



Prices or Knowledge? What Drives Demand for Financial Services in Emerging Markets?

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Country	Indonesia
Organizing Theme	Economic Opportunities and Access to Assets
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Intervention Category	Training
Sector	Finance and Private Sector Development
Abstract	Financial development is critical for growth, but its micro determinants are not well understood. We test leading theories of low demand for financial services in emerging markets, combining novel survey evidence from Indonesia and India with a field experiment. We find a strong correlation between financial literacy and behavior. However, a financial education program has modest effects, increasing demand for bank accounts only for those with limited education or financial literacy. In contrast, small subsidies greatly increase demand. A follow-up survey confirms these findings, demonstrating that newly opened accounts remain open and in use 2 years after the intervention.
Gender Connection	Gender Informed Analysis
Gender Outcomes	Gender disaggregated access to credit, savings
IE Design	Randomized Control Trial
Intervention	The intervention offers a financial education program on bank accounts randomly to half of 564 unbanked household. Orthogonal to this treatment, individuals are randomly offered small subsidies, ranging from \$3 to \$14 for opening a bank account.
Intervention Period	2008; the training lasted 2 hours
Sample population	The experiment took place in 64 villages. 30 households were sampled from each survey village. Out of the 1920 households sampled 1173 did not have a bank account at the time. Each of the unbanked were offered to participate in the experiment. 23 households had to be dropped from the experiment due to collusion. The final sample was 1230 households, 736 of which did not have a bank account. 564 of these households participate in the experiment.
Comparison conditions	There were two interventions randomly given to participants leading to 4 treatment groups: training and incentive, no training and incentive, training no incentive, and a control of no training and no incentive.
Unit of analysis	Household Level
Evaluation Period	2008-2010; the study follows up 2 years after the intervention



Results	Financial literacy training has no impact on the probability of opening a bank account, although it does have an impact among those with low levels of education and financial literacy. Modest financial subsidies have large significant impacts on the share of households who open a bank account, and larger subsidies have a much larger impact. A change from \$3 to \$14 led to a 7.6% increase in the probability of owning a bank account. The results hold 2 years after a study.
Primary study limitations	Some of the survey team colluded with participants in the study so a large part of the sample had to be dropped.
Funding Source	World Bank, HBS Division of Research and Faculty Development
Reference(s)	Cole, S., Sampson, T., & Zia, B. (2011). Prices or knowledge? What drives demand for financial services in emerging markets?. <i>The journal of finance</i> , 66(6), 1933-1967.
Link to Studies	http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.2011.01696.x/full
Microdata	