Microfinance Impact and Innovation Conference 2010
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Practitioner comments on research: Beth Porter

- Do people know what is best for themselves in terms of how much to save and how often?
- Do they act on it if they can?
- If not, are the barriers more internal or psychological or external or environmental?

Both of these papers get at some aspects of these fundamental questions relating to savings. They posit that the internal or psychological barriers are significant, and can be addressed substantially through mechanisms that act on this psychology. One study looks at the effects of reminders and the other takes things further by introducing commitments.

As I consider these papers, my first reaction is relief. Why I am relieved? Because I know that I am not alone. We do not always act in our economic best interest. Although humans are rational, economic beings, we do not always act rationally or in our economic best interest. And it may be in fact a combination of factors that affect our willingness and ability to do so. The fact that I have not put money into my daughters' 529 College Savings account—notwithstanding my intention to do so—may simply be because I did not take advantage of a commitment opportunity. We may end up at sub-optimal outcomes, but as is amply demonstrated in Portfolio for the Poor, poor and low income people have less margin of error. As practitioners or researchers or policymakers or funders who care about the poor and the impacts of financial services on their businesses and lives, research like this matters, and we need to pay attention and learn from it—and apply that learning.

My second reaction to the research papers, is that if you stay around in the industry for long enough, things reappear, though perhaps in different form. When I got into this field 20 years ago, much of savings if it was offered at all was forced or compulsory savings—with the timing, amounts, access all set by the program. Although the basic motivations were simply to help clients improve their lives, a number of the perceptions that drove the design were rather paternalistic. These included the belief by some that the poor did not know how to save, that the poor needed to practice or develop the habit, or that the poor did not have other means to save. From an institutional perspective, "savings" such as they were, were seen as a means to bind the clients to the institution and make them more likely to repay, or even were actually used as a guarantee for the loan. If voluntary savings were included at all, they were not used, because it was not clear whether they would be subject to the same constraints as the compulsory savings. In many of these programs, savings were not an end in and of themselves—but condition for access to loans. The entire equation started out on its head—we should have begun with savings—taking the low risk way to helping the poor smooth consumption, reduce vulnerability to shocks, and build assets. Instead we started assuming that the poor were all entrepreneurs and had more of an appetite for risk than for their next meal. I am relieved that we are finally moving the discussion from microcredit to microfinance, with a particular emphasis on savings—and even taking it further to "financial inclusion." We know that even this is not far enough, and we need to understand the interplay of other supportive mechanisms, including financial education—which I was pleased to hear addressed in one study today—and others, in areas of health, education, energy, infrastructure—that are not the purview of financial services providers, but do affect the efficacy of any financial services intervention.

My third reaction is caution. Let's interpret and use these results carefully. There is a lot that we can say based on these studies that may be generally applicable, but there is much that is specific as well. Let's begin with the general: there are both environmental and psychological components to whether and how people save. These will vary by context, by market segment, and by individual people. The implications of this are that market research remains important to understand these different contexts and how they play out in peoples options and decisions.

Forced or compulsory savings have fallen out of favor, but we are introducing them in another form, in which the individuals themselves are doing the forcing. We assume—and it is a reasonable assumption, that their commitment will be something that makes sense to them and their situation, and that it won't force them into a suboptimal situation—for example, borrowing with interest to fulfill a savings commitment. An important design consideration is to ensure there is scope for people to make commitments that work for them. In the example in Malawi, the commitment was designed specifically to increase fertilizer purchase and use by addressing the problems of self-control and to assist people in resisting pressures from their social network. Financial services providers will need to determine how narrowly to design their commitment savings products in terms intended use.

In terms of reminders to address the problem of limited attention, there is a window of opportunity to use such approaches now, when there is not so much "noise." Remember my example of saving for my daughters' education? I know I need to do it, and I even receive email reminders, but there is too much noise for me to pay enough attention to take action. Simple reminders—particularly if they are focused on a client's own goals as suggested by the "top of mind" research—may get through more readily to the poor and low income microfinance clients that are less inundated by information and messages than we are. There will be cost and operational implications, as suggested by the research—text messages are cheap and quick, letters by post expensive and slow. What are other ways to provide reminders that may be cheap, timely, and effective?

Taking the findings of the studies and ensuring we are asking the right questions in market research, FSPs then need to design for discipline—theirs and the client. We would be wise to recall the SUAVE design principle mentioned in the microinsurance discussion yesterday—for it is applicable to design of financial products more generally—and try to be SUAVE—simple, understandable, accessible, valuable, and efficient in our product design.

Some complimentary research that I would like in the future is looking at some of the social mechanisms to enhance savings. Use of social mechanisms such as the peer guarantee in lieu of collateral was the breakthrough in microcredit. But we have not devoted similar attention to these mechanisms on the savings side, except through the very important informal approaches of SHGs or VSLAs or structures by other names. How could we use group settings—which are being used all around the world in informal mechanisms and by other formal FSPs—or other ways of using social networks to help individuals set and achieve savings goals?

Finally, I cannot help but take this opportunity to make a plea for figuring out how to do rigorous research that looks at what happens over three years and better yet five years. This is even more critical when considering savings rather than credit. As Dean noted yesterday morning, there are few—at least within the industry—who still believe that microfinance, much less microcredit—is a panacea. We also know that in any case the effects are not immediate—managing our finances and our livelihoods is a lifelong struggle, not a one-off exercise. We need to better understand what are the longer term and dynamic impacts of savings on the businesses and lives of the clients. Only with this understanding will be able to improve the financial services offered, make the right investments, and set the right policies. And so I help the researchers by providing the last line to your studies: more research is needed.