



# U.S. consumer demand for prize-linked savings: New evidence on a new product

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## ABSTRACT

We report on the potential American demand for prize-linked savings, a savings account that also awards prizes. Our survey data suggests significant interest among individuals with little actual savings, without regular saving habits, who play lotteries extensively, and are optimistic.

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## 1. Introduction

Prize-linked savings (PLS) products offer savers a return in the form of the chance to earn prizes (cash or goods) in combination with or instead of traditional interest income. The probability of winning prizes is determined by account balances or new deposits, and the aggregate prize pool can be set to deliver market returns to all savers. The odds of winning vary based on the program's economics and prize structure; however, the product guarantees no principal loss.

PLS products have existed since 1694 (Murphy 2005) and are currently offered in numerous countries—including the U.K., Sweden, and many Latin American and Middle Eastern countries. They are not available in the United States, where state laws and federal regulations make their issuance problematic. The US demand for lotteries suggests that interest in a savings vehicle offering chances to win a high payout prize could be substantial.

Despite their long history, PLS are relatively unstudied. Guillen and Tschöegl (2002) survey programs around the world, and report that in Latin America, PLS products appeal to low-income and unbanked individuals. Tufano (2008) looked closely at UK premium bonds. In South Africa, the Million-a-Month Account offered by First National Bank generated 750,000 accounts and raised over 1.2 billion Rand in

two years time (Cole et al. 2007). Kearney et al. (2010) review this and other evidence.

While PLS products are popular internationally, their appeal to US consumers is unclear. If there is latent demand, however, which consumers would be most attracted to PLS? This note provides evidence of likely demand by using market survey techniques.

## 2. Data

In 2007, Indiana-based Centra Credit Union launched “Super Savings”, the first prize-linked savings product in America. A pilot and associated survey were launched in Clarksville, Indiana at a branch inside a Wal-Mart. The survey was conducted by Centra in conjunction with a non-profit partner, D2D Fund.<sup>1</sup>

In total, 547 Wal-Mart customers provided demographic information and answered the question:

Would you be interested in a savings account that awarded chances to win prizes based on the amount of money you save? The account would also have no fees, no minimum balance, and still earn interest.

About 58% of the participants expressed a positive interest in PLS accounts, 26% were not interested, and 16% answered “I don't know.”

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<sup>1</sup> <http://www.d2dfund.org/>.

The PLS concept appealed to a majority of the surveyed Wal-Mart customers in Clarksville, but this finding is subject to two caveats. First, this population is not nationally representative but slightly skewed to low-income families.<sup>2</sup> Second, the survey reflects indications of interest, not executed transactions. A primary goal of our survey was to determine which customers would be most attracted to the product, which we analyze below.

### 3. Multivariate analysis

Table 1 reports a multivariate logistic regression of stated interest in PLS using explanatory variables that reflect demographic and socio-economic characteristics.

The PLS product appeals to non-savers. Non-savers are defined here as individuals without regular savings plans (who do not save or merely save if they have unspent money that month). As compared to savers (they save the income of one family member, put money aside regularly each month, etc.), a non-saver is 70% more likely to show interest in PLS.

Interest in a PLS account is also related to the level of savings, though non-monotonically, with PLS appealing most to people with almost no savings. As compared to participants having \$50,000 or more, participants whose financial assets range between \$1 and \$2000 show 2.5 times greater interest.

A third predictive factor is lottery and gambling activity. Participants that spent \$100 or more over the past 6 months on such activity had interest levels 2.9 times higher than those that had spent less than \$100. An important question for future research is whether this interest in PLS would add to or substitute for demand for lottery play.

Finally, optimistic participants are 2.1 times more likely to show interest than those who foresee no change in their income over the coming five years.

A number of variables are not significant, notwithstanding theoretical conjectures or conventional wisdom that they could be important. These include the stated financial-risk profile and the self-assessed relative earnings. Furthermore, access to financial services, financial literacy, gender, employment status, household size, and education were not significantly related with interest in the PLS product after controlling for other factors.

### 4. Discussion

Both neoclassical and behavioral economics may explain the interest in this product. Even before appealing to behavioral considerations, consumers might have a preference for skewness in returns: given equal expected returns they might prefer a small chance of a large gain to a large chance at a small gain. This preference mirrors the results revealed by a survey of the Consumer Federation of America, which found that “more than one-fifth of Americans (21%) – 38% of those with incomes below \$25,000 – think that winning the lottery represents the most practical way for them to accumulate several hundred thousand dollars.”<sup>3</sup>

The “no lose” aspect of the product (compared to lotteries) may appeal to people – including lottery players – who are “loss averse.” However, unlike other products that guarantee no principal loss (such as bank deposits, CDs, and bonds), PLS products leverage the behavioral phenomena that investors may avoid large gambles, but will take on small ones, in this case, some forgone interest on their invested funds. The consumer interest in PLS products may also reflect that people often misestimate the likelihood of low-probability events

**Table 1**  
Results from the PLS survey in Clarksville, IN.

	Multivariate logistic Odds ratio	Descriptive statistics		
		Interested	Not interested	Don't know
		58%	26%	16%
<i>Saving habits</i>				
Non-saver	1.687**	65%	21%	14%
Saver	Base case	48%	33%	19%
<i>Financial assets</i>				
\$0	1.523	58%	29%	13%
\$1–\$2,000	2.456**	73%	15%	13%
\$2,001–\$5,000	1.561	61%	28%	11%
\$5,001–\$10,000	1.258	56%	26%	19%
\$10,001–\$20,000	1.341	54%	20%	25%
\$20,001–\$40,000	2.409**	66%	20%	14%
>\$40,000	B.c.	38%	41%	20%
<i>Relative earnings</i>				
Substantially more	0.672	48%	39%	13%
Little more	0.848	58%	25%	17%
About same	0.871	59%	26%	15%
Little less	0.829	56%	24%	19%
Substantially less	B.c.	62%	24%	14%
<i>Future income expectations</i>				
Improve	2.108***	65%	20%	15%
About same	B.c.	41%	40%	19%
Worse	0.641	33%	44%	22%
<i>Lottery spending</i>				
>\$100 past 6 months	2.893***	75%	15%	10%
<\$100 past 6 months	B.c.	56%	27%	17%
<i>Risk profile</i>				
High	1.741	72%	24%	4%
Above average	1.232	61%	27%	12%
Average	1.266	59%	24%	18%
No	B.c.	54%	28%	17%
<i>Financial services</i>				
Banked <sup>a</sup>	0.832	58%	26%	17%
Unbanked	B.c.	62%	25%	13%
<i>Financial literacy<sup>b</sup></i>				
More	B.c.	56%	28%	16%
Less	1.141	59%	24%	16%
<i>Age</i>				
18–24	B.c.	74%	14%	12%
25–34	0.548	59%	23%	18%
35–44	0.931	68%	16%	17%
45–54	0.635	58%	25%	17%
55–64	0.440*	42%	43%	15%
65+	0.445	37%	47%	16%
<i>Gender</i>				
Male	0.896	62%	26%	13%
Female	B.c.	56%	26%	18%
<i>Employment</i>				
Full-time	1.126	63%	20%	17%
Part-time	1.294	63%	30%	7%
Student	B.c.	38%	23%	38%
Retired	B.c.	44%	41%	15%
Work in the home	B.c.	50%	33%	17%
Unemployed	B.c.	57%	28%	15%
<i>Marital status</i>				
Married	B.c.	51%	30%	18%
Living with a partner	B.c.	68%	15%	17%
Widowed	1.066	50%	39%	11%
Divorced	1.096	58%	28%	14%
Separated	2.400	74%	9%	17%
Never married	1.099	68%	19%	12%

(continued on next page)

<sup>2</sup> Clarksville has a median household income of \$41,719, as compared to the national median of \$48,200.

<sup>3</sup> <http://www.americasaves.org/downloads/www.americasaves.org/01.09.2006.pdf>.

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