



Savings in Zambia

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FinScope™ Zambia is a survey carried out on a nationally representative sample of Zambian adults (aged 16 and above) which profiles the demand for financial services. FinScope™ Zambia 2005 was carried out as an integral part of the Government of the Republic of Zambia's Financial Sector Development Plan. Funding was provided by the Department for International Development (DFID) and the Swedish International Development Cooperation Agency (Sida). FinMark Trust provided technical support. The analysis in this report is based on the survey findings. More information is available at www.finscopeafrica.com.



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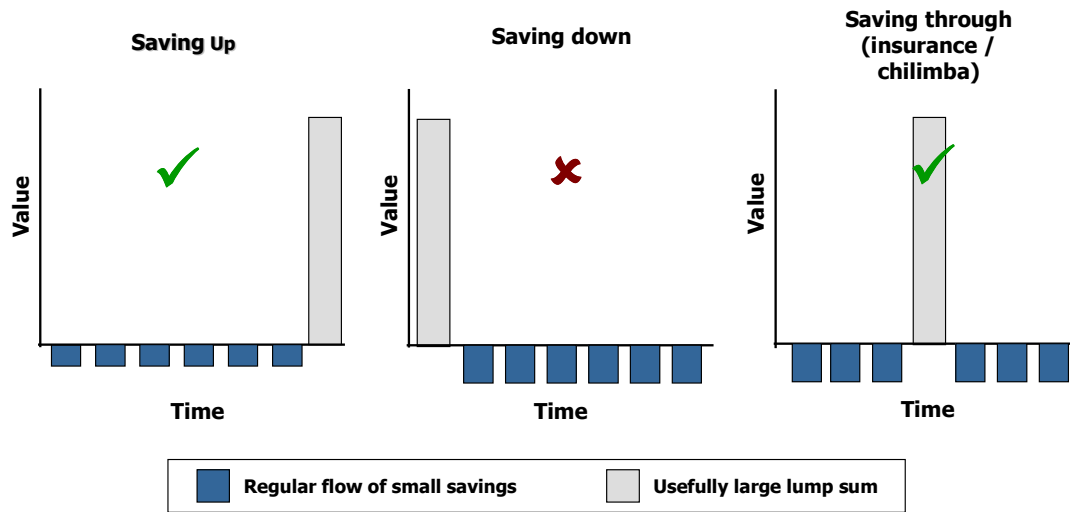
INTRODUCTION

This document explores Zambia FinScope™¹ (2005) survey data about savings in Zambia. It summarises data on savings patterns and behaviour, explores savings preferences, identifies key access barriers and establishes the level of their use using the access frontier methodology².

Defining savings

Savings can be defined as cash held back from day-to-day spending by an act of will³. Savings transforms small cash flows into useful large lump sums. Savings can be grouped into traditional savings or **saving up**, repayment of credit or **saving down**, and insurance products and rotating savings clubs or **saving through**. All three transform small cash flows into lump sums (see Figure 1). This analysis concentrates on saving up and saving through behaviour.

Figure 1: Savings: Turning small cash flows into usefully large lump sums



FinScope™ Zambia data indicates that savings are a critical source of funding: 47% of homeowners used savings to pay for their homes and 60% of business owners used savings to finance the start-up of their businesses. Accumulated savings also help households cope with financial shocks, particularly when the use of insurance products is limited, as in Zambia.

¹ This nationwide survey of 3 998 adults, aged 16 years and over, focuses on use and perceptions of a range of formal and informal financial products. The survey contains detailed demographic data to enable cross tabulation and segmentation. See www.finscopeafrica.com.

² The Access Frontier Methodology was developed by David Porteous and is outlined in a 2005 paper called *The Access Frontier as an Approach and Tool in Making Markets Work for the Poor*, available at <http://www.finmark.org.za/documents/2006/July/AccessFrontierTool.pdf>.

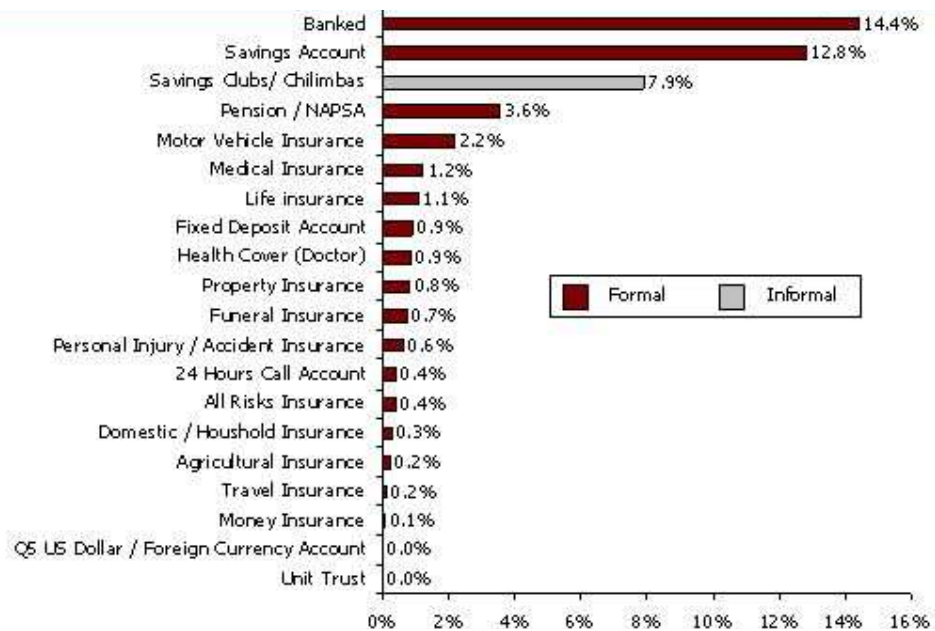
³ Rutherford, S. CGAP Focus Note 15, available at http://www.cgap.org/docs/FocusNote_15.html.

USE OF SAVINGS PRODUCTS

Various ways of saving are used in Zambia. These include formal products offered by banks and insurers, both voluntary and contractual, and informal products such as chilimbas. Sometimes savings strategies avoid using savings products and rely instead on alternatives such as hiding or burying cash, or storing value in assets such as livestock and property.

The use of savings products, formal and informal, that facilitate saving up or saving through is relatively low (see Figure 2). The limited use of insurance products (precautionary savings) is noticeable.

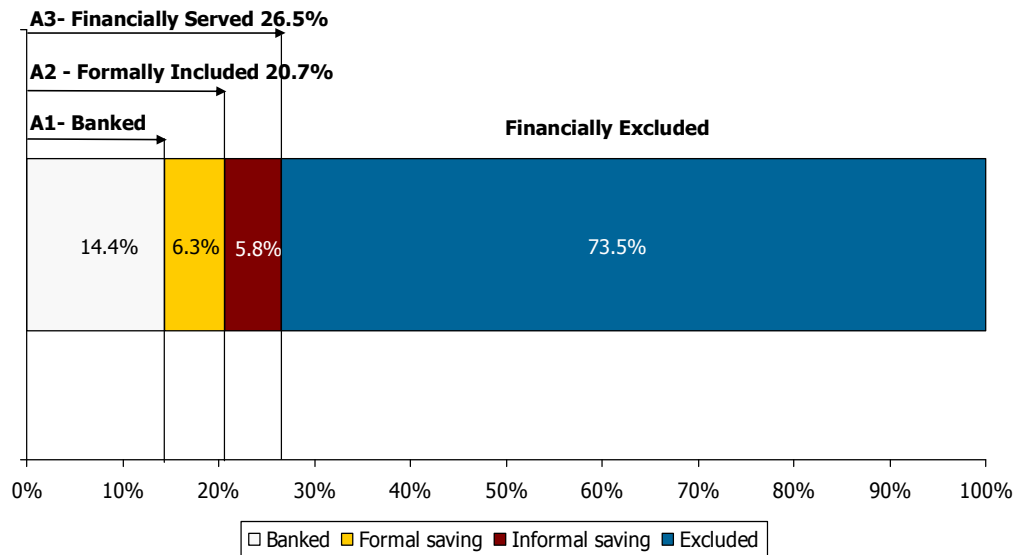
Figure 2: Savings products currently used



Source: Finscope™ Zambia (2005)

The savings strand (see Figure 3) uses four categories to summarise the use of savings products⁴. The first category comprises those who are **banked**. Some of those who are unbanked may make use of other formal savings products such as insurance. Together these segments are termed **formally included**. A third segment comprises those who make use of informal savings products but not formal products which, combined with the first two segments are defined **as financially served**. Those who have no savings products – formal or informal – make up the **financially excluded** segment.

Figure 3: Savings strand



Not everyone who has a bank account uses it to save. Around 60% of respondents associate banks with long-term savings⁵, however, around 20% of those who are banked agree with the statement “you tend to take most of your money out of the bank account as soon as you get it”. In fairness, therefore, the savings strand should be adjusted for “account sweeping” behaviour⁶.

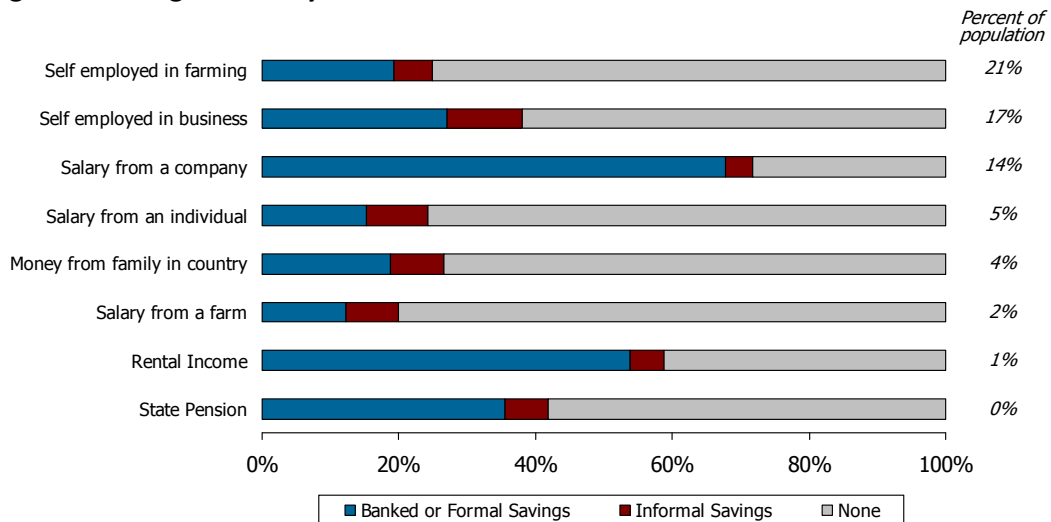
⁴ Formal savings products include: Q5.4 -9 (Savings a/c, Fixed Deposit a/c, 24 hr call account, Unit Trust a/c, High Interest Savings a/c)Q22.10,11,14(Take out savings with bank or financial provider, T bills, shares) Q27.10Q28.10 (interest from financial instruments) Q54.6,9,10,15,17,19,20 (Treasury Bills/Bonds, Unit Trusts, Life Insurance, Voluntary Savings to Pension, Saving product with an MFI, Savings product with an insurance company)Q90.3,4 (Funeral Funds and Savings Scheme).

⁵ According to FinScope™ 57% of all respondents agree with the statement, “You would prefer to save money at a bank for a long term goal”.

⁶ According to the adjusted savings strand 11% are banked, a further 9% do not have a bank account or exhibit “sweeping” behaviour while 6% have no formal products but have an informal savings product. The balance of 74% have no savings products at all.

Unsurprisingly, salaried employees are most likely to have savings products: 68% of respondents who receive a salary from a company are banked or have a formal savings product (see Figure 4).

Figure 4: Savings strand by income source

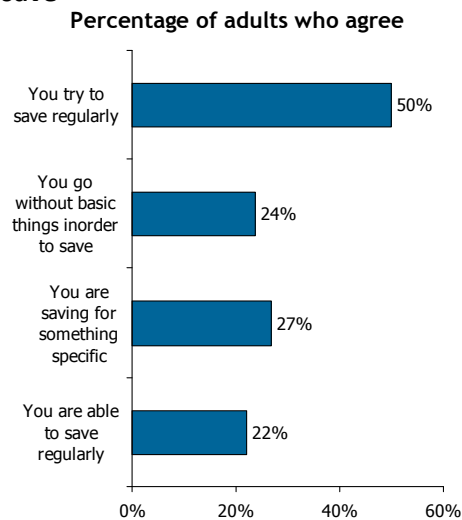


Source: Finscope™ Zambia (2005)

Education levels are also reflected in the use of savings products. People with high education levels are more likely to have a greater level of financial literacy and higher income levels. According to FinScope™ 70% of those with some tertiary level⁷ education are banked or have formal savings products compared to only 4% of those who have no formal education.

In contrast with the limited use of savings products, various statements in FinScope™ indicate a high willingness to save in general. According to the survey, half the adult population agree with the statement, “You try to save regularly” (see Figure 5).

Figure 5: Willingness to save



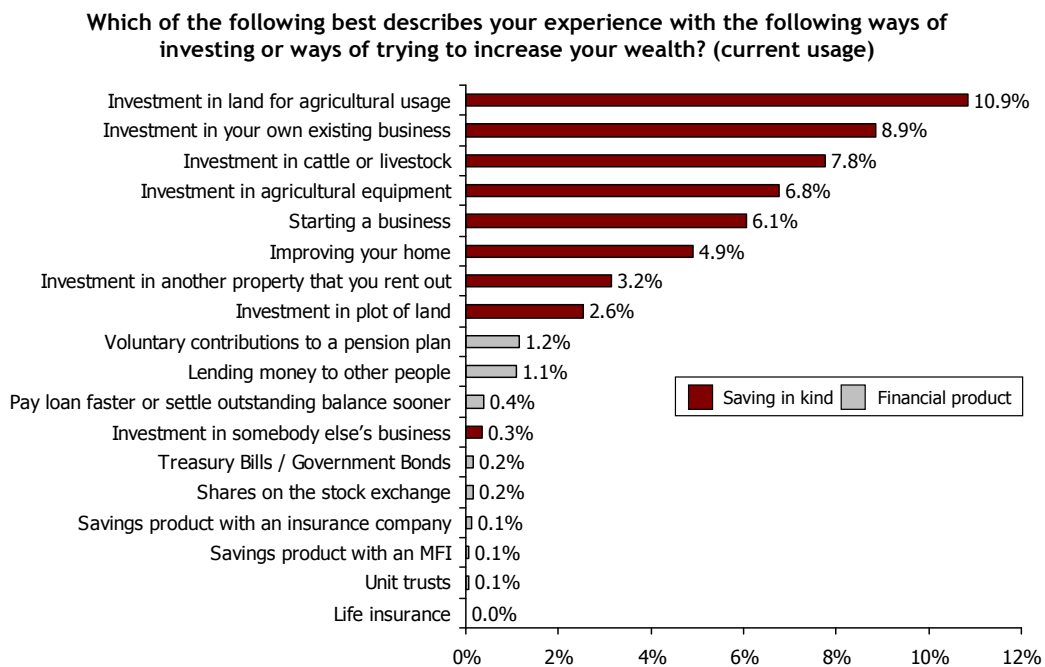
Source: FinScope™ 2005

⁷ Some college, college completed, some university, university completed, professional qualification or equivalent, post graduate or doctorate.

A significant minority (22% of the population) say they can save regularly. However, of those who say they currently save regularly, 47% have no saving products, formal or informal. These respondents may not be saving through a product but may, through preference or necessity, make use of other strategies to accumulate and manage their savings. When presented with a hypothetical scenario of receiving a large sum of money more than 30% say they would hide it, bury it or give it to someone for safekeeping.

Savings in kind is also fairly significant (see Figure 6). The use of alternative savings strategies which do not rely on formal savings mechanisms, such as informal savings groups, burying or hiding cash and using money guards may, however, be less than optimal at both a national and household level. Informal products are unregulated and savers have no recourse if funds are misused⁸. Savings in kind are typically illiquid, often forcing sellers to accept discounted prices, and are difficult to match to desired amounts. Such savings are also at risk of theft or destruction. Lack of formal savings products, most notably a bank account, may also limit access to formal sources of credit.

Figure 6: Saving in kind



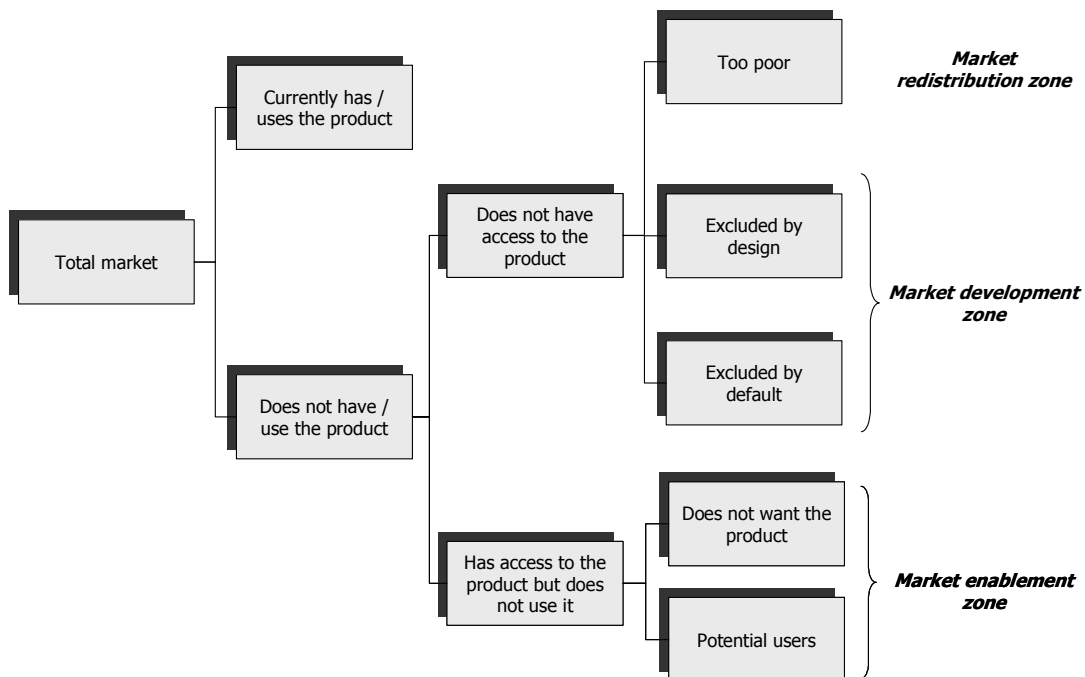
Source: Finscope™ Zambia (2005)

⁸ It is interesting to note that 28% of those who use informal products also use formal products, indicating that use of the former is not solely because of exclusion from the latter. Members of informal savings clubs may value the social aspect of many informal products, particularly the discipline instilled in group members.

ACCESS TO SAVINGS PRODUCTS

The discrepancy between use of formal savings and savings activity indicates that access to savings products may be limited. To test this hypothesis, access to three basic savings products, namely bank accounts, endowments and funeral insurance, is assessed using the access frontier methodology. This methodology uses survey data together with data on product structure, pricing and distribution to estimate access constraints. The access frontier segments the market into those that currently use the product; those that don't use the product but have access to it; and those that do not have access to the product. This last segment is further broken down into those who do not have access because they appear to be too poor; and those who do not have access because various features of the product effectively exclude them from using it (see Figure 7).

Figure 7: The access frontier



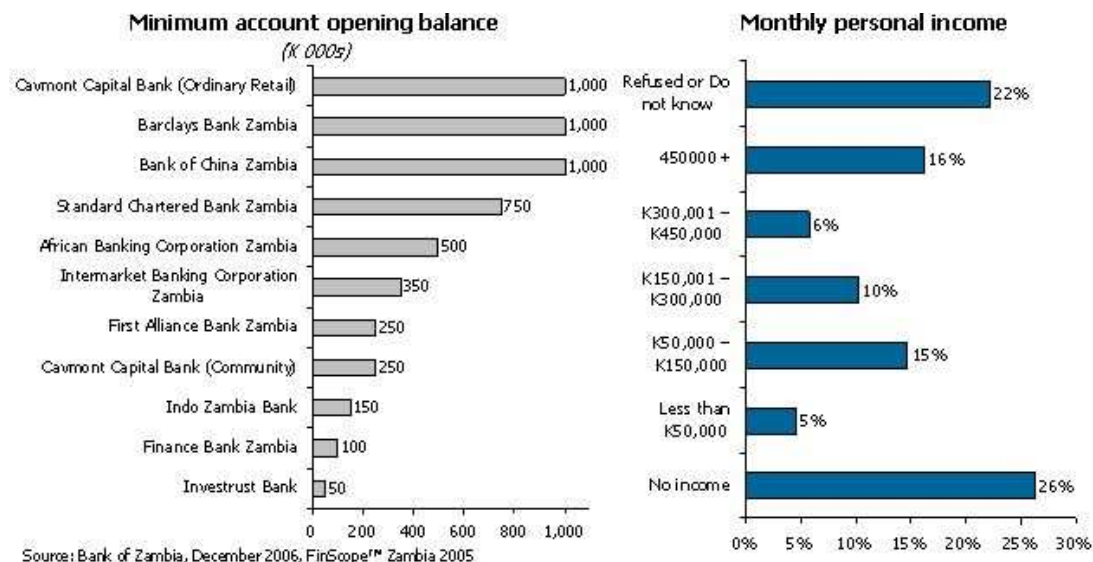
Based on a paper entitled "The Access Frontier as an Approach and Tool in Making Markets Work for the Poor" by David Porteous

Access to bank accounts

A bank account is the most widely used formal product that could be used for discretionary savings purposes, and 14% of Zambians are currently banked. Various factors constrain access to bank accounts⁹. These include affordability relating to threshold costs such as high opening balances. Data from FinScope™ indicates that opening balances are in many cases significantly larger than reported monthly incomes (see Figure 8). The implication is that to save using a bank account, most Zambians would first need to save up the amount required to open the account. It is not clear how people would do this.

⁹ Because of the subjective nature of constraints relating to bank accounts used for savings purposes, an access frontier for the product has not been constructed. Rather, key access constraints are identified and discussed.

Figure 8: Comparison between opening balances and monthly personal income



Affordability is also affected by the high cost of saving through a bank account. Using a product offered by the Zambia National Commercial Bank, for example, the interest income earned by the customer would be 2% a year while the monthly service fees are K10 000¹⁰. To break even on this monthly service fee a minimum account balance of roughly K5.9-million is required. The survey data on income (albeit incomplete) and living standards suggests that few Zambians are likely to be able to maintain such a high balance. Given current pricing practises, most would have to accept a negative return on their savings.

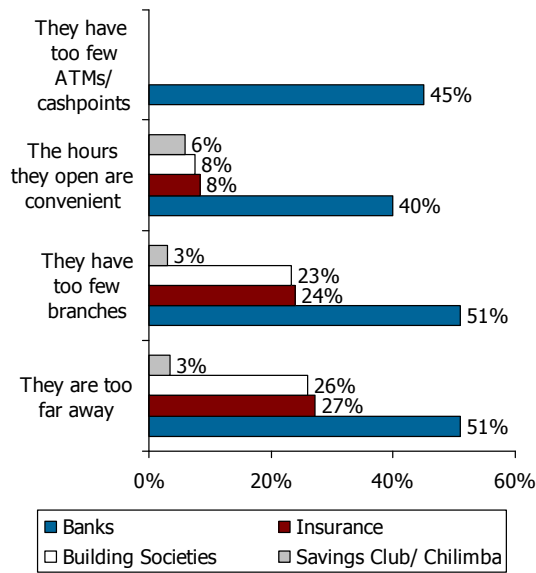
Some savers may be prepared to accept lower returns in exchange for a safe place to save. According to FinScope™ 54% of Zambians agree with the statement, “You prefer to save where your money is safe, even if the interest rate or return is lower”. However, many people prefer to keep their savings in an insecure environment because of the cost of a savings account.

Proximity is another barrier. When savers need to travel to reach banks to deposit or withdraw funds, the costs of the journey in both money and time affect the perceived value of saving through a bank account. According to FinScope™ around 20% of Zambians would need to travel for an hour or more to reach a bank. Other factors such as opening hours and density also affect access. For many, physical access is less than optimal (see Figure 9).

¹⁰ As at June 2007

Figure 9: Physical access

Which of the following financial service providers do you associate with each statement?



Source: FinScope™ 2005

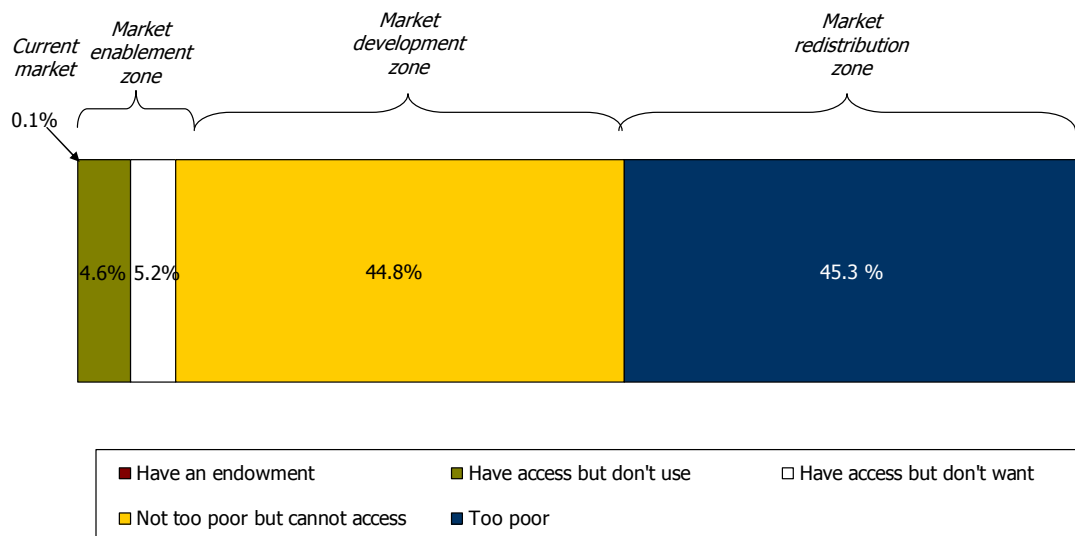
In summary, access to bank accounts for savings is severely restricted, even though the impact of such restrictions is difficult to quantify. If bank accounts are to become more accessible, savings products, pricing and distribution need to change significantly.

Access to endowments

Endowment policies are contractual savings products bought on a voluntary basis from insurance companies. Endowment products, particularly those with a guarantee, offer a useful mechanism for target savings¹¹. According to FinScope™ the current market of endowment product users is negligible at 0.1% of the population (see Figure 10).

¹¹ For this analysis an endowment offered by the life and pensions division of the Zambia State Insurance Corporation Limited has been used. The term of this product is either five or 10 years with optional life cover. Clients must be 18 or over to purchase the product and must have a national registration card or passport. Premiums are collected monthly, quarterly, bi-annually or annually and are paid via debit order directly from a bank account or through a stop order arrangement via employers.

Figure 10: Access frontier for an endowment product



The **market redistribution zone** comprises those who are too poor for an endowment product. Given that household income data in the FinScope™ Zambia survey is incomplete¹², an indicator relating to living standards has been used to identify those in this zone, specifically about the ability of respondents and their households to meet their nutritional needs. In addition, those who personally do not receive an income are regarded as being in the redistribution zone. According to FinScope™ about 45% of Zambian adults (about 2.8-million adults aged 16 or more) say their households have always or often gone without enough food to eat over the past 12 months or they personally have no income source.

The **market development zone** comprises those who do not have access to the product for reasons other than poverty, including affordability of premiums (threshold costs), physical access to sales and servicing channels (for premium collection, claims processing or claims payment) and awareness, both of the benefits of using the product and how to buy it¹³.

For this analysis, a cut-off affordability threshold of 5% of personal income has been used. Given a minimum monthly premium of K20 000, an income threshold has been set at K450 000¹⁴. According to FinScope™ around 2.3-million adults who are not in the market redistribution zone would be unable to afford the product¹⁵.

Furthermore, product providers require customers to be banked or to be formally employed to facilitate premium collection either through a debit order or salary deduction. This constraint excludes two-million adults who are not in the market redistribution zone. Awareness also restricts effective access. While there is no data with which to assess this constraint directly,

¹² 48% of adults either will not or can not provide data on household income.

¹³ In the case of both endowments and funeral insurance a constraint relating to the frequency and certainty of income has not been incorporated. In both cases premiums can be paid monthly, quarterly, bi-annually or annually.

¹⁴ The income threshold is K400 000. However, the closest corresponding income band provided by FinScope™ is K450 000. As illustrated above, personal income data is not available for 22% of the population. In addition, income levels are often not accurately reported by respondents. Finally, the 5% threshold may not be appropriate for all individuals. The analysis should therefore be regarded as indicative and as a point of departure for further debate and discussion.

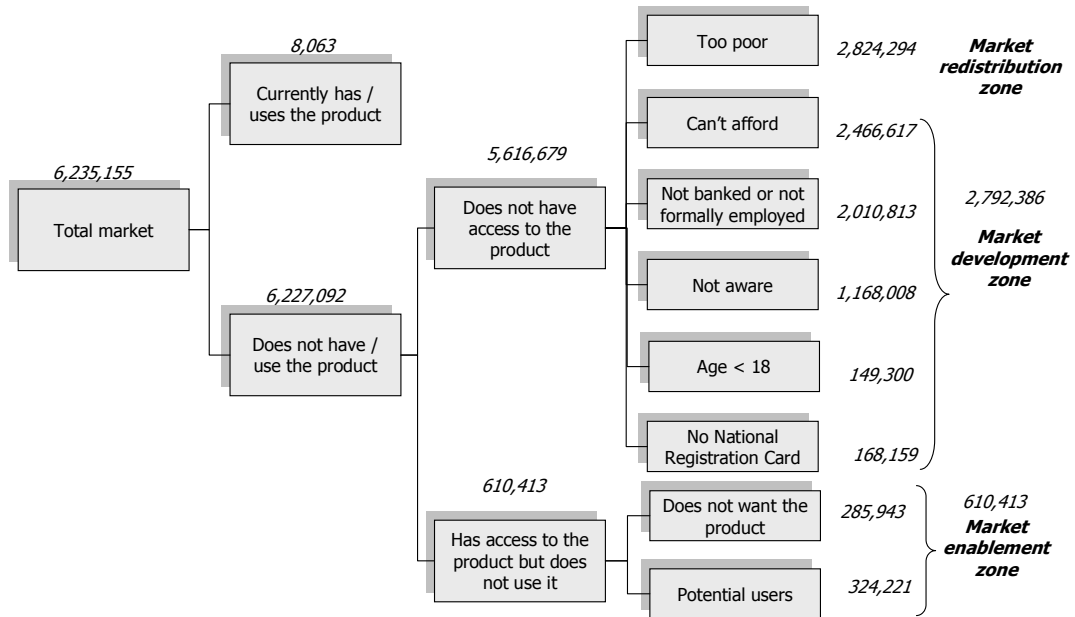
¹⁵ This assumes that those who do not provide personal income data *would not* be able to afford the product.

according to FinScope™ about one-million adults who are not in the market redistribution zone have not heard of or do not understand the term insurance. Further constraints relate to age (clients must be aged 18 or more) and ownership of national registration cards. In total 45% of Zambians lack access to an endowment product because of one or more of these constraints.

The **market enablement zone** comprises those who do not have the product but appear to have access to it. According to this analysis, about 10% of market is in this zone. Of course some in this segment may not want to purchase the product. According to FinScope™ 47% of adults disagree with the statement, “You would prefer to save money for a long-term goal with an insurance company”.

A summary of the underlying data relating to the access frontier for endowments is in Figure 11.

Figure 11: Underlying data: Access frontier for endowments

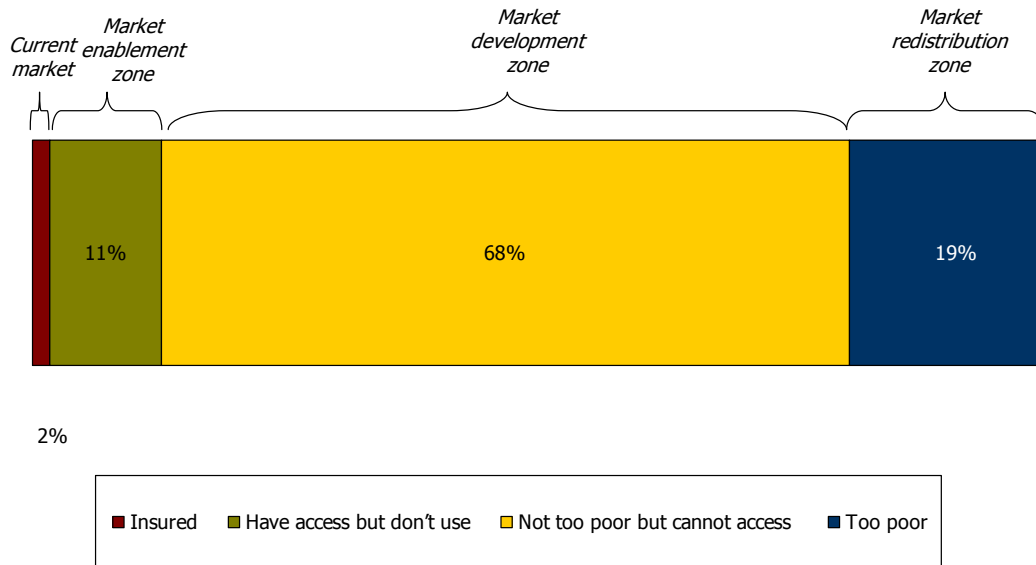


Access to funeral insurance

As funeral insurance is regarded as a household product, this analysis has been restricted to the two-million or so individuals in the target market who identify themselves as household heads. According to FinScope™ 1.73% of households currently have funeral insurance.

The access frontier for funeral insurance¹⁶ is summarised in Figure 12.

Figure 12: Access frontier for funeral insurance



Data on household living standards (ability to meet nutritional needs) has again been used to identify those who are likely to be too poor for the product. According to FinScope™ 19% of household heads (about 407 000 households) are too poor for the product (their households always or often have gone without enough food to eat in the past 12 months).

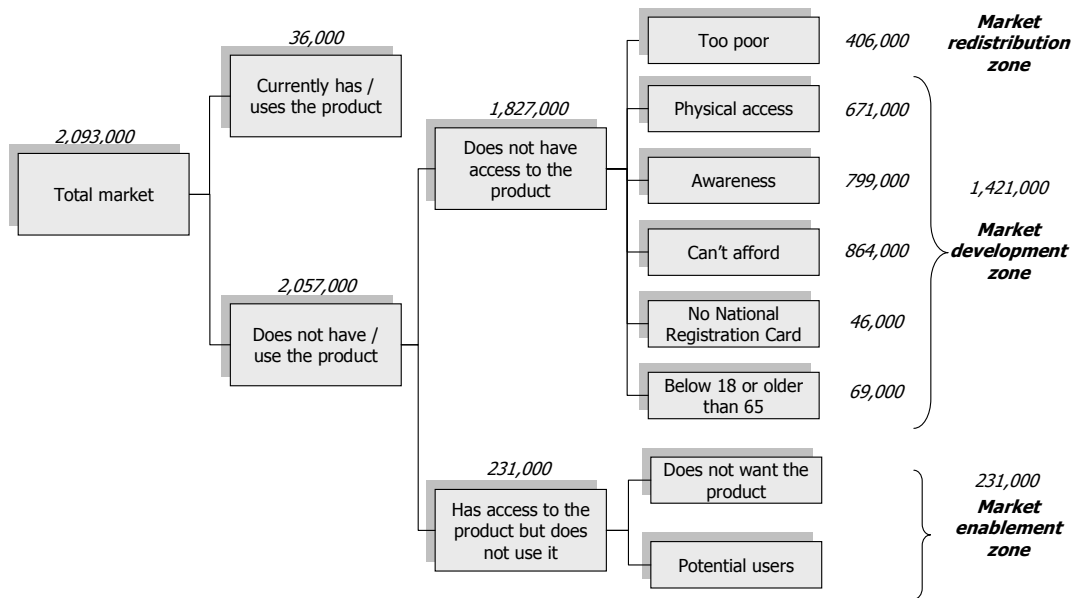
Primary barriers that limit access to funeral insurance include affordability¹⁷, physical access (to sales and servicing channels) and awareness. Taken together, 65% of households appear to face at least one access constraint.

¹⁶ For the purposes of this analysis a funeral insurance product offered by AON has been used. The product provides minimum cover of K500 000 with a minimum monthly premium of K2 667 per life covered. The product is available to those who are between the ages of 18 and 65 who have a national registration card or passport. Products are distributed by agents, brokers or via direct channels as well as through banks and MFIs. Premiums are paid monthly, quarterly, bi-annually or annually and can be paid in cash or cheque through branches, intermediaries or the post office or via debit order.

¹⁷ An affordability constraint is assessed on the assumption that a household could assign 5% of its income towards funeral protection. Given an average household size of six and a minimum monthly premium of K2 667 a month, the minimum household income required to afford the product is K320 000. The closest corresponding FinScope™ income band is K300 000 which has been used as the cut-off in this analysis. Those who do not provide household income data (48% of the population) are assumed to be unable to afford the product. As is the case with quantifying the affordability constraint used in the analysis of endowments, the analysis should be regarded as indicative.

The underlying data for the access frontier for funeral insurance is in Figure 13.

Figure 13: Underlying data: Access frontier for funeral insurance (household heads)



CONCLUSION

FinScope™ Zambia data indicates that there is a relatively high willingness to save and relatively high levels of reported savings activity in Zambia. However, use of formal savings products is limited. While poverty clearly diminishes the capacity to save, research from various countries, including Zambia, indicates that poor people can and do save. However, through preference or necessity, they often do this in costly and sub-optimal ways. In Zambia it appears that even those who are not extremely poor face significant access constraints that effectively prevent them from using formal savings products.

The analysis of access to basic savings products highlights three critical constraints:

- **Affordability:** Minimum account balances or premiums are often too high.
- **Physical access:** With a discretionary savings product, such as a bank account, the ability to deposit and withdraw funds easily and at minimal cost is critical. The data indicates that physical access is limited for many. With contractual savings products (including endowments and funeral insurance) lack of access to sales and service channels is likely to inhibit uptake.
- **Awareness:** Low levels of understanding relating to basic product terminology indicate a limited awareness of the benefits of having a product, and how to get and maintain a product.

While enhancing access is critical it is not necessarily sufficient to attract depositors. Other considerations and trade-offs may be important in designing appropriate savings products.

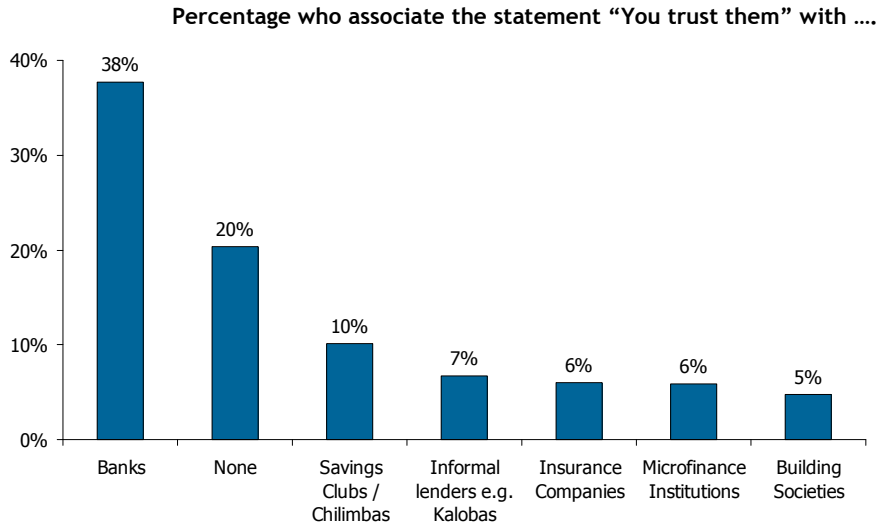
- **Risk and security:** Data from FinScope™ indicates a range of preferences relating to the risk-return profile of desired savings products. Most respondents appear to be risk averse¹⁸ and place a premium on the safety of their savings. Formal savings products¹⁹ have a theoretical advantage, although formal institutions do not automatically have the trust of the market (see Figure 14). Further investigation may be required into how institutions can signal their soundness to potential clients²⁰.

¹⁸ 54% agree with the statement “You prefer to save where your money is safe, even if the interest rate or return is lower” while 16% agree with the statement “You are prepared to put your money into accounts with higher interest rates, even if your money is not safe”. However, responses are not always consistent (some respondents disagree or agree with both statements).

¹⁹ 36% of the population say they do not trust informal associations like savings clubs / chilimbas. It is noteworthy though that more people associate feelings of trust with savings clubs / chilimbas and informal lenders than with insurance companies or microfinance institutions. This may reflect both a lack of awareness of the institution and a lack of trust in the institution.

²⁰ CGAP Focus Note 37: *Safe and Accessible: Bringing Poor Savers into the Formal Financial System*, Sep 2006, http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/FocusNote_37.pdf

Figure 14: Building trust



Source: FinScope™ 2005

- Flexibility of contributions and pre-commitment constraints: Income is often earned sporadically. According to FinScope™, 36% of Zambians say their households have gone without cash income always or often in the past 12 months and a further 42% say their households have gone without cash income often. For these households the ability to reliably pay premiums or contribute to a savings product at regular intervals may be diminished. On the other hand, a product that compels regular savings contributions can be highly valued by some savers.
- Liquidity and illiquidity preferences: While many savers may prefer to access savings as needed, others prefer to earmark savings for a specific purpose with fairly rigid limits on when these can be accessed.

In developing savings products, it is critical to develop a clear picture of the preferences of the target market about any savings objective²¹. The data indicates that there is a sufficiently large potential market to warrant further investigation into these objectives and preferences, so as to design products that are attractive, as well as accessible, to potential savers.

²¹ Savings objectives include targeted savings (saving for a particular purchase such as durable items or housing), precautionary savings (including insurance), bequest savings (savings that facilitate inter-generational wealth transfer) and income smoothing savings (for example saving for retirement).