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# Designing Savings Services for the Poor

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## Introduction

Throughout time, all around the world, households have saved: as insurance against emergencies, for religious and social obligations, for investment and for future consumption. The importance the poor attach to savings is also demonstrated by the many ingenious (but often costly) ways they find to save (Rutherford 1999). But for a variety of reasons, most informal mechanisms fail to meet the needs of the poor in a convenient, cost-effective and secure manner. As a consequence, when poor households' are provided a safe, easily accessible opportunity to save, their commitment to saving, and the amounts they manage to save are remarkable. Designing savings services to respond to this potential market, requires the careful balancing of the needs of the saver and those of the institution. The next section of this paper considers the two perspectives and needs – those of the saver and those of the MicroFinance Institution [MFI].

## How People Save: Savings Products and Services from a Saver's Perspective

### *Balancing Convenience, Risk and Returns*

It is clear that most poor people do not have **access** to formal sector banks for reasons that include the:

1. Geographic distance from the financial institution;
2. Terms and conditions governing the available financial services it offers;
3. Disrespectful manner in which the staff treat poor clients;
4. Intimidating appearance of the financial institution; and
5. Complexity of the paper work and the difficult process necessary to make a transaction.

The poor look for some system to provide the **security** and **accessibility** necessary to save. Acceptable degrees of security are relative, dependent on the available programs, and are never 100 per cent. Almost every poor person has been in, or knows of, a failed Rotating Savings and Credit Association [RoSCA] or crooked deposit collector (Wright and Mutesasira, 2001), but the accessibility of a regular opportunity to save in a disciplined manner is what makes RoSCAs and deposit collectors so popular worldwide.

Access is markedly different from **liquidity**, and often considered more important by poor people who have little time to make their transactions. While many authors have stressed that "liquidity is the key to local savings mobilization", it is important to note that in many circumstances the poor have a strong "illiquidity preference". This "illiquidity preference" is in response to the poor's self-imposed need for structured and committed savings mechanisms that prohibit them from withdrawing in response to trivial needs and allow them to fend off the demands of marauding relatives requesting "loans" or assistance.

With the exception of successful Accumulating Savings and Credit Associations [ASCAs] and auction RoSCAs, the **return** on savings in the informal sector is rarely above zero. Often the poor pay to save through a conveniently accessible system such a deposit collector who visits daily to collect savings.

### *Managing Liquidity and Duration: A Spectrum of Needs*

All families require funds for different purposes that vary with respect to the amount that is needed and the immediacy with which the funds must be made available. Many emergencies or opportunities necessitate instant access to cash. This explains why almost all poor families keep some amount of emergency savings in the home, and why many do prefer highly liquid savings services. The "illiquidity" preference described above means that poor people have needs that require both liquid and illiquid services and those that save, often hold multiple accounts to do so. Similarly, poor people often use a strategy of "targeted savings", including some highly illiquid savings, (notably, in the absence of alternatives, MFIs' compulsory savings) to build-up large lump sums of money to purchase significant capital assets such as land and houses.

### *Compulsory, Locked-In Savings*

The poor require little compulsion to save. They simply want a reasonable mechanism to do so and the assurance that they will be able to access those savings as needed. Indeed, there is evidence that compulsory savings, particularly those that are deducted from the loans issued, are simply viewed by clients as part of the cost of the credit. Some clients use these compulsory savings systems to build up useful, long-term lump sums of money. However, it is possible that well designed open access savings accounts and contractual savings agreement schemes could give clients the *option* of setting these funds aside. Furthermore, such systems would not force the clients to leave the MFI, or reduce their ability to access loans, if they need to liquidate their savings.

**Designing Savings Products and Services from an MFI's Perspective**
***Balancing Convenience and Returns***
As seen above, when deciding on the savings services, poor people look for a mix of accessibility, security, liquidity and (ideally but not crucially) returns. The financial institution's perspective is almost the mirror opposite of that of the client. Financial institutions would like to maintain a few branches in densely populated areas to maximise the number of clients per branch and facilitate branch security. They would prefer to limit opening hours to allow the opportunity to keep up with the complex accounting and internal control procedures necessary to run a financial institution effectively, and to facilitate physical security arrangements. They would like to see large deposits made for as long as possible with a minimum of withdrawals so that the transaction and liquidity management costs are kept to a minimum and the funds available for on-lending are maximised. And of course, the profit-maximising goal of a financial institution encourages the extension of as little interest as possible. Nonetheless, there are many MFIs that offer microsavings services on a profitable basis.

***Managing the Costs of Small Savings Accounts:***
One of the chief fears voiced by MFIs revolves around the potential difficulties involved in dealing with the many small transactions often associated with the providing savings services to the poor (Schmidt and Zeitinger, 1994). While this is indeed likely to be the case, several **important observations** should be made:
1. Generally, the majority of the transactions will be deposits. Indeed the poor are often remarkably unwilling to make withdrawals. However they do want to know that they <u>could</u> withdraw if a pressing need arose;
2. Poor people have a multiplicity of needs and are not always looking for a highly liquid account to use on a regular basis; and
3. Savings accounts targeted for medium and long-term needs are particularly attractive to MFIs in search of capital for on-lending, and appropriately designed products can encourage these.

There are also important and often over looked, **additional benefits** of offering savings services to the poor. In addition to providing capital for on-lending, savings services can:
1. Develop the client base (of borrowers) for the future;
2. Obtain information on the clients' abilities to save and (by implication) repay loans;
3. Facilitate repayments when clients are unable to meet repayments out of current income; and
4. Encourage repayments, as clients want to maintain a good reputation and their access to future services (Wright, 2000).

There are also many ways of **minimising the costs** of providing savings services, and possibly even deriving a profit from doing so. This can be done directly through carefully structured pricing to encourage savers to maximise deposits and minimise withdrawals. MFIs can elect to pay interest only on accounts with balances above a certain minimum. In view of the clear evidence that poor people are willing to pay for convenient savings services MFIs can charge fees for specific savings services. In order to reduce withdrawals, MFIs could limit the number of withdrawals per period, set minimum withdrawal amounts, require notice to withdraw or charge for withdrawals made. In addition to the pricing structure, the MFI can reduce costs through its organisational approaches and work methods. Finally, it is important that MFIs offering savings services seek up-market, higher-value savers to spread the costs and make the service cost-effective to run.

***Synthesis and Conclusions***
Two different strategies are pursued by outside agencies (be they development or private sector) and by poor people themselves as they seek to design and deliver financial services. The former tend to use a strategy of "permanence and growth" and look to create sustainable institutions that deliver financial services to an ever-increasing number of clients –such as MFIs, banks, and co-operatives. By contrast, poor people generally use a strategy of "replication and multiplication" and look to create many small self-contained, often self-liquidating, schemes – such as RoSCAs and Christmas clubs (Rutherford, 2000).

Permanence and growth institutions tend to encourage the long-term build-up of funds through relatively slow, but steady, saving, and are therefore extremely well suited for addressing longer-term savings needs. While replication and multiplication schemes tend to encourage the rapid accumulation and disbursement of funds and are therefore better suited to meeting shorter-term savings needs. There is increasing evidence that providing client-responsive financial services can both serve the needs of poor people while maintaining or in fact improving the sustainability and profitability of the MFIs.

There are no magic formulas for designing appropriate savings products for poor people: it requires market research and careful, systematic product development. But the rewards for the MFIs that undertake these exercises in terms of profits and client loyalty can be remarkable, and well worth the investment.

**An Example: The Development of Equity Building Society's *Jijenge* Savings Account**

Equity Building Society is developing the *Jijenge* savings account - a contractual savings product with an emergency loan facility attached. The client defines the length of the contract and the periodicity of the deposits (weekly, fortnightly or monthly). A premium interest rate is offered to those who take out longer-term contracts but there are quite significant penalties for premature withdrawals from the account. Finally, all *Jijenge* savings account holders have guaranteed, immediate access to an emergency loan of 90% of the value of the amount in their *Jijenge* savings account on demand.

As well as providing a disciplined way to save (in the same way that RoSCAs and ASCAs do), this product allows its clients to meet their "illiquidity" preference and protect their savings against the demands of petty spending or marauding relatives. The account is already proving extremely popular with existing and new clients alike.

The *Jijenge* savings account provides Equity Building Society's clients a financial product that helps them with their financial planning objectives. As a product of extensive market research and constant customer interaction, the *Jijenge* savings account is clearly meeting customer needs with many *Jijenge* accountholders particularly pleased with:

- the disciplined saving,
- freedom to set terms,
- automatic access to loans, and
- no operational charges.

The *Jijenge* savings account has provided customers with the opportunity to actively involve Equity Building Society in their financial planning thus building on its "Listening, Caring Financial Partner" image. The first contractual savings product in the lower-income market segment, the *Jijenge* savings account is a strong starting point for future cross-selling opportunities.

The *Jijenge* savings account is Equity Building Society's first branded product offering and communicates aspirations that can be personalised by customers as the organisation helps them to (in the words of the product tagline) *Realise Your Dreams!* This a significant product differentiation in the market helping Equity Building Society move beyond the generic savings account to developing a product with unique selling attributes.

For Equity Building Society, the *Jijenge* savings account offers a stable deposit base from which to lend as well as supplementary income from the emergency loans and premature withdrawal fees. In addition, the product is allowing Equity Building Society to attract new clients into its banking halls.

***Jijenge* Savings Account Monthly Performance Data: # of Accounts**

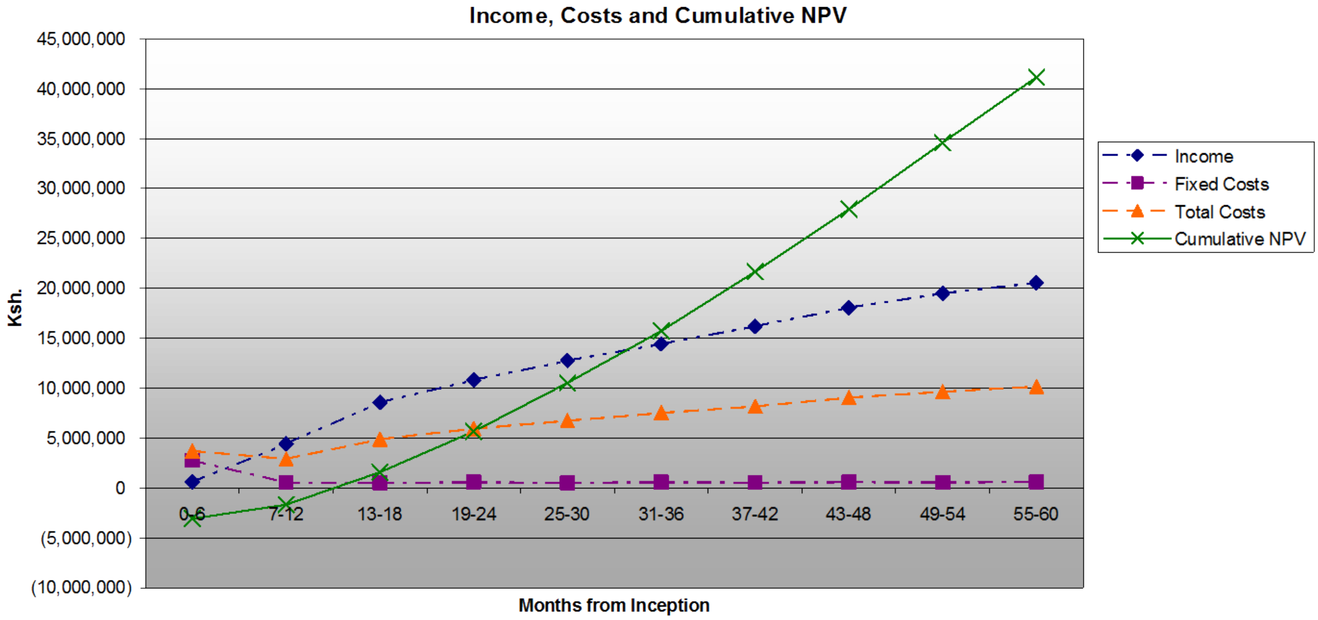
| | Corporate | Four Ways | Thika | Tom Mboya | Target | Total |
|---|---|---|---|---|---|---|
| Aug | 27 | 255 | 7 | 134 | 100 | 423 |
| Sep | 16 | 104 | 119 | 74 | 100 | 313 |
| Oct | 6 | 80 | 48 | 52 | 100 | 186 |
| Nov | 2 | 34 | 27 | 49 | 100 | 112 |
| Dec | 2 | 20 | 13 | 19 | 100 | 54 |
| Jan | 17 | 56 | 23 | 32 | 100 | 128 |
| Feb | 74 | 143 | 122 | 167 | 100 | 506 |
| Mar | 12 | 89 | 28 | 65 | 100 | 194 |
| | 156 | 781 | 387 | 592 | 800 | 1916 |

During the eight months of the pilot-test (to March 2003) nearly 2,000 *Jijenge* savings accounts were opened despite limited marketing activities within the four pilot-test branches. This activity was confined to a few posters, some leaflets and selling at a dedicated enquiries desk for two out of the eight months. No additional marketing activities took place outside the branches. The monthly variation in opening of accounts depends on the availability of a customer service officer to explain the details of the product and "close" the sale.

In the 8 months to March 2003 the *Jijenge* savings account has mobilised KShs11.9 million ($928,200) in deposits from the four branches. On an annualised basis and assuming that the *Jijenge* savings account had been rolled out in all the EBS branches, *Jijenge* alone would have contributed up to 11% of the growth in EBS customer deposits, based on December 2002 figures. Clearly when a full-fledged marketing campaign is initiated, the up-take of the product is likely to be very significant.

One of Equity Building Society's key corporate objectives was to develop a product that would provide a new class of 'term deposits'. This has been achieved as all *Jijenge* savings accounts are for a fixed period (minimum 1 year) and can be renewed for up to 5 years. This is a significant achievement and reduces the funding mismatch risk of Equity Building Society's balance sheet.

On the basis of the results to date, the product development team has developed projections for the *Jijenge* savings account's income, costs and cumulative net present value (see graph below). Clearly if these are realised, the *Jijenge* savings account is going to be a very valuable addition to the product range of Equity Building Society.



Equity Building Society's management attribute the success of the account to the following:
1. Detailed market research to understand the needs of the target market;
2. Careful costing/pricing;
3. Extensive pilot-testing of the product and related marketing materials etc. prior roll-out; and
4. Well designed, client-need responsive and benefit-focused marketing efforts.

As James Mwangi, Chief Operations Officer of Equity Building Society notes, "Equity Building Society has applied the market-led approach to product development, from A-Z. Equity has successfully confirmed that the earlier, quicker "wins" achieved through using the same approach to refine its existing products, had indeed come about because of the methodology".

Each of these key success factors were built on extensive use of *MicroSave* toolkits namely:
1. "Market Research for MicroFinance";
2. "Costing and Pricing of Financial Services";
3. "Designing, Implementing and Monitoring Pilot-Tests"; and
4. "Product Marketing Strategy".

These toolkits are available on the *MicroSave* website www.*MicroSave*.net under the Toolkits section.

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