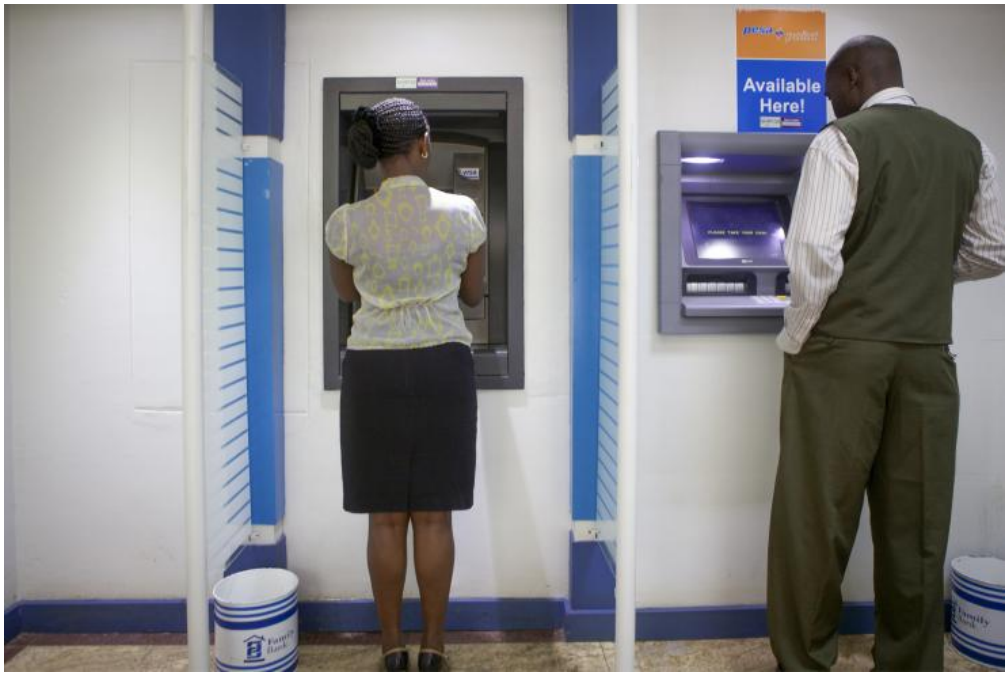
Reducing the costs of saving

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High costs associated with formal bank accounts are often cited as a key obstacle for low-income households to save in formal financial institutions, but lowering the cost of savings does not consistently increase savings flows, likely due to a multitude of other barriers. Given the positive welfare impacts associated with saving, reducing other barriers to saving should be a priority for financial institutions.



Man and woman using an ATM in Kenya.

Photo: Tugela Ridley | J-PAL/IPA

Summary

Savings offer households a buffer that enables them to invest in or respond to unexpected setbacks. Yet, as of 2017, around 1.7 billion adults remained "unbanked," possessing neither an account at a formal financial institution nor with a mobile money provider.[1], People who do not have access to formal savings may instead rely on other ways to save, but these alternatives can be riskier, more expensive, and less practical than formal accounts. For instance, 28 percent of unbanked adults reported that they had saved in the past year, often using informal savings groups, cash, or assets.[2], Another strategy to manage risk or facilitate investment is to borrow with credit. While strategies exist to reduce the cost of lending, low-income borrowers typically still face high prices for credit.

While savings can be a lower-cost way to address the same financial needs, saving in a bank account can be costly for low-income individuals. Both monetary costs, such as account fees, and non-monetary costs, like distance to the nearest bank, can hinder

low-income clients from opening and using savings accounts. Though saving may not be appropriate for all people in all scenarios—for instance, when they have high-interest debt to pay off—facilitating savings for some low-income clients may be an important goal of policymakers and financial institutions.

This review of fourteen randomized evaluations[3] that addressed the monetary and non-monetary costs associated with savings found that reducing these costs alone increased account ownership but did not translate into regular use in most cases. This finding suggests that 1) these accounts may not meet all customers' needs; 2) other barriers, like social pressure and lack of trust in formal financial institutions, still constrain savings behavior; or 3) people simply may not have enough income to make using their account worthwhile. However, of the ten studies that measure additional welfare effects beyond savings, seven find generally positive impacts, especially among participants who frequently used their accounts. Overall, while there is significant demand for formal savings accounts in low-income countries, offering free or low-cost savings accounts alone will likely not increase savings; instead, further research is needed on how to increase account usage through improved product design, as well as linkages to payments or other facets of economic life.

Supporting evidence

High transaction costs may prevent people from accessing and using formal savings accounts. Typically, people pay fees to open a savings account and make withdrawals, and they must maintain minimum balances. For low-income clients, these fees may be high enough to discourage formal saving or significantly reduce saving balances. Non-monetary costs, like the distance to a bank or time to open an account, can also be large enough to deter people from opening and using one. Surveys highlight the relevance of these barriers, as around one-fifth of adults without a formal bank account cited high costs and distance (26 and 22 percent, respectively) as barriers to owning an account.[4]

Most low-income households open accounts when costs are reduced or eliminated. In eleven of the fourteen evaluations, clients paid little to no fees to open and use formal bank accounts, as either the bank offered free accounts or researchers provided financial subsidies and helped individuals with the paperwork to open accounts. As most individuals opened accounts when subsidized, these high take-up rates in many contexts reflect demand for low-cost formal saving products among low-income clients. For example, when monetary costs were reduced in Kenya and Nepal, over 80 percent of individuals opened accounts [1], [2], . On the other hand, in contexts where take-up was low, factors other than cost likely drove clients' decision to open an account. In Chile (17 percent take-up), for example, individuals already had relatively easy access to a set of formal financial products [3].

However, it is harder to encourage people to use their accounts and change savings habits, as increased account ownership did not consistently translate into increased account usage. While most people opened an account when it was offered to them for free, a smaller share of individuals frequently used, or made deposits into, these accounts. In most cases, fewer than half actively used[5], their account (Table 2), except for in Nepal, where 80 percent of households made at least two deposits within the first year [2], . One concern is that even with access to free or subsidized accounts, other monetary and non-monetary costs dampen usage. For instance, distance to the bank can reduce how often individuals use their accounts, as evident in Uganda and Malawi [3], . Likewise, high fees on withdrawals may inhibit use [4], [5], . Conversely, the lack of any account fees, including withdrawal fees, and close proximity to the bank contributed to the active usage seen in Nepal [2].

Low account usage suggests that barriers other than cost may hinder saving. Behavioral biases, such as inattention and temptation, can limit savings. These issues are prevalent in both high- and low-income countries, with extensive evidence particularly on retirement savings in the United States.[6], Another barrier likely more unique to low-income settings, social demands from others in one's household or broader community can erode savings or prevent individuals from saving in the first place. For example, in Kenya, individuals with low bargaining power (mostly women) used their accounts less after being offered

free ATM cards [6], . The ease of withdrawal made the money more vulnerable to be spent by their husbands or other family members. Additionally, limited access to information and financial knowledge may lead people to save less. However, more often than not, the impacts of financial education interventions are minimal, particularly in low- and middle-income countries.[7] Expanding access to products designed to overcome barriers that clients face may increase account usage. Product design features that can offset barriers to save include accounts with reminders; commitment savings devices, which restrict access to savings until meeting a specific goal; group-based savings models; automatic deposits; accounts linked to payments; or private accounts.

But not all barriers can be addressed through design features. For those who do try to open accounts, regulatory barriers may hinder access with unnecessarily stringent Know Your Customer requirements. Trust is also an issue: low-income customers may opt out of saving formally because they do not trust financial institutions. This was a factor in Kenya, where a history of banking scandals in the 1980s and 1990s contributed to low trust in financial institutions [1], [5].

Account features and other ways that make it easier to make deposits can increase account usage. Offering ATM cards or door-to-door deposit collection services, where bank officers visited households regularly to collect deposits, encouraged account holders to make more transactions and save more [6], [7], [8], . Weekly deposit collection services in Sri Lanka that reduced travel time and distance to make deposits nearly doubled monthly bank savings [8]. In addition to addressing travel costs, deposit collection services address other barriers to saving: they combat behavioral biases because deposit collectors regularly encourage account holders to make deposits, and the face-to-face contact with deposit collectors may impose social pressure.

Limited, but promising, evidence suggests that digital financial platforms make it easier for savers to open and use accounts in some cases. Digital technology offers a promising way to promote financial inclusion, as two-thirds of individuals who do not have a formal bank account own a mobile phone.[8], Studies in Mozambique and Sri Lanka measure the impacts of offering individuals mobile-linked savings accounts. Those offered mobile-linked accounts increased deposits into these accounts, but only in Mozambique did this lead to an increase in overall savings [4], [9], . In contexts where mobile money is relatively well-developed and low-cost banking options already exist, reducing transaction costs further through digital platforms may not encourage additional formal savings, as was the case in Sri Lanka [9]. Further research is needed to understand how digital financial platforms can also address other barriers to saving, in addition to reducing costs.

Incentivizing savings with a modest increase in interest rates had a limited effect; much higher, above-market interest rates did increase savings but are likely not viable for a bank to offer. Offering higher interest rates is another way to potentially encourage savings, but interest rates that are financially sustainable for a bank seem insufficient to increase savings. In the Philippines, increasing the interest rate from 1.5 to 3 percent for a commitment savings account had no impact on clients opening an account or saving more [10], . On the other hand, consumers did respond to substantially higher rates of up to 20 percent in Kenya and Mozambique, but these rates were far beyond what typical banks would offer without subsidies [11], [12], [9].

Reducing the costs of saving led to positive household and business impacts in several instances, with impacts varying greatly depending on the context and target population. Ten studies measure additional welfare effects beyond savings (Table 2). In six studies, reducing the cost of savings helped individuals manage household finances, including increasing household income [8], , spending more on household expenses like education or food [1], [2], [9], , borrowing less from the bank or paying off loans [7], [8], , and becoming less dependent on family and more financially supportive to peers [5], . Especially when savings products are targeted to clients with businesses, e.g., farmers or entrepreneurs, there is some evidence that reducing the cost of, or incentivizing, saving can also facilitate business investments [1], [9], [12], . Effects were quite large across these studies. For example, entrepreneurs in Kenya increased their business investment by 60 percent and personal spending by 38 percent, with even greater impacts for people who actively used their accounts [1]. Despite some of these positive effects, low

rates of account usage mean that reducing transaction costs alone has limited effects overall.

For some people, it simply may not make sense to save in a formal account. For instance, individuals may need to spend everything when their income is quite small or to pay off expensive outstanding debt. Surveys demonstrate the relevance of these barriers: over 80 percent of respondents in Uganda and Malawi cited being too poor as a reason for why they did not use their account, even when offered nearly for free [3], . Globally, two-thirds of unbanked adults reported having too little money as a reason they did not have an account.[9]

A few studies suggest that people may shift savings away from other sources and into a formal account rather than saving more overall, though the challenges of measuring all forms of savings make it difficult to be conclusive. Eight studies attempt to measure total savings, including in formal accounts and from other informal sources, like cash, durable goods, or with friends and family. Only in four studies did access to an account increase overall savings [1], [3], [8], [9], . There is some evidence that increased savings in a formal account may lead to reductions in other forms of savings, like informal savings [3], . Yet measuring savings, as well as financial behavior and outcomes, is inherently difficult such that some variation in outcomes may be a result of measurement differences. Future research should emphasize the need to better understand where increased savings balances come from, either by spending less, taking on loans, shifting from one form of savings to another, or working more. A novel study from Sri Lanka utilized high-frequency surveys to capture the source of participants' increased savings and found that households indeed worked more [8].

While banks collect a wealth of administrative data that can be used to evaluate clients' savings behavior, data from a single bank does not provide a full picture of an individual's savings behavior. A challenge of all savings studies, administrative data only captures savings at a single bank, therefore not capturing informal savings or savings at other financial institutions. The limitation of administrative data is particularly relevant for low-income individuals, who often save informally, and cautions relying solely on administrative data to understand clients' financial behavior.

Table 1 . Details of studies included

Evaluation Cited	Country	Intervention Details	Opening Fees	Withdrawal Fees
1	Kenya	*Financial subsidy:* Paid opening fee and minimum balance	N	Y
2	Nepal	*Financial subsidy:* Offered free basic account *Information:* Hosted public meeting on savings benefits and account*	N	N
3a	Chile	*Assistance with paperwork*	N	Y
3b	Malawi	*Financial subsidy:* Paid opening and maintenance fees *Assistance with paperwork* *Information:* On account	N	N
3c	Uganda	*Financial subsidy:* Paid opening and maintenance fees *Assistance with paperwork* *Information:* On account	N	N

Evaluation Cited	Country	Intervention Details	Opening Fees	Withdrawal Fees
4	Sri Lanka	*Mobile-linked bank account* *Digital:* Free basic mobile phone *Financial subsidy:* Varied fees for deposits (0%–8%); Paid minimum balance to open account; Deposited funds into account to demonstrate how to use it *Financial incentive:* Cash lottery (winner paid via deposit into mobile-linked account) *Information:* Trained customer service representatives available at call center	-	-
5	Kenya	*Financial subsidy*: Paid opening and maintenance fees *Information:* On account	N	Y
6	Kenya	*Financial subsidy:* Offered free ATM card that reduced withdrawal fees; Paid minimum balance *Information*: On account and ATM	N	Y
7	Philippines	*Deposit collection service*	-	-
8	Sri Lanka	*Deposit collection service* *Financial subsidy:* Paid minimum balance to open account Assistance with paperwork	-	-
9	Mozambique	*Digital:* Provided free basic mobile phone* *Financial incentive:* Provide interest on savings paid in fertilizer *Information:* Provided information on mobile money and fertilizer usage*	-	-
10	Philippines	*Financial incentive:* Varied interest rate, either 1.5% or 3% *Account owner:* Varied offer of individual account, joint account, or choice of individual or joint	-	-
11 12	Kenya	*Financial incentive:* Varied temporary interest rates from 0%–10% for six months *Financial subsidy*: Paid minimum balance	N	Y
13	Indonesia	*Financial subsidy:* Offered subsidy ranging from $3 to $14 to open account	N	N

Note: Dashes indicate information was not available.

*All study participants received this intervention, including the comparison group

Table 2. Account opening, usage, and impacts on savings and other outcomes

Evaluation Cited	Account Opening	Active Usage	Bank Savings	Total Savings	Other Impacts
1	87%	41% made at least two transactions within first 6 months			Increased business investment, food expenditure, and private expenditure
2	84%	80% made at least 2 deposits within first year	N/A	-	Increased expenditure on education, fish and meat, and festivals and ceremonies; Increased ability to cope with shocks; improvement on index of reported financial situations
3a	17%	3% made at least 5 deposits within first 2 years	N/A	N/A	N/A
3b	69%	10% made at least 5 deposits within first 2 year		-	-
3c	54%	17% made at least 5 deposits within first 2 years			-
4	87%–92%	18%–26% used service at least once		-	-
5	69%	15% made at least 5 transactions over 2.5 years		-	Decreased borrowing from family; Increased transfers to neighbors
6	100%*	22% of opened accounts received at least 1 deposit within first 6 months*	N/A	N/A	N/A
7	28%	15% regularly used deposit collection service		N/A	Reduced borrowing from the bank
8	89%	N/A			Increased household income, earnings, and loan payments
9	N/A	N/A			Increased fertilizer usage and knowledge, irrigation pumps ownership, and household expenditure
10	23%	10%–11% made more than 1 deposit	N/A	N/A	N/A
11 12	27%–58%*	16%–44% of opened accounts received at least 1 deposit within first 6 months*	†	N/A	Individual accounts increased income, assets, and likelihood of being an entrepreneur
13	3.5%–12.7%	N/A	N/A	N/A	N/A

Note: Upward arrows represent statistically significant positive differences in outcomes between the treatment and comparison groups at the 90 percent confidence level or higher; dashes represent no statistically significant difference.

***** Study offered couples the opportunity to open multiple accounts; account opening rate based on all offered accounts and active usage rate based on all opened accounts

† Only for higher interest rates on individual accounts

Insight author(s)

Mikaela Rabb

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