*In*Focus Note 1: Do savings products at commercial banks really improve the lives of the poor?

May 2012

This Focus Note is the first of a three-part series that shares the results from the ***InFocus Study****, a knowledge-building exercise sponsored by the Bill & Melinda Gates Foundation (BMGF). Over the course of two years, Bankable Frontier Associates (BFA) conducted extensive analytical studies of four banks in developing countries that have specific savings account offerings targeted towards low-income populations. The studies aim to provide the Financial Services for the Poor (FSP) team at BMGF with a comprehensive understanding of the economics around providing savings services for the poor. To maintain confidentiality we refer to the participating institutions as Banks A, B, C & D.*

InFocus Note 1, we discuss findings from the "demand side" component of the study. The analysis takes a close look at client savings behavior, building off responses to a one-hour long survey on financial management administered to a sample of basic bank account holders of all four banks.[1]

In the lives of the poor, financial management is a daily challenge. As such, improving the suitability and reliability of the tools for financial management to which the poor have access is a justifiable point of intervention for philanthropic organizations like the Bill & Melinda Gates Foundation. To meet the specific objective of providing savings vehicles at significant scale, commercial banking institutions are natural key players in this endeavor.

However, there is a tension between the profit motives and the philanthropic objectives of commercial banks. This tension raises concerns not only about the sustainability and profitability of providing financial services for the poor, but also the effectiveness of such institutions in reaching the poor, notwithstanding a stated commitment to do so. The four *In Focus* banks are examples of institutions with a demonstrated strategy of extending savings services to the poor and unbanked, with evidence of a scaled savings product marketed specifically to poor and unbanked markets. For example, these could be savings products for which there is no minimum balance, or no monthly fee, intended to cater to the needs of first time account holders with fewer financial assets. Through four limited exercises, the *In Focus* project assessed the effectiveness of such efforts to push the financial inclusion agenda through commercial banking institutions.

In this *In*Focus Note, we take a deep look at the clients across the four *In Focus* banks to answer four key questions:

[1] Further details on the sample can be found in Annex 1.

Are the active clients served by the bank really poor? YES…

A significant portion of clients using basic acconts are poor, although not all clients using these accounts are below the poverty line.

Do these clients really save in the bank? MAYBE…

A sizeable share of financial assets are reported to be in the bank, but clients still use other options, such as savings clubs and hiding money in the house

Does the savings in the bank help clients deal with emergencies or planned lump sum needs? SOMEWHAT

Clients do use money from their bank accounts, but also rely as much, if not more, on other informal savings and lending tools

Is there potential to enhance the savings proposition? **ABSOLUTELY**

Lessons from current client behavior tell us that increased proximity helps, but needs to be supported with product/marketing enhancements

Our results show a series of qualified "successes" across the banks studied in terms of effectively reaching the poor. The findings suggest that large commercial institutions can indeed reach the poor, although there is a considerable need to do so more effectively.

Are the In Focus banks serving the poor?

A survey administered to a sample of active basic account holders at each of the four banks collected income and expenditure data at both the client level and the household level, helping us to determine relative poverty levels defined by international and domestic standards.

Generally speaking, we believe that a nationally determined poverty line provides a more appropriate benchmark than the oft-used $2/day line, as national measures take local conditions and relative poverty into account. However, we found the $2/day line more suitable for the samples drawn from Banks A[2] & B[3] given the national context. The table below displays the results across both benchmarks, with the highlighted boxes representing what we feel best reflects of the current proportion of client-respondents who can be categorized as poor. Accordingly, these are used in the discussions below.

[2] In Bank A's country, the most recent poverty line was calculated in 2004/2005 and dramatic economic changes since that time likely render the standard too low for current economic realities. The national statistics office of the country of Bank A is in the process of assessing an updated poverty line based on current data, but unfortunately will not release it before the publication of this Note

[3] Bank B's country does not have a nationally accepted poverty line at all, which left us with no choice but to use the $2/day poverty threshold.

Table 1: Poverty levels of active clients

	Bank A	Bank B	Bank C	Bank D
% savings clients below national poverty line	22%*	NA**	47%	31%
% savings clients below int'l poverty line ($2/day, PPP)	44%	44%	25%	3%

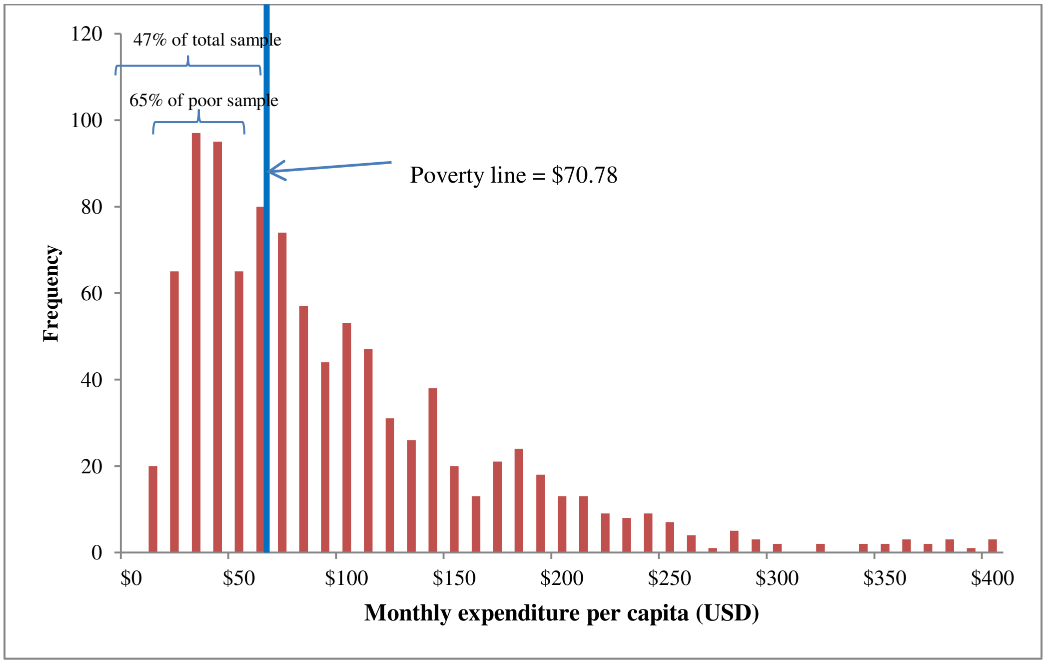
Notes: The national poverty line applicable to Bank A's clients is currently outdated and inflation-adjusted estimates of the current poverty line are actually lower than $2/day. In this case, we believe the international poverty line better reflects reality. ** No reliable national poverty line in place.*

These results then suggest that in all four banks, a third to a half of clients surveyed could be considered poor. It is important to note that not only are these results indicative of the percentage of *account-holders* below the poverty line, but more importantly of *active users*[4] below the poverty line. Clients in Bank C underwent a preliminary screening questionnaire to ensure active account status, while in the other three banks we recruited respondents immediately after they completed a banking transaction, effectively excluding dormant account holders from the study.

A deeper look at the results from Bank C, where we had a larger sample, suggests that this bank is not simply "dipping its toe" across the poverty line, but is reaching further out into the distribution below the poverty line. Figure 1 shows that of the 47% of the total sample that are below the national poverty line, 65% of those poor people are in the middle of the distribution, i.e. most of those who are considered poor are not just below the $70.76 poverty line but are between $10 and $50 expenditure per capita per month.

[4] It is admittedly difficult to determine exactly how much the sample selected for this survey represents all active users. The sample was selected by intercepting clients after completing a banking transaction, so likely included more active account holders. We might have, for example, missed clients that only transact once every year. Yet, in attempts to control for this potential bias, we sampled during times when the bulk of the client population were likely to transact. We can expand our understanding of the entire client base through the infusion of supply side data, the methodology and findings for which are discussed Focus Note 2 of this series.

Figure 1: Distribution of Bank C client expenditure



To check the quality of expenditure and income data gathered in the one-off questionnaire, we collected additional non-monetary information about the clients' households to view their relative poverty through different lenses. Table 2 illustrates that on the one hand, poor clients are certainly worse off: they have more people living in their households, fewer people who completed secondary school, or can read, and less often have a luxury item. Nevertheless, these households are not destitute, given that most are literate and educated to a secondary school level. Moreover, most (with the exception of those who live in Bank B's country) have what would be considered a "luxury" item in local national context (such as tiled floors, washing machines, etc.).

Table 2: Poverty indicators

	Bank A - Active clients assessed against International $2/ day poverty line		Bank B - Active clients assessed against International $2/ day poverty line		Bank C - Active clients assessed against national poverty line		Bank D - Active clients assessed against national poverty line	
	Poor	*Non-poor*	*Poor*	*Non-poor*	*Poor*	*Non-poor*	*Poor*	*Non-poor*
Number of people in household	5.4	4.8	7.3	5.2	4.7	2.7	5.3	3.6
% able to read	82%	91%	96%	98%	80%	85%	100%	100%
% not completed secondary school	37%	21%	9%	6%	40%	25%	9%	4%
% without a luxury item *	5%	11%	68%	58%	36%	19%	57%	42%

Notes: **Luxury items differed across each bank, depending on what we thought might reasonably distinguish the poor from the non-poor based on general market realities. . Specifically, for Banks A & B, we looked at high quality housing features, such as tiled floors, whereas Bank C clients were compared based on ownership of a television, and for Bank D, we looked at washing machines.*

As a whole, we are optimistic about the viability of strategies to provide savings services to low-income clients through commercial banks. Our optimism stems from the tangible progress of commercial banks with social mandates towards their goals.

Do poor clients really save in their accounts vis-à-vis other savings tools?

The client survey administered across all four geographies, asked respondents detailed questions about their entire portfolio of financial and physical assets, collecting data both on the balances held in formal and informal instruments, as well as the monthly amounts they put away. Table 3 below shows this information in two ways. First, we report the percentage of poor clients who use each type of instrument (e.g. by definition 100% of these respondents have a bank account). Second, using self-reported balances across each of their financial instruments, we calculated their Total Financial Assets. The second column shows, for those who use the financial instrument,[5] the share of balances in each financial instrument as a percent of Total Financial Assets.

The resulting data, shown in Table 3, suggest that poor clients hold a sizable share of their financial assets in the *In Focus* bank accounts, and usually a larger share than any other saving instrument in use. However, we need to be careful about drawing any definitive conclusions from these numbers. Client-respondents *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

[5] The balance in the particular instrument as a share of financial assets is only taken for those who use each instrument. Not all respondents use all instruments and so each of these columns would not be expected to sum to 100%.

will climb even higher? With a one-off demand-side survey, we cannot answer these questions, and therefore need to be careful before assuming that these high balances are perpetual in any way. As a case in point, we show in *In*Focus Note 3 that only a small share of basic bank accounts consistently maintain high balances. Moreover, we see that other financial tools – particularly savings clubs and savings in the house – are a prevalent form of savings for a sizeable percentage of respondents.

Table 3: Savings portfolios of poor clients

	Bank A		**Bank B**		**Bank C**		**Bank D**	
	% Users	**Share of fin assets**	**% Users**	**Share of fin assets**	**% Users**	**Share of fin assets**	**% Users**	**Share of fin assets**
Bank Account	100%	68%	100%	58%	100%	48%	100%	76%
Other bank	14%	40%	5%	52%	13%	19%	13%	32%
Saving money in house	58%	29%	61%	21%	33%	13%	22%	45%
Saving in a group	11%	24%	25%	30%	40%	45%	9%	28%
Cooperative	1%	36%	6%	--	14%	35%	8%	30%
Saving with a money guard	7%	17%	0%	10%	>1%	21%	2%	44%
Providing small credit	4%	14%	4%	20%	8%	16%	--	0%

Note: We consider only the samples that are considered poor as highlighted in yellow in Table 1. The balance in the particular instrument as a share of financial assets is only taken for those who use each instrument. Not all respondents use all instruments, and so each of these columns would not be expected to sum to 100%.

In addition to the liquid instruments mentioned above, poor clients often store wealth in physical assets, like livestock. At times, it seems appropriate to include these values to the clients' total liquid assets, particularly since in high inflation or other volatile macroeconomic circumstances physical assets are seen as a safer storage of value than money. However, while it is possible to convert any of these assets to cash, clients do not always think of them as "savings", or even as emergency stores of funds. Household and farm goods often hold high sentimental or utilitarian value which households are reluctant to release except in the *most extreme* circumstances. To account for such subjectivity, we asked clients directly whether they bought each specific asset with the intention of selling in case of financial need. Those assets bought with that intention were then considered akin to financial assets since they served a similar purpose.

Table 4 below shows, clients perceive only a small share of total physical assets as potentially liquid, comprising mostly of livestock and non-essential electronic items. On the whole, portfolios with particularly high values of total physical assets include land and homes, which cannot be liquidated so easily.

Table 4: Assets of the poor across In Focus banks

	Bank A	Bank B	Bank C	Bank D
Total physical assets (USD)*	$1,727	$27,699	$6,632	$25,612
Physical assets as % of total	79%	76%	94%	72%
Liquefiable** as % of total	4%	2%	23%	6%

*Note: * All monetary figures converted to USD using current market rates. **To determine whether an asset was "liquefiable", we asked the client-respondent about the intention behind buying the item. Assets classified as "liquefiable" are those that were bought with the intention of selling in case they were short of money.*

In the aggregate, these results suggest that for these poor clients, the bank accounts offered by In Focus banks do offer an attractive proposition to retain the bulk of liquid assets. While significant funds are certainly held in other assets and devices, on average poor clients of the four banks in question are keeping the majority of their savings in the bank. This suggests that the banks are offering a valuable service to poor clients.

Nevertheless, it is important to remember that these findings only reflect data from one point-in-time collected during the course of one survey. Caution is necessary as we know from transaction data (discussed in *In*Focus Note 2) that balances in these banks often change dramatically over a matter of days. Moreover, the results from the *In Focus* data contradict other data sources, such as the South African Financial Diaries (shown in Table 7 of this Note). The Diaries suggest that average bank balances over time are in fact lower than those held over time in savings clubs or in the house. We therefore offer the *In Focus* results as mere indications of current behavior, until the data can be corroborated by more sensitive survey instruments, such as the Financial Diaries, that track balances over time.

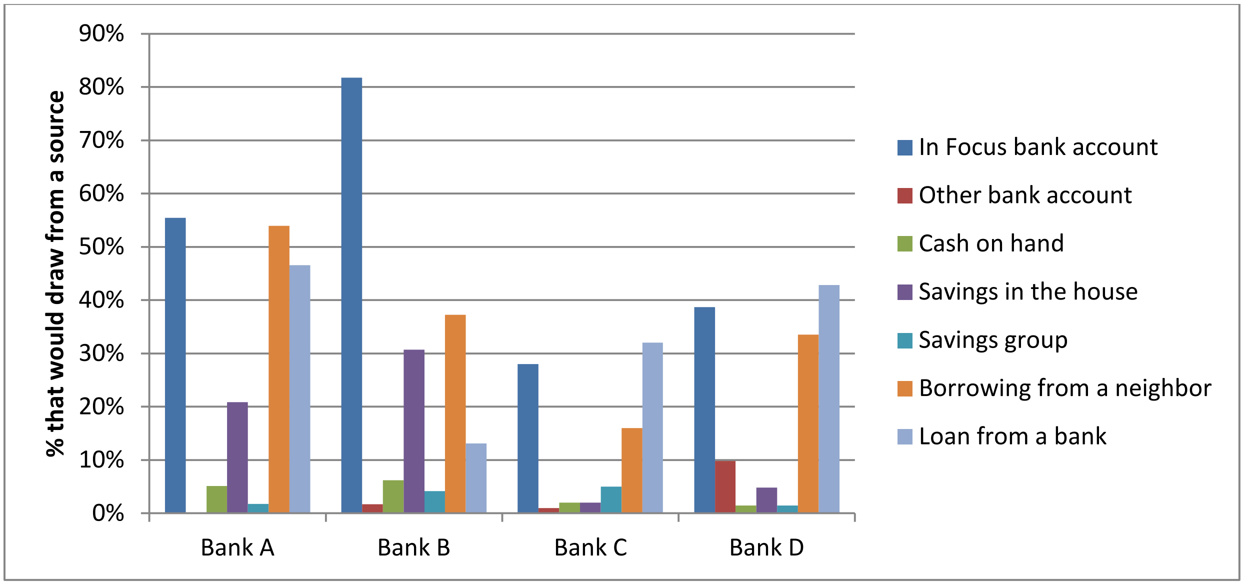
Are bank accounts helping the poor to manage payment of lump sum expenditures?

While we cannot be sure that the high balances shown in Table 3 are perpetual or ephemeral, it is difficult to determine whether these bank accounts are really helping the poor. Moreover, *helping the poor save is only really effective if that savings actually helps them manage their financial needs.* The best way we have found to assess the effectiveness of savings, is to ask about clients' past experiences meeting needs for a lump sum of money for a particular reason—education, medical needs, life cycle events like weddings and funerals, or emergencies. This section reviews this data. The results are lukewarm: having a savings account and using it to save does not mean that most clients rely on savings stored there for lump sum events.

In Figure 2 below we take a look at the most urgent of lump sum needs – funding a sudden and substantial emergency. To get a sense of where households would turn if they needed a large lump sum, we asked "if you had to come up with two times your current monthly income, where would you get it?" As twice monthly income sets a savings goal above reasonable expectations, we allowed for multiple answers to allow for secondary and tertiary supplementary funding options, which purposely included borrowing.

Only the clients of Bank B find their savings account helpful in this regard – in fact, nearly all Bank B respondents selected the bank as one source of funding in time of such grave need. On the other hand, Bank A, C & D clients were just as likely to borrow from their neighbor or the bank as to turn to their bank account. It is noteworthy that a significant percentage of clients from these three banks would not turn to their bank account at all.

Figure 2: "If you had to come up with 2x current monthly income, where would you get it?"



Note: The responses shown only include those from the poor segments of the sample pools.

We also asked about planned events, such as medical expenses, life cycle events (e.g. retirement), education fees, etc. We found that poor respondents seem to think even less about the bank as a place for financial planning and saving. Across the banks, about a third of poor respondents would pay for these planned lump sums through funds stored in their savings account. For these clients, banks are providing a positive service proposition. Specifically, they have a tool to effectively store funds for a future payment, which is exactly what we hoped, would occur over time. However, this leaves two-thirds of these poor client-respondents not tapping into their bank accounts for these purposes but rather relying on savings at home, borrowings from neighbors, or even "gifts" from others. These other sources tend to be extremely unreliable: funds easily "disappear" when stored at home, and borrowings and gifts from family and friends are not always guaranteed.

In short, there are some questions surrounding the real effectiveness of these bank accounts for lower income households. Though they may use them, and save in them, are the accounts really helping poor clients manage their financial lives any better if the sources of lump sums are the same they would have turned to without them?

How can further investments be geared to improve the benefits to the financial lives of the poor?

With the understanding that poor households use, and build savings in, bank accounts alongside other devices, how do banks help clients to build balances that can be geared towards use in an emergency, or a pre-planned need? Understanding the current savings behavior of clients provides a unique lens through which to identify valued benefits offered by devices other than the bank.

a. Proximity and convenience matters

As Table 3 above indicated, clients still keep a significant chunk of their financial assets hidden at home. Certainly, having funds close is more convenient than having to go to a bank branch. Table 5 shows that the amount of time clients spend in the banking hall, particularly in Bank B, is extremely onerous. Even though the cost of travel to the bank is low, the inconvenience imposed each time a client wants to transact at the bank account still acts as a barrier to frequent use. Money saved in the house, on the other hand, provides an extremely convenient store of funds, particularly in case of emergencies, and it is this convenience factor that forces most poor people to continue this practice even when they fully comprehend the concomitant risk of financial loss.

Money saved in the house is difficult to conceal and protect, and therefore it is both prone to theft, unintended spending, and obligatory lending to friends and neighbours. Households often devise strategies to guard against such loss. Field interviews conducted on Bank B & D's clients, for example, revealed a common practice of locking money in a physical safe, and putting in place rules to govern use (or non-use) of the funds. While the physical act of locking up money does seem to create a psychological barrier to regularly accessing the funds, it is often insufficient to prevent frivolous spending, particularly when temptations arise.

Table 5: Transaction costs across banks

	Bank A	Bank B	Bank C	Bank D
	Mostly Rural	*Mostly Urban*	*Urban and rural*	*Urban and semi-urban agents*
Time in banking hall/at agent (minutes)	32	87	21	8
Time to travel (one way, minutes)	17	19	22	13
Cost of travel (one way)	\$0.41	\$0.20	\$0.55	\$1.29

Note: These figures were calculated across the entire sample, not just the poor segment.

Thus, increasing the proximity and reducing the amount of time in banking halls is one potential strategy for motivating effective client usage of bank accounts. Bank D's client-respondents, for example, had ready access to banking agents[6] – a banking channel characterized by proximity, indicated by the relatively low time to travel. Even more striking is how convenient it is to transact with an agent in terms of time. It takes only 8 minutes to complete a transaction compared with approximately a half hour for Banks A and C, and close to 90 minutes for Bank B. The level of ease and time savings is correlated with higher usage, as shown in Table 6. Usage of agents for nearly half of client-respondents was between 2

[6] The bank partnered with existing local businesses to perform basic banking transactions (primarily deposits and withdrawals) on their behalf.

and 4 times per month, with nearly a quarter more using agents more than four times a month. This compares to an average of two transactions every month for Bank B clients and three transactions per more for Bank A clients.[7]

Table 6: Usage of the agent at Bank D*

		How often do you use the Agent?					
		More than 5 times in a month	4 times in a month (once per week)	between 2-4 times in a month	Once a month	Infrequently	**Total**
When was the first time you used the agent?	More than 5 years ago	1%	1%	2%	1%	0%	**5%**
	Between 1-5 years ago	8%	7%	30%	9%	5%	**59%**
	Less than 1 year ago	3%	3%	14%	6%	7%	**33%**
	This was my first time	0%	0%	0%	0%	2%	**2%**
	Total	**12%**	**11%**	**46%**	**16%**	**14%**	**100%**

*Notes: * These figures are for both poor and non-poor respondents.*

This may be one reason why, out of the four banks, Bank D client-respondents reported relatively low saving in the house. Moreover, when comparing the savings behavior of Bank D clients to *non*-clients, regression analysis suggests that clients maintain a lower share of their financial assets in the house. We find in these results the first robust suggestion that increasing proximity and convenience lowers the need for clients to keep money in the house, as agents allow them to easily access their money. Financial management benefits from lower balances left in the house, as there is less opportunity for savings to be stolen, squandered away or borrowed.

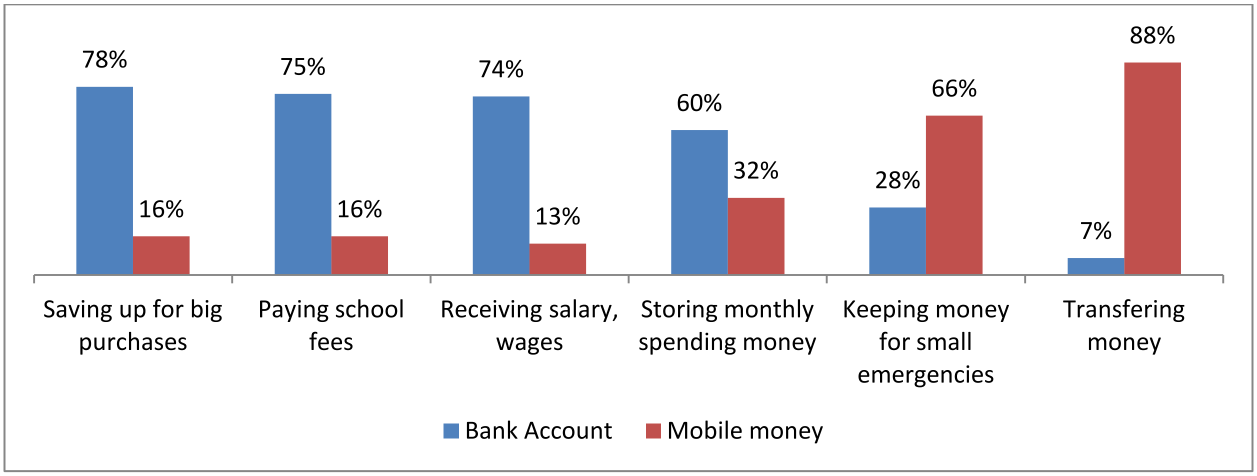
Yet, it seems that motivating clients to not only *use* their bank account, but actually *maintain* funds for a longer duration of time requires a value proposition beyond proximity and convenience alone. To highlight this point with empirical evidence, we bring in results from a study conducted for GAFIS.[8] We asked respondents to compare the functionality of mobile money, another facility characterized by extreme convenience offered by agents, and a basic bank account similar to those proffered by the In Focus banks. The results were crystal clear: despite the ease of use, account holders did not use mobile money to fulfill all of their financial management needs, including the management of larger inflows or bulky payments.

Therefore, proximity seems necessary to combat the convenience of keeping cash in the home, but does not ensure that those funds will stick long enough to prove useful to the household.

[7] Even more to the point, this number of transactions includes any electronic transactions like direct deposit, whereas the Bank D agent transactions exclude these.

[8] 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 ways to increase the value proposition of bank accounts, both to the institution and the account holder.

Figure 3: Preference for use of bank account or mobile money



b. Proximity needs to be weighed against discipline.

Through previous studies, we know that poor households often value financial tools with strict obligations to deposit regularly and restrictions which prevent frequent withdrawals, like savings clubs, which force lumpy savings over a longer-period. This rule-based savings not only helps to save up, but also serves as a budgetary tactic: to ensure funds allocated for school fees or other such predictable payments are not spent elsewhere. How can we measure the effectiveness of such tools? Due to the low-income levels of these segments, the application of a specific monetary threshold to help determine the significance of savings levels seems inappropriate. Instead, the South African Financial Diaries measured the level of savings as a percent of respondents' monthly income. Across the sample, savings clubs seem to help respondents put aside just above 20% of their monthly income, while in the lowest-income segment, the percentage increases to an impressive 48% percent. This is matched only by the savings kept in the home, which we determined might find its way into the bank once the dual issues of proximity and convenience are addressed.

Moreover, as people graduate to higher income segments, we see that while savings in the formal bank accounts as well as more sophisticated instruments like pension funds grow, these respondents continue to save a significant share of their income in savings clubs. The benefit of discipline and lumpy short-term returns remains.

Table 7: South African Financial Diaries: Calculating savings rates, based on $1 per day income brackets

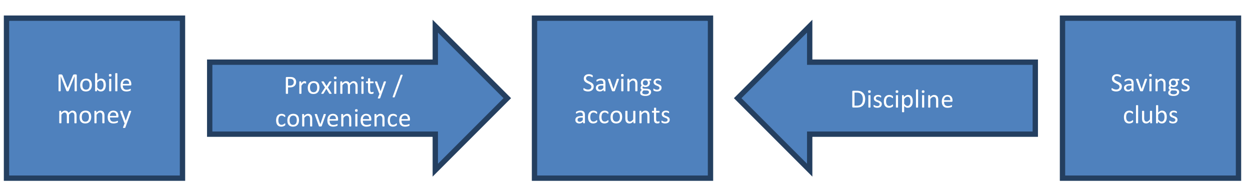
	Mean savings rate as % of income	Percent savings going into::				
		Saving in the house	Money guarding	Savings clubs	Bank accounts	Provident funds/savings annuities
< $2	18%	45%	0%	48%	7%	0%
$2 - $5	14%	29%	1%	49%	13%	1%
$5 - $10	18%	8%	4%	21%	52%	10%
> $10	31%	9%	1%	31%	19%	40%
Total sample	21%	19%	2%	36%	25%	16%

*Notes: *The percentages of mean income allocated to the various tools shown is not exhaustive of the tools actually used by these responses, which is why not all rows add to 100%. Some instruments, to which a small percentage of the income was allocated, were excluded from this table, such as purposively lending out to others to save.*

The proposition for social investment in commercial financial institutions:

The *InFocus* surveys have allowed us to develop a nuanced perspective on the current value proposition of savings accounts offered to the poor by commercial banking institutions. The findings are summarized below:

1) While all these banks are currently serving poor clients, they could focus on extended "outward" as well as "downward". All four *In Focus* banks have made progress in a market that mainstream banks still regard with substantial apathy. The overarching commitment of *In Focus* banks to financial inclusion is clear from the percentage of active poor clients currently served by each bank. However, poor clients do remain a minority in each portfolio, with the ultra-poor still heavily underrepresented. Of course, financial inclusion is not a goal that is reached overnight, and the achievements by these banks to date are sincerely noted, as is the social commitment to push the financial inclusion agenda further.
2) These poor clients do keep a sizeable portion of their financial assets in the bank, but still diversify their savings across other formal and informal tools. Savings in the house is particularly prevalent, emphasizing the importance of convenience and proximity to these savers.
3) These bank balances, do not always provide the mechanism these poor clients need to build usefully large lump sums. Instead, they rely heavily on informal and formal borrowing. Therein lies a potential 'sweet spot' for the socially conscious commercial banks: encouraging balances that not only increase, but so also "stick" until a time of need.



4) Is this an attainable goal? We believe so. While banks may not be able to completely eradicate the need for informal instruments, they can, at the least, learn from them and try to create products and channels which improve upon them. We know, for example, that transaction costs associated with branch-based transactions imposes a barrier on frequent usage. Yet, the removal of that barrier does not necessarily lead to heightened balances. Savings clubs, on the other hand, have a history of successfully attracting significant shares of the participants' incomes, as well as benefitting the poor by forcing them to put money aside for a future event. Yet, savings clubs come with risk of financial loss that savings accounts from reputable commercial institutions do not.[9] The proposition to banks lies in developing strategies to provide the dual needs of proximity / convenience and discipline, to deliver a service that will serve both the interests of the client and the bank.[10]

[9] Through the financial diaries, we learned of perceived losses associated with banks, which we subsequently learned was caused by automatically debited fees of which the clients were unaware. 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.

[10] The supply side proposition is discussed in detail in the In Focus Note 2.

Annex 1: Sampling details

	Bank A	Bank B	Bank C	Bank D
Sample size	1000	750	1000	900
Geographies sampled	Urban and rural	Urban	Urban and rural	Mainly urban / semi-urban
Recruitment technique	Intercepted at Branches and ATMs after completing transaction	Intercepted at Branches after completing transaction	National household survey with screener questions to determine active account-holder status	Intercepted at Agents after completing transaction