MicroSave

Market-led solutions for financial services

Offices across Asia, Africa
and Latin America

www.*MicroSave*.net
info@*MicroSave*.net

Relative Risk to the Savings of the Poor in Tamil Nadu

Alphina Jos, Minakshi Ramji, Shivshankar.V and Stanley V. Thomas

May 2011

ACKNOWLEDGEMENTS
This research would not have been possible without the support of partner institutions in Tamil Nadu. On behalf of *MicroSave*, the research team extends its sincere gratitude to BWDA Finance Limited (BFL) in Nagercoil, Colachel, and Kootapuzhi; Community Collective Society for Integrated Development (CCFID) in Cuddalore, Kurinjipaddy, and Panruti; Equitas Micro Finance India Pvt. Ltd. in Perambur and Tambaram; and Rural Development Mission (RDM) in Batlagundu and Kodai Hills for providing the team access to their groups and clients.

TABLE OF CONTENTS

Disclaimer

Qualitative research is designed to look beyond the percentages to gain an understanding of the customer's beliefs, impressions, and viewpoints. Focus Group Discussions and Participatory Rapid Appraisal with small, highly targeted samples help us achieve these insights. Qualitative research is not statistically representative and is more appropriate for research that seeks to understand complex human responses and financial behaviour.

Individual vs. Consensus Responses

In this study, responses to research questions are presented in two different ways: individual and consensus. Individual responses are necessary when questions pertain to bank accounts (or lack thereof), age, occupation, education and other specific aspects of respondents' profiles. In group discussions, however, the final consensus of the group regarding various key questions is what matters. Individuals can and do change their minds during the discussion. In such cases, we note the final consensus, not each individual's opinion. This difference will be noted in the various charts and graphs.

EXECUTIVE SUMMARY

In order to better understand how low-income households save, and the relative risks involved, *MicroSave* conducted a study in the four Tamil Nadu districts of Chennai, Cuddalore, Dindigul, and Kanyakumari with 239 respondents in 40 sessions.

Tamil Nadu appears to save in slightly different ways from other areas in India. As we have noted in other studies on savings,[1] those in the lower-income brackets are also increasingly interested in banks and other forms of secure savings, but the informal choices retain their popularity and appeal here. This is noteworthy if for no other reason than Tamil Nadu boasts 80% literacy and half its population are urban.[2]Almost everyone saves at home, though the amounts are small. Self Help Groups (SHGs) and chit funds (community pooling) are just as common as banks for savings (respondents discussed all three in 93% of sessions). They also like the post office and certain aspects of insurance policies (both discussed in 73% of the sessions). Other savings options include festival funds (53%), jewellery funds (47%), [3]and saving with NGOs (13%).

Savings with Non-Bank Financial Companies (NBFCs) and any channel involving sponsors and agents not directly associated with the government are mistrusted.[4] Everyone has stories of fraud and money loss over the years with unreliable agents. Respondents claim they make choices about savings based on their own prior experience and that of friends and relatives. Most appear confident and knowledgeable about their current ways of savings—and the risks involved. The obvious danger implicit in saving at home is that family members will borrow the money and not bother to repay it. Festival and jewellery funds can also be uncertain and those who use them are highly selective. Chit funds are less attractive than SHGs, respondents note, since the latter is provides greater security, a higher return, and loans within the group.

In one exercise, described in detail later in the report, respondents rated various savings alternatives on the following attributes: trust, security, return on savings, ease of withdrawal, and physical evidence. Banks rank first on trust, security, and the tangible evidence of bank branches, ATMs, passbooks, and transaction receipts. SHGs score highest on rate of return since members earn interest on their savings, and a share of the interest earned through internal lending. Ease of withdrawal in an emergency goes first to home savings and second to banks.

Households in all income groups tend to use a mix of formal, semi-formal, and informal savings. The more affluent use formal channels such as banks and insurance, and less formal assets such as land and gold. Poorer households are more likely to use the post office and insurance as their formal channel and SHGs and chit funds for informal savings. The very poor tend to save at home.

---

[1] For more details, please see *MicroSave* studies on Relative Risk to the Savings of the Poor: Uttar Pradesh and Rajasthan.

[2] Census of India 2011 (For more information, please see the Tamil Nadu Area Profile).

[3] In Tamil Nadu, it is common for low-income households to create small groups to save over time to purchase jewellery, vessels, or utensils for the house, and festival necessities. These funds are named after their purpose: nagah (jewellery fund), patra (vessel or utensil fund), and vizha (festival fund).

[4] Throughout this report and related ones on savings and remittances, respondents place their fullest trust in any institution with "government backing". In fact, guaranteed deposit insurance, provided in part by the government to state banks, post office savings, and certain insurance policies, is the basis of this trust, but since this level of specificity is not how respondents understand the security of their money, we do not change the phrases and rationales they use instead.

INTRODUCTION

The benefits of savings are obvious and increasing evidence suggests that low-income households are actively seeking new and better ways to invest in a more secure future.[5] Unfortunately, close to 41% of India's citizens remain financially excluded with no access to formal banking services. Their choices for savings are thus limited and involve more risk.

In order to better understand how these households currently manage savings, *MicroSave* conducted a study on the relative risk to the savings of the poor in three different states in India. This report provides a summary of the research results in the southern state of Tamil Nadu in the districts of Chennai, Cuddalore, Dindigul, and Kanyakumari. An important part of this study is to inform further discussion among policy-makers and other stakeholders on ways to improve savings and reduce risk for the lowest-income households.

RESEARCH PROCESS

Research Objectives

The primary objective of the study is to understand the various savings options available to poor people, and the relative risks and rewards each entails.

We will also address the following questions:

- How do low-income households make use of formal, semi-formal, and informal savings systems?
- What factors motivate their choices and which ones are most important or relevant?
    - Trust
    - Rates of return
    - Security
    - Identified goals (education, marriage, health/life/casualty insurance, business or property ownership, other life-cycle events)
    - Convenience
    - Compulsory savings
    - Peer pressure
    - Lack of other options
- How do they perceive the risk associated with formal, semi-formal, and informal savings?
- How have their savings patterns changed over time, if at all?
- How do low-income groups perceive the savings habits of other socio-economic groups?

Research Methodologies

---

[5] See Collins et al (2009). "Portfolios of the Poor: How the World's Poor Live on $2 a day" Princeton University Press for a more detailed discussion on how poor households save. For a summary, visit "PoP Briefing Note 2 - Borrowing to Save: Perspectives from Portfolios of the Poor", *MicroSave* and Financial Access Initiative. For research on the impact of micro-savings on poor households, see Dupas& Robinson (2011) "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya" and Karlan, Yin & Ashraf (2008) "Female Empowerment: Impact of a Commitment Savings Product in Philippines"

MicroSave used the following tools for data collection in this study:

- **Focus Group Discussions (FGDs):** FGDs, by fostering discussion amongst the participants, provide a window into the thinking behind respondents' choices for personal savings, their preferences, and their understanding of the various risks involved. For more information on the discussion guide, please refer to Annexure 1.

- **Relative Preference Ranking (RPR):** In the RPR exercise, respondents rank savings choices based on various safety attributes. Annexure 2 provides details on the RPR guide.

- **Financial Sector Trend Analysis (FSTA**): FSTA provides an overview of how people make choices about savings, how these choices are changing, and reasons for their new decisions. Details on the FSTA can be found in Annexure 3.

- **Financial Services Matrix (FSM):** This exercise explores the savings habits and perceptions of different socio-economic groups in the research sample. For details, please see Annexure 4.

Area Profile

Tamil Nadu ranks among the top five states in India, according to the Human Development Index (HDI).[6] Literacy is at 80%, one of the highest in the country[7] and, according to the most recent census; half the state live in cities, which makes Tamil Nadu the most urbanized state in the nation.[8]

District Name	Population	Literacy Rate	Sex Ratio	Urbanisation	Commercial bank Branches
Chennai	4.6 million	80%	986	100%	1,028
Cuddalore	2.6 million	72%	984	33%	163
Dindigul	2.1 million	70%	998	35%	157
Kanyakumari	1.9 million	88%	1,010	65%	149

Chennai district includes the city of Chennai, the administrative and business capital of Tamil Nadu, and the surrounding region.

Cuddalore, located about 170 kilometres away from Chennai, is an industrial centre for sugar, cotton, and chemicals. Fishery and agriculture are also mainstays of Cuddalore's economy.

[6] http://www.financialexpress.com/news/tn-makes-its-way-to-top-5-states-in-hdi/287643/ Accessed on 7 June 2011.
[7] Census of India 2011
[8] Census of India 2011 for all chart information except: numbers on urbanization from Census 2001, numbers on bank branches from RBI's webpage here: http://www.rbi.org.in/scripts/PublicationsView.aspx?id=12671

Dindigul is located in the central part of Tamil Nadu. Dindigul industry includes leather tanning and textile spinning. Agriculture also comprises a significant percentage of local income.

Kanyakumari is the southernmost tip of the India mainland. Kanyakumari is most famous for growing rubber. Agriculture, tourism, and handicrafts also contribute to the local economy.

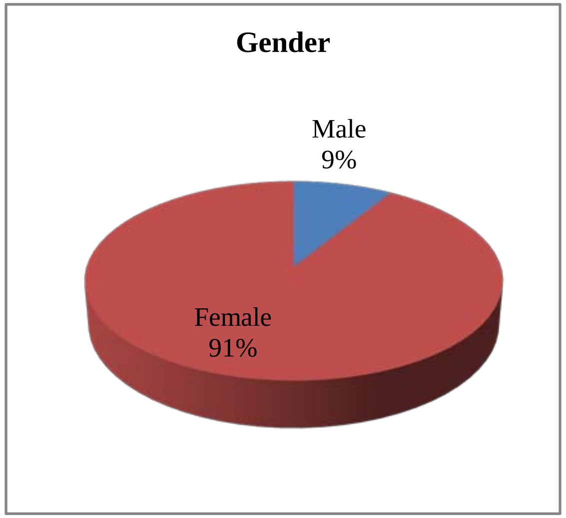
Sample

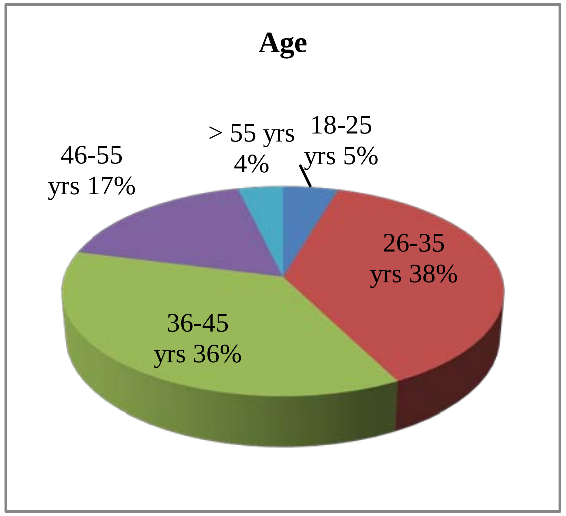
This study sample included 239 respondents. Research tools and the number of respondents for each are detailed below.

S. No.	Qualitative Research Tool	No. of Sessions	Total Respondents
1.	Focus Group Discussion	15	**108**
2.	Relative Preference Ranking	10	**61**
3.	Financial Sector Trend Analysis	6	**37**[9]
4.	Financial Sector Matrix	9	**51**
	Total	**40**	**239**

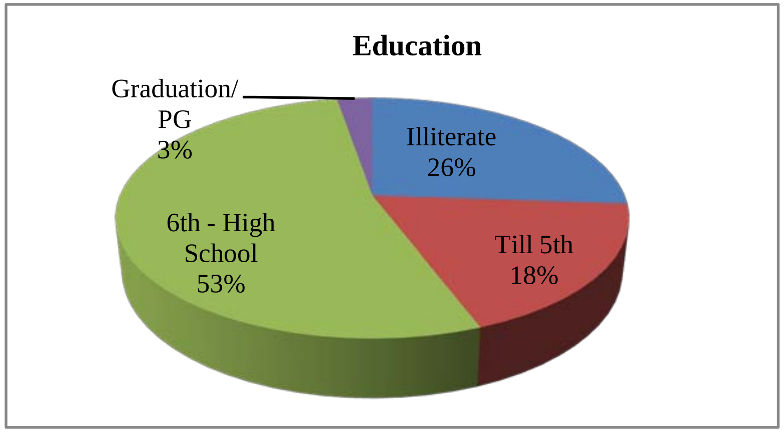
[9]Only one qualitative tool was used in one session. However, both FSTA and FGD were conducted in two sessions which had eight and ten respondents respectively. As a result of this overlap, the total respondents' column in this column adds up to 257, even though the total number of respondents for the study is 239.

RESPONDENT PROFILE





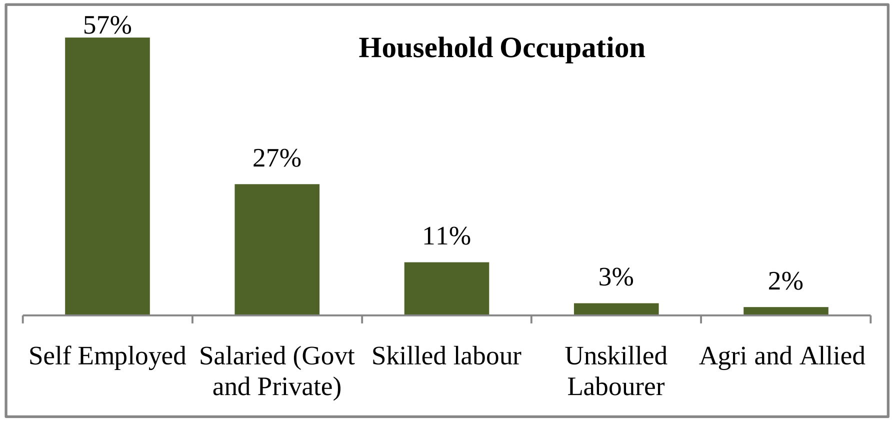
The respondents in this research study are overwhelmingly female since the microfinance groups who acted as research partners serve a predominantly female clientele. Over 70% of the respondents are age 26-45.

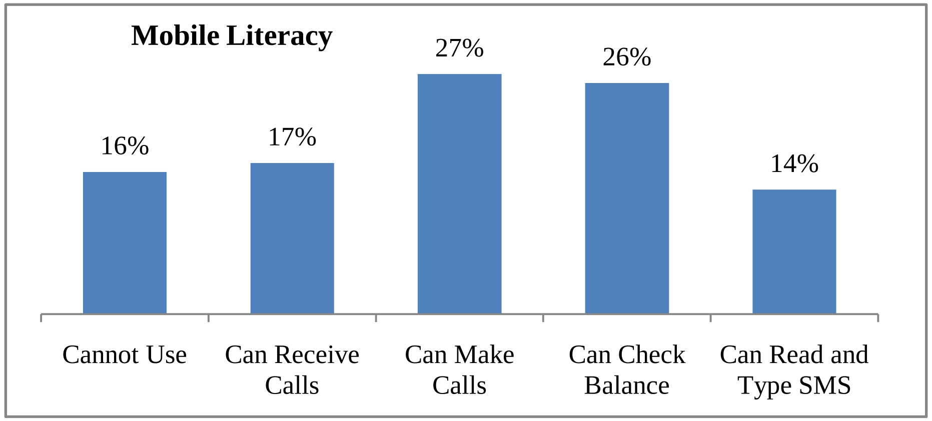


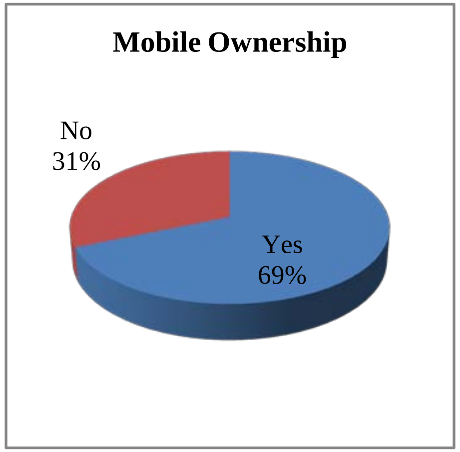
Education levels are high in this sample; over half have attended some secondary school. One fifth of the respondents have had some primary school education. Three percent have studied beyond the high school level. Slightly more than a quarter are illiterate.

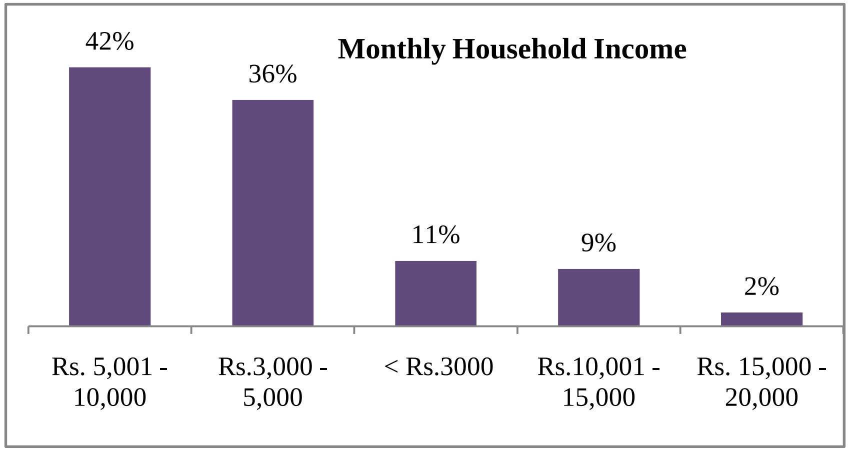
Fifty-seven percent of the respondents are self-employed. Their businesses are varied and include tailoring, rope-making, fishing, and running small restaurants or grocery shops. (This large percentage is due in part again to the MFI research partners who encourage these enterprises with small loans.) About 42% earn between Rs.5,000-10,000 per month. Monthly income for 37% is Rs.3,000-5,000.

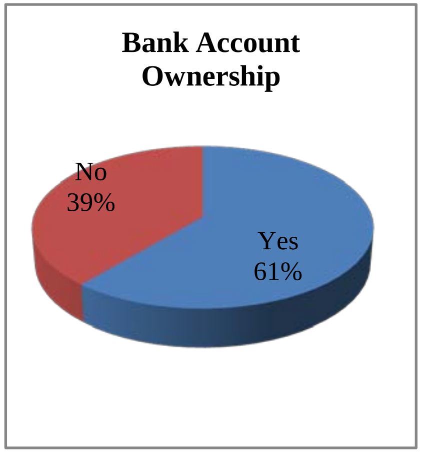
Sixty-one percent of the respondents have their own bank accounts, and 69% own mobile phones or have easy access to one via family member. Close to 30% know how to make phone calls, 26% can check their airtime balance, and 14% can read and write text messages.





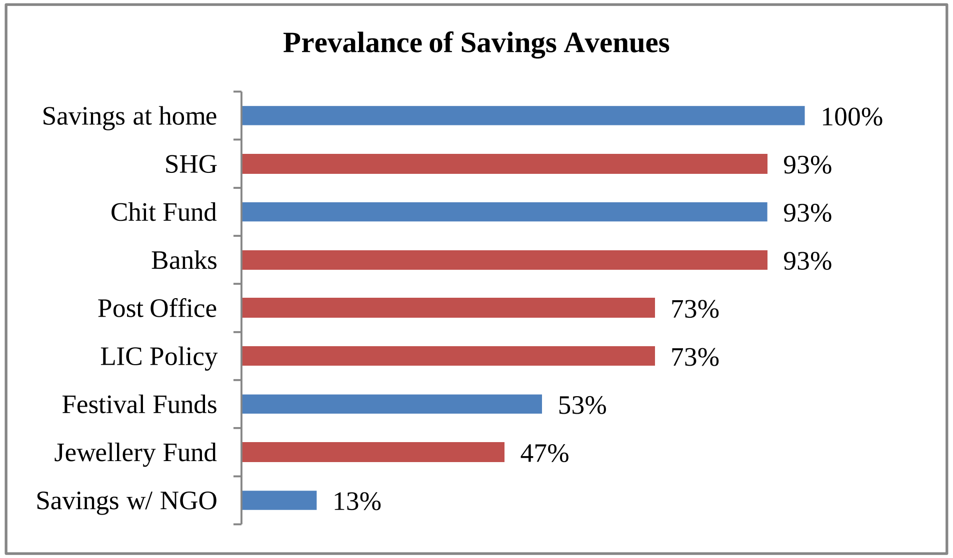






PREVALENCE, PREFERENCES, AND RISK PERCEPTIONS

In this study, home savings are still the most common, and SHGs and chit funds are the second and third choice for most respondents. The formal alternatives—banks, post offices, and insurance policies—are also important. In Tamil Nadu, low-income households often create small groups to save up over for jewellery and festivals.[10] In two instances, NGOs run by local churches collect savings for the community. The graph below represents the consensus responses for the prevalence of various types of savings in the research sample. The figures indicate the percentage of sessions where respondents mentioned using various savings options. Formal savings are in red; informal are in blue.



[10]These funds are examples of objective-based savings groups. These funds are named for the fund's purpose--*nagah* fund (jewellery fund), *patra* fund (vessel or utensil fund), and *vizha* fund (festival fund). At fund maturity, each person receives his or her contribution total.

Savings Avenues	**Description**	**Risks**
Savings at Home	• Savings at home is universal across the sample. Women save spare change on a daily basis or larger amounts whenever possible. • This money is usually put in an *undiyal* (small piggy bank) or somewhere in the kitchen. Some refer to these savings as *"husband ku theriyama vekara panam"*. (Money we keep without telling our husbands.) • Many female respondents confessed they hide the money from their spouses as alcohol dependence is high among males in the region.	• Spent by (or for) children: *"Pulla ice kekaranveyyila, yennasolarde?" (*My child wants an ice cream; in this heat, how can I refuse him?) • Spent by husband: *"Naan inda pakkam loan katta vanda, avar anda pakkam loan vanga povanga wine shop le"*. (I come to pay off my loan here, and he goes off to take a loan at the liquor shop.) • Spent by women: since the money is so easily available, the temptation to spend it on small vessels or cosmetics is always strong.
Banks	• Those who save in banks typically do so on a monthly basis. • One respondent who saves from time to time says *"Kaila kaasirinda poduvon. Yevlo varsham analum, panam apdiye irikalam"*. (If we have extra money, we put it here. No matter how many years pass, we can take our money out of [the bank].) • Another who saves on a monthly basis says, *"Sambalam vangara bodu poduvon"*. (When we get our salary, we put the money here.) • Respondents like being able to deposit and withdraw money whenever they want. ATMs, where available, are particularly welcome and convenient.	• Respondent perceive no risks. All claim they have *"nambikkai"* (faith) in bank savings. • However, some note recurring deposits pose problems, as they cannot keep up with the payments.

<table>
<tr><th>Savings Avenues</th><th>Description</th><th>Risks</th></tr>
<tr><td>Chit Funds (or ROSCAs)</td><td>Two types of chit funds are available:
Lottery chits. Funds where participants draw lots to determine the order and each, in turn, takes the entire chit amount.
Auction chits. Each participant bids for the total chit amount. The one willing to pay the highest interest receives the amount. This policy applies for every month of the chit, except for the second and last month. In the second month, the sponsor or organiser gets the entire chit amount without interest. The last pot goes without interest to the participant who is willing to wait the entire duration of the chit without taking any money.
These funds are typically organised by enterprising members of the community and represent a generally successful form of compulsory savings and peer pressure, In case of a default, the sponsor is responsible to make up the difference and collect from the member when possible.
Chit funds meet and collect payments monthly and are widely used for raising lump sums for school fees, medical emergencies, and other large bills. “Mothamma yedavadu pannanum naa, athuku seetu than uthaviya irukum”. (If we want a lump sum amount to get some work done, it is possible only this way. Chit funds are good to access a big amount.) And, “Yengle kaapatarde indi seetu daan”. (The chit fund saves us.)</td><td>The biggest risk for chit funds is the fund sponsor stealing the money or participants failing to pay in full or on time. Respondents agree sponsors should be of property owners of good character and trusted within the community. They also note that fund members must be honest and responsible as well.
There is also a risk in waiting a year to access the money without interest. “Vangarvalku labham, kudakarval ku nashtham”. (Those who borrow profit, those who give lose.) Participants who have to wait until the end to get the amount are penalised.</td></tr>
</table>

Savings Avenues	Description	Risks
SHGs or *Kuzhu*	• Almost all the respondents belong to SHGs and save on a monthly basis. • SHGs are also a form of compulsory savings and governed by peer pressure to pay on time. • Many also save in other ways, but SHGs are particularly valuable as they also offer access to credit.	• Risk is perceived to be low since SHGs save their funds in banks. • The strength of the group depends largely on the leader. "*Thalaivi nalla irinda, kuzhuvum nalla daan irkum*". (If the leader is good, the group will also be good.) • The chance of the leader cheating the group is possible, but difficult as the leader needs to clear all withdrawals with the treasurer. The likelihood of both leader and treasurer defrauding the group is apparently very low. "*Kanaka la 15 per koon kammicha oru prachanai yum illai*". (As long as they [the leader and treasurer] show the accounts to all 15 of us in the group, there is no problem.)
Deposit-taking NBFCs	• Deposit-taking NBFCs or Residuary NBFCs are a special category of NBFCs. Their current legal status is changing to comply with RBI policy on accepting public deposits.[11] • For the present, NBFCs can offer fixed long-term savings, usually with higher rates of return than bank or postal savings. • NBFCs are private companies and recruit sales agents within communities who also collect deposits and disburse rewards.	• In the past, the principal risk has been agent fraud and mismanagement of funds. • Trust in NBFCs remains low and few in the research sample have good experiences with this savings method. • Deposit-taking NBFCs are more prevalent in northern India than in southern India.[12]

[11] As of June 2008, the RBI requested Peerless and Sahara, the two biggest Residuary Non Banking Companies (RNBCs) in India to phase out the collection of public deposits. See here: http://money.sulekha.com/rbi-says-sahara-group-companies-can-t-accept-public-deposits_news_25728. Sahara has committed to repaying 19+ million depositors by end-2011 http://www.business-standard.com/india/news/sahara-to-windparabanking-by-dec-repay-rs-9k-cr/447606 Sahara also hopes to extend its services in other ways, including a credit co-operative society. http://www.rediff.com/business/slide-show/slide-show-1-sahara-takes-co-op-route-to-beat-sebi-rbi-bans/20110426.htm

[12] For more information on the risks and rewards of saving with NBFCs , please see *MicroSave* studies on Relative Risk to Saving of Poor: Uttar Pradesh and Rajasthan

Savings Avenues	Description	Risks
LICs and Other Insurance Policies	• Life Insurance Corporation of India (LIC,) a government-owned insurer, is the largest such savings option with over 1 million agents and close to 270 million policies.[13] • Alliance, Bharati AXA Life Insurance, and others also offer insurance policies as savings. • These policies typically guarantee some money back at the end of period insured even if death, casualty, or other insured event does not occur.[14] • Deposits are usually quarterly. • Because of its association with the government, most trust LIC more than other insurance companies, but all insurance agents are somewhat suspect due to repeated instances of agent fraud.	• As with NBFCs, the biggest risk for LIC and other insurers are unscrupulous agents who issue false receipts, make off with deposits, and commit fraud that only emerges at policy maturity."*Office le straight kattina ka prachanai illai*". (If you save directly by going to the insurance office, then there is no problem.) • Some policies are also more complicated and risky than others. Several customers report losing money on Unit Linked Insurance Plans (ULIP).[15] The sales agent failed to explain that returns are linked to the underlying investments. Such incidents have lasting negative effects in some communities.
Post Office	• Respondents have both recurring deposit accounts and regular savings accounts at the post office. • Most deposit their savings directly at the post office, though some make use of doorstep collection and others entrust their money to friends who make the deposit on their behalf. • Respondents express great faith in the post office due to its long history and full government status.	• Instances of postal agent fraud, though few, have been reported by those who use doorstep collection for their deposits.
Festival Funds or *Vizha Fund*	• These funds are organised by shops and other community sponsors to help people save up for major festivals • These festivals require a major investment for low-income households for new clothes, special food, and other obligations.	• The risk of sponsors stealing deposits or manipulating figures is worrisome, but better returns sometimes motivate users to save with those who are not already well known.

[13]http://www.licindia.in/operations.htm, http://www.licindiaagent.com/list-of-all-lic-insurance-policy, ,http://www.myinsuranceclub.com/insurance-news/lic-customers-and-branches-face-problems

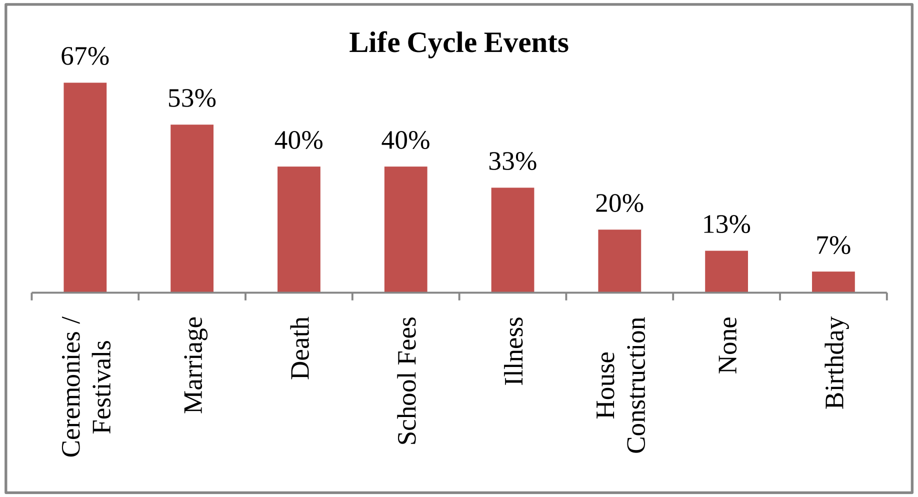
[14]For more information on LIC products see http://www.licindia.in/ and http://www.microfinancegateway.org/gm/document-1.9.29756/3588_file_03588.pdf.

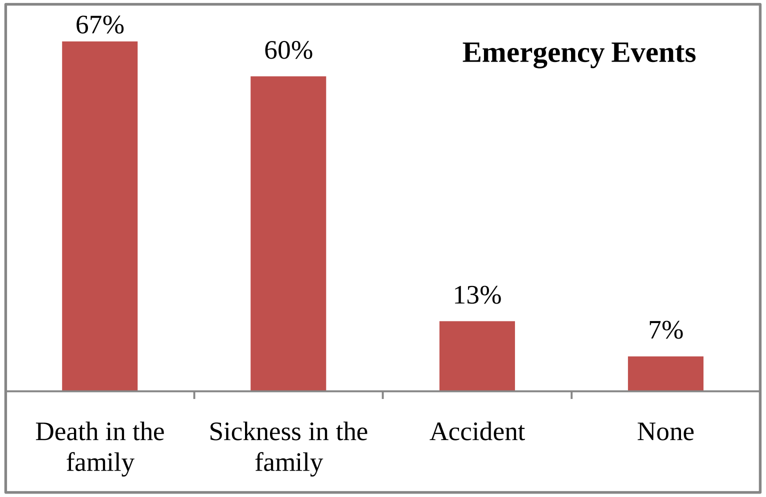
[15] "A unit-linked insurance plan (ULIP) is a type of life insurance where the cash value of a policy varies according to the current net asset value of the underlying investment assets." From http://en.wikipedia.org/wiki/Unit-linked_insurance_plan, accessed on 19 July 2011.

Savings Avenues	Description	Risks
Jewellery Funds or *Nagah Funds*	• Similar to festival funds, jewellery funds are organised by jewellers to help people save in order to purchase gold, silver and gems. • Typically, respondents save with the jeweller on a monthly basis for a year. They then receive either a piece of jewellery or the money, and a small gift as a bonus.	• Many respondents report incidents of fraud by jewellery fund organisers. As a result, they claim, people are gradually moving away from jewellery funds. • Choosing the right jeweller is obviously important. "*Periya kadai ya irunda daan nanga seruvom. Periya kadai podra seet a nambikai varum*". (Only if a big jeweller does it, do we join. Only if a big shop creates a fund, do we have some faith in it.)
Savings with Church NGOs	• In two instances, NGOs run by the local church provide a variety of social services, including savings, to the local community. • Those who participate enjoy saving in conjunction with health care and the other services these churches provide.	• Respondents perceive no risk. They trust the church and those involved in administering the NGO services.

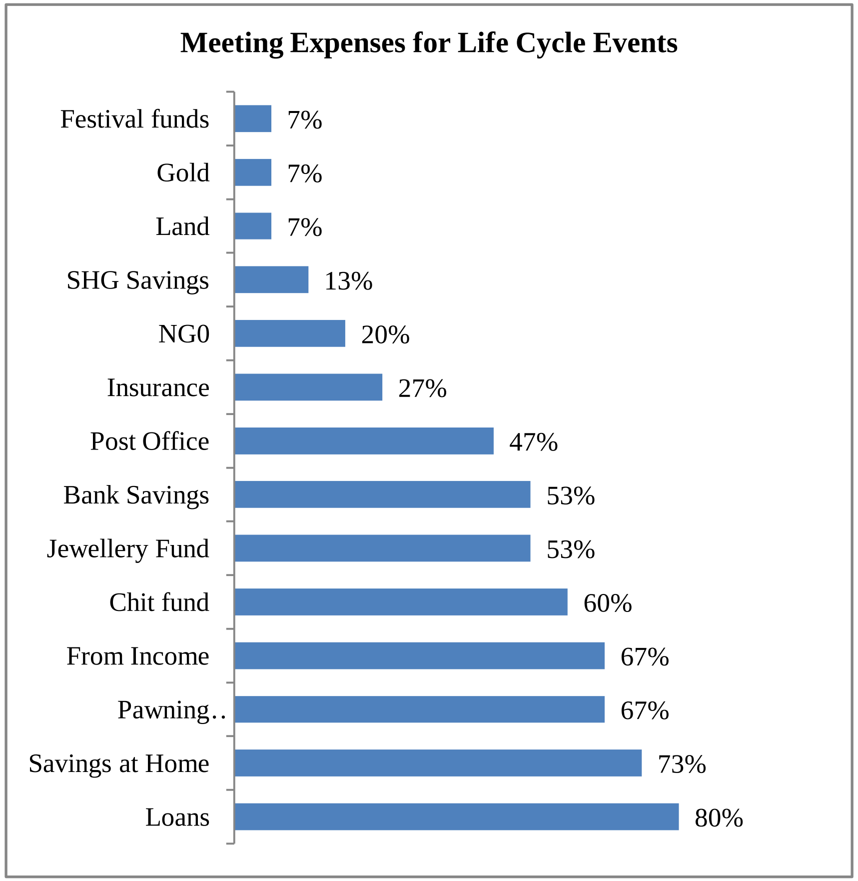
Meeting Expenses for Life Cycle Events and Emergencies

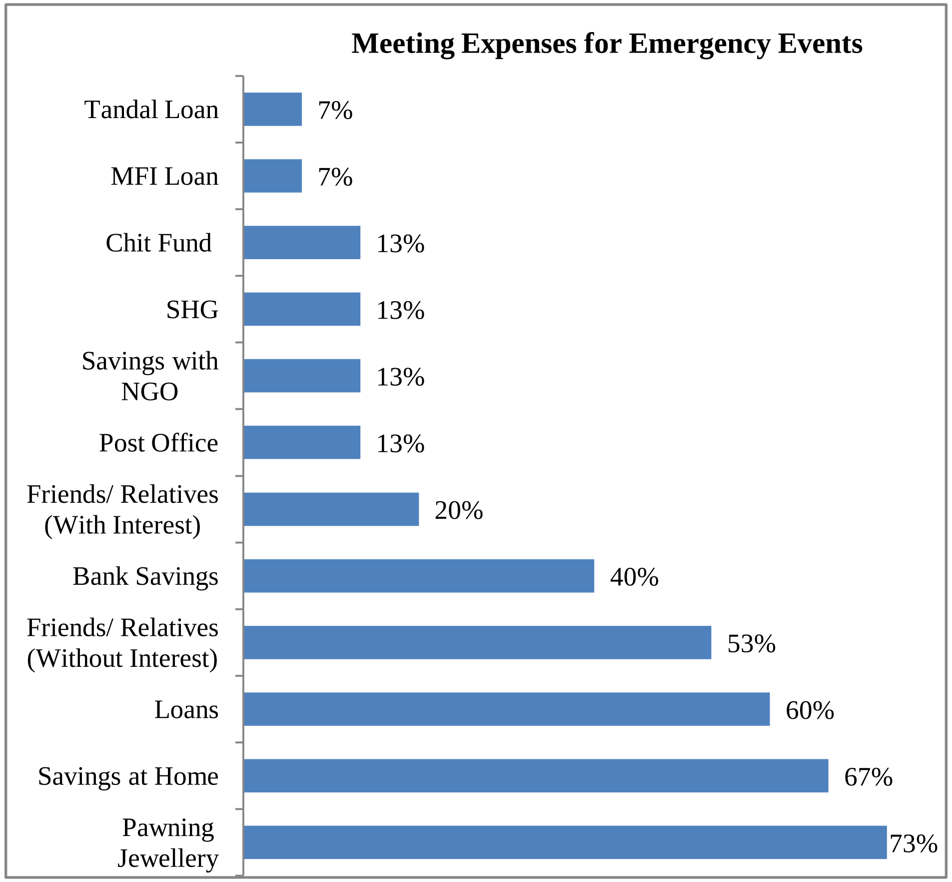
The life cycle events for this research sample in the past year have been religious and social ceremonies, festivals, and weddings. (Emergencies such as death or illness are noted separately.) To cope with these expenditures, respondents have used loans, bank savings, SHGs, and chit funds. In 13% of the sessions, respondents claim they have not experienced any life cycle events in the past 12 months.

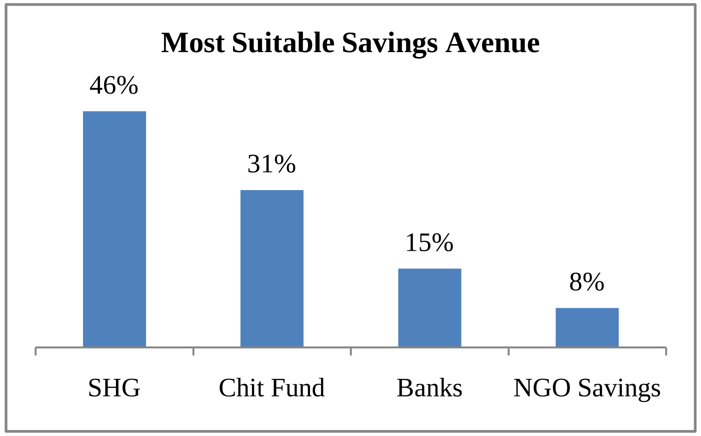




In the past year, respondents report death and sickness as the most common emergencies. Pawning jewellery is a popular solution to cover these expenses, as are loans from friends (with and without interest), microfinance institutions (MFIs), and *tandal* loans (overnight loans from moneylenders).







Close to half (46%) claim SHGs are most suitable for their needs. Reasons include local convenience, the ease of obtaining a short-term loan when necessary, and returns that incorporate not only bank interest but also the interest earned from lending within the SHG. Loans for emergencies are particularly helpful.“*Urgent school fees taranum nah, idilendu kadan vangi kalam*”. (If you need some money urgently for school fees or something, one can borrow from this savings.) Respondents also like chit funds (31%) for access to larger amounts, especially in time of need. In 13% of the sessions, respondents like banks for safety and relative ease of withdrawal.

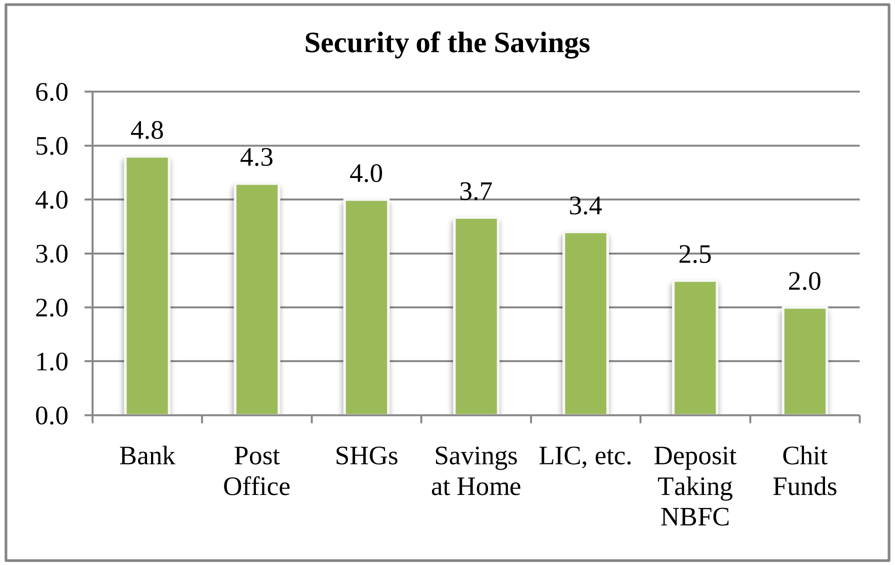
COMPARATIVE ANALYSIS OF SAVINGS ATTRIBUTES

The risk of losing one's savings or investment is what everyone hopes to avoid. Nevertheless, "security" is not the only attribute that matters to respondents and they make savings choices based other attributes as well. This section explores those attributes and how various savings choices differ for each. In this exercise, we asked respondents to compare savings methods with the various relevant attributes. (Please see textbox for list.) Respondents rated their perceptions of service providers in light of the listed attributes on a scale of 0 to 5 (0 for minimum and 5 as maximum). The graphs present the weighted average score of each saving avenues against each attribute. The overall Relative Preference Ranking (RPR) score represents the average of the scores for all the individual attributes from all sessions.

Savings Attributes

1. **Security.** Low/no incidence of fraud or theft.
2. **Return**. Interest or other benefits accrued.
3. **Trust**. Level of comfort in the security of deposits and the reputation of the institution or individual safeguarding these savings.
4. **Ease of withdrawal**. Convenience, speed, and ease of accessing savings for emergencies.
5. **Physical evidence**. Transaction receipts, passbooks, physical infrastructure, identity cards, and uniforms to help reinforce security and trust.

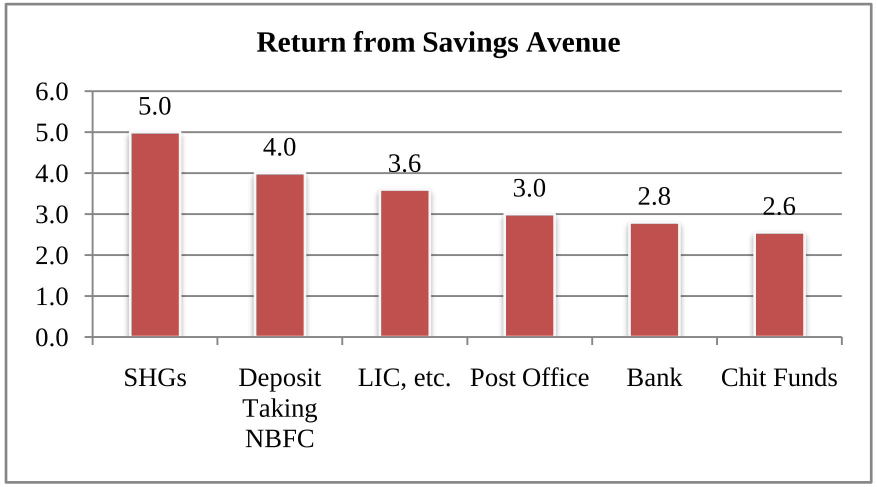
Overall Scores: Respondents rank banks, the post office and SHGs as the least risky for their savings. Banks score higher than SHGs, however, on security, trust, easy withdrawal, and physical evidence. SHGs score substantially higher on returns. Savings at home, despite the risks, are rated above LICs and other insurers, NBFCs, and chit funds, as too many respondents have lost money or been duped by agents of all three.

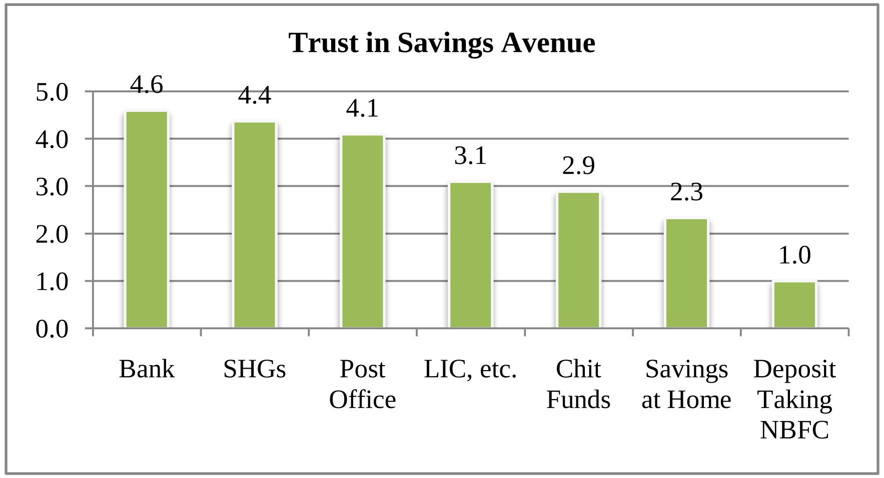


Security: Respondents' perceptions regarding security are based largely on community opinion and anecdotal evidence, and their consensus is that the government-backed banks and post offices are the safest. No one has ever lost their savings at either institution.

Although SHGs are run by respondents and members of their communities, that score is lower because there have been rare instances of group leaders misappropriating funds, and members' savings are jeopardised when SHG borrowers default.

Savings at home rank surprisingly well with these respondents who, due to bad experiences with NBFCs and chit funds, feel more secure keeping their money in the *undiyal*, despite the ever-present risk of petty theft and pilfering.





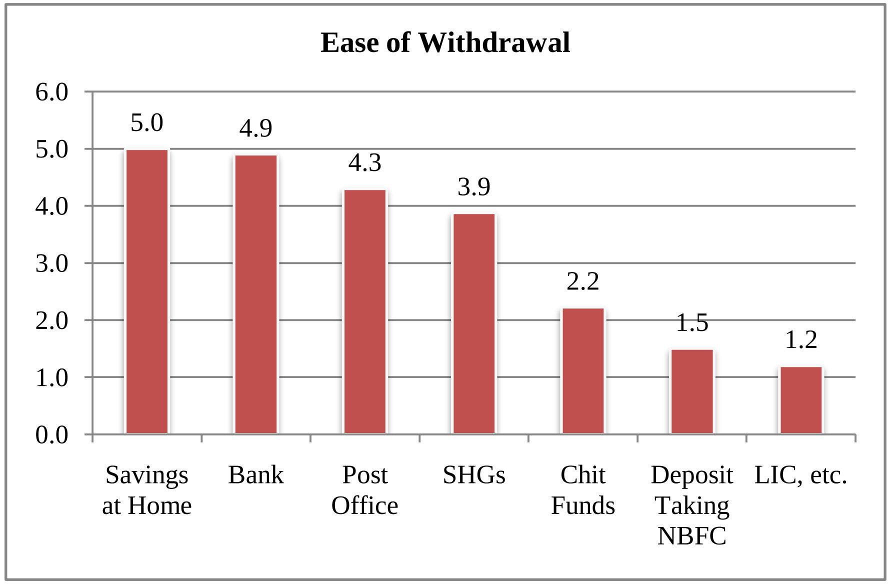
LICs and other insurance policies also score slightly better, though agent fraud has been problematic for this sample. Policy-holders invariably only discover the irregularities at maturity or when the policy lapses due to false receipts. Chit funds do not score well, although respondents note that those funds managed by trusted local property owners seem entirely safe.

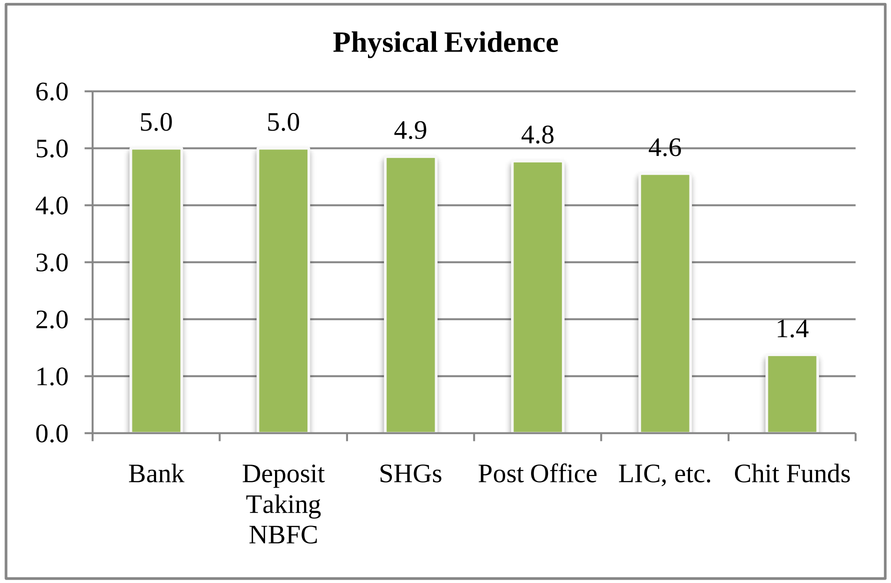
Return: Respondents give SHGs the highest score. Typically, SHG members use part of the group savings to make loans within the group at 3% per month. The interest earned on the internal lending is accumulated and shared among members. No other option offers a return of up to 36% per annum. NBFCs come in second and insurance policies third.

Banks and post offices offer only nominal returns, and respondents save with both for the security they provide, not for their favourable interest rates. Chit funds receive the lowest score because these funds are only used for lump sum amounts. Since many chits are auction chits, the distribution of returns can be highly uneven.

Trust: Respondents trust savings that allow direct access to their accounts—and recourse if something goes amiss. With banks, post offices, and SHGs, respondents can see their account status, ask questions, file grievances, and receive answers. Even if the answers are sometimes delayed, banks and post office are backed by the government, a seemingly unassailable advantage in these comparisons.

Participants in this study have relatively lower levels of trust in insurance, despite LICs government ownership, primarily because of agent miscommunication regarding policies. Respondents relate many instances where the agent either wilfully misled the buyer in order to sell a policy, or the buyer misunderstood the





terms.

Chit funds, savings at home, and NBFCs score lowest in terms of trust due to lack of accountability in all three cases. If the money disappears, even if respondents know full well who took it, no effective legal recourse is available. Family, peer, and community pressure can sometimes be brought to bear, but respondents are well aware that in most cases, the money is simply gone.

Ease of Withdrawal: Savings at home are obviously the most accessible, and respondents claim banks, particularly ATMs where available, offer the second easiest withdrawal procedures in an emergency. The post office is often located closer by, but most with postal savings have opted for recurring deposits and they can only withdraw that money at maturity unless they are willing to pay a penalty. Significant amounts of paperwork are also involved.

SHGs come in fourth because all group members have to agree to the withdrawal—although respondents are quick to point out that SHGs offer loans for just such emergencies. Chit funds, lottery or auction, have their own schedules and since the amount is never predictable, withdrawal is difficult.

LIC policies and deposit-taking NBFCs always come with a lock-in period. Respondents complain that withdrawing their money prematurely is laborious, time-consuming, and the penalty can be as high as half the amount in savings.

Physical Evidence: Respondents trust savings that provide adequate physical evidence in the form of transaction receipts and passbooks. Respondents say that when they deposit money in a well-maintained office where the staff appear knowledgeable and polite, they feel their money will be safer.

Banks, NBFCs, post offices, and LICs all score well on this attribute. Respondents note that SHG deposits are promptly recorded in the account books, and members often receive receipts as well. The savings collected are then deposited in banks and the SHG treasurer keeps the proof of deposit available. Chit funds score poorly on physical evidence because respondents receive neither a receipt nor a passbook in which to record their transactions.

SAVINGS PREFERENCES FOR DIFFERENT INCOME GROUPS

This section provides an overview of how respondents perceive various savings options for various income levels. In this exercise, participants listed savings strategies they are aware of in their neighbourhoods for the Rich, Not So Poor, Poor, and Very Poor. Then they scored who they believe uses which type of savings in these groups (and in many cases offered reasons why). A score of 0 means no use by that income group; 5 means they think everyone in that group uses this method.

Since respondents came up with the savings options, they only addressed those and not the full spectrum available. These matrices are also their perceptions, not necessarily the reality in their locales.

Income Group Definitions

Rich: "*Vasadhi anavanga na sonda veed, car, sondha business vachu irukaranga*" (Rich have their own house, car, own business.)

Not So poor: "*Nadhu tara Makkal na vadahai veetla irupaanga aprom adamparam irikkadu*" . (Those who are middle-class, live in rented houses, do not show off too much.)

Poor: "*Velai kidaikarathu ke kashta paduvanga*". (They find jobs with some difficulty.)

Very Poor: "*Romba yellanga tozhil illame veet la ye irippanga*". (They do not have any work and sit at home idly.)

Preferred Savings by Income Group

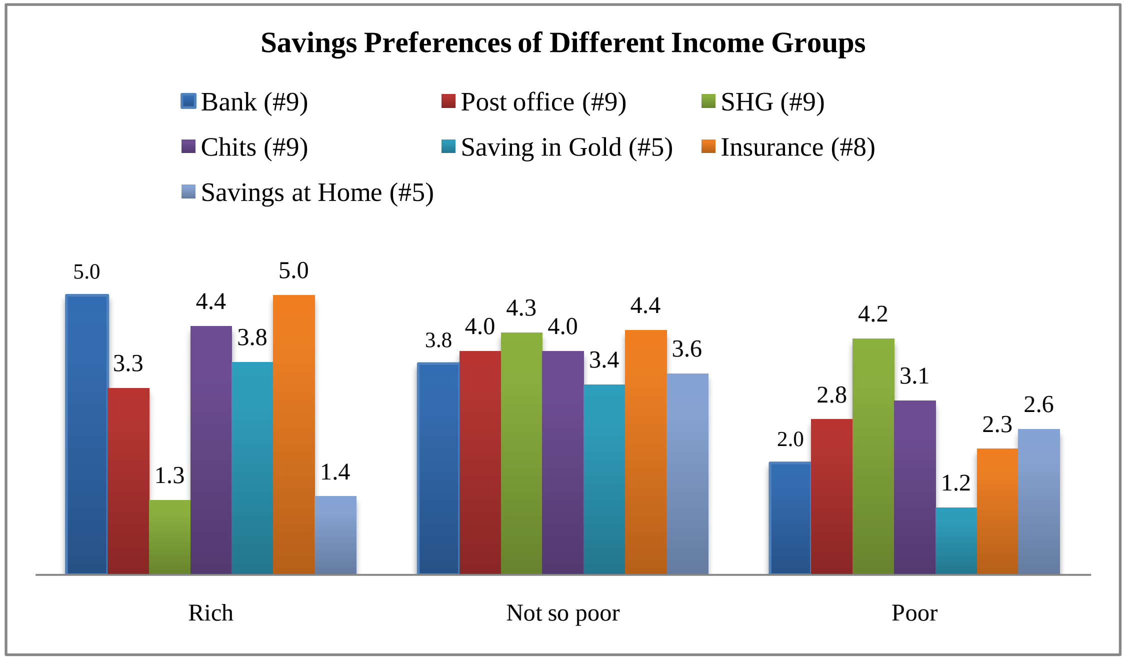
Income Group	Savings Avenue – 1st Place	Savings Avenue – 2nd Place	Savings Avenue – 3rd Place
Rich	Bank Insurance	Chit Funds	Jewellery Funds
Not So Poor	Insurance	SHG	Post Office Chit Funds
Poor	SHG	Chit Funds	Post office
Very Poor	SHG	Chit Funds Savings at Home	Post Office

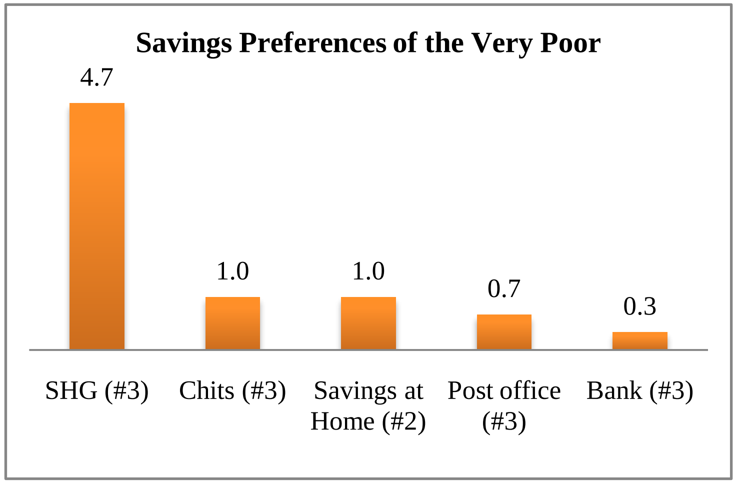
In six out of the nine FSM sessions, Tamil Nadu respondents claimed there were no very poor households in their community. "*Romba yezhmai ya yarume inga kidayathu. Idhu avlo pin thangina kiramam kidayathu*". (No one here is so backward economically. This is not such a remote village that we can find people like that here.)

"*Ippo paka pona yaryumae yellegal nu inge sollamudiyathu. Yellar kum tozhil irkivarumanirukku*". (As of today, we can't call anyone Very Poor. Everyone has some occupation and earnings as well.)

"*Nangaelarumein nada teramakkal*". (We are all middle-income people.)

The first graph shows the scores for rich, not so poor, and poor for the savings options that appear in more in more than four sessions. Savings choices mentioned less than three times were not included. Since the very poor only came up in three sessions, their savings choices are represented in a separate graph (Savings Preferences of Very Poor Income Group). The legend in each chart indicates the number of times respondents mention each type of savings.





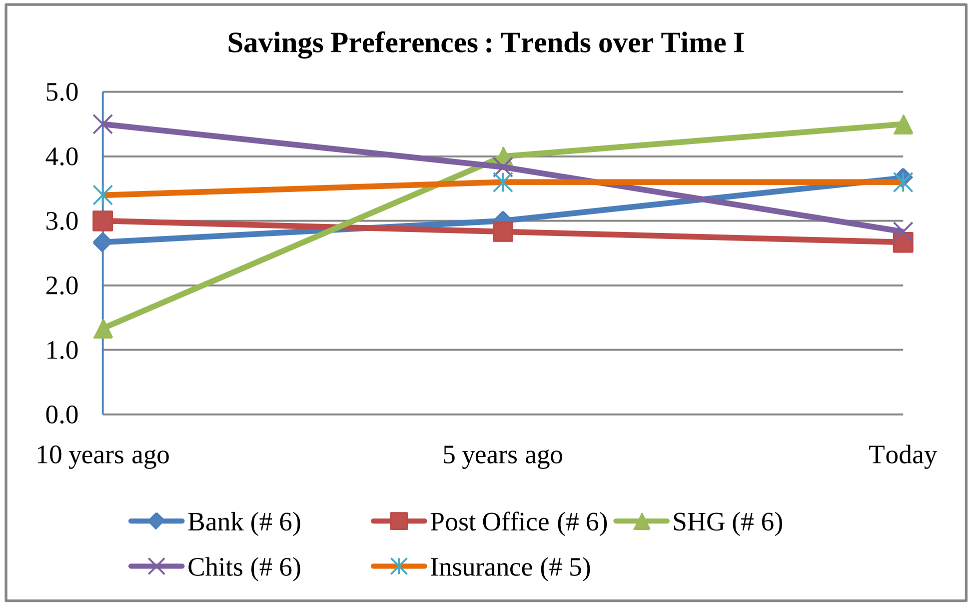
Seven types of savings came up in more than four sessions: banks, post offices, SHGs, chit funds, jewellery funds, insurance policies, and savings at home. For the "rich", participants in this exercise consider banks and insurance policies to be the most compatible, although they also believe the rich save in many ways. They estimate the not so poor also save almost equally across numerous options with a slightly greater dependence on insurance policies to protect themselves against emergencies and accidents. The poor and very poor save primarily in SHGs, participants maintain, since SHGs also offer loans and can provide access to bank credit for entrepreneurs. They believe the very poor also save at home and in chit funds, and their access to banks remains extremely low.

Savings Avenues According to Income Groups				
Savings Avenue	**Rich**	**Not So Poor**	**Poor**	**Very Poor**
Banks	According to participants, the Rich use banks and ancillary services like ATMs, cheques, online banking, and safe deposit boxes because banks offer the highest level of security.	The not so poor use banks less, participants believe, and only for lump sum deposits, or access to education and agricultural loans and government benefits. They cannot afford to travel to the bank, wait for long hours, miss a day's work, and incur other costs related to bank transactions. As a result, respondents believe, this group prefers to save with SHGs.	Participants see their bank use as low and limited to subsidised loans and government savings.	Their low income prevents them from using banks, participants maintain. The very poor do travel to banks, but participants believe they do so to conduct SHG-related transactions. *"Kuzhu nala bankoda sambandham illannu yaarum sola mudiyathu"*. (Thanks to SHGs, no one can say that they have not dealt with a bank.)
Post Office	Rich households save less in post office accounts, participants attest since these only offer *"siru semipu"* (small savings). *"Matra vasadhigal—cheque pondra vasathigal kidayathu"*. (Additional services like cheques are not there.)	Participants believe the not so poor make good use of the post office because of the focus on small savings and the choice between fixed recurring deposits and standard savings accounts.	Poor households make limited use of the post office savings, participants claim, because transactions involve onerous procedures with documents and forms and the possibility of losing a day's wage—although they, too, appreciate recurring deposit and standard savings accounts.	Respondents feel that their very low income implies low use of the post office savings.
Insurance	According to participants, the Rich save extensively with insurance policies as they have the means to do so. *"Sambalam ula vanga poduvanga. Ituna varusathu*	For the not so poor, insurance policies are also popular. Participants believe they use insurance to save and to protect themselves and their children against	Participants claim the Poor appreciate insurance benefits, but many cannot keep up with the payments, so this is not an option they use.	The very poor do not save with insurance policies, participants attest, because they cannot afford to and/or are unaware policies exist.

Savings Avenues According to Income Groups				
Savings Avenue	**Rich**	**Not So Poor**	**Poor**	**Very Poor**
	kunu amount podanum". (Those who have the salary to pay for it will invest. The premium payments take many years.)	unforeseen circumstances. However, they note, agent fraud and misrepresentation discourage some.		
SHGs	According to participants, the rich sometimes save with SHGs and if so, they serve as leaders. SHGs are seen, nevertheless, as savings for the poor, and the affluent are less likely to subscribe. *"Pana karanga en kuzhula saemikanum, avangaluku naraya kasu iruku, banku la saemikuranga. Kasu thevai patta bankula easya loan vanguranga. Aana pava patta Makalu ku apadiillayae*". (The rich also save in SHGs, [but] they also save in banks. If they need money, banks will give them a loan easily; that is not the case with poor people.)	The not so poor are involved with SHGs, respondents claim, because this avenue offers them access to both savings and loans. Savings also earn higher returns, since the interest earned through internal lending is shared among all SHG members.	Participants believe SHGs are most important for poor households due to the lump sums and availability of credit. Low-income groups also have no other access to high returns in a relatively trusted savings method. "*Ellarumae kuzhuva payan paduthu vanga. Aana Pava pattavanga than naraya seruvanga"*. (Everyone uses SHGs. But the poor join the most.)	SHGs play a key role in the financial lives of the very poor as well, respondents assert, for the same reasons noted for the poor. People in the lowest income bracket have even fewer options, so SHGs are that much more important. "*Coolie vela senjalum kuzhu sammalichati varom. Kuzhuva vida kudadu, illaya"*. (Even if we do daily labour, we maintain our SHG savings. We will not let the group membership lapse.)
Chit Funds	Participants perceive chit funds as one of the preferred options among the rich. Many like to invest in "big ticket" funds, which involve high amounts. They use their	The not so poor also use chit funds, although these funds are for lower amounts, participants claim. Chit funds apparently provide easier access to lump sums and	The poor are perceived as only using chit funds for access to lump sums for various life-cycle needs.	Participants claim the very poor make limited use of chit funds because of their erratic and very small earnings.

Savings Avenues According to Income Groups				
Savings Avenue	**Rich**	**Not So Poor**	**Poor**	**Very Poor**
	returns to improve their business or to lend at high interest rates. Some help organise chit funds. *"Periya periya amounta pottu business pannuvaga"*. (They invest large amounts to do business.) And, *"Seetula vangi vatti ku vidalan"*. (They borrow from the chit and lend it out at higher interest rates.)	loans for marriage expenses and building a home than banks can for this income bracket.		
Saving in Gold (Jewellery)	Participants maintain the rich invest large amounts in gold as it is a status symbol and essential for weddings. Gold has also been rising steadily in value. This group can invest directly, taking advantage of current prices, rather than saving up with a jewellery fund. *"Nagah yepu vum madipu than. Aprom ponnu kalayana tuku udavi ya irukum"*. (Jewellery will always fetch value. It is also needed for a daughter's wedding.)	The not so poor use gold as savings to a lesser extent, according to participants. They are also more likely to buy gold through jewellery funds and save up slowly for weddings.	The poor have even less money to invest in gold, participants maintain. If they are able to afford the jewellery fund payments, however, they, too, try to acquire some gold.	The very poor are deemed unable to invest in gold due to their limited income.

Savings Avenues According to Income Groups				
Savings Avenue	**Rich**	**Not So Poor**	**Poor**	**Very Poor**
Saving at Home	The rich save less at home because they save bigger amounts and their money would be unsafe, participants attest. *"Veetla yaar semmippa? Panam irukura vanga daan semmippanga. Pannakaranga veetu semmippa vaddiku viduvanga"*. (Who saves at home? Only people with money. People with money at home also give it out as loans on interest.)	The not so poor are perceived as saving only a little money at home—just enough for household expenses and emergencies. Participants are sceptical in general about saving at home since the money tends to be spent, not saved	According to participants, the poor also save very little at home but only, because they are unable to save more. The perception is that money at home gets spent easily or husband and children take it. *"Inda oorla irukara aangal, brandy shop la daan semmipangal"*. (The men who live here save only in the brandy shop.)	Participants believe the very poor, especially the women, save at home to meet emergencies.



TRENDS OVER TIME

Risks and attributes, and perceptions of both, can change over time. This section provides an overview of the perceived success, or failure, of the various savings avenues in this study over the past ten years. We asked respondents to provide a score ranging from 0-5 where 0 represents the worst possible savings option and 5 represents the best for three different time periods—today, five years ago, and ten years ago. *MicroSave* conducted six trend analyses with 37 respondents for this exercise. The legend in each chart indicates the savings respondents chose to consider. Options mentioned fewer than three times were not included in this analysis.

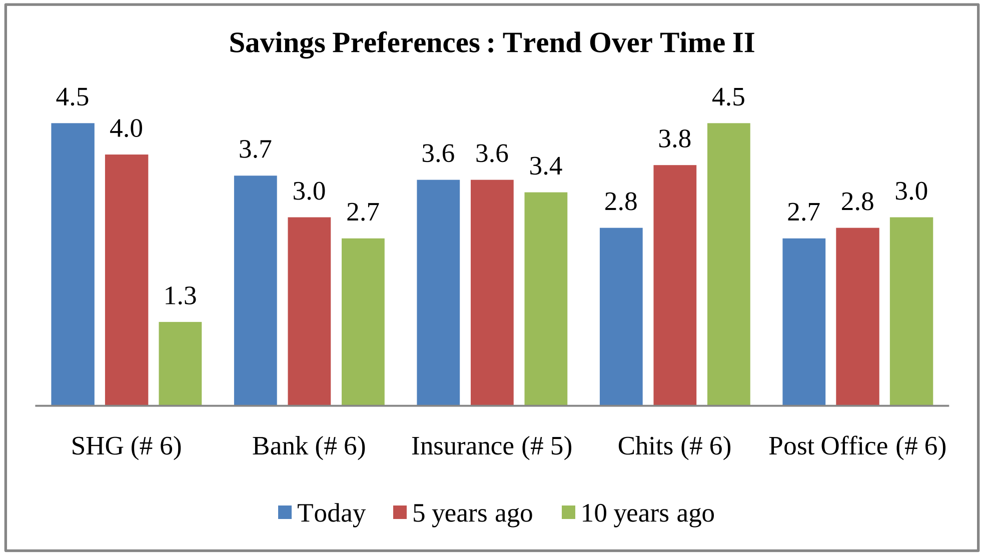
There are two charts in this section. The chart above (Savings Preferences: Trends over Time–I) shows how people's savings preferences have evolved; the second (Savings Preferences: Trends over Time–II) focuses more on individual trends.

SHGs

As seen in previous sections, many respondents like SHGs due to the easy availability of loans, higher returns, convenient meetings, and low documentation. In this exercise, SHGs also enjoy the most impressive gain over time. A decade ago, SHGs were much less common in Tamil Nadu, and people used chit funds instead (usually

> *"Kuzhu daan dairayama yengle nambi kadan tharanga. Oripaisa kuda pokadu".* (Only SHGs trust us and give us loans. We will not lose even a single penny [by saving in SHGs].)

managed by women in the community). SHGs have gained in importance and trust over in the past five to seven years.



Banks

Bank use for savings has increased steadily over the past decade. *"Ippooru 100 per irinda, 5 perkadaan bank le account irrkkum. 5 varshamminnaleyaaratayyonilla.10 varhsamminnale bank e teriyade"*. (Today, if there are 100 people, about five will have bank accounts. Five years ago, no one had one. Ten years ago, we did not even know what a bank was.) Respondents appreciate bank security and easy withdrawal, particularly if they have access to a nearby ATM.

Other reasons for growth in this savings channel include: extensions in branch networks; 2004 tsunami relief efforts which affected several research areas and involved government benefits routed through banks; and, of course, trust. Most respondents believe their savings are safer in a bank than anywhere else.

Insurance

Respondents still trust insurance companies such as LIC, but the increment in their preference rating is tiny compared to SHGs and banks due to agent fraud and misrepresentation. Many relate anecdotes from their own experience where the agent failed to deposit customers' insurance premiums in the insurance company's office. Misinformation and misrepresentation also pose problems, particularly for policies linked to external market fluctuations. At maturity, these customers are invariably shocked if they receive lower amounts than their original investments. Savings in insurance have nevertheless increased slightly over the years, thanks to general gains in awareness and incomes. Ten years ago, LIC was the only major insurance company people had heard of. Today, respondents say their friends and neighbours have also started saving with the insurance policies of Bajaj Alliance, Bharati AXA Life Insurance, and others.

> *"Appo oru nambikkai irindidu, rend per kattinom, 2 perayayum yemmatitanga!"*. (Then we used to trust LIC a lot. Two of us used save in LIC and both of us got cheated [by an agent].)

Chits

SHGs and banks are displacing chit funds for many. Ten years ago, chit funds were the most popular savings avenue, followed by insurance policies, post offices, banks, and finally, SHGs. Respondents have known about chit funds since their childhood, and many still like the access to lump sums that such funds provide. Unfortunately, due to dishonest fund organisers and a high percentage of defaulting members, chit funds now pose a higher risk than before.

> *"Appa ella seeta nambi tham irudhom"*.(Then we used to depend on chits [10 years back].)
>
> *"Kuzhu naala seetey illama poiduchu"*. (Because of the SHG there are no chits now.)

Post Office

Post office savings have fallen off gradually over the years. Many respondents have high levels of trust in the post office and still hold fixed deposit accounts there. Nevertheless, the restrictions and penalties on early withdrawal make them unpopular, particularly for those customers who need ready access to their savings in emergencies. Post office deposits also earn low returns in comparison to SHGs or insurance policies.

In general, respondents' savings behaviour has moved steadily away from informal savings like chit funds to semi-formal and formal savings like SHGs and banks. These shifts seem largely attributable to increased financial awareness, better literacy rates, and expanded bank branch and ATM networks.

CONCLUSION

To better understand the risks low-income households face as they consider their savings options, *MicroSave* conducted a study on the relative risk to the saving of poor in three different states in India. This report provides a summary of the research in the southern state of Tamil Nadu in India.

The results indicate that formal savings avenues are gaining prominence, while semi-formal avenues like SHGs remain very popular. Low-income households also rely on informal savings such as chit funds, festival and jewellery funds, and savings at home. LIC is a trusted name, nevertheless, agent fraud and misrepresentation have discouraged in investment in insurance policies. Community trust is critical for saving in chit funds, festival funds, or jewellery. The group sponsor or jeweller must be a local with a good reputation. Tamil Nadu, with its higher literacy, higher incomes, and more urban populations, has somewhat different priorities and preferences. (Please see other *MicroSave* Relative Risks in Savings reports for more details.) In the years ahead, Tamil Nadu's current savings behaviour may prove more the norm for other parts of the country. Alternatively, it may always be a region with unique tendencies and its own way of managing money.

ANNEXURES

Annexure 1: Focus Group Discussion Guide

Welcome

- Thank you for coming – we are grateful for your time.
- We are from an organisation called *MicroSave*. *MicroSave* is a research organisation which helps financial institutions design products and services for those who do not get adequate access to prompt and affordable financial services. We try to ensure that the clients' voices and ideas are heard by the institutions which provide financial services.
- We are trying to understand what channels you use for savings and your experience with it. We seek your opinion to understand the reasons for usage of a particular channel. Result of this study will be used to support Banks and other institutions in providing better quality services/products to their clients.
- Your names and any personal information will be kept confidential – so please feel free to express your opinions. Answers you provide here are neither right nor wrong. Every opinion is important. We would very much like to record (take notes) of these discussions to help us remember them and so that we do not miss any of the issues and ideas you give us.
- As a first step we should introduce ourselves. My colleague will prepare the name-tags to help us remember your names.

Warm up Question: (About 5 Min)

- What is your name and your occupation?
- For how long you have been living in this area

General Questions (About 20 Minutes)	**Related Probes**
1. How do you manage the large life cycle expenses like marriage, funerals?	▪ Probe how clients manage their large expenses? ▪ Is it loans from relative, money lender/MFIs or Bank or saving, insurance?
2. How do you manage the emergency expenses – for example when someone falls ill?	▪ Probe how clients manage their emergency expenses? ▪ Is it loans from relative, money lender/MFIs or Bank or saving, insurance?
3. Where do people in this community save if they have any surplus?	▪ Probe for formal, semi formal and informal systems/services
4. Where do people get information on the types of places to save?	▪ Who do you ask about financial services or products?

Core Questions (About 30 Minutes)	**Related Probes**
5. What are the various Savings avenues where you accumulate savings? [record all savings avenues]	▪ What channels/systems do you use for saving? ▪ Is it at a regular frequency or you can deposit anytime you want? ▪ Do you put it directly to the saving avenue or first accumulate it in your home and then save it?
6. What are the risks involved in saving with each channel/system? [record all the risks, saving avenue wise]	▪ How safe is your money in different saving avenues available. ▪ Whether you have lost saving in any of the channel? ▪ What kind of loss? What were the reasons? ▪ Do you perceive any other risk in using various avenues
7. Which channel/system do you find most suitable for people like you and why? [record the group's response and corresponding reasons]	▪ Your preference and reasons for using a particular channel ▪ Why are you not using all the avenues/ any particular avenue? ▪ How accessible is each avenue? ▪ Are you satisfied with quality of services received through different channels ▪ What are the direct and indirect costs of using the channels, like transport, opportunity cost
Closure Thank you for your contributions in this discussion. Do you have any questions/comments for us?	

Annexure 2: Relative Preference Ranking

Purpose: Relative Preference Ranking allows us to see how clients and potential clients perceive the financial service providers and components of the financial services they provide. It also helps challenge pre-conceived notions about poor people's attitudes towards financial service providers, what matters to them, and why they have those preferences.

Procedure:

1. Find people who are interested and willing to try.
2. Get participants to list all the financial service providers in the area (including, if appropriate, the informal services such as RoSCAs ["merry-go-rounds"] etc.) Probe to ensure that you have a complete list and try to ensure that the participants have a reasonable level of knowledge of the services they provide. Follow up with points of interest and encourage participation by different people.
3. Put this list along the top of the relative preference ranking matrix.
4. Get the participants to list the most important elements of the financial services that are being ranked. Probe for further criteria/components. Follow up with points of interest and encourage participation by different people.
5. Get participants to list all the criteria/components generated in this way on the left hand side of the matrix. Remember to make negative ones positive/neutral (e.g. "high minimum deposits" becomes "minimum deposit" or "low possibility of getting credit" becomes "possibility of getting credit").
6. Ask participants to rank the financial service providers for each component of the financial services they provide by putting bottle-tops/stones/seeds in each box.
7. Probe - ask participants questions like the following:
    a) Why is this financial service better at meeting these component/criteria?
    b) Why is this better than that one? etc.
8. Listen and learn from the participants – particularly as they discuss the merits of each financial service provider/criteria.
9. You should then finish with a table that looks something like:

Savings Services

Risk Related attributes	**Post Office**	**Co-op Bank**	**Arusha SACCO**	**RoSCAs**
Agent's Fraud	1	2	3	4
Service Provider closed	4	2	1	3
	2	1	3	4
	2	1	3	4
	3	2	1	4
	1	2	3	4
	1	4	2	3
	2	1	3	4
	3	2	4	1

Note: The totals of these columns are of little value unless each score is given a weighted value according to the relative importance of each of the components/criteria.

Sometimes PRA participants do not know enough about the financial services in an area to complete the exercise. The moderator should be sure when recruiting clients for the group, that she has selected clients with an understanding of the various financial service providers used by the community.

Annexure 3: Financial Sector Trend Analysis

Purpose: This tool is useful in determining which financial services have been used over time and thus understanding the changes in the use/availability of a variety of financial services over time, and why participants used them. The listing of financial services here is only tentative and will require modification based on the participants' knowledge and awareness of the various products.

Procedure:

1. The exercise is best done in a closed area with the assistance of a small working group of 6-8 individuals from the same socio-economic stratum. When an MFI is seeking to understand the needs/realities of the poor, they should focus on carefully selecting poor participants for this exercise.
2. If necessary, the exercise can be repeated with other groups from other strata.
3. The researcher should develop an initial listing of financial services (formal and informal sectors) available and used in the community.
4. Work with the participants to review, edit and develop/expand the list of financial services that are/were available and used in the area. This part of the exercise should be undertaken with care and <u>as much probing as possible</u>. Please also note that in many societies and cultures, people are unwilling to admit to the existence of interest-earning money-lenders working in the communities, and so this part of the matrix should be handled with appropriate tact and persistence!!
5. Once the list has been developed, turn it into a matrix by making columns for "This Year", "Last Year", "5 Years Ago" and "10 Years Ago". Participants should then be asked to place 0-5 stones/seeds/bottle tops to indicate the use level of the different financial services available.
6. Once step 5 has been completed, each participant should do the same for the previous year.
7. Once step 6 has been completed, participants should do the same for the situation for around 5 years before.
8. Once step 7 has been completed, repeat the same for 10 years before.
9. Alternatively, some find it useful to ask clients about the use level/popularity of one of the financial services this year, last year, 5 years ago and 10 years ago (i.e. completing the row first before moving on to the next financial service).
10. Either way ensure that you CHECK by comparing both vertically and horizontally as the final step to compete the exercise.
11. Listen and learn from the participants – particularly as they discuss how and why each of financial services have been use more or less over time.
12. The final matrix will look something like:

Financial Service	**This Year**	**Last Year**	**Five Years Before**	**Ten Years Before**
<u>**Formal:**</u>				
• Formal bank: savings account; current account; deposit account; loan account	*	**	**	**
• Insurance company: life, health/accident, pension or other policy				

• Formal employee pension or insurance scheme				
• Building society loan or savings account				
• Leasing company loan				
• Post Office savings account or savings certificates	****	**	**	***
Semi-formal:				
• MFI group-based savings and loan, or loan-only membership		*****	**	
• MFI individual savings and or loan account	***	**	*	
• Credit Union (or Thrift and Credit Co-operative, or FSA)	*	***	**	
Informal:				
• Moneylender	**	**		
• Pawnbroker		*	***	*****
• Deposit collector (private for profit, usually charging a fee)	****	***	*	
• Money guard (employer, senior relative, patron etc.)		**	**	*
• Saving at home in a money box	****	**	****	**
• ROSCA (a cash round: a rotating fund received equally by all in turn)	**	*****	*****	**
• ASCA (a non-rotating fund built by pooled savings from which some members borrow)		***	***	
• Savings club (no loans)		*****	*	
• Reciprocal lending arrangements	****	****	*****	****
• Informal insurance fund (e.g. by market traders to guard against a fire)	*	***		
• Burial funds and other informal insurance for personal uses	****	*****	****	****
• Saving with a supplier (who supplies goods/materials to saver)		****		
• Event-specific contribution arrangements (e.g. we all pay 5,000 shillings when a birth occurs)		*	**	***

Annexure 4: Financial Services Matrix

Purpose: This tool is useful in determining which financial services are used by which socio-economic or socio-cultural strata of society, and why, and thus the potential for designing or refining appropriate financial products. The listing of financial services here is only tentative and will require modification based on the participants' knowledge and awareness of the various products.

Procedure:

1. The exercise is best done in a closed area with the assistance of a small working group of 6-8 individuals from the same socio-economic stratum. When an MFI is seeking to understand the needs/realities of the poor, they should focus on carefully selecting poor participants for this exercise.
2. If necessary the exercise can be repeated with other groups from other strata.
3. The researcher should develop an initial listing of financial services (formal and informal sectors) available and used in the community.
4. Work with the participants to review, edit and develop/expand the list of financial services that are available and used in the area. This part of the exercise should be undertaken with care and <u>as much probing as possible</u>. Please also note that in many societies and cultures, people are unwilling to admit to the existence of interest-earning money-lenders working in the communities, and so this part of the matrix should be handled with appropriate tact and persistence!!
5. Once the list has been developed, turn it into a matrix by making columns for "rich", "not-so-poor", "poor" and "very poor". Check that the participants are happy with and understand these classifications – for example, they may need simplifying down to just "rich", "not-so-poor" and "poor".
6. Once the matrix is completed ask the participants to place stones/seeds/bottle-tops (on a scale of 1-5) to indicate the level of use of each of the types of financial service by each of the socio-economic strata.
7. Listen and learn from the participants – particularly as they discuss how and why each of financial services are used by each of the socio-economic strata.
8. The final matrix will look something like this:

<u>**Financial Service**</u>	**Rich**	**Not-so-Poor**	**Poor**	**VeryPoor**
<u>**Formal:**</u>				
• Bank: savings, current, deposit & loan accounts	*****	**		
• Insurance company: life, health/accident, pension or other policy	****	*		
• Formal employee pension or insurance scheme	***			
• Building society loan or savings account	*			
• Post Office savings account or savings certificates	**	******	*	
<u>**Semi-formal:**</u>				
• MFI group-based savings and loan, or loan-only membership		*****	**	
• MFI individual savings and or loan account	**	***	*	

• Credit Union (or Thrift and Credit Co-operative, or FSA)	*	***	**	
Informal:				
• Moneylender		**	*****	***
• Pawnbroker		*	***	*****
• Deposit collector (private for profit, usually charging a fee)		****	***	
• Money guard (employer, senior relative, patron etc.)		**	***	*
• Saving at home in a money box		**	****	*****
• ROSCA (a cash round; merry-go-round)	**	*****	*****	**
• ASCA (non-rotating fund of pooled savings; borrowing allowed)	**	***	***	
• Savings club (no loans)		*****	*	
• Reciprocal lending arrangements	*	****	*****	
• Informal insurance fund (e.g. by market traders to guard against a fire)	*	***		
• Burial funds and other informal insurance for personal uses	****	*****	****	****
• Saving with a supplier (who supplies goods/materials to saver)		****		
• Event-specific contribution arrangements (e.g. we all pay 5,000 shillings when a birth occurs)		*	**	***

- ✓ The moderator need not classify the financial services into "Formal", "Semi-Formal" and "Informal" with the clients - that can be done later in the notebook. However, you may want to assist clients to discuss certain institutions one following another (Banks, Insurance Companies) because of their nature; you do not want to allow the list to get too long.
- ✓ You may ask the clients if there are any cards, which belong together because of their similarity of services (especially if you have generated a very large list with the names of individual institutions). You may come to an agreement that if "all of these banks you have named offer similar terms according to what I have heard you say, can we then discuss them as one group? Are there any we should discuss separately?" Make sure you have selected PRA participants who can adequately discuss many financial services