Savings Accounts to Smooth Consumption: Evidence and challenges

Silvia Prina, Case Western Reserve University
Access to savings accounts

Globally, 62 percent of adults have an account either at a financial institution or through a mobile money provider. Yet, in developing countries half the adults remain excluded.
Evidence from Nepal

- Account holders accumulate small sums into large sums.
- Large sums are partly withdrawn and then re-accumulated.
- The main reported reasons for withdrawals are:
  - health expenditures
  - To buy food when income is low
  - Educational expenditures
  - Festival-related expenses
  - To repay a debt
Withdrawals 1/2

Figure 1: Number of withdrawals per week for education- and festival-related events, showing spikes duringDashain festival (October 13-24), Teej festival (September 11), Maghe Sankranti (January 15), Tihar festival (November 4-8), Nepali's New Year (April 14), and Dumji festival (April 25).
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  - to buy food when income is low
  - for education
  - to pay for festival-related expenses
  - to repay a debt
- The savings accumulated in the accounts are used for both planned and unplanned expenditures.
A growing literature

- **Basic bank accounts**
  - Brune et al. 2015; Chin et al. 2011; Dupas et al. 2018; Dupas et al. 2015; Dupas and Robinson 2013; Kast and Pomeranz 2014; Prina 2015; Schaner 2016

- **Commitment savings accounts**
  - Ashraf et al. 2006a; Brune et al. 2015; Dupas and Robinson 2014; Karlan and Zinman 2014

- **Savings accounts with reminders**
  - Karlan et al. 2016

- **Deposit collectors**
  - Ashraf et al. 2006b; Callen et al. 2014
Promising Evidence

- Ability to cope with shocks (Kast and Pomeranz 2014; Prina 2015)
- Income (Callen et al. 2014; Schaner 2016)
- Agricultural investment and production (Brune et al. 2015)
- Entrepreneurial investment (Dupas and Robinson 2013)
- Household expenditure (Brune et al. 2015; Callen et al. 2014; Dupas and Robinson 2013, Prina 2015)
- Perception of financial well-being (Prina 2015)
- Increase in transfers to others (Comola and Prina 2018, Dupas et al. 2015)
Future challenges

Low take-up and usage despite positive impacts.

Savings accounts needs to have:

- Features that help the poor to overcome transaction costs, behavioral biases, and other barriers
- Easier “on-ramps”

With the use of digital platforms this might become easier.
Future challenges

1. Digitizing payments and shifting cash payments into accounts
   - Early impact evidence shows a positive impact on welfare, as well as access to a broader ecosystem (e.g., Suri and Jack 2016)
   - Also positive effects of digital payments to disburse cash transfers.

2. Formalizing savings practices