



INCLUSIVE

# Commitment Savings

IN LATIN AMERICA AND THE CARIBBEAN



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**October 2013**

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# WHAT IS COMMITMENT SAVINGS?

NOTE 1

Getting  
to Know the  
Product





A financial system that the majority of the population has access to is important for development and reducing inequality.<sup>1</sup> The past few years have witnessed the establishment of policies whose objective is to prompt the lowest income segments to use products and services offered by financial institutions. A particular emphasis has been put into policies that facilitate access to the financial system through credit. Low-income people, like the rest of the population, need diverse products and services to best manage their finances. Therefore in the last few years, several initiatives have been established to further financial inclusion through savings, thereby helping low-income people improve their money management.

Efforts to measure financial inclusion are still very recent; therefore, in order to obtain accurate data, it is necessary improve the quantity and quality of information regarding access to financial services. Despite these shortcomings, studies and surveys demonstrate that the majority of countries in Latin America and the Caribbean have low levels of banking penetration in comparison to other regions. According to Global Findex data, only 10% of adults in Latin America and the Caribbean save at a formal financial institution<sup>2</sup>.

It is common to attribute this type of data to a lack of savings capacity within the low-income population and to a lack of interest from financial institutions in serving this segment. Alternatively, this article suggests that what hinders savings mobilization among this segment is the lack of relevant products that specifically respond to the needs of the low-income population. Within this context, we introduce commitment savings as a product design whose features can help the low-income population save periodically and in small quantities, allowing them to build savings over time that can be destined for several purposes.

1. United Nations (2006). *Building inclusive financial sectors for development*. New York.

2. Demirguc-Kunt, A., L. Klapper and D. Randall (2012). "Global Findex Database. Financial inclusion in Latin America and the Caribbean. Findex Notes. World Bank, Washington, DC.



## LOW-INCOME PEOPLE DO SAVE

Often the lack of formal savings among the low-income population is attributed to their lack of savings culture, of discipline, or of income. This view is particularly predominant among financial entities. Early in 2013, a survey was conducted under the ProSavings Program framework, collecting responses from 72 financial entities offering commitment savings products in Latin America and the Caribbean. Of these entities, 87% reported that the main obstacle preventing low-income people from achieving their goals was either: a lack of savings culture (51%), or a lack of savings capacity (36%).

However, this view clashes with abundant studies and evidence that demonstrate that low-income people do save.<sup>3</sup> In fact, they usually diversify their savings methods by using instruments with different levels of liquidity that vary from cash to jewelry, cattle, or land. Moreover, participation in informal savings clubs is a widely spread practice throughout Latin America and the Caribbean. The very success of microfinance also demonstrates that low-income people are perfectly capable of saving part of their income periodically to repay their loans.

Impulsive consumption and a lack of savings culture are features that are not solely exclusive to the low-income population. Without question, more and better financial education initiatives are necessary to promote the practice of savings. Nonetheless, client education alone will hardly lead to an increase in savings if there is not a savings product offer that suits the specific needs of the low-income population. When there are attractive and accessible products in the market, the low-income population tends to demonstrate a greater interest, capacity, and willingness to save through formal institutions.<sup>4</sup>

Although circumstances vary when referring to the low-income or poor population (given their wide spectrum of saving capabilities), generally, having a low level of income does not preclude savings. In fact, establishing savings mechanisms becomes particularly important in situations of vulnerability and fickle income, in order to plan future expenses and fulfill different responsibilities. Financial entities can satisfy a large part of low-income people's demand for savings; as long as they develop innovative products that help build savings.

## FINANCIAL ENTITIES AND THEIR GROWING INTEREST IN THE LOW-INCOME POPULATION

From a supply-side standpoint, it is usual to cite the costs associated with operating a savings account and the minimum deposit requirements as the main obstacles that hinder formal savings among the low-income population. However, it is increasingly common to find entities that offer savings products free of fees or with minimum deposit requirements. In the same survey mentioned above, 92% of the entities reported charging no fees for their commitment savings accounts, and 63% of the entities

3. Collins, D., J. Murdoch, S. Rutherford and R. Orlanda (2009). *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*, Princeton: Princeton University Press.

4. In Brazil, 64% of adults lacking a bank account at any formal financial institution show interest in opening one. Kumar, A. (2005). *Access to Financial Services in Brazil*. Washington, D.C.: World Bank.

required a minimum opening amount lower than US\$10. Likewise, 92% of the entities were interested in developing new commitment savings products or marketing strategies to mobilize savings among the low-income segment.

In the region, several countries have promoted legislation aimed at facilitating the opening of simplified savings accounts and free accounts for low-income people. These initiatives have led to an increase in the opening of savings accounts among this segment; although several entities report that an elevated percentage of these accounts have low to no activity. Therefore, besides being accessible these products must also be relevant, so that the clients can trust the institution and reduce their dependency on informal savings systems. It is futile to offer a product free of commissions if its design and marketing are not planned to satisfy the particular needs of this segment.

#### WHY DO SUPPLY AND DEMAND FAIL TO MEET?

Currently most financial institutions have not been able to offer savings products that are convenient and interesting enough to make people give up their informal savings mechanisms. The methodological, organizational, and design innovations introduced by financial institutions to offer credit to the low-income population have not been introduced with the same intensity in the case of savings. The savings product supply tends to be scarce, lacks variety, and is rarely specifically targeted to the low-income population. Most entities offer fixed-term deposits and transactional accounts, but not many offer savings products specifically designed to build savings among low-income households.




"When there are attractive and accessible products in the market, the low-income population tends to demonstrate a greater interest, capacity, and willingness to save through formal institutions"

Fixed-term deposits are usually oriented towards households with medium to high income levels that have accumulated some savings and are looking to invest mainly to generate an income in the form of accrued interest. Strictly speaking, fixed-term deposits are more an investment rather than savings instrument and therefore, tend to be more focused on generating profits than on facilitating the accumulation of savings. On the other hand, though transactional accounts may be very useful in helping the the low-income population manage their payments and income; they do not usually incorporate designs or incentives to help clients save in order to cover future expenses (education, household, acquiring assets) or to protect themselves against possible emergencies.

#### — WHAT IS COMMITMENT SAVINGS?

Commitment savings products, also known as planned savings or contractual savings, are known for incorporating specific mechanisms that help clients save small amounts periodically which, over time, allow clients to build savings that can be used for different purposes. With commitment savings products, the client usually commits to making periodic deposits during a specific time frame to accumulate a determined amount of savings. There are several designs for commitment savings products, which make it difficult to establish a rigid definition that draws a clear line between what commitment savings is and is not. In any case, it is possible to identify a series of attributes that are characteristic of commitment savings products:



"The savings product supply tends to be scarce, lacks variety, and is rarely specifically targeted to the low-income population."



## Commitment savings products' attributes

### ► RECURRING SAVINGS

The concept of recurring savings is perhaps the feature that best defines commitment savings products. The client commits to deposit the same amount on a daily, weekly, or monthly basis during a particular period. The idea of making an explicit commitment to save based on a predefined plan is the essential element of a commitment savings product.

### ► INTEREST RATE

Its profitability tends to be greater than that of transactional accounts but less than fixed-term deposits. With commitment savings, the client looks for a product whose features will help him or her to reach a savings goal. Interest rate is usually a secondary factor. Generally, low-income populations' savings tends to be insensitive to interest.<sup>5</sup>

### ► TIME FRAME

The length within the savings time frame is set as a function of the savings goal. Savings plans ranging from 3 to 12 months tend to be most common among the low-income population. However, depending on the savings goal they can also range from 24 to even 60 months.

### ► LIQUIDITY

Commitment savings products tend to incorporate a feature that adds a certain level of illiquidity. Low liquidity can help to discipline savings and reduce self-control issues that often hinder the ability to fulfill a savings plan. As demonstrated by some studies, the lack of liquidity in a commitment savings product can represent an attractive feature for clients.<sup>6</sup> However, an excess of illiquidity can also discourage the adoption of a product. A well designed savings product tends to incorporate features that hinder an impulsive withdrawal of accumulated savings but also allow access to these funds in case of need.

### ► SAVINGS GOAL

Often commitment savings products are designed and commercialized to enable the fulfillment of specific savings goals linked to events or future concrete expenses (school savings, Christmas savings, household savings, etc.). Although it is common to structure commitment savings products by associating these to specific future expenses, it is also common to find products without concrete objectives. The latter provides a greater level of flexibility so that each client can design the features of his/her savings plan in relation to a savings goal.

### ► INCENTIVES

In order to promote savings, it is common for entities to offer incentives to clients that meet their savings plan. These incentives can be offered as sweepstakes, gifts, or bonuses on interest rates.

5. Assertion based on academic publications and validated through field observations. For instance: Reinhart, Carmen and Ostry, Jonathan. (1995). "El ahorro y la tasa de interés real en los países en desarrollo," *Finanzas y Desarrollo*, Vol. 32, No. 4

6. For instance: Ashraf, N., D. Karlan, and W. Yin. (2006). "Tying Odysseus to the mast: Evidence from a commitment savings product in the Philippines," *Quarterly Journal of Economics*, 121(2), 635–672 and Beshears, J. J. Choi, D. Laibson, B. Madrian and J. Sakong (2011). "Self-control and liquidity: How to design a commitment contract," Working Paper.

Perhaps it is useful to think of commitment savings not as a specific product but rather as a group of incentives and disincentives that, when packaged correctly, can help clients save small amounts periodically; which, over time, can build savings that can be used for several purposes.

## — TO SAVE OR TO BORROW?

A given need can be fulfilled both through savings and credit products or strategies. As notably illustrated by Stuart Rutherford in his book, *The Poor and Their Money*, credit can be regarded as “descending savings”. Credit can help obtain money that can allow one to finance an expense today, in exchange for saving small amounts in the future destined to repay the debt acquired. Alternatively, one can begin saving today and continue accumulating small amounts along a period of time, until gathering an amount that can be used to finance a future expense (“ascending savings”).

The lack of savings products designed to help the low-income population build savings causes many of them to turn to credit products (“descending savings”) to cover needs that could be better served at a lesser cost, by a savings product (“ascending”). Most low-income households must finance expenses such as weddings, school fees, or household improvements. Becoming indebted or even over indebted at high interest rates in order to finance these types of expenses that do not generate an immediate return is costly, but it is often the only alternative.

Children’s education systematically appears in every study as an important motivation to save and/or become indebted. School fees, which in many countries are paid at the beginning of the school year, can represent a considerable expense for families with several school-age children. Without adequate savings products to help families plan and periodically save for expenses such as school fees, it is common for families to become indebted to cover these expenses. In Haiti for instance, according to Global Findex data stemming from surveys conducted in 2011, the bottom 40% of the population according to income level allocates 21% of its loans to the payment of school fees. For many families, a good savings product could be a much more attractive option than becoming indebted with interest rates higher than 50% to be able to afford their children’s education.<sup>7</sup>

## — WHAT CAN WE LEARN FROM INFORMAL SAVINGS?

As stated before, low-income people tend to save more than what is often assumed. When facing high levels of uncertainty, it is essential to manage small incomes in order to meet commitments to future expenses or to withstand emergencies. These circumstances can account for the diverse and sophisticated informal savings mechanisms currently in existence. Most informal savings mechanisms offer a savings discipline without foregoing certain liquidity in case of need. Saving in jewelry or gold allows one to accumulate value such that in the case of an emergency, these can be pawned to obtain liquidity. Likewise, investing in animals allows

7. The World Bank Group. (2012). *Financial Inclusion Data*. Available online.

one to save in a way that prevents impulsive expenses, but also offers the possibility to sell and obtain cash in case of an emergency. Savings groups also provide discipline to save periodically, without withdrawing or giving up certain flexibility for cases of need; which is facilitated by the existing familiarity among group members.

The combination of liquidity and illiquidity of informal mechanisms is highly attractive to families facing a lot of uncertainty but also those who need mechanisms to help them commit to saving on a medium to long-term basis. This balance between liquidity and discipline is a basic element of informal savings mechanisms that commitment savings products ought to incorporate to attract the low-income population.

Another feature of informal savings is the tendency to use different tools to achieve each savings objective. Despite the convertibility of money, low-income people tend to use several informal savings tools simultaneously. A person can save jewelry for long-term purposes such as a daughter's wedding, but can also create a savings group to pay for education expenses, and keep cash under the mattress to use in case of emergencies.<sup>8</sup> This idea of mentally assigning a specific destination to each



"The lack of savings products designed to help the low-income population build savings causes many of them to turn to credit products ("descending savings") to cover needs that could be better served at a lesser cost, by a savings product ("ascending")."

8. Mas, I. and P. Mukherjee (2013). "Searching for Metaphors of Household Financial Management". MicroSave.



savings tool seems to help many people to better plan their expenses and their savings. Incorporating designs that help to easily compartmentalize different savings objectives can make commitment savings products more attractive for the low-income population. In some countries over the past few years, the idea of developing a savings account that can help low-income people to better plan their personal finances by incorporating mechanisms that facilitate the compartmentalization of objectives that is characteristic of informal savings, has become increasingly popular. In England for instance, “Jam Jar Accounts” (thus named because many people tend to save in empty jam jars according to their savings objectives) have become increasingly common.<sup>9</sup>

### PSYCHOLOGICAL FACTORS THAT HINDER SAVINGS

Human beings do not make decisions in a perfectly rational manner. There are psychological factors that significantly influence our behavior. Behavioral economics incorporates elements of psychology mainly drawn from experimental studies of circumstances in which certain factors can aid or hinder savings decisions. In the field of microfinance, the *Abdul Latif Jameel Poverty Action Lab*, a research center affiliated with the Economics Department of the Massachusetts Institute of Technology, has been particularly active in the use of randomized impact evaluations to study the savings behavior of low-income populations. The results of this and other research increase our knowledge on psychological factors that hinder savings. Financial entities can benefit from this knowledge by incorporating some of the findings into their commitment savings product design.



"Human beings do not make decisions in a perfectly rational manner. There are psychological factors that significantly influence our behavior."

9. Social Finance (2011). "A new approach to banking. Extending the use of Jam Jar Accounts in the UK".

## *Psychological factors that hinder savings*

### ► **WE OVERVALUE THE PRESENT**

Our long-term preferences are in permanent conflict with our behavior in the short-term. In the long-term we wish to eat healthier, but in the short-term it is more tempting to eat sweets. This gap between plans and actions is also important for our long-term savings decisions. We want to save, just not today. It is easier to commit to save in the future than to start saving now. Commitment savings products can overcome this obstacle with a product design that allows one to commit (now) to accumulating savings (in the future), and that is linked to the flow of household income and expenses. In much the same way, positive reinforcements can be introduced to offset the effort of saving in the now. Small incentives can reinforce and offset the effort associated with making each deposit, rather than tying all the benefits of saving to the final fulfillment of the savings plan. These types of reinforcements can sometimes be symbolic, such as receiving a text message via mobile phone informing the clients of their savings balance and reminding them that they are close to meeting their savings goal.

### ► **WE SUCCUMB EASILY TO TEMPTATIONS**

When it comes to saving, we have evident self-control issues. As mentioned before, restricting the access to savings can promote self-control and facilitate the discipline of saving. Mechanisms that slightly restrict the liquidity of the product can help prevent impulsive withdrawals. Establishing deadlines for deposits, limiting the number of withdrawals, restricting partial withdrawals, or sending reminders are all features that can help a client fulfill a savings plan.

### ► **WE GRAVITATE TOWARDS INACTION WHEN WE HAVE MANY ALTERNATIVES**

Products ought to be easy to understand, use, and must reduce the process of deliberation. For instance, discounts that are periodic and automatic - such that it becomes unnecessary to decide in each given moment how much and how to save - can help reduce options and facilitate decision-making. Automation helps savings happen unconsciously.

### ► **WE TREAT MONEY AS IF IT WERE NOT CONVERTIBLE**

We tend to compartmentalize and look for simple rules that allow us to mentally allocate our money to each of our savings goals (rent, groceries, school expenses, etc.). Establishing mechanisms that help the client save easily through one or several products for different savings objectives can help the client plan these goals better. Defining precise objectives that are tangible and within a reasonable time frame can all be particularly motivating. Something as simple as naming accounts according to the use that the savings will be given can help link savings to specific objectives and thus, enable them.

Due to the progress in the field of behavioral economics, we know more about the various psychological factors that hinder savings, and that ought to be considered when designing a commitment savings product. Amongst these are the following:

Ultimately, the goal is to help people achieve what they desire by avoiding psychological factors that often hinder the practice of savings. Financial entities can promote savings by incorporating into their product design mechanisms that can help mitigate these factors.

## FINAL CONSIDERATIONS

When it comes to commitment savings, product design is essential. Integrating the psychological perspective, the findings on behavioral economics, and learning from informal savings mechanisms can help institutions achieve greater success in the design of their products. Designing products that are: simple, easy to understand, easy to use, easy to open, have minimum requirements, are relevant, and incorporate good incentives to encourage deposits and discourage withdrawals, can help promote savings among the low-income population. Evidently, design is not everything. No matter how good a product is, it will not sell on its own. Therefore, it is also necessary to invest in marketing, to take advantage of what we know about informal savings mechanisms, and to have motivated employees that actively sell products and look for new outlets to increase coverage and improve access. Financial entities have a wide margin for introducing innovations in savings products directed to the low-income population. With a good design and an adequate strategy, commitment savings products can play an important role in the mobilization of savings for low-income people.■



"Financial entities have a wide margin for introducing innovations in savings products directed to the low-income population."











# COMMITMENT SAVINGS

NOTE 2

Exploring  
the Market







For years, policies that promote financial inclusion in Latin America and the Caribbean have played an important role in the fight against poverty. Methodological innovations in the field of microfinance have helped increase the supply of loan products to people traditionally excluded from the financial sector. However, the process of diversifying the supply of savings products and services has not been as bold or innovative. Beyond offering certificates of deposit and transactional accounts, very few financial institutions have opted to develop innovative savings products to help low-income populations save small amounts periodically, which over time can be used for different purposes.

Commitment savings has gained increasing attention from the field of behavioral economics, as different studies have demonstrated that a good product design can help overcome psychological factors that tend to hinder savings.<sup>1</sup> These findings, coupled with a better understanding of the informal mechanisms used by the low-income population, have sparked an interest for commitment savings products that are capable of promoting a savings discipline, without giving up the liquidity needed by people living under financial uncertainty. Despite this growing interest, we still know relatively little about the current supply of commitment savings in Latin America and the Caribbean. Furthermore, the categories that banking regulatory entities manage to gather information on savings deposits within the financial system tend to draw distinctions between sight savings accounts and fixed-term savings accounts, which does not provide a clear idea of where commitment savings stands in terms of total savings deposits. In order to better understand the design and typology of these existing savings products, we have conducted a comprehensive analysis of the savings product portfolios of financial institutions in Latin America and the Caribbean. This work summarizes the main findings from this review.

1. Ashraf, N., Gons, N., Karlan, D. and Yin, W. (2003), "A Review of Commitment Savings Products in Developing Countries", Asian Development Bank. Economics and Research Department. Working Paper #45.

## WHERE HAVE WE SEARCHED?

In the region, there are currently 2,200 financial institutions receiving deposits that are regulated and supervised by a banking entity (superintendence or central bank). These include public and private banks, local savings banks, cooperatives, credit unions, savings and loan associations, mutual entities, and a host of other types of institutions authorized to mobilize the public's deposits. Additionally, there are hundreds of savings and loan cooperatives that, despite receiving and allocating resources, are not considered financial intermediaries and are not subject to banking supervision. Besides financial entities, there are other types of entities such as savings companies, insurance companies, and pension fund managers - which in some cases offer savings products that may be considered to be a type of commitment savings. However, given that these entities rarely offer products targeted to the low-income population, they are not incorporated into the analysis.

For most countries, between 80%-100% of the regulated entities authorized to receive deposits underwent a review. In total, the savings product portfolios of 855 entities (see **TABLE 1**) were reviewed by consulting each entity's official website and excluding the entities lacking an online presence.<sup>2</sup> In the case of Brazil, only 85 products were reviewed out of 1,268 regulated cooperatives in the country.

Further, we reviewed the commitment savings products offered by 495 unregulated cooperatives (see **TABLE 2**), taking into account main cooperatives that are members of national federations or subscribed to the corresponding public register.<sup>3</sup>

## COMMITMENT SAVINGS SIGNIFICANCE

We have identified entities with commitment savings products in every country in the region with the exception of Haiti and Suriname (see **TABLE 3**). Colombia is by far the country that has the greatest number of entities offering commitment savings products. There is also a significant number of entities offering commitment savings in Ecuador and Costa Rica. In the Caribbean, there are fewer financial entities, but amongst these, commitment savings is very common, especially in countries like Jamaica and the Bahamas.

According to entity type, we can observe among those with banking supervision that on average, one in four entities offers commitment savings (26.2%). Among cooperatives, commitment savings, also known as "savings plan," is more widespread: one out of three regulated cooperatives offers commitment savings (33.2%), while for unregulated cooperatives, this ratio climbs to one in two (47.7%). Traditionally, cooperatives have attached great importance to mobilizing local savings and promoting a culture of savings, which can account for the popularity of products made to build savings through small, regular deposits.

2. Websites reviewed in the months of November and December 2012.

3. The main entities consulted for the construction of the database on unregulated cooperatives are as follows: Las AIRAC (Dominican Republic), CONAFIPS (Ecuador), Co-operative Credit Union League (Jamaica), Cooperative Development Division in the Labor Ministry (Trinidad and Tobago), Cooperatives Department at the Ministry of Commerce and Trade (Barbados), Departamento de Cooperativas del Ministerio de Economía (Chile), Department of Cooperatives Development in the Ministry of Agriculture (Bahamas), FECACH (Honduras), FECOPSE de RL and FEDEAC de RL (Costa Rica), Fedecaces and Fedecredito (El Salvador), FENACOAC (Guatemala), Fenacrep (Peru), INCOOP (Paraguay), IPACOOP (Panama), and Superintendencia de la Economía Solidaria (Colombia).



**TABLE 1.** Number of Regulated and Supervised Entities Reviewed by Country

COUNTRY	ENTITIES		
	SUPERVISED	REVIEWED	REVIEWED (%)
Argentina	66	66	100%
Belize	19	19	100%
Chile	30	30	100%
Colombia	30	30	100%
Guyana	7	7	100%
Nicaragua	6	6	100%
Trinidad and Tobago	8	8	100%
Uruguay	14	14	100%
Venezuela	33	33	100%
Costa Rica	50	48	96%
Ecuador	71	68	96%
Guatemala	18	17	94%
Peru	52	48	92%
Bahamas	8	7	88%
El Salvador	22	19	86%
Paraguay	27	23	85%
Barbados	6	5	83%
Suriname	6	5	83%
Jamaica	11	9	82%
Dominican Republic	50	41	82%
Bolivia	50	40	80%
Honduras	34	27	79%
Mexico	151	96	64%
Haiti	14	6	43%
Panama	49	21	43%
Brazil	1,373	162	12%
<b>TOTAL</b>	<b>2,205</b>	<b>855</b>	<b>39%</b>

**TABLE 2.** Cooperatives Not Regulated nor Supervised Reviewed by Country

COUNTRY	COOPERATIVES
Colombia	135
Ecuador	76
Peru	45
Chile	28
Jamaica	27
Panama	27
Guatemala	25
Trinidad and Tobago	24
El Salvador	22
Paraguay	20
Honduras	19
Costa Rica	16
Dominican Republic	11
Barbados	7
Bahamas	6
Nicaragua	3
Suriname	2
Haiti	1
Venezuela	1
<b>TOTAL</b>	<b>495</b>



**TABLE 3.** Entities with Commitment Savings (CS) per Country

COUNTRY	REGULATED / SUPERVISED			UNREGULATED / NOT SUPERVISED			TOTAL		
	Number of Entities	With CS	Percentage	Number of Entities	With CS	Percentage	Number of Entities	With CS	Percentage
Bahamas	7	5	71%	6	5	83%	13	10	77%
Jamaica	9	2	22%	27	25	93%	36	27	75%
Nicaragua	6	4	67%	3	2	67%	9	6	67%
Colombia	30	22	73%	135	87	64%	165	109	66%
El Salvador	19	9	47%	22	17	77%	41	26	63%
Costa Rica	48	30	63%	16	10	63%	64	40	63%
Barbados	5	3	60%	7	4	57%	12	7	58%
Panama	21	9	43%	27	17	63%	48	26	54%
Honduras	27	7	26%	19	11	58%	46	18	39%
Ecuador	68	35	51%	76	16	21%	144	51	35%
Paraguay	23	2	9%	20	13	65%	43	15	35%
Guatemala	17	7	41%	25	6	24%	42	13	31%
Trinidad and Tobago	8	2	25%	24	7	29%	32	9	28%
Dominican Republic	41	6	15%	11	7	64%	52	13	25%
Chile	30	12	40%	28	2	7%	58	14	24%
Peru	48	15	31%	45	6	13%	93	21	23%
Bolivia	40	7	18%				40	7	18%
Brazil	162	28	17%				162	28	17%
Guyana	7	1	14%				7	1	14%
Uruguay	14	2	14%				14	2	14%
Venezuela	33	3	9%	1	1	100%	34	4	12%
Mexico	96	9	9%				96	9	9%
Belize	19	1	5%				19	1	5%
Argentina	66	3	5%				66	3	5%
Haiti	6		0%	1		0%	7	0	0%
Suriname	5		0%	2		0%	7	0	0%
<b>TOTAL</b>	<b>855</b>	<b>224</b>	<b>26%</b>	<b>495</b>	<b>236</b>	<b>48%</b>	<b>1,350</b>	<b>460</b>	<b>34%</b>



## WHAT TYPES OF COMMITMENT SAVINGS PRODUCTS ARE THERE?

We have identified 780 commitment savings products amongst the 460 entities offering this type of recurring savings. It is common for products that help clients save periodically to be linked to concrete objectives. Often the same product design is linked to a specific savings objective and its marketing is geared towards the achievement of this objective. Based on specific objectives (expense or investment) we can classify the products we have identified into eight categories (see [TABLE 4](#)).

**TABLE 4.** Commitment Savings Products by Purpose

TYPE OF PRODUCT	PRODUCTS	PERCENTAGE
Open purpose savings	<b>375</b>	<b>48%</b>
Christmas savings	<b>128</b>	<b>16%</b>
Savings for education/ school savings	<b>71</b>	<b>9%</b>
Savings for housing	<b>52</b>	<b>7%</b>
Savings for old age	<b>49</b>	<b>6%</b>
Savings with life insurance	<b>39</b>	<b>5%</b>
Vacation savings	<b>34</b>	<b>4%</b>
Savings for other purposes	<b>32</b>	<b>4%</b>
<b>TOTAL</b>	<b>780</b>	<b>100%</b>

## OPEN PURPOSE SAVINGS

Many entities offer only one commitment savings product, through which they try to cater to any savings objective the client may have. It is common for these types of products to be marketed for specific goals, without there being a specific one that defines the product design. The client is encouraged to save for a period of time and accumulate a savings amount that will allow him or her to reach an objective even though the product does not target a specific one.

These types of products typically define a timeframe (between 3 to 36 months), recurrence (weekly, biweekly, or monthly), and a deposit amount (normally involving a minimum amount proportionate to the chosen recurrence). The product also has a date of maturity just like certificates of deposit; however, unlike the latter the minimum deposit required to open this account tends to be low. The degree of liquidity for this product varies, from entities that do not allow the client to withdraw money prior to reaching maturity, to entities that treat commitment savings just as they do liquid savings. Likewise, incentives to promote a savings discipline and reach a goal vary, and may be offered in the form of insurance, giveaways and interest rate bonuses. Certificates of deposit seek to satisfy the needs of clients that have savings and want to invest these to make a profit, whereas commitment savings places a lower emphasis on profitability.

given that their main objective is to accumulate savings that can be used towards a specific purpose.

The product aims to build savings that the clients lack upon opening an account. The purpose of building or accumulating savings appears in the name of several products identified through our research, for example: “Savings Builder, The Accumulator, Escalator Savings Account, and Cuenta Ahorro Creciente”. Because this type of product intends to establish a savings commitment with the client that will allow him or her to accumulate a desired amount, products are often marketed as savings plans or savings programs. Examples include: “Planning Ahead Savings Scheme, Ahorro Planeado, Ahorro Paso a Paso, Ahorro Programado, and Plan de Ahorro. The product’s name often emphasizes the linkage between savings to a specific goal or objective, examples: Cuenta Ahorro Meta, Cuenta Objetivos, and Cuenta Mi Proyecto. To appeal to emotion and motivate a savings discipline, it is also common to associate the product with positive connotations such as dreams or future, example: Cuenta Ahorrando por un Sueño, Ahorro Sembrando Sueño, Cuenta Tu Sueño, Cuenta de Ahorros Futuro Seguro, and Cuenta Mejor Futuro. Commitment savings products tend to target clients from populations that are poorly familiarized with formal financial entities; therefore they are often marketed in a way that associates them with informal saving schemes and highlights their mutual similarities, ex: Asue Savings Account, Ahorro Pasanaku, Plan de Ahorro la Natillera, Partner Plan, Tandahorro, Plan de Ahorro San, and Rueda de Ahorro”.

## — CHRISTMAS SAVINGS

This savings product aims to accumulate money that can be used towards extra expenses that take place during the Christmas season. The client commits to saving during the whole year in periodic amounts according to his or her capacity and withdraws this money in the month of December. The client decides where and how to use these savings, same as open purpose commitment savings products. Christmas savings products are



characterized by fixed periods in which the client can open an account and withdraw its balance. Typically there are weeks or months between January and June where the client can open an account and only a few days or weeks between mid-November and mid-December when the client can withdraw the savings. This product helps the client to save periodically during 6 to 11 months and accumulate money that will be used during a season with extraordinary expenses. The degree of liquidity assigned to this product varies between entities. Some entities do not allow any withdrawals outside of the established timeframes, whereas others offer total liquidity in case the client wishes to withdraw money prior to the Christmas season.

This type of product is very common in several countries across Latin America and the Caribbean, mainly in Costa Rica, Panama, Colombia, Jamaica, Honduras, and El Salvador. It is most popularly offered by cooperatives (see **BOX 1**). Out of 128 Christmas savings products identified, 115 are offered by cooperatives and only 13 are offered by banks or other financial institutions. This product is available in 40 supervised entities (32%) and in 88 unsupervised entities (68%).

One of the main challenges of this product is its seasonality. For some entities that offer popular products, managing the withdrawal of hundreds or thousands of accounts that have the same maturity becomes an important challenge. Managing both liquidity and overcrowding at branches are elements that must be taken into account when offering this product. It is common for entities offering Christmas savings to seek to diversify their commitments savings offer with other products whose savings timeframes are more flexible, in order to avoid an elevated concentration of withdrawal within the same period. With this goal in mind, several entities launch specific campaigns in December to convince clients to continue their savings and not withdraw their full balance. To avoid overcrowding in bank branches, the Colombian cooperative Cotrafa assigns by lot a specific day in which each client can withdraw his or her savings. This way the cooperative avoids long lines at branches, which in the past have inconvenienced the clients.

Christmas savings is a type of commitment savings that has existed for decades now, not only in Latin America and the Caribbean but also in other regions. In London, "Goose Clubs" became very common during the nineteenth century Victorian era. These were essentially associations established to save periodically in order to purchase a goose for Christmas dinner. These types of associations targeted the popular and working classes that were able to save a small amount weekly.<sup>4</sup> The "Christmas Savings Account" was also popular in England and the United States during the first half of the twentieth century, particularly among cooperatives, though these decreased in popularity as the use of credit cards became widespread. The English influence can account for the popularity that Christmas savings still have in many Caribbean countries.

4. Bob Cratchit, the character created by Charles Dickens in *A Christmas Carol* to symbolize the harsh conditions of working people in mid-nineteenth century London, buys a goose for his family's Christmas dinner thanks to his weekly contributions to a Goose Club. Goose Clubs peaked in popularity between the mid-nineteenth and early twentieth centuries and featured manuals on how to successfully operate this type of savings schemes (see, *Christmas Goose Clubs: and How to Work Them Successfully* by *D J F Campbell*, London : Ragged School Union & Shaftesbury Society, 1903).
5. See video: <http://www.youtube.com/watch?v=h4pEyVYPyY>





Box 1

## CHRISTMAS SAVINGS AND THE ORIGIN OF SEVERAL COOPERATIVES

*In Colombia the origin of some of the most important financial cooperatives is rooted in informal “natilleras,” created by groups of employees from the same company to save for Christmas expenses. Cooperativa Confiar, currently one of the largest savings and loan cooperatives in Latin America, was founded in 1972 by a group of 33 workers from the Sofasa automobile assembly company, when they decided to form a natillera and turned it into a small savings and loan cooperative. The Cooperativa Cotrafa also shares a similar origin. It was founded in 1957 by 161 workers of the Fabricato textile company, who sought to formalize the natillera to which they allocated a small part of their wages every week.<sup>5</sup>*

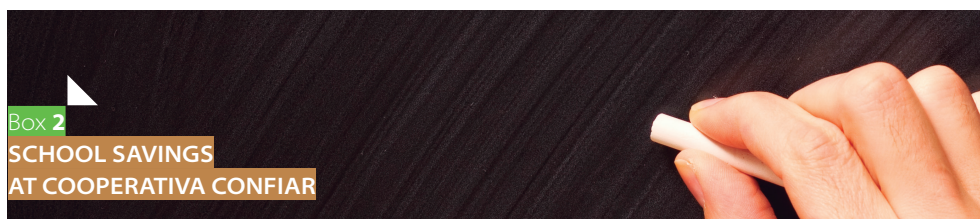
## SAVINGS FOR EDUCATION

Savings for education<sup>6</sup> or school savings is a savings modality that schedules a fixed deposit under a certain timeframe, in order to accumulate enough money to finance the expenses associated with the beginning of the school year – mainly the purchase of school uniforms, supplies, and payment of school fees. This product targets families of school-age children with savings that take place during the entire year, and which can be withdrawn during the month prior to the start of classes. It consists of short-term savings (4 to 11 months) that is similar to Christmas savings, and only differs in the date of withdrawal and the savings purpose; which in some cases is restricted to education, making the money available exclusively to the educational entity.

Most savings for education products are made to finance the primary or secondary education of a client’s children or grandchildren. However, in some modalities the savings objective can focus on university studies, in which case the savings timeframe is much longer and usually targets high-income populations.

School savings products rarely charge fees and the minimum deposit required to open an account tends to be low (usually less than US\$5). The savings commitment is usually monthly, though it is also common to find plans that feature bimonthly, weekly or even daily deposits. The most common incentives offered by this type of product include higher interest rates, bonuses after fulfilling the savings plan, life insurance, and scholarship raffles. In some cases, the product is marketed with the explicit support of schools which seek to integrate the product as part of its educational activities, fostering a culture of savings and supporting families in generating savings for their children’s education (see **BOX 2**).

<sup>6</sup> Children savings account targeting underage children are very popular in Latin America and the Caribbean. We have identified over 400 children savings account products in the region. Often children savings accounts refer to savings for education, but in general most savings products for children are liquid deposit accounts and are not linked to any particular savings plan; therefore, these have not been included in this study.



*Through its Foundation, Cooperativa Confiar in Colombia has developed a school savings project with 60 participating schools of Antioquia. The project seeks to foster a culture of savings through a weekly savings scheme linked to a project with a strong financial education component. The school picks a day and time to collect money, starting from 500 weekly pesos (approx. US\$0.20). Savings take place throughout the school year and withdrawals are scheduled during the month of October at Confiar's branches. Schools involve parents and teachers in collecting money, and through its Foundation, Confiar actively participates in appointing Treasurers, instructing them on how to register savings and complete forms. More than 8,000 students have participated in this initiative with a positive uptake by schools and families.*

School savings products are often offered by cooperatives (66 of the 71 school savings products identified), most of which are unsupervised cooperatives (46 of the 71 products identified). Amongst commercial banks and savings banks we have seldom identified commitment savings products for education that target the low-income population, with the exception of some products such as "Mi Fondo Amigo Estudiantil" of the Banco de Desarrollo Rural in Guatemala or "Cuenta de Ahorro Escolar" offered by Caja de Ahorro y Prestamos de la ANDE in Costa Rica.

Children's education is amongst one of the top concerns in terms of financial planning among low-income families, given that the idea of providing a better future for their children through education is a common yearning. Frequently, low-income people become indebted as a result of school expenses and often pay elevated rates and use loan products that are not specifically designed for this purpose.<sup>7</sup> Families take loans to pay for school fees and save each month to repay this loan. Alternatively, with the right savings products, families could begin saving periodically and in advance in order to finance future school expenses at a much lower cost.

## SAVINGS FOR HOUSING

Many countries in Latin America and the Caribbean have a sizeable housing deficit besides a lack of quality housing. According to a recent study by the IDB, in countries like Nicaragua, Bolivia, Peru and Guatemala, two thirds of families live in substandard housing.<sup>8</sup> For many families, obtaining a mortgage to finance the purchase of a home is beyond their reach. Some entities seek to facilitate access to a mortgage through commitment savings products that help families accumulate the down payment for low-income housing. Often governments offer incentives for these types of accounts (tax exemption, immunity from seizure, access to subsidies, etc.).

7. In Haiti, according to Global Findex survey data from 2011, 40% of the poorest population allocates 21.44% of their loans to the payment of school fees. (<http://data.worldbank.org>).

8. Inter-American Development Bank, "Un espacio para el desarrollo: los mercados de la vivienda en América Latina y el Caribe" ed. César P. Bouillon, Palgrave Macmillan; 1ª Ed. (April, 2012).

Commitment savings for housing accounts are usually free of fees and offer a superior interest rate to other savings accounts, though this rate is still less than those offered by products such as Christmas savings and savings for education. Savings for housing is not seasonal like Christmas savings or savings for education, and it tends to offer long-term plans. Contrary to other commitment savings accounts, savings for housing usually lacks a specific maturity date. The client plans to make periodic deposits, without having a specific horizon in which these savings will be withdrawn (the client seeks to build enough savings for the down payment of a house that in most cases has not yet been chosen). The main incentive of this product is to be able to build a payment history that positively influences a credit report when such loan is applied for. This product is more common amongst supervised institutions in countries like Colombia and less common in countries like Peru, Chile and Ecuador.

Commitment savings products for housing are an attractive alternative for people that can afford to buy a house. However, even the most affordable houses in the market are still far from the economic reality of many low-income families. More than half of the families from various populations can only afford a house that they build themselves.<sup>9</sup> In this context, commitment savings products or initiatives are geared towards home improvement or construction (see **BOX 3**).

### — SAVINGS FOR OLD AGE

Pension systems in Latin America and the Caribbean cover a small percentage of the active population. Many governments in the region have made important reforms to improve the social security systems but the self-employed workforce or people that belong to the informal sector do not tend to have access to these benefits. In recent years, Pension Fund Managers (PFM) have expanded in the region, but have done so through products targeted to middle to high-income employees. Besides PFMs, several financial intermediaries offer long-term commitment savings products, but these are also targeted to the middle to high-income population.

This product focuses on accumulating savings on a very long-term basis, which requires the client to trust the financial institution and the system. Developing long-term commitment savings products for people who lack access to the traditional pension systems is an important challenge in a region whose population is undergoing a progressive ageing. To this day there have not been significant initiatives in the region to help people in the informal sector save for their old age. The concept of retirement for people working in the informal sector is fainter than for those in the formal sector. In Asia, there are some experiences in the field of micro pensions but in Latin America and the Caribbean, with one exception, these types of products are not common (see **BOX 4**).

9. Ibid.



Box 4

#### REDCAMIF'S EXPERIENCE WITH MICRO PENSIONS

*Since 2006, REDCAMIF, the Central America network of microfinance institutions, has worked to develop a micro pension product for low-income workers in Guatemala, Honduras, and Nicaragua. This project relies on funding from the Inter-American Development Bank and targets micro entrepreneur clients from microfinance institutions that are members of REDCAMIF who are willing to contribute to this program for at least ten consecutive years. Towards the end of 2012, this product began to be implemented under its pilot phase in six microfinance institutions, acting as distribution channels, given that they are not authorized to receive deposits. The money is deposited in a trust fund and managed by financial entities.*

#### SAVINGS WITH LIFE INSURANCE

Savings products with life insurance combine a periodic saving with a life insurance in case of death; part of the savings goes towards paying the insurance premium and the rest goes towards saving. In Brazil and Argentina, it is common for banks to offer this type of product, whereas unregulated cooperatives in the region rarely offer this hybrid product with the exception of Jamaica, where the "Golden Harvest" product is very popular.

The "Golden Harvest" is a savings plan commonly used in Jamaica to accumulate savings for a certain goal and it is offered primarily by cooperatives. The client defines a savings goal, a savings term, and a deposit amount; if the client should die before completing his or her savings plan, the family members receive the savings goal that the client had established. There is usually no minimum savings goal or monthly deposit requirement.

The idea of linking a savings product and insurance into one product can help clients respond to the most common emergencies that often prevent them from completing a savings plan. Beyond linking savings to life insurance, other products could offer some type of health insurance and other coverage that can help a client complete a savings plan that offers a certain level of protection against emergencies. The expansion of the micro insurance market in countries like Colombia could facilitate the development of these types of savings schemes.

#### VACATION SAVINGS

Vacation savings is similar to Christmas and education savings. It usually limits withdrawals to once or twice a year, coinciding with the vacation period. This product is very common in Costa Rica and Colombia.



## SAVINGS FOR OTHER PURPOSES

In the region, there are also diverse commitment savings products linked to significant events that involve expenses such as a quinceañera, carnival, a car purchase, or the payment of taxes. In Costa Rica, commitment savings products for the payment of “marchamo” (mandatory vehicular circulation fee) are very common. In Paraguay, Colombia, Ecuador, and Costa Rica, several entities offer commitment savings products to travel to the 2014 World Cup in Brazil. These products mainly target middle to high-income populations.

## FINAL CONSIDERATIONS

Commitment savings can help low-income families plan their finances better, which are still highly dependent on informal mechanisms. Important challenges in the region - such as access to housing, improvement of living conditions for seniors, school dropout rates, or the vulnerability of low-income people in the face of emergencies - could all benefit from innovative and accessible savings instruments that fostered a savings discipline. Currently, there are several commitment savings products in the region, but there is still room for innovation and improvements to these products in order to offer designs and incentives that are attractive enough to compete with informal savings mechanisms. Financial institutions are in a position to offer the security, flexibility and accessibility needed to attract the savings of low-income families. However, in order to do so it is necessary to rely on attractive and innovative products that respond to the needs of this segment. It is not an easy challenge. Capturing savings through small deposits, while controlling costs and guaranteeing the products’ sustainability, requires an important institutional commitment in order to develop incentives and successful marketing strategies. Subsequent notes of the ProSavings Program’s series *Inclusive Commitment Savings in Latin America and the Caribbean* will detail key aspects to consider in the design of a good commitment savings product and will introduce concrete experiences from entities that have been successful in mobilizing savings amongst low-income families through these products.





## EXPANDING COMMITMENT SAVINGS?

NOTE 3

The Best  
Ingredients



The savings product supply tailored to the low-income population in Latin America and the Caribbean is still scarce. In recent years, generally, financial entities and, in particular, microfinance institutions have achieved significant progress offering formal credit products to population segments that previously lacked them. However, innovations in credit products' design and marketing have not exactly led to the emergence and development of new products to mobilize savings among financially underserved populations.

Formal savings products today are very different from products offered 20 years ago. Nonetheless, the savings products supplied by most institutions are still limited to liquid savings and fixed-term deposits, where the interest rate is the only differentiating factor. Furthermore, there have been few efforts to adapt these products to the particular needs of the low-income population. While it is true that in certain countries regulatory and microeconomic factors hinder the mobilization of deposits, it is also true that in general, entities have shown little interest and insufficient creativity in designing more attractive and accessible savings products for this segment of the population.

The incorrect notion that the low-income population lacks the capacity or the culture to save is still embedded in many institutions. Progress in the field of microfinance has convinced most institutions that with adequate products and methodologies, low-income populations can become creditworthy subjects. On the other hand, progress in the field of microsavings has been much slower and there is still a lot of skepticism among financial entities concerning the viability of mobilizing savings among populations with low levels of banking penetration.

Despite the existing prejudice, evidence continues to validate the notion that low-income people do save, usually through informal savings mechanisms, but also formally, when they identify financial institutions with attractive products. One such product whose characteristics seem to best suit the savings needs of the low-income population is the commitment savings account. A well-designed commitment savings product with an adequate distribution strategy is capable of helping the low-income population accumulate savings that can be used towards different purposes.

Even though there are increasingly more institutions offering commitment savings products to the low-income population, when it comes to product design and implementation, there is still a sizeable knowledge gap regarding what works and what does not. In order to better understand the keys to success in designing and marketing commitment savings products for low-income populations, we surveyed 73 entities in Latin America and the Caribbean and conducted in-depth interviews with 14 entities in Colombia, Jamaica, Mexico, Panama, and Venezuela. As a result of these efforts, we identified different business models that shared common elements, which appeared to have a positive influence in the success of commitment savings mobilization. The following technical note presents briefly the elements of success we identified, structured into ten principles that any institution interested in promoting commitment savings ought to take into account.





01

**Follow-up is key  
to improving  
compliance rates**

Upon acquiring a commitment savings product, a savings plan is drawn up in which the clients commit to depositing a fixed amount periodically. This scheme is very similar to that of acquiring a loan, where a payment calendar is drawn up. However, clients complying with loan payments demonstrate a significantly higher level of commitment than that of commitment savings clients. While it is common for many institutions to report a repayment rate of 98-99% for loans, it is less common to find commitment savings products with compliance rates higher than 60-70%.

The contractual and moral obligation to pay a loan is stronger than that of conducting timely deposits as established by a savings plan. Most clients with loans know that if they miss their payment due date, a loan officer will conduct a follow-up call or visit to request a payment. Nonetheless, when it comes to commitment savings, it is not common for institutions to establish follow-up mechanisms in case of failed compliance with a savings plan. Commitment savings products tend to incorporate into their design some incentives tied to compliance with a savings plan, such as sweepstakes or a bonus applied to the interest rate. However, it is uncommon for institutions to establish a follow-up protocol with a set of actions geared towards improving the compliance rates with their savings clients.

Several institutions' experiences demonstrate that with adequate follow-up protocols, it is possible to improve the compliance rates for planned savings products. These institutions demonstrate that by structuring a plan for contacting the client in case of late deposits and finding ways to motivate the client to uphold a savings plan, they can retain many clients that would otherwise have abandoned their commitment. Improving compliance rates of planned savings products improves deposit levels and increases customer loyalty towards the institution. The case of Financiera Comultrasan offers a good example of the impact that a good follow-up plan can have in improving compliance rates (See **BOX 1**).

#### Box 1

##### HOW FINANCIERA COMULTRASAN IMPROVED ITS COMPLIANCE RATES

*Financiera Comultrasan in Colombia has over 70,000 commitment savings accounts. Currently, 80% of the clients comply with their savings goal, this ratio has improved during the past year and a half, climbing from a rate of 65% to 80%. This improvement was achieved after the implementation of an ambitious plan of structuring client interaction and follow-up through call centers, using friendly and highly structured scripts to make the client feel supported rather than reprimanded. Financiera Comultrasan has adopted a rigorous focus similar to that applied in cases of credit arrears, but adapting the language so that the interaction serves to motivate the client to continue saving. Part of this follow-up policy involves identifying the causes for noncompliance and supporting the client facing late deposits with several savings quotas offering an extension to their savings plan's maturity. Financiera Comultrasan has termed this policy "normalization," equivalent to what is referred to as restructuring in a credit situation. Normalization has allowed many of Financiera Comultrasan's clients, who otherwise would have lost the benefits of staying current with their savings plan (participation in sweepstakes, free life insurance, among others), to remain in their savings plan and have a second chance to achieve their target objective.*



## 02

### *Implement a good information system*

In order for the agents that promote products and conduct client follow-up to make good decisions, they must rely on adequate and timely information. Therefore, many institutions consider data and information as the fundamental key to successfully commercializing commitment savings products. It is important for this information system to capture enough data that can be converted into useful information for product promotion and follow-up. Recording in detail a client's savings objectives can contribute towards reinforcing the emotional linkages in each agent-client interaction. Financiera Comultrasan, for instance, records in its information system the purpose of each client's savings (household, vacations, health, education, etc.). This information, in addition to being used for statistical purposes to improve product marketing, enables the institution to establish an emotional connection with the clients when conducting follow-ups through call centers to those in arrears with their savings plan.

As previously mentioned, follow-up is key with planned savings. In order to carry out a proper follow-up, each level of the institution must have access to the information needed to control the evolution of the product and each of its accounts. If neither the bank agent nor the branch implement a system of alerts with reports that enable follow-up to different savings plans, it is highly unlikely for the institution to provide adequate support to the clients in terms of compliance with their savings plan. A good information system can also help institutions maximize the cross-selling of savings, investment, and credit products, given that savings products can also offer a large opportunity to gather client information.



## 03

### *Focus marketing strategies on actively selling the product*

Unlike credit products, savings products usually require active selling efforts. Even though potential demand often exists for acquiring the product, it is necessary for an agent to help the client define a savings plan that is adequate for the client's income and expenses, as well as the client's needs and savings goals. In order to carry out this task effectively, the institution must rely on employees with marketing capabilities and visual tools that can help the client design an adequate and realistic savings plan. Moreover, it is necessary for institutions to implement strategies to distribute savings products through channels that extend beyond the traditional bank branch network.

Some entities have developed sales forces that specialize in marketing their planned savings products outside branch locations. Other entities opt for conducting informational meetings at companies and associations that have room for these initiatives. Another successful strategy to expand reach can involve developing campaigns to capture referrals through clients that have, at some point, adopted a commitment savings product. Other marketing strategies can involve using the institution's or a third party's database for information, and participating in fairs and events (See **BOX 2**).

## Box 2

### MARKETING COMMITMENT SAVINGS PRODUCTS IN FAIRS AND EVENTS

*Cooperativa Financiera Confiar of Colombia launched its star commitment savings product, “Titulo Futuro,” in 1999. Currently it provides service to 40,000 “Titulo Futuro” accounts. Besides using its network of 45 agencies to market its savings products, Confiar has a highly active presence at events, fairs, internal events, and external events. During these events, Confiar promotes its commitment savings products through a savings stand featuring didactic games about savings that seek to convey their importance and motivate opening accounts to achieve specific goals. Through these games and other visual and educational tools, Confiar helps prospective clients establish a savings plan. A large inflatable piggy bank encourages participants to write and deposit slips of paper containing their savings goals and their contact information, which contributes to generating a database that will later be used to promote their commitment savings products. As an incentive, the Cooperative usually offers exchangeable bonuses to cover the first savings deposit’s fee.*



Cooperativa Confiar employees promoting their products in a fair through their savings stand. To the left, is the giant piggy bank where prospective clients deposit their dreams, savings goals, and contact information. To the right, employees of the Cooperativa demonstrate to participants the dynamics of the videogames developed specifically to plan and transform their savings goals into a concrete savings plan.

## 04

### Communicate simple and clear messages

In order to capture the attention and foster an interest in savings among populations with low banking levels, it is crucial to communicate messages that generate trust in the financial entity. Low-income populations tend to be familiarized with informal savings mechanisms, but their inexperience with the adoption of formal savings products is often limited. In most countries in Latin America and the Caribbean, informal savings groups with simple structures, where every member puts forth the same amount of money and obtain an interest-free loan per turn, are very common. The names by which these savings schemes are known vary from country to country (tandas, ruedas, natilleras, sanes, etc). Several institutions use this prior knowledge on informal savings groups to highlight their similarities with commitment savings. To emphasize these similarities, several institutions opt for calling their commitment savings products by names that directly or indirectly allude to this informal savings practice. These names include EcoPasanaku (EcoFuturo in Bolivia), Plan de Ahorro la Natillera (Coogranada

in Colombia), Hand to Hand Partner Plan (First Heritage Co-operative Credit Union in Jamaica), Guardadito Tanda (Banco Azteca in Mexico), and Ahorro San Popular (Banco Popular in the Dominican Republic). These names help the clients identify with a form of savings that they are already familiar with. To reinforce this message, it is common for entities to emphasize the greater safety and lower cost that commitment savings products offer versus savings groups (See **BOX 3**).

### Box 3

#### TWO EXAMPLES OF MESSAGES ALLUDING TO INFORMAL SAVINGS

To the right, promotional material from Banca Comunitaria Banesco in Venezuela to promote its commitment savings product “Paso a Paso,” whose slogan alludes to informal savings groups claiming that their product is better than the “san” and the “cajita” (informal savings groups). To the left, a brochure from the First Heritage Co-operative Credit Union in Jamaica that features the main characteristics of the commitment saving product known as “Hand to Hand Partner Plan” and asks the client rhetorically, “Why continue to pay your ‘BANKA’?” – the name given to the person in charge of organizing a savings group in exchange for a commission – and instead urges the client to open a commitment savings product with the Co-operative risk-free and at no cost.



#### Avoid congestion during seasonal withdrawals

In their nature, commitment savings products that are intended to cover extraordinary expenses during a specific time of the year have a high seasonality. Christmas savings products for instance, highly popular particularly in cooperatives from Costa Rica, Panama, Colombia, Jamaica, Honduras, and El Salvador, are usually promoted during the first months of the year and savings are withdrawn during the month of December. In some cases, this can erode liquidity indicators and generate certain congestion in bank branches due to the high concentration of disbursements. Likewise, school savings tend to be withdrawn at the beginning of the school year. To reduce the effects of this seasonality in commitment savings products, several entities opt to diversify their portfolio offering a mix of products that space out plan maturity dates. With a good combination of products, entities can use different promotional campaigns throughout the year to smooth the seasonality of these types of products (See **BOX 4**).



#### Box 4

##### CHRISTMAS SAVINGS AT COOPERATIVA FINANCIERA COTRAFA

*Cooperativa Financiera Cotrafa was founded in Medellin, Colombia, in the year 1957, from a savings group created by a group of employees from the textile factory Fabricato, with the objective of saving for Christmas expenses. Christmas savings is therefore embedded into the cooperative and has been offered as a product since the cooperative began operations. Each year, Cotrafa manages approximately 15,000 Christmas savings accounts. The concentration of disbursements at the end of the year caused certain congestion problems at branch location, which were resolved through implementing a drawing system to determine the order and date of disbursements over a period of three weeks according to the account holder's last name. Additionally, Cotrafa introduced a new, more flexible, commitment savings product that can be opened at any time of the year to space out disbursements and reduce the seasonality of savings.*



06

*Involve all areas*

Successful savings mobilization requires a commitment from the entire organization. Many financial entities that specialize in serving the low-income population develop as entities that promote credit, which causes savings to take on a residual role within the organization. Often entities lack a unit specialized in the design, sale and follow-up for savings products, and instead they designate these tasks to the marketing department. Nonetheless, to achieve success with commitment savings products, it is important that all areas of the organization are aware and buy-in to the importance of the product. Some of the areas that ought to play an active role in this respect include IT, treasury, and marketing. Sometimes a specific department in charge of mobilizing savings can play an important role in coordinating changes and needs in all areas in order to reach deposit targets. In order to align the entity's objectives in receiving deposits, many of them opt to launch internal awareness campaigns to familiarize the entire personnel with the product (See **BOX 5**).

## Box 5

### CHANGE BEGINS AT HOME

*Cooperativa Financiera Confiar identified its employees' unfamiliarity with their commitment savings product as a weakness in their efforts to increase deposit figures. In order to tackle this challenge, the cooperative launched an internal campaign that consisted on having its own employees open a commitment savings account in order to become more familiar with the product and promote it better. The campaign dubbed "El ejemplo empieza por la casa" (setting the example at home) and awarded those employees that saved the most with dinners and acknowledgments. Most of the employees participated, though, most of the awards were won by employees working in the lowest-wage positions (messengers, caretakers and janitors), providing evidence that the level of income does not hinder savings. The campaign was very popular among employees and allowed personnel to become more involved in the product's marketing efforts.*



**Use technology to  
improve efficiency**

Commitment savings success is directly linked to the design of methodologies that use technology to reach the client in a simple and affordable way. Entities that have implemented successful technological solutions have been able to improve their efficiency, reduce costs, and extend their reach to make the product profitable. Likewise, technology can also contribute to organizing and automating processes, allowing financial entities to serve the most difficult-to-reach commitment savings clients.

Several institutions have sought out technological solutions to reduce the cost of making small periodic deposits in rural areas where traditional bank schemes have difficulty establishing themselves sustainably. In 2008, Financiera Comultrasan in Colombia, aided by technology, implemented the option of at-home savings collection for its commitment savings clients living in rural areas, in order to improve access in regions lacking a physical branch presence. The use of mobile devices to collect savings and incorporating geopositioning technologies allowed Comultrasan to automate and facilitate the deposit collection process of a service that would otherwise have been too expensive to offer.

Likewise, the development of robust information systems also requires adequate technologies to help make decisions efficiently and to conduct a proper product follow-up. In Mexico, Banco Azteca has succeeded in expanding its commitment savings products under a short period of time through a business model for which technology plays a key role (See **BOX 6**).

## Box 6

### TECHNOLOGY AT THE CORE OF BANCO AZTECA'S BUSINESS MODEL

*Banco Azteca is a Mexican subsidiary of Grupo Elektra, founded in 2002. Originally, Banco Azteca specialized in financing consumer goods linked to sales at Elektra retail locations. However, it rapidly expanded its product portfolio promoting personal loans and savings. Currently, Banco Azteca ranks eighth at the national level in deposits and first in terms of coverage. Its most popular product is the savings account "Guardadito," whose minimum required amount is equivalent to less than 10 cents. Following this product's success (over 10 million Guardadito accounts), Banco Azteca launched "Guardadito Tanda," a group commitment savings product consisting of 5 to 10-week savings terms. The product's main incentive offers a higher interest rate if all the members of the group reach their savings goals. Each member saves individually according to their established plan, but the incentive is only offered if all the group members comply with the plan. If a group member's deposit is more than two weeks overdue, all accounts automatically convert to regular savings accounts and the incentive is lost. Currently, over 200,000 clients have a "Guardadito Tanda" account. In order to manage efficiently the large volume of accounts, Banco Azteca has opted for making a large investment in technology to allow them to lower transaction costs through the automation of processes. Furthermore, Banco Azteca also implemented a fingerprint identification system that has simplified account opening processes and reduced the use of forms. The combination of product accessibility, technology, and simplicity has allowed Banco Azteca to expand its savings products in a short period of time.*



## 08

**Control  
operating costs**

Operating costs linked to savings mobilization can be an important hindrance to offering the client innovative and attractive products. Commitment savings products involve fewer transactions than traditional savings accounts, but require large efforts in terms of account opening and maintenance so the client can make deposits easily and periodically. Achieving scale and establishing efficient mechanisms to capture deposits is the key to reducing costs. Likewise, it is important to standardize processes to expand the product and serve the client in an adequate way. Technology, on many occasions, can help in this process.

Most of the cost of promoting and maintaining commitment savings accounts tends to be related to the wages of employees in charge of marketing the product as well as employees in charge of managing the

accounts. Therefore, for the sake of efficiency it is necessary to develop operating structures to manage savings products that are not intensive. Cosechando Juntos lo Sembrado, a Mexican savings and loan cooperative, is a good example of an extremely light operating structure considering the volume of clients it serves (See **BOX 7**).

#### Box 7

##### COSECHANDO JUNTOS LO SEMBRADO'S LIGHT STRUCTURE

*Cosechando Juntos lo Sembrado is a savings and loan cooperative with 36,000 clients, organized into 430 groups, and distributed across five municipalities of the State of Queretaro, in Mexico. This entity mainly focuses on promoting savings, keeping a ratio of 12 savers for every one borrower. Of all its clients, 70% are women. In addition, this entity offers several savings products organized into savings booklets of different colors according to a specific savings purpose. The white booklet is used for liquid savings, the green booklet is used for school savings, the yellow booklet is used for saving towards special events (such as weddings, baptisms, parties, etc.), and finally the red booklet is used to record savings linked to a business. In order to remain profitable while focusing on savings, the entity uses a strategy based on a tight control over operative costs. The cooperative employs only 13 people that are in charge of heading the main branch and its four agencies. Each agency opens only once a week and personnel from the main branch rotates its presence across each of the agencies. Cosechando Juntos' light operating structure was achieved through organizing all of its clients into groups of 8 to 200 members. Each group chooses a cashier, who is the person in charge of collecting the savings from each group member, updates the savings booklets, and deposits the savings at the cooperative on a weekly basis. Savings is voluntary and individual. Most clients keep several booklets they tend to deposit into weekly.*



#### Offer incentives beyond interest rates

A sustained effort is necessary in order to generate a periodic savings discipline to accomplish specific goals. Achieving this would be easier if the client were presented with enough attractive incentives. Most commitment savings products focus most of their incentives in offering a better interest rate, usually linked towards the achievement of a specific savings goal. Nonetheless, people with a low level of financial education find it hard to understand the concept of interest rates, which is why several institutions offer interest in the form of a waived payment fee within a savings plan (See **BOX 8**).

Financial institutions incur a significant cost in offering high interest rates, which limits their investment in other mechanisms that incentivize a savings discipline. For low-income populations with savings plan consisting of small, short-term deposits, interest rates play a less relevant role as compared to other products or segments. It is important to incorporate other types of incentives that promote savings and have a greater motivating effect in order to increase the opening of accounts as well as compliance with savings plans. Among the incentives offered to promote savings by several institutions are the following:



- ▶ Participation in periodic sweepstakes with prizes varying from bonuses to the accumulated savings, to specific gifts (either linked to or independent from the established savings goal).
- ▶ Providing small material or symbolic incentives after each deposit.
- ▶ Giving out awards for completing a savings plan.
- ▶ Free life insurance to the primary commitment savings account holders.
- ▶ Preferred access to credit after completing a savings plan.
- ▶ Benefits to periodic savings (preferential deposit desks at bank branches, at-home collections, automatic savings, payroll discounts, etc.)

#### Box 8

#### OTHER WAYS TO OFFER INTEREST RATES

*Caja de Ahorros in Panama offers Christmas savings with weekly quotas. The interest, instead of being expressed as a rate, is offered as a waived payment fee that the client receives for his or her savings. For those clients that open a Christmas savings account between December 1 and December 31 and save weekly, Caja de Ahorros commits to covering one or two weekly payments depending on whether the client's account has a savings booklet or not. Similarly, First Heritage Co-operative Credit Union in Jamaica expresses interest in its commitment savings product Hand to Hand Partner Plan as free payments. Below is a list of how the payments work:*

- ▶ 48-week savings period: a free payment as an incentive (equivalent to a 5% interest rate)
- ▶ 36-week savings period: 2/3 of a payment (equivalent to a 4.75% interest rate)
- ▶ 24-week savings period: 1/4 of the payment (equivalent to a 3.75% interest rate)
- ▶ 16-week savings period: 1/8 of the payment (equivalent to a 3% interest rate)



Good product design is fundamental in succeeding with commitment savings. However, a good design is not everything. No product, no matter how good it is, sells itself. In addition to having a good design, a good product must be accessible. Yet, access is often hindered by numerous opening, forms, and documentation requirements. Likewise, without a good network of service points, it is difficult for clients to be able to save periodically with the institution. In this sense, the adoption of bank agent schemes has allowed many countries in Latin America and the Caribbean to expand the penetration of commitment savings products.

One of the most common features of entities whose commitment savings products achieve rapid growth is their wide network of service points. Banco Azteca, for instance, was able to reach 200,000 clients within a year, with their group commitment savings product, through over 3,000 points of sale at their own branches, Elektra retail locations, and bank agents that operate constantly throughout the 365 days of the year from 9:00am to 9:00pm. Similarly, Financiera Comultrasan in Colombia has increased its coverage after signing an agreement with Efecty, a money transfer company, which allowed Comultrasan clients to make their deposits in any of Efecty's over 400 points of service.

In order to facilitate access, it is necessary for institutions to establish a good network that will enable transactions and provide proximity to the client. Each year in Panama, Caja de Ahorros opens over 150,000 Christmas savings accounts through its own network of over 500 bank agents established in laundromats, pharmacies, and other establishments. Likewise, First Heritage Co-operative Credit Union in Jamaica offers its client periodic savings through an agreement with Bill Express, one of the main agencies for sending and receiving remittances that has over 250 branches.

## CONCLUSION

Commitment savings is a type of savings product that is adequate for the low-income population and it is popular in many countries of Latin America and the Caribbean. There is no unique formula that guarantees success in mobilizing commitment savings, but there are a series of key elements that every institution looking to succeed should keep in mind. Proper follow-up of savings plans is fundamental to guarantee good compliance rates, which requires a good information system to generate the necessary reports. Also, marketing the product requires an active sales effort with strategies focused on delivering simple and clear messages in and outside the bank branch. Given that a good promotion strategy impacts several areas of an institution, it is necessary to achieve buy-in at the organizational level. Further, in order for the product to be profitable, it is necessary to achieve scale and control operative costs, whether this is through investments in technology or implementing less intensive work processes. For product appeal and to help clients achieve their savings goals, it is necessary to incorporate incentives that go beyond interest rates. Finally, apart from a good product, the institution must facilitate access either through bank agents or other mechanisms that provide proximity to the client.











# EXPANDING COMMITMENT SAVINGS?

NOTE 4  
A Menu  
of Challenges





*Savings is at the core of financial inclusion. Clients want to save but face multiple challenges. For many financial intermediaries, savings is viewed as a way to finance lending activities, rather than as a service that the client wants and values.*

**FINANCIAL EDUCATION AS SENSITIZATION.** After evaluating the current state of commitment savings in Latin America and the Caribbean, the following article introduces certain challenges which, if approached as opportunities, can contribute to the financial inclusion of the lowest-income population. One such challenge is financial education, understood as sensitization, which promotes access and above all the use of commitment savings products and can become a potential tool for altering savings behaviors among the unbanked population. In order for financial education efforts to have a lasting impact and modify a population's savings habits, it is important that these initiatives be integrated with the financial entity's commercial efforts. Thus, integrating financial education and commitment savings represents a first challenge that if approached as an opportunity, can help entities widen and build loyalty among their client base and increase deposit rates.

**SAVINGS PRODUCTS THAT MOTIVATE ACTIVE RESPONSES.** A second important challenge for financial entities consists of designing commitment savings products that are cost-efficient and incorporate technologies and methodologies that motivate and support the client throughout the process of defining their savings plan. Finally, through its own characteristics, commitment savings offers entities several contact opportunities with the client that could be used to implement a structured and personalized follow-up that encourages fulfilling the savings plan. The experiences of several institutions demonstrate the importance of establishing a good follow-up and customer support strategy during the lifetime of the savings plan.

Currently, there are several entities and initiatives that combine education, customer support, and follow-up as strategies to promote savings. Some of these experiences are featured and analyzed in the following article.



## Challenge 1

*Integrating financial capacity building and sensitization as part of the business strategy*

**INTERMEDIARIES' PERSPECTIVES.** Under the ProSavings Program framework, from January to February 2013, a survey was conducted among 73 financial entities in 16 countries of Latin America and the Caribbean offering commitment savings products targeted to low-income populations. According to the surveyed entities, the main challenge to marketing commitment savings products successfully is a lack of financial education linked to a poor culture of savings, which negatively impacts the discipline required to achieve a savings goal.

**FINANCIAL EDUCATION LINKED TO SAVINGS PRODUCTS.** Although financial education is increasingly figuring in public policy agendas, there are still low levels of financial capability in most countries of Latin America and the Caribbean<sup>1</sup> and little clarity as to how to measure progress in financial education. It is becoming more frequent for the public sector to lead financial education programs, mainly through central banks and financial regulations, based on the conviction that financial education can promote positive changes in the economic behavior of individuals and families. In order to improve the financial capabilities of their population, countries such as Brazil, Chile, Colombia, El Salvador, Mexico and Peru are already working on developing national financial education strategies.<sup>2</sup>

Besides the public sector, financial entities are also recognizing the benefits of developing financial education programs; although when implemented, their activities and objectives tend to be more focused on training clients in the use of specific products. In the previously mentioned survey, it was founded that three out of four entities implement some type of financial education initiative or program. The means and channels used to disseminate these initiatives vary from entity to entity, with lectures, seminars, capacity-building workshops, and the distribution of educational materials identified as the most common channels.

Nonetheless, as a recent OECD report suggests, the financially excluded population can require more intensive support and incentives that extend beyond information and knowledge in order to effect significant changes in their savings habits.<sup>3</sup> Most financial education programs focus on providing a general foundation on the importance of savings, on managing the household's budget, or on the risks of over-indebtedness. However, in order for financial education to be relevant and alter financial behavior, it must be concrete and applicable to a beneficiary's specific situation.<sup>4</sup>

1. García, N.; A. Grifoni and J.C. López (2013), "La educación financiera en América Latina y el Caribe. Situación actual y perspectivas," Serie Políticas Públicas y Transformación Productiva, No. 12, CAF.

[http://publicaciones.caf.com/media/36961/caf\\_12\\_educaci\\_n\\_financiera5.pdf](http://publicaciones.caf.com/media/36961/caf_12_educaci_n_financiera5.pdf)

2. IBID

3. Atkinson, A. and F. Messy (2013), "Promoting Financial Inclusion through Financial Education: OECD/INFE Evidence, Policies and Practice," OECD Working Papers on Finance, Insurance and Private Pensions, No. 34, OECD Publishing.

<http://dx.doi.org/10.1787/5k3xz6m88smp-en>

4. IBID



Besides being specific and practical, it is important that financial education be integrated into the financial entity's business strategy, as suggested in the conclusions of a recent financial education workshop focusing on savings for low-income people, organized by the ProSavings Program in collaboration with CAF.<sup>5</sup> Often financial education programs are entirely disconnected from the products and their marketing strategy. Providing simultaneous financial education and access to commitment savings products can be a way to achieving changes in the savings habits of poorly banked populations. Several government subsidy programs already incorporate this more practical focus of implementing financial education that is more integrated to the specific use of commitment savings products (See **BOX 1**).

To reach the low-income population with savings products and increase their level of financial inclusion requires well-designed, accessible, and affordable products, but also consistent demand for an adequate uptake. Increasing evidence demonstrates that coordinating financial education initiatives to reach the unbanked population can be a proper strategy to facilitate a greater and better use of financial products. The nature of commitment savings offers several opportunities for an entity to motivate, reinforce habits, and provide the client with support in several stages of their savings plan. Combining financial education and commitment savings, along with an important innovative component, can become a business strategy that will allow financial services providers to reach clients and persuade them to save in formal institutions.



5. Pérez, A. (2012), "Educación Financiera: Un Camino Hacia la Inclusión. Enfoques y Experiencias en la Implementación de Metodologías de Educación Financiera para el Ahorro en Poblaciones de Bajos Ingresos." MIF, ProSavings Program. <http://www.pro-savings.org/en/financial-education-path-towards-inclusion-2>



Box 1

## CONDITIONAL CASH TRANSFERS, COMMITMENT SAVINGS AND FINANCIAL EDUCATION

Since the late 1990s, in Latin America and the Caribbean, programs that provide low-income families with conditional cash transfers (CCT) - as an incentive to adopt certain behaviors to improve their quality of life - have become more common.\* Today it is estimated that over 27 million families benefit from these transfers. Usually CCTs aim to promote children's attendance to school, medical check-ups, and nutrition evaluations. At the same time, CCT programs offer a good opportunity to promote financial inclusion by linking these subsidies to liquid and commitment savings accounts. One of the main objectives of the Pro-Savings Program is precisely to promote business strategies to offer savings to CCT recipients.

Having a bank account does not guarantee a high level of financial inclusion. In order for financial inclusion to be efficient and for CCT recipients to benefit from financial products and services, it is crucial for these accounts to be used effectively. Low levels of financial literacy hinder the efficient use of the services being supplied. To mitigate this situation, several CCT programs feature a financial education component in their account opening process. In Colombia, the Más Familias en Acción program provides low-income families with subsidies based on school attendance and medical check-ups but also seeks to promote a culture of formal savings and incorporate its beneficiaries into the formal financial system. It does this by incorporating into the program an additional financial education component that aims to substitute informal savings for formal savings among its beneficiaries\*\*.

\*Stampini, M., and L. Tornarolli (2012), "The Growth of Conditional Cash Transfers in Latin America and the Caribbean: Did They Go Too Far?," Policy Brief No. IDB-PN-185. Inter-American Development Bank. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37306295>

\*\* Departamento Nacional de Planeación (2008), "Programa Familias en Acción: Impactos en capital humano y evaluación beneficio-costos del Programa," Serie Evaluación de Políticas Públicas, No. 6. Bogotá, Colombia. [www.dnp.gov.co/Portals/0/archivos/documentos/DEPP/Evaluacion\\_Politicas\\_Publicas/Serie\\_Reportes\\_de\\_Evaluacion\\_No\\_6\\_Familias%20en%20accion.pdf](http://www.dnp.gov.co/Portals/0/archivos/documentos/DEPP/Evaluacion_Politicas_Publicas/Serie_Reportes_de_Evaluacion_No_6_Familias%20en%20accion.pdf).



## Challenge 2

Developing tools and processes to help clients plan their savings

**SAVINGS AS A COMPLIANCE PRODUCT.** One of the major challenges to offering commitment savings products is getting the client to maintain a savings discipline to deposit periodically. Entities thus struggle to increase compliance rates on savings plans and to avoid the product abandonment that is common among this type of savings. Yet, by providing more accompaniment and guidance, it is possible to achieve a positive effect on the client's savings habits.

It is common for entities to structure their commitment savings products into savings plans in which the deposit's amount and date have been determined, but there are generally little accompaniment efforts on behalf of the entities. Financial institutions specialized in attending the underserved population tend to employ staff with experience advising credit clients. Usually loan officers visit the client at their businesses and help them plan

their loan options based on a detailed analysis of their cash influx and their goals. In the case of savings and its products, however, it is not common to rely on this same level of accompaniment and personalized attention according to the clients' needs.

**MOTIVATING GOALS.** Setting specific savings goals and establishing personalized and concrete action plans to achieve them are an opportunity to guide and motivate the client. This can be done by helping said client to narrow down a specific savings goal and providing simple tools to help him or her set concrete milestones linked to specific savings plan – thus promoting the necessary motivation to complete a savings program. The value of goal setting as a motivating factor is well-known in the psychology field; therefore, it is not surprising that entities seek to link their savings products to specific savings objectives. Moreover when entities create savings products that exploit moments of motivation linked to specific goals such as household improvements, children's education, or Christmas expenses, savings becomes an effective tool to improve the client's commitment. Recently in the United Kingdom, there has been widespread debate around the development of savings accounts for subsidy recipients that allow the clients to allocate their balance according to different savings objectives. These accounts, known as Jam Jar Accounts, specifically target the low-income population and incorporate elements aimed to facilitate the management of a household's budget (See **BOX 2**).



*During recent years in the United Kingdom, several entities have launched savings accounts that allow the client to compartmentalize the account's balance according to its end use. Some of these accounts, known as Jam Jar Accounts, incorporate mechanisms and alerts to stimulate certain savings habits. In some cases, account holders have access to specialized managers that provide financial guidance and support to help the client fulfill his or her savings goals. The government has promoted these types of accounts as part of its policy to unify several subsidies under one unique monthly transfer. The program known as Universal Credit began implementation in October 2013 and poses an important challenge to its beneficiaries, given that the unification of these subsidies requires better planning of the household's budget. Social Finance estimates that 150,000 people benefit from these types of accounts, a relatively small figure if one considers that nine million people in the United Kingdom lack a savings account\*.*

\* Social Finance (2011), "A new approach to banking: Extending the use of jam jar accounts in the UK." London: Social Finance. [http://www.socialfinance.org.uk/sites/default/files/SF\\_JamJarAccountReport\\_FULLREPORT.pdf](http://www.socialfinance.org.uk/sites/default/files/SF_JamJarAccountReport_FULLREPORT.pdf)

**ACCOMPANIMENT TOOLS.** Some entities possess tools, forms, and educational materials to help the client accurately determine his or her savings capacity and draw a strategy to fulfill the savings plan. Yet, despite some specific initiatives, it is still unlikely for financial entities to develop processes, tools, and methodologies to help the client focus their dreams into concrete savings projects with specific action plans to turn those dreams into a reality. In countries with greater levels of financial inclusion, there are interesting experiences promoting commitment savings through greater accompaniment efforts. Bankinter in Spain recently launched an online savings tool to help clients and the general public to organize and reach their savings goals.<sup>6</sup> This online portal relies on a commitment savings product that allows the client to set a savings goal, including a fixed term, a target savings amount, and a fixed monthly deposit. This tool also delivers email alerts and visual information regarding the savings plan's progress status. Other functionalities of these tools include the possibility to publish information in social media on the savings goal or the possibility to develop collective savings plans – an alternative that Banco Azteca in Mexico is also offering through its Guardadito Tanda product. Despite these initiatives, there are still few financial entities that facilitate these sorts of tools and accompaniment required to alter the population's savings habits.

**BEHAVIOR AS A BASIS FOR INNOVATION.** Introducing simple innovations into commitment savings products that highlight the importance of planning one's savings can help clients improve their fulfillment of savings projects. More studies based on behavioral economics demonstrate that a clear and positive impact on savings rates can be obtained when there is a planning process and a firm commitment from the client to save periodically.<sup>7</sup> However, few entities have incorporated these findings to their products. The challenge lies in getting financial entities to incorporate constant financial guidance to their commitment savings products, which include setting savings goals and establishing a concrete action plan that fosters good savings habits. Financial planning and guidance have the potential to help the low-income population to counter the psychological factors that hinder saving to reach their goals.<sup>8</sup>

**SAVING THROUGH TECHNOLOGICAL APPLICATIONS.** Given that financial entities are not supplying clients with savings tools, other companies are attempting to fill this void. As a result, there has been a rise in computer applications designed to help people save. Companies such as *Simple* or *Mint* provide services that facilitate managing personal finances and planning savings goals. Among the underbanked

6. [www.coinc.es](http://www.coinc.es)

7. See Atkinson, J., A. de Janvry, C. McIntosh y E. Sadoulet (2013), "Prompting Microfinance Borrowers to Save: A Field Experiment from Guatemala," *Economic Development and Cultural Change*, 62(1), 21-64.

8. See "Note 3, What is Commitment Savings", from this same *Inclusive Commitment Savings in Latin America and the Caribbean Series* for a detailed description on the psychological factors that hinder saving. <http://www.pro-savings.org/sites/default/files/art%C3%ADculo%20-%20ingl%C3%A9s%20-%20Keys%20-%20pantalla.pdf>



population, the low levels of digital literacy hinder the use of these types of applications. However, facilitating tools to help plan and structure personal finances does not necessarily require sophisticated computer applications. In Japan, it is common for families to use the *akebo*, a manual system for controlling the household budget that aims to promote savings.<sup>9</sup> There are hundreds of books, programs and tools based on the *akebo* that typically contain sections that allow its users to control monthly and weekly expenses and income and plan savings objectives (See **Box 3**). Beyond the type of tool being used, financial entities have both the challenge and the opportunity to innovate and develop processes and mechanisms to help the client plan their savings.



*In Japan, the *akebo* or household account book is extremely common. Any bookstore across the country sells numerous versions of the *akebo* and even applications based on this system. In Japan, usually it is the woman that handles the family budget, and it is common to find that many of these women have used *akebos* for over 40 years\*. Controlling the family budget is not a practice that is unique to Japanese households, but it highlights the discipline and popularity this practice carries in Japan. A typical *akebo* consists of a notebook with weekly and monthly pages that summarize the family's income and expenses with specific sections to set weekly savings goals. The *akebo* facilitates monitoring daily expenses and income and planning unexpected expenses. Its structure clearly shows the summary of the household's financial evolution throughout the year. This structure is also simple and intuitive which allows people with low financial education to use it easily. The *akebos* also feature advice and savings strategies on how to manage money by saving it in different envelopes or jars according to future use and objectives. Financial entities serving the low-income population could play a more active role in promoting these kinds of strategies to manage a family's budget, which could even help entities to gather information on their clients to better understand their savings capacity and their patterns of indebtedness.*

\* Komori, N. (2012), "Visualizing the negative space: Making feminine accounting practices visible by reference to Japanese women's household accounting practices." *Critical Perspectives on Accounting*, 23(6), 451-467.



9. Komori, N. (2012), "Visualizing the negative space: Making feminine accounting practices visible by reference to Japanese women's household accounting practices." *Critical Perspectives on Accounting*, 23(6), 451-467.



### Challenge 3

*Establish follow-up mechanisms that facilitate goal achievement*

**FOLLOW-UP MESSAGES.** Apart from establishing concrete savings goals and personalized action plans, it is necessary for financial entities to provide a close follow-up of the evolution of their clients' commitment savings. Adequate follow-up contributes to keeping the client motivated, yet it is not common among entities offering commitment savings. Similar to the issue of client accompaniment and guidance, most entities have well-structured policies and mechanisms to conduct follow-up on payment plans pertaining to credit products, not for savings.

Therefore, once the client opens an account and establishes a savings goal, financial entities face the challenge of conducting a proper follow-up with low-cost methodologies in order to keep the client motivated. Follow-up within a savings plan also offers a good opportunity to convey certain messages aimed at building a good savings culture. Furthermore, such follow-up, which is already a key element to succeeding with commitment savings products, can also offer a good opportunity to strengthen ties with the client.

**REMINDERS.** In recent years, a follow-up mechanism that has demonstrated to be highly effective is the use of reminders linked to the client's savings plan. Several randomized controlled experiments conducted in Peru, Bolivia and the Philippines demonstrate the effectiveness of reminders in improving the compliance rates of commitment savings products.<sup>10</sup> Some studies indicate that reminders are especially effective when these communicate relevant personalized messages and include the name of the adviser with whom the client usually interacts.<sup>11</sup>

In Latin America, 98% of the population lives in places with mobile coverage which makes it possible to implement follow-up, motivation, and guidance mechanisms through this channel.<sup>12</sup> Juntos Finanzas is a company based in Silicon Valley that offers financial entities, mainly in Latin America, a platform to reinforce the population's savings habits through reminders, messages of encouragement and feedback via text message (See **BOX 4**). This company received an award during the G20 Summit held in Mexico in 2012 for its innovation in financial inclusion. In addition, it has received numerous acknowledgements including a social entrepreneurship award from Stanford University. Identifying mechanisms that motivate the client during his or her savings plan and providing feedback on savings progress can help entities better position their commitment savings products.

10. Karlan, D., M. McConnell, S. Mullainathan and J. Zinman (2010), "Getting to the top of mind: How reminders increase saving." No. w16205. National Bureau of Economic Research.

11. Karlan, D., M. Morten and J. Zinman (2012), "A personal touch: Text messaging for loan repayment." No. w17952. National Bureau of Economic Research.

12. The World Bank (2012), Information and Communications for Development 2012: Maximizing Mobile. Washington, DC: World Bank.



*Juntos Finanzas establishes alliances in Latin America and the Caribbean with banks, microfinance institutions and entities interested in promoting savings in order to design and implement tools that help families from cash-based economies save. With products based on communication through SMS messages sent to mobile phones, Juntos Finanzas helps families increase their savings, their motivation, their trust, and control over their finances. Besides reminders, Juntos Finanzas uses SMS to offer support and information that may help the client in reaching his or her savings goals. Through personalized automated messages Juntos Finanzas develops a close and unique experience for each of its clients, thus causing a positive impact on their savings habits. ([ahorrandojuntos.com](http://ahorrandojuntos.com))*

## CONCLUSION

This Note ends the Inclusive Commitment Savings in Latin America and the Caribbean Series. Throughout this Series, we have highlighted the importance of product design as a success factor for raising commitment savings among the low-income population. Entities interested in promoting inclusive commitment savings must design products that are simple, easy to understand and use, easy to open, relevant, have minimal requirements, and have good incentives for making deposits instead of withdrawals. During this process, it is important to keep in mind the psychological factors that hinder savings and to learn from the informal savings mechanisms currently being used by the population.

As has been observed in the region, there are currently numerous commitment savings products but there is still room for innovation and improvement in order for these products to offer designs and incentives that are attractive enough to compete with informal savings mechanisms. There is not a unique formula or recipe that can guarantee success in commitment savings mobilization, but there are a series of common key elements that every institution ought to consider. Among these is conducting a proper follow-up, an active promotion effort with marketing strategies focusing on delivering simple and clear messages to sell the product through different channels, and adequate incentives that go beyond interest rates.

Promoting commitment savings products for low-income populations offers various challenges for financial institutions. For example, one of the most important challenges is the client's lack of financial capabilities and savings behavior. Yet complementing these savings products with follow-up and guidance strategies can help the client fulfill savings goals, and thus help financial entities to succeed with commitment savings. Finally, offering commitment savings products that are cost-efficient and incorporate technologies and methodologies to motivate and guide the client throughout his or her savings program is both a major challenge and an opportunity to expand these products.

NOTES



## NOTES







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