



# Banking the poor via savings accounts: Evidence from a field experiment<sup>☆</sup>

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## ABSTRACT

In a setting with low penetration of bank accounts, I randomly gave access to bank accounts with zero fees at local bank-branches to a large sample of female household heads in Nepal. The zero fees and physical proximity of the bank led to high take-up and usage rates compared to similar studies in other settings. However, impact on income, aggregate expenditures, and assets are too imprecisely estimated to draw a conclusion. I do find reallocation of expenditures across categories (e.g. more spending on education and meat and fish, and less on health and dowries), and higher ability to cope with shocks. On qualitative outcomes, I find households report that their overall financial situation has improved. The lack of a clear story on mechanisms, yet strong result on aggregate self-perception of financial wellbeing, is consistent with access to quality savings accounts leading to household improvements via multiple mechanisms.

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## 1. Introduction

Saving promotes asset accumulation, helping to create a buffer against shocks and to relax credit constraints, thus it may provide an important pathway out of poverty. Although increasing evidence shows that the poor are willing and able to save, they do so largely through informal mechanisms, such as storing cash at home, joining savings clubs, and buying livestock and durable goods, which are illiquid and riskier than bank accounts (Collins et al., 2009; Dupas and Robinson, 2013b; Karlan and Morduch, 2010; Rutherford, 2000). Unfortunately, the majority of the world's poor generally lack access to formal savings accounts or banking services of any kind (Demirguc-Kunt and Klapper, 2012).

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This study examines the impact of offering a savings account with minimum transaction costs, i.e. zero fees and high proximity to a bank-branch. Would poor households open and use such a savings account if given access to one? Would this access help them to save, accumulating small sums into large sums? Would there be any asset accumulation or welfare effects?

I address these questions via a randomized field experiment that considers a large and diverse sample of households. Access to a simple bank account—with no opening, maintenance or withdrawal fees—was randomly offered to a sample of 1118 female household heads in 19 slums in Nepal.<sup>1</sup> The account that was offered operates through local bank-branches. Through this experiment, I assess the causal impact of access to the bank account on household saving behavior, asset accumulation, expenditures, and income. I use two data sources: detailed household surveys at baseline and a year after the start of the intervention, and bank administrative data.

My results show, first, that there is untapped demand for savings accounts without opening, maintenance, or withdrawal fees, and proximity to local bank-branches: 84% of the households that were offered the account opened one. Second, the poor do save: 80% of the households that were offered the account used it frequently, making deposits of about 8% of their weekly income 0.8 times per week. Households

<sup>1</sup> Female household head is defined here as the female member taking care of the household. Based on this definition, 99% of the households living in the 19 slums were surveyed.

slowly accumulated small sums into large sums that they occasionally withdrew.

Despite the high take-up and usage rates, the impact on monetary assets and total assets for treatment households compared to control households, a year after the savings accounts were offered, is too imprecisely estimated to draw a conclusion. Likewise, the aggregate expenditures measure is too noisy to detect a statistically significant impact. Nevertheless, the treatment had a positive and statistically significant effect on households' expenditures on education, meat and fish consumption, and festivals and ceremonies, and a negative effect on other items. Thus, it appears that treatment households might have re-allocated their expenditures across items. Such explanation would be consistent with the account holders' withdrawal reasons (from the bank administrative data), as well as with the reasons treatment households reported they save in the account. Finally, financial access appears to have somewhat improved the household's self-reported financial situation.

Overall, my findings show that, if given access to a basic savings account with minimum transaction costs, poor households do use it with high frequency. While I cannot find a statistically significant effects on assets, access to a savings account seems to help poor households to manage their resources better, changing their expenditures across categories, although not in aggregate levels, and to report that their overall financial situation has improved.

This study contributes to a better understanding of the characteristics that poor households may value in a formal savings account and that may help explain take-up and usage. The take-up and, especially, usage rates of the savings account offered in this study are much higher than the ones found in other studies. A comparison of the account features of the savings account considered in this study with those offered in other interventions suggests that poor households appear to value a savings product that is associated with low transaction costs in the form of proximity to a local bank-branch and no fees, and that is offered by a trusted banking institution. Distance from a bank-branch has been proposed as a reason for low usage of a savings account (Brune et al., 2014). Also, as suggested by anecdotal and survey evidence from Banerjee and Duflo (2011) and Dupas et al. (forthcoming), high fees may discourage usage. Furthermore, lack of trust in the banking institutions was reported as one of the main reasons people did not begin saving in their account by Dupas et al. (forthcoming). Hence, consistent with Karlan et al. (2014), decreasing transaction costs and improving trust in banking institutions increase the effective usage of formal savings products by the poor.

Another relevant result of this study is to show that, despite the lack of target-based commitments, households are able to accumulate small sums into large sums that are invested in targeted expenditure categories, such as education and food consumption. An account without an explicit commitment might have advantages and disadvantages for the poor. On the one hand, poor households might value such a savings account as they can dip into their savings to address a shock, while permitting them to safely store their money in good times. On the other hand, liquidity might be an obstacle for accumulating savings. While few randomized experiments have shown that commitment savings products help current or former bank clients and cash crop farmers to save for a specific purpose, exercising their self-control early on (Ashraf et al., 2006b; Brune et al., 2014), this study shows that poor households are able to save even with savings accounts without explicit commitments.

My paper contributes to the rapidly growing literature studying the impact of providing access to ordinary savings accounts,<sup>2</sup> as well as commitment savings accounts,<sup>3</sup> to different samples of individuals and households on a variety of outcomes.

<sup>2</sup> e.g., Ashraf et al. (2006a), Brune et al. (2014), Cole et al. (2011), Dupas et al. (forthcoming), Dupas and Robinson (2013a), Kast and Pomeranz (2014), McConnell (2012); and Schaner (2013).

<sup>3</sup> e.g., Ashraf et al. (2006b), Brune et al. (2014), Karlan and Linden (2014), Karlan et al. (2012), Karlan and Zinman (2013); and Kast and Pomeranz 2014.

This study is also linked to the non-experimental literature that shows that providing access to financial services to the poor appears to increase income and reduce poverty (Aportela, 1999; Bruhn and Love, 2009; Burgess and Pande, 2005).

The following section describes the field experiment, the savings account, and the data. Section 3 shows and discusses the results in terms of take-up and usage. Section 4 measures the impact of access to the savings account on assets, liabilities, and net worth. Section 5 estimates the effects on household welfare, focusing on expenditures and perceived financial situation. Finally, Section 6 concludes.

## 2. Background and experimental design

The field experiment took place in 19 slums in the area surrounding Pokhara, Nepal's second largest city. Some of these slums are right at the outskirts of the city, whereas others are farther out in semi-rural and rural areas. This variation allowed me to have a large and diverse sample of households.

### 2.1. Savings institutions in Nepal

Formal financial access in Nepal is very limited: 26% of Nepalese households have a bank account, according to the nationally representative "Access to Financial Services Survey," conducted in 2006 by the World Bank (Ferrari et al., 2007). Access is concentrated in urban areas and among the wealthy. Thus, most households typically save via microfinance institutions, savings and credit cooperatives, and Rotating Savings and Credit Associations (ROSCAs).<sup>4</sup> Also, households commonly have cash at home and save in the form of durable goods and livestock.

The main reasons reported in the nationally representative survey for not having a bank account are transaction costs, especially distance from banking institutions, and complicated deposit and withdrawal procedures. In addition, among those households that reported having a bank account, usage is low: 54% of these households report going to the bank less than once a month.<sup>5</sup> Furthermore, having a bank account does not necessarily mean that savings are deposited there. Only 37% of the households that had an account and had savings in the previous year declared that they had deposited money in the account. Moreover, banks typically charge high opening, withdrawal, and maintenance fees and require a minimum balance.<sup>6</sup>

In the sample considered in this study, prior to the intervention, only 17% of the households have a bank account, 35% less than in the national sample. This is consistent with the fact that banks in Nepal tend to serve urban areas and the wealthy (Ferrari et al., 2007). In fact, in the sample considered in this study, only some of the slums are in urban areas and the average household earns \$3 a day and has an average size of 4–5 people. In line with the figures reported in the nationally representative survey, 18% of the sample were members of a ROSCA, and 54% belonged to a microfinance institution or savings cooperative at baseline.

Similarly to the nationally representative sample, distance from banking institutions helps to explain why households are unbanked. Indeed, there are no bank offices in the slums in which the sample population lives, and the vast majority of bank-branches are located in the

<sup>4</sup> A ROSCA is a savings group formed by individuals who decide to make regular cyclical contributions to a fund in order to build together a pool of money, which then rotates among group members, being given as a lump sum to one member in each cycle.

<sup>5</sup> Going to the bank is a very good proxy of account usage because online banking is almost non-existent in Nepal.

<sup>6</sup> Minimum balance requirements vary from bank to bank and depend on the savings account type. Among the ten Nepalese banks with most branches, the most common minimum balance requirement is Rs. 500, equivalent to about \$7, as Rs. 70 were approximately \$1, during the intervention period.

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