STUDY SUMMARY

Motivating Take Up of Formal Savings

Policy Issue

Savings are crucial for managing irregular and unpredictable cash flows in order to meet daily needs, finance lumpy expenditures, and deal with emergencies. For poor households, informal tools like credit from moneylenders are often less efficient than savings mechanisms as they require high interest rates to finance predictable and recurring expenses. Evidence suggests that these households often have excess financial capital after covering subsistence expenses that could be used for savings. Access to and utilization of financial products that help the poor save funds for the future may have substantial welfare consequences.

The recognition of this need has led to the creation of greater financial access throughout the developing world. Banks, for instance, have increased their reach over the past decade in Sub-Saharan Africa, offering savings accounts with minimal fees and opening requirements. Take-up of formal savings accounts among the poor, however, remains low. Why do poor individuals fail to take advantage of the lower-risk, lower-cost vehicle for saving that bank accounts offer? This study evaluates the relative importance of individual beliefs, psychological factors, and transactional barriers to opening accounts.

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COUNTRY
Ghana

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PROGRAM AREA
Financial Inclusion

TOPICS
Financial Capability, Savings

TIMELINE
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Evaluation Context

Tamale, located in the Northern Region of Ghana, is the third largest city in the country. It has a quickly growing economy and has recently experienced a financial services boom: approximately three banks had opened new branches within the three-year period preceding this study. These banks have also made efforts to design accounts with minimal requirements and fees to be accessible to the poor. The take-up of these products among poorer demographics, however, has been low. During the study, Zenith Bank, which opened its branch in Tamale in 2009, offered savings accounts with no requirement for an opening balance and no fees. Innovations for Poverty Action conducted this study in collaboration with Zenith Bank to provide access to formal saving accounts to individuals who face specific expenditure opportunities that might otherwise be financed with credit. This study aims to determine which of several treatments is most effective in encouraging individuals to open a formal savings account.

Details of the Intervention

The sample in this study includes 1,831 market vendors who had businesses in the central market of Tamale. These vendors were mostly female and illiterate and owned businesses that sold a wide variety of products including rice, tailored clothing, household items, and produce. This demographic was ideal for the study because: (1) Market vendors earned a steady source of revenue from their businesses and thus had funds they could potentially save; (2) These vendors often relied on informal credit to finance major expenditures, such as school fees, business inventory, and rent; and (3) The market was close to several local banks, including Zenith Bank, the partner for this study.

A baseline survey was administered to the market vendors to collect data on businesses, common expenditures, savings and loan behavior, and financial attitudes. Afterward, representatives of Zenith Bank came to the market to offer savings accounts to those who had received the baseline survey. All savings accounts included weekly reminders to save via text message. Participants received three types of treatments randomly assigned before the account-offering:

- ***Framing Condition:*** Individuals were randomly assigned into one of three groups. Those in the *Comparison Group* received no treatment. Those in the *Information Group* were provided with specific information from previous studies about how much more individuals save when they receive reminders to save. Those in the *Emotion Group* were asked to tell a story that generates positive and hopeful emotional feelings.
- ***Cost Condition:*** Individuals were randomly assigned to one of two groups. Those in the *Zero Cost Group* were encouraged to open an account and could do so without ever visiting the bank. Those in the *Transaction Costs Group* were encouraged to open an account but had to visit the bank to do so.
- ***Savings Tools:*** Individuals were randomly assigned to one of three groups. Those in the *Comparison Group* received no tools with their account. Those in the *Financial Plan Group* received a customized simple savings plan to finance a specific expenditure.

The primary study outcomes were a) willingness to open a formal bank account with Zenith band and b) savings deposit behavior after opening accounts.

Results and Policy Lessons

The strongest treatment effect came from removing all transaction costs for opening a bank account. Individuals were more than ten times more likely to open an account when they could open accounts directly at their place of business. Convenience seems to be a primary motivating factor in decision-making about interacting with formal banking.

Specific information did not increase the likelihood of opening an account or making savings deposits. If anything, specific information about the benefits of saving with regular reminders decreased the willingness to open an account unless that information was highly positive. Emotional framing also had no statistically significant effect on account opening.

While many individuals opened accounts, relatively few individuals continued making deposits over a long-run horizon. Six months after the study the majority of account holders were not making regular deposits (no individuals in the high transaction cost group continued to make deposits while 2.5% of individuals who could open accounts in the field continued to make deposits). For this reason, we see no impact of specific savings tools on the level of savings.

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