

Reducing Bank Overdraft Usage through Price Discounts and SMS Reminders

"Turkey's banking sector is well developed and innovative, with the highest percent of mobile banking users in Europe among internet users in 2013. However, because add-on charges for financial products, such as overdraft fees, can be complex and misleading, consumers may not fully understand the cost of using these additional services and may overuse them as a result. Researchers conducted a randomized evaluation to measure the impact of informational reminders and price discounts on bank clients' overdraft usage in Turkey. Researchers partnered with Yapi Kredi (YK), one of the five largest banks in Turkey's retail banking sector." (J-PAL).

Quick facts

Barriers addressed



Consumer Protection

Non-transparent product information



Entry & Capability

Low digital financial capability

High cost of using DFS (incl. transaction cost)

Segment focus

1 2 3 4

Customer Journey Relevance



Geography

Turkey

Key stakeholders involved

108,000 bank clients
Yapi Kredi (YK)

Sources

[J-PAL](#); [Alan et al., 2017](#).

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Key activities

“Researchers randomly assigned half of the 108,000 existing checking account holders with overdraft services to receive a reminder about the availability of overdraft service, but not the cost. Then, researchers sent each person in the sample one of six randomly selected messages

- Overdraft availability reminder only: This message reminded customers that their account had overdraft services but provided no additional information on the cost.
- Overdraft Interest Discount only: This message offered a 50% discount on all overdraft fees.
- Automatic-Bill Pay Discount only: This message offered extra rewards points for authorizing automatic bill payments from their accounts. Customers could redeem reward points when making purchases with the account’s debit card.
- Debit Card Discount only: This message offered extra rewards points for using their debit cards.

- Overdraft Interest Discount with Automatic-Bill Pay Discount: This message offered the same discount on overdraft fees and extra rewards points for automatic bill payments.
- Overdraft Interest Discount with Debit Card Discount: This message offered the same discount on overdraft fees and extra rewards points for using their debit cards.

Researchers also tested if the frequency or duration of the messages impacted client’s usage of YK’s products and services. While all participants received one message in September, afterwards, researchers randomly selected how often participants received additional SMS messages, either more frequently (every ten days), less frequently (every twenty days), or not at all during the evaluation. The messages also lasted longer for some randomly selected individuals, ending in November for some and in December for the others.” (J-PAL).

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Outcomes/results

- “Messages promoting the overdraft discount reduced overdraft usage, especially when combined with other discounts on debit cards and automatic-bill payments, because it reminded consumers of the price of overdraft services. In contrast, consumers increased overdraft usage when they received messages only on the availability of overdraft services.
- Customers who received the messages with an overdraft discount were 1.2% less likely to have used overdraft services relative to those who received messages on the availability of overdraft.
- More frequent messages reinforced the messages’ impacts on consumer choices: For both the overdraft availability and discount messages, there was no impact on clients who received just one message, thus repeated messages drove the impact on consumer’s overdraft usage.” (J-PAL)

Key enabling environment factors for the intervention

Turkey’s banking sector is well developed and innovative. “91% of Turkish adults have a cell phone, for one of the highest penetration rates in the world, and Turkey has the highest rate of mobile banking in Europe among internet users, at around 50%, according to a 2013 ING survey.” (Alan et al., 2017). Turkish banks also use SMS-based promotions frequently, signifying that the concept of SMS reminders is not nascent or unusual for this population.

Key design elements and principles that led to successful outcomes

- The program design leveraged SMS reminders, which were already popular for banks in Turkey. Thus, customers did not have to be introduced to this design element.
- The program incorporated varying frequencies of SMS reminders to test the impact of having repeated information campaigns.
- For the evaluation, “the bank selected participants who were almost likely to overdraft but had not used the service in the prior three months.” (J-PAL).

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Potential for scale/replicability

If the program were to be replicated, the market would have to have a relatively high mobile phone penetration rate, as well as a banking sector that has used SMS text messages to deliver information in the past. As seen in Turkey's example, the customers' existing familiarity with bank messages was crucial for this intervention to be successful.

Challenges encountered during the program

"There was no evidence of long-term effects of the messaging campaigns; none of the changes in consumer behavior lasted beyond two months past the evaluation. The lack of long-term effects suggests that advertising or information campaigns must continue over time in order to be effective." (J-PAL).

Recommendations from the research

Since the consumer behavior did not continue beyond two months past the evaluation, the research team suggests having sustaining and long-lasting information campaigns. FSPs looking to implement SMS reminders about pricing and products should consider implementing longer-term information campaigns to see if changes in consumer behavior last over time.