

Discussion of

Banking the Unbanked: What do 255 Million New Bank Accounts Reveal about Financial Access?

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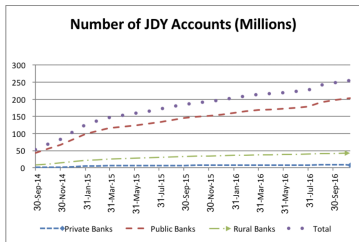
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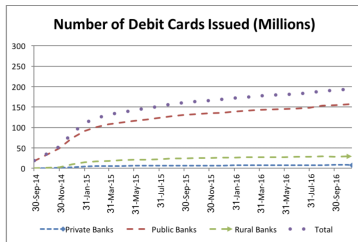
Background

- Banks are important for economic growth and development.
- But, what functions of banks drive the link between finance and development?
- What is the impact of expanded access to banking on poverty? On other economic outcomes such as investment expenditures, consumption, health, and education?
 - What are the channels?

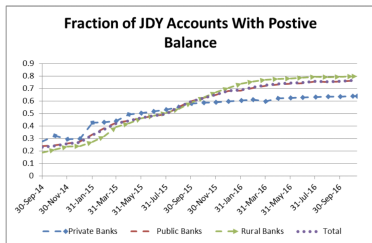
PMJDY: Massive Shock in the Supply of Banking to Unbanked



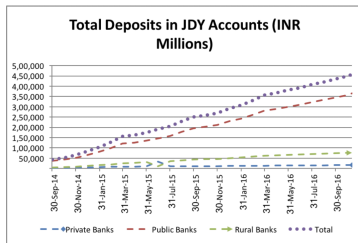
(a) Number Accounts Opened



(b) Number Debit Cards Issued



(c) Number Accounts with Positive Balance



(d) Total Deposits in JDY Accounts

Data

- JDY group: A random sample of 1,514,307 JDY accounts.
 - Ten months of data August 2014 to May 2015.
- Non-JDY group: 50,089 non-JDY accounts opened during the sample period.
- Pre-JDY group: 1,080,938 accounts opened in the six months leading to the program.

Research Questions

- The paper has two objectives:
 - 1 To document the initial uptake and subsequent usage of banking services by the unbanked targeted by the program.
 - 2 To examine how the expanding access to banking services *affects* broader outcomes such as:
 - Bank lending
 - GDP growth
 - Household spending patterns
 - Savings
 - Investment
 - Consumer prices

Why Does it Matter?

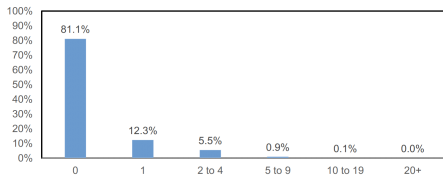
- It is important to understand why the unbanked are not using the formal financial sector. Is it because unbanked
 - don't need bank accounts, or
 - don't know how to use bank accounts and
 - don't know the benefits they can get from using banking services
- Supply side intervention is useful in disentangling these competing explanations.
- In addition, it is important to assess macroeconomic outcomes of financial inclusion.

What Do They Find?

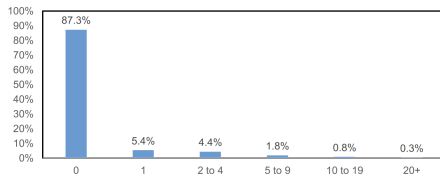
- Learning by individuals
 - Initial usage appears quite small. But, it gradually converges over time to those of non-PMJDY accounts.
- Banks catering to new demand for formal banking credit by previously unbanked borrowers.
 - Increase in lending and default rate on new loans in regions with low ex ante access to banking services.
 - Increased borrowing and spending for health-related reasons.

Comment: Frequency of Usage

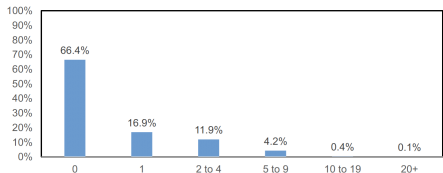
Ten months is too short a time for learning.



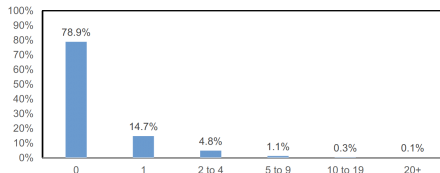
(a) Cash Deposits



(b) Cash Withdrawals



(c) Inward Remittances



(d) Outward Remittances

Comment: Longer Time Period also Important for Understanding Downstream Outcomes

- Lending by banks increases because:
 - ① Additional deposits by the unbanked relax financial constraints of banks. Banks lend more.
 - ② Reduction in information frictions results in credit to unbanked.
- The additional capital is relatively small - a mere 0.06% of the pre-JDY deposits in the banking sector.
- For the second channel to work, we need to give this experiment more time.

Comment: Regression Specification

$$Y_{it} = \beta_0 + \beta_1 JDY_{it} + \beta_2 Age_{it} + \beta_3 JDY_{it} \times Age_{it} + X_{it} + AcctOpenMonth_t + \epsilon_{it} \quad (1)$$

- Non-JDY account holders?
 - Are they matched to the same district?
 - How do their personal financial circumstances compare to JDY accountholders? Or literacy levels? Or access to bank branches?
- These unobservables could be related to heterogeneity across groups and also to usage over time.
- Shouldn't we include individual fixed effects?

Characteristics of Pre-JDY Accountholders

- How do Pre-JDY accountholders differ from JDY accountholders?
- Pre-JDY accountholders have a need for a bank account for transaction purposes. So, it is unclear if they are better matches to JDY accountholders.

Do JDY Account Holders Receive Credit?

- An untested assumption is that unbanked receive credit from banks.
- However, the focus of the paper is on transactions in new accounts and safekeeping function of banks.
- Does savings accumulation lead to provision of credit by banks?

Comment: Government Transfers

- How much of the activity in JDY accounts is a result of government transfers.
- Do these government transfer result in increasing activity over time?
Transfers will lead to withdrawals.

	Cash Deposit Amount	# Cash Deposit Transactions	Cash Deposit Dummy	Cash Withdrawal Amount	# Cash Withdrawal Transactions	Cash Withdrawal Dummy
	(1)	(2)	(3)	(4)	(5)	(6)
JDY	-1667.757*** (72.667)	-0.186*** (0.004)	-0.115*** (0.002)	-4819.868*** (135.149)	-1.214*** (0.015)	-0.375*** (0.003)
Age of Account	-32.856** (14.295)	-0.013*** (0.001)	-0.010*** 0.000	-77.230*** (29.457)	-0.005* (0.003)	-0.005*** (0.001)
Age of Account X JDY	38.371*** (14.411)	0.008*** (0.001)	0.005*** 0.000	103.159*** (29.452)	0.018*** (0.003)	0.012*** (0.001)
N	6698136	6698136	6698136	6698136	6698136	6698136
R ²	0.008	0.016	0.015	0.025	0.097	0.109

Heterogeneity in Account Usage

- What prevents people from using bank accounts?
 - Distance to bank branch
 - Education levels
 - Wealth levels
- Marital status?

Regional Analysis

Areas More Exposed to the Program

- Bank branch penetration
- % of state-owned banks
- % of households without bank accounts
- CRISIL index of financial exclusion

More JDY accounts opened.
(high JDY intensity)

Difference-in-differences

Compare economic outcomes in these regions with other regions that had high levels of banking access.

Comment: Confounded by Other Contemporaneous Policy Shocks and Time Trends

- Regions with low levels of banking access are also poorer and less well developed.
- Difficult to make causal inferences. More affected areas have low levels of pre-program lending.
- Inferring regional variations in lending growth is hard.
 - How much of this increase in lending is to JDY accountholders?
 - Because the total deposits by JDY accountholders are small, the increase in deposits cannot explain the relative increase in lending.

Comment: Survey Data

- CMIE data is at the district or state level.
- Comparisons are between outcomes in regions with low income levels and those with high income levels.
- Affects various outcomes: For example, "intend to save" results. We expect individuals in lower-income regions to have a higher desire to save than individuals in higher-income regions.
- Why health expenditures? Why not education expenditures? Or, investment expenditures?
- Time-period may be too short to assess health outcomes.

Conclusions

- Over 2 billion people lack a bank account. Is the exclusion because of a lack of demand or because of insufficient supply? How does greater access to banking services affect broader economic outcomes? These are important questions.
- PMJDY is an enormous shock to the supply of bank accounts. What happens to various macroeconomic outcomes when 255 million unbanked individuals are brought into the formal banking sector?
- Effects should take time to show up. So, additional data would make this analyses a lot more richer.