

**Understanding and Responding to the Savings  
Behaviour of the Low Income People in the North East  
Region of India**



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All views/opinions expressed in this document are the results of the field assignment carried out by the *MicroSave* team. They do not reflect the opinion of USAID or any other supporting agency/institution.

All errors and omissions are the responsibility of *MicroSave*.

We welcome your thoughts and comments on the report. Please email them to [Madhu@MicroSave.net](mailto:Madhu@MicroSave.net).

## **Abbreviations**

ASCA	accumulating savings and credit associations
ATM	automatic teller machine
FGD	focus group discussion
FI	financial institution
KYC	know your customer
LIC	Life Insurance Corporation
MFI	microfinance institution
MR4MF	Market Research for Microfinance
NBFC	non-bank financial company
NER	North East region of India
NGO	nongovernmental organisation
PRA	participatory rapid appraisal
RoSCA	rotating savings and credit associations
RRB	Regional Rural Bank
SHG	self-help groups

# Understanding and Responding to the Savings Behaviour of the Low Income People in the North East Region of India

## Executive Summary

### Background

When the available options for savings—the “forgotten half” of financial services—is studied in the context of another neglected area—the North East Region of India (NER)—the situation is grim. The microfinance sector has been expanding rapidly both in numbers and in diversity of services. This is probably an indication that the so far supply-led sector is now recognising that the low-income population is not a homogeneous group and has diverse needs. Savings, which had not been in the forefront of financial services delivered by microfinance service providers, is now being discussed. Similarly, formal microfinance initiatives started much later in the NER than in the rest of the country and still have a lot to achieve. For these reasons, this research on savings was undertaken in the NER to understand the specific needs of the low-income population and to design appropriate products and services to meet their needs.

Secure, accessible savings services are the primary necessity for anyone seeking to manage a household budget. Saving is essentially practiced, in one form or another, by everyone, even if the amounts are very small. Thus, absence of formal savings services results in “financial exclusion” of the larger population. The prevalence of thriving informal mechanisms that have evolved to meet the local needs for savings systems reflects the need and demand for savings services. These informal mechanisms also demonstrate the quite significant savings capabilities of the low-income people who use them, and the unmet demand for savings services, even in the NER. This paper examines the demand for savings and how formal financial institutions might respond to it.

### Methodology

This qualitative research was conducted in the four North Eastern states of Assam, Meghalaya, Manipur, and Tripura. The objective of the research is to understand the existing saving practices of people in these states, the challenges the people face, and the opportunities for formal sector institutions to provide savings services. Based on the client responses, four savings products were identified whose attributes are expected to meet the diverse savings needs of the low-income people of the region.

The sample of the research was in proportion to the population of the states, with a minimum of 25 focus group discussions in each state. The sample also reflected the ethnic background and geographic location of each state, both of which affect the level of monetisation and availability of social capita. The respondents were mostly married women from rural areas.

### Key Findings

Savings in the NER is practiced through informal, semi-formal, or formal mechanisms in the form of cash, in-kind, or account-based savings. The choice is influenced by the economic status of the user. Respondents categorised users as poor, not so poor, or rich, based on the local perceptions of economic status, which is usually related to stable cash flows, asset base (land holdings, livestock, jewellery), and availability of lump sum amounts to cope with crises.

Savings in cash at home has the advantage of liquidity and accessibility, but as it stands chance of theft or being frittered away, it is not the preferred mechanism. Savings in-kind is common because it provides quick and higher returns, for example through the reproduction of livestock. It is also used because of traditional social practices and the status attached to assets such as land and jewellery. Nonetheless, savings in kind is most prevalent among low-income people—usually not by choice, but for want of a better option. Saving with non-bank financial companies (NBFCs), rotating savings and credit associations (RoSCAs), and accumulating savings and credit associations (ASCAs) (for details refer to Annex 5) is a more common practice because of their wide outreach and simple processes. Despite major concerns about their security among almost all respondents—most of whom have lost money many times—saving through these informal systems continues.

Most people would prefer to save in a secure and accessible account in a formal institution. Of the options

available, banks and insurance companies are preferred because of the security and discipline they provide. Nonetheless, formal savings services present many hurdles. They are inaccessible because of the limited outreach of the formal financial institutions. The products offered often do not meet clients' needs effectively, and they are delivered by staff members who are not sensitive to the needs and expectations of low-income people. Bank-led initiatives such as the "no frills" account have been introduced, but these are not promoted aggressively—presumably because of the cost implications for the banks.

The advantages and disadvantages of each mechanism affect the choice of savings options among different economic categories: the rich, not so poor, and poor. Understandably, the rich are the highest users of the formal institutions and the poor the lowest. Semi-formal institutions such as self-help groups (SHGs) and microfinance institutions (MFIs) cater more to the poor and reach out to the lower segment of the not-so-poor category. Multiple informal mechanisms are used in parallel, mostly by the not so poor, because they can diversify their risks and accumulate lump sums to meet some planned need or to invest in some asset. The poor also often use the informal mechanisms, but their most commonly used option is simply to hold cash savings at home, which is mostly driven by lack of feasible alternatives.

Lack of access to formal financial institutions has resulted in the emergence of a plethora of informal systems based on socioeconomic structures and needs. The informal mechanisms prevalent in the NER merit special mention. On one hand, there are the savings mobilisation initiatives (for details refer to Annex 5) to support the lowest income section and for emergencies through:

- Namghars and Pujaghars in Assam, which are based on, or in, religious institutions;
- Singlups in Manipur to take care of funeral expenses; and
- Maharis in Meghalaya, where the community saves for investing in clan welfare.

On the other hand, there are mechanisms focused on economic gains, such as the Samities (ASCAs), which are focused primarily on savings (but with access to emergency loans from the central fund), or the Marups (RoSCAs), which are sources for both savings and credit.

How people use the savings options available depends on their specific needs. These needs often emerge from lifecycle events and are determined by the pressure the events create. The needs and uses of savings can be broadly classified into short term or long term, and planned (one-time or recurring) or emergency (see Table I). It is evident that a single product cannot meet these diverse financial needs. People choose multiple options to meet their needs, to adjust and improve their cash flows—which are influenced by seasonal effects—and to diversify their risks.

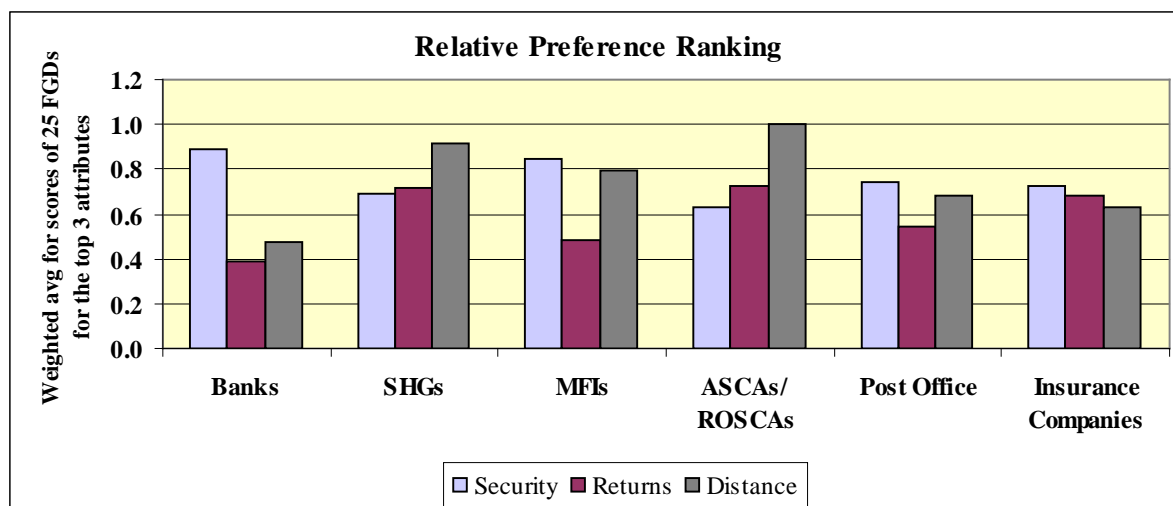
**Table 1: Uses of Savings**

Nature of Savings	Timeframe	
	Short Term	Long Term
<b>Recurring / Expected / Planned</b>	<ul style="list-style-type: none"> <li>• Birth of a child</li> <li>• Monthly school fees and annually books, uniform</li> <li>• Household expenses utilities and services, treating guests</li> <li>• Expenses during festivals on clothes, food, guests</li> <li>• Debt repayment</li> <li>• Purchase of small-scale household assets</li> <li>• Repair of house</li> <li>• Existing business expenses; purchase of livestock</li> </ul>	<ul style="list-style-type: none"> <li>• Start or expansion of business</li> <li>• Marriage of children</li> <li>• Expenses during old age</li> <li>• Construction of house</li> <li>• Purchase of land – for house construction or agriculture</li> <li>• Purchase of income-generating assets such as a tractor</li> <li>• Expenses for higher education</li> </ul>
<b>Emergency/ Unplanned</b>	<ul style="list-style-type: none"> <li>• To treat minor illness</li> <li>• To carry out household expenses when income is stopped or low because of: <ul style="list-style-type: none"> <li>○ Unavailability of work</li> <li>○ Poor business</li> <li>○ Failure/damage of crops</li> </ul> </li> <li>• Animal epidemic</li> <li>• Death of a family member</li> <li>• Accident</li> <li>• Natural disaster</li> </ul>	<ul style="list-style-type: none"> <li>• For treatment of chronic/major illnesses such as cancer, HIV/AIDS</li> <li>• Serious accidents leading to disability</li> <li>• Death of earning family member</li> </ul>

The four products that emerged from this research are based on these factors and are supported by the preferences of low-income people. Within these preferences, the attribute of security of savings ranks the highest—it is a precondition for a product or a delivery channel to be broadly acceptable in the first place. Similarly, the distance or accessibility to services is also considered most important; without access, the savings service is useless. Because options for any financial services are limited, leveraging savings for loans or getting high returns on savings is in demand, but less essential. Processes that are simple and do not involve a great deal of documentation encourage low-income clients to use a savings service and remain loyal to it.

Different delivery channels are preferred to meet these attributes of security, accessibility, and returns (Figure I). Thus, while banks are preferred for security, SHGs and RoSCAs are preferred for accessibility. SHGs and RoSCAs, along with insurance companies, are preferred for high returns for short-term and long-term savings plans, respectively.



**Figure 1: Relative Preferences for Saving Mechanisms**

Based on the preferences of low-income people in the NER, there appears to be a need for four products:

- **General Savings Account:** A simple demand savings account that encourages people to enter the formal financial system. It helps people develop a relation with a secured financial institution.
- **Short-Term Recurring Deposit Account:** Helps clients save up small lump sums to address a variety of small and often recurring savings needs or to achieve small dreams.
- **Long-Term Recurring Deposit Account:** Helps strengthen coping capacities significantly by enabling clients to save for planned expenses and reducing dependence on loans.
- **Monthly/Annual Fixed Deposit with Certificate Account:** A simple, flexible fixed deposit product that captures seasonal cash surpluses for future use.

Most households have a deficit in cash flows for most of the year, which results in an over-dependence on credit. Loans from the informal sector can end up as life-long debts or result in a huge financial drain because of the high interest rates charged. Effectively designed savings products can go a long way in enhancing the coping mechanism through savings rather than loans. They can also help in consumption smoothing, even for larger expenses.

An effective design should essentially encompass the eight “Ps,” because the non-financial aspects are ranked high by the respondents. Apart from the core *product* features (minimum savings amount, lock-in period, deposit and withdrawal rules) and *price* (rate of interest and cost of accessing the service), effective *positioning* and *promotion*, convenient *place* of delivery through easy *processes* and friendly *people* supported by appropriate *physical evidence* are essential for a product to meet the needs of the people. There may seem to be a contradiction in the large numbers of people who need these services and their specialised needs. However, if service providers are sensitive to these needs, these 8Ps can be used effectively and profitably to reach out, promote, and retain a loyal customer base.

# Understanding and Responding to the Savings Behaviour of the Low Income People in the North East Region of India

## Introduction

The microfinance industry in India remains primarily supply-driven, with service providers assuming that microfinance clients are a homogeneous group. However, trends are changing, and stakeholders are increasingly recognising the need for diverse financial services for the poor that respond to the poor's real needs. This is often referred to as "market-led" microfinance<sup>1</sup>.

Formal microfinance initiatives started much later in the North East Region of India (NER) than in the rest of the country and still have much to achieve. In particular, savings has not been in the forefront of financial services offered by microfinance service providers. Therefore, this research was undertaken to understand the diverse savings needs of the poor and to design products and services that would improve the availability of savings services in the NER.

## Research Objectives

The specific objectives of the research were to:

- Understand the saving options and practices of the low-income people in the four states of the NER;
- Examine the options, challenges, and opportunities for financial institutions interested in delivering financial services to the poor in this region; and
- Explore the ways in which donors and other players can ensure sustainable and safe provision of savings services to this market.

## Research Methodology

This research study involved consultations with 1,046 financial services users in 136 group discussions in villages across the four states during January to April 2008. The key activities undertaken to conduct this research are described in Table 2. See Annex 2 for more detailed methodology.

**Table 2: Research Schedule**

Date	Activities
January 15–25, 2008	Training on <i>MicroSave's</i> "Market Research for MicroFinance"(MR4MF) for the research team: five consultants, staff or the non-governmental organisation (NGOs), microfinance institutions (MFIs) assisting with the study and the <i>MicroSave</i> team. Preparation of research plan(Annex 3), which also included a sample selection and identification of appropriate research tool
February 2 to April 5 2008	Data collection by the five consultants with extensive support from the <i>MicroSave</i> team
March 3–7, 2008	Review meeting to discuss research findings and the participatory rapid appraisal (PRA) tools to used for the remaining data collections
April 7–12, 2008	Data analysis and development of recommended product matrices

## Research Findings and Analysis

The research findings were summarised and analysed with a focus on understanding and answering the following as defined in the scope of the research:

- What are people's perceptions of different savings services offered to them?
- What is the socioeconomic status of people using these services?
- How are savings services being used to manage outflows/expenditures?
- What are the needs and preferences for savings services?
- What high-potential product concepts respond to these needs and preferences?
- What are the possible opportunities for financial institutions in the North East of India?

<sup>1</sup> For more on the market-led approach to microfinance, visit [www.MicroSave.org](http://www.MicroSave.org).

## Introduction to the North East

NER is composed of eight states: Assam, Manipur, Meghalaya, Tripura, Arunachal Pradesh, Mizoram, Nagaland, and Sikkim. This research has been conducted only in the first four states.

Though the North East states are often characterised as one geographic area with similar traits, each has distinct physical features, diverse social and cultural practices, and varying economic levels. Despite being rich in natural resources, NER lags far behind the rest of the country in infrastructure and economic development. The economy continues to remain primarily agrarian; 75 percent of the workforce (and 49.19 percent employed) are engaged in the agriculture sector. The area is primarily a subsistence economy; however, with increased mobility and exposure to open markets, the cash economy is increasingly gaining importance.

Table 3 provides socioeconomic and demographic indicators for NER.

**Table 3: Basic Indicators for North East India**

Particular	Unit	NER	All India
Area	Million sq. km	0.26	3.31
Population (2001)	Million	39.046	1,027.02
Decadal growth rate (1991-2001)	%	22.16	21.34
Density of population	Per sq. km	149	324
Literacy rate	%	68.77 75.08 male 61.91 female	65.38 75.85 male 54.16 female
Per capita income (2004-2005) (at price level of 2001-2002)	US\$	280.82	390.80

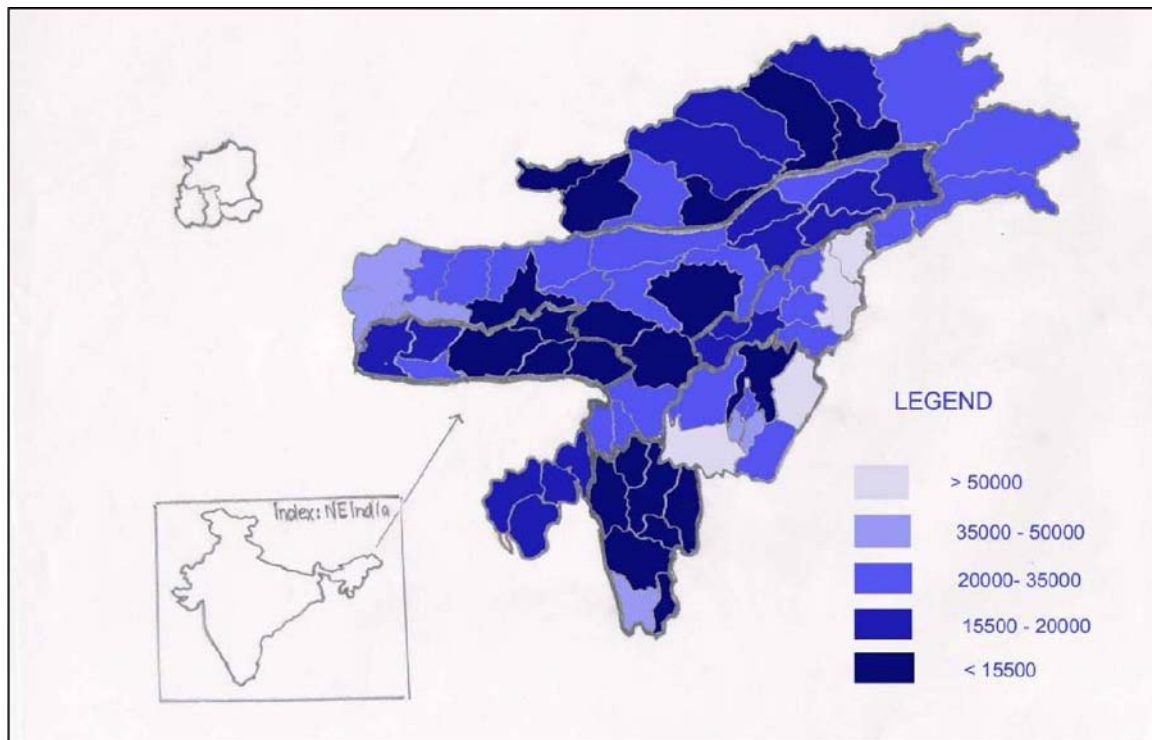
Data source: NEDFI Data Bank Quarterly, Yojana (NE special issue).

### Formal Financial Services Sector

Bank nationalisation<sup>2</sup> (1970–1985), the introduction of Regional Rural Banks (RRBs) in 1976, and the introduction of the Service Area Approach<sup>3</sup> in April 1989 led to a significant growth of the banking sector in India. During this period, many branches opened up in less-developed areas such as the NER. Today, a fairly large network of bank branches exists in the region, including in some remote locations where one-person branches are in operation. However, even with this impressive growth in outreach in the NER, the population serviced by each branch is not proportionate with that served by bank branches elsewhere in the country. The national average for branch coverage is 15,539 persons per branch. With the exception of Mizoram and Meghalaya, branch coverage in the NER states exceeds this average (see Figure 1). At the district level, the figures are even more of a concern. Almost all of the districts in Manipur and Nagaland have a worse ratio than the all-India average. For example, in the Mon district of Nagaland, one bank branch covers 86,884 persons. Even in the relatively developed state of Assam, only three districts have a better ratio than the national average.

<sup>2</sup> During Indira Gandhi's tenure as Prime Minister, the country embarked on some strong socialist policies. One of them was nationalization of 14 banks in 1969 with the aim of increasing credit flow to the rural areas, particularly to agriculture and to the poor. Another spate of nationalization took place in 1980 when six banks were taken over by the government. This brought 91 percent of the deposits and 84 percent of the advances in public sector banking. The branches of the public sector banks increased their deposits by approximately 800 percent and their advances by 11,000 percent.

<sup>3</sup> The objective of the Service Area Approach was to ensure that all villages in the country are assigned to some rural/semi-urban branch, so that people have access to credit for productive purposes. It was aimed at the total development of the country.

**Figure 2: Average Population Per Branch in the North East Region**

Data source: *Quarterly Handbook of RBI*, 2007, and Census report of 2001.

Given the low penetration of the formal financial sector, it is unsurprising that the informal sector flourishes and those large areas are serviced by informal institutions.

Annex 1 details the operating environment for financial institutions in the four sample states.

## Socio-economic Characteristics of the Users and Non-users of Savings Services

The research for this report focused on low-income people who have limited access to financial services. The sample was selected using parameters such as topography, level of monetisation amongst respondents, and social capital based on ethnic background (for details refer to Annex 2). The sample size was in proportion to the population of each of the four states, with a sufficient sample for each.

Each socioeconomic category has defined cultures and practices that in many ways can affect the savings practices of the group. For example the unmarried women of Manipur were found to save more than the married women, since the former have the target of saving up for their dowry. Some of the groups of South Assam participate in many religious and social ceremonies, which are a source of both expenditure and income (and thus savings). Financial pressure is high on those living in flood-prone areas because they face long periods of low income and experience loss of savings during the annual rainy season.

The use or non-use of savings services is influenced by economic level (for details refer to Annex 5). The people in each sample area were classified as rich, not so rich, and poor by the respondents, based on local perceptions.

The rich were identified as those who are either engaged in a government job or have large assets in the form of landed property, livestock, houses, and so on, and have support businesses such as shops, contractors, or commercial vehicles. They are perceived to have stable cash flows from the main source of income with additional seasonal income peaks from the supporting income-generating activity. They have regular access to lump sum amounts.

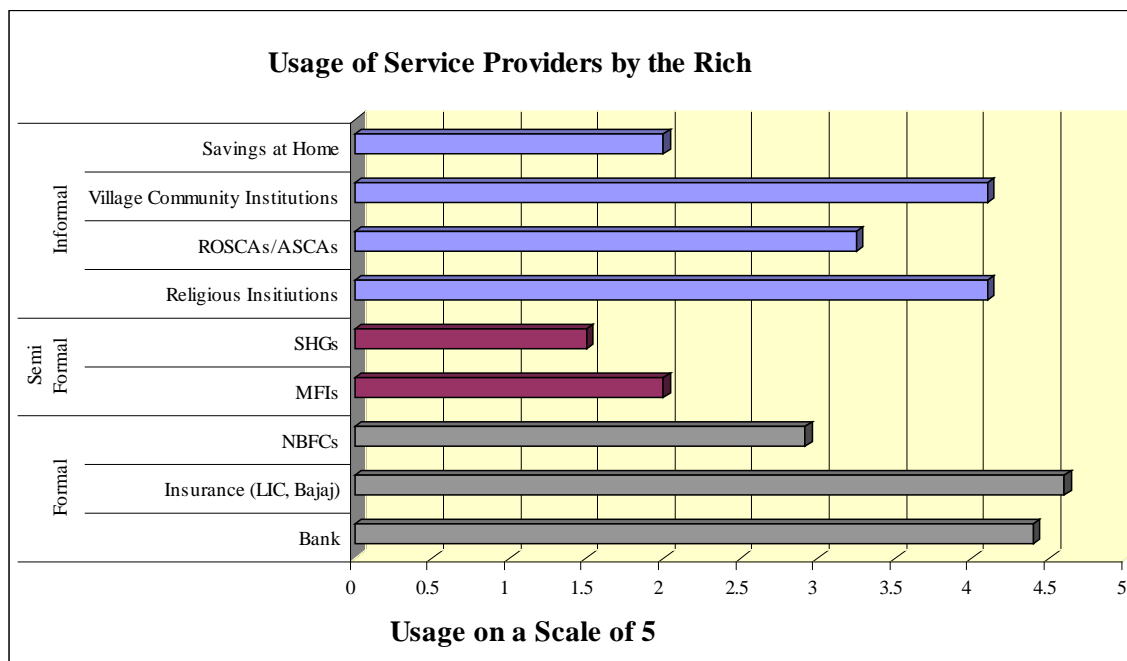
The not-so-poor people are those who have small tracts of land that provide for their basic household consumption need, government jobs,<sup>4</sup> or small businesses that earn just enough to meet their consumption levels. Though the main source of income can be identified, they need support sources for consumption smoothing. They do not have significant excess amounts as savings in lump sums during crises.

The poor do not have permanent jobs. They work mostly as casual labourers because they do not own any agricultural land. The poor are perceived to have a varied cash flow, with small amounts of cash flowing in from multiple sources throughout the year. The seasonal variances in savings are more dominant for this economic category.

Figures 3 through 5 show the usage of different financial institutions by the three different socioeconomic categories—the rich, not so poor, and poor. The preference of each of the socioeconomic levels for each category of formal, semiformal, and informal providers, and the specific service provider in each category, is evident. Preferences are based on the need to diversify risks but also largely on accessibility of services and effectiveness of the product design, which are closely linked to delivery mechanisms.

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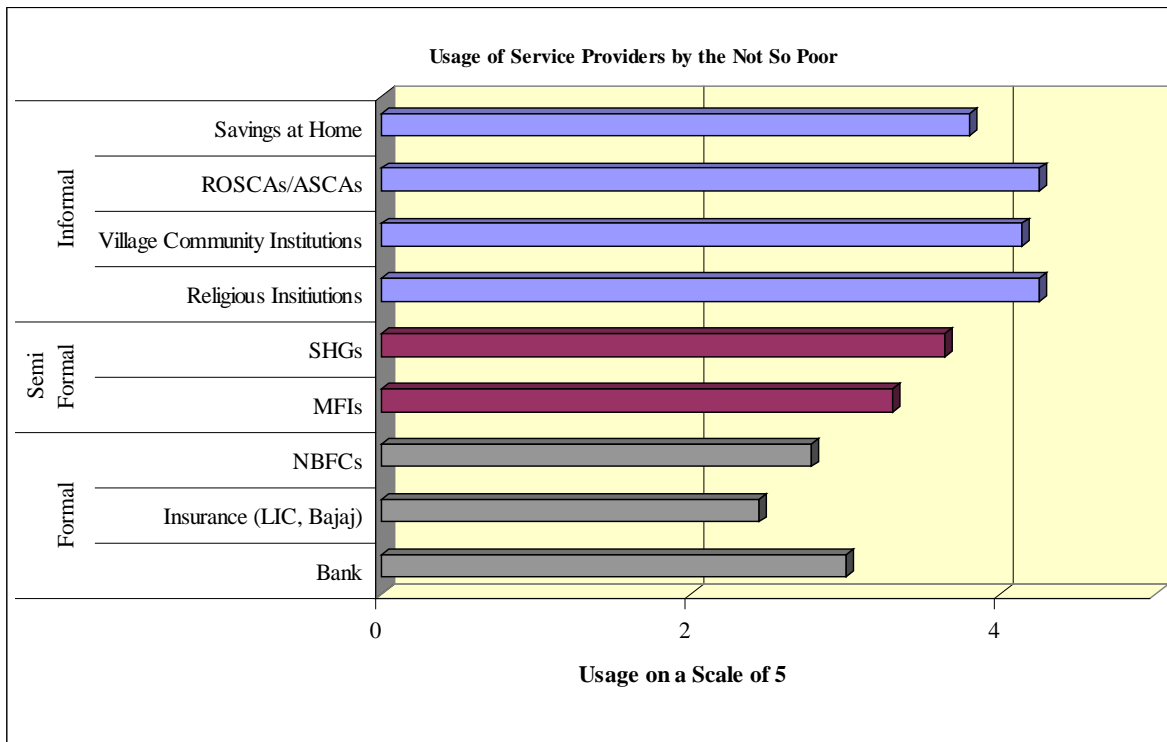
<sup>4</sup> These jobs are usually of a lower category, commonly referred to as Grade IV employees.

**Figure 3: Usage of Service Providers by the Rich**

The rich access financial services more often from the formal financial sector—banks, insurance companies, and non-bank financial companies (NBFCs). They can afford to do so because they have larger lump sums that are needed to service the accounts and have the documents that support their identity and prove residency. Informal mechanisms are also widely used by the rich; their social status is associated with membership in certain village-level organisations such as religious institutions, societies, or rotating savings and credit associations (RoSCAs). RoSCAs allow members to determine who can join; in the case of the rich, members often come from a similar socioeconomic status. RoSCAs also provide the rich with the highest returns. The rich are less likely to access financial services from semi-formal institutions, such as self-help groups (SHGs) (promoted usually by SHGs or sometimes under government schemes for the low income) and MFIs, because they are not targeted by these institutions, and the rich often do not meet the eligibility requirements to participate.

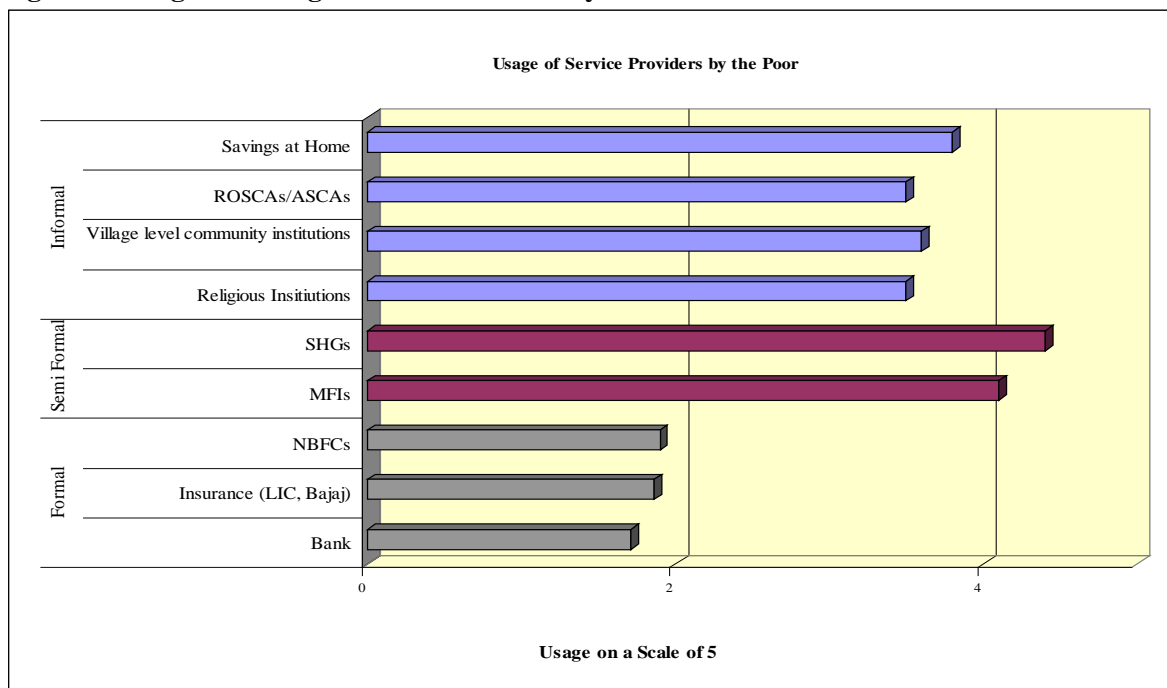
Preference for saving with insurance companies was also found to be substantially higher among the rich. Insurance products are used as long-term recurring savings products. The rich typically prefer recurring savings products of different terms depending on the reason they are saving. Because of their stable income, the rich can afford insurance products and can often manage multiple accounts. The rich also place fixed deposits in banks as a way to store their income from one seasonal peak to another.

**Figure 4: Usage of Service Providers by the Not So Poor**



Respondents who fall into the not-so-poor category spread their risk across multiple service providers. This market segment prefers to place a portion of their savings in a formal institution. High return is more important for this category than for the others because they are mostly involved in small businesses for which there is recurring need for capital. They compare the returns from saving with any service provider with the returns that can be earned by investing the same amount in their own businesses. Frequently, they save larger amounts at home and invest in items that provide high returns, such as livestock, or in high-return informal mechanism such as RoSCAs and accumulating savings and credit associations (ASCAs). The usage is low for SHGs and MFIs; some of the not so poor may not be eligible for membership in these semi-formal institutions.

**Figure 5: Usage of Savings Service Providers by the Poor**



People in the poor category usually save through informal mechanisms, because these mechanisms are more accessible to them. If services are available, as was the case for these respondents, respondents' preference for semi-formal mechanisms, such as SHGs and MFIs, increases significantly. These semi-formal mechanisms offer simple processes with services delivered at the doorstep. This is the greatest attraction for this segment because they cannot afford to pay extra (for example, for transport cost) to access services. The reverse of this explains the low preference indicated for the formal sector. The poor prefer recurring deposits of small amounts along with another product for additional savings to capture the seasonal incomes.

In summary, formal financial institutions service mostly the rich because of their product designs and their favourable attitude only towards the rich. The semi-formal sector is used both by the poor and the not so poor, though the amounts saved by each category vary. The informal sector is used by all categories, but usage depends on the type of products available. It is evident that the poor face the greatest challenge: they rely most heavily on saving at home, which is the most insecure mechanism.



## Perceptions of Available Types of Savings Services (Cash Based, In-Kind, Account Based)

The types of savings services currently available can be classified as savings in cash, in-kind, or through account-based mechanisms. Respondents identified five ways of saving in cash, 11 in-kind methods, and twenty account-based mechanisms as the most prevalent options.

### Cash-Based Savings

#### *Reasons for Use of Cash Based Savings*

Savings in cash are usually in small amounts and for short terms. All respondents save some amount at home in cash. Cash is saved in a variety of places—in small boxes, earthen pots, the kitchen shelf, the folds of saris—usually where only women have easy access. It is mostly the women who take initiative for this type of savings. The amounts range from Rs.100 to Rs.500. This money is used to entertain guests, meet demands of the children, take care of illness, manage small household events, and the like. Cash is also saved inside the bamboo poles of the house, but since it is not as easily accessible, this cash is used mostly for emergencies.

“There are some who bury their money underground in polythene bags”  
- A woman from a rural area in the hills of Meghalaya

Some people hold amounts in excess of that needed for these small-scale, unexpected household expenses and emergencies. This is more often because there are no better options available for saving. For example, the amounts earned by a daily wage earner are not always equal and regular—there are times when he or she may have a small excess of cash over committed expenses. Most institutions have only term deposits in which unlimited deposits and withdrawals are not permitted. Opening a savings account in any bank is a Herculean job because of the formalities involved, and even if an account is opened, the nearest branch is likely to be quite far away. Thus, people are forced to retain cash at home.

People save in cash because it is most convenient in terms of liquidity and accessibility. That is why some communities, such as the Mizos, who are highly entrepreneurial, prefer to keep cash at hand, which they can invest in their businesses whenever the opportunity arises.

The nature of cash flow also promotes savings in cash. People with frequent and very low income flows—for example, daily wage earners—prefer to keep their savings in cash. This works as a buffer in case of non-availability of work on some days.

#### *Reasons for Non-Use of Cash Based Savings*

The most obvious reason for people not wanting to save in cash at home is the high possibility of spending the saved amount. Low-income people typically have limited mechanisms to cope with the crises and challenges that face them almost daily, and there is always need for small amounts for some household needs. Sometimes people fritter away money on non-essential items (alcohol, cigarettes, petty gambling, toys for children).

“*Sansar to meyerai chalaye!*”  
“The household is actually run by the woman!”  
- A woman from the rural plains of Tripura (near Agartala, the state capital) during a focus group discussion

Women do not like keeping any significant amounts of cash at home because they fear that their husbands might take it from them—especially in areas where drinking is a cultural norm. For this reason, women’s small cash savings held at home for meeting unexpected household expenses and emergencies are almost always kept secret from their husbands and children.

For larger sums, the disincentive is that cash at home does not yield returns, and there is always an added risk of theft.

The rich save proportionately lesser amounts at home, given that they have larger amounts of cash and access to better savings options in banks.

## In-Kind Savings

### Reasons for Use of In-Kind Savings

Savings in-kind is probably the most diversified in use and form. In-kind saving in the NER may take the form of land, jewelry, livestock (cows, buffaloes, goats, pigs, ducks, and chicken), agricultural or forest produce (paddy, timber), trees (mango, jackfruit, areca nut, banana trees, or coconuts), fish, clothes for marriage, firewood for winter or for distress sale, yarns, and construction or improvement of houses.

Saving in-kind is convenient—the options are many, and the commodities are easy to both buy and sell. The items can be selected based on cash availability: a chicken when they have saved less money, a cow when more. In-kind savings work as a very good coping mechanism to meet unplanned expenditures or emergencies.

“We don’t want our money to go away; we don’t want to spend it wherever we feel like.”  
- A woman from East Khasi Hills, a rural area in Meghalaya, during a focus group discussion

Saving in-kind makes good business sense if the items chosen provide higher return than any savings product offered by a financial institution, which offer an average rate of interest of about 9 percent on a one-year time deposit. For example, in the plains of Tripura, a three-month-old piglet can be purchased for about Rs.500 and can be sold after a year for Rs.3,000 -Rs.4,000 (with no significant added cost of fattening of pigs). Similarly, a goat gives birth to two kids in an interval of six months.

Saving in food items such as paddy, fruits, and vegetables provides food security to the household, especially during the lean season. In the plains of Tripura, people save in form of paddy and grocery items such as sugar and kerosene oil. These types of savings are typically for very short-term (1–2 months) planned events such as a wedding. Stocking paddy and other commodities also fetch money through sales at the time of need and can be consumed for the household when the need arises.

In some communities, the use of in-kind savings can be determined by the norms of use of common property resources. For example, in the hills of Manipur, forest resources are abundant and the climatic and geographical conditions favour surplus incomes through fruits, herbs, vegetables, timbers, paddy, pulses, and animal husbandry. Therefore, saving in-kind is easy and convenient. Not only can these savings be monetised easily, but they can also be bartered for other needed products.

Cultural norms define social status and thus affect the type of savings in-kind. The Bengalis in Tripura save in jewelry; the tribal communities from the Garo, Khasi, or Jaintia hills or other tribal communities from Tripura save in livestock. These kinds of savings are not often liquidated because people tend to retain these items as indicators of social status and wealth. They are used only in case of emergency.

### Reasons for Non-Use of In-Kind Savings

Many forms of savings in-kind can give high returns, but only if they are successful. The risks attached to in-kind savings are many. Livestock may be susceptible to diseases requiring expensive treatment or leading to death; may be stolen (people near the main road in Tripura do not like saving in small livestock because of the fear of theft or the risk of animals being run over); and may perish in natural disasters. Theft is also a risk to savings in the form of jewellery. Saving in the form of produce is risky because of spoilage and fluctuations in market value.

Expenses such as education, healthcare, and household goods require cash; it is easy if amounts are available in cash rather than in in-kind savings that must be liquidated, particularly when in-kind savings are “indivisible.” Furthermore, some in-kind savings take time to liquidate, but healthcare and other emergencies require immediate cash. To cope with this issue, an owner of an item—for example, cattle—may give the cattle to another person for a short time. The owner can take back the cattle by paying some amount or by letting the borrower use the cattle.

Cultural norms and location also affect the nature of savings. For example, in urban areas of Barak valley, the Bengali community does not save in livestock, mainly because they stay in concentrated colonies with

limited space, which prohibits them from maintaining livestock.

## Account Based Savings

### Reasons for Use of Account Based Savings

Accessing a loan, especially one provided through a government scheme, requires the applicant to have a bank account to receive the check through which the loan is disbursed. Respondents noted that this is as one of the key reasons for wanting to access banking systems. It is a means of establishing a relationship with the bank and its staff. Bank accounts are opened for SHGs, facilitated by NGOs to access these loans given through government schemes. This is also the case with opening savings accounts with other semi-formal institutions.

People believe that an account-based deposit, especially through a bank, is more secure than any other type of savings. For semi-formal institutions, the respondents' trust improves when the institutions issue passbooks and receipts for all transactions. For some people, having a bank account also means an increased social standing. They believe the account represents prestige—having a bank account is often an indicator of wealth.

Saving in an account with any institution prevents unnecessary expenses rather than when it is in hand or at home in-kind. People strongly preferred keeping part of their savings portfolio in recurring products offered by formal and semi-formal institutions (for example, recurring deposits with Sahara or Peerless, and SHG accounts with banks). Saving in accounts helped them save up lump sums for the future. Even saving small amounts, say Rs.10 per day or Rs.300 per month, helped them build up sizeable amounts for times of emergency.

Opening an account helps people to have access to long-term products. For specific, goal-linked purposes, people opt for fixed deposits, recurring deposits, or savings scheme by post offices, MFIs, and/or SHGs. They anticipate returns, as well as lump sum amounts later to meet different (usually predictable) financial needs such as marriages, education, business capital, and festivals. Although interest rates offered by MFIs are generally higher than those provided by banks, clients do not view the higher rates as a significant gain; a recurring deposit account, or compulsory savings, offered by MFIs is a very popular product. People can repay loans and save at the same time. However, in offering this product, MFIs are creating incentives for their clients to leave them, because the only way clients can gain access to their compulsory savings is to exit the institution. *Marups* in Manipur, and Societies in Assam are used frequently by savers. The systems are usually simple, and not very flexible, but the returns are high.

Traders who have medium-sized businesses and operations in more than one area also need bank accounts for the smooth functioning of their businesses. Government employees open bank accounts because it is mandatory to draw salaries from a bank account.

Promotion by agents and support in documentation can encourage people to save in accounts. In areas with greater numbers of local agents, more people had accounts and there were typically higher balances in those accounts.

### Reasons for Non-Use of Account Based Savings

The overall perception of people in the region is that banks and NBFCs are primarily savings-focused, and MFIs and SHGs are more effective as credit delivery institutions.

Lack of accessibility limits people's ability or willingness to open accounts. In most places, and especially in rural areas, banks are situated far from clients. Distance to the nearest branch is important, because clients have to spend time and money on travelling to the nearest branch if doorstep delivery is not available.

Even if a bank is accessible, opening an account can be a lengthy and cumbersome process. There is a lot of documentation involved, usually a long waiting time, and a requirement that an existing account holder introduce the new client (by giving his/her account number and signing the documents). This may take up a full day of the potential customer, which may lead to loss of at least a day's income. For many

respondents, this is unaffordable, a waste of time, and humiliating. The account opening requirements for banks and post offices can be even more arduous than for other institutions. Bank staff may not be sensitive to client needs, and many illiterate respondents were reluctant to visit/transact with banks because they do not get favorable responses. Staff members of Regional Rural Banks (RRBs), however, often assist clients with filling out the necessary documents. Insurance companies and private companies use agents for the same purpose. The mainstream commercial banks are mostly in urban areas and cater to a richer clientele, so the rural clients usually find the banking ambience intimidating. Nonetheless, people are ready to make the extra effort to open accounts for long-term purposes when larger amounts are being saved and when these amounts need to be kept secure.

People from areas with high illiteracy and relatively low economic status are afraid to open accounts with private companies for fear of being cheated. They are reluctant to open accounts in SHGs or MFIs if any fraud or irregularity has been reported. This is a very sensitive issue and can adversely affect the institution for a long time over distant areas. Though Marups are very popular as a service provider, the only reason that many people in Manipur hesitate to save in Marups is the concern for security. People have lost money when the Marups have dissolved without being able to pay deposit money to its members.

*"Jee po mara geleo dukkhata shojjo kora jaye, por taka maara gele shojjo kora jaye na."*  
 "The death of even children gets tolerable after a passage of time, but the loss of money is intolerable for ever."

*- A woman from a semi-rural area in the plains of Tripura during a focus group discussion*

Products available to low-income earners are rarely client-oriented. Clients often have multiple accounts, including at least one with a private company. People are not often aware of the "no frills account" offered by some banks. Instead, they assume that bank accounts can only be opened with Rs.500, and that a minimum balance of the same amount is to remain in the account at all times. People find both of these requirements high. In fact, the minimum balance for RRBs is Rs.100, which is affordable. Clients prefer frequent minimum deposit amounts of about Rs.30, which is not encouraged by formal establishments. The interest rates offered by post offices, RRBs, and public banks are much lower than those offered by the private institutions. SHGs sometimes do not even offer interest on savings. Most of the products offered by MFIs have a lock-in period, which is sometimes not preferred by clients.

Many clients are not aware of the benefits associated with saving in bank accounts. With increased competition and government encouragement, banks have started to develop client-oriented products. However, clients often lack access to information about these products and local bank employees do not encourage those products—presumably because they do not want the extra work of serving large numbers of less-educated, poor people through low-volume, high-transaction accounts.

## Perceptions of Available Systems of Savings Services (Formal, Informal, Semi-formal)

The delivery mechanisms available have been classified into informal, semi-formal, and formal institutions based on their legal backing and level of rules and regulations.

### Informal Mechanisms

#### *Reasons for Use of Informal Mechanisms*

Lack of or difficulty in accessing formal institutions for savings, forces people to save in informal institutions.

Some informal mechanisms, such as saving cash at home or saving through the purchase of in-kind commodities, have been discussed earlier. Another informal institution worth mentioning is a need-based institution. A need-based institution evolves as a result of the specific needs of the people of the area—for marriages, education, funerals—and are, in many ways, tailored to meet these specific needs. Clients use these institutions because they offer doorstep delivery, easy processes of group formation, deposit collection, high returns, and the possibility of accessing cheaper credit. Often, the repayment schedules are suited to the ability of the people. Some people also use these institutions because they represent a disciplined saving mechanism imposed by the community and are perceived as prestigious. NGOs have played a key role in promoting SHG formation. The amount of savings required is determined by the people involved, providing people with the ability to select amounts that are convenient to them.

Some of the informal mechanisms, other than those detailed in Annex 5, are as follows:

*Marups* - In Tripura, there are two major communities—the Bengali-speaking people who reside in the plains, and the tribal indigenous communities who reside both in the plains and in the hills. There are also pockets where Manipuri Meteis have settled after fleeing from Manipur during the Burmese campaigns. Generally, the Bengali-speaking community does not use informal set-ups for savings, but the Manipuri community has the traditional Marup practice for savings. In some of the pockets where Manipuri Meitei are the majority community, the Bengalis have also joined the Marups. Individuals participate in Marups because of the easy process of membership, the simple procedures for deposit, easy rules and regulations, the possibility of getting a larger amount as a loan when it is needed, and ownership of the institution by the people.

*Jami Ren* - The Tripuri tribe practice Jami Ren—keeping land on lease for a certain amount of money. When a landowner needs a lumpsum amount of cash, he leases his land rather than liquidating the asset. The lease keeper can consume the produce of the land until the lease period is over. Thus, the return for the lumpsum he has given to the landowner, is not in cash but in-kind. The lease can be further transferred to others if the lease keeper needs cash and the actual owner of the land is unable to repay the lease amount.

*Pastoral Centre* - Some Christian members of the Tripuri tribe use the Pastoral Centre for savings. Under

#### Localised Financial Services - RM Zote

RM Zote is a very popular savings practice among the Mizo community of Shillong, Meghalaya. It is a daily saving practice by individuals within a locality, wherein money is saved with an individual. RM Zote provides only savings services. There is no interest on deposits nor any loan facilities offered with it. The individual who holds the deposits is usually a well-known person from the community. Deposit and withdrawal limits are fully flexible—“He is our ATM.” The individual maintains a book to record deposits or withdrawals, which are witnessed by the individual or a member of his family.

People save with this individual because cash at hand tends to be spent. In addition, these amounts are usually very small; accessing a formal mechanism would be expensive.

The deposit-holder is usually a business- person who invests the amounts collected in his business. Because withdrawals are less than deposits, he gains from the transaction. During festivals, when there are higher withdrawals, he is prepared to meet the demand through partners and financial institutions that can give him cash if needed.

the Pastoral Centre's savings system, small amounts can be deposited at regular intervals through a simple process. People can take out loans in amounts higher than the amounts they have deposited and at relatively low interest rates. The Pastoral Centre is perceived to offer a high level of security for members' savings.

*Community Temple Savings Funds* - Some communities save in community temple savings funds, which are known by different names in different places. For example, they are known as Namghars in Brahmaputra Valley, as Puja ghars in Barak Valley, and as churches in the hill tribal areas. Communities use this facility because it is a social practice that promotes a feeling of togetherness and ensures that people are contributing not only for the religious cause but also to help themselves and others in times of need. Because these funds are associated with religious institutions, communities believe the security of the deposits is ensured. The contributions are small and affordable by all. People can use the loan facility with very low interest rates when needed.

*Singlups* are Marups in Manipur in which saving is compulsory. The funds are used to meet death expenses. Saving in Singlups is a socially enforced norm; people abide by it because it maintains their social status.

### ***Reasons for Non-Use of Informal Mechanisms***

Most clients use the informal mechanisms that exist in their areas, even though these mechanisms may not be the preferred choice. The biggest drawback of these informal mechanisms is that they do not ensure security.

In addition, informal mechanisms may not have the most client-friendly processes. A number of respondents reported that saving in ASCAs had many problems, especially in cases where the ASCAs are composed of more than 30 people. Coordination among such a large group tends to create friction, which may increase the chances of loan non-repayment.

Some of the informal mechanisms are small and have limited resources, and, consequently, are unable to meet clients' larger needs. Marups are not used by some people of the Manipuri community in the Tripura plains region because the available loan sizes are not sufficient to meet their needs. In addition, the lottery system used to grant loans is not suitable for all, given that this system often requires that a member client wait a long time for his turn to receive the loan money.

## **Semi-Formal Mechanisms**

### **Reasons for Use of Semi-Formal Mechanisms**

Semi-formal institutions offer client-oriented products. Deposits of small, frequent, fixed amounts can be made at MFIs and SHGs and frequency of savings may be daily, weekly, or monthly. The doorstep service often provided by such institutions reduces the cost and is less time-consuming for clients. The processes and procedures are easy because staff help the users of the services with any required documentation. SHGs are used as a way to get higher loans (compared with the actual amount deposited by the client) and to access government-sponsored schemes, which are often channelled through these groups. In addition, SHG clients feel an ownership stake in their SHGs.

NGOs are involved in development work related to infrastructure, health, and education, which makes them popular and trustworthy because people see investments being made in their villages. People thus trust the NGOs with their savings.

### ***Reasons for Non-Use of Semi-Formal Mechanisms***

People are very concerned about the security of their money placed in semi-formal institutions such as MFIs and SHGs. Respondents do not save with institutions with which they are not familiar, only with those that have a proven track record in the area over the past few years. Trust in an organisation is directly proportional to the number of years that the organisation has been in operation in the area and has had a "clean" record. SHGs are considered insecure because they were dependent on the president and secretary, and respondents shared some instances of fraud by the office bearers.

The account-based products usually have a lock-in period. The inability to withdraw money from the accounts before maturity is another major deterrent to their use. People are willing to take out loans in amounts smaller than the saved amounts, but access to loans against deposits is not always allowed. Consequently, there is no way people can access their money in case of emergency.

The semi-formal institutions have their own limitations of resources, capacities, and scale. As a result, they cannot reach out to remote areas or always offer doorstep service, which often increases the institutions' cost of operations.

## Formal Mechanisms

### *Reasons for Use of Formal Mechanisms*

Poor people have limited access to formal institutions such as banks, RRBs, and post offices and they access these institutions' services for specific reasons. Formal institutions, however, remain the most preferred option because they are backed by the government and are, thus, the most secure.

Another key reason formal institutions are preferred is that a typical general savings account has unlimited withdrawal facility, and people feel comfortable with the idea that they can withdraw the money whenever they want. This gives them not only greater liquidity, but also a greater sense that their deposit is secure.

One of the major reasons for having a *bank account* is because opening a SHG bank account is a requirement for bank linkages process of the National Bank for Rural and Agricultural Development and NGOs (for details refer to Annex 5). People also use formal institutions for long-term investments or (as noted above) as a way to access loans. People feel that if they have a bank account and establish a relationship with the bank and the staff,

it will be easier for them to get loan requests approved. Some household members use formal institutions for other purposes, such as for salary withdrawal and for government contract payments. Some rich people open accounts for the purpose of receiving and making business payments.

*Life Insurance Corporation (LIC)* is seen as a long-term disciplined savings account. People appreciate having the lump sum amount available after the maturity period ends. The lump sum is used for planned events, for old age, or for business investment. Because the maturity amount is received at one time and is thus large, people perceive the returns from LIC to be very high. Doorstep delivery and simplified application processes using agents are other important reasons for the popularity of LIC. The life insurance aspect of the product is not seen as the core benefit; instead, the savings aspect is seen as the most important.

### **Insuring Life or an Event?**

Life insurance emerged as a popular product among the respondents, but, interestingly, not for insurance; instead, respondents use it as a long-term secured savings product. The benefit of insurance was seen only as an additional value. Few people mentioned that insurance gives death benefit; instead, it was perceived more as an instrument of long-term saving for children's education, marriages of daughters, house building, and helping one's children to start a business. Attributes such as the perceived rigidity in paying installments, restriction on premature withdrawals, and longer duration of the insurance products made life insurance a preferred long-term saving product.

### **Come Tomorrow!**

It is obvious that poor liquidity management has adverse impact on the reputation of institutions. There were many cases where people may not have lost money, but were denied access to their savings when needed. They have received delayed payments. Hence they do not have a positive image of the institution. Such issues can be a determining factor in choosing a financial institution. For example, post offices— though have the advantages of government backing, significant coverage, and infrastructure support—often get a low preference rating because they are perceived to be facing a liquidity crunch, as people have to make multiple trips to retrieve their savings, even at the end of the maturity period. This influences decision making and people look for other options, even though they may not be safer or nearer than the post office. "Come tomorrow" is surely not what clients want to hear when they come to withdraw their savings.

In most places, *RRBs* are in closer proximity to clients than any other formal institution and, hence, they are preferred. One additional reason for the popularity of *RRBs* (especially in Tripura) is that the *RRBs*' staff members are more supportive than those from other formal institutions. Access to *NBFCs*, such as Sahara, Rose Valley, and Peerless, is easier for clients, given that services are delivered to the doorstep through agents. People who save in post offices do so mostly because of physical proximity.

Security is the major reason people save in formal institutions. People know that if they save in these places, their money will be returned under any circumstances. Banks, post offices, and LIC are particularly viewed as being more secure because they are government institutions.

Security of savings is of key concern for all, mainly because all respondents had heard of losses incurred by people from their communities.

The headman of Khrang village in Khatarshnong block of East Khasi Hills district recalls a private bank in Cherrapunji about 15 to 20 years ago whose agents visited the villages and encouraged people to save money in their bank and offered high interest rates. The bank collected more than Rs.5,000 per family in the village and the neighbouring ones. "We had more than 500 households at that time in this area that saved money in that private bank." After five or seven years of operations, the agents stopped coming. Neither the agents nor the bank could not be found, even in Cherrapunji city. "People went to Cherrapunji to find them time and again but could not locate the bank. Some of them even went to Shillong but could not get any information about the bank."

The after-effect of this experience has been colossal: people have lost faith and interest in savings mechanisms. The SHG movement has been able to inculcate some savings habits but not to the optimal extent. Only government banks such as the State Bank of India and Meghalaya Rural Bank are trusted.

*Savings bank accounts* are preferred because of their flexibility in terms of frequency and allowed deposit size. People can deposit money whenever they have a surplus, and there is no fixed amount of deposit. Clients worry neither about meeting the minimum deposit requirement, nor about any small surplus left over after depositing the fixed deposit amount.

Banks and *post offices* offer a wide range of savings products, including demand deposits and term deposits. Term deposits include recurring, fixed, and savings certificates. Recurring deposits in banks and post offices are the most popular because of the small amounts that are accepted, the disciplined approach to saving that yields a lump sum amount at maturity, and the strong sense of security as compared with other institutions. People can plan for their lifecycle events using these deposits.

*NBFCs*, through their agents, have been able to successfully promote their products. They have positioned themselves as convenient and are attractive because of the higher interest rates or higher returns on savings that they offer. The role of agents is significant in the functioning and popularity of the *NBFCs*. In addition to removing the barrier of distance and simplifying processes, agents typically come from the local area, which gives them a better understanding of people's needs and social norms, and increases savers' comfort level.

### ***Reasons for Non-Use of Formal Mechanisms***

People from all areas conceded that they know of at least one instance where someone had lost their money with some "private banks" or *NBFCs*. Most of the time, respondents noted, the institutions themselves did not have any ulterior motives, but the agents they appoint run away with the money.

The *NBFCs* offer recurring deposits schemes that have strict rules. If the client misses one or two installments, the entire amount previously deposited by the client is forfeited to the institution. If the account is to be reactivated, the client must pay hefty fines. Unsurprisingly, this is unpopular among the clients.

The interest rates offered by most of the formal institutions, except LIC, are perceived to be very low. Therefore, many people, particularly those with significant amounts, do not save in these places. Certain



people do not save with LIC because they find the size of the premiums to be very high and do not want to have to pay quarterly. People often do not manage to save up their surpluses for a quarter.

Post offices are becoming increasingly unpopular because people feel that the record-keeping and documentation processes are haphazard and result in delays and postponements in transactions. For example, a typical incident often recounted in the focus groups was that the client would be asked to wait or come on a later date, because the official would be unable to find the ledger in which the client's account was maintained. Another reason for post offices' unpopularity is that (perhaps for liquidity reasons), post offices were not always able to pay the lump sums from recurring deposit accounts even after maturity when clients arrived to withdraw the amounts. Instead, the depositors were asked to come at a later date to collect their savings.

The barriers to saving in banks and RRBs include the minimum balance required to open and maintain an account. Respondents perceived these balances to be high, often because of their lack of information and lack of experience accessing the services of banks and RRBs. In addition, some people are embarrassed to deposit very small amounts in these institutions after seeing other people deposit much larger amounts. Banks were more unpopular than RRBs because their staff members were perceived to be unsupportive, and the banks were not conveniently located. Other drivers of banks' unpopularity include the time respondents need to spend at the bank with insensitive staff, waiting in queues, and waiting for branch managers who were too busy to meet them or were simply "unavailable."

The distance of formal institutions (if they do not have agents) from where people live is another major deterrent, because this distance forces clients to spend time and money. Complicated rules and procedures to open accounts, and the general problem in understanding and communicating the products offered by the formal sector, also hinder saving with formal institutions. The level of comfort depends on clients' level of identification with the institution. It was found that many rural people were not comfortable approaching formal institutions. The higher the perception of an institution's "formality," the higher the level of discomfort.

There are just three bank branches in Senapati and Ukhrul districts in Manipur, and these cater to a population of more than 0.7 million in the region. The bank cannot serve great numbers of clients and is, therefore, hesitant to open new accounts. There are no other formal institutions in this area, leaving a huge gap between the demand and supply for services.

#### **An Ordeal with a Bank**

A resident of a village in the foothills of Senapati district wanted to open an account with a scheduled commercial bank in Imphal. After a 3 km walk from her village, she boarded a bus and reached Imphal at noon. It was Monday, a crowded day at the bank. Upon asking for the account opening procedure, she was reprimanded by the security guard for having selected a busy day to come to the bank and was asked to come the next day.

After having spent the night with relatives in Imphal, she went to the bank the next day even before opening time. She waited about 30 minutes until the staff came in. She approached a bank official with her request and she was asked to wait. After waiting for an hour she went back to the same official to remind him of her request. She was again told to wait.

Almost at the end of public banking hours, she again went up to the bank official who was surprised that she had been waiting as instructed. He then informed her that the bank had crossed its customer limit and could not open any additional accounts, and anyway, he did not have a form to give her.

## Uses of Savings Services to Manage Outflows/Expenditures

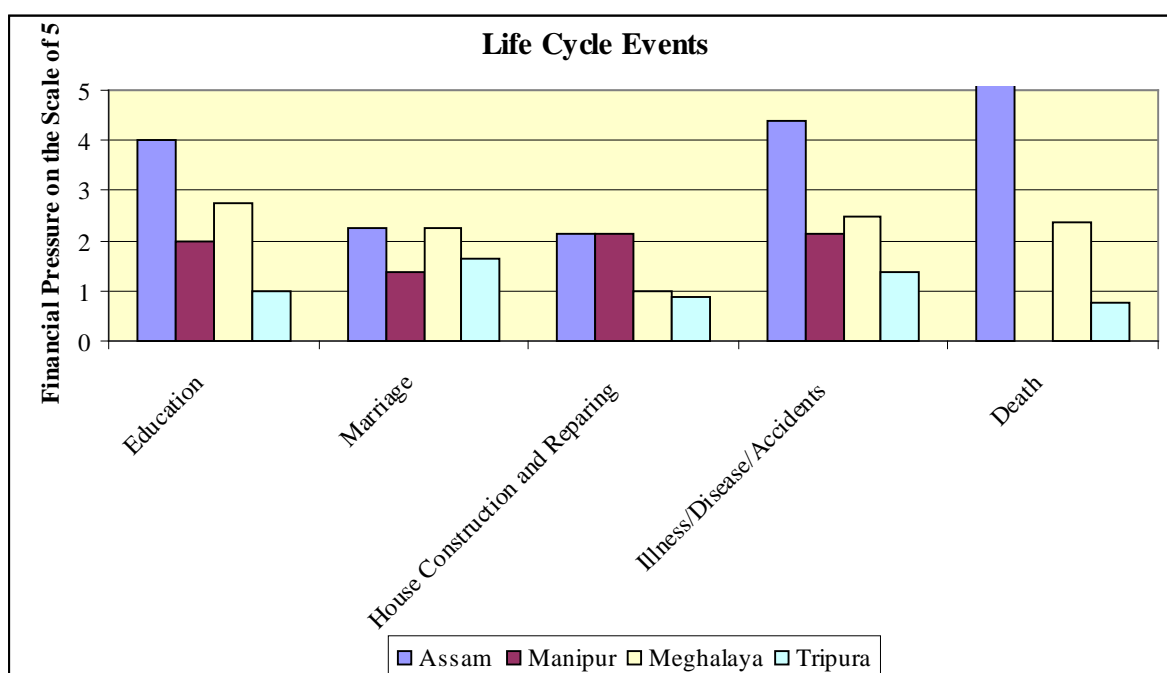
The effective use of savings depends on two things:

- The financial pressure that an expense creates. Requiring savings to cope is often the result of the unforeseen nature of the expense rather than the volume of the expense. The social and cultural norms of the community may also compel people to spend in a particular way.
- The seasonal effect on income and expenditure of low-income people. Because of the nature of their occupations, their incomes and expenditures are often influenced by weather conditions.

## Reasons and Effects of Financial Pressure

Household needs can be largely categorised based on the nature of the expense—a planned or recurring expense or an emergency that creates financial pressure.

**Figure 6: Financial Pressure Caused by Various Lifecycle Events**



Financial pressure is often dependent on time or social status rather than the amount of money required to address the issue. As a result, the responses vary from state to state because the social importance or norms attached to different events vary. For example, death is seen as an expense in areas where social capital is weak and the family has to arrange for the funeral. This is not the case in other areas, where communities take responsibility for the costs associated with death, or develop mechanisms, such as Singlups in Manipur, to address funeral expenses.

Many expenses are associated with specific planned events. Appropriate savings products can play a significant role in reducing the financial pressure and the debt traps these events can create, if people are helped to plan for these events and to access these products. The need for credit will always remain, but this credit can be used to meet the working and investment capital needs of businesses rather than for consumption smoothing.

Expenses that follow particular events can be short-term or long-term in nature and can influence the type of savings mechanism people use to respond. Short-term recurring expenses tend to be smaller; hence, the preferred choice is short-term instruments with high liquidity or accessibility options. The returns on these can be high (livestock) or low (a general savings account in a bank). Emergencies or unexpected expenses are met partially through savings and partially through credit (often leveraged against the saved amounts). For long-term savings, people prefer products with strict discipline and no withdrawal options. The returns on these are often higher because they are more profitable products for financial service providers to offer.

Long-term unplanned expenses can be disastrous if adequate proactive measures to save are not taken in advance.

The diverse nature of savings needs and coping mechanisms are presented in Table 4.

**Table 4: Nature of Expense and Use of Savings**

Nature of Expenses	Time frame	
	Short Term	Long Term
Recurring / Expected / Planned expenses	<ul style="list-style-type: none"> <li>• Child birth</li> <li>• Education: annual fees, buying books, uniforms</li> <li>• Household expenses including treating guests and relatives</li> <li>• Payment for utilities and services</li> <li>• Festival expenses – clothes, food, etc.</li> <li>• Annual rites for departed relatives</li> <li>• House repair</li> <li>• Running existing business</li> <li>• Buying livestock</li> <li>• Paying church and society subscriptions</li> <li>• Buying households</li> </ul>	<ul style="list-style-type: none"> <li>• Starting or expanding business</li> <li>• Children's marriage</li> <li>• Old age</li> <li>• House construction</li> <li>• Buying land – for house construction or agriculture</li> <li>• Purchase of tractor</li> <li>• Purchase of paddy land</li> <li>• Long-term or higher education</li> </ul>
	<ul style="list-style-type: none"> <li>• Coping Mechanism through Savings:</li> <li>• Savings from:</li> <li>• Piggy banks at home</li> <li>• Societies/Marups</li> <li>• SHGs/MFIs/NGOs</li> <li>• Temple committees</li> <li>• Savings or recurring deposits in banks</li> <li>• Sale of:</li> <li>• Paddy, coconut, beetle nut, pan, oilseeds, bamboo</li> <li>• Homestead produce – vegetables, fruits</li> <li>• Paddy stock</li> <li>• Livestock – goats, pigs, poultry</li> <li>• Timber and forest products</li> <li>• Seasonal vegetables Credit from</li> <li>• Local medical shop</li> <li>• NGOs and societies against saved amounts</li> <li>• Friends and relatives</li> <li>• Mortgaging paddy land and woodland</li> </ul>	<ul style="list-style-type: none"> <li>• Coping Mechanism through Savings:</li> <li>• Savings from:</li> <li>• Societies/Marups</li> <li>• SHGs/MFIs/NGOs</li> <li>• NBFCs – Sahara, Peerless</li> <li>• Fixed deposits or recurring deposits in banks</li> <li>• Deposit in LIC</li> <li>• Post office</li> <li>• Sale of:</li> <li>• Livestock – cows, buffaloes</li> <li>• Paddy</li> <li>• Timber</li> <li>• Gold and jewellery savings</li> <li>• <b>Earnings from investment in:</b></li> <li>• Micro-businesses, such as fermentation of dry Fish and bamboo shoots, vegetable trading, non-timber forest product trading cane and bamboo work, carpentry etc which generate income throughout the year</li> <li>• Grant/Credit from:</li> <li>• Relatives and fellow villagers</li> <li>• NGOs and government providing rehabilitation support</li> <li>• Mortgage of land and jewellery</li> </ul>

Nature of Expenses	Time frame	
	Short Term	Long Term
Emergency/ Unplanned	<ul style="list-style-type: none"> <li>• Uses of Savings:</li> <li>• To treat minor illness</li> <li>• To carry out household expenses when income is stopped or low due to:</li> <li>• Unavailability of work</li> <li>• Low business</li> <li>• Failure/damage of crops</li> <li>• Animal epidemic</li> <li>• Death of a family member</li> <li>• Flood</li> <li>• Accidents</li> </ul>	<ul style="list-style-type: none"> <li>• Uses of Savings</li> <li>• For treatment of chronic/major illnesses as cancer, HIV/AIDS</li> <li>• Serious accidents leading to disability</li> <li>• Death of an earning family member</li> </ul>
	<ul style="list-style-type: none"> <li>• Coping mechanisms through Savings:</li> <li>• Saving in Bank</li> <li>• Sale of:</li> <li>• Livestock</li> <li>• Land</li> <li>• Trees</li> </ul>	<ul style="list-style-type: none"> <li>• Coping mechanism through savings:</li> <li>• LIC</li> <li>• Sale of land, jewellery</li> <li>• Sale of in-kind savings such as livestock</li> </ul>

Despite being a planned expense, education costs were identified as commonly creating financial pressure, primarily because of the priority attached by the community to higher education, the nature of study, the place of study, and the nature of local options available. In Assam, expenditure on education is high because the cost of education is high. In Meghalaya, education also creates pressure because options for quality higher education are mostly limited to Shillong. People often opt to send children out of the state for education, which entails additional expenses related to travel and accommodation. In Manipur, parents give savings for children’s education a high priority and are ready to spend significant amounts for it. For Manipur and Meghalaya, savings products specifically for education may be designed, as detailed later in this paper, under recommendations.

Financial pressure due to illness is high across the four states—these states are comparatively less developed than others in India and do not have good medical care systems. Private hospitals in the large towns such as Guwahati and Shillong are very expensive. There is a high premium given to preventive health, because it is extremely costly to fall sick. Medical insurance can address some of these issues, but very often small amounts are needed for common recurring illness (for example, diarrhoea), usually on an urgent basis.

Marriage in India comes with complex

**Expenses for Marriage in Manipur**

In Manipur, marriage gets a lower score in terms of priorities than other events, but the expenses involved are high. Women have higher saving propensity than men, though saved amounts may be higher for men because they have access to higher-paying and more diverse sources of income. Unmarried women save more than married women, driven by the need to save up for dowry. Women are found to save up to 60–70 percent of their dowry. Dowry may involve:

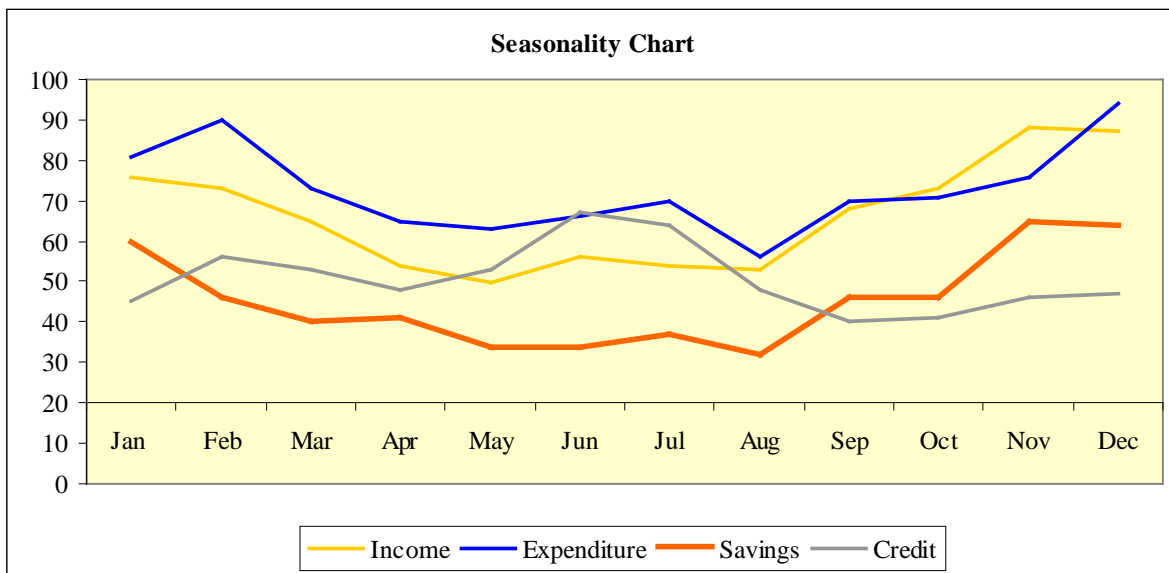
- 12–14 tribal shawls for the male elders in the husband’s family, each costing about Rs.800–1,000 (if the woman is not from a weaver family, it is substituted with Rs. 10,000).
- Wedding dress, western and traditional, costing up to Rs.9,000.
- Household items such as television, utensils, and furniture.
- Big buffalo (Mithun) and/or pigs for wedding feast, costing between Rs.9,000 and Rs.20,000.
- The most common mechanism used is to save through membership in multiple Marups.

social and economic issues and needs. Although marriage is a planned event for which people save up, expenses tend to exceed the estimated cost due to social demands. Similarly, death causes pressure because of funeral expenses; funerals also carry significant social importance. The pressure is doubled if the death is of the household’s main income earner, which affects the current and future flows of income. However, communities with strong social networks can feel less financial pressure. House construction is a long-term event and happens in a series of phases, each requiring a lump sum. Consequently, housing construction is usually financed by a variety of sources depending on the amount needed and the time span for completion.

**Reasons and Effects of Seasonality**

The trends in seasonality are dependent upon the type of economic activity in which community members engage. However, there are some generic trends. Figure 6 shows the demand for credit as consistently higher than the level of savings mobilised by people, except for a few months of high income during the winter months. This dependence on credit causes a drain on income and the savings collected during the winter and, of course, requires paying high rates of interest rather than receiving interest. As mentioned above, many of the expenses could be met through savings if people had access to appropriate options backed by adequate awareness and friendly staff to deliver those products.

**Figure 7: Seasonality Trends of Income, Expenditure, Credit and Savings**



### **Needs and Preferences for Saving Services among the Low Income People in the Region**

By identifying the most important product attributes, respondents expressed their needs and preferences. Figures 7 and 8 below present the product attributes that are most appealing to clients in selecting service providers or products. These attributes are not based on client likes or dislikes about the products available in the market, but on what they would ideally want in a savings product. When a member decides to join or save with a financial institution, the decision is guided by the quality of each of the attributes in the order shown in the graph.

When selecting attributes shown in Figures 8 and 9, the following may be noted:

**Availability of Options:** If a reality check is done against the preferences noted by respondents, there are differences. For example, though NBFCs are considered not safe, membership in them is high. This is because of the lack of access to formal institutions, which is the preferred option.

**Returns:** While discussing returns on savings, respondents did not make comparisons between the interest amounts provided by different financial service providers. Instead, they were more concerned about the comparative gains between returns on money invested in any business or in-kind purchase, such as livestock, and the interest received on deposits with financial institutions. Investing in-kind often comes with the added non-financial benefit of status (for example, ownership of livestock or gold) and with the benefit of interim non-financial use (for example, savings in the form of jewelry that is used for weddings and other occasions).

**Multiple Attributes Addressed through Agents:** As a basic tenet of qualitative research, the terms used by the clients have been directly used to analyse the data and present the findings. However, the same terms have been used differently by different sets of clients. The most common example was the use of the word “agent.” The role of agents is linked to many attributes - security, distance, availability of loans, simple processes, friendly staff, and flexibility in rules. The data have been analysed using the terms as defined in the glossary (Annex 5).

### **Agents - The Crucial Double Edged Sword**

The multiple roles of agents came up repeatedly as an integral part of a savings product design. The agents affect many of the product attributes.

Security was ranked as the most important attribute by respondents. Agents, if from the local area and known to the people, can play a significant role in establishing loyalty to a brand. They promote the acceptability of products and reputation of institutions. In many cases, such as LIC and Sahara, members would never have seen any office of these institutions, but the trust is high, often because of the agent.

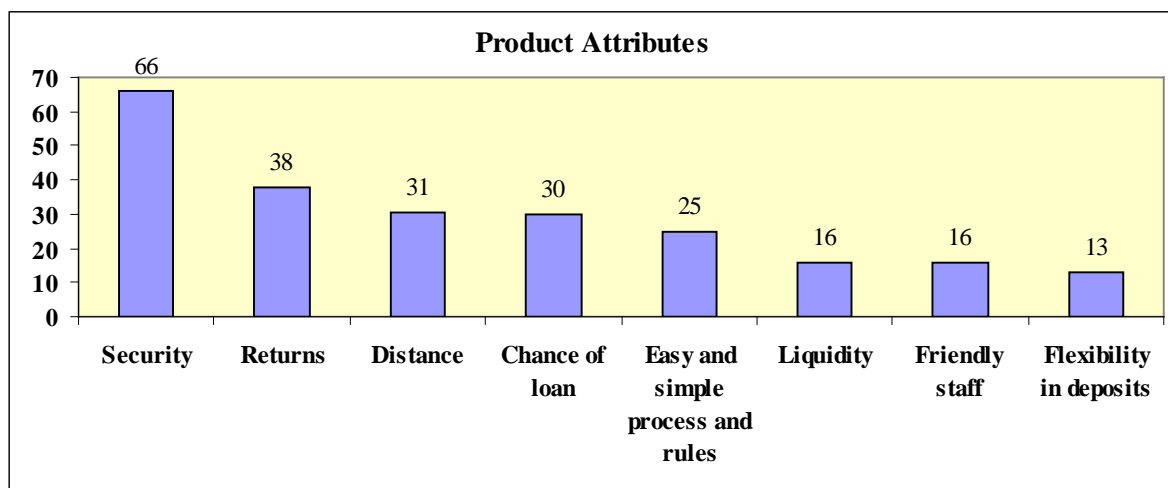
This also relates to another important attribute—distance. Perceived physical distance of an institution that employs agents is largely influenced by the level of efficiency of the agent. In case of life insurance, in the majority of the sample area, the offices of these companies are always the farthest away; but when asked to rank, respondents favored insurance companies in comparison to other institutions that are physically much closer.

The need for simple procedures was identified as a critical component of a product. Here again the role of agents was highlighted—they take care of all of the paperwork that acts as a deterrent for low-income people to access formal financial services.

Access to even basic information (for example, the products that the nearest bank offers) is a challenge for respondents, particularly in remote areas. Agents have played an important role in creating awareness of and popularizing products. They can help reduce the adverse impact of a number of attributes that are important for the institutions, but are unpopular among clients.

One reason respondents prefer informal mechanisms over formal institutions is the respect and sensitivity shown by the staff members who deliver the services. This is often because the staff (usually agents) are from a similar background or the local community.

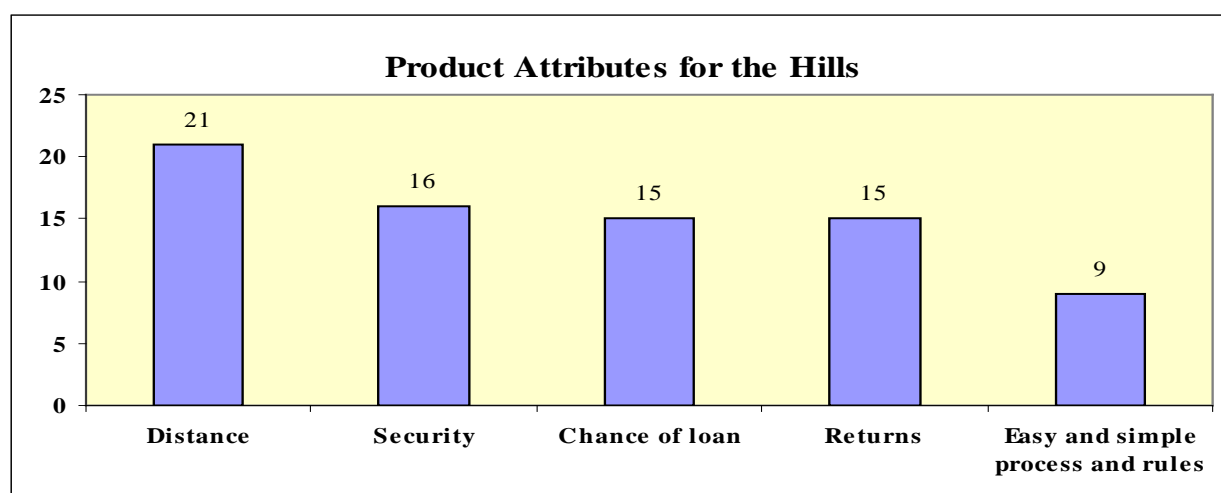
However, delivering financial services through agents has pitfalls. Respondents noted many cases of fraud by agents. The risk of fraud is higher with agents because they are not staff members of the institution and thus have less commitment and are more difficult to track down. So if systems are weak, delivery through agents may be highly risky and can ruin the institution's goodwill and reputation. The financial effect may be small or big, but the broken trust lingers, which affects not only that institution but other institutions in the area and the rural financial sector as a whole.



**Figure 8: Prioritised Product Attributes**

When analysing respondents’ preferences according to their geographical locations, the preference for specific attributes differs between those residing in the hills and those in the plains. These attributes are explained in detail in Annex 5.

**Figure 9: Preference for Product Attributes by the Population in the Hills**

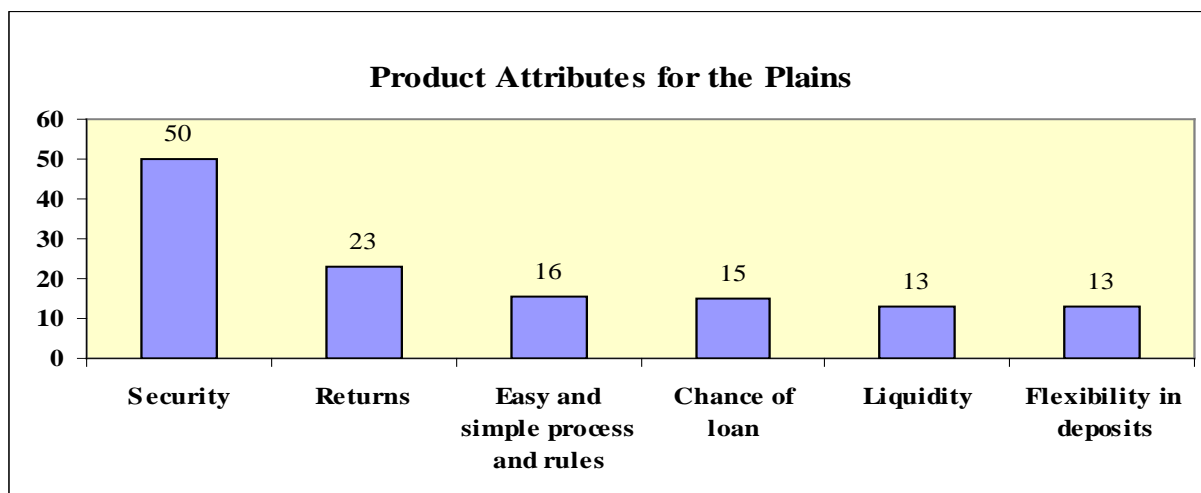


Hill areas have limited infrastructure and poor communication options, making it a difficult area in which to operate cost-effectively. Given these challenges, fewer financial service providers operate in this area. From the clients’ perspective, distance is seen as the biggest hurdle to accessing service providers. A product that is delivered to the doorstep, even at low rates of return, is likely to be well-received by the clients.

Security is the second most important attribute, with service availability seen a precondition for security. The option of taking out a loan against the saved amount also rises in rank for the same reason—lack of credit options.



Figure 10: Preference for Product Attributes by the Population in the Plains



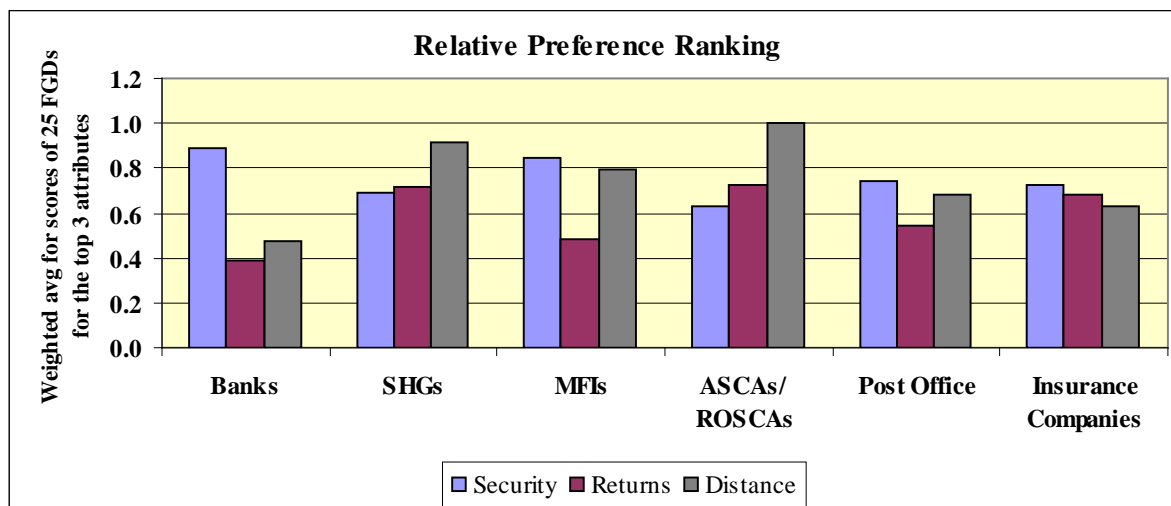
In the plains, the priorities are different because clients have a better range of providers from which to choose. Having choice is good for the client, although it often is difficult for the clients to weed out the good providers from the fraudulent ones. For this reason, security is the most important attribute. Security is established when the institution is associated with or backed by the government and/or is well branded, which gives the impression of the institution being genuine.

Multiple operators provide doorstep delivery and banks are also often within a more reachable distance from clients' homes and businesses in the plains. The large number of operators results in a more competitive environment, which has several implications for clients. First, operators deliver service at home, so distance or accessibility does not feature on the list of desired attributes for clients in the plains. Clients demand flexibility and liquidity, and, because of competition, providers must comply with these demands in order to compete.

People in the plains have a wider range of options to save or invest money. One way for service providers to compete is to offer clients competitive rates of return—another important attribute. This is generally the trend in areas with multiple service providers.

Low-income clientele seek institutions that have simple application processes and that accept clients regardless of their limited sources of funds and lack of support documentation. The use of agents was found to be most effective, as they are paid on the basis of business generated. The agents are thus motivated by financial gains and ensure that the needs of the clients are met by helping them with documentation etc.

Figure 11 shows the ranking of three attributes (security, returns, and distance) by service provider. More detail regarding these attributes is detailed in the Annex 5.

**Figure 11: Relative Preference for Savings Mechanisms**

Nationalised and public banks get the highest preference on security because of the government backing, while the private banks/NBFCs get the lowest score because of the high number of reported frauds among them. (Only the top five preferred service providers are shown in the figure). MFIs also receive a high score because most of them are local entities and group members are selected by the clients themselves.

The returns are highest for ASCAs, RoSCAs, and private companies. The circulation of money is fast, operational costs are minimal, and all profits are shared among the members. These entities also provide a range of client-oriented products from which clients can choose.

Many institutions get a similar ranking for distance—SHGs, NGOs/MFIs, ACSAs and RoSCAs, and NBFCs—not because of the physical proximity of their offices but because of the availability of doorstep delivery. Among them, ASCAs and RoSCAs get the highest score because they have an added flexibility: they permit clients to choose the meeting venue, select members, and decide on the number of members and the terms of the product. Post offices get a high score as well because they have a good coverage even in remote areas.

People possess strong coping mechanisms, often relying upon limited savings options to respond to crises, and they respond well to client-oriented products. **In summary, clients demand a secured institution that provides a savings product with good returns through client-friendly processes. Meeting this demand should be the strategic aim of service providers seeking to serve the people of the NER.**

### **Proven Savings Capabilities**

A respondent said, “Do you think it is possible for me to send my two children to Delhi if it was not for the money I got from the Marup last year?” Marups are a life saver for most of the people of Manipur. In the absence of formal financial service providers, and with the presence of unethical money lenders, people have had little choice but to organise Marups—hence, the growing number of Marups for every financial need of the family: for buying household assets; for land purchase; for starting businesses; for marriages and festivals; for education and health.

What matters to people is: “Getting the money in a lump sum and at the specified time—ideally with some returns.” Not getting the money on time affects the family’s financial planning and management adversely, leading to indebtedness and loss of income.

“Marups have come to the rescue of people by providing lump sums of money in time, since Marups are organised based on the needs of each member. So, for example, I saved Rs.1,000 every month in a Marup. There were 15 of us. I saved in the Marup so that I could get Rs.15,000 to buy yarns in April, which is the season when we get good yarns at cheaper rates. This enabled me to weave phaneks and shawls that are in high demand during chakouba festival in October–November.”

Another woman told how she could expand her livestock business through her Marup. “I had only two piglets last year. I sold them off in November last year, but then I had a plan to get four piglets in December. So I joined a Marup of Rs.500 per month. There were 20 of us and I opted to get my share on December 10 last year. I got Rs.10,000 and with that I bought four piglets worth Rs.8,000 and I used the balance of Rs.2,000 to pay school fees for three of my children. I am now confident that I could earn much more money in August or September this year when I sell the pigs.” When asked how she is managing to save the Rs.500 each month for the Marup, she noted that she had managed partly by selling poultry products, and partly from the 3 percent monthly interest on a loan of Rs.10,000 she had given to a friend last year out of the surplus she made by selling the two pigs. She also sells vegetables collected from her small farm and the surrounding forests three days a week in the town market, which earns about Rs.300–Rs.500 a week.

## Conclusion and Recommendations

The unmet demand for savings services is huge, and the thriving informal mechanisms have proved beyond doubt that low-income people have the capacity to save significant amounts. The key challenge that low-income people face is limited access to service. If services are available, the reliability of the service providers is brought into question: there have been many reported cases of fraud.

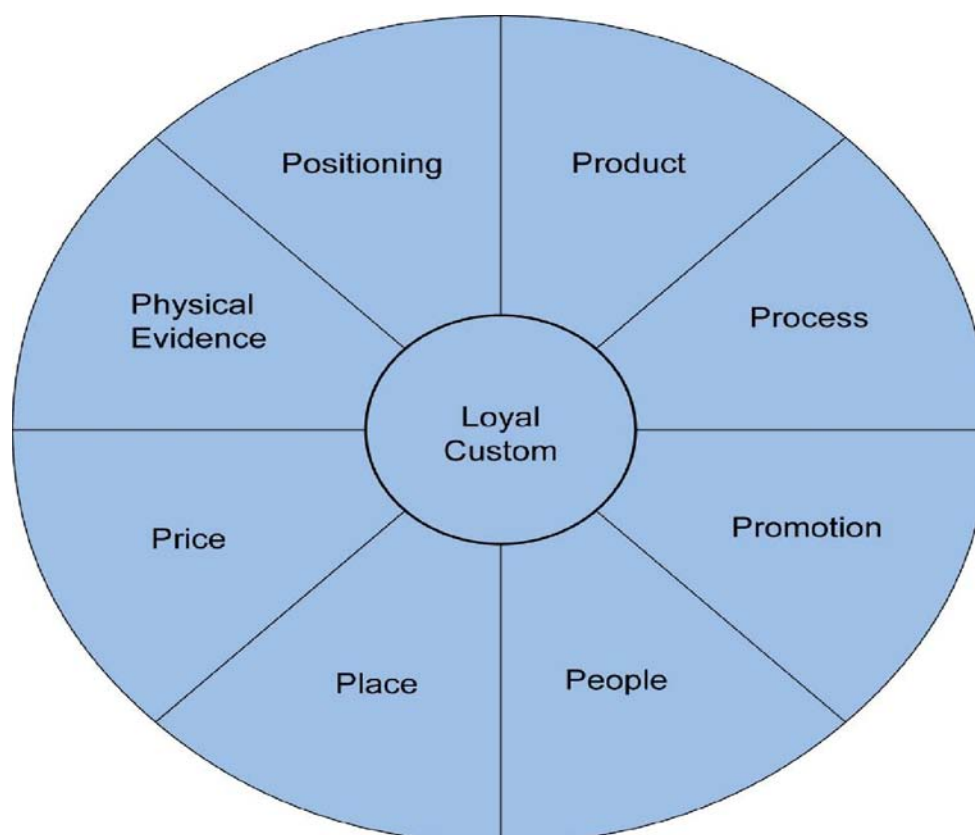
Savings services must respond to a wide range of needs—needs that are driven by a diverse array of life events. However, all savings products must meet a specific set of common needs: they must be secure, easy to apply for, and delivered at locations conveniently accessed by clients. The ranking order of these preferences varies depending on the geographical area in which the clients operate. For example, for clients in the hill areas, distance to the service is the key attribute, whereas for clients in the plains, security and the range of choice of service providers are important attributes.

To respond to different needs, savings products may vary in terms of amount saved, lock-in period, returns expected, and the frequency with which clients can deposit and withdraw savings. Clients perceive the return on savings differently. For example, low-income clients consider the non-financial value-add of savings to be a significant attribute.

## Product Recommendations

The objective of this study was to develop a suite of savings products that are adapted to the distinctive characteristics of the NER, yet flexible enough to support the financial inclusion strategies of a diverse range of financial institutions. Four savings products are recommended that could address the key concerns and demands of the low income people in four states of the North East Region. Each of these products can be further customised to meet the needs of the specific niche markets of the four states of the NER (some of these state-specific needs are discussed further below)<sup>5</sup>.

**Figure 12: The 8 Ps of a Product that Ensure Customer Loyalty**



The products have been designed (Annex 4) using the 8Ps concept because the research findings constantly reinforce the importance of the non-financial aspects of a product design to the low-income market. The product must encompass all of the 8Ps. Apart from the core product features (minimum savings amount,

<sup>5</sup> A more comprehensive description of these products using the 8Ps is included in Annex 4.

lock-in period, deposit and withdrawal rules) and price (rate of interest and cost of accessing the service), effective positioning and promotion, convenient place of delivery through easy processes and friendly people, supported by appropriate physical evidence, are essential for a product to meet the needs of the people. There may seem to be a contradiction in the large numbers that need these services and the specialised needs they have. However, if service providers are sensitive to the needs, a product designed on the basis of the 8Ps can be used most profitably and effectively to reach out, promote, and retain a loyal customer base.

**1. A General Savings Account:** This product is a simple, easily understood and managed demand savings account that offers a “gateway” through which the people of the region can enter the formal financial system. In the rural areas, clients can open an account with Rs.50 and maintain it with a minimum balance of Rs.100. Withdrawals are unlimited, building clients’ confidence by allowing them to access their money at will and to become familiar with the systems. Charges can be levied during account opening or for getting services delivered at doorstep because people see value addition and are ready to pay for it. The product will have very simple processes to attract customers to the system. The product can be positioned as a means to help people develop a relationship with a regulated financial institution.

**2. Short-Term Recurring Deposit Account:** This product addresses a variety of small and often recurring client savings needs up to two years in the future. This account is designed to help inculcate a savings discipline and reduce people’s use of high-interest loans as a way of covering expenses. Savings can be Rs.50 or more with no withdrawals during the term. This type of account can be considered an advanced version of the general savings account, where excess amounts can be saved for specific planned expenses. The product can be positioned as one that helps clients save small lump sums to achieve small dreams, which is a great start toward longer-term aspirations.

**3. Long-Term Recurring Deposit Account:** This product addresses client savings needs of larger amounts in the more distant future. Withdrawals are allowed with a penalty, which works as a deterrent. Loans, however, can be given to the clients against their saved amounts. This product is designed to help people plan for the future and to save lump sums to achieve life aspirations. It is aimed to help strengthen coping capacities by allowing clients the mechanism to save for definite planned expenses. Using these funds to cover expenses is more cost-effective for clients than taking out large, high-interest loans.

### The Lock Box

One of the issues that emerged repeatedly during this research was the need to have systems that help financial institutions reach the clients at their doorstep. The second common issue is that opportunities for savings usually apply to larger amounts of Rs.50 or more. The biggest service gap appears to be convenient mechanisms to capture very small savings, which, if saved frequently, will add up to the required weekly or monthly instalment of Rs.50 or more.

To address these two issues, one option would be to give out branded lock boxes, at full or subsidised cost, when an account is opened. This is common practice in many countries. In the Philippines, for example, most, if not all, rural banks provide their clients with lock boxes to help them accumulate bankable lump sums from regular petty cash savings deposited in the box. In India, clients could be encouraged to save small amounts in these boxes, instead of in earthen pots, in bamboos plants, or between sari folds.

Each box would have two sets of keys, one kept with the agent and the other held in the head office. As the daily amounts collected would typically be small, the risk is low. Controls can be strengthened by limiting the number of accounts handled by each agent and requiring that all cash collected from clients is deposited in the branch every day and/or on a specified date.

This system is most relevant for general savings accounts, which are open accounts where unlimited transactions of any amount are permissible. The lock box would help collect the small amounts that are available in the household. For recurring deposits, because the number of transactions is limited, the financial institution may not gain significantly from the use of a lock box.

**4. Monthly/Annual Fixed Deposit with Certificate Account:** This product is a simple, flexible fixed deposit account that can help clients safely store seasonal cash surpluses for future use. Essentially, it responds to issues of seasonality and the impact of different lifecycle events. The same product can be used for monthly or yearly savings, depending on the clients' cash flow. Certificates would be given for every Rs.500 saved. This product helps capture the seasonal earnings that are not possible with the other products since those require a fixed amount to be deposited each month.

### State-Specific Product Needs

Local practices also have significant bearing on product design. The recommended products have been designed based on the common attributes demanded by respondents from the four states. However, as mentioned in the section on sampling, there are significant differences among the four states. Consequently, when these products are designed and delivered by financial institutions, further fine-tuning might be considered. Some of the differences that lead to specific products are highlighted below.

**Manipur:** In Manipur, the sample included respondents from both the hills and the plains. The informal mechanisms, specifically the RoSCAs locally known as Marups, are very active in this state. Although the Marups are not the best option from a security standpoint, they are common because of the lack of other options. Respondents also stated the Marups are successful because the cost of accessing the banks' services is too high.

In Manipur, respondents expressed a strong need for credit. Clients open savings accounts as a way to access loans through that account. Beyond that, formal savings mechanisms are not appreciated. In addition, opening accounts can be a tedious process.

**Meghalaya:** Social networks are strong. Instead of withdrawing funds saved at banks, people in this area mobilise money through their networks. As a result, the respondents' demand for a withdrawal facility is lower in this area. This is potentially beneficial to a financial institution because it gives the institution a better chance to further invest the higher amount of savings that are left with the institution.

The Mizos in Meghalaya have specific needs that must be distinguished from those of the other groups such as the Garo, Khasi, and Jaintias. The Mizos, who are very entrepreneurial, have settled around the market areas. Their income levels tend to be higher than the income levels of the other communities in the sample. Because they are

involved in their businesses throughout the day, they are willing to pay to receive doorstep delivery to avoid spending time at the banks and away from their businesses. Based on the research, they can further save up to Rs.300–Rs.500 per month, over and above the amount they have committed to other financial

### Estimated Cost Incurred for Account Opening

Though the RBI has clearly defined the "Know Your Customer" (KYC) norms, which require very few documents, most banks ask for many more documents. Low-income people have to pay at least in three places:

- To get a certificate of residence,
- To find someone who can understand and complete the forms, and
- To find a nominee with an account in the bank.

Getting a certificate of residence from the Chief costs about Rs.50–Rs.100. NGOs sometimes help by arranging an introducer/nominee on behalf of an SHG group. Passport photos cost about Rs.60.

Travel costs are as follows:

- The cost of the bus ticket is about Rs.60, and a jeep/minibus is about Rs.10–Rs.20 from the village to the district head quarters.
- Travel time is about six hours each way.
- The paperwork takes a long time—the forms are 3–4 pages long and in Hindi and English only.
- The working hours of the bank are 9:30–11:30 am and 12:30–4:30 pm, and public service is available only from 10:00–11:30 am and 12:30–1:00 pm.

On the next day, if the client has managed to complete the forms, he/she joins the queue and submits the forms and the chalan (cash deposit slip). Once accepted, the client is asked to come the next day to collect the passbook. Thus, opening an account takes three days, apart from the costs incurred for travel, food stay, and loss of income—about Rs.80 per day.

institutions, if there are proper systems to collect the money on time at frequent intervals.

Respondents in Manipur and Meghalaya place significant importance on higher education. Savings options or schemes for this specific purpose would be very popular. Such an education savings scheme could start from the birth of the child and continue through the child's school-age years.

Monthly education expenses are about Rs.200. An additional Rs.10,000 is needed for admission fees, books, uniforms, and so on. For higher education, students go to Shillong, Tura, or Guwahati to attend private (missionary) colleges, which are preferred over the local government institutions. For these colleges, lump sums of about Rs.15,000–Rs.20,000 are required twice a year. For such large amounts, people are willing to take out loans against their savings. For smaller amounts, people prefer to withdraw savings. Consequently, the savings product would need to include two to four free withdrawals annually in order to meet clients' needs.

**Tripura:** The demand for savings services is significant and so is the potential. However, there are few MFIs in Tripura. A local NGO working with the tribal community could be used to reach the remotest parts of the area, with the NGO hiring staff to deliver services to clients at their doorsteps. Services should be provided frequently (perhaps weekly) through doorstep service—preferably 7:00 to 10:00 am or, in some areas, between 4:00 and 7:00 pm.

The informal sector thrives here because demand is high and because it has been able to deliver products that suit people's needs. The response will be similar for the formal sector if the product offering is well-designed and -delivered. For example, since the State Bank of India launched its well-promoted Tiny Card<sup>6</sup> pilot in Meghalaya, the product has received a great response.

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<sup>6</sup> A biometric card that uses fingerprint technology to authenticate customers, which helps reduce the chances of fraud.

## **Final Thoughts**

The success of the microfinance industry worldwide is based on high volumes and the efficiency of standardisation. However, there is a conflict between the standardised generic products that are usually available in the market and the varied and specific needs of the clients. Resolving this conflict through creative and flexible product design is the challenge and the opportunity for financial inclusion.

The market for financial services is significantly different from the market for consumer goods. Financial services are intangible and are dependent on trust. Unlike the consumer goods market, where the producer and seller are usually separate, the attributes of the service provider and of the product often overlap because the financial institution is selling its own product. People will rarely change their financial institution if it has offered a range of products to meet all of their lifecycle needs, treated them with respect and courtesy, and built brand loyalty. However, with the growing options in the financial market, clients do have natural points of departure—for example, the end of a savings term or the maturity of a fixed deposit—and only a good product can ensure loyalty at these decision points. Financial institutions of all types must consider building customers for life with a product range that includes long-term products as well as perhaps accounts for children to initiate and maintain long-term relationships. And, of course, all of this must take place in a supportive regulatory environment.

Electronic banking, and particularly mobile banking, seems to offer huge potential to address the challenges of the NER—point of sales devices and mobile phones could enable agents to take services to the villages, or institutions could locate agency outlets in the villages (as has been done in Brazil, Kenya, and South Africa, for example). However, the biggest challenge and, in many cases, obstacle to harnessing the full potential of e-banking to massively increase financial access is the regulatory and policy environment, including banking regulations and appropriate communications, security, and information policies. Across the globe, central banks and other regulatory authorities are struggling as they assess how to respond to the opportunities offered by e-banking, and particularly m-banking. Specifically, they typically remain concerned about agency arrangements, KYC and Anti-Money Laundering/Combating the Financing of Terrorism requirements, and the creation of a parallel payments system.

However, even with the most enabling of regulatory environments, e-banking solution providers are only going to be successful in the short term if they concentrate on areas where cash is inconvenient and the e-banking solution can do things that cash cannot. To do this effectively, institutions must spend more time on understanding the market and building the value proposition and business case—the technology is ready and available!

This research is a first step toward identifying the specific needs of the clients, based on which four products have been defined. Given the complex nature of financial services, all aspects of the product have been addressed. The products are also designed in a way that would facilitate progression and cross-selling: first to make entry into the system easy through a typical “no frills” general savings product; and then offering short-term and long-term recurring deposit products (linked to emergency loan facilities) to help clients build up lump sums. Finally, because the income of rural clientele is hugely affected by seasonality, an additional product has been designed to help clients save their seasonal surpluses. This range of products can work in conjunction to meet the diverse savings needs of clients.

We hope that this report helps service providers and regulators better understand the needs of the people so that better client-oriented, market-led financial services can be delivered to the people of the NER.



## Annex 1: Operating Environment For Financial Institutions In The 4 Sample States

**Assam** is by the far the largest of the states in terms of population (70% of total NER). It has mostly plain land but also has two districts that are hilly and separate the Brahmaputra Valley from the Barak Valley. The region may be broadly divided into five distinct regions.

Region	Description
Upper Assam and North Bank	The Upper Assam tract is a resource rich region and people are better off than the other parts of the state. The Sonitpur district has the highest number of SHGs in the region. The largest cluster of NGOs providing financial services outside of Lower Assam is in the districts of North Bank, particularly in Sonitpur. Around 39 NGOs are operating in the North Bank. Most of them are however very small. Most of the NGOs in the districts of Upper Assam are mostly involved in facilitating SHG bank linkages rather than getting involved in microfinance services directly
Lower Assam	Lower Assam is the poorest region in the state. This part is poor in all socio-economic indicators. Micro enterprise sector is thrives in the region. Given the poor outreach of the formal banking network, informal financial markets are vigorous. Samabais, Samiti, Sanchois etc. (which are essentially Accumulating Savings and Credit Associations or “ASCAs”) are common in this area and each household is a member of at least 3- 4 such ASCAs. This cluster is the most vibrant with 114 NGOs operating. They account for half of the total figure. All the large MFIs of the region have their presence here. Besides, some of the larger MFI like Bandhan from West Bengal have also started their operations here.
Central Assam	Central Assam consists of the districts of Nagaon, Darrang and Morigaon. Morigaon is another district where SHGs have emerged in a large way. This area also has a large number of micro enterprises in the state. This is also a vibrant area with another large concentration of 36 NGOs All the large MFIs operate in either of these three clusters.
Hill Districts	Socio-economically this district is similar to the hill states. The intervention by International Fund for Agricultural Development-North East Region Community Resource Management for Upland Areas (IFAD-NERCMP) has promoted the microfinance market by developing the institutions and providing resources for developing SHGs. Almost all of the NGOs which deliver microfinance services have originated from the IFAD interventions.
The Barak Valley	This area is located in the southern part of Assam and shares characteristics with Bangladesh. Most of the population consists of Bengali immigrants who migrated to this area during the last century from Bangladesh. The area is poorer and micro enterprises thrive here. There are only a few NGOs involved in microfinance operations despite the vibrant microfinance sector

**Meghalaya** is hilly and inhabited by three large tribes. Based on their socio-economic characteristics, the region can be divided into three main regions. The region is characterised by strong interventions by the government/International Fund for Agricultural Development (IFAD) in the microfinance sector. Hence, the demand-driven NGO-MFI sector is almost absent. Most of the NGOs play a facilitator’s role rather than provide direct financial services.

Region	Description
The Khasis	The Khasis are the most dominant group in the state and reside around the capital city. The proximity to the capital naturally gives an added advantage which it leverages for economic and political benefits
The Jaintia	This region is inhabited by the Jaintia tribe. Coal mining is an important economic activity and dominates the area. Unlike in the other parts of the country, coal mines are owned by individual or groups of individuals as the land belongs to the community. A large number of people are involved in the coal mining industry as laborers and also in other service activities which provide support to the activity.
The Garos	This tribe has more similarity with the adjoining tribe – the Bodos residing in the foothills of Assam. They have a more robust economic relationship with the foothills of Assam. The economy of the region is therefore dominated by cash crops and a thriving forest based economy. Some coal is also mined in the region

**Manipur** is at the easternmost boundary of region bordering Myanmar. The region can be broadly divided into valleys and hills.

Region	Description
Imphal Valley	The valley area is inhabited by Meities who are known for their entrepreneurship. 90% of the population inhabits its valley, which consists of 10% of the area. Given the need for cash to promote enterprises, there is a vibrant informal financial services sector catering to their needs. Every morning Imphal starts at 5.00a.m. and begins to hum with activity. Women are economically very active and many start for the city from the villages from as early as 4.00a.m. The Imphal Valley also produces almost 80% of the commercial handloom cloth of the region. There is an obvious need for more cash in the area for business activities. In the absence of effective formal mechanisms, informal suppliers have emerged. Marups or Rotating Savings and Credit Associations (RoSCAs) are vibrant and each household may be a member of multiple Marups, formed for different purposes, as education, business etc. Most of the NGOs providing financial services is also concentrated in this region. Out of 42 NGOs 32 are located here.
Hills	The valley area is inhabited by Meities who are known for their entrepreneurship. 90% of the population inhabits its valley, which consists of 10% of the area. Given the need for cash to promote enterprises, there is a vibrant informal financial services sector catering to their needs. Every morning Imphal starts at 5.00a.m. and begins to hum with activity. Women are economically very active and many start for the city from the villages from as early as 4.00a.m. The Imphal Valley also produces almost 80% of the commercial handloom cloth of the region. There is an obvious need for more cash in the area for business activities. In the absence of effective formal mechanisms, informal suppliers have emerged. Marups or Rotating Savings and Credit Associations (RoSCAs) are vibrant and each household may be a member of multiple Marups, formed for different purposes, as education, business etc. Most of the NGOs providing financial services is also concentrated in this region. Out of 42 NGOs 32 are located here.

**Tripura** is one of the poorest states in the region. It can be divided into two broad regions: the non-tribal, inhabiting the plain areas and the tribal inhabiting mostly the hill areas.

Region	Description
Non-tribal areas	The state shares its border with Bangladesh on three sides and hence the non-tribal are mostly Bengalis who have migrated from Bangladesh. The population therefore bears close affinity to Bangladesh in terms of culture, economy and also the livelihoods. Non-farm activity dominates and the region is famous for cane and bamboo craft. Despite the high demand for microfinance services, there are only a few NGOs that are involved in microfinance. This is due to the prevailing adverse political situation, which does not conducive for NGOs to get into microfinance services.
Tribal areas	The tribal are mostly restricted to some pockets in the hills. These areas are more deficient in infrastructure and hence economically poorer. The economy is mostly subsistence and the level of monetisation is low.

## Annex 2: Methodology For The Research

### Training On Market Research For Microfinance

The research started with a training on *MicroSave*'s "Market Research for MicroFinance" (MR4MF) methodology at the Indian Institute of Bank Management (IIBM), Guwahati from January 15th to 25th, 2008. The resource persons for the training were Mrs. Shahnaz Ahmed, independent consultant, and Prof. Abhijit Sharma, IIBM.

The key objective of the training was to train the research team comprising of 5 consultants and staff of NGO-MFIs assisting with the study.

The participants for the focus group discussions at the core of the research were drawn primarily from among the clients of the following MFIs - Grameen Sahara and Gramin for Assam; Volunteers for Village Development for Ukhrul and Senapati in Tripura, Human Resources Development Organisation for Imphal Valley in Manipur and Sofmeda for Meghalaya. The training was also attended by the staff of these MFIs so that they could provide the necessary support to the research team.

### Choosing The Sample

The respondents were selected from the four states of Assam, Manipur, Meghalaya, and Tripura. Some of the criteria used to select samples from these states were:

**Balance of Topography:** All of these states have both hills and plains. Respondents were chosen from both the hills and plains as the drivers of demand and the choice of product attributes differ. The plains tend to have better infrastructure and more choice of financial institutions. In the hills there is a marked preference for door step delivery is high, even at a cost, in the hill areas as communication systems are not the best.

The break-up of the samples region-wise are given below:

**Table 5: Samples by Region**

State	Sub-Region	Group Nos.	Individual Nos.	Male	Female
Assam	Lower Assam (Plains)	17	133	6	127
	Central Assam (Plains)	8	55		55
	Upper Assam (Plains)	15	112	13	99
	Barak Valley (Plains)	10	86		86
Manipur	Imphal Valley (Plains)	15	108		108
	Ukhrul (Hills)	8	61	11	50
	Senapati (Hills)	7	58	12	46
Tripura	Non-Tribal (Plains)	16	127	10	117
	Tribal (Hills)	10	93	2	91
Meghalaya	Khasi (Hills)	14	94	15	79
<b>State</b>	<b>Sub-Region</b>	<b>Group Nos.</b>	<b>Individual Nos.</b>	<b>Male</b>	<b>Female</b>
	Jaintia (Hills)	7	49		49
	Garo (Hills)	9	70	15	55
<b>Total</b>		<b>136</b>	<b>1046</b>	<b>84</b>	<b>962</b>

Population of the state: The samples were also distributed equitably/in proportion to the size of the state in terms of population. Thus the largest sample size is from Assam, which is the biggest state and has the highest population. However the smallest sample was from Tripura, but it was ensured that the sample

adequately represented the target clientele.

**Level of Monetisation:** Due to the lack of safe and easy options for savings, savings in kind is common. The nature of the vehicle for saving in kind is driven by local preferences and cultures. So levels of monetisation and preferences for it affect the savings behaviour of people.

**Social Capital:** The key objective of savings is to prepare to meet some larger expense or to cope with crises. Social capital and reciprocity also plays an important role in responding to these crises. The availability and strength of social capital thus plays a key role in motivating or de-motivating people to save up. the strength of social capital is essentially a factor of which ethnic tribes the respondents belonged to.

**Sex:** The respondents were all members of MFIs and thus predominantly women.

**Urban and Rural:** The sample area has been categorised as urban, rural and semi-urban based on the level of economic activity in the area. Majority of the respondents were from the rural areas, which was the focus of the study.

The break-up of the samples as per urban and more remote locations is given below:

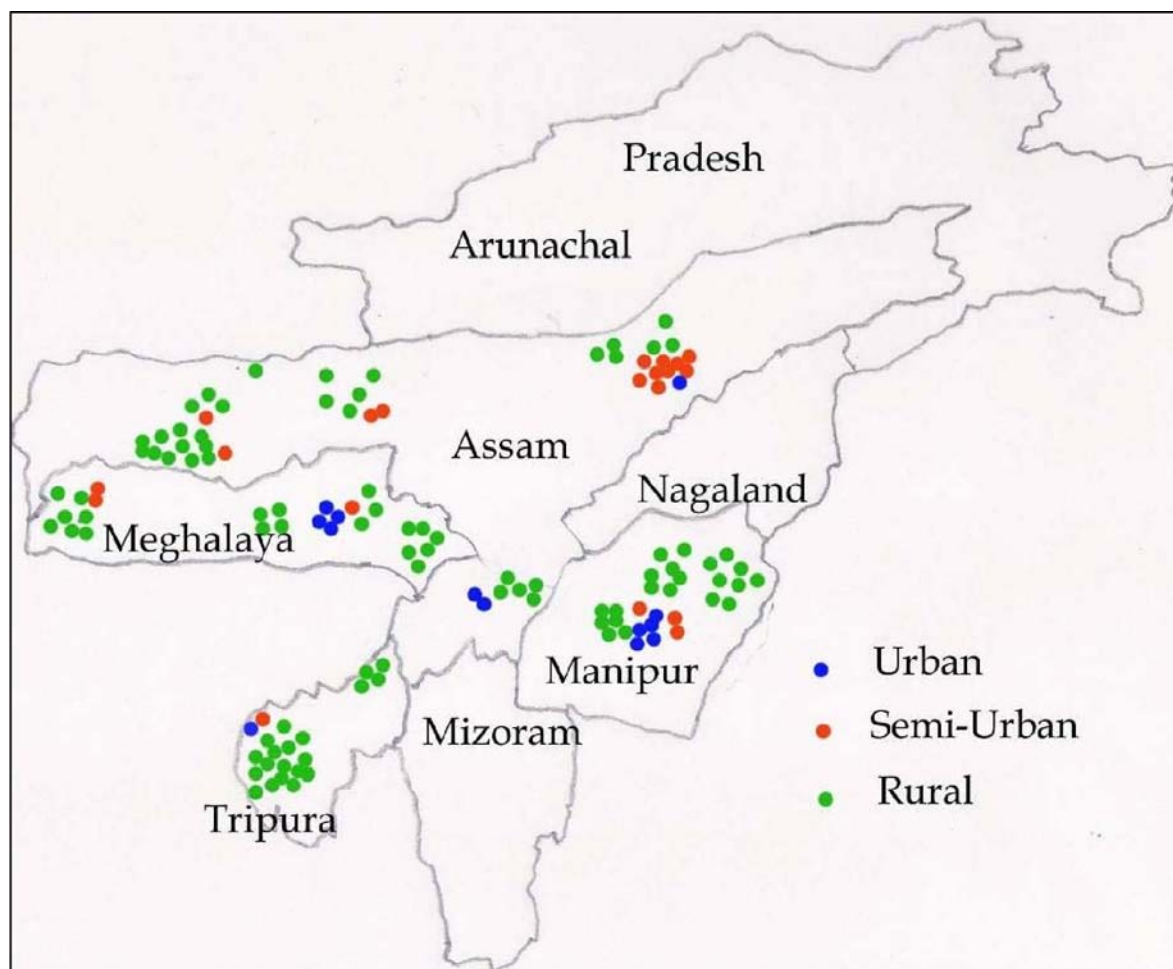
**Table 6: Samples by Urban, Semi-Urban and Remote Locations**

State	Rural/Urban	No. of Sessions	Total Respondents	Male	Female
Assam	Rural	34	268	6	262
	Semi-Urban	13	95	8	87
	Urban	3	23	5	18
Manipur	Rural	21	160	23	137
	Semi-Urban	3	21	0	21
	Urban	6	46	0	46
Tripura	Rural	24	204	4	200
	Semi-Urban	1	8	0	8
	Urban	1	8	8	0
Meghalaya	Rural	23	163	29	134
	Semi-Urban	3	24	0	24
	Urban	4	26	1	25
<b>Total</b>		<b>136</b>	<b>1046</b>	<b>84</b>	<b>962</b>

**Membership Status:** To facilitate data collection, the sample was drawn from clients who access microfinance services of the host MFIs – both through groups or individual lending. Thus the study focused primarily on women. This focus in the sample was also important as the women are the drivers of the household economy – and are most likely to save for the benefit of the household. They are also the most potential users of the products that would emerge from this study.

The map showing the distribution of the sample is given below.

**Figure 13: Distribution of Samples in the North East Region**



**Choosing the Research Tools**

After defining the research objective, the tools to be used for collection of data from the field were determined as a part of the research plan. The selection was as follows:

**Table 7: Tools Used in Research**

Tools Used	Rationale
Focus Group Discussions (FGDs)	The market research started off with the FGDs (Annexure-1 - FGD guide) to get details of the savings options that are being practiced by the people in the North East and their preferences for those services.
Seasonality of Income, Expenditure, Savings and Credit	This tool helps understand the cash flows of the community and identifies the times in the year when there is high and low probability of savings and thus the demand for savings services.
Lifecycle Events	This tool helps identify the events which create financial pressure on people and the ways in which an improved savings service system can help people cope with crisis situations better
Product Attribute Ranking	Product Attribute Ranking helps list and rank by importance the key attributes of a savings service demanded by the people and the reasons for it.

Tools Used	Rationale
Relative Preference Ranking	This tool helps gather data on: Existing service providers – formal, semi formal and informal who/which provide savings services in the area, their role/influence in the area and the scope for improved savings products in the area
Financial Services Matrix	The PRA tool was selected to understand the preferences for savings service providers of the people from different economic strata in the area.

The following table illustrates the tools used, their purpose, and the sampling framework at a glance.

**Table 8: Tools Used -by Location and Sampling**

Sub-Division	Group Nos	FGDs	Seasonality (I/E/S/C)	Lifecycle	Simple Ranking	Relative Preference Ranking	Financial Services Matrix
<b>Meghalaya</b>	<b>30</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>3</b>
Khasi Hills	14	4	2	2	2	3	1
Jaintia Hills	7	2	1	1	1	1	1
Garo Hills	9	2	2	2	1	1	1
<b>Tripura</b>	<b>25</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>3</b>
Plains ( Non-Tribal)	16	5	2	2	3	4	2
Tribal	8	2	2	1	1	1	1
<b>Manipur</b>	<b>30</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>3</b>
Ukhrul	8	2	1	1	1	2	1
Senapati	7	2	1	1	0	2	1
Valley	15	4	2	2	3	3	1
<b>Assam</b>	<b>50</b>	<b>15</b>	<b>9</b>	<b>8</b>	<b>6</b>	<b>8</b>	<b>4</b>
Upper Assam	15	4	2	2	2	4	1
Lower Assam	25	8	5	5	3	2	2
Barak Valley	10	3	2	1	1	2	1
<b>Total</b>	<b>136</b>	<b>38</b>	<b>22</b>	<b>20</b>	<b>18</b>	<b>25</b>	<b>13</b>

### Data Collection

The field research was conducted by the research team over a period of 3 months from 2nd February to 5th April 2008. The data collected was verified/reviewed by *MicroSave* staff members who also provided extensive support to the consultants. In order to take mid-point corrective action or give clarity on the use of the tools, review meeting with the research team and *MicroSave* was held during the field study during 3rd to 7th March, 2008.

### Report Writing Workshop

Data collation and analysis was completed during the week of April 7–12, 2008 with the research team facilitated by *MicroSave*. The key focus of this workshop was to collate all the information on each of the key research questions and then brainstorm and agree on the plausible product concepts.

### Triangulation of Data

Triangulation of the data collected from the field was an important guiding principle during data collection, collation and analysis. The tools selected were designed to draw out related information from the respondents in different groups. Thus for example, the product attributes identified while doing Product Attribute Ranking were cross checked while doing Relative Preference Ranking and Financial Services Matrices in the same area.

### **Annex 3: Research Plan: To Understand the Savings Behaviour of the Poor in the NER of India**

#### **Research Issue**

The microfinance industry remains primarily supply led as service providers tend to think of the microfinance clients as a homogeneous group. Recently, trends are changing and stakeholders are increasingly recognising the need for diverse financial services for the poor.

Microfinance initiatives came in much later in the North East than the rest of the country and have yet a lot to achieve. Further, savings has not been in the forefront of financial services offered by service providers. This research is being undertaken to understand the diverse savings need for the poor and to design products and services which would improve the availability of savings services in the North East.

#### **Research Objectives**

The specific objectives of the research are to:

- Better understand the saving options and practices of the poor in the North East of India
- Examine the options, challenges, and opportunities for financial institutions interested in delivering financial services to the poor in these two regions; and
- Explore the ways in which donors and other players can influence the sustainable and safe provision of savings services to this market.

#### **Methodology**

*MicroSave* will undertake the demand-side research to understand the savings behaviour of poor people, for both, those linked with microfinance institutions and those who are not. This will help develop various savings product prototypes to address the diverse needs of the people in the North East.

The demand-side component will examine the basis and drivers for client's choice of financial services. It will examine the services offered to clients by the informal, semiformal and formal sector and the client's perceptions of the available products and services. It will use the qualitative tools developed by *MicroSave* to conduct the research.

A training was organised with the consultants and the staff of the MFIs to train participants in the use of the toolkits and also to standardise the inputs and data that would flow back for collation of the report. The respondents for the research would be primarily members of MFIs located in the region. Some non – members from the region will also be involved if the PRA sessions so required.

The consultants would be assisted by the staff of the MFIs who have been trained on the toolkits as Assistant Moderators. The 4 MFIs assisting the research are Grameen Sahara, Gramin for Assam, Volunteers for Village Development for Ukhrul and Senapati, Human Resources Development Organisation for Imphal Valley and Sofmeda for Meghalaya.

The field surveys will begin February 2, 2008 and will end by March 15, 2008 and would be conducted by the consultants. The data collected would be verified/reviewed by *MicroSave* staff. In order to take mid-point corrective action or clarifications, review meetings with the consultants and the *MicroSave* staff and the Program Coordinator would be held twice during the field study. The first meeting will be held on the 4th March 2008. The second would be held on the on the 21st and 22nd March 2008. The report would be written on the 1st week of April with inputs from the consultants. The report would be submitted to *MicroSave*, Lucknow on the 15th of April 2008. The detailed work schedule has been prepared. The tools that will be used to collect the data are as follows:

**Table 9: Tools to be Used in Research**

Tools Used	Rationale
Focus Group Discussions (FGDs)	The market research will start off with the focus group discussions using the guide to get details of the savings options that are being practised by the people in the North East and their preferences for those services.
Product Attribute Ranking	Product Attribute Ranking will help list and rank by importance the key attributes of a savings service demanded by the people and the reasons for it.
Relative Preference Ranking	This tool will help gather data on: <ul style="list-style-type: none"> <li>○ Existing service providers – formal, semi formal and informal who/which provide savings services in the area</li> <li>○ Their role/influence in the area</li> <li>○ The scope for improved savings products in the area</li> </ul>
Lifecycle Analysis	This tool will help identify the events which create financial pressure on people and the ways in which an improved savings service system can help cope crisis situations better.
Seasonality Analysis	This tool will help understand the cash flows of the community and identify the times in the year when there is high and low probability of savings and thus the demand for savings services.
Financial Services Matrix	The PRA tool was selected to understand the preferences for savings service providers of the people from different economic strata in the area.

Some of the specific questions that the research is expected to answer are:

- What are people's perceptions of different savings services available in the market?
- What are the different savings services accessed by people from different socio economic status?
- How are saving services being used to manage expenses?
- What are the needs and preferences for different savings need?
- What are the high potential product concepts to respond to these needs and preferences?
- What are the possible opportunities for financial institutions to promote savings services in the North East of India?

The answers to the above will help the research team develop savings product concepts which will be shared with the supply stakeholders in order to come up with opportunities for financial institutions in the region.

*MicroSave* will complete the demand-side research, drawing upon secondary sources and primary information collected through focus group discussions and participatory rapid appraisal techniques.



### Sampling Framework

Communities from both the hills and plains from the 4 states of Meghalaya, Manipur, Assam and Tripura would be covered to give an idea of the region. Care has been taken to ensure representation of the different sub-regions. The total number of sessions to be held is 135.

**Table 10: Sampling Framework**

Sub-Division	Group Number	FGDs	Seasonality (I/E/S/C)	Lifecycle Analysis	Simple Ranking	Relative Preference Ranking	Financial Services Matrix
<b>Meghalaya</b>	<b>30</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>3</b>
Khasi Hills	14	4	2	2	2	3	1
Jaintia Hills	7	2	1	1	1	1	1
Garo Hills	9	2	2	2	1	1	1
<b>Tripura</b>	<b>25</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>3</b>
Plains	17	4	2	2	3	4	2
Tribal	8	2	2	1	1	1	1
<b>Manipur</b>	<b>30</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>3</b>
Ukhrul	8	2	1	1	1	2	1
Senapati	7	2	1	1	0	2	1
Valley	15	4	2	2	3	3	1
<b>Assam</b>	<b>50</b>	<b>15</b>	<b>9</b>	<b>8</b>	<b>6</b>	<b>8</b>	<b>4</b>
Upper Assam	15	4	2	2	2	4	1
Lower Assam	25	8	5	5	3	2	2
Barak Valley	10	3	2	1	1	2	1
<b>Total</b>	<b>135</b>	<b>37</b>	<b>22</b>	<b>20</b>	<b>18</b>	<b>25</b>	<b>13</b>

## Focus Group Discussion Guide to Understand the Savings Behaviour of the Poor in the North East of India

### Welcome

Thank you for coming – we are grateful for your time and effort that you've taken to participate in this very important discussion.

We are from *MicroSave*. *MicroSave* is a research organisation that looks at financial services for people who do not have access to banks. We try to ensure that client's voices and ideas are heard by the organisations, which provide financial services to poor people.

We are trying to look at savings services that people in the NorthEast would find most beneficial for their uses. Please stop us if we speak too quickly or use words you do not understand.

We are holding these discussion groups to try to understand your views on savings and the kind of saving products that you would prefer to use.

We would very much like to record these discussions to help us remember them and so that we do not miss any of the issues and ideas, you give us and use it to write a report. So please do not be concerned and feel free to express your opinions about the products openly. We want to make sure that we don't miss any of your good suggestions.

As a first step, we should introduce ourselves. My colleague here will prepare nametags to help us remember your names. My name is \_\_\_\_\_. My colleague's name is \_\_\_\_\_. Please tell us your names.

Core Questions	Probes
<p><b>Warm-up Questions</b></p> <p>1. What activities do people generally take up for livelihood in your community?</p> <p>2. What are the festivals you have in this locality?</p>	<ul style="list-style-type: none"> <li>• Ask about the specific livelihood activities – within the broader category.</li> <li>• What financial pressures involved in this.</li> </ul>
<p><b>General Questions</b></p> <p>3. Generally how one can save?</p> <p>4. In this community what do people do with the surplus?</p>	<ul style="list-style-type: none"> <li>• Informal / Formal?</li> <li>• Cash / Kind?</li> <li>• Indigenous?</li> </ul> <p>How do people manage during crisis/ emergency situations</p>

Core Questions	Probes
<p><b>Research Questions</b></p> <p>5. Generally in a year, which are the surplus months in your community? Why?</p> <p>6. When income/earning is bad, how do people manage their household expenses?</p> <p>7. Who saves most in your community? Why?</p> <p>8. Generally, how do people save in your community?</p> <p>9. For what purposes do people save in your community?</p> <p>10. What are the barriers to savings in this community?</p> <p>11. Which are the popular savings practices? Why?</p> <p>12. Which are the least popular savings practices? Why?</p> <p>13. If your friend had won a lottery, what would you advise your friend?</p>	<ul style="list-style-type: none"> <li>• Which months do you have extra money after meeting household expenses?</li> <li>• How do people manage during crisis/ emergency situations?</li> <li>• Probe for Men/Women, Rich/Poor, Old/Young differences</li> <li>• Where do these people save?</li> <li>• Formal and informal financial services</li> <li>• Sources for Savings - Where does the money for savings come from?</li> <li>• When? / How often do they save?</li> <li>• Savings Size</li> <li>• Coping Mechanisms</li> <li>• Reasons for saving in any specific place?</li> <li>• What discourages/stops people to save?</li> <li>• What are the rules and regulations, accessibility, security, discipline, liquidity returns?</li> <li>• What are the advantages and disadvantages of various formal and informal saving services in the community (along with reasons for their preferences)?</li> <li>• Rs. 3000/4000 for an instance</li> </ul>
<p><b>Closure</b></p> <p><i>Thank you for your precious time. Your answers and discussion have been very helpful and informative. We are very grateful for the information you have provided and the lessons that you have taught us. We hope that we can use all of your good ideas in creating something that will improve the services that Financial Institutions provide in the area. Do you have any questions for us?</i></p>	

## Annex 4: Recommended Products

*MicroSave* finds the “8 Ps” of marketing are helpful when used as a guide to design the product, as this approach ensures that all the aspects of the product have been well addressed. The 8 Ps and the features/attributes context in which they have been used for designing the products are:

**Table 11: Product Matrix**

The “P”	What Does it Mean?
Product (Design)	<p>The product includes specific product features like:</p> <p>The <b>account opening amount</b> which the clients can easily save up. This amount filters away clients who are not serious about Savings but may miss out on good clients if the amount is inappropriately fixed.</p> <p>The <b>minimum balance</b> that is required to be maintained in the savings account, deficit of which will attract a penalty to the client</p> <p><b>Unlimited or limited or no withdrawals</b>, which is usually determined by the purpose and term of savings as people prefer locked in accounts for long term savings and open accounts for short term savings. Limited withdrawal gives an estimate of what amount will always be locked in and can be used for investing, on lending.</p> <p><b>Flexibility of deposit amounts</b> as people want to save up small amounts to reduce spending and large amounts during the Seasonal peaks. It is good for the financial provider also to be able to mobilise the excess savings.</p> <p><b>Flexibility of deposit dates</b> as people want to save up whenever they can. Flexibility in deposit options makes a lot of difference in the amounts that can be mobilised. The choices are commonly between weekly and monthly savings, with some FIs offering daily or quarterly products also. This is usually based on the occupation and income frequency of the clients.</p> <p><b>Term of the savings</b> product is driven by purpose and lifecycle events. Longer the term, the better for the financial institution as it gives a secured source of funds.</p>
Price	<p><b>Rate of interest</b> is often considered as the most important item in price. In this case, the term interest has been used in a larger context, to mean interest and also returns on investment, specifically for savings in-kind, like livestock.</p> <p><b>Account opening fee</b> or member registration fee may be charged from clients to join the financial service provider.</p> <p><b>Indirect cost of access</b> to the service (e.g., travel costs, arranging documents, arranging an introducer) are not often expressed as a cost directly by the client, but adds to the cost of accessing the service.</p> <p><b>Encashment/early withdrawal penalties</b> may be added to deter early withdrawals; it is beneficial both to the client and the service Provider. Fee for issuing/replacing passbook</p> <p><b>Fees</b> for added benefits (e.g., delivery channels like agents or ATMs) if clients appreciate the value proposition of the product</p> <p><b>Transaction fees<sup>7</sup></b> are those fees charged on the basis of transactions made – either per transaction (for example Rs.10 per Withdrawal) or as a percentage of the transaction value (for example 1% of the amount transferred to another account)</p>
Place	<b>Place</b> refers to the place of transaction as convenient to the client and institution.

<sup>7</sup> Important note: It is the acceptability of transaction fees in Africa that has made the delivery of savings accounts to relatively poor segments of society feasible – they are willing to pay and the financial institutions can break-even/make a small profit on providing the savings service.

	<p>The <b>opening hours</b> during which the client can access the service is also important.</p> <p>The <b>distance</b> to be covered by the client and FI are both critical from the point of convenience and security.</p> <p>Financial institutions have used <b>diverse delivery channels</b> (e.g., branch, SHG, agent, ATM, mobile phone etc.) to help provide door step delivery and increase accessibility of services.</p>
Process	<p><b>Process</b> covers the procedures that a client has to undertake to access the services, for example, filling up forms, arranging for documents etc. The key here is making the processes simple and fast but not at the cost of increasing risks.</p>
Promotion	<p>Using the <b>correct channels of promotion</b> is as important as the product itself. Some of the most common media are direct sales through the staff or agents, word of mouth by existing clients, use of local leaders to promote the benefits of a product. Leaflets and posters may also be effective if distributed effectively.</p>
Physical Evidence	<p>This discusses the <b>presentation of the product</b>, which helps clients understand and value the product more. The condition of the branch, appearance of the staff, condition of the brand materials – forms, passbooks, savings card etc., are assessed by the client. A symbol representing any attribute for example, depicting security, through the state mascot of the rhino in Assam helps enhance client confidence and loyalty to the product.</p>
People	<p>People are essentially <b>the staff or agents</b> who deliver the product to the clients. The quality of training they have received, their friendliness, orientation to customer service, attitude towards client development together make people important.</p>
Positioning	<p>This is how the users <b>perceive the product</b>. The clients should ideally perceive the benefit and value proposition of the product in the same way as the institution has visualised it. Some of the USPs of the products based on which a savings product can be Positioned are: convenience, round the clock availability, flexibility, low cost, added benefits (e.g., insurance, money transfers, access to credit) etc.</p>

**A General Savings Account (A Basic Transactions Account)**

Across the four states, due to the limitations in accessing the semi-formal and formal institutions, informal mechanisms thrive. So one of the ways to increase the accessibility is to have a simple account which makes it easy for people to enter the financial services system. Many banks have introduced the no frills savings account which may require as low as Rs.1 to open an account and maintain it with a zero balance, but the promotion of such accounts has been minimal – not least of all because such accounts are unlikely to be a viable proposition for the banks. To work in remote areas the promotion and delivery of accounts take precedence over the core product features. This product is designed to attract customers to join the semi-formal and formal financial sector and then use the increased footfall to cross-sell other services of these financial institutions.

**Table 12: General Savings Account**

<b>A General Savings Account (A basic transactions account)</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
<b>Product (design)</b>	• Opening amount	The minimum opening amount should be between Rs.50- Rs.100 in rural areas and can be up to Rs.200 for semi-urban areas.	The high minimum opening amount is a deterrent for people to join main stream banking. So the amount should be kept as low as possible so that it attracts clients to the FI.
	• Minimum balances	The minimum balance can be kept at Rs.100 for rural, Rs.200 for semi-urban areas.	The minimum balance is a psychological deterrent because most people would usually save more than the minimum balance required, but if limitations are imposed it makes people critical about the product. So from the client view this should be avoided or kept at the lowest possible level.
	• Minimum deposits/ withdrawals	As low as Rs. 10 may be kept as the minimum amount for deposits and withdrawals.	Minimum deposit is a psychological barrier it can be reduced substantially without the institution being adversely affected as people themselves will not make an effort to go to the bank to deposit unless the amount is a substantial enough to justify the cost. So though Rs.10 may be the minimum deposit amount, most clients felt that they will go to the bank only when Rs.100 is accumulated. The lock boxes can help save up to Rs.100.
	• Flexible/fixed deposit amounts	Can be any amount.	For simplicity of accounting, multiples of Rs.10 may be suggested.
	• Flexible/fixed deposit dates (Frequency)	Clients should be allowed to deposit on any date.	Flexibility in deposit dates emerged as one of the most attractive attributes for the formal sector. It increases cost of operations, so Banks and MFIs can offer this if they have a good network of branches in their operational areas which people can access easily.
	• Flexible/fixed withdrawal amounts	Should be any amount.	Flexible withdrawal amounts attract people to financial institutions as it gives them a feeling of access to their saved amounts. People are sensitive to refusal by a financial institution for a withdrawal for a general account or encashment of a long term product due to liquidity issues. This affects the trust of the people in the institution, and more than that, the goodwill is

<b>A General Savings Account (A basic transactions account)</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			adversely affected as clients have to make multiple visits to withdraw their saved amount.
	<ul style="list-style-type: none"> <li>• Flexible/fixed withdrawal dates</li> </ul>	Should be any amount.	People withdraw savings only when they feel it is really important. So limits, for example, two withdrawals per month may be allowed, but on any date.
<b>Price</b>	<ul style="list-style-type: none"> <li>• Rate of interest</li> </ul>	Can be kept lower than market rates.	It is not very important attribute for this product as the average balance in this account is not likely to be very high and expected returns are to be low. So interest can be kept at minimal and focus can be on other attributes like ease of transaction, minimum documentation and formalities, liquidity and security.
	<ul style="list-style-type: none"> <li>• Account opening fee</li> </ul>	Up to Rs.25	As this product is meant to attract customers to join the saving services, there should not be any joining fee. However respondents were ready to pay an entry fee up to Rs.25 (non-refundable) to open an account in the bank.
	<ul style="list-style-type: none"> <li>• Fee for issuing/replacing passbook</li> </ul>	Nil	Clients should not be charged for Passbooks as in this product, all costs are to be kept at a minimal level. If interest rates are kept below market it should absorb these costs.
	<ul style="list-style-type: none"> <li>• Indirect cost of access to the service (e.g., travel costs, arranging documents, arranging an introducer)</li> </ul>		This is a big deterrent to join financial institutions and thus such costs should be kept minimal by making processes simple and efficient. Arranging for the documents (for example proof of residence document from local authority) involve costs and is usually a tedious process. Cost of transportation can be as high as Rs.50 for a single visit to the nearest financial institution. As communication systems are not the best in the NER, it adds to the burden of the clients. This is also why agents are so popular even if an added price has to be paid for their service. .
	<ul style="list-style-type: none"> <li>• Fees for added benefits (e.g., delivery channels like agents or ATMs)</li> </ul>	Clients would be ready to pay a minimum price if door step delivery is assured.	<p>This product will be difficult to be serviced by an agent or staff at the door step because of its flexible nature. For example the client may want to deposit daily or withdraw multiple times in a week. So for the client to make full use of the attributes of this product, it can be offered effectively only by institutions which have either</p> <ol style="list-style-type: none"> <li>1. A good branch network in the rural areas, or</li> <li>2. Have a good agent network, or</li> <li>3. Able to use one of the various options for electronic banking (see discussion of this under Place).</li> </ol> <p>Clients are ready to pay an extra amount for an efficient system, especially in the hill areas, where long distance and poor communication modes was identified as the most important attribute.</p>
<b>Place</b>	<ul style="list-style-type: none"> <li>• Place of transaction</li> </ul>	Amounts to be collected in a	This account will, of course, result in variable, unpredictable transactions and will

<b>A General Savings Account (A basic transactions account)</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
		<p>box at home.</p> <p>Account opening can be arranged at door step through agents.</p> <p>Repeated transactions may be at the nearest branch.</p> <p>Institutions may consider delivery of services through mobile branches.</p>	<p>therefore have a higher risk profile in terms of agent fraud and theft. Financial institutions wanting to offer this type of product will have to assess these risks and the potential of mitigating them either through e-banking solutions or rigorous internal audit routines; or simply by deciding that this account will be only available on a branch-based basis (either entirely or above specific transaction ceilings).</p> <p>For account opening/member registration, agents can play a critical role. To balance between repeated transactions for this product and reduce the cost of collection, a locked savings box can be given by the financial institution to save up the small amounts, which can then be collected by the agents, or deposited by the client at the nearest branch of the financial institution. (Details of the lock box are outlined in the main report above).</p>
	<ul style="list-style-type: none"> <li>• Opening hours</li> </ul>	<p>During non –working hours, can be during the later hours of the day (11:00 – 16:00.00) or early morn (from 6:00 – 8:00) and late evening (17:00 - 19:00) depending on the occupation of the members.</p>	<p>Banking hours are important for rural clients because transactions are mostly done by the women (even though the husband may be the client) who are engaged in household activities during the morning hours.</p>
	<ul style="list-style-type: none"> <li>• Distance</li> </ul>	<p>Nearest branch or if all or some branches can be delivered at door step.</p>	<p>Apart from the cost factor mentioned above, distance is important because of time, poor mode of communication and unfamiliar areas. So door step delivery can significantly enhance response to these products. Agents influence the perception of distance for the client, because even if the financial institution is physically located at a distance, agents make the financial institution seem closer and more accessible.</p>
	<ul style="list-style-type: none"> <li>• Delivery channel (e.g., branch, SHG, agent, ATM, mobile phone etc.)</li> </ul>	<p>Convenient and trustworthy channels – but may have to be branch-based because of the nature of the product.</p>	<p>As SHGs are thriving in most of the areas, it would be convenient to route the services through this channel, to be serviced by the agents. The lock box can help on the deposit side, by helping collect daily amounts until the agent/field staff collects the cash. An alternative to SHGs might be the temple or church committees, which are also trusted by people in the community.</p> <p>Mobile branches also may be considered. There are centres of economic activity where the branches could be set up on a weekly or monthly basis. Security will be a key concern for the financial institutions providing this service. This delivery</p>



<b>A General Savings Account (A basic transactions account)</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			<p>mechanism may be feasible in states other than Manipur where the political situation is not stable at the moment.</p> <p>The alternative way is to service the clients through various options of electronic banking, which are picking up in India. A POS can be used for both deposit and collection through MFI/Bank staff or through local agents or by using trusted people of the community as temple/church committees or SHG leaders.</p> <p>Kiosk banking as being tested by Drishtee may be an option if the test is successful and can be rolled out on a large scale.</p> <p>If technology permits, mobile phone banking can be considered as mobile phones have penetrated the rural areas to a large extent. Mobiles are generally used by the men, but the households researched are typically users of mobile phones – and this therefore represents an important opportunity.</p> <p>A branch-based approach to delivering this product is likely to reduce its uptake, but will significantly increase the security of the clients’ deposits and reduce the cost of delivering the product for the bank.</p>
<b>Process</b>	<ul style="list-style-type: none"> <li>• Streamlined/simple processes</li> <li>• Fast service</li> <li>• Minimum</li> </ul>	Processes must be kept simple and minimal as that is the Unique Selling Proposition of this product.	This product is meant to encourage the rural population to use the services of the formal financial institutions. Thus the process needs to be as simple as possible. It may increase the cost to the bank but the idea is to increase the footfall and cross sell other products.

<b>A General Savings Account (A basic transactions account)</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
	documentation		Documentation has to be simple and adhere to the KYC requirements <sup>8</sup> only, which are very basic (particularly for low value, low throughput accounts), but banks usually seem to ask for more than the KYC requirements.
<b>Promotion</b>	<ul style="list-style-type: none"> <li>• Direct verbal sales</li> <li>• Word of mouth</li> <li>• Local leaders like Sarpanch</li> <li>• Leaflets</li> <li>• Posters</li> </ul>	Direct verbal sales	<p>Promotion has a huge impact on the acceptance or non-acceptance of a product in the rural areas. Most of the rural poor have perceptions about, but no real experience of, formal and semi-formal institutions. These perceptions tend to be misleading. At the same time, as information is often incomplete, people show keen interest in knowing the details of the available options – but such information is rarely available. Agents/field staff who are well informed of the product benefits and features and are able to communicate it to the client will be the most effective communication method.</p> <p>Additionally awareness camps to increase product knowledge can be very beneficial.</p> <p>Promotion through local leaders as the teachers, social workers, vocal women who are most often the secretary and president of the SHGs can also be effective.</p> <p>Word of mouth can be the most effective medium of promotion as people rely more on people known to and trusted by them. However active promotion by word of mouth should be preceded by an awareness camp and leaflets/brochures, so that the correct information is spread.</p>

<sup>8</sup> Annex-II of RBI Notification No 48/2004 , 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards, dated 21<sup>st</sup> February, 2005

**Customer Identification Procedure: Features to be verified and documents that may be obtained from customers**

<b>Features</b>	<b>Documents</b>
<b>Accounts of individuals</b> <ul style="list-style-type: none"> <li>• Legal name and any other names used</li> <li>• Correct permanent address</li> </ul>	(i) Passport (ii) PAN card (iii) Voter’s Identity Card (iv) Driving license (v) Identity card (subject to the bank’s satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank (i) Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank) (any one document which provides customer information to the satisfaction of the bank will suffice )

<b>A General Savings Account (A basic transactions account)</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			Street plays can also be used.
<b>Physical Evidence</b>	<ul style="list-style-type: none"> <li>• Condition of the branch</li> <li>• Appearance of the staff</li> <li>• Condition of the brand materials</li> </ul>	<p>Forms in local languages along with English and well branded</p> <p>Staff with identity cards</p>	<p>Branches, staff should be in line with the customer needs and perception of a trust worthy institution.</p> <p>Identity card, uniform etc. for staff or agents can be helpful.</p> <p>Branded material enhances the perception of security of the institution.</p>
<b>People</b>	<ul style="list-style-type: none"> <li>• Staff</li> <li>• Quality of training</li> <li>• Friendliness</li> <li>• Customer service orientation</li> </ul>	<p>Local staff</p> <p>Staff who value their customers and treat them with respect</p>	<p>People prefer local staff who are known for their credibility in the area. This also has an added benefit of employment opportunity for the local people which is appreciated and adds to the sale of the product.</p> <p>Lack of customer service orientation in banks, especially for rural people, emerged very strongly in the discussion. They felt they were discriminated against and not encouraged by the banks. So good customer service and orientation can go a long way in attracting clients.</p>
<b>Positioning</b>	<ul style="list-style-type: none"> <li>• Security</li> <li>• Convenience</li> <li>• Round the clock availability</li> <li>• Flexibility</li> <li>• Low cost</li> <li>• Added benefits (e.g., insurance, money transfers, access to credit)</li> </ul>	<p>The product can be positioned as flexible product meant to facilitate people’s relation with Financial institutions. This is enhanced by giving people a choice of secured and flexible options.</p>	<p>People give high preference to banks because of security and liquidity. Security is related to the institution, while liquidity is related to the product.</p>

**Annex-II of RBI Notification No 48/2004 , 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards, dated 21<sup>st</sup> February, 2005**

**Customer Identification Procedure: Features to be verified and documents that may be obtained from customers**

<b>Features</b>	<b>Documents</b>
<p><b>Accounts of individuals</b></p> <p>Legal name and any other names used</p>	<p>(i) Passport (ii) PAN card (iii) Voter’s Identity Card (iv) Driving license (v) Identity card (subject to the bank’s satisfaction) (vi) Letter from a recognised public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank</p>

Features	Documents
Correct permanent address	(i) Telephone bill (ii) Bank account statement (iii) Letter from any recognised public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank) (any one document which provides customer information to the satisfaction of the bank will suffice )

### A Short Term Recurring Deposit Account

The short term recurring deposit account is designed to help inculcate savings discipline in people so that dependency for addressing expenses shifts from loans at high interest to own savings. This can be considered as an advanced stage of the general savings account, or where excess amounts can be saved for specific planned purposes.

**Table 13: Short Term Recurring Deposit Account**

A Short Term Recurring Deposit Account			
The “P”	Product Features	Details of the feature	Rationale
Product	<ul style="list-style-type: none"> <li>Opening amount</li> </ul>	The deposit amount for the first month should be the opening amount, which should vary between Rs.50 to Rs.100, depending upon the goodwill of the FI.	People usually fix the monthly recurring deposit amount by stretching their savings capacities. So people would find it difficult to save up amounts in excess to the monthly deposit amount. So, only the instalment for the first month should be the opening amount.
	<ul style="list-style-type: none"> <li>Term</li> </ul>	Maximum of 2 years.  If the financial institution has good MIS, options of terms of 12/18/24 months should be given to the clients.	The short term recurring deposit was suggested as a coping mechanism to address an upcoming planned expense. This account is likely to be used for purposive savings. Thus a small flexibility in terms of the maturity time, as the approximate date and amount needed is fixed, will attract clients.
	<ul style="list-style-type: none"> <li>Minimum deposits/ withdrawals</li> </ul>	A recurring minimum monthly deposit amount of Rs.100 for banks and Rs.50 for MFIs and private institutions are acceptable.  No withdrawals would be allowed until the term of maturity of the deposits.  In case of emergency, only the saved amount will be returned to the client and the account closed.	This product has a lock in period and no withdrawals are allowed to deter people from spending the saved money usually allocated for a specific purpose.  However there may be situations when the money is needed earlier than the maturity period. For example, if the money is being saved for a marriage <sup>9</sup> , and the marriage may get finalised before the estimated date and the client may need the cash. In such cases, the client should be returned all the money, but without any interest, and the account closed.
	<ul style="list-style-type: none"> <li>Minimum balances</li> </ul>	As the savings in the recurring deposit account is locked in, the issue of minimum balance is not relevant. The balance keeps accumulating over the months.	

<sup>9</sup> Note: Sometimes when marriage is nearing an additional effort is made to save more, and also large families with many members to marry off are unable to save for each marriage is not as long as they would want.

<b>A Short Term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
	<ul style="list-style-type: none"> <li>Flexible/fixed deposit amounts</li> </ul>	A minimum recurring amount of Rs.50 can be fixed. People can deposit more, preferably in fixed multiples of Rs.50 or Rs.100 for easy accounting and money management.	People may underestimate their saving capacities and be left with excess cash in hand which cannot be invested optimally. The scope to save small amounts as and when they have cash in hand would increase the saved amount. This is also important during the lean period when income is low and expenses are high, which forces people to use up whatever cash in hand. If the locked box system is used, flexibility can be ensured up to the monthly deposit amount. However this product will have limitation in terms of saving only the amount initially agreed by the client and will not be able to capture the increased seasonal incomes.
	<ul style="list-style-type: none"> <li>Flexible/fixed deposit dates (Frequency)</li> </ul>	The dates for recurring deposit have to be fixed. The flexibility can be brought in by introducing the lock box system. The monthly deposit date can be fixed in discussion with the client as clients have multiple commitments for expenses round the month.	Clients prefer flexibility of dates for making deposits. This could vary from 1-7 days of a due date. However this is more a psychological preference and if systems are established, clients would be agreeable to a fixed date also. Clients can save up small amounts in the box till the monthly due date. This would help the clients to save the small irregular amounts which they receive throughout the month.
	<ul style="list-style-type: none"> <li>Flexible/fixed withdrawal amounts</li> </ul>	No withdrawals would be allowed until the term of maturity of the deposits. In case of emergency, if the account is closed, only the saved amount will be returned to the client.	As the purpose of this account is very clear, clients who have specific objectives in mind only would open this account. Else the general savings account may be more appropriate for them.
	<ul style="list-style-type: none"> <li>Emergency encashment</li> </ul>	Access to their saved amount to cope with a crisis, can be in the form of a loan, the amount being a percentage (between 75 and 90) of the saved amount.	People want to withdraw cash from a saving account only when the need is dire. A loan against savings was a highly preferred attribute. People even were ready to take a loan against their savings at a higher rate of interest rather than close their recurring account.
<b>Price</b>	<ul style="list-style-type: none"> <li>Rate of interest</li> </ul>	Same as general savings product - same or even lower than market rate.	The people in general do not give a high priority to the rate of interest for short term saving products. What is more important that the small amounts be saved up for usually defined purposes. They are more concerned about the flexibility of deposit amount and time which they rank as very high.
	<ul style="list-style-type: none"> <li>Bonus/extra return</li> </ul>	The returns are low if compared with other savings instruments.	In rural areas with limited access to financial institutions, people save in kind. Some in-kind savings give high returns – but of course, also carry a higher risk.

<b>A Short Term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			<p>In semi-urban areas with a wider access to financial resources, people prefer to invest saved money in their businesses as it helps multiply money.</p> <p>More economically established clients in urban areas save in a number of saving instruments and are aware of the higher rates of returns that may be available in other instruments (mutual funds, shares etc.) which are not available in their area.</p>
	<ul style="list-style-type: none"> <li>Account opening fee</li> </ul>	<p>Clients are not likely to be ready to pay any entry fee for this account, or at the most Rs.10 (non-refundable).</p>	<p>The monthly recurring deposit amounts are usually agreed to by extending the savings capacities of the savers. So people would find it difficult to save up more amounts to open an account. So the instalment for the first month, should be the opening amount.</p>
	<ul style="list-style-type: none"> <li>Indirect cost of access to the service (e.g., travel costs, arranging documents, arranging an introducer)</li> </ul>	<p>Agents/staff will collect the monthly amount from the client’s houses on a fixed date. Costs incurred by the client would be less due to door step delivery and limited transaction possibilities.</p>	<p>The number of transactions is limited for this account and thus the cost of delivery and accessing services are both significantly reduced. Agents/staff would collect the deposits every month so as to ensure that the clients do not need to travel up to the branch<sup>10</sup>.</p> <p>Clients are ready to pay an extra amount for an efficient system, especially in the hill areas, where long distance and poor communication modes was identified as the most important attribute.</p>
	<ul style="list-style-type: none"> <li>Encashment/early withdrawal penalties</li> </ul>	<p>Penalty will be in the form of no interest paid when the account is closed, but no deductions should be made.</p>	<p>Access to savings is a key attribute for the clients. So have a penalty on that attribute would have huge adverse affect on the goodwill of the FI.</p> <p>However as people know that they are breaking a commitment they had made, the tolerance for non-payment of interest is higher.</p> <p>Moreover, even with a premature withdrawal and closure, the financial institution would have had access to the saved lump</p>

<sup>10</sup> Note: Respondents expressed a willingness to pay for these agents.

<b>A Short Term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			sum for a period of time and gained some returns on that. So no further deductions are to be made.
	<ul style="list-style-type: none"> <li>• Fee for issuing/replacing passbook</li> </ul>	The number of passbooks needed is likely to be only one per account. Clients are willing to pay up to Rs.20 for the passbook.	Clients ranked security as the most important attribute. One of the key ways to promote that, is the use of written evidence of growing balance through a passbook. So people are tolerant towards paying a small amount for the value it adds.
	<ul style="list-style-type: none"> <li>• Fees for added benefits (e.g., delivery channels like agents or ATMs)</li> </ul>	People value the added benefits highly. However this cost should be factored in the product pricing and not explicitly charged to the clients.	<p>Clients prefer door step delivery through staff or agents and are ready to pay an extra charge for it, for the following reasons:</p> <ul style="list-style-type: none"> <li>○ Saves time and money and hassle of travelling to the financial institution</li> <li>○ Helps in making the process simpler</li> <li>○ Enhancing awareness about the financial products and services</li> <li>○ Helps link rural people to formal financial institutions which they are generally averse of. Thus they are willing to pay an extra price for the services of an agent/staff.</li> </ul> <p>The predictable nature of the deposits under this product gives it a lower risk profile and it is this feasible to deliver it through agents.</p> <p>If similar benefits can be delivered through any of the emerging e-banking solutions, client acceptability is expected to be high.</p>
<b>Place</b>	<ul style="list-style-type: none"> <li>• Place of transaction</li> </ul>	Account opening and collection of monthly deposit should be done at the door step.	<p>For account opening/member registration the agents/field staff will play a critical role in simplifying processes and enhancing customer awareness leading to increased saving mobilisation.</p> <p>Continued monthly visits by the agents/field staff at the doorstep will keep enhancing the trust of the people in the service provider.</p>
	<ul style="list-style-type: none"> <li>• How convenient is it (opening hours, location)?</li> </ul>	During non –working hours, can be during the later hours of the day (11:00 – 16:00.00) or early morn (from 6:00 – 8:00) and late evening (17:00 - 19:00) depending on the occupation of the members.	Banking hours is important for the rural clients because the transaction is mostly done by the women (even though the man may be the client), who are engaged in household activities during the morning hours.



<b>A Short Term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			Location of the box at home would ensure the maximum convenience and flexibility (attributes which the clients have given highest maximum ranks) and also help in savings up the committed amount.
	<ul style="list-style-type: none"> <li>Distance</li> </ul>	Transactions will be done at the doorstep.	Apart from the cost factor mentioned above, distance is important because of time, poor mode of communication and the risks of travelling to unfamiliar areas/cities. So door step delivery can significantly enhance response to these products. Agents/field staff influences the perception of distance for the client, because even if the financial institution is physically located at a distance, they make the financial institution seem closer and accessible.
	<ul style="list-style-type: none"> <li>Delivery channel (e.g., branch, SHG, agent, ATM, mobile phone etc.)</li> </ul>	<p>Other than agents and field staff, collection through SHG leaders may be explored.</p> <p>At a later stage, mobile branches, or if technology permits, savings mobilisation through mobile banking or a POS may be considered.</p>	<p>As SHGs are thriving in most of the areas, it would be convenient channel to route the services through SHGs, who would be serviced by the agents. The lock box can help on the deposit side, by helping collect daily amounts till the agent/field staff collects the cash.</p> <p>Mobile branches also may be considered. There are centres of economic activity where the branches could be set up on a weekly or monthly basis. Security will be a key concern for the Financial institutions providing this service. This delivery mechanism may be feasible in states other than Manipur where the political situation is not stable at the moment.</p> <p>The alternative way is to service the clients through various options of electronic banking, which are picking up in India. A POS can be used for both deposit and collection through MFI/Bank staff or through local agents or by using trusted people of the community as temple/church committees or SHG leaders.</p> <p>Kiosk banking as being tested by Drishtee may be an option if the test is successful and can be rolled out on a large scale.</p>

<b>A Short Term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			If technology permits, mobile banking can be considered as mobile phones have penetrated the rural areas to a large extent. Mobiles are generally used by the men, but the households researched are typically users of mobile phones – and this therefore represents an important opportunity.
<b>Process</b>	<ul style="list-style-type: none"> <li>• Streamlined/simple processes</li> <li>• Fast service</li> <li>• Minimum documentation</li> </ul>	The account opening and operating processes should be simple and easy.	
<b>Promotion</b>	<ul style="list-style-type: none"> <li>• Direct verbal sales</li> <li>• Word of mouth</li> <li>• Local leaders like Sarpanch</li> <li>• Leaflets</li> <li>• Posters</li> </ul>	Any of these would work; local preferences would have to be taken in to consideration.	<p>Effective promotion has a huge impact on the acceptance or non-acceptance of a product in the rural areas. Most of the rural poor have perceptions about, but no experience of, formal and semi-formal institutions. These perceptions tend to be misleading.</p> <p>At the same time, as information is often incomplete, people show keen interest in knowing the details of the available options which is not often adequate.</p> <p>Agents/staff who are well informed of the product benefits and features and are able to communicate it to the client form the most effective communication channel.</p> <p>Awareness drives to increase product knowledge of clients and staff can be very beneficial.</p> <p>Promotion through local leaders as the teachers, social workers, vocal women who are most often the secretary and president of the SHGs can also be effective. Use of people with political affiliation has some risks.</p> <p>Word of mouth can be the most effective medium of promotion as people rely more on the known people. However active promotion by word of mouth should be preceded by an awareness camp and leaflets so that the correct information is spread.</p> <p>Street plays can also be used.</p>

<b>A Short Term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
<b>Physical Evidence</b>	<ul style="list-style-type: none"> <li>• Condition of the branch</li> <li>• Appearance of the staff</li> <li>• Condition of the brand materials</li> </ul>	The agents delivering the service should carry branded material such as identity card, branded forms of the MFIs etc. which would help enhance the trust of the people in the FI.	<p>Security of the saved amount was ranked the highest by the respondents. This can be translated through the use of branded identity, brochures, forms etc. The agents/staff should be well dressed to show the respect they show to their job and clients. Branches, staff should be in line with the customer needs and perception of a trust worthy institution.</p> <p>All forms that need to be filled in by the clients should be in local language along with the English version.</p> <p>People are sensitive to refusal of a withdrawal. So if a client has requested a premature closure, the financial institution should return the due amount through easy process and friendly behaviour. This affects the trust of the people in the institution and more than that the goodwill is adversely affected if clients have to make multiple visits to retrieve their saved amount.</p>
<b>People</b>	<ul style="list-style-type: none"> <li>• Staff</li> <li>• Quality of training</li> <li>• Friendliness</li> <li>• Customer service orientation</li> </ul>	People prefer local staff who are known for their credibility in the area.	<p>The added benefit of hiring local people is that it has an added benefit of giving employment opportunity to the local people which is appreciated and adds to the promotion of the product.</p> <p>Lack of customer service orientation in banks especially for rural people emerged very strongly in the discussion. They felt that the low income clients were discriminated against and not encouraged by the banks. So good customer service and orientation can go a long way in attracting clients.</p>
<b>Positioning</b>	<ul style="list-style-type: none"> <li>• Security</li> <li>• Convenience</li> <li>• Round the clock availability</li> <li>• Flexibility</li> <li>• Low cost</li> <li>• Added benefits (e.g. insurance, money transfers, access to credit)</li> </ul>	This is a simple product designed to help save up small lump sums to achieve small dreams. This is a great start towards longer term aspirations.	This product helps strengthen coping capacities by saving up for planned expenses and reduces the need to borrow.

### Long Term Recurring Deposit Account

The long term recurring deposit account is designed to further promote savings discipline and through long term planning. This also aims to reduce dependency on high interest loans to own savings. Most of the product features are similar to that of the short term savings product except for a more strict approach to withdrawals. This was suggested by clients as forced long term savings is deemed essential for a secure future.

**Table 14: Long Term Recurring Deposit Account**

Long term Recurring Deposit Account			
The “P”	Product Features	Details of the feature	Rationale
Product	<ul style="list-style-type: none"> <li>Opening amount</li> </ul>	The deposit amount for the first month should be the opening amount, which should vary between Rs.50 to Rs.100, depending upon the goodwill of the FI.	People usually fix the monthly recurring deposit amount by stretching their savings capacities. So people would find it difficult to save up amounts in excess to the monthly deposit amount. So, only the instalment for the first month should be the opening amount.
	<ul style="list-style-type: none"> <li>Term</li> </ul>	Options to choose between 3 to 10 years. To make accounting easier, there can be 3 options of 3, 5, 8 and 10 years.	The short term recurring deposit was suggested as a coping mechanism to address an upcoming planned expense. This account is likely to be used for longer term purposive savings. Thus a small flexibility in terms of the maturity time, as the approximate date and amount needed is fixed, will attract clients.
	<ul style="list-style-type: none"> <li>Minimum deposits/withdrawals</li> </ul>	A recurring minimum monthly deposit amount of Rs.100 for banks and Rs.50 for MFIs and private institutions are acceptable. No withdrawals would be allowed until the term of maturity of the deposits. In case of emergency, only the saved amount will be returned to the client and the account closed.	This product has a lock in period and no withdrawals are allowed to deter people from spending the saved money usually allocated for a specific purpose.  However there may be rare situations when the money is needed earlier than the maturity period to deal with some emergency or for the same purpose. For example, if the money is being saved for a marriage, and the marriage may get finalised before the estimated date and the client may need the cash. In such cases, the client should be returned all the money, but without any interest, and the account closed.
	<ul style="list-style-type: none"> <li>Minimum balances</li> </ul>	As the savings in the recurring deposit account is locked in, the issue of minimum balance is not relevant. The balance keeps accumulating over the months.	
	<ul style="list-style-type: none"> <li>Flexible/fixed deposit amounts</li> </ul>	A minimum recurring amount of Rs.50 can be fixed. People can deposit more, preferably in fixed multiples of Rs.50 or Rs.100 for easy accounting and	People may underestimate their saving capacities and be left with excess cash in hand which cannot be invested optimally. The scope to save small amounts as and when they have cash in hand would increase the saved amount. This is also important during the lean period when income is low

<b>Long term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
		money management.	and expenses are high, which forces people to use up whatever cash in hand. If the locked box system is used, flexibility can be ensured up to the monthly deposit amount. However this product will have limitation in terms of saving only the amount initially agreed by the client and will not be able to capture the increased seasonal incomes.
	<ul style="list-style-type: none"> <li>• Flexible/fixed deposit dates (Frequency)</li> </ul>	The dates for recurring deposit have to be fixed. The flexibility can be brought in by introducing the lock box system. The monthly deposit date can be fixed in discussion with the client as clients have multiple commitments for expenses round the month.	Clients prefer flexibility of dates for making deposits. This could vary from 1-7 days of a due date. However this is more a psychological preference and if systems are established, clients would be agreeable to a fixed date also. Clients can save up small amounts in the box till the monthly due date. This would help the clients to save the small irregular amounts which they receive throughout the month.
	<ul style="list-style-type: none"> <li>• Flexible/fixed withdrawal amounts</li> </ul>	No withdrawals would be allowed until the term of maturity of the deposits. In case of emergency, if the account is closed, only the saved amount will be returned to the client.	As the purpose of this account is very clear, clients who have specific objectives in mind only would open this account. Some Financial institutions actually provide clients with a “certificate of pledge” outlining the amount they will save each week or month and the purpose for which they are saving.
	<ul style="list-style-type: none"> <li>• Emergency encashment</li> </ul>	Access to their saved amount to cope with a crisis, can be in the form of a loan, the amount being a % (between 75 and 90%) of the saved amount. This facility can be availed only if a regular monthly payment has been made for the last 24 months.	People want to withdraw cash from a saving account only when the need is dire. A loan against savings was a highly preferred attribute, especially if the choice is between a long term savings product and a loan. People were ready to take a loan against their savings at a higher rate of interest rather than close their loan term recurring account.
	<ul style="list-style-type: none"> <li>• Rate of interest</li> </ul>	Interest should be more than any other savings product of the FI.	The expectation on long term savings product is high because of the secured nature of the product, if the client is a regular saver. The rate of interest should thus be more than the other savings product offered by the FI. However as other benefits related to convenience of product delivery has been added, the interest rate can be reduced marginally to cover costs. Again, as number of transactions is very limited, the cost of delivery is not high and thus the interest can only be marginally reduced on that pre text.
<b>Price</b>	<ul style="list-style-type: none"> <li>• Bonus/extra return</li> </ul>	The returns can be less than what is offered on the other account based savings products available in the market.	As this is a long term secured product, people demand more returns for this product. People are however ready to make compromises if the institution is established as a secure institution. This is because the need for security is higher for longer term products. It will be difficult for MFIs

<b>Long term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			or Banks to compete on the interest rate of the informal systems as Societies. So if the product is well designed and the financial institution secure, it can be used to compensate for compensate for a lower rate of interest.
	<ul style="list-style-type: none"> <li>Account opening fee</li> </ul>	Clients are not likely to be ready to pay any entry fee for this account, or at the most Rs.10 (non-refundable).	The monthly recurring deposit amounts are usually agreed to by extending the savings capacities of the savers. So people would find it difficult to save up more amounts to open an account. So the instalment for the first month should be the opening amount.
	<ul style="list-style-type: none"> <li>Indirect cost of access to the service (e.g., travel costs, arranging documents, arranging an introducer)</li> </ul>	Agents/staff will collect the monthly amount from the client’s houses on a fixed date. Costs incurred by the client would be less due to door step delivery and limited transaction possibilities.	The number of transactions is limited for this account and thus the cost of delivery and accessing services are both significantly reduced. Agents/staff would collect the deposits every month so as to ensure that the clients do not need to travel up to the branch.
	<ul style="list-style-type: none"> <li>Encashment/early withdrawal penalties</li> </ul>	Penalty will be in the form of no interest paid when the account is closed, but no deductions should be made.	Access to savings is a key attribute for the clients. So have a penalty on that attribute would have huge adverse affect on the goodwill of the financial institution. However as people know that they are breaking a commitment they had made, the tolerance for non-payment of interest is higher. Moreover, even with a premature withdrawal and closure, the financial institution would have had access to the saved lump sum for a period of time and gained some returns on that. So no further deductions are to be made.
	<ul style="list-style-type: none"> <li>Fee for issuing/replacing passbook</li> </ul>	The number of passbooks needed is likely to be only one per account. Clients are willing to pay up to Rs.20 for the passbook.	Clients ranked security as the most important attribute. One of the key ways to promote that, is the use of written evidence of growing balance through a passbook. So people are tolerant towards paying a small amount for the value it adds.
	<ul style="list-style-type: none"> <li>Fees for added benefits (e.g., delivery channels like agents or ATMs)</li> </ul>	People value the added benefits highly. However this cost should be factored in the product pricing and not explicitly charged to the clients.	Clients prefer door step delivery through staff or agents, for the Clients prefer door step delivery through staff or agents and are ready to pay an extra charge for it, for the following reasons: Saves time and money and hassle of travelling to the financial institution Helps in making the process simpler Enhancing awareness about the financial products and services Helps link rural people to formal financial institutions which they are

Long term Recurring Deposit Account			
The “P”	Product Features	Details of the feature	Rationale
			<p>generally averse of. Thus they are willing to pay an extra price for the services of an agent/staff.</p> <p>The predictable nature of the deposits under this product gives it a lower risk profile and it is this feasible to deliver it through agents.</p> <p>If similar benefits can be delivered through any of the emerging e-banking solutions, client acceptability is expected to be high.</p>
Place	• Place of transaction	Account opening and collection of monthly deposit should be done at the door step.	For account opening/member registration the agents/field staff will play a critical role in simplifying processes and enhancing customer awareness leading to increased saving mobilisation. Continued monthly visits by the agents/field staff at the doorstep will keep enhancing the trust of the people in the service provider.
	• How convenient is it (opening hours, location)?	During non –working hours, can be during the later hours of the day (11:00 – 16:00.00) or early morn (from 6:00 – 8:00) and late evening (17:00 - 19:00) depending on the occupation of the members.	Banking hours is important for the rural clients because the transaction is mostly done by the women (even though the man may be the client), who are engaged in household activities during the morning hours. Location of the box at home would ensure the maximum convenience and flexibility (attributes which the clients have given highest maximum ranks) and also help in savings up the committed amount.
	• Distance	Transactions will be done at the doorstep.	Apart from the cost factor mentioned above, distance is important because of time, poor mode of communication and the risks of travelling to unfamiliar areas/cities. So door step delivery can significantly enhance response to these products. Agents/field staff influences the perception of distance for the client, because even if the financial institution is physically located at a distance, they make the financial institution seem closer and accessible.
	• Delivery channel (e.g., branch, SHG, agent, ATM, mobile phone etc.)	Other than agents and field staff, collection through SHG leaders may be explored. At a later stage, mobile branches, or if technology permits, savings mobilisation through mobile banking or a POS may be considered.	As the SHGs are thriving in the area, it would be convenient channel to route the services through SHGs, who would be serviced by the agents. Temples/churches could also be used as trusted local outlets that could act as agents.  Mobile branches at the weekly markets can be considered for the remote areas, however the feasibility of this solution will depend on the ability of the financial institution to identify routes for the mobile bank that will allow the service to reach and serve a critical mass of customers.

<b>Long term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			Feasibility of information and transaction kiosks may also be explored. If technology permits and a value proposition is identified, mobile banking can be considered as mobile phones have penetrated the rural areas to a large extent. Many of the respondents belonged to families with mobile phones.
<b>Process</b>	<ul style="list-style-type: none"> <li>Streamlined/ simple processes</li> <li>Fast service</li> <li>Minimum documentation</li> </ul>	The account opening and operating processes should be simple and easy, but the terms and conditions may be stricter than the short term recurring deposit account.	
<b>Promotion</b>	<ul style="list-style-type: none"> <li>Direct verbal sales</li> <li>Word of mouth</li> <li>Local leaders like Sarpanch</li> <li>Leaflets</li> <li>Posters</li> </ul>	Any of these would work; local preferences would have to be taken in to consideration.	<p>Effective promotion has a huge impact on the acceptance or non-acceptance of a product in the rural areas. Most of the rural poor have perceptions about, but no experience of, formal and semi-formal institutions. These perceptions tend to be misleading.</p> <p>At the same time, as information is often incomplete, people show keen interest in knowing the details of the available options which is not often adequate.</p> <p>Agents/staff who are well informed of the product benefits and features and are able to communicate it to the client form the most effective communication channel.</p> <p>Awareness drives to increase product knowledge of clients and staff can be very beneficial.</p> <p>Promotion through local leaders as the teachers, social workers, vocal women who are most often the secretary and president of the SHGs can also be effective. Use of people with political affiliation has some risks.</p> <p>Word of mouth can be the most effective medium of promotion as people rely more on the known people. However active promotion by word of mouth should be preceded by an awareness camp, so that the correct information is spread.</p> <p>Street plays can also be used.</p>
<b>Physical Evidence</b>	<ul style="list-style-type: none"> <li>Condition of the branch</li> <li>Appearance of the staff</li> <li>Condition of the</li> </ul>	The agents delivering the service should carry branded material such as identity card, branded forms of the MFIs etc. which would help enhance the trust of the people in the FI.	Security of the saved amount was ranked the highest by the respondents. This can be translated through the use of branded identity, brochures, forms etc. The agents/staff should be well dressed to show the respect they show to their job and clients. Branches, staff should be in line with the customer needs and perception of a trust worthy institution. All forms that



<b>Long term Recurring Deposit Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
	brand materials		need to be filled in by the clients should be in local language along with the English version. People are sensitive to refusal of a withdrawal. So if a client has requested a premature closure, the financial institution should return the due amount through easy process and friendly behaviour. This affects the trust of the people in the institution and more than that the goodwill is adversely affected if clients have to make multiple visits to retrieve their saved amount.
<b>People</b>	<ul style="list-style-type: none"> <li>• Staff</li> <li>• Quality of training</li> <li>• Friendliness</li> <li>• Customer service orientation</li> </ul>	People prefer local staff who are known for their credibility in the area.	<p>The added benefit of hiring local people is that it has an added benefit of giving employment opportunity to the local people which is appreciated and adds to the promotion of the product.</p> <p>Lack of customer service orientation in banks especially for rural people emerged very strongly in the discussion. They felt that the low income clients were discriminated and not encouraged by the banks. So good customer service and orientation can go a long way in attracting clients.</p>
<b>Positioning</b>	<ul style="list-style-type: none"> <li>• Security</li> <li>• Convenience</li> <li>• Round the clock availability</li> <li>• Flexibility</li> <li>• Low cost</li> <li>• Added benefits (e.g insurance, money transfers, access to credit)</li> </ul>	This is a simple product designed to help people plan for the future and save up lump sums to achieve life aspirations.	This product helps strengthen coping capacities significantly by savings up for definite planned expenses and saves the huge amount of interests that are drained through paying high rates of interest on bigger loans.

**Monthly/Annual Fixed Deposit With Certificate Account**

This product is designed to help people save up the excess lump sums that they may have in hand during some parts of the year. This is essentially a function of seasonality and the impact of different lifecycle events. The same product can be used for monthly or yearly savings as per the cash flow.

**Table 15: Monthly/Annual Fixed Deposit with Certificate Account**

<b>Monthly/Annual Fixed Deposit with Certificate Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
<b>Product</b>	<ul style="list-style-type: none"> <li>Opening amount</li> </ul>	The account can be opened with the deposit of the first month.	As this account is meant to assist people to save up larger lump sums of money, the opening amount itself will be a high amount and thus no other amount is required.
	<ul style="list-style-type: none"> <li>Term</li> </ul>	The person can withdraw the full amount at any point in time. Those who complete 12 months, gets an additional 1% as interest on the savings. However, if the client, so wishes, can continue with the same account for another 12 months.	The amounts involved here are lump sums and only those who are serious about savings, can save. So withdrawal has been kept open.
	<ul style="list-style-type: none"> <li>Minimum deposits/</li> <li>withdrawals</li> </ul>	The minimum amount to open the account and to deposit money would be Rs.500. The client would have certificates in multiples of Rs.500.	This account is meant to help people to save bigger amounts and so the entry is higher than the other products.
	<ul style="list-style-type: none"> <li>Minimum balances</li> </ul>	The savings in this account is locked up and thus savings keep building up. Thus the issue of minimum balance is not relevant.	
	<ul style="list-style-type: none"> <li>Flexible/fixed deposit amounts</li> </ul>	The minimum amount to deposit is Rs.500 and the person is allowed to make excess payments in multiples of Rs.500. Certificates would be issued for each Rs.500.	<p>The amounts to be deposited are flexible as that is the basic objective of the product, to collect the excess amounts which if not saved will be spent.</p> <p>The certificates are a non-financial incentive and an easy way to keep track of the saved amount, both for the client and the agent/field staff.</p>
	<ul style="list-style-type: none"> <li>Flexible/fixed deposit dates (Frequency)</li> </ul>	The amount can be deposited on any date and frequency. Clients could use the locked box to save up the lump sums, if needed, till the collection date, to ensure that such larger amounts is not spent or taken away by any body else.	Amounts are deposited by the clients in the nearest branch by the client.
	<ul style="list-style-type: none"> <li>Flexible/fixed withdrawal amounts</li> </ul>	The full amount can be withdrawn at any point in time, after giving a 3-7 days (depends on the	These lump sums would usually be reinvested in the business when the time is opportune, so people

<b>Monthly/Annual Fixed Deposit with Certificate Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
		efficiency of the system of the FI) notice of withdrawal. If no notice is given the account is automatically renewed.	should have access to their saved amount. This product helps park the excess amounts for sometime, before it is reinvested or spent for what ever it was saved, for example, marriage, house construction etc.
	<ul style="list-style-type: none"> <li>• Emergency encashment</li> </ul>	The full amount can be withdrawn at any point in time, after giving a 3-7 days (depends on the efficiency of the system of the FI) notice of withdrawal. If no notice is given the account is automatically renewed.	As the amounts are high, 3-7 days of notice period has to be given to the FI. This has to be clearly communicated to the clients.
<b>Price</b>	<ul style="list-style-type: none"> <li>• Rate of interest</li> </ul>	The rate of interest should be on the higher side amongst other deposit products.	The rate of interest is kept higher as larger amounts can be generated by the FI and reinvested to earn higher amounts.
	<ul style="list-style-type: none"> <li>• Bonus/extra return</li> </ul>		In the absence of this product, people would usually be investing this amount in saving in kind, for example livestock, which has risks but can also give good returns. So people would expect good returns from their savings.
	<ul style="list-style-type: none"> <li>• Account opening fee</li> </ul>	Respondents would be ready to pay an entry fee of Rs.50 (non-refundable) to open an account. The client would be provided with a certificate which clearly would show the interest amount deposited per month.	As the amounts involved are high, people accept a payment of a small amount of Rs.50 (non-refundable) to open an account which would secure their larger saved amount. This would recover some of the costs of printing certificate etc.
	<ul style="list-style-type: none"> <li>• Indirect cost of access to the service (e.g., travel costs, arranging documents, arranging an introducer)</li> </ul>	The deposits and withdrawals for this product must be made at the financial institution’s branch.	To mitigate operation’s risks, the variable and relatively large sums that are expected as deposits for this product will have to be deposited at the financial institution’s branch. Often the lump sum will be generated in the very market town where the branch is located anyway and so the indirect costs will be relatively low for the client.
	<ul style="list-style-type: none"> <li>• Encashment/early withdrawal penalties</li> </ul>	The scheme is open and thus no penalties for withdrawal with notice. If the money is withdrawn without notice, the interest for the last month will be deducted.	This account is meant to capture the excess cash flows and so cannot be put into a lock in period for more than a year.
	<ul style="list-style-type: none"> <li>• Fee for replacing certificates</li> </ul>	Clients would not be charged for the certificates.	This will increase the perceived value of the

<b>Monthly/Annual Fixed Deposit with Certificate Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
		However, Rs.25 will be charged if it needs to be replaced for some reason.	certificates.
	<ul style="list-style-type: none"> <li>Fees for added benefits (e.g. delivery channels like agents or ATMs)</li> </ul>	Clients will not be charged anything extra for this product.	
<b>Place</b>	<ul style="list-style-type: none"> <li>Place of transaction</li> </ul>	Financial institution’s branch.	
	<ul style="list-style-type: none"> <li>How convenient is it (opening hours, location)?</li> </ul>	Same or more than the branch office hours of the FI, particularly during peak season.	Banking hours is important for the rural clients. For this account, the client may earn the money at the end of the day after selling harvest. So longer branch opening hours will be helpful to clients.
	<ul style="list-style-type: none"> <li>Distance</li> </ul>	Branch offices should ideally be near by to save time and to reduce risk of carrying cash to branch.	The mobilisation of the money for this account is likely to be at the markets, where sale of livestock or agricultural products will take place.
	<ul style="list-style-type: none"> <li>Delivery channel (e.g., branch, SHG, agent, ATM, mobile phone etc.)</li> </ul>	The product will be delivered through the financial institution’s branch.	
<b>Process</b>	<ul style="list-style-type: none"> <li>Streamlined/simple processes</li> <li>Fast service</li> <li>Minimum documentation</li> </ul>	The process will be simple with adequate staffing at the peak seasons of the year.	This is a seasonal product. There will some demand for it round the year as people come from different occupations which have different income cycles. However there would be some seasonal peaks in an area, based on the primary occupation of the people.
<b>Promotion</b>	<ul style="list-style-type: none"> <li>Direct verbal sales</li> <li>Word of mouth</li> <li>Local leaders like Sarpanch</li> <li>Leaflets</li> <li>Posters</li> </ul>	Any of these would work; local preferences would have to be taken in to consideration.	<p>This has huge impact of the acceptance or non-acceptance of a product in the rural areas. Most of the rural poor have perceptions not experience about the formal and semi-formal institutions. These perceptions tend to be misleading.</p> <p>At the same time, as information is often incomplete, people show keen interest in knowing the details of the available options which is not available.</p> <p>Agents who are well informed of the product benefits and features and is able to communicate it to the client is the most effective communication</p>

<b>Monthly/Annual Fixed Deposit with Certificate Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
			<p>method. Additionally awareness camps at the market place to increase product knowledge can be very beneficial.</p> <p>Agents could use the meetings of SHGs to promote the products besides using the services of the SHGs leaders to also promote such a product.</p> <p>Word of mouth can be the most effective medium of promotion as people rely more on the known people. However active promotion by word of mouth should be preceded by an awareness camp, so that the correct information is spread.</p> <p>Brochures showing features in local language with graphics would be immensely helpful to promote the product.</p>
<b>Physical Evidence</b>	<ul style="list-style-type: none"> <li>• Condition of the branch</li> <li>• Appearance of the staff</li> <li>• Condition of the brand materials</li> </ul>	<p>Branches, staff should be in line with the customer needs and perception of a trust worthy institution. It should be in convenient location where it will be easy to collect the deposits as soon as the sale is done.</p> <p>Identity card, uniform etc. for staff or agents can be helpful.</p> <p>Branded material enhances the perception of security of the institution.</p> <p>Forms should be in local languages. English version can remain.</p> <p>The certificate should be made appealing and resistant to tear due to regular use and in local language. It should clearly state the saved amount. On completion of a year an annual certificate may be given stating the total saved amount and the interest accumulated on it.</p>	

<b>Monthly/Annual Fixed Deposit with Certificate Account</b>			
<b>The “P”</b>	<b>Product Features</b>	<b>Details of the feature</b>	<b>Rationale</b>
<b>People</b>	<ul style="list-style-type: none"> <li>• Staff</li> <li>• Quality of training</li> <li>• Friendliness</li> <li>• Customer service orientation</li> </ul>		<p>People prefer local staff who are known for their credibility in the area. This also has an added benefit of employment opportunity for the local people which is appreciated and adds to the sale of the product.</p> <p>Lack of customer service orientation in banks especially for rural people emerged very strongly in the discussion. They felt they were discriminated and not encouraged by the banks. So good customer service and orientation can go a long way in attracting clients.</p>
<b>Positioning</b>	<ul style="list-style-type: none"> <li>• Security</li> <li>• Convenience</li> <li>• Round the clock availability</li> <li>• Flexibility</li> <li>• Low cost</li> <li>• Added benefits (e.g., insurance, money transfers, access to credit)</li> </ul>	<p>This is a simple product designed to help capture the high seasonal gains which if saved can help clients become debt free.</p>	<p>This product helps capture the seasonal earnings, which is not possible in the other products due to the limitation in the fixed monthly amount.</p>

## Annex 5: Glossary

**ASCA** (Accumulating Savings and Credit Associations), also known as *Sonchay, Somobay, Samiti, Got in Assam*: Members of the ASCA deposit (usually) monthly savings of a fixed amount into a central pool, from which money is lent out. Sometimes members are allowed to save different amounts, but these cannot vary on a month to month basis. The fund accumulates for a year or two but may sometimes go longer (to a maximum of five years). The number of ASCA members usually range from 25-40; but it is also possible to find some ASCAs with as few as 15 and as many as 120 members. No new members can join during the tenure of the ASCA. The ASCA and group dissolves upon completion of the tenure, and members get interest in proportion to their savings amount.

All members and (sometimes) non-members are also eligible for loans but taking loans is not compulsory. Loans are disbursed after the first round of deposits. ASCAs are usually purpose-based groups, and are often focused on liquidating and providing payouts prior to festivals. Interest on loans is at par with the prevailing local market rates of the informal sector, and repayment instalment has to cover the interest as a minimum, but not always the principle. Although clearly all principle has to be repaid – this is typically done in lump sums one month before the completion of the tenure of the ASCA.

ASCAs are very common in the valleys of Assam, as well as some parts of Meghalaya and Nagaland.

**RoSCAs** (Rotating Savings and Credit Associations, also known as Marups in Manipur) are groups of people who pool money periodically (typically on a weekly or monthly basis) and then distribute the money pooled at the same meeting. The pooled money (sometimes known as the “prize”) is given to the RoSCA members in turn. The turns are decided by a variety of methods that include mutual consent, lottery, seniority within the group and in some cases even bidding. The frequency of deposit in the pool depends on the occupation of members, and members all typically save the same amount (although some members may have multiple ‘shares’ and thus contribute double or triple the amount and thus receive two or three pay-outs. The tenure depends on the number of members in the group and this typically varies from 20 to 30. No new memberships are allowed during the tenure, and the group dissolves after tenure. RoSCAs are not common in Assam, where the ASCAs are common.

**Marups** are prevalent in Manipur more than ACSAs and also in Tripura. Frequency of savings depends on the occupation of members and purpose. Members save same amount and tenure depends on the member size, which varies from 5 to 50. No new memberships are allowed during the tenure; group dissolves after tenure. Usually 1 or 2 members take lead in running the RoSCA. Rate of interest is between 5 to 20% flat. People who take loans only pay the interest. Repayment can be daily weekly, monthly and share contribution ranges from Rs. 10 to Rs. 30,000.

**Bid RoSCAs, also known as Dak RoSCAs**, is a system where the members bid for the amount. The winner gets a loan of the amount excess of the bid amount, and the bid amount is equally divided amongst members, the system works as a savings for the last member and credit for the first member. This is common amongst traders. This is common in Assam and some areas of Tripura.

In Manipur, share contribution is usually Rs.10 to Rs.100 and as many as 50 people can be in one *marup*. It can be on a daily, weekly, fortnightly or monthly basis. Member pays the bid amount to access the pot of pooled money. The last person to access the pot of pooled money does not pay the bid amount.

**Temple Savings (Namghar committees, village banks, pastoral in Tripura, church)**: Each household deposits money in the Namghar (prayer hall). It is compulsory for all households of the village. The same amount is paid by all, but may differ for different places. During any emergency or extreme distress in any household, they can access loans from this accumulated amount at zero or lower than market interest rates. It works as a social security net. Some money is used for Namghar construction and other common community needs, such as road construction.

**Shinglups** are prevalent in the Manipuri Community of the valley region of Manipur. It is a religious board in each locality which takes care of the expenditure incurred during death ceremonies.

**Mahari** Association is an association of the Garo clan. The Garo community is primarily divided in to two namely the Marak and the Sangma. Each of this is divided in three clans. The Maraks are divided in to Chambugong (C Marak), Rangsa (R Marak) and Rabsa (R Marak). Among Sangma there are another three clans namely Koksi (K Sangma), Agaitok (A Sangma) and Manda (M Sangma). Each of these clans has their Association which is commonly know as Mahari Association. Any member living within certain geographical proximity compulsorily or by default becomes the member of Mahari Association. The Associations are constituted for the welfare of each clan. It is more of a Welfare Association and not a political association. The power to administer the village rests with the *Nokma* (the village headman). These Associations are constituted by one member from every family living within the village or an area. A committee for governance of this Association is set up and is headed by a President, Secretary and a Treasurer. The committee conducts meetings once or twice every year. Many important decisions are taken during this meeting for economic welfare of its clan. Every member of the Association needs to contribute to the Association annually or occasionally (as per requirement). There is no fixed amount across the clan; the committee decides the amount based on the needs of the Association and clan. Mahari fund is used for the general welfare of the clan, marriages, death ceremonies, emergencies, etc. This fund is given as grant as decided by the Mahari Committee. The members of Mahari cannot claim this amount as their savings; it is a contribution towards the welfare of its clan.

**RM Zote** – RM Zote is a very popular savings practice among Mizo community of Shillong, Meghalaya. It is a daily saving practice by individuals within a locality, wherein there is collector who accepts savings from individuals. RM Zote provides only savings services. There is no interest on deposit, and no loan facilities attached to it. The collector (with whom money is kept) is normally a person from the community itself, who is well known by and has the confidence of the people. Any individuals could save whatever amount s/he wishes to do so and withdraw any time (day or night) whatever amount s/he wishes. “*He is our ATM*” said one of the participants. People save with him/her because money kept in hand/pocket or home could be easily spent. Secondly people do not like to go to bank for daily small savings (Rs.5-10) therefore they save in RM Zote. For them it is accumulation of cash which they can withdraw when they are in need of bigger amount. The collector does business with the collected amount.

**Savings** – For this research, savings is referred to any amount saved up for a need/purpose, whether for short or long term, in cash or kind.

**Security** – This refers to the client’s concern with the safety of the deposit with the institution and trust in the institution. It is dependent on the whether the provider is a regulated body like Banks, Post Offices, Insurance Companies with a long standing presence, positive word of mouth promotion, have physical infrastructure, are known for timeliness or certainty of withdrawal under any circumstances with no liquidity issues. Issue of security is also related to the agents by these companies. Agents are perceived as reliable if they are from the same community/village and demonstrate friendly behaviour.

**Friendly Relations, Friendly Staff, Friendly Service Delivery** – This refers to how the staff or agent of a particular institution behaves with the clients during the interactions. Whether they are sensitive to the needs and circumstances of the clients, explain requirements in a friendly manner, treat them with respect etc.

**Customer Service Culture** – This refers to whether there are supportive agents and staff who simplify processes by helping them in filling out forms, not intimidate illiterate people or even customise the product according to the needs (though risks are involved). For example, insurance agents collect premiums on a monthly basis as people find it difficult to pay quarterly premiums.

**Distance** – This refers to the physical distance or proximity resulting in easy access for the client. It must be noted that for those institutions that deliver door step services through agents are also regarded to be in close proximity even if their offices are located far away.

**Ease and Simple Processes and Rules** – People wanted the processes for account opening, withdrawals and deposits to be easy and simple to understand. They wanted minimal paperwork, less formalities and less time taking processes. Support, if required with any process at any point of transaction, should be



available from the agents or staff.

**Fast Service** – Prompt service which shows the institution respects time of the client and has efficient services. For example, no long queues in banking halls, group meeting conducted on time with the field officer and all group members turning up on time, withdrawal of savings is fast.

**Convenient Working Hours for Clients** – This refers to the time that suits the clients for transacting with the institution or its representatives.

**Agent** – Agent is a person who is authorised by an institution to open accounts, collect deposits, facilitates withdrawals, collect applications etc. on behalf of that institution. Agents came out as a very important link in the whole process of mobilising deposits. They provide door step services, are the face of the institution and it is them through whom the institutions gain/lose the trust of the clients, ease the processes and customise the services according to the needs of the clients.

**Doorstep delivery** – This refers to a very convenient place of transaction, for example the agents visiting the client at home, group meetings held in a venue accessible to all in the locality and nearby, a mobile branch at a weekly market.

**Returns** – The term interest and returns has been used to denote the earnings from this savings account. While for banks and MFIs, interest rate is more relevant, earnings from savings in kind is in terms of returns. Respondents found investing their savings in the business a better option to earn higher returns rather than lower interest in formal institutions.

**Discipline** – Refers to regularity in deposits in predetermined frequency, with no access to the deposits before the maturity period of the deposit. This is associated mainly with long term deposits.

**Deposits linked to access to loans** – This refers to the possibility of the client to get credit from the institution where s/he is making deposits. It refers also to the size of loan that can be availed of, which can be more or less than the saved amount.

**Liquidity** – Refers to the accessibility, ease and timeliness of withdrawal of deposits as and when demanded by the clients.

**Term/Duration/Lock in Period** – This refers to the time for which the deposits are made and cannot be withdrawn. To withdraw penalty may be charged, for example, the due interest may be deducted.

**Flexibility in Deposits** – Refers to keeping the amount and frequency of deposits variable according to the convenience and ease of the clients. No amounts (maximum or minimum) or dates are fixed for making deposits.

**Ease and Simple Processes and Rules** - People wanted the processes for account opening, withdrawals and deposits to be easy and simple to understand. They wanted minimal paperwork, less formalities and less time taking processes. Support, if required with any process at any point of transaction, should be available from the agents or staff.

**Minimum Opening Balance and Minimum Balance, Minimal Deposit Size** – Minimum opening balance refers to the least amount that is required to be deposited by the client at the time of opening a deposit account with the institution. Minimum balance refers to the smallest amount that is required to be maintained by the client in his deposit account. Minimum deposit size refers to the smallest amount that the client can deposit in an account.

**Added Benefits** – Apart from the deposits, if the product offers some other add on services like insurance, subsidy component in loans that are linked to their deposits, cheque facilities, ATM facilities etc., these are referred to as added benefits.

**Socio-Economic Classification:** The use or non-use of savings services is influenced by the economic

level. The people in the sample area were classified as rich, not so rich and poor by the respondents, based on local perceptions.

- The **rich** were identified as those who are either engaged in any government jobs or have large assets in the form of landed property, livestock, houses etc. They are perceived to have very stable cash flows with additional seasonal peaks from other support businesses as shops, contractors, commercial vehicles. This helps them always have lump sum of amounts available with them.
- The **not-so-poor** are those who have small tracts of land, or government jobs (but usually of a lower category, commonly referred to as Grade IV employees), or small businesses which helps them meet their consumption levels. However they do not have significant excess amounts as savings in lump sums during crisis.
- The **poor** are not involved in permanent jobs. They mostly work as casual labour, as they do not own any agricultural land. The poor are perceived to have a varied cashflow with small amounts of cash flowing in from multiple sources round the year. The seasonal variances in savings are more dominant for this economic category.

**No Frills Account** - A recent bank-led initiative to reach out to people has been the introduction of no-frills accounts. These are accounts which need either zero or very low opening and minimum balances.

**NABARD Guidelines for SHG Promotion**- The National Bank for Agriculture and Rural Development (NABARD) is an apex institution which runs the government SHG-bank linkage programme. It played a guiding role in defining the role of Self Help Groups (SHGs) and NGOs which promote SHGs. A SHG in a homogeneous group of about 15-20 members who come together in a meeting to save a fixed amount, most often on a monthly basis and then start on lending from that fund to members. Typically, after 6 months, the SHGs are introduced to the bank which monitors it for at least another 6 months. If the performance of the SHG in good and regular they become eligible for a collateral free bank loan at market interest rate.

**KYC Norms**

Annex-II of RBI Notification No 48/2004, 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards, dated 21<sup>st</sup> February, 2005

Customer Identification Procedure: Features to be verified and documents that may be obtained from customers

Features	Documents
<b>Accounts of individuals</b> Legal name and any other names used   Correct permanent address	(i) Passport (ii) PAN card (iii) Voter’s Identity Card (iv) Driving license (v) Identity card (subject to the bank’s satisfaction) (vi) Letter from a recognised public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank  (i) Telephone bill (ii) Bank account statement (iii) Letter from any recognised public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank) (any one document which provides customer information to the satisfaction of the bank will suffice)

**Conversion Rates:** 1 million = 10 lakhs; 1USD = INR 46 in 2004-05.