CGAP-*MicroSave* Virtual Savings Exchange Report

Serving Small Depositors:
Meeting Demand While Managing Costs

CGAP

Building Financial Systems for the Poor

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About This Project

Conducted from December 5th through 9th 2005, the Virtual Savings Exchange examined some of the chief challenges involved in mobilizing small deposits: cost management, products, delivery, promotion, and environmental factors. In this paper, Madeline Hirschland summarizes the key points made during the conference.

The Exchange was valuable because of the insights and expertise shared by its participants. This report summarizes their contributions. To them much appreciation is due: Adnan, Angela Arevalo, Philip Odei Asare, Noni Ayo, Joachim Bald, Anil Bhattacharya, Bhavani, Mark Bienstman, David Cracknell, Nara Hari Dhakal, Emma Fernandez, Cheryl Frankiewicz, Gaamaa, Zvi Galor, Manju Mary George, Mouna El Ghormli, Getaneh Gobezie, Marie-Luise Haberberger, Alfred Hamadziripi, Kamewe Hugues, Jennifer Isern, Saiful Islam, Ahmad Jazayeri, Dean S. Karlan, Brian Kuwik, Gerry Lab-oyan, Dale Lampe, Kathryn Larcombe, Elsa Patricia Manrique, Mike McKay, David Meier, Hermann Messan, Gabriel Metz, Peter Moelders, Claudia Mueller, Tony Pell, Greg Pirie, Ramakrishna, Ana Babi Santamaría, Hans Dieter Seibel, Namrata Sharma, Navraj Simkhada, Girija Srinivasan, Mark Staehle, Davide Stefanini, Paul Thornton, Nick Walden, Graham A. N. Wright, Zahari Zakaria, and Carolina Zuniga. The Exchange was facilitated by Madeline Hirschland.

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Serving Small Depositors: Meeting Demand While Managing Costs

Summarized by Madeline Hirschland

I. Cost Management

To manage the costs of deposit mobilization, an institution must attract an adequate volume of deposits and control its operating costs.[1]

A. Achieving Adequate Volume

Attracting a large volume of deposits requires a multifaceted approach. Institutions must generate trust (see Section IV); supply appropriate products (see Section II); utilize or create adequate delivery channels (see Section III), and train and motivate their staff to mobilize deposits (see Section IV).

Managing liquidity well requires specialized skills. Viable savings mobilization requires that a significant portion of these deposits be invested at a high rate of return. At the same time, the financial institution must maintain enough liquidity to meet the demand for withdrawals. In addition to mobilizing a large volume of deposits, a financial institution must determine the percentage of deposits that are "core deposits," stable deposits that can be made available for loans or other high-yielding investments. (See CGAP Bald case.)

B. Controlling Operating Costs

Most managers do not know the level of administrative costs associated with mobilizing savings. The most accurate way to determine these costs is Activity Based Costing (ABC). However, conducting ABC while launching savings products for the first time may not be feasible. Yet even without ABC, managers who grasp how staff use their time will gain a good understanding of their costs. Monitoring key drivers--such as the number of transactions processed, the volume of cash deposited and withdrawn, or the number of accounts opened--is essential to managing the administrative costs. Some specific guidelines follow.

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[1] This framework comes from Dave Richardson from "The Keys to Cost Recovery," by Richardson and Hirschland in Savings Services for the Poor: An Operational Guide (Kumarian Press: Bloomfield, CT) 2005.

1. Financial Costs (and Revenues)

Interest rates should be set based on product costs, competition, and the following rules of thumb. An MFI should pay a higher interest rate on fixed deposits than commercial banks pay, but they can pay a bit less than competitors if potential customers value its product more highly. To motivate larger and longer-term deposits without requiring them, MFIs should only pay interest on accounts with balances over a certain amount and pay a higher rate for longer-term deposits. Setting strategic interest rate tiers can persuade clients to save more. Depending on how interest rate sensitive the market is, however, paying a somewhat higher interest rate might not affect deposit levels much, and might significantly reduce profits. MFIs would do well to learn from the mobile phone industry which has reached lower income clients by designing a variety of well-priced products (phone plans). In-kind returns such as lotteries or sales promotions can replace part of the interest rate. Beware, though. These can become a standard feature in the market, not providing a competitive advantage but pushing up costs for all institutions.

On the revenues side, fees can be charged for ATM withdrawals, debit cards, penalties, maintaining an account ("ledger fees") and the like. These fees can offset costs and may even generate profits. Fees should be set such that customers perceive them as fair, and they are motivated to move from higher-cost to cheaper delivery channels.

2. Direct Administrative Costs

Attracting large- and small-balance depositors is an important key to lowering average costs. But the institution must be able to handle the impact on liquidity management, and the staff must be able to interact with both types of clients. Larger accounts are lower cost, but they are less stable than smaller ones. Term deposits are the hot money that's here today, gone tomorrow. They should be intermediated into micro-loans much more cautiously than the stable, core portion of demand deposits. Attracting larger depositors can lead to mission drift as institutions attempt to meet the expectations of higher-income clients (such as fancier accommodations), which raises costs and moves them away from servicing the small depositor.

Staff salaries and benefits represent the largest administrative cost. In particular, guards and security to move cash from the branches at the end of the day are costly which makes it difficult to extend services to rural areas. These costs can be lowered by having clearly defined performance standards and by using staff or volunteers with minimal education.

Digital and online devices can be cost-saving mechanism as well as improve security. However, these options carry large up-front costs and their benefits may be significantly reduced in areas where electricity and client technical literacy are minimal. Institutions must carefully weigh the costs and benefits of digital technology with reference to their client base.

Account dormancy is costly and can hide growing client dissatisfaction. Institutions can charge a regular ledger fee to deplete dormant accounts and motivate savers to close them.

3. Indirect Administrative Costs

Branch infrastructure is very costly and credit programs that seek to mobilize deposits often must upgrade and relocate offices closer to clients. Rather than building branches, MFIs can serve savers in groups in the field. Or, rather than serving clients directly, MFIs can partner with established institutions such as postal banks, commercial banks, or mobile phone service providers to extend services to the micro market. Affiliation with a national or regional network, a partnership or a joint venture, or membership in a deposit insurance firm can also cut costs while reducing risk or perceived risk. In an uncompetitive market, costs can be kept extremely low by using small simple offices, limited hours, and one or two employees.

Other indirect expenses include management and management information systems. These costs can be reduced by decentralizing supervision, having a lean administration, offering just one or two products, and relying on word-of-mouth advertising. Computerized systems can be relatively cheap and provide essential benefits: timely and easily retrievable information that can be important to attract clients and to appropriately price and design services.

II. Savings Products and Product Mix

Before developing their product offerings or product mix, managers must first understand basic product types and variants from the perspective of clients and the institution. There are three basic product types. **Demand deposits** are often the most popular product, especially for small depositors. A minimum balance requirement and 0% interest rate can help with this product's high administrative costs. **Contractual products** respond to clients' need for a disciplined mechanism to save for specific goals and are easier for financial institutions to manage. Irregular payments can be allowed for a lower interest rate. **Term deposits** meet the demand of clients who seek a high return. They pay interest monthly or at maturity. Administrative costs are low.

There are a handful of common variations on these three types. **Retirement accounts** attract savers seeking an attractive return on long-term deposits. Funds are stable, administrative costs are low, and withdrawals are heavily penalized. A regular income can be provided instead of a lump sum payout. **Child, school and youth products** aim to develop customer loyalty and the habit of saving in children, and to attract parents to become clients. Required minimum balances must be low and prizes may be offered. Administrative costs are high. A **"step-up deposit"** is a single deposit product that allows for withdrawal but earns more interest the longer the deposit remains in the account. Because of its flexibility, it pays a lower interest rate than a fixed deposit.

A. Product Design

In order to be attractive, savings products must genuinely meet the needs and preferences of the majority of actual and potential clients. The key to understanding these needs and preferences is well-designed market research.

Poor clients require products that allow for small balances, irregular transactions, and the ability to withdraw funds. Allowing clients to open cashless accounts and giving them a month to meet the minimum balance requirement may make it more possible for these savers to open accounts. Fixed deposit products often have a high minimum balance that, de facto, excludes the poor. The poor may also want a fixed deposit product. Providing one need not be costly.

In countries that have experienced bank failures, people may have the legal right to claim even their term deposits back within one to two days. This limits banks but makes a highly flexible product unnecessary. In Eastern Europe, people are afraid of losing money and prefer products from which they can withdraw without much loss.

As they design products, managers should keep in mind these guidelines:

- **Keep it simple:** People who are not used to banking need easily-understood products.
- **Design for volume:** A good product may have massive uptake that is challenging to manage.
- **Design to manage costs while attracting demand:**
  - A minimum balance requirement can help manage costs (and can be low, e.g. US$ 2).
  - A liquid product does not necessarily make the MFI's liquidity planning less certain.
  - Emergency access can be a key selling point for clients but may rarely be used.
  - Linking savings with access to loans or to insurance encourages clients to save more.
  - Clients value being able to name the person who receives savings in the event of death.
- **Make it unique:** An MFI will be able to compete with larger, more secure commercial banks only if its product is truly special and different.

B. Product Mix

Opinions differ on the product mix an institution should offer. Some practitioners suggest offering a few easy-to-explain products that balance costs and risk and that meet the demand of the majority of clients. (This might include one liquid and one semi-liquid product or a demand deposit and a fixed deposit with a variety of terms. A standard product can have features that vary slightly depending on the market segment. Indeed, some research has found that savers prefer a single product option to choosing between many.) Other practitioners argue that an institution must provide a wider range of products in order to compete with commercial banks. Of course, more product offerings can increase costs and demand more of management.

A solution may be to combine several products into one. Bundling products (such as demand deposits and payment cards) can encourage clients to use new products so long as it does not increase their costs. It can also be simpler for the institution to manage, but more complicated for clients. Furthermore, if a contractual and a demand deposit product are combined into one, clients who use this product to accumulate savings will subsidize those who use it to transact.

In any case, each product should be designed with care. Its unique selling proposition should be identified and discussed by focus groups before being adopted. Pilot testing should ensure that it is free from operational challenges and is priced correctly. Financial institutions should be prepared to continuously evolve their products to meet clients' changing needs.

The following tools can help managers determine and refine their institution's product mix:

- **Competition analysis:** Compare the product mix with the competition's products, pricing and delivery mechanisms.

- **Market segmentation:** Examine the size, volume of transactions, and dormancy of the existing accounts for each product. This understanding can help managers determine appropriate interest rates, whether and what types of additional products might be in order, and how different products are being used.

- **Product costing:** Examine the cost drivers and profitability of different products. Managers should understand the costs associated with promoting, processing, and delivering products (as well as supporting staff incentive schemes) in order to understand which products are truly profitable.

- **Randomized control tests:** Determine which product features work best, for which type of clients, and why. (Normally, these tests are sponsored by donors rather than MFIs.)

III. Delivery Options[2]

When it comes to savings, poor people typically want convenience--easy access and short queues. Many find the ambiance of banks intimidating and their branches too far away. For their part, banks often find serving small clients to be very costly. For these reasons, alternative delivery channels like those described below can be a key to serving the poor.

Doorstep collection: Doorstep collection is common in West and Central Africa and parts of Asia. In Africa, customers typically pay informal collectors a monthly fee for the service which provides relative safety, convenience and an opportunity to accumulate capital. Doorstep collection also serves the needs of women who cannot travel freely. Research in the Philippines found that doorstep collection increased savings.

At the same time, collecting deposits outside of a branch increases the risks of theft and fraud, and it is costly in terms of staff, vehicles, and monitoring. The risks can be reduced by instituting appropriate monitoring and reporting; requiring collectors to post fidelity bonds; providing stamps to the depositor in exchange for the deposit; paying for in-transit insurance; and taking steps to assure the safety of collectors. The high costs of doorstep collection can be managed by serving markets that are clustered together. Collectors may cost-effectively serve municipal markets and town centers by walking or bicycling there daily; for rural areas, bicycle visits weekly or monthly can be feasible.

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[2] The framework for this discussion comes from Savings Services for the Poor: An Operational Guide, ed. Hirschland (Kumarian Press: Bloomfield, CT) 2005.

Self-Managed Groups: For savers, self-managed groups provide a savings service with low transaction costs while generating loan capital and returns for the group rather than for a financial institution. However, group members may save much less than they would if they trusted that their savings and returns were safe and accessible. If they save primarily to access a loan, then the service is, in effect, compulsory.

By aggregating small savings into larger deposits, self-managed groups also cut costs to the financial institution. Once groups develop more savings than they can loan to their members, they may deposit the excess with an MFI if it has an attractive savings product. (In Zimbabwe and South Africa, this takes about a year.) The cost of promoting groups is very low, but MFIs have avoided this strategy because they see the groups as competitors when in fact, groups can serve as a financial entry point, grooming individuals until they are ready to use the MFI's services.

Lockboxes: These small locked boxes have a slot through which cash can be deposited but not withdrawn. The MFI staff hold the key while the box is kept by the client who can deposit any amount at any time. A deposit collector collects the savings regularly or the client brings the box to the branch when she wants. Lockboxes can also be distributed to children or their teachers.

Simple low-cost offices: Locating lean branches near town centers provides easy access to small savers and can be a cost-effective way for MFIs and banks to serve rural areas. Personnel from the nearest branch staff the offices for a couple of hours or a day each week. However, security, limited hours to access funds, and monitoring can be challenging.

Mobile banking units: Many banks have tested mobile banking units to serve areas where they do not have branches. The results have been mixed. As with simple part-time offices, security, limited hours, and monitoring can be challenging.

Piggybacking services onto postal savings banks: Many savings banks work through the post office infrastructure. Postal saving banks provide rural outreach, low minimum deposits, and account balances that suit the poor, as well as low administrative costs.

Piggybacking onto existing credit operations: Piggybacking savings services onto a credit service can lower deposit transaction costs to savers and the MFI. At the same time, MFIs' borrowers tend not to be the large depositors needed to lower average costs. Payments only might be "piggybacked"--deposits might be accepted at the same time as loan payments--or credit agents might also cross-sell savings products. However, even when credit agents receive considerable training, motivating them to mobilize deposits often proves to be quite difficult.

Electronic banking: In the long, run e-banking solutions will significantly reduce costs and extend outreach. But in many regions, it must first overcome two challenges: inadequate infrastructure and potential customers' lack of trust in electronic banking.

Point of service terminals: Financial institutions can vastly increase their outreach by providing services using POS terminals at retail outlets such as state lottery offices.

Mobile phone-based systems: Phones may be able to vastly extend outreach as far as the mobile network. Agents (usually the vendors of pre-paid airtime) would provide the deposit and withdrawal facilities. Pending issues include how to use public call offices and shared phones and how to make the service valuable for customers and agents.

Using local merchants: Local merchants might overcome the depositors' distrust of technology and the limits of ATMs, which often cannot accept small denominations and tattered bills. The financial institution would sell cards to merchants, who would resell them to clients. The merchant would then deposit the money in the bank physically, by mobile phone, or via the internet.

IV. Promotion

Promotion is not about making tall claims. Marketing and promotion are not the same. Promotion refers to advertising, personal selling, public relations, sales promotions and word of mouth. Marketing is bigger: it includes promotion but also includes product, pricing, and how and by whom the product is delivered. It is about communicating strengths that the institution actually has, for it is small savers who can ill-afford to lose their savings who are to be converted into our clients. Promoting savings is different from promoting credit. MFIs must first promote the habit of savings before promoting the institution or products. Secondly, MFIs must focus on building trust

A. Keys to Building Trust

Trust is built on two pillars: the institution and the people who work for it. Branches must be perceived by potential clients as stable, professional, and secure. Establishing faith in the MFI can be achieved through mass media, but advertising is a costly strategy that makes sense only if the institution already has good market penetration.

Building a reputation based on staff requires personal promotion and excellent service. Proper training is critical. MFIs should invest at least as much time preparing employees as they would on "traditional" promotional tools like brochures. Staff should demonstrate that they care for their customers in speech and actions. Talking to staff should immediately bring to mind words like "honesty," "integrity," and "reliability" for the client. More subtly, clients must feel that the staff's ethnicity and social class are familiar.

The following guidelines can help establish trust in the institution and the staff.

Deliver what you say you will deliver, consistently and reliably. Put key commitments in writing; advertise how those commitments have been met. Don't promise what the institution cannot deliver.

Craft promotional messages to answer the question, "Why should clients trust us?" Messages might include leadership, history, values, staff, supervision, systems, deposit insurance, or partners. Management should ensure that potential clients know that the institution is legally licensed, is monitored by the government, lends out savings locally, and has a good repayment record. Using clients' own words to convey these reasons will be more convincing.

Demonstrate that the institution is part of the community and plans to contribute to its development over the long haul. Rather than putting up a billboard, invest in the town square, sponsor a local sports team, organize volunteer opportunities for staff, or offer a scholarship. Participation in community events makes customers perceive banks as part of their daily lives. Public relations is often the least costly and most credible form of promotion, particularly if managers provide press releases about the action and the media is hungry for pre-packaged materials to broadcast or print.

Focus on developing strong positive word of mouth. At least 60% of the new customers to MFIs are from hearing about accounts from a friend or relative. Word of mouth is developed through branding, a positive stream of public relations, customer relationship building, dinners with opinion leaders, keeping promises, and excellent service. For example, opening accounts must be as easy as possible; many sales are lost because of lengthy account opening processes. Customers will talk about good (and bad) experiences. In rural areas, informal leaders are important; when they become savings customers, the community will follow.

B. Market Segmentation

Managers must understand the market segments they expect to serve: what they save for; what promotional tools, media and types of messages they respond to; and the financial value of their potential savings. This understanding will help in tailoring appropriate messages that sell the product's benefits according to the needs of specific groups of clients. By segmenting clients, IMFs can promote to them more appropriately.

Segmenting the market often will drive promotional strategies. If 5% of clients are found to hold 50% of value of deposits, using branch managers to sell to high-value clients might make sense. Small or rural savers may value personalized service, a positive relationship with the public, and word of mouth while large savers may respond more to advertisements, publicity and promotional gimmicks. Current loan clients may respond more to direct sales than to advertising, publicity, or branding.

C. The Promotional Message

Promotional communications should reflect the key value drivers of the customer in "clear, concise, client language." Promoting a savings culture and a corporate image closely related to local life is a key to success. Promotion should always sell the product's benefits for the clients, not the product's features. Prior to mass-printing, the unique selling proposition and message should be tested in focus groups to ensure they are valued and understood in the way that management wants them to be.

D. Staff and Promotion

Promotion is not just advertising. In the early days of a savings program, direct marketing should play a central role. In institutions that have primarily been engaged in credit, savings promotion may initially be carried out by credit agents, cashiers, and customer service staff. In any case, all staff must be trained in how to promote savings, should be involved in promotion, and should understand the local culture and community. They must grasp the importance of attracting people who will save more than they borrow; they must learn how to identify these people, particularly community leaders; and they must be able to find opportunities to mobilize a large number of deposits in one place (such as at a factory or place of worship). They must also be able to explain a savings product clearly, in terms that differentiate it from those of competitors.

Staff will mobilize more deposits if management charges branches a higher rate for capital than the interest rate paid for client savings; clearly defines performance standards; and has a well-designed incentive scheme. But incentive systems can have negative effects. If incentives are linked to deposit volume, staff may pressure clients unduly to deposit or not withdraw or clients may not trust that the staff are sincere about the solidity of the institution. Incentive schemes for savings should reward branches rather than individuals.

Even with considerable training and incentives, motivating credit staff to mobilize deposits can be quite difficult. Employing low-cost marketing officers (such as university leavers on a contract) may make more sense. In addition, branch managers might market services to high-value clients and in places where they can talk to many potential depositors at the same time.

Cross-selling can broaden the client relationship to the benefit of both the client and the financial institution. Clients can access more services while the institution generates more business. In addition, customers who use more services are more likely to be loyal and keeping a client costs much less than attracting a new one. Banks cross-sell savings products when they arrange to automatically deposit a part of a regular remittance payment into a savings account.

V. Environmental Factors

The environmental factors that most strikingly affect the mobilization of small deposits are government regulation; policies that affect the financial sector; the state of the country's infrastructure; and the economic and political environment.

A. Government Regulation and Supervision

Lack of oversight can provide institutions with the flexibility to optimize their operations, but unregulated MFIs may fail to adopt prudent liquidity management practices, may not know how, or may be fraudulent. And when these institutions fail, it affects the entire industry by dissuading potential clients from saving with formal institutions.

Regulations may result in more limited outreach, especially to small and rural depositors, at the same time as they result in greater stability to depositors who are served. For example,

- High capital adequacy and liquidity reserve requirements increase costs and make it more difficult to serve small depositors and to branch out to rural areas. On the other hand, these requirements force MFIs to be serious, which is good for depositors.

- Requiring new institutions to have all key functions and management in place from day one can prevent new institutions from entering the market. However, requiring that suitably qualified personnel manage and oversee financial institutions is a plus for depositors.

- Regulatory requirements on infrastructure--particularly security-related infrastructure--can be extremely expensive. But being regulated also conveys trustworthiness, which can attract large institutional deposits that help compensate for the additional costs.

- In some countries, how an NGO-MFI can transform into an institution that is legally able to mobilize deposits is unclear. Often, it is the organizations that reach the poor or rural areas that cannot legally mobilize savings or can do so only from their members.

Some countermeasures to increase the security of unregulated or under-supervised institutions include affiliation with a regional, national or international network; supervision by a credible larger institution; and education of savers so that they can select institutions where their money will be safer.

B. Governmental Policies

Anti-money laundering legislation can exclude low-income clients from financial services. Complying with identification and confirmation of residence requirements can be challenging for customers without electricity or water bills, and it can increase the cost to clients and institutions of opening an account. Deposit insurance may not stimulate a great increase in deposits but may encourage institutions to pass their risk on to insurance companies rather than vigilantly controlling it. Government-mandated caps on interest rates may not provide MFIs with a viable operating spread (one large enough to cover the high costs of administering small deposits and loans). Finally, widely available subsidized credit undermines savings mobilization because institutions will mobilize deposits only if this source of funds costs less than others.

C. Infrastructure

Infrastructure affects outreach, particularly to rural areas. Poor rural telecommunications, lack of electricity and internet service, and poor rural roads raise costs and inhibit the growth of the industry, in particular e-banking. Clients must be able to reach the nearest service outlet within a reasonable amount of time. Operating the MIS in stand alone rather than networked branches limits services but allows branches to continue to provide basic services when the "coms go down." Without a centralized clearing system for MFIs, clients spend a lot more time accessing their checking accounts.

As e-banking develops, it will pose additional policy and regulatory challenges in a number of areas including communications policies, infrastructure, and the definition of roles such as that of a deposit taker (i.e., the person who can accept a deposit on behalf of a bank or MFI).

D. Economic and Political Factors

Political and economic instability undermine clients' trust and dampens savings mobilization. In a conflict environment, MFIs adopt coping strategies to survive rather than finding ways to expand their outreach and maintain their viability. Inflation, in particular, undermines savings mobilization because it undermines the value of financial savings. To some extent, this can be controlled by an inflation targeting system. High-yielding investment opportunities are crucial: savings operations can expand viably only if the MFI can invest the savings mobilized at a relatively high rate of return.

Where the economy is tied primarily to one seasonal cash crop, MFIs will struggle with liquidity management. On the other hand, a stable and growing economy coupled with equitable and sustainable rural development results in households and enterprises that can save.

Annex: Daily Summaries

Cost Management
Summary of Dec. 5, 2005

Summarized by Exchange Facilitator, Madeline Hirschland

Cost Management

There are two keys to viable savings mobilization: achieving volume and controlling costs. Some keys to accomplishing this follow.[3]

I. Achieving Adequate Volume

A standard branch involves high costs that can only be covered by attracting a large volume of deposits. Market penetration is a key to achieving volume. However, it is not easily achieved. It requires innovations for service delivery, a systematic approach to identifying potential depositors, a staff incentive system based on the value of deposits collected; extensive market research, good public relations, massive staff training and local demand studies (Dhakal, Nepal, Afghanistan). A large volume of deposits requires depositor trust, appropriate products, good marketing, and sound liquidity and asset liability management.

A. Trust

When it comes to deposits, banking is nothing more than generating trust.

A strong market presence, along with a strong physical presence, helps to build trust. Building at least medium-sized full-service branches that inspire people's trust is an investment in the future. If this is not possible, then an institution must inspire trust through the staff it employs. Particularly where a big percentage of the population has lost money in banks, trust comes from establishing relationships (employees-clients) or, at the institutional level, by building a proper branch network and through proper marketing (Moelders, Bosnia and Herzegovina). Many microfinance clients borrow from the MFI and save with banks because they do not consider the MFI to be a safe place for their savings. Public relations and brand-building activities are hugely important to establish the institution's credibility as a secure place to save (Cracknell and Wright).

Ensuring accountable and dynamic governance is also crucial (Dhakal, Nepal).

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[3] This framework comes from Dave Richardson. See "The Keys to Cost Recovery," by Richardson and Hirschland in Savings Services for the Poor: An Operational Guide (Kumarian Press: Bloomfield, CT) 2005.

The transparency, honesty, and integrity of leadership, management, and staff are essential to retain the confidence of depositors and the value of their savings (Pirie). Professional staff who inspire trust are critical (Moelders, Bosnia and Herzegovina), and are even more important than the physical appearance (Staehle, Bangladesh; Larcombe, Mozambique). Building trust takes time (Bhattacharya, India).

B. Products

Creating savings products that genuinely meet the needs and preferences of the majority of actual and potential clients is a major factor in achieving adequate volume. Rather than assume a 'we know best' approach, institutions should decide product design, delivery and pricing based on reality. Institutions should undertake well-designed and sufficient market research frequently, using tools such as those developed by MicroSave (Pirie). Before introducing a saving product, an institution needs to know the cash flow pattern of the target market customer. For example, farmers mostly have seasonal income, which means they save seasonally in big amounts and withdraw gradually according to their life and business need (Zakaria, Indonesia).

Designing new products periodically in response to different market segments can help an institution maintain a competitive edge (Bhattacharya, India). In competitive environments the product must truly be special and different. If an MFI cannot define the unique selling proposition of its product, it is unlikely to be able to compete with the larger, more secure commercial banks offering similar services (Wright and Cracknell).

(Facilitator's note: Most of the contributions on products will be included in the Product Mix discussion summary.)

C. Promotion: Incentive Schemes

In Nepal, the MFIs that are the most successful with savings mobilization provide staff with clearly defined performance standards and incentive schemes. Incentives are based on the number of clients served, the volume of deposits, and the average savings balance per account (Dhakal, Nepal). "Internal transfer costs" can be used to encourage deposit mobilization. SafeSave charges branches significantly more for capital from the head office than the interest rate paid on client savings. Branches can also earn a premium rate of interest for supplying their own surplus capital to other branches (Staehle, Bangladesh).

However, staff incentive systems can also have negative effects. Linking incentive payments to deposit volume may not be good for clients because staff may pressure clients to deposit or not withdraw (Staehle, Bangladesh). Where there is a history of failures and distrust of financial institutions, an incentive system can be counterproductive because clients will not know whether the bank clerk is really convinced about the solidity of the institution or is trying to persuade the client for his personal benefit (Moelders, Bosnia and Herzegovina).

(Facilitator's note: Other comments on promotion will be included in the Promotion discussion summary.)

D. Effective Liquidity and Asset Liability Management

With savings, the only significant income arises from how depositors' funds are invested. Investing deposits in a well-run microfinance portfolio will undoubtedly yield the best returns, but is illiquid. The implications of investing too heavily in this area and having insufficient liquidity to meet demand for withdrawals are dire. Managing the balance sheet daily, ensuring that liquidity is well-managed and funds are optimally invested requires highly specialized skills. Few organizations are equipped to cope with these demands (Walden, Africa, The Philippines).

Another view: If the country that has no financial instruments (T-bills, bonds, etc.) in which to invest, and if the MFI lacks funds to finance its loan portfolio, it might make sense for the MFI to use as much as 90% of its savings to finance its loan portfolio. To be competitive with other banks offering similar savings products, the MFI must also offer an interest rate similar to theirs on its fixed or time deposits. Therefore, mobilizing deposits to invest in a commercial bank is not worth the trouble (Oyo, Cambodia).

A third view: Fixed deposits should be completely used for credit to borrowers. Otherwise, they lose value for the savers. If they are loaned out, members benefit (Galor).

Central Banks' reserve requirements have a huge impact on profitability. If MFIs are required to deposit 25% of depositors' funds as reserves, they are hugely hampered in their investment potential (Walden, Africa, The Philippines).

E. Delivery Mechanisms That Provide Easy Access

If potential savers perceive and trust that they will be able to access their savings easily, it can motivate them to make an initial deposit and to minimize their withdrawals (Pirie). For example, in India, 154,000 post offices and some 10,000 branches of nationalized banks have mobilized almost USD $440 billion. A key to achieving this volume of deposits is that distribution outlets are found every 3 kilometers and nearly 500,000 agents provide door-to-door services to customers. Customers, therefore, do not have go to the post offices or to the distribution channels (Bhattacharya, India). For branch-based service, it is vital to have enough tellers to keep queues to a minimum (Larcombe, Mozambique).

(Facilitator's note: Other comments on delivery channels will be included in the Delivery Options discussion summary.)

II. Managing Costs

Practitioners often do not pay attention to or know the costs involved in mobilizing savings (Dhakal, Nepal, and Walden). Activity Based Costing (ABC) is the most accurate way of achieving this information. However, an organization that is launching savings products for the first time must focus on training, procedures, systems and marketing; so initiating ABC at this time may not be realistic. Banks that serve different markets, have a complex product portfolio, and have complex delivery channels cannot easily assess the exact cost of each product for different markets (Manrique, Columbia).

A rougher option exists: Typically, about 85% of the total savings expenditures will be absorbed by staff costs (salaries and other associated costs), depreciation, security and insurance, travel/transportation, and premises costs. Of these, staff costs are always the largest element. Other costs comprise only a small percentage of the total expense, and these can be allocated according to the number of staff, the number of accounts, or evenly among products, for example, without distorting the overall position too greatly.

Therefore, if managers can grasp how staff time is being used, they will have already gained a good understanding of how to manage costs. By identifying key drivers, managers can better understand their business, more accurately allocate staff time, and ultimately manage cost and price products better (Walden, Africa, The Philippines). Key drivers might include the number of transactions processed, the volume of cash deposited and withdrawn, the number of accounts opened, or the number of loans drawn down.

A third option: When conducting an ABC exercise is not feasible, some MFIs instead rely on competition analysis, financial projections, and focus group discussions to validate the price of the savings products (Oyo, Cambodia).

A. Financial Costs (and Revenues)

1. Interest Rates

Small depositors care more about the ease of depositing and whether their money will be available after the maturity period than about interest returns. For example, they may be willing to receive no interest if they receive door-to-door deposit service. Several institutions in India and Bangladesh have found that interest rates do not have a great effect on the volume of savings mobilized (Bhattacharya, India). (Facilitator's note: This may depend on whether there is formal sector competition.) Term, large-balance customers may be interest-rate sensitive while small-balance customers may not (Papua New Guinea).

To motivate larger and longer-term deposits without requiring them, interest should only be paid on accounts with balances over a certain amount; and a higher rate should be paid for deposits that are held for longer. In many cases, clients seem willing to accept no returns for accounts with balances below a certain minimum (Bienstman). Tiered interest (starting with 0%) rewards the larger savers without introducing a second product. Strategically calculated interest rate tiers may also help to persuade clients to save more. A tier placed at the anticipated break-even point is a natural choice (Walden).

The gross amount customers keep on deposit is probably influenced less by rates of return than by the absence or presence of alternative investment opportunities in the informal market for money. Therefore, a small premium on savings may not be a good blanket rule for new customers as the added cost can impede profitability. In SafeSave's case, an increase from 6% to 8% might not impress clients much, but it would reduce profits by about a third (Staehle, Bangladesh).

Member-owned institutions should pay fixed deposit savings a competitive rate of interest, one that is higher than the ones paid by the commercial banking system and at least at the level of local annual inflation (Galor). Interest rates should be close to that of competitors but can be a bit less if the institution can market a unique selling proposition (e.g., higher security or international shareholders). Paying a lower rate of interest will help avoid attracting clients who are only interested in earning the high interest and then leaving the bank immediately afterwards (Mueller, Eastern Europe).

Interest rates should be set competitively to give the highest possible rate of interest on savings and a low rate on loans such that the interest rate spread exactly covers the total operating costs of the institution (Galor). Many institutions calculate interest on the minimum monthly balance and capitalize it every 3 or 6 months. This is neither equitable nor transparent. A daily cleared balance is easier to understand for staff and clients alike. Institutions should not sell deposit products based on rate alone. Respect for the poor, brand, customer service, et cetera is all part of the proposition. The rate should be an output from costing services (with some consideration to competitor analysis). Institutions may be able to increase the rate if they can cut costs by tightening and stream-lining operations (Walden). The communications industry has successfully reached lower income clients by designing a variety of well-priced products (e.g., mobile phones with a variety of plans depending on the number of minutes and services offered.) MFIs should learn from this experience (Manrique, Columbia).

2. Fees

Fees (for withdrawals from ATM´s, debit cards, penalties, lost identification, and ledger fees) help support the high costs of mobilizing small amounts. In some cases, they do not generate profits. In other cases they do. In Colombia, fee income represents about 15% of total income for the financial sector and amounts to 90% of net profits. Customers and local authorities tend to be uncomfortable with them. The key is to set fees that are perceived by customers as fair, and to price different services in order to induce customers to move from higher cost to cheaper delivery channels (Manrique, Columbia). Ledger fees can make sense where clients are provided with doorstep service. They also can motivate savers to close dormant accounts (Staehle, Bangladesh).

3. In-kind Returns: Lotteries

Once an institution starts holding lotteries and promotions, there is a danger that these will become a standard feature in the market, not providing a competitive advantage but pushing up costs for all institutions (Cracknell and Wright, various countries). On the other hand, a small institution that cannot afford to hold lotteries by itself may be able to do so by collaborating with other small institutions locally (Zakaria, Indonesia).

B. Direct Administrative Costs

Attracting Larger Accounts:

One view: The key to covering the costs of a full-service branch is to attract bigger deposits in order to lower average costs. Keeping costs extremely low (low cost offices, limited hours, one or two employees) can only work in an uncompetitive market. People will choose what they regard as the safest place to put their deposits, which can be one of the big banks or even their mattress (Moelders, Bosnia and Herzegovina). Institutions must develop products that attract both small and large savings (Islam, various).

Another view: Attracting larger accounts is a reasonable strategy if the institution can handle the impact on liquidity management, and if staff is of the right profile to interact with both types of clients. If big depositors need fancy staff and offices, the strategy could lead to mission drift. SafeSave focuses on small deposit mobilization because it believes that the staff needs to be "like its clients," and the core client is a slum-dweller (Staehle, Bangladesh).

A third view: The biggest challenge in managing the costs of savings mobilization is finding the best balance between managing costs and managing risks. Larger accounts carry lower costs but higher risks; smaller accounts are higher cost but lower risk (Lab-oyan, the Philippines). When considering market segments, managers should not only consider the cost per transaction but also the stability of deposits. Although more costly administratively, the deposits of the poor may be more stable and therefore more can be used for on-lending and investment (Mary George, India).

Many small demand deposits provide a more stable funding base for intermediation into loans than do larger term deposits. This sounds counter-intuitive, because term deposits are locked down for a fixed, predictable period while demand deposits can be withdrawn at any time. However, in most cases, the volatility of term deposits is actually larger than the variations in the daily total demand deposit balances. Term deposits are larger and fewer, therefore the impact of a withdrawal on the total balance is more noticeable. Bear in mind that with time deposits, there are typically no partial withdrawals; people either prolong the deposit or take all of the money out.

Term deposits are the hot money that's here today, gone tomorrow. As such, institutions should intermediate them into micro-loans much more cautiously than the stable, core portion of ordinary, on-demand savings balances (Bald).

Staffing: The largest administrative cost is staff salaries and benefits. A key to managing costs is to use staff with a minimum education level and with clearly-defined performance standards (Dhakal, Nepal). In Nepali Savings and Credit Cooperatives, board members manage deposits as volunteers until the SCC grows large enough to pay a staff salary (Simkhada, Nepal). Hiring appropriate staff who know the local culture and language but who need not have academic achievements can lower this cost. Using very basic transport and word-of-mouth advertising can also help keep costs down (Gobezie, Ethiopia).

Products: To keep overhead low, SafeSave offers just one product, a current savings account that is very flexible (Staehle, Bangladesh).

Delivery: Serving groups of savers in their community--or children in their classroom--can be a way to manage the costs of serving very small savers (Zakaria, Indonesia).

Cost of Security and Internal Controls: The cost of guards and security to move cash from the branches at the end of the day can be significant. Yet one of the main reasons clients save with a financial institution is its safety. The cost of security is a major impediment to extending services to rural areas (Larcombe, Mozambique). Digital passbooks, complete MIS, online banking, smart cards and handheld computers can improve security, but they also cost a lot (Adnan, Pakistan). One area not to cut costs is in internal controls (Staehle, Bangladesh).

Transportation: Using very basic transport and word-of-mouth advertising can also help keep costs down. (Gobezie, Ethiopia)

Delinquency: The cost both of maintaining an adequate allowance for loan losses and of un-received income from delinquent loans can be fatal if not properly controlled. Preserving the full income-generating capacity of the institution's primary asset, the loan portfolio, is crucial for everybody from loan officer to CEO (Pirie).

Currency: Transaction times (and therefore administrative costs) will be higher in countries with very small denominations. For example, in Ghana, a "cash-boy" is needed purely to assist in managing the vast mountains of notes transacted each day (Walden, Africa, The Philippines).

Dormancy: High rates of dormancy are found among all types of institutions. For example, one large institution found that 60% of its accounts were dormant. Dormancy is costly and can hide important trends within key segments such as growing client dissatisfaction. So it is important to measure and analyze it, close accounts, and clean house (Cracknell). A small monthly or quarterly "maintenance fee" or "ledger fee" could be used to deal with the dormancy problem. The dormant balance gradually returns to "nil," and the account can be closed. The added income might finance the lowering of other fees or fuel a higher interest rate (Walden).

C. Indirect Administrative Costs

Cost of branches: Infrastructure costs are horrendously high, and money for investment is difficult to come by (Larcombe, Mozambique). In particular, credit programs that seek to mobilize deposits often find that their offices are too far away from the clients. For branch-based systems, this often means expensive relocations (Cracknell).

Linkages to reduce costs: In many countries, savings banks or postal savings banks are the only financial institutions that reach extensively into rural and remote areas. Their branch infrastructure and institutional knowledge enable them to offer affordable savings products. Microfinance institutions should leverage this huge infrastructure instead of building small-scale institutions that could hardly achieve the same extent of outreach (Arévalo). Rather than offer services to clients directly, MFIs that seek to serve rural and small depositors should build relationships with established financial institutions such as postal banks, commercial banks or mobile phone service providers and negotiate for changes and services that benefit these markets. This can create great synergies (Lampe, South Africa). In this type of relationship, the MFI sensitizes its clients to use the postal saving system (El Ghormli, Morocco). Cooperation and linkages--such as an affiliation to a national or regional network, a partnership or joint venture, or membership in a deposit insurance firm--can reduce risk or perceived risk while maintaining cost savings (Lab-oyan, the Philippines).

Management: Decentralizing supervision to regions and keeping administration lean but professional is a key to controlling overhead costs (Bhattacharya, India).

Computerization: Computing is now very cheap--possibly cheaper than books and bookkeepers (Staehle, Bangladesh). Computerized banking information systems seem essential whenever financial institutions intermediate deposits. For example,

- Information must be timely and easily retrievable (Larcombe, Mozambique; Staehle, Bangladesh)
- Calculating interest would otherwise be extremely difficult (Larcombe, Mozambique)
- An MIS that provides information on the spread of account balances enables managers to a) create an interest rate structure that maximizes the incentive for clients to increase their savings and minimizes the overall cost to the institution; and b) determine whether a large volume of savings is held by a minority of clients who therefore should receive an extra investment in personal service (Pirie)

An exception to computerization would be areas without a reliable source of electricity (Staehle, Bangladesh).

How Much of the Deposits Can We Lend Out?

Joachim Bald on Assessing Core Deposits

How does an institution determine the percentage of deposits that are "core deposits" (the "bedrock of stable deposits") available for long-term funding purposes? Clearly, more is better. The MFI must observe any applicable prudential regulation, minimum reserve requirements, prescribed minimum holdings of liquid assets, et cetera. But once those rules are satisfied, the MFI should strive to utilize for intermediation the maximum of its stable deposit base.

The trick is to know how much of the deposit base an institution can count on in the long-term. How are core deposits determined? Unfortunately, there are no easy answers. However, here are some ideas on how to get started with analyzing deposit volumes:

- Accumulate lots of time series data on daily aggregate deposit balances.

- Break down the time series by product, especially if there could be different trends and influencing factors at work for different savings product types.

- Look for local minima in your balance function, which will provide a first indication of what the core deposit base is and what its growth trend might be.

A few years' worth of data is the minimal input that can safely identify recurring seasonal swings that might correlate with agricultural production cycles, holidays or other annual consumption and income patterns among your depositors.

Since liquidity management is only really a challenge in times of adversity, the institution should trace the impact of past crisis events on the deposit supply. For example, what was the run-off behavior during a natural disaster? What happened during a name crisis "run" on another bank or MFI in the same market? Did that measurably spill over into the behavior of the institution's own depositors? Further, the institution you should try to correlate in the effect of the multi-year macro-economic cycle of boom and recession and of known regional economic events. And finally, it must take into consideration the possible supply effects of its own deposit pricing and promotion actions in conjunction with the pricing approach of local competitors. Obviously, it is not easy to identify causes and effects.

And the situation gets even more complex because deposit supply is only half the story in terms of assessing the liquidity impact of deposit operations. Institutions should analyze deposit behavior alongside loan demand. Quite likely, there will be seasonal off-sets or reinforcing correlations: borrowers might be beating down the doors for loans precisely when deposits tend to run-off for seasonal consumption uses.

This analysis will be hard to do without a multi-year steady-state track record that would allow isolation of the various effects. However, aggregate deposit balances are widely published, so institutions should analyze deposit time series on competitors' balance sheets and also draw on the system-wide deposit statistics published by central banks and microfinance apex institutions.

In short, analyzing aggregate deposit supply might be tedious, but it can add substantially to the bottom-line as the institution feels its way forward to placing more of its deposits into earning assets.

Product Mix
Summary of Dec. 6, 2005

Summarized by Exchange Facilitator, Madeline Hirschland

Basic Product Types: Some Observations

Demand deposit: This is often the most popular product that especially attracts small depositors. A minimum balance requirement can help with this product's high administrative costs. Because of these costs, it may not pay interest, but it serves as a safe place to deposit money for shorter times (Galor). Limiting the number of withdrawals can differentiate it from a current (checking) account (Mueller, Eastern Europe). An institutional savings account is a demand deposit account for institutions such as small enterprises, public entities, NGOs, and associations (Arévalo).

Contractual savings: Well-designed, market-responsive, contractual products are easier to manage, provide a stable source of funds for investment, and respond to clients' need for a disciplined mechanism to save for specific goals and targets. Restrictions on withdrawals imply low transaction costs, so they can pay a higher return than for demand deposits (Cracknell and Wright, Arévalo). They can allow irregular payments for a lower interest rate (Mueller, Eastern Europe).

Term deposit: Account holders of this product are more likely looking for a high return. It offers low administrative costs and stable funds for financing medium and long-term investments (Arévalo). Term deposits are not necessarily easy to explain to someone who has not used formal financial institutions before (Walden). Interest can be paid monthly or at maturity (Mueller, Eastern Europe). Savers should be trained to understand the difference between the two major categories of savings: short-term liquidity and accumulation or storing of value (Galor).

Some Common Variations

Youth and school savings plan: This product aims to inculcate customer loyalty, to encourage the habit of saving among school children, and to attract parents to become clients. Required minimum and maintaining balances must be small. It has high administrative costs. Prizes may be awarded to children or schools for their participation or cooperation (Arévalo; Thornton, Papua New Guinea).

Pension and retirement savings accounts: This is great for savers looking for an attractive return on long-term deposits. They provide stable funds, high interest rate, low administrative costs, and restricted withdrawals except at high penalties. Contract cancellation fees are high (Arévalo). The account can provide regular income instead of a lump sum payout (Bhattacharya, India).

"Step-up deposit": This single deposit product allows for withdrawal but earns more interest the longer it remains in the account. It is more flexible for clients and, therefore, pays a lower interest rate than a term deposit (Mueller, Eastern Europe).

Compulsory savings: These provide a stable source of capital (Simkhada, Nepal).

Product Mix: Some Principles and Suggestions

It is more important to have products that are easy to explain than to have a lot of different products. Customers for these products do not usually know a lot about banking. Even in Western Europe, it is just a few of the basic products that have the highest percentage of usage. The rest are marketing gimmicks, and managing these other products costs a lot (Moelder, Bosnia and Herzegovina). There are actually only three basic products: demand deposit, contractual account, and term deposit. The real creativity comes in how these are "tweaked" and marketed (Larcombe, Mozambique).

In fact, a mix of just two savings products--one highly liquid and one semi-liquid--is beneficial for both the small savers and the institution. For the small savers, remembering just two or three savings product is easier. For the institution, managing two or three products is easier than managing more (Lab-oyan, Philippines). Senior managers must make a strategic decision about what mix of savers to focus on to attain a desired level of average cost and a "comfortable" level of risks (Lab-oyan, Philippines). One possibility is to have the core offering include two accounts: a demand deposit paying tiered interest with (Facilitator's note: or without) a restricted number of withdrawals and a term deposit with 1-, 2-, 3-, 6-, and 12-month terms (depending on the local market conditions) (Walden).

An alternative view: A range of products is important in order to respond both to client demand for different financial services and to meet institutional requirements, like matching liquidity. The appropriate mix should be based on price as well as on products, and how customers use the different accounts. For example, if customers use a demand deposit account regularly, then a transaction-based fee structure makes sense (Cracknell).

Managers should make sure that the client is using a bundle of basic products, not only to save, but also to make payments, use cards, et cetera. One way to do this is to offer these services in a package as one product. This can help if it doesn't lead to additional cost for the client. The client can first use what he needs immediately, but would also have the other products in place, lowering the hurdle for him to use them as well (Moelder, Bosnia and Herzegovina). In particular, a combination with payment cards (if there are any in the country and the institution wants customers to get used to them) can make sense, especially for withdrawals. Because cards are perceived as modern, they can also be good marketing tools for the institution (Mueller, Eastern Europe).

Initially, to develop a savings culture, institutions should design products for the smallest savers as well as young people. Kids are a major concern for all parents, and they are often the first step into banking business (Mueller, Eastern Europe). As clients mature, MFIs must continuously evolve their products. For example, after two years, clients may prefer to acquire other assets rather than cash savings. MFIs will need to develop strategies--such as partnering with others--to continue to capture savings to meet these changing needs (Hamadziripi, Zimbabwe).

People want demand deposit accounts to smooth financial flows, and they want contractual accounts to accumulate savings and maximize returns. They have different mental models for these two accounts. The physical accounts should reflect this separation. Separating the accounts also allows for better transparency of costs and incentives for accumulation. If the accounts are combined into one, people who wish to use the account to accumulate savings will end up subsidizing out of their savings those people who use the accounts to transact. Blocking savings while a client has a loan increases the cost of both the savings and the loan (Jazayeri).

Serving a mixed market: MFIs must provide products that meet the needs of various types of savings clients. To attract and retain larger clients, they must compete with commercial banks by providing and promoting a mix of products. However, doing so increases the cost of deposits (Asare, Ghana).

In determining the product mix, it is vital to exert much effort and energy on refining products that are used by the majority of clients (Gobezie, Ethiopia).

Three Examples of Product Mix Tchuma Cooperativa de Crédito e Poupança, a non-bank financial institution, offers:

- A current account that allows very small transactions (equivalent to USD $0.40)
- A contractual product with fixed term (but emergency access) for customers with a specific purpose for their savings
- A contractual product with an open-ended term, for emergencies (Larcombe, Mozambique)

Cooperative Bank of Benguet, a rural bank, offers:

- A liquid passbook savings with a minimum account balance of USD $2.00 and a minimum interest-earning balance of USD $9.00, and no limit on transactions
- A semi-liquid fixed deposit product
- Savings Banks' product mix includes: (Arévalo)
- Demand deposits with low minimum balance
- Institutional savings accounts
- Youth and school savings plan

- Save-as-you-earn (contractual) savings account
- Fixed deposits
- Pension and retirement savings accounts
- Premium bonds, prize bonds (savers participate in regular drawings for prizes; deposits are interest-free; withdrawals are not allowed within a specified period of time)

Some Principles and Tips for Product Design

- **Keep it simple:** If people are not used to financial institutions, they need simple straightforward products to test the institution initially (Mueller, Eastern Europe).
- **Design for volume:** Where a good product design has the potential to attract a large number of depositors, the uptake may be extraordinary and challenging to manage. Between 2002 and 2005, Equity Bank's number of accounts grew from 105,000 to over 600,000 (Cracknell and Wright).
- **Design to manage costs and generate revenue:** Careful product design can mitigate costs and generate revenue (Cracknell and Wright). A minimum balance requirement can help manage costs (and can be low, e.g. USD $2.00) (Lab-oyan, Philippines)
- **Liquidity:** A highly liquid account doesn't necessarily mean uncertainty in liquidity planning for the institution. Although a pattern of higher withdrawals occurs at certain times of the year, the variation through the year is not that great (Larcombe, Mozambique).
  Allowing very small transactions may be greatly appreciated by clients even though they rarely make such small transactions (Larcombe, Mozambique).
- **Emergency access:** Allowing access in an emergency can be a key selling point (comfort factor) for clients even though it may not be used much. (Larcombe, Mozambique).
- **Linking to other products:** Linking savings with access to loans or with complimentary insurance encourages members to save more, at least in the experience of Nepali savings and credit cooperatives (Simkhada, Nepal). However, In SafeSave's experience, requiring clients to save a significant amount in order to access a loan seems to have slowed the development of a "saving culture" amongst both staff and clients (Staehle, Bangladesh).
- **Third party access:** Allowing the account holder to nominate the person who is entitled to the money in the event of death is a feature valued by clients. Traditionally, it can take months for the surviving family members to get access to the money, if at all. Plus, it is administratively much simpler for the institution (Larcombe, Mozambique).

Some Guidance for Specific Markets

In countries that have experienced bank failures, people may have the legal right to claim deposits (including term deposits) back within 1-2 days (and they will if there is any political instability). This limits banks and makes it unnecessary to offer a highly flexible product (Mueller, Eastern Europe).

Poor clients require savings products that allow for small balances, irregular transactions, and the ability to withdraw funds. Serving the poor is challenging only if the organization maintains a very rigid approach (Hamadziripi, Zimbabwe). The savings of the poor tend to be stable. Allowing clients to open cashless accounts and giving them one month to build up their balances can help overcome an obstacle to the poor (Asare, Ghana). When financial institutions offer one liquid (e.g., passbook savings) and one semi-liquid (e.g., term deposits) product, the semi-liquid one usually has a high minimum that, de facto, excludes the poor. Some poor may want illiquidity! Illiquid passbook accounts need not cost any more than a liquid one--and they may cost less, because there will be fewer withdrawals (Karlan).

In Eastern Europe, term and step-up deposits may make up most of the portfolio. Flexibility is highly valued. People are still afraid of losing money and they don't really plan over the long run. Therefore, they prefer products that they can withdraw from without losing too much (Mueller, Eastern Europe).

Clients who graduate from community-based services tend to prefer fixed deposits if the maturity can be matched against client capital demand cycles, such as the planting season when agricultural inputs and land preparation services are needed (Hamadziripi, Zimbabwe).

Three Tools to Help Determine and Manage an Institution's Mix of Product Offerings

Market segmentation: Even within a narrow range of savings products, it pays to perform basic segmentation. Firstly, institutions should segment by value, determining what proportion of accounts operate within different value ranges. This information can help in deciding on an appropriate interest rates for higher value clients, or in determining whether the institution has a large enough potential demand for a new product, like fixed deposit accounts. Secondly, institutions should segment by volume of transactions. This analysis can uncover what proportion of customers use their accounts as a savings or a transaction mechanism. Finally, the institution should locate dormant accounts, accounts that have not transacted for six months (Cracknell).

Product costing: Detailed product costing can help managers adjust their institution's product mix by shedding light on the cost drivers and profitability of different products within the mix. Product costing allows managers to:

- Focus promotion on the more profitable products
- Reconsider the pricing, mechanisms and processes used to deliver, and the need for unprofitable or less profitable products
- Re-examine staff incentive schemes supporting the products

Even allocation-based product costing often reveals that institutions have a loss-making savings product in their portfolio (Wright). Another view: Costing should not be used to justify cutting products that cost more because they reach the poor (Gobezie, Ethiopia).

Randomized control tests: Products often include lots of features, although determining which of the specific components are critical is rarely clear. The only way to confidently learn which products work best (and for which type of clients) is through randomized control trials. Although not necessarily appropriate for individual institutions to undertake, policy-makers and donors should encourage and support product tests that use control groups, so that small organizations can have better evidence to rely on when making these important decisions. Randomized control trials do not have to be more expensive than traditional research; they must simply be carefully planned and implemented. This type of research can generate important public goods: better knowledge on what works, what does not, and why (Karlan).

Delivery Options
Summary of Dec. 7, 2005

Summarized by Exchange Facilitator, Madeline Hirschland

When it comes to savings, poor clients will usually opt for convenience. Furthermore, many find the ambiance of the major commercial banks intimidating, and since these facilities are not located with them in mind, they are unwilling to make the effort to get to a commercial banks' premises to make small deposits (Asare, Ghana). The small saver is more comfortable dealing with someone with whom she can identify than with the impersonal front of a large bank. For their part, banks often find serving small clients to be very costly (Bhavani, India). Not surprisingly then, the key to the success of India's National Savings Institute (which has mobilized USD $440 billion from more than 50 million customers) is their use of a mix of delivery options that provide customers with proximity. These include 500,000 agents who do doorstep collection, post offices with a single staff person in far-flung areas, and ATMs in semi-urban and urban areas (Bhattacharya, India).

Doorstep savings collection: Daily doorstep collection by informal collectors is common in West and Central Africa, and parts of India. In Africa, customers typically pay a monthly fee of about 3% of the amount collected. The poor are willing to pay for it. Safety and capital accumulation seem to be their key motivations (Seibel). Pilot research in the Philippines found that doorstep collection did, in fact, increase savings (Karlan). The collected amount is usually refunded at the end of the month, which allows depositors to replenish their working capital. It also protects savings from relatives. Doorstep savings collection is also found among Indonesian and Indian banks which may not charge for the service.

In rural India, female collectors particularly serve village housewives who do not feel free to go to the postal bank (Bhattacharya and Bhavani, India). In Karnataka, three types of regulated institutions—a private local bank, a non-bank financial institution, and the local public sector commercial bank—each hire barefoot deposit collectors to provide a daily doorstep service (Ramakrishna, India).

Collecting deposits outside of a bracj increases the risks of theft and fraud. Countermeasures include:

- Collectors are required to post fidelity bonds and pay an in-transit insurance premium for the average cash amount handled by each collector.
- Deposit collectors issue duplicate official receipts covering deposit of each saver, upon receiving the amount. The duplicate copy is issued to the saver and the original is given to the institution's cashier together with the amount collected. Collectors are only authorized to accept deposits (and cannot grant any withdrawals); this allows some limited time for collectors to remit the amount collected to the branch cashier.
- Cash withdrawal of deposits is only allowed at the branch offices. This scheme puts a physical "barrier" to the immediate access of the saver to their money, thereby allowing the accumulation of the deposited amount (Lab-oyan, The Philippines).

- Stamps may be provided to the depositor in a passbook in exchange for the deposit (Seibel).

- The safety of the officer carrying money in the field also requires careful consideration (Walden).

Doorstep collection services are convenient for the poor, but they are costly in terms of staff, vehicles, and monitoring. Not surprisingly, clients are often given a negative real return on their savings (Ramakrishna, India and Asare, Ghana). A regulated institution can develop a collection service with very little marketing. A deposit collector system is most appropriate where the market is clustered together so that transportation costs are not too high. To succeed, the system also requires appropriate monitoring, supervision, and reporting systems (Asare, Ghana).

Deposit collectors and other delivery options with out-of-branch transactions: Both the relative risk and the relative ease of a delivery option should be considered. While mobile agents provide a doorstep service, their unsupervised operations increase risks. Where banked savings are insured, are delivery channels like out-of-office transactions insured for fidelity? The answer to this is important to both the microfinance provider as well as the customer (Srinivasan, India).

It can be cost-effective to employ individual deposit collectors such as those who operate: (a) by foot and by bicycle daily at municipal markets and small retail stores at town centers; and (b) by bicycle weekly/monthly in rural areas. However, the risk of theft and fraud is higher than branch-based transactions (Lab-oyan, Philippines).

Self-managed groups: Small savings can be profitable if they are managed by groups and mass systems, whereas big savings need to be managed individually (Zakaria, Indonesia). Individuals will only save with groups if they are assured of the safety in doing so. In rural areas of India, large numbers of self-help groups tap the savings of their members. Despite numerous obvious incentives to save, the saving potential of group members is not fully tapped. The amount that members deposit is usually minimal as compared to what the households can (and would like to) save. There are several reasons for this. Members are concerned about the safety of their savings or whether it can be withdrawn since the money is given out as loans to other member in the group. There is also a lack of clarity about when and how much return members will receive on their savings. And finally, there is a distrust of unclear accounting. As a result, the savings services are used more as a means to access loans. To that extent, the savings becomes compulsory (Girija, India).

Groups that can mobilize savings themselves can cut down on transaction costs to the bank or post office. The savings product of the post office or banks has to be aimed at the individual member, with flexible, withdrawable features. The group can be used as a delivery channel of savings services that would facilitate mobilization and depositor servicing (Girija, India).

Serving groups: MFIs can serve both individuals and groups. When groups mature, they may demand different services. The MFI must be prepared for this. The postal savings bank in Senegal provides rural savings accounts for groups of women. By mid-2002, it had more than 1,000 such accounts that included between 80,000 and 100,000 women from all regions of the country (Kamewe).

Promoting self-managed groups: MFIs have avoided promoting self-managed savings groups because they are seen as competitors. However, there are benefits to these groups. They can serve as a financial entry point for individuals, grooming them until they are prepared to use the MFI's services. Groups lower transaction costs for the bank by aggregating small savings into larger deposits. And the costs of promoting them are very low. Linkages between these groups and MFIS have a lot of potential. Some MFIs have tried a strategy of promoting self-managed groups but have mistakenly started from a purely credit-driven approach (Hamadziripi). In Zimbabwe and South Africa, community-based financial services groups have developed excess savings (more than they can lend to group members) after about a year. These can be deposited with an MFI if it has an attractive savings product. This approach has tended to be self-replicating, drastically reducing the costs and commitments from the MFI (Hamadziripi, Zimbabwe).

Lockboxes: These are small savings boxes made either of metal, wood or clay (with the key taken by MFI staff and the box kept by savings clients) that have a small hole just enough to pass money through that are provided to the clients (either sold at full cost, at subsidized cost, or for free). Clients are asked to put cash savings in it during agreed upon intervals. At the end of the agreed intervals (week, fortnight, or month), MFI staff visit the clients to collect the cash put in the savings box, provide the required receipt, and post the deposit in the savings passbook. The scheme has been quite effective, providing a safe option to the client that allows them to put money in the box as they can. Gradually, they build up a large lump-sum. The potential implications of this delivery option on providing savings services to the poor has yet to be assessed in Nepal (Dhakal, Nepal, Afghansitan).

Why do we need cash boxes and at what point should they be introduced? If there are community members who can make productive use of the savings (as loans) and repay with interest on the next sitting, why should they be deposited in the cash? (Hamadziripi, Zimbabwe)

The Malaysian and Thai savings banks use lockboxes to promote youth and school savings schemes, and to attract parents. These are distributed to children or are kept by the school authorities. The children are encouraged to save money in the boxes and usually hand the contents to savings bank agents on a weekly basis. The bank awards prizes to children/schools for their participation (KAMEWE). In India, an individual/household deposits a fixed amount in a container everyday and it is collected by an agent of the bank at periodic intervals, like fortnightly or monthly (Bhavani, India). Self-managed groups make more sense than lockboxes because the former immediately puts savings to work and the interest returns flow to group members. In addition, MFIs are spared the high cost of making small loans (which, instead, self-managed groups make out of their savings); and security issues are avoided (Hamadziripi, Zimbabwe).

Simple low-cost offices: Banco del Estado in Chile complements its distribution network of approximately 307 branches and 1810 ATMs with more than 30 part-time offices in order to serve clients in more remote areas. Personnel from the nearest branches staff these offices for a day or couple of hours a week. Low cost offices are subject to security concerns, limited accessibility of funds and, to some extent, monitoring problems (Kamewe).

Small offices: Establishing lean branches in strategic areas, such as near town centers, provides easy access to small savers and can be cost-effective for the MFI (Lab-oyan, The Philippines).

Mobile banking units: Many savings banks, including the National Bank for Development in Egypt, the Government Savings Bank of Thailand, and the Vietnam Bank for Agriculture and Rural Development, have tested mobile banking units to serve areas where they did not have branches. The results have been mixed. Mobile banking units are also subject to security concerns, limited accessibility of funds, and to some extent, monitoring problems (Kamewe).

Piggybacking services onto postal savings banks: Many savings banks work through the post office infrastructure, and some post office savings banks operate as departments within the postal system (Kamewe). Postal saving banks provide rural outreach, low minimum deposit and account balances that suit the poor, and have low administrative costs. But their manual recordkeeping can be difficult, as in Zimbabwe (Hamadziripi, Zimbabwe).

Piggybacking onto existing credit operations: An MFI that wants to mobilize savings might want to piggyback new services onto an existing credit service. FinComún is designing a savings product that allows borrowers to make deposits at the same times as they make loan payments (Zuniga, México). This lowers deposit transaction costs. The collection/meeting center at the community level also serves as a center for accepting/soliciting deposits from savers. This carries a higher risk of theft and fraud than branch-based transactions (Lab-oyan, The Philippines). This can be done by having credit agents cross-sell savings products. This could contain costs by keeping staffing lean (Ayo, Cambodia).

However, a number of MFIs have encountered difficulties with this cross-selling strategy. Credit officers, especially when they are incentivized for loans, often sell loans by encouraging clients to open savings accounts. This can cause a future liquidity crunch when the savers all come looking to borrow, or leave disgruntled when they find the promised loan cannot materialize. In many cases, the large depositors that an MFI needs are different from the typical borrower that the loan officer meets. This does not mean institutions should exclude normal customer, but they must move beyond the normal customer to mobilize a large enough volume of deposits (Cracknell).

How can an MFI avoid these possible problems?

- Ensure that credit officers understand how to market savings. They should describe the institution first as stable and secure, well-located, etc. Then, they should explain why savings is important, and then why the product is important. Credit officers need to understand the importance of attracting people who will save more than they borrow, and that these people are probably different than typical loan customers.

- Conduct market research to establish profiles of different potential depositors (this can help credit officers identify target clients).

- Recall that the net depositor often has many options for savings deposits. Study the competition's offerings and help staff explain savings product in terms that are different from other institutions' savings products.

- Free up time for the branch managers to do marketing, to talk to high-value clients, to talk to schools or agricultural fairs or anywhere they can talk to many potential depositors at the same time (Cracknell).

Motivating the credit officers can be extremely difficult, even after countless sessions explaining the advantages of savings for the client, for the institution and for the credit officer him/herself (because a client with reserves is less likely to run up arrears). The objective is not just to get the client to open the account but to deposit significant amounts of money into it. Furthermore, unlike with credit, a staff incentive scheme for savings should reward the entire branch rather than an individual staff person. Making the switch from individual to branch-level incentives can be a difficult change in culture (Larcombe). It might make sense to employ low-cost marketing officers (often university leavers on a sales incentive with a short term contract) for marketing savings accounts. The advantage is that they have no mixed incentive. This tactic is relatively low cost, but it runs the risk of encouraging the opening of accounts that become dormant soon after (Cracknell).

Electronic banking: In the long run, e-banking solutions will significantly reduce costs and extend outreach. Where inadequate infrastructure and education levels have slowed the exploration and use of such solutions, some investment may be needed at a more macro level (Kuwik, Haiti). E-banking solutions work well when the amount of physical cash to be handled is less. In developing countries and in regions where microfinance is prevalent, savings would more likely be collected in cash. If mobilized cash deposits are used in the same area, then the accounting and back-office operations could be e-banked. However, if cash is to be transferred to another place, then more than e-banking is needed (Srinivasan, India).

Point of sale (POS) terminals: The Caixa Economica Federal of Brazil added 12,000 access points to its main network by using point of sale terminals at retail outlets like the State Lottery (Kamewe).

Mobile phone-based systems may have particular potential. New accounts would be opened during advertised field visits where bank agents would also instruct new clients. The menu would be added to the client's phone when they open an account. It is in local language, requires a PIN number, and sends and receives encrypted SMS messages. Transfers would also be facilitated by the menu. Withdrawals are essentially transfers to vendors who have agreed to pay out cash—and are probably happy to be converting cash into a bank deposit (McKay and Wright).

These mobile phone systems use agents (most commonly the vendors of pre-paid airtime) to provide the deposit and withdrawal facilities for the system. This then hugely multiplies the service outlets of the financial institutions involved that can extend as far as the mobile network. Essentially, customers have their bank account on their SIM:

- Deposits are made via purchasing top-up cards from vendors and entering a serial number into a special menu.

- Withdrawals from the account are made by the customer by sending an SMS to send value to the agent's account (who then gives the customer cash).

From their own business premises or homes, the account holder can:

- Pay or transfer money to other users on the system by sending an SMS to send value to their account.

- Repay loans by sending an SMS to send value to the lending institution.

Some issues that need to be worked out: How can public call offices/shared mobile phones be used most easily? What kind of financial education will assist potential customers to use mobile banking services? How can this service be made valuable for potential customers and agents? (Wright)

Some Challenges: There are some challenges to overcome. In countries like Ghana, the communication infrastructure will not support using internet banking, smart cards, or ATMs to reach the poor and rural residents. These technologies may be available only in the major cities (Asare). With low levels of literacy in the Southern part of Africa, the population who are not literate may be suspicious of electronic banking, especially in light of ATM and credit card fraud. Culturally, the details of one's bank account and its operation are very private. For most countries in this southern region, the cell phone network and even fixed network coverage is still a big challenge. Where it is available, the performance is not always efficient. A strong community awareness program is needed (Hamadziripi).

In countries (such as some in Latin America) where education and infrastructure are not significant challenges, the financial sectors do not seem to be exploring technological solutions to expand outreach of savings services to lower income populations. This may be due to high rates of urbanization, or conservative attitudes about the cost of mobilizing savings, or even the use of technology. However, the reason for this seems to be the perception or actual experience that the customer's trust and confidence cannot be developed (or re-built) through the use of mobile phone and other technology solutions. Deposit-taking institutions may not be trusted by many low-income people due to past banking failures, current business practices, or poor customer service at their bank branches. In such contexts, the physical presence of a branch network and the quality of customer service will continue to be essential to building and maintaining confidence and trust in a deposit-taking institution. Without this trust, the scope for expanding outreach through mobile phones and other technology solutions appears limited in many countries in the medium term (Kuwik, Haiti).

POS terminals and ATMs may be able to reduce cost for mobilizing small savings, but they must first overcome at least two challenges. First, some ATMs and POS devices do not accept various currencies (or do not accept the poor quality small denominations that small savers want to deposit). The currency notes of some developing countries are not yet recognized in the international network of ATMs and POS device manufacturers, etc. Second, people who are not yet accustomed to technology may fear that money put into these machines may not be deposited into their account (Gamaa).

Using local merchants might be a way to expand rural outreach by overcoming the limits of ATMs and depositors' distrust of technology. The financial institution would sell cards (any hard copy document or voucher) to merchants, who would then resell them to potential clients. The merchant would then deposit the money into the bank physically, by mobile phone, or via the internet. The client or the MFI would pay the merchant a transaction fee. For a reduced cost or for free, the client might directly deposit via mobile technology or over the internet. This might motivate the client to test the technology. This concept would work only for small deposits with merchants who can safely manage cash. In addition to using electronic means, paper, or stamp receipts, both the client and the MFI must trust the merchant who might also be required to hold a guarantee deposit with the bank (Meier).

Resources: The MicroSave website, www.microsave.org, has information and case studies that discuss a range of delivery options, including informal mechanisms, Equity Bank's mobile branches, Grameen II, electronic banking, and high-volume urban branches (Cracknell).

Marketing / Promotion
Summary of Dec. 8, 2005

Summarized by Exchange Facilitator, Madeline Hirschland

Marketing / Promotion Overview

Marketing is not about making tall claims or advertising services in a larger than life manner. It is about communicating strengths that the institution has, based on a solid premise. Before marketing, the solid premise must exist. It is the small savers who can ill-afford to lose their savings who are to be converted into clients (Srinivasan).

Promoting savings is different than promoting credit. The savings habit has to be promoted before the savings product. The need to set aside some part of the income—regardless of how small—for future use should be articulated and instilled as a habit. Product promotion and institution promotion are important, but they are secondary aspects of the overall promotional strategy (Srinivasan). Promoting savings is primarily about savers' perception and trust of the MFI, and secondarily about the features and design of the savings product (Lab-oyan, The Philippines). MFIs have found public relations strategies more valuable (from a cost-benefit perspective) when promoting savings products rather than credit products (Frankiewicz).

Some keys to building trust

In an environment where most people have lost their banked money more than once, developing trust in a bank is crucial. Ways to develop this trust include: having excellent trained staff; having an active personal promotion on the streets and at events (to explain the advantage of savings with a bank instead of under the mattress); having at least one prime branch (to show stability and to save marketing costs); and having a well balanced product mix (Mueller, Eastern Europe).

Trust is the main factor for successfully selling an institution's products. As a branch-based institution, trust translates into excellent and timely service, as well as adequate safety measures. For clients, these two factors are far more important than interest rates (Zuniga, México).

Institutions must deliver what they say they will deliver. The nature of what is promised is important, but perhaps even more important is being able to consistently and reliably deliver on a promise. Putting key standards or commitments in writing and advertising how these have been met is worth considering (Frankiewicz). Marketing and operations departments need to be aligned so that promotion does not promise that which operations cannot deliver (Cracknell).

Marketing messages should be crafted so they answer the question, "Why should clients trust you?" The answer may include the institution's leadership (management and governance), history, values, staff commitment, supervision, systems, deposit insurance, partners, etc. Using clients' own words to convey these reasons can make them more convincing. Institutions should keep track of the positive feedback received from clients, not just the complaints (Frankiewicz).

Institutions should invest more in the public relations component of the promotion communications mix, looking for regular, small opportunities to demonstrate that the institution is part of the community it serves and that it intends to stick around for the long-term, contributing to that community's development. Rather than simply put up a billboard or advertisement, institutions should invest in the town square; provide garbage cans, or light or a clock (with the MFI's name and logo on it, of course). An MFI could sponsor a local sports team, organize occasional volunteer opportunities for staff in the community, or offer an academic scholarship (or a school fees lottery rather than a "win this car" lottery) (Frankiewicz).

Trust (reputation) is built on two pillars: on the institution, and on the people that work for it. For the reputation of the institution, the MFI can advertise in major mass media. This can be very costly and makes sense only if the MFI already has good market penetration. The second possibility, building the reputation on the staff, only goes via personal promotion in all its forms. The key issue is the proper training of staff. Banks and MFIs invest too much time on the layout of brochures and other promotion material, and too little in preparing employees. People are what make the difference. “Honesty,” “integrity,” and “reliability” are words that a potential client should automatically think about when talking to the staff (Moelders, Bosnia and Herzegovina).

The reputation of the employees and the institution are almost as one. Both can benefit from the other other, but each also can be spoiled by the other. So, it is important to work on both. If this is not possible (because of the structure of the country or the financial resources of the MFI), then the priority should be placed on the staff, as they will make the difference in the long run. There is nothing stronger in this world than the word of mouth (Moelders, Bosnia and Herzegovina).

Developing savers' trust takes time. The following are some keys to promoting trust: (Gobezie, Ethiopia)

- Make sure that potential saving clients know that the MFI is legally licensed and that the government authorities monitor it.
- Be mindful of social and physical distance: operational systems and (especially) staff's ethnicity, culture, and social class must feel familiar to clients.
- Establish good and professional offices that potential clients can trust.
- Encourage locally respected people to save with the MFI. They will spread good word of mouth.
- Ensure that clients know that the MFI is lending out savings locally.
- Demonstrate a good track record for repayment.

Marketing is Much Bigger than Promotion

Promotion includes advertising, personal selling, direct marketing, public relations, and sales promotion. Marketing includes the 8 P's: price, place, promotion, positioning, physical evidence, product, people, and processes (Wright). Marketing savings products is not simply selling the product. It should commence through systematic product development and refinement and careful market segmentation. It is always important not to sell the product's features, but rather the product's benefits to the clients (Messan, West Africa).

Market Segmentation and Promotion

To develop adequate products, MFIs must understand the different market segments they expect to serve, the preferences of clients in these market segments, and what they are using their savings for at the moment. This also will help the MFI craft more appropriate and specific messages geared towards selling the true benefits of the products according to the clients' needs (Bhattacharya, India). For example, marketing tools for rural customers with an agricultural base income may include direct and indirect marketing, like word of mouth savings promotion. These are more effective than using printed media or even electronic media (TV is too expensive; local radio stations are cheaper, but not as effective). It is important to keep in mind that there are many marketing strategies that may be effective in some localities and not effective in others. (Zakaria, Indonesia)

Instead of developing many different products, an institution should develop a relatively standard product with features that could vary slightly depending on the market segment. This structure allows MFIs to sell the product differently, depending on the clients' needs (Messan, West Africa). Having a small number of products which meets the requirements of all customer segments is better than having a large number of products that create confusion (Bhattacharya, India).

MFIs should segment their clients, and market differently to them. 5% of clients often hold 50% of value of deposits. This often means using branch managers to sell directly to high-value clients (Cracknell and Wright). An institution should design its promotional activities based on its targeted market segments. For example, the Cooperative Bank of Benguet found that small and medium savers prefer more personalized service, value a positive relationship with the public more highly, and prefer simple product features. Because small and medium savers are its primary target market, the bank's promotional activities include advertising on the radio (e.g., paying the radio announcer and radio station for airing greetings to the institution instead of a pre-recorded message); participating in government and private gatherings such as cooperative month celebrations, farmers congresses, community festivals, and clan reunions; personal sales; and offering just two simple savings products. In contrast, large savers place more importance on advertisements, publicity, and promotional gimmicks (Lab-oyan, The Philippines).

An institution new to savings mobilization may initially want to target potential clients that are within the present client base: relatives, neighbors, and, perhaps, factory and office workers. A Cambodian MFI that used this strategy found, through a survey, that these market segments preferred direct marketing; no TV, radio or newspaper ads were necessary (Ayo, Cambodia, Philippines). Compared to advertising, publicity, and branding, direct sales may be most cost-effective for promotion to current customers. This changes when seeking to attract the general public (Zuniga, México).

Different segments of clients may have different levels of loyalty. For example, small entrepreneurs may be very loyal. As long as products are somewhat competitive, what matters to them is that they feel heard and attended to. Salaried workers may not be loyal at all. This segment may respond to technology, image, promotion and accessibility (Santamaría Bolaños).

MFIs should not forget about the kids! Children will not produce a lot of deposits right away, but they are very good for building a positive image and they are the future as they will eventually become adult depositors (Moelders, Bosnia and Herzegovina).

When it comes to savings by the poor, there is an absolute need for trust, and word of mouth can be a powerful tool. What would it take for an MFI or bank to command the kind of trust found in some women's savings groups? (Mary George, India)

Understand the competition: Institutions should perform competitive research and analysis against competitors to determine how savings products compare in relation to the 8Ps? (Cracknell)

Have the right product: MFIs should design the product carefully, check it with customers, and pilot test the product to ensure that it is free from operational challenges and that it is priced and marketed correctly (Cracknell). MFIs should identify their USP (unique selling proposition) and present it to focus groups for discussion before final print (Ayo, Cambodia, Philippines). A recent study in South Africa found that simply suggesting a single product—rather than an array of maturities and interest rates—was valued highly by potential customers (See Monday's summary).

Promotional Tools

Institutions should carefully prepare their promotional message, materials, and methodology. They should not think of promotion as just advertising. In the early days of a savings program there will always be considerable direct marketing (Cracknell and Wright, various).

Word of mouth: Word of mouth typically drives at least 60% of the new customers coming into microfinance institutions. Most customers hear about accounts from a friend or relative. Therefore, focusing marketing to facilitate positive word of mouth is crucial. Word of mouth is developed through branding, a positive stream of public relations, presence at community events, customer relationship building through branch managers and staff, dinners with opinion leaders where they get to meet the Managing Director, and delivery on promises (Cracknell, Wright).

In order to encourage staff to treat clients well, the institution must show staff that same respect. Clients will look forward to transacting with an institution when speech, actions, and products all demonstrate that the MFI cares for them and wants them to join (Walden).

The National Savings Institute (NSI) is very careful about their relationship with their customers. They have to see that the customers are satisfied, and perhaps this is one of the reasons that they have retained their traditional customers who have been saving with them for more than 40 or 50 years. In cases of customer complaint, NSI tries to redress it within 5-6 days. The NSI has an ambitious plan to computerize all of their distribution networks and also to make their delivery system more high-tech, which will certainly help in reducing time/cost, as well as make the delivery system more effective (Bhattacharya, India).

MFIs must train **all** staff in the products. And they must make it as easy as possible to open accounts. Many, many sales are lost due to lengthy account opening processes (Cracknell).

Transparency of decisions, reliability, a long track record, et cetera, make it easy for a promotional campaign to succeed. Ease of access, close proximity of POS, risk mitigation factors, et cetera add value. Regulated institutions enjoy more credibility. Where there is no regulation in place, is it not worthwhile for the MFIs operating in a region to voluntarily set up a regulatory body as well as a common risk fund that would provide some comfort to savers? These could then become USPs in a marketing effort (Srinivasan).

The way to inform the target market and how to select key persons within the community must be understood by the MFI field officer. In rural areas, the role of informal leaders is very strong and when they become savings customers, the community will follow them. For that reason, field officers and all MFI employees should live (stay) in the same community they serve, so that they better understand the culture and community. This will help a lot in marketing efforts as proven by BRI. In the early years of Simpedes (Village passbook saving), BRI assigned all employees and their families to be involved in marketing. This strategy was very successful and was instrumental to the rise in amounts deposited in Simpedes accounts (Zakaria, Indonesia).

Public relations are often the least expensive and most credible form of promotional communications, particularly in environments where the media is hungry for pre-packaged materials to broadcast or print (Wright).

Publicity through print and radio, especially community radio, is the most important promotional tool (Bhavani, India).

Personal selling: In rural areas, local institutions, informal groups, and agents who canvas door-to-door access savings easily (Bhavani, India). MFIs should identify specific large deposit opportunities. For example, churches after Sunday masses are one of the biggest depositors (Ayo, Cambodia, Philippines).

For banks that are into microfinance, creating cross-selling opportunities can broaden the bank-client relationship to the benefit of both the client who has access to more services, and the bank that generates more business. The more services customers use, the more loyal they are likely to be. The cost to keep a client is far lower than the cost to attract a new one. For example, banks cross-sell savings products when they sell their remittance services by arranging to automatically deposit a part of the remittance in the client's bank account. They might also link the deposit of part of a remittance to a housing loan.

Savings schemes have also been linked to life and disability insurance and to housing credit schemes (Arévalo). Insurance-linked savings could help promote savings, but simple products should be devised. Literacy in savings products and insurance is needed to enable greater and more effective outreach (Bhavani, India). A lack of awareness among the public may be a challenge, especially when a large percentage of the population is illiterate (Bhavani, India).

The Promotional Message

MFIs should ensure that promotional communications reflect the key value drivers of the customer in "clear, concise, client language." Prior to mass-printing/dissemination, MFIs should be sure to test promotions in a few focus groups to ensure they are understood the way that the institution wants them understood (Wright).

The promotion of a savings culture and of a corporate image closely related to local life lies at the core of more successful savings banks' marketing strategies. Participation in local and community social events makes customers perceive banks as part of their daily lives (Fernandez).

Other concepts from behavioral economics may be relevant to marketing savings. People dislike a loss more than they like a gain; people tend to choose the default option; and because people may have "accounts" in their mind for various purposes (e.g., school fees for their children), offering accounts which correspond to these purposes may attract customers (Karlan).

Staffing for Promotion

In institutions that have primarily been engaged in credit, marketing of savings may—at least initially—be carried out by credit agents, cashiers, and customer service staff. Staff incentives that encourage both credit and savings promotion may be used to encourage staff to focus on promoting savings in addition to credit (Zuniga, México). However, MFIs should consider very carefully how to market savings with credit officers; very often credit officers market loans better than savings and can increase pressure for credit beyond any savings they gather (Cracknell and Wright, various). Incentivize savings mobilization with care. Branch-based models, rather than individual schemes, are more appropriate. While there is less experience with savings incentive schemes internationally, experience is growing.

Marketing Resources

(from MicroSave available on www.microsave.org)

- Lessons from Pilot Testing study
- Pilot Testing toolkit
- Strategic Marketing toolkit
- Strategic Marketing for MFIs paper
- CGAP/MFN/MicroSave Staff Incentive Schemes Toolkit

APPENDIX A: Some Examples of Promotion:

Credit union campaign in the Central African Republic: These are elements of the promotional campaign of a credit union network to inform the target of the campaign—which consisted of poor active women, micro-entrepreneurs, and petty traders living in specific sections of the capital—about the functioning of a Credit Union and the advantages of mobilizing savings through a Credit Union:

- Two plays ("sketches de theatre") about savings: one about the value of savings in a CU (avoid the risk of hiding or keeping money at home: stealing, natural disaster, fire, family pressure); and the second about the advantages of a cooperative (having safe savings, access to loans, social safety net, etc.)
- A song, produced by a national star, which explains to people how to save money safely in a Credit Union and how to be responsible in credit repayment
- Two videos on savings (GTZ/FAO) translated into the national language
- Some radio and TV interviews of the campaign's participants
- Some credit union members testified about the importance Credit Unions for a better management of their own money.
- Distribution of a brochure about CUs
- Gift of T-shirt for the new members who sign-up by the 31st December 2005

After the big campaign, each member credit union organizes its own actions to continue the campaign. Each receives get a CD with the sketches and videos played during the campaign that they can project these in a local cinema in each neighborhood. The biggest success was the sketch/plays that showed in a very simple and real way what happens when people keep their money at home (money is destroyed by termites) and explained why and how a member pays to enjoy the services of a CU: shares, administration and penalty fees, interest rate on loans, and social funds (Stefanini, Central African Republic).

Some marketing ideas: MFIs can send a thank you note after an account is opened; send birthday greetings or a cake, and holiday gifts. They can invite customers to participate with bank staff in community activities like a tree planting and/or a distribution of wheelchairs to create a sense of pride among depositors that they are remembered and made part of the financial institution. The CEO could even personally visit them (Ayo, Cambodia, Philippines). MFIs can advertise in the local cinema, through cable television, Village Knowledge Centres, or government office in villages (Bhavani, India).

The Peruvian Municipal Savings and Loans institutions (CMACs) stand out with a corporate branding strategy mostly based on relational marketing. Rather than aggressively marketing, the CMACs invest in customer service. In addition, they participate in sports, cultural and educational events organized at the local, regional and national level, distribute numerous merchandising articles and organize frequent drawings. Publicity (printed publications, press, radio and television) is mostly used to emphasize features of their products which motivate customers to save with CMACs. Their education and awareness campaigns focus on savings and enterprise creation. A large percentage of these are targeted to the youth (at vocational fairs, youth events, concerts and congresses) (Fernandez).

In Sri Lanka, National Savings Bank launched three innovative products with campaigns targeted to their intended market segments: (1) "Hapan" and "Punchi Hapan" Children Savings Schemes, under the motto "Encourage your children to save for a secure future" and (2) "Ithuru Mithuru" Youth Savings Accounts, under the motto "The future of the nation is in the hands of our youth." Hapan and Punchi Hapan were promoted with cheerful story/poem books and colorful passbooks given when customers opened an account. They were also promoted through propaganda walks, TV and radio advertising, quarterly prize-drawings at schools, and advertising in print-media and public buses.

The "Ithuru Mithuru" Savings Account offered higher interest rates, free standing orders, and loans at advantageous rates. In addition, it provided discounts at selected establishments; a free annual pocket diary; and prizes such as airline tickets, cellular phones and cash. Its communication campaign was based on the denim concept (passbook cover imitates denim material and fits any jeans' back pocket). The product was launched with propaganda walks from every branch and publicity with advertising campaigns in print media and television (featuring attractive youth wearing fitted jeans, moving to fresh, rhythmic music) (Fernandez).

After conducting nation-wide research into customers' likes and dislikes regarding banking institutions, the Tanzania Postal Bank addressed its fiercely competitive environment by renovating the bank's corporate image (including branch renovation); introducing new products; and re-branding old ones. Introducing the Uhuru (Freedom) debit card transformed the bank's image into an institution that is available 365 days a year by granting 24-hour ATM service, cash-back facilities, and the possibility of buying goods, services and re-charge vouchers from merchants' outlets. The card was launched with big TV campaigns nationwide. In two months, the Uhuru card had attracted USD 2.5 million and 6000 customers (Fernandez).

The French Savings Banks' communication is designed around the traditional French savings banks logo: the squirrel. The squirrel forms part of the French cultural heritage, referring to the values of saving and planning for the future in an organized manner. The squirrel allows for a direct, sympathetic, and humorous campaign. The human/animal comparison makes it easier to refer to money more freely and directly. This strategy, now converted into a complete animal saga, has ranked the Savings Bank's brand second amongst the French banking brands overall (Fernandez).

To promote trust in our institution, we created a TV spot, billboards, and newspaper ads featuring our own employees to transmit our mission and values. This was very successful. Since then, we are recognized in the market as a very solid and trustworthy institution. This is reflected in a monthly increase of deposits to more than three times what we have seen in the past. We also got some very big deposits from companies and organizations that we would not have thought about before. Unfortunately, this approach to the market requires quite a huge investment and requires an already high market penetration to pay off (Moelders, Bosnia and Herzegovina).

To create awareness among the customers, the National Savings Institute in India periodically advertises its products through radio, electronic, and print media. Radio has proven a very effective medium for advertising in the rural, hilly and far flung areas. Fares and exhibitions are very popular in rural India and stalls are created during such events to promote small savings products. In most of the advertisements, we use the caption "Save with NSI and be a partner in the National Development Programme," "NSI is the torch-bearer of Small Savings" (Bhattacharya, India).

In Nepal, marketing tools like door-to-door visits, informal communication with potential clients, and awareness campaigns are not very cost- or time-effective. Rural people (usually illiterate, with no exposure to outside situations and difficulties with trusting outsiders) are reluctant to believe outsiders unless their savings is substantiated and properly commented on by local leaders or their most trusted elites (Dhakal, Nepal, Afghanistan).

Above all, Nepali Savings and Credit cooperatives rely on word of mouth marketing. Some give prizes to members who contributed substantially to increasing membership. Some expect every old member to bring in at least one new one (Simkhada, Nepal).

Environmental Factors
Summary of Dec. 9, 2005

Summarized by Exchange Facilitator, Madeline Hirschland

Regulated institutions enjoy more credibility. Where there is no regulation in place, is it not worthwhile for the MFIs operating in a region to voluntarily set up a regulatory body as well as a common risk fund that would provide some comfort to savers? These could then become USPs in a marketing effort.

Only a stable political system and strong macroeconomic management can ensure the proper functioning of financial liberalization initiatives and provide the prudent legal and regulatory frameworks, deposit insurance mechanisms, supervision, liquidity management mechanisms, etc. required for the sustainable growth of the microfinance sector to better serve the poor and excluded (Dhakal, Nepal).

Industry factors

Technical assistance and training (by donors) can improve internal processes, product design, and skills (Lab-oyan, The Philippines). In Nepal, adequate technical support is needed to improve the accessibility of savings services to the rural poor (Simkhada, Nepal).

Industry culture: The prevailing culture in the financial sector excludes clients that staff is now trying to serve. MFIs must learn to communicate in new ways that a client deprived of financial services will understand. (Walden)

The failure of some cooperatives involved in small savings mobilization creates a negative perception among potential clients providing an environmental challenge for other cooperatives (Lab-oyan, The Philippines; Asare, Ghana). In Nepal, a cooperatives' failure is often a result of poor liquidity management. When a cooperative is unable to provide a saver with a withdrawal, word of mouth spreads, immediately resulting in savers demanding withdrawals, borrowers not repaying, and the collapse of the institution (Simkhada, Nepal).

Recommended strategies to manage this negative perception include: regulations regarding assets-liability matching, and the financial and management skill requirements for board and staff (Simkhada, Nepal). Affiliation with a regional, national or international network can improve the public image and credibility of the institution which can help in maintaining or regaining public trust. Being supervised by a credible larger institution also can increase the level of trust of savers (Lab-oyan, The Philippines; Thornton, Papua New Guinea). Member education is also crucial so that they can select cooperatives where their money will be safer (Simkhada, Nepal).

Regulatory and Legislative Factors

Legal status: In some countries, the legal path is unclear for an NGO or MFI to transform into an institution legally able to mobilize deposits (El Ghormli, Morocco). In some countries, the organizations that do reach the poor or rural areas—such as self-managed groups and MFIs in India—cannot mobilize savings from non-members or they cannot mobilize savings at all (Sharma, Nepal, India). The lack of clear-cut government policy on microfinance and, in some cases, internal inconsistencies in government policies, does not promote the growth of the sector. In most cases, a segment of the industry is regulated while other parts operate in the dark or the government turns a blind eye to their operations. Lack of regulations could provide institutions operating in the sector with the flexibility to optimize their businesses. However, unregulated MFIs may fail to adopt prudent liquidity management practices or may be fraudulent. This lack of regulation and policy can give the industry a negative reputation. (Asare, Ghana)

Capital adequacy and liquidity reserve requirements: High minimum capital requirements, capital adequacy ratios and liquidity reserve requirements increase the cost of deposit mobilization and can restrict the ability of MFIs to branch out (Manrique, Columbia; Asare, Ghana; Ayo, Cambodia). Finding the additional capital necessary to maintain prudential ratios is not easy. Furthermore, it is difficult for MFIs to cede control to outside investors as outside investors can have very different ideas on the value of an institution (Cracknell). On the other hand, high minimum capital requirements force MFIs to be serious—which is good for depositors (Thornton, Papua New Guinea). The experience from West Africa shows that a flexible capital regime is more appropriate than a fixed capital regime. Often high minimum capital requirements cartelize the market (as in Uganda). Opening up the market for new, smaller entrants to serve local markets is the socially responsible thing to do (Jazayeri).

Staff, board and systems requirements: Requiring that suitably qualified people manage and oversee financial institutions is a plus for depositors. However, requiring new institutions to have all key functions and management in place from day one, rather than building these up over time with your portfolio, makes it hard for completely new institutions to enter the market (Thornton, Papua New Guinea).

Financial liberalization: Financial intermediaries should be free to set their lending and deposit interest rates with an appropriate spread between them to operate at a profitable and sustainable level (Dhakal, Nepal). Therefore, external funding policies are also highly important. Institutions will mobilize deposits only if this source of funds costs less than others (Islam). So, for example, the liberalization of agricultural credit policy in Thailand allowed commercial banks to reduce their mandatory deposits with the Bank of Agriculture and Agricultural Cooperatives (BAAC). This substantially stimulated BAAC's savings mobilization efforts. In 1987, mandatory deposits from commercial banks represented about 40% of funds and deposits mobilized by BAAC accounted for one fourth of BAAC's funds. By 2001, BAAC's source of funds consists of only 4.6% from borrowings while customer deposits represented 76% (Haberberger, Thailand).

Infrastructure requirements: Establishing a deposit-taking infrastructure that meets regulatory requirements can be extremely expensive. Urban infrastructure may attract more customers, but is often subject to more competition and is more costly (Cracknell). Being regulated increases branch costs (because it increases security requirements, etc.), but it also brings the bank or MFI recognition as a trustworthy institution, enabling it to attract large deposits from companies, institutions, and public sources. This recognition can help a lot in compensating for the additional costs (Moelders, Bosnia and Herzegovina).

Anti-money laundering legislation: Complying with identification and confirmation-of-residence requirements can be a challenge for customers without electricity or water bills, and it can make opening an account expensive for clients and institutions (Larcombe, Mozambique; Cracknell; Manrique, Columbia). These increased costs and tighter restrictions may drive low-income clients out of the formal sector (Isern).

E-banking and regulations: E-banking will pose policy and regulatory challenges in a number of areas including communications policies, infrastructure, and the definition of roles such as that of a deposit taker (i.e., the person who can accept a deposit on behalf of a bank or MFI).

Some strategies for dealing with regulatory challenges: Some situations are best dealt with "technically and globally" with international best practices, and some situations only "socially and locally." Usually the situation we face is a hybrid, and therefore a balance is needed between the technical/global and the social/local (Jazayeri). Policy makers are more responsive to regulatory concerns when it is discussed in terms of impact on areas of policy concern (such as economic growth) rather than in terms of "need" (Mary George, India). MFIs may organize into a network where they can lobby with the government on certain issues, for example, withholding tax on deposits, (Ayo, Cambodia) but these may have little possibility of succeeding (Moelder, Bosnia and Herzegovina).

Costing might rightly be used 1) to support a challenge to government regulations that set a floor for interest payments for deposits or 2) to justify a request for government or donor help in managing the costs of working in poor areas. This might involve removing regulatory bottlenecks, infrastructural development, et cetera (Gobezie, Ethiopia).

Macroeconomic Factors

Inflation: Loss of value due to inflation is a disincentive to save, even for MFI clients (who might be considered less sophisticated in their analysis of returns on their investments) (Asare, Ghana). An inflation-targeting system can keep core inflation within a low range (Haberberger, Thailand).

Equitable and sustainable rural development: A stable and growing economy coupled with equitable and sustainable rural development results in households and enterprises with potential financial savings. These households and enterprises could be a potential market (Dhakal, Nepal).

Economic and political stability: A reasonable level of political stability is required. In general, households and enterprises will voluntarily deposit their savings only when they have trust in the broader political and economic system (Dhakal, Nepal). The stability of the banking system, the behavior of the banks, and the regulatory framework for banks have a larger impact on deposit mobilization than do the political circumstances (Moelders, Bosnia and Herzegovina). The Asian currency crisis adversely affected some rural and thrift banks, resulting in their closure (Lab-oyan, Philippines).

Absence of investment opportunities: In the absence of other financial instruments, the MFI has to invest the savings mobilized into its loan portfolio or face a great risk of not being able to serve withdrawals (Ayo, Cambodia).

Deposit insurance can be valuable if it covers the average deposits of small and medium savers (Lab-oyan, Philippines; Ayo, Cambodia). However, a deposit insurance scheme does not necessarily have a huge impact on the level of deposits mobilized (Moelders, Bosnia and Herzegovina). In fact, the absence of deposit insurance might ensure that the banks are on their toes and will not merely pass the risk on to insurance companies.

Infrastructure: Poor rural telecommunications, lack of electricity and internet service providers, and poor rural road networks raise costs, pose challenges, and inhibit the growth of the industry. Without these, internet banking and the use of ATMs or mobile phone banking are not available options for serving the rural poor. Financial support from donors for portfolio growth is good, but the platform for delivering reliable microfinance service is critical (Asare, Ghana; Metz; Thornton, Papua New Guinea). A reasonable road infrastructure and road conditions can stimulate frequent savings mobilization (mobile units and collectors) at a reasonable cost. Rural clients need to be able to reach the nearest branch or service outlet within a reasonable amount of time (Haberberger, Thailand).

Operating the MIS in stand alone branches rather than networked branches limits services but allows branches to continue to provide basic services when the "coms go down." Branches download general ledger data to the head office daily and this is used to assist in liquidity management as well as general management (Thornton, Papua New Guinea). Without a centralized clearing system for MFIs, clients spend a lot more time accessing their checking accounts (Asare, Ghana).

External Factors

Seasonality of cash flow: Reliance on one major seasonal cash crop presents liquidity management challenges to MFIs, because savings increase during harvest periods but fall during the lean periods. And MFIs must have liquid resources to meet withdrawals at a time when loan repayments are not forthcoming because there are no crops to sell to repay loans (Asare, Ghana).

Conflict and natural disasters: Conflict hinders savings mobilization because cash will not be delivered due to the high risk (Manrique, Columbia). Under a conflict environment, existing MFIs adopt coping strategies to continue their existence rather than expand their outreach and maintain viability. The only viable way to grow the microfinance sector is during peacetime. In a post-conflict environment, the extent of re-construction (infrastructure) efforts, rural development, political and economic stability, and monetization of the economy determines the emergence and growth of the microfinance sector (including small deposit mobilization) (Dhakal, Nepal). Natural disasters have only a very limited, short-term effect (Moelders, Bosnia and Herzegovina).

Resources

- "The Rush to Regulate" by Bob Christen and Rich Rosenberg, www.CGAP.org.

- CGAP / World Bank paper on the implications of the international framework for anti-money laundering and combating the financing of terrorism for financial service providers working with low-income people. Focus Note No. 29

About CGAP

CGAP is a global resource center for microfinance standards, operational tools, training, and advisory services. Its members—including bi-and multilateral development agencies and private funders of microfinance programs—are committed to building more inclusive financial systems for the poor. For more information on CGAP and its work, visit www.cgap.org.

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