Formal bank account owners hold 30% or more of total savings in informal financial instruments: Findings from the Pacific Island Regional Initiative Financial Inclusion Demand Side Surveys

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Since 2014, Bankable Frontier Associates has worked with the Alliance for Financial Inclusion’s (AFI) Pacific Islands Regional Initiative (PIRI) and the Pacific Financial Inclusion Programme (PFIP)1 to collect baseline data on access to financial services in five PIRI member countries: Fiji, Samoa, the Solomon Islands, Tonga, and Vanuatu. The synthesized results from the first three studies are located here.

Prior to the DSS surveys, no comprehensive stock-taking of financial access, similar to the Global Findex, had taken place in the Pacific. Our findings provide nuanced data to policymakers, allowing them to drill down into multiple dimensions of what it means to be financially in- or excluded. We examine bank account usage as one such dimension in this post.

The figure below provides a high-level snapshot of inclusion in the Pacific Islands. The navy band tracks the globally accepted measure of “inclusion,” or the percentage of adults in each country with a bank account. “Other formal” captures individuals that have either an insurance policy or a microfinance, credit union, or a mobile money account but are not banked, while those with informal access include adults that save with or borrow from savings groups, employers, shops or friends and family.

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1 PFIP is a Pacific-wide programme helping low-income households gain access to financial services and financial education. It is jointly administered by the UN Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) and receives funding from the Australian Government, the European Union and the New Zealand Government. It aims to add one million Pacific Islanders to the formal financial sector by 2019 by supporting policy and regulatory initiatives, facilitating the development of financial services and delivery channels and by strengthening financial competencies and consumer empowerment. PFIP operates from the UNDP Pacific Office in Suva, Fiji and has offices in Papua New Guinea, Samoa and Solomon Islands.
Bank account ownership on its own, however, is only a first step in ensuring that individuals can achieve their life goals and aspirations—whether building a home of one’s own, strike out on one’s own to establish an enterprise, or launching opportunities for the next generation—the ultimate objective of financial inclusion.

Globally, we know that bank accounts often serve as “mailbox accounts” for receiving money (such as salary or remittance transfers) and withdrawing immediately, rather than meeting a full range of financial needs.

To illustrate, we know that saving in informal instruments, such as in savings groups, with friends or family, or at home, persists even among those that have formal financial accounts. Formal services will never replace informal options entirely, but we do expect a significant portion of savings to shift to formal instruments.

We are not seeing that yet in the PIRI countries surveyed, with the exception of Fiji. In Samoa, Vanuatu, Solomon Islands and Tonga, formally included\(^2\) adults continue to hold nearly half (or more) of total savings in informal instruments.\(^3\) Much of this appears to be held at home, as informal savings ratios drop considerably when saving at home is removed. Still, the fact that households are maintaining 20-40% of savings at home indicates a lost opportunity for formal financial providers.

**Ratio of informal to total savings for adults with at least one formal financial account**

\(^2\) In this case, we define formally included as those adults that have a bank, microfinance, credit union account or a superannuation or investment fund.

\(^3\) This includes saving at home, in savings groups, and with friends or family (in the form of loans or for safekeeping).
Why this is the case warrants further research. But we do know that people weigh savings options distinctly depending on whether they are looking to lock savings out of sight and out of mind versus whether this money is meant to work for them immediately or in the short term. Banks in these countries may not yet be offering diversified savings products which can meet these varied needs, for example, or clients may not be aware that these exist. These are relatively low hanging fruit. Other potential barriers may include a lack of accessible financial access points, which would require greater investment from providers or coordination with agent network providers or telecoms companies.

Banks in the four PIRI countries with higher rates of savings in informal instruments have an enormous opportunity to increase savings balances of existing clients, but the challenge will be to ensure consumers that formal savings accounts are not a dead end for their money. Fiji stands as an outlier and appears to have convinced formally included adults to hold most of their savings in formal financial accounts. As such, the remaining PIRI countries (and others around the world coping with low usage) can learn from the efforts of Fiji’s financial providers to identify strategies appropriate to their country contexts.