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Innovating Savings Products for Rural People – Lessons from Market Research

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The debate whether the poor can save or not has become obsolete. In the new micro-financial service area, the large scale success of self-help group (SHG) or Joint Liability Group (JLG) methodology has proved the ability of the poor to save. Accordingly, there are significant opportunities to broaden and deepen the range of financial services (credit, savings, insurance and money transfer) to the poor. The importance of financial services, especially savings to allow rural people to reallocate expenditure across time has been emphatically conceptualised by Rutherford (2000). Using three different approaches, namely, 'Saving up', 'Saving down', and 'Saving through', the author has demonstrated that savings are the basis of all financial services that the poor require to finance different expenditures when there is wide mismatch between the inflow of income and outflow of expenditures in their household economy.

Millions of people in rural India remain without access to high quality, appropriate saving services from formal financial institutions. They have now very limited access to saving services through compulsory or mandatory savings in SHGs/JLGs. There is ample potential to tap the savings from rural people. The potential for savings arises from those very factors due to which poor households remain generally excluded from existing formal financial institutions' schemes. First, the formal institutions have not attempted much to reach out to those segments that are outside the mainstream formal economy. This reason is related to the viability of introducing low volume saving products in an environment characterised by imperfect information and high transaction costs. Under micro-finance programme (like micro-credit), groups and associations of households can be used to gather information and reduce transaction costs and make micro clients more attractive to financial institutions. Secondly, poor people lack the empowerment and capacity to access formal financial institutions. This reason holds out promise that, in addition to better enabling clients to manage their income and expenditures, savings can help empower individuals, groups and associations which help them access to other benefits.

If the formal or informal financial institutions have to develop the required saving products for rural clients with least transaction cost, additional, practice-focused research is required to better understand the needs and preferences of the poor for saving services. There is also a pressing need to test market-led, alternative and

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innovative products and delivery systems to serve the poor. Understanding the demand for these products and services is the first essential step to responding to the needs of the poor – particularly for savings services. Microfinance Institutions (MFIs) in India typically offer a variety of loan products to the rural poor. Today these organisations are struggling with a challenging question: should they offer savings products also, and if so, what types of products, and how? Using the preferences about the various attributes of savings products as revealed by the rural clients of the microfinance institution in Uttar Pradesh, this study seeks preliminary evidences to answer these questions.

The biggest hiccup in Indian microfinance industry is that mobilising savings from the clients is not a permissible activity for MFIs registered under Societies, Trust, and as Section 25 Company especially in the light of the amendment to Section 45 S of the Reserve Bank of India (RBI) Act. However, a big step forward for the MFI sector was in January 2006 when RBI permitted deposit mobilisation by MFIs appointed as Business Correspondents by the banks (RBI/2005-06/288, DBOD.No.BL.BC. 58/22.01.001/2005-2006), dated January 25, 2006 (Reserve Bank of India, 2006). The salient features of this circular can be summarised as follows:

- Under the “Business Correspondent” Model, NGOs/MFIs set up under Societies/Trust Acts, Societies registered under Mutually Aided Co-operative Societies Acts or the Co-operative Societies Acts of States, Section 25 companies, registered non-banking financial companies, not accepting public deposits and post offices may act as Business Correspondents.
- The scope of activities to be undertaken by the Business Correspondents will include (i) disbursal of small value credit, (ii) recovery of principal/collection of interest, (iii) collection of small value deposits, (iv) sale of micro insurance/mutual fund products/pension products/other third party products and (v) receipt and delivery of small value remittances/other payment instruments.

STUDY DESIGN

The purpose of this study was to find out the saving practices of the poor in the rural areas of Uttar Pradesh. The research also aimed to examine the expectations of the poor with regard to saving services. The specific objectives which were covered under the research included:

- (a) What were the needs and preferences for savings services?,
- (b) What were the possible opportunities for MFI's to deliver the saving services for their clients?

The study was based on the clients of Shramik Bharati, a leading MFI operating in Kanpur district in the state of Uttar Pradesh. The sample was taken from places where people are engaged in different activities and included urban slum and rural clients of MFI. The study employed two major techniques to get the required information: (a) semi-structured household interviews from 60 households from two villages from the area of operation of the MFI, and (b) participatory research tools applied with different socio-economic groups in a village. These groups predominantly comprised women.

Need for Savings in Rural Household Economy

As outlined in the literature, the importance of financial services, especially the savings, is to allow rural people to reallocate expenditure across time when there is wide mismatch between the inflow of income and outflow of expenditures in their household economy. It emerged from discussion that people do want to save more money on a regular basis and especially during months when they have surplus income. People want to save for needs like illness and other emergency needs. They feel that they need to save more for long term needs like marriage of their daughters, children's education and health needs. However, savings can be done in variable amounts across the year because of the fluctuating income and expenditure levels at different points of time. The incidence of seasonality in income and expenditure for the households dependent on different livelihood activities, is presented in Figures 1 to 3.

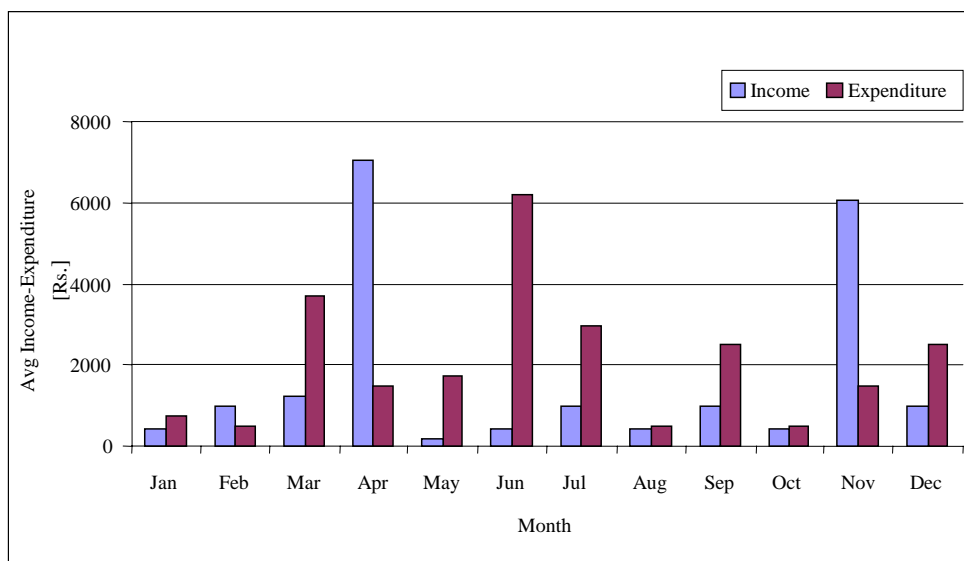


Figure 1: Income and Expenditure Flow of Households Dependent on Farming

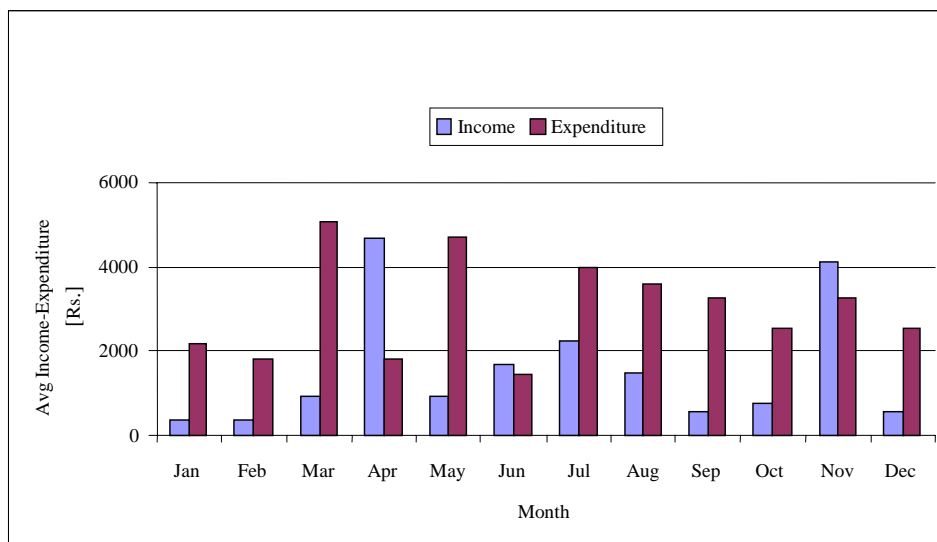


Figure 2: Income and Expenditure Flow of Households Dependent on Wage Earning

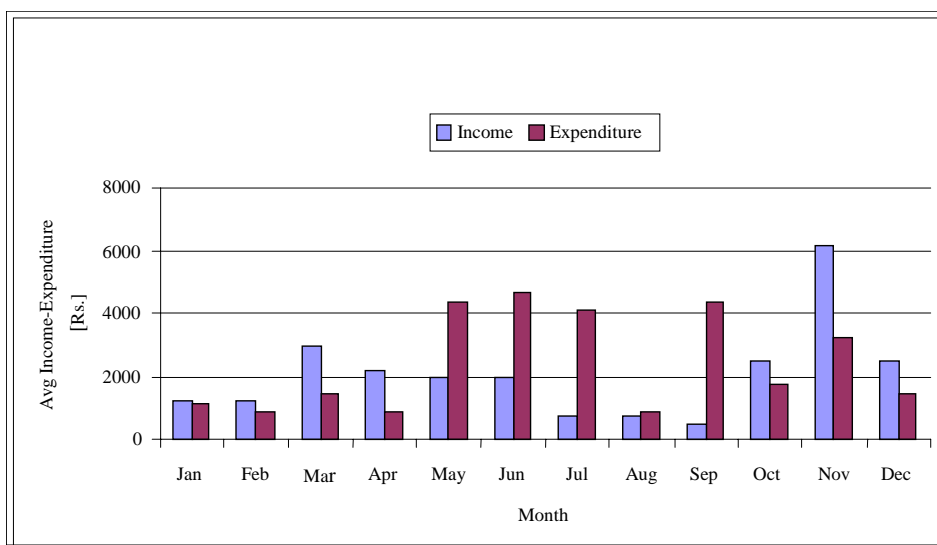


Figure 3: Income and Expenditure Flow of Households Dependent on Petty Trade

It is clear from the above results that there is a significant variation in the flow of income and expenditures (both in terms of time and magnitude) in the households of all livelihood categories. There are several time periods when the expenditures outweigh the income stream and precisely this is the time for which most of the rural

households want to save so that they can fulfill the inevitable expenditures with the help of their past savings at least up to some extent, if not fully. Although, these households have fluctuating amount of cash available to save, the women save fixed value of deposits on a regular basis in their groups. This is possible due to the discipline promoted in the Self-help Group.

Attributes of Saving Products

The peoples' preferences for different attributes of saving services were captured both through structured questionnaire with the sample households and in Focused Group Discussion (FGD) with women members of SHGs. The results of the structured questionnaire are given in Table 1. The effect of livelihood can be seen very vividly on the preference for saving products by the rural clients. It emerged clearly that farmers and petty traders assigned high priority for security of the money saved, while for wage earners, the liquidity aspects of saving services was the prime concern. The different responses among the different livelihood households can be understood in the context of their economic condition and availability of other assets in the house. Wage earners are quite marginalised with low asset base to face any crises; were interested in saving products where they could withdraw money at a very short notice. Interestingly, interest on savings was not a very important criterion for any category of households.

TABLE 1. PREFERENCE OF RURAL HOUSEHOLDS FOR ATTRIBUTES OF SAVING PRODUCTS

Household Category (1)	Product Attribute (2)	No. of Households (3)
Farming	Interest	2
	Flexibility in amount	4
	Liquidity	3
	Security	8
Wage earner	Security	1
	Flexibility in amount	3
	Interest	1
	Liquidity	10
	Security	6
Petty Business	Flexibility in amount	2
	Interest	1
	Liquidity	2
	Security	9

More or less the same results were observed in FGD with a large number of women. A detailed ranking of various attributes for saving services along with their reasons has been reproduced in Table 2.

TABLE 2. SAVING PRODUCTS ATTRIBUTE RANKING PERFORMED BY WOMEN MEMBERS OF SHGS

Rank (1)	Attribute (2)	Reasons (3)
1	Safety	Most of the people have had bad share of their experiences with the savings. So they want to save with an organisation which can be trusted. This is the first attribute they will look for when they start savings.
2	Doorstep delivery	Women are averse to travelling long distances to deposit savings. This maybe because of the poor connectivity or because social pressures will not allow a woman to leave her house for long period of time.
3	Easy of accessibility	Poor households are susceptible to emergencies on account of health, accidents and other emergent requirements. Women want access to savings in times of crisis/need.
4	Contractual nature	Contractual savings (even with varying amounts) brings discipline to the lives and enables women to save regularly.
5	Group Pressure	Group pressure in savings is a sought after attribute primarily because it adds to the discipline. Otherwise, spouses/men in the house may not spare the money for deployment in savings, it was felt.
6	Small initial amount	The small initial amount would help women to open savings account at any time of the year with relatively little cash.
7	Access to loans	Women wanted access to loans against their savings to take care of emergencies as also for life cycle needs.
8	Variable instalment amount	Income flows in typical poor household are variable and women wanted access to savings services in which varying amounts could be deposited.
9	Tie-up with insurance	Women wanted saving services to be linked with insurance. However, since life insurance is the only service which is known to these women, the need for health and asset insurance was not expressed.
10	Interest rate	Women rated interest rate at the bottom of the attribute ranking table perhaps indicative of the need for saving services rich in attributes desired by the clients which will make them compromise on returns in simple monetary terms.

Opportunities for Savings

The findings of the study clearly establish that ample opportunities for savings exist in the rural areas. However, the major portion of the potential is hidden. The degree of hidden potential is reflected from the need and desire of rural/urban poor households to save, but they do not have access to suitable and reliable avenues for doing so. The research clearly shows that the poor households face high seasonality in their cash inflow (income) and outflow (expenditures). In this situation, the need for savings becomes very high so that these households can get a large sum of money in the form of their accumulated savings to manage the wide gap between income and expenditures.

Designing Savings Products

Given the well established demand for saving services, the challenge is to respond to this need with appropriate products to suit the requirements of rural clients. Increased product flexibility is the new mantra for micro-credit. The same should be applicable to savings. Product attributes for savings can be developed around the following parameters: (a) Frequency of instalments, (b) Amount of each instalment, (c) Time of instalment, (d) Provision to withdraw savings, (e) Formalities

required to access for a saving product, and (f) Insurance and loan tie-up with savings.

Any saving product designed for rural poor must be based on the strength of the existing system. Frequency of payments and variability in the size of instalment are important aspects of flexibility for rural clients. Drawing the lessons from credit products, small amount due per instalment would be more feasible for rural clients, rather than a large instalment to be paid in once.

Delivery Channel for Saving Products

Designing saving services for rural/urban clients requires new products and innovative distribution mechanisms. There are two important facts which have to be addressed while designing delivery channel for saving products to rural customers.

- (a) The clients are spread over a large geographical area, as the density of rural population is low, and collection is too frequent.
- (b) Business with each client is very small as saving products are low amount products.

Given these inherent nature of rural/urban business, one has to design the distribution channel where the transaction cost both for clients and organisation is minimum. In a more competitive business environment, minimisation of transaction cost both for clients and the institution has become the key strategy for profit maximisation.

After the introduction of banking correspondent model through RBI notifications, financial institutions can start collaboration with MFIs/NGOs. Under this model, MFIs can become agents for the formal financial institutions for selling and servicing saving products to their existing micro-finance clients. This partnership is very advantageous for MFIs, clients and the financial institution. The financial institution gains access to new markets with reduced transaction cost; the MFI can expand the portfolio of its financial products and gains a new income source; and the clients accumulate a large pool of money over time by accessing an alternate savings channel.

The conclusions of this study point to the importance of the design and delivery of the saving products based on a market analysis of the potential customers' preference for such products. The study argues that there is clear demand for providing the poor with saving services to help them better manage their cash flows.

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