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Saving for a rainy day – in alternative ways: part 1

According to the World Bank Global Findex database, while most adults save money, few use a bank or other formal institution to do so. This two-part report looks alternate savings methods - using unusual hiding places or recirculating funds within the community

DG McCullough

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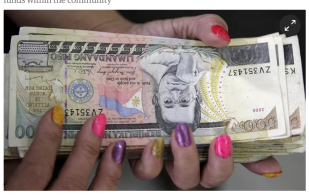

Filipino pesos like these are likely to be stored in unusual places around a home or invested in community festivals and family celebrations. Photograph: Stringer/Reuters

Can you gather $2500 in the next month for an emergency? If so, how would you finance it? Researchers at Gallup and the World Bank posed this question to about 150,000 adults in more than 140 countries as part of the 2014 World Bank Global Findex database - and found intriguing results.

Leora Klapper, lead economist at the Development Research Group, World Bank, says that three-quarters of those surveyed said they could come up with money, a higher number than she expected. And more than 30%, even those who squirrel away funds without formal bank accounts, said they'd use their savings to come up with the cash.

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For instance, 22% of folks in Pakistan report that they'd use savings - but only 2% of them keep their money at a bank or financial institution. "So given that people even in places where little or no formal savings exists can come up with [stashed funds] suggests people are saving money; however, money is probably being saved in unsafe ways," Klapper says.

Additionally, despite overall progress on financial inclusion, when comparing data from the 2011 and 2014 World Bank Global Findex databases, researchers find the share of adults who reported saving using an informal savings club or person outside the family increased by 4 percentage points to 9%. The Middle East had the largest increase; the number of adults using informal savings quadrupled, rising from 3% in 2011 to 12% in 2014 .

Data in the World Bank and Standard & Poor's financial literacy paper (pdf) backs this notion. The researchers found that globally, 57% of adults save money, but just 27% use a bank or other formal financial institution to do so. Others use less safe and less lucrative methods, such as informal savings groups or stuffing cash under a mattress. Only 42% of money hoarders use an account to save, and 45% of these savers are financially literate, the report said.

Klapper finds this worrying. After all, she says: "The benefits of financial inclusion [like offering banking services to those who normally can't afford it] are giving people a safe place to save for assurances against emergencies, like injury, loss of job or death of a spouse; and to provide a space to meet savings goals."

The shortage of savers using formal banking channels highlights the importance for banks to design products and services that appeal to the poor and to those using informal methods, Klapper says.

Coke bottles and bamboo poles

Projects funded by the Institute for Money, Technology and Financial Inclusion (IMTFI), a research organization based at the University of California, Irvine, finds women and men who lack access to formal banking channels frequently develop savings methods that work within their communities, even if financial experts view them as risky.

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IMTFI fellow Janet Arnado, a Philippines-based sociologist with the Research Institute for Gender and Women Inc, found that because poor Filipino women living in the hinterland are far from a town and without transportation, few of them have bank accounts. So, she notes, they store coins in visible places like Coca-Cola bottles or short bamboo poles. They conceal more lucrative bills in clothing and pillows. They creatively protect their money in order to deceive thieves as well as their husbands while increasing their bargaining power within the household, Arnado says.

Challenges exist with this informal system. Intruders can easily enter the flimsy homes of the Philippines' poorest. Family members could stumble across money hidden within small houses. Admittedly, these savers remain savvy. Arnado recalls: "A man integrated a hole into the cemented flooring of his home as a long-term storage [space]. He never told family members money was hidden beneath the floor."

Women also store money on their bodies, in a farm or cooperative, as installment payments for durable goods, or in their children's education. Others do so through relationships: by spending for festivals, weddings and birthdays, families deposit their money - in the form of food or gifts - within their community. Says Arnado: "Individuals who 'invested' in a fiesta obtain their money back via future invitations from others who then spend on a celebration, saving them from investing again."

Part 2 will look at Kenya's mobile-based grand matriarchal brokerage system and women using gold as a credit source; and explain how banks can better serve the poor and women

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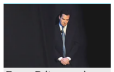
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