



What constitutes a viable business model for small scale savings?

A learning paper from the Scale2Save programme

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Introduction

Problems of high poverty rates and financial exclusion in sub-Saharan Africa, the correlation between them, and low formal savings rates, remain a major concern.

The market potential of various low-income segments to save is poorly understood by many formal financial service providers (FSPs). Customer and potential customer needs¹ – and how much they can and/or wish to afford to pay to meet those needs – are inadequately reflected in FSP's business models, customer interfaces and interactions. The resulting poor customer experience gives rise to very high incidences of dormancy and inactivity in account usage. This represents a significant drain on bank costs and undermines potentially sustainable business cases in delivering accessible financial services to these segments.

The Scale2Save program created in 2016 in partnership with the Mastercard Foundation, aims to establish the viability of low balance savings accounts and use of customer centric approaches to address barriers faced in access, usage and affordability of savings accounts. To do so, WSBI partnered with 12 financial service providers in 6 African countries over the last 6 years and identified key drivers (and blocking factors) for viable business models through a wide range of financial services offered to low-income populations.

This paper highlights 3 different business models for small scale savings including key revenues and costs drivers developed by Centenary Bank in Uganda, Lapo Microfinance Bank in Nigeria and Advans Microfinance Bank in Ivory Coast.

This learning paper forms part of the learning series featuring the experience of Scale2Save programme partners when developing financial products and services designed for low-income customers. It was written by Scale2Save Senior Programme Manager Céline Stevens.

How to drive a win-win situation for customers and financial service providers?

The three Financial Service Providers (FSPs) target different sub-segments of the low-income unbanked population: Centenary Bank is targeting low-income population in the informal sector in Uganda, Lapo Microfinance Bank is targeting rural and urban low-income women with children in Nigeria while Advans is targeting smallholder farmers in Ivory Coast.

To mobilize savings from these low-income segments, the 3 FSPs have developed different financial services ranging from savings products bundled with micro-loans or micro-insurances to alternative delivery channels such as community embedded agent networks or shared agency banking platform.

Despite different country contexts and institutional models (Bank and Microfinance Bank), the 3 FSPs have experienced different costs and revenues drivers to develop a sustainable business case but all the institutions concluded on one key driver for the viability of small-scale savings.

¹ Potential customer needs are needs arising as a result of changing customer behavior or to cater for any potential risks or shocks associated with low-income segment.

The case studies from each FPS are structured along the 4 Ps of the marketing mix elements: Product, Place, Price and Promotion. The following table summarizes the main components of the marketing mix:

Name of FSP	Advans Mfb	LAPO Mfb	Centenary Bank
Country	Ivory Coast	Nigeria	Uganda
Type of institution	Microfinance bank	Microfinance bank	Commercial Bank
Target segment	Smallholder farmers	Rural mothers	Youth
Product	Savings account bundled with a micro-insurance and a scholarship loan	Savings account offering benefits (micro-insurance and access to scholarship grant)	Savings account
Place	Cooperatives	Roving staffs and agents	Shared agency network
Price	Low fees	Very low fees	Free
Promotion	Financial literacy	Transparent communication	Staff push

1. Advans Microfinance Bank helps smallholder farmers to smooth their cash flows and improve financial resilience

In November 2018, Advans Côte d'Ivoire partnered with the WSBI's Scale2Save Program to advance financial inclusion among actors in agricultural value chains, with a particular focus on cocoa farmers in the country.

Products: Designed to meet farmers' needs

Most Ivorian farmers are aware of the importance of financial services: a CGAP survey² found that 85% recognised the importance of insurance, while 82% valued access to banking. Advans also identified the difficulty farmers have in paying school fees in the months before the harvest.

As part of the collaboration, the microfinance bank provides smallholder farmers with a full range of financial products including savings accounts, micro-insurance and education loans to help its customers overcome this cashflow challenge and encourage families to send their children to school.

Each of these financial products aims to generate some direct or indirect revenues in the FSP's business model. The savings account is profitable by lending out the mobilized savings at a higher interest rate than interests paid out to customers plus some small account management fees. The education loan demonstrated to be profitable thanks not only to the interest rate but also a good repayment rate from the customers. Finally, although most of the revenues generated from the insurance premiums are paid to the insurance company, the opportunity to offer such product to this segment is an added value to the global offer and the premiums collection and claims disbursement generate some additional activity on the account.

Place: Cooperatives provide a trusted channel to reach the target market

Along with its customer-driven product development, Advans also extended its branchless banking offer and added more rural agents by signing-up cooperatives who buy cocoa. Using farmer cooperatives as agents proved to be a good driver to mobilize savings amongst farmers as Advans would benefit from the long-standing relationship of trust between farmers and coops.

The cooperatives' proximity to the cocoa fields makes it more convenient for the farmers and is safer than traveling with cash to the closest bank branch, usually located several kilometres away. Farmers can systematically deposit some of their harvest season sales revenues into accounts at the cooperative and make withdrawals later in the year, as needed. The savings allow them to smooth cash flows and improve crop production management. Over the long term, the farmers' savings could help them diversify their income.

2 [chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.cgap.org/sites/default/files/Working-Paper-Survey-and-Segmentation-Smallholders-Coted%27Ivoire-Jul-2017.pdf](https://www.cgap.org/sites/default/files/Working-Paper-Survey-and-Segmentation-Smallholders-Coted%27Ivoire-Jul-2017.pdf)

The cooperatives were motivated to join this partnership for two main reasons. One, they can receive additional income through the customers' transactions. Secondly, and perhaps more importantly, it further strengthens their relationship with the farmers, having a positive effect on the cooperative's reputation and farmers' networking opportunities.

Although the cooperative agent network requires a lot of time invested from Advans staff on training and monitoring, this alternative delivery channel has proven to be financially viable. By June 2022, Advans had collected more than \$24 million in savings from some 120,000 farmers.

Price: Affordability ensures usage of all the services included in an offer

Despite the successful uptake and usage of the offer so far, the sustainability of the business model is expected to prove itself by the end of 2022. The FSP remunerates the cooperative with a fee on both deposits and withdrawals transactions done at the cooperative, however, deposit transactions, which generate high volumes of savings mobilized, were free for the customers. Withdrawals at the cooperative, on the other hand, were paid by the customer. After several years of project implementation, data showed a low number of withdrawals at the cooperative, suggesting that the fees were not attractive and that farmers preferred to spend time and money to travel to the closest bank branch where withdrawals were free. The result is that the total expenses paid by the FSP were higher than the total revenues generated.

Advans has now reviewed the pricing strategy in 2022, reducing the withdrawal fees and introducing a small deposit fee at the cooperatives. According to a customer survey run by the FSP, smallholder farmers are willing to pay to deposit at the cooperative as long as the fee is affordable. This new pricing strategy is expected to increase withdrawals volumes at the cooperative and marginally, if any, reduce the deposits mobilized.

The risk of a negative impact following the new strategy could be related to state of the cocoa sector and the cocoa revenue cycle as they have an impact on farmers' propensity to save. In periods when cocoa is not well remunerated or does not sell well, farmers earn less and in turn, save less or are at least more price sensitive.

Promotion: Tools considering all literacy levels

Since a high proportion of smallholder farmers are illiterate, generic financial education tools were not appropriate. To address this challenge, Advans developed simple graphic financial education material. The material included illustrations and step-by-step guidance on how to conduct transactions, making it easily understood for both literate and illiterate customers.

2. LAPO Microfinance Bank helps mothers save towards the welfare of their children

In February 2018, LAPO Microfinance Bank teamed up with the Scale2Save Program to achieve the financial inclusion of over 160,000 Nigerians - of whom 70% are women.

Product: Savers sign up when motivated

As part of the collaboration, LAPO Microfinance Bank launched My Pikin & I – Nigerian pidgin for My Child and I – savings product. This innovative mass-market savings account helps families cope with life's ups and downs.

A Human Centred Design (HCD) research conducted at the beginning of the LAPO project with potential savers found that the ability to save was not enough of a motivation for low-income segments of the market. Customers need to see tangible benefits from the start to open an account. LAPO, therefore, bundled the savings account with free microinsurance and a chance for children to win a LAPO scholarship. Both benefits, however, were tied to a consistent savings behaviour.

The LAPO scholarship grant motivated the uptake of savings accounts. Once the account was opened, however, many customers did not receive from the grant as the conditions to benefit from this product were not fulfilled by the customer. In an effort to be more transparent and ensure better uptake, LAPO has strengthened their efforts to communicate on the savings conditions to access the grant.

LAPO also initially offered a life insurance but data showed a low uptake of the product as the insurance coverage was not attractive for cultural reasons. As a result, the insurance feature was adapted to cover for some unusual health risks, burglary and fire. Following some years of implementation, as the uptake of this product remained low, the feature was tweaked again to cover in 2022 family accidents and critical usual illness such as malaria, which is expected to better answer customers' needs.

Unlike the Advans Côte d'Ivoire case study described above, the My Pikin & I business model is profitable due to the revenues generated by lending out the mobilized savings at a higher interest rate than interests paid out to customers plus some small account management fees. Both microinsurance and scholarships grants represent only a cost factor for the FSP.

In the long term, the My Pikin & I product is expected to remain viable as a result of the value of savings mobilized by the younger generations with the assumption that the savings culture will be transmitted from the parents to their children, creating an intergenerational transfer of savings culture.

Place: A wide agent network helps achieve a large volume of savers

LAPO Microfinance Bank has worked hard to develop its agent network, with more than 2,000 signed agents. Consistent engagement with these fixed and roving agents allows low-income parents to use their savings account to save small amounts daily, weekly or monthly. This has contributed to widespread uptake of the My Pikin and I product, which had mobilized more than US\$32 million in savings as at the end of June 2022, a volume that contributes to the commercial viability of the business model. In addition, fees collected from deposits and withdrawals transactions by fixed and roving agents constitute revenue sources.

As agent banking locations are particularly effective distribution channels, the microfinance bank is now deploying kiosks that are expected to provide dedicated information about the product, which also helps to build the LAPO brand.

Promotion: Transparent communication supports customer trust

Despite the added value of digital transactions, customers still prefer to keep physical cashbooks as evidence of their savings rather than rely on the fully digitized system the team had designed. Complementary evidence of transactions is also provided via SMS confirmation, which reassure customers of the safety of their savings.

Price: Low-cost savings account ensures uptake

To target this segment of the population in Nigeria, LAPO launched a savings account at a very low cost with registration fees at 300 NGN – equivalent to 0,60 USD and free insurance for the first year of subscription if a minimum amount of savings is maintained for a specific period on the account.

3. Centenary Bank brings savings to its customers' doorstep

In October 2019, WSBI and Centenary Bank formed a partnership to offer financial services to the low-income population in the informal sector, driven by the youth.

Product: Designed as a pathway to regular saving

Centenary Bank developed a mobile savings account, called "CenteXpress", with low KYC, requiring just an ID card, mobile phone and a minimum deposit of UGX 2,000- (About 50 US cents) to be opened. Targeting women, young people, and those on a low income, it is designed to act as a steppingstone to a regular savings account. By helping clients to set small amounts aside for investing in a business, the product builds a saving habit and financial record. This savings path can progressively open access to a full suite of banking products, including credit.

The bank has been very successful at onboarding people working in the informal sector to this account – aided by Covid restrictions which have spurred mobile-based transactions. By June 2022, Centenary had onboarded more than 217.000 customers, half of them being younger than 30 years old.

Place: Channel collaboration can enhance success

Centenary's ongoing development of a substantial network of agent banks, underway since January 2018, is crucial to this initiative. It's an expression of the bank's Catholic Church foundations and social mission to enhance financial access for all Ugandans, particularly the poor. The agent banking network viability is further improved by providing access to customers from FINCA, a microfinance institution that is not authorised to offer agency services in its own name.

This partnership with FINCA has proven to be a successful cooperation model for both sides: Centenary agents benefit from increased business volumes, allowing them to spread their costs across more accounts and transactions; whilst FINCA enlarged its geographical reach at a much lower cost than it would cost to set up and run an agent banking network.

Promotion: Reliable bank staff as the best way to promote the product

Centenary Bank staff is an important influence for customer to open and regularly use the account, with a network of 18,000 ambassadors who serve as roving sales officers, promoting the CenteXpress account and facilitating account opening. Research showed that customer service was rated very highly by surveyed customers. Customers also valued the security of savings.

To encourage more uptake of the account, the project has also adopted a novel marketing approach. Friends and family are being motivated to encourage the unbanked to sign up. When the prospective account holder and their patron visit one of Centenary's agents to open an account, the new account will be instantly credited with a chosen amount debited from the patron's one. Although customer research showed a lower impact of friends and family on the uptake of the account than the bank staff, interviews with the customers highlighted that peer-to-peer influence remains a high potential driver for opening an account. Centenary bank will review the marketing approach to fully take advantage of this component.

Price: Free products are attractive for low-income segments

Given the low revenue of the target segment, Centenary made the account opening completely free with a minimum deposit required which ensured a good uptake since the launch of the project.

The business model of Centenary Bank generates revenues mainly from peer-to-peer and withdrawal transactions followed by loans offered through agents and mobile banking.

Conclusion

The 3 case studies highlight that there is no "one size fit all" business model for small scale savings.

Through a long journey over the last years, each FSP launched, adapted and regularly tweaked their product to try to develop a sustainable business model for the bank. Each one of them having different drivers for uptake and usage of the service. Similarities obviously appear along the 4 Ps of the marketing as the service has to answer a customer need and be valued by the customer but also be affordable and accessible to ensure usage in the long term.

One key driver, however, stood out for all Scale2Save partners, those mentioned in this paper as well as Barid Cash in Morocco, First City Monument Bank in Nigeria, KPOSB in Kenya, and Finca and BRAC in Uganda. This key and common driver for all is TRUST. It is when the customer trusts the service that he/she is willing to use it and hand their cash over to the FSP. In the case of these 3 case studies, community embedded agents are trusted by the smallholder farmers in Ivory Coast; proximity of agents and roving staff regularly visiting the markets and their clients are trusted by the rural low income women in Nigeria; and Centenary's well established brand and wide agent network are trusted by the low-income population in the informal sector.



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