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Staff Incentive Schemes for Deposit Mobilisation

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Introduction

Staff incentive schemes for microfinance programmes (MFIs) usually focus on maximising the performance of the loan portfolio. Now that many MFIs are becoming licensed deposit taking institutions, how can staff incentive schemes be designed to encourage deposit mobilisation?

Deposit mobilisation is important for several reasons. The small entrepreneurs and salaried employees who form an MFI's typical clientele have a high demand for accessible and affordable deposit facilities. This is even true for very poor people, whose capacity and willingness to save are often underestimated. These locally mobilised funds help to reduce the dependence on (foreign) donors, and they mitigate exchange rate risks. Successful deposit mobilisation can help to increase an MFI's outreach dramatically, and the savings business that clients conduct with their bank can serve as a useful market research tool for later offering credit services to the same customers. This method has been used with considerable success by the credit union movement.

Successful Savings Mobilisation

The key for successful deposit mobilisation is trust – and trust in an institution can only be built if its staff members are also trustworthy. Hence, in order to mobilise savings, staff should be open and friendly to all clients, and they should be willing to work in a team. Good interpersonal skills are much more important for staff members in this area than are highly developed analytical skills or a background in economics or accounting.

Features of Staff Incentive Schemes for Savings

The fairness principle implies that there must be a clear relationship between the effort exerted on the job and the output variable that is used to calculate the bonus. In savings mobilisation, some clients may be actively "sought out" by extension workers, while others will simply walk into one of the branches. At the branch level, it is often a matter of chance who deals with the new customer; usually it is the next available desk officer or teller.

In savings mobilisation, it is often difficult to discern exactly what (and who) caused the customer to entrust the institution with his or her funds. And branch operations are usually organised in such a way that it is difficult to match the results achieved with each staff member's individual efforts.

Thus, rather than rewarding individual performance – which is difficult to measure and to match with the results that were achieved during a given period – it is much more useful to pay incentives based on team results. This can be done easily at the unit or branch level. The advantage of a team bonus is that it rewards good cooperation among all those who attend to savings clients, even if their individual actions are not directly related to generating a new deposit. This technique also avoids the problem of measuring individual performance.

In general, it is best to pay staff engaged in savings collection a generous base salary. Very often even the best efforts will not produce immediately tangible results in the form of new deposits. Thus the ratio of base salary to bonus as a percentage of total salary might be lower than the ratio for lending staff, e.g. closer to 70% and 30%, or even 80% and 20%. The mobilisation of savings is a long-term effort, and it requires the building of trust. Excessive bonuses based on short-term performance would send the wrong signal to the staff members involved.

There are some exceptions to these guidelines. For instance, some organisations want their loan officers (or field agents) not only to "sell" the lending products, but also to actively recruit depositors outside of the branches. In these cases it may make sense to pay individual bonuses based on the field agents' ability to generate deposits. However, we would need to make sure that there is a way of identifying the individual loan officer or field agent who solicited the deposit.

For instance, BURO, Tangail, a Bangladeshi NGO, had provided each village development worker with a small bonus for each new contractual savings account they opened in order to draw their attention to this specific product. While the scheme worked well and met its objectives at BURO, Tangail, it may not be the best solution for other MFIs because it does not include an incentive to keep existing customers happy. If bonuses are awarded only for bringing in new customers, staff members might find that providing good service to existing clients is not worthwhile. This means that we need to include more variables in our bonus formula.

Designing a Simple Bonus Formula

In order to incentivise staff to mobilise savings, we could provide them commissions both, on the net increase in the number of accounts (number of accounts opened less number of accounts closed during the period) and the savings balance. A team bonus could be calculated by:

Team bonus =
Net increase in the number of accounts during period * $1
+ Savings balance at end of period * 0.1%

Features of This Staff Incentive Scheme

If the commissions (in our example $1 for each increment in the number of outstanding accounts and 0.1% of the savings balance) were large enough, we could expect our staff to not only seek new clients but also to deliver a high customer service quality to retain existing clients.

With a simple scheme like this one, staff members engaged in deposit mobilisation and savings transactions actually feel rewarded for working harder. There would almost certainly be a positive effect on motivation, especially if there is already an incentive scheme in place for staff engaged in lending operations. The scheme is very simple, making it easy to understand and implement.

Variations and Extensions

The scheme presented here can be refined further. Examples include:

1. If there were different savings products, variable weights could be allocated to them to reflect the preferences of the MFI.
2. Other relevant products and services could be included (e.g. money transfer services, insurance policies).
3. Different commissions could be set for different (clusters of) branches to reflect local operational circumstances.
4. To prevent staff members from encouraging new accounts that will not be active, we could consider the net-increase in the number of active accounts instead of the net-increase in the number of accounts.
5. If management predicts that rewarding the "number of active accounts" might result in staff members encouraging customers to open new accounts with funds that they withdraw from their existing accounts, management might change this variable to "number of active savers."
6. Although customers' satisfaction is indirectly taken into account through the proxy variables of net increase in accounts and/or volumes outstanding, a more precise and direct measurement could be factored in.

The type of staff incentive scheme which fits best to a particular MFI largely depends on the incentive scheme's objectives (e.g. as in the case of BURO, Tangail), processes and procedures, and other aspects of the organisation culture. For instance, SafeSave, an urban Bangladeshi cooperative had decided not to employ financial incentive schemes to mobilise savings to avoid loan officers "forcing" their customers to save in order to get access to loans. And the case of KPOSB (see box below) demonstrates that staff incentives need to fit to the information and operational systems.

Distributing Group Bonus Pools

There are various ways of how the branch bonus pool can be distributed among branch staff. While the equal distribution is not only very simple but may also strengthen the team-spirit, the variable portion of the total salary is smaller for senior staff (e.g. branch mangers) – which they may perceive as unfair. Hence, where base salaries largely differ across individual staff members (and if this was desired), designers might alternatively think about distributing the branch bonus pool according to the base salaries. A mixture of these techniques is possible but would make the scheme more complex. If basic salaries differ within functional levels of staff (e.g. due to merit pay schemes), an equal distribution or a distribution according to the staff members' formal position could decrease this gap. A more sophisticated way would include the distribution according to tournaments which are conducted between individual staff members. However, it will not always be possible to measure individual performance adequately and fair and the method could reduce team-spirit since it enhances competition among staff (and if high monetary rewards are involved in tournaments, they may not be perceived as "friendly" by staff).

The Kenya Post Office Savings Bank (KPOSB) offers a number of savings products to around 1 million customers throughout the country. Since its passbooks are not domiciled, the institution cannot track customers back to particular branches, thus making it impossible to measure the achievements of particular outlets directly. As a second best solution, KPOSB has been thinking about rewarding the branch teams according to the number and amount of transactions, the number of accounts opened and closed as well as the volume deposited. Further differentiations within each of these performance measurement indicators and the use of weights assure that such a performance assessment reflects KPOSB's preferences and is fair to the employees of all branches. Under that scheme, 70% of the branch bonus pool is distributed according to the basic salaries and 30% on the basis of individual achievements.