i3 PROGRAM

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HELPING LOW- AND MODERATE-INCOME MALAYSIANS SAVE:

INSIGHTS FROM UNCDF'S WORK WITH GOGET AND POD

MetLifeFoundation

UN C D F

Unlocking Public and Private Finance for the Poor

BACKGROUND

The household savings rate among Malaysians is on the decline. Data released by the Bank Negara Malaysia (BNM) indicates that gross national savings has been on a downward trend since 2018. _A survey conducted by the Department of Statistics (DOS)_ during the Movement Control Order (MCO) – a lockdown imposed by the Malaysian government to curb the spread of COVID-19 – found that more than two-thirds of self-employed respondents have savings equivalent to one month's expenses, while 82.7% of private employees have two months' worth of expenses in savings.

These numbers are concerning. Some contend that household debt such as mortgage and car loan payments is the major culprit, leaving Malaysians with virtually no savings at the end of the month while others point to rapid consumer spending propelled by smartphones, particularly among younger Malaysians.

The self-employed and low-income individuals are worse off: A study done by Agensi Kaunseling dan Pengurusan Kredit (AKPK) in 2018 of Malaysian working adults states that the self-employed or those earning less than RM2000 (approx $500) a month are the most susceptible to financial shocks, as they struggle to deal with emergencies.[1]

The United Nations Capital Development Fund (UNCDF) and its partners in Malaysia – GoGet, an on-demand job platform and Pod, a fintech start-up – are addressing the issue of low savings among low- and moderate-income (LMI) Malaysians, particularly youth, through a micro-savings app eponymously called Pod. Pod was piloted both as a standalone app and on GoGet's platform in May of 2019. The Pod app enables LMI individuals to put aside short-term or emergency savings in a variety of ways. Pod targets youth in the age range of 15-35 years but has been popular among older LMI people as well.

Between February and July 2020, UNCDF conducted several focus group discussions, customer surveys with GoGetters and Pod users, and partner interviews to identify savings patterns among LMI people, their motivations behind saving and what they value in potential savings products[2].

Our study revealed several interesting insights. The rest of this brief highlights what we learned from the study and how this information shaped our interventions with Pod and GoGet.

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[1] Agensi Kaunseling dan Pengurusan Kredit (AKPK). (2018). Financial Behaviour and State of Financial Well-being of Malaysian Working Adults
[2] There is some overlap between GoGetters and Pod users in both surveys

Insight 1: A regular savings habit is as important, if not more important than the level of savings in helping people cope with financial emergencies.

A regular savings habit turns out to be a significant predictor of one's ability to manage financial emergencies, controlling for income and level of savings.

In a survey with GoGetters, we found that nearly half of those that saved often were able to manage a financial emergency of RM1000 (approx. US$250) comfortably whereas less than a tenth of those that save occasionally or never save were comfortable dealing with a financial emergency.

In the same survey, 45% of Pod users on GoGet's platform indicated that they were comfortable with a financial emergency compared to 13% of non-Pod users.

The majority of GoGetters and Pod users save towards meeting emergencies. In the Pod survey, 70.9% indicated that they put aside money in savings for unexpected expenses- savings they can withdraw easily when the need arises, followed distantly by future health needs and retirement (or long-term savings).

Putting aside money for emergencies constitutes short-term savings that people can draw from when the need arises. Evidently, when one such financial emergency struck, namely COVID-19, most Pod users either dipped into their savings to cope or reduced their non-essential expenses. Being able to dip into those savings is a good sign, indicating that individuals are creating savings for a need, using it when the need arises and then re-funding their savings for a future emergency.
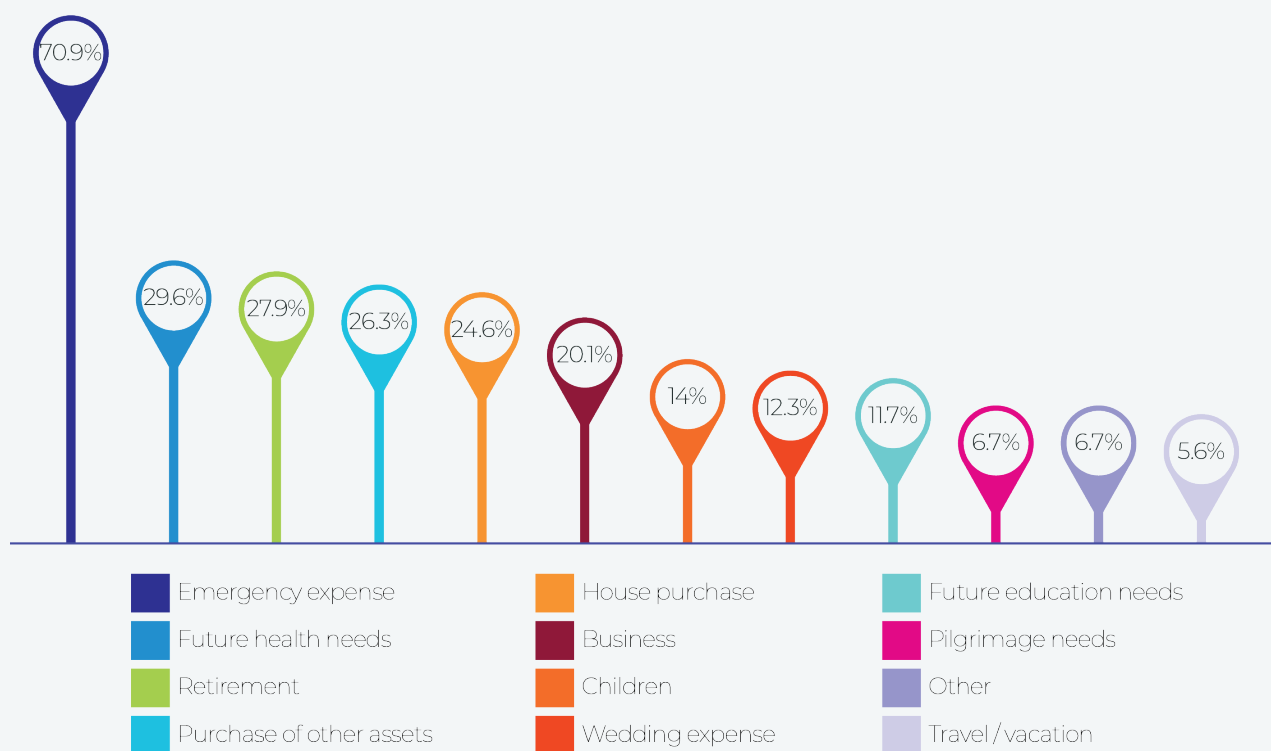

Legend:
- Emergency expense — 70.9%
- Future health needs — 29.6%
- Retirement — 27.9%
- Purchase of other assets — 26.3%
- House purchase — 24.6%
- Business — 20.1%
- Children — 14%
- Wedding expense — 12.3%
- Future education needs — 11.7%
- Pilgrimage needs — 6.7%
- Other — 6.7%
- Travel / vacation — 5.6%

Figure 1: Reasons why Pod users save
(Pod Baseline survey; N=179; multiple answers possible)

This *cycle of savings*, as Aspen Institute notes, is a dynamic process – for LMI individuals in particular – and it is critical therefore that this cycle is supported and even encouraged to help LMI individuals build financial security and resilience.

Borrowing during financial emergencies or dipping into long-term savings are more troubling coping strategies, as they could send LMI individuals into a negative savings spiral. We noted in our GoGet and Pod surveys that those who save more frequently tend to borrow less.

Pod users in particular borrowed less when faced with financial emergencies. On the other hand, among those GoGetters who borrowed, the top reasons for borrowing were to fund emergency expenses (40%), followed by essential expenses (32%).

What is being done? Building both short- and long-term savings

UNCDF is working with Pod and GoGet to encourage both short- and long-term savings among LMI Malaysians.

GoGet through the Pod app is helping GoGetters put aside money as and when they earn. It is also collaborating with the Employee Provident Fund (Malaysia's pension fund) and the Social Security Organization to provide long-term retirement savings and publicly subsidized insurance options for its GoGetters.

Pod is a simple micro-savings app to help youth save small amounts of money, even spare change, as low as RM1 everyday toward a savings goal they define in the app.

Pod is also helping Pod users graduate to the next level by putting aside money in long-term savings, so they can "grow" their money.

Through a partnership with Stashaway, an investment platform, Pod users can now invest their money through capital market investments, without lock-ups or other restrictions.

Insight 2: Why and when you save matter: Clear savings goals and saving right after one's paycheck could help cultivate a savings habit.

Saving right after receiving one's paycheck could help develop a savings habit and also meet one's savings goals rather than saving after paying off all essential expenses.

In a survey with Pod users (N=179), we found that 43% saved after paying off their expenses and 40.6% saved after receiving their paychecks. Among those that saved right after receiving their paycheck, 36.5% met their savings goals always or most of the time as opposed to 17.1% among those that saved after paying off all their essential expenses.

Take the case of Jumia, a part-time GoGetter who revealed that saving right after she receives some money helps her control her craving to spend and enables more consistent savings behaviour:

"I use savings to control myself. If I start spending first, I know for sure I will not save. So, I save first. I draw from a piggybank tradition I am accustomed to since my childhood. I stash away 20 and 5-ringgit notes in this piggybank to this day in addition to saving in a bank."

As in Jumia's case the reverse is also possible. Jumia indicated that she has been saving consistently because she started with a goal: that of curbing unnecessary
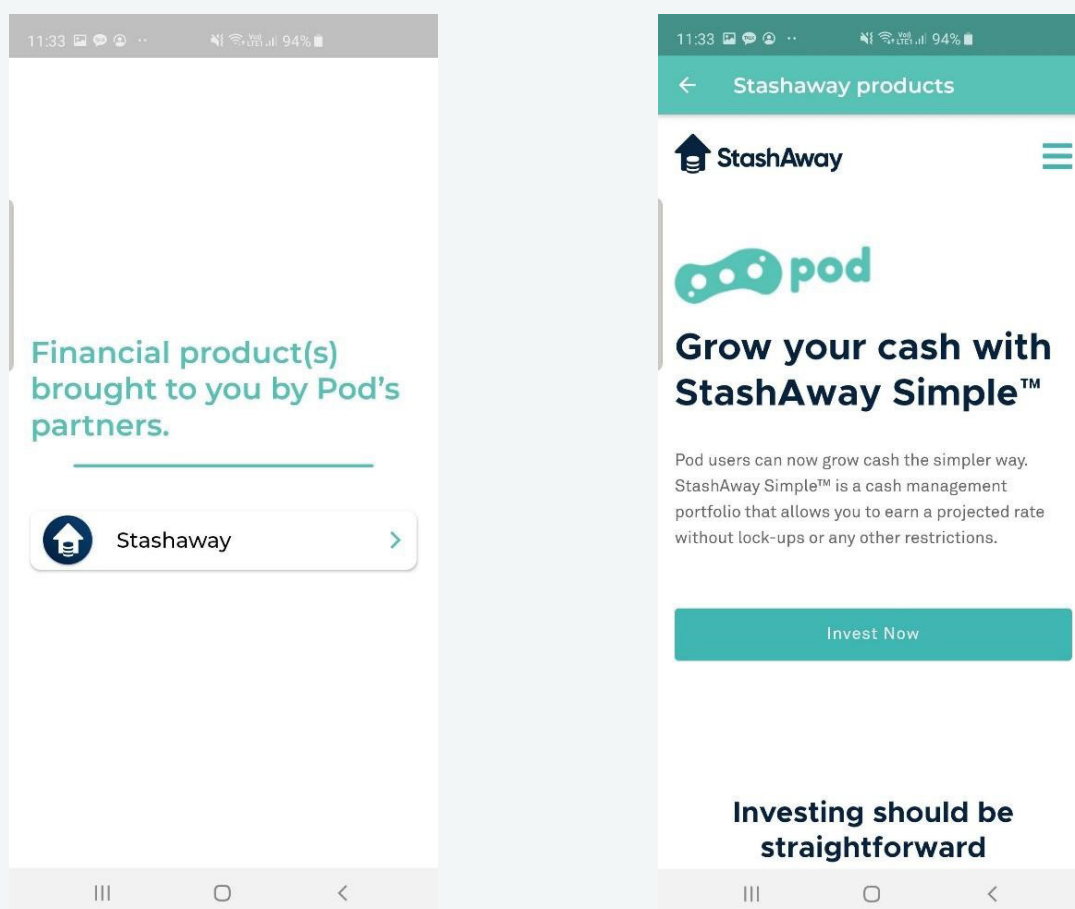

Figure 2: Pod's engagement with Stashaway, an investment platform to help Pod users invest and grow their money.
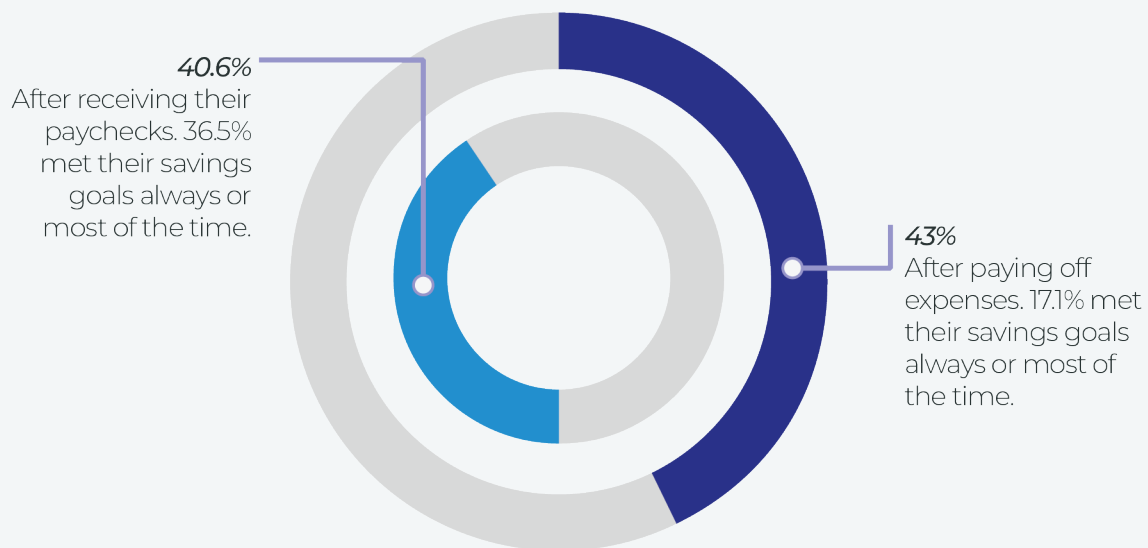
Figure 3: When do Pod users save
(Pod Baseline survey; N=179; multiple answers possible)

spending. Having this goal – even if it means not saving for an explicit purpose (such as a holiday or education) – motivates her to save right after receiving her paycheck instead of saving after meeting all of her commitments.

Pre-commitment to a goal could trigger the positive financial behaviour of saving in the first place. In a recent knowledge sharing session between UNCDF and *Common Cents Lab (CCL) Duke University*, CCL emphasized that pre-committing to a goal could spur a positive action towards meeting that goal.

A survey by Pod and Perbadanan Insurans Deposit Malaysia (PIDM) conducted in December 2019 asked Malaysians what would help them save more[3]. Slightly more than half the sample (N=225) indicated that pre-committing to a fixed amount either weekly or monthly could help them save more consistently.
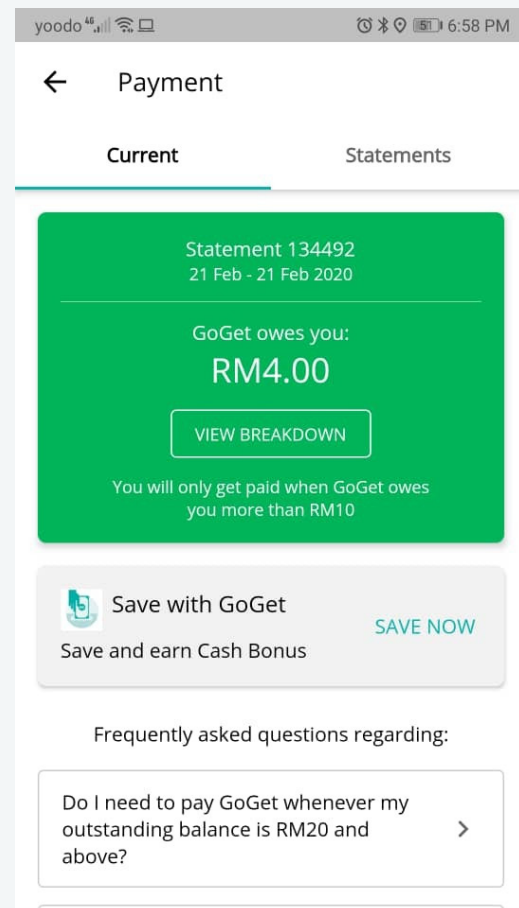

Figure 4: GoGet's "Savings" Function and "Save with GoGet" option

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[3] Perbadanan Insurans Deposit Malaysia (PIDM) is a Malaysian government agency that protects deposits in the bank as well as takaful and insurance benefits in the unlikely event of a failure of a member bank or insurer member.

What is being done?
Save as you Earn with
GoGet

GoGetters can access the "Save with GoGet" button right below their payment statement. As GoGetters access their payment statements to view what GoGet owes them, they have the option to click the "Save with GoGet" or the "Savings" option to stash their earnings in savings via the Pod app. Additionally, GoGet also sends periodic in app-notifications to GoGetters both for payments released and saving a part of those payments.

Since GoGet piloted the Pod initiative, 346 GoGetters are actively saving on the Pod app[4].

What is being done?
Pod is a Virtual Piggybank:
Saving towards Goals

UNCDF is providing technical assistance to Pod to help Pod savers save towards specific, pre-set savings goals. Through the Pod app, savers are able to transfer savings from multiple sources into a single platform, helping people track and achieve their financial goals. Having a pre-set savings goal might not always lead to the realization of that goal but could help people save larger quantities and more frequently than without a pre-defined goal. In UNCDF's survey, 60% of Pod users indicated that they were saving more frequently and cultivating positive financial behaviours such as moderate spending and financial planning since using Pod.

Pod also allows users to collect rewards as they save. For example, for every RM 200 saved, savers collect RM3 in rewards. Furthermore, Pod savers can withdraw their money quickly and easily before realizing a goal, and without incurring penalties or fees. These features led one of Pod's early users, Mimi to dub Pod as a "virtual piggybank".

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[4] Figures as of June 2020. GoGet has a total of 6,842 users as of June 2020. Active users are defined as those that have done more than one job with GoGet.

Insight 3: While saving motivations and goals differ by stage of life, insufficient funds and unexpected expenses are barriers to saving more broadly.

Age or stage of life plays a role in influencing savings habits and goals. While most Pod users and GoGetters save for emergency and essential expenses, youth in particular save to buy assets in the future such as a house or a car, and for their wedding.

Those in the 36-50 age range find it the most difficult to save, owing to several spending commitments including child and elderly care and debt payments. Saving priorities shift as they age, with saving for the future of children, and retirement taking precedence over other expenses.

One of the biggest barriers to saving, particularly for those above 35 years is insufficient funds. Insufficient funds could allude to lower income or higher expenses or both. It could also mean the instability or volatility of income that makes it difficult for people to benchmark their income for expenses or savings. We found that gig workers and those with a lower income struggle the most with having a stable income, creating a double whammy situation.

"I do my best to control, but sometimes it's out of my control. Unpredictable circumstances like rain can get in the way of earning income. Sometimes (I am) in control (of my finances), sometimes [I'm] not."

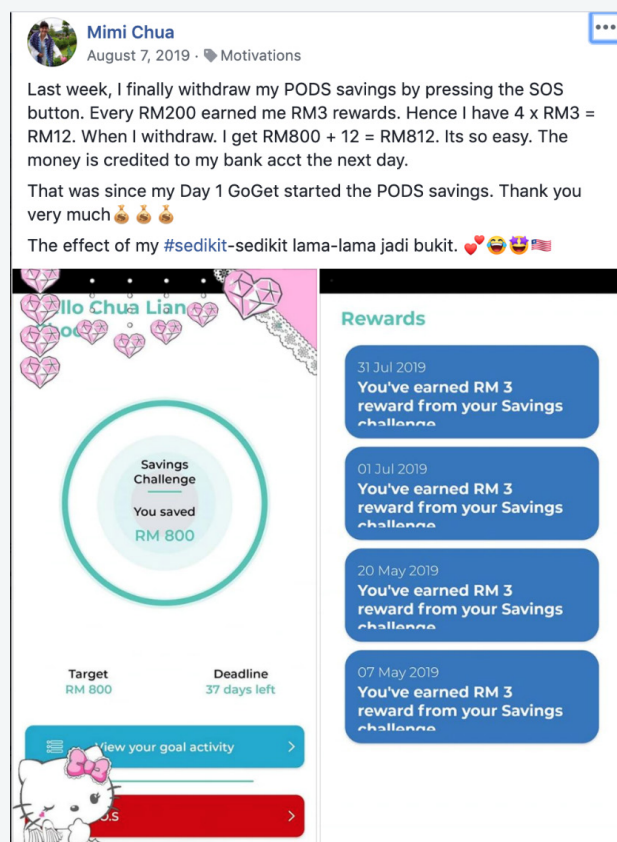*- Male, 29 years old, full-time Go-Getter*

GoGetters and Pod savers also point out that emergencies or unexpected expenses get in the way of saving more consistently and feeling in control of one's finances. Expenses they do not foresee seem to spring up, making it difficult for them to save or meet their savings goals. Why and how often LMI individuals encounter unexpected financial situations requires more investigation. Answers to these questions could help reduce unexpected situations for LMI individuals in the first place, helping them pre-empt unexpected financial futures while addressing them as and when they appear.

Figure 5: A happy Pod user offering a review on the process of withdrawing her funds and rewards on the Pod app.

What is being done?
Save as you Earn with
GoGet

The Pod app is meant to help youth as well as older people create their own savings goals and develop a savings habit, which often helps them put aside small amounts when they can even when their income is unpredictable. The notion of insufficient funds, we have found, could be tackled by helping people develop a habit to save even if for small amounts. This habit helps build a reserve of savings that can be drawn down to address unexpected expenses, helping LMI people smooth their consumption flows better.

The habit of savings can be encouraged with easy processes. Pod makes the process of saving and withdrawing very convenient for its users. To help customers develop the habit of savings, Pod offers small rewards and incentives. These incentives encourage those who do not normally save to start saving, and enables people to save more amounts, since rewards are pegged to amounts saved. Additionally, the Pod app has a SOS button that savers can click to withdraw their savings through bank transfers, without any penalty or fees, and even before reaching one's savings goal.

CONCLUSION

Savings patterns among LMI Malaysians reveal several interesting insights. These insights could be used to inform financial interventions that encourage savings and its use in dealing with financial emergencies such as health expenses or the loss of income in light of the COVID-19 pandemic.

A regular savings habit counts as much as the level of savings, if not more, which is a natural consequence of having a savings habit. Those who save more consistently are able to deal more comfortably with financial emergencies as our survey with Pod users and GoGetters reveals.

When one saves also matters, and pre-committing to a savings goal could trigger the timing of saving. Saving right after receiving one's paycheck instead of waiting until all essential expenses are paid off could help reach savings goals and curb unnecessary spending. Age or stage of life influences savings goals and habits; however, insufficient funds and unexpected expenses remain barriers to saving more broadly.

Easing and customizing the process of saving for youth and working adults alike could help LMI individuals develop a savings habit and smooth their consumption flows.

GoGet is a community platform for reliable and skilled part-time help.

Pod is a financial wellbeing platform to enable youth across Southeast Asia to save, borrow and consume financial products.

The **i3 Program** works in Bangladesh, China, Malaysia and Vietnam to leverage digital technology and uncover deep insights into low- and moderate-income people's needs, aspirations and behaviours to build and deliver financial services for the mass market.

At **MetLife Foundation**, we are committed to expanding opportunities for low- and moderate-income people around the world. We partner with nonprofit organizations and social enterprises to create financial health solutions and build stronger communities, while engaging MetLife employee volunteers to help drive impact. Our financial health work has reached more than 13.4 million low- and moderate-income individuals in 42 countries.

To learn more about MetLife Foundation, visit *metlife.org*

The **UN Capital Development Fund** offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. The UNCDF programme in Malaysia is funded by MetLife Foundation through the i3 Program.

The **Centre for Financial Health** acts as a convener, providing a platform to bring together global, regional and local actors committed to using financial and digital solutions to improve the financial lives of low-income families—helping them climb – and stay – out of poverty.

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