Bringing the Hidden Giants to the Footlight: the Role of Savings and Retail Banks in Increasing the Level of Access to Financial Services

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Never has the issue of access to finance been higher on the agenda of international organisations and national government agencies. Never has there been such a flow of funding to microfinance organisations. And never has one witnessed such a string of initiatives in the access to finance field. At the same time, practitioners, donors and beneficiaries alike ignore an important player in the access to finance field: savings banks (including postal savings banks) and socially committed retail banks. A large majority of savings banks have evolved from being deposit-taking institutions to full-service institutions that offer credits, insurances and payments to the mass market.

This article provides a short overview of the role of savings and retail bank members of the WSBI (World Savings Banks Institute)[1] in the field of access to finance and as advocates for enhanced cooperation with MFI institutions to add value to existing infrastructure.

Data and evidence on the role of savings and retail banks in access to finance

WSBI has conducted research into the role of savings banks in providing access to finance[2]. The level of access was assessed by measuring the number of accessible accounts[3]. This research led to the conclusion that 1.4 billion accessible accounts are provided by double bottom line financial institutions and that savings banks provide three quarters of these accessible accounts[4].

These results not only demonstrate that savings banks are important players in providing accessible financial services, but also that in countries where the participation of savings banks in the financial system is high, there tends to be a higher level of access to finance. We can thus draw the conclusion that if developing countries want to move to a higher level of access they can get a lot of support from a strong presence of savings banks or other proximity banks.

Why are savings banks able to extend the access to finance's frontier?

Due to their very nature, savings banks overcome three important obstacles to access to finance: the lack of geographical proximity, low financial literacy and a high cost of financial services.

- ***Proximity:*** The lack of geographical proximity of a financial institution is one determining obstacle to access to finance. A common feature of savings banks across the world is the fact that they maintain large branch networks, often in areas that commercial banks no longer serve. In many countries, savings banks are the only financial institutions present in commercially less appealing areas and sometimes, such as in Kenya and Chile, the savings bank branch network matches that of all conventional banks. One can conclude that especially in less mature financial systems, the proximity factor is essential to increase the level of access to finance.

- ***Financial literacy:*** Education programs endeavour to improve the limited financial literacy of many people, especially the poor. This has been the case for more than 50 years in Germany and France, where respectively *Geld und Haushalt* and *Finance et Pédagogie,* two organisations that have sprung out of the savings banks movement, have done a

1 www.wsbi.org

2 WSBI (2006) *"Access to Finance — What does it mean and how do savings banks foster access"* by Stephen Peachey and Alan Roe, WSBI Perspectives 49 and *"Savings banks and the double bottom-line - A profitable and accessible model of finance"* by Stephen Peachey, WSBI Perspectives 52

3 Accessible accounts are defined as accounts provided by institutions that target the mass market, such as microfinance institutions, credit unions, cooperatives, agricultural and development banks and savings and postal savings banks.

4 WSBI recognises that in addition to compiling data, it is important to look into the "quality of access". The WSBI intends to initiate further research in this field.

pioneering job. Tremendous efforts are also being delivered in developing countries such as Thailand, where WSBI member GSB (Government Savings Bank) has a "School Based Savings Programme" in which students recreate a savings bank in their class and acquire the basic principles of personal financial management via a "learning by doing" method.

Along the same lines, savings banks offer products that are simple to use and that help customers with (financial) literacy problems. This is the case of Banrural in Guatemala which has created an ATM with audio instructions in indigenous dialects and biometric recognition for the clients that cannot speak, read or write Spanish, the official language of the country.

- ***Cost of financial services:*** A third factor constraining access is the cost of financial services, which is paradoxically higher for poor people, taking into account the higher risks and the more expensive nature of the operations needed to serve this segment. In spite of this, financial institutions should remain accessible for the most basic products, such as the passbook savings account. This product is standard of the savings banks' product range. Generally it does not require an entrance fee and most savings banks allow for very low minimum balance requirements. It is a highly accessible product that can be an incentive for people to bring their money into the formal financial system, instead of relying on informal circuits.

In designing their products, savings banks take into account the special needs and limitations of low-income households as well as those of more affluent customers. In developing economies, the minimum amount for opening a savings account at a commercial bank is often too high for a majority of the population. In some countries, savers are required to deposit more than their annual per capita income in order to open a deposit account with a bank. In Benin and Senegal, commercial banks often ask between US$100 and US$200 in local currency to open a savings account. Clients are also requested to maintain a minimum balance, ranging between US$ 50 to 100. In addition, bank fees to hold an account often exceed interest paid for small deposit accounts.

In contrast, at the postal savings bank in Benin, Burkina-Faso, Kenya and Tanzania, people can open a savings account with less than US$10 and an even lower amount in fees is required to keep this account active. In other countries and in Latin America and Asia, the figures also remain well below the average requirement of the banking system.

The microcredit schemes of savings banks

Although savings banks are savings mobilisation specialists, it is misleading to think about them as savings-only institutions. Research has shown that across the developing world non-postal savings

Table — Minimum fee to open a savings account at a Savings Bank

Country	Institution	Opening fee US$	Relative to % of per capita income
Benin	Caisse Nationale d'Epargne	10.00	2.5 %
Burkina Faso	Caisse Nationale d'Epargne	10.00	4%
Chile	Banco Estado	10.00	0.07
Colombia	Banco Caja Social	8.00	0.09
Côte d'Ivoire	Caisse d'Epargne et des Chèques Postaux	20.00–40.00	2.5%
Kenya	Kenya Post Office Savings Bank	7.00	1.9%
Malaysia	Bank Simpanan Nasional	0.27	0.01%
Peru	Cajas Municipales de Ahorro y Crédito	10.00	0.5%
Senegal	Postefinances	20.00	4%
Tanzania	Postal Bank	5.00	1.8%
Thailand	Government Savings Bank	None	None

Source: WSBI

banks recycle half of their deposits as credits. But, experts and other policy makers often overlook microcredit plans run by savings banks. The two experiences below from Colombia and Thailand serve as illustration.

1. ***Banco Caja Social in Colombia*** was created in 1911 with the mission to be the leading bank for financing low to middle income clients and micro-enterprises and small and medium enterprises (SMEs). According to the bank's own estimates, in 2006 the micro credit portfolio of Banco Caja Social represented 21.4% of the total Colombian micro credit portfolio. Sixty-one percent of the bank's portfolio comes from clients with a monthly income of less than 1.4 million Colombian pesos - US$ 611.

   Segmentation and innovation are strategic pillars on which BCSC manages the expansion of its services catering to the needs of its target clientele. It has created "Creemos," a microfinance programme targeting micro entrepreneurs with a monthly sales turn over of less than US$ 2,500. The loan is given taking into account the client's future payment capacity and is not based on collaterals. Personal references and overall household expenses are part of the credit analysis.

   Created in June 2004, the programme counted in September 2005 already 4,259 customers and had granted US$ 3.58 million with an average loan size of US$ 782. Past due loans were 2.26% of the total portfolio. Average savings in the account amounted to US$ 125. Since then, the program has expanded considerably; in 2006 more than US$19.6 million was allocated in 23,347 credit operations. By September, 2007, the project has served 24,570 microentrepreneurs. Seventy percent of these clients did not have any relationship with the banking sector before.

2. ***Government Savings Bank (GSB) of Thailand*** has been very active in implementing policies and measures to alleviate and eradicate poverty in the country. Individually and in collaboration with other financial institutions and government agencies, GSB has provided financial services under a number of programmes, which include:

- *People's Bank Program:* This was established by GSB to expand financial opportunities to street vendors and other small entrepreneurs through micro-finance plans. GSB requires personal guarantee or cross guarantee among the group of borrowers as collateral. The micro entrepreneurs need to save a specific amount as a precondition for securing a loan. GSB provides them with training. The amount of each loan is decided on the basis of the borrower's investment need and their ability to repay. The amount of the first loan does not exceed US$ 750 and the borrowers can apply for a second loan of up to US$ 1,250. A loan amount up to US$ 375 must be repaid in 13 monthly installments. The repayment terms of 25 months and 37 months apply for a larger loan amount, not to exceed US$ 750 and US$ 1,250 respectively. In all cases, there is a one-month grace period. Over the first seven months of 2005, 108,599 loans, which amounted to US$ 78 million were provided under the People's Bank Program. As of 31st July 2006, the project had 1.3 million members.

- *Asset Capitalization Program*: Launched in 2004, this program intends to create access to capital for the poor to fund existing or new business ventures. Documents guaranteeing the lease rights for selling goods at stalls administered by municipalities and some government agencies are used as collateral for loans. The loan amount ranges from US$ 1,250 to US$ 7,500 depending on the borrower's investment need. The interest rate is 12 % per annum and the repayment term ranges from 3 to 5 years before the expiry date of the lease right. As of February 2, 2005, a total of 2,054 loans, which amounted to US$ 4.12 million were extended.

- *People's Debt Restructuring Program:* This program was created to help over 700,000 non-agricultural debtors who owe less than US$ 2,500 to unconventional lenders. The branches of GSB take part in the negotiations with creditors for partial write-offs of the debts and then refinance the remaining amount at a lower interest rate. GSB also provides debtors with occupational training. As of August 31, 2005, 8,868 debtors refinanced the total debt of about US$ 9.5 million from unconventional lenders through this program.

A very important aspect of these projects is that they are not conducted separately from the mainstream banking activities. Some of the MFI clients upgrade from the microfinance customer segment to the SME segment or the private customer segment. The microcredit scheme is thus a fully-fledged product that fits seamlessly in the total product range.

Potential opportunities for cooperation between savings banks and MFIs

There are two fields where a closer link between savings banks and MFIs would be directly and mutually beneficial: linking savings to microcredits and linking remittances to microcredits. An alternative for savings and retail banks to offering microcredit services directly to the end beneficiary could be to establish alliances with microfinance institutions.

- ***Linking savings to microcredits:*** Offering savings services requires a high level of institutional development to meet safety and soundness requirements. Indeed, a large and widespread physical banking infrastructure is essential to collect the often small amounts of savings, and maintain them at the disposal of the client on a permanent basis. It requires skilled staff, good treasury management and adequate control and audit structures.

  Instead of going down this road on their own, it would undoubtedly be beneficial for microfinance institutions to partner with savings banks. Microfinance institutions could concentrate on the analysis of the creditworthiness and the repayment capacity of their clients, a domain where they have a high level of expertise, while savings banks could make use of their front and back office systems for disbursing of loans and collecting loan repayments.

  Another promising track for savings banks is to invest their savings deposits in microfinance institutions by specialising in wholesale lending to microfinance institutions for lending to their micro borrowers. Savings banks could refinance well-functioning microfinance institutions individually or indirectly through an apex institution.

  By combining strengths, the savings banks on the deposits collecting side and the MFIs on the credits side, both types of institutions could contribute substantially to the creation of a strong financial system.

- ***Linking remittances flows to microcredit products:*** Savings banks have a natural role to play in the remittances business the senders and receivers of remittances are mainly individuals and small businesses, the traditional target client group of savings banks. By capturing and channelling more of the remittances into the financial system and intermediating the flow of the resources, savings banks contribute to leveraging the positive impact of these transfers.

  In several savings banks, efforts have been undertaken to encourage those who live abroad to save at home, which is the case at Hatton Bank in Sri Lanka. The specific savings programme this bank has developed entitles the client to a microloan of five times the amount saved over a certain period of time.

  Linking remittances flows with microcredit products is an area of increased interest in savings banks and is another area where collaboration with microfinance institutions would be mutually beneficial. We see opportunities in allowing the direct repayment of microcredits with remittances income and in using the remitter's assets as collateral.

Conclusion

Despite their longstanding commitment and their tremendous efforts in the field of access to finance, savings banks still seem to be the invisible players in the arena. It is clear however that cooperation between the various financial institutions active in the field of access to finance is essential to increase substantially the number of people who have access to financial services. Rather than trying to achieve this alone, savings banks call for a closer collaboration with the microfinance institutions in the field.