



**GRAMEEN
FOUNDATION**

*Empowering people. Changing lives.
Innovating for the world's poor.*

Microsavings Panel

AFI Global Policy Forum

Sept 28, 2010



Overview

- The role of savings in financial inclusion
- Barriers and challenges with savings product innovation and distribution
- Regulatory support for the “last mile” or ‘branchless banking”

The poor can and do save...

- To store and gain access to larger sums of money to meet their daily needs
- To minimize risk, leading to healthy and productive lives
- 2.5 billion adults do not use formal sources to save or borrow
- *Portfolios of the Poor* respondents saved in a year:
 - 42 HHs in Bangladesh saved an average of \$144 – only 9% in formal sources
 - 48 HHs in India saved an average of \$167 – 21% in formal sources
 - 152 HHs in South Africa saved an average of \$676 – 42% in formal sources
- Large potential market: \$10b annually saved through informal sources in Bangladesh



What are their financial options

Informal options tend to be...

- Unreliable
- **High Risk**
- Correlated
- Illiquid
- Short-term
- Not private
- Not portable



The pain points of cash...

- It's difficult to pay remotely
- It's risky to travel with it
- It's difficult to hang onto small balances
- It is difficult to store large amounts

Formal solutions mean:

- Closed local ecosystem → Interconnected system
- Unregulated → regulated
- Cash → electronic value
- **Reduced Risk while achieving convenience and flexibility**

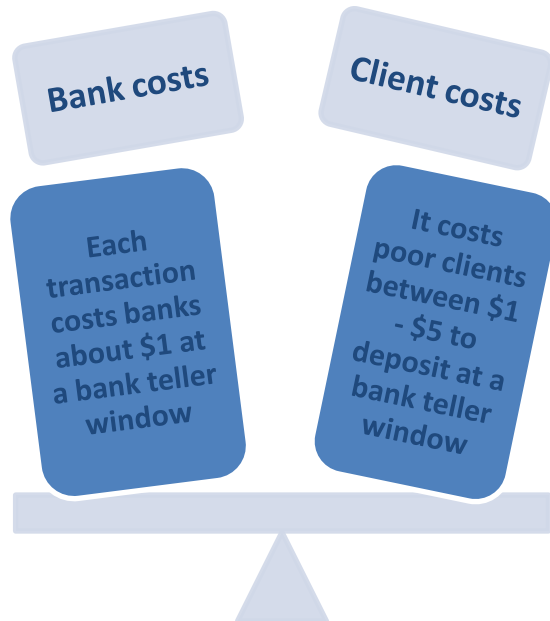


The Limitations of Banks

Barriers of Banks in Serving the Poor



- Costs
- Operating hours
- Penetration
 - 2 branches per 100,000 people in the poorest countries compared to 33 people in richest countries
 - 1.3 ATM's per 100,000 in poorest countries compared to 67 people in the richest
- Matching convenience/flexibility of informal options



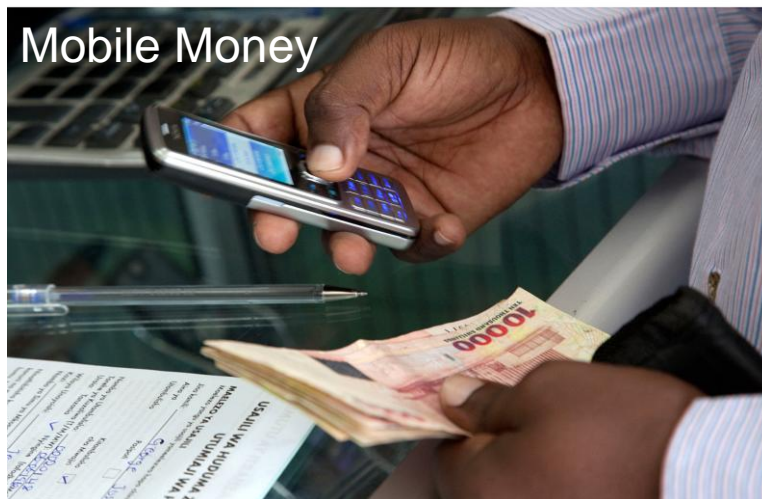
Alternative Delivery Channels

“Last Mile”

- Bringing financial services to the doorsteps of the poor allows them to save tiny amounts more frequently and more easily at the time they receive cash
- Delivery Options available today:
 - ~4B mobile phones
 - ~25M POS devices
 - ~1M ATMs
 - 500k Post Offices
 - 600k Bank Branches
 - 350k Western Unions



Mobile Vans

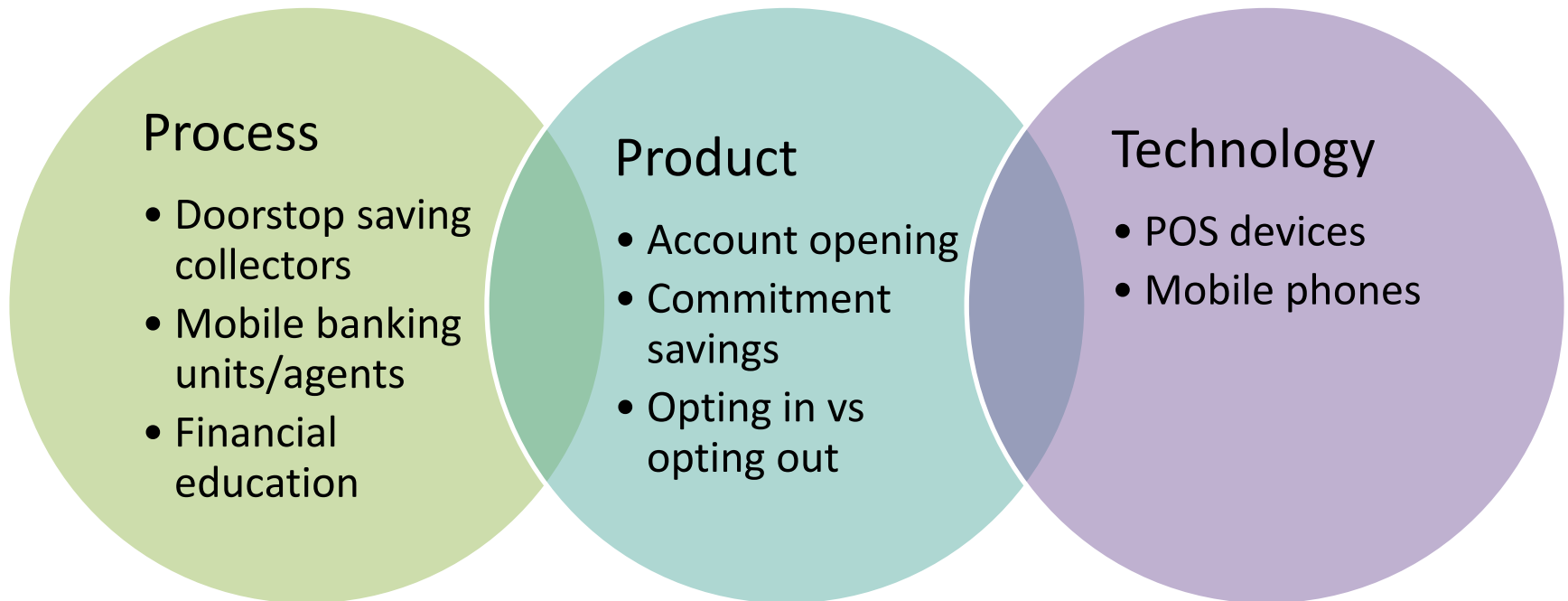


Mobile Money



Retail Outlets

Innovations



What's the business model?

Regulatory Opportunities with Savings



Use of retail agents

- Who can be an agent?
- Do they need to be individually pre-authorized?
- What are the responsibilities of the bank?



KYC

- Reduced KYC requirements for low-value accounts?
- Can accounts be opened immediately by agents?



Security


- Min security requirements based on transaction size
- Practical authentication requirements: biometrics?

Regulatory Opportunities with Savings



Consumer
protection

- Disclosure
- Redress mechanisms
- Do not undermine transaction finality



Non-bank
players

- Can banks outsource handling of individual accounts?
- Can non-banks issue e-money?

Optional Appendix: Questions for the Panel

Questions for the Panel

- What have been the most successful strategies to expand savings services to the poor at scale? What innovations have been developed (institutional, technology, new products) and how have they been helped or hindered by regulatory actions?
- What has been the role of technology in expanding Microsavings? What models can we point to as examples of what's working?
- What adjustments have the regulator panelists made to their practices to supervise Microsavings? What are the costs, and what are the changes they've made to be able to do this effectively?
- Is there any consensus whether creating new types of financial institutions (e.g., community bank, rural bank) is better or worse than allowing for alternative business models (e.g., business correspondent)?
- What have experiences been with sequencing regulatory action (e.g., first regulating microcredit then Microsavings) and is this a recommended approach?
- What is the role of regulators in helping poor households to transition from informal to formal providers of savings services?
- What has been the impact of KYC/AML policies on Microsavings regulation and service delivery?