Policy Brief 8

Micro Finance Series

Translating Practice into Policy and Practice Change

Financial inclusion— savings and its relevance to poor: issues and solutions

Savings made by member in SHG

Payment made by SHG in Bank

Executive Summary

The poor can save, do save and want to save money. Households need to save money in order to reduce their vulnerability to negative shocks, such as natural disasters, crop failures, job losses, illness or death in the family. With savings in kind or in cash, a safety net is created. Saving defines the action of putting aside a part of current income in order to consume or invest it later. The money saved can be kept at home, deposited in a savings account or invested in different types of capital.

Poor people are at disadvantage, because the banks, insurance companies and other financial institutions that serve the better off rarely cater to the poor. The poor need, surprisingly often, to spend large sums of money. Poor people also require savings to help them better mange their resources over time and enable them to plan and finance their investments. Hence poor people require diverse financial services and should not be shut out of financial services because of the risk they bear; on the contrary they need additional services to mitigate that risk.

With population of around 1.13 billion, India's GDP ranks among the top 15 economies of the world. Majority of the poor in India are outside the formal banking system because banks are often too far away, or the time and procedures needed to complete transactions are too onerous. Operating hours are not convenient for poor depositors. These organizations also impose minimum transaction sizes and/or require depositors to retain a minimum balance, both of which exclude the poor. Hence they