

GAFIS Focus Note 2: Stylizing savings behavior to better serve poor clients

Gateway Financial Innovations for Savings (GAFIS) is a special project of Rockefeller Philanthropy Advisors, funded by the Bill & Melinda Gates Foundation and managed by Bankable Frontier Associates (BFA), working with five leading banks: Standard Bank of South Africa, BANSEFI (Mexico), Bancolombia, Equity Bank (Kenya), and ICICI Bank (India).

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.

Focus Note 1 explained the details of 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). The GAFIS project aims to leverage the “gateway opportunities,” established through existing financial relationships between banks and a large number of the poor 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, where the business case for serving poor clients is enhanced by strengthening the portfolios of those clients through increased bank savings.

The “gateway opportunity” that each bank has identified (as noted in Focus Note 1) has helped them hone in on a set of target clients for increased bank savings. In this Focus Note, we present a new typology of savings behavior. We combine this typology with data from our baseline survey of each bank’s target clients, which captured poverty levels, sources of income, and existing financial management strategies. Together these two tools provide a crisp value proposition for the bank as well as the poor clients they hope to reach.

How does GAFIS intend to change the ways poor clients save?

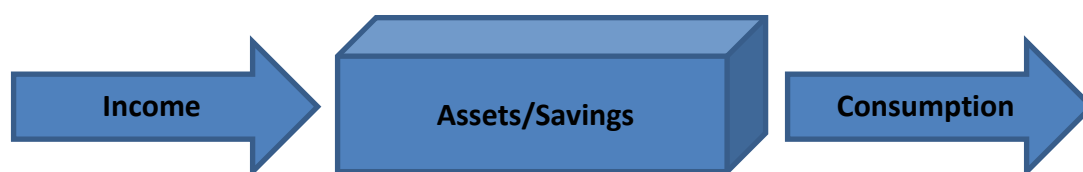
Over the last decade, a wave of evidence has shown that poor households do indeed save. The idea of accumulating savings out of meager income seems impossible, but that same evidence has suggested that when the poor find mechanisms to help them manage their cash flow, they can be very successful savers. As we set about trying to measure success in the project, it became clear we needed to think more carefully about what it means to save “better.”

In the first GAFIS Focus Note,¹ we explained the purpose of the project and introduced the partner banks. GAFIS supports partner banks as they develop and introduce savings products that encourage poor people to better build and manage their savings. However, to be precise about how client savings behavior might be improved, we first needed to take stock of existing financial practices within each target market.

Dimensions of savings

We started by thinking about a very broad definition of saving behavior. Schreiner (2004) defined savings as, “the movement of resources through time.”² This definition suggests that savings can be considered all the assets held from household income, for any given amount of time, before they leave the household through consumption as shown in Figure 1 below.

Figure 1: Savings conceptualized as assets that are depleted by consumption



The conceptual diagram in Figure 1 propels us to think about all the ways in which we can define and describe the “Assets/Savings” box.

First and most important, we can think about the **size of savings**. When measured in terms of a flow in the context of Figure 1, this means assessing what is retained in the Assets/Savings box when considering the size of the income coming into the box. We could also measure the stock of savings, which simply means measuring the size of the box at any one time.

Second, we need to think about the **duration of savings**. How long does money stay in the Assets/Savings box? Is the box the same size throughout that time? How long is most of it held? Is it accessed for the purpose for which the household originally planned?

Third, what are clients’ **liquidity needs** for savings? The focus here is on how the Assets/Savings box relates to both the income coming in and the consumption going out. Do savings come into the box at a steady and regular pace over time or all at once? What restrictions on liquidity dictate how savings can come out of the box for consumption? Is the box like a house, which cannot be immediately liquidated for consumption? Or is it like hiding money under the mattress, where it can be easily accessed for consumption?

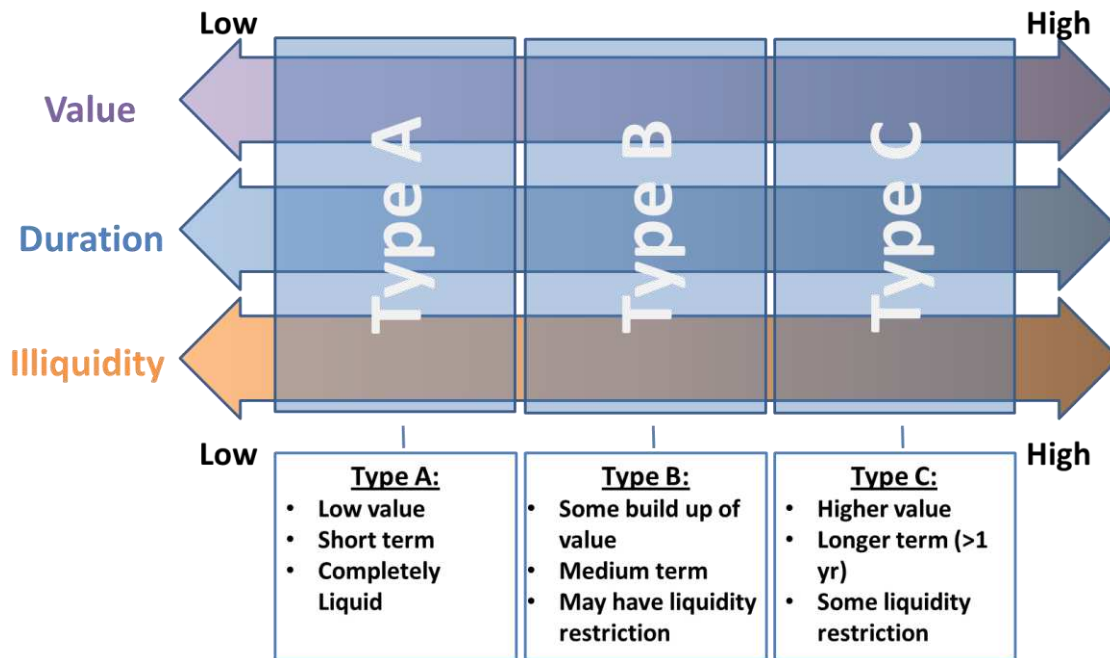
¹ <http://www.bankablefrontier.com/assets/pdfs/GAFIS-FocusNote1.pdf>

² Schreiner, Mark. *Measuring Savings*. Prepared for the Research Design Project—Children and Youth Savings Account Policy Demonstration. December 2004.

A typology of savings behaviors

Illiquidity, value, and duration of savings often work in concert. This allowed us to develop three savings types that capture important and distinctive savings patterns in a stylistic way (Figure 2). This basic typology provides a lens through which we can understand client saving behavior: from the demand side (e.g., baseline surveys) or from the supply side, through analysis of bank information systems. To assess savings behavior within each partner bank and within specific products, the GAFIS project analyzed account-level details across a wide range of account holders to identify savings patterns reflecting the three savings types.³

Figure 2: Savings behavior classified into three main “types” that account for differences in value, duration, and illiquidity



When thinking about savings across the types, of the attributes of value, duration, and illiquidity, no single attribute is necessarily more important than another. Furthermore, high or low measures should not evoke a clear a value judgment. Many situations illustrate this complexity. One household may have high savings flows, instead choosing to do without essentials like food or medicine. Another household may hold savings for a long time and forego a business opportunity. Yet another household may be trapped in a highly illiquid savings product, and not be able to use the money for an emergency. Individuals need a broad array of savings products to support a variety of savings behaviors.

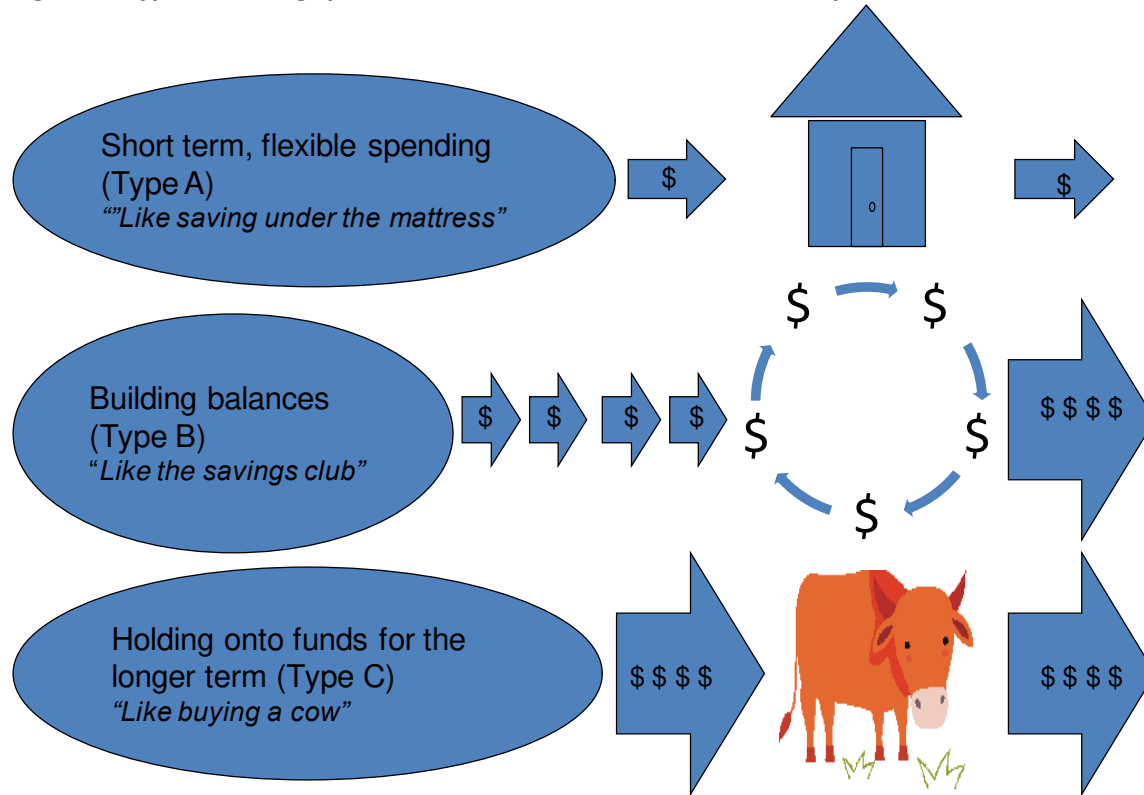
Rather than finding one perfect savings instrument, all households would be well-served to have a portfolio of savings instruments that has different features to suit their different purposes and needs.

³ More information on the definitions and methodology used in the analytical exercise using transactional and balance data can be found in *InFocus Note 3*.

Different products reinforce one another. We know that people wish to save for a range of purposes in the immediate, medium, and long term. Some tools are suited for the short term, while others are geared towards longer duration savings.

This typology is reinforced by the understanding that these savings types are not unique to behavior in using formal savings products, but are common to the behavior that underpins the informal savings practices of the poor. Figure 3 demonstrates how informal tools help the poor meet short-, medium-, and long-term savings goals.

Figure 3: Types of savings patterns are reflected in clients’ informal portfolios



Savings types: advantages and disadvantages for clients and banks

In this section, we look at each of the savings types presented in Figure 3 and consider the benefits and shortfalls of the informal mechanisms of each type, as well as a financial institution’s challenges in supporting each type of savings behavior.

Savings Type A: Like saving in the house

Poor households frequently use **saving within the house**—under a mattress, say, or in a bag, piggy bank, or even buried in the ground—even if they also have bank accounts. This method is valued because the transaction is virtually costless—the money is readily available when it’s suddenly needed. However, having the money so close at hand requires households to be extremely disciplined at leaving the money alone when they have a smaller need or desire. It is very easy to spend the money on trivial items, lend it to a relative (often without repayment), or lose it through

theft, fire, or misplacement. Saving in the house has the advantages of being completely liquid and available, but, in effect, these are also its downfalls when it comes to building up a larger pool of savings.

Generally, this type of savings tends to be of low value and short duration, or what we call **Type A**, savings behavior. When examining bank data, we consider Type A savings to include any account activity that goes beyond “dump and pull” behavior, in which a large credit to the account is quickly followed by a nearly equal debit by the account holder such that the daily balance goes to zero.⁴ If the client is using the account as a store of value—even for a short period—with signs of either saving-up, or even saving-down,⁵ rather than simply matching every credit with a debit, we consider that savings as Type A. This type of behavior demonstrates short-term, flexible spending. When formal accounts are being used for this type of activity, we tend to say they are “better than the mattress.” However, inducing a shift from the mattress to the bank for this type of savings may not be as easy as it seems. If frequent use of the account comes along with high consumer-borne transaction costs (in time or money spent by the client), the mattress—with all its risks—may remain a more attractive option.

Savings Type B: Like a savings club

Saving in a **savings club** is extremely popular across the developing world, but particularly in Kenya and South Africa, two countries where GAFIS banks operate. Savings clubs are useful mechanisms for allowing small amounts of money to accumulate into large, useful lump sums. On the other hand, these mechanisms are meant to cover medium-term expenses, usually shorter than one year (e.g. school fees), and rarely allow for longer-term needs. In addition, savings clubs may fail easily if one person steals the money or others do not pay as expected.⁶

Formal accounts are “like the savings club” when they encourage savings **Type B** behavior. This type of savings requires use of the account to accumulate value for a medium term, say, from one month up to a year. The saver *builds* a balance in the account over time. Savings groups are often hard to beat, since they offer many virtues and tend to be more flexible than bank products. But they are not always accessible to those with more irregular incomes, very low incomes, or, in many countries, men. This type of savings is better for the bank in terms of profitability, as it provides larger balances, which is a major driver of account-level profitability.⁷

⁴ Such “dump and pull” behavior is often associated with government grant recipients and payroll clients who use their accounts only to receive their payments, which they immediately withdraw in full and manage in cash.

⁵ Saving down refers to slowly spending or withdrawing incrementally some sort of inflow or lump sum over some period. Before it is spent, it is saved, even if temporarily.

⁶ We find that 6% of users lost an average of \$346 each loss over a ten-year period. See Bankable Frontier Associates and CGAP, Portfolio balancing: Rethinking our assumptions about benefits and costs of financial products for the poor, to be released on www.cgap.org.

⁷ Again, see GAFIS Focus Note 3. Note that this assumes that the regular monthly cash-in method is not an expensive, branch-only method. Automatic cash-in or agent cash-in, for example, would be less expensive.

Savings Type C: Like saving in livestock

Finally, many households invest in **livestock** as a way to save. On one hand, livestock are a great investment, because they can reproduce. However, they die (sometimes unexpectedly) and are difficult to insure. Moreover, if a need arises that requires less than the lump sum value of the entire animal, it is impossible to divide an animal. Households may also find themselves in trouble when they try to sell their livestock assets at the same time as everyone else, as the over-supply drives down prices.

We designate **Type C** bank-account savers as those who hold onto savings for a long period. This is not a “buildup,” but rather a lump-sum investment (much like buying livestock) which is held over the longer term, often more than one year. This type of savings tends to be the most illiquid of all, but also offers the most marked benefits to the saver in regard to production or reproduction (in the case of livestock investments) or interest (in the case of financial investments). It may be difficult to convince someone who’s used to saving in livestock, or other types of physical assets, to shift those assets to the bank. Cows, for example, reproduce and are a visible sign of wealth and prestige for many, even though they are illiquid. However, similar types of savings may be quite attractive, particularly for those seeking a more secure investment or who cannot invest in livestock. This is the most attractive type of savings from the bank’s perspective, offering larger, more stable balances over longer periods.⁸

What is *not* savings?

There is quite a bit of financial cash-flow behavior that we do *not* consider savings. For example, many households use bank accounts as payment mechanisms to receive their salary or a government grant, and then pull out the entire amount that the same day. This type of behavior is *active*, but it is not *saving*. Other accountholders may have erratic balances over time—for example, building a large balance then quickly withdrawing it, or depositing a large amount and then running it down. While both behaviors are useful to households, we do not consider either of these patterns *savings*.

How do banks go about helping the poor build better portfolios?

With this framework in mind, we did a baseline survey of each partner bank’s potential target clients to better understand their poverty levels and financial behaviors. We used the same base questionnaire across countries, but made adjustments for each bank to account for contextual differences. Each baseline survey included roughly 750-900 respondents and took stock of poverty levels, income by different sources, physical assets, use of financial instruments, and balances and flows in and out of each financial instrument. The resulting data allowed us to segment different client types within the target market, then compare their financial portfolios. We looked at what financial instruments they were using, how intensively, and whether these instruments were successfully helping users meet a range of needs, such as covering emergencies, school fees, funerals, and medical expenses.

⁸ Again, see GAFIS Focus Note 3. Type C savings is particularly attractive if there is infrequent transaction activity or if cheaper channels are used.

Table 1: The sample for each bank at the baseline

Bank	Standard Bank	Bancolombia	Equity	Bansefi	ICICI
% of sample below US\$2/day	28%	0%/46% national poverty line	29%	46%	42%
Potential target clients	Existing clients in mass market accounts	Existing low-income clients	Low-income dormant clients and the unbanked	Rural Oportunidades Clients receiving cash transfers into account via correspondents	Rural remittance receivers/ urban remittance senders
Sample size	751	950	2,264	831	1507

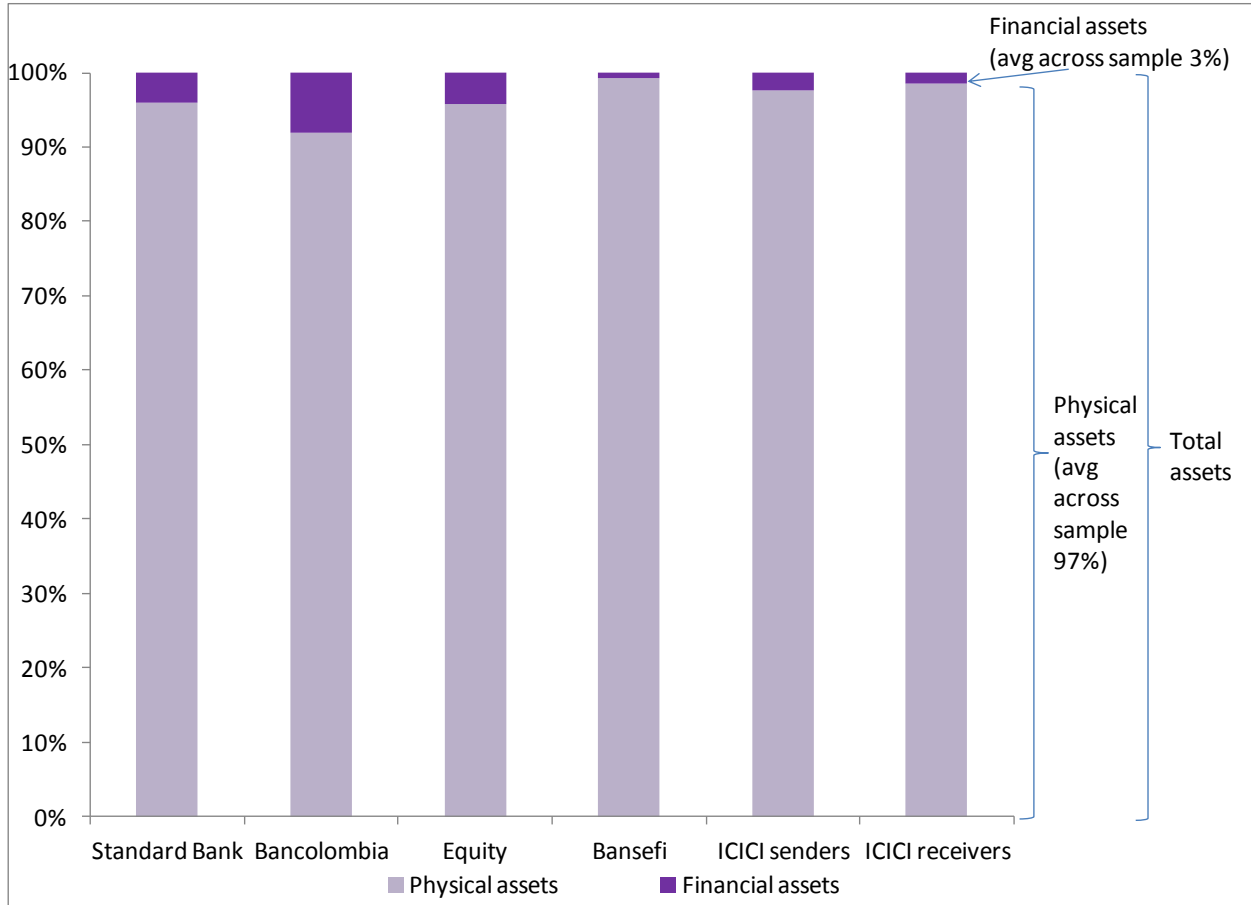
How do we use this information to help poor households build better portfolios? We can begin by using this data to recognize that their asset base is heavily focused on physical assets⁹ rather than financial ones. Figure 4 below shows that, on average across these samples, financial assets only account for 3% of total assets, whereas physical assets count for 97% of total assets.

This is not to say that all physical assets are specifically meant for savings, or even that they could be used for savings. In fact, similar data that we collected for other banks during In Focus,¹⁰ another project funded by the Bill & Melinda Gates Foundation, suggest that only between 5%–20% of household assets could be considered “liquid,” i.e., these are items that households would sell if they were short of money. Such items would be, for example, livestock and electronics. As suggested in Figure 4, liquid physical asset holdings behave in a manner similar to financial products such as an investment account or a fixed deposit account. Yet physical assets have certain disadvantages as compared to holding Type C savings in financial form. They are not always liquid *when* sellers need cash, nor at the value at which they need it. In principle, diversifying Type C savings into more financial products is an attractive portfolio proposition for clients.

⁹ We asked households about an entire range of physical assets including land, housing, housing materials, livestock, furniture, electronics, and another physical asset that might hold local importance, such as a canoe or a large water container.

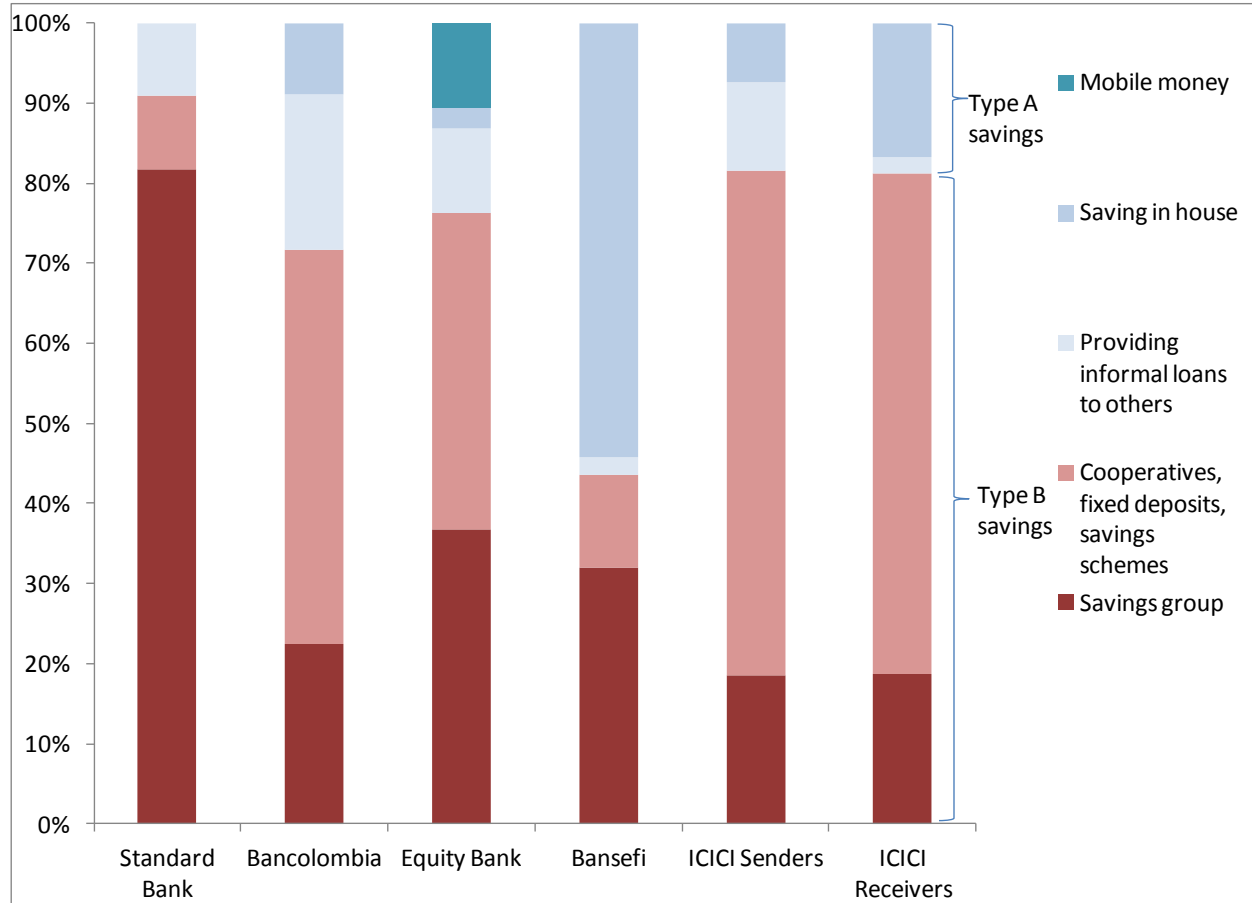
¹⁰ For further information about the In Focus project, see *InFocus* Note 1.

Figure 4: Distribution of financial and physical assets in each sample



We can also use the data to understand how households are holding their financial assets in forms other than a bank account. Figure 5 shows these holdings of alternative financial devices.

Figure 5: Distribution of non-bank financial assets in each sample (% of total non-bank financial assets)



As Figure 5 shows, we can separate savings devices according to the different types of savings behaviors described in Figure 2. Each of the savings typologies described in Figure 2 describes savings patterns over time, so our static survey questionnaire cannot exactly map these data to those types. However, we can assign certain instruments to each category based on their very definitions. For example, the steady, ongoing savings demanded by savings clubs, cooperative savings, and recurring deposit instruments is, by definition, Type B. Moreover, Financial Diaries suggest that most savings in the house also *tends* to be, at best, Type A¹¹. The GAFIS baseline survey for Equity Bank in Kenya also revealed that, although 87% used M-Pesa, this was not seen as a place to hold or build large balances over time.¹² Investment accounts or fixed-deposit accounts would be considered Type C savings but were not statistically significantly represented in these samples.

Figure 5 shows the portfolios of the active clients in the GAFIS banks defined by instrument and then by Savings Types A and B by using these guidelines. The blue sections of the columns are those that would be associated with Type A savings behavior, such as savings in the house, mobile money

¹¹ Collins et al (2009) *Portfolios of the Poor* Princeton: Princeton University Press.

¹² For example, a third of respondents preferred to keep money in M-Pesa for small emergencies, only 28% preferred to use the bank for the same reason. Conversely, 78% preferred to use the bank to save up for large purposes while only 16% preferred to use M-Pesa for the same reason.

savings, and lending to others. The red sections are associated with Type B savings behavior, including savings groups, cooperatives,¹³ savings schemes, and fixed deposits.

Figure 4 and 5 together provide us with a good sense of all the savings being done outside the bank, providing an indication of what the bank has to offer the client. Moreover, although we've found that all low-income individuals need all types of savings, different client segments may emphasize different types of savings. Thus, viewing "poor savers" as a homogenous group and introducing a vanilla product to be used by all does not account for different segments of savers who may need to use one type of savings now and another later, depending on their needs and income flows.

The next sections discuss three particular challenges faced by financial institutions trying to address the needs of their low-income clients.

Challenge 1: When there is very little medium- or long-term savings

Figures 4 and 5 show an interesting story for the Bansefi clients who are part of the Oportunidades¹⁴ program: they are unusual in that they exhibit a stark *lack* of Type B or C behavior from almost any financial device. Financial assets are kept mostly in the house, protected by the sheer force of will, which we found is not very strong and tends to result in very weak Type A behavior. The only real opportunity for Type B behavior comes from savings clubs used by very few clients (7%).

Poor Oportunidades recipients in Mexico are also unusual in how little savings they keep in physical assets for Type C savings. Only 41% of respondents had any assets they would be able to sell if they needed money. Among them, at the median, they only had physical assets worth \$964, of which about 20%, or \$193, could be considered "liquid."

It is no surprise, then, that Bansefi's clients had very low overall levels of savings compared to the other banks' clients. As Table 2 demonstrates, Bansefi is targeting one of the poorest markets, with 46% of respondent households living on less than US\$2/day. Bansefi also has a very isolated target market, in which, for example, only 38% have access to a cell phone, compared to 78% nationwide.¹⁵ There is a very small pocket of savers in the group, who leverage such mechanisms as savings clubs to save an average of 32% of their income every month. Are these savers more wealthy? No, in fact, they have a lower median monthly income than the non-savers.

¹³ We cannot say with certainty that those in the sample use cooperatives in a Type B manner, but there are two typical products of cooperatives in Colombia geared towards regular, often paycheck-deducted, savings contributions from salaried workers.

¹⁴ *Oportunidades* is a conditional cash transfer program initiated in Mexico in 2002. It is designed to target poverty by providing cash payments to families in exchange for regular school attendance, health clinic visits, and nutritional support. Cash distributions are undertaken by Bansefi. An increasing number of these payments are being made via retail agents.

¹⁵ World Bank, 2009.

Table 2: Summary statistics for “poor” (under \$2/day) target clients at each bank for baseline survey

Bank	Standard Bank	Bancolombia*	Equity	Bansefi	ICICI— Senders	ICICI— Receivers
% of sample below US\$2/day	28%	0%/ 46% national poverty line	29%	46%	10%	69%
Financial assets as days of income [mean/median]	16 days/ 1 day	41 days/ 12 days	41 days/ 38 days	5 days/ 0 days	10 days/ 0 days	43 days/ 17 days
% of financial assets in the bank [mean/median]	47%/ 51%	43%/ 47%	30%/ 38%	0%/ 5%	7%/ 15%	0%/ 44%
% with no financial assets	48%	0%	9%	69%	66%	30%

*Colombia figures are for national poverty; no respondents live on less than US\$2 per day.

With such a dearth of saving options, Bansefi’s target clients are likely to welcome any new savings instrument they can trust. Bansefi is already providing all of them with basic bank accounts, but very few know that they have the account or that it can help them save. We found that only 29% of clients were even aware that they had a bank account. Bansefi is currently undergoing market research to better understand how to get out the message that clients can save money in the same account in which they receive their Oportunidades grants.

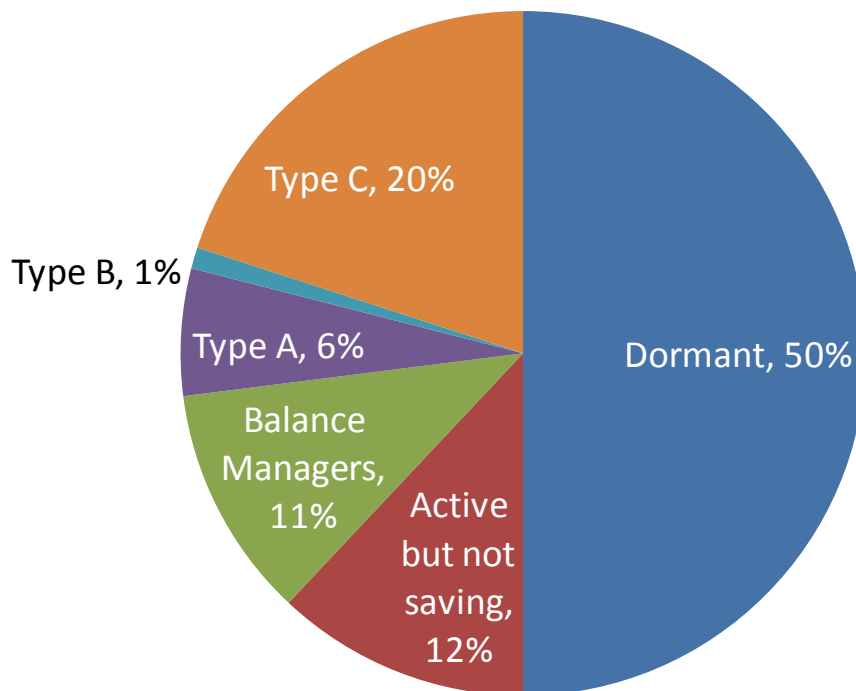
Challenge 2: When existing clients are using the bank, but not saving

When we look at the savings portfolios (Figure 5) of the target clients of Standard Bank, Bancolombia, and Equity Bank, we see a different picture to Bansefi’s. There is quite a bit more Type B savings in the other three banks, thanks to good participation in savings groups, cooperatives, and savings schemes. As a result, Figure 4 shows more financial assets as a share of total assets.

Moreover, these clients say that they are very actively using the partner bank (and oftentimes other banks) and even report high balances. However, how do we know whether reported balances are simply high at that moment in time and about to decline, or if they are usually high, or if savings will increase and balances will climb even higher? With a one-off demand-side survey, we cannot answer these questions, and therefore we have no way of categorizing these households’ savings behaviors.

Transaction and balance data from the GAFIS banks can provide clues. We have analyzed this type of data from four out of the five GAFIS banks, as well as three other banks from the set of *InFocus* banks. The in-depth analysis for “Bank C”, an *InFocus* bank similar in size and structure as Standard Bank, Bancolombia and Equity Bank, is presented in *InFocus* Note 3. We show a portion of that analysis for Bank C’s basic, entry-level bank account below, examining first how bank account usage maps to the types of savings behaviors outlined in Figure 2.

Figure 6: Distribution of accounts with different savings and transaction behavior in InFocus Bank C



Notes: The chart categories can be defined as follows: Dormant are all accounts without a transaction in 6 months; Type C are all accounts where the balance for three consecutive quarters is above a defined threshold limit (in this case, \$72); Type B are all accounts where the average annual balance is greater than the first month balance and the ratio of credit to debits is at least 6:1; Type A are all accounts where the balance of at least one of the quarters is less than 25% of the defined threshold limit; Active but not saving are accounts where the balance for at least one quarter is less than 25% of a defined threshold limit (in this case \$72) and where the ratio of debits to credits is greater than 1/6 but less than 2; Balance managers are the residual accounts from these other definitions, but have the common attributes of being both high transacting but with irregular and intermittent high balances. See In Focus Note 3 for more details about how this segmentation was performed.

As Figure 5 shows, about half the accounts are Dormant, and another quarter are non-savers (either Active but not Saving or Balance managers). About 12% of accounts are active, but never hold high balances (Active but not Saving). Another 11% could be considered Balance Managers who can sometimes have a high balance, but do not maintain that balance for long enough to fall into one of the types of savings behavior.

A key driver of bank profitability is high-balance accounts with low numbers of transactions. Yet, in Figure 5 above, the only two types of savings that would tend to keep high balances are Types B and C, which represent only about a quarter of accounts.

What would entice bank clients to build and hold larger balances at the bank?

It is notable, but not entirely surprising, that there is very little Type B savings behavior in the Bank C accounts. Remember that Type B savings echo the same cash-flow profile as a savings club, with regular, steady deposits, no withdrawals, and a climbing balance. Without the structure imposed by either a savings club or a commitment device such as a recurring deposit, very few are disciplined enough to save this way. Arguably, clients who are non-savers would benefit from moving into this category. Although clients have quite a bit of Type B savings in their informal portfolios (Figure 4), many of these financial instruments, especially savings clubs, can be risky, as discussed above.

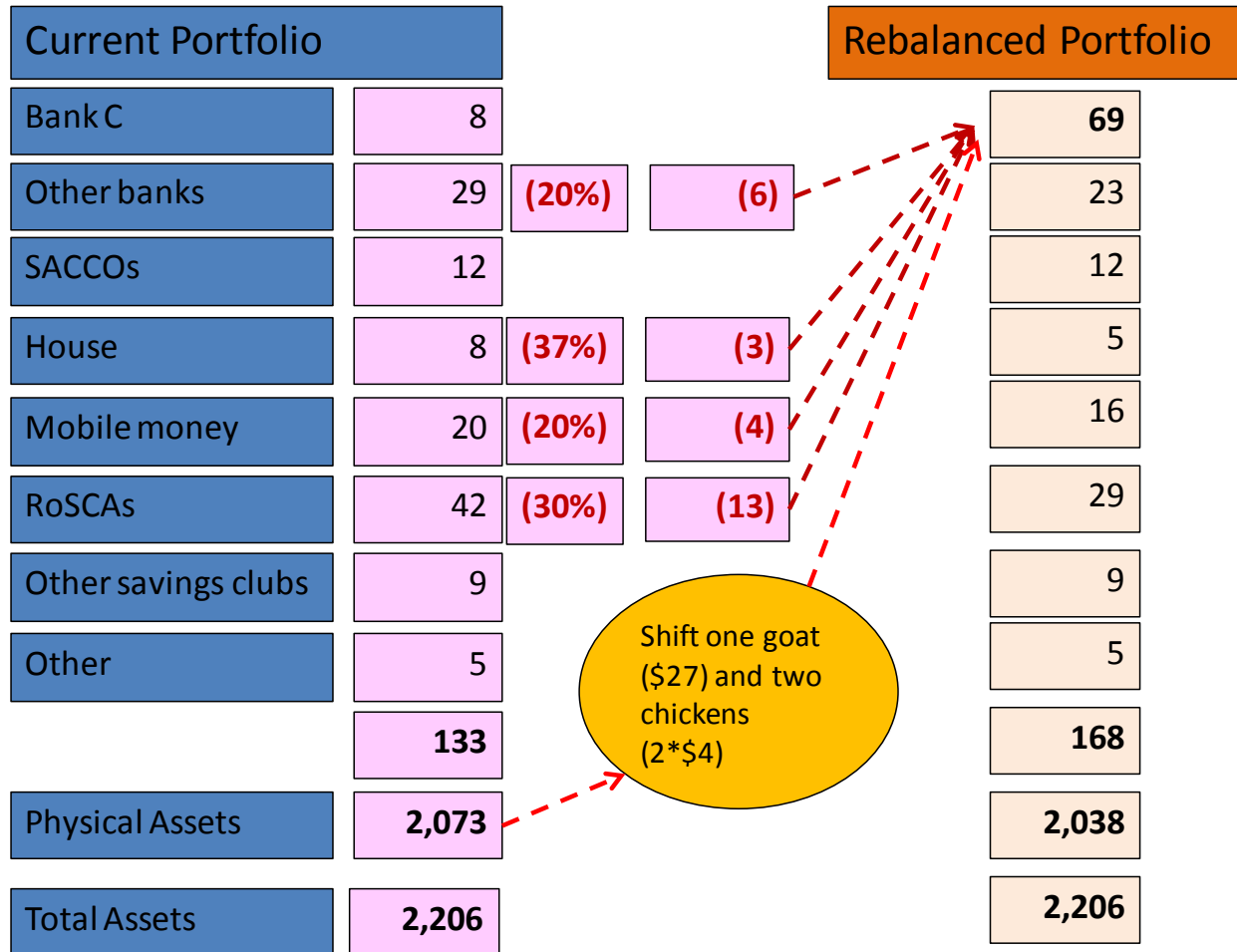
To increase Type B behavior, it would be helpful for banks to introduce ways that easily allow clients to regularly and steadily put small amounts money aside with every incoming cash flow. Even more helpful would be adding a commitment feature to these accounts, either with a simple label for a client's specific need or rules that penalize early withdrawal.

Type C savings behaviors, with high, constant balances and low transactions, are also attractive savings for banks to capture. In practice, achieving an increase in Type C savings behavior can be challenging, as it requires the client to have a lot of trust that the bank will hold assets for a long time. It may also mean convincing a client to sell some livestock or another physical asset to put the balance in the bank. Or it might mean convincing a client to put aside a one-time lump sum for use over the long term (even saving a portion of agricultural proceeds to buy next season's fertilizer would count). One of the key challenges in convincing clients to lock in funds for either the medium or the long term is the client's concern that the funds cannot be accessed in a true emergency. In this case, providing a way to borrow against the funds can give the client peace of mind that they can find emergency money if needed, while helping them feel more comfortable leaving the savings tied up for longer. This may be good for the client and also good for the bank.

Do clients actually have enough in their other savings devices to make a shift to the bank? Consider Bank C's dormant clients who earn their livings through highly irregular, casual work. These casual workers are indeed saving—but not with Bank C. They save in a combination of other banks, a mobile money account, savings clubs, and physical assets. Yet these instruments do not help them save enough to pay school fees when needed, for a variety of reasons. The savings club is too restrictive and does not pay out at the right time, while the mobile money account, other bank accounts, and saving in the house are not restrictive enough to help them save more. Clients need instruments that will encourage more Type B savings behaviors, in a reliable institution.

Bank C is losing money on its dormant accounts. To break even, Bank C needs to increase average balances from \$8 to \$69. Figure 7 below looks at an example of average balances for this segment and demonstrates how Bank C can significantly increase client balances—without changing the sum of overall financial assets. If properly designed and marketed, the new project re-balances a client portfolio away from instruments that are too risky and inflexible (savings clubs), too liquid (house or mobile money), or too illiquid (physical assets), and pull them into an account that encourages Type B savings accumulation.

Figure 7: Rebalancing the financial portfolios of casual workers with dormant Bank C accounts (US\$)



With the right product features and marketing, a saver with this type of shift would be better equipped to deal with their different needs for savings—in this case, paying for school fees. It would not require enormous new sacrifice on the part of the saver: the money is there. It does not mean getting rid of any of his or her existing financial tools, either, but rather rebalancing them, because the bank’s offering is compelling enough to beat alternative instruments in the client’s portfolio.

Challenge 3: Where different segments of low-income clients engage in Types A, B, and C savings behaviors to fit their different financial needs

Our sample in India demonstrates particularly well the divergent realities within the low-income segment. Half of our sample consisted of urban-based, migrant laborers who travelled often and lived without their family, but still provided for them by regularly sending remittances home. We call this segment the “remittance senders.” The other half of our sample was drawn from rural households whose main source of income was remittances from family members who had left the village to find work elsewhere. We call this group “remittance receivers.”

In **Table 3** we see that, aside from source of income, the general profiles of these two groups differ greatly. The senders primarily reside in urban settings, are younger, more often male, and more

educated. In contrast, the remittance receivers are older, have many more people in the household, and are largely female, less literate, and less educated. So both of these groups could both be considered poor according to their income, but they are clearly very different, and naturally their savings behaviors and needs are dramatically different.

Table 3: Profiles of remittance senders and receivers in India

	Senders	Receivers
Place of residence	Urban	Rural
Average Age (<i>median</i>)	32 (30)	44 (40)
Average Household Size (<i>median</i>)	2 (1)	6 (5)
% Female	4%	70%
% Able to write	51%	26%
% who completed primary school	69%	28%

The senders primarily save in order to send money home to their families. They send home large amounts, on average 65% of their earnings. Their ability to remit funds to their family members relied heavily on their ability to save up those funds over pay periods. Figure 5 suggests that, in aggregate, senders saved most of their financial assets in the bank. Table 2 brings additional perspective—most of the savings might indeed be held in the bank, but total savings is a tiny amount held by only a third of respondents.¹⁶ Sixty-six percent of the senders we interviewed reported no financial assets at all! However, this makes more sense when we consider how different savings *durations* are for the senders versus the receivers.

A closer look at the two groups' income flow patterns indicates a high degree of unpredictability as well as a significant requirement for daily fund management. Apart from the salaried workers, the rest of the sample earned small amounts of income on a daily basis, from which they needed to manage their expenses as well as apply sufficient foresight to reach a target amount sufficient for remittance. So the savings involved substantial amounts put aside for short periods, but then sent fairly quickly to the rural areas. In other words, savings did not accumulate for long before being sent to the rural areas, which explains both the results from Figure 3 and from Table 2.

Table 4: Income patterns of urban remittance senders in India

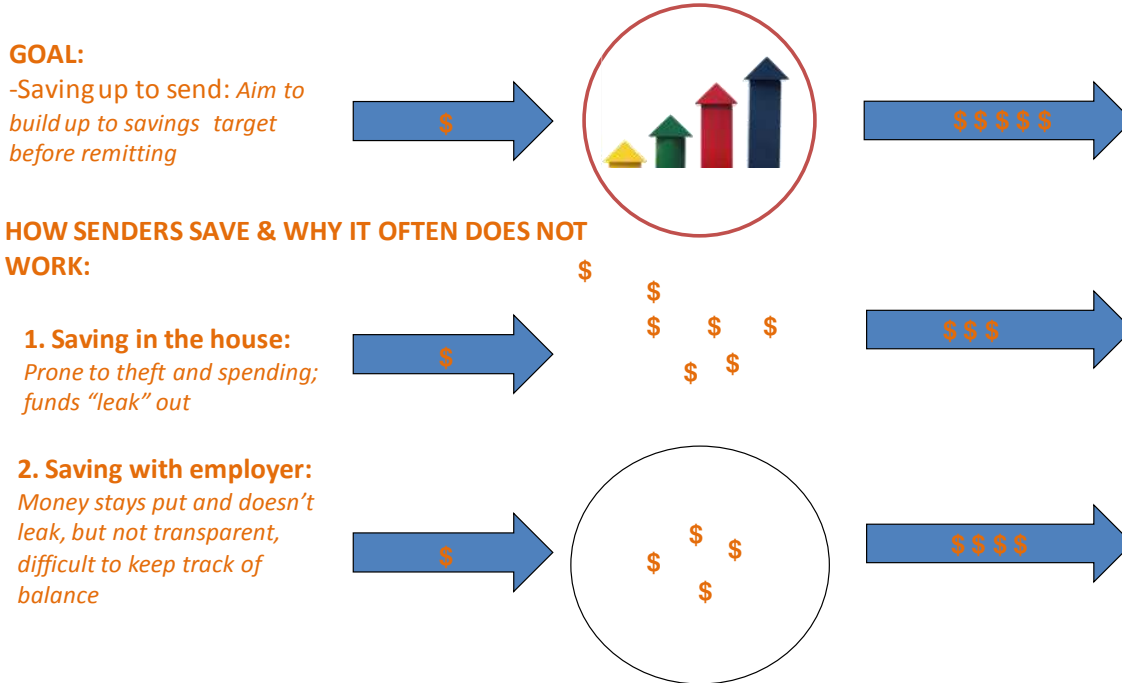
Category	Cash Flow Patterns	Examples
Small Business owners	Manage their own daily profits, which are highly uncertain	Owners of small shops, service providers or petty traders
Taxi drivers	Manage their own daily profits, which are highly uncertain	Taxi, auto, other drivers
Daily wage laborers	Employed, but paid on a per-unit or per day basis. Payments are high frequency but usually very small.	Unskilled/skilled laborers, loaders, sweepers, carpenters, construction
Salaried workers	Salaries/Income may be earned per unit, but paid once or twice a month	Factory or power loom workers, security guards, house maids

¹⁶ This also explains why, in Figure 4, ICICI senders say that so many of their physical assets are liquid. In urban areas, senders don't hold illiquid assets, but just what they need. Their families keep the physical assets (including agricultural land and livestock) back in the rural areas.

In other words, what remittance senders really need is short-duration Type B savings products that let them build up savings before sending it home. Only 21% of remittance senders were saving at the bank, so where else were they saving? Through a qualitative study conducted prior to the baseline survey, we found that many were also saving in their home or with “money guards,” such as shop keepers and employers. However, these options are rife with potential confusion and conflict.

Figure 6 below shows how these two options fail against the saving goal of the remittance sender. Savings in the house is difficult for reasons mentioned earlier in this *Focus Note*—the funds are easily borrowed, stolen, or used for unplanned things. Money guards, on the other hand, can be a source of confusion and give a lack of control to savers. When saving with an employer, the employee is again twice beholden—if he wants to retrieve his savings and the employer short-pays, who is to say who is right? The employee, who does not want to lose his job, has very little leverage in demanding an honest savings service.

Figure 8: Savings options and failures for remittance senders



Money guards *do* outdo banks when it comes to convenience. For most urban workers, particularly across lower-income populations earning by the hour or by unit produced, *time is money*, and time spent in line at a bank branch means less money to bring home at the end of the day. Therefore, the key proposition for a bank is to make it easy and convenient to accept incoming deposits.

While remittance senders were charged with the responsibility of *saving up to send*, remittance receivers are tasked with the burden of *spending down until the next send*. Unfortunately, remittances do not always arrive like clockwork. After all, if the income of the senders is irregular or unpredictable, then it makes sense that the remittance flow is as well. Unlike the senders, the receivers do not receive daily small supplements, but one big lump sum which they must manage until the next one comes, whenever that might be.

The rural receiver holds the main responsibility for the household of people under her care. The financial implications of these responsibilities surfaces when looking at the lump-sum payments made by different segments in the previous year. For example, 97% of remittance receivers reported household medical expenses with an average value of \$175 in the past year. Only 53% of urban senders, on the other hand, reported similar medical payments, with a much lower average of \$40 each time. Receivers also reported more payments for agricultural inputs, education, life events, and festivals. To meet these needs, it is unsurprising that receivers have broader portfolios of savings devices. Receivers are not just saving up for a month or two at a time, but for a range of savings maturities that align with aggregate household financial needs. Receivers are looking both for better financial options to accumulate balances in the medium to long term, and to access funds in an emergency.

Table 5: India—lump sums funded by senders versus receivers in the past year

Type of lump sum	% of <u>senders</u> who needed to fund in past year	Avg Amount (USD)	% of <u>receivers</u> who needed to fund in past year	Avg Amount (USD)
Pay for fertilizer	9%	US\$ 115	63%	US\$ 127
Pay for medical treatment	53%	US\$ 40	97%	US\$ 175
Pay for education	10%	US\$ 87.5	78%	US\$ 73
Life events/festivals	3%	US\$ 212	29%	US\$ 298

To further complicate the situation, the rural receivers’ savings options are not diverse, as Figure 5 showed. Rural receivers tend to rely heavily on debt to meet the responsibilities listed above. The credit instruments used most often are informal: credit from a shop (63% of respondents have used this in the past year), informal loans from a neighbor or relative (53% of respondents have used this in the past year), and loans from moneylenders (45% of respondents have used this in the past year). Such a heavy liability exposure takes its toll on the balance sheets of poor rural remittance receivers;

on average, they have a ratio of financial assets to liabilities of 30.5%.¹⁷ This was the lowest ratio of any target clients we surveyed in the GAFIS project.

To capture the savings of the rural poor, therefore, ICICI faces a completely different challenge than capturing urban workers—these households need to build more Type B and Type C savings to use for expected and unexpected events in the case of remittance mismatch.

The biggest learning to take away from this example is that the low income segment is really quite heterogeneous. Our investigation of remittance senders and receivers shows that these two markets are quite distinctive in their demographic profiles, their savings needs, and consequently in the proposition the bank must make to them.

“Are we there yet?” How do we know if we’re seeing an improvement?

This *Focus Note* has outlined a savings typology that helps determine how to better serve poor clients. Although clients need Type A behavior, introducing products that actively encourage more Type B and Types C behavior would ultimately broaden and lengthen clients’ portfolios, while also creating a stable deposit base for lending.

However, the tools for diagnosing the portfolios of clients—particularly long client surveys—are not always the most cost-effective tools for tracking improvements. Conducting an hour-long survey with at least 750 clients, as we have done with each of the target markets for the GAFIS partner banks, is expensive and time-consuming. Even for large banks, most market insight budgets would only allow this type of surveys to be done every few years. But management usually needs to know much more often whether their strategies to mobilize savings are working. Yet every bank has its own client transaction and balance data at its fingertips, and with an appropriate framework set up to analyze and understand the data, banks have a nearly costless way of tracking improvements. Using the framework set out in this *Focus Note*, more financial institutions may be better equipped to navigate with greater clarity the sometimes murky waters of serving the poor.

¹⁷ A ratio below 100% means that liabilities are larger than assets. A number *well* below 100% means that liabilities are *much* larger than assets. Even the savings-starved *Oportunidades* recipients that Bansefi serves had an average asset-to-liability ratio of 51%, largely because they were also starved of debt options.

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