Scale2Save

Driving financial resilience through formal savings among the low-income population

Learning paper

November 2022

in partnership with

WSBI

mastercard foundation

Contents

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01 Background

The Scale2Save programme created by the World Savings and Retail Banking Institute (WSBI) in 2016 in partnership with the Mastercard Foundation engaged Marketshare Associates (MSA) to conduct intensive customer research in five countries of its operation: Cote d'Ivoire, Kenya, Morocco, Nigeria, and Uganda.

The overall hypothesis for the program is that "savings allow customers to meet daily and lifecycle needs, build assets, cope with unexpected expenditure and shocks and invest for their future", that "increasing customer centricity [at FSPs] leads to growth in customer numbers and increased activity", and that these aspects are key drivers of a viable business model.

This paper provides a syntesis of research findings that help understand **to what extent savings allow customers to increase financial resilience**, being **a key learning question** for the programme**.**

02 Introduction

Financial diaries research has shown that volatility of income is often a much greater problem for poor people than simply low income. This volatility or variability of income and expenditure is partly the result of predictable financial shocks such as holidays, agricultural inputs and school fees, and partly of unpredictable shocks such as health related issues, loss or theft, climate-related disasters, etc.

Scale2Save **defines financial resilience as "the ability to meet daily and lifecycle needs, build assets, cope with unexpected expenditure and shocks and invest for the future."** This requires people to have access to services that allow them to manage their risks such as savings accounts and insurance.

From the customer research undertaken by MSA between October 2021 and June 2022 with six of the partner FSPs, **approximately 70% of the FSP's customers reported having used part of their savings**. Many customers were first time users of formal financial services and, therefore, were largely using savings accounts as current accounts for investment in business or consumption smoothing. There were some, however, that used their savings to cope with emergencies and most customers who mentioned they had faced shocks – the most common of which were health-related or loss of income – were able to use their savings to cope with these. This demonstrates that savings contributed to the financial resilience of savers.

For customers unable to use savings to cope with shocks, they primarily faced physical and service-related challenges to using their savings for resilience purposes, in addition to barriers posed by the product features.

03

Supporting entry into the formal financial system

An important measure of improving financial inclusion is enabling more people to take up appropriate and responsible formal financial products. On average, Scale2Save partner FSPs have helped over 40% of their new clients transition into the formal financial savings sector. From among that group, females and youth are most likely to be new savers compared with males and adults. Interestingly, except for one partner FSP, the proportion of new customers who were new to a formal financial institution was very similar, ranging between 50%-57%.

04

How does demand of savings vary across segments & why?

To understand customers' demand for saving services, the customer research examined the goals that had motivated them to open a savings account. **The three more frequent savings goals were: (1) saving for unexpected expenses (average 40%), (2) saving for a specific household-related goal (average 36%), and (3) saving for business purposes (average 20%).** The 'household-related goals' included children's school fees and events, such as funerals, weddings, and other celebrations.

The goals differed across customer segments and FSPs. **Adult and male customers were more frequently saving for business-related purposes. Youth were saving for unexpected expenses far more frequently than adults. Female customers were more frequently saving for 'household-related goals' especially saving for their children's education**. Adults also more frequently saved for 'household-related goals' compared to youth. This is linked to the fact that adults have more household responsibilities and more expectations and needs around financing various events. Young adults, on the other hand, are more likely to be unemployed or have small irregular income flows which can motivate them to save for unexpected expenses, when they do have extra cash. Additionally, the youth segment is more diverse than adults in that some of them are pursuing further education, some are employed or starting a business, and some are singled while others may just be starting a family. This implies they have more diverse needs for savings.

"I opened this account because I wanted to save money to buy a plot and also build a house. I also wanted to save to increase working capital in my business and to accumulate savings to buy building materials including block, timber, iron sheet and all other building materials for my house."

(Female customer)

Where relevant, there was clear alignment between customers' own savings goals and the goals of the FSP-supported saving product. For instance, LAPO Microfinance Bank in Nigeria (LAPO) marketed the My Pikin & I savings account as a product that could be used to save on behalf of a child; as hoped, over 60% of their customers indicated that they had opened the account for this specific purpose. Similarly, BRAC Uganda Bank Ltd (BUBL) promoted the Wise Save account to women with microbusinesses to save for investment in an asset. Over 40% of their customers saved with the intent to invest in their business, among other reasons.

Beyond exploring customers' savings goals, the research also sought to understand which specific aspects of the products had appealed to customers the most. Generally, **customers were drawn to the products' benefits and features**. For instance, BUBL's tiered interest mechanism was an important incentive for many BRAC Wise Save account customers and is the case for many low-income consumers. The different 'milestone' benefits offered through the My Pikin & I product (scholarship and tiered interest) also appealed to many customers and significantly contributed to their decision to open an account.

Over

60%

My Pikin & I savings (LAPO) customers indicated that they had opened the account used to save on behalf of a child

Over

40%

Female Wise Save account holders with businesses saved with the intent to invest in their business, among other reasons.

05 Why do the youth save?

The research observed notable differences in financial security between young adults and older adults; **young adults were more frequently unemployed, studying, or working temporary jobs compared to older adults**. This was also reflected in reported incomes, as a higher proportion of young adults are earning less than or around the national minimum wage in the target countries than older adults.

Young customers were more likely to have been saving informally (42%), or not saving at all (15%) prior to opening their savings accounts, compared to adult customers. This underlines the program's impact in deepening access to formal savings products for young customers.

Young customers were most compelled to save in case of unexpected emergencies, as reported by an average of 44% of them. (By comparison 34% of adults were saving for unexpected emergencies.) Given that the majority of young customers opened their savings accounts during the COVID-19 pandemic and have lower earnings than adults, it is not surprising that many aimed to establish 'safety nets' that would enable them to cope with unforeseen emergencies.

Additionally, about 30% of young customers were also saving toward a specific goal, such as a dowry, celebration, studies, or others.

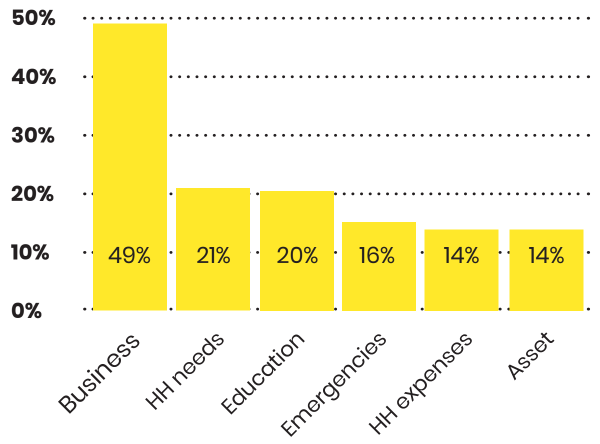
Lastly, a quarter of young customers were saving with the intent of investing in a business. Research commissioned by Scale2Save in 2019 found that young adults exhibited a strong preference for self-employment. Young adults expressed a greater preference for self-employment over a steady job, and this appeared to strengthen with age. This study also found that young adults, and particularly young men seek to diversify their income sources to reduce risk. Together these factors likely contributed to young adults' increased resilience to provide for their futures.

Young customers were more likely to have been saving informally prior to opening their savings accounts (42%)

06 How have savings been used to improve household well-being including building financial resilience?

Regarding the use of savings, on average, **about 49% used their savings for investment purposes**, and most of the time for business-related investments. With the exception of one partner FSP, all other FSPs recorded use of savings for businesses purposes across nearly half of their customers who'd used their savings.There are a number of factors that explain this:

Figure 1: Average use of savings across FSPs



- At least 50% of all account holders are adult males, the majority of which reported being self-employed. In all countries where the research took place, men face normative expectations about their roles as 'providers' which puts pressure on them to financially provide for their families. Given the high rate of self-employment and business ownership among male customers, men's level of financial security and ability to provide for their families is largely contingent on the success of their business, hence the high incidences of business investment.

- Business investment was also common among adult women. This largely stems from the fact that certain partner FSPs purposely targeted female micro-entrepreneurs and encouraged them to save toward the purchase of a productive asset or another business-related goal.

- Given that the majority of customers are low-income, investments in expanding, restarting, or opening a business can increase income quickly, thereby improving customers' economic status and financial stability.

Beyond business investments, **approximately 20% of customers used their savings to cover household needs or to finance educational needs**. Investing in education is an investment in human capital that increases future income-earning prospects of the family. Female customers more frequently reported using their savings to cover school fees and other related expenses.

Customers reported using savings to cover household expenses such as food, clothes, and other necessities. While most customers did not initially intend to use their savings to cover these types of household expenses, the use of savings for basic needs may be in response to various economic shocks that likely affected customers' ability to cover these costs through other means. Given the impact of COVID-19 on customers' incomes, it is not surprising to observe that customers had to adapt their savings plan and address more pressing needs, resulting in the use of savings for consumption smoothing.

About **16% of customers also indicated that they had used their savings to cover emergency-related costs, including medical costs. Lastly, 14% used their savings for household expenses** (including various events and celebrations) and 14% invested their savings in purchasing an asset or into home improvements.

The research shows that actual use of savings for young customers was relatively aligned with savings goals, with the majority of young customers using their savings for business-related purposes, to cope with financial shocks, and for daily expenses. The use of savings for daily expenses such as food, clothes, transport, etc. was greater than expected, and reflects youths' income volatility and greater vulnerability to financial stressors.

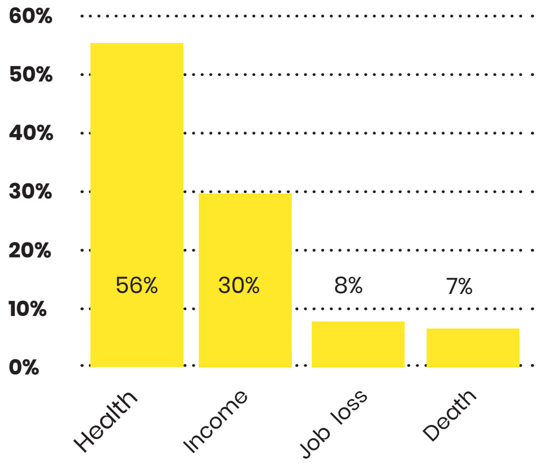
Gender also appeared to have an impact on young customers' financial needs. The research observed interesting differences between ways in which young female customers and young male customers used their savings. **Young males more frequently use their savings for business-related purposes, while young females more often use savings for consumption smoothing and for other household-related expenses**, including education, food, utilities, and medical bills.

The use of savings for daily expenses such as food, clothes, transport, etc. was greater than expected, and reflects youths' income volatility and greater vulnerability to financial stressors

07

What shocks have occurred and did customers use savings to cope with these?

Figure 2: types of shocks experienced by customers



In order to better understand the extent to which savings have improved customers' financial resilience, the customer research explored the different types of shocks and emergencies that had a financial impact on customers (customers defined shocks as events with acute financial impacts, rather than persistent financial hardships). **On average, 32% of customers across the target FSPs, indicated that they had experienced some type of shock since they opened their account.**

Across all customers who reported experiencing various shocks, **the large majority (56%) noted that they or someone in their family had been affected by an illness**, and that this had a financial strain on their household. **In addition, 30% of customers indicated that they had been affected by a loss or reduction in income**, and 8% were financially affected by job loss. A small proportion of customers shared that the death of a family member had taken a financial toll on them and their family – this may refer to funeral expenses incurred and potential loss of household income source.

On average, **65% of customers who reported experiencing one or multiple shocks indicated that they had used some of their savings to cope with these emergencies**.

Customers who experienced health-related shocks largely used their savings to cover costs associated with medical care, procedures, and medicines. The second most frequent use of savings among customers who had experienced shocks was for household necessities such as food, clothes, etc. Given that these basic household necessities are typically covered through household income, it is not surprising to see that a reduction in income or loss of job altogether would result in customers tapping into their savings to ensure that household needs are met. Lastly, several customers – mostly those affected by loss of income or job – also indicated that they had used their savings to cover educational expenses.

These findings, regarding ways in which customers have used their savings to mitigate various shocks, align with general use of savings reported by customers, and explain variances observed between intended and actual use of savings. As previously mentioned, the most frequent **savings goals across customers were (in order of prevalence): saving for unexpected expenses (40%), saving for a specific household-related goal (36%), and saving for business purposes (20%). It is interesting to see that more or less the same proportion of customers saved for emergencies (40%) and reported using savings for emergencies ('household needs' and 'emergencies' combined) (37%).** While there is not a direct 1:1 relation between customers intending to use savings for emergencies and actually using them for those purposes, it reflects a degree of awareness among the customer base about the likely future use of savings.

Savings category	Savings goals	Actual use of savings
Unexpected expenses (rainy day savings, medical expenses, coping with economic shocks)	**40%**	**37%**
Household related goal (special occasion, celebration, school fees, etc..)	**36%**	**34%**
Investment in personal asset	**7%**	**14%**
Business-related investments	**20%**	**49%**

Secondly, a higher proportion of customers used their savings for business-related purposes than initially envisaged. As previously suggested, this may have been in response to events and shocks that have fostered economic instability in many of the target countries. The impact of COVID-19 in these countries is likely to have warranted increased investment in small businesses, either as refinancing following lockdowns or in an effort to scale operations to increase earnings.

As shown in Figure 1, the proportion of customers who used their savings for a household-related goal (including education and household expenses) (34%) is on par with the proportion of customers who intended to save for this specific purpose (36%).

Together, these findings support the following theories: for the most part, customers are using their savings as intended, suggesting that they have met their savings goals. Of course, this assumption only applies to customers who indicated that they had used parts of their savings since they opened their account (70% of all customers, on average). Secondly, in many cases, savings have helped build customers' financial resilience as shown through the ability of most customers to either directly respond to shocks (e.g., using savings to cover medical expenses or covering basic needs in light of reduced household income) or to invest their savings in productive ways, thus reducing their vulnerability to potential future shocks.

08

What challenges do customers face in using savings products to build resilience?

There are three types of challenges that customers face in using savings for resilience reasons. Firstly, customers who used their savings to cope with a financial emergency often found the funds were inadequate to the loss. Some customers who experienced a shock, preferred to use other sources of funds. This may reflect insufficient savings, or it may be that the customer had access to cheaper funds. Some customers could not access their funds due to a barrier reaching the bank.

Although there is clear evidence that a significant proportion of customers who experienced an emergency were able to use their savings to cope with various financial shocks, many were not (30%). The research found a number of factors that contributed to this. The most prevalent was insufficient funds in savings accounts. A significant proportion of customers who did not use their savings to cope with emergencies indicated that they were unable to do so because they had not accumulated enough. This may be due to the amount of time the account has been open or the low earnings of some customers that may limit their ability to save.

Secondly, some customers indicated that they preferred to use other sources of funds to cope with various emergencies. This was especially the case among FSPs that strongly encourage customers to save for specific goals, leading customers to prefer to retain their savings and identify alternative sources of funds, like friends and family. It may be that some customers see using savings, especially those intended for specific goals, as a last resort option, particularly when other options are available. It can also be that borrowing from family or friends at no interest is cheaper than foregoing interest on savings in the bank.

Lastly, some customers noted that they faced challenges in accessing their savings during emergencies which prevented them from using their savings to cope with emergencies. The challenges identified across the FSPs included physical barriers to access or the unavailability of the service due to lockdown: the branch was closed, the branch was too far away, or the agents were not available. Other barriers were related to the product features and were often specific to certain FSPs. For example, customers reported high fees for withdrawing funds or restrictions on how much could be withdrawn. This may also explain why customers resorted to using other sources of funds to cope with emergencies.

09 Conclusion

There is a tension between the account features that incentivize savings accumulation and the features that allow immediate and easy access to savings in the case of an emergency.

Overall, customers who had accumulated savings they could later draw on were better able to cope with any shock. Customers who were incentivized to save for specific purposes or who had products that limited withdrawing their savings were better able to accumulate savings. Access to agent and mobile channels facilitated the ability to withdraw savings for some, but this was not an option with all FSPs. Agent networks composed of bank staff were often closed during lockdown, along with bank branches, which restricted customers' access to their funds. Accounts with low requirements or limitations on balances or on withdrawals facilitated customers to withdraw savings during a crisis, however, these same features did not incentivize accountholders to accumulate savings.

10 Recommendations

Based on the above findings, we recommend the following to improve the design and delivery of future savings-led initiatives to support the financial resilience of low-income people:

- Offer two types of accounts for the low-income market: one account to meet the day-to-day liquidity needs for customers' households and businesses; and another account for goal-driven savings.
- Expand incentive systems which currently encourage staff and agents to promote the uptake of savings accounts to include incentives for improving account use and the accumulation of savings.
- Take greater advantage of the opportunities provided by digital financial services to drive use.
- Provide customers with the widest possible choices of digital channels to meet customer's demand.
- Consistently communicate the available channels and how to use them to the customers.

Annex: About the partners

About the WSBI and the Scale2Save programme

WSBI created in 2016 a new programme in partnership with the Mastercard Foundation "to establish the viability of low balance savings accounts and use of customer-centric approaches to address barriers faced in access, usage and affordability of savings services".

Called Scale2Save, the programme is set against a backdrop of problems such as high poverty rates and financial exclusion in sub-Saharan Africa, as well as low formal savings rates. FSPs have a poor understanding of the market savings potential of people in various low-income segments. A notable, but not the only, example is that of young adults living in someone else's home. The needs of customers and potential customers – and how much customers can afford to pay to meet those needs – are not well reflected in FSPs' business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high rates of bank account dormancy and inactivity. This is a significant cost for FSPs and undermines potentially sustainable business cases to deliver accessible financial services to people in these segments.

The Scale2Save programme's core activities are to:

- Provide banks with technical assistance to develop savings services valued by low-income customers. WSBI works with nine banks to develop and deliver savings products that not only increase access to financial services but also drive ongoing use of those services. The banks are located in Cote d'Ivoire, Kenya, Morocco, Nigeria, Senegal and Uganda. A bank in Tanzania acts as a knowledge partner.

- Conduct research and share lessons between partner banks. WSBI publishes the annual report Savings and Retail Banking in Africa to facilitate peer learning and the spread of knowledge. The institute also researches new pricing models to help establish a business case for low-balance savings and conducts household research to contribute to the knowledge base on cash flows in households.

- Communicate learnings to the wider sector. WSBI has developed and carried out a targeted communications strategy to spread the knowledge created by the project to key stakeholders.

- Monitor and evaluate the programme. WSBI monitors project progress at partner banks and oversees mid-term and final project evaluations.

Learn more about Scale2Save at www.wsbi-esbg.org/KnowledgeSharing/scale2save
or on Twitter at @scale2save

About the World Savings and Retail Banking Institute

Founded in 1924, WSBI is an international banking association committed to help savings and retail banks thrive. To do this, it represents the interests of 6,760 banks on all continents. As a worldwide organization, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 in achieving sustainable, inclusive, and balanced growth, and job creation, whether in industrialized or less developed countries. Supporting a diversified range of financial services to meet customer need, WSBI favours an inclusive form of globalisation that is just and fair. It supports international efforts to advance financial access and financial usage for everyone.

The association has members in some 80 countries in the Americas, Africa, Asia, and Europe. These members are either individual financial institutions or associations of retail banks. All members share three features: they are active in the retail banking segment, have a strong regional presence and show a responsible attitude towards business and society. The total assets of all member banks amount to more than $16,000 billion, non-bank deposits to nearly US$9,000 billion. Serving some 1.7 billion customers, WSBI members are committed to further unleash the promise of sustainable, responsible 21stcentury banking. Learn more at www.wsbi-esbg.org on Twitter at @wsbi_esbg.

WSBI and financial inclusion: A brief history

WSBI's financial inclusion journey dates back to 1924 with the inauguration of the first World Savings Day and has continued over the decades. In 2003 WSBI published research that revealed an estimated 1.4 billion low-cost/low-balance savings accounts worldwide, of which 1.1 billion accounts were managed by WSBI's member banks. Following further research, the institute launched its programme "WSBI Doubling Savings Accounts" in 2008 and concluded it successfully in 2016. Building on extensive learning, WSBI has now set out on its next stage in the journey through the Scale2Save programme.

About the Mastercard Foundation

The Mastercard Foundation works with visionary organizations to enable young people in Africa and in Indigenous communities in Canada to access dignified and fulfilling work. It is one of the largest private foundations in the world with a mission to advance learning and promote financial inclusion to create an inclusive and equitable world. It was established in 2006 through the generosity of Mastercard when it became a public company. The Foundation is an independent organization, and its policies, operations, and program decisions are determined by its own Board of Directors and senior leadership team. It is a registered Canadian charity with offices in Toronto, Kigali, Accra, Nairobi, Kampala, Lagos, Dakar, and Addis Ababa.

For more information on the Foundation, please visit: www.mastercardfdn.org

About MarketShare Associates

MarketShare Associates (MSA) is a global firm of creative facilitators, strategists, economists and experienced research and data nerds who believe that both public and private institutions should contribute to social transformation. MSA offers public sector decision makers access to a new generation of market and social insights for forecasting and measuring human behavior and social outcomes. MSA works with governments, development agencies and donors that operate as market facilitators and catalysts to improve market and empower people to take advantage of economic opportunities across Latin America, Africa and Asia. We work to achieve impact across three key practice areas: results measurement and evaluation, market systems facilitation, and economic empowerment.

www.wsbi-esbg.org/scale2save

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