



CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

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Encouraging saving in poor countries: a round-table discussion on innovation in savings. With Jane Platt (NS&I) and Bob Christen (Bill & Melinda Gates Foundation). Held on Monday, December 7, 2009 at Innholders Hall, 30 College Street, London, EC4R 2RH, from 12:30-2:15 pm.

Citi/DfID Fellowship Programme

The round-table discussion on savings in poor countries highlighted some interesting points about what people in less developed countries would like from formal financial services. As noted by the panel, what people wanted, first and foremost, was to be able to save. So while access to credit was important, the ability to save, particularly in the context of income uncertainty, was often the first service that poor people sought from financial institutions. One of the speakers noted that the more uncertain the environment, the greater was the demand for savings.

The speaker also emphasised the need for a very innovative approach to the provision of financial services. While much economic activity in less developed countries took place in the informal sector, the demand profile for financial services was very similar to that of wealthier countries, albeit with far more limited financial tools. And deposit services were the most demanded, yet least offered, product.

The issue, therefore, was not just to encourage savings, given this large pool of untapped demand, but how to ensure that people got access to financial services, particularly deposit services. One of the barriers in poor countries for the un-banked, as noted by one member of the panel, was high transaction costs, which made doing business in many poor, rural communities prohibitively expensive for traditional financial institutions. The average size of individual transactions was very small and the costs (tellers, etc) and frequency, high. It was noted by one of panel that perhaps this pointed to a very important role for government policy intervention – bringing down transaction costs.

Some governments and NGOs were looking at using non-bank agents to take deposits, such as retail chains. In Mexico, for example, a chain of small government shops was being used to take deposits. Elsewhere, particularly in Africa, the extensive network of airtime resellers was being considered as potential deposit takers. The example of M-Pesa in Kenya was noted for its innovative approach to servicing the needs of microfinance borrowers and, essentially, offering 'branchless' banking services.

The ability to take small cash deposits, however, was more difficult. In some countries there were regulatory prohibitions on non-banks taking deposits. Also, the use of agents required trust and accountability. Product design was also important. 'Nano-sizing' – the taking of small cash deposits every day – was needed (it was noted that demands from family resulted in any leftover cash income quickly being handed over if it was brought home). Or, for example, allowing customers to 'top-up' when paying for goods in a retail outlet (with the difference put into a saving account) was among the types of product that would suit the needs of low income savers.

The potential to encourage savings through the development of innovative products was highlighted by the history of the NS&I, particularly in terms of its success in penetrating low income groups. The capacity of the NS&I to continue to adapt its products to changes in its investors' profiles and the benefit to the economy of the increase in savings offered some important pointers for policy to improve financial inclusion in less developed countries.