

52

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PERSPECTIVES



SAVINGS BANKS AND THE DOUBLE BOTTOM-LINE

A profitable and accessible model
of finance



WORLD SAVINGS BANKS INSTITUTE



EUROPEAN SAVINGS BANKS GROUP

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Abstract

This paper explains savings banks' inbuilt commitment to providing access and shows how they demonstrably deliver this. It also shows how that delivery can be linked to World Bank's identified dimensions of access, scoring savings banks relatively well on (a) how useable they are for even low value and irregular financial needs, (b) their openness to all levels of society and household members, (c) their balance between formality and approachability and (d) the capacity of many of them to meet the full spectrum of customers' functional needs. The paper makes the case that accessibility is significantly improved if a savings bank has a demonstrable capacity to provide small-scale loans and this helps build outreach. The paper also finds significant numbers of just such loans from a limited sample of savings banks, suggesting that savings banks as a whole are as significant suppliers of such lending as either microfinance NGOs/NBFIs or credit unions/co-operatives. But perhaps most importantly of all, the paper shows that savings banks can have a broad outreach without compromising profitability and therefore justify be called double bottom-line institutions – balancing as they do the twin objectives of providing access and still making a necessary profit.

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Table of Contents

Acknowledgements	5
Abstract	6
Foreword	9
1. Scope of this Study	11
A. Positioning savings banks among double bottom-line institutions	11
B. Savings banks and the dimensions of access	12
C. Savings banks and the provision of access	13
D. Savings banks and the double bottom-line	14
2. Summary of Key Findings	17
3. Savings Banks and the Dimensions of Access	19
A. An organising framework – World Bank’s Dimensions of Access	19
B. Positioning savings banks on the Dimensions of Access	24
C. Stratifying savings banks according to the framework	36
4. Savings Banks and the Supply of Access	37
A. Measuring the supply of access	37
B. Moving from accounts to access	48
5. Savings Banks and the Financial Bottom-Line	55
A. Overall profitability	55
B. Cost efficiency – Underpinning affordability and profitability	59
6. Conclusions and Policy Implications	65
Selected bibliography	67
Data tables	69
Annex - filling gaps in measured access	75
Tables / charts reproduced from earlier studies	79

List of Tables

Table 1	Loan size and average savings balances for commercial banks	38
Table 2	Loan size and average savings balances for savings banks	41
Table 3	Savings banks' lending volumes and average loan sizes	42
Table 4	Loan and savings penetration by institutional type and country income band	44
Table 5	Accounts handled per savings bank employee, by location of outlet	62

List of Figures

Figure 1	Branch and deposit indicators for commercial banks	38
Figure 2	Branch and deposit indicators for savings banks	40
Figure 3	Double bottom-line accounts per adult by type of supplier	46
Figure 4	Savings bank account supply in the double bottom-line context	47
Figure 5	Surveyed versus World Bank estimates of levels of access	50
Figure 6	Framework for assessing savings bank outreach	52
Figure 7	The distribution of savings banks' net return on assets	56
Figure 8	Savings bank and microfinance institution profitability compared	58
Figure 9	Savings bank profitability and relative outreach	59
Figure 10	Savings bank operating cost to asset ratios, by region	60
Figure 11	Savings bank accounts per staff member	60
Figure 12	The link between outreach and cost efficiency and staff productivity	63

List of Boxes

Box 1	Savings banks – a diversity of form but shared commitment to access	15
Box 2	Selected member initiatives to foster microfinance in developing economies	31
Box 3	Turning income into savings and credit opportunities – Brazil and Mexico	33
Box 4	Accessibility at other double bottom-line institutions	35

FOREWORD



The study that you are about to read adds a new building block to the debate on Access to Finance and its key role in the economic development and the social inclusion of all groups of society. Previous studies published in this “Perspectives” series have highlighted the essential role and the excellent score of savings banks in providing Access to Finance.¹ Their products and services are easy to use, are largely accessible and are offered in a formal but sufficiently flexible structure. Finally, they satisfy the functional needs of their customers.

The essence of the research that has been conducted was to examine whether the profitability of a savings bank is compromised by its built-in commitment to provide access to as many people as possible. Or, to put it in other words: is the double bottom-line dimension a valid business model? As you will read in this study, there is sufficient evidence that the profitability of our institutions is not undermined by a broad outreach.

Once again, this study clearly shows that more than ever, it is important to create a level playing field for all financial institutions, independent of location, size, and business model or ownership structure. If regulations designed for high risk and complex transactions are arbitrarily applied to lower value retail activity, access to finance and therefore economic and social development would be compromised.

Chris De Noose
Chairman of the WSBI Management Committee

1 See Perspectives 49 « Access to Finance – What does it mean and how do Savings Banks foster access », January 2006.

1. SCOPE OF THIS STUDY



A. Positioning savings banks among double bottom-line institutions

In July of 2004, the Consultative Group to Assist the Poor (CGAP) published a groundbreaking study in its Occasional Paper series entitled *Financial Institutions with a "Double Bottom Line": Implications for the Future of Microfinance* [CGAP 2004]. The paper studied a set of institutions that have two bottom-lines – the traditionally known one of the profit and loss account and the equally longstanding public policy goal of ensuring the financial needs of groups not well serviced by commercial banks are met. Through the bulk of the twentieth century this drove the establishment of public and private development and agricultural finance institutions, as well as credit unions and other community based co-operative or mutual financial institutions. More recently microfinance has been the most publicised area of development within this group of institutions. But a major strand of the double bottom-line movement, extending way back beyond the twentieth century into the nineteenth and even the late eighteenth centuries, has always been savings and post banks. In all these cases – whether top-down for state-owned institutions, or bottom-up for more localised financial institutions – there has always been a clear dual mandate to (a) reach a target group not well served by commercial banks but (b) try and make a reasonable profit so that the outreach achieved can be sustained without constant recourse to public or charitable private subsidy. The CGAP paper's most important long-term contribution was to identify this common strand to what had otherwise been seen as a disparate and unrelated set of institutions. This was in some ways overshadowed by the study's startling finding that there might be some 750 million savings and loan accounts at double bottom-line institutions. This was so new that CGAP itself published the study with a clarification warning readers not to think that the problems of giving the poor access to finance were somehow solved by what was essentially a stocktaking exercise.

In fact, the 750 million proved to be an underestimate – work by Oxford Policy Management (OPM) for WSBI (WSBI [2005]) increased the estimate to around 1.4 billion accounts of which three-quarters are serviced by savings and post banks of one form or another.

The 3-Rs defining savings banking:

- *Retail* banks, whose main clients are private individuals, SMEs, microenterprises, and local authorities;
- with broad branch networks giving them a *Regional* focus to serve local markets;
- socially *Responsible*, banks reinvesting their profits in their local economy and bringing returns both to markets and to the society in which they operate.

B. Savings banks and the dimensions of access

The World Bank and UK DFID have identified four core dimensions of access (see Claessens [2005] and Kumar and Ellis [2005]). The first is the difference between access and usage. Here savings banks generally score quite well, providing affordable payments and savings products that are easily used to handle low value and irregular use as well as significant volumes of small-scale unsecured credit, much of it within an explicit microfinance framework. The second identified dimension is whether access operates at an individual or household level. Clearly this is not something determined by the supplier but by the customer at an individual level and the wider cultural, social and economic environment at a market level. Savings banks are if anything open to both levels of access – the reach of their infrastructure gets them closer to all household members than most commercial banks, they often run programmes for children as well as adults and have high female participation up to supervisory/management level where it matters to access. The third identified dimension is where on the spectrum from predominantly unregulated informal provision to fully regulated formal provision the provision of accessible financial services come. Savings banks are formal financial institutions but the nature and intensity of their regulation gives them some flexibility without compromising regulatory effectiveness.

The final identified dimension is the functional or product one – i.e. what use are the products that a supplier offers? Do they support savings, or the need to make payments, or meet borrowing needs or mitigate risk (through insurance, etc). Clearly savings banks score strongly on the first two, but as already noted they are also major players in the market for small-scale credit and some provide insurance products as well.

C. Savings banks and the provision of access

Savings banks have been described as the original microfinance institutions of the nineteenth and even eighteenth centuries (Siebel [2004]) but they come in various forms. Set up, sometimes by publicly-minded private philanthropists but just as often by local or national public finance bodies, savings banks are explicitly designed to provide a safe and reliable home for the savings of the mass population as well as some basic mechanism for making payments. One very common format is the local municipal savings bank explicitly set up by local government to provide these core savings and payments services but also increasingly locally focused crediting. Another form, also dating as far back as the eighteenth century, is the mutually owned or co-operative savings bank – very often tied to a specific region or municipality and although philanthropically established, its special role and status increasingly publicly recognised. A national alternative was very often to set up a postal savings function using the infrastructure of the national postal, telegraph and telephone service as a platform for reaching potential customers. An alternative is the national public savings bank with its own parallel branch infrastructure to provide exactly the same sort of services.

... The challenge before us is enormous. And the work of WSBI's membership is important to us because it reaches out to the largest body of people to offer financial services, more than any other group I know. For that reason I want to salute these banks and encourage them to continue in their theme of a double bottom line: to think not just of profit, but to think also of social responsibility which savings banks carry out so well.

James D. Wolfensohn, World Bank President [2004]

In countries with less of tradition of public banking, community-based commercial banks emerged to meet the same needs. In some ways the savings bank movement is now a self-selecting body of banks and other financial institutions that wish to make clear their strong commitment to providing universal access to a wide range of financial services. For the specially established savings banks this commitment to provide universal access to the services they offer is typically in their founding statutes. In the case of community based commercial banks, it is usually in their guiding mission statement. Savings banks also demonstrably deliver on the commitment to provide access – the already referenced OPM study for WSBI that built on CGAP's groundbreaking work, found that the savings bank movement accounted for 1.1 billion of an expanded estimate of 1.4 billion accessible accounts at double bottom-line institutions across the developing and transition economies of the world. Savings banks even provide as many small-scale loans in numbers terms as the whole of the specialist microfinance community combined.

D. Savings banks and the double bottom-line

As already indicated, savings banks are classic double bottom-line institutions and major players in the market for access. A commitment to providing universal access to the services they offer is integral to their strategy and operation. But, equally, for a group of predominantly publicly or mutually-owned institutions they are not, as common prejudice might suggest, chronically prone to making financial losses. Indeed, of the just over seventy members providing profit and loss data to WSBI, only six registered a net loss in 2003. Most of the almost thirty members that did not provide profit and loss data were postal savings operations, quite possibly not established as separate accounting entities, so lack of data should not be seen as indicating an attempt to hide losses. Thus it can be fairly said that savings banks are firmly committed to the double bottom-line model. They are qualitatively committed to mass access for all and following earlier OPM studies for WSBI they are clearly quantitatively committed to providing access as well. Equally they are demonstrably committed to making a profit.

The objective of this paper is, therefore, to look at the variety of ways in which savings banks operate and see whether this has any bearing the access they provide and the profitability of providing that access.

Box 1: Savings banks – a diversity of form but shared commitment to access

Savings banks are a diverse group and in some ways now, a self-selecting group. WSBI's membership ranges from savings-only postbanks through specially established savings institutions with a universal product range through to socially committed retail banks with links to savings banking that are essentially historic. Nevertheless all these institutions share a common commitment to universal access for all and a distribution strategy that still values proximity to customers as a way of delivering access. In this way institutions as diverse as Caisse Nationale d'Epargne operating out of post offices in Benin and Caisse d'Epargne with its advanced economy network in France can be seen as part of the same continuum. Similarly with locally-owned Cajas Municipales in Peru and nationally established Sberbank in Russia and also with retail-focused commercial banks such as LloydsTSB in Britain or ICBC in P.R.China and specially established savings banks operating under their own legislative regime in Germany and Spain.

Because savings banks take so many different forms across the world, it sometimes makes it difficult for a person from one country to recognise another country's savings institution as similar to their own. It is therefore worth describing some of the forms they take:

- Across Africa and South-Asia with a history of British or French colonialism will typically have a *postal savings bank*, although in some cases this will be a department of the national post rather than a separately established bank.
- A variation of this is a *separately established savings bank or scheme distributing its services partly through postal or other agencies* as in India or Kenya and sometimes an entirely separate nationally present bank, now with an entirely separate branch infrastructure, will have emerged out of this form as in Malaysia.
- This evolution creates a form very similar to the *national savings banks* with their branch infrastructure of the former planned economies of Central and Eastern Europe and Central Asia, which used to channel only household savings and payments into the public sector but are now all universal banks.

- An alternative tradition shared by Germany and Spain plus other countries with a history of Spanish colonialism, is of the *locally based or municipal savings bank* which has linked to it some form of national umbrella organisation or savings scheme. These banks would have strong links to local governments quite often including shareholding and board representation.
- A variation on this is the *locally based private or philanthropic institution* such as community banks in the USA and the original trustee savings banks in Britain (although they merged to form distinct regional and ultimately national savings banks with a heavily retail-dominated but still universal banking focus).
- Finally, there are the *large state banks* with a specific savings mandate that are common throughout East Asia and some parts of Latin America.

Clearly the regional characterisations of these different models are somewhat arbitrary but are presented purely to help readers get started on (a) recognising their own savings banks and (b) realising that other countries do have savings banks even if not of the same form they are familiar with. A blurring of these categories also comes from the fact that savings banking is an evolutionary form. It must be to have survived so long – WSBI itself is the oldest international banking association in the World and many of its members have their roots in the nineteenth or even late eighteenth centuries. Thus there are WSBI members that started with one form but now have another – perhaps local philanthropic or trustee organisations that ended up as public, municipal savings banks or municipal savings banks that ended up merging to form a national savings bank. Equally, there are large, international, universal commercial banks that have bought in a tradition of universal access and proximity banking through acquisition.

2. SUMMARY OF KEY FINDINGS

Savings banks have a built-in commitment to providing access:

- for publicly or mutually-owned savings banks this will typically be built into their statutes;
- for socially committed private retail banks it will be in their mission statement.

Savings banks score relatively well on World Bank's identified dimensions of access:

- their simple, affordable products are *useable* for even low value and irregular financial needs;
- their branch network and staffing make them *open* to all levels of society and households;
- current regulation can give them the benefits of *formality* without compromising accessibility;
- many savings banks have products to satisfy the full spectrum of customers' *functional* needs

Savings banks demonstrably deliver on their commitment to provide access:

- they are the biggest single suppliers of accounts among double bottom-line institutions;
- in the poorest fifth of countries where they operate they probably supply a quarter of all access;
- in the richest countries they supply a similar proportion on average and more in some cases;
- progressing towards full access gains strong impetus from having a strong savings bank;
- there are a few broad-outreach savings and payments-only savings banks that fulfil this role;
- but it is more common for access to be enhanced by savings banks with some credit capacity;

- and the strongest impetus often comes from savings banks with a specific microcredit capacity;
- but microfinance alone is no substitute for a strong savings bank in moving towards full access.

Savings banks can broaden their outreach without compromising profitability:

- most savings banks make a profit;
- their profitability is in no way systematically undermined by a broad outreach;
- cost effectiveness plays an important part in sustaining profitability and broadening outreach;
- this links with keeping products simple and useable so they can run profitably on low volumes.

Savings banks can justifiably be called double bottom-line institutions – balancing as they do the twin objectives of providing access for all and still making a necessary profit.

The implications of all this for policy-makers are that regulation must be applied in a way that enhances systemic stability without compromising access. It is particularly important that regulations designed for high risk, high value complex corporate transactions and/or city-based commercial business are not applied arbitrarily to lower value, less regular retail activity in less populated and remoter areas.

3. SAVINGS BANKS AND THE DIMENSIONS OF ACCESS

A. An organising framework – World Bank's Dimensions of Access

In October 2004 WSBI co-sponsored a major international conference on Access to Finance jointly with the World Bank. The conference, held in Brussels, attracted a varied participation ranging from academics through policy makers to banking professionals. All agreed that access was important but their characterisations of the problems related to access were very different depending on each participant's starting point. Academics tended to focus on the qualitative aspects of exclusion that kept poorer individuals from participating in some of the most developed financial systems. Policy-makers tended to relate problems of access to the enabling institutional and competitive environment on which they have focused for much of the last quarter century or more. Banking professionals tended to focus on specific organisational or product initiatives that had brought new customers to their institution. What was clear, however, was that access was and still is very poorly measured. Unlike then, however, there is now the beginning of a coherent framework for identifying whether access in a country is severely repressed or moving towards full inclusion. Patrick Honahan of the World Bank has pulled together a basic set of indicators to be collected regarding availability and use of core products that can be said to be fundamental to having access to necessary financial services (Honahan 2004b). Anjali Kumar and others at the World Bank, together with Karen Ellis of UK Government DFID (see Kumar and Ellis [2005] and Claessens [2005]), have then put these possible indicators into a conceptual framework that might be described as the demand-side dimensions of access. These are laid out below, but recast from a supplier perspective:

- First, there is the question of whether access is there or is used or perhaps just as importantly useable. The focus of the Kumar and Ellis work is demand side surveys – asking the potential customer at different socio-economic levels – whether they feel they have access and what products they acknowledge using. In many cases this will contrast with supplier data that might suggest there are far more accounts in existence than market surveys show customers acknowledging. This can be read two ways – it may mean that a lot of dormancy and multiple account holding is taking place so that supplier data on provision of services overstates actual access (see later in this chapter for more discussion), or it may mean that there is a bigger account infrastructure for access than can currently be used. The distinction is important because the policy response needed to make accounts more useable is different from the policy response needed to have them made accessible in the first place. The former will focus more on the terms of availability, particularly affordability. The latter, by contrast, will be more about the range and number of institutions in a market and where they operate. Clearly there will be some overlap but the distinction is worth maintaining. It also shows the richness of information that comes from juxtaposing supply side measures of availability with demand side surveys of accessibility and use.
- Second, comes the issue of how access operates within the potential customer base – does it operate at the individual level or household level. It is clear from survey evidence in advanced industrial economies that the bulk of the adult population – on average 90% or so according to Pesaresi and Pilley [2003] for Europe and Caskey [2002] for the US – will have their own personal bank account and casual observation would suggest this extends for many to their own access to credit as well (through cards if not loans). But even in these advanced markets, other decisions, such as the financing of housing and insurance against loss of key family members, will be taken at a household level. Interestingly, much of the exclusion from access in advanced economies is evident among people from ethnic minority backgrounds or unstable social situations and is particularly acute for women in either of these groups. This comes from a mix of supplier insensitivity to the plurality of social arrangements and quite explicit self exclusion coming from parts of the cultural milieu such that different cultural and social dimensions make it impossible for an excluded individual to qualify for otherwise quite reasonable conditions attached to some products. So even with a dimension that one would think was entirely out of the suppliers' control, there is still a supply dimension, mostly focused on the way suppliers present themselves to potential customers and the procedures they lay down for those customers to access products.

- Third, there is the sort of institutional framework through which access is achieved – is it predominantly formal and regulated or informal and flexible. For example, in many West African countries, well below 10% of the population will have access to an account at a regulated, deposit-money bank². This proportion might double if one includes access to services at savings banks and semi-formal microfinance. But even this expanded definition of formal and semi-formal access would be dwarfed by access to informal private arrangements such as rotating savings and credit arrangements, savings clubs, etc (see Stone [2005] for an explanation of this). Although characterised by Kumar and Ellis from a demand-side perspective, this too has a fundamental impact on how access might be characterised from the supply-side. Clearly, there are no advanced industrial economies where access comes predominantly via informal institutions. Equally, however, there is a growing debate about the balance to be achieved between reasonable regulation and not stifling the capacity of accessible institutions to serve their customer base. Inappropriate regulation does not create real stability but instead pushes vulnerable customers into less and less organised arrangements.
- Fourth, there is the functional or product dimension – what in other words are the services that customers need to be able to use to qualify as having access? No-one saves or borrows just for the privilege of paying the supplying institution's charges for doing so. Access to savings is relevant only to those who have surplus resources now that they would rather use later. The right product design with affordable charges and flexible access is, however, demonstrably attractive to even the poorest people. Similarly with credit, a loan with high collateral requirements and fixed repayment terms may be less accessible even if the interest rate is low than a higher cost, unsecured loan with flexible repayment terms.

2 Deposit money banks are the traditional core of the regulated financial sector because they themselves have access in one way or another to national payments systems and therefore if they fail potentially have a serious impact on system-wide stability. For this reason they are the focus of IMF attention and their deposit liabilities are treated as money. It is virtually inconceivable now that such an institution would not be subject to regulation at least attempting to be Basel compliant. Interestingly a number of savings banks, housing and consumer finance institutions can be missed by this definition even though they are important suppliers of services to the household sector. In advanced industrial economies with high levels of access, however, these institutions too are brought under the regulatory framework via the consumer protection route if not the financial stability one.

Clearly there is a spectrum here. People need a payments mechanism first and cash and sometimes even barter does for many in the developing world but it is inefficient and insecure – a payments mechanism with charges that are affordable to either the sender or the recipient is clearly superior. Next comes basic savings where again cash and sometimes even physical goods have to do for many but are again grossly inefficient and often very insecure – a basic savings account with charges that do not eat into hard won resources and allow those resources to be accessed when the customer wants is again clearly superior. Then comes the combination of the two – a payments account that allows the customer to receive income, store it temporarily and spend it when they decide to, is enormously empowering as long as the customer does not have to pay too high a proportion of their income for the privilege of using it. Interestingly in all three of these cases the benchmark for what constitutes affordable is probably quite high:

- not using a bank to effect a payment can cost poor people up to 6% of their income (see Caskey [2002] and Caskey et al [2004]); and
- research suggests that as long as effective net interest after charges is not too negative in real terms then even poor individuals will still want to save (CGAP [2002]).

After payments and savings comes credit, where price appears a depressingly limited restraint on borrowing but still formal financial institutions set terms that prevent potential customers from accessing needed credit (WSBI [2004a]) for a discussion of just how much the excluded poor pay for credit). Clearly some of these terms are a reasonable reflection of a bank's duty not to lend to a borrower who will default, which is neither in the bank nor the borrower's interest. But others are the result of inflexible product design or, even worse, market discrimination that stops poorer borrowers for whom flexibility might just reduce default rates from getting flexible repayment terms that are actually made available to better off borrowers where flexibility can actually reduce borrower discipline and increase default rates. Finally there comes mitigation of risk, which is much appropriate to those with financial debts than those just making payments and savings although income protection and asset insurance can be sold quite far down the socio-economic spectrum provided the payments terms are manageable.

Interestingly *geographical accessibility* is not featured as a prime dimension of access in the World Bank framework. In effect geographical accessibility is seen as an explanatory variable in the use versus access dimension not a dimension in itself. This is despite concern about size and spread of branch networks often being at the heart of much debate about why mainstream banks fail to reach the mass market in poorer more rural economies. But excluding it as a separate dimension is probably a fair reflection of what is a complex issue. Sometimes customers will not use the nearest available outlet for a variety of social and economic reasons. Another traditional aspect of the debate about access – *affordability* – is also treated this way; as a factor behind where on the dimension of usability potential suppliers might lie rather than as a dimension of access in its own right.

One important reason for trying to recast these demand-driven dimensions of access in a supply-side perspective is that the debate about access will not be well served if it is entirely held in terms of what the customer wants and does nothing to bridge the gap between this and the way suppliers understand what they offer. To summarise, then, what is being looked for in terms of accessible accounts is:

- *Usability* – accounts should be capable of being opened with small balances and operated with often low-value and generally irregular flows over the account without charges eating in to balances in a way that makes the account a savings-destroyer.
- *Openness* – is harder to characterise but account opening and operating procedures should not discriminate against family members compared to head of household and the customer interface should be approachable to both as well.
- *Formality* – where on the spectrum from fully regulated deposit-money banks to unregulated informal institution a supplier lies and as part of this whether regulation is sufficient to protect customer money but not compromise usability and openness.
- *Functional capacity* – does the same supplier have the capacity to meet all four core product needs (payments, savings, crediting and risk-mitigation)?

The next section describes the savings bank movement and attempts to position its members in these four dimensions.

B. Positioning savings banks on the Dimensions of Access

1. Usability

Virtually without exception, savings banks will offer some form of instant-access *savings* account or basic bank account that can be opened with a low initial balance and relatively low or zero recurring ledger fees and low or zero transaction fees. Sometimes these products will allow a few free transactions per month before triggering quite high transaction fees to ensure what is supposed to be savings account is not used by customers with greater means to avoid paying for full payments account facilities. The most common platform across the developing world is still the passbook savings account but in advanced countries (and increasingly elsewhere) non-embossed card accounts are beginning to take over. These can either only be used to access cash or to fund spending with transaction-by-transaction authorisation to ensure no more is spent than is available in the account. Both platforms allow for low-value irregular use and can support both payments and savings activity by the customer, although savings are rarely very highly remunerated (interest is often surrendered to achieve lower operating fees). The first two tables in the final annex to this paper are reproduced from earlier WSBI studies and give examples of the cost of opening an account and then operating it. Even in the poorest countries the opening fees shown for these savings banks are all below 5% of per capita income. Commercial banks in these countries can sometimes demand the equivalent of a whole year's per-capita income as a minimum balance and charge fees equivalent to a 20~40% of this for opening an account.

Operating fees on commercial bank accounts can be just as big an impediment to accessibility as account-opening fees.³ For savings account these sometimes eat into remaining balances such that after a few years nothing is left. For payments account they may in effect force customers to withdraw all of any incoming salary as cash as soon as it is in.

3 In the author's own experience, these charges can be very high. Tariffs of all regulated Kenyan banks must be submitted for monitoring but not approval to the Central Bank as agent of the Minister of Finance. Looking through the charges, it is difficult to conclude that a salary account can be run by a teacher, civil servant or other professional for less than 750 Kenyan shillings a month or at least \$10~11 per month. The customer would require a monthly income of around \$8,400 for the interest on the average monthly balance on such an account to cover the charges made for using it, clearly quite unsustainable.

Very limited sampling of the tariff structure for a number of passbook-based and card accounts at a mix of postal and non-postal WSBI members drawn from around the world suggests a much more affordable charging structure. Very basic savings accounts are in many cases provided effectively free of charge and even where charges are made can still be used to support day-to-day transaction needs at affordable costs (roughly 2% to 3% of the average balances). More technological solutions are higher cost (2–4% of average balances) probably because the technology has to be bought in at world prices). In all cases the charges are below the 6% or so of income that it is quite common for poor customers to pay non-bank intermediaries to effect the same transactions that the accounts shown can support. Clearly these results need verifying using a much wider data sample and benchmarking against commercial banks charges but they are nevertheless worth noting.

Another indication that savings bank deposit accounts must be relatively usable, as we will see in the next section of this chapter, is that average balances are broadly similar across the country income spectrum – i.e. average balances scale down in line with declining per-capita incomes. This suggests that savings banking is scaleable at least on the deposit side and that would not be possible if savings banks in poor countries had to charge dramatically increased proportionate fees for account use.

Moving to the issue of usability on the *credit* side, experience from microfinance demonstrates that the two features most greatly appreciated by customers of such institutions are that loans are available in small sizes and capable of being repaid in small and varying amounts. This actually supersedes issues of income and price that are the usual focus of debates about the adequacy of supply of credit – microfinance has shown that the poor can repay and that artificially limiting interest rates reduces the volume of credit provided (suggesting price is not a binding constraint). On the first issue – loan size – limited data so far available is summarised in the next chapter. This shows some 30 million loan accounts at WSBI members in developing and transition economies that either have (a) an explicit microfinance programme or (b) have a demonstrably small-scale focus to other lending programmes. Virtually all of these programmes operate at average loan sizes relative below 150% of per-capita income and about a third below 20% of per-capita income.

Finally there is the issue of *geographical accessibility*. As has already been indicated, this is a factor behind usability not a dimension in its own right. A key part of their commitment to maintaining proximity to their client base is a willingness by savings banks to maintain branches in areas where other banks will not. This is not just an issue in developing countries but also in advanced industrial economies. For example, research by the German savings bank movement (DSGV [2005]) shows that 31 regions in Germany, accounting for 13% of national GDP, have no large private bank representation at all and their only banking presence comes from either the savings or co-op banking movement. The divergence is particularly marked when comparing across the old East~West divide, where for both zones the head of population per savings bank branch lies in the 5~6000 range, whereas the equivalent figure for the large private banks is nearly 50,000 in the new Eastern Lander compared to 35,000 for the Western Lander. This is not just a German phenomenon – the Spanish Savings Bank movement has expanded its market share of individual deposits above 50% by having more branches than the rest of the banking system in the more rural, less densely populated regions of Spain. In 13% of Spanish towns, most of them in depressed economic areas, a savings bank is the only bank. This deep reach almost certainly explains why access in Spain is higher than in other Southern European countries.

In developing countries most private commercial banks will only maintain branches in major urban centres, whereas savings banks and particularly postal savings banks will reach out into rural areas as well. In Kenya and Senegal for instance, savings banks rely on the postal distribution network, which is by far larger than commercial banks' branch networks. The Kenya Post Office Savings Bank (KPOSB) operates through 471 outlets, while commercial banks manage altogether only just slightly more than this (512 outlets). While roughly 80% of Kenyan commercial bank branches are located in main cities, only 45 out of 471 outlets managed by KPOSB are located within Nairobi (capital) region. Likewise in Senegal, with approximately 140 outlets (of which 23 are located in the Dakar region), the postal retail network outnumbers commercial banks branches (103 branches concentrated in main cities). Also in Latin America savings banks are characterised by strong local roots and a decentralized network of retail branches. Banco del Estado in Chile operates in more communes than any other financial institution in the country. In fact, more than one third of its 310 branches are located in remote areas. Additionally, the bank has 58 mobile branches.

Other savings banks use existing retail outlets (for instance shops) to provide some of their financial services. This is the case for instance in Brazil where in addition to its 1693 branches, Caixa Economica operates 291 Bank Service Stations (called PABs), 2053 banking correspondents, and also provides services through 8,870 lottery shops. It is the only bank that is present in all 5,561 municipalities of Brazil. In Cuba, Banco Popular de Ahorros has the largest network of offices in the financial system on the island with its 500 offices.

All the above suggests savings banks tend to score quite highly on the usability dimension of access, maintaining small balance accounts at relatively affordable prices through networks that reach out further than most commercial banks.

2. Openness

Clearly savings banks, as suppliers, cannot determine whether their products are used at a household or individual level and it is beyond the scope of this research to identify the degree to which they serve more than one member of a household. Nevertheless it is possible to think of indicators that might point to differential openness.

The first relates to the conditions put on opening an account. Many people in the developing world often have erratic life-styles involving unreliable employment and income prospects and do not have the necessary documentation to access even the most basic services (whether financial or otherwise). WSBI surveyed its members and 24 of them gave quite detailed information on this topic. All required some sort of personal identification to grant access to a service of whatever type but the degree to which they required other forms of documentation varied. It was encouraging that basic savings and remittances required lower levels of additional documentation than say payments accounts and credits. It was also encouraging that letters of reference – unlikely to be available except at or through head-of-household level – were only really identified as being needed for credit products. It was, however, a bit discouraging that proof of domicile – again likely to be lodged at head-of-household level – was required by almost half the banks for payments and savings products (whereas it was more understandable why the majority of savings banks should want it before extending credits).

Geographical spread also has some part to play in openness – the opportunity cost of the time taken to reach a savings bank outlet will, for many of the rural poor, be lower than that of reaching their nearest commercial bank branch (which tend to be concentrated in areas of formal, monetised economic activity). This makes savings banks more open to rural women entrepreneurs than commercial banks. WSBI requested information from members on how much of their product range is accessible right down to the lowest levels of their branch networks. It was encouraging that five out of every six members surveyed offered the same payments and savings products through sub-branches as they offer through full branches. It was even more encouraging to find that personal credits were generally available through smaller outlets to the same degree as savings and payments products, although disappointing that microfinance credits were not as well distributed (probably reflecting the specialist nature of some of the expertise involved).

The results of these two surveys are reproduced as the third and fourth tables in the final annex to this paper.

Another area that might help with openness is the capacity to deal with illiteracy. One of the findings of OPM's earlier work for WSBI (WSBI [2004a]) was the correlation between levels of literacy and access. In developing countries this was an issue of basic literacy – can customers read and fill out paperwork necessary to complete a transaction. By contrast, in transition and advanced economies it was more an issue of financial literacy – can customers understand the full import of what they are reading and writing. Savings banks have a long history of addressing these problems, with financial education programmes in advanced economies and supportive staff with close community links in developing and transition economies. The basic passbook savings account has such a long track-record across all major language groups that requirements for its use are almost part of folklore. It can in any case be run using a thumbprint or traditional mark as a substitute for a signature. Even new chip and PIN technology offers the scope for pictorial user instructions with the PIN remembered as a pattern of key-strokes rather than a number.

Finally, openness can be helped by having staff that mirror the community within which they operate, including the female as well as the male half of the population. Casual observation would suggest that if anything, females are probably disproportionately represented in the workforces of savings banks and that this extends to supervisory and management positions in at least the smaller outlets. This contrasts with the male dominated decision-making apparatus of commercial banks, even at branch level. Certainly when savings banks run microfinance programmes they can see the same prominence of women customers that is typical of programmes at specialist microfinance institutions. For example, Tanzania Postal Bank has a group-based lending scheme with 80% of its clients being women, and PosteFinances in Senegal, although it cannot itself extend credits, provides the accounting and distribution platform for microcrediting by federations of women's groups. Even in Latin America savings banks running microfinance schemes have female participation rates of around 45%.

Overall it is probably fair to say savings banks score no less well and in some ways possibly better than commercial banks on the openness dimension of access. They also have the potential to serve otherwise excluded individuals just as well as specialist microfinance institutions. provided products and strategy are designed with this in mind.

3. Formality

There is not so much to say on this dimension as all types of savings banks, with possibly one exception discussed below, are formal financial institutions. This is not the same as saying they are all governed by the same regulation as full deposit-money banks but as a country progresses towards full access any special regime for savings banking comes to have the same intensity of application and coverage as mainstream banking regulation. The benefit of having a separate regulatory regime is that, at least up until the point that it no longer matters, such a regime can avoid imposing on small remote banking operations the big-city standards that might be appropriate for commercial banks. This is particularly important for branch establishment and staffing regulations, where rules designed for commercial banks dealing with high value complex corporate transactions would so overload the cost base as to compromise affordability of savings bank services to low value and irregular volume retail customers. So in some ways this differential regime that often applies to savings banks allows them some of the informality of the microfinance sector without leaving them outside a proper framework of regulation.

It is interesting that this differential regulation seems to work. Apart from some of the savings banks in the transition economies of Central and East Europe and Central Asia, where the legacy of the pre-reform mono-banking structures was bound to lead to problems in the early 1990s, there are very few savings banks that have got into serious difficulties or failed. Certainly the general profitability of WSBI members (barely one-in-twelve of members that report on the issue make a loss) suggests that even where they lend, savings banks are less prone to damaging political direction of lending that has historically undermined other policy-lending institutions, particularly those involved in development and agricultural finance. This may be because undermining the solvency of a savings banks creates many more losers among the potential voting population (depositors who cannot get their money back) than winners (borrowers who do not feel the need to repay), typically by a factor of ten-to-one. This is not always true of other public-purpose banks, particularly those that are budget or donor funded.

The one exception to the formalised establishment of most savings banks can be postal savings schemes operated not as separately established banks but rather as a departments of the national postal authority. This causes no problem if the postal savings scheme is allowed properly to ring-fence its customers funds and maintains independent, auditable accounts. It can be a problem where funds are merged and customers' deposits are used to fund directly the working capital needs of the post office, as has happened sometimes in Africa.

Apart from this one exception it is probably fair to say that savings banks may have a particularly favourable balance of formality versus informality – savings banks are generally regulated and that regulation has generally worked to protect customer interests but it can often be adapted to avoid applying inappropriate rules that are appropriate only to more complex commercial banking business.

One caveat has to be applied here, however, and that is that anti money-laundering and countering finance for terrorism rules are often applied through single national frameworks. These sometimes seem to draw no distinction between banks undertaking complex international transactions and a savings bank trying to help a migrant worker send home a hundred dollars.

4. Functional capacity

It is a common misconception that savings banks only do savings business. Without exception there will also be some basic payments service and, apart from postal savings banks, almost all other savings banks will do some crediting, and many will do microcrediting as well (see Box 2).

Box 2: Selected member initiatives to foster microfinance in developing economies

Government Savings Bank of Thailand, has two major microfinance programmes. The “Peoples Bank” project combines savings mobilisation and educational training for entrepreneurs with microcrediting at a flat 1% per month rate of interest and loans of up to \$750 for first-time borrowers and \$1,250 for subsequent borrowing. €400 million had been disbursed by 2004 and almost a million loan applications per year are being processed with more than a 90% approval rating and only a 3.5% delinquency. The “Village Fund” takes grant money from the Government of Thailand to pump-prime micro-crediting at 1.75% above current fixed deposit rates and has generated almost €4 billion of lending to 11 million villagers, off the back of a €1.6 billion grant and with only a 6% delinquency rate.

Banco Estado Chile runs a micro-enterprise programme that is a national leader with over 40% of the market. In 2003 it served 90,000 micro-business people; about one third of them achieved access to a financial institution for the first time. This programme is serviced through 91 specialised platforms throughout the country and has a recovery rate of 99% of loans. Other important factors are that half of customers are women and more than 90% of credits are processed without guarantees. Banco Estado also operates the state small business guarantee fund (FOGAPE), which has become an important instrument to enhance enterprise access.

Tanzania Postal Bank set up a micro-credit scheme for micro-entrepreneurs and low-income households both in rural and urban areas. This started in 2001 on a pilot basis in one district but has since been rolled out to other locations. Only group-based micro-credits have been extended typically to groups of five, who can borrow between \$50 and \$600 at 2.5% per month for six to twelve months. To reduce administrative burdens groups are clustered. By 31 December 2002, the total value of disbursed micro-loans stood at US\$1.9 million extended to 4,235 clients (80% female) in 676 groups out of whom 41 had fully liquidated their first round loans. Within the micro-credit scheme a special facility exists to provide seasonal agricultural finance and a parallel scheme for payroll-based lending to employed workers had disbursed similar volumes to the micro-credit scheme.

In *Senegal*, *PosteFinances* runs savings accounts for women's groups that have received direct aid in the form of equipment, boreholes, etc. The accounts are run to accumulate money to maintain and eventually replace the equipment donated. But the accounts are also being used as a home for voluntary savings by group members and act as a platform for both disbursing microcredits and collecting subsequent repayments. *PosteFinances* does not make the loans – like many postal savings banks its statutes do not allow it to do so. Rather, the loans are made by microfinance foundations set up to support the women's groups but an ordinary *PosteFinances* savings account provides an operating platform for these microcredits.

The next chapter includes calculations based on 31 lending programmes at 23 member banks, where retail lending volumes can be identified. Overall some 32 million loan accounts are provided either explicitly as microcredits or at low enough average loan sizes to fall within the microfinance bracket.⁴ This compares to just 40 million loans coming from microfinance NGOs/NBFIs tracked in the CGAP [2004] study and 40~50 million members of developing country credit unions/co-ops.

4 Virtually all of these schemes operate below what CGAP would define as the high-end of the microfinance market (average loan size less than 150% of per-capita income) and a third operate in what CGAP describe as the low end of the market (average loan size less than 20% of per-capita income).

Savings banks are also increasingly important players in the market for remittances and disbursing government social payments. This gives them access to information about income flows that might be considered too low or irregular to form a basis for a regular savings account or even credits. Any product or combination of products that captures that flow of income without restricting the ability to spend it has enormous potential to improve access. Box 3 below describes initiatives by savings banks in Brazil and Mexico that are achieving just this.

Box 3: Turning income into savings and credit opportunities – Brazil and Mexico

Caixa Economica Federal of Brazil's card based CAIXA AQUI account is built around simplified application procedures and access through point-of-sale terminals at correspondents such as the State Lottery. This dramatically extends Caixa's outreach – adding 12,000 access points to the bank's main network of 2,200 offices – and Caixa Aqui translates as “Caixa is present”. Three million accounts (over 10% of all Caixa accounts) have been opened in a period of just two years. The accounts take regular payments of social benefits such as pensions but also have scope to take cash deposits. The account opening includes a pre-agreement to provide credit and after ninety days of account use, provided all is in order and cadastral checks identify no existing defaults, the bank automatically sends the customer a contract to sign if they want to take an initial credit. This can be up to R\$ 200 (equal to just under US\$ 70) and for a period of four months at an interest cost of 2% per month. After this period, scoring of a client's actual credit performance and ongoing account use allows access to larger amounts for longer periods (potentially up to a year). In parallel Caixa launched E-ACCOUNT CAIXA for Brazilians working abroad who want to send remittances home direct from a host-country credit card. The account is available in 50 countries and the cost of a typical transfer is just 2% compared to 8~15% charged by more traditional channels. These remittances can feed Aqui accounts of relatives and a second stage of the international e-banking project will allow migrant workers in the US to access their own Caixa Aqui accounts directly through terminals in branches of a Portuguese bank present there.

BANSEFI of Mexico is the successor to that country's state savings bank that has been restructured to become in addition the apex organisation for a reformed popular savings and credit movement. As local Cajas de Ahorro come into compliance with their new regulatory regime, they have access to technical assistance, new technology, accounting support and a common brand –L@Red de la Gente. They also get access to Bansefi's social benefits and remittances distribution capacity. This allows them to offer deposit products that can receive social benefits or remittances channelled through Bansefi, which has negotiated a number of contracts with government and banks abroad to receive and distribute such money. Bansefi research shows that within three to four cycles of a client receiving such inflows, their account then typically starts to be used for voluntary deposits of cash. Because Bansefi also manages pre-borrowing savings accounts for a number of low cost loan schemes it is also able to offer migrant workers the ability to qualify abroad for cheap housing finance for either themselves or their relatives.

Overall, therefore savings banks have the potential to cover the full range of functional or product requirements required to give access to finance although clearly distinctions need to be drawn between those that do crediting as well as savings and payments business.

Box 4: Accessibility at other double bottom-line institutions

- *Microfinance Non-Governmental Organisations (NGOs)*
Operate mainly in poorer countries providing very low average value credits but at a wide range of pricing. Very open to all levels of households but overall accessibility held back by limited savings services and almost non-existent payments capacity as a result of their very informal structure. In most cases this also seems to act as a brake on their capacity to scale-up success significantly.
- *Credit unions, Co-operatives and Community Microbanks*
Very open, grass-roots organisations with a fuller product range than most microfinance NGOs but retaining high levels of usability. Although often unregulated and towards the informal end of the formality spectrum they have a stronger culture than NGOs of sharing best practice.* For some reason, scaling up also seems constrained by form.
- *Microfinance Non- Bank Financial Institutions*
A step up from NGOs and credit unions/co-operatives in terms of formality. They also tend to do slightly larger scale lending than the other two groups while still remaining clearly within the broad target market for microfinance. Greater formality does not seem to be at the expense of openness but does not appear to bring any significant extra capacity to do savings business.
- *Private Commercial Bank Microfinance*
Not much better at combining savings with credit business than microfinance NGOs or NBFIs but can provide access to payments services because they are part of regulated banks connected to national payments systems. By establishing these services as separate units within the main bank they keep some openness but operate at the upper end of the target market for microfinance.
- *Policy Lending Institutions (agricultural banks and state commercial bank microfinance)*
Significant volumes of lending and savings business and usually a capacity to process payments as well. Known, however, for vulnerability to political influence and perversely this locks them into the very high-end target market for microfinance. There are a few notable exceptions (BRI, BAAC, etc) where an explicit strategy has been followed to refocus around microfinance.

* mostly through co-ordinating bodies such as WOCCU (World Council of Credit Unions)

C. Stratifying savings banks according to the framework

Most of what has been said about savings banks in preceding sections is fairly universal in its application to savings banks of all types, but clearly there are differences – at least on the functional or product dimension – between a payment and savings-only postbank and a universal bank with a strong retail focus. These differences are also generally reflected in the regulatory regime as well, thereby affecting the formality dimension.

All this suggests that in the subsequent analysis of outreach and financial performance the savings bank movement should be stratified as follows:

- Payments and savings only institutions that do not do credit business with customers;
- Payments, savings and (micro) credit institutions that do at least some small-scale crediting;
- Other payments, savings and credit institutions (where WSBI has no information on credit mix).

These distinctions are maintained throughout the rest of the report. As one progresses down this list, usability is unlikely to be affected, openness may diminish very slightly, formality increases and clearly functional capacity is broadened by the inclusion of credit products (and very often insurance products as well).

4. SAVINGS BANKS AND THE SUPPLY OF ACCESS

A. Measuring the supply of access

As part of its contribution to the UN Year of Microcredit, the World Bank conducted a wide-ranging survey of *deposit-money bank* regulators. The results of this are being discussed at the same conference as this paper and summarised in Beck, Demirgüç-Kunt, and Martinez Peria [2005].

The survey sought data on numbers of branches and ATMs operated by deposit money banks in each country, together with the number of deposits and loans and their average balance. Branch and ATM numbers were presented per 100,000 head of population, while deposit and loan penetration were presented as numbers of accounts per 1,000 head of population. Average balances were presented as a percentage of per-capita income. Unfortunately the full data is not available from all 99 countries that responded to the survey, with loan data only available for half the sample and deposit data for 54 countries. There is also some blurring of commercial bank and savings bank business that has had to be eliminated as far as possible for the purposes of this analysis. Nevertheless, even with these caveats some useful contrasts begin to present themselves:

- There is almost twenty times the number of commercial bank *branches* per head of population in the richest fifth of countries sampled when compared to the poorest fifth of countries.
- The gap is even more marked (35 times) between the number of *deposits* per head of population in the richest fifth of countries compared to the poorest fifth of countries and the most extreme difference (75 times) is between the number of *loans* per head of population.
- Perhaps most interestingly from the perspective of this paper, the ratios of average loan size and average deposit balance to per-capita GDP are sharply higher in the poorest fifth of countries compared to the richest fifth, which contrasts markedly with the experience of savings banks.

Figure 1: Branch and deposit indicators for commercial banks

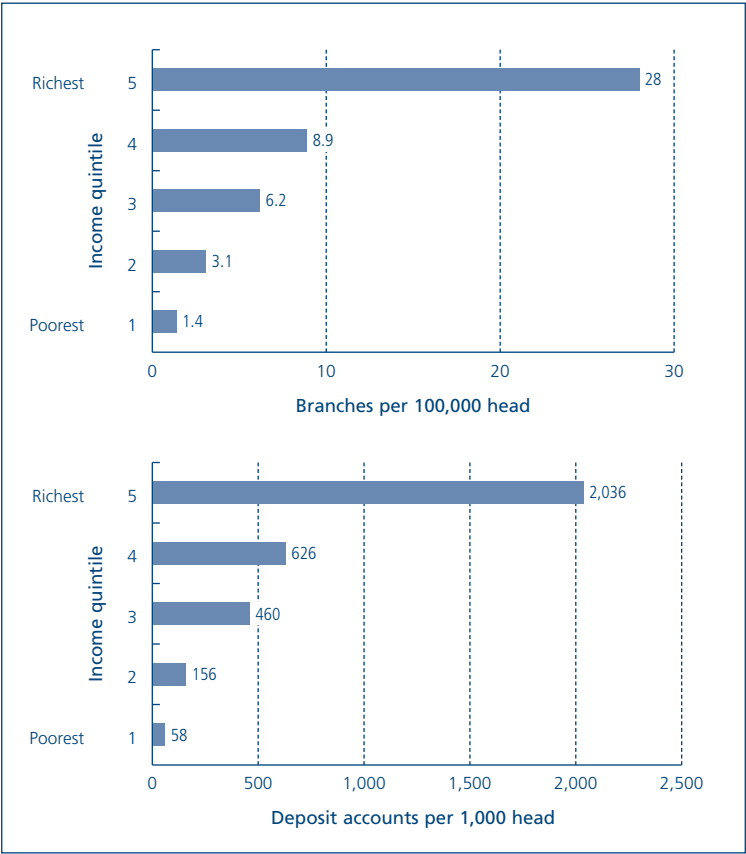


Table 1: Loan size and average savings balances for commercial banks

Country Income quintile	Typical loan size*	Typical savings balance*
5 (richest)	209%	510%
4	275%	256%
3	424%	55%
2	719%	51%
1(poorest)	1074%	38%

* Measured as median percentage of per capita GDP.

At the same time WSBI commissioned an in depth study from OPM of the contribution *savings banks* make to maintaining and fostering access to finance (WSBI [2005] and [2006]). This collected the same data for savings banks and it can be presented in the same way.

The overall results of the study were quite striking. Very large numbers of account relationships were identified at savings banks around the developing and transition economies of the world – 1.1 billion out of a total of 1.4 billion account relationships at all double bottom-line institutions. Two sources were used – data collected by WSBI from its own members and Universal Postal Union (UPU) data on postal savings banks that are not also WSBI members. The UPU data had originally been provided to CGAP for their analysis of double bottom-line institutions (CGAP [2004]).

Full data on deposit account numbers and average balances was available for 81 savings banks identified across 72 developing and transition economies, and branch data for all of these that are WSBI members. Comparisons with the commercial bank data are particularly striking:

- Savings banks typically account for a 33% of all *branches* in the poorest fifth of countries, a proportion that falls to a 20% or less for the middle income countries but rises again to around a 25% for the richest fifth of countries.
- Savings banks account for a 30% of all banking system *deposit* accounts in the poorest fifth of countries, a proportion that falls to about 25% for higher income bands although the very biggest European savings bank movements (Germany, Spain, France and Sweden) will account for half of all deposit accounts in these richest countries.
- Perhaps most interestingly of all is the fact that average deposit balances are the equivalent of around 25% of per-capita GDP whatever the country income band. This last finding is particularly important in that it suggests that savings banking is scaleable in terms of transaction size, in a way that commercial banking is not.

One of the technical difficulties in tracking savings bank *credit* volumes and average loan size is that there is more variation in the way savings banks do lending than there is in the way they mobilise savings. So whereas it is possible to use savings data from WSBI members that have supplied it, to estimate how many savings accounts there are at members that have not supplied data, this is not possible for credit business.

Figure 2: Branch and deposit indicators for savings banks

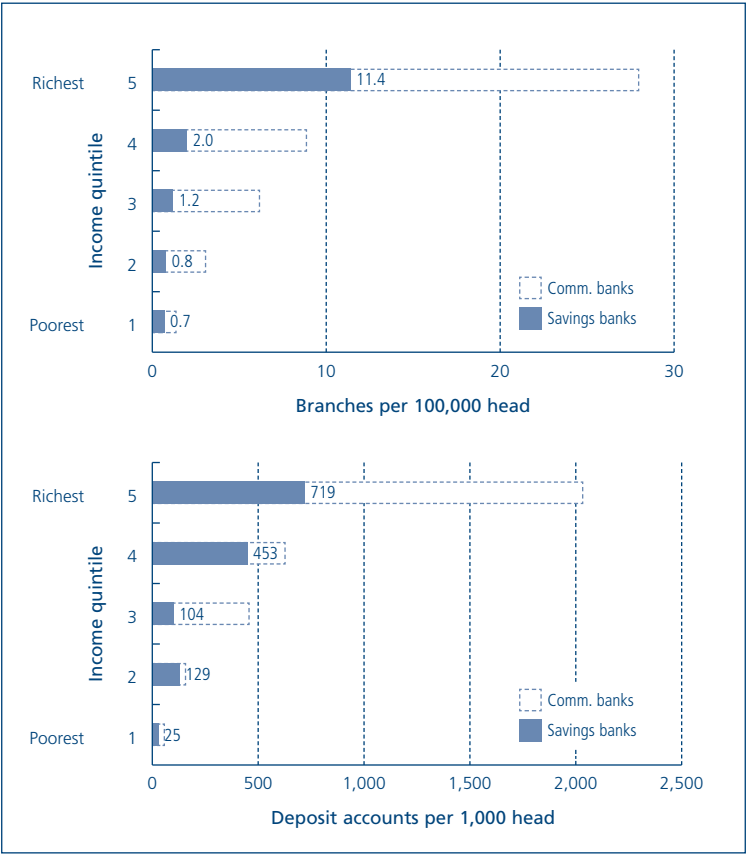


Table 2: Loan size and average savings balances for savings banks

Country Income quintile	Typical loan size*	Typical savings balance*
5 (richest)	n/a	31%
4	17%	3%
3	31%	9%
2	55%	30%
1(poorest)	274%	33%

** Measured as median percentage of per capita GDP.*

At the heart of the problem is the fact that most savings banks will mobilise savings throughout their network and upstream much of these to head office to finance the public sector in various ways. Sometimes this takes the form of investment in government securities but at other times it will take the form of lending to public bodies. Where this upstreaming takes the latter form, it distorts average loan values. Therefore all that can be done, as yet, is to show the many examples where savings banks do have lending programmes that are clearly of an average loan size that makes them comparable to loans provided by many specialist microfinance units. This is done in Table 3 on the following page.

Clearly underlying the table there are many examples of lending with loan sizes well below per capita GDP. The bulk of loans (as opposed to loan programmes and lending) included in the table are indeed below 20% of per-capita GDP, bringing them within what CGAP describe as the low-end of the microfinance target market. A third of programmes meet this criteria. Given the table only covers schemes at 23 WSBI developing and transition economy member banks, out of a total of 58 that do some form of lending, the number of savings bank loans qualifying as microfinance is almost certainly higher and could easily exceed that of microfinance NGOs in total.

Table 3: Savings banks' lending volumes and average loan sizes

Number of loan schemes	Countries covered	Number of loans (000s)	Total Value (€ mns)	Average loan size (€)	Ratio to average income ⁵
Part 1 – Specific Microfinance Programmes					
11	Brazil, Chile, Colombia, Czech Republic, Macau Malaysia, Mongolia, Tanzania, Egypt, Indonesia, and Thailand	2,898	1,903	657	51%
Part 2 – Savings banks with microfinance programmes but only data on individual lending					
3	Cuba, Colombia and Peru	823	996	1,211	129%
Part 3 – Other low average value lending to individuals not already captured above					
12	Brazil, Bulgaria, Chile, Comores, Czech Republic El Salvador, Hungary, Iran, Korea, Poland, Romania and Russia	26,524	13,524	510	17%
Part 4 – Other identifiable low average value lending not already captured					
5	Brazil, Czech Rep, El Salvador, Iran and Sudan	2,173	3,821	1,759	57%
Totals / averages – parts 1 to 4 above					
High value lending by banks listed above		32,417	20,243	624	25%
Others supplying loan numbers but no breakdown		2,869	46,831	16,321	n/a
Overall totals / averages for members supplying data		44	293	6,670	n/a
		39,110	414,074	10,587	n/a

5 Average loan size relative to income is average loan size in Euro divided by per capita income in Euro.

The analysis of commercial and savings banks should really be augmented by the inclusion of access via *other double-bottom line institutions*. Unfortunately it is not possible to do this on exactly the same basis but it is possible to get reasonably comparable data by country income band for median deposit and loan penetration per thousand adults as well as median deposit and loan sizes expressed as a percentage of per-capita GDP. These indicators are presented in Table 4 below and are drawn from the data set underpinning the CGAP [2004] analysis augmented by data of almost similar scope and quality from the FAO~GTZ Agribank-Stat website for agricultural banks and WOCCU's statistical report for credit unions.⁶

The first striking feature of Table 4 is that even the poorest fifth of countries commercial banks will on average be servicing significant numbers of loan and deposit accounts (and even higher amounts of lending and saving balances). But this cannot be taken as constituting access because (a) overall account provision is very low in the poorest countries at just 6 loan accounts and 58 deposit accounts per thousand head of population and (b) the average value outstanding on each account is very high relative to per-capita GDP.

So then the issue is who fills the gap left by commercial bank loan and deposit activity being so far out of reach of the mass market? As already noted clearly savings banks provide very significant volumes of deposit accounts at average balances much more within the reach of the mass-middle market. Unfortunately within the typical poorest country this would still amount to only one account per forty head of population (roughly equivalent to one for every 20 adults). Moreover, all the other double bottom-line institutions taken together do not quite match the deposit penetration of savings banks on their own. So taking all double bottom-line institutions as a group, in the poorest fifth of countries there is barely one deposit account for every twenty head of population (or one for every ten to twelve adults). At this level there is probably just about enough account provision to give a quarter of households in the poorest fifth of countries some sort of access to explicitly accessible formal or semi-formal financial services. To this would need to be added the tenth or so of households that are rich enough to have multiple use of commercial bank accounts. Even combining these two sources of access, however, will leave up to two thirds of households in the poorest fifth of developing countries locked into informal, often very high cost finance.

6 www.agribank-stat.org and www.woccu.org respectively.

Table 4: Loan and savings penetration by institutional type and country income band

Institution / country income quintile	Loan accounts per 1000 head	Average loan size (% of per-cap GDP	Deposit accounts per 1000 head	Average deposit (% of per-cap GDP
Commercial banks				
5 richest	451	235%	2036	44%
4	207	275%	626	56%
3	67	502%	460	55%
2	46	719%	156	256%
1 poorest	6	1074%	58	510%
Savings banks				
5 richest	80	23%	719	31%
4	68	17%	453	5%
3	20	31%	104	9%
2	3	55%	129	30%
1 poorest	0.5	274%	25	33%
Public policy lending institutions				
5 richest				
4	2	239%	174	
3	15	245%	44	
2	8	162%	33	
1 poorest	1	279%	8	
Credit unions, co-operatives and community microbanks				
5 richest	27	50%	82	20%
4	35	28%	91	14%
3	8	44%	18	17%
2	4	26%	12	14%
1 poorest	1	46%	4	13%
Microfinance NGOs				
5 richest				
4	1	12%	0.3	0%
3	6	17%	1	2%
2	3	9%	2	2%
1 poorest	4	20%	3	6%

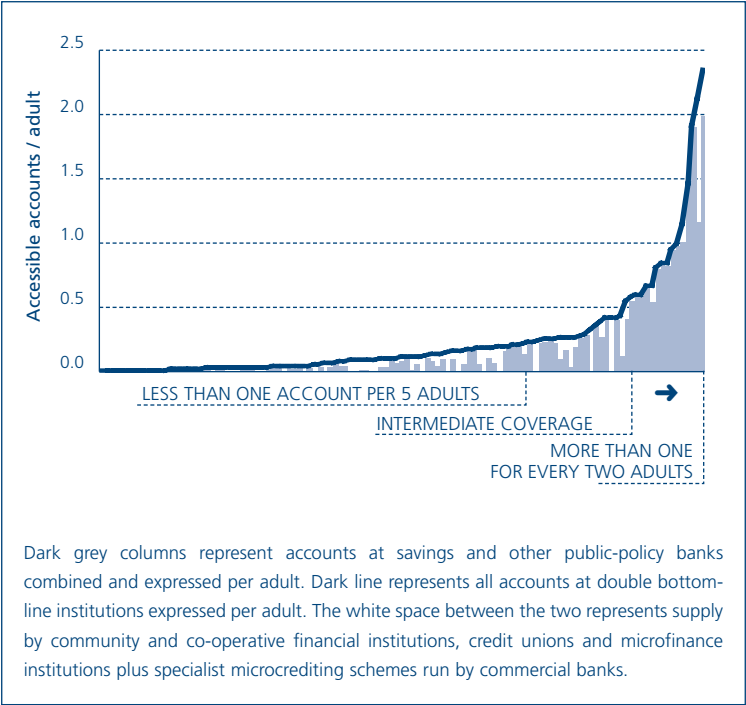
Institution / country income quintile	Loan accounts per 1000 head	Average loan size (% of per-cap GDP	Deposit accounts per 1000 head	Average deposit (% of per-cap GDP
Microfinance NBFIs				
5 richest				
4	1	8%	0.1	5%
3	1	46%	6	16%
2	1	58%	1	6%
1 poorest	2	78%	5	21%
Private commercial bank microfinance				
5 richest				
4	0.2	19%	14	4%
3	1	201%	1	47%
2	1	96%	2	38%
1 poorest	1	118%	1	45%

The picture is even starker when it comes to the supply of credit. The 40% of total loan accounts provided by commercial banks are at such a high multiple of per-capita GDP that they mostly relate to enterprise finance or high net worth individuals. That leaves less than ten loans per thousand head of population coming from double bottom-line institutions at average sizes that are anywhere near affordable to the mass-market.

Interestingly, deposit provision rises quite fast as countries progress up the income scale. Typical savings bank provision of both deposit and loan accounts jumps five-fold as one moves from the poorest fifth of countries to the next fifth up (still poor but not the poorest). Provision by public policy lending institutions and credit unions and co-operatives also jumps sharply but total provision by microfinance NGOs, NBFIs and private commercial bank microfinance schemes falls slightly. Overall the net effect is still strongly positive with deposit account supply by double bottom-line institutions almost up to one account for every five head of population for poor but not the poorest countries. Even loan account provision from these institutions rises to twenty loans per thousand head of population, still very low but improving.

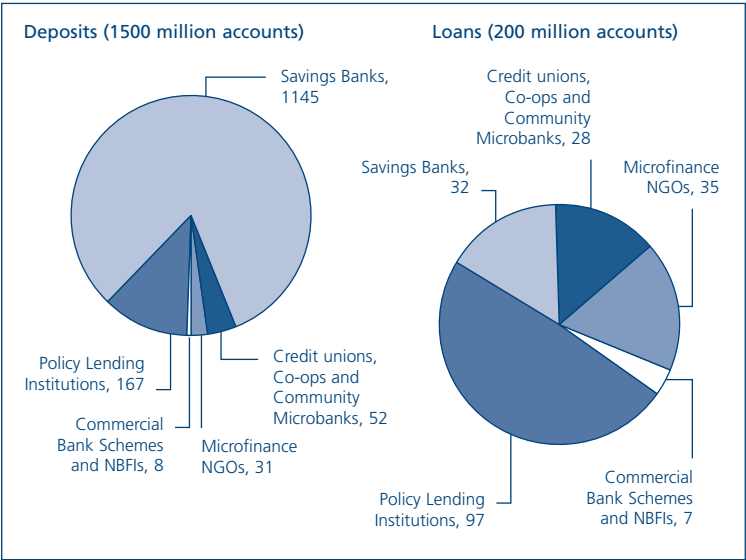
A growing dominance of savings banks and other public policy lending institutions within the provision of accessible accounts as one moves up the accessibility spectrum is illustrated by Figure 3, taken from the second and third OPM studies for WSBI on the contribution of savings banks to maintaining and fostering access (WSBI [2005] and [2006]). This clearly shows that specialist microfinance institutions (the white space between the grey columns and the black line in the chart) only really substitute for savings banking in countries with repressed access (less than one accessible account at a double bottom-line institution for every fifth adult). Even this mostly happens in countries recently troubled by war or civil disruption. While specialist microfinance clearly makes a very valuable contribution to access in the very poorest countries, the chart does seem to indicate that approaching full access is only possible if there is a strong double bottom-line banking capacity as opposed to just a microfinance capacity.

Figure 3: Double bottom-line accounts per adult by type of supplier



The analysis so far has mostly looked at the position of savings banks within the supply of accessible credit and deposit services in terms of a typical, median country within a country income band. This, however, rather understates the overall importance of savings banks in the provision of accessible finance to people in developing and transition economies. Because of a strong presence in a number of very large and large countries – particularly China and Russia but also Brazil, Egypt, India, Korea, Poland and Thailand – average supply weighted by adult population shows savings banks providing one account for roughly every 3 adults across the developing and transition world. Indeed if all double bottom-line institutions are taken together, because of this large country effect there is roughly one account for every 2 adults. At this level it might be tempting to suggest that the issue of access is resolved but, as Figure 3 opposite shows, this is clearly not true and very many, mostly smaller, countries lag far behind this level of provision. What it does mean, however, is that savings banks really are major players in the market for accessible finance as provided by double bottom-line institutions (see Figure 4 below) and that as a group those institutions do provide accessible accounts to very many people across the developing and transition world.

Figure 4: Savings bank account supply in the double bottom-line context



This data merits further work, to integrate the various data sets used. The World Bank study has data on deposits for 54 countries of which 34 have some sort of savings bank but this still leaves nearly 45~50 countries in which savings banks exist but for which the World Bank has no deposit (or incidentally loan) data. Unfortunately, these countries contain banks that account for at least half of all identified savings bank deposit accounts across the world. So conclusions drawn from the World Bank study, although undoubtedly still broadly valid, need caveats relating to these gaps in country coverage.

Equally, to be able to integrate the WSBI dataset, it needs yet more work on the credit side. Progress has been made as part of the process of preparing this paper, but even now not quite half of WSBI's members in developing and transition economies that do some form of lending are covered. That said, over 80% of the total value of lending by those members is covered. In fact, if data for ICBC of China is included, the proportion of the value of lending by members in developing and transition economies covered by the expanded data set reaches 96%.

Whatever the difficulties in matching up data sources, from all of the above it can clearly be said that savings banks make a very significant contribution to the provision of access across countries of all income bands. Equally clearly, savings banks are just part of the spectrum of supply and a strong savings bank alone cannot deliver full access. Nevertheless, a strong savings bank does seem a critical component of moving from repressed access towards full access and it is quite clear that microfinance alone cannot substitute for savings banks in this deepening and broadening of access.

B. Moving from accounts to access

Just having the account platform in place to provide access is not enough to guarantee genuine access is really available. Equally, not using an account is not the same as not having access to it. The World Bank, in their research into this – see in particular the World Bank Financial Sector Vice-Presidency briefing note on measuring financial access (World Bank [2005]) – has regressed surveyed levels of access in about fifteen countries against estimated levels of access based on deposits per thousand head of population and average deposit size (as present in the already referenced Beck, Demirgüç-Kunt, and Martinez Peria [2005] database).

The formula they arrived at was:

$$\begin{aligned} \text{Estimated Access} = & - 170 \\ & + 21 \log(\#Accounts) \\ & + 10 \log(Depsize) \end{aligned}$$

where *Estimated Access* is the percentage of households who save in a formal financial institution (based on market research surveys summarized in Claessens [2005]); *#Accounts* is deposit accounts per 1000 head of population and *Depsiz*e is the average size of deposit as a percent of per capita GDP (from Beck, Demirgüç-Kunt and Martinez Peria [2005]).

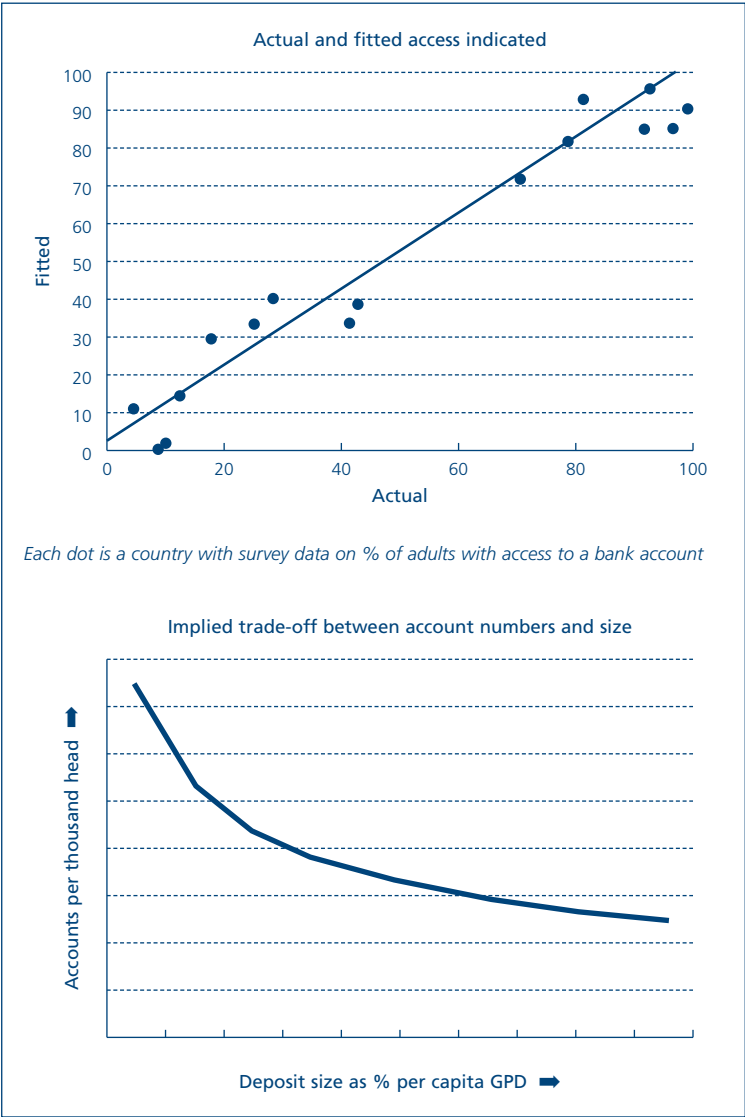
This formula has one particular attribute of relevance to assessing probable outreach by savings banks. This is that it trades off number of accounts with average deposit size. The trade-off is shown in the second part of Figure 5 and is based on the author's own calculations from the formula. It shows the combinations of deposit numbers per thousand head of population and average deposit size as a percentage of per-capita GDP that would correspond to every fifth, every second and finally every adult having access to an account at a formal financial institution.

Because of this trade-off, the formula addresses, to some extent, the issue of multiple-account holding and account dormancy, which is often thought to be a problem specific to savings banks but is in fact common to most banks (although it may well be particularly acute at savings banks with a history of mono-banking within a planned economy environment⁷).

Ideally, to complete an analysis of what savings banks contribute to access it would be beneficial to have survey data on the proportion of adults saving via a savings bank as well as via some other formal financial institution (and better still via semi-formal and informal institutions as well). Such data exists now in barely a handful of developing and transition economies (see Stone [2005] for the most comprehensive discussion of the gaps in survey data). In the absence of the ideal data set, however, the trade-off between deposit numbers and deposit size described above can be used to produce a ranking of the probable outreach of all savings banks in the combined WSBI/CGAP dataset.

7 For example, ICBC of China is currently undertaking a programme of account consolidation. Multiple-account holding is also a known feature of Russian banking markets and Halyk Bank of Kazakhstan is purging its historic account records of multiple and dormant accounts. The problem may also apply to some postbanks in other regions as well, particularly where they have a lot of non-automated account records.

Figure 5: Surveyed versus World Bank estimates of levels of access



This has been done for this study and produces plausible results:

- the broad-outreach large European savings bank movements appear at the top of the ranking;
- small, niche-focused savings banks in low-access countries appear at the bottom;
- and there are no obvious anomalies of supposedly broad-outreach savings banks in countries that almost certainly have repressed overall access.

This still leaves one crucial piece of information missing – the overall level of access in the countries in which savings banks operate. As already noted, the World Bank regulator survey (Beck, Demirgüç-Kunt and Martinez Peria [2005]) has significant gaps in country coverage particularly as regards countries with a significant savings bank presence. The earlier work by OPM for WSBI sought to overcome these gaps by merging indicators on the level and nature of the monetisation of each economy (deposit to GDP ratios, cash to deposit ratios and price-adjusted per-capita deposit balances – which are available for almost all countries) with the CGAP/WSBI indicators on accounts at double bottom-line institutions (expressed on per-adult basis and which are available for many more countries than the World Bank data on deposit money banks). The approach adopted is best described in WSBI [2006] and is reproduced as an annex to this paper. The end result is the table at the front of that annex, but slightly modified to reflect better the Beck, Demirgüç-Kunt and Martinez Peria [2005] results.

That table starts by grouping countries by the number of accounts at double bottom-line institutions per adult – the row headings – but it does this in three columns: the first where (a) microfinance institutions and co-operative/community institutions are the main providers of accessible accounts; then the second where (b) savings and other public-purpose banks are the main providers of accessible accounts and finally the third where (c) monetary data suggests that mainstream commercial banks are making some significant contribution to providing access. In this last column, countries often appear twice – first in lighter text where the number of accessible accounts per adult might suggest they should be placed and then in normal text where monetary indicators suggest they should really appear on the spectrum of access. The arrows down the side of the third column give some indication of the scope of the movement along the spectrum of access that taking account of monetary indicators might mean for some the countries involved.

Having assessed countries according to their estimated level of access and also having ranked savings banks according to the likely proportion of adults with some access via a savings bank, it is then possible to put together matrices that look at whether different types of savings banks are associated with any particular combinations of estimated country-level access and estimated access via a savings bank. This is done in the data tables appended to this paper. Each region has a data table and a distinction is drawn between country income bands (the main row headings) and institutional type (the main column headings). Each combination of the two then has a three-by-three cell sub-matrix within it. The rows of this three-by-three sub-matrix capture the estimated depth of access at a country level (the further down in the rows a country appears the more access there is). The columns cover the likely breadth of savings bank outreach (the further to the right a savings bank is, the greater is the likely proportion of adults having some access via the savings bank).

A stylised example is presented below:

Figure 6: Framework for assessing savings bank outreach

REGION		TYPE OF SAVINGS BANK		
		BREADTH OF SAVINGS BANK OUTREACH ➡		
COUNTRY INCOME BAND	➡ DEPTH OF ACCESS	Narrow outreach savings bank in a shallow access country		
				Broad outreach savings bank in a deep access country

The first point to make, looking at the tables in the data annex, is that no absolute case can be made that says one particular operational approach is guaranteed to be superior than another in terms of the outreach achieved and level of access supported. That said, there are more examples of broad outreach payments, savings and credit banks doing at least some low average value lending than there are examples of broad outreach payments and savings only banks. So this suggests that *combining savings and payments services with a demonstrable capacity to provide small-scale credits gives the best chance of broadening outreach and supporting higher levels of access country-wide.*

5. SAVINGS BANKS AND THE FINANCIAL BOTTOM-LINE



Having established that savings banks are structured to make a significant contribution to the provision of access and do in fact largely deliver a significant contribution to access, this gives one part of the double bottom-line – namely that savings banks have a demonstrable commitment to universal access for all including those elements of the population not traditionally well served by mainstream commercial banks. It is now time to look at the other half of the double bottom line – namely what sort of profit do savings banks make and how might it vary the provision of access.

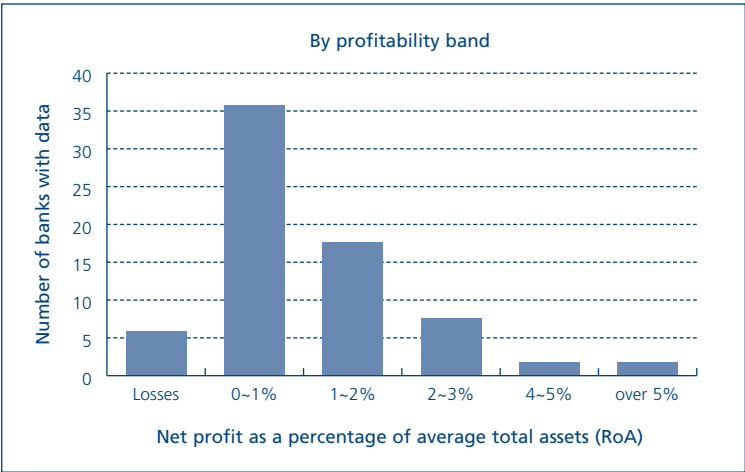
A. Overall profitability

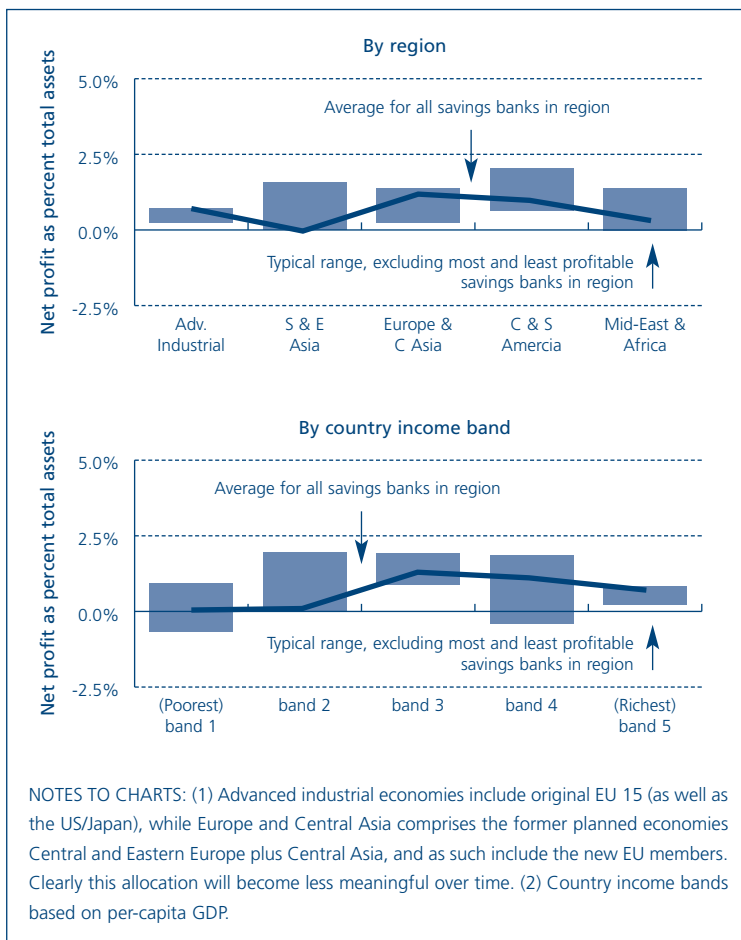
The first point to make in this chapter is that savings banks are not chronically unprofitable, in the way that is often expected of state-owned public-purpose financial institutions particularly in the field of agricultural and development finance. Figure 7 shows very clearly how small a proportion of savings banks actually made a loss in 2003. The data used covers just over seventy WSBI members that provide profit and loss data to the Institute. Only six of these registered a net loss in 2003. Most of the almost thirty members that did not provide profit and loss data were postal savings operations, quite possibly not established as separate accounting entities, so lack of data should not be seen as indicating an attempt to hide losses. There is also no profit and loss data here for the postbanks that are members of UN's Universal Postal Union but not members of WSBI.

Clearly, therefore the data on postbank profitability is only partial. Bearing this caveat in mind, it is still possible to say:

- savings banks can be run on a profitable basis provided they are established as fully independent profit units with ring-fenced balance sheets and income/expense statements;
- there is no systematic pattern to profitability either by region or country income band –savings banks in the poorest countries can be as profitable as savings banks in the richest countries but equally they can be much less profitable;

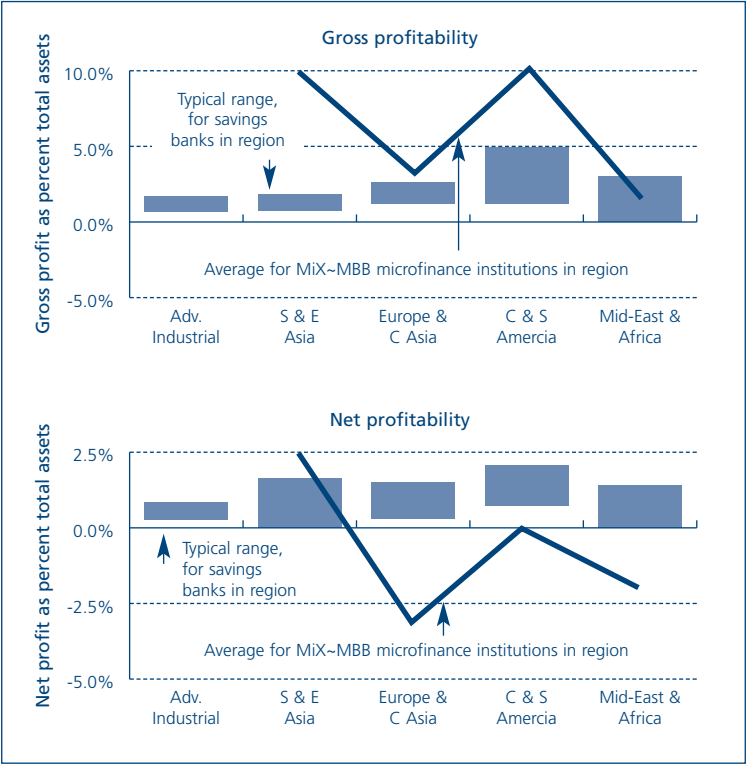
Figure 7: The distribution of savings banks' net return on assets





Having established that savings banks are generally profitable, the next step should be to compare that profitability with commercial banks and microfinance institutions. This has not yet been done for commercial banks but CGAP's MiX~MBB database – a voluntary information exchange for microfinance institutions – does allow some comparisons, albeit with a self selecting set of microfinance institutions that tend to be the less informally structured and more financially focused ones.

Figure 8: Savings bank and microfinance institution profitability compared

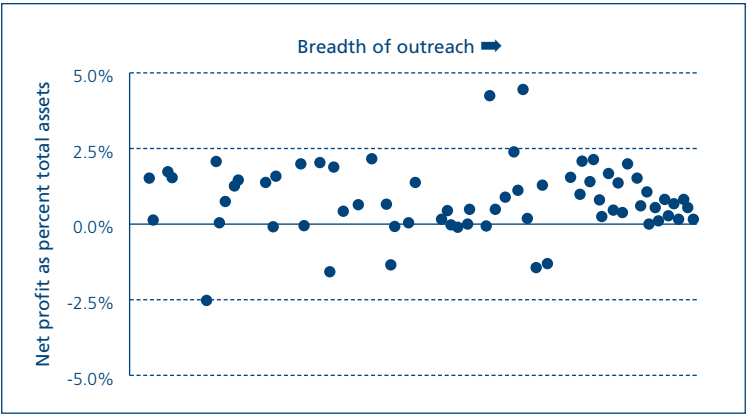


In the charts above, a distinction is drawn between the profit margins the different types of institutions make before bad debts and taxes and after these deductions. This is to reflect the very different institutional forms and possibly different bad-debt provisioning and tax regimes. The gross measure – before bad debts and taxes – can be seen as the profit margin that the different types of institutions extract from their customers and for this reason, for microfinance institutions, it is shown with adjustments made for operating subsidies provided by donors, etc. It is noteworthy that microfinance institutions tend to make higher gross profit margins before bad debts and taxes when compared to typical savings banks in each region but net profitability is lower (and often negative) once bad debts and taxes have been allowed for.

Finally, on overall profitability, it is possible to compare each savings bank's profitability with its ranking in terms of breadth of outreach, as derived in the previous chapter. This is done in the scatter chart for all but one of the members, for which WSBI has profit data.

What immediately becomes clear is that there is no systematic variation in profitability in line with relative outreach – i.e. *as savings banks broaden their outreach there is no reason why profitability should fall. The exception might be at the very top-end of the spectrum where the very large broad-outreach savings banks in stable advanced economy markets operate at finer net profit margins than savings banks across the rest of the world.*

Figure 9: Savings bank profitability and relative outreach



B. Cost efficiency – Underpinning affordability and profitability

One reason why savings banks can remain profitable but still provide products that can sustain affordable low-level and irregular use, is that they generally have high staff productivity in terms of accounts managed per employee and much lower cost to asset ratios than microfinance institutions. Performance on these two key drivers of what must be charged for services is shown for 2003 in the two charts opposite.

Figure 10: Savings bank operating cost to asset ratios

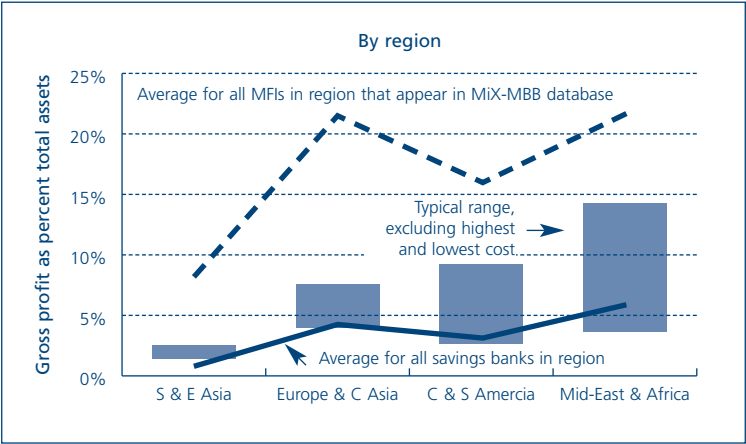


Figure 11: Savings bank accounts per staff member

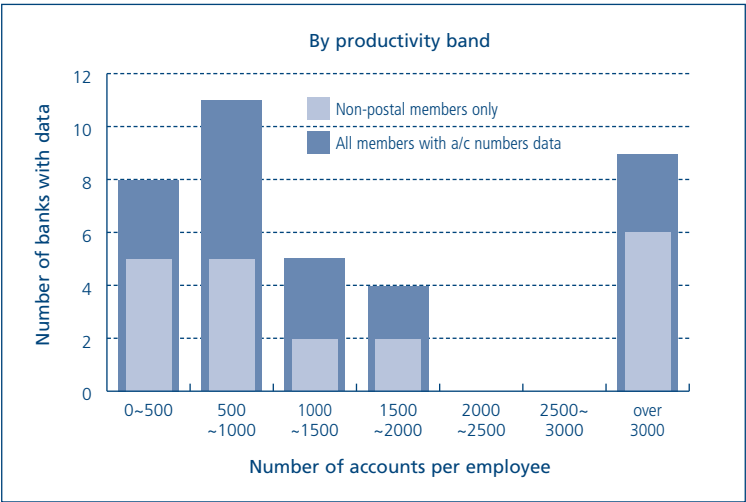


Figure 10 suggests that the largest savings banks operate at quite low cost ratios (annual operating costs equal to 1~4% total assets) and even at the top-end of the normal range of savings banks' cost ratios, they are still much lower than similarly calculated ratios at microfinance institutions (most microfinance institutions in the CGAP MiX-MBB database have cost ratios in the 20~30% range). The reason that this cost ratio matters is that it determines the wedge between what an institution can afford to pay depositors for savings mobilised and what it must extract by way of interest income earned and fees/commissions received. The wedge is high for microfinance institutions and this is why they are invariably seen as a high-cost source of credit when compared to other formal sources of finance. Because the ratio for savings banks is low, even for the banks doing the most crediting, these banks have the possibility of becoming relatively low-cost providers of small-scale finance without having to subsidise creditors at the expense of depositors.

Figure 11 shows how high staff productivity typically is at savings banks when measured in terms of accounts serviced per employee. This figure is much higher than is typical at microfinance institutions. Savings bank staff will be handling roughly 900 accounts each; staff at microfinance institutions, perhaps 150 each. Of course some of the 900 accounts will be inactive but not the 85% or so needed to bring the two productivity indicators into line with each other. Even if this were to be the case, all the inactive accounts will still be creating continuously some net interest margin to help cover the costs of accounts that happen to be incurring transaction costs at any one point in time. There is also a common misconception that savings accounts must be easier to service than loan accounts but this is not necessarily so. No one would dispute that the origination of good quality loans takes longer than opening new deposit products. Once up and running, however, a loan account creates one, maybe two transactions per month. A typical savings bank account will create exactly the same turnover if not more and the timing of that turnover is if anything less under the control of the bank than the timing of loan activity.

Encouragingly, this high productivity is not just a big-city or urban phenomenon – Table 5 opposite analyses a sub-set of the data on staff productivity – based on those members for which WSBI has data on account numbers by type of outlet (national/regional capitals versus small town/rural areas). This shows a three-to-two ratio between the number of savings banks where staff handle more accounts per head outside the major urban areas than inside and the number of savings banks where the reverse is true.

This confirms more than ten years of consulting experience for the author – savings banking is a scaleable business right down to the smallest scale rural outlet.

Table 5: Accounts handled per savings bank employee, by location of outlet

Productivity greater in major cities

	Major city branches	Outside major cities
Sweden	900	620
Vietnam	250	149
Comores	918	130
Zimbabwe	5906	3471

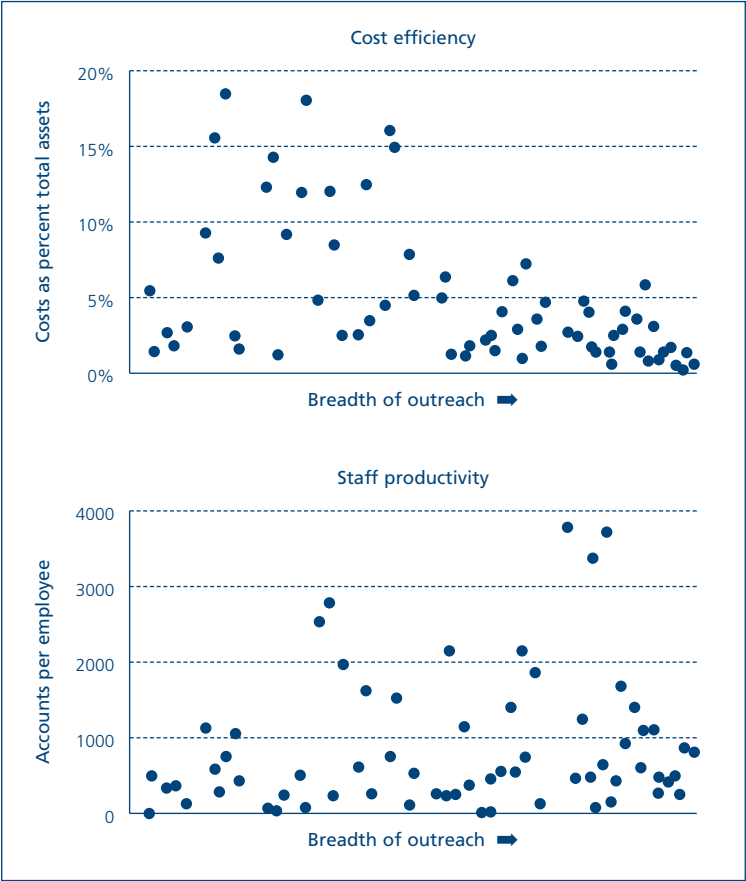
Productivity greater outside major cities

	Major city branches	Outside major cities
Austria	340	407
Bulgaria	1304	1774
Hungary	5024	6831
Colombia (x2)	443	822
Dom. Rep.	1008	1221
Iran	348	358
Ethiopia	89	109

What then does all this tell us about outreach – can savings banks really operate in a cost effective manner with very low average balances and therefore keep such business affordable to low-value irregular users? On this the evidence is mixed, as the charts in Figure 12 on the following page show. Clearly cost efficiency is an issue – for the savings banks with the broadest outreach (for which there is also income and expense data) all but three have cost to asset ratios below 5%. That said, there are some narrow outreach savings banks with similar cost ratios but far more of them have cost to asset ratios above 5%. As regards staff productivity, there may be a weak relationship because there are no very high productivity, narrow-outreach banks.

That said, there are as many broad-outreach savings banks with up to a thousand accounts per employee as there are narrow-outreach banks with the same levels of productivity. This is probably not surprising, given earlier chapters have indicated that a broader range of products helps broaden outreach – the more complex the product range the more staff are likely to be needed for any given number of customers.

Figure 12: The link between outreach and cost efficiency and staff productivity



Overall, therefore, it is probably fair to say that as savings banks broaden their outreach, possibly through broadening their product range, it is important that they keep costs under control and sustain staff productivity. In this way, savings banks can keep their business profitable despite reaching out to lower value and less regular sources of business.

6. CONCLUSIONS AND POLICY IMPLICATIONS

From their very organisation and guiding principles, it is clear that savings banks share a major commitment to providing universal access. Their simple but functional products are capable of being used at an affordable cost by people with low value and irregular business as well as customers with greater needs. Their widespread networks of outlets and approachable staff make savings banks more open to other excluded individuals than commercial banks located in major urban areas. They also offer a balance between the protection implicit in being part of the formal financial sector and the informality that can come from operating under tailored regulation. Taken together, all these factors suggest that, with the right management strategy and commitment, a savings bank should be able to contribute to deepening access within a country by broadening it as well.

This paper has also presented evidence that gives a tangible dimension to that commitment to provide access. Savings banks are by far the largest element of those “double bottom-line” institutions that explicitly target those customers not normally well served by purely commercial banks. All together, these institutions probably service 1.4 billion accessible accounts across the developing and transition economies of the world and three quarters of this (some 1.1 billion accounts) come from savings banks. Overall, savings banks probably provide around a quarter of all accounts in the poorest countries in which savings banks operate. They probably also account for about a quarter of all access in the richest countries within which they operate, although some of the largest and most advanced savings banks in advanced industrial economies almost certainly provide half of all access in their home markets. It is quite clear from the data that having a strong savings bank provides significant impetus to the progression towards full access, in a way that microfinance alone cannot. The data analysis undertaken for this study also suggests that the particular institutional form a savings bank takes – of which there are many – need not be a constraint of the potential breadth of its outreach. That said, having the full range of necessary products – including accessible credit products – to provide access does seem to help.

The really encouraging message from this paper is that outreach does not have to be at the expense of profitability. Savings banks really are truly double bottom-line institutions – they can sustain and build access beyond segments of the market that commercial banks find profitable without falling into chronic loss-making. Critical to achieving this is the ability to keep unit costs under control and this links back to having products that are simple to understand and run but sufficient for purpose.

The policy implications of this are three-fold:

- There is a long-established architecture for access, comprising widespread branch networks, staff with the skills to serve otherwise excluded customers and products that meet their needs at an affordable price. Valuing this architecture and helping it deliver its potential should yield as much in terms of improved access as any efforts to build a new architecture for access solely around the microfinance model.
- Longstanding concerns about the financial viability of publicly-owned banking initiatives in the field of fostering access are almost certainly overstated – savings banks are generally profitable and broadening outreach need not undermine profitability. That is not to say that there are no risks but that the focus of policy support should be on the quality of the design of the initiative, not in necessarily trying to find a private or voluntary-sector alternative.
- Policymakers' first duty should be to avoid doing any harm to a model that generally works and that means appropriate regulation that values access as well as stability.

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DATA TABLES

Central and Eastern Europe and Central Asia

	Payments and Savings-only S.B. Outreach ➡			Payments, Savings & Microcredit S.B. Outreach ➡			Other Payments, Savings & Credit S.B. Outreach ➡		
Income quintile 1 & 2	Access ➡	-	-	Tajikistan, Uzbekistan	-	-	Azerbaijan	Ukraine	-
		-	-	-	Mongolia	-	-	-	-
		-	-	-	-	-	-	-	-
Income quintile 3	Access ➡	Macedonia, Serbia & Montenegro	-	-	-	-	-	Romania [1] & [2]	-
		-	-	-	-	-	-	-	-
		Kazakhstan [2]	-	-	-	Bulgaria [2]	-	Bulgaria [1]	Kazakhstan [1], Russia
Income quintile 4 & 5	Access ➡	-	-	-	-	-	-	Latvia	-
		-	-	-	-	-	-	-	-
		Croatia, Slovenia	-	Czech Republic [3]	-	Czech Republic [1] & [2], Hungary [1] & [2]	-	-	Poland, Slovakia

Central and Southern America plus Caribbean

	Access ➡	Payments and Savings-only S.B. Outreach ➡			Payments, Savings & Microcredit S.B. Outreach ➡			Other Payments, Savings & Credit S.B. Outreach ➡		
Income quintile 1 & 2	Access ➡	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
		-	-	-	Bolivia [3]	Bolivia [1], Cuba	-	-	Bolivia [2]	-
Income quintile 3	Access ➡	-	-	-	Colombia [1]	Colombia [2]	Dom. Rep [2]	Dom. Rep [1]	-	-
		-	-	-	Peru	-	Brazil	-	-	-
		-	-	-	-	-	-	-	-	-
Income quintile 4 & 5	Access ➡	-	-	-	-	-	Panama	-	-	-
		Bahamas, Mexico [2], Trinidad & Togo	-	-	-	-	-	Mexico [1]	-	-
		-	-	-	-	-	Chile	-	-	-

South and East Asia

	Payments and Savings-only S.B. Outreach ➡			Payments, Savings & Microcredit S.B. Outreach ➡		Other Payments, Savings & Credit S.B. Outreach ➡	
	Access ➡			Access ➡		Access ➡	
Income quintile 1 & 2	Nepal, Pakistan [2]	Pakistan [1]	-	-	-	-	-
	Vietnam [1]	-	India	-	Indonesia	-	Vietnam [2]
	-	China [1], Sri Lanka [2]	China [2]	-	-	Philippines	-
Income quintile 3	-	-	-	-	-	Macau	-
	-	-	-	-	-	-	-
	-	-	-	-	-	Thailand	-
Income quintile 4 & 5	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	Malaysia [2]	Korea [1]	Korea [2]	-	-	-

East and Southern Africa

		Payments and Savings-only S.B. Outreach ➡			Payments, Savings & Microcredit S.B. Outreach ➡			Other Payments, Savings & Credit S.B. Outreach ➡		
	Access ➡	Madagascar, Sudan [2] Uganda	Malawi	-	Ethiopia, Sudan [1]	Tanzania	-	Zambia	-	-
Income quintile 1 & 2	Access ➡	-	Kenya, Niger	-	-	-	-	-	Zimbabwe	-
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Income quintile 3	Access ➡	-	-	-	-	-	-	-	-	-
		-	Namibia	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Income quintile 4 & 5	Access ➡	-	-	-	-	-	-	-	-	-
		-	Botswana	-	-	-	-	-	-	-
		South Africa	-	-	-	-	-	-	-	-

West and Central Africa

	Payments and Savings-only S.B. Outreach ➡			Payments, Savings & Microcredit S.B. Outreach ➡			Other Payments, Savings & Credit S.B. Outreach ➡		
	Access ➡			Access ➡			Access ➡		
Income quintile 1 & 2	Central African Rep., Senegal, Sierra Leone	Burkina Faso, Cameroun, Côte d'Ivoire	-	-	-	-	-	Comores, Togo	-
	-	Benin	-	-	-	-	-	Mali	Angola
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Income quintile 3	-	Cape Verde [2]	-	-	-	Cape Verde [1]	-	-	-
	-	-	-	-	-	-	-	-	-
Income quintile 4 & 5	-	-	-	-	-	-	-	-	-
	-	Gabon	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-

Middle East and North Africa

	Payments and Savings-only S.B. Outreach ➡		Payments, Savings & Microcredit S.B. Outreach ➡		Other Payments, Savings & Credit S.B. Outreach ➡
Income quintile 1 & 2	Mauritania, Yemen	-	-	-	-
	-	Egypt [2]	-	Egypt [1]	-
	-	-	-	-	-
	-	-	-	-	-
Income quintile 3	Morocco [3]	Morocco [1], Tunisia	-	-	Iran
	-	-	-	-	Algeria
	Jordan	-	-	-	Morocco [2]
	-	-	-	-	-
Income quintile 4 & 5	-	-	-	-	-
	Libya	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-

ANNEX - FILLING GAPS IN MEASURED ACCESS

The CGAP [2004] study and second OPM study for WSBI [2005] focussed on the supply of *accessible* accounts, with those accounts defined as being at institutions that explicitly target customers not normally well served by mainstream commercial banks. World Bank research into overall banking sector provision of access – see section 2 of the main paper – would seem to indicate that for the poorest developing and transition economies, mainstream commercial banks provide relatively little access but for middle income and better off developing and transition countries they play an increasing role. This can be implied from the fact that the average deposit balance at which they operate converges with the average deposit balance at which savings banks operate, albeit still remaining 1 to 2-times as high.

Clearly then for a number of middle-income and above countries, an analysis based only on accounts at accessible financial institutions – savings banks, other public purpose banks, community and co-operative institutions, specialist Microfinance institutions and commercial bank microcrediting schemes – almost certainly understates actual levels of access. In these better off countries, mainstream commercial banks may be at least reaching the upper-middle market even if they do not range across the full mass market. To identify when this might be happening, it is worth drawing on monetary data in the way already developed in the first OPM study for WSBI [2004a].

That study took three indicators of the level and nature of monetisation that can be derived from components of national money supply. These were:

- the ratio of total non-bank non-governmental deposits at deposit-money banks to GDP;
- the ratio of cash in circulation to total non-bank, non-gov. deposits at deposit-money banks;
- and non-bank non-governmental deposits at deposit-money banks per head of population.

These were chosen on the grounds that if cash in circulation is very high relative to deposit balances and deposit balances are low relative to GDP (or occasionally per-capita deposit value is very low compared to countries with similar deposit to GDP relationships), then access is almost certainly repressed. By contrast, when cash is relatively low in relation to deposit balances and deposit balances are relatively high in relation to GDP, then a country is almost certainly moving towards full access. The earlier paper (WSBI [2004a]) gives thresholds for assessing where these indicators suggest a country might lie on the access spectrum and a lot of regional/country detail.

The table on the following page starts by grouping countries by the number of accessible accounts per adult – the row headings – but it does this in three columns: the first where (a) Microfinance institutions and co-operative/community institutions are the main providers of accessible accounts; then the second where (b) savings and other public-purpose banks are the main providers of accessible accounts and finally the third where (c) monetary data suggests that mainstream commercial banks are making some significant contribution to providing access. In this last column, countries often appear twice – first in lighter text where the number of accessible accounts per adult might suggest they should be placed and then in normal text where monetary indicators suggest they should really appear on the spectrum of access. The arrows down the side of the third column give some indication of the scope of the movement along the spectrum of access that taking account of monetary indicators might mean for some the countries involved.

Gradually, as the World Bank research into access comes to cover more countries and integrates the data from this study and the CGAP work, these adjustments will become unnecessary.

Table A.1: Assessed levels of access by country

	Bulk of access via specialist MFIs, credit unions, co-ops, etc	Savings and other public-purpose bank providing bulk of access	Countries with signs of some significant access via comm. banks
← REPPRESSED ACCESS	Countries with no identified accessible accounts per adult	Chad, Somalia & Turkmenistan	Brunei, Djibouti, Israel, Kuwait, Qatar, S. Arabia & UAE
	Countries with only 0.01 ~ 0.10 identified accessible accounts per adult	Afghanistan, Lao PDR, Liberia, WB&Gaza, Eritrea, Mozambique, Timor-Leste, Venezuela, Moldova, Sierra Leone, Armenia, Georgia, Kyrgyz R., Bosnia H., Nigeria, Guinea, Ethiopia, Swaziland, Ghana, Burundi, Uganda, Nepal, El Salvador, Gambia & Malawi	Argentina, Estonia, Libya, Lithuania, Oman, Albania, Bhutan, Syria, Macedonia, Lesotho, Sao Tome P., Mauritius, Jordan, Mexico, Guyana, Nicaragua, Costa Rica, Peru & South Africa
	Countries with only 0.10 ~ 0.20 identified accessible accounts per adult	Rwanda, Madagascar, Congo, Burkina Faso, Togo & Guatemala	Honduras, Iran, Kenya, Latvia, Namibia, Paraguay, Philippines, Slovenia, Suriname & Senegal
	Countries with 0.20 ~ 0.50 identified accessible accounts per adult	Ecuador, Benin, Bangladesh & Indonesia	Argentina, Brunei, Djibouti, Estonia, Kenya, Libya, Lithuania, Mexico, S.Arabia, FYROM, Namibia & Peru reallocated plus Belize, Croatia, Uruguay , Turkey
TOWARDS FULL	Countries with 0.50 ~ 1.00 identified accessible accounts per adult	Poland, China, Kazakhstan, Cuba, Korea, Bolivia, Russia, Malaysia, Czech R., Bulgaria & Chile	Croatia, Jordan, Oman, Kuwait, Philippines, Qatar, Slovenia, S.Africa, UAE & Uruguay all reallocated
FULL	Countries with more than one accessible account per adult	Cape Verde, Thailand, Slovak Republic, Sri Lanka & Hungary	All advanced economies plus Israel reallocated

NOTES: All small island states and known offshore centres excluded.

TABLES/CHARTS REPRODUCED FROM EARLIER STUDIES

Table A.2: Minimum fee to open a savings account

Country	Opening fee US\$	Relative to % of per capita income
Benin	9.00	2.3%
Burkina Faso	9.00	4.1%
Côte d'Ivoire	16~32	2.6%
Kenya	7.00	1.9%
Tanzania	5.00	1.8%
Chile	none	0.0%
Colombia	5.80	0.3%
Peru	10.00	0.5%
Malaysia	0.27	0.01%
Thailand	none	0.0%

Source: WSBI 2004b

Table A.3: Sample calculations of cost of use for passbook and card accounts

	Central & Southern America		Selected African Postal Saving Banks		South & East Asia	
	Banca Caja Social, Colombia	Caixa Econ. Federal, Brazil	Caisse d'Epargne Senegal	Postbank Botswana	Bank Simpanan Nasional Malaysia	Postal Savings Service Vietnam
TARIFF FOR PASSBOOK						
Fixed monthly fee	none	none	none	€0.36	€0.20	none
Manual credit	free	free	free	free	free	free
Manual debit	free	€1.05	free	free	free	free
PASSBOOK USAGE						
Income credited per month	€66.67	€100	€25	€167	€150	€17.5
Manual credit per month	1	1	1	1	1	1
Manual debit per month	2	2	2	2	2	2
Cost per year	€0	€26	€0	€4	€2	€0
or % of average balance	0%	3.13%	0%	0.05%	1.98%	0%
or % of assumed income	0%	2.10%	0%	0%	0.13%	0%
TARIFF FOR CARD ACCOUNT						
Fixed monthly fee	€2.03	€1.15			€0.30	
ATM access	€0.17	free			n/a	
Manual credit	free	free			free	
Manual debit	free	€1.05			free	
CARD ACCOUNT USAGE						
Income credited per month	€133.33	€200			€300	
ATM access per week	1	1			1	
Manual credit per month	1	1			1	
Manual debit per month	-	-			-	
Cost per year	€33	€20			€4	
or % of average balance	4.12%	2.50%			2.98%	
or % of assumed income	2.08%	0.84%			0.10%	

Source: WFSBI 2005

NOTES: Underlying the calculations in Table A.3 are common assumptions that a passbook customer deposits money once a month and withdraws cash twice a month, and the amount passing through the account each month is the equivalent half of per capita monthly GDP. For the card account holder, the assumption is that salary is credited once a month, an ATM withdrawal is made once a week and over-the-counter deposits once a month but manual withdrawals only every second month. The amount passing through the account is assumed to equal per capita monthly GDP.

Table A.4: Opening requirements by type of product

	Surveyed members offering product	Percent requiring in addition to proof of identity		
		Proof of pay	Letter of reference	Proof of domicile
Payments accounts	22	45%	15%	50%
Term deposits/ Savings accounts	24	n/a	10~15%	40~45%
Credits	22	65%	30%	65~70%
Receiving/sending international remittances	19	n/a	10%	40%

Source: WSBI [2005]

Table A.5: Product access by type of savings bank outlet

	Surveyed members offering via full branches	Percent offering same service via:	
		Other offices	Mobile units
Payments accounts	11	80%	<20%
Payments accounts – enterprise	10	85%	10%
Term deposits/ Savings accounts – personal	12	85%	15%
Term deposits – enterprise	11	55%	<10%
Card accounts	8	55%	15%
Credits – personal	9	85%	
Credits – enterprise	9	60%	
Specialist microfinance credits	6	55%	
Receiving/sending international remittances	8	85%	20~25%

Source: WSBI [2005]



About WSBI (World Savings Banks Institute) and ESBG (European Savings Banks Group)

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banks. Founded in 1924, it represents savings and retail banks and associations thereof in 86 countries of the world (Asia-Pacific, the Americas, Africa and Europe – via the European Savings Banks Group). It works closely with international financial institutions and donor agencies and facilitates the provision of access to finance worldwide – be it in developing or developed regions.

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe. It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

WSBI-ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. WSBI and ESBG member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.

