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Savings Perceptions and Preferences in India
The Relative Risk to the Savings of the Poor
Summary Overview

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MicroSave India

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Overview

Close to 41% of India's citizens remain financially excluded with no access to formal banking services.[i] There is increasing evidence, nevertheless, that these low-income households actively seek ways to save and invest their limited resources.

In order to understand how these people save and the relative risks involved, *MicroSave* interviewed 861 individuals in the three Indian states of Rajasthan, Uttar Pradesh, and Tamil Nadu this past year. The research seeks to answer the following questions:

- How do poor people save and what works best for them among the formal, semi-formal, and informal choices available?
- Why do they choose one investment or savings versus another, and what attributes are most important in this decision?
- What are the risks involved, and how are they different for formal, semi-formal, and informal savings?
- Have their savings and investments changed in the past five-ten years? If so, how and for what reasons?
- Do the rich save differently from the poor? How do people with limited savings perceive these differences and why?

Findings vary from region to region (for specific differences, please see summaries below), but in general banks and formal channels such as LIC (Life Insurance Corporation) are gaining favour amongst all groups because of the security and trust that "government-backed" institutions[ii] can offer. Trust and security rank highest for almost everyone interviewed in terms of their savings priorities.

In the past ten years, small NBFCs[iii] (Non-Banking Financial Company) have proved less than trustworthy in many communities, although Sahara and other big deposit-taking firms are working hard to reclaim investor confidence. Livestock and jewellery, more satisfyingly tangible for many and more easily converted to cash than formal savings options, involve more risk as well. Livestock can die and jewellery theft and/or devaluation are common.

Disclaimer
Qualitative research is designed to look beyond the percentages to gain an understanding of the customer's beliefs, impressions, and viewpoints. Gaining such insight is generally best acquired via Focus Group Discussion and Participatory Rapid Appraisal with small, highly targeted samples. Qualitative research is not statistically representative, but is more appropriate for research that seeks to understand complex human responses and financial behaviour.

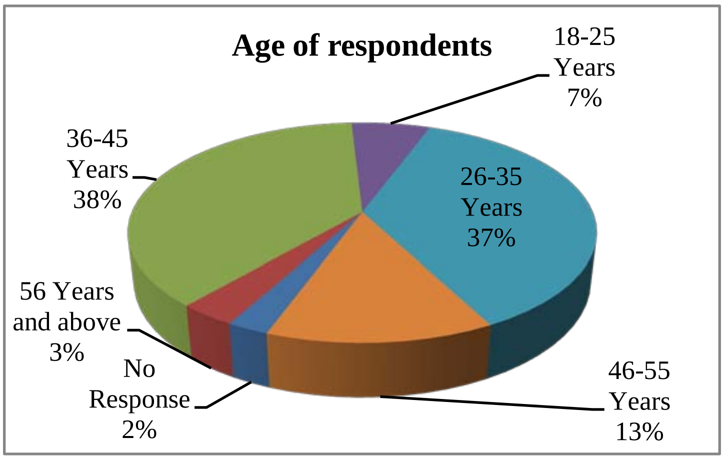
Individual vs. Consensus Responses
In this study, responses to research questions are presented in two different ways: individual and consensus. Individual responses are necessary when questions pertain to bank accounts (or lack thereof), age, occupation, education and other specific aspects of respondents' profiles. In group discussions, however, the final consensus of the group regarding various key questions is what matters. Individuals can and do change their minds during the discussion. In such cases, we note the final consensus, not each individual's opinion. This difference will be noted in the various charts and graphs.

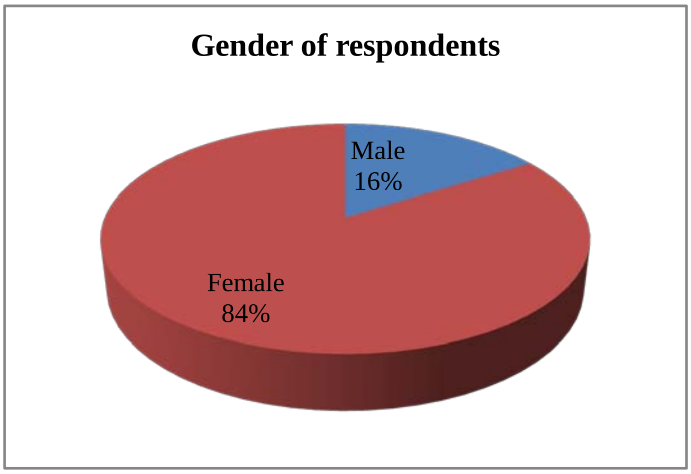
Self-Help Groups (SHGs) and chit funds (community pooling) also appear to be waning as attractive savings options for everyone except the "very poor"—and all income levels in Tamil Nadu who, despite their higher literacy and urbanisation, remain closely attached to their ROSCAs and *kuzhus* (farmer and agricultural group-based savings). Meanwhile, no one is giving up the *gullak*, the traditional earthenware piggy bank, even those who openly acknowledge it is an inefficient way to save since family members help themselves freely to its contents.

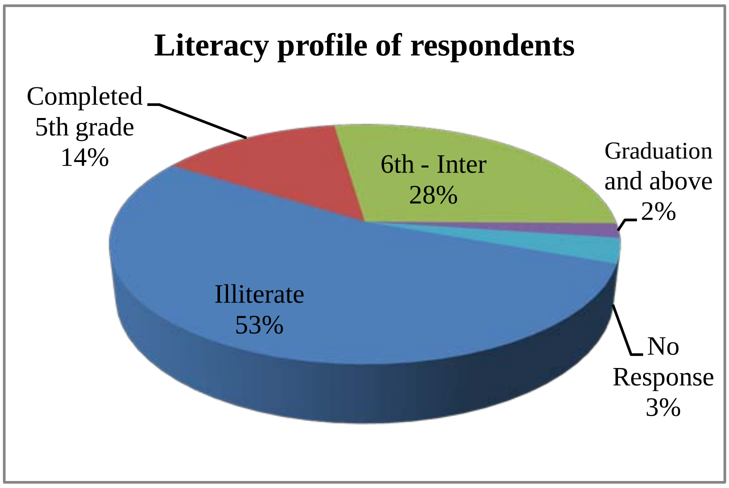
The common consensus for how other income groups (as defined by the respondents themselves) save seems to break down as follows: the "rich" save in banks, or via insurance policies and business investment; the next income bracket, the "not so poor" also save in banks and with NBFCs; the "poor" are more likely to opt for livestock, and the "very poor" save at home and in jewellery.

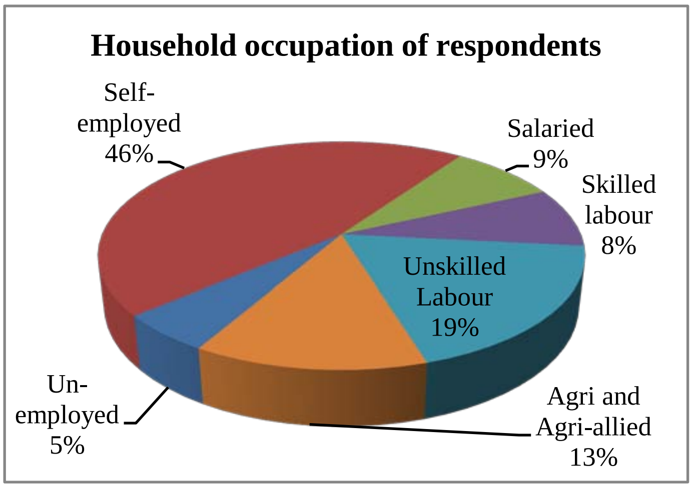
The regional variations are well worth closer examination, however. India's Prime Minister Mammohan Singh is famous for reminding us, "Life is never free of contradictions".[iv] Savings are no exception.

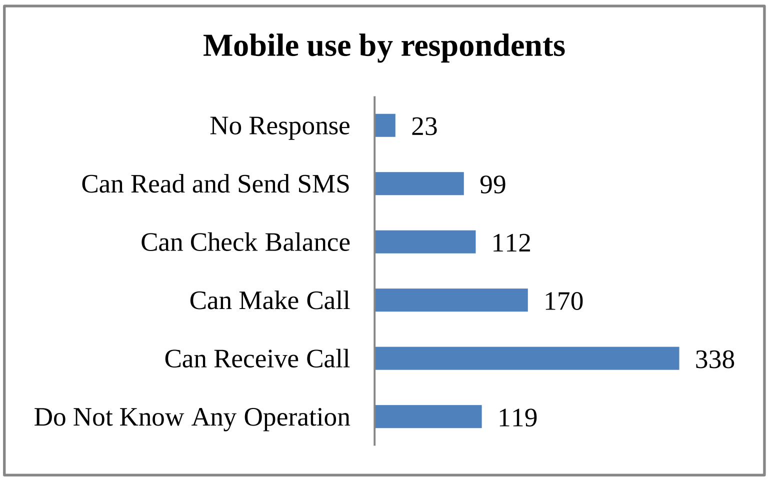
Profile of the respondents

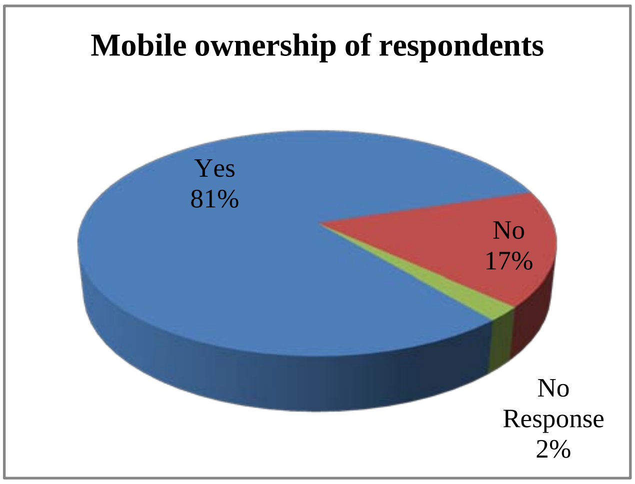


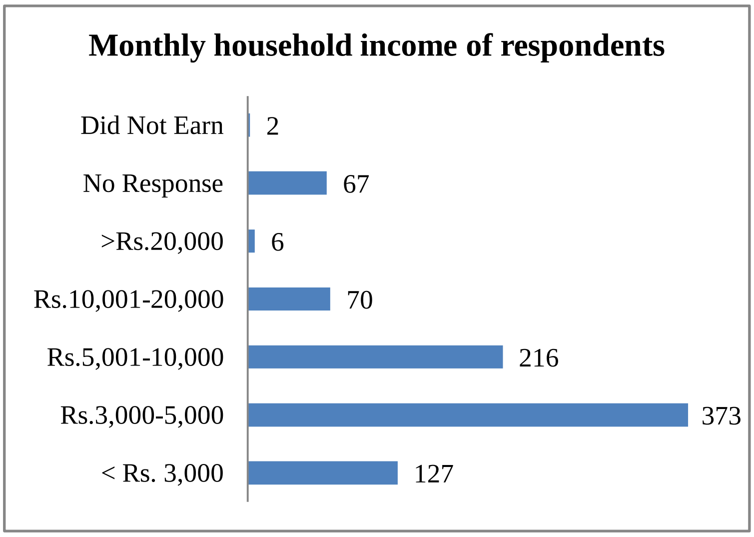


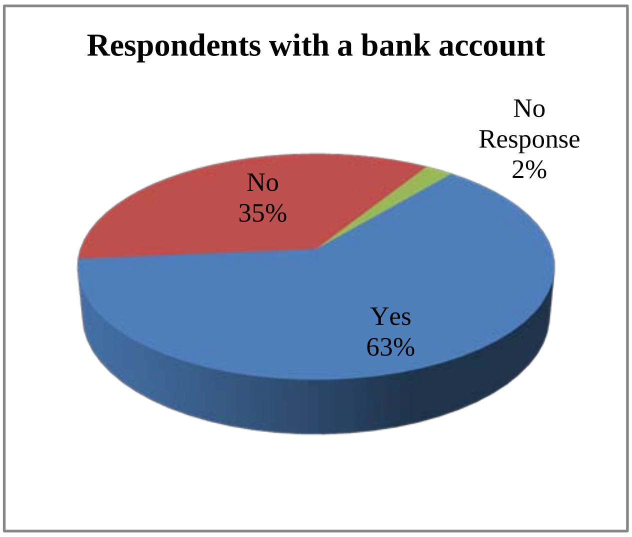












2. Regional Findings

2. 1 Rajasthan, Jaisalmer and Alwar districts

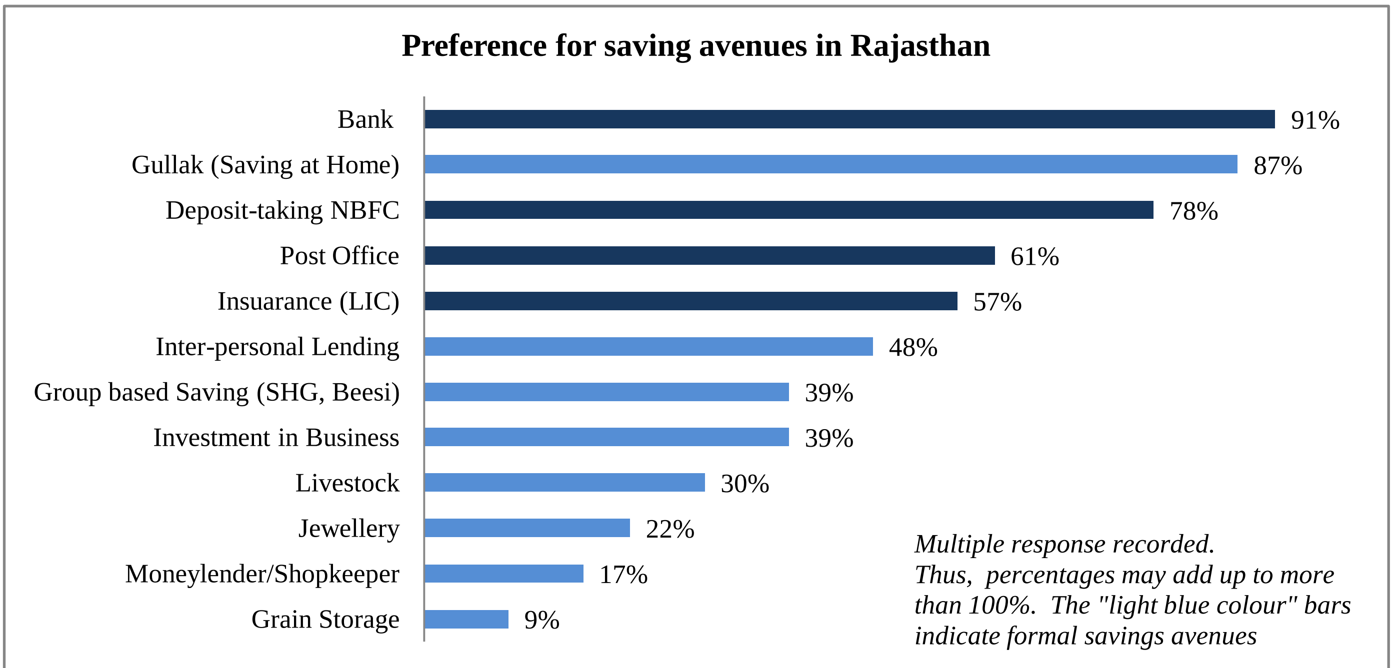
In this northwest region, the largest in India, study participants see savings in bank accounts as the safest and thereby the most desirable (91% consensus in all the various group sessions). They rank savings at home (87%) and savings with deposit-taking NBFCs (78%) second and third as consensus choices. (Please note these percentages do not reflect the actual number of formal savings accounts in banks or NBFCs, or how many homes have *gullaks*, but rather respondents' perceptions of optimal ways to save.) Other popular avenues for savings include the post office, self-help groups, jewellery, and insurance policies (in this research sample, only the Life Insurance Corporation, LIC, of India). Also mentioned as a form of savings were loans to friends and relatives for livestock, grain, and business investments. The interest earned on these loans yields a tidy return for the lenders. Many then convert this money into other savings.

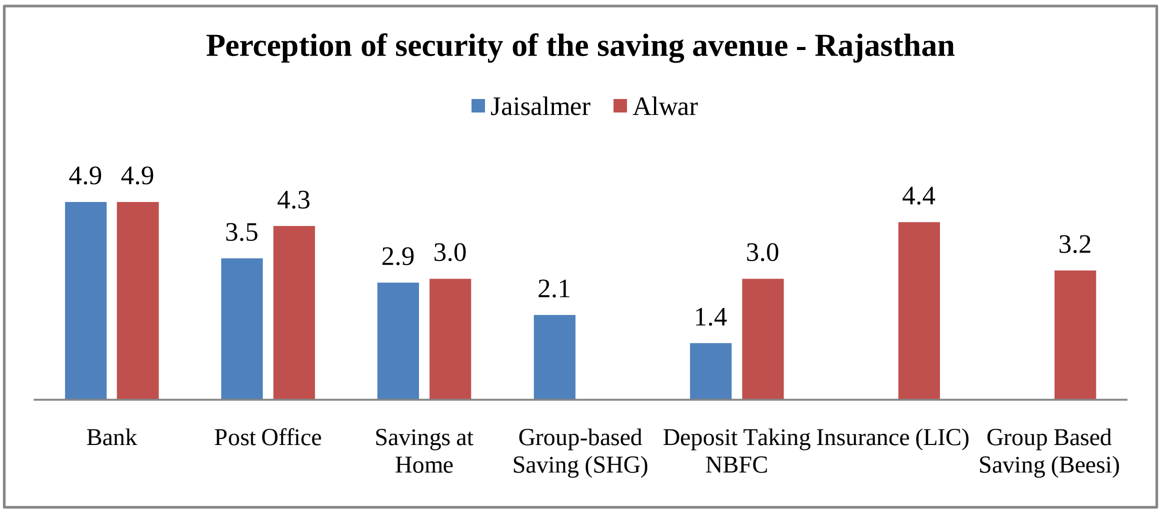
All savings associated with the government such as banks, post office, and LIC policies enjoy high levels of trust in Jaisalmer and Alwar's low-income communities. (Please see the second footnote for further explanation.) Savings options mediated by private agents such as NBFCs, SHGs, and chit funds do not. Almost all respondents in this regional group have either personally lost their savings via unscrupulous agents or know others who have suffered losses. A social, rather than legal, contract and the absence of passbooks seem to encourage fraud in many cases.

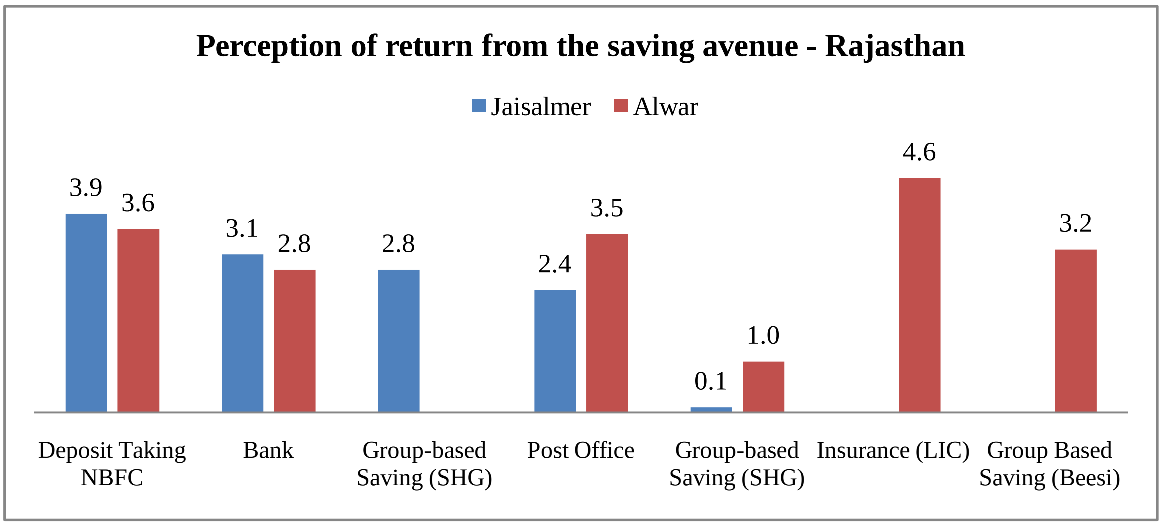
Rajasthan savers believe that LIC policies and NBFC accounts offer the highest return; savings at home and in post offices offer the lowest. However, insurance and NBFC savings are the most difficult to withdraw during emergencies, while money in a *gullak* piggy bank or at the local post office is always available. Legally binding receipts for easy access to savings are important to everyone. They agree that banks, post offices, and LICs are the most reliable in this regard.

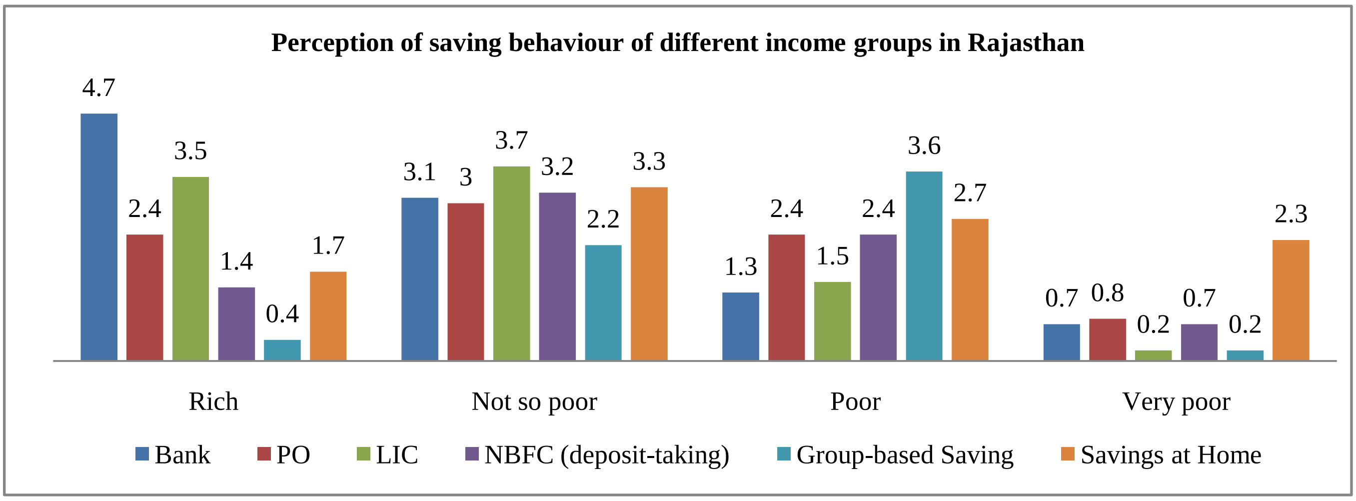
This study sample appears to be moving towards more formal avenues for savings—banks, the post, LIC policies—and away from livestock and home savings. NBFCs, even the large and very reputable ones such as Sahara, also seem to be decreasing in popularity. (Note also Sahara's savings options will change as of next year and other NBFCs will follow suit. Please see the third footnote for more details.)

Respondents in both Rajasthan districts attribute these shifts to increased access to banks and their rising levels of awareness regarding the relative benefits and drawbacks of formal vs. informal channels. They also perceive that, for the present, the formal avenues and the best rates of return remain more available to richer households, while the less fortunate have fewer options and lower returns. The "not so poor" segment show the greatest amount of diversification in terms of how they save and how often they deposit, although they, too, prefer formal savings avenues to informal ones. The "poor" rung below tend to use informal sources as well as NBFCs and post offices. The last rung, the "very poor", have the least access to banks and other formal savings channels and must save in ways that are less secure and more risky. Their rates of return are correspondingly low.



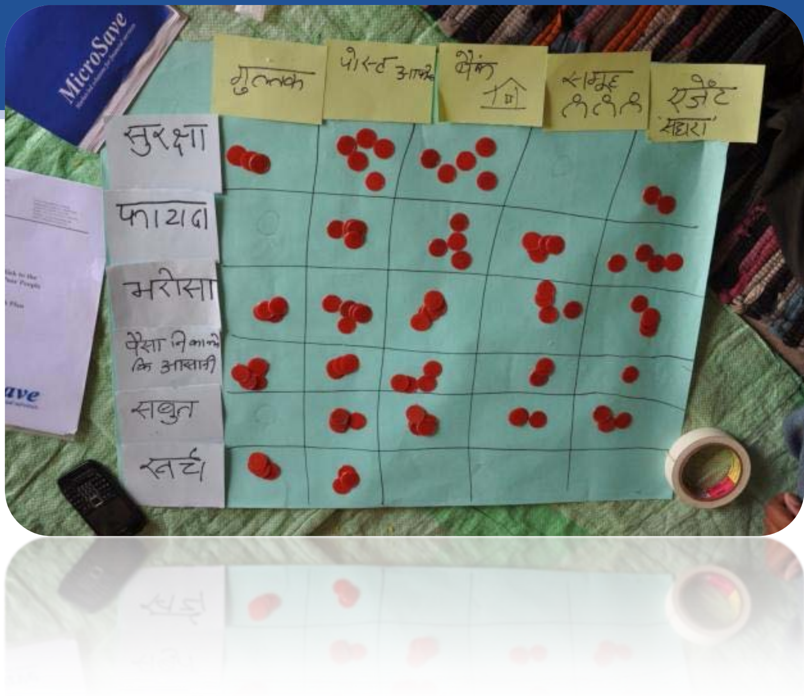






For the full report, Relative Risk to Savings of the Poor in Rajasthan, please visit *MicroSave*'s online library at http://www.microsave.net/ or click here,

2.2 Uttar Pradesh, Deoria, Ghazipur, Gorakhpur, and Mirzapur



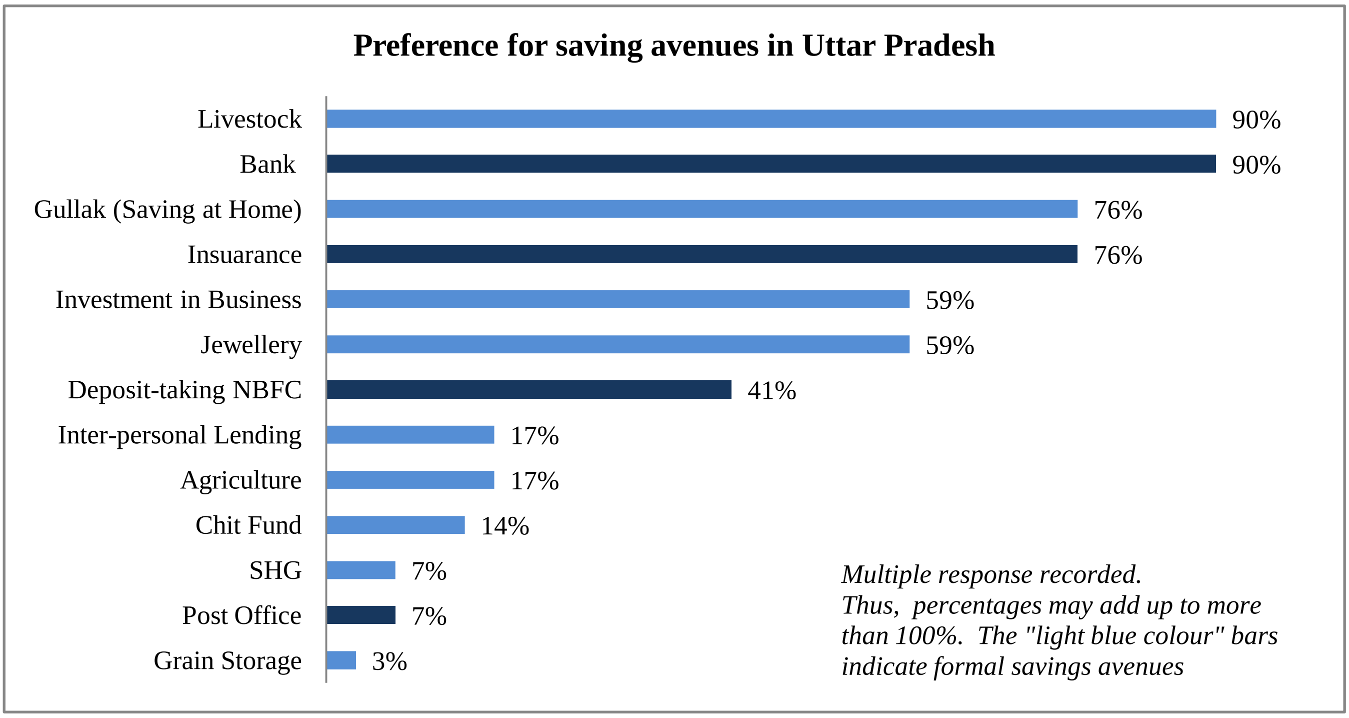
In densely populated Uttar Pradesh to the north, bank savings and livestock are the most popular ways to save and invest (cited in 90% of sessions), followed by savings at home (87%) and LIC policies (76%). Other options include investing in business, jewellery, and NBFCs. As noted above in Rajasthan, state and retail banks, the post office, and LIC policies appear solid and trustworthy to the Uttar Pradesh (U.P.) respondents as well. Here too, private financial companies have duped too many customers in the recent past, and most U.P. investors remain hesitant, despite NBFCs' tempting rates of return.

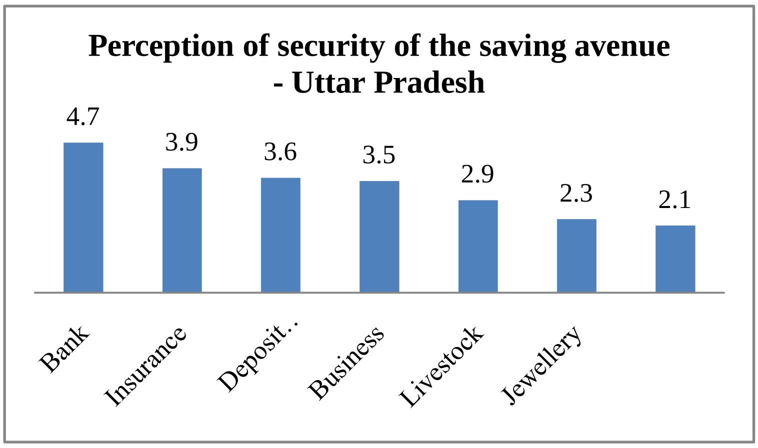
Uttar Pradesh respondents believe that LIC policies and investment in business offer the highest potential returns, while savings at home and jewellery yield the lowest. Easy access to savings is nevertheless a priority, particularly in an emergency. LICs, NBFCs, and business investment are the most difficult withdrawals; savings at home and in banks pose the fewest problems.

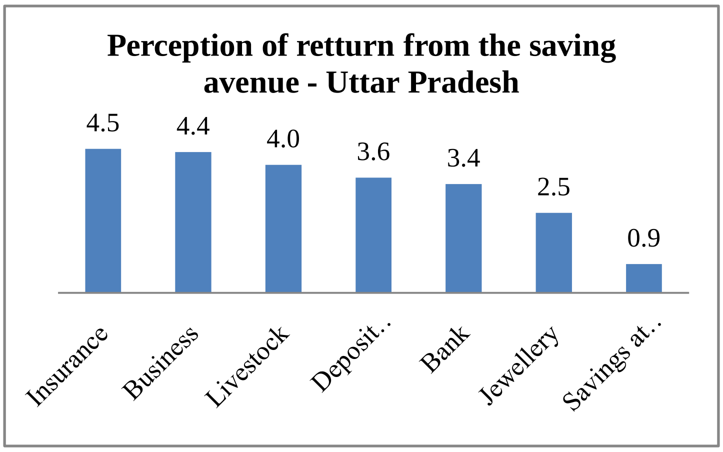
Savings preferences have also shifted in the past ten years in this region. Bank savings, LICs, NBFCs, and business investment have all increased; livestock and land have remained more or less constant; and jewellery is losing favour. The rise in bank savings hinges on the disbursement of government wages and benefits via this channel and a general expansion in bank use due to remittances and financial inclusion efforts. Gains in LIC savings appear due to more LIC agents and better marketing and publicity. NBFCs have also intensified their outreach and sales efforts in this region, although Sahara's savings options will change as of next year and others will follow suit.

Savings in jewellery have waned because of the ever-accelerating price of gold and other precious metals and stones, plus the accompanying security risks. Resale value is also too uncertain, and U.P. respondents find many jewellers to be untrustworthy.

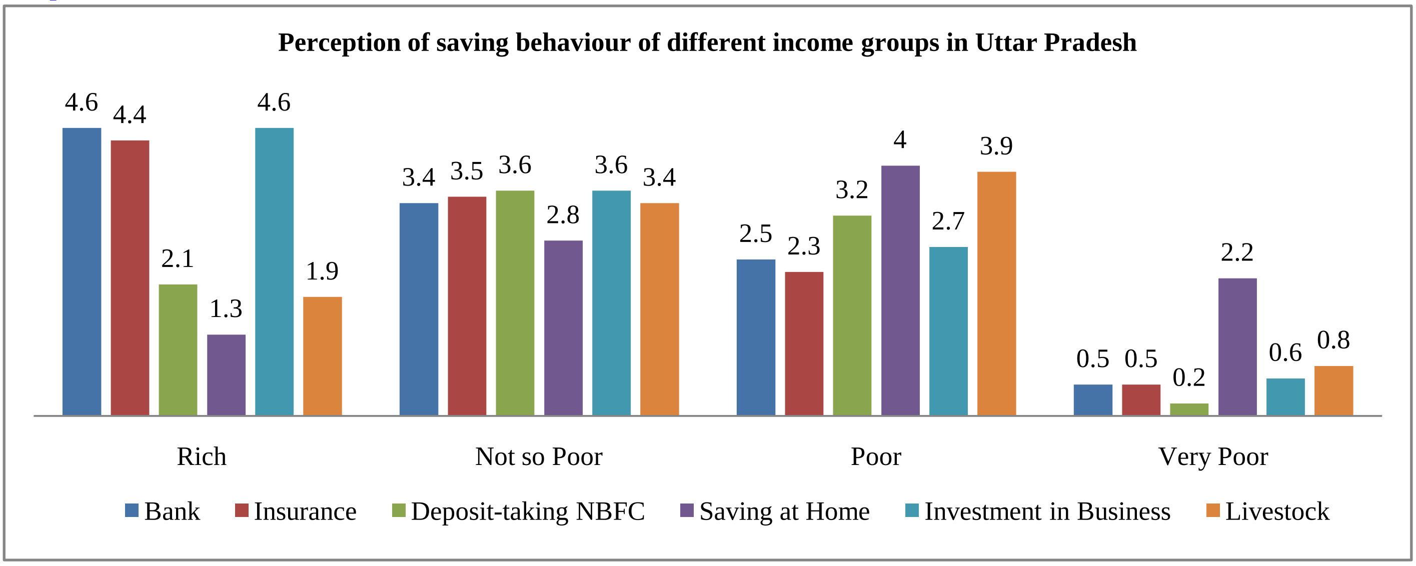
They also clearly perceive that certain savings are better suited to certain income groups. Respondents participating in the "Perceptions of Savings Preferences" exercise in this research see formal savings avenues such as banks, post offices, and NBFCs as the preferred choice for more financially secure households. They claim the "rich" save via banks, insurance, and business investment, while the next income bracket, the "not so poor", save with NBFCs. In their estimation, the "poor" are more likely to opt for livestock and the "very poor" save at home and in jewellery.







For the full report, Relative Risk to the Savings of the Poor in Uttar Pradesh, please visit *MicroSave*'s online library at http://www.microsave.net/ or click here



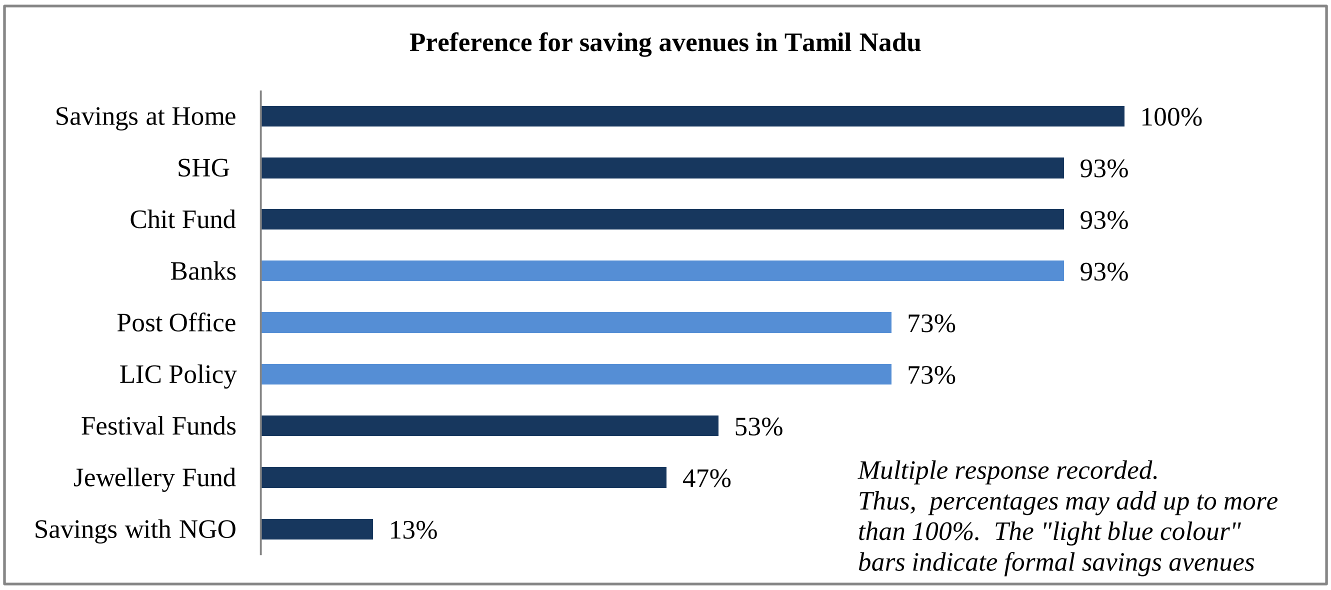
2.3 Tamil Nadu, Chennai, Cuddalore, Dindigul, and Kanyakumari

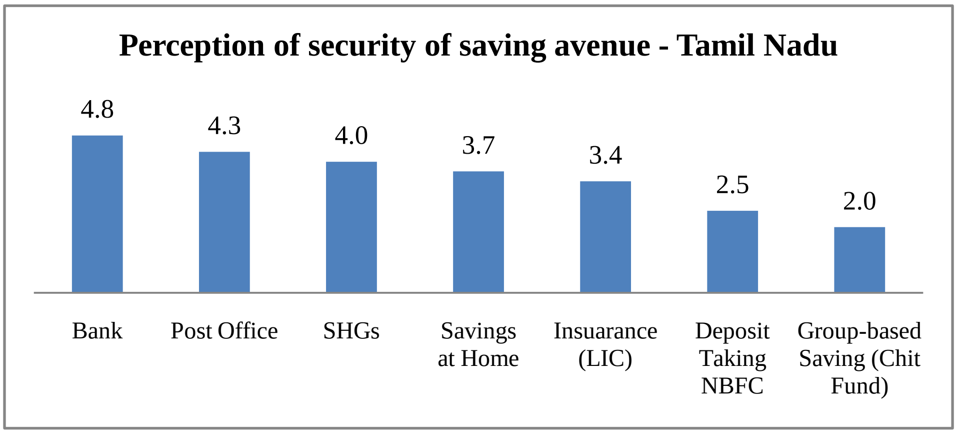
Tamil Nadu appears to save in slightly different ways from other areas in India. As we have noted in Rajasthan and Uttar Pradesh, those in the lower-income brackets are also drawn to banks and other forms of secure savings, but the informal choices retain their popularity and appeal here. This is noteworthy if for no other reason than Tamil Nadu boasts 80% literacy and half its population are urban.[v] Almost everyone saves at home, though the amounts are small. SHGs and chit funds are just as common as banks for savings (respondents discussed all three in 93% of sessions). Many study participants also attach importance and credibility to the "government backing"[vi] enjoyed by the post office and certain state-supported insurance policies (both discussed in 73% of the sessions).

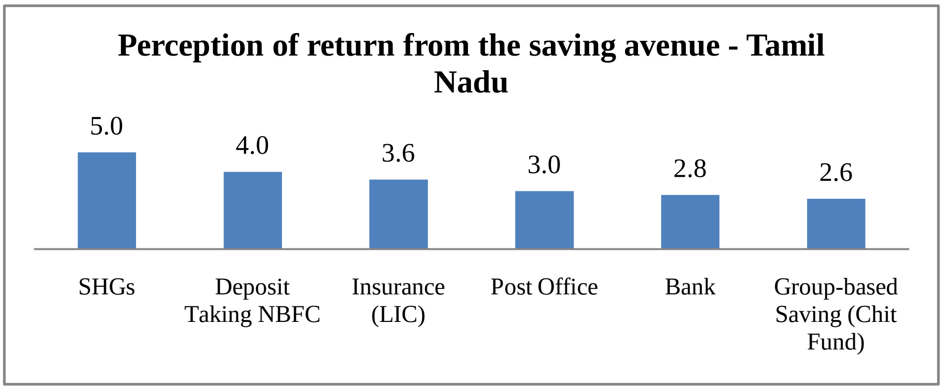
Other savings options include festival funds (53%) and jewellery funds (47%).[vii] Savings with NBFCs and any channel involving sponsors and agents not directly associated with the government are generally mistrusted for the same reasons noted above in Rajasthan and Uttar Pradesh.

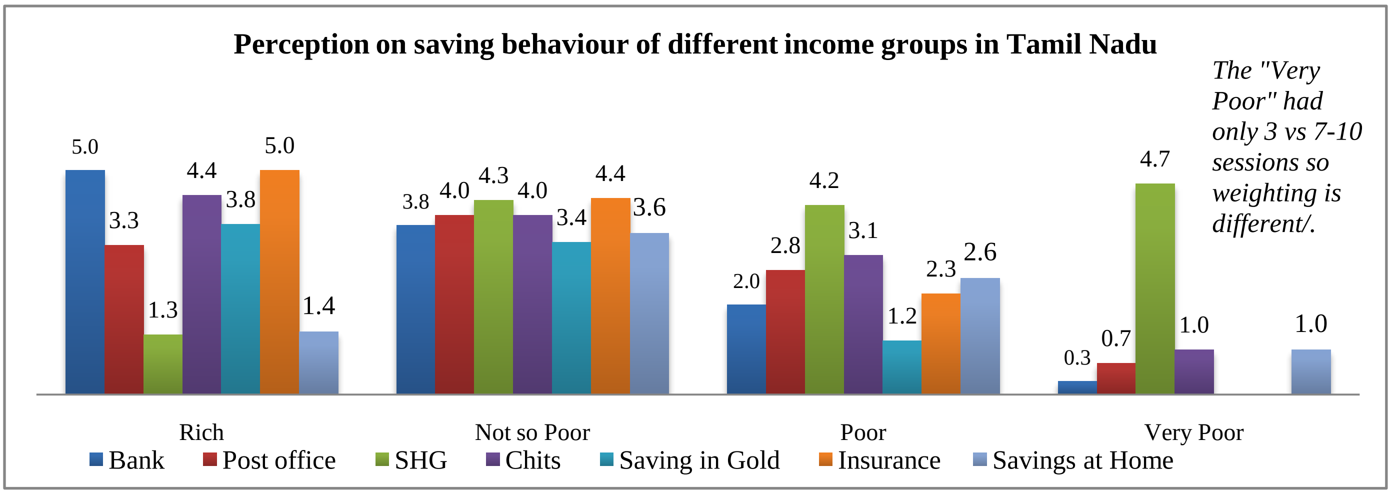
Tamil Nadu respondents claim they make choices about savings based on their own prior experience and that of friends and relatives. Most appear confident and knowledgeable about their current ways of savings—and the risks involved. The obvious danger implicit in saving at home is that family members will borrow the money and not bother to repay it. Festival and jewellery funds can also be uncertain and those who use them are highly selective. Despite the enduring popularity of group-based ROSCA savings (or *beesis* and *kuzhus* as they are known locally), some respondents note that SHGs are more attractive than such shared chit funds because they provide greater security, a higher return, and loans within the group. In one exercise, described in detail in the report, respondents rated various savings alternatives on the following attributes: trust, security, return on savings, ease of withdrawal, and physical evidence (tangible and visible "proof" of viability). Banks rank first on trust, security, and the physical evidence of bank branches, ATMs, passbooks, and transaction receipts. SHGs score highest on rate of return since members earn interest on their savings, and a share of the interest earned through internal lending. Ease of withdrawal in an emergency goes first to home savings and second to banks.

Tamil Nadu households in all income groups tend to use a mix of formal, semi-formal, and informal savings. The more affluent use formal channels such as banks and insurance, and less formal assets such as land and gold. Poorer households are more likely to use the post office and insurance as their formal channel and SHGs and chit funds for informal savings. The very poor tend to save at home.









For the full report, Relative Risk to the Savings of the Poor in Tamil Nadu, please visit *MicroSave*'s online library at http://www.microsave.org/ or click here

3. Conclusion

The results of *MicroSave*'s study of savings trends in these three regions indicate that a combination of formal and informal savings—bank savings, insurance (LICs), livestock, and savings at home—are the four most prevalent. Less formal savings such as investing in business, SHGs, and jewellery are also popular. NBFCs, notably Sahara, are slowly but steadily regaining respondents' trust after a difficult period five to six years ago of widespread NBFC agent fraud. Trends over time show that low-income households are learning more about personal finance (a reality that has significant implications for financial education programmes), becoming more entrepreneurial, and moving toward more investments in formal savings, although more affluent income groups still dominate for banks and insurance. The poorer the household, the more likely they are to be using *gullaks* and other informal savings.

This may change as income levels gradually increase, in part due to internal remittances, and in part due to the emergence of more small businesses in many areas. The encouraging news is that even poor households in India save, and the majority in this study seek out new and better ways to safeguard against an always unpredictable future.

Endnotes

[i] Estimates vary for these figures, but the World Bank, Accion, and other sources' consensus appears to be 450 million or approximately 41%, http://www.nationmaster.com/encyclopedia/Micro-finance and http://www.legatum.org/attachments/MicrofinanceCrisis.pdf
[ii] Respondents in this research study (and numerous related *MicroSave* studies) place their fullest trust in any institution with "government backing". In fact, guaranteed deposit insurance, provided in part by the government to state banks, post office savings, and certain insurance policies, is the basis of this trust, but since this level of specificity is not how respondents understand the security of their money, we do not change the phrases and rationales they use instead.
[iii] Deposit-taking NBFCs or Residuary NBFCs are a special category of NBFCs. Their current legal status is changing to comply with RBI policy on accepting public deposits. As of June 2008, the RBI requested Peerless and Sahara, the two biggest Residuary Non Banking Companies (RNBCs) in India to phase out the collection of public deposits. See here: http://money.sulekha.com/rbi-says-sahara-group-companies-can-t-accept-public-deposits_news_25728 . Sahara has committed to repaying 19+ million depositors by end-2011 http://www.business-standard.com/india/news/sahara-to-windparabanking-by-dec-repay-rs-9k-cr/447606 Sahara also hopes to extend its services in other ways, including a credit co-operative society. http://www.rediff.com/business/slide-show/slide-show-1-sahara-takes-co-op-route-to-beat-sebi-rbi-bans/20110426.htm
[iv] http://www.brainyquote.com/quotes/keywords/india.html#ixzz1ewVKM0M9
[v] Census of India 2011 (For more information, please see the full report http://www.microsave.net/sites/default/files/research_papers/Relative_Risk_to_the_Savings_of_the_Poor_TN.pdf and Tamil Nadu Area Profile).
[vi] Please see endnote ii.
[vii] In Tamil Nadu, it is common for low-income households to create small groups to save over time to purchase jewellery, vessels, or utensils for the house, and festival necessities. These funds are named after their purpose: *nagah* (jewellery fund), *patra* (vessel or utensil fund), and *vizha* (festival fund).