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HOW THE POOR ORGANIZE THEIR MONEY

WHY IT MATTERS TO FINANCIAL SERVICE PROVIDERS

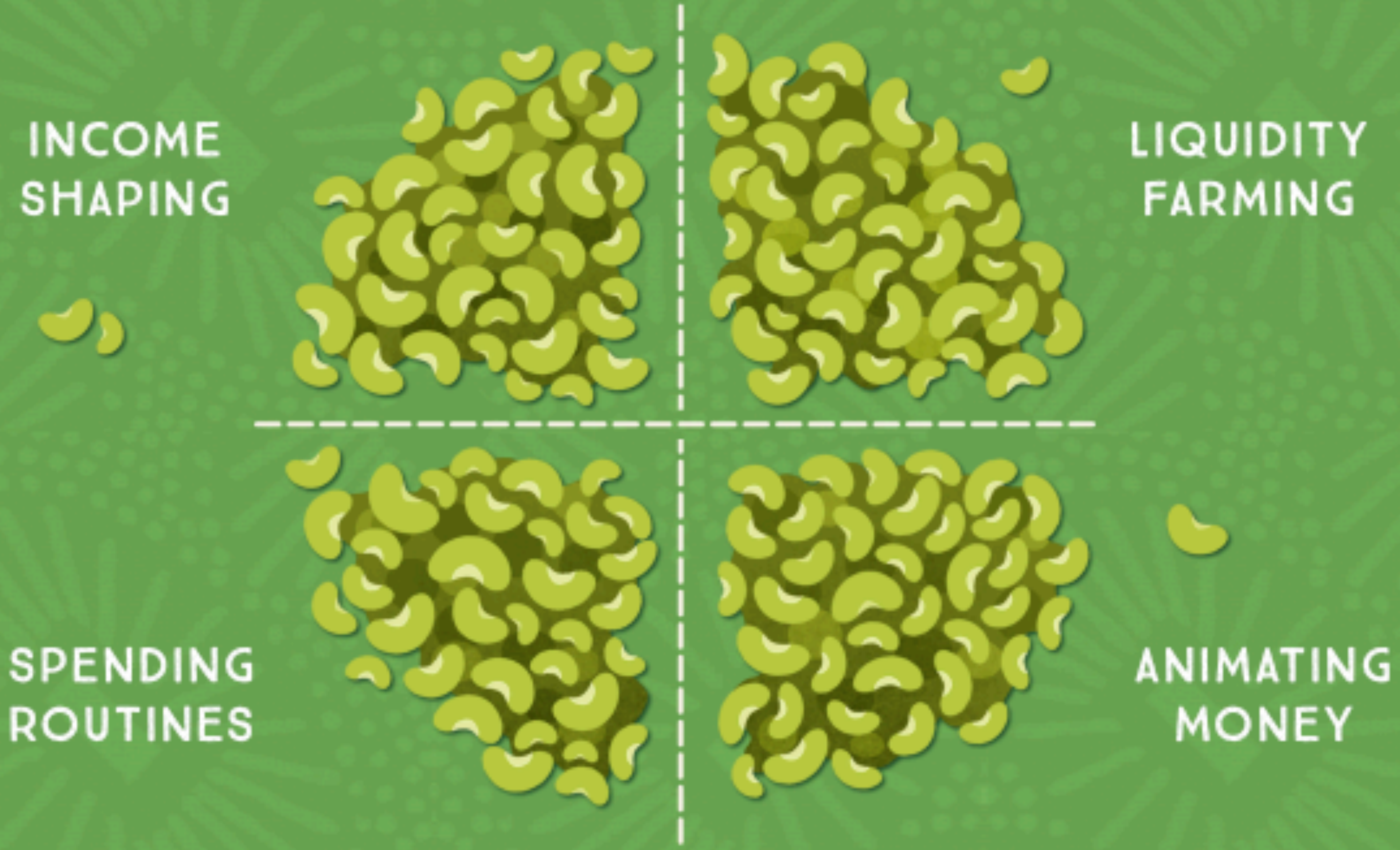
CUSTOMERS >>>>>>> AT THE <<<<<<< CENTER

"When financial service providers are product oriented and do not consider a customer's need, they are missing the mark. We should start by asking why many are not using the financial services available to them, why they would want to use the services in the first place, what their primary financial concerns are, and how we can create products that meet their actual needs. This will help us to offer what they want—and use—versus what we want."

—Gerhard Coetzee, CGAP

Access to financial services is central to financial inclusion, but people cannot benefit from these services if they do not use them. In turn, financial service providers cannot generate income if accounts are dormant or not used. Designing services that are based on customers' actual needs is crucial, particularly in the case of very low-income customers who need products that complement how they manage their money.

Understanding the needs of the customer and delivering services accordingly - what is known as "customer-centricity" - are essential ingredients for success, both for the provider and the customer. Studies show that customer-centric financial service providers fare better in the long run by retaining loyalty, anticipating changes, and meeting demands. By understanding how and why the poor manage their money, financial service providers can in turn create more meaningful and useful solutions that will be taken up and used more broadly. Building on that knowledge is the starting point.



WAYS POOR PEOPLE ORGANIZE THEIR MONEY

Like everyone, poor people want financial predictability. They want a reliable income and to be able to cover regular expenses. But, they face several challenges and risks, including low and fluctuating incomes, health issues, erratic weather conditions, and uncertain crop performance.

So how do poor people cope financially?

Here are some ways poor people organize their money.

INCOME SHAPING

HOW THE POOR GAIN FINANCIAL PREDICTABILITY THROUGH INCOME PLANNING

Poor people often have more than one source of income and focus on when they will get paid as they choose how to make money. Revenue from one source can get them through a period when another source has not paid out yet. This act of "shaping income" results in a patchwork of income-generating activities that are well-timed to meet expenses.

WHY IT MAKES FINANCIAL SENSE

A bean farmer buys a cow even though he could have made more money in the long run by spending it on farm equipment for bean production. Although revenue from selling beans could have given him more money overall, it pays only once or twice a year. The timing of income from milk production is therefore crucial for daily expenses.

LIQUIDITY FARMING

HOW THE POOR GAIN FINANCIAL PREDICTABILITY FOR UNPLANNED EXPENSES

Poor people actively cultivate relationships with others - family, friends, employers, local stores, moneylenders, or even financial institutions - who can help them in times of need. They may provide a loan to a friend even when they are stretched financially. In return, they are better placed to ask for financial help in their time of need.

WHY IT MAKES FINANCIAL SENSE

Instead of spending money on her own family, a mother buys food for her neighbor's wedding. What appears initially as a counter-intuitive choice gives the family "insurance" against future shocks.

SPENDING ROUTINES

HOW THE POOR GAIN FINANCIAL PREDICTABILITY THROUGH PLANNED EXPENSES

Establishing a spending routine helps people build the discipline to use money wisely. It also minimizes the number of stressful spending decisions. Poor people calibrate their spending commitments carefully, and adjust them as the situation changes. For example, if their income rises, they may increase the amount of meat consumed from once a month to once a week.

WHY IT MAKES FINANCIAL SENSE

A family buys a stove on credit even though, with interest, the overall price will end up being twice as much as the original cost. The installment payments for the stove will ensure financial predictability.

ANIMATING MONEY

HOW THE POOR GAIN FINANCIAL PREDICTABILITY THROUGH DESIGNATED MONEY

Poor people often attach a story and a timeline to their money, earmarking funds. By projecting emotions onto money, poor people are able to avoid small and frequent temptations. This creates a set of money management procedures that is intuitive, automatic, flexible, and adaptable.

WHY IT MAKES FINANCIAL SENSE

A farmer gets a loan for house repairs even though he could use money saved for other purposes to cover the expense. He divides income from other sources into different expense “jars” associated with a specific objective (e.g., roof, bicycle, wedding, school). This animation of money with a clear goal and real cause protects the money from frivolous spending.

EXAMPLES OF WHAT FINANCIAL SERVICE PROVIDERS CAN DO

By understanding how the poor manage their money, financial service providers can create meaningful solutions with potentially greater impact on people's lives. The following customer insights and design principles can help providers to better accommodate poor customers.

- Poor people are primarily interested in how to generate a stable income, the timing of funds, and finding ways to cover gaps. They need services and products that address and mitigate these challenges.

- When working with financial service providers, poor customers look for a relationship and interaction based on mutual trust, gain, and respect.

- Banks should avoid hierarchy when dealing with their customers. People want to feel good, even proud, about the financial choices they make. They do not want to feel dependent or undermined.

- Offer a tool for customers to manage their savings in categories labelled by them. This empowers them to use their own logic and stick to their goals.

- Design and offer credit products and savings tools that help customers fill income gaps.

- Offer a service where windfalls can be invested in a place that cannot be easily accessed or liquidated.

- Help customers to rethink their financial goals as their account balances grow over time.

- Facilitate customers to "learn by doing" and thus build their confidence in using services that are valuable to them.

WATCH THE VIDEO:

www.cgap.org/howpoormanagemoney