CAN BANK TRANSFER OF SALARY OR WAGES NUDGE SAVINGS IN FORMAL FINANCIAL INSTITUTION? : A CASE STUDY OF INDIA

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ABSTRACT
Policymakers are always looking for the determinants which have an impact in the financial behavior of the people. Nudging for a good financial practice is always a thrust area for study in this field. Payment of salary or wages directly to bank account may nudge people to join attractive savings and investment plans with formal financial institutions. This work explores this idea using the Indian sample from Global Findex 2017 microdata. The work finds that direct transfer of salary or wages in the employees’ bank accounts induce savings in formal financial institutions while controlling for the effects of gender, age, education, and income. Employers may credit their salary or wages directly in their bank accounts. This will nudge them to choose formal financial institutions for saving and investment. To making nudging easier the employers shall also provide financial education to employees.

Keywords: Household savings, Financial Inclusion, Nudge

INTRODUCTION
Savings in formal financial institution is an indicator of financial inclusiveness. The person who has more savings in formal financial institutions is considered more financially included and vice versa (World Bank, 2012). Organizations and policy makers will be interested to see people save more (Reddy, 2004). India has 191 million unbanked adult populations (Forbes, 2018), being unbanked, they are more likely to accept informal financial practices (Swain, 2018). To resolve this issue, Jan Dhan Yojna and its preceding social banking initiatives have opened a large number of bank accounts, mostly no frill accounts (Swain, 2018). However, in India, percentage of inactive accounts is the highest in the world (48%). This is almost twice the average of 25% for developing countries (Global Findex, 2017b). These inactive accounts can be put in to use for crediting salary or wages. In the same context, more than the average adult wage earners are receiving their wages in cash (Global Findex, 2017b). Receiving wages in bank account may induce saving practices in formal financial institutions. This study has tested if payment mode of salary or wages influences the saving behavior of the people. The outcome of the study has important implications for the financial intuitions and policy makers regarding financial inclusion.

LITERATURE REVIEW
Financial Literacy is identified as an important factor on the saving behavior of the people (Lusardi, 2008). A person’s level of education positively affects his income (Cole, Paulson, & Shastry, 2013). People in workforce earning from their salary and wages are more likely to be recommended for financial literacy programs to create awareness and to educate about money management and banking (RBI, 2013). Among low and moderate savers, financial education significantly induces saving
The financial education in workplace increases the participation of the spouse of the employees. It gets reflected in the plan balance of their pension plans (Bernheim & Garrett, 1995). Saving is highly influenced by the income, whereas, investment decisions are influenced by the safety factor (Asmita, Prakash, & Kritika, 2018). Financial literacy depicted a direct relationship with education level. Economic focus of the education exhibited significant and positive effect on financial literacy level (Tóth, Lančarič, & Savov, 2015). Literature indicates individual characteristics such as age, gender, marital status and life style determine the saving and investment behavior of individuals of the study region. Moreover, their family characteristics such as their monthly family income, stage of family life cycle and upbringing status emerge as determinants of their saving and investment behavior (Achar, 2012). More socializing parents play a central role in facilitating and promoting good financial practices among their children (Subhamv & Priya, 2016).

As shown in following table, unlike high-income economies, in developing economies only about half of the population get their salary or wages directly into a formal account (Global Findex, 2017a). Mere increase in accounts ownership does not necessarily translate into increase in formal saving. A majority of people with bank accounts are not saving formally (Global Findex, 2017a).

### Account owners do not necessarily use their account to save—or even save at all

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<th>Adults with an account by savings behavior in the past year (%)</th>
<th>2017</th>
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<td>High-Income economies</td>
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Source: Global Findex database.
Note: Account owners may save in multiple ways, but categories are constructed to be mutually exclusive. Saved formally includes all account owners who saved any money formally. Saved semiformaly includes all account owners who saved any money semiformaly but not formally. Data on semiformal saving are not collected in most high-income economies. In all individual economies shown, about 70 percent or more of adults have an account.

The asymmetric paternalism by the policymakers or organizations on an issue may bring out a policy which will result in net benefit to the stakeholders (Camerer, Issacharoff, Loewenstein, O’Donoghue, & Rabin, 2003). To nudge people by providing a choice architecture in the policy can alter the saving behavior of the people. People have a strong tendency to go with default option or the status quo (Thaler, Sustein, & Balz, 2008). One of the main causes of status quo bias is lack of attention. The consumer may feel that the default option has some implicit endorsement by the default setter. Defaults are considered as ubiquitous and powerful (Thaler et al., 2008). Based on the literature...
regarding significance of default option for consumer, the study will access primarily if paying salary or wages directly to bank account may nudge people to join attractive savings and investment plans in formal financial institutions.

HYPOTHESIS

To examine whether credit of salary or wages directly into an account at a formal financial institution influences the formal savings the following hypothesis are examined:

$H_0$: Mode of wage or salary transfer does not influence choice of formal financial institution for savings.

$H_1$: Mode of wage or salary transfer does influence choice of formal financial institution for savings.

METHODOLOGY

Global Findex 2017, world’s most comprehensive data set (World Bank, 2017) in the field of financial inclusion, has been used for data analysis. Data are collected through nationally representative survey conducted in over 140 countries. The variable “fin17a” contains the data if a household is saving in a formal financial institution in last 12 months. Thus saving behavior of the people is measured by the variable “fin17a”. A new variable “form_tran” is created by merging the data for direct bank account transfer or mobile account transfer of salary or wages. The association between these two variables is vital for the study. Other variables with data related to gender (female), age (age), education level (educ) and income category (inc_q) are taken as control variables. In this study, except age all other variables are categorical variable. Controlling the association of other variable the association between “fin17a” and “form_tran” is measured in the study.

A logistic regression analysis is used here to estimate the log odd of an event i.e., if a household saving in formal financial institution or not. Mathematically, logistic regression estimates a multiple linear regression function defined as:

$$logit(p) = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 + \ldots + b_k X_k$$

where p is the probability of presence of the characteristic of interest. The logit transformation is defined as the logged odds:

$$odds = \frac{p}{1-p} = \frac{probability \ of \ presence \ of \ characteristic}{probability \ of \ absence \ of \ characteristic}$$

and

$$logit(p) = \ln \left( \frac{p}{1-p} \right)$$

RESULTS

The result of logistic analysis in this research paper employs maximum likelihood estimation of an endogenous switching regression model to analyze saving pattern of people with formal financial institution in last 12 months and direct credit of salary or wages in an account with formal financial institution.
The empirical findings suggest that the formal payment of salary or wages positively affects the formal savings. This relationship is also statistically significant while controlling the effects of age, gender, income level and education level. Age and income level positively affect the chances for households to save in formal financial institutions. Gender or education does not affect the saving behavior significantly. The odds for formal saving behavior in presence of control variables along with the event of formal transfer of salary or wages was more than thrice (3.6), and is statistically significant.

CONCLUSION

A good choice architecture can nudge people to have formal saving. Following the six principles for a good choice architecture, incentives may be offered like no frill account, easy documentation, dedicated corporate relationship manager, easy access etc. Financial literacy can help them to understand and predict the probable outcome of their choices. It is a determinant of the financial behavior of an individual for a certain financial engagement. People may not take their financial decision in the optimal level (Huston, 2010). Thus, the research outcome might not identify any significance for the variable of education level. The present bias and choice overload may enable households to keep a default payment system. A well designed feedback process can be implemented to enable people to adopt a good savings practice (Cartwright, 2011). It can be a part of continuous financial literacy program or as an extended service of formal financial institutions. The principle to expect error and simple structural process are also important to move things in right direction for most people (Cartwright, 2011). Focusing on the significant determinants of savings behavior during formulating and designing policies to nudge people for savings would be useful in improving financial inclusion in India.
REFERENCES


