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# Understanding Household Demand for Savings Services Offered by MFIs

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**Abstract:** ***Financial inclusion for the urban poor involves providing both credit and savings services, yet many are reluctant to use formal financial services due to psychological barriers and a lack of knowledge. This study investigates the demand for Microfinance Institutions' (MFI's) savings services among households in Delhi slums. Based on primary data from 150 households, the findings reveal a strong demand for MFI saving services due to their accessibility, trust, and flexibility. The study highlights the importance of tailored financial products in promoting financial inclusion and suggests that MFIs can play a crucial role in meeting the saving needs of the urban poor.***

**Keywords:** Microfinance Institutions, Urban Poor, Saving Services, Financial Inclusion, Delhi Slums

## 1. Introduction

The process of financial inclusion of the urban poor in the formal sector requires not only the provision of credit but also saving services. Despite the expansion of bank branches in urban areas for the financial inclusion of the poor, many recipients do not use their savings services. The poor are hesitant to use formal financial services because of psychological reasons as they might fear entering a bank, find the banking system unfamiliar, threatening, or stigmatizing, or feel their need is insignificant (Bertrand et. al, 2006). This low take - up can be attributed to a lack of knowledge and awareness about formal financial services among the poor (RBI Report, 2012).

The urban poor often face irregular, uncertain, and unpredictable earnings. As a result, a large portion of their financial transactions, particularly savings, tends to involve small amounts but occur frequently. These households often choose informal savings methods due to their accessibility, trustworthiness, and familiarity, as well as to meet their consumptive needs. Microfinance institutions (MFIs) have developed microcredit programs to serve the financial needs of the poor, who are often excluded by traditional banks due to their small savings, limited loan demands, and lack of collateral. Consequently, there is likely to be a significant demand for the savings services offered by MFIs. These services are designed to provide high flexibility and straightforward procedures, aligning with the cash flow patterns of low - income clients. By catering to the specific financial behaviors and needs of the urban poor, MFIs can effectively bridge the gap left by conventional banking institutions, offering a viable alternative for those who need it the most. Thus, MFIs are instrumental in meeting the savings needs of low - income individuals, providing a trusted and familiar environment for managing their finances.

An attempt has been made in this paper to understand the saving constraints faced by the households, and their demand for MFI's saving options/services. The analysis is based on primary data collected from 150 households, mainly women in Delhi Slums in 2016. It is hypothesized that there exists a very high demand for saving services if offered by the MFIs, as the poor client prefers easy accessibility, trust, and flexible saving products.

Following the introduction, the subsequent section provides an overview of the existing literature on the demand for MFI's saving services by households. Section 3 explains the database and the methodology used. Section 4 presents the results of the study based on primary data. The last section concludes.

## 2. A Brief Literature Survey: Household's Demand for MFI Saving Services

There is a significant potential market for savings services in urban areas. According to Microfinance India (2006), 69% of the urban poor in Hyderabad and Delhi slums save, but only 55% save through institutional setups. Among them, 65% save in formal institutions like post offices, banks, and NBFCs, while 35% rely on informal institutions such as chit funds, kitties, and employers. Nandhi (2011) estimated that 95% of cycle rickshaw pullers in Delhi save, with 89% using informal methods like saving with themselves or shopkeepers. Kc et al. (2011) found that in five urban and semi - urban cities in India, 75% of urban microfinance clients save through both formal and informal channels, with 60% using their savings for emergencies and unexpected expenses. Das (2010) noted that in Assam, the absence of formal savings channels leads poor households to use informal services. These local providers allow members to save daily or weekly amounts ranging from Rs 5 to Rs 150, in exchange for high fees. Similarly, Rutherford (1999) observed that women in the urban slums of Vijaywada (Andhra Pradesh) saved small amounts (Rs 5 per day) with local collectors, paying part of their savings as fees to ensure their money was securely saved. These studies consistently highlight a high demand for savings services within informal institutional setups in urban areas.

Various studies have indicated that the poor are reluctant to save with formal financial institutions**.** According to Bertrand et. al., (2006), this reluctance can be attributed to psychological factors, as they may feel intimidated by the idea of entering a bank, view the banking system as unfamiliar and threatening, or perceive a stigma associated with it. Additionally, they might believe their financial needs are too insignificant to warrant using such services.

Despite the expansion of banking facilities and the opening of numerous bank accounts under schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY) for financial inclusion, many beneficiaries do not actively use these services. According to the RBI Report (2012), this low adoption rate is partly due to a lack of knowledge and awareness about formal financial services among the poor. Most respondents with bank accounts have them primarily through PMJDY and other government schemes, with the accounts mainly being used for subsidy transfers, such as LPG subsidies. Therefore, it is crucial for banks to increase awareness about their savings facilities among low - income groups.

The microfinance sector has sought to bridge the gap by integrating the unbanked population into mainstream financial services. Given the irregular and uncertain earnings of the urban poor, their savings typically involve small amounts but occur frequently. This creates a high demand for microfinance institutions' (MFI) savings services, which are designed to match clients' cash flow patterns and employment nature, offering high flexibility and straightforward procedures. According to Microfinance India (2006), poor clients prioritize easy accessibility, trust, and familiarity over financial considerations when depositing their savings. Consequently, MFIs are well - positioned to meet the unique financial needs of this demographic.

Thus, access to financial services for the poor requires a different outlook and innovative products. Karlan & Morduch (2009) found that commitment savings products that allow for default savings options can encourage regular saving habits. "A pilot study conducted by CMF - IFMR indicated that savings products with no penalties, and the client's verbal or written promise to save, found encouraging take - up rates. Default savings options must be introduced where possible to further reduce barriers to savings". (Kc et. al. (2012). The urban poor can be connected with banking services by making them available at their doorstep and offering flexible products regarding the quantum of deposit, time, and simple procedures to suit their profile. In this respect, technology holds the key to further the process of financial inclusion of urban poor in the informal sector. UNDP India (2008) revealed that in urban areas, borrowers do not have a cash flow problem, unlike in rural areas; so clients can be offered daily savings products. The daily deposit scheme of Cuttack Urban Cooperative Bank (CUCB) and SEWA bank illustrates how saving schemes are successful when tailored to suit the member's cash flow pattern and nature of employment.

However, the current regulatory framework does not permit MFIs to offer savings services. The Micro Finance Institutions (Development & Regulation) Bill of 2012, which aimed to include thrift collection as part of microfinance services, lapsed in the 15th Lok Sabha. Now, it's only community - based MFIs that are allowed to provide savings services, and even then, only before the disbursement of loans.

## 3. Database and Methodology

The present study utilizes primary data collected from MFI clients in the slums of Delhi. It focuses on two specific MFIs: Janalakshmi Financial Services Ltd, an NBFC - MFI, and Sanchay Cooperative Urban Thrift and Credit Society, a Mutual Benefit MFI. A structured household questionnaire was employed to survey topics related to the savings behavior of households. The study's sample comprises 150 women/households from selected slums in urban Delhi where MFIs operate. MFIs were chosen through a purposive sampling method, while the sample households (women) and slums were selected using a convenience sampling method. A total of 150 clients were randomly selected from the list of MFI clients based on their willingness to participate. The survey was conducted during the last quarter of 2016 using a structured questionnaire.

## 4. Results: Demand for MFI's Saving Services

All respondents were asked if they would be interested in saving with an MFI if given the opportunity, and what type of savings option they would prefer: (a) voluntary savings or compulsory savings, and (b) saving before receiving loans or after receiving loans. The results are as follows.

**Table 1:** Preference to save with MFI if given an opportunity

| | |
|---|---|
| No (%) | 4 (06) |
| Yes (%) | 96 (144) |
| Total number of observations | 150 |

Source: Author's estimates based on primary data. Note: Figures in parenthesis show frequencies of the variables.

**Table 2:** Type of saving - voluntary, compulsory, or both

| | |
|---|---|
| Voluntary (%) | 44.44 (64) |
| Compulsory (%) | 20.83 (30) |
| Both (%) | 34.72 (50) |
| Total number of observations | 144 |

Source: Author's estimates based on primary data. Note: Figures in parenthesis show frequencies of the variables.

**Table 3:** Saving preference - before receiving loans or after receiving loans

| | |
|---|---|
| Before loan | 4.86 (07) |
| After loan | 65.27 (94) |
| Both | 29.86 (43) |
| Total number of observations | 144 |

Source: Author's estimates based on primary data. Note: Figures in parenthesis show frequencies of the variables.

The results indicate a strong demand for savings services offered by MFIs, with 96% of respondents expressing a willingness to save with MFIs if given the opportunity. This preference is driven by the flexible savings products that MFIs provide, accommodating clients' cash flows and profiles with varying deposit amounts, convenient timings, simple procedures, and doorstep delivery. Among the respondents, a majority prefer voluntary savings (44%) over compulsory savings (21%), while 34% are indifferent between the two. Additionally, 65% of respondents favour saving after receiving loans, compared to before receiving loans, with around 30% being indifferent between the two.

The results reveal a strong demand for savings options, with most respondents favouring voluntary savings over compulsory savings. This preference is likely due to the ability to make voluntary savings despite irregular and uncertain cash inflows. Additionally, the majority prefer saving after receiving loans rather than before, possibly because they are better able to save after utilizing their loan amounts productively and generating income. These findings align with earlier studies, such as Microfinance India (2006), Nandhi (2011), and IFMR, CMF (2012), which also identified a high demand for savings in informal institutional setups and through informal saving instruments in urban areas. Thus, there is a significant potential market for savings services in urban areas. The result accepts the postulated hypothesis that there exists a very high demand for saving services if offered by the MFIs, as the poor client prefers easy accessibility, trust, and flexible saving products. However, the current regulatory environment permits only community - based MFIs to offer savings services, and only before loan disbursement. Therefore, achieving financial inclusion for the poor necessitates a fresh perspective, innovative products, and the use of technology.

## 5. Conclusion

This study attempts to understand the demand for savings services offered by MFIs among households. The analysis is based on primary data collected from 150 households in Delhi slums in 2016. The results revealed a significant demand for MFI saving services among the urban poor, driven by the flexibility, accessibility, and trustworthiness these services offer. The findings support the hypothesis that MFIs can effectively meet the saving needs of low - income individuals by offering tailored financial products. The study also revealed that most of the respondents prefer voluntary savings over compulsory savings, as voluntary savings accommodate irregular and uncertain cash inflows. Additionally, the majority prefer saving after receiving loans rather than before, as they are better positioned to save after productively utilizing their loan amounts and generating income. To further financial inclusion, it is essential to revisit the regulatory framework and explore innovative approaches to integrate MFI saving services into the formal financial sector. This will ensure that the urban poor have access to the necessary tools to secure their financial futures.

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