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A new brief highlights the relevance of cash flows and the importance of understanding the cycle of savings

Much of the discussion around understanding and facilitating savings of low-income households revolves around helping households accumulate large sums of money over time to achieve savings goals over the medium or long-term.

A new report from the Aspen Institute's Financial Security Program ^[1] takes a different perspective and highlights the important role that short-term savings play in helping households achieve smaller financial goals, weather financial shocks (either emergencies that increase expenses or conditions that result shortfalls in income) and make mobility-enhancing investments, such as saving for a training to build skills.

The traditional way of measuring success of savings instruments or programmes is to look at the savings balance at a specific point in time. And the lack of high savings balance might have indicated that families are not saving or do not have the ability to save. The brief outlines that saving and then spending those savings to cover an expense or a savings goal is a sign of success.

Understanding this cycle of savings requires us to look at savings as a flow variable rather than a stock variable. To measure the success of savings products means to look beyond savings balances at a point in time, but rather to understand cash flows of households. A number of other metrics can be used to measure success. These include:

- Displaying consistency in savings behavior within the household's ability to earn and save
- Using savings to maintain resilience and to move forward in goals
- Avoiding expensive forms of debts
- Not tapping into long-term savings to weather a financial shock

Similar patterns are seen in savings behaviours of low-income households in emerging economies. There is clearly a need for financial instruments that help households meet short-term cash flow needs and weather financial shocks. Our work on developing integrated risk management solutions, highlighted in [this webinar](#) ^[2], focuses on creating savings-anchored bundled solutions that provide households with a tool to accumulate savings, while providing them access to insurance and emergency loans to weather financial shocks.

Do check out the [full report from the Aspen Institute](#) ^[1] to understand how institutions can design better products and services to better engage with the savings cycle and remove barriers to access to short-term savings products.

Source URL: <http://www.impactinsurance.org/emerging-insights/ei179>

Links:

[1] https://www.aspeninstitute.org/wp-content/uploads/2020/09/The-Cycle-of-Savings.pdf?_ga=2.222748315.1032646051.1604422970-1569311744.1591625742

[2] <http://www.impactinsurance.org/events/webinar/integrated-risk-management>