Savings at the Frontier (SatF)

A MasterCard Foundation partnership with Oxford Policy Management

Blog piece 1: Can Insights from Informal Groups help us move from Access to Usage?

By Robert Stone and Sukhwinder Arora

The financial inclusion agenda globally is gathering momentum. Some of the key building blocks towards rapid progress in achieving broader financial inclusion are the insights acquired by financial services providers, policy makers, funders, investors and other stakeholders over the last 10 to 15 years; the growing excitement about the potential of technology; and the emergence of new market players.

Nevertheless, there is a long way to go. Africa's informal savings group market is huge, yet sophisticated financial services providers (FSPs) have largely shied away from it, and non-governmental organisations (NGOs) have not yet succeeded in transitioning such groups to formal financial services at scale. Clearly further experimentation and innovation is needed to confirm what really works in which context.

Any approach needs to recognise that savings groups and other informal savings mechanisms (ISMs) are not just potential customers of formal financial services, but also competitive suppliers that are already satisfying their customers' needs – in a way that others have been unable to match at scale. As studies such as The Poor and their Money and Portfolios of the Poor demonstrate, ISMs can address issues around cultural and geographical proximity, appropriateness and responsiveness that is very hard for FSPs to mimic, such as the ability to take a short term, small loan from one's neighbourhood even late in the evening or the flexibility to switch from being a net saver to a net borrower at short notice. FSPs rarely calculate the total cost to the customer including fees, travel cost, time and the stress, not to mention the sheer unpredictability or the unpleasant experience of dealing with onerous procedures, especially for those who are low on capital, confidence and financial capability. We have to make extra efforts to ensure that financially excluded feel welcomed in a formal environment.

The financial services offered by ISMs are not their only attraction: the groups also perform valuable social functions such as peer support for learning, growing confidence built through regular financial transactions in a friendly and safe environment as well as opportunities for leadership. No wonder that despite the risks of losing money through ISMs and what seems like expensive services, there are millions of very satisfied savers who have depended only on ISMs for decades, as demonstrated, for example, in numerous FinScope surveys. In addition, in developing countries, an increase in formal supply is often accompanied by an increase of informal arrangements – and vice versa, as demonstrated in a recent study in Kenya by FSD Africa.

To bridge the gap between the supply of formal financial services and ISMs' demand for them, and to provide individual members with the opportunity to have a variety of complementary formal and informal services, FSPs will need to think very differently about costs and social capital, and to take balanced risks in this area. Savings at the

Frontier, a partnership between the MasterCard Foundation and Oxford Policy Management provides an exciting opportunity to help FSPs to do this.

Technology can help interested FSPs to transition from low volume/ high margin business models to very high volume linked to low (or even tiny) margins. Access to mobile money, especially in SSA, has seen exponential uptake and contributed to higher levels of financial services. But numerous studies like the GSMA State of the Industry Report point to a high proportion of inactive accounts and confirm that usage has largely been limited to payments, with a few exceptions.

There is a similar mixed picture in relation to the use of financial institutions, where evidence from Findex indicates that financial institutions have been providing more services, particularly to poor people, but not, on the whole, keeping up with their increasing demand for services. The gap is currently being filled by informal mechanisms, such as savings groups and deposit collectors, as well as by keeping cash at home or at a secret place.

But the momentum is building. A growing youth population (especially in SSA) is much more enthusiastic about experimentation and has rapidly adopted new technology to drive experimentation and innovation. Significantly, the Findex data reveals the opportunity for expanding financial inclusion by shifting the semiformal savings of those who are unbanked into formal accounts. This could increase account penetration in SSA from 34 per cent to 47 per cent and enable up to 70 million adults to have an account.

The time has come to test, develop and implement scalable, sustainable and innovative solutions to improve the delivery of formal financial services to those currently underserved. With support from the MasterCard Foundation, Savings at the Frontier programme will work with selected financial services providers, and other stakeholders in Ghana, Tanzania and Zambia, to just do that.

This blog was published on 19 October, 2016

Robert Stone is Project Director of the Savings at the Frontier programme and Sukhwinder Arora is the programme's Team Leader. Both are OPM Associate Consultants.

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