

Transaction Costs, Bargaining Power, and Savings Account Use in Kenya



The transaction costs associated with opening, maintaining, and withdrawing funds may be a barrier to using formal savings accounts for low-income individuals. Couples in Western Kenya were offered the opportunity to open individual or joint bank accounts, and a subsample of accounts were randomly selected to come with a free ATM card. Results show that providing ATM cards significantly increased the use of savings accounts owned by men and joint accounts. In contrast, the lower costs did not increase use of accounts owned by women, suggesting that the ATM card, which increased account accessibility, also made accounts less attractive to women who used them to keep personal savings away from husbands with greater bargaining power.

Policy Issue

Transaction costs such as the fees for opening, maintaining, and using accounts may prevent the poor from adopting formal savings. Recent evidence on commitment savings, however, suggests that individuals may actually benefit from some transaction costs on savings accounts: Locking money away and making it costly to access may reduce both internal constraints—such as valuing present consumption over the future—and external constraints—such as pressure to share resources with other household and community members—to saving. These observations raise a number of unanswered questions about the savings behavior of the poor: Would making formal sector accounts cheaper and more convenient substantially increase use of these accounts? Would the use of the savings account vary by account type (individual versus joint) or identity of the account owner (husband or wife)? This project aimed to understand how the poor respond to reduced transaction costs on formal savings accounts.

Evaluation Context

ATM cards are widely used in the developed world. They reduce account transaction costs by facilitating withdrawals—they no longer need to occur while the bank is open—and are sometimes associated with reduced fees.

While formal financial services in Kenya have traditionally been outside the reach of the poor, around 2009 banks began 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. All study participants were offered Family Bank's



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PROGRAM AREAS

Financial Inclusion, Financial Services for the Poor

TOPICS

Product Design, Savings, Technology Adoption, Women & Girls

TIMELINE

2009-2013

Mwananchi account, which has no recurring or deposit fees and requires a relatively low minimum balance of US\$1.25. Withdrawal fees are US\$0.78 without an ATM card and US\$0.38 with an ATM card, but account holders must pay US\$3.75 to acquire a card.

Details of the Intervention

Researchers assessed the impact of providing ATM cards on savings account activity in Western Kenya. Seven hundred forty nine low-income married couples were given the opportunity to open up to three accounts with Family Bank of Kenya: a joint account, an individual account for the husband, and an individual account for the wife.

Altogether, these couples opened 1,114 accounts. One quarter of the opened accounts were randomly selected to receive a free ATM card. In addition, each account was randomly assigned a temporary 6-month interest rate, which ranged from zero percent to 20 percent in annual terms.

Researchers collected basic demographic information, as well as information on individual time inconsistency, decision making power in the household, income, and current use of a variety of savings devices in a baseline survey.

Three years later, researchers conducted a follow-up survey to (1) assess the longer run impacts of ATM cards, (2) determine whether the initial results reflect changes in total savings or substitution between different savings devices, and (3) delve more deeply into the results pertaining to bargaining power and women's account use. Couples were revisited and spouses were interviewed separately about their savings, assets, income generating activities, and decision making in the household.

In addition, Family Bank provided administrative data on account use for the entire timeframe of the study.

Results and Policy Lessons

Providing free ATM cards increased ATM take-up by 86 percentage points (from a base of 9 percent of those who did not receive free cards), as the cost of the card was prohibitive for the vast majority of the study participants.

The free ATM cards, which reduced transaction costs for account holders, significantly increased use of joint and male-owned accounts. The increase in use did not result in a significant increase in savings or affect overall assets, debt, or income, but it reduced demand for informal savings devices. The ATM treatment also increased rates of long-run use of joint and men's accounts by over 70 percent (4.7 percentage points off a base of 6.7 percentage points).

In contrast, the free ATM cards did not increase use of women's individual accounts. The gender difference appeared to be driven by different pressures men and women face in the household. On average, women had less proxied bargaining power than their husbands—defined as lower levels of income, education, and literacy and being younger than one's spouse—so the ATM treatment, which made deposits easier to access, made their savings more vulnerable to appropriation by their husbands or other members of the household. For these individuals with low bargaining power — women and men alike — the ease of withdrawing money was a drawback, not a benefit.

These results have important implications for the design of formal savings products targeted to poor households. On the one hand, lowering transaction costs to formal savings may increase access for many savers. However, the findings also suggest that these technologies may favor individuals who have more bargaining power within the household. Future research may look at incorporating additional security features into transaction-cost reducing technologies (such as biometric scanning) in order to both reduce transaction costs and make accounts more attractive to individuals with weaker bargaining positions in the household.

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