The Experience of Savings Banks

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Introduction

While savings mobilization may have been the forgotten half of microfinance, it is increasingly receiving attention from microfinance practitioners and policy makers. Savings provide an important financial safety net for poorer households in cases of emergency. It also plays a critical role in financing productive activities and can foster microenterprises. At the macroeconomic level, savings can trigger sustained economic growth. Evidence also shows that the accumulation of savings helps to create a domestic capital base that makes economies less dependent on foreign capital and more resistant to capital market fluctuations.

Not only does the mobilization of savings offer opportunities for economic and social development, there is also sufficient proof that poor people in economically less developed countries attach high importance to savings. There is a large demand for a variety of savings services among low-income people. Studies have proven that they are capable of accumulating resources and the amounts they manage to save are remarkable.[64] This also appears from the vast amount of savings that is kept outside the banking system and gathered by informal savings practices like hoarding, livestock, money guards, rotating savings and credit associations, etc. These informal savings systems are generally indivisible, quasi-illiquid and high-risk. The challenge consists in bringing more of these savings into the formal banking circuit so that they can be transformed into credit, loans and productive investments.

The World Savings Banks Institute (WBSI) has for long advocated the importance of the mobilization of domestic resources and recognized the potential for development and the reduction of poverty that arises from it.[65] Savings banks' experiences confirm the huge demand for savings services.[66]

Savings banks have traditionally focused on savings mobilization as core business and most of them only developed other retail banking services, including credit, at a later stage. Some are in fact still limited to providing savings services only. This distinguishes savings banks from many other institutions providing microfinance, which are more credit driven.

The WSBI represents more than 1,150 savings banks and socially committed retail banks.[67] They differ across the world depending for instance on their origins or ownership structure. Some are private banks, others public: there are for instance postal savings banks, savings banks owned by municipalities and financial institutions with a cooperative ownership structure or banks owned by foundations. WSBI members also vary a great deal in size. Despite this diversity, they share a common business philosophy. Their principal clients are individuals, households, microenterprises, small and medium enterprises (SMEs) and local authorities. Savings banks maintain, by statutory obligation or in practice, the principle of providing a "universal service", allowing all strata of the population to have access to financial services. For this they operate large distribution networks, committed to using mobilized resources to invest in the national and local economy.

What Can We Learn From Savings Banks?

In several countries savings banks have proven to be instrumental in setting a vigorous savings mobilization policy. A combination of factors like proximity, accessibility, attractive products and services and safety has proven a key to their success in mobilizing savings deposits.

Proximity

Proximity is one of the savings banks' greatest assets that reflects their distinctive market approach and distinguishes them within the banking sector. Savings banks typically have large distribution networks that allow them to provide services to clients nation-wide. More importantly, the commitment to a strong physical presence and a balanced distribution of their retail network between rural and structurally weak urban areas, put savings banks in a favorable position to reach out to poor classes. It

64 "Developing Deposit Services for the Poor: Preliminary Guidance for Donors", revised draft, CGAP (Consultative Group to Assist the Poor), April 2002; Savings Policy Statement, SUM/UNDP-UNCDF, June 1998.

65 The WSBI is a worldwide association with members in 89 countries. The mission of the World Savings Banks Institute is to influence the standing, development and strength of all member banks, so that they are perceived both domestically and internationally as integral to the financial community, and operate as proficient, efficient banking institutions. See also: www.savings-banks.com.

66 Non-bank deposits for all WSBI members totaled US$ 4.1 trillion as of January 1, 2002.

67 The WSBI has 104 members, which are both individual banks and bank federations/associations. Collectively, they represent the 1,150 banks mentioned here. More details on membership criteria are available on WSBI's website.

contrasts with the over-concentration in urban and more prosperous centers of other banks.

On the African continent, postal savings banks are in many countries the only vehicle for integrating the formal financial system in remote communities. In many cases, the retail network of postal savings banks is by far larger than that of all other banks together. For instance, the *Kenya Post Office Savings Bank (KPOSB)* operates a retail network of 500 outlets compared to approximately 370 branches for all commercial banks. While roughly 80 percent of the latter branches are located in main cities, only 45 of all outlets operated by the KPOSB are located within the capital. In Asia, where financial systems have experienced an impressive development over the past two decades, savings banks also distinguish themselves with a strong physical presence. The *Government Savings Bank (GSB)* in Thailand manages the second largest network with 548 branches, just behind the *Bank of Agriculture and Agricultural Cooperatives*, which counts 629 branches. More obvious is the case of India where mainstream banks manage 67,000 branches altogether, while the postal savings system operates 154,000 branches nationwide, of which 137,000 are in rural areas.[68] In Latin America, *Banco del Estado* in Chile for instance is present in almost a third of all "communes" in the country, more than any other financial institution. More than one third of *Banco del Estado*'s 304 branches are located in remote areas and it operates 74 mobile branches to further deepen its retail network.

Figure 1: Branch Network and ATMs of Savings Banks (as of 01/01/2002)[69]

Savings Bank	Country	Branches	ATMs
Banco del Estado	Chile	378	768
Banco Caja Social	Colombia	122	133
National Bank for Development	Egypt	66	0
National Savings Organization (NSO)	India	154,000	0
Kenya Post Office Savings Bank	Kenya	486	0
Tanzania Postal Bank	Tanzania	136	0
Government Savings Bank	Thailand	585	281
Total	**World**	**201,136**	**132,499**

Source: World Savings Banks Institute (WSBI).

[68] Geetha Nagarajan, "Going Postal to Deliver Financial Services to Microclients", Newsletter, Regional and Sustainable Development Department, Asian Development Bank, vol. 4 (1), pp. 5-8, 2003.

Accessibility

Unlike other banks, which might require an excessive minimum amount for opening and holding a saving account (that in some cases exceeds the per capita income of the country) and charge relatively high bank fees for maintaining such an account, savings banks have low entry barriers for their savings services. Although conditions for holding a savings account vary across savings banks, their practices are invariably more inclusive.

For instance, in Benin and Burkina-Faso, postal savings banks allow people to open and maintain passbooks with only CFAF 1,000 (less than US$ 1.8). The structure of ordinary savings accounts shows that the balance does not exceed CFAF 10,000 (US$ 18) for 62 percent of the total number of accounts in Benin and 36 percent in Burkina-Faso. In Asian emerging economies, savings banks have built on technology solutions to show a remarkable capability in capturing small deposits, while overcoming underlying operational inefficiencies. To open and maintain a savings account requires only RM 1.00 (US$ 0.27) at *Bank Simpanan Nasional* in Malaysia.

How savings banks are able to survive holding such small accounts is a key question. A crucial element to address this issue is a good diversification of accounts and clients. The benefits derived from larger accounts are in general used to subsidize costly small accounts. In addition, larger accounts are often stable funds collected from contractual savings schemes. When there are no restrictions, savings banks can invest these funds in high-earning investments. Savings banks have adopted price structures that reflect the cost of transactions for smaller accounts, charging small fees for regular transactions above a certain number of operations. Selling other financial services and products to clients who save also generates additional income. In the particular case of postal savings banks, making use of the postal facilities (staff, infrastructure, functions, etc.) allows them to minimize their costs. Investment in technology has also been instrumental for controlling costs for the administration of very small accounts, like for instance in Malaysia and Thailand.

In addition to low financial barriers, an open and personalized bank-customer relation contributes to making savings banks more accessible. The decentralized structure and local roots of savings banks enable them to adapt to local circumstances and be "close" to the people.

Attractive Products and Services

Apart from the convenience offered by their network and low entry barriers, savings banks also respond to the savings patterns of low-income savers through the type of savings products and services they offer. Progressively savings banks have designed and commercialized a well-adapted and segmented range of deposit products to cope with their clients' preferences.

These products are a mix of various conditions related to liquidity, return, minimum requirements and transaction costs to make them client-friendly and easy to manage for the institution. On one end, passbooks combine low minimum balance and low return with full liquidity, while on the other end, pension schemes allow long-term accumulation of capital and mix illiquidity with high return. In between, other products can be found in savings banks, such as "Save as you earn", like the SAYE product of the KPOSB, "Savings certificates" and "Fixed deposits". Many savings banks have developed special products for targeting niche markets like youth and institutions (NGOs, women groups, schools). Examples of this can be found in Senegal where the "rural savings account" was created for grassroots organizations and women's groups. The National Savings Bank of Sri Lanka introduced special savings accounts for children called Punchi Hapan (0 to 7 years), Hapan (7 to 16 years) and for youngsters up to 30, Ithuru Mithuru; all designed with special features and promotional campaigns to target these groups. Savings related to future investments in housing or education have also had a lot of success in savings banks around the world. Sometimes incentives are used in the commercialization of savings products to reward additional increases in deposits, such as a bonus for reaching certain limits within a period of time. In the Peruvian savings banks for example this premium can be given in the form of a lottery ticket, with which the saver can win small domestic appliances.

Sometimes incentives are used in the commercialization of savings products and services to reward additional increases in deposits. The savings banks' experience also shows that providing additional financial services to peoples' savings, such as life insurance, transfer and payment services, encourages people to save.

Safety of Deposits

One of the principal concerns of savers is the safety of their deposits. This has partly to do with having an appropriate secure physical infrastructure, which savings banks in general do. But just as important is the formal character of savings banks, which contrasts to some of the informal savings systems mentioned earlier. In some cases also the explicit or implicit relation with the government provides a sense of security. The state guarantee of deposits protects people's savings. In addition, most savings banks are, like any other financial intermediary, subject to regulations enforcing financial discipline and are properly supervised. The postal savings banks are maybe an exception to this rule, as in most countries they fall under the Ministry that is in charge of postal services.

Current and Future Challenges of Savings Banks Around the World

Good Corporate Governance

Although the governance of an institution is often linked with its ownership structure, the latter is not the prime-determining factor in whether or not a bank is successful. Experience from savings banks teaches us that good corporate governance is much more instrumental. Institutional integrity and proficiency, crucial elements of good corporate governance, are key to a well functioning bank.

Institutional integrity implies that banks ideally have an independent legal and management structure. This is not the case everywhere and often political interference is a matter of concern. Since savings mobilization is largely based on confidence, transparency about the operations of the bank is also essential. It goes without saying that, for an institution to be efficient, a sound financial management is fundamental. Internal and external control mechanisms need to be effective. This is why regulation and supervision of savings banks are so important. Preferably all financial intermediaries should be properly regulated and supervised by the relevant authorities.

Sustainability

Another major challenge for savings banks, as for all financial intermediaries reaching out to the poorest, is sustainability. To serve a large number of customers, process high volumes of low value transactions and maintain a large physical presence results in high operational costs. At the same time fair returns are expected by savers.

Achieving financial sustainability depends on the capacity of savings banks to achieve high levels of efficiency. The challenge is to maintain operational costs under control while raising the income base without compromising the social mandate of the bank. On the cost side, this implies the implementation of appropriate measures to control costs and streamline internal processes. It also involves good pricing of savings products, which requires thorough market research. Investments in technologies should be weighed against the savings that can be made and additional benefits to clients.

On the revenue side, a diversification of products and services can contribute to achieving financial sustainability. Experiences from savings banks in introducing more sophisticated savings schemes have shown some positive results. Contractual savings schemes, which provide more stable funds, can help to generate significant revenues from investments. In addition, they can attract large accounts, which appropriately charged can cross-subsidize small accounts.

Most savings banks create revenue from other services, including money transfer and marketing insurance policies. Capitalizing on this experience, savings banks can be instrumental in offering a variety of services to microfinance institutions (MFIs). They can be cost-effective solutions for securing and transferring MFIs funds, as well as offering payment facilities in areas where other banks do not reach.

Optimal Investment of Mobilized Resources

A large number of savings banks are offering retail lending services, including housing finance, as part of their core business. They have built considerable experience in these areas over the years and are successful. *Banco Caja Social* in Colombia and the *Municipal Savings Banks in Peru* are examples of institutions with a strong reputation in microfinance. Apart from the investment of mobilized resources in local and regional economic activities, these institutions contribute a part of their profit to community development projects.

Figure 2: Savings Mobilization by a Selection of Savings Banks (as of 01/01/2002)

Savings Bank	Country	Savings Accounts[1] (number)	Non-Bank Deposits[2] (US$ million)	Return on Assets (%)	Operating Income/ Average Assets (%)	Operating Cost/ Average Assets (%)	Savings Accounts/ Staff (%)
Banco del Estado	Chile	11,052,000	2,726.00	0.64	4.86	3.59	1,503
Banco Caja Social	Colombia	1,100,000	432.11	2.96	18.85	14.29	430
National Bank for Development	Egypt	n.a.	1,268.70	0.91	2.23	1.31	n.a.
Kenya Post Office Savings Bank	Kenya	1,650,000	100.33	0.56	17.88	17.31	1,243
Tanzania Postal Bank	Tanzania	1,000,000	45.21	2.17	13.90	11.74	2,421
Government Savings Bank	Thailand	27,450,000	11,048.45	1.98	3.21	1.16	2,877

Source: World Savings Banks Institute (WSBI). For a full list of members, go to www. savings-banks.com.
(1) Approximate; (2) All deposits received except for deposits that are placed by other banks – includes both mandatory and voluntary savings, although mandatory savings are minimal.

Wherever savings banks have close ties with national governments, their role in economic development is often downplayed. In Africa and Asia several of these savings banks are restricted in their investment policy and have either to entrust their deposits with the national Treasuries or to support fiscal policies by investing in government securities. Savings banks that have been granted some autonomy are generally still constrained to invest their surplus preferably in public sector securities.

The removal of legislative constraints has allowed an increasing number of savings banks to move with caution into lending. A successful case has been that of the *Government Savings Bank* (GSB) in Thailand. Twenty years ago, government securities represented 94 percent of the bank's investment portfolio. Today, GSB offers a range of reciprocal savings-credit facilities (i.e., personal loan, educational loan, corporate loan, social loan, housing loan) and government securities have fallen below 50 percent of the bank' investment portfolio. Likewise, some former post office savings banks have been scaled-up and successfully converted into national (postal) savings banks (i.e., Malaysia, Sri Lanka and Tanzania) allowed to diversify in other business. For instance, *Bank Simpanan Nasional* in Malaysia has diversified in public and private companies securities/loans, stocks and shares, and government securities represent only 30 percent of the bank investment portfolio. Other savings banks have been transformed into fully-fledged retail banks allowed to provide credit services (i.e., Cape Verde and Mali).

Although a large number of savings banks are not yet suitable for retail lending – and should not be advised to undertake this business unless they achieve necessary reforms – this does not preclude them and policy makers from thinking about possible alternatives to the government for investing their resources. Furthermore, savings banks may find ethical and lucrative opportunities in the microfinance sector. This industry remains heavily subsidized in Asia, where most often MFIs rely on government and central banks discount credit lines, and in Africa with the importance of donor funding of their operations. The ongoing institution building process in the microfinance industry may offer a real opportunity for savings banks to channel part of their resources to sound and promising MFIs for on-lending to their clients.

Another approach to encourage an optimal investment of savings banks' deposits can be to team them up with public or private rural finance institutions. The traditional view may also suggest to develop housing finance operations where savings banks in Western Europe and US have shown an impressive concentration of their business.

Conclusion

The role of savings banks is undisputable for the large and cost-effective distribution of basic savings services in developing and emerging economies. As solid financial intermediaries operating in the formal sector they merit the public confidence that allows them to mobilize resources massively. The trend for savings banks is to become more instrumental in supporting capital base formation at national level. The efficacy of savings banks in reducing financial exclusion in their economies can be further improved by the removal of specific legal and institutional constraints on their operations and by addressing governance issues. Finally, savings banks will have to cope with the challenges associated with globalization while preserving their distinctive identity as local institutions committed to the society they operate in.

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