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Strategic Household Savings in Kenya

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**Timeline**
2009-2010

**Sample Size**
598 married couples

**Data Repository**
http://www.aeaweb.org/aej/app/data/0702/2013-0271_data.zip

**Research Implemented by IPA**
Yes

# Strategic Household Savings in Kenya

## Abstract

How important are differences of opinion within the household for making financial decisions? In this study, married couples in rural Kenya were given the opportunity to open joint and individual bank accounts at randomly assigned interest rates. Researchers assessed if couples with different preferences worked together to save in the highest return account, or if these differences led to poor financial choices. Results indicated when savings preferences in the household diverged, individuals were more likely to prefer individual accounts, and made less efficient financial decisions.

## Policy Issue

Despite their low incomes, individuals in developing countries save using a wide variety of informal savings devices like illiquid rotating savings and credit associations. Researchers have widely noted the popularity of these informal devices and an attendant puzzle: these devices are often risky, complex, and costly when compared to simple alternatives, such as storing savings at home. What then, makes these costly savings practices attractive? Anecdotally, many informal savers cite the need to protect savings from misappropriation by other members of the household, particularly spouses. How important is this need in determining individual savings choices? Does it become more important as individual preferences for how much to save diverge? And how much are individuals willing to sacrifice to gain additional control over household savings levels?

## Context of the Evaluation

While formal financial services in Kenya have traditionally been outside the reach of the poor, banks have recently begun to offer lower cost formal savings products marketed to a broader swathe of the population. This project was implemented in collaboration with Family Bank, a formal bank in Kenya that offers products suitable for lower income savers. Family Bank offers savers the option of both individual accounts, which can only be accessed by the account owner, and joint accounts. When spouses jointly own an account, either member can make deposits and withdrawals at will.

## Details of the Intervention

All married couples participating in the intervention were given the opportunity to open up to three accounts with Family Bank: an individual account for the husband, an individual account for the wife, and a joint account. Each account was randomly assigned a temporary 6-month interest rate, which ranged from zero percent (the norm for Family Bank accounts) to 10 percent. The interest rate intervention consequently created random variation in not just the absolute rate of return available to a couple, but also the relative rates of return between the three different accounts. This offered a simple way to measure efficient savings behavior: an efficient couple should always choose to save in the account with the highest rate of return.

In addition to the interest rate intervention, half of couples who opened at least one individual account were randomly selected for an information sharing treatment. The goal of this treatment was to test whether individual accounts were used to hide information from spouses. This treatment enabled the spouse of an individual account holder to retrieve information on the balance of the individual account at the bank (provided both the spouse and the account holder consented to the information sharing treatment).

Finally, all couples in the intervention were asked a series of questions at baseline to measure levels of patience and preferences over savings levels. These questions were used to construct a measure of preference heterogeneity in the household. Individuals were also asked about their own and their spouse's use of a variety of savings devices – this information was used to construct a measure of how well informed spouses were about one another's finances.

## Results and Policy Lessons

*Responses to Experimental Interest Rates*

All couples responded robustly to the experimental interest rates. However, those couples with badly aligned savings preferences (the "poorly matched") were more than twice as likely to save in individual accounts and 34 percent less likely to save in joint accounts. Furthermore, poorly matched couples were insensitive to relative rates of return between the three different accounts on offer. In contrast, those couples who were well matched on savings preferences responded robustly to relative rates of return. Consequently, poorly matched couples sacrificed at least 52 percent more potential interest rate earnings when compared to their well-matched peers.

*Responses to the Information Sharing Intervention*

Over 40 percent of couples selected for the information sharing intervention did not consent to it, which suggests that individual accounts are used to hide resources from spouses. Furthermore, those couples who were poorly informed about each other's finances at baseline were significantly less likely to consent. These poorly informed couples were also significantly more likely to save in individual accounts and marginally less likely to save in joint accounts. However, measures of intrahousehold information sharing and preference heterogeneity were uncorrelated with one another.

Overall, these results suggest that when savings preferences in the household diverge, individuals strategically exploit secure savings devices to control the overall level of household savings. However, even when preferences over how much to save are well aligned, individuals may still value secure accounts if these accounts allow them to hide savings from others.

*To learn more about this Simone Schaner's research, click* here.

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