Pulling Levers
Toward Sustainability

A Framework for Small Balance Savings Mobilization

Environmental Factors

Market Level
Cost of Funds
Competition
Policy & Regulation
Access to Grants & Patient Capital
Socio-Economic Conditions

Institutional Level
Mass Market vs. Low-Income
Institutional "Muscle"
Brand & CSR
Time Horizon
Opportunity Costs

Segment Focus
Rural / Urban
Male / Female
Salaried / Self-Employed
New / Old Customers

Viability Levers

Reduce dormancy; Increase account usage	Funding	Pay lower interest rates; Grow average savings balances
Streamline account opening process; Reduce cost of delivering other products to savings customers	Acquisition	Partner with savings groups; Cross-sell or bundle other products to savings customers
Charge maintenance fees to all cost centers applicable to savings clients	Maintenance	Increase net interest income (transfer price)
Use alternative delivery channels (ADCs)	Servicing	Charge transaction fees

EXECUTIVE SUMMARY

February 2017

The MasterCard Foundation
EA Consultants
UNCDF MICROLEAD

EXECUTIVE SUMMARY

BACKGROUND

An estimated 2 billion adults worldwide do not have an account to store money. This lack of access disproportionately affects rural populations and women. In developing economies, women are 20 percent less likely than men to have formal bank accounts. Meanwhile, only four percent of unbanked adults report that their only reason for not having a bank account is that they do not *need* one (World Bank, 2014).

Low-income households need adequate savings products and services, yet existing solutions fall short. Informal savings in cash, jewelry, trees and livestock, as well as cash-based savings groups or saving with a third party expose households to risks such as theft and animal diseases. Formal savings accounts can offer people a higher level of security and privacy, and may also provide them with an on-ramp to access other financial services.

Financial service providers (FSPs) are often reluctant to engage in mobilizing the savings of low-income populations, because the economics of small-balance accounts presents challenges that make it difficult for providers to make a profit from these accounts. High upfront costs, high transaction frequencies, and distance from traditional banking outlets are among the main deterrents. Despite these challenges, the sheer size of the unbanked population suggests that small-balance deposit mobilization represents an interesting opportunity for FSPs to advance financial inclusion while accessing a vast untapped market.

THE MOTIVATION to develop this framework was to share the experience of financial services providers (FSPs) that participated in the UNCDF MicroLead Programme. This paper highlights small-balance deposit mobilization (SBDM) business models used by the MicroLead partner FSPs, many of which are in the process of finding a path to profitability.

THE PURPOSE OF THE FRAMEWORK is to help guide any provider to make a "Go/No Go" decision about engaging in SBDM and, if the provider chooses to proceed, it outlines the set of levers that can make it viable. The framework can be applied to providers considering SBDM for the first time, as well as those considering making significant up-front investments to scale or deepen their current small-balance savings offering. For those FSPs struggling with an existing SBDM initiative, it can also help determine whether to continue or exit this initiative.

OUR METHODOLOGY to develop the framework combined a literature review on the business case for SBDM, deep-dive interviews with MicroLead program participants, and analysis of client outreach and financial performance of 13 institutions participating in the MicroLead Programme.

A BUSINESS DECISION FRAMEWORK

This is a framework for small balance deposit mobilization (SBDM) among low-income populations that illustrates different pathways FSPs can take to achieve viability. It highlights examples of SBDM business models used by the MicroLead partner FSPs, many of which are in the process of finding a path to profitability. The framework is designed to help guide FSPs to make a "Go/No Go" decision about engaging in SBDM and, if the provider chooses to proceed, it outlines the set of levers that can make it viable. The framework can be applied to providers considering SBDM for the first time, as well as those considering making significant up-front investments to scale or deepen their current small-balance savings offering. For those FSPs struggling with an existing SBDM initiative, it can also help determine whether to continue or exit this initiative.

Our calculations indicate that none of the FSPs in the MicroLead programme have achieved profitability in their efforts. But, they have a much clearer understanding of how to get there. The Framework reflects that we cannot identify a single pathway to making SBDM viable, but rather can provide a set of environmental conditions under which the business case will be stronger, as well as viability levers that institutions can pull to become more profitable.

ENVIRONMENTAL FACTORS

The environmental conditions in which an FSP operates will be the main driver of a decision to venture into SBDM. We divide these into three levels: Market, Institutional and Segment level considerations.

Market Level conditions influence whether a country's financial sector environment is conducive to SBDM, for example. SBDM is not for every institution, even if market conditions are conducive.

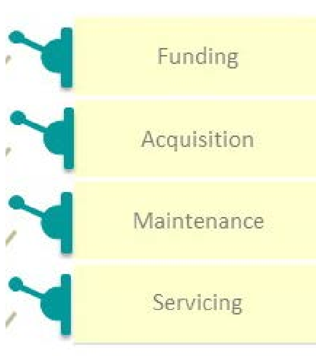
Institutional Level factors, such as existing business models, resources, capacity, cost/revenue structures, and the FSP's traditional target market all shape the business case for SBDM.

A **Segment Focus** allows FSPs to decide which types of customers to target with its SBDM program. Not all low-income households are alike and different segments (differentiated by income level, geographic location, employment type, gender, etc.) offer different revenue opportunities or costs.

VIABILITY LEVERS

Once a provider has determined that it will target small deposit balances from the low-income segments, it has several cost and revenue levers at its disposal to improve the viability of SBDM. FSPs can "pull" a set of "viability levers" depending on their market, resources, and capacity to strengthen the business case. Scale is often mentioned as a key lever to achieve viability for SDBM. However, when operating costs are higher than operating revenues, scale will only increase financial losses.

Our Framework highlights 13 viability levers that can help tip this balance in four categories, which we call "FAMS":



The costs and revenue of using savings to **fund** the loan portfolio.

The cost of **acquiring** new clients and revenue that can support this.

The cost and potential revenue from **maintaining** accounts.

The cost and potential revenue from **servicing** client accounts.

KEY LESSONS FROM MICROLEAD PARTNERS ON PULLING SBDM "VIABILITY LEVERS"

Of the 13 viability levers we identify in these categories, some aspect of client demand directly impacts six levers. This suggests that speeding up the path toward a business case will require FSPs to focus more extensively on meeting client needs and demand. So far, although many FSPs have strived to make SBDM financially sustainable, few of these investments have broken even yet. Yet this is a needed innovation. When unable to increase client savings balances, FSPs may feel pressure to pull other levers and either drift away entirely from their poorest customers or even mis-sell products—through cross-selling—in an attempt to "make up" revenues. Women, in particular, may be more vulnerable than men to take up mis-sold products as they are often less experienced with formal financial services. Instead, developing useful products for the target market and designing cost-effective solutions to increase average savings balances is essential.

Increasing customers' average savings balances—rather than increasing scale or cross-selling additional products—is particularly important for the financial inclusion of women. If an FSP drifts up to higher-income customers to "make up" revenue without making a concerted effort to increase the average balances of existing low-income customers, it can have the unintended consequence of drifting away from its female clients as well as other more excluded communities with low or irregular incomes.

Innovations in the financial inclusion landscape have created opportunities to overcome some critical demand-side challenges. Targeted product designs such as commitment savings, can help address some of the psychological biases that often constrain savings (ProSavings, 2013). MicroLead FSPs have also shown creative approaches to reduce their overall funding costs by taking deposits from higher-income clients without losing focus on low-income clients, showing that serving a diversity of low-income and higher-income clients can help make a case for the inclusion of less profitable accounts. MicroLead FSPs have also made strong headway in testing the use of savings group linkages with FSPs. These groups have been instrumental in advancing financial inclusion in rural areas (CARE, 2016; IFAD, 2010) and establishing links between informal savings groups and formal financial institutions has been a strategy that MicroLead FSPs have found useful.

Alternative delivery channels, including agent networks and mobile money platforms, as well as partnerships with other digital financial services providers (such as mobile network operators)[1], can provide convenience to customers while helping reduce the high costs of distribution. Regulations permitting low-KYC or simplified accounts have enabled account opening through these channels. MicroLead FSPs have made strong headway in efforts to use third party channels or even build their own channels to reduce the cost of serving low-income customers through brick and mortar branches. This strategy may lead to trade-offs, however, if customer contact is lessened, given the model's reliance on active and growing account balances. Thus, when using third party or mobile networks, it is important to include strategies that bridge the "gap" in human contact that may arise.

While small-balance deposit accounts in isolation might not generate much profit, the client segment as a whole can be profitable, when clients' other products and services are considered. Once a client opens an account, if they are engaged with the institution, they may take up loans or other products that will generate more revenue for the financial institution. Research has shown that a segment-level approach, income from adjacent revenue streams such as cross-selling loans, can make up the costs of serving small balance savings accounts (CGAP 2012a). Different levers can be combined to become profitable, such as cross-selling, adequate pricing structure, and the use of technology as a way to reduce costs and attract and retain clients. In the long run, small-balance deposit account balances may also grow, and servicing today's small savers might be a wise and relatively low-cost investment for the future.

[1] There is a growing set of non-bank providers who are leveraging mobile phones and point-of-sale devices, along with agents affiliated with the network, to offer basic financial services as part of a "digital" finance ecosystem that brings customers greater convenience than traditional brick-and-mortar infrastructure. This emerging set of players includes mobile operators, agent network managers, payments aggregators, and others.

ACKNOWLEDGMENTS

We would like to thank the management and staff at the MicroLead partner institutions for sharing their experiences and informing the development of this framework. We thank them for their time and for sharing their information, lessons learned and recommendations, to enable other financial service providers to succeed in mobilizing small-balance deposits.

We would like to thank in particular Nathan Barigye from UGAFODE, Kwaku Acheampong at Sinapi Aba Savings & Loans, William Derban at Fidelity Bank and Ntaja Ntandaza at NBS Bank in Malawi for their time and effort to prepare detailed case studies about their institutions' journeys in assessing the business case for small-balance deposit mobilization. We would also like to thank partners at the organizations that provided technical assistance to the MicroLead program, especially Jean Thiboutot at the World Council of Credit Unions.

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