The Impact of a Formal Savings Intervention in Sri Lanka

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Sector(s): Finance

Location: Bandarawela and Mahiyangana, Sri Lanka

Sample: 795 people in 156 zones

Target group: Rural population

Outcome of interest: Savings/deposits

Intervention type: Commitment devices Digital and mobile

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Data: Deposit Collecting: Unbundling the Role of Frequency, Salience, and Habit Forma...

Research Papers: What are the Headwaters of Formal Savings? Experimental Evidence from Sri Lanka

Partner organization(s): Centre for Competitive Advantage in the Global Economy (CAGE), Consortium on Financial Systems and Poverty (CFSP), National Savings Bank (NSB)

Over half of all adults in the world are unbanked, and 35 percent of them report obstacles to saving in formal institutions that could be overcome through product and regulatory changes. Researchers conducted a randomized evaluation to test the impact of a deposit collection service on the amount of savings and the source of those savings. In a follow-up evaluation, researchers introduced design tweaks to test the impact of reducing collection costs on individuals' savings behavior. Both versions of the intervention led to increased savings.

Policy issue

Over half of all adults in the world are unbanked, and 35 percent of whom report obstacles to saving in formal institutions that could be overcome through product and regulation changes. One possible solution is to increase access to savings accounts, which could help individuals who prioritize spending today over saving for the future and could lessen the pressure to respond to financial requests from friends and family. In fact, several studies have shown substantial impacts on household expenditures from increased access to savings accounts.[1] However, limited evidence exists on the sources of income that lead to increased savings and on approaches that banks can utilize to bring the unbanked into saving.

Context of the evaluation

In 2008, the National Savings Bank (NSB) in Sri Lanka began a mobile Point of Service (POS) deposit collection for business owners within one kilometer of a NSB branch. NSB agents had a wireless POS mobile technology that allowed them to provide a receipt

for the deposit and real time account information. For the purposes of this evaluation, NSB modified the collection service by establishing branches in Banderawela and Mahiyangana, remote parts of the country where low-income, unbanked households live.

- Households eligible for the evaluation had to meet the following requirements:
- Houses had to be within 5-10 kilometers of the NSB branch;
- Houses had to be accessible by motorcycle;
- Households had to receive income payments at least once per week;
- Households had not made a bank deposit in the past month.

Because of these requirements, most individuals in the sample were either self-employed or daily wage workers. Additionally, most adults had an average of ten years of education. Researchers also included members of seetus, or rotating savings and credit associations (ROSCAs).



Weligama-National Savings Bank

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Details of the intervention

Between December 2010 and May 2011, researchers conducted a randomized evaluation to test the impact of a deposit collection service on the amount of savings and the source of those savings.

From a total sample of 795 individuals, 389 were randomly assigned to the mobile POS deposit collection treatment and the remaining individuals created the comparison group. Those in the treatment group were offered weekly, door-to-door savings deposit collection services and assistance opening bank accounts with a minimum balance of 500 LKR (US$4.50 in 2010) at the local NSB branch. By May 2011, the original product design was proving to be financially unviable for NSB. Researchers introduced design tweaks to test the impact of lower cost collection services on the savings behavior of individuals to address these issues. The original sample was divided into six groups, each testing a different component of the program.

Original Designation	New Designation	Component Tested	Sample Size (individuals)
Treatment	Weekly visits	Frequency/Salience	197
Treatment	Biweekly visits	Frequency	85
Treatment	Weekly box pick-up	Salience/Habit	107
Comparison	Weekly box pick-up	Frequency/Habit	89
Comparison	Biweekly box pick-up	Frequency	61
Comparison	Comparison	None	256

To test the importance of frequency on savings behavior, one group received weekly door-to-door visits by a POS agent while others received biweekly visits. To test the extent to which individuals were prompted to save, NSB provided neighborhood savings lockboxes to compare savings behavior to those who received door-to-door service. To test the effect of face-to-face contact on habit formation, researchers compared the group who transitioned from weekly visits to weekly box-pick with the group who transitioned from comparison to weekly box pick-up. This comparison allowed researchers to isolate habit formation caused by receiving six months of weekly visits.

For both versions of the evaluation, researchers collected monthly data for some households and quarterly data for other households. To understand household finances and the source of savings, the surveys asked about household cash inflows, sources of cash, and financial activity.

The annual cost of the door-to-door mobile POS deposit collection intervention was about 800,000 LKR (US$7,173 in 2010), driven by salaries for cost collections. The annual cost of the biweekly box treatment was about 232,000 LKR (US$2,080 in 2010) where salaries were only about a quarter of the POS agent salaries.

Results and policy lessons

Both the original and modified versions of the deposit collection intervention led to an increase in savings. The amount of informal savings did not decrease, suggesting the increase in savings came from additional savings.

Basic deposit collection intervention: The frequency of transactions with formal banks was four times higher for those offered the mobile deposit collection service than for the comparison group. Those in the treatment group had over two transactions with formal banks per month compared to an average of 0.5 transactions per month in the comparison group. Savings at the NSB increased by 425 LKR (US$4.26 in 2010) per month. This was not driven by a reduction in informal savings. For example, individuals in the treatment group joined more seetus. From a base of two, treatment group individuals joined an additional 0.29 seetus on average.

Increased savings appears to be driven by an increase in household income due to a shift away from self-employment into wage labor. There was no increase in investment in microenterprises, providing further evidence of a shift away from self-employment.

Intervention with cost-saving tweaks: Deposits from the substantially less expensive biweekly box collection were about 75 percent of deposits generated via more costly weekly home visits. Individuals transferred from weekly home visits under the first phase of this evaluation to weekly box collection significantly increased bank savings. This suggests those who had received weekly home visits formed habits around making regular deposits. Researchers rule out the possibility that frequent surveying drives increased savings by serving as a reminder to save.

Overall, inexpensive deposit collection techniques, such as biweekly box collection, may be effective and viable models for generating savings deposits.

de Mel, Suresh, Craig McIntosh, and Christopher Woodruff. 2013. "Deposit Collecting: Unbundling the Role of Frequency, Salience, and Habit Formation in Generating Savings." American Economic Review: Papers & Proceedings 103(3): 387-392.

1. Brune et al. 2013.;, Dupas & Robinson 2012., ; Schaner 2016.