The role of banks in creating a savings culture

In the wake of swift technological advancements and rapid growth of industrialization, the world is witnessing a growing spending culture. Economists call it the wealth effect; when people begin feeling richer, they start saving less. Banks can play a role in creating, promoting, and spreading financial literacy, and in inculcating the will and need for sufficient household savings.

After crossing the bottleneck of the 2008-2009 global financial crisis, household savings ratios started falling gradually across all major economies. Between 2010 and 2019, the household savings index in several countries witnessed either a stagnant or declining trend. Saudi Arabia and its neighboring countries have not been different. The household savings rate for Saudi nationals stood at just 1.6% of the annual disposable income in 2018, according to the latest available GASTAT figures, which is considered low in comparison with other G20 countries. A 2020 KPMG study on household savings found financial literacy to be an important factor of the low rate, also explaining the lower investment rate. Further, the country's prosperity and its safety net are cited as reasons for low savings rates. Lastly, the study stated the demographic distribution of the country to have a noticeable impact on the overall household savings rate, as savings index should be higher for countries in their early stage of the life-cycle hypothesis but still shows a relatively lower savings rates despite a young population that is perhaps unconvinced of the need of savings. Nevertheless, times of economic crises, as well as the pandemic, have revived the significance of building and maintaining personal liquidity and therefore reiterated the importance of embracing a savings culture.

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Saudi Arabia has recognized the key role household savings play in the economic development of the country, as it was formulated as a part of Vision 2030 and its Financial Sector Development program (FSDP). One of the key objectives of FSDP is to diversify the financial sector to support the development of the national economy and stimulate savings. That said, the role of modern-day banks in promoting financial literacy and enhancing savings culture cannot be emphasized enough.

Since their inception, commercial banks have directly or indirectly promoted savings by providing a range of deposit products and mechanisms with varying combinations of liquidity and rate of interest tailored to needs and preferences of different depositors. The additional benefit of security from theft and damage, and in some cases robust insurance coverage has also been contributive. As a store of value, bank deposits enjoy certain advantages over tangible assets; deposits are convenient to hold as store of value and are safer and more liquid – they can be converted into cash easily. They are also greatly divisible and often less risky.

However, despite these challenges, the extent of unbanked population, level of financial literacy and consequently savings rate are still far from optimum. For financial institutions to truly help consumers achieve financial health, most experts believe that they must think of finance as a utility, a service that is continually available to support people's moment-by-moment needs, not isolated tools focused on macro decisions. Many consumers are looking for tools or educational programs to increase financial wellness. They are asking for help in understanding complicated financial products. Accordingly, banks could consider offering awareness programs and targeted seminars.

Another key aspect pertinent to the role of banks is to ensure the availability of robust and user-friendly tools that facilitate financial literacy and savings. Unfortunately, most of the slick digital budgeting apps many institutions offer have limited functionality. Consumers need tools that go beyond just helping with life events – such as a mortgage calculator – but are integrated into customers' day-to-day lives. There is a great deal of interest among policymakers and financial services about the potential of FinTech to help savers. Possibilities include the use of machine learning to help people budget, understand their spending and spot saving opportunities, or enabling people to 'impulse save' by moving unspent money into savings. Further research is required to develop the right tools for people and their various needs.

Banks should be mindful of the sheer diversity of the general population, including their saving attitudes and preferences. A one-size-fits-all approach has always been counterintuitive. For example, for a low-income household, there is a myriad range of challenges competing for time and attention, including the everyday problem of managing income-consumption timing mismatches. Over the long-term, there is the problem of building sufficient reserves to meet lifecycle goals such as education, housing, and marriage. For short-term consumption, liquidity is essential, so a regular bank account would suffice. For medium-term building of lump sums, a balance of liquidity and inflation protection is required; an account (such as a money market fund) that tracks inflation and has reasonable liquidity should do the trick. Further, for long-term retirement savings, significant real returns and illiquidity are the cornerstones of the mechanism. Therefore, it's critical for banks to consider, analyze, and address the preferences and needs of the public with catered advice, products, and tools that ensure a robust eco-system of savings and expenditure.

In contrast, for much of the urban mid-earning population, banks are required to devise and apply significantly different saving methodologies and strategies. Two of these are represented by 'auto-save behaviors' and 'reframing savings for non-savers.' The former focuses on making savings a 'default' behavior. Research has shown that, when borrowers opted in to making savings payments alongside a loan repayment, many continued to save after the loan was repaid because the regular saving payment did not stop. This is known as 'auto-saving' and therefore it is pertinent to understand what other opportunities exist for people auto-save (for example, integrating rainy day savings with auto-enrollment pensions, allowing people to access some of their stash in emergencies) and to determine when and why people keep their auto-save payments going. The latter represents reframing the rewards of saving so they are more easily understood and acknowledged by the public. There is evidence that matched savings schemes (e.g., a scheme which presents returns as a quantified amount for every unit of currency, rather than a percentage interest rate) have a positive impact on savings behavior. Prize-linked schemes show some evidence of promise, but none that demonstrates a clear causal link to improved saving.

The millennial generation seems to be more cautious with their finances and savings than most people might think, it is up to the new age financial institutions, especially FinTech entities, to continue enhancing their product and solution base, digital offerings, and customer empathy. Not only to significantly enhance the banked population levels but also a financially literate and savings conscious society.

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