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Do deposit accounts help low-income families mitigate shocks?

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Introduction

- Most low income families move in and out of poverty.
- Persistent shocks can push them into chronic poverty.
- When faced by shocks, these families rely on informal credit sources to tide over financial difficulties.
- Disadvantages of informal credit – unreliable, prone to temptations and theft, non-monetary costs.
- A basic deposit account in the formal system as a safe and reliable avenue for precautionary savings.

Data & methods

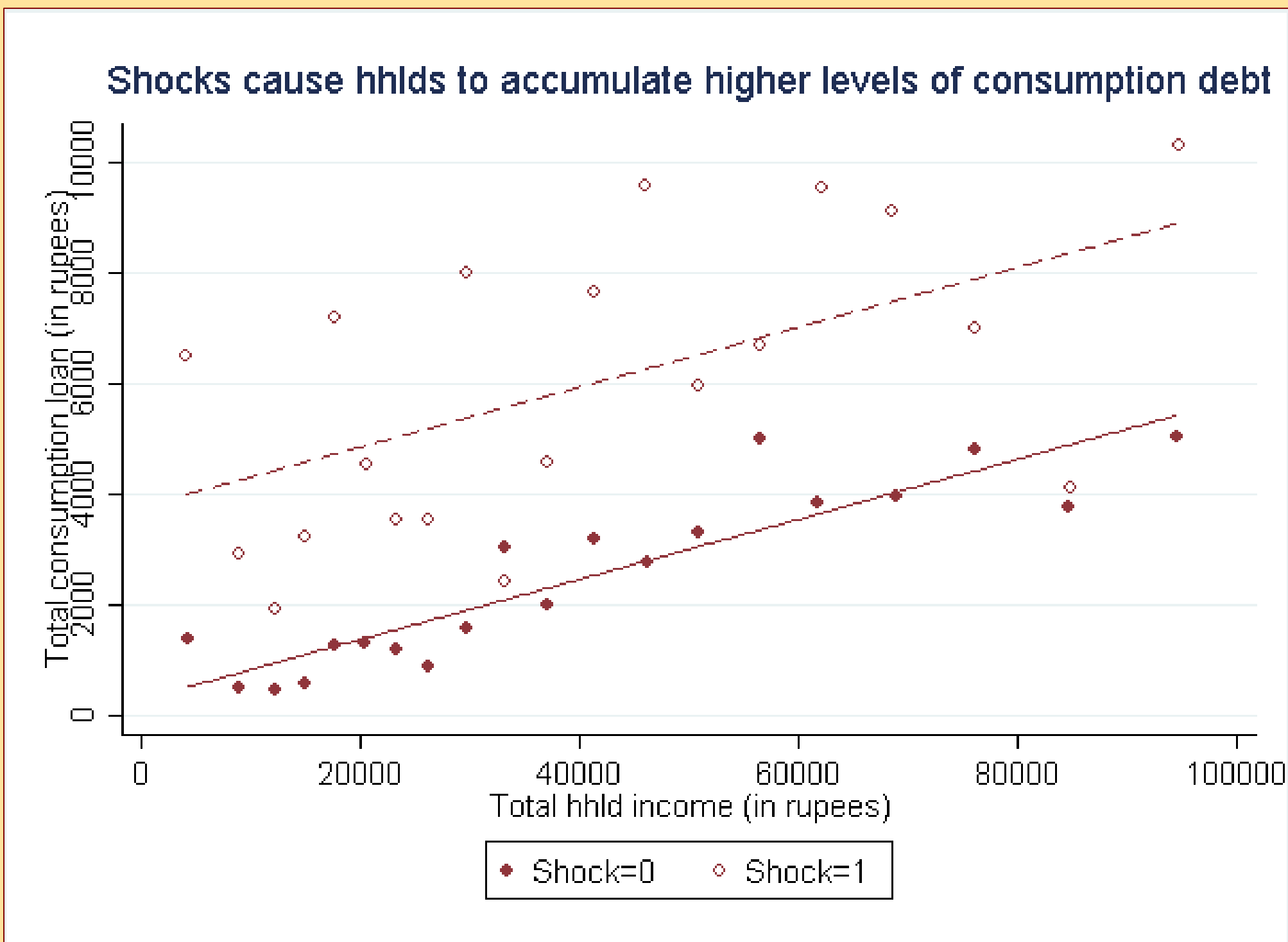
Empirical model: $y = \alpha + \beta_s \text{*shock} + \beta_b \text{*bankaccount} + \beta_{sb} \text{*shock*bankaccount} + X\beta_x + h_i + \epsilon_i$

Identification strategy: Quasi random roll out of *aadhaar* and other policy changes; household fixed effects and exogenous nature of shocks.

Data

- Household panel data for two years (2005 and 2011) in India. (n = 34,643)
- Ownership of bank accounts increases from 30% in 2005 to 60% in 2012.
- Shocks include self reported theft, break-in and agricultural shocks.

Results



	Whole sample	Restricted sample	Whole sample	Restricted sample
	(1)	(2)	(3)	(4)
Outcome variable	ln(debt)	ln(debt)	ln(debt)	ln(debt)
Shock	0.870*** (0.0387)	0.9642*** (0.0460)	0.824*** (0.0653)	0.825*** (0.0653)
bankaccount			1.123*** (0.0305)	1.148*** (0.0322)
shock*bankaccount			-0.428*** (0.0806)	-0.540*** (0.0926)
Observations	83,108	65,988	69,286	52,166
R-squared	0.015	0.017	0.055	0.065
Number of hhlds	41,554	32,994	34,643	26,083
Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1				

- Shocks have a positive and significant impact on the debt that households accumulate for consumption purposes.
- Bank account ownership is also positively and significantly related to the amount of household debt and the number of loans obtained.
- **Bank account ownership among households is associated with lesser accumulation of consumption debt in the face of economic shocks.**

Conclusion

- Bank accounts mitigate the tendency of shocks to drive households into debt.
- The findings of this study indicate that while shocks do not have a significant negative effect on food consumption or the wealth index of the households; it does have a positive and significant effect on the debt accumulated by households.
- Future research will focus on a sensitivity analysis of these results.

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