Financial Trust Workshops to Encourage Savings Behaviors in Peru

Researchers:

Camila Navajas Ahumada

Sebastian Galiani

Paul Gertler

Sector(s): Finance, Gender, Political Economy and Governance, Social Protection

Fieldwork: Innovations for Poverty Action (IPA)

Location: Peru

Sample: 33,750 JUNTOS beneficiaries

Target group: Mothers and pregnant women Women and girls

Outcome of interest: Savings/deposits

Intervention type: Financial literacy Savings Training

AEA RCT registration number: AEARCTR-0000340

Research Papers: Trust and Saving in Financial Institutions by the Poor

Partner organization(s): Banco de la Nación, Instituto de Estudios Peruanos, Peru Ministerio de Desarrollo e Inclusión Social (MIDIS), JUNTOS

Formal savings accounts can improve households' financial well-being, but many people living in poverty do not consistently use them. Mistrust in financial institutions may be one barrier to using formal savings accounts. Researchers conducted a randomized evaluation in rural Peru to assess the impact of providing a workshop designed to foster trust in banks on participants' levels of trust, financial literacy, and saving and account use patterns of cash transfer recipients. Workshop participants were more likely to trust banks twelve months later and had higher levels of savings relative to those in the comparison group, but the workshop had no effect on financial literacy or account usage.

Policy issue

In low- and middle-income countries, fewer than 40 percent of households have formal bank accounts. Instead, many rely on riskier and more expensive methods to save. Given that savings can facilitate households to weather economic shocks or make larger income-generating or household investments, many governments and international organizations aim to improve households' access to formal financial institutions that facilitate saving. One strategy that governments are using to address this issue is to deliver conditional cash transfers to recipients through formal savings accounts.

However, a lack of trust in financial institutions may limit households' usage of bank accounts. This mistrust may explain why recipients of cash transfer programs in Brazil, Colombia, South Africa, , India, , Niger, , and Mexico, withdrew most of the funds deposited in their bank accounts in one lump-sum withdrawal at the beginning of each pay period, suggesting little account usage.[1], [2], [3], [4] Trust is an especially crucial element of financial transactions where people exchange money for promises, such as depositing in a bank account. Can workshops designed to improve trust in financial institutions result in increased use of bank accounts and higher savings rates?

Context of the evaluation

The Peruvian Ministry of Development and Social Inclusion operates a conditional cash transfer program called Juntos. The program provides a bimonthly transfer of PEN 200 (approximately US$60 during the study period) to over 700,000 low-income female heads of household. The state bank, Banco de la Nación, opens a savings account for all Juntos recipients, where the cash transfers are deposited. The Juntos participants in this study had been receiving cash transfers via bank deposit for at least two years, and thus were familiar with the bank accounts. On average, Juntos participants in this study were 40 years old, had completed six years of schooling, worked in agriculture, and their first language was not Spanish.

Juntos participants in this study had very low levels of contact with formal financial institutions and make one withdrawal from it every two months. To assure Juntos participants that their cash transfers would be safe and accessible when they desired, the Peruvian NGO Instituto de Estudios Peruanos designed and implemented a financial trust workshop. The three-hour workshop covered the following topics: account access and security, government consumer protection programs, the security and availability of local money agents in rural areas, and discussion of the relative safety of leaving savings in an account compared to other methods such as safeguarding at home or by purchasing livestock. The workshop also included a trust building activity, where one of the participants was randomly selected to receive a PEN 50 deposit in their account and were asked to withdraw PEN 30 later in the week and report back to the group.

A line forms outside of Banco de la Nacion

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Details of the intervention

Researchers worked with Innovations for Poverty Action, Banco de la Nación, and the Instituto de Estudios Peruanos to conduct a randomized evaluation assessing the impact of the workshop on participants' savings behavior and account use, trust, and financial literacy. Researchers randomly assigned 64 villages (for a total of 1,450 Juntos participants) to receive the workshop and 66 villages to the comparison group (for a total of 1,737 participants), which received the Juntos program as usual but no additional programming.

Researchers used administrative account usage data from Banco de la Nación and the Juntos program to examine how recipients used their accounts 10 months before and after the workshop, and conducted a household survey 12 to 18 months after the training. The household survey measured trust and perceptions of the bank by asking about participants' trust in the bank and bank staff, as well as their preferences regarding saving money in the bank versus holding cash in the home or other savings arrangements. The survey measured knowledge and financial literacy through questions related to participants' knowledge of savings accounts, savings and loan institutions, and interest rates.

Results and policy lessons

Overall, participants who were offered the financial trust workshop demonstrated higher levels of trust in financial institutions and raised savings levels. The workshop had no impact on financial literacy or bank account use for transactions.

Trust in banks: Participants assigned to the workshop were 13 percentage points more likely to report trusting the bank (a 28 percent increase from the comparison group average of 48 percent). Trust in bank staff and bank branches also increased. Participants were also more likely to report a preference for saving their money in a bank versus in the home or in the form of assets such as livestock (14 and 12 percentage points respectively, 30.7 and 41.4 percent higher than the comparison group). An overall measure of trust that combined these indicators of trust was 78.2 percent higher among participants offered the workshop (a 38.3 percentage point increase from the comparison mean of 49 percent).

Savings and bank account usage: Ten months after the workshop, participants assigned to the workshop had saved on average PEN 11 (US$3.30), or a 1.4 percentage point increase in the savings rate out of the Juntos cash transfer deposits relative to the comparison group. Despite the impacts on trust, the workshop did not impact the number of bank account transactions. Researchers suggest that participants' distance from the banks and agents could explain this.

Knowledge/financial literacy: The program hypothetically could have impacted participants' savings levels through increased financial knowledge and literacy. However, the researchers did not find evidence to support this pathway to higher savings: Financial literacy was already high among the comparison group and the program did not have substantial impacts on financial knowledge. Thus, any changes to savings levels were likely due to an increase in financial trust, rather than improved financial literacy or knowledge.

In sum, these results suggest that trust in financial institutions could be an important factor in encouraging low-income households to hold their savings in bank accounts.

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4. Bachas, Pierre, Paul Gertler, Sean Higgins, and Enrique Seira. 2021. “How Debit Cards Enable the Poor to Save More.” *The Journal of Finance* 76(4): 1913-1957.