GAFIS Focus Note 1:
Gateway Financial Innovations for Savings

Diligent efforts by governments, donors, and financial institutions have dramatically expanded access to banking services for the world's poor. However, we often find that the new accounts fail to meet either—let alone both—the commercial needs of service providers or the savings needs of low income accountholders, who do not always see the accounts as an effective way to build and manage savings. Gateway Financial Innovations for Savings (GAFIS), a special project of Rockefeller Philanthropy Advisors, funded by the Bill & Melinda Gates Foundation and managed by Bankable Frontier Associates (BFA), works with five banks in five low and middle income countries to demonstrate viable solutions to this challenge. The GAFIS project aims to leverage the "gateway opportunities" presented by certain existing financial relationships between banks and a large number of the poor in order to offer product innovations that make accumulating savings in a bank account a more attractive proposition for poor clients. Through these innovations, participating banks aim to generate a win-win situation, one in which the business case for serving poor clients is enhanced by strengthening the portfolios of those clients through increased bank savings. This GAFIS Focus Note 1 outlines the theoretical underpinnings and ambitions of this project while also defining the core concepts of gateways, financial innovations, and savings.

Financial Inclusion: Moving Beyond Access

In 2004, the four largest South African commercial banks and the state-owned Postbank collaborated to offer Mzansi, a basic bank account that provided affordable deposit services to the unbanked. Four years later, more than six million Mzansi accounts had been opened, and the national percentage of adults with bank accounts had risen from 46% to 63%—an increase largely, but not entirely, attributable to the Mzansi initiative. However, while Mzansi succeeded at encouraging individuals to open accounts (67% of accounts were opened by previously unbanked individuals), it did little to incentivize formal savings in the new accounts. Forty-two percent of the accounts had gone dormant by 2008 (BFA, 2009). We saw very little shift in financial assets from informal vehicles into the formal Mzansi accounts, and balances averaged just $28, with a median of only around $6 (Collins, 2010; BFA, 2009). In fact, many active Mzansi clients use the accounts simply to receive a government or wage payment, almost always withdrawing the full payment all at once, a common "dump and pull" or "sweeping" pattern we observe across countries. With few clients using the accounts to actively save (or to conduct non-withdrawal transactions), the accounts proved costly for the banks providing them. BFA

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(BFA, 2009) estimated that account revenues would need to more than double in order to fully cover banks' costs.

Looking across countries, we see this pattern repeating. The majority of the newly banked take the first step toward financial inclusion—opening an account—but then do not engage very deeply with the newly offered services. They do not follow up by using the account for meaningful savings or as a platform to take advantage of payments, credit, insurance, or other offerings. For example, while nearly 16 million Indians opened no-frills accounts between 2006 and 2008, a study of these accounts in Cuddalore District found that 85% were inoperative, with a balance of less than ₹100 (US$2.22), while 72% had zero or negative balances (Thyagarajan and Venkatesan, 2009). Similar patterns arise in comparable contexts, like Brazil and Colombia, where cash payments are also distributed via basic transactional accounts (Pickens, Porteous and Rotman, 2009). And though not a bank account, Kenya's M-PESA service became the first foray into formal financial services for many poor Kenyan consumers. While initially designed for transactions, M-PESA is now often used as a short-term store of small value, although it has the potential to become a gateway to a deeper level of savings, where larger values are accumulated over longer periods (Suri and Jack, 2010, page11).

While this shallow level of engagement has been the norm, in all cases we find individual exceptions where some clients use this entry-level product to accumulate meaningful savings, as a gateway to a suite of more formal financial services, or as a steppingstone to a more complex savings account.

If banks are to achieve the goal of moving larger numbers of clients into deeper services, the conceptualization of financial inclusion must move beyond account opening towards significant, useful *engagement* of the poor. Doing so can provide sustained net benefits both to the newly-banked poor and to the financial institutions serving them. We believe that getting to that deeper level of engagement will require banks to develop and leverage *gateway opportunities:* providing innovative products that poorer customers value and helping them achieve stronger, more balanced savings portfolios. By doing this, banks may be able to achieve the account balances, transaction volumes and cross-sales opportunities that make providing such services a viable business proposition.

This first of a series of GAFIS Focus Notes provides a foundation for the GAFIS project: it sets out the gateway concept and distinguishes it from a clear proposition; then, it describes how banks may apply financial innovations to promote savings. Since savings can be an elusive concept, this Focus Note also introduces initial working definitions of savings which will be refined during the life of the project.

The Gateway Concept

Access to an account may be a first step towards financial inclusion, but it is far from the entire path. Even an initially shallow banking relationship can be deepened so that low income clients

use their bank account to accumulate savings. Poor clients may come to the bank's door in various ways: through a massive account-opening push, the sending and receipt of remittances, or a government program distributing benefits through bank accounts—these basic relationships may not even require an account. Still, such basic interactions provide *gateway opportunities* to deepen financial inclusion. That is, they open the gate for financial institutions to offer well-designed products that mobilize useful savings. And once a poorer client is comfortable with these savings offerings, banks can deepen inclusion even further by offering a broad range of services, including payments, insurance, and credit.

GAFIS Gateways
Regular payments flowing to the poor, at scale:
1. G2P—Government-to-person transfers
2. P2P—Domestic or international remittances
Existing scale of inactive basic accounts:
3. Accounts opened in large numbers and still in the system, but inactive or underutilized
Scaled platform for micro-transactions:
4. Combination of transaction technology, branchless agent networks, and large customer base using them

For the purposes of the GAFIS project, *gateway opportunities* are those that bring large quantities of poor customers to the threshold of the formal financial system—to the point at which savings products become both more attractive to the customer and more viable for the financial institution. GAFIS envisages the four key gateways noted in the above figure.

Each of these gateways presents its own challenges and opportunities. For example, the **"payment" gateways** (1 and 2 above) arise when regular remittance or government-transfer payments flow to the poor. This can easily become low-hanging fruit for sticky savings vehicles if the financial institution can capture a portion of those flows as savings while the money is in transit. We believe this offers a greater opportunity for the poor to build savings by opting-in to regularly set aside a percentage of the flows. Compare this sticky model with a customer's goal of making a daily decision to accumulate small, frequent deposits—which is very difficult and a logistical inconvenience from a consumer's perspective, making it unlikely to continue over the long term. The third gateway, **existing but underutilized accounts**, arises when customers and the institution have already taken the first step towards financial inclusion—establishing an account—but the customers subsequently find the account unsuitable or difficult to use. Making these underutilized accounts viable is a priority for financial institutions, as well as realization of an opportunity or aspiration of the client. The last gateway, **scaled platforms for micro-transactions**, has already overcome the daunting challenge of building viable channels to serve the poor. Moreover, as in the case of the payments gateway,

the money already flowing through these channels could be diverted towards sticky savings devices.

A diverse group of five large banks representing a variety of gateway opportunities are participating in the GAFIS project. They will receive a range of research, technical support, and peer support to help them take advantage of the identified gateway opportunities for deepening their engagement with poor clients and building their portfolios of poor savers. Brief profiles of the five selected banks appear in the table below. Together, they serve over 54 million clients today, and all aim to increase this number substantially, especially through adding new clients at the low end of the market.

Table 1: Details of GAFIS Partner Banks (2010 data)

	Bancolombia *Colombia*	**Bansefi** *Mexico*	**Equity Bank** *Kenya*	**ICICI Bank** *India*	**Standard Bank** *South Africa*
Assets	$22 Billion	$1.2 Billion	$1.3 Billion	$81 Billion	$111 Billion
Deposits	$14 Billion	$0.7 Billion	$0.9 Billion	$45 Billion	$76 Billion
# Branches	752	513	113	2,500	620
# Own ATMs	2,380	30	515	5,630	4,800
# Agent points	602	6,300	1,010	229	7,000
# Customers	6 million	5 million	5 million	30 million	8 million
Primary gateway opportunity for GAFIS project	Existing low-income clients with low balance, unprofitable deposit accounts	G2P recipients receiving their transfers via Bansefi. Many currently receive their in cash, but are being migrated to electronic transfers.	Existing low-income unbanked mobile money users and holders of 'underutilized' Ordinary Equity accounts.	Low-income domestic remittance senders and receivers; G2P recipients receiving their transfers via ICICI.	Existing low-income clients holding underutilized, unprofitable accounts.

In addition to the four primary gateways that GAFIS targets, two others are worth noting. For example, a bank's existing microcredit clients who may not have bank deposit accounts. We believe there is a strong *effective* demand for savings from such clients, both because these customers are likely to generate financial money flows from their regular economic activity and because the customer's opportunity for effective yield on savings is high if they can displace relatively high-rate interest borrowing. Although perhaps within the fourth gateway noted above (scaled platforms for micro-transactions), a gateway dynamic worth noting resides in micropayment users of bank channels, i.e., payers such as remittance senders or customers paying bills via bank agents. Although the basic cash flow dynamic here (an outflow instead of an inflow) may seem to cut against the concept of savings, logic and evidence indicates that

these customers need to safely store funds until at least the next payment, and this active short-term storage constitutes a form of savings.

Financial Innovations to Increase the Depth of Inclusion

In order to convert these theoretical *gateway opportunities* into reality, we believe that each institution must put forth a compelling proposition to its clients—that is, product innovations targeted at meeting the needs of gateway customers. In essence, a *gateway proposition* is the specific approach developed to leverage the gateway opportunity to deepen clients' engagement with the bank. The proposition includes the business case to the bank and the proposition to the customer which motivates why she should use the product. Innovations in savings products are the means of transforming clients' savings behavior in the GAFIS project.

Participating banks are working to articulate a proposition identifying the specific drivers that will catalyze and sustain savings within their target market of poor clients. The strategic proposition will likely emerge from a diligent focus on, and intentional combination of, three factors: (i) identifying the compelling gateway-linkage dynamics, (ii) further market research and analysis on client demand, and (iii) analysis of supply-side drivers of savings mobilization.

While we recognize that the extent to which banks will acquire or develop new poor savers is affected by levers on both the demand and supply sides, GAFIS directly touches only the supply side. GAFIS supports the financial institutions involved, and therefore has leverage only on a sub-set of the factors that influence consumers' uptake and utilization of savings products.

Demand-side Levers Encouraging Target Customers to Save More with the Bank	
The ***institution*** is trusted, especially if its brand is relevant to and attractive to poor customers—for example, customers' questions are answered with respect	
The ***channel*** is convenient and trusted—trust in the channel may be more about functional reliability	
The product is affordable, but not free	**GAFIS's Levers of Influence**
The bank markets the product in a clearly inclusive and inviting way	
The product features are clear and appropriate	
The product offers specific incentives that overcome some barriers to savings behavior—for example, a lottery feature	
The ***client*** receives regular inflows that could be saved—for example, G2P or remittance gateway	

On the demand side, GAFIS specifically seeks to influence the highlighted levers, while also recognizing the importance of the "institution" and "channel" levers, while tapping into the "client" lever.

Supply-side Levers Encouraging Banks to Offer Savings Products to Target Customers
They are forced to by a policy push, such as explicit regulation
They cannot discriminate against or avoid taking on poor clients
They believe that there is a business case to do so, and develop products supporting:
o *Loss leaders, expecting profits from cross-selling other products*
o *Stand-alone products—when savings product direct revenues are greater than direct expenses*
o *"Build it and they will come" products—the product is expected to reach scale and eventually convert to profitability as the client grows or as the result of a planned cross-sell*
o *Secure government or corporate business—e.g., the payment brings in fees from payers such as government, employers, or larger value-chain players*
o *A strategic intention to preserve core business by fending off regulatory threats*
Regular inflows to a client's account (via G2P or remittance) enhances the proposition to distribute and/or manage money on client's behalf
Leadership is committed to serving poor clients
Incentive systems—whether by design or default—encourage serving poor clients
There has been a credible demonstration that it is possible

GAFIS's Levers of Influence

On the supply side, GAFIS focuses on testing and influencing the highlighted levers.

These demand-side and supply-side hypotheses will shape the nature of the innovations that GAFIS will introduce. However, GAFIS limits the scope of what it considers as potential "*financial innovations*" to *formal product offerings by financial institutions that lead to more useful and sustainable savings*. Although there is still room for substantial improvement in providing basic account features that are *required* for good savings product design, GAFIS will focus much of its energy beyond these basics, as the heart of why clients save lies beyond, and provides the impetus to save more over longer periods in the formal savings vehicle.

Key Elements of an Effective Demand-driven Savings Product Suite	
	Required elements—Savings product design*
1	Safe
2	Liquid
3	Private
4	Respectful
5	Clear
6	Affordable
7	Convenient
8	Known (product awareness)
	Illustrative Innovation Propositions
	Cross-product elements
9	Payment function access
10	Prospect of access to credit
	Psychological elements
11	Commitment
12	Emotional benefit aspiration
13	Yield perception
14	Fun

*Items # 1-4, 6-7, and 10 are derived from Robinson (World Bank, 2006). Items # 5, 8, and 9 represent part of our hypothesis, as we note an apparent gap between Robinson's "seven" and a current view of demand-driven savings account requirements.

We contend that a *savings product innovation* can come from significant improvements in any or all of the above-listed areas.

Understanding Savings

Ultimately, GAFIS's success will be gauged by how well the participating banks are able to change savings behavior among target clients. But, in order to measure this, we must tackle the complex, multi-dimensional concept of "savings." A subsequent Focus Note (to be published in the latter half of 2011) will propose a taxonomy of savings behavior, contextualized by country-level baseline data. Defining bank-based savings behavior more clearly is an important objective for GAFIS, which behavior we believe is more about specific activity/balance usage patterns than mere 'savings' account openings. For now, this Focus Note merely sketches an outline of the issues involved.

In the most general sense, *savings are resources not yet consumed.* In other words, savings in the broadest sense could be defined simply as all assets held at any given moment in time, which are depleted as they leave the household through consumption (Schreiner, 2004).

We can classify and measure savings behavior by describing the nature of the Assets/Savings box, that is, the consumer's portfolio, as shown in the above diagram. Many poor households have both physical (e.g., cattle, jewelry, land) and financial (including cash, financial investments, bank account balances) assets. GAFIS focuses on promoting one type of financial asset, namely bank-based savings. Fully describing the contents of the Assets/Savings box means that we must examine many dimensions of its contents:

Dimensions of the Assets/Savings Box:
Size—How big is the box, both in absolute terms and relative to the owner's income?
Duration—How long is value held in an instrument?
Composition
Liquidity—What is the composition breakdown in terms of liquidity?
Risk—What is the risk (including formality/informality) profile of the different assets?
Purpose—What is the intended purpose of different portfolio elements?
Dynamics
Stability—How frequently and how drastically do the contents change?
Accumulation—Are assets accumulated by slow, steady, small, intentional contributions? By occasional lumpy contributions? Or by diversion of large income flows?

Defining savings more clearly can specifically help sharpen discussion both around the design of products that make savings behavior more achievable and sustainable, and even around the impact of successfully encouraging savings behavior. So, for the purposes of the GAFIS project, how do we define and measure useful, formal savings behavior?

GAFIS will assess savings behavior from both the supply (banks') and demand (clients') perspectives, using measurements from both bank transactional and balance data and client interviews.

Measuring Formal Savings from the Supply Side: Three Factors. First, savings is indicated by both balance size and balance duration. There is no absolute threshold in regard to *balance size or duration,* but the threshold is, rather, relative to the circumstances of each individual accountholder. For all practical purposes, for poor savers, this threshold is the balance relative to a proxy for personal consumption expenditures for the poor (e.g., the national poverty line or $2/day in purchasing power parity terms). With respect to *balance duration,* all other things being equal, the smaller the balance size, the longer the balance duration must be to qualify as savings, and vice versa (the shorter the duration, the larger the balance size must be).

Additionally, a balance which trends upwards over a period of time can constitute a form of savings.

To be counted as savings, a balance need not remain constantly above the designated threshold or constantly trend upward over the applicable time period. Rather, it should meet these criteria for at least some proportion of the period.

Supply Side Savings = Balance of X value, Maintained over Y duration

Measuring Savings from the Demand Side. The poor use multiple instruments for savings, not just banks. Data from the Financial Diaries in South Africa (Collins, 2010) shows that the poor save a large portion of their income, essentially as much as the better off, but that they save only a small portion of it in banks, saving the rest in their homes or in savings clubs.

Table 2: Savings patterns of South African households at different income levels
(Porteous et al., 2008)

Dollar per day category	% of sample	Mean income allocation (% of income)	Percent of mean income allocation to:				
			Saving in house	Money guarding	Savings clubs	Bank accounts	Provident funds
<$2	10%	18%	45%	0%	48%	7%	0%
$2-$5	31%	14%	29%	1%	49%	1%	1%
$5-$10	28%	18%	8%	4%	21%	52%	10%
>10%	32%	31%	9%	1%	31%	19%	40%
Total Sample	100%	21%	19%	2%	36%	25%	16%

GAFIS does not assume that the poor will somehow save a larger share of their income than they already do, but rather it hypothesizes that they might *shift* some of these savings from informal instruments—especially from savings kept in the house—into formal instruments, in an effort to better balance and reduce risk in their portfolios. Thus, our study will measure the change in client savings behavior from the demand perspective, using financial diaries and surveys that measure changes in the share of financial assets held in the bank.

$$\text{Demand Side Savings Measure} = \frac{\text{Bank Balance}}{\text{Total Financial Assets}}$$

Where Supply and Demand Meet. The rebalancing of clients' portfolios on the demand side leads to higher and more stable bank balances, enhancing the business case for serving low-income clients. BFA's work through the Gates Foundation-sponsored *In Focus* program uses

data obtained from client surveys to show that client savings portfolios are currently distributed away from holding liquid assets in the bank (see Table 3 for an example from one *In Focus* institution).

Table 3: Current portfolios of poor, low balance clients

	Amount (US$)	% of total liquid assets	% of clients that have
Bank savings	$20	1%	100%
Saving money in the house /on one's person	$225	11%	62%
Assets meant to be sold if short of cash	$588	29%	8%
Savings in a group	$624	30%	29%
Providing small credit /loans	$570	28%	37%
Saving with a money guard	$20	1%	8%
Total liquid assets	**$2,047**		

Source: Non-GAFIS institution participating in the Bill & Melinda Gates Foundation In Focus program

The *In Focus* program similarly conducted supply side analysis to calculate the breakeven balance at which the bank begins to make money on providing low balance accounts. For the *In Focus* institution shown in Table 4, this breakeven balance is $181, much higher than the average $20 balances held by poor, low balance clients.

Table 4: Potential rebalancing of poor, low balance client portfolios

Rebalancing client portfolios = Higher, stable deposits		
Example of clients at Bank "B"	Previous balance	New balance
Bank savings	$20	$181
Saving money in the house/on the person	$225 -$161	$64
Assets meant to be sold if short of cash	$588	$588
Providing small credit/loans	$624	$624
Saving with a money guard	$570	$570
Total	$2,047	$2,047

Source: Non-GAFIS institution participating in the Bill & Melinda Gates Foundation In Focus program

However, through both increased proximity to financial services provided by channel improvements AND innovative product and marketing provided by programs like GAFIS, clients could be enticed to shift some of their liquid assets to the bank. Table 3 shows that 62% of clients surveyed keep money hidden in their homes, where it could get lost, stolen or

sub-optimally used. Table 4 shows that shifting a portion, just over two thirds, of average amounts kept in the house would bring balances up to the $181 mark needed to breakeven on providing savings accounts. Through GAFIS, we aim to introduce savings product innovations that make this proposition enticing to clients.

Toward a Workable Vision of Savings Inclusion

GAFIS will be successful if participating banks are able to deepen the level of savings for a large number of poor clients. Over the next two years, GAFIS participating banks expect to introduce savings product innovations that encourage poor clients to save a higher proportion of their financial assets in the financial institution. By increasing these savings levels while keeping costs low, banks will improve their business case for providing this target market with a range of needed services. Consider, again, the case of South Africa, where large numbers of Mzansi accounts lie dormant, including those issued by GAFIS participating bank Standard Bank. By the time the GAFIS project concludes in 2013, a larger proportion of Standard Bank's poor accountholders are likely to be active, and maintaining higher average balances. These higher balances will likely have been achieved not by the bank's shifting its attention towards less poor customers, but by having offered poor clients a compelling proposition for shifting their financial assets from under the mattress to a secure, useful bank account.

In pursuit of this goal, the GAFIS project will seek to learn valuable lessons about the savings needs of poor clients and about how to construct viable business cases around low-balance accounts, and we will regularly share the learning throughout the project period. GAFIS will rigorously test the hypothesis that the gateway dynamic improves the business case for offering savings to the poor at scale, and how it can do so. What incentives and marketing approaches can be used to catalyze ongoing usage, as compared to mere initial uptake? What are the optimal channel strategies for conveniently and affordably delivering the other core savings product elements? From the client's perspective, we will study the features of savings products that make them attractive to clients who were already brought to the institution by a gateway dynamic. How do product offerings and the gateway linkages reduce client-level transaction costs? What factors affect a client's willingness to shift savings behavior towards a formal instrument over the medium to long term?

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