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

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Facts on Access to Formal Savings Accounts

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- 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

- Experimental research so far has focused on micro-entrepreneurs:
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  - Abraham et al. (2011): micro-entrepreneurs members of a microfinance institution
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Findings:
- Relatively high take-up rates
- Relatively low usage rates
- Infrequent but large deposits (equivalent to about 25% of their weekly income)
- Savings mostly used for micro-enterprise development
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- Entrepreneurs represent a relevant share of the world poor. Yet, not all households are involved in entrepreneurial activities, or have an active business all year.

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

1. Would poor households open a bank account if given access to one?

2. Would access to savings accounts help them to save?

3. Would there be any crowding out of other types of assets or savings institutions?

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.
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Slums
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The Savings Account

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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
Experimental Design

- Experiment involving 99% of households living in 19 slums in the area of Pokhara, Nepal.

Baseline survey (May 2010): Half the households in each slum randomized (via public lotteries) to receive the option to open a savings account at the local bank-branch office (May-June 2010).

Endline survey (June 2011): Allows me to compare assets, expenditures and income of households with and without access to a savings account.

Administrative data on savings account’s usage for an entire year: Allows me to study account take-up, usage (deposits and withdrawals).
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Results: Take-up and Usage

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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.
A comparison

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  - 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!
Results: Impact on Assets

- Poor households save more if given access to basic savings accounts with no fees than if they have to rely on alternative informal strategies to accumulate assets.

  - Monetary assets are about 58% higher in the treatment group.
  - Total assets are about 16% higher in the treatment group.
  - No crowding out other forms of savings or institutions (money in banks, money in MFIs, ROSCA's contributions).
  - The treatment has less cash at home than the control group.
  - 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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Results: Welfare Effects

- Access to a savings account has a significant positive effect on:
  - health-related expenses
  - education-related expenses

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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What are the mechanisms at play?

- A savings account that fits the needs of the poor allows them to save small amounts that would otherwise likely be spent (Mullainathan and Shafir, 2009).
  - Stronger effect for the poorest and for those not linked to the financial system.
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2. The money saved in the account is available, but not available at arm’s reach.
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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.