Innovating with pensions for the informal sector

Lessons from Solomon Islands

Saving for retirement usually is not one of the first priorities people have. Most people contribute monthly to a plan linked to the company they work for. This is however generally not the case in developing countries, where many people work in the informal sector. This also the case in the Pacific, where nearly 80% of people work in the informal economy and as such do not have access to a formal superannuation fund. Furthermore, similar to other parts of the world, as demographics and socio-economic relationships are changing, people can rely less on their family for support at their old age. What is more, in the Solomon Islands the Wantok system, traditional welfare system that evolved around clans and tribes people belong to, also makes it harder to accumulate long term savings.

Therefore, Pacific Island Countries are now exploring how to tap into this large pool of workers in the informal economy by encouraging small voluntary contributions through innovative micropension products. From May 2017 to February 2018, the Solomon Islands National Provident Fund (SINPF) and BluePrint Pension Services (BPPS), with support from the Pacific Financial Inclusion Programme (PFIP) tested exactly such a product. A long-term retirement savings product for the informal sector.
Pilot design youSave

Solomon Islands National Provident Fund
The Solomon Island National Provident Fund (SINPF) is a social security scheme established in 1976. By virtue of the Solomon Islands National Provident Fund Act, the Ministry of Finance has the overall authority concerning the affairs of the Fund. Currently, the Fund has just over 133,000 members with 44% (about 58,000) actively remitting their monthly contributions.

BluePrint Pension Services
BluePrint Pension Services has vast experience in designing pension or long-term retirement savings products. PFIP contracted BluePrint Pension Services to research, design and develop a micropension product in partnership with SINPF. BluePrint Pension Services previously developed and managed similar projects in Fiji, Ghana, India and Guatemala. Currently they are working on similar assignments in Vanuatu and Uganda.

Pacific Financial Inclusion Programme
The Programme supported the development of youSave as a way to increase access to formal retirement savings for low-income Solomon Islanders working in the informal sector. Access to financial tools, such as a pension scheme, allow people to better plan for their future and deal with adverse financial shocks.

169,107\(^1\)
active workers in Solomon Islands. Indicating a strong demand for an appropriate voluntary micropension scheme.

1,501
people onboarded during pilot. 1,001 more people than initial pilot target.

853
women onboarded during pilot, 57% of total new customers.

\(^1\)According to the Solomon Islands census (2009)
KEY LESSONS FOR SUCCESS

In this publication, PFIP shares the main lessons learned during this pilot. Interventions and characteristics that contributed to the success of youSave and its eventual scale-up.

Developing product in a lab

The geography of the Pacific, the vastness of the area, often sparsely inhabited and settlements in rural areas, impact the delivery of financial services. Some locations in Solomon Islands, for instance, have limited or no mobile network coverage, road networks are poor and boat trips are expensive.

In order to still serve customers in these locations, several financial service providers have previously invested heavily in digital innovation and new delivery channels. However, most of these investments got low usage and due to the low uptake became costly to maintain. Introducing new use cases can improve usage and ultimately incentivize financial service providers to scale up and deepen the penetration of these new delivery channels.

That is why PFIP supported the development and testing of youSave through an innovation lab approach.

What is the PFIP innovation lab approach?

This method enforces delineation of project related work and the day to day operations of an organization. It calls for projects to be separated from the core business of the organization, adequately resource the project with fully dedicated teams and budgets to run and manage it. With the focus on human centered design and iterative development, innovation labs rapidly test a variety of prototypes and solutions around customer adoption and usage, learn from this process and eventually assess if scaling is commercially viable. The solution can be a product, a service or even a process flow. If the innovation lab tests successfully, this is infused into the main operations of the organization.

The development of youSave was piloted by an innovation lab established within SINPF using a grant from PFIP. This support enabled the deployment of a dedicated project team, and a full pilot with market research, developing prototypes, piloting these prototypes and validating them.

Testing solutions without the fear of failure and with a focus on quick learning is a key advantage of such an innovation lab. Some solutions and ideas were dropped in favour of others. The team contributed their creativity and ability to think out of the box to the fact that their innovation work did not affect the regular SINPF operations.
A well-designed product accelerated uptake

According to the Solomon Islands financial services demand side survey report, only 25.6% of the population have a bank account. The majority of these accounts are used for receiving a monthly pay, such as a salary. Another 8% use other formal financial services such as credit unions and superannuation funds. This means that about 65% of the population is unbanked and underserved. This is mainly due to the lack of enough money to open and maintain a bank account, limited account access points, the lack of formal ID documentation for account opening and a general low level of trust in banks. All of these challenges were taken into consideration during the product design and piloting of youSave.

YouSave product features

Easy account opening

Opening an account is easy, especially compared to a regular bank account. Anyone above the age of 16 can open a youSave account if they meet simple Know Your Customer (KYC) requirements. You either show a birth certificate, driver’s license, voter card or letter from a church leader or village elder for KYC purposes. Your picture is taken and a simple registration form filled in. When approved, the membership is confirmed with a membership card and PIN number.

Solomon Islanders do not have national IDs. Besides the fact that new customers reported a sense of pride by being able to associate themselves with SINPF, for many people the youSave cards provided them with a form of ID for the first time in their life.

SMS texts from SINPF with updates on savings and nudges to save more were also seen as a sort of recognition from SINPF. This further increased confidence in the new product and services. Other, sometimes basic marketing tools such as branded T-shirts (offered to those who saved regularly), and savings planners (to help members plan and track their savings) further incentivized people to save.

Affordability

The youSave account is completely free and therefore there are no maintenance costs charged as is the case with many other financial service providers in Solomon Islands. A member is only required to make an initial deposit at least SBD 50 (6 USD) into the account for activation. Additional voluntary savings can be made at any time and free of charge.

50/50 split of savings

The youSave product was developed as a two-tier savings account. It has a preserved account, which can be accessed only at the age of 55 years or older, and the general account that can be accessed anytime for emergencies, such as for unexpected medical expenses. This general account provides flexibility to draw funds up to four times per year. For every dollar saved, half of it goes into the preserved account and the other into the general account.

Through feedback from youSave members during the pilot testing, the majority claim that they would not lock up all their savings if they would not have access to at least a part of it. That being said, less than 10% of clients actually withdraw money from this general account. When customers do take out some of their savings, this is done primarily to pay for school fees, hospital bills and funeral costs.

Superannuation product developers should consider resolving short-term and immediate emergency needs of its members beyond savings for retirement alone.

Easy to make deposits

On top of the usual channels, the SINPF office and post offices, members can now also use their mobile phone to save through the ANZ Bank goMoney digital channel. People can also remit their savings through authorized agents that have been recruited by SINPF. Additionally, and due to the ubiquitous nature, the project team is preparing for a pilot test to use mobile airtime to make deposits.
Female market vendors spread the word
Although youSave was designed irrespective of gender, the pilot success cannot be emphasized without mentioning the role played by women.

When the youSave design phase was complete, the team set up its first recruitment camp using a branded small tent at the Honiara City Market in May 2017. Through one-on-one engagements with all market vendors, 18 full registrations were realized that afternoon, all of whom were women.

When the team returned to the same market the following week, more than 70 new registrations were completed, of which less than five were men. The new members registered because of referrals from their colleagues who had already joined. Several women from other markets visited the SINPF head office to sign up for youSave, make inquiries or deposit their savings. SINPF continues to enjoy this spiral effect in the uptake of youSave.

In the first three months of the pilot, over 80% of actively saving members were women. In the following months, more men registered and by the end of the pilot the ratio of women to men was 57% - 43% respectively. Women reported that they signed up for youSave because the product is free. With no monthly maintenance costs, youSave is an ideal tool for saving, finally providing female market vendors with a savings product that is tailored to their needs.

Customers trusted the service provider
Through feedback from members and validations during the pilot, a majority of clients say they signed up for youSave because of their trust in the Solomon Islands National Provident Fund.

SINPF is a financial institution regulated by the Central Bank and through the years SINPF has grown to be the largest financial institution in Solomon Islands. Members trusted that their funds will be safe, retrievable when they meet the withdrawal criterion and their money will earn an interest.
Data Insights informed iterations

BluePrint Pension Scheme designed and managed a data tool for the youSave scheme to provide timely and analyzed data on member enrolment across parameters such as gender, age and location. It further provided granular details on usage levels, average savings and savings behaviour. These data sets were helpful in product fine-tuning, determining the course of the pilot and management decisions for youSave.

For example, analyzed data showed that registered members in the age bracket of 45 and 55 years saved more than other age brackets. Field investigations to validate this data indeed confirmed that the older people desired to save more, not only for their old age, but to build a safety net for their families. This informed and helped change the age ceiling for joining (initially set at 50 years) to be left open to any age. Additionally, to encourage younger age brackets to save, the team made some iterations to the product design and added incentives.

Data analysis also guided actions when inactive youSave accounts were observed. Most of these accounts were of members who could not afford time to leave their market stalls or work stations, walk to the SINPF office to remit their voluntary savings. The team decided to pilot with an agent network of trusted community and business entrepreneurs close to youSave members. This agent network of 38 access points now receives savings, transfers them into SINPF accounts and provides a receipt to the youSave member. This greatly impacted the inactivity rates.

Another payment channel was also added; goMoney, a digital platform provided by ANZ Bank, which is accessed through a USSD channel on any mobile phone. Interested members of youSave were provided goMoney accounts allowing them to deposit their retirement savings directly with SINPF through their goMoney accounts using their mobile phone. This also attributed to resolve the inactive usage rates for youSave accounts.
Regulators partnered to support product development

While regulatory considerations were being drafted to provide legal status to youSave, SINPF was permitted by the Central Bank with limited authority and specific conditions for product development and testing. This set up allowed the youSave team ample time and undistracted focus to develop, test and strengthen the scheme without regulatory compliances intricacies from its regulator. The youSave team made sure to update the Central Bank of the Solomon Islands on project progress and plans on a regular basis. After the successful pilot, the SINPF, together with the legal department designed amendments to the Act, which were passed in November 2018, providing a sound legal basis for the youSave product.

The youSave product directly contributes to the financial inclusion goals as specified in the National Financial Inclusion Strategy (NFIS) of the Solomon Islands. This plan aims to have nearly 85% of the adult population financially included by the end of 2020. The achievement of the NFIS is supervised by the National Financial Inclusion Taskforce (NFIT), chaired by the Governor of the Central Bank. Through NFIT, regular updates on youSave were presented, bottlenecks were discussed, and additional support required for youSave success was sought (for example, partnerships with telecommunication companies). The close collaboration with NFIT and CBSI leadership were instrumental for youSave scheme success.

The same can be said for government counterparts. The Minister of Finance and Treasury (MoFT) and the Governor of the Central Bank played the role of youSave champions. They advocated and placed youSave as a high priority savings product within MoFT and the CBSI. Whenever called upon, they gave attention to all developments of youSave and sought to address possible challenges, specifically when regulatory setbacks and partnerships solutions were required.

The overall ownership and oversight of the project by SINPF management, with a dedicated team lead, regulatory partners as well as donor partners contributed to the success of youSave.
The Business Case

Voluntary savings schemes are completely different products in comparison with compulsory saving schemes that are stipulated and aided by national laws. Therefore, we share some considerations for when designing and developing a voluntary micropension scheme:

Consider the cost of operations and sustainability

Voluntary savings schemes are costlier. Some costs that are extra compared to regulated micropensions are expenses on marketing campaigns, distribution and deposit mobilization. However, these should be managed at a set target threshold of the Assets under Management (AuM).

Go lean

For youSave to be sustainable, the costs of operations should not exceed 3% of AuM in the first four years of operation. These costs must further be lowered to 2% from the fifth year onwards. Digitizing contribution payments and the use of agents for deposit mobilization are mechanisms integrated to keep operational costs low.

Develop scenarios

In order to align expectations of when youSave would be a profitable product, four possible business case scenarios were prepared. From these four, a conservative business plan was selected, that considered factors such as number of active members to onboard, average saving per member, calamities such as weather, resources required and IT needs.

It is anticipated that youSave will break even in its fourth year of scale and begin to make a profit in its fifth year, if proposed targets stipulated in the conservative business case are met. Developing business case scenarios guided the calculations and decision making for the break-even point and profits to be realized at an agreed timeframe.

Next Steps

After the successful pilot of youSave, project partners have started the scale up of youSave in July 2018.

In coming years, improvements will be made on for example automating the registration and onboarding of members, building a robust agent network and implementing a full-scale marketing campaign. As well as digitizing 80% of savings installments by for example piloting the usage of mobile airtime value for making deposits.