Banking the Poor Via Savings Accounts: Evidence from a Field Experiment in Nepal

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- Informal devices, however, are usually associated with liquidity and reliability issues and bear a higher risk than bank accounts.
- The majority of the world's poor generally lack access to formal banking services of any kind (Banerjee and Duflo, 2007).
  A consistent finding in household surveys in developing countries is that less than 20% of households has a bank account.

Prior Evidence on Access to Savings Accounts

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- Savings motives, needs, and interest in accessing the banking system may differ greatly among households.

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- I address these questions via a randomized field experiment that consider a large and diverse sample of households, including both micro-entrepreneurs and non-entrepreneurs.

Experimental Design

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    - Accounts are fully flexible and operate without any commitment to save.
    - Account holders freely deposit and withdraw during established business hours.
        - Twice a week for three hours in the local bank-branch office in the slum
        - Any day during regular business hours at the bank's main office, downtown

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- Endline survey (June 2011):
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- Administrative data on savings account's usage for an entire year:
  - Allow me to study account take-up, usage (deposits and withdrawals).

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- Untapped demand for savings products:
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- The poor do save:
  - High usage rate: average of 0.8 deposit a week
  - Average weekly amount deposited is 8% of weekly income
  - 4 withdrawals on average of the course of a year
  - Average withdrawal size is slightly more than a week of household income.

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    - High fees may indeed discourage usage (Banerjee and Duflo, 2011; Dupas, Green, Keats, and Robinson 2011).
  - Local bank-branch proximity
    - 99% of transactions took place in the slums (despite the limited hours)
    - Most valued account feature: ability to access the account any time 3hrs a day twice a week is a good approximation!

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  - Higher net worth and less likely to borrow money when hit by a shock
- Impacts are larger for those:
  - At the bottom and middle of the distribution
  - With no access to the financial system

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- Households make productivity-enhancing investments in health and education. Entrepreneurs report using their bank savings for microenterprise development
- Access to a savings account reduces income volatility (when hit by a shock)
- Households perceive to be better off financially.

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     - Stronger effect for the poorest and for those not linked to the financial system.
  2. The money saved in the account is available, but not available at arm's reach.
  3. Some kind of mental accounting and habit formation effects might be at work.
     - When the money is put in the account might be mentally allocated towards certain expenditures.
     - Local bank-branches are opened on pre-established days.