

Savings at the Frontier (SatF)

A MasterCard Foundation partnership with Oxford Policy Management

Blog 8: Making a Case for the Business Case: New Ways to Provide Sustainable Financial Services to Low-Income Communities

By Roland Amoah, Senior Associate, BFA

Published on Next Billion on 31 August 2017: <https://nextbillion.net/making-a-case-for-the-business-case-finding-new-ways-to-provide-sustainable-financial-services-to-low-income-communities/>

The most challenging thing to achieve in poverty alleviation is to not just find a solution to a problem that works right now, but which is sustainable. As a member of the global financial inclusion community, [BFA](#) sees our most important role as an institution that helps financial institutions succeed on the promise of sustained products and services. Often, the business case can be seen as a “check-mark” as the product is being rolled out to the public. But BFA has observed instances where it can be a tool for innovation – a way to push products in a strong new direction and enhance their effectiveness for low-income segments.

The [Savings at the Frontier](#) (SatF) program is a solid example of this type of innovation. A joint initiative of [the Mastercard Foundation](#) and an [Oxford Policy Management](#)-led consortium, the goal of SatF is to link savings groups and other informal mechanisms with formal financial institutions through savings, credit, insurance and other financial services. SatF partners with financial service providers (FSPs), such as banks, mobile network operators (MNOs) and other formal financial institutions in Ghana, Tanzania and Zambia. The program develops, tests and implements business models that harness vigorous, sustainable linkages between providers and groups to ultimately expand product offerings to end users.

Since its inception, SatF has unapologetically focused on requiring the business case from financial providers at the initial stages of an engagement with a financial institution. And as the business case advisor to SatF, BFA has witnessed, from a front-row seat, how the business case often helps expand ideas rather than diminish them.

With SatF, BFA has met with a range of different types of FSPs – banks, MNOs, MFIs (microfinance institutions) and payment aggregators – using a dynamic pro-forma business case that leverages existing data as well as assumptions. We designed this dynamic business case model not only to enable FSPs to tweak assumptions to best reflect the realities of their business, **but also to push FSP teams to focus on the main business drivers, and to think innovatively about how to acquire the low income people as customers, and to do so in a sustainable way.**

Not just bringing water to the horse...

Take up of financial services (known as “acquisition” to FSPs) and servicing informal savings groups (typically based in rural and peri-urban communities) in a cost-effective manner is a critical issue that FSPs must tackle.

During one of our stakeholder meetings, a manager at a commercial bank shared his experience in a donor-funded pilot project to acquire village savings and loans associations (VSLAs) that was not business case driven. The bank partnered with an international NGO that formed VSLA groups to open bank accounts for some savings groups. However, some of the selected savings groups were based in communities that were approximately 100 kilometers from the nearest bank branch.

The manager highlighted an instance where a team from a branch embarked on a 2+ hour drive (navigating difficult road conditions) to a savings group. They only mobilized \$7 in deposits. **This linkage pilot project was not commercially sustainable from the onset and ended when the NGO and its FSP partner fully utilized the donor funds.**

This bank’s experience, (similar to others), underscores the need for FSPs to determine the commercial viability of linkage projects prior to implementation.

The choice of channels (bank branches, automated teller machines, agents, and mobile phones) deployed by FSPs and their proximity to group members not only impacts the cost for FSPs and individual members, but it also affects usage by members. **Convenience and ease of use matter.**

Bank and mobile money agents are quick examples of channels that can be readily deployed near savings groups without the capital expenditure associated with branches and ATMs. Agents can also be trained to explain products and support/ teach customers to perform simple transactions.

Further Innovation Supports the Business Case

Improving the Revenue Stream

From our business case model, it is evident that focusing on the savings opportunity alone will likely result in a weak business case. It may not be commercially sustainable.

Therefore, FSPs need to explore whether to expand the range of products offered to savings group members.¹ Identifying opportunities to cross-sell innovative financial services, such as micro insurance and informal pension products, enhances the value proposition to savings group members and generates additional revenues to improve FSP’s business case.

In addition, when savings group transactions are digitized, FSPs will begin to accumulate and aggregate volumes of data on individual members’ financial behavior that hitherto was

¹ SatF seeks to work with a diverse range of informal community-based savings arrangements which includes but is not limited to NGO-promoted savings groups.

captured manually and not easily accessible. This aggregated behavioral data can be monetized, where data protection laws and guidelines permit, to further improve the FSP's business case.

Driving the right partnerships

We note that banks, mobile money operators and payment aggregators are increasingly building successful partnerships that leverage their core capabilities to deliver financial services to the unbanked and underserved low-income segments.

Banks are licensed to develop and own financial products, while mobile money operators and payment aggregators (through integrations with multiple FSPs) have the technology and distribution channels that are increasingly accessible to savings groups and individual members. **Establishing new partnerships that align incentives and leverage core capabilities can produce a win-win scenario.** *(For example, deposit mobilization for deposit-taking institutions and transaction activity for mobile money operators).*

We find that FSP partnerships with institutions (such as NGOs) that focus on working with low income communities are helpful to effective product design. NGOs have studied and tested how to create and sustain savings groups for more than a decade. They are typically trusted amongst savings group members. These NGOs have deep insights about the characteristics of the savings groups that are significant inputs to product design.

Digitized savings products that do not fully replace the cash processes and replicate the governing rules of VSLAs are destined to have low usage levels, even if initial sign-up is high.

Conclusion

The high numbers of people who participate in the informal savings group segment is appealing to FSPs. There are hundreds of thousands of active groups whose self-selected members (approximately 20 to 30 per group) save weekly for a year, and share their accumulated savings and any related interest income. However, the complexity of tapping into this segment in a commercially sustainable manner cannot be underestimated.

From our experience with SatF, the business case for a standalone linked or digital VSLA product is not easy to make – profitability is not assured. **Building partnerships that align incentives and leverage capabilities help to improve the business case for FSP – VSLA linkage projects, and are required components to ensure sustainability.**

We strongly encourage FSPs to use the business case as a catalyst to stimulate creative and innovative thinking on product development and go-to-market strategies in acquiring and servicing informal savings groups. The benefit to all stakeholders is substantial.

Overall, we conclude the following from our business case work with FSPs so far:

1. The business case for a linked or digital VSLA is not straight-forward – it's quite difficult to make a profit. This is important to acknowledge upfront as providers need to think carefully about critical drivers.
2. When one starts with a business model, the most critical drivers become immediately obvious, allowing FSPs to focus quickly on their competitive strengths and weaknesses.

BFA is a global consulting firm specializing in financial services for low-income people. Our approach is to seek out, create and implement financial solutions to help people manage challenges and seize opportunities. We partner with cutting-edge organizations that touch the lives of low-income customers such as financial institutions, fintech companies and information providers. In creating solutions, we integrate our deep expertise in customer insights, business strategy, new technology, and growth-enabling policy and regulation. Founded in 2006, BFA's clients include donors, investors, financial institutions, policymakers, insurers and payment service providers. BFA has offices in Boston, New York, Nairobi and Medellín. For more information, please visit: www.bfaqlobal.com.

Savings at the Frontier is a \$17.6 million partnership between Oxford Policy Management and the Mastercard Foundation. Its aim is to expand the range of financial products and services available to people living in poverty in Ghana, Tanzania and Zambia by testing and implementing business models that sustainably deliver those products and services to savings groups and other informal savings mechanisms. For more information, please visit <http://www.opml.co.uk/projects/savings-frontier>