CHAPTER 8

Ecuador: Savings Mobilization in 14 Credit Unions

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This case study provides an overview of the savings strategies and practices implemented in 14 credit unions in Ecuador and presents data that demonstrate the success those institutions achieved in mobilizing savings. The study also establishes a savings profile of membership in the credit unions, based on individual surveys. This case study was the result of a formal investigation of savings mobilization implemented by the German Confederation of Credit Unions (DGRV) in November 2001, with the objective of contributing to the development of the credit union system of Ecuador.

At the time of the study, there were 332 active credit unions in Ecuador, according to a national survey performed by WOCCU. Of these, 26 were supervised by the Bank Superintendency. The remaining 306 were overseen by the National Committee on Credit Unions, commonly known as DINACOOP. According to the same survey, there were 1,481,428 credit union members in Ecuador as of September 2001.

Statistics about the 14 credit unions investigated in the study are presented in Table 8.1. Seven of the institutions were supervised by the Bank Superintendency; the other seven were supervised by DINACOOP. Eleven of the 14 credit unions were in the mountains, two were on the coast, and one was in the eastern part of the country. Eleven of the credit unions were urban, or located in town centers, and three were rural. According to the WOCCU national survey, the credit unions in this study had a total of 457,841 members, representing 30.9 percent of the total credit union membership in Ecuador.

In general terms, the three rural credit unions in the study experienced the greatest growth in savings. Their strategies were

Table 8.1 The 14 Ecuadorian Credit Unions in the Case Study[1]

Credit Union Supervised by	Number of Members	Savings Deposits[2]	Loans[2]
Bank Superintendency			
La Nacional	95,703	13.3	8.9
Cooprogreso	68,494	8.2	8.7
San Francisco	61,824	5.5	6.6
23 de Julio	55,525	5.8	6.8
Riobamba	27,852	6.4	7.7
Chone	20,724	1.2	2.3
CACPECO	19,542	2.8	3.1
DINACOOP			
MEGO	51,727	18.5	15.1
Cacpe Pastaza	20,366	2.2	2.7
Jardín Azuayo	14,977	4.4	5.4
Mushuc Runa	11,200	1.6	1.9
Chuchuqui	4,102	0.5	0.5
Cacpe Biblián	3,387	1.8	2.0
Unión El Ejido	2,418	0.3	0.4
Total	**457,841**	**72.7**	**72.0**

[1] *As of October 2001.*
[2] *In millions of U.S. dollars.*

based on the development of a social and cultural identity, with an emphasis on solidarity among members, who were largely indigenous peoples and farmers.

Table 8.2 consolidates data to compare the seven credit unions supervised by the Bank Superintendency with the seven supervised by DINACOOP, as measured by their number of members, total deposits, and loan portfolios. As Table 8.2 demonstrates, the seven credit unions supervised by the Bank Superintendency had a larger share of the market than the seven supervised by DINACOOP.

Table 8.2 Size of 14 Credit Unions Supervised by the Bank Superintendency and DINACOOP[1]

Credit Unions Supervised by	Number of Members	%	Savings Deposits[2]	%	Loans[2]	%
Bank Superintendency	349,664	76.37	43.3	59.53	44.1	61.16
DINACOOP	108,177	23.63	29.4	40.47	28.0	38.84
Total	**457,841**	**100.00**	**72.7**	**100.00**	**72.0**	**100.00**

[1]*As of October 2001.*
[2]*In millions of U.S. dollars.*

Credit unions supervised by the Bank Superintendency are authorized to perform transactions with members—co-owners of the credit union who own share certificates—and also with clients—persons who do business with the credit union but who have not become members. While most services were still provided for members who owned shares in the institution, the non-member client share was growing in the seven institutions that were authorized to serve the open market. Table 8.3 shows the breakdown of members versus non-member clients in those institutions.

Table 8.3 Credit Union Members and Clients in 14 Credit Unions[1]

Credit Unions Supervised by	Number of Members	Number of Clients	Total
Bank Superintendency	256,637	93,027	349,664
DINACOOP	106,750	1,427	108,177
Total	**363,387**	**94,454**	**457,841**
Percent	**79.4%**	**20.7%**	**100.0%**

[1]*As of October 2001.*

Savings Mobilization

The 14 credit unions used an array of demand and fixed-term products to mobilize savings. The characteristics of the products and the strategies employed to promote them were similar for all 14 credit unions.

Demand Deposits

Demand deposits represented the most important financial product that the credit unions offered. The main feature of demand deposit accounts is that they do not have predetermined withdrawal dates. Most demand accounts allow unlimited withdrawals.

Opening of accounts. To open a savings account, the credit unions required a person to present an original personal identification card of which a copy was made, one passport-sized photograph, and a minimum deposit. The minimum deposit varied among the credit unions, depending mostly on geographic region. In the 14 credit unions in this study, the minimum deposit ranged from $5 to $42. According to the internal policies of each institution, this initial deposit was distributed among the demand deposit account, the share certificate account, and, in limited cases, an administrative charge was applied for opening the account.

Products offered by credit unions. The credit unions generally offered traditional demand savings products. Only a few had diversified or modified these products in order to encourage savings. The demand deposit products included primarily passbook savings and account savings.

Standard Passbook Accounts. These accounts are opened for all members when they join a credit union. Some institutions differentiate this product according to their target audiences. Examples of specialized passbook accounts include:

- **Special Passbook Savings:** Similar to the standard passbook account, but with a higher minimum balance requirement and a higher interest rate. In some institutions, the rate is based on average balance; in other cases it is based on the amount in an account at specific times.
- **Youth Savings:** Provides incentives for children and youth to save. A legal guardian of the minor has to sign for the account. These accounts require lower minimum balances and pay lower interest rates than the standard passbook account.
- **Business Savings:** Intended to attract savings from trade unions, associations, institutions, and organizations. Higher minimum opening deposits and balances are required for

these accounts, although they offer higher interest rates than the standard passbook account.

Account Savings. This type of account provides members access to their savings with a mechanism similar to checking accounts. Members use a booklet of withdrawal slips for their accounts (similar to checks). The withdrawal slips are acceptable as payments at businesses where the credit union has established contracts. The payee of the "check" would go to the credit union to collect payment, after verification of sufficient balance and authorized signatures. Because it offers the convenience of a checking account, this type of demand savings has been an attractive product to members. Although not yet widespread (it was offered in only two of the 14 credit unions), account savings has been effective for mobilizing deposits and increasing membership.

Volume of demand deposits. Table 8.4 shows the demand deposit balances in the credit unions. Of the 14 credit unions studied, the seven supervised by the Bank Superintendency had raised higher levels of savings than those supervised by DINACOOP.

Table 8.4 Demand Deposits in 14 Credit Unions[1]

Credit Unions Supervised by	Demand Deposits[2]	%
Bank Superintendency	37.3	69.6
DINACOOP	16.3	30.4
Total	**53.7**	**100.0**

[1]*As of October 2001.*
[2]*In millions of U.S. dollars.*

It is important to note that 50 percent of the demand savings received by the group of credit unions supervised by the Bank Superintendency was concentrated in two institutions. One of these credit unions focused on increasing the number of clients: by increasing the number of members, and more importantly, the number of non-member clients. The latter had the option to open demand deposit accounts without having to credit a share account, as would be the case with members who joined the credit union. The other credit union made brand and product marketing the priority in its strategy for increasing the volume of deposits. Both strategies have been effective for mobilizing increased savings.

Among the seven credit unions supervised by DINACOOP, two stood out as having raised 70 percent of the demand deposits of this group. In one credit union, the savings mobilization strategy was based on interest rate management; this institution offered the highest interest rates of the entire group of 14 credit unions. In the second credit union, success was based on increased points of sale. After only five years of operation, this institution had 11 offices to better serve populations located in rural areas. Both strategies have been effective for mobilizing increased savings.

Interest rates and amounts. A wide range of interest rates were paid on demand deposits. In the credit unions supervised by the Bank Superintendency, interest rates ranged from 2.75 percent to 6 percent. The credit unions overseen by DINACOOP offered higher interest rates, between 4 and 10 percent. Table 8.5 shows the interest rates on demand deposits in the 14 credit unions.

In eight of the 14 credit unions, the interest rate on demand savings was paid independently of the amount deposited. The remaining six credit unions paid interest rates based on the amount in the account or the average balance in the account.

Table 8.5 Interest Rates on Demand Deposits in 14 Credit Unions[1]

Credit Unions Supervised by	Minimum %	Maximum %
Bank Superintendency	2.75	6.00
DINACOOP	4.00	10.00

[1] *As of October 2001.*

All the credit unions calculated interest paid on demand savings accounts on a daily basis; however, the crediting of accounts differed from one credit union to the next. Some credit unions credited accounts daily, while in other institutions accounts were credited monthly, quarterly, or semi-annually.

Interest rate reviews. Generally, interest rate reviews were based on fluctuations in demand and changes in the market. There were no stated terms for interest rate reviews in most of the credit unions. Two credit unions had finance committees that performed regular analyses and follow-ups on rate reviews; the proposals for revision of savings rates were presented to managers and then approved by the boards of directors. Half of the credit unions indicated that a review was performed quarterly, mainly in response to market changes.

Fixed-term Savings

Fixed-term deposit accounts, such as certificates of deposit and programmed savings, were also important products offered by the credit unions in the study. Certificates of deposit were made in one deposit with interest paid upon maturity. Programmed savings included a variety of plans to encourage systematic savings during a determined period for a specific purpose. Interest on programmed savings was paid out at maturity.

Certificates of deposit. The credit union and the member or client signed a contract at the time of deposit to define the amount, term, and rate of interest to be paid on the certificate. This product offered interest rates higher than those paid on demand deposits. Interest rates varied according to the amount of deposit, term, and transaction history of the member (including his or her history of managing credit obligations). The interest rates on certificates of deposit in the credit unions supervised by the Bank Superintendency ranged from 4 percent to 11 percent. In the credit unions supervised by DINACOOP, the interest rates paid on certificates of deposit ranged from 4.5 percent to 12 percent. Table 8.6 shows the interest rates paid on certificates of deposit in the credit unions.

Table 8.6 Interest Rates on Fixed-term Certificates of Deposit in 14 Credit Unions[1]

Credit Unions Supervised by	Minimum %	Maximum %
Bank Superintendency	4.0	11.0
DINACOOP	4.5	12.0

[1]*As of October 2001.*

In most cases, interest rates on certificates of deposit were subject to negotiation, depending upon the amount deposited. The credit union manager was authorized to increase the rate by an additional 0.25 percent to 1 percent, depending on the amount, maturity date, and type of client.

Fixed-term certificates of deposit accounted for a much greater percentage of total deposits in the credit unions overseen by DINACOOP. Because of the instability of the Ecuadorian economy, the credit unions supervised by the Bank Superintendency considered these products to be higher risk and, consequently, made little effort to market them. Nevertheless, for this group of credit unions, fixed-term savings have been popular for attracting non-member clients. As Table 8.7 shows, fixed-term deposits accounted for 26.2 percent of the total volume of demand and fixed-term savings in the 14 credit unions.

Table 8.7 Volume of Total Savings in 14 Credit Unions[1]

Credit Unions Supervised by	Demand Deposits[2]	Fixed-term Deposits[2]	Total Deposits
Bank Superintendency	37.3	6.0	43.3
DINACOOP	16.3	13.1	29.4
Total	**53.7**	**19.1**	**72.7**
Percent	**73.8%**	**26.2%**	**100.0%**

[1]*As of October 2001.*
[2]*In millions of U.S. dollars.*

Programmed savings. Also known as *"Ahorro Plan"* in most of the institutions, programmed savings required members to deposit fixed amounts on a set basis, according to the different plans. The 14 credit unions provided various options with respect to the amounts of deposit, interest rates, and terms. Members could select the plans that best accommodated their personal saving needs.

Two programmed products were particularly well received in the Ecuadorian market.

- **Educational Savings:** These savings were accumulated through periodic deposits and applied to the educational expenses of the children of members. The interest rates and conditions varied from one credit union to another.
- **Retirement Savings:** These deposits were made over several years for capital accumulation that would enable the savers to have monthly stipends when they retired. The value of the deposit, term, and rate paid were established in advance through a contract between the member and the credit union.

The interest rates, terms, and deposit amounts for programmed savings accounts were set in advance. These features varied according to the policies of each credit union and the core characteristics of each product. The period of deposit was usually greater than one year and interest rates were higher than those offered on demand deposits.

In general, programmed savings products did not represent a significant volume of savings for any of the 14 credit unions. In many cases, members were unaccustomed to programmed savings, or they lacked the means to comply with the objectives or terms throughout the life of the account. Even so, programmed savings have enabled the credit unions to offer a broader range of products and services to existing and potential members and clients.

Strategies for Savings Mobilization

Managers in the credit unions generally did not have planned-out strategies for savings mobilization over the medium or long term. However, many did conduct activities with the specific objective of mobilizing savings. Most of the institutions focused on immediate differentiation of products to create a clear brand and product identification in the local market (town, district, or province). The key elements in the differentiation of demand deposit services included:

- **Institutional image:** The credit unions publicized the sound management practices of directors and managers that were from the local market; flexibility of management in problem solving; financial results attained (profitability, volume, low delinquency rate); and personalized service.
- **Interest rates:** Most of the credit unions offered rates competitive in their local markets. Only two of the 14 credit unions had interest rates that exceeded the local rates offered on savings. Those two credit unions used their higher interest rates to attract new members and mobilize new deposits. Interest rate reviews were conducted regularly in all the institutions.
- **Rapid service:** All of the credit unions tried to reduce the time a member spent on transactions. They did this by simplifying procedures and opening more teller windows.
- **Hours of service:** Most of the credit unions provided extended hours of attention to the public, generally from 8:30 a.m. to 6:00 p.m. without interruption. Many credit unions opened teller windows on weekends and holidays.

- **Publicity and advertising:** The credit unions advertised on a large scale through the radio and with flyers and brochures, and on a smaller scale through the print media and television. Savings services were promoted and linked to other services and benefits offered by the institutions. Some credit unions emphasized loan products and loan transaction speed as benefits to encourage savings. They sponsored local social, cultural, and sporting events as another form of publicity. Some of the institutions used door-to-door campaigns to attract larger deposits.
- **Promotions**: Raffles were commonly conducted to raise deposits. According to several managers, raffles were the most effective way to mobilize new savings. The credit unions also gave away promotional gifts to attract savers, such as bags, shirts, hats, pens, key chains, and school supplies.
- **Points of sale:** The establishment of new points of sale within the credit union's service area promoted growth by attracting new members and raising savings from new markets.

All of these strategies were employed by the credit unions in various forms and at different times in their savings mobilization efforts. All of the credit unions increased their total deposits as a result of their targeted activities.

Survey of Members

To find out about member demographics, the study conducted by DGRV in November 2001 included a survey of more than 500 members of the 14 credit unions. The individual surveys were conducted through personal interviews. The survey sample was made up of members who came to the credit unions during the research period to make some type of transaction. Both savers and borrowers were randomly selected for the interviews.

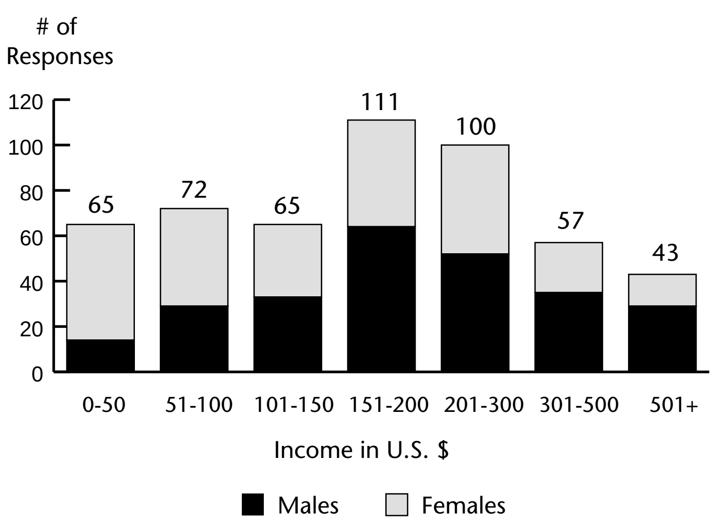
Income

The survey found that more than one-third of the members (39 percent) had monthly incomes of less than \$150; 30 percent of males and 49 percent of females earned less than \$150 per month. Forty-five percent of men and 37 percent of women earned between \$151 and \$300 monthly. Twenty-five percent of the men and 14 percent of women earned more than $300 per month. These results indicated an average monthly income of $243 for men and $179 for women. Table 8.8 shows the distribution of members according to gender and monthly income. Figure 8.1 illustrates the distribution of members according to gender and monthly income with females and males consolidated.

Table 8.8 Distribution of Members According to Monthly Income

	Male		Female		Total	
Savings in U.S. $	Number of Responses	%	Number of Responses	%	Number of Responses	%
0 – 50	14	5.5	51	19.8	65	12.7
51 – 100	29	11.3	43	16.7	72	14.0
101 – 150	33	12.9	32	12.5	65	12.7
151 – 200	64	25.0	47	18.3	111	21.6
201 – 300	52	20.3	48	18.7	100	19.5
301 – 500	35	13.7	22	8.6	57	11.1
501+	29	11.3	14	5.4	43	8.4
Total	**256**	**100.0**	**257**	**100.0**	**513**	**100.0**

Figure 8.1 Distribution of Members According to Monthly Income



Savings

More than half of the female members (56 percent) saved up to $20 per month in their credit unions. Twenty-one percent saved $21 to $50 per month; 16 percent saved between $51 and $100; and 6 percent saved more than $100 monthly. Forty-two percent of male members saved up to $20 monthly; 26 percent saved $21 to $50; 17 percent saved $51 to $100; and 15 percent saved more than $100 per month. Table 8.9 shows the distribution of members according to gender and monthly deposits.

Table 8.9 Distribution of Members According to Monthly Deposits

	Male		Female		Total	
Savings in U.S.$	Number of Responses	%	Number of Responses	%	Number of Responses	%
0 – 10	67	26.2	79	30.7	146	28.5
11 – 20	41	16.0	65	25.3	106	20.7
21 – 30	30	11.7	27	10.5	57	11.1
31 – 50	37	14.5	28	10.9	65	12.7
51 – 70	16	6.3	18	7.0	34	6.6
71 – 100	27	10.5	24	9.3	51	9.9
101+	38	14.8	16	6.2	54	10.5
Total	**256**	**100.0**	**257**	**99.9**	**513**	**100.0**

Figure 8.2 Distribution of Members According to Monthly Deposits

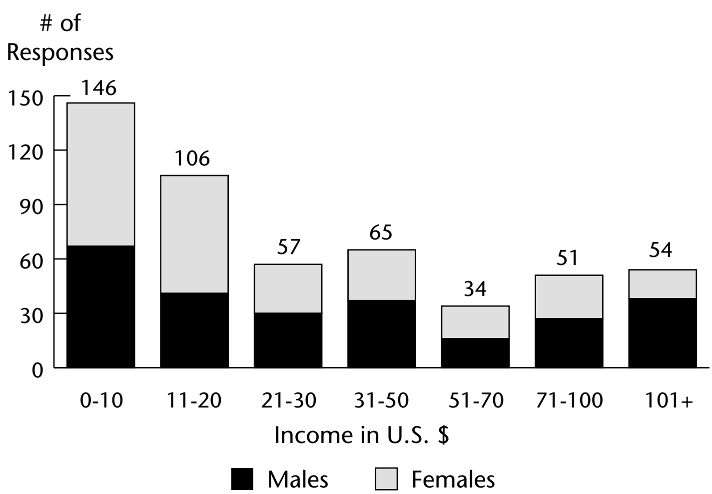


Figure 8.2 illustrates the distribution of members according to monthly deposits, with females and males consolidated, to show the breakdown of savings per month by deposit size.

Reasons for Saving

For both men and women, the principal reasons for saving with their credit unions were: to obtain loans (26 percent), for emergencies (16 percent), for security (16 percent), for health expenses (11 percent), for housing (9 percent), for future commitments (8 percent), and for education (7 percent). Among male members, the three main reasons were: to obtain loans (28 percent), for security (18 percent), and for emergencies (13 percent). In the case of female members, the three primary reasons were: to obtain loans (23 percent), for emergencies (19 percent), and for security (14 percent). Table 8.10 shows the distribution of members according to principal reasons for saving. Figure 8.3 illustrates the principal reasons that males and females saved in credit unions to show the trends by gender.

Deposit Terms

As Table 8.11 shows, the majority of members (61.6 percent) deposited savings for terms of less than 30 days. Figure 8.4 highlights the trends by gender.

Other Types of Savings

When asked about the other types of savings instruments they used, 38 percent of members said that they purchased assets, 31 percent safeguarded money in their homes, and 24 percent said they had no other types of savings. Six percent of members indicated they made loans to others as a form of savings.

It is apparent that there is significant potential to increase savings deposits by mobilizing the funds that members keep at home. At the same time, given the general crisis of the Ecuadorian financial system during recent years, there is a strong preference for the purchase of goods (assets) as an alternative form of savings.

Table 8.12 shows the distribution of members according to gender and other types of savings. Figure 8.5 illustrates the distribution of male and female members according to other types of savings, to show the trends by gender.

Table 8.10 Distribution of Members According to Reasons for Saving

Reasons for Savings	Male: Number of Responses	Male: %	Female: Number of Responses	Female: %	Total: Number of Responses	Total: %
Obtain loans	123	28.4	95	22.8	218	25.7
Security	79	18.2	58	13.9	137	16.1
Emergencies	58	13.4	78	18.8	136	16.0
Health	40	9.2	50	12.0	90	10.6
Housing	41	9.5	38	9.1	79	9.3
Future commitments	39	9.0	29	7.0	68	8.0
Education	28	6.5	33	7.9	61	7.2
Earn interest	18	4.2	29	7.0	47	5.5
Purchase appliances	7	1.6	6	1.4	13	1.5
Total	**433**	**100.0**	**416**	**99.9**	**849**	**99.9**

Figure 8.3 Distribution of Members According to Reasons for Saving

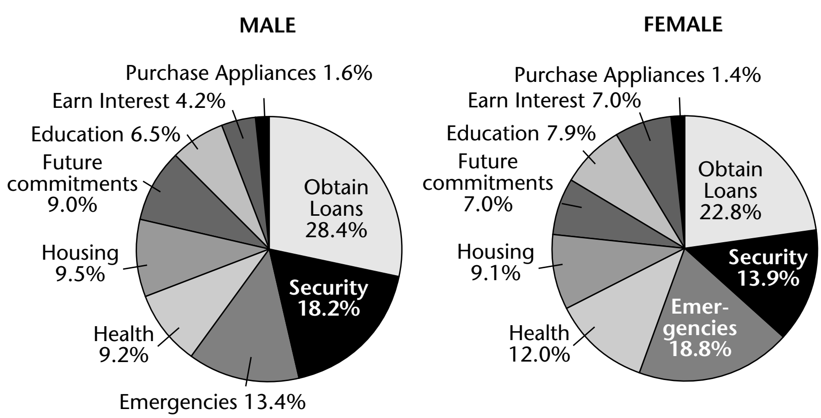


Table 8.11 Distribution of Members According to Deposit Term

	Male		Female		Total	
Term in Days	Number of Responses	%	Number of Responses	%	Number of Responses	%
Less than 30	152	59.3	164	63.8	316	61.6
30 – 60	77	30.1	65	25.3	142	27.7
61 – 90	13	5.1	17	6.6	30	5.8
91 – 180	4	1.6	3	1.2	7	1.4
181 – 360	2	0.8	3	1.2	5	1.0
361 +	8	3.1	5	1.9	13	2.5
Total	**256**	**100.0**	**257**	**100.0**	**513**	**100.0**

Figure 8.4 Distribution of Members According to Deposit Term

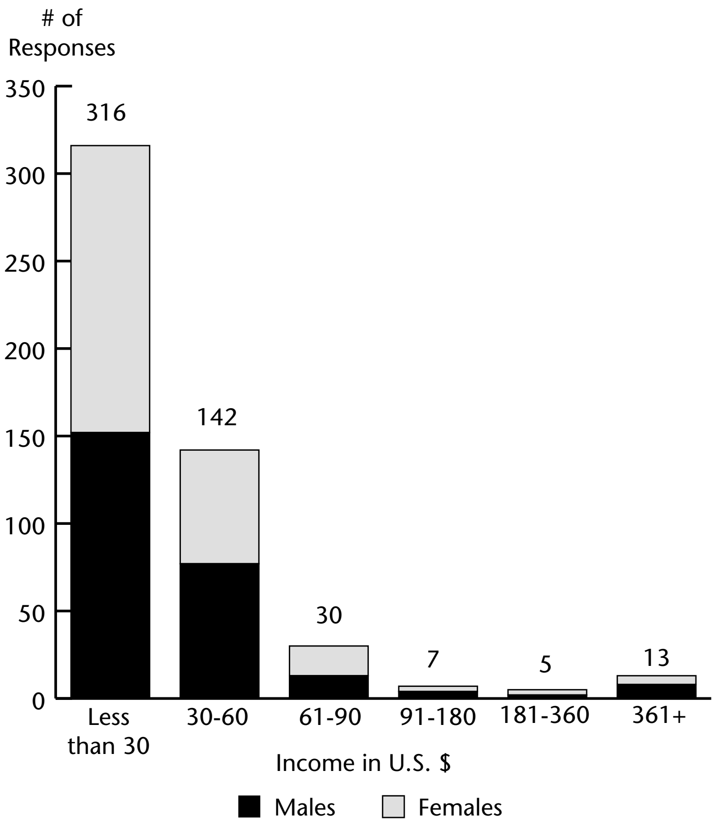


Table 8.12 Distribution of Members According to Alternative Savings Mechanisms

	Male		Female		Total	
Type	Number of Responses	%	Number of Responses	%	Number of Responses	%
Purchase of goods	108	42.2	89	34.6	197	38.4
Keep money at home	76	29.7	83	32.3	159	31.0
No other type	56	21.9	66	25.7	122	23.8
Loan to others	16	6.2	17	6.6	33	6.4
No response			2	0.8	2	0.4
Total	**256**	**100.0**	**257**	**100.0**	**513**	**100.0**

Figure 8.5 Distribution of Members According to Alternative Savings Mechanisms

Profile of Credit Union Members

In addition to gathering data on income, savings amounts, reasons for saving, deposit terms, and types of savings held, the DGRV member survey recorded general statistics on members. It also probed member preferences and perspectives. Based on the data collected, the following member profile was created for the 14 credit unions:

- Adults from 30 to 49 years old made up the largest group of members; adults younger than 30 years old constituted the second largest group.
- Most members had monthly incomes of less than \$150; in second place were monthly incomes of \$151 to \$300.
- Most members deposited average monthly savings of up to \$20. The second largest group deposited average monthly savings of \$21 to \$50.
- Members saved in order to obtain loans, for emergencies, for health expenses, and for housing.
- They normally deposited their savings for less than 30 days (demand deposits). If they made fixed-term deposits, the majority did so for less than 60 days.
- Members sought quick and timely loans, high-quality service, and a positive institutional image of their credit unions.
- They selected a credit union because of security and trust, in order to obtain loans, to receive good service, and through referrals from other members
- They viewed their credit unions as places where they could go for credit and savings products. Other products, services, and benefits were supplementary.
- More than one-half of the members conducted business solely with their credit union. The rest also did business with banks (for checking accounts) and a few with more than one credit union. This diversification reflected a search for greater security.
- Even when they had access to financial services, some members preferred to purchase assets or safeguard money in their homes as alternative forms of savings.

Conclusion

Credit unions in Ecuador are mobilizing savings with success. Based on the data collected in this study of the 14 credit unions, we know that the credit unions supervised by the Bank Superintendency are larger and have mobilized greater levels of savings than those supervised by DINACOOP. All the credit unions offered demand and fixed-term savings products. Demand savings made up a much larger share of total savings than fixed-term savings. Interest rates on both types of products tended to be higher in the institutions supervised by DINACOOP.

The savings mobilization strategies employed by the 14 credit unions all drew on certain fundamental elements. Although the timing or details may have differed from one institution to another, they generally had the following objectives and activities:

- Financial services and benefits of savings and credit for members;
- Affordable interest rates for members;
- High-quality client service;
- Personalized visits and new points of service;
- Positive institutional image;
- Trustworthy managers and directors;
- Longevity of service or presence in the market;
- Informative and promotional campaigns;
- Management appearances in mass communication;
- Contributions to the development of the local market; and
- Greater participation in the formal financial market.

The institutional image, quality of member service, liquidity, directors and officers living in the area, and the stability of management for various years were considered fundamental elements for the establishment and promotion of security and soundness in the credit unions.

The survey of more than 500 members created a profile of members in the 14 credit unions, particularly in relation to their income and social condition. The survey found that there remained a surplus of funds that were saved in alternative mechanisms. The implementation of systematic programs and marketing to encourage a culture of savings in credit unions would serve to channel these resources toward the credit unions.

Finally, the trust factor, the image of the institution, and the quality of service were the principal platforms for savings mobilization in the credit unions in Ecuador.

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