MicroSave India Focus Note 48

Who Says You Can't Do MicroSavings in India? Part 4: Practical Next Steps

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The previous three notes in this series have presented the overall picture of the microsavings environment in India, and what an MFI should do if and when it decides to take on savings in general. This final note in the series provides some practical and real solutions MFIs, SHGs, cooperatives, etc. could take on to rebalance the current microcredit push in India to offer true microfinance.

Go Unconventional Through the Conventional

MicroSave's basic advice: be creative. Act like a chit fund operator when it comes to product design and delivery, and act like a regulated bank when it comes to systems and controls. There is a reason why the informal market works well, and it has to do with being adaptable and meeting needs, such as proximity and speed. The formal market, (think SBI and the Postal Service), brings stability and trust – why not marry the best bits of both?

To explore the options, *MicroSave* recently created a new savings assessment tool for Indian MFIs based on the CGAP paper "Prerequisites for Intermediating Savings," examining the overall external environment, institutional governance, institutional capacity and most importantly client demand.[1] This tool has been piloted with one Action Research Partner in North India and covered many of the following creative ways an MFI can offer savings to clients in India while still staying true to their mission, capacity and within regulatory norms.

The Business Correspondent (BC) Model: The most well known way the Indian microfinance industry can take on savings is through the business correspondent (BC) model. The BC model is essentially a way in which regulated banks may extend their services to areas they would typically not serve, using contracted agents rather than opening branches.[2] By August 2009, 26 (primarily public sector) banks (only 15.8% of the total number of banks in India) had 129 Business Correspondent organisations managing 25.1 million no-frills savings accounts.[3, 4] The primary banks involved in this space have been State Bank of India, Punjab National Bank, Union Bank, ICICI Bank and HDFC Bank.

However, the RBI and the rest of the industry have recognised recently that as little as 11% of these accounts are actually used by the end clients. Clients are often either encouraged to open the accounts and nothing more; or only use the accounts as a pass-through mechanism for government payments, such as National Rural Employment Guarantee Act (NREGA) wages.[5]

One of the main issues with the BC model in most cases is that neither BC agencies nor the banks have found a viable business model, and therefore neither party truly has an incentive to expand the usage of this model beyond the required minimum. Yet, a few BC agencies, such as *MicroSave*'s partner Eko, have begun to find ways of encouraging clients to use their accounts. The key for BC agencies and their partner banks to succeed simply is to begin to listen to the clients and to the agents on the ground first. (The agents are essentially clients too!)

A 'No-Frills Savings Account' may not be what the poor need – other savings products should be considered, such as fixed deposits, recurring deposits, and demand accounts. Once the players involved realise that they must first look at the opportunity from the clients' (and agents') perspectives, offering what they need (rather than what we think they need), only then can a truly viable and scalable BC model be achieved.

Life Insurance: Life insurance products in India have become a very popular way to save and invest over the last couple of years, with Rs.221 billion ($4.9 billion) in premiums as of March 2009, representing 10% growth over the previous year. At the end of March 2009, there were 22 insurance companies offering life insurance products in India with just under 12,000 offices (of which 33% were rural).[6]

Yet it is estimated that only 20% of India's population have life insurance policie, even though India's insurance companies have a financial inclusion mandate just as banks.[7] For financial inclusion requirements, most insurance companies have focused on, similar to their

[1] McKee, Katherine, "Prerequisites for Intermediating Savings," CGAP, 2005.
[2] For more information on the BC model in India, please refer to *MicroSave*'s India Focus Notes 6, 18, 24 and 32.
[3] *Source: Report of RBI Working Group to Review the Business Correspondent Model.*
[4] FINO and ALW/ZMF collectively report having 14.5 and over 3 million clients respectively (as of 24/5/10 on their websites).
[5] Kochar, Sameer, *Speeding Financial Inclusion*, Skoch Development Foundation, 2009.
[6] IRDA Annual Report 2008-2009.
[7] Kochar, Ibid.

banking brethren, credit-linked insurance with MFIs under which only the credit amount is covered if the borrower were to pass away. A few enlightened insurance companies, such as LIC, the largest Indian insurance provider, have begun to take notice of the needs of this market segment beyond credit-linked insurance. They need only to learn about their clients' true savings needs, rather than to default to providing a stripped down version of an existing product. Then they should implement cost-effective ways of distribution and monitoring through technology and on the ground partners, such as MFIs, to be able to offer viable life insurance-based savings products.

Pension Schemes: Savings is simply an act of putting aside money that one has today in order to consume later when the need arises. By using this broader definition, pension schemes could also be an interesting conduit to provide savings to the underserved. This idea has had its challenges, however. The government of India's New Pension Scheme (NPS) aimed towards serving the underserved had only had 4,000 subscribers as of April 2010 due to a lack of a strong distribution network and the right incentives (and perhaps inappropriate products). Yet, other programmes have had some relative success, such as the UTI Micropension scheme with over 125,000 (1.25 lakh) subscribers, promoted through BASIX, SHGs and other community based groups.[8] SERP, the successful governmental body in Andhra Pradesh managing SHGs, has also partnered with LIC to provide a micro-pension scheme in which over 367,000 (3.7 lakh) women members of SHGs had subscribed as of April 2010.[9, 10]

Money Market Mutual Funds (MMMF): While still a nascent idea, Money Market Mutual Funds (MMMF) can also serve as an innovative way to offer quasi-savings services to the underserved. *MicroSave's* partner KGFS/IFMR in rural Tamil Nadu, Orissa and Uttarakhand, for example, has worked closely with ICICI Prudential to offer a MMMF product comprised primarily of government bonds that is both liquid (same day redemption), accessible (a local market saturation model) and allowed in small increments (as little as Rs1).[11]

Gold Savings: The most common financial instrument related to gold offered in India, especially the South, is in the form of a pawn loan, e.g. the borrower leaves behind gold jewellery as collateral for a sum of money that is only a fraction of the estimated value of the collateral. However, one can turn this product on its head and also provide gold "savings" to those who do not have any such jewellery to offer as collateral. *MicroSave's* partner, Equitas in Tamil Nadu, in particular, has begun to offer a product in which the borrower effectively "saves up" to own gold coins in the near future, once the value is repaid in full.

Conclusion

Through studies, such as the Poor and Their Money, Portfolios of the Poor, and *MicroSave's* own findings, it is widely proven that the poor are able and willing to save (and willing to pay for the service).[12] While it is true that in most cases, MFIs and other financial inclusion-focused institutions cannot collect deposits to fund their own growth, this does not give a free pass to the industry to ignore the need for savings (and other financial services). Nor should NGO and NBFC MFIs hold their collective breaths while waiting for the Microfinance Bill to be passed, possibly allowing for deposit-taking, or for NBFCs to be allowed to act as BC agents. (Proactive ones are already creating separate Trusts to be BCs).

Microsavings can potentially become a way for MFIs in saturated markets to differentiate themselves from the copy-and-paste JLG models; to reduce credit risk; to diversify product risk; to perhaps avoid the mass default movements being threatened in Karnataka and Andhra Pradesh; and to overcome politicians threats of prosecution or shut downs because of a perception of pure money lender-like behaviour.

There are many viable options, such as those mentioned above, in which the industry can either directly or indirectly offer savings services to clients in a viable manner. There is no one solution to the challenge of microsavings in India due to the vast differences in regulations, geography, culture and infrastructure.

The first step to achieving this goal is to stop perpetuating the myth that microsavings is too hard in India and decide that savings is too important for clients and the institution not to offer it – once there, with focused and committed work, the rest will fall in place. One only need to listen to clients, partner with an expert, and offer the microsavings product choice(s) in an as efficient and cost-effective manner as microcredit is offered in India today (perhaps using m-banking). We humans are very resourceful when given a challenge, and who says microfinance and financial inclusion should be easy?

[8] "Stretch NPS Umbrella." Economic Times, 6/4/10.
[9] Per SERP's website on 30/5/10.
[10] See also Invest India Micropension.
[11] And most importantly approved by SEBI.
[12] See *MicroSave*'s "Savings Booklet".