

Delivering Formal Financial Services to Savings Groups: A Handbook for Financial Service Providers



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Executive Summary

Understanding the Opportunity

Over two billion adults worldwide do not have access to a bank account - over 60 percent are women. In many markets, the growth of financial service providers (FSPs) will depend - in large part - on their ability to reach underserved, low-income populations. Within this market segment, it is estimated that there are nearly 14 million members of informal savings mechanisms known as Savings Groups (SGs) across 75 countries. With total assets between \$430 million and \$1.2 billion, SGs represent a promising pathway for the delivery of formal financial services in new and underserved markets.

What is a Savings Group?

- Savings Groups generally consist of 15 to 30 self-selected members from within a community who meet regularly (weekly, biweekly, or monthly) to save.
- Members' savings create a group fund from which they can borrow as needed and repay with interest.
- Community-based, SGs are organized and trained in the basics of saving and borrowing, over a set operating cycle of about one year.
- At the end of a cycle, the entire fund is distributed to members according to the amount each has saved. Groups typically then begin the cycle again.

SGs enable members to save regularly in small, flexible amounts; access credit for consumption, investment and emergencies; manage risks through a basic insurance fund; and access a periodic lump sum to pay for school fees, prepare their fields or repair their home.

Yet, SGs are limited in the range of products they are able to provide; as groups mature, so do their needs for financial services. **Fund security is the most commonly articulated need across groups.** Accumulating cash, typically kept in a locked box, poses a serious risk and causes high anxiety for those responsible for keeping it. Members often have savings goals that extend beyond a twelve-month horizon but long-term savings are beyond the scope of the Savings Group practice. It is also not uncommon for some growth-oriented group members to demand larger loans than the group can provide.

Realizing the business opportunity for FSPs requires an understanding of the strengths, limitations and unmet needs of SGs. They enable members to save and borrow frequently and locally, in small and flexible amounts, with loan interest accruing to the group. Given these benefits, FSPs will need to design their services carefully if they hope to add value to SGs.

The cultivation of SGs and their members as clients is a multi-faceted opportunity for FSPs. Savings Groups offer an entry to isolated communities and efficient access to many individuals; they are organized, experienced and disciplined; and they have identified needs that financial service providers can address. The business opportunity for FSPs is to leverage the resources and established processes of SGs to offer a suite of individual and group-based financial services within new and underserved markets.

Overcoming Challenges

Historically, three main barriers of entry have prevented FSPs from entering underserved markets.

	 Last Mile Delivery	 Unique Needs of Customer Base	 Business Case for Reaching Savings Groups
Challenges to overcome	<p>The remote locations of this customer base challenge the last mile delivery of services.</p>	<p>Members have limited experience with, and mistrust of, formal financial services.</p> <p>SG established practices, procedures and benefits need to be respected and preserved.</p>	<p>Each FSP needs to determine the business case for reaching Savings Groups and the value potential of this investment.</p>
Concepts Solutions	<p>Mobile banking, mobile money agents and agency banking hold the promise of easier, more accessible transactions for rural customers while lowering the cost of service provision for FSPs.</p>	<p>Members do trust their SG, which follows a specific set of procedures that ensure transparency and democratic decision making. Because these processes work well for the group, FSPs are advised to design tailor-made products that mimic them.</p>	<p>By targeting mature SGs with a successful savings and lending history, financial service providers can decrease their costs and risk of serving rural customers.</p> <p>SGs open the door to a larger untapped market.</p>
Successful Example	<p>Barclays worked with several NGO partners in Kenya and Uganda to develop new, innovative products that provide mobile financial services to poor households in a sustainable manner.</p> <p>In Kenya, by the end of 2012, dozens of SGs were linked to Equity Bank, transacting via mobile phone.</p> 	<p>CGAP used human-centered design principles to design relevant products targeted to SGs in Rwanda. Through interviews with a wide range of stakeholders, CGAP gained key insights to drive the design of new digital financial services and products.</p> 	<p>Four years after Post Bank Uganda had adapted its products for SGs, it acquired over 500,000 new clients, mobilized \$3 million in savings, and spread its fixed overhead costs over six times more active users.</p> <p>In Tanzania, Post Bank's investment in SGs resulted in 20,000 new accounts and an annual return on investment of 16% in the first year, reaching the project's break-even point after 8 months.</p> 

The Objectives of this Handbook

This handbook serves as a tool for FSPs in the design and delivery of financial services to SGs. The handbook is comprised of three sections:

- **Section 1** describes the market segment, who the customers are and what services they want.
- **Section 2** provides insights into the three main challenges that financial service providers face in serving this market – last mile delivery, understanding the consumer needs and determining the business value – and how to respond to them.
- **Section 3** details the steps in the design and delivery of financial products to SGs and includes case studies that illustrate the successes and challenges realized in this process.



Section 1: Understanding the Market

What is a Savings Group?

Savings Groups consist of 15 to 30 self-selected members from within a community who meet regularly (weekly, biweekly, or monthly) to save, with the accumulated savings used to capitalize a loan fund.

An Overview of the Model

The SG model was pioneered in Africa in the 1990s and has since spread across the continent and beyond; while adaptations have been introduced over time in response to evolving circumstances, the model remains highly standardized. Each SG determines its share price, loan interest rate, maximum loan duration, loan priorities, social fund contribution, and a system of fines for infractions of group policies. Each group develops a constitution that codifies these policies as well as governing structures and procedures. Member savings and loan transactions are typically recorded in individual passbooks, or a central ledger, though some groups operate with paperless, memory-based record-keeping systems. Surplus cash and records are kept in a lockbox with 3 keys, each held by a different, elected 'key-holder' to prevent unauthorized cash movements. Groups are time-bound, generally operating in 6-12 month cycles. At the end of the cycle, a 'share out' takes place when savings and interest income are distributed to members in proportion to the savings each has accumulated.

Commitment savings is a foundation of SGs. Savings are made by purchasing shares with the share price determined by the group and set at a level that allows all members to save. Members purchase between 1-5 shares at each meeting; some groups require members to purchase a fixed amount at every meeting, while others allow purchase of a variable number of shares, up to a set maximum.

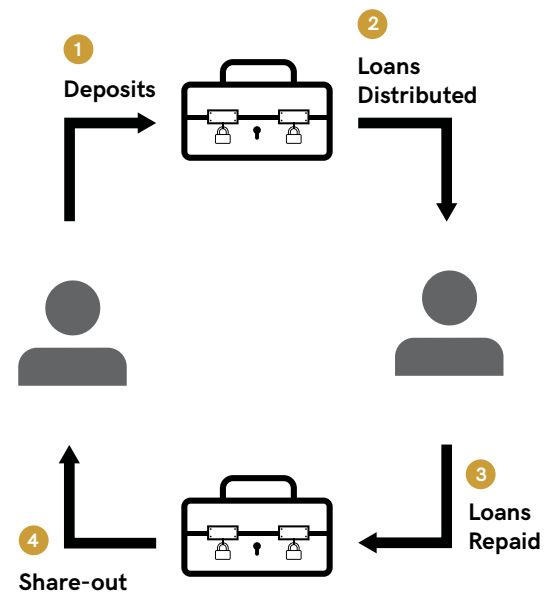
Members can borrow up to three times the amount they have saved, for a period of up to three months. While most groups distribute all accumulated savings and interest income at the end of the cycle, some choose to maintain a portion to recapitalize their loan fund for the next cycle.

The SG model as described above is essentially a time-bound accumulating savings and credit association (ASCA). It has been introduced and cultivated across Africa, Asia and Latin America by a host of international and local NGOs whose role has been to mobilize and train the groups in the SG methodology. Known generically as facilitating agencies (FAs), these agencies have played an instrumental role introducing SGs and Financial Service Providers to each other.

Market Size

Based on an annual survey by VSL Associates,² NGOs (and their respective networks) have trained approximately 700,000 SGs, comprised of 14 million members, in 75 countries.³ The reported outreach, however, does not include post-project expansion and spontaneous replication; in addition, the survey under-reports the outreach of initiatives outside the networks of INGOs. As a result, the number of active SGs may be 2-3 times the reported outreach, potentially reaching 20-30 million members.

The total assets held within SGs are estimated to be between \$430 million and \$1.2 billion. These figures are an indication of the level of financial transactions in this market segment and the opportunity FSPs have to leverage SGs to offer a suite of individual and group-based financial products to this largely underserved market.



¹ Estimated total assets based on conservative estimate of 10-15 million active SGs, with average assets between \$860 and \$1,500.

² VSL Associates (www.vsla.net)

³ These numbers are mostly generated through self reported estimates and have not been independently verified.

Customer Needs

Savings Groups provide basic financial services that meet most of the needs of most of their members. But the community-based model has some inherent limitations, and the financial service needs of SGs – and their members – evolve as groups mature. Understanding the strengths and limitations of SGs is a crucial first step in identifying their unmet needs, the value-addition of formal financial services, and the potential business opportunity for financial service providers.

Below is a representation of SGs' strengths and limitations across savings, credit and insurance offerings, and the potential added-value of formal financial services within this market segment.

SG Strengths	SG Limitations
<p>Savings</p> <p>Allows for small savings amounts (as little as \$0.10) Flexible amounts Minimal non-monetary costs</p>	<p>Savings</p> <p>At times, SGs hold a high proportion of cash in a box, presenting security concerns Some group members want long-term saving and/or to re-invest a portion of the share-out</p>
<p>Credit</p> <p>Loans range from a few dollars to about \$500 (in mature groups) Available In the community Flexible repayment over 3-month period Interest accrues to the group fund</p>	<p>Credit</p> <p>Approaching the share-out, SGs collect outstanding loans and cease to distribute new loans Varying demand for credit creates liquidity constraints in some groups SGs do not offer long-term credit</p>
<p>Insurance</p> <p>Social Fund provides a basic form of insurance to meet emergency and social needs</p>	<p>Insurance</p> <p>Social Fund provides limited protection</p>

FSP Opportunities

Individual and group-based long-term savings products, to foster long-term growth and asset accumulation

Short-term savings, enabling frequent deposits, followed by a withdrawal of total balance immediately prior to share-out

Flexible, group-based credit products that meet the needs of groups with liquidity constraints

Individual credit products for long-term needs & growth oriented members

Individual or group-based insurance products (starting with life and crop insurance)

Digital Payments

Benefits of Access to Formal Financial Services for Savings Groups

Expanding access to formal financial services provides a wide range of potential benefits for both SGs and FSPs.

Benefits for SGs

Greater security of funds

Long-term savings opportunities beyond the annual operating cycle

Creation of formal financial histories for SGs and individual members

Access to larger loans than SGs can typically provide

Access to formal insurance products to protect members and SGs against covariant risks

Payment services

Benefits for FSPs

Mobilization of new deposits

Lower acquisition cost of multiple clients through a single entry point

Potential generation of float income on captured deposits

Improved liquidity management through predictable SG cash flows

The creation of financial profiles & histories to improve risk management and inform new product development

Differentiation from competition

Entry into a new market segment



Section 2: Overcoming Barriers to Entry

Financial service providers face challenges in reaching an underserved, low-income and marginalized market segment. Serving this population through SGs can help to address specific customer acquisition challenges by aggregating demand and lowering the cost of engaging potential customers; however, several challenges remain. Although each market will be unique with its own cultural nuances and idiosyncrasies that should be understood and carefully considered, three factors are consistently identified as barriers to entry in the SG market. These barriers focus on delivering product to the places it's needed, designing products to meet client needs, and ensuring that the products themselves are attractive to FSPs. These barriers are explored with relevant examples from organizations that have overcome them.

Barrier 1: Last Mile Delivery

The mainly rural locations of this market segment present a key barrier in the last mile delivery of services. If the burden is left to SGs to reach bank branches, demand for services may be low, undermining efforts to scale. While the majority of groups participating in pilot initiatives in Kenya and Uganda accepted travel costs in exchange for increased security of their savings, some eligible groups chose not to participate due to distance from branches.³ This contrasting experience highlights the need for delivery channels that are both secure and convenient. As these solutions scale, proximity to an access point becomes an ever increasing predictor of whether accounts will be active or not.⁴

The combination of mobile money and agency banking offers a solution to this challenge. In Africa, widespread uptake of mobile phones has been unprecedented, reaching 367 million unique subscribers by mid-2015 with approximately 722 million connections (excluding machine to machine connections).⁵ The resulting outreach has regularly been cited as an opportunity for financial service providers to leverage mobile technology to lower their cost of service. Indeed, **mobile banking, mobile money agents and agency banking are opening up less expensive, more convenient ways for rural clients to transact.** To date, however, the delivery of this digital promise has been hampered by the limits of both the technology and its users.

- Mobile use, though expansive, is largely based on feature phones that are limited to simple text-based products while most banking services today are application-based. While banking services that are USSD based do work on mobile phones (at least in East Africa), USSD is not a convenient or intuitive structure, particularly for new users.
- The lower literacy levels common to low-income rural communities limit the services that can be offered without human interaction.
- The limited reach of bank or mobile money agent networks often puts distance and costs between customers and potential products that inhibit uptake.
- Even where agents are available, persistent challenges such as ineffective float management, unreliable networks and a lack of customer service also inhibit product uptake and use.

By supplementing the fully mobile offerings with an agency banking model, some FSPs have been more successful in expanding their reach into rural communities, especially when their agents are members of the community, such as shop owners or religious leaders.

Financial service providers can work with mobile network operators (MNOs) to leverage the trust built by the expansion of telecommunications into rural communities. By working in partnership, FSPs can gain access to these markets and the MNOs can gain expertise in providing products extending beyond simple payments, such as micro-insurance for health or agriculture.⁶

³ *Connecting the World's Poorest People to the Global Economy: New models for linking informal savings groups to formal financial services.* CARE, 2013.

⁴ "State of the Practice and Size of the Opportunity", CARE East Africa Savings Group Linkage Summit, Nairobi, December 2016.

⁵ *GSMA Intelligence Report: The Mobile Economy Sub-Saharan Africa 2015.* GSMA, 2015 (<https://www.gsmainelligence.com/research/?file=721eb3d-4b80a36451202d0473b3c4a63&download>)

⁶ *Connected Agriculture: The role of mobile in driving efficiency and sustainability in the food and agriculture value chain.* https://www.vodafone.com/content/dam/vodafone/about/sustainability/2011/pdf/connected_agriculture.pdf

For an FSP to be successful in last-mile delivery, a hybrid model of agency banking, potentially shared with an MNO's rural sales force, could be a viable middle ground. **Mobile solutions combined with agents on-hand to help, support and educate SGs and their communities could break through challenges related to limited literacy.** Further, making a suite of products available on both simple text-based or voice prompt service options as well as applications for smart phones offers SGs and their communities the flexibility to try new products, gain trust in them and, over time, shift to more advanced products as their needs evolve.

The models that FSPs are pursuing take a variety of forms. The cases described below highlight a few successful approaches.



Equity Bank Kenya

Overview: Equity Bank Kenya has one of the most extensive agent networks operating in Africa, with nearly 7,000 agents spread across the country. The bank recently acquired a Mobile Virtual Network Operator license enabling it to operate its own equivalent of an MNO. The Equity Group can offer banking services including mobile banking, as well as typical mobile services, without working through an independent MNO. Under the brand name Equitel, the company is now offering a range of services directly to their banking customers through both traditional banking channels and Equity/Equitel agents. Although Equitel does rely on Airtel infrastructure, Equity and Equitel control the customer experience from end to end.

Product: In partnership with CARE, Equity and Equitel developed a mobile-based solution that allows SGs to make deposits and withdrawals via Equity agents while maintaining the security features associated with the group's traditional cash box. The solution also allows members to seamlessly transfer funds between group and individual accounts at no cost.

Outcome: The increased reliability of the network and functionality of the Equitel solution have attracted new groups to open accounts by substantially reducing their total cost in travel and fees.



UGAFODE Uganda

Overview: In Uganda, UGAFODE is embracing the challenge of reaching rural women in Savings Groups through mobile banking. Community-based agents form, train, and refer SGs created under Catholic Relief Services to UGAFODE, which markets its product and opens group accounts on-site.

UGAFODE developed both a product and a delivery channel for Savings Groups and their members:

- GroupSave requires an initial deposit of UGX and minimum balance of 10,000 (approximately US\$3). Groups pay a monthly fee (US\$0.33) but no transaction fees on deposits or withdrawals. Groups earn 5% interest per annum on their savings and receive one free account statement per month. Other product benefits include provision of bank pass books to track transactions and financial literacy programs delivered by field officers. Groups can make deposits into their account over the counter, by check, EFT/RTGS, or through Airsave.
- The Airsave mobile platform allows SGs and individual savers to link mobile wallets to UGAFODE savings accounts. Customers are able to load money onto their mobile wallets to send to their UGAFODE accounts or offload from their mobile wallets at any MTN or Airtel mobile money agent.

Outcome: As of 2015, UGAFODE had registered 295 Savings Groups, with a savings balance of \$40,475. However, a year after launch, both sign up rates and account activity levels were lower than expected. An analysis of the situation revealed that the community-based trainers were insufficiently incentivized to promote sign up and account usage on the desired scale. Further, agents were often not in close proximity to SGs; even where agents did exist, they often lacked liquidity, or were insufficiently trained to support SG client transactions. UGAFODE also found it was not engaging sufficiently with SG clients. To address these issues, UGAFODE implemented an incentive program linked to client activity for community-based trainers, recruited new agents and introduced a low-cost agent training program and scorecard to vet agents serving SG customers. UGAFODE is improving client engagement by limiting its geographical area of operation, increasing the number of client interaction touchpoints and shifting from a strategy of marketing all products to all clients, to developing market specific value propositions.

Barrier 2: Understanding Savings Groups

The unique needs of SGs present another key barrier for FSPs. First, FSPs must understand SG practices and procedures as they design products for this market; and secondly, the limited experience of SG populations with formal financial services requires additional investments in client education and acquisition. Savings Group characteristics and features that may influence how FSPs interact with them include:

Language barriers

Where SGs members can only speak a local language or dialect, FSPs may need to invest in multi-lingual staff, and/or translate account opening and transactional documents.

Low literacy levels in rural areas

Low literacy levels may challenge client comprehension of documents and pricing, obtaining consistent signatures from SG clients when they withdraw cash, and consumer confidence with mobile banking. Low literacy levels may also require adapted marketing strategies and materials.

Lack of familiarity with formal financial services

The rural poor commonly believe that banks are only for the rich and have limited experience with their products and services. To overcome the apprehension and fear of these potential customers, FSPs can consider three strategies: 1) partner with trusted facilitating agencies that can introduce them to SGs; 2) design products that respond to specific SG needs and mimic valued features of SG operations; and 3) invest in financial education to enhance overall financial literacy and understanding of specific products available to SGs. These strategies have helped build trust among new clients, reduce account dormancy, and improve clients' product usage and management, all contributing to a better customer relationship.

Sensitivity to fees

Savings Groups tend to be highly sensitive to fees. To build successful client relationships with them, FSPs must respond to their price sensitivity and confirm that they understand all fees. Clients who are not informed of monthly maintenance fees and observe deductions from their accounts lose confidence in the FSP.

Absence of mandatory documents and changes in group signatories.

Missing documents, and changes in signatories of group leaders have delayed account openings (groups re-elect the management committee annually).⁶ To address this issue, FSP staff can assist SG members in completing paperwork, or modify documentation requirements.

Working with Savings Group populations can be time consuming

The combination of lack of familiarity with formal financial products, low literacy levels in rural areas, and language barriers often mean that SGs need more assistance from bank staff than other clients. As a bank official in Uganda commented, "it is very unlikely you will get a well prepared rural customer coming to the branch ready to make a deposit without any effort from the bank."⁷

^{6,7} [Connecting the World's Poorest People to the Global Economy: New models for linking informal savings groups to formal financial services.](#) CARE, 2013.

Product alignment and security

Savings Groups products should mimic group savings cycles and internal operating procedures, including transparency of transactions, group decision making on loans, and a three-person security verification system for group account transactions, whether branch or mobile-based. Financial service providers will need to adapt existing products and procedures or develop new ones.

Below are examples of FSPs that have succeeded in adapting their products to the specific needs of SGs.

Mimicking SG Security Procedures on a Mobile Platform: Equity's 3-Pin Security

Equity Bank Kenya has developed a technology system that allows SG account signatories to use their individual PINs, (the same PIN they use to log into their personal mobile Equity account), to initiate group transactions. When a transaction is initiated by one of the three group signatories, the other two receive a phone prompt asking them to approve or reject it. If both signatories approve the transaction, this either completes the transfer, or generates the token necessary to exact a withdrawal from an agent or branch, which is provided to the initiating signatory. To further ensure security, other group members receive an SMS whenever an outgoing transfer is made from the group account.



Fidelity Bank in Ghana

Overview: In Ghana, Fidelity Bank introduced a group-based savings product for SGs in 2014 in partnership with CARE and UNCDF, and ultimately with MTN, leveraging the MNO's agent network.

Product: Recognizing that documentation requirements were a barrier for SGs, Fidelity Bank eliminated the requirements for passport copies and insurance cards to open an account. The bank developed a mobile phone application that enables its staff to take pictures of SG clients and instantly open accounts for them in the field, using only national IDs. The phone-based system enables Fidelity Bank staff, in the headquarters in Accra, to access real time data on SG clients transacting in northern Ghana. The partners also collaborated on a no-fee savings account for SGs. Agents are located close to SGs, eliminating the need for them to travel to the bank. This is good business for agents who are paid based on the amount of deposits they collect. Where no Fidelity Bank agent is present, SGs can deposit funds through an MTN mobile agent.

Outcome: CARE prepares SGs and refers them to Fidelity, escorting bank staff to groups – a process that requires about one week. As of 2015, the product portfolio included 3,000 active group accounts and total savings deposits of \$12,000.



EcoBank

Overview: In 2013, EcoBank introduced products targeted to SGs in Burkina Faso, through a mobile money platform.

Product: EcoBank designed a new savings product with a lower required opening balance compared to other existing accounts. It also introduced 3.5% interest on savings deposits to suit the needs of the groups. The cost of transferring money to the bank through Airtel mobile wallet was also reduced. SGs open a mobile wallet group account with Airtel and a savings account with EcoBank; they use Airtel's pre-existing partnership with EcoBank to deposit and withdraw funds from the bank electronically through the Airtel mobile wallet account. A mobile agent banking concept was developed with Agents deployed to areas where Freedom from Hunger and its partners are present in order to be closer to SGs. SG data is entered on electronic wallets resulting in savings stored on the phone rather than in a cash box.

Partnership:

- Freedom from Hunger played a coordination role and delivered a financial education module to SGs.
- EcoBank developed financial products tailored to the needs of SGs and deployed agents to ensure bank services are available where SGs are located.
- Airtel developed the mobile wallet delivery channel, ensuring that it is interoperable and well synchronized.

Outcome: After one year, 150 SGs had opened mobile wallet accounts. Average balances are low, but have been increasing. Within a few months of the initiation of the pilot project, SG members also began opening individual accounts. As of September 2014, over 2% of total members from SGs with group accounts had opened individual accounts.

Barrier 3: Proof of Value for Financial Service Providers

Given the challenges outlined above, the next barrier for FSPs is to determine whether the opportunities presented by the SG market outweigh the investments required to serve it. The potential products, delivery channels, partnerships and strategies to serve SGs are diverse – as well as the physical, commercial and legal environments within which FSPs operate. Thus, the business case is highly contextual and getting the balance right is far from easy. Questions remain regarding the long-term viability of delivering formal financial services to SGs.

Savings Groups offer two obvious advantages: 1) a single entry-point to reach group customers as well as multiple new individual customers; and 2) reduced risk associated with SGs' established savings and loan activity, carried out under clearly defined policies and procedures. Thus, any market analysis must consider the costs and opportunities to serve both the group, as well as its individual members.

Serving Savings Groups - Emerging Evidence

Evidence from large-scale linkage initiatives in Kenya and Tanzania suggests that average balances on group accounts far exceed those on entry-level individual accounts.⁸ However, the acquisition cost of these accounts also remains high, placing pressure on the viability of strategies that rely wholly or largely on group savings products. The provision of group credit, in addition to group savings accounts, can enhance FSP prospects, as demonstrated in a 2016 study in Ghana, Kenya, Nigeria and Uganda. The study concluded that, "wholesale credit products offered to groups are likely to be more profitable on a per-account basis than individual products. This is mainly due to the far greater number of transactions involved in loan collections for individual loans (vs. bulk group deposits)."⁹ In other words, acquiring a group savings account can be costly but: 1) average balances typically exceed individual entry-level accounts; and 2) group loans have a lower cost/revenue ratio than lending to individuals.

Serving SG Members - Emerging Evidence

Recent evidence from Tanzania indicates that the average account balance of SG members is only about USD 29, compared to USD 92 for standard, entry-level savings accounts targeted to low-income clients. SG member accounts also generate less monthly revenue due to less cross-selling of credit, insurance, pension and data monetization services. However, the cost of acquiring an SG client is less than 17 percent of the acquisition costs of a standard, entry-level individual account in the low-income segment, resulting in a lower cost/revenue ratio.

Savings at the Frontier: An indicative business case for deposit-taking institutions in Tanzania¹⁰

Per client, per month	Entry-Level Individual Account, Low-Income Segment	Entry-Level Individual Account, SG members
Average balances – individual account	USD 92	USD 29
Average number of transactions	1.5	12
% Active (monthly)	50%	98%
Average gross monthly revenue	USD 2.02	USD 1.05
Allocated cost of acquiring business flow	USD 6.51	USD 1.08
Ratio of allocated cost to gross monthly revenue	3.2	1.0

⁸ Assessing the Impact of Access to Formal Financial services on VSLAs and their Members in Kenya and Tanzania. CARE International, 2017.

⁹ Assessing the Credit Approaches to Savings Group Linkages. Bankable Frontiers Associates, 2016.

¹⁰ Adapted from "Call for Tanzanian concept notes for participation in the Savings at the Frontier partnership". Savings at the Frontier, Oxford Policy Management Limited, 2016

In short, the evidence suggests that lending to SGs may be more cost-effective than lending to individuals, and the addition of group credit may enhance the viability of group-based savings accounts. In addition, SGs provide a cost-effective platform for acquiring individual customers in the low-income segment. For FSPs keen to serve this market, the challenge is to target and attract the right mix of group and individual customers, and focus on cross-selling - moving beyond single service solutions.

Below is an example of an FSP that has demonstrated the business case for delivering financial services to SGs.



PostBank Uganda, Tanzania & Kenya

Overview: In Uganda, Tanzania, and Kenya, national Post Banks, in partnership with the World Savings & Retail Banking Institute, have concluded that adapting products to group characteristics is good business.

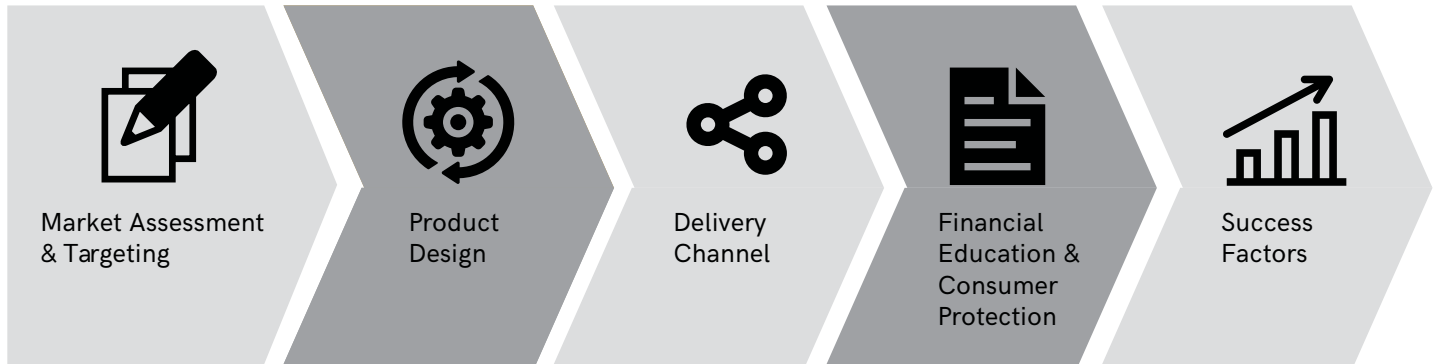
Product: The banks currently offer both group and individual member savings and loan accounts, with minimal KYC requirements. Fees on weekly deposits and withdrawals were eliminated, as was a monthly ledger fee. To further reduce transaction costs, the banks have introduced mobile wallet accounts. Client accounts are linked to the mobile wallets and group signatories can disburse funds to individual accounts and/or mobile wallets. Customers are able to make free transfers amongst themselves to settle small bills and can withdraw/deposit at proprietary agent locations using POS devices and/or phone terminals; mobile vans are used at some locations. Group account transactions are secured through a three-signatory - or in the case of mobile transactions, three-pin - authorization system, and free SMS alerts are sent to other members for all transactions.

Customer Acquisition: CARE, Plan, CRS, Build Africa, local NGOs and various VICOBA apex bodies filter, train, and refer mature SGs to the Post Banks. Post Bank Field Officers meet with groups to market the group product, and open accounts in the field, often on group meeting days. To foster mobile transactions, each group is given a free smartphone. Members can also connect to their accounts using a more expensive, menu-based mobile banking system through their basic feature phone.

Outcome: In less than four years, PostBank Uganda has opened over 30,000 group accounts with over half a million members, mobilizing \$3 million in group savings and \$250K in individual savings. The growth in PostBank's customer and savings base from this new market is such that the bank's fixed overheads are now spread over six to seven times more active users. In Tanzania, the bank has registered over 6,000 groups, mobilizing \$2.2 million in group savings and \$520,000 in individual savings. This project reached break-even within 8 months and generated a 16% return on investment in the first year.

Section 3: Developing Financial Services for Savings Groups

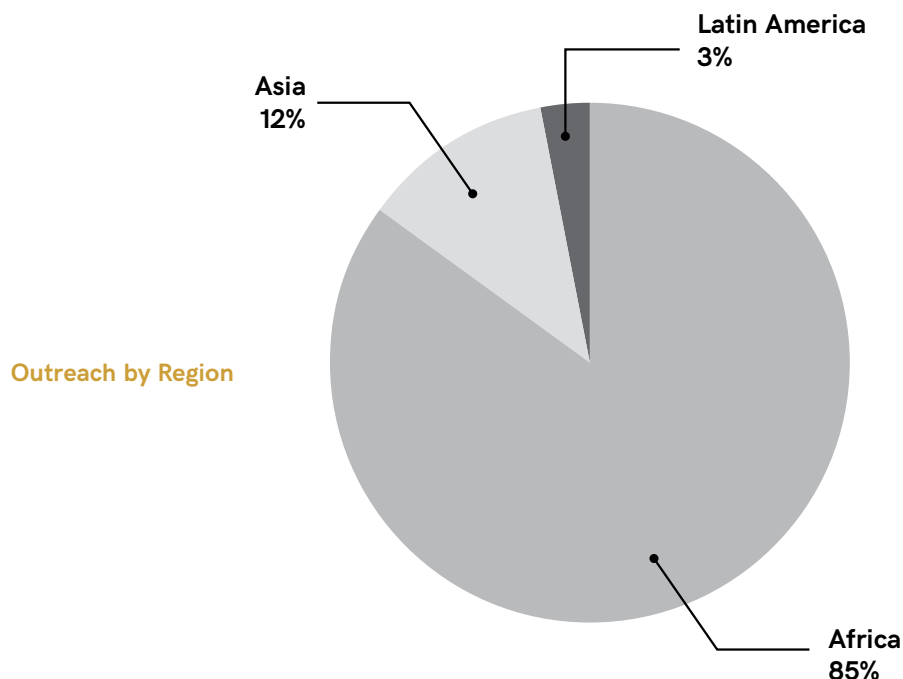
Below are the steps in designing and developing formal financial services for SGs



Market Assessment and Targeting

The first step in delivering formal financial services to SGs is for the FSP to understand the market and appropriately target specific segments of this market that align with its growth strategy.

An annual survey conducted by VSL Associates¹¹ reports that FAs have trained a total of approximately 700,000 SGs, comprised of 14 million members, in 75 countries. Nearly 85% of SGs are located in Africa; outreach varies considerably across regions and countries, with Kenya, Mali, Tanzania, Uganda and Rwanda representing the largest markets.



¹¹ www.vsla.net

Preliminary market data is also available from the SAVIX (www.thesavix.org). The online MIS provides basic information on current SG initiatives, including brief project descriptions, the financial and institutional performance of monitored groups, and research.

Globally, nearly eighty percent of SG members are women – mainly by design as SG initiatives have historically targeted women. Group members are typically between 30-50 years old, with the average age in the high 30s,¹² though SGs are flourishing among youth as well, with several youth-focused initiatives in Colombia, Egypt, Ghana, Kenya, Niger, Senegal, Tanzania, Uganda, Sierra Leone and Zambia.

This section provides an overview of the steps of market assessment for financial services targeted to SGs.

Assessment of Savings Group Demand for Formal Financial Services

Determining SG's regional and product-specific demand for financial services is the starting point of the market assessment.¹³ An assessment of SG demand for formal financial services should address the following questions:

Key SG demand questions

1 Market size

How many Savings Groups are active, and where are they located?
What is the annualized savings rate of Savings Groups?

2 Customer needs

What are the typical cash flow patterns of group members?
What percentage of group members want formal services?
What are groups' perceived needs for savings and credit?

3 Customer experience with FSPs

Do members have formal savings accounts or external loans?
- If so, what do they like about their existing products?
- What product features do members consider most/least important (security, accessibility, costs, interest rates, etc.)?
What are groups' perceptions of FSPs?
- What are their perceived benefits and drawbacks?
What is the FSP's proximity to the groups?

4 Customer experience with mobile technology

How familiar are Savings Groups members with mobile phones and mobile money and what are their attitudes regarding both?
- What percentage of members have a mobile phone or access to one?
- What percentage of members have heard of/used mobile money?

¹² JOHNSON, Susan and Silvia Storchi. *Savings Group Outreach and Membership*. Found in Nelson, Candace ed., "Savings Groups at the Frontier", The SEEP Network, 2013.

¹³ Assessing SG demand for formal financial services should not be confused with assessing the readiness of individual groups, which is done at a later stage, using criteria such as the ones included in the Readiness Assessment Tool.

Regulatory Assessment

The potential for delivering formal financial services to SGs will be influenced by the regulatory environment for financial institutions, and specifically those regulations governing service to groups and any incentives promoting financial inclusion or women's empowerment.

In most countries, formal financial institutions can only open group bank accounts or make loans to groups that have a formal legal identity; regulations often prohibit FSPs from working with informal institutions. For this reason, SGs that seek to become clients of FSPs should be registered¹⁴, a process that can be very time consuming and expensive. The appropriate legal form and department responsible for group registration varies across countries. In Kenya, for example, an SG registers as a Self-Help Group in the Department of Gender and Social Development; in Ethiopia it registers as a RuSACCO or as a Micro and Small Enterprises (MSE); in Cote d'Ivoire, SGs register as Associations in the Mayor's office or with the Superintendent in the rural areas.

The Challenge of SG Registration

"Savings Group registration can be a constraint to scale. The time required to register an SG can be prohibitive and it is an area where we often find ourselves being pulled to play a more active, supportive role than we feel is sustainable. This issue is context dependent – easier in some places and harder in others – but should not be overlooked in any initiative to create access to formal financial services for SGs. Encouragingly, this also opens up an area for collaboration among stakeholders to promote the development of simplified and streamlined registration processes."

— Christian Pennotti, Director, Access Africa at CARE



¹⁴ In Kenya, banks replaced the standard account opening requirement of formal registration with the Chamber of Commerce with a photocopy of the SG's constitution, signed by all members (The Guardian, November 3, 2014).

In the assessment of regulatory environment, important questions that should be answered are:

Key regulatory questions

- 1 What are the Know Your Customer (KYC) requirements to establish client identity before opening an account? Are there different levels of KYC (Tiered KYC) for different segments of the population?
- 2 What are the requirements for a group to open an account? Is group registration required? Which branch of government regulates and manages group registration? How much does group registration cost? How long does the registration process take?
- 3 Are there consumer protection and fraud prevention regulations? If yes, what are these? Have there been instances of fraud with national impact - such as pyramid schemes that have adversely affected client trust in the financial sector?
- 4 Have regulatory actions been taken against financial service providers in the past 10 years? What were the reasons behind such actions?

The Mobile Money Environment

Mobile infrastructure has the potential to greatly facilitate the delivery of formal financial services to SGs in communities where branch infrastructure is lacking. In the assessment of mobile infrastructure, important questions that should be answered are:

Key MNO infrastructure questions

- 1 What is the extent of mobile phone and mobile money penetration?
- 2 What are the market shares of different MNOs? Pricing?
- 3 What is the outreach of different MNOs particularly in rural and remote areas where Savings Groups are located?
- 4 How strong are their agent networks in terms of physical infrastructure and liquidity?
- 5 Is there interoperability between MNOs? What are the bottlenecks to interoperability? If not in place, when is interoperability projected to be introduced?
- 6 Do third-party agent aggregators exist (e.g. in Tanzania - Selcom, Maxcom, Jumo)? What role do they have in the ecosystem?
- 7 Which client segments are the largest users of mobile money services?
- 8 Are there existing partnerships between MNOs and FSPs? What is the nature of such partnerships and what products do they currently offer?

Short-listing and selecting an MNO

Current experience in reaching SGs includes FSPs that partner with MNOs and those that don't. For those that have a choice among competing companies in a given area, key criteria for the identification and selection of MNO partners are provided below.

Key criteria for the identification and selection of MNO partners

- 1 **Good outreach and agent network, particularly in remote areas or near-term plans to expand to rural areas**
- 2 **Network reliability**
- 3 **Effective agent liquidity management**
- 4 **Existing partnerships with FSPs and FAs, or willingness to develop new partnerships**
- 5 **Demonstrated commitment to reach SG populations and explore underserved markets**
- 6 **Willingness to develop new business models, technologies and product mixes tailored to SGs**
- 7 **Financial, technical and technological resources**

Assessment of Facilitating Agencies

Facilitating agencies (FAs) are organizations that mobilize and train SGs. Historically, they have been NGOs, but now a wider range of public and private institutions share this promotional role. In addition to introducing the FSP to SGs, facilitating agencies may fulfil a role in client acquisition. The task is multi-layered and involves orientation to SGs for the FSPs, input to product design that ensures responsiveness to member needs, financial education for clients, building their trust in the financial service provider, and consumer protection.

The FSP has a strategic decision to make about how to manage client acquisition in this market. It can partner with one or more FAs to manage client training or it can assume this role directly. Both come with costs; a partnering strategy assigns various aspects of the client acquisition process to partners according to their strengths; operating independently allows the FSP greater control over the process, but will require it to assume functions that may be outside its areas of expertise.

Key criteria for the identification and selection of partner facilitating agencies are provided below.

Key criteria for the identification and selection of partner facilitating agencies

1 **Presence in country**

How long has the FA operated in the country? In which areas is it operating?

What is the size of its Savings Groups program?

How long has the FA been engaged with Savings Groups?

How many groups has the FA formed/managed?

2 **Experience with brokering Savings Groups to FSPs**

Has the FA previously led or participated in brokering Savings Groups to FSPs?

Which FSPs has it worked with?

Is the organization committed to a market-driven approach to creating access to formal services that balances social objectives with long-term profitability?

3 **Training Capacity**

Does the FA have a systematized financial education program, including topics related to accessing formal financial services?

Does the FA have a network of community-based trainers? If so, what is the size of the network?

4 **Resources and partnerships**

What financial or other resources does the FA bring to an initiative to create Savings Group access to formal financial services?

Does the FA have the support of donor organizations?

Checklist for Assessing Savings Group Readiness

The final step in the market assessment is to determine the readiness of targeted SGs to use formal financial services. CARE International's Readiness Assessment Tool, below, is a tool used by CARE and its partners to assess the preparedness of SGs.

Criteria	MIS Measure	Scoring Criteria	Total Possible Score	Group Score
Quantitative Measures				
Maturity of group	Current cycle	1 st cycle = 0 2 nd to 3 rd cycle = 7 4 th cycle or more = 10	10	
Savings volumes in previous cycle	Net Value of savings at share-out in last cycle	< USD \$1000 equivalent = 0 > USD \$1000 equivalent = 10	10	
Savings volumes this cycle	Net Value of savings this cycle	< USD \$1000 equivalent = 0 > USD \$1000 equivalent = 5	5	
Attendance rates	Average number of members attending last four meetings divided by total number of group members, times 100	Less than 80% = 0 Between 81 to 90% = 5 More than 91% = 10	10	
Loan fund utilization rate	Value of loans outstanding divided by Total assets of the group	Less than 50% = 0 Between 50 to 75% = 5 More than 75% = 10	10	
Portfolio at risk (PAR)	Total value of overdue (late) loans divided by total value of outstanding loans times 100	PAR more than 10% = 0 PAR between 5% and 9.9% = 3 PAR between 3-5% = 6 PAR between 1-3% = 9 PAR at 0 = 10	10	
Amount written off as a % of last share-out amount	Amount written off at last share out divided by value of last share out	5% or more = 0 Between 2% and 5% = 3 Between 1% and 2% = 6 Nil (0%) = 10	10	
% of members with loans each month	Calculated - Average number of members with a loan at the end of last for meetings divided by total number of members in a group times 100	If less than 30% = 0 Between 30% and 50% = 3 Between 50% and 80% = 6 More than 80% = 10	10	
Total Quantitative Group Score			75	

Criteria	MIS Measure	Scoring Criteria	Total Possible Score	Group Score
Qualitative Measures				
Member discipline during the meeting	Did all the members arrive on time for the meeting? If some members came late, did they adhere to group standards (fines, etc.)? [Note: Ask chairperson about group rules before the meeting]	Yes = 5 No = 0	5	
Decision making about loans	When a member wanted to take a loan, did the Secretary check how much she had saved in this cycle and apply the rule for determining maximum loan size (i.e. loans cannot be more than 3 times the member's saving in the current cycle)? Did members ask about the intended purpose of the loan? Were all decisions made with consensus?	Yes = 10 Somewhat = 5 No = 0	10	
Percent of members with long-term IGAs	Number of members with IGAs active for more than 6 months divided by number of members in the group	If less than 30% = 0 Between 30% and 50% = 5 Between 50% and 100% = 10	10	
Total Quantitative Group Score			25	
Total marks obtained by the group			100	

Below is a decision matrix, using the scores from the quantitative and qualitative criteria above.

Group Scores	Recommendation
Below 50	Group likely not well positioned to access formal financial services
Between 51 and 75	Group likely ready to access formal services but should be savings focused / savings only
Between 76 and 100	Group ready to access savings services and could be ready for external credit (based on demand from group and savings account utilization over 3+ months)

Product Design

Product development may range from adapting existing products to developing altogether new ones. Based on experience to date and SG demand, a focus on savings products is recommended. The FSP should evaluate the potential for credit based on group transactions, performance and demand. The critical product features that partners must agree on include:

- 1 **Group-based and/or individual products**
- 2 **Savings**
 - Minimum balance
 - Transaction limits
 - Interest rate
- 3 **Credit**
 - Duration
 - Minimum and maximum loan amounts
 - Repayment schedule
 - Interest rate
 - Collateral and other guarantee mechanisms
- 4 **Administrative fees**
- 5 **Transaction fees**
- 6 **Documentation requirements**

Key product design questions

- 1 **What is the pattern of saving for SGs? When are they likely to deposit and withdraw funds?**
- 2 **How does the need for savings services change through the Savings Group cycle?**
- 3 **Will both group and individual accounts be offered?**
- 4 **What are the product's features? Interest paid on savings? Required balances? Limits on transactions? Fees?**
- 5 **Which features of the SG savings process will be accommodated or replicated in the product design?**
- 6 **What is the delivery system by which clients interact with their account to make deposits and withdrawals?**
- 7 **What type of marketing strategy will be employed? Will marketing strategies be implemented directly or through a partnership?**
- 8 **Will there be an incentive system for market actors? For whom? Who pays for it?**

Below is an example of successful product design for SGs.



AccessBank Tanzania

Overview: In 2015, Access Bank in Tanzania worked with CARE to develop a group savings product tailored to the needs of SGs. In order to make the product accessible and affordable, for both SGs and the bank, Access turned to its business partner and a leading super-agent in the country to develop a mobile solution that provides groups with the same 3-key security with which they are familiar.

Product: The resulting account provides groups with the ability to move money seamlessly between individual and group wallets, deposit and withdraw cash from a growing network of Access Bank agents and maintain options for using bank branches or transferring funds to/from mobile wallets of all the major MNOs in the country. In addition, Access Bank eliminated all fees related to mobile banking for these SGs.

Outcome: The combination of 'box-like' security features and universal access has proven to be an attractive proposition for more than 300 groups to date.

Delivery Channel

The delivery channel could be a mobile-based application, agent banking, traditional branches, or some combination of the above. Although the poor continue to report strong preferences for cash, mobile channels (including agents, MNO mobile wallets and mobile bank accounts) offer a pathway to sustainable service delivery in hard-to-reach areas. Clients can transact without incurring the costs in time and travel to reach the bank branch; financial service providers reach clients without the high expense of maintaining bricks and mortar presence in rural areas.

The cash transfer process begins with the individual SG member who makes regular deposits to the group; it will then be guided by the products and transfer processes established by the financial service provider. If both individuals and groups have accounts, the transaction pathways may be different than delivery channels in which only a group account exists.

The figure below¹⁴ outlines different delivery channels, and the potential relationships between SGs, members, FSPs and MNOs.

Delivery Channels	
<p>Benchmark deposit account: Branch-based, individual deposit account.</p>	
<p>Scenario 1: Members contribute cash to SG. SG deposits cash in branch-based group account. <i>No individual accounts.</i></p>	
<p>Scenario 2: Members contribute cash to SG. SG deposits cash in branch-based group account. <i>Individual accounts.</i></p>	
<p>Scenario 3: Members contribute cash to SG. SG transfers to group bank account using m-money. <i>Individual accounts.</i></p>	
<p>Scenario 4: Members transfer m-money contribution to group m-wallet. SG transfer to group bank account. <i>Individual accounts.</i></p>	
<p>Scenario 5: Members contribute cash to SG. SG deposits in group mobile wallet. <i>No bank account. No individual m-wallets.</i></p>	
<p>Scenario 6: Members transfer contributions from individual m-wallets to group m-wallet. <i>Individual m-wallets. No bank account.</i></p>	

¹⁴ Focus Note 2: SG Linkages – The Business Case for Private Service Providers. Bankable Frontier Associates, 2013.

This figure illustrates several delivery channels for consideration. Ultimately, the choice may be dictated by regulation or available infrastructure. Other important aspects for consideration include:

- 1 **What are the key features of the delivery channel?**
- 2 **To what extent are clients prepared to adopt the tools and processes of the delivery channel?**
- 3 **Who will train the clients?**
- 4 **What are the costs associated with the delivery channel?**
- 5 **How will data and fund security be assured?**

Financial Education and Consumer Protection

Savings Group members have limited experience with the formal financial system, which raises concerns regarding client protection. In addition, several characteristics of this market – including lower levels of financial and digital literacy – increase its vulnerability to aggressive lenders and others seeking to take advantage of SG assets. Efforts to date to reduce that vulnerability focus on two aspects of client protection – ethical behavior of financial service providers and educated consumers, empowered to protect themselves. Successful engagement with this market requires attention to both.

For over a decade, the principles of ‘responsible finance’ have promoted ethical behavior of microfinance and other financial institutions targeting the poor. Industry initiatives include the Smart Campaign which has recruited hundreds of institutions to endorse a set of seven consumer protection principles such as transparency, responsible pricing and privacy of client data. Similar principles articulated for SGs are presented in the SEEP Network’s [Program Quality Guidelines for Savings Groups](#), a sector-wide effort to build quality in SG programming to safeguard the well-being of members and the security of their assets. These principles are outlined below.

On the client side, SG members need to understand the products they choose and contracts they sign, how to make the best use of these products and what recourse they have when problems arise. Using the tool of financial education, FSPs and their partners build the financial capacity of SG members who thereby become both agents of their own protection and, ultimately, better clients. There is widespread agreement among market actors that this preparatory investment is critical to a successful relationship between FSPs and SGs.

Principles

Products and services must be demand-driven

The decision to invest in reaching the SG market must be based on an internal assessment of the financial needs and demands of the group and its members. Savings Groups need the tools to assess their financial needs and the information to understand the full terms of the products and services they are considering.

Both Savings Groups and their individual members can be served

Both SGs and their members should be able to access financial services that suit their financial needs. Group products could facilitate service delivery to individual members; by accessing members' internal payment histories, FSPs can tailor products and outreach to particular individuals. However, individual accounts for all members should never be a pre-requisite for a group account. Individual members must retain their right to decide whether to open an account independent of any decision about a group account.

The core principles of the SG methodology must be upheld

Savings Groups core principles are 1) member ownership and control over decision-making, 2) transparent, equitable and democratic governance and 3) a savings-led approach. These fundamental features of the SGs methodology are important to maintaining group cohesion and integrity. The introduction of formal financial services and products should not compromise group integrity or contradict these principles. An SG's decision to work with an FSP should be made by consensus, and based on the terms of the group constitution.

Only mature groups should seek access to formal financial services

In most contexts, it takes at least one cycle for groups to establish the financial and operational discipline, as well as sufficient capital, to need an external account. Groups and their members should only seek formal financial products when they have demonstrated a high level of internal discipline and sufficient financial management capabilities as a group to effectively assess the advantages and disadvantages of the products and services they want to access.

All parties involved in the financial relationship must understand each other

- ① SG members must be financially literate; they must understand how FSPs work, what they offer and what they require of clients. Financial education is a tool that can prepare SGs to enter into a relationship with a commercial financial institution – to seek the information that will enable them to choose both the products and providers that are right for them. A Savings Group must have the confidence to manage this new relationship and assess the interest of group members in pursuing it.
- ② FSPs need to fully understand how SGs work in order to design appropriate and useful products.
- ③ MNOs also need to understand SGs and the relationship between the individual member and her group. Mobile transactions can be tailored to replicate group processes that members understand and trust.

Emphasis on member savings must be maintained

The SG methodology is a savings-led approach to providing financial services to the poor; relationships with financial service providers should maintain this focus. If credit is provided to groups, the amounts lent should be a function of the group's past performance and current needs.

Collateral requirements must be kept at a minimum

The savings-led approach should provide banks with the information they require to assess a group's savings behavior and capacity to absorb and manage external credit. Collateral requirements should be based on demonstrated group capacity and kept to a minimum. A bank requirement for group savings as collateral should be limited to 10% or less, and reduced over time as the group demonstrates positive repayment behavior.

Financial Education Content

Financial education encompasses a wide range of topics, from the basics of savings, debt management and budgeting, to more specialized knowledge related to financial products, life cycle planning and risk management. FAs have invested in a range of financial education curricula for SGs, and some have concluded that the best investment is one focused on the specific knowledge they need to interact successfully with FSPs. The box below lists financial education content relevant for SGs that seek access to formal financial services.

1 Using Formal Financial Services

- Differentiating formal and informal financial services
- Financial service providers are for everyone (dispelling misconceptions)
- Comparisons of available financial service providers
- Product terms and definitions
- Client rights and responsibilities as users of formal financial services
- Where to go, what to do, and who to talk to if there is a problem

2 Technology and Mobile Financial Services

- ATMs and POS devices
- Mobile money and bank agents
- Advantages and disadvantages (or risks) of mobile financial services

3 Deciding where to save

- Cost
- Safety
- Access
- Returns

4 Deciding if and where to borrow

- Cost of borrowing
- Good loans vs. bad loans
- Avoiding over-indebtedness

The Costs of Financial Education - Who Pays?

Financial institutions interested in delivering formal financial services to SGs will need to develop models that can cover the costs of financial education. While donor subsidization of group training is currently the norm, it is not viable at scale. FSPs that identify SGs as a viable client segment are increasingly assuming some – or all – of the costs of financial education. Potential models include:

- Financial service providers develop curriculum and deliver training directly to SGs that is specifically aimed at building the financial capabilities they need to be successful clients.
- Facilitating agencies embed financial education in SG training.
- Community-based trainers deliver financial education to SGs on a fee-for-service basis (i.e. the SG pays the fee).

Success Factors

The final step in developing financial services for SGs is defining success. Financial service providers should consider the following three factors when evaluating success.

Active Accounts

A dormant account defeats the very purpose of financial inclusion and poses a risk to any initiative to deliver financial services to Savings Groups.

Drivers of dormancy:

- **Lack of need:** Products only make sense if they add value to SG services. It is important to identify SG's unmet needs and structure products to meet them.
- **Lack of understanding:** Savings Groups will not use bank products and/or channel pathways they do not understand. Product training and user-friendly channel design are essential to drive account usage.
- **Lack of value:** Savings Groups will likely react against high or frequent fees that they believe are eating away at their savings. Fees charged must have a clear value proposition.

High Average Balances

Higher average balances reduce average fixed costs, and thus reduce the cost of capital of FSPs. Savings Groups operate in annual cycles, and naturally have periods of more and less excess cash. To successfully deliver financial services to SGs, FSPs must maintain a high average balance spread across a portfolio of group accounts.

Potential causes of low balances:

- **Lack of trust:** Savings Groups must be confident that the financial institution can and will keep their savings safe. In countries that have suffered bank failures or cases of fraud within the financial system, financial education and targeted marketing may be needed to establish, or reestablish, trust in formal financial institutions.
- **Lack of service:** If Savings Group members feel that they are treated poorly, they will avoid using formal financial services. FSP staff must be trained in how to work with SG members who may be illiterate and unfamiliar with formal financial institutions.
- **Lack of value:** Where balances are low, additional market research may be needed to ensure products and services respond to the needs of SGs and their members.

Low Operating Costs

With relatively low average account balances and greater sensitivity to fees, economies of scale and low operating costs are key drivers for sustainable growth in this segment.

Section 4: The Way Forward

Savings Groups present an attractive opportunity for FSPs to enter hard-to-reach, underserved markets. Their aggregated demand gives FSPs an efficient means of attracting new customers with lower acquisition cost; the established procedures and disciplined savings practices of SGs decrease the risk and cost to serve this market.

The three main barriers preventing financial service providers from serving SGs – the last mile delivery of services, the need to respond to SG characteristics and needs with relevant training and product design, and the determination of the business case for investments in this market segment – are being overcome through technological advances, mobile penetration and partnership development. The emergence of these innovations presents a new opportunity for FSPs to reach vast new markets and essentially change the way they do business. The required investments, described in this handbook, are not without risk; but SGs significantly reduce that risk, and represent a promising delivery channel in unbanked, rural markets.

The examples provided in this handbook demonstrate that there are viable and scalable solutions to the challenges in delivering formal financial services to SGs, and this experience should catalyze deeper investigation and innovation in:

- **Customer-centric product design** – A customer-centered approach to market assessment and product design can build relationships between FSPs and local communities, increase trust, improve understanding of the demand for financial services by SG populations, demonstrate a willingness to learn together, and generate cross-selling opportunities for a range of products to SGs, SG members, and other members of the community.
- **Cross-sectoral partnerships** – Effective partnerships between diverse market actors – including FSPs, MNOs, regulators, NGOs and CBOs – are required to access SGs, improve levels of financial literacy, build awareness of and trust in formal financial services, design products and services that address the unmet needs of SGs, ensure client protection, and deliver services through channels that are both appropriate and efficient.
- **Lead with savings** – Introducing SGs to formal financial services through a savings-led approach is low risk and responds to a demonstrated demand by SGs for increased fund security as well as long-term savings opportunities. In contrast, the demand for credit is not as clear; and the injection of external funds to SGs is riskier. Risks include eroding member savings, compromising internal lending policies, distorting group processes and dynamics, using the savings of all members as collateral for a small number of borrowers, and repayment schedules that are not consistent with the operating cycle and cash-flows of the group. While SGs can serve as an effective marketing channel for individual credit, further evidence is required regarding the demand for credit by SGs and optimal models for group-based credit.

Formal financial services for SGs are evolving rapidly, requiring adaptive learning by FSPs, as well as other stakeholders – including SGs, NGOs, MNOs, regulators and funders. Through knowledge mobilization and actionable learning opportunities, the SEEP Network aims to support more responsive market actors to expand financial inclusion through SGs. To learn how to engage with SEEP, please contact us at programs@seepnetwork.org.



