

DELIVERING CONDITIONAL CASH TRANSFERS VIA SAVINGS ACCOUNTS: DEFAULT AND MENTAL ACCOUNTING MECHANISMS

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IMTFI conference

December 11, 2014

Introduction

- Inclusion into the financial system helps the poor escape poverty (Aghion and Bolton 1997; Banerjee and Newman 1993; Banerjee 2004)
- **The poor are usually excluded from the financial system**
 - They end up using imperfect substitutes (Collins et al. 2009; Rutherford 2000)
- Recent studies show that
 - There is untapped demand for formal savings devices
 - Access and use of a savings account increases savings, investment and welfare of small entrepreneurs and households (Dupas and Robinson 2013; Prina 2014)

Financial inclusion: Supply vs. demand

- Recent institutional changes in the way Social Protection programs work in Latin America have helped to bank millions of individuals
- Since January 2012, all six million recipients of the Mexican CCT program Oportunidades receive their transfers directly into their own savings accounts at BANSEFI
- **Most of the poorest Mexican households have been granted access to the formal financial system**

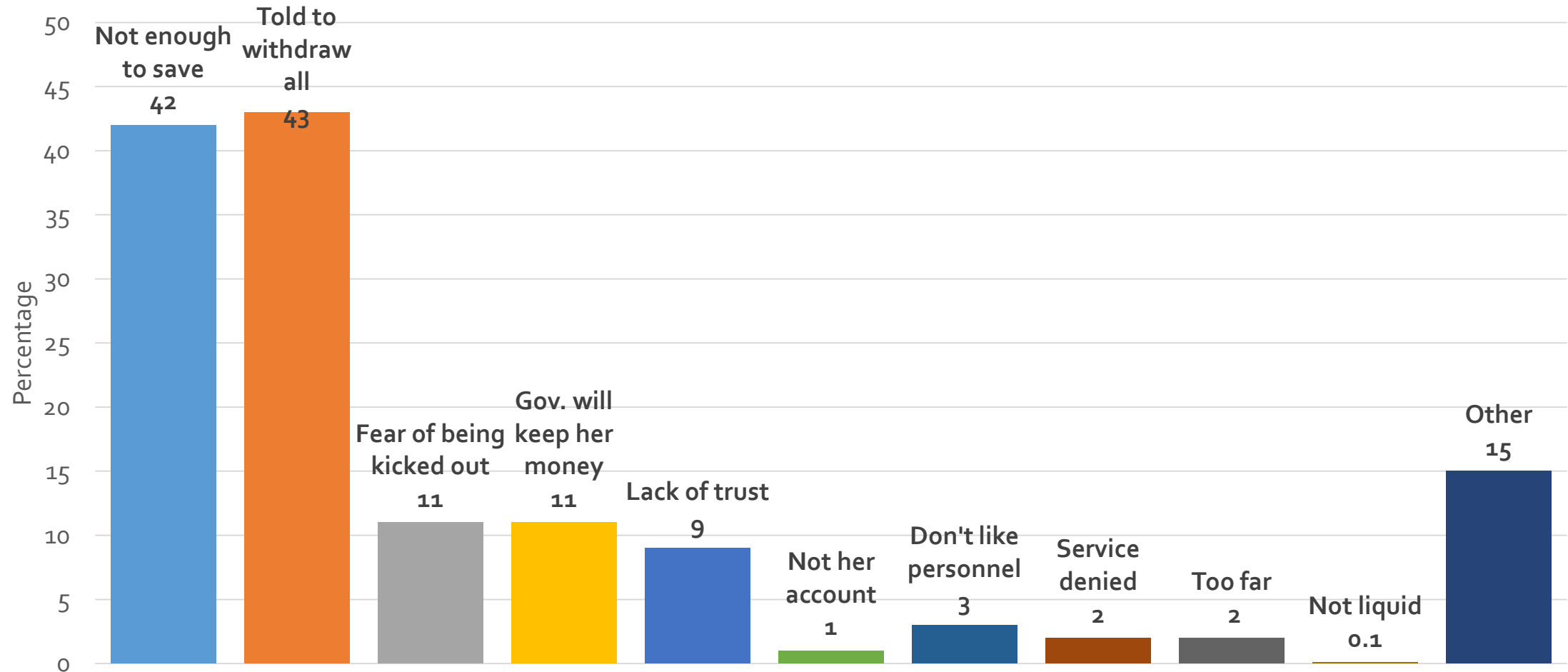
Financial inclusion: Supply vs. demand

- Can we say that poor Mexicans are now financially included?
 - **No!**
- Financial inclusion according to the OECD:
 1. Access to formal financial services
 2. Use of financial services
 3. Appropriate regulation to protect the consumer
 4. Financial education in order to increase financial capabilities
- **Having an account (being banked) is a necessary, but not sufficient condition**

Financial inclusion: Supply vs. demand

- **Recipients of Oportunidades make little use of their accounts**
 - Most withdraw their funds at once (2009 pilot data)
 - Similar finding six months after scaling up at the national level the new payments system (2012)
 - Baseline data from our experiment (May 2014) shows that 81% still withdraws all their funds at once
- **However, 58% of the beneficiaries do save**
 - 38% in formal institutions, out of these only 30% in BANSEFI
 - 79% in informal institutions (62% use only informal institutions to save)
- **There seem to be problems on the demand side**

Demand issues: Reasons for not using the account



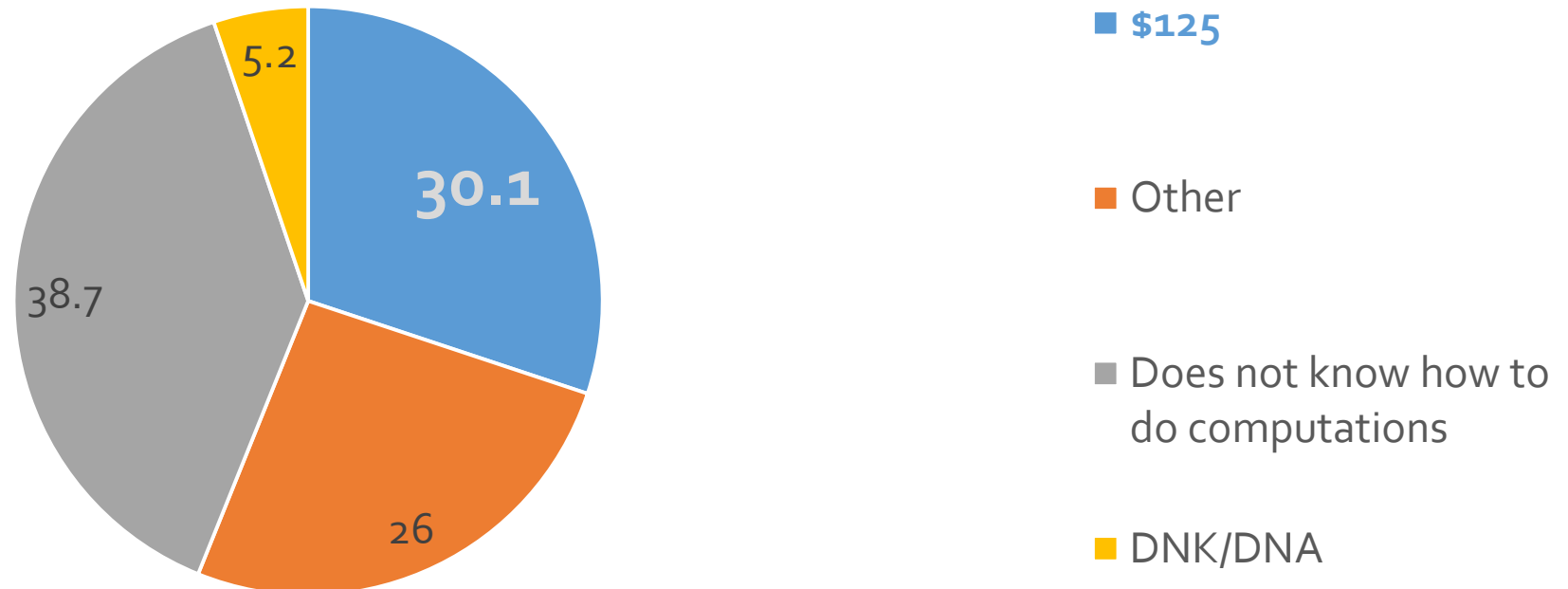
Source: Chiapa and Prina (2014). $N = 4,090$

Demand issues

- Only 51% of the recipients know that they can save in their BANSEFI accounts
- Although they basically just make withdrawals, they do not know their cost
- 83% does not know how to make deposits
- 70% does not even know where they would have to go to make a deposit
- 88% does not know that the money they save in BANSEFI (or any formal institution) is fully protected by the Federal Government
- **62% considers that keeping money in a formal bank account does have an advantage over keeping it somewhere else**

Demand issues: Low financial literacy

- What is the 10% of \$1,250 pesos ?



Demand issues: Low financial literacy

- Suppose you are given a credit of \$100 pesos and that the monthly interest rate is 2%. You must pay the credit back in three months. In three months, how much will you have to pay in total?



Demand issues: Low financial literacy

- If prices are rising and you keep your money under the mattress, do you think you will be able to buy more or less goods in a few months?



Our intervention

- **Test the effectiveness of mental accounting and default mechanisms to help people save formally**
 - Mental accounting can affect savings and financial accounting decisions (Feldman 2010; Sahm, Shapiro, and Slemrod 2010; Thaler 1990, 1999)
 - Defaults have also been shown to be very effective in increasing savings in developed countries with low-income population (Thaler and Bernatzi 2004; Madrian and Shea 2001)
- **None of these mechanisms has been available for most of the poor in developing countries**
 - Direct deposit of CCTs into a savings account provides a unique opportunity to do so

Research question

Rigorously estimate the effects that:

1. Having an **account denominated for emergencies** in which individuals can voluntarily deposit some savings (mental accounting), and
2. Having an **account denominated for emergencies** where by **default 10% of the CCT** beneficiaries receive is regularly transferred (mental accounting + default)

have on:

- Savings at BANSEFI
- Overall households' savings
- The ability of households to cope with negative shocks
- Investments

Research methodology

RCT with three treatment arms:

- Control (C)
- Treatment 1 (T1)
- Treatment 2 (T2)

Everyone (C, T1 and T2) will receive a special educational workshop on how to use their account(s) + booklet(s) to track savings

Research methodology

- Control C: Status quo



Research methodology

- **Treatment T1:** Status quo + access to a fully liquid **account denominated for emergencies** (debit card will have a sticker with the name of the account)



Research methodology

- **Treatment T2:** Status quo + access to a fully liquid account for emergencies where 10% of CCT is deposited by default every time Oportunidades makes a transfer to the recipient's main account



Identification

- **C vs. T₁ + T₂** identifies the effect of **mental accounting**
- **T₁ vs. T₂** identifies the effect of saving by **default**

Where we are

- Baseline data collection took place in April/May 2014
- Intervention was to start after baseline data collection
- BANSEFI suffered changes in key positions and was given direct orders from the President of Mexico to design and implement an integral strategy of financial inclusion
 - “Oportunidades” has died, long live “PROSPERA”
 - FI strategy: New (very illiquid) savings accounts; line of credit tied to CCT; life insurance

Policy impact

- **We know little about the potential benefits of delivering CCTs via savings accounts**
- **Our results will help design better development policies** associated with the delivery of CCTs programs or other government programs that make regular, direct transfer payments to individuals
- If our study demonstrates that our intervention has a significant impact, it may not be too difficult/costly to:
 - Scale it up and/or
 - Replicate it in any country where the government makes direct transfer payments, on a regular basis, to poor individuals via a savings account.