150 million bank accounts - is that enough?

In an op-ed in MINT, one of India's leading business newspapers, economist and consultant Ruchira Bhattamishra discusses Prime Minister Modi's announcement of an ambitious new plan for financial inclusion for all Indians, but targeting in particular the estimated half of the country's population that does not use a bank.

The plan, among other things, would provide a debit card and insurance policy to reduce corruption in the transfer of funds (especially welfare payments) and provide a financial safety net in the case of accidents. The government sees this "mission" of bringing basic banking and financial security to those who need it as a fundamental building block in India's development.

While IPA research has found in India that electronic funds transfers of welfare payments do reduce corruption, we also know that handing out an ATM card is not enough to consider the poor effective users of financial products. Bhattamishra, a participant in IPA's Workshop on Experimental Design for Savings and Payments Research with our Global Financial Inclusion Initiative, points out:

> *What we now know from behavioural economics—a branch of study that tests insights from psychology as they relate to economic behaviours—is that there are considerable gaps between human intention and action, and decisions around savings are no exception. Behavioural issues such as limited self-control, which this article discusses, as well as information and knowledge gaps and inattention to long-term goals, can act as barriers to financial inclusion. Emerging lessons from behavioural economics, combined with the power of rigorous randomized evaluations, increasingly used in international development to provide credible answers on programme effectiveness, can improve financial product design and promote take-up and usage of these products by the poor, thereby leading to financial inclusion.*

She draws on some of IPA's research in Kenya showing that when individuals just earmarked savings for the cause of health expenditures, it increased investment in their own health. Similarly, in the Philippines:

> *Commitment savings products, such as the SEED (Save, Earn, Enjoy Deposits) account that restricts access to savings until a goal date or goal amount is reached, have been shown to successfully address self-control problems, including for the poor. A*

randomized evaluation in the Philippines showed that the offer of the SEED account increased savings significantly.

A variety of studies ongoing and completed in Malawi also look at questions such as mental accounting, improving loan repayment, and developing financial products that help farmers save and invest. What we know from all of these studies is that infrastructure is only one part of designing an inclusive financial system. Thinking carefully to design and test product features and delivery channels tailored to individual contexts and needs will be critical to the success of the Prime Minister’s plan.

The full op-ed is worth a read here, and you can read more about our latest work in replicating and scaling commitment savings products here.

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