Savings for Poor People:
Good for clients, good for business?

When savings accounts in financial institutions serving the poor outnumber microloan accounts seven to one, one thing is certain: microfinance clients want savings services.[1] The problem is, deposit-taking financial institutions don't always have the ability or incentive to provide them.

Recent research led by CGAP found that "double bottom line" financial institutions (which seek to pursue a development mission while operating sustainably) can mobilize savings from poor clients and still be profitable overall. When "total client profitability" is considered, providing savings may be a real business opportunity over time.

Demand for savings: A popular service for clients

The numbers demonstrate demand: a 2006 study showed that there were 1.3 billion low-average balance deposit accounts versus 190 million loan accounts in developing and transitioning economies.[2] "Poor savers turn tiny amounts of money into lump sums to help smooth consumption and mitigate the effects of economic shocks," says Kate McKee, CGAP senior advisor. "In many developing countries, poor people are willing to pay to save. Roving deposit collectors in many African countries, for example, charge a fee—typically 6 percent of the average monthly balance—to relieve clients of extra cash."

Is there a business case?

Regulated financial institutions in many markets see several real and perceived challenges in delivering deposit services to poor people. So, is there a business case?

Beyond the product approach: Total client profitability
Savings services tend to be closely linked to other products financial institutions offer. They can confer many, often intangible, benefits to institutions beyond simple cost of funds and profit, including customer loyalty and satisfaction, enhanced reputation and mission fit.

A more dynamic and longer term perspective on profitability—now in favor in developed markets focused on client retention, cross-selling and diversifying revenues—also suggests benefits of providing small-balance savings accounts. "Consider a savings client in terms of 'total client profitability'—that is as both a current and future source of revenue for a financial institution," says Evelyn Stark, CGAP microfinance specialist. "In some cases, a simple deposit account is the gateway product that leads this low-income customer, over time, to other, more profitable products, like loans and money transfers. And the more services a client gets from a financial institution, the more likely that client is to stay for the long term."

Delivery cost: How expensive is too expensive?

For many financial institutions, the biggest barrier to providing savings targeted to lower income clients may be perceived or real cost. "In 2006, CGAP conducted activity-based costing (ABC) exercises with five financial institutions that found that both small and large institutions can offer savings services, even to small savers, and still be profitable overall," says Jasmina Glisovic-Mezieres, CGAP microfinance analyst. In some institutions, small accounts were not profitable per se but were cross-subsidized with larger accounts. Also, the use of efficient delivery models and broad outreach can decrease the negative impact of the greater expense associated with small balance savings accounts.[3]

Funding the portfolio and financing growth

Depending on the environment, the institutional business model, and the available alternatives, savings can be an attractive funding source in terms of cost, stability and reduced dependence on external borrowing. A majority of microfinance managers in a recent CGAP-Grameen Foundation survey considered this to be the case.[4]

Meeting the double bottom line vs. maximizing profitability

For double bottom line institutions—such as the five institutions in CGAP's costing study—the contribution of deposit services to a social mission makes up for their short-term impact on overall profitability. But even for purely commercial institutions, advantages like decreased external borrowing, opportunities for cross-selling, and client retention can be persuasive.

Assessing your business case

While there may be many compelling reasons for offering deposits services to poor people, the challenges are undeniable. The rationale for offering savings services is different for each market and for each individual institution—and always requires that resources and investments support long-term profitability. CGAP has developed two tools to help providers make their own assessments: the Country-Level Savings Assessment Tool and the Microfinance Product Costing Tool.

In the end, taking a broader and longer-term perspective - including business, mission, and/or social responsibility concerns - can help financial institutions better weigh the full costs and benefits of providing deposit services to their clients.

For more information, refer to:

Safe and Accessible: Bringing Poor Savers into the Formal Financial System, CGAP Focus Note 37, September 2006

CGAP Savings Information Resource Center

Financing: Client Savings Continued to Dominate, Benchmarking African Microfinance 2006, the MIX

The True Cost of Deposit Mobilization, Deposit Costing Project, Draft Report, December 2007

MFI Capital Structure Decision Making: A Call for Greater Awareness, CGAP Brief, August 2007

Country-Level Savings Assessment Tool, CGAP, Draft 2007

Microfinance Product Costing Tool, CGAP, June 2004

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1 Access to Finance - What Does It Mean and How Do Savings Banks Foster Access, World Savings Banks Institute (WSBI), 2006, based on CGAP 2004.

2 Ibid.

3 The True Cost of Deposit Mobilization, Deposit Costing Project, Draft Report, December 2007. The institutions selected for this study are of different institutional types and serve different types of clients in different countries, including Ethiopia, Bangladesh, Pakistan, the Philippines and Peru.

4 MFI Capital Structure Decision Making: A Call for Greater Awareness, CGAP Brief, August 2007.

Behind the Headlines: Savings and Asset Building for the Poor

An interview with CGAP microfinance experts Kate McKee and Evelyn Stark

Beyond the well-worn topic of microcredit, financial services like savings are receiving *increasing attention in the media. The Financial Times recently ran the headline: "Thriving Industry Is Proof the Poor Can, and Do, Save;" while an article in the Economist about the growing opportunity for banks among the low-income segment in Africa stressed the role of savings services because "millions of people are still waiting to take their cash from under the mattress."* [1]

The microfinance industry has grown from helping poor people increase their income from businesses and self-employment to taking on issues of consumption smoothing and financing household needs. However, neither approach is sufficient to tackle poverty, alone or in combination.

We sat down with CGAP microfinance experts Kate McKee and Evelyn Stark to discuss why a new approach needs more attention from both formal financial sector players and the broader microfinance community—helping low-income individuals and families build assets and wealth.

1. **What do you mean by "asset building"?**

For many people, the term "assets" brings up the image of "physical" assets that a family owns, like tools, jewelry, or even a house. For microfinance practitioners, "financial assets" like a savings account might come to mind as well.

But we also mean building up the other household assets families need to climb out of poverty and reducing the likelihood of falling back in during a crisis like a serious illness. These include human assets (such as family members' skills or health), natural assets (like access to grazing land and clean water), and social capital (including commercial and social relationships built on trust).

2. **How does access to finance support asset building?**

The most important and versatile financial service for asset building is probably savings. Financial capital like a deposit account usually can be converted into other types of capital. For example, parents save for school fees and regular health check ups to build up the family's human capital, and they use savings to improve their housing stock, too.

While savings is key, credit, insurance, and remittances also contribute to increasing and protecting diverse assets. Clients don't always use their loans to purchase, say, inventory for their businesses, but this is not always a bad thing. Many families divert loan funds to improve their homes, including adding rooms that they rent, thereby increasing their assets and their income. Affordable and accessible money transfer services help receiving families build assets like housing. Insurance can help *protect* family assets against loss from natural disasters, theft, and other crises.

3. **Why do you seem to prioritize savings over loans?**

Because poor people prioritize savings over loans! While loans offer one avenue for low-income individuals and families to acquire assets, they may not always be timely, they typically cost much more than savings, and families are often risk-averse and/or excluded from traditional microcredit options.

What's more, impact research in places like the United States and Uganda has documented further advantages of savings, particularly in human capital, because savers tend to have an increased sense of empowerment, an increased desire to stay in school, and so on.[2]

4. **Is asset building only about savings?**

No, financial services that *protect* assets—like emergency loans and insurance—are also important. It's not enough to build assets if you have to sell them at the first sign of crisis. We need to focus on protection products, such as flexible credit, emergency loans, and innovations and partnerships to provide more and better insurance products.

Think of how an emergency loan or health insurance could enable parents to keep their children in school and their inventory on the shelves when a family crisis hits and how livestock insurance or indexing can allow families to protect hard-earned physical assets in the face of bad weather.

5. **How can the microfinance industry get more poor people saving?**

In three words, the answer is access, products, and marketing.

Access: At CGAP, we are looking at how to increase access to savings accounts for poor people in various ways. For example, our technology team is exploring ways of creating safe and convenient savings services through mobile phone banking with microfinance institutions, banks, and telecom partners. We have two pieces of research coming out on state banks and state-owned savings and postal banks—precisely because these types of institutions reach significant numbers of very poor depositors. A forthcoming World Savings Bank Institute (WSBI) report funded by CGAP showed that 4.5 million very poor households in Thailand are reached by Government Savings Bank.[3] Our research includes exploring policy options to strengthen these institutions to meet the needs of ever poorer clients.

Good Products: It's time for the microfinance field to apply as much effort and creativity to "getting the savings products right" as it has invested on the credit side. CGAP's savings initiative has highlighted the efforts of innovators from around the globe, like Hatton Bank in Sri Lanka, which makes it easy for remittance senders and recipients to save and helps children develop savings habits through in-school banks.[4] We've also helped fund a study on long-term contractual savings products in South Africa that are meant to allow poor people to save for old age - but have had limited success. This study yielded interesting recommendations for policy makers and practitioners to increase both customer satisfaction and product uptake.[5]

Marketing: Uganda recently carried out a massive savings marketing campaign that clearly demonstrated that marketing matters. The campaign helped attract 300,000 new savers in just three years.[6] The WSBI report also found that the most successful savings banks—those that reach very poor people—have both good products and good marketing. In Peru, another CGAP-funded study found that simple but creative incentives had a powerful effect on clients' savings habits (as discussed in this issue of Portfolio).

Many of these initiatives are not directly designed to build assets and might be simply transactional. However, for clients, the ability to "test" an institution with short-term savings might stimulate trust and encourage them to save over the longer term.

6. **Any last words?**

Governments, donors, and practitioners all have the same goal: safe, sound institutions (or non-institutions like branchless banking) that can reach large numbers of unbanked, poor people with client-responsive savings products.

For more information, please refer to:

"Safe and Accessible: Bringing Poor Savers into the Formal Financial System," CGAP Focus Note 37, September 2006

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1 "On the frontier of finance," *The Economist*, November 15, 2007.

2 Mark Schreiner found that among low-income people in the United States who were enrolled in "individual development account" programs 93% felt more confident about their futures, 84% felt more economically secure, and 85% felt more in control ("Savings, IDA Programs and Effects of IDAs: A Survey of Participants." Schreiner, Moore, et al. 2001 published by microfinance.com; Center for Social Development at Washington University, St. Louis.) Fred Ssewamala recently found that young people in Uganda who participated in a matched savings account pilot aimed at funding secondary school fees reported better "knowledge and attitudes" toward safe sex and a greater likelihood to aspire to completing two more years of secondary school (forthcoming).

3 Poverty Assessment of Sample WSBI Member Institutions, forthcoming.

4 Banking on the Future: An Interview with Chandula Abeywickrema from Hatton National Bank in Sri Lanka, Microfinance Gateway.

5 The Poor and Long Term Contractual Savings: Lessons from South Africa, Roth, J., Rusconi, R., Shand, N., & McCord, M., November 2007.

6 Working at Both Ends: Enhancing Supply and Demand for Savings Mobilization in Rural Uganda, Microfinance Gateway.

Frontiers and Innovations

Innovative Marketing in Peru:
Helping poor people save?

In developing countries around the world, poor people save, but few engage in formal, long-term savings. Poor people in Peru are no exception. They rely on informal mechanisms, such as rotating savings groups, and many save only in spite of emergencies that make it difficult to keep long-term goals in mind.

A new study conducted by Innovations for Poverty Action (IPA) and funded by CGAP, however, suggests that targeted incentives can go a long way toward helping clients meet their savings objectives. This research is part of a partnership between CGAP and IPA to assess how specific marketing techniques can encourage individuals to reach their long-term savings objectives.

Plan Ahorro: Tailoring saving incentives to poor people

In early 2006, a Peruvian municipal savings and loan institution, Caja Municipal de Ahorro y Credito SA (CMAC), launched a savings account for poor people called Plan Ahorro. Its partners were IPA, Catholic Relief Services, and COPEME, a consortium of microfinance and small business development agencies.[1]

Focus on nonfinancial methods
Clients enrolled in Plan Ahorro receive a preferential interest rate on their savings for meeting commitments to save a specific amount over six to 24 months. However, previous experience in the Huancayo region of Peru has demonstrated that financial incentives alone are not enough to foster regular savings habits with many poor clients. Indeed, only 58 percent of CMAC's clients meet their savings commitments. As a result, Plan Ahorro also uses nonfinancial methods to help clients overcome psychological

barriers to saving.

CGAP supported IPA's study of Plan Ahorro because "we wanted to understand what motivates people to stick to a savings plan," say Aude de Montesquiou, CGAP associate microfinance analyst.

The innovations

Sign-up gifts

Often, clients struggle with the fact that spending money now results in immediate and tangible ownership of the item purchased, whereas saving money for the future does not provide immediate satisfaction.

Under Plan Ahorro, CMAC provides clients with sign-up gifts intended to keep the long-term savings goal in sight. Gifts include a photo depicting the chosen savings goal, and the first piece of a puzzle which, when completed, features a photo of their chosen savings goal.

Letters and receipts

Clients also are given deposit receipts. Some receive letters that highlight the benefits of saving and the consequences of not meeting the savings commitment. The various messages include "Remember that if you meet your savings commitment, you will receive a preferential interest rate!" and "Remember that if you fail to meet your savings commitment, you will lose your preferential interest rate!"

Preliminary results: A sneak preview

Gimmicks count

The CGAP-funded study ended in November 2007. Preliminary results indicate that small nonfinancial incentives can influence client retention rate. It also appears that different incentives have varying outcomes: the piece-by-piece puzzle method, for example, seems to more effectively demonstrate to clients how each deposit contributes to the end goal than receiving a photo up-front.

Messaging matters

One of the most interesting preliminary findings is that "negative" messaging was found to improve clients' chances of completing savings goals by 3-4 percent.

"The fact that slight differences in the framing of a message could have such an incidence on client retention came as a surprise to the Caja," says Daniel Kahn, IPA project associate in Peru.[2] "This is particularly important, since framing a message one way or another does not change the costs of marketing a product."

Applying lessons globally

"Findings such as these are important for improving client retention in Peru," says Tania Alfonso, IPA country director for Peru, "but they might also contribute to better program design and marketing of savings products around the world."

The Peruvian case will be compared to other IPA projects in the Philippines, Mexico, Kenya, and Ghana. Full results will be available by March 2008.

Ultimately, financial services like savings will really affect change in the lives of poor people only if they are used over the long term. A major focus of CGAP's work going forward is ensuring that microfinance does not leave anyone behind. This study underlines the critical point that it's not enough to simply introduce microfinance services, engaging and retaining clients is the true end goal. And achieving that goal can be significantly affected by marketing.

For more information, please refer to:

"Safe and Accessible: Bringing Poor Savers into the Formal Financial System," CGAP Focus Note 37, September 2006

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1 COPEME stands for El Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empres.

2 This finding is consistent with previous IPA research on the psychological cues. See Bertrand, et al. "What's Psychology Worth? A Field Experiment in the Consumer Credit Market."

DATA DOWNLOAD: Everything you've ever wanted to know about savings

1.3 billion*

*The number of accessible savings accounts worldwide

How and why do poor people save?

Poor people save because they must: their current income is rarely sufficient to manage crises (a sudden illness, flood, or cyclone, for example), to invest when opportunity strikes, or to pay for large expected expenses, such as school fees, a wedding, or a new roof.

Informal savings: Often the only choice

The most convincing evidence of the potential demand is largely invisible to the formal sector because nearly all poor people save informally.

- 71 percent of Ugandans are currently saving. However, more than a third keep their savings in a secret hiding place. 15 percent save in informal groups, while 4 percent save in semi-formal institutions. Only 15 percent save in formal institutions.
- In Zambia, 51 percent of people save in kind.[1]
- Informal savings are also widespread in Mexico: according to a World Bank survey, 50 percent of rural residents keep money at home.[2]

Paying to save

In many developing countries, poor people value savings so much they are willing to pay to save. Roving deposit collectors in many African countries charge a fee to accept cash from clients--typically 6 percent of the average monthly balance.

Paying a deposit collector, however, might still be cheaper than saving formally, because clients avoid time and transport costs.

A typical small-town resident in West Africa would have to save almost US$200 per month in a bank (and US$20 in the nearest savings and credit cooperative) to match the negative return of the deposit collector. Those figures equal about 360 percent and 36 percent of the minimum monthly wage, respectively--a sum well beyond what poor people can save monthly.

Favoring formal options

If given the opportunity, poor people are willing to save formally.

- 45 percent of Namibians are financially excluded and almost half would prefer to save in a bank.[3]
- In Zambia, 37 percent of survey respondents say they trust banks.[4]

Often formal and informal financial services are complements, not substitutes: 60

percent of members of informal rotating savings groups in South Africa are also (formally) banked.[5]

Primary reasons for saving
Poor people save for a variety of reasons.

Reasons for saving	
Kenya	**South Africa**
• Household needs: 51% • Emergencies (funeral, medical): 33% • Education: 33% • Personal items (e.g., clothes, shoes, travel): 27% • Old age: 15%	• Emergencies: 38% • Funeral costs: 29% • Food: 28% • School fees: 22%[6]

Preference for savings
Poor people often value savings more than loans.

- A study in Nicaragua found that over 70 percent of credit clients expressed demand for financial services other than credit (savings, remittances, transfers, insurance, etc.).[7]

- When asked about financial needs, survey respondents in Uganda replied first "a place to save" (43 percent), before "a place to borrow" (31 percent).[8]

Barriers to access are enormous

Distance
Many poor people live far from banks' branch networks. And although they may travel significant distances to obtain a loan, market research has shown that customers are not inclined to travel too far from their homes or workplaces to make deposits. Getting

close to clients is the first key to savings' success.

- For many rural Ugandans, the nearest financial institution can be up to 60 kilometers away.[9]

- Only 20 percent of Tanzanians has physical access to a formal bank (25 percent to a post office).[10]

Fees

Fees and minimum balances are sometimes so high that poor people simply cannot afford to save formally.

- In Zambia, fees are so high that most Zambians would have to accept a negative return on savings to save formally.[11]

Serving both profits and poor people

Some financial service providers, like government savings banks, postal banks, other community banks and financial cooperatives, already use poor people's deposits to tap domestic financial markets. A few leading specialized microfinance providers are also blazing trails in their countries. But most specialized microfinance institutions (MFIs) are still far from integrating into domestic markets by mobilizing local deposits.

- CGAP's 2004 survey of alternative financial institutions around the world found that globally there are four times as many savings accounts as loans.[12]

  A study by the World Savings Banks Institute (WSBI) in 2006 identified over 1.3 billion "accessible" savings accounts (defined as low average balance, low-cost) in developing and transition economies. With this update, the worldwide savings to loans ratio is even higher; there are more than seven savings accounts for every loan account.[13]

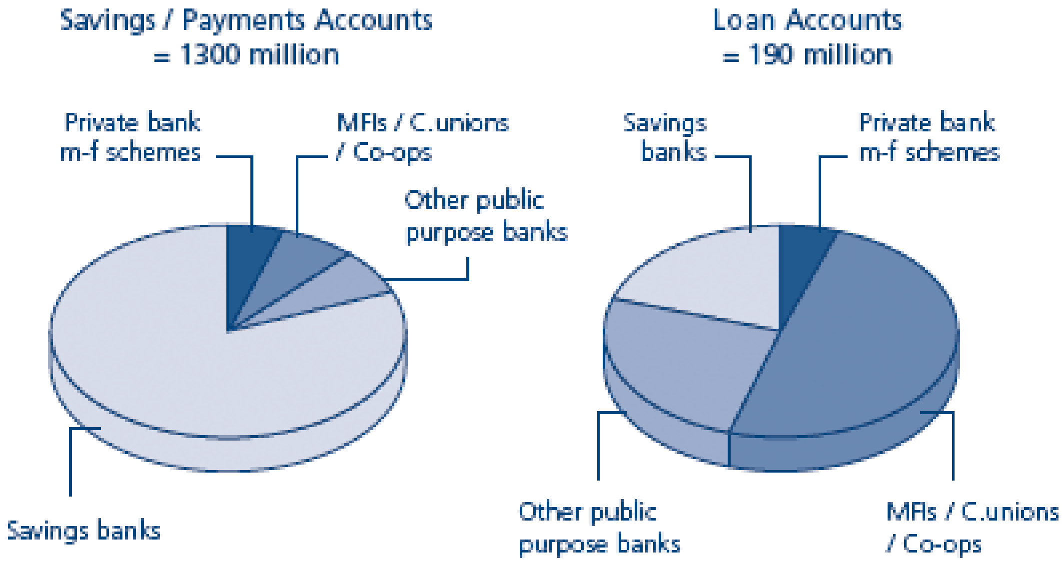

*Figure 1: Suppliers of accessible accounts in developing/ transition economies*14

Savings banks/postal networks

The postal networks provide a valuable source of savings services for millions, including many poor clients.

- **Tanzania Post Bank** provides savings services to over 1.5 million clients; 200,000 adults belong to poorest households.15

  Pakistan Post has 3.6 million savings accounts, with an estimated 70 percent below US$165.16

  In **Benin and Kenya**, the number of postal savings accounts equals or exceeds the number of savings accounts in all other banks combined

State banks

- **Bank Rakayat Indonesia (BRI)** is a government-owned bank, and one of the first banks to recognize the potential of poor clients. As of 2006, BRI's microbanking system had more than 30 million savings accounts. The average savings account balance in 2006 was US $158.17

Piggybacking on existing infrastructure

In Mexico, **Banco Azteca** has opened more savings accounts than the entire "popular finance" (i.e., financial cooperatives) sector with comparable average balances, using the existing Elektra department stores infrastructure. In September 2007, Banco Azteca had 7.4 million active accounts, a 29 percent increase over a year ago.

Source: CGAP CLSA Mexico; statistics are from www.grupoelektra.com.mx

Commercial/specialized microfinance banks

- **Grameen Bank** finances 100 percent of its outstanding loans from its deposits. Deposits amount to 139 percent of outstanding loans. The bank recently introduced several popular deposit services, including a pension savings account. Many clients like the option so much that they save more than the required minimum. As of September 2007, the balance under this account product was US $212 million.[18]

  In 2006, **Equity Bank** in Kenya had more than one million savings accounts. Between 1998 and 2006, the number of accounts grew by 25 times. The average account balance was US$165.[19]

- **PRODEM FFP** in Bolivia started offering savings services in 2000. As of December 2006, it had more than 250,000 savings accounts, with an average balance of US$418.

- The state-owned **Agricultural Bank of Mongolia** (renamed **Khan Bank**) went from receivership in 1999 to a successfully privatized bank today. As of December 2006, Khan Bank had roughly 717,824 deposit accounts--over three times the 234,715 loans outstanding.[20]

- **Opportunity International Bank of Malawi** (OIBM) is currently serving six times more savers than debtors.

- **ProCredit Bank** in Serbia has seen an increase from 55,000 savers in 2001 to more than 300,000 savers in 2006. The bank has roughly 100,000 borrowers.

Cooperatives

- **Village Savings and Loans Associations** provide 12 million people with savings services in 22 countries.[21]

- **Rural SACCOS** in Uganda have reached over 300,000 new savers in the last three years.[22]

- A network of cooperatives in Congo, **Mucodec**, had 60.1 billion CFA francs (approximately US$136 million) in outstanding savings and 10.6 billion CFA francs (approximately US$24 million) in outstanding loans as of December 2006.[23]

1Finscope, Uganda 2007 and Zambia 2005 data (2007 analysis)

2 "Safe and Accessible: Bringing Poor Savers into the Formal Financial System," CGAP Focus Note 37, September 2006

3 Finscope, Namibia

4 Finscope, Zambia 2005 data (2007 analysis)

5 Finscope, Zambia 2005 data (2007 analysis), Namibia 2004, and, Africa Cross Country Report 2007

6 Finscope studies, South Africa and Kenya

7 CGAP 2005: Nicaragua Country-Level Effectiveness and Accountability Review

8 Finscope, Uganda 2007

9 CGAP 2006: Uganda Country-Level Savings Assessment

10 Finscope, Tanzania 2006

11 Finscope, Zambia 2005 data (2007 analysis)

12 CGAP 2004: Financial Institutions with a 'Double Bottom Line'.

13 World Savings Banks Institute, based on CGAP 2004, Access to Finance: What Does It Mean and How Do Savings Banks Foster Access, January 2006

14 World Savings Banks Institute, based on CGAP 2004: Access To Finance -What Does It Mean And How Do Savings Banks Foster Access

15 "Poverty Assessment of Savings Banks," CGAP-WSBI, unpublished document.

16 CGAP 2007: Pakistan Country-Level Effectiveness and Accountability Review with a Policy Diagnostic

17 MixMarket

18 Grameen Bank: http://www.grameen-info.org/bank/GBGlance.htm, and Hirschland, Savings Services for the Poor: An Operational Guide.

19 MixMarket

20 MixMarket

21 CGAP interview with Hugh Allen

22 CGAP Savings Resource Center

23 CGAP interview with Patricia Lavocat, Coopération Internationale du Crédit Mutuel. Unpublished document.