 6. The large positive association of household bargaining power with the pre-order decision further supports a learning explanation: Once individuals had learned about the difficulties of regularly diverting a share of the household budget, only those with sufficient autonomy chose to take up the product again.

Risk aversion is negatively associated with IS default, and may mitigate various default risks, including household conflicts and shocks: Risk averse agents may be better managers of household finances, and set aside ‘buffers’ which can be used to make the IS deposits. Within the set of additional controls, only financial literacy (negative) and cognitive ability (positive) predict IS default (Table A8). Notably for the discussion on alternative mechanisms (Section 6), neither distance to the bank branch nor charity attitudes (footnote 18) significantly relate to IS defaults.

The discussion thus far has focused entirely on the IS product, at the expense of the WR account. If the installment-savings and the withdrawal-restriction commitment product were perceived as close substitutes, then the factors predicting IS take-up should also predict WR take-up. Column (5) of Table 4 presents a probit regression of the WR take-up decision within group WR. In sharp contrast to IS adoption, WR adoption is predicted by high education (in years of schooling), high risk aversion (choosing a safe lottery in Figure A10), high household bargaining power (measured using questions on who decides what in a household), and strong claims from others on own liquid assets. None of the additional control variables predict WR adoption (Table A7). Considering a 94 percent female sample population, this combination of factors is reminiscent of Anderson and Baland (2002), who argue that Kenyan women use commitment devices to protect their savings from intra-household conflicts.41

---

40Section 5.3 describes this measure. Clients who defaulted may have had a stronger incentive to report shocks, in order to preserve their self-image or reputation. This would bias the shock coefficient upwards. However, the endline survey was framed as coming from a research organization, with no direct link to the bank or the IS account. Note that attrition in the endline survey was compensated by imputing the median shock value for those who did not participate.

41The estimated linear relationship of commitment take-up with household bargaining power is unable to capture Anderson and Baland (2002)’s inverted U-shape. However, both household bargaining power and female education may be associated with an increased autonomy of the woman in planning to build up savings of her own.
Compared to IS, WR was indeed better suited as a safeguarding device: Its withdrawal restriction prevented other household members from accessing savings, while preserving the woman’s flexibility in when to make deposits. In contrast, IS allowed withdrawals at any time, albeit at the cost of defaulting on the account. A reservation must be made with respect to statistical power: Group WR is half the size of group IS, reducing the precision of estimates.

5.5. Welfare

In the theoretical framework outlined in Section 2, welfare implications are clear-cut: Given a simple form of partial sophistication, and a commitment contract where penalty choice is continuous and success is binary, agents are strictly worse off from adopting commitment (but may do so anyway). Even if this mechanism is the correct one, welfare inference is much less obvious empirically: Individuals may benefit from increased savings even if they default later, just like they may smoke less in Giné et al. (2010) or drink less in Schilbach (forthcoming) despite failing to reach the binary threshold for successful commitment.

A few careful inferences can be made. First, it is informative to look at the ratio of incurred penalties to IS deposits: Out of 63 defaulting clients, 31 clients lost their entire IS balance to the penalty, leaving them with no commitment savings and the penalty loss. For these clients, the IS contract likely reduced welfare. For an additional 9 clients, the incurred penalty exceeded half of their IS balance, equivalent to a 100 percent premium on savings. To compare, the cost of informal loans in the area is between 10 and 20 percent per month. Figure A2 shows the full distribution of the ratio. Second, a case can be made that offering commitment still constituted a Kaldor-Hicks improvement: The 51 successful clients (the “winners” from offering commitment) should be willing to compensate the 63 defaulting clients (“losers”) if the gain from reaching their savings goal (captured as \( b - p \) in the model from Section 2) exceeds the loss to the defaulters. Splitting the penalties incurred by the 63 defaulters (11,370 pesos) across the 51 successful clients, this is the case if \( b - p \) exceeds 223 pesos, or 8.2 percent of the average (winners) savings goal. Third, and relatedly, offering IS increased the fraction of people who purchased their savings goal without borrowing by 22 percent (8 pp, see Table 3).

All these considerations are ex-post. A cautious estimate of the frequency of ‘ex-ante mistakes’ is provided by the pre-order results: 55 percent of all clients (71 percent of defaulting clients and 35 percent of successful clients) chose not to order IS again (see Table A3). An important caveat is that this ignores time effects, i.e., not needing IS again after having saved successfully. Section 7 discusses policy implications for offering commitment, and points to a possible trade-off between achieving large benefits on average, and substantial heterogeneity with welfare risks.

6. Alternative Explanations

So far, the paper has focused on time-inconsistency and partial sophistication in attempting to explain why individuals may adopt and subsequently default on commitment contracts. Section 5.3 further argued that the timing of defaults is hard to reconcile with i.i.d. shocks to income or expenditures, at least provided that individuals had correct beliefs about the probability of such shocks. However, numerous other factors could have triggered a wave of defaults shortly after adopting commitment. Aggregate shocks may have affected the study region, or individuals

---

42 While 35 clients defaulted after the opening balance, only 28 had chosen penalties equal to or greater than the opening balance (see Section 3.2 for design details). 3 clients made additional deposits, but lost them to higher penalties.
may have been too optimistic about their future income. Another range of explanations can be summarized as ‘costly experimentation’: Individuals were learning what it involves to save each week. How hard would it be to extract 150 pesos from their household every week? How much time will it take to walk to the bank, and how difficult will it be to remember to make installments on time? How much discipline would it take to curb consumption? While aspects of these questions may be product-specific, they all relate to more general preference and household parameters – such as household bargaining power, distance from the bank, latent proneness to shocks, and binding attention constraints.

This section will address some main concerns relating to costly product experimentation, specifically, household conflict and transaction costs. It further discusses the evidence for aggregate or heterogeneous shock arrival, income optimism, and persuasion by the bank marketers. As a rule, it is not difficult to think of reasons why individuals may have defaulted once they had entered commitment contracts. However, few of these reasons parsimoniously explain why individuals would demand commitment in the first place. Further, unless individuals were fully naive about potential challenges of saving, measures associated with these challenges should predict selection into (or out of) the contracts. Table 6 reviews the consistency of the study’s findings with a number of alternative explanations.

6.1. Aggregate Shocks

An aggregate shock around the time of account opening could explain the large wave of defaults. The Philippines is a well-known area for earthquakes and tropical storms, and had recently been hit by tropical storm Washi in December 2011, causing 1,268 casualties (NDRRMC data). The risk of such shocks was well-known at the time of marketing in September 2012, possibly affecting take-up rates. Indeed, tropical storm Bopha hit the Mindanao region between December 2 and December 9, 2012. Fortunately, storm Bopha did not cause flash flooding, and the main effect on the study location was a six-day power outage. While this may have affected large businesses, power outages of several hours each day were common in the study area even before the storm, and provisions against power outages were widespread. Because of its limited effect on the area, storm Bopha was not locally classified as a natural disaster (which would have invoked both IS’s and WR’s emergency provisions).

In the endline survey, 21.2 percent of the sample (22.4 percent of defaulting IS clients) reported some damage due to natural disasters. Conditional on reporting damage, the median damage cost was 950 pesos (U.S. $23). Only 3 out of 732 respondents reported to have lost income due to the power outages. While some negative effects of the storm cannot be ruled out, the timing of the storm does not match the timing of the defaults: The IS accounts were opened between 15 September and 28 October. Out of 63 defaults, 35 made no further deposit after their opening balance, resulting in contract default upon the third missed deposit, usually three weeks later. By December 2, 41 IS accounts were officially in default. Table A9 predicts bank savings and IS default using individual shock type indicators. While natural disaster damage is associated with lower savings balances, it does not predict IS default. Instead, shock types which predict IS default are serious illness or death of an income-earning household member (reported by 11.3 percent and 0.7 percent of the sample respectively). These shock types are more likely to be idiosyncratic, but could still be correlated across individuals (discussed in the next section).

6.2. Heterogeneous Shock Arrival

Section 5.3 argues that the observed default timing is difficult to reconcile with i.i.d. shocks, but individuals may have had heterogeneous shock arrival rates. Specifically, heterogeneous shock frequency rates \( \lambda_t \) would generate
<table>
<thead>
<tr>
<th>Finding and Alternative Explanations</th>
<th>Costly Experimentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Shocks</td>
<td>Heterogeneous shock rates</td>
</tr>
<tr>
<td>Limited Attention/Transaction Costs</td>
<td>Household Conflicts</td>
</tr>
<tr>
<td>Household Conflicts</td>
<td>Yes, if used to safeguard</td>
</tr>
<tr>
<td>Time-Inconsistency + Partial Sophistication</td>
<td>Yes</td>
</tr>
<tr>
<td>Time-Inconsistency + Full Sophistication</td>
<td>Yes</td>
</tr>
<tr>
<td>Marketer Persuasion</td>
<td>Yes, but limited by 2-step account opening process</td>
</tr>
</tbody>
</table>

27% Commitment Take-Up (IS)

- High
- Average Treatment
- Effect on Bank Savings

<table>
<thead>
<tr>
<th>Finding and Alternative Explanations</th>
<th>Costly Experimentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Shocks</td>
<td>Heterogeneous shock rates</td>
</tr>
<tr>
<td>Limited Attention/Transaction Costs</td>
<td>Household Conflicts</td>
</tr>
<tr>
<td>Household Conflicts</td>
<td>Yes, if used to safeguard</td>
</tr>
<tr>
<td>Time-Inconsistency + Partial Sophistication</td>
<td>Yes</td>
</tr>
<tr>
<td>Time-Inconsistency + Full Sophistication</td>
<td>Yes</td>
</tr>
<tr>
<td>Marketer Persuasion</td>
<td>Yes, but limited by 2-step account opening process</td>
</tr>
</tbody>
</table>

55% Default, incl. 31% immediately after opening

- Yes, given shock during account opening time
- Ambiguous: High λs discourage take-up
- Yes, upon realizing the true income
- Ambiguous: High t or scarce attention discourage take-up
- Yes, if conflict unexpected
- Yes
- No, ‘rational defaults’ only

Associated Measure Predicts Take-Up?

- No, using ex-ante measured λ
- Yes, contrary to prediction
- No, using distance to bank
- No, using HH bargaining power
- Yes, sophistication negatively predicts take-up, conditional on β
- No, cognitive ability positively predicts take-up

Associated Measure Predicts Default?

- No evidence of an aggregate shock during account opening.
- Yes, using ex-post measured λ. But λs quantitatively too small.
- Yes, using average (predicted–real) income
- No, using distance to bank
- Yes, using HH bargaining power, but only within take-up sample
- Yes, sophistication negatively predicts default, conditional on β. Observed time-inconsistency positively predicts default.
- No, cognitive ability positively predicts default

Cells in this table summarize whether a given finding would be expected under a given explanation. Empty cells indicate that a model does not provide an explanation for a finding. The design of this table is inspired by DellaVigna and Malmendier (2006).
a declining rate of defaults, as those with the highest $\lambda_i$ drop out first. A default rate of 31 percent after the first installment requires a substantial fraction of the population to have $\lambda_i$s well in excess of 0.31 shocks per week. The maximum observed number of emergencies for an individual was 0.19 per week (0.12 among adopters).

The shock arrival rate may not be constant, but vary across time, with high rates at the beginning. Approximating installments with weeks, Figure 3 shows weekly shock arrival by month of individuals’ savings plans. A default rate of 31 percent after the first installment requires a substantial fraction of the population to have $\lambda_i$s well in excess of 0.31 shocks per week. The maximum observed number of emergencies for an individual was 0.19 per week (0.12 among adopters).

Even if this survey measure is flawed, and true $\lambda$s are much higher, theory predicts that individuals with high $\lambda$ will stay away from commitment (see Section 2, Proposition 3). The data do not support this prediction: An ex-ante measure of individuals’ shock frequency is not significantly related to commitment adoption (Table 4), suggesting instead that individuals may have been naive about their proneness to shocks. An example of biased beliefs is that one’s $\lambda_i$ corresponds to the average shock frequency $\bar{\lambda}$ in the population. While this would explain a bulk of defaults soon after opening, it does require $\bar{\lambda} = 0.31$, far beyond the elicited frequencies.

6.3. Income Optimism

Following Browning and Tobacman (2015), the link between time-inconsistency in MPL questions and IS default incidence could have been caused by overoptimistic beliefs about future income: If individuals expect their future income to be higher than their current income, they may select the smaller, sooner reward in the ‘now vs. 1 month’ frame, but choose the larger, later reward in the ‘1 month vs. 2 months’ frame (see Section 3.3). As a result, they would be falsely classified as present-biased. Income optimism could also explain default incidence if it caused individuals to commit to overly ambitious savings plans.

I measure income optimism at the group level by comparing predicted and realized incomes: During the baseline survey, individuals were asked to predict their weekly household income during each of the next six months. Six months later, during the endline survey, individuals were asked to state their realized weekly income for the same time period. At the individual level, a gap between predicted and realized income is not sufficient to indicate systematically biased beliefs, but may simply reflect a bad draw from the income distribution. However, given correct beliefs, the law of large numbers implies that individuals should correctly predict their income on average. If the utilized MPL questions capture income optimism rather than time-inconsistency, then individuals classified as ‘present-biased’ should have higher income prediction gaps. Furthermore, if defaults were caused by systematic mispredictions of future income, then defaulting clients should have higher prediction gaps than successful clients.

The data suggest that moderate income optimism is common across the sample (Table A10 reports full details). However, the average prediction gap is not higher for individuals classified as present-biased. Furthermore, individ-

\[\text{Shock dates are calculated from endline survey data on ‘#months since shock’, and shown relative to the date of IS contract signing.}\]

\[\text{As Dean and Sautmann (2018) show, individuals may also be falsely classified as present biased if they are credit constrained and exposed to short-term consumption fluctuations. The present bias measure would then merely capture a high marginal rate of intertemporal substitution (MRS) now relative to one and two months later. By construction, a high MRS negatively predicts preferences to save. Like income optimism, credit constraints alone do not explain a demand for commitment. However, note that credit constraints are what causes default following shocks in the theoretical framework of Section 2.}\]

\[\text{The LLN requires shocks to be independently distributed. Correlated shocks may cause aggregate differences between successful and defaulting clients (see Section 6.1), but are unlikely to cause aggregate differences by present bias or IS adopter status.}\]
uals who defaulted on IS did not mispredict their income significantly more than successful IS clients. Surprisingly, the average prediction gap is significantly higher for IS adopters than for non-adopters. This is counterintuitive, as income optimism does not predict a demand for commitment in theory.

An explanation that would reconcile most of the evidence is a combination of sophisticated time-inconsistency and income optimism: In the model from Section 2, suppose that the agent believes, counterfactually, that her future per-period income is $y' > 1$ instead of $y = 1$. She believes savings goals up to $p \leq 2y'$ to be achievable. Being sophisticated about her time-inconsistency, she leaves her period 2 self to pay $y'$, and commits her period 1 self to save $p - y'$. Default occurs for $p - y' > 1$, which is never affordable given the true $y = 1$. Note that a model with only fully naive and fully sophisticated agents would predict a positive association between sophistication measures and commitment adoption, and no association between sophistication and default (since all adopters are sophisticated).

Summing up, income optimism alone does not explain why individuals demand commitment, nor correlates with observed measures of present bias. A combination of fully sophisticated time-inconsistency and income optimism predicts both a demand for commitment and subsequent default. However, this combination stands in contrast with the observed negative association of sophistication measures (which are robust to income optimism) with take-up and default. The latter could be explained by combining income optimism with partially sophisticated time-inconsistency.

6.4. Limited Attention and Transaction Costs

Clients may have simply forgotten to make their weekly deposits, or may have been deterred from going to the bank by high transaction costs. The IS account came with non-negligible transaction and attention costs, and was clearly marketed as such: Clients were presented with a savings plan including due dates for each week (Figure A1), and given the instruction to physically deposit their installments at the bank. Most respondents received their income in cash, and bank transfers were uncommon. The evidence indicates that transaction costs were well-understood: Being ‘too busy to go to the bank’ was a commonly stated reason among those who declined the IS product.

It is possible that clients were aware of the costs involved, but naive present-biased about their willingness to incur them. This explanation is easily incorporated in the model: A transaction or attention cost $c$ for making the deposit $p - 1$ is equivalent to a higher price $p$, which makes the nondivisible good less attractive. As long as $c$ is anticipated, all conclusions of the model go through.

Alternatively, naiveté about attention or transaction costs itself may have induced defaults. Suppose that clients fail to anticipate the transaction cost $c$, or the fact that their attention constraint is binding (e.g. Ericson (2011)). By itself, this can explain default even with time-consistent preferences, as an agent may decide to give up on the savings contract if $c > D$ (she may still decide to save at home by herself). However, a time-consistent agent is unlikely to tie herself up in a costly commitment in the first place.

Analogue to income optimism, a combination of sophisticated time-inconsistency and naiveté about transaction costs or attention could explain both commitment adoption and default: Restricting the model in Section 2 to full sophistication, the penalty $D_{min}$ is chosen to make period 1’s incentive constraint (equation 4) hold with equality. A small unforeseen cost $c$ thus suffices to violate incentive compatibility, and trigger contract default. If people are truly naive about transaction costs, a proxy for transaction costs should predict default. Empirically, ‘distance to the bank branch’ does not predict default (measured using GPS coordinates, see Table A7). As with income optimism,

---

46Strictly, $c$ differs from higher $p$ in the case of a shock in period 2: Savings $p - 1$ can still be consumed, while $c$ is lost.
explanations based on full sophistication (counterfactually) predict a positive association between sophistication measures and commitment adoption, and no association between sophistication and default.

6.5. Household Conflicts

As discussed in Section 5.4, a desire to safeguard savings from other household members is the leading alternative hypothesis in explaining a demand for commitment savings devices. The installment-savings account did not explicitly restrict withdrawals, but it imposed a cost on them: Individuals could choose to terminate their account and withdraw their savings (less the default penalty) at any time. Arguably, the withdrawal-restriction account was more suitable as a pure safeguarding device. Consistent with this conjecture, measures of ‘other-control problems’ predict WR take-up but not IS take-up (Table 4). Furthermore, if safeguarding is the driving motive for commitment, the treatment effect on bank savings is likely to be larger under WR than under IS, due to the account’s stronger withdrawal restrictions. The opposite holds true in the data (Table 3).

Independent of safeguarding motives, household conflicts may be responsible for the observed defaults: Other household members may not agree with the weekly extraction of household resources. Indeed, Section 5.4 shows that defaults are higher among those with low household bargaining power (defined in Appendix VI). As previously argued for other default risks, the anticipation of household conflict should determine selection into commitment. It may also predict a higher optimal default penalty, which can be used to justify the need to honour the commitment to one’s family. Neither relationship finds empirical support: There is no correlation of household bargaining power with IS take-up (Table 4), and a near-zero correlation with the penalty choice ($\rho = -0.056$). While household conflicts may have caused some of the defaults, the data suggests that these conflicts were unexpected.

6.6. Marketer Persuasion

The bank marketers received a fixed daily wage (roughly three times the local average) in addition to a small commission. This raises the possibility of persuasion by the marketers - which may explain both commitment take-up and subsequent default. While persuasion cannot be ruled out, three factors worked to contain it: First, marketers were employed and trained exclusively by the research team. A script detailed every aspect of the conversation with a client, and auditors ensured that this script was followed. Strong emphasis was placed on clear explanations of the product features, and clients were encouraged to make sensible, conservative savings plans which were suitable for their income and usual expenditures. Second, opening an IS or WR account was a two-step process: After signing the contract, individuals had a one-week ‘cool-down’ period before the marketer returned to collect the opening balance. Those who signed the contract but failed to deposit the opening balance (see footnote 19) are considered non-adopters, thus filtering those most likely to have been momentarily swayed. Third, IS take-up is positively predicted by cognitive ability (measured using Raven’s matrices, see Table A7 and Figure A11). This is reassuring: The IS product is more complex than traditional savings accounts (though not more complex than a loan contract). A plausible interpretation for a positive relationship with cognitive ability is that those who struggled to understand the rules of an unfamiliar product were more likely to stay away. If clients were manipulated and misled into a product they do not understand, the opposite would be expected.

47 With permission from the bank, our marketers wore official bank uniforms and IDs. To ensure that participants did not know this was an experiment, the marketers did not reveal any connection to the research organization.
7. Discussion

Commitment devices are receiving substantial attention both in the academic literature and in the public eye, and are generally portrayed as a promising way to overcome intrapersonal conflict. This paper argues that people may fail at choosing commitment contracts which are suitable for their preferences, with potentially negative consequences for welfare. In the context of an installment-savings commitment product in the Philippines, I show that positive average effects of commitment may hide substantial heterogeneity. A majority of commitment adopters choose low stakes for their commitment, and then default on it. Both take-up and default decisions are negatively linked to measures of sophistication about time-inconsistency, suggesting that individuals may underestimate the amount of commitment required to make them save. Potential alternative mechanisms include other types of forecast errors (about future income, attention constraints, or household conflicts) in combination with sophisticated time-inconsistency. In all cases, choosing unsuitable commitment devices may lead to welfare losses – in the current setting, many clients incurred monetary penalties without building up any savings. This mechanism potentially extends to rich country applications such as pension savings plans, diet clubs, and gym contracts.

From a policy perspective, there is no simple solution. One could offer commitment contracts exclusively with high penalties to ensure incentive-compatibility. However, this would deter commitment adoption – both by individuals who need higher penalties but fail to realize it, and by individuals who genuinely require only small penalties. Alternatively, one could legally mandate commitment savings, as prominently done in state pension schemes in Germany and Australia. In most contexts, this is unlikely to be optimal, as it requires the social planner to have a large amount of information on individual preferences.48

The arguments in this paper focus on commitment contracts which impose penalties on binary consumption decisions. Other forms of commitment exist, with potentially different welfare implications. First, it may be possible to condition penalties on continuous events. For instance, choosing a social network full of health-conscious friends may expose an agent to increasing amounts of shame (or unsolicited health advice) the more weight she gains, or the more cigarettes she smokes. When penalties depend on continuous events, partial sophisticates would still choose commitments with insufficient rates of punishment. However, the marginal nature of the involved trade-offs imply that she would move closer to the optimal behaviour, and likely be better off than without commitment.

Second, some commitments work entirely without penalties, by directly eliminating undesirable options from the agent’s choice menu. An example is the date-based withdrawal-restriction account featured in this study: Early withdrawals were simply disallowed. All savings were returned on the goal date, regardless of how much the agent had saved.49 At first sight, such commitments appear like a safe choice for partial sophisticates. Three qualifications are necessary: First, it can be hard to actually eliminate a bad option from the choice set, as opposed to just increasing its cost. Heidhues and Kősze 

---

48Different forecast errors imply slightly different policy implications. For a combination of income optimism and full sophistication (Section 6.3), one could enforce maximum permissible installment sizes, relative to past income. In either case, the planner needs to do better at forecasting than the individual in order to restrict which commitment contracts an individual is permitted to adopt.

49In contrast, amount-based WR accounts imposed a penalty on failing to save by freezing savings indefinitely.
withdrawals, but it imposed no pressure to make any savings deposits after opening the account – indeed, 79 percent of clients did not. Third, eliminating an option altogether may be undesirable in the presence of uncertainty.

The comparison between the installment-savings product and the withdrawal-restriction product may point to a more general trade-off between hard and soft commitments: Offering stronger commitments with more pressure may provide greater benefits on average – as observed by a threefold treatment effect of the IS product on bank savings. However, stronger commitments may imply an increased risk of adverse welfare effects. Softer commitments may be limited in both their risks and their efficacy. Further research is needed to identify ways of overcoming time-inconsistency, which are both effective and at the same time ‘safe’ for partially sophisticated time-inconsistent agents.

References


