Savings products for low-income customers

Can these be provided sustainably and at scale?

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List of acronyms

ACSA	Accumulating Savings and Credit Association
FCMB	First City Monument Bank
FSP	Financial Service Provider
HCD	Human-Centered Design
ISM	Informal Savings Mechanism
LAPO	Lift Above Poverty Organization
MFI	Microfinance Institution
MNO	Mobile Network Operator
MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organization
OPM	Oxford Policy Management
ROSCA	Rotating Savings and Credit Association
SatF	Savings at the Frontier
TCB	Tanzania Commercial Bank
VSLA	Village Savings and Loan Association
WSBI	World Savings and Retail Banking Institute

Introduction

The provision of financial services to low-income customers at scale and in a viable manner has long been a quest for financial inclusion stakeholders. With the exception of loan products, there has been limited practical evidence on the business case for products – such as savings, insurance, and payments targeting low-income customers. This Savings Learning Lab brief describes strategies adopted by a broad range of financial service providers (FSPs) to sustainably serve savings group members and other low-income savers as part of two programs supported by the MasterCard Foundation in sub-Saharan Africa over the past six and a half years.

The Savings at the Frontier (SatF) program, implemented by Oxford Policy Management (OPM), worked in partnership with 10 FSPs in Ghana, Tanzania and Zambia to develop innovative financial services for informal savings mechanisms (ISMs).[1] SatF was designed as an adaptive program to support innovation and test whether and how formal FSPs can serve ISMs and their users with a triple-win business model.

Scale2Save, implemented by World Savings and Retail Banking Institute (WSBI), worked in partnership with 12 FSPs across six countries: Kenya, Uganda, Nigeria, Côte D'Ivoire, Senegal and Morocco. The program focused on establishing the viability of low-balance savings accounts and the use of customer-centric approaches to address barriers faced in access to, usage of and affordability of savings accounts.

This brief is targeted at financial inclusion practitioners, donors and investors who are interested in designing commercially sustainable approaches and solutions for savings and other financial products for low-income customers. It synthesizes learnings published by the two programs based on data and insights collected from their partner FSPs. The collection of data was essential to the programs' ability to track costs and revenues, and both dedicated significant efforts to ensuring their accuracy and timeliness. This included budget monitoring data and business case data such as detailed tracking of costs and revenues associated with the products developed during the program. This gave Scale2Save and SatF a real-time representation of project performance and enabled them to have proactive communication with FSPs, which created a genuine sense of partnership and informed adaptation.

Types of FSPs and product solutions

The two programs intentionally partnered with a broad range of FSPs to maximize the innovation potential and to test a variety of approaches to serving low-income customers with savings-led products and services. To this end, the partner FSPs in both programs were provided with funding, technical assistance and market coordination support to develop and implement innovative products and services for their respective target customers – ISMs and ISM users in the case of SatF and a wide range of low-income customers in the case of Scale2Save. In essence, the funds provided by the programs served as proxy special-purpose investment capital that the FSP could use to experiment with innovative products and forms of delivery.

Together, the two programs partnered with 22 FSPs in nine countries and opened 2.3 million accounts. SatF sought to partner with various types of FSP, such as institutions traditionally interested in the low-income market, but also to harness the disruptive potential of fintechs and to back partnerships that would exploit the increasing capabilities and reach of digital financial services. As a result, the SatF portfolio consisted of four commercial banks, four fintechs and two microfinance institutions (MFIs), which in turn partnered with other FSPs (e.g. mobile network operators (MNOs) and financial

[1] 'ISMs' refers to a range of collective savings structures: Village Savings and Loans Associations; Rotating Savings and Credit Associations (ROSCAs); Accumulating Savings and Credit Associations (ASCAs); agricultural affinity groups; less structured savings groups; susu collection.

institutions at different tiers) and non-financial institutions (e.g. international non-governmental organizations (NGOs) and local NGOs) to develop robust linkage solutions for ISMs and ISM users.[2] In Scale2Save, most of the FSP partners were commercial banks, a couple were MFIs, and one was a fintech. These FSPs developed a product and service mix that targeted diverse sectors and market segments in their local markets, ranging from micro, small and medium enterprises (MSMEs) to smallholder farmers.[3]

The product solutions developed by these FSPs included: low-cost savings accounts bundled with additional services, such as loans to cover school fees, free accident and critical illness microinsurance or loans; mobile-based group accounts for savings groups and individual accounts for the group members; mobile wallet accounts for savings, credit and payments; low-cost mobile-based savings accounts accessible on a variety of channels; deposit-linked life insurance cover. Some used an existing savings group product as a starting point, while others developed new value offers. For example, one FSP redesigned an existing basic group savings account (an account for savings groups members to collectively save the group's funds) into a full-service account inclusive of savings, credit, payments, insurance and investment for groups and group members. Another FSP developed a digital goal-based saving account for self-onboarding savings groups, while another developed an app that enables self-formed savings groups and individual susu contributors to save money securely with participating rural banks and/or MFIs.[4]

Box 1. Tanzania Commercial Bank: a SatF partner product example

M-Koba is a digital platform which is housed on Vodacom's M-Pesa mobile money menu and which allows users to self-form into groups and save money using their mobile wallets. Tanzania Commercial Bank (TCB) is the bank at the back end of M-Koba; it houses all accumulated funds and is responsible for the clear allocation of savings, interest and loans among group members via its customer management system. M-Koba enables users to self-select into one of two types of ISM: a 'Village Savings and Loan Association' (VSLA) option for facilitated groups (such as VICOBAs, VSLAs, etc.) and a 'Family' option for families and friends pooling their money together for a specific purpose. Group-to-member and member-to-group transactions are free for all M-Pesa customers and, after a positive market reaction post-launch, the product is being enhanced to allow for interoperability among all major MNOs.

Box 2. LAPO Microfinance Bank: a Scale2Save partner product example

Lift Above Poverty Organization (LAPO) Microfinance Bank launched the 'My Pikin & I' – Nigerian pidgin for 'My Child and I' – savings product. This innovative mass-market savings account helps families cope with life's ups and downs. Human-centered design (HCD) research conducted at the beginning of the LAPO project with potential savers found that the ability to save was not enough of a motivation for low-income customers to open accounts. They needed to see tangible benefits from the start to open an account. LAPO therefore bundled the savings account with free microinsurance and a chance for children to win a LAPO scholarship. Both benefits, however, were tied to a consistent savings behavior.

[2] See Figure 1 ('SatF partner FSPs') at https://www.opml.co.uk/files/Publications/a0600-savings-at-the-frontier/satf-business-case-knowledge-product-sv.pdf?noredirect=1
[3] Map of partners https://www.wsbi-esbg.org/scale2save/
[4] https://www.opml.co.uk/files/Publications/a0600-savings-at-the-frontier/savings-at-the-frontier-satf-final-programme-db.pdf?noredirect=1

Revenue models to make the business case work

The Scale2Save and SatF programs aimed at establishing the viability of inclusive savings products. Increasing outreach and usage were also important factors for all of the models deployed by the partners. By the end of both programs it had become clear that a strong value proposition for linkages and low-balance savings accounts could be established for providers and customers alike. The most promising revenue models emerged from on-lending the savings mobilized from the target customers. In addition, incorporating appropriate transaction fees and cross-selling of other products provided additional sources of revenues and contributed to customer retention and engagement. Lastly, fintechs experimented with a range of platform fees as a means to develop their business case.

Lending out mobilized deposits: deposit-taking FSPs (banks and MFIs) were able to make margins off the deposits they received from ISM groups, individual ISM users and other low-income savers. The FSPs have generated interest margins on these deposits, as they go into savings accounts or current accounts and earn much lower interest rates than the banks charge when they on-lend the same funds. The margins made from this segment's deposits were also higher than average because they were mainly kept in current and savings accounts, which have lower interest rates than term deposit accounts. Additionally, significant savings were also made by not having to fund growing loan books of small cash loans out in remote rural branches by regular, secure cash-in-transit movements out from head office to the more remote branches.

Cross-selling of other products and services: FSPs in both programs have started exploring other revenue-generating activities, such as the cross-selling of products and services. Examples of these products include: group credit for ISMs; individual credit facilities for ISM members; bundling deposit and lending products; insurance and pension products; non-financial services for farmers; financial literacy training. And although most of the revenues generated from the insurance premiums are paid to the insurance companies, the opportunity to offer such products to this segment provides added value to customers, and the premiums collection and claims disbursement generate additional activity on the accounts.

Platforms and transaction fees: fintech's revenue streams included: charging monthly subscriptions to providers using the platforms offered to reach ISMs/ISM users and smallholder farmers; collecting fees for the flow of funds passing over those platforms; looking for other potential partners who saw value and were willing to pay for the information accumulating on the platform; margins made on purchases by users with funds built up via the platforms. For banks, transaction fees – such as peer-to-peer transaction fees and withdrawal fees – represented an additional revenue source, although some experimentation and changes were required. For example, Advans Bank in Côte d'Ivoire lowered their initial withdrawal fees to encourage transactions with agent cooperatives, while introducing small deposit fees which smallholder farmers were more willing to pay.

What worked well?

FSPs in both programs employed a variety of approaches to develop and deliver savings products in a viable manner. Below are some of the major lessons we learned from their experience on what worked well as they iterated and tweaked product offerings to make them work for both customers and their operations.

- **The use of agents contributed to increased uptake:** it has also reduced operating costs and has helped establish trust with the target segment. For example, Equity Bank in Tanzania expanded its remote agent network, which helped to increase the take-up of individual accounts among savings group members. Sharing agents across Centenary and Finca in Uganda lowered the operational costs for both FSPs. Agents' ability to travel to the customers removed the burden on customers of traveling to a branch; this built trust with a segment that usually values in-person interactions, and it contributed to the consistent collection of savings.

- **Bundling savings with additional products and services contributed to higher revenues and customer retention:** FSPs that were able to offer microcredit in addition to savings accounts, or that were able to deploy low-balance deposits into other lending products, tended to be more profitable. For example, First City Monument Bank (FCMB) launched FastCash loans post the launch of the Easy Account. This enabled FCMB to diversify revenues from transactions associated with the Easy Account. In the case of Advans, the micro-school loan performed beyond expectations, driving account uptake, activity rates and deposits. Barid Cash offered its clients the ability to make purchases from merchants and make bill payments. This, in turn, was highly valued by customers and led to increased transactions.
- **Harnessing the power of partnerships:** this helped to expand outreach, serve customers better and build trust. For instance, Access partnered with the MNOs MTN and Vodafone to boost reception in areas where they operated, which gave savings groups better access to their accounts and other services. Access also collaborated with local NGOs that had a closer relationship with the groups, which helped them to establish trust and expand outreach.
- **Focused bespoke staff support for the solution**: this was crucial for growing products. For example, TCB assigned a dedicated business support team at the regional and branch level to improve the support given to savings groups. TCB also developed M-Koba, a purely digital goal-based saving account for self-onboarding groups. MFinance established a cadre of branch champions to lead the efforts to onboard ISM users and oversee their interaction with internal and external agents.
- **Customer-centric approaches:** these helped organizations to implement product and pricing pivots based on customer response. For example, when Advans in Côte d'Ivoire realized that customers continued to deposit their savings at branches despite the presence of agents at cooperatives, they lowered transaction fees to incentivize customers to deposit and withdraw at agents. LAPO pivoted from its original idea of offering life insurance to its savings customers to offer family accident insurance, which was much better received by customers.
- **Type of provider, size and market orientation matter.** For example, in the case of SatF partners, the three highest-performing FSPs in terms of creating a viable business case were relatively well established commercial banks with a strong presence in the sector and a clear existing interest in working with savings groups. From the experience of Scale2Save we learn that the footprint of the FSP, as well as their willingness to leverage their distribution network**,** played an important role in reaching the target audience more easily. For example, partner FSPs such as LAPO, Centenary and Advans had a wide footprint of branches, agents and aggregation points in outlying and rural areas, which made it easier for them to reach and serve those low-income customers.

Box 3. Example of partnerships in the SatF program

Access Bank in Ghana developed an insurance-embedded group savings account linked to a mobile money wallet. To reach savings groups (VSLAs) and their members, Access partnered with two MNOs, MTN and Vodafone, to boost reception in areas where VSLAs operated, which gave them better access to their accounts and other services. Access also collaborated with local NGOs, who had a closer relationship with the VSLA customers and helped Access establish trust and reach more VSLAs. Local NGOs were also very valuable in this process by assisting with KYC documentation and other account opening requirements on behalf of the bank.

Box 4. Partnership example in the Scale2Save program

Along with its customer-driven product development, Advans in Côte d'Ivoire partnered with cocoa cooperatives, which became their rural agents. Using farmer cooperatives as agents proved to be a good driver to mobilize savings among farmers, as Advans benefited from the long-standing relationship of trust between farmers and co-ops. The cooperatives' proximity to the cocoa fields made it more convenient and safer for farmers than traveling with cash to the closest bank branch, which usually was located several kilometers away. Farmers can systematically deposit some of their harvest season sales revenues into accounts at the cooperative and make withdrawals later in the year, as needed. The cooperatives were motivated to join this partnership for two main reasons. Firstly, they received additional income through the customers' transactions. Secondly, it further strengthened their relationship with the farmers, having a positive effect on the cooperative's reputation and farmers' networking opportunities.

What has been challenging

Below are some of the major lessons we learned from the experience of the FSP in the two programs on what didn't work so well in making the business case work.

- **Account activity remained low in both programs.** Despite the impressive uptake results, for Scale2Save partners for example, non-usage rates ranged from 43% to 65% across the FSPs. There are several factors likely to be contributing to this, including that the target customers do not have enough disposable income to fund their savings accounts or to put toward their savings goals. This is consistent with learnings from SatF related to ISM members using formal accounts alongside continued saving and borrowing via ISMs and not always having enough money to save in personal accounts on top of their group contributions. The positive peer pressure of savings groups and the requirement to contribute to retain active member status might lead savers to prioritize saving in the group.
- **Country-specific challenges to establishing linkage remain.** For example, in the SatF portfolio, difficulties in the MFIs achieving scale mostly reflected the local contexts. For example, the rural distribution of Zambia's savings groups relative to mobile signal and agent outlets made it difficult for linkage to work well.
- **Establishing a business model for fintech platforms remains a challenge.** Although their spirit of innovation and adaptivity was very high, establishing a sustainable revenue model that would work without further support was difficult, even within the relatively long time frame offered by the programs. Reasons include the relative early stage of models that shared the value of deposits mobilized between the banks holding it and platform providers. This was not

advantageous to the smaller fintech players, and end users really pushed back on visible transaction fees on anything that they normally did in cash at no fee.

- **For some FSPs, agent networks and digital transactions had mixed performance,** with branches remaining the preferred channel for customers. This was due to various factors, including difficulties using mobile banking (linked to low digital literacy or connectivity issues), fees associated with transacting at different channels, trust issues, the limited size of the agent network, and low customer awareness around the availability of alternative channels.

Conclusion

Overall, the Scale2Save and SatF programs have shown that there is a strong value proposition for linking formal FSPs to ISMs and for offering low-balance savings accounts, but the strength of the business case is nuanced and varied based on types of provider, country contexts and revenue models they employed.

For commercial banks, especially those with a large footprint and a clear interest in working with these segments, a business case can clearly be found. They saw savings mobilization for lending as the primary pathway to profitability. Banks that were able to offer microcredit in addition to the low-balance savings accounts, or that were able to deploy low-balance deposits into other lending products, tended to be more profitable. In addition to revenue sources, other business case drivers included the deployment of efficiency-enhancing alternative channels, such as mobile banking, for enabling linkage, which increased FSPs' outreach and provided customers with more options, making access to their accounts easier.

The business case for fintechs proved more difficult for several reasons, including that the models in which the value of float mobilized was shared between the banks (who held the float) and the platform providers (who channeled the float) were not well established and did not favor smaller fintech players.

While all FSPs needed significant subsidies to enable the required experimentation with the models they deployed, learnings from both programs demonstrate that the business case for linking savings groups to formal finance and for developing financial products and services for low-income customers is beginning to emerge strongly and in enough contexts. This demonstrates that financial services stakeholders have a range of pathways to serve millions more excluded and underserved individuals. Further details on the business models employed by the FSPs in the two programs can be found in The business case for linkage with informal savings and What constitutes a viable business model for small scale savings?

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Scale2Save: End Term Evaluation of the Scale2Save Programme

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What constitutes a viable business model for small scale savings?

https://www.wsbi-esbg.org/wp-content/uploads/2022/09/2449_ESBG_BRO_SCALE2SAVE.pdf