# Reducing the Cost of Lending

**Introduction:**

Interventions to increase access to bank accounts and bank services are being introduced across the globe. In developing countries, efforts to universalize the access to bank accounts seek to reduce costs, risks and inconveniences of informal financial transactions.

**Background:**

Despite being essential to daily economic life in developed countries, bank accounts are not universalized in developing countries. Only 54 percent of adults in developing countries reported to have a bank account, compared to 94 percent in OECD countries. Instead of using banks, more informal means are used to save money, such as keeping cash at home or buying illiquid assets. These alternative ways may be costly, risky, or inconvenient.

**Details of the Intervention:**

Followed by the benefits of universalising access to bank accounts, governments and donors have put forward goals at the country and institutional level for access to financial services. These interventions have expanded access to basic bank accounts in developing countries, increasing the number of deposits made in countries like Uganda, Malawi and Chile. However, policies which focus merely on expanding access to basic accounts are unlikely to improve welfare noticeably.

**Impact:**

Evidence suggests that most households open an account when offered for free or at a reduced cost, but it is harder to encourage people to use their accounts and change savings habits. DAY NRLM as a platform should be used for expanding access to bank accounts and improving financial literacy of women. Reducing the costs of savings led to positive household and business impacts in several instances, with impacts varying greatly depending on the context and target population

- Reducing costs of savings accounts alone increased account ownership but did not translate into regular use in most cases.
- Expanding access to a wider variety of products tailored to client's specific needs may increase usage. Examples of products that may increase account usage include accounts with reminders; commitment savings devices, which restrict access to savings until meeting a specific goal; group-based savings models; automatic deposits; or accounts linked to payments.

In addition, product and market innovations that generate more information about borrowers reduce transaction costs and encourage repayment. These innovations address factors that contribute to the high cost of microcredit in low- and middle-income countries.

- Innovations such as credit scoring, dynamic incentives and social pressure are effective because they generate information that changes decisions of lenders, borrowers, or both.
- Technology, particularly in the form of digital credit, holds great potential to substantially reduce the costs of providing credit, but impact evaluations are ongoing.

*Source: Dupas, P., Karlan, D., Robinson, J., Ubfal, D. (2018). "Banking the Unbanked: Evidence from Three Countries." American Economic Journal: Applied Economics.; Abdul Latif Jameel Poverty Action Lab (J-PAL). (2018). "Reducing the cost of lending to low income borrowers." J-PAL Policy Insights. Last modified April 2018.*