

# MicroSave India Focus Note 47

## Who Says You Can't Do MicroSavings in India? Part 3: So Where to Go from Here?

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The first two notes in this series cover the myriad of choices for savings and the inherent challenges of each. Now the question remains so what is one to do to improve the access to quality microsavings in India? The question is especially challenging if asked by traditional NGO (Trust or Society) or NBFC MFIs that cannot collect deposits. The last two notes in the series will try to provide ideas as to what can be done to make the overall microsavings situation in India improve for all. This third note in particular covers the practical and broad areas one should consider when addressing a savings solution.

### Listen, Listen, Listen

Most of the large financial institutions offering microsavings services have simply taken a basic product already in existence stripped it of every feature possible and called it a “pro-poor” microsavings product. When the poor do not take it up or use it sufficiently, these institutions then point to the results and say the product cannot be profitable or that the poor simply do not want to save. Yet, the unconventional, community-based financial institutions do show that the poor can and do save. So where is the disconnect? The answer is covered in our first year of marketing classes in business school, but we quickly forget and take the easy route. The answer: listen to your clients! Imagine if the conventional providers actually listened to the poor clients’ needs first, as much as the community-based ones inherently do, and then created an appropriate product that served the needs of the poor, and at the same time provided a way to make a reasonable return.

If and when a financial institution listens to these clients, they will likely discover what *MicroSave* and many others have heard from clients the world over during the last several years. The poor should be:<sup>1</sup> (*but do not take this list as given – do your own research homework!*)

1. **Offered a variety of savings options.** The poor’s savings needs are as diverse and complex as those of the Chairman of the Tata Group. Most need at least a basic demand account for day-to-day needs and emergencies; recurring savings for medium-term needs that are foreseen in the near future (e.g. within one year); and fixed or recurring long-

term savings, such as pension schemes, for significant life cycle events like marriage, housing and retirement.

2. **Allowed to save easily and often** - just as MFIs are currently providing microcredit in India today.
3. **Given easy access** to their deposits at the moment the need arises, just as ATMs do for the rest of us.
4. **Supplied a secure and trustworthy place to save.** SBI and the postal service both have tremendous trust with the rural public in India, but they may not address the first three points above very well.
5. Provided a way to “own” their **own individual-based savings** rather than through groups. SHGs can address this by working out a way to track individual savings within the group, while using the safety of a bank partner that is already providing linked credit.
6. **Applied discipline/social pressure.** Human beings in general have a natural tendency to follow what their peers are doing. For example, if everyone in my SHG group is saving individually, in addition to the mandatory savings group fund, then I would likely feel overt and indirect pressure to do the same.

### Then Test, Test, Test

We will always make mistakes when it comes trying something for the first time, so it is always much better to run a pilot test on a small sample of clients where the risks of failure are minimised, and the definitions of success are clearly defined and monitored constantly. As savings would be a new product, the risks are even higher than taking an old product to a new geography, which is what most MFIs do to grow. So, due care must be taken.<sup>2</sup>

### Use the Experts – Partner Up!

The basic tenet of banking, borrowed from the medical profession, is first “do no harm.” The savings of the poor is not something an institution should take lightly. If an institution manages the savings of the poor poorly, (as is the case with many of the informal methods, such as chit funds), it will not only incur the wrath of the regulators but will also lose the crucial trust of its clients ... and of course, those clients entrusting savings to the institution will likely suffer losses.

<sup>1</sup> Adapted from Rutherford, Stuart “A Critical Typology of Financial Services for the Poor”, Action Aid and Oxfam, London 1996.

<sup>2</sup> For more information on the savings product development process, refer to “[Designing Savings and Loan Products](#)” and the [Savings Pilot Test Toolkit](#) on [MicroSave’s website](#).

To minimise this risk, MFIs should first note their strengths: strong grassroots network of well regarded staff, a significant customer base, and an excellent (in general) relationship with those clients. The MFIs then should acknowledge that they also have gaps: the lack of capacity to manage complex products, and of course the lack of a regulatory mandate to offer much beyond simple credit directly. The MFI can then begin a search of expert partners so that it can be the conduit mechanism for conventional financial institutions to offer savings in a cost-effective and safe way. In all of the examples mentioned in the next and final note, (business correspondence, life insurance, pensions, and MMMF), MFIs should partner with the appropriate entity to be able to distribute such products to their poor clients.

### **Exploit Appropriate Technology<sup>3</sup>**

While technology cannot be a solution in and of itself to improve financial inclusion, it can be used wisely to improve efficiency and cost effectiveness and increase volumes/scale. The use of electronic and mobile banking in rural areas is especially a promising area in which the microfinance industry needs to examine further. In *MicroSave's* work in South and South East Asia as well as in East Africa, the power of technology to provide the last mile solution has been observed over and again. In India in particular, the issue is also not due to a lack of options; there are plenty of m- and e-banking solutions available in India – almost too many. New mobile connections are growing at a rate of 15 million a month alone.<sup>4</sup>

What must be remembered, however, is that technology solutions cannot drive the offering – the customers' needs should do this (see the first point of this note). No matter how hard a software developer can try, there will always be humans involved in the transaction (and cash as well for the foreseeable future). Yet many technology providers, donors and bureaucrats in India still become enamoured with a potential solution simply for its “coolness” or cutting edge factor, without really thinking about the appropriateness of the technology in terms of infrastructure or what the clients want.

One should ask, for example, why there is such attention around biometrics currently when a simple identity card or a visual check by a trusted and familiar person would do so much more accurately. Who among us in the practitioner and support functions in this industry would be willing to undergo such additional steps when all we have to do is slip in a card and enter a password in an

ATM? Do the poor not deserve a solution that is just as easy or convenient?

### **Conclusion**

*MicroSave* has been advocating for strong product development processes in microfinance for well over a decade now. The reasons for doing so are no different in India, Bangladesh, Indonesia, the Philippines, Kenya, Uganda, Ethiopia or Tanzania. One has to first listen to the clients (and field agents) to create an appropriate product, and after having developed a concept, the MFI should test the potential for the product to reduce the risks of harming clients, the MFI's reputation and overall operations.

The key word when it comes to taking on something as unfamiliar as savings in India is “leverage”. Leveraging partnerships, so that each entity's strengths are used, will not only allow for a better chance of success, but also reduce the risk of loss for the client. Experts must be used when it comes to dealing with the savings of the poor. Leveraging appropriate technology, such as m-banking, can also drive success by lowering the cost per transaction and permitting higher volumes through a fixed cost platform. Yet, it must be driven by the solution needed by the client and appropriate for the MFI, not by donors or the technology vendors.

Finally, it is simply sad (but increasingly common) to see an SHG Federation or Cooperative transform completely into a non deposit-taking NBFC, allowing it only to provide credit services to members. Though perhaps difficult to manage, providing savings can be just as valuable to clients as providing additional credit – and can help securing the quality of the loan portfolio. There are small pockets of strong organisations throughout India that have proven that the models of community-owned organisations can work. The industry, and its support organisations, needs only to help struggling and new institutions to learn from these examples and provide ways to build up their capacity to manage and scale-up their operations.

These notes cannot give an “answer” on how to make savings a successful option for an MFI, but hopefully the information and ideas provided can help in improving the odds of success in their favour. The next and final note in this series will address more detailed and concrete potential options an MFI in India can pursue.

<sup>3</sup> For more information on m-banking solutions, visit [http://india.microsave.net/mobile\\_banking](http://india.microsave.net/mobile_banking).

<sup>4</sup> Annual Report 2009-10; Department of Telecommunications, Ministry of Communications & IT, Government of India New Delhi. The government has a goal of reaching full teledensity by 2012.