Savings and the MFI portfolio: Bridging the gap between the needs of the poor and the capability of the institution

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Abstract: For over 30 years, microfinance institutions (MFIs) have been successfully serving some of the poor and poorest people around the world, primarily with credit products. Generally however, MFIs grapple to successfully add savings services to their portfolio of financial products. Whether offering savings as a way to provide additional valued financial services to clients or to have a reliable source of funding, or both, MFIs must learn to bring together people and technology and build the capacity and infrastructure to grow this business. In this article, we explore how market research, product design and testing, marketing, technology, alternative delivery channels, and an MFI's ability to transform from a credit-led institution to a market-led institution can assist an MFI to reach poor savers with products that are accessible, affordable, and secure.

Key words: MFI, savings, product design, delivery channels

Savings is one of the most important but neglected financial services needed by the poor. According to the World Bank less than 10% of the 2.5 billion people living on less than USD $2/day have access to financial services (World Bank, 2009). Most people save through informal means (e.g., hiding savings at home or investing in livestock or jewelry). Access to reliable savings services can help the poor reduce their vulnerability to major shocks, invest in children's education, build assets that will see them through old age, and minimize daily risks in their lives. CARD Bank is a microfinance institution (MFI) that recognizes the importance of providing saving services and is in the middle of a three year project in partnership with Grameen Foundation to enhance its capability to do so. In this article, we'll review some of the learnings from CARD's experiences and how these may be useful for other MFIs.

CARD Bank has operated in the Philippines for thirteen years as a rural bank, raising deposits in the form of compulsory savings from its borrowing clients, as well as voluntary savings from the public. The majority of deposits mobilized to date come from the compulsory requirements with only 23 percent from voluntary savers. The objective of the project is to enable CARD Bank to provide a full suite of savings products that meet the specific needs of the lower income segments and to fund 100 percent of CARD Bank's loan portfolio.

For over 30 years, MFIs have successfully served some of the poorest, primarily with credit products. However, MFIs have been less successful in providing savings services. The traditional brick and mortar bank has not been able to meet the unique needs of poor clients, particularly in remote areas who are in need of low minimum balances, easy access to their funds, and importantly, proximity to their home or work. Whether the MFI is offering savings as a way to provide additional, valued financial services to clients or to have a reliable source of funding, or both, MFIs must build the capacity and infrastructure to grow this business.

The likelihood of success increases if the MFI focuses on three themes:

- Marketing and product design;
- Developing alternative delivery channels and the technological infrastructure;
- Transforming from a credit-led to a market-led institution.

Client challenges to saving money safely

Joy, a micro-entrepreneur in the Philippines, makes enough money to cover her daily expenses. Because she lives 12 miles (20km) from her closet bank branch, it would cost her $3 to take the bus ride to deposit less money into a savings account. Instead of having an account at the traditional bank, she typically employs informal methods, e.g., keeping her extra income in her wallet or leaving it at home. Not only is this method unsecure, Joy also tends to spend the money meant for long-term savings on other items or emergencies that arise. Now, Joy takes her savings to CARD Bank because it recently began offering clients a new savings service that was designed with her in mind. CARD Bank offers a service with a lower minimum balance than the traditional banks plus Joy can send a text message for doorstep pick-up of savings deposits. This service capitalizes on the fact that as of 2008, 75% of people living in the Philippines have mobile phones. For Joy and other clients like her, matching the right product with the right delivery channel is critical. She chose CARD Bank as the place to save her money because it meets her needs. Joy can save smaller amounts more often by just sending a text message to her savings associate, and she can access her savings whenever she needs it through the ATM.

How institutions can effectively serve poor clients with savings services

The formal financial sector has historically excluded the poor because there was no business case to justify many low value transactions. Each transaction at a teller window costs a bank USD$1-3 (Mas, 2010). Due to high transportation costs and time away from work, our research for the Philippines shows it costs the client approximately USD $2 per transaction.

MFIs currently provide the poor with credit at significant scale. By introducing savings, MFIs can diversify their funding base to include less expensive, more stable funding to support growth. However, credit-led MFIs face broad and deep challenges when offering savings services. These include understanding their target market, developing effective marketing strategies, ensuring staff understands client needs, and reaching prospective savers through alternative delivery channels, e.g., doorstep savings associates, retail agents/bank correspondents, mobile phones, and ATMs. Financial inclusion for the poor can be achieved when MFIs provide clients with safe, trustworthy, and reliable savings services in an easily accessible way matching the convenience and flexibility of informal options. In addition to employing the right blend of people, products, and delivery channels, MFIs need to provide these services in a high-volume, low-value business model while committing to investment in infrastructure and institutional capacity.

MFI's Marketing and Product Design Capability

"Developing new products can be a risky and costly endeavor, and market research is a critical first step in the product development process. However, market research and pilot testing are often overlooked by many institutions" (Glisovic et al., 2010).

Unlike in other industries, most credit-led MFIs do not institutionalize traditional marketing systems and market research capacities. Establishing a marketing function and developing the capability to deliver savings services requires the MFIs to take a market-led, sales-driven, relationship-building approach with customers so they will entrust the MFI with their savings. This approach requires the MFI to understand its target market; design, test, and promote savings products to meet client needs; and ensure that the people and technologies are in place to offer savings products to customers efficiently and effectively. Every MFI must start its marketing and product design work by understanding its target market through conducting market research. Defining a target market requires the MFI to first develop its overarching marketing strategy and then devise a plan based on a customer profiling exercise that outlines multi-year saving product goals. It must also detail how each of the products will be designed to address a specific customer segment. Since most MFIs focus on the poor, further segmenting the client base will allow MFIs to more specifically identify the needs of the poor and poorest. When MFIs use poverty assessment tools, such as Grameen Foundation's Progress Out of Poverty Index™ (PPI) tool, they can further categorize customer segments into more specific levels of poverty. This customer segmentation is the first step in understanding the target market.

Another way to utilize the PPI is to integrate it with an MFI's financial data. CARD Bank was able to sample its customer base and learn which type of savings products were being used based on client poverty levels ($2.50/day, $1.25 day, etc.). This information is then incorporated into the overall marketing and product planning process, and to develop new products for poverty segments not currently being served. CARD will use this information to gather additional market research from clients in those segments and to better understand the type of promotional campaigns that will be effective in reaching them.

Market research is not a one-off survey. It is an ongoing, iterative process that allows MFIs to continually refine and gather client information to create products that will meet the needs of the poor. Performing market research is an art as well as a science and it takes practice. Learning how to properly conduct effective research activities is critical to obtaining the right information. Market research was one of the first activities in CARD Bank's savings mobilization project. During the initial market research performed in partnership with MicroSave (an industry leader in the area of market-led microfinance), CARD conducted qualitative research through focus group discussions with 310 participants, including clients, potential new customers, and field-based staff. The objective of the research was to understand the current savings behavior of CARD Bank's target market and the clients' perception of and recommendations to improve CARD Bank's existing savings products. CARD also employed participatory rapid appraisal tools such as 'Life Cycle Analysis'. This helps researchers better understand life events causing the most financial pressure and how participants cope. It also utilized the ‘Product Attribute Ranking’ tool which elicits the product attributes most important to the respondents. Questions also covered typical demographics, why, how, and where respondents save, and the reasons for and benefits of using informal methods.

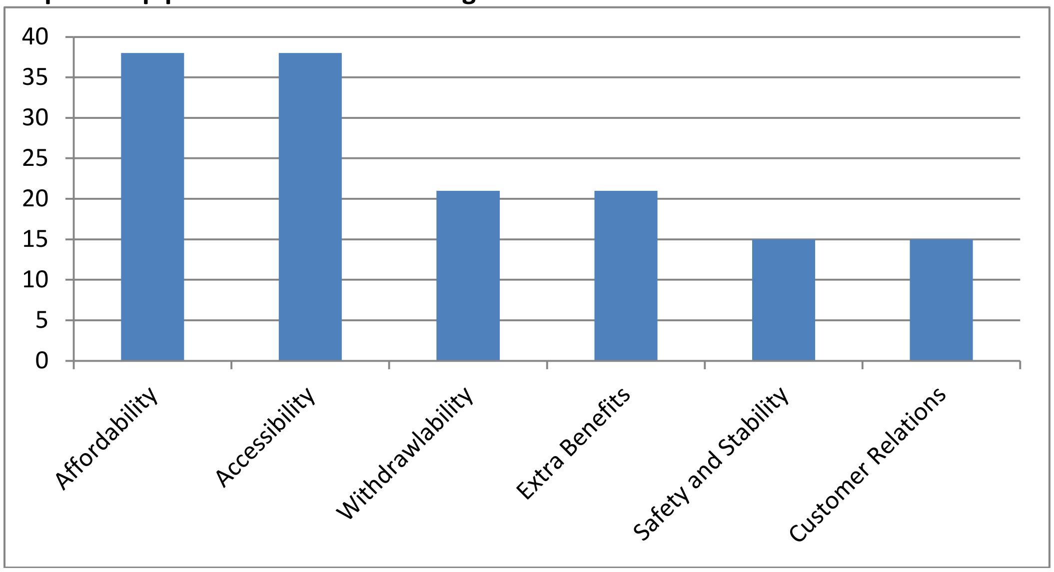
Selecting the appropriate cross section of respondents for focus group discussions which represent the desired target market is an important but challenging task. Including potential new customers in the focus groups and understanding what information needs to be gathered to best analyze the segment requires careful thought and deliberation. In CARD Bank’s case, it was challenging to ensure non-CARD clients unrelated to an existing client were willing to participate. CARD Bank learned that it required more upfront planning to attract a broad section of customers. It also learned that non-CARD clients may be more open to attending a session at a neutral community location than one of the MFI’s branches or center meeting locations. The research team initially set out to segregate clients and non-CARD clients as either ‘micro’ or ‘small’ entrepreneurs based on their daily average savings balance. However, the lack of reliable non-CARD client secondary data regarding income or assets prevented this segmentation and all potential clients were integrated into one sample group.

The results of the market research indicated all three sample groups (micro-clients, small-clients, and non-clients) generally save for the same reasons. The top five reasons were: 1) cover medical treatment and emergencies, 2) finance children’s education, 3) supply working capital needs for existing businesses, 4) pay utility bills, and 5) avoid borrowing in case of emergencies. The main source for savings was an increase in income or receipt of remittances. Increased income was a result of business growth, seasonal fluctuations such as harvest time, sale of livestock, or the existence of additional income earners in the household. For both clients and non-CARD clients, the most popular place to save was in the home. For clients, CARD Bank ranked second followed by commercial banks. For non-CARD clients, other rural banks were the most popular followed by commercial banks. Rural respondents also indicated saving in-kind through the purchase of livestock. The results also demonstrated that accessibility (ease of access and proximity), affordability, security, the ability to withdraw, access to additional benefits (e.g. insurance), and good customer relationships with the bank were also important attributes desired by customers with savings products.

The *Global Financial Inclusion Fall 2010 publication* by McKinsey & Company similarly showed that proximity and accessibility are important to customers. “When a cash agent is located more than 15 minutes away from customers, mobile financial services has relatively little appeal and customers use it only once or twice a month. But when the agent is less than 10 minutes away, usages rise to 10 times a month – and for those within 2 minutes of an agent, usage rises to 30 times a month. Clearly, proximity of access is vital for getting the unbanked to move from informal financial services to mobile financial services. This means players must create low-cost, ubiquitous distribution networks” (Beshouri et al., 2010).

The outcome of the initial research allowed CARD Bank to create a new savings product concept based on existing demand deposit accounts which more closely match the top attributes preferred by the respondents. See graph 1.

Graph 1: Top product attributes through market research at CARD Bank



Customers like Joy are great examples of how MFIs can develop products that meet the needs of the poor and increase financial inclusion. Before CARD Bank offered its new service to Joy, she never had an account at a financial institution because she couldn't meet the requirements of a traditional bank. Long lines and the significant distance of bank branches from her home kept Joy from opening a savings account with the banks in the area. CARD Bank's new product offering was unique compared to those offered by other banks. CARD Bank required fewer documents and forms and Joy was able to open an account with a lower initial deposit. Joy could also benefit from doorstep deposit pick-up coordinated through text messaging, and the ability to withdraw from ATMs. Joy says this easily accessible account allows her to save smaller amounts more frequently. Additionally, having the bank pick up the deposit from her home prevents Joy from having to take time off from work.

Once a new savings product concept is created, MFIs must test the new product prototype with the target market. Through initial testing of the new savings product, CARD Bank was able to determine which of the proposed features appealed to customers and which needed to be to changed or removed altogether. One proposed feature that was removed after market concept testing was an emergency loan facility. This option was designed to help savers protect their savings in times of emergencies by allowing them to 'borrow' up to 75 percent of their savings balance at an annual interest rate of 0.5-1.0 percent (lower than the interest rate on the account). Most of the feedback on this feature was negative; unsurprisingly respondents indicated they would prefer to withdraw their money to pay for an emergency as that was one of the reasons why they save. It was also felt that having a loan option was contrary to the objective of savings mobilization. Another feature that was eliminated were extra benefits (e.g. free or discounted insurance plans) for savers who maintained higher average daily balances

(ADB) for a defined period of time. The concept testing revealed a strong interest in this idea; however during product testing requests were made to lower the ADBs set to achieve ‘Gold’ and ‘Silver’ saver status. Due to the additional costs involved in implementing this, CARD Bank eliminated the proposed feature. These changes allowed CARD to bring the product to market at a lower cost than originally anticipated and eliminated additional administrative burden. The poor have unique limitations when it comes to gaining access to their money. If a poor customer lives in a remote area, the cost of transportation and time away from home or work become major drivers in her decision to use a financial institution’s savings service. As mentioned CARD Bank research showed that accessibility is a top attribute. If the customer works during regular business hours, gaining access to her bank account becomes an issue. CARD Bank chose to implement a text messaging service to address this issue. When a message is received, a ‘doorstep savings associates’ comes to the customer’s home or work to collect her savings. Additionally, ATMs are being piloted to provide more convenient withdrawals.

CARD Bank began pilot testing the new savings product to better understand demand, costs, product features, savings processes that needed to be refined, and what factors prevented customers from saving. The results of the pilot test and a thorough costing exercise will tell CARD whether this new delivery model will be financially viable. Increasing pick-ups by ’doorstep savings associates’ and signing as many customers as possible for regularly scheduled deposits is critical to the success of the pilot. Adding new features to make it more appealing to clients such as providing a direct deposit option for remittances that are already at CARD branches will also help make the new product financially viable. Testing and refining the savings product is ongoing and decisions between meeting clients’ needs and containing costs will need to be balanced.

CARD Bank has been offering voluntary savings products for 13 years. Through the market research, it learned that clients were not aware these services existed. The best designed product is wasted if the target market is unaware of its existence. Marketing savings products for most credit-led MFIs is fundamentally different from their credit-led operations. Offering a poor customer a lump sum of money (in terms of credit) is much easier than asking the customer to give their money to the MFI to save it for them. Will the MFI be around for the long term and are their savings secure? These questions are addressed through customer education. The customer must know that whenever they want access to their money, it is available. Therefore, the MFI must effectively educate clients and develop their trust.

Product marketing programs should include customer education whether through traditional center meetings or technology. Based on the market research at CARD Bank, when an MFI takes the time to educate its customers they feel less intimated and begin to feel more comfortable with the idea of formal savings. When building promotional and financial literacy campaigns, MFIs must devise programs that provide customers with savings tips and techniques and also ensures they understand how to use technology such as an ATM. An MFI can stand out from its competitors when it begins to understand the core benefits its customers want and builds these things into its customer service and marketing (Parrott, 2006).

Building trust in the marketplace is essential for MFIs to introduce saving products to customers. An MFI's reputation is fundamental to building trust so the MFI must learn and understand how it is perceived in the marketplace. Promotional campaigns which underscore the MFI's positive reputation will enhance its brand and build customer trust. MFIs can also build their savings client base through marketing savings services to existing customers as they are already familiar with the MFI's brand and have developed a positive image of the institution. These customers provide a good foundation for developing and building promotional campaigns.

Market research, customer education, product promotion, and institutional reputation are fundamental to offering successful savings products. However, when offering savings services to new clients, none of it will matter if the MFI cannot make the product easily accessible.

Alternative delivery channels and the technological infrastructure to support them

CARD Bank's market research results showed that product delivery is just as important as the product itself. If savings services are limited to traditional brick and mortar banks, the high cost to build branches will continue to limit financial inclusion.

Alternative delivery channels are ways that customers gain access to savings accounts without requiring a visit to a bank branch. This includes deposit collectors, retail agents/bank correspondents, and the use of technology such as ATMs and mobile phones. See Table 1 for the advantages and disadvantages for the MFI.

Table 1: Alternative delivery channels and technologies: advantages and disadvantages for the MFI

Delivery Channel	MFI Advantages	MFI Disadvantages
Doorstep Savings Collectors	- Providing services at customer's home or workplace solves the challenge of reaching customers in rural areas - Offering recurring deposit product option can help manage costs by shifting transportation costs to MFI who can take advantage of consolidating pickups and decrease time per transaction for the customer	- High cost of deploying field staff - Separate role of savings officer vs. loan officer requires additional headcount and possible tension between loan and savings staff if targets and workload are not carefully managed. - Costs can escalate if routing of savings officer becomes inefficient - Potential for fraud or robbery increases for regular deposit pick-ups

Delivery Channel	MFI Advantages	MFI Disadvantages
Retail Agents/ Business Correspondents (BC) BC's act on behalf of regulated bank to extend outreach for financial inclusion where regulations inhibit MFI's from offering savings directly to their customers	- Lower cost of entry - Service points can be established in rural and urban locations close to customers - Customers avoid long queue lines at bank branch - Agents are available for extended hours based on retail outlet services	- Requires knowledge and management of external customer acquisition structure - Requires back office support centers, operational and technology - Raises operational issues associated with liquidity management and cash handling requiring strong internal controls to reduce fraud - BC must adhere to structure and policies of bank and may require separate infrastructure
Mobile Phones (may be used through retail agents or directly through the deposit taking MFI's)	- 1 billion of the 2.7 billion people who are unbanked have access to or own a mobile phone - Transaction costs are significantly reduced - Risks of carrying cash are reduced - Avoids long queue lines at bank branch - Reduces MFI paperwork - Increased privacy for the customers - Can act as a multi-product delivery system (e.g., bill payments, remittances, mobile phone top-ups) which can increase overall MFI profitability	- Low penetration of mobile phones in rural areas - Connectivity of the mobile network operators in rural locations - Significant increase in costs to create and manage cash in/cash out centers beyond existing MFI branches or centers - Raises operational issues associated with liquidity management and cash handling requiring strong internal controls to reduce fraud. - Requires back office support centers, both operations and technology

Delivery Channel	MFI Advantages	MFI Disadvantages
ATMs	- Banking is available to customer 24/7 - Access to other bank networks increases the number of access points - ATMs can be established in locations where customers need cash, e.g., retail locations, restaurants, etc. - Customers avoid long queue lines at bank branch - Reduce manual paperwork - Customer privacy increases - Less cost than teller window transactions - Can act as a multi-product delivery system (e.g., bill payments, remittances, mobile phone top-ups) which can increase overall MFI profitability	- High usage fees for the customer - ATM technology is expensive to buy, service, and manage - Technical expertise to support and service - Requires online, real-time transaction processing that must be tied to a core banking system - ATMs require VPN connectivity to MFI's core banking system either through internet connection or satellite services for remote locations - Requires back office support centers, both operations and technology

Determining which alternative delivery channel(s) an MFI uses will be based on a number of factors: 1) specific needs of the customer; 2) readiness and sophistication of the country's technology infrastructure; 3) the regulatory environment; 4) the MFI's knowledge and sophistication in employing technology; and 5) the amount of capital the MFI is able or willing to invest.

An MFI may utilize various alternative delivery channels as its customer base, infrastructure in the country, and the MFIs own infrastructure mature over time. For example, implementing doorstep savings associates offers personal service to the customer in rural areas of the country where its infrastructure may not be mature enough to support technology.

Technology is driving down the cost of delivery and is now the major focus of many financial inclusion projects around the world. For example, CGAP found that "in the Philippines, a typical transaction through a bank branch costs the bank US $2.50; this would cost only US $0.50 if it were automated by using a mobile phone" (Ivatury and Mas, 2008). Delivering technological solutions requires any country to have reliable and affordable electricity, roads, GSM, broadband and/or satellite connectivity in rural areas. If the area loses electricity multiple times a day or if the MFI loses its broadband connection between the ATM and internal Virtual Private Network service, customers will not have access to their money when they need it. This significantly impacts the customer's willingness to save their money with the MFI and potentially jeopardizes the institution's reputation.

Today, there are one billion poor people in developing nations with mobile phones. This number is expected to increase to 1.7 billion by 2012 (Pickens, 2009. The level of mobile phone penetration along with the success of mobile money solutions, i.e., M-PESA (approximately 12 million customers in 2010, (Rosenberg, 2010), make mobile phones a logical alternative delivery channel for most MFIs to consider as part of developing savings products. However, to ensure financial inclusion of the poor and poorest, MFIs must identify additional alternative delivery channels to reach its target market if many do not have mobile phones.

Global Financial Inclusion Fall 2010 stated nearly two-thirds of unbanked mobile subscribers in the Philippines knew about mobile financial services, and almost as many (about 60 percent) expressed no misgivings to try it. Their findings showed that even the lowest-income segment has a strong interest in mobile phone financial services. In the Philippines, about 8 percent of the unbanked have subscribed to mobile phone financial services. Approximately 20 percent of these customers come from households that earn less than $5 a day. Of the lowest-income households surveyed, about 65 percent said they wanted to use mobile phones to save money. This compares to 50 percent across all income groups. Overall, six percent of subscribers to mobile phone financial services use it to store value, and their median balance is about $40. Among the poorest segment, approximately 10 percent have accounts, with an average balance of about $31. A larger portion of the poorest customers save, and they save more than 75 percent as much as the others do. (Beshouri et al., 2010).

Changes in regulations have a large impact on the ability to reach customers and determine which delivery channel should be employed. For example, Bangko Sentral ng Pilipinas, BSP), the central bank in the Philippines, recently announced a new regulation, Circular 694, for the Other Banking Offices (OBO) and Microfinance-oriented Banking Offices (MBO) of MFIs that are licensed as Rural Banks. These offices are permanent locations in the Philippines (other than the MFI's head office or branch) that engage in banking-related activities. This new regulation will allow CARD Bank to not only accept deposits and withdrawals at these locations, but also to perform *know your customer* (KYC) requirements to open accounts. Customers will no longer have to travel to one of CARD Bank's existing 41 branches to open a savings account. After CARD Bank gains regulatory approval for each location, this will improve access of its savings products in rural areas and give customers the ability to open savings accounts at 255 of its OBO locations in addition to its 41 existing branches. This increases potential customer outreach six fold.

Supporting any or all of these solutions means MFIs must have the necessary budget, knowledge, skills, and internal information technology (IT) infrastructure. The first step in understanding what is required to support a new delivery channel is performing an IT assessment. The MFI must have the ability to process transactions wherever and whenever they occur. This assumes a real time online system for tracking and updating account activity. Whether this is achieved through a centralized core banking system or a separate authorizing system, the MFI's ability to create and maintain such an operation becomes a key factor in its delivery success. In anticipation of the full-scale rollout of a new centralized core banking system at CARD Bank, it recognized the need to reorganize its IT function to better support a

24/7 operation. This included deploying regional IT staff, establishing a project management office, and formalizing the application support and technical operations units. Technical operations include the responsibility of establishing and maintaining a virtual private network (VPN) which serves as the base for its enterprise information exchange. Issues such as network security, uptime, latency, and other connectivity concerns become extremely significant.
For effectively delivering saving services to the poor and poorest, people and technology must come together to successfully deliver these services as close to the customer as possible.

Change from credit-led to market-led institutions
Underlying all of these issues (marketing, product design, technology and alternative delivery channels) is the ability of the MFI to transform its organization from a credit-led institution to a market-led institution. A market-led institution is an MFI that delivers financial products and services developed to address client need and demand, with a higher level of sophistication in marketing and customer service, which meet the demands of regulatory requirements, and have the ability to sell the customer on the value of the product and the institution.

It is essential an MFI's senior management recognizes how adding savings services will transform the organization. Individual responsibilities may change and new positions will be added. And new processes, technology and procedures will be implemented. To lead this change effectively, top executive(s) must establish and communicate the reason for adding savings services, how the MFI and individuals will be affected, and successes and challenges as they occur. All senior leaders must be prepared to support these efforts and provide employees the opportunity to ask questions, provide input, and participate in making the change successful. Rather than become a drain on resources, adding critical savings services can reengage employees with the organization's social mission and provide expanded career growth opportunities.

Supporting the transformation will require the organization to build additional capacity in marketing, IT, operations, treasury management, and internal controls. It may also call upon more sophisticated human capital management practices. This requires each part of the organization to bring varying skills, people, processes, and tools that are different from what those required as a 'credit'-only MFI.

MFIs should begin to identify the required changes to support new or expanded savings services through completing a baseline assessment of every aspect of the organization. We recommend this begins with an assessment of human resources (HR) including an assessment of current HR practices and the gap between these and what is needed to drive the savings strategy. It is then critical to identify those practices or policies that will need to be added or redesigned to better support the addition of savings services. Completing this assessment and working to address the necessary changes will ensure the MFI is best equipped to support transformational changes across other functions. The HR management areas that are important to assess are strategic planning, leadership practices, culture, recruitment and development of talent, compensation and reward systems, as well as a review of the HR function.

Take for example, the need to build HR capacity. After completing a baseline assessment for IT, marketing, product design, internal controls, and liquidity management, a detailed training plan can be established to identify skills needed to deliver savings services, and how to develop these skills in the organization or to hire externally.   CARD Bank found it needed to establish a formal marketing department, and although two existing staff was dedicated to marketing savings services, CARD decided to recruit externally to bring in a head of Marketing. This role will mentor and further train existing marketing staff and institutionalize the product development process. This change will not only help develop savings services, but also credit products and other new product development projects as well. CARD Bank also found its branch managers needed more training in financial analysis, especially as it anticipates moving the liquidity management responsibility to the branch level.

CARD Bank also found with the addition of the new roles, such as doorstep savings associate and the customer service associate meant that new job descriptions needed to be developed, appropriate individual, group, and organization performance objectives and targets had to be set, new savings staff had to be recruited, and a new training curriculum designed and delivered. One of the reasons that a dedicated doorstep savings associate position was created (as opposed to adding savings delivery onto the loan officer role), was because it learned during the market research that loan officers were unable to take on additional responsibilities given their already full workload. Senior management knew the loan officers' first priority, given their existing performance evaluation system, would always be pursuance of late loan repayments. Given that timely collection was a priority for the organization, CARD Bank wanted to make sure there was other staff that would prioritize savings services. New training was needed for savings staff which included describing the new savings product features, the savings process as well as a refresher on existing savings products and how to direct the customer to the best product that would fit her needs. Training for the savings staff required a greater emphasis on sales techniques, customer management, complaints handling, and technical training on the texting facility, ATMs, and system data entry. Sales training is an ongoing process in CARD's savings project with hands-on and role playing training methods as the most effective training tools.

Building institutional capacity cuts across all areas of the organization. The MFI must evaluate and (most likely) upgrade its IT infrastructure, add or refine liquidity management practices, and refine internal controls and process flows to support additional services.

In terms of liquidity management, when a credit-led MFI chooses to offer savings services to its customers and then uses those deposits to fund its loan portfolio, an MFI begins a delicate balancing act of managing the cash position of each and every branch or retail location that provides deposit and loan services. MFIs must ensure this extremely important function is working well as this will fundamentally put the MFI's reputation at risk if it cannot meet the withdrawal needs of its customers each and every day. A liquidity crisis can occur rapidly and spin out of control if the MFI underestimates the amount of funds required to meet customers' withdrawal needs on a daily basis. Alternatively if an MFI overestimates the demand for cash in its branches, it risks forgoing income on those deposits if they were either in another branch requiring cash or held in an interest-bearing security. MFIs that have experienced offering savings services must periodically revisit their liquidity management practices to ensure they can maximize the use of their core deposits and generate a return on the bulk of their funds. The MFI should be able to use those funds to finance its loan portfolio, pay down external borrowings, or use the funds for further organizational expansion.

It is crucial for MFIs to be able to access liquidity management reports and data from the core banking system in real time. Although CARD Bank has been performing liquidity management successfully for quite some time, there was a need to refine some of their management reports. This included the debt repayment schedule and the Asset-Liability Management Gap Analysis table, which required an expansion of the analysis of deposit behavior and the setting of reserve requirements. When CARD Bank studied the behavior of one of its savings products through analysis of daily transactions over the past three years, it allowed them to better understand how the same account was used differently at different branches. Further analysis is being performed to understand if these differences occurred due to product marketing or some other factor. Overall, the analysis yielded information that allowed CARD Bank to significantly and confidently decrease its internal reserve requirement, increase the amount of core deposits that could be reinvested into medium-term investments and subsequently, minimize the need for external commercial borrowing. These outcomes help to offset the costs of providing the savings services.

Finally, MFIs must determine how to implement the processes and tools to minimize risks to customers' savings, such as fraud, theft, and mismanagement of funds. This means developing internal controls and an audit plan for the new savings processes and incorporating changes to existing processes is needed. For example, when implementing the new savings product with ATM access many new security procedures and controls need to be put in place, such as physical access to the ATM for servicing, dual controls over cash loading, and procedures for balancing cash in the ATM. In addition, protection of client information is critical, and MFIs must implement controls over the storing and releasing of PIN numbers to new clients.

Summary

Adding savings services to a credit-led MFI requires a holistic approach to ensure long-term success. Whether it's conducting market research and pilot testing, building a savings service program that gains customer trust, integrating back-end core banking systems with front-end technology solutions, adjusting liquidity management practices, or adding internal controls when implementing new technologies, credit-led MFIs require a host of capabilities to be successful in providing savings services to their customers. Poor clients have complex financial lives and require a multitude of financial services to meet their unique and changing needs.

MFI's that build capabilities to provide savings services create a foundation for long-term sustainability The MFI that successfully offers an array of financial products, which includes credit, savings, money transfer services, etc., will position itself for long-term success and will lead the next generation of MFI's into the future.

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