

Trying to save more? Consolidate your bank accounts, researcher says

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(Phys.org) —We all know we should save some money for a rainy day. Of course, that's easier said than done when you really, really want that new iPhone. Or that new designer jacket. Or both. But a University of Kansas researcher has a suggestion for people trying to spend less and save more: Consolidate your multiple bank accounts into one main account.

According to new research by KU School of Business assistant professor Promothesh Chatterjee, individuals will save more and spend less when they have a single account compared with multiple accounts. Chatterjee's findings run counter to the conventional wisdom that people should spread their [earnings](#) across different accounts to increase their savings. Moreover, his findings have implications for policymakers trying to encourage saving among large populations of people.

"For years, the conventional wisdom has been that spreading your money across various accounts encourages you to save," Chatterjee said.

"Nowadays, the average American has multiple liquid accounts, typically a combination of checking and savings accounts. But our research finds this is the wrong strategy to encourage saving. We find that individuals are more likely to save if they have only one primary account, rather than many accounts."

Chatterjee's research utilized four separate studies totaling 566 participants. All four studies presented participants the opportunity to earn money across tasks and spend it on different products. The four

studies collectively indicated a higher rate of saving among individuals who maintain one account versus those who have multiple accounts. The results will appear in the May 2013 edition of the journal *Organizational Behavior and Human Decision Processes*.

According to Chatterjee, his findings can be explained by two often-cited theories of behavior – "motivated reasoning" and "fuzzy-trace theory." Motivated reasoning implies that individuals find spending more enjoyable than saving and are motivated to search for reasons to justify spending. In such situations, vagueness enables them to distort available information to follow desirable spending motives. And having multiple accounts provides that vagueness.

"Basically, people look for an excuse to spend, and vague information facilitates this," Chatterjee said. "And having multiple accounts provides just enough vagueness to do the trick."

In addition to the implications for individual savers, Chatterjee's findings have notable implications for [policymakers](#) and organizations. For example, it is common practice in the banking industry to open multiple liquid accounts for new clients, again based on the conventional wisdom that having multiple accounts induces customers to save. Chatterjee's findings would turn this common banking practice on its head.

There are national, macrolevel concerns here, too. The current national personal savings rate is estimated to be 5 percent, a paltry amount that many observers say threatens the long-term financial security of many people. Moreover, Americans' inability to save appears to be independent of income and education level, in that high-income, college-educated U.S. households have just as much trouble saving money as low-income households with no college degree.

"Our inability to save is a national, near-universal issue," Chatterjee said. "Given that context, this type of research is important to lots of people."

Of course, there are some individuals who are quite comfortable with their multiple accounts and would find it difficult or inconvenient to consolidate money into a single account. But even those individuals could benefit from Chatterjee's findings.

"If you're really opposed to consolidating, you can at least try to reduce the vagueness of having money across multiple accounts by utilizing software and services that provide a consolidated view of all of your accounts in one place," Chatterjee said. "This type of aggregate reporting could help reduce vagueness and enhance savings.

"But the take-home message remains: Consolidating multiple accounts into one account will help encourage you to save your hard-earned money."

More information: www.sciencedirect.com/science/.../S0749597812001252

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