





## CHALLENGE

Unexpected events can affect the livelihood of a self-employed worker or worker in the informal sector. Informal workers, who represent 72.6% of all workers in Peru, usually manage their income and expenses in short periods, such as days or weeks. In these cases, saving systematically, even for short-term needs, is extremely difficult, and saving for retirement is often not even an option. However, this group of workers is more vulnerable, since they are not contributing to a pension for their future. Therefore, it is key that, despite the high variability of their income, these workers begin to save for their future as soon as possible.

At the same time, Latin America has recently experienced a growing impact of the digital world in different areas of the economy and society, driven by an increase in connectivity and technological innovation. With these changes, digital

platforms that connect consumers with independent workers in the on-demand platform economy, such as Glovo, Cabify or Task Rabbit, enjoy great popularity among users.

The digital economy offers something innovative to informal workers: a simple and inexpensive way to generate savings. Since their income comes through a platform, they can save a portion of that income through the platform, which is similar to what happens with formal workers, who automatically save part of their payroll income. The goal of this intervention is for drivers to start saving little by little, with a short-term focus. Thus, they will be able to incorporate the idea of saving into their plans and start saving not only in the present, but also in the medium and long term.

## INTERVENTION DESIGN

There is evidence that planning, using technology, automatic debits, and adapting products to meet the needs of different types of workers, are effective in promoting medium and long-term savings. Among the most famous is the success of the Save More Tomorrow (SMarT) plan, which seeks to increase workers' retirement funds by saving "extra" or "additional" income, in order to minimize the feeling of loss in the present (Thaler and Bernartzi, 2004).

Based on these lessons, two savings plans were designed that were offered to drivers through the Cabify mobile application:

- **Emergency Savings Plan:** Through this plan, drivers would be able to save 2% of their weekly income to cover emergencies. This plan is labeled for emergencies, since the literature has shown that labels help individuals maintain their savings when they have a purpose.
- **Flexible and Smart Savings Plan:** This plan offers the driver the option to save 3% of their weekly earnings each time they exceed a specific threshold chosen by the driver. The driver would be able to choose between one of the following earnings thresholds: USD 30, USD 75, and USD 150. If the driver has a "good week", that is, if their earnings exceed the chosen limit, the driver will automatically save. Otherwise, they would not.

In both cases, the savings product was a BCP Digital Account, which does not charge a commission, does not require a minimum balance, allows small deposits, and provides availability of funds to drivers with no restrictions. The purpose of this account is to help drivers label these funds as savings by putting it in a separate account to help them resist the temptation to use these resources to pay for their everyday expenses.

The savings plans were randomly assigned to a total of 3,348 drivers who were independent workers, under the age of 70, and who had actively used the Cabify platform for at least 3 months. Half of the drivers were invited to save with the Flexible and Smart Savings Plan through a push message in the Cabify application. The other half were invited to save in the Emergency Savings Plan using the same push message mechanism. Enrollment in savings plans was open for 8 weeks, and 15 messages were sent to drivers, reminding them of the opportunity to save, and that upon registering they would receive a bonus of USD 10. The push message with the invitation to save contained a link to a web page with information about the savings product and a short online form that the driver had to fill out to sign up for the savings plan. In other words, enrollment consisted of a fully digital process, which freed drivers from a bureaucratic process and from having to visit a bank branch.

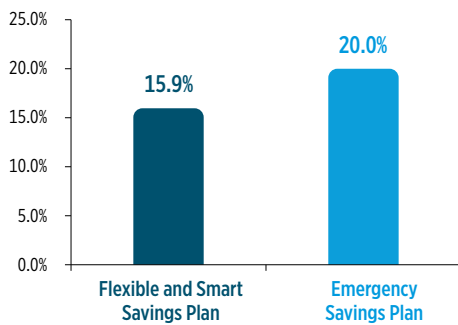


## IMPACT

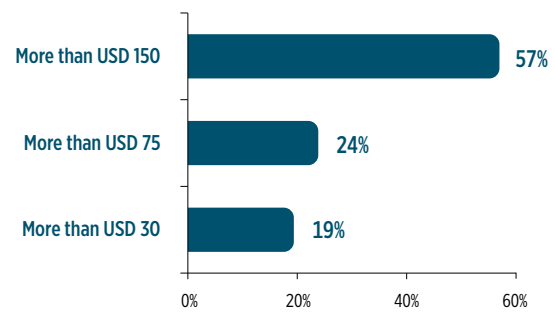
After 8 weeks of sending the invitation to save, 18% of drivers who received the invitation and were eligible to participate in the savings plan enrolled. The simplest plan turned out to be the most attractive, the enrollment (take-up) in the Emergency Savings Plan was 20%, while the Flexible and Smart Savings Plan was 15.9%. One possible explanation

is that the Flexible and Smart Savings Plan is a bit more complex and includes one more decision: choosing at which income threshold drivers wish to begin saving. Among drivers who enrolled in the Flexible and Smart Savings Plan, the majority (57%) chose the threshold of USD 150, that is, they set a higher income goal, before considering saving.

**GRAPH 1. DRIVERS REGISTERED BY SAVINGS PLAN (% OF TOTAL)**



**GRAPH 2. DRIVERS REGISTERED BY RANGE IN THE FLEXIBLE AND SMART PLAN (% OF TOTAL)**

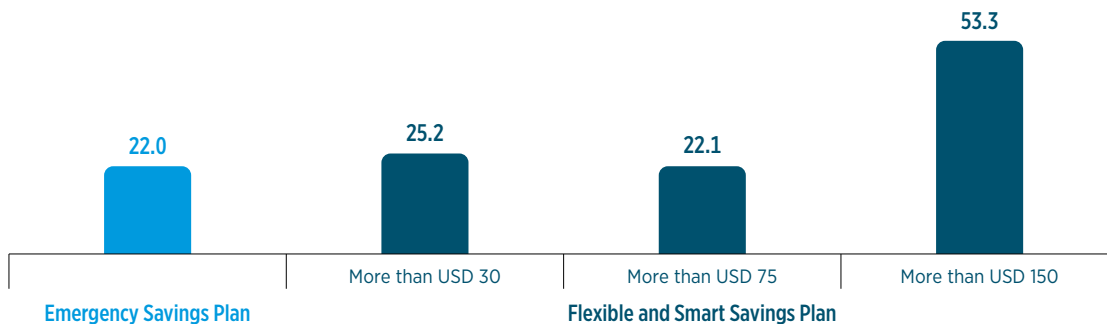


Source: Authors' elaboration.

In line with what the international evidence shows, the automatic debit is sticky, since the opt-out rate to the savings scheme is only 3.3%. In other words, after four months, only 10 of the drivers asked to leave the savings plan. However, an additional 40 drivers who had signed up for a savings plan could not continue because they changed the way they worked with the platform. Either they stopped using it, or their administrative records did not allow the savings account to be opened.

A challenge for generating savings is the nature of independent work. After four months of being enrolled in a savings plan, only 70% (213 drivers) had saved at least once. This is because saving required them to work using the Cabify platform and, since it is, by definition, a flexible and independent job, some drivers use it sporadically to supplement their income.

**GRAPH 3. ACCUMULATED AVERAGE CONTRIBUTION IN DOLLARS BY SAVINGS PLAN AND THRESHOLD. DATA FROM NOVEMBER 2019 TO MARCH 2020.**



Source: Authors' elaboration using Cabify administrative data.

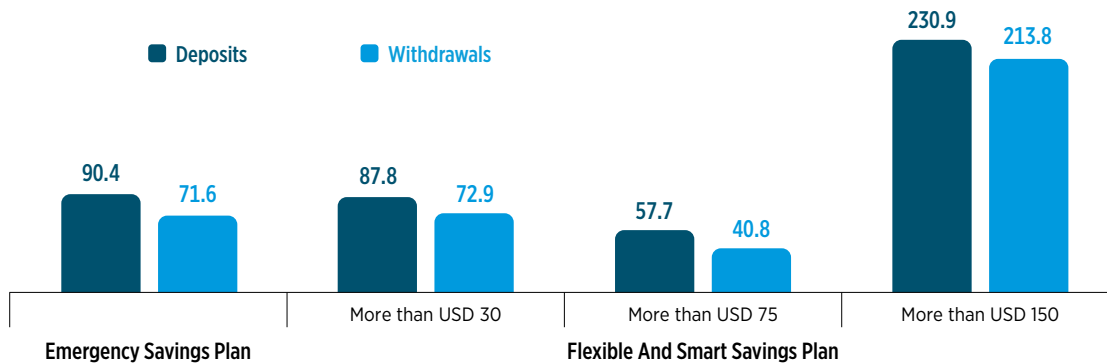


After four months, the average savings generated by drivers on the platform was USD 29. The Emergency Savings Plan generates a higher density of savings, but the Flexible and Smart Savings Plan generates a greater amount of average savings. Drivers participating in the Emergency Savings Plan saved approximately 12 weeks out of a total of 20, while those in the Flexible and Smart Savings Plan saved 8 weeks. Among those drivers that saved at least once, the vast majority signed up for the Emergency Savings Plan (70%), which does not require a minimum threshold of earnings. However, those in the Flexible and Smart Savings Plan contributed a total of USD 25.2, USD 22.1 and

USD 53.3, for thresholds of USD 30, USD 75 and USD 150 respectively, higher amounts than the accumulated average contribution of the Emergency Savings Plan.

Since the BCP Digital Account does not have liquidity restrictions, an additional point of analysis is to understand how drivers use this additional account. Surprisingly, drivers deposited, on average, 260% more money into their account than they had saved with Cabify. Likewise, they withdrew, on average, 81% of the resources saved, leaving an average total net saving of USD 17.

**GRAPH 4. AVERAGE ACCUMULATED DEPOSITS AND WITHDRAWALS IN DOLLARS BY SAVINGS PLAN AND THRESHOLD. DATA FROM JANUARY 2020.**



Source: Authors' elaboration with bank account data.

## LESSONS FOR PUBLIC POLICY

Solutions that significantly increase voluntary savings are based on automatically setting aside a proportion of income towards a savings program (mimicking what compulsory savings systems do). Although it is not easy to implement for independent workers, this project shows that technology increasingly provides us with more avenues to do so. This intervention shows that a great opportunity to reach

independent workers is through digital on-demand work platforms. In Peru, through the Cabify application, we invited drivers to voluntarily save part of their income, with 18% signing up for an automatic savings debit. However, how to implement these types of tools for the entire low-income population remains a major challenge.