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Better banking - getting above eight percent

In Malawi, just 8 percent of adults saved at a formal financial institution in 2010 (data [here](#), PDF paper [here](#)). While this number may seem strikingly low, Malawi is a fairly typical example of a low-income country where the poor are underserved by formal financial institutions that are often inaccessible, costly, or do not offer products that are well-suited to their needs. In order to fill this gap, a growing body of research on product innovations is generating evidence on what works and what does not for helping the poor access and use formal financial services. This research offers important insights for financial service providers, while also raising new questions and generating opportunities for product innovation.

On November 20-21, Innovations for Poverty Action partnered with the Bankers Association of Malawi to share some of this evidence with policymakers, practitioners, and researchers in Malawi. Over a day and a half, 69 experts attended the “[Achieving Better Banking in Malawi](#)” conference to learn about new findings, discuss the implications of promising evaluations, and suggest ideas for further testing.

We kicked off the conference with a discussion of financial tools tailored to the needs of

smallholder farmers. Researchers shared promising results from evaluations of weather index insurance in Ghana and direct deposits of farm proceeds into savings accounts in Malawi. Initial results show that smartly designed products can help farmers better manage their finances. The session sparked a lively discussion on how banks can tap into the farming sector in Malawi, where agriculture employs over 84 percent of the labor force.

The conversation then turned to the importance of reevaluating assumptions based on rigorous evidence as we discussed how product pricing can shape demand for formal financial services. While pricing is an important factor in the adoption of financial products, researchers find that continued usage is often low, even when savings accounts are subsidized. That is not to say innovative pricing structures cannot help overcome other barriers that keep low-income households from continuing to use their accounts. For instance, large, short-term incentives to save were found to help some individuals “kick-start” a habit of savings that led to productive investment and significant payoff down the line.

We rounded out the first day with a discussion on how these findings can be incorporated into product design and policy decisions. After all, this research can only help the poor if effective innovations reach scale. We described the process and experience of scaling up a system using biometrics in Malawi to help identify and track microcredit clients following a successful pilot evaluation. At a time when many countries are considering national ID programs, this discussion was particularly relevant, and participants actively debated the pros, cons, and nuances of setting up such financial infrastructure.

The second day began with a focus on behavioral biases, the psychological traits that can push people to make sub-optimal financial decisions. Contrary to the idea of cash “burning a hole” in one’s pocket, fresh findings from Malawi suggest that part-time wage earners do not report significantly more “wasted” spending when they were paid in large lump sums. On the other hand, information gaps and inattention can significantly affect financial decisions. We discussed an ongoing IPA program to test and refine text message reminders that can help clients address these attention issues. Results from initial evaluations show that these messages can nudge clients to increase their savings and repay their loans on time. Ultimately, the program will create a set of evidence-based guidelines on how financial institutions can cost-effectively use these tools.

Representatives from Malawi’s banking sector shared their perspective on the challenges facing commercial banks looking to expand their reach and serve middle and lower-income clients. From a lack of demand for savings products to the high fixed costs of Malawi’s banking infrastructure, bankers described why often there is not a clear business case to extend traditional banking products to low-income clients.

The conference concluded with another reminder of the need to reconsider assumptions on client behavior and the barriers to financial inclusion. From identifying that ATM cards did not increase use of female owned savings accounts in Kenya—it appears that some clients may benefit from harder-to-access savings vehicles that help them resist demands from their social networks—to measuring the limited welfare benefits of popular and inexpensive Village

Savings and Loan Associations, we discussed how rigorous research is uniquely placed to cut through the hype around new technologies and product models to identify what works and what does not in practice.

We hope that discussions like this one will continue to foster a frank dialogue between researchers, financial service providers, and policymakers and encourage decision-making grounded not just in theory or intuition, but on evidence from rigorous research. For more information on the discussions that took place at the conference and links to the presentations take a look at our [website](#).

Gregory Dobbels is an Initiative Associate with IPA's Global Financial Inclusion Initiative.

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