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Banking the Unbanked: What do 280 Million New Bank Accounts Reveal about Financial Access?

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Abstract

We study the world's largest government financial inclusion program that led to over 280 million new bank account openings in India. Using administrative account-level data, we shed light on the demand and supply of banking services to the poor. Banking usage is initially low but increases over time. Account usage is greater in regions with a high pre-program theft rate indicating that safekeeping is an important function of banking for the unbanked. Individuals also use banking access to manage their liquidity, increasing saving balance during periods of positive income shock and decreasing the balance during periods of high liquidity need. Banks also extend credit to newly banked customers with stronger effects among those with higher liquidity needs. Concurrently, household survey evidence reveals a decline in individuals' borrowing from informal sources. There is also suggestive evidence that consumption volatility decreases in regions more exposed to the program. These results are consistent with a latent demand among unbanked for banking services that allow for safekeeping and liquidity management through savings and access to formal credit. There is an increase in delinquency rates on credit extended to newly banked consumers, suggesting that unbanked borrowers are of lower credit quality. Quantitatively small deposit inflow from newly banked consumers (0.8% of pre-program deposits) coupled with their lower credit quality likely dissuaded banks from "banking the unbanked" in the absence of government intervention.

Keywords: Banking, Financial Inclusion, Financial Literacy, Big Data, Financial Access, Savings, Spending, Debit Card, Consumer Finance, Household Finance**JEL Classification:** C93, D14, G21, O16, O12[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID3070181_code1225030.pdf?abstractid=2906523&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID3070181_code1225030.pdf?abstractid=2906523&mirid=1&type=2\)](#)

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