Commercial Relationships between Savings Groups and Financial Service Providers:
Considerations in Developing a Business Model for Linkages

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The Mastercard Foundation Savings Learning Lab is a six-year initiative implemented by Itad, in partnership with The SEEP Network. The Lab's aim is to support learning among the Foundation's savings sector portfolio programs through increased alignment and effectiveness of monitoring and evaluation, and through the generation, synthesis, curation and dissemination of knowledge.

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Introduction

Over the last decade, there has been a proliferation of initiatives to expand access to formal financial services in underserved markets through Savings Groups (SGs). Initiatives to link Savings Groups with financial service providers (FSPs) have resulted in improved access to finance for SG populations as well as new markets and increased deposits for financial institutions. Several challenges remain, however, before these efforts can reach scale. Product development, delivery channels, customer engagement, multi-stakeholder partnerships and evidence on the supply and demand of financial services for SGs remains thin. Diverse market actors have piloted various approaches to address some of these issues; however, FSPs lack facilitated spaces for mutual learning, and the experience in delivering financial services to Savings Groups remains fragmented.

From June 2017 to January 2018, The SEEP Network convened a Peer Learning Group (PLG) to address the challenges and opportunities financial service providers face when establishing commercial relationships with Savings Groups. This initiative was implemented by The SEEP Network as part of The Mastercard Foundation Savings Learning Lab and facilitated by Ivana Damjanov and Jessica Massie of UNCDF MicroLead. Through a series of in-person workshops, virtual meetings and a public webinar, the PLG explored the different mechanisms, or "bridges," that can be used to provide formal financial services to Savings Groups.

Contributors

Members of the PLG on Relationships between Savings Groups and FSPs included Clement Bisai of CARE Malawi, Michael Maggebo of NMB (Tanzania), Gerald Nyakwawa of Econet Wireless Zimbabwe, Naveed Somani of Savings at the Frontier (SATF) and Esther Ssenoga of PostBank Uganda (PBU). The PLG participants represent a wide range of experience in serving Savings Groups, from banks (PBU and NMB), to a mobile network operator (MNO; Econet Zimbabwe), an NGO (CARE Malawi) and a development partner (SATF).

The views of these PLG members were indispensable in the drafting of this document and are reflected in the challenges identified as well as the solutions proposed. Veena Krishnamoorthy and Ntaja Ntandaza also provided valuable insights from the development of the Pafupi savings product at NBS Bank in Malawi. Camilla Zanzanaini and Socheata Kong of 17 Triggers offered an overview of using Customer Journey Mapping during a public webinar hosted by SEEP on October 31, 2017. Their advice is included in this document. Finally, the document was prepared by Jessica Massie and Ivana Damjanov of UNCDF, with support from Fabiola Diaz and Brianna Fierro of The SEEP Network.

1

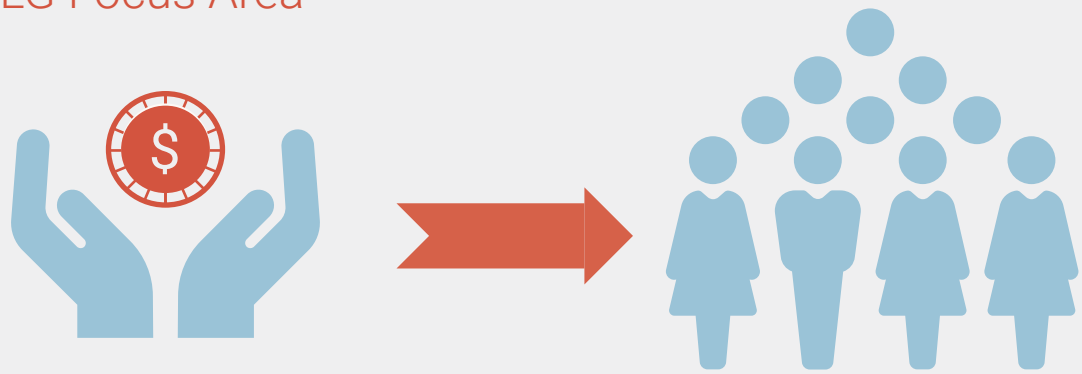
Building Bridges between Savings Groups and Financial Institutions

According to The State of Linkage Report, there are over 11.5 million active members of village savings and loan associations (VSLA) in the world, who could potentially save as much as US $669 million each year (Allan, 2016). At the same time, formal financial institutions – including banks, microfinance institutions, savings and credit cooperation organizations (SACCOs) and mobile network operators (MNOs) – are expanding their reach further into rural areas and exploring ways to serve lower-income customers, especially women.

This situation presents an opportunity that at face value seems like a win-win for both potential customers and financial institutions. Diverse types of groups save regularly, and over time develop a greater need for more sophisticated financial services such as those that formal providers offer. However, the gap between institutions and these rural, often unbanked savers still exists.

To explore challenges and potential solutions to bridging this gap, The SEEP Network hosted a Peer Learning Group (PLG) which met in-person and virtually from June 2017 to January 2018, and was facilitated by UNCDF. This learning brief outlines the lessons learned over this seven-month period by PLG participants, who represent several different types of institutions, all focused on how to best establish beneficial commercial relationships between Savings Groups and FSPs.

PLG Focus Area



Financial Service Providers **Savings Groups**

Reaching Savings Groups

Bank Staff
Agents
Service Centers / ATMs
Mobile Phones
NGO Staff
Government Agencies

There are a variety of mechanisms, or "bridges," that financial institutions can explore when developing (or improving) a business model and deciding on product terms and conditions. In most cases, a variety of mechanisms used in conjunction are necessary to best serve hard-to-reach clients such as Savings Group members.

The following guidance is based on the collective experience of PLG members and the activities of the group.

A

Non-governmental Organizations (NGOs) and Community-based Organizations (CBOs)

Financial institutions, development partners and other stakeholders often question the role that intermediaries, such as NGOs and CBOs, must play in introducing Savings Groups to formal financial services as well as facilitating these relationships. On one hand, banks are often located far away from the rural areas in which many Savings Groups operate. On the other, an NGO or CBO partnership could be expensive, and the cost may subtract from the business case and potential sustainability of this model. If the institutions are reliant on donor funding to continue this type of partnership, issues of sustainability arise.

> *"NGOs work in places that are unreachable to the bank and have much information on what is happening on the ground. This information helps in convincing bank leadership, whose first questions will be "what business is there?" It might take us 1-2 years to collect that information ourselves at a great expense."*
>
> ***— Peter Mwihaki, Equity Bank Kenya***

Advantages of this Bridge	Potential Challenges & Considerations
• NGOs and CBOs work closely with Savings Groups and know their needs, preferences and where they are located – providing an easier bridge between the financial institution and the group • Several NGOs have a deep and long-term understanding of Savings Groups and have developed tools and methods for assessing group performance, maturity and financial service needs • Because of existing long-term relationships between NGOs and groups, trust	• The cost of intermediaries can be high, and may not be sustainable – it may be viable only in the beginning stages of establishing a relationship • Not all NGOs and CBOs are comfortable marketing products – it is necessary to establish a detailed and monitored MoU to clearly understand the roles and responsibilities of all parties • Key messages - such as product terms and conditions - can become diluted or distorted as they move down the chain – the design of clear and complete messaging must be a focus for the NGO and any field-based staff

B

Bank Staff

After weighing the advantages and disadvantages of NGO or CBO partnerships, financial institutions must also consider their ability to internalize the building and maintenance of relationships with Savings Groups. Some institutions, such as PBU, found that using staff members as opposed to independent promoters to interact with clients strengthened and solidified the relationships between institutions and Savings Groups.

Advantages of this Bridge	Potential Challenges & Considerations
• Monitoring internal staff may be easier than monitoring a third-party or contractor • Cost of internal staff may be lower than contracting external contractors or other organizations • Trust between the financial institution and the groups can be established directly, without an intermediary, thus providing groups with a reliable person to approach with questions, concerns or suggestions	• When using internal staff to reach Savings Groups, some institutions fall into the trap of simply adding more duties on to the work plans of existing field agents; if this is the case, the field agents may become overworked and unable to fulfill all responsibilities • Initial costs for the financial institution are likely to be high, given that locating groups and establishing trust may take time and multiple field visits • The quality of relationships between Savings Groups and financial institutions is heavily dependent upon individual staff establishing and maintaining those relationships; staff turnover is therefore particularly costly and disruptive

C

Agent Networks

Agent networks may overlap with other mechanisms, as agent networks can be internal staff of an institution, external (such as independent contractors or agents of an existing MNO network, for example) or a mix of the two. Networks are sometimes a stepping stone to cross-selling other products and services, such as mobile products. If recruitment is done carefully, bringing on a cadre of high-quality and trusted agents, this bridge can be a useful way to reach rural clients where they live.

> *"Distance and psychological barriers are key considerations for serving groups. Many people initially think that banks are only for the elite, and they automatically think that new bank products are not for them. [NBS] wants to continue investing in [agency banking] because trends suggest that if the bottom of the pyramid segment is supported, they can become a viable customer base. They see this as a "profit tree" that is planted now, with more benefits expected in the future as the tree grows."*
>
> ***— Ntaja Ntandaza, NBS Bank Malawi***

Advantages of this Bridge	Potential Challenges & Considerations
• Formal products are often located far away from Savings Group members – agent networks can bring the bank close to them, such as in the case of *Pafupi* at NBS Malawi • Agent networks can be either roving, fixed or both – there are a number of ways in which agents can be mobilized so that they can best meet the needs of their clients • Agents often reside in the communities they serve, and are already trusted by the potential client base	• Product design and management information systems are crucial – liquidity management tools, route plans for maximizing travel and time as well as costs must be part of the work plan for agent networks to be efficient • Instances of fraud in agent networks have been documented in many contexts – a strong monitoring system is imperative so that customers are not overcharged, thus eroding trust in the financial institutionthe NGO and any field-based staff

D

Mobile Solutions

Mobile solutions include USSD or smart phone applications that allow Savings Groups to complete internal and external transactions electronically. These applications are increasingly popular, with several variations being piloted throughout the world in an effort to mitigate challenges posed by distance, accessibility and psychological barriers. While time and continued experimentation will determine which solutions will work – with whom, for which types of groups, and in which contexts – development actors have begun to explore the strengthening of traditional Savings Groups and Self-Help Groups through innovative technological solutions.

Advantages of this Bridge	Potential Challenges & Considerations
• With an ever-growing number of people owning mobile phones, mobile solutions for finance have a high potential to reach underserved group • Having your "bank" on your phone means that you can access your account and make transactions anywhere, at any time • When it comes to credit, many financial institutions are reticent to lend to groups because of the perceived risk and lack of a formal record of transactions – a digital record can solve this problem • While initial development and investment costs may be high, ongoing costs for a mobile solution may be lower and more cost-effective for the financial institution • Digital products are attractive to youth, and may be an effective bridge for reaching this huge, yet underserved market	• Social cohesion is one of the most important elements of the Savings Group model – finding a way to keep the "under the tree feeling" is necessary for mobile solutions to work • Digital literacy of potential clients is still low, especially among women and rural Savings Group members – not all members are yet familiar enough with mobile phones" • In some countries, transaction fees or fees to cash out are perceived as too high, leading Savings Groups to use mobile services sparingly • The low level of trust in formal institutions is transferred to mobile services in many cases and must be dealt with before a digital solution can succeed

PHOTO: CARE CÔTE D'IVOIRE/MARTIN BROOMFIELD

E

Service Centers / ATMs

There are numerous types of service centers that financial institutions can use to serve clients. These include mobile vans (used successfully by PBU in Uganda), service centers and ATMs, among others. Service centers are normally not the main method for interacting with the bank but allow for a secondary method for clients to access services without having to travel to a branch.

"PBU'S philosophy is to deliver not just products but financial solutions that speak into the life cycle needs of the customer. This leads to many innovative approaches and flexibility to offering services to customers, such as the PBU Multi- Wallet Card and continued existence of the mobile vans which give customers the chance to interact with the bank face-to-face. We have a wide range of products and services targeting diverse levels of clients."

— Esther Ssenoga, PBU

Advantages of this Bridge	Potential Challenges & Considerations
• (Depending on regulation) Service centers allow financial institutions to serve clients without investing in physical branches • These centers have the potential to marry in-person and technological approaches, with staff to help with transactions and answer questions aided by technology (such as ATMs) • If Know Your Client (KYC) regulation allows, even customers who do not have accounts can access innovative approaches such as PBU's new pre-paid card – money can be loaded, saved and eventually cashed out at service centers at low fees, and cards purchased with minimal KYC requirements	• Considerations such as cash flow at ATMs or centers must be planned for well in advance – if a customer attempts to make a withdrawal from an ATM and cash is not available, they may be discouraged from using this mechanism in the future • In some cases – such as with mobile vans – security could be an issue if crime rates are high and van routes and schedules are easily known

F

Government Agencies

Finally, the PLG discussed the potential of working with government agencies to onboard Savings Groups to formal services, focusing on NMB's upcoming partnership with the National Economic Empowerment Council (NEEC) in Tanzania. The strategy is based on a credit-led approach; however, in other contexts, government agencies may have a role in onboarding groups that are receiving cash transfers or social payments.

Advantages of this Bridge	Potential Challenges & Considerations
• Government agencies targeting low-income citizens in rural areas for economic empowerment have a vested interest in finding ways to advance their programs • If products are designed well, this type of partnership may provide an incentive to financial institutions in the form of guarantees to extend credit to groups to an extent not currently possible	• Guarantee funds may increase the lending rate/ amounts of the financial institutions beyond optimal levels • Partnerships with government agencies may result in added bureaucracy, further complicating the process of establishing commercial relationships between financial institutions and groups – and KYC requirements remain a constraint

2

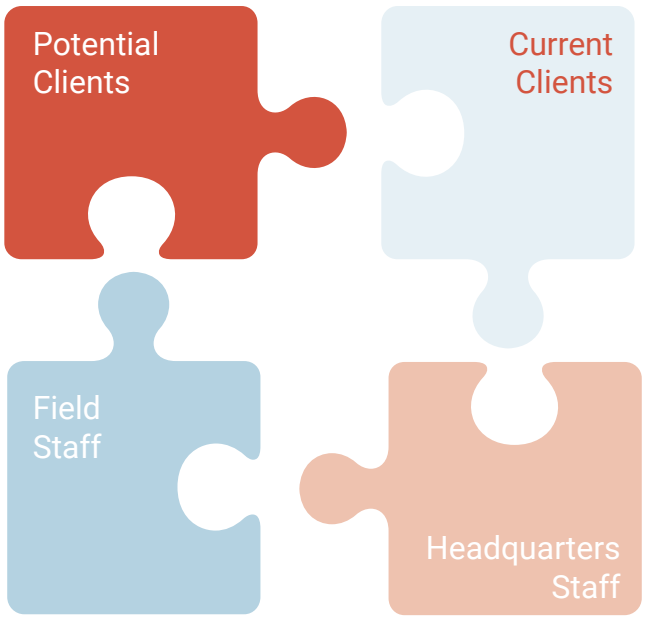
Listening to Savings Group Members for Stronger Relationships: Customer Journey Mapping

An objective of the PLG was to provide concrete tools that members can use to create beneficial, cost-effective and wide-ranging financial solutions for clients, and solve problems they face in bridging the gap between themselves and their customers. 17 Triggers, a behavior-change lab headquartered in Cambodia, provided their Customer Journey Mapping (CJM) toolkit and led a public webinar on their method of "trigger mapping" to meet this objective.

Trigger mapping uses visualization and pictures to examine and explain every step of the customer journey, understand what works and pinpoint exactly where problems or "headaches" exist. This method is meant to involve all stakeholders in the process, from head office staff, to field workers, to clients themselves. According to Camilla Zanzanaini, this inclusivity is key because "Often someone will know one part of the journey well, while another person will know another part of the journey well, and using this method you can create a very clear overall picture talking with people from different parts of an organization [as well as tap into local knowledge]. That way, you can spend your resources focusing on the right problems" (The SEEP Network Blog, 2017). CJM takes different viewpoints from various sources and puts them together for a full view, as with a jigsaw puzzle.

"Because not much was being done with Savings Groups previously, we spent most of our energy on opening accounts, but very little on education afterwards – people opened accounts but did not even know how to use them. I think [communication] is one of the issues, and it needs to be improved for accounts to become active."

— Gerald Nyakwawa, Econet Wireless Zimbabwe



3

Considerations for the Development of a Business Model

Learnings from the PLG on Commercial Relationships between Savings Groups and Financial Service Providers provide a number of important considerations for any institution embarking on a similar journey.

1 "First do no harm"

It is important to first understand the needs and desires of the clients, as well as the goals and available resources of the financial institution, before getting started in the linkage process. The institution can ask questions such as:

- Is there a proven need for a commercial product (or suite of products) targeting Savings Groups where we operate?
- Will these products become part of our core business, or are they a corporate social responsibility exercise? Or a combination of these?
- Could our new products be used across a wide range of customer segments, ensuring their profitability and sustainability?
- Is our institution willing and able to put in the initial investment in time, human resources and money to develop a robust product that considers our potential clients' needs?
- If donor funding will be used, how far will it take the institution in terms of developing and rolling out the product? What is the plan beyond the period of donor funding?

"Of course there is the issue of trust. For us to cross this bridge, we see that we need to increase the number of agents in our network throughout the country. But we also must deal with issues of trust with agents that cause our clients to become too cautious in using the agent, where clients fear that they might lose their cash."

— Michael Maggebo, NMB Tanzania

Using a methodology that incorporates a range of voices and viewpoints (such as CJM) in the development, roll out and ongoing monitoring of products and services for Savings Groups is important for any institution targeting this segment.

A customer-centric approach needs more than just lip service; it must be central to an institution's strategy so that products are designed according to the needs and preferences of customers. According to Zanzanaini, "There is usually a strong business case for institutions to use CJM and find and solve headaches, because if headaches are not solved, the product could fail" (The SEEP Network Blog, 2017).

2 Make sure the products/services are simple, reliable and affordable

An important consideration for financial institutions who have decided to include Savings Groups as part of their core customer base is to keep simplicity, reliability and affordability at the center of their strategy. This is especially vital when dealing with customers who are new to bank services and may have limitations in terms of literacy and numeracy. Making products and services convenient and understandable can help to broach the issue of trust, which was identified among PLG members as one of the most difficult obstacles to approaching this segment.

3 Be flexible in product offerings and manage numerous "bridges" where necessary

PBU envisions their own model as a way of "graduating" group members from informal and entry-level services to more complex and sophisticated products as their finances grow. PBU's experience is that flexibility and a range of product offerings is key to growing with customers. This approach has allowed them to decrease account dormancy for Savings Groups products by over 25% in just a few years. By making changes to their model, such as switching from independent promoters to a full-time bank staff serving Savings Groups and adding new "bridges" like their pre-paid card and newly launched agent network, PBU has experienced unmatched results in their group products. PBU credits their success to their collection and analysis of data, as well as their strategy of having "an ear to the ground" and finding ways to listen to clients on an ongoing basis.

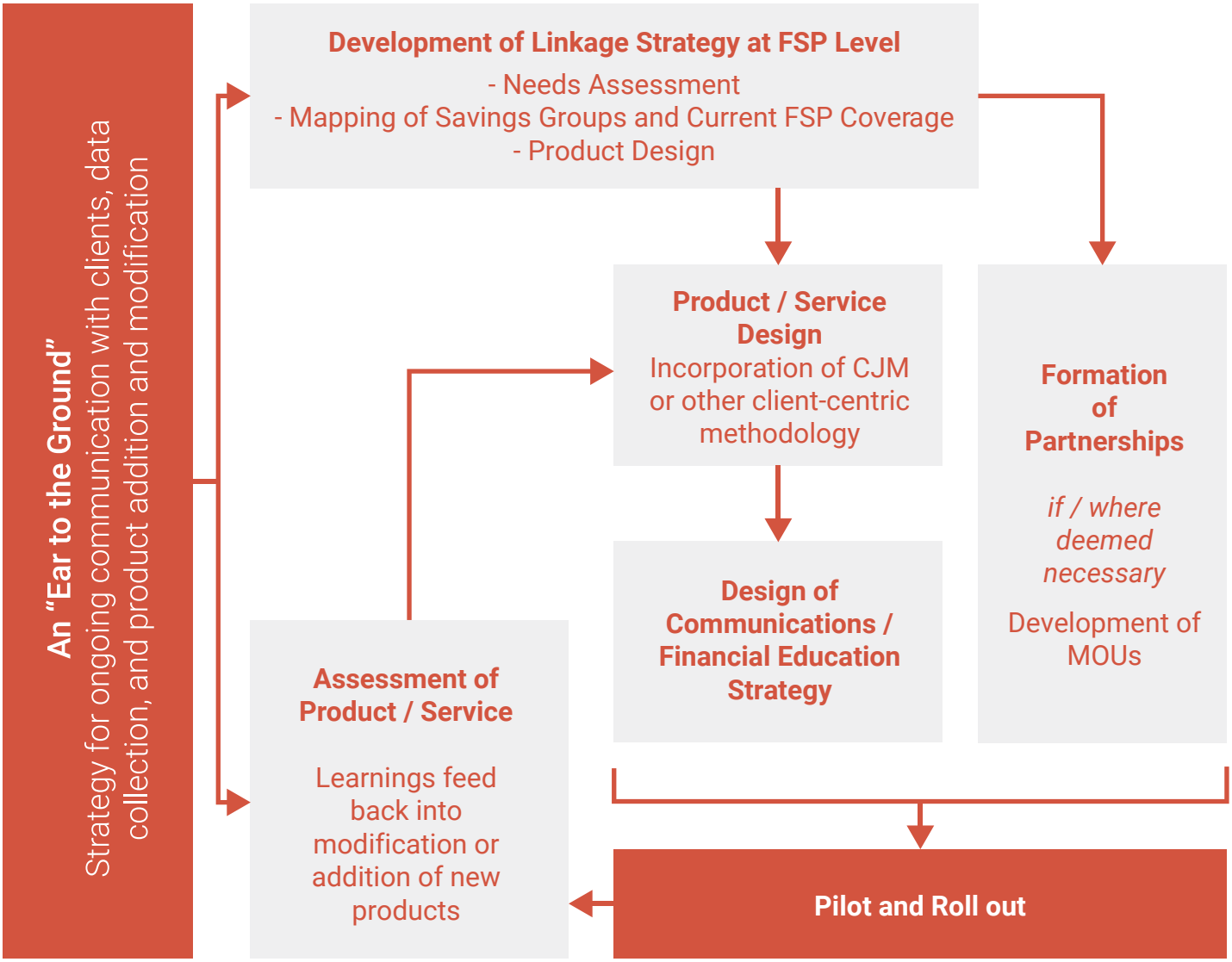
4 Design a clear and complete communications strategy

While traditional financial education programs have shown mixed results, and are not generally considered by financial institutions as a core activity, there is a demonstrated need to improve the way that institutions prepare their own staff to market and explain their products. There is also a need for clients new to formal banking to understand and practice how to utilize formal services, and how to make informed choices regarding these services.

CARE Malawi identified a large gap in Savings Group members' understanding of bank products, and a resulting lapse in account usage. In some cases, the misunderstanding between the groups and banks that CARE Malawi had facilitated relationships between led groups to believe that they had been promised loans while, in reality, they had not understood that regular account usage and savings balance in their account were precursors to credit. This type of gap could be bridged through a more targeted "sensitization" approach, either by the financial institution or through a partner NGO. The sensitization must be part of an approach that also educates field staff who interact with clients. In some cases, such as that of NBS Malawi, designing a simple agent tool that walks the staff member through explanations of products and rationale was a solution that helped to improve relationships with clients as well as account usage.

"We have to constantly [keep in mind that] these groups came into being because banks were not reaching these people, and that the groups give a confirmed benefit that sometimes banks cannot give them – from social capital to other interventions. If we are meant to [promote these commercial relationships], there has to be a 'do no harm' principle across all of this."

— Naveed Somani, Savings at the Frontier



By studying the experience of the PLG and its members outlined in this report, other institutions seeking to establish commercial relationships between Savings Groups and FSPs should find sound advice and guidance. First, using a methodology (such as CJM) to understand the experience of clients, field staff and head office staff at each step of the linkage process is vital to the approach of any client-centric institution or organization. Second, a number of "bridges," or mechanisms for reaching clients, must be considered when developing products for Savings Groups. A suite of products, with flexibility as Savings Group members grow, is likely to be most useful in establishing long-term relationships that benefit both the clients and the bank. Finally, clear communication – through carefully-designed marketing messages, training of field staff and potentially financial education for clients – is key to ensuring that clients are able to both take up and use formal products.

"[Our CJM] findings suggest a need for better understanding on the part of the group of bank services, the charges that incurred, types of products available and that loans are not a guarantee. When groups are sensitized, they should learn to compare FSPs – including those who are not partners of CARE – and decide what is important to them before formalizing a linkage."

— Clement Bisai, CARE Malawi

While there is still much to be done in terms of advocacy at the regulatory level – such as simplifying KYC where possible to onboard more underserved groups into the formal system – the past years have brought many innovations in technology and in understanding how to keep the client at the center of linkage products. PLG members and others expect to continue making such innovations and better serving clients in the coming years.

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