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The poor's savings: Next frontier?

The best candidates to think out of the box are NPCI and the Reserve Bank Innovation Hub

On the checklist of innovations, a point without a checkmark is savings. Traditionally, both policy-makers and markets have looked at the poor as borrowers, to be rescued from the moneylender. The policy discourse focused on institutional credit — priority-sector targets, refinancing, and specialised institutions like cooperatives and regional rural banks. Irrespective of the supply-side push, the credit market for poor women was cracked in the late 1990s with microcredit. We have argued that there are still white spaces in the missing middle, but that is a discussion for another day.

In the past two decades, we have seen interesting developments in remittances, which have benefited inclusive customers. This was because of technology rather than policy priority. The roll-out of core banking solutions, the interoperable switch-making ATMs (automated teller machines) working across banks, the spread of the internet and mobile telephony, the setting up of National Payments Corporation of India (NPCI) — all these created an ecosystem for payments and remittances. The poor were collateral beneficiaries of this architecture. The policy of not loading user charges helped in the speedy adoption of Unified Payments Interface (UPI). While this is still not ubiquitous in deep rural areas and with women, the impact it has on easier, simpler and seamless remittances can be seen.

We have no such story for savings. The myth is that the poor — being poor — cannot save. The very same poor borrow and repay instalments with interest. If we look at savings and loans as a cash-flow continuum, the difference between loans (frontloading an expenditure/investment) and savings (backloading it) is not

significant. In the iconic book *The Poor and their Money*, Stuart Rutherford termed this “saving up and saving down”.

Apart from the myth, we have other restrictions. For savings, the risk of default or malfeasance is borne by the vulnerable customer and, therefore, the regulator is cautious in allowing any latitude in experiments with savings products.

High costs of frequent small-ticket transactions cannot be passed on to the poor customer by way of lower interest. In the case of loans, the lender controls cash flows by specifying a repayment schedule. In structuring a flexible savings product, factoring in volatile cash flows of the poor is complex. Bankers do not like such products because they do not fit into their cash management. Therefore, legacy institutions do not innovate on savings.

The regularity with which the poor are scammed with savings as bait shows two things: There is an appetite for savings, and there is no dearth of imagination and innovation. But this happens under the radar. Ponzi schemes, chit funds and even lightly regulated residuary non-banking finance companies like Sahara which were shut down demonstrate that the poor have an appetite to save. Other innovations in this space skirt the regulations. At one time, experiments by the Kshetriya Grameen Financial Services in Odisha and Tamil Nadu offered money-market mutual funds to the poor. The logic was that those were liquid and flexible, and had a positive return and mimicked an accumulating savings account. While being relatively safe instruments, those were not without market risks and had no insurance cover, and therefore were not to be offered to the poor.



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With the rollout of technology for small payments done, savings in the regulated space are waiting for innovation. But who will bell the cat?

Let us look at UPI: All innovation in the payments space happened outside the banking system — with players like Paytm, PhonePe, BharatPe and BHIM. The banking system provided the interface and co-opted these payment gateways. All digital-lending innovation is also happening outside the banking ecosystem with fintechs leading the franchise. The banks are backstopping by co-lending or lending to NBFCs operating as frontal lenders.

The issue with savings is different. Regulatory restrictions provide this privilege exclusively to banks. Bankers are expected to be boring, and provide stability. Therefore, the regulator expecting bankers to be innovative would be a tall ask.

The poor save not only in the form of stashing away cash and informal deposits, but also putting money in different asset classes — goats, backyard poultry, gold, silver, and utensils (to be pawned). It is possible for the financial system to mimic the liquidity (or illiquidity), return, flexibility and safety by offering financial products that address the requirements of the poor.

In the past, one could argue that designing such products and rolling them out were expensive. No longer so. With every family having a Pradhan Mantri Jan Dhan Yojana (PMJDY) account, with possible inflows from direct-benefit transfers, banks could build innovative products that justify the investment in both technology and the rollout of such accounts. PMJDY accounts could be the anchor accounts on which multiple savings products could be built.

Would this include women? That would be a greater challenge because smart phones are usually family-owned and women need an agency and privacy to manage their finances. For women, an accumulating savings product to purchase a dream smartphone may be the first target.

Is it fair to expect banks to innovate? No, unless the regulator thinks out of the box to license a few digital-only banks. Legacy banks have too much on their hands, and their technology focus may be on investing in artificial intelligence-enabled call centres to do customer service and investment in cybersecurity.

The best candidates to think out of the box are NPCI and the Reserve Bank Innovation Hub. Both have the ear of the regulator and leverage with the banking system. Are they willing to take up white-label savings products? As in the case of BHIM, will NPCI act as an interface with banks as a background engine?

This space is crying to be occupied with tech-led innovation. Getting savings from microfinance customers will mute leverage-related stress if banks are able to capture the borrower's assets into their books, even as they continue to lend.

Is anybody listening?

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