

MARCH 2021

Collective Savings:

The Power of Social Support in Building Emergency Savings

Acknowledgements

Thank you to Commonwealth staff members who wrote this report and provided the associated analysis: Elle Tibbitts and Becca Smith. Thank you also to other Commonwealth contributors: Jerome Barnes, Melissa Gopnik, and Alexa Kapoor. Thank you to Commonwealth's communications and design team including Paula Grieco, Gina Ryder, and Teresa Willand. Thank you to our fintech partner Esusu, especially Chidinma Ogechi Orji, Abbey Wemimo, and Samir Goel. This report is made possible thanks to the generous support of BlackRock's Emergency Savings Initiative.



Commonwealth strengthens the financial opportunity and security of financially vulnerable people by discovering ideas, piloting solutions, and driving innovations to scale. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling 750,000 people to accumulate more than \$3 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.



Esusu is the leading financial technology platform that leverages data solutions to close the financial wealth gap. Esusu launched with a rotational savings app to help families and friends save together and build credit. Esusu cofounders Abbey Wemimo and Samir Goel digitized the informal lending circles that their parents used to save and access capital quickly. Recognizing people's difficulty to save, Esusu created a groundbreaking rent reporting platform that captures rental payment data and reports it to credit bureaus to boost credit scores. This enables tenants to use this significant monthly expense to build and establish their credit scores while helping property owners increase revenue, lower evictions, and fill vacancies. Founded in 2018, Esusu reaches over one million rental units across 43 states in the United States. Learn more about savings (www.esususavings.org) and rent reporting (www.esusurent.com). Follow us on Facebook [@myesusu](https://www.facebook.com/myesusu) and on Twitter [@getesusu](https://twitter.com/getesusu).



BlackRock announced a philanthropic commitment to help millions of people living on low to moderate incomes gain access to and increase usage of proven savings strategies and tools – ultimately helping them establish an important safety net. The size and scale of the savings problem requires the knowledge and expertise of established industry experts that are recognized leaders in savings research and interventions on an individual and corporate level. Led by its Social Impact team, BlackRock is partnering with innovative industry experts Common Cents Lab, Commonwealth, and the Financial Health Network to give the initiative a comprehensive and multilayered approach to address the savings crisis. Payroll providers, recordkeepers, employers and fintechs have joined BlackRock's Emergency Savings Initiative to help their employees and customers take the essential first step toward long-term financial well-being. To learn more about BlackRock's Emergency Savings Initiative, visit www.savingsproject.org.

Introduction

Collective Emergency Savings is an innovative approach to building short-term savings as a group. Through Commonwealth's continued research on savings programs for low-to moderate-income (LMI) people, we partnered with fintech Esusu in a yearlong pilot to help low-income populations save money through collective savings. We found users saved more and more regularly, felt more prepared to manage an emergency, and believed they will be more financially secure in the future.

Prior to the COVID-19 pandemic, [37% of households](#) did not have access to \$400 in liquid savings. For households making less than \$60,000 a year, 58% do not have access to emergency funds, and the challenge is more severe for female-headed households and Black households (61% and 71% respectfully). Without a financial cushion for emergencies, paying for an unexpected expense—like a car repair or medical bill—means financially insecure households often must turn to costly financing methods such as payday loans or high-interest credit cards. Through [BlackRock's Emergency Savings Initiative](#), Commonwealth is exploring new and novel ways to address this by helping people access high-quality liquid savings solutions.

Commonwealth's Collective Emergency Savings is an innovative approach to building an emergency savings fund that builds on a tested savings tool, Rotating Savings and Credit Associations (ROSCAs).

"ROSCAs are locally organized groups that meet at regular intervals; at each meeting, members contribute funds that are given in turn to one or more of the members. Once every participant has received funds, the ROSCA can disband or begin another round."

- Collaborativefinance.org

These savings groups [have been proven](#) to protect savings against immediate household consumption, create accountability, and provide access to a greater pool of funds than one is able to save on their own in the same amount of time through social pressure to make periodic saving deposits.

In our Collective Emergency Savings, a group saves together to build an emergency fund. In contrast to the traditional ROSCA model, in Collective Emergency Savings the savings is not paid out at the end of each savings cycle, but instead is held in a joint account. When a member experiences an emergency, they may request funds from the pooled savings and the group votes to release the funds.

The hypothesis guiding our approach is built on two components:

- 1. Social support:** The social contract of saving with a group will motivate users to start saving and to keep saving.
- 2. Access:** The pooled account will help savers feel more prepared for unexpected emergencies and, when an emergency arises, users will have access to a larger reserve to manage the emergency.

Pilot Design

In order to determine whether this model would help people save for emergencies, Commonwealth conducted a pilot experiment with Esusu, a mobile app that helps people create and manage ROS-CAs with their friends and family members. From December 2019 to January 2021¹, eight groups participated in the experiment. Each group was composed of three to four participants who saved between \$5 and \$75 a month. We recruited people who did not feel prepared for a financial emergency, oversampling for women of color. We worked with groups of friends, families, acquaintances, and strangers.

At the start of the pilot, groups determined the amount that each of its members would save every period (once a month) through an automatic deposit into a group savings account held by Esusu's bank partner.

In the case of a financial emergency for any group member:

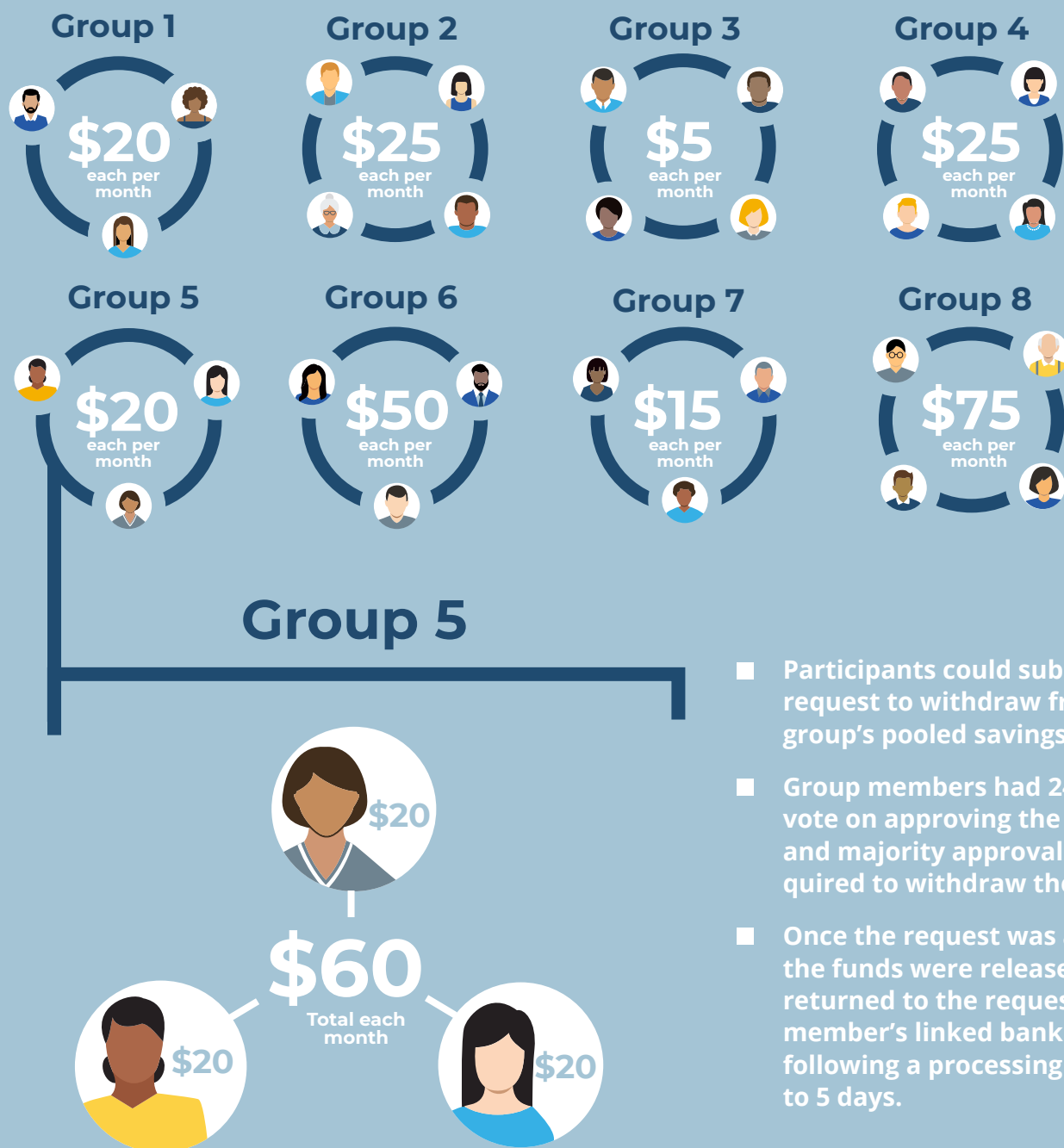
1. Participants could submit a request to withdraw from the group's pooled savings.
2. Group members had 24 hours to vote on approving the request and majority approval was required to withdraw the funds.
3. Once the request was approved, the funds were released and returned to the requesting member's linked bank account, following a processing time of 3 to 5 days.

Participants were surveyed monthly for the first six months, and then every other month for the final six months of the experiment. Participants were also interviewed at four points over the year: at the start of the COVID-19 shutdowns, the three-month mark, the six-month mark, and at the close of the pilot in January 2021. Additionally, we observed and analyzed behavior in the group accounts. Insights come from a combination of these sources.

¹ Initially scheduled to end August 2020, seven groups extended into 2021

About the Pilot

From December 2019 to January 2021, eight groups participated in the experiment. Each group, composed of three to four participants who saved between \$5 and \$75 a month, saved between \$15 and \$225. We recruited people who did not feel prepared for a financial emergency, oversampling for women of color. We had groups of friends, families, acquaintances, and strangers.



- Participants could submit a request to withdraw from the group's pooled savings.
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Findings and Insights

Through this research, Commonwealth found that structure and community help users save more and more consistently.

Insight 1: When saving as a group, users save more, and save more regularly

Prior to the pilot,

- 61% of participants saved, on average, \$100 a month or less,
- 50% of participants had less than \$400 in savings,
- 46% of participants reported they did not save consistently.

Over the course of the pilot:

- Participants saved a total of \$6,440 in the group accounts,
- 93% of participants saved regularly² with the group.

At the close of the experiment:

- 66% of participants saved more in personal savings in December than they had saved per month, on average, prior to the pilot.

Participants cited several reasons for the increased savings:

- **Automatic** deposits,
- **Accountability** of saving in the group, and
- **Motivation** generated by seeing the savings multiply as driving forces behind developing a more consistent savings habit over the course of the experiment.

Additionally, in placing a greater focus on saving, participants report being more mindful of spending, including reducing unnecessary spending, and redirecting funds to savings. Notably, participants withdrew a total of \$595 (9%) throughout the experiment for emergency expenses; these included a rent payment, a car repair, and an unexpected small business expense. Accumulated savings of \$5845 was distributed to participants in the amount they individually saved minus any amount they withdrew over the course of the pilot.

“The collective savings gave me the confidence that I could save more. I started out really small and said, let me just do this Christmas account, because if I start now (it was right around the same time that the collective group started) then I won’t blow my budget at the end of the year. So I started putting a small amount every pay period.”

- Survey participant

“I was more apt to put money into savings because of [collective savings], just seeing how small incremental amounts could add up to so much more than I thought.”

- Survey participant

² Regularly is defined as missing less than two payments over the course of the experiment

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Over the course of the pilot:

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Insight 2: A larger pool of capital helps users feel more prepared for emergencies

The COVID-19 pandemic began to impact our participants about two months into the pilot. From the start of COVID-19 to the close of the pilot, participants either felt more prepared to manage a financial emergency (30%) or felt the same (50%).

We used the [Consumer Financial Protection Bureau's financial well-being scale](#) to capture financial well-being before and after the pilot. 70% of participants showed a higher financial well-being score at the end of the pilot.



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"I now have a couple of thousand dollars [in savings] so I'm ready for anything that comes my way. I can't imagine anything that amount coming my way, but [for] new tires or if my car goes out, I think I'm pretty set."

- Survey Participant

"We like the idea that we can all look at this little pot and see we are saving money. Even when things come up in everyday life, we tucked it away in the back of our heads and it's nice to know that it's there and that we are able to function financially and still save. Growing up we all had a shared experience of seeing family members struggle and not have any type of reserve. We make a conscientious effort to make sure we have some type of savings."

- Survey Participant

Insight 3: Users believe they will be more financially secure in the future

Participants were asked to rate their level of agreement with the following statements: "I think I will be more financially secure five years from now than I am today" and "when I think about my financial future, I am optimistic." Although participants were less optimistic about their overall financial future at the end of 2020, they are generally confident they will be more financially secure in the future. In the final survey, 70% agreed with the statement, "I believe I will be more financially secure five years from now."



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"I do see [my financial future] getting better and I see five years looking a lot better. I do see increments of it getting better, I'm very optimistic about it. I'm being more aware of spending and saving so that helps me to be more optimistic about the future."

- Survey Participant

"[Since I saved for an emergency, I'm hopeful for the future] because I know how to save now. Once a saver always a saver—you have to keep yourself on track."

- Survey Participant

The Demand for Collective Emergency Savings is Significant

In November 2020, we conducted a small scale (150 person) market survey, oversampling for low- and middle-income households (making under \$80,000), Black individuals, and women, and identified demand for the Collective Emergency Savings product. 77% of the total sample were interested in a collective emergency savings product. For Black low-income households making less than \$50,000, 93% were interested in collective emergency savings.

Additionally, through the survey we identified factors to best design a collective emergency savings solution. We found that:

- 84% would want to save with 1 to 5 other people,
- 88% would want to save³ with immediate family, 65% with extended family, and 52% with friends,
- Users would most likely request funds to pay a medical bill, cover a job loss, or for a car repair.



77% of the total sample were interested in a collective emergency savings product

Design Attributes of Collective Emergency Savings Solutions



84% would want to save with 1 to 5 other people³



88% would want to save with immediate family



65% would want to save with extended family



52% would want to save with friends

³ Want to save = rank group as top three choice to save with

Design Recommendations for Collective Emergency Savings

Combined with the data and feedback collected during the experiment, we recommend that, when designing a collective emergency savings product, it is important to keep in mind:

- **Liquidity.** As an emergency savings tool, the ability to access one's funds immediately is critical. When designing a collective emergency savings tool, fintechs and financial institutions should work to find innovative ways to navigate around the typical 3-5 day ACH transfer time, incorporating strategies to deliver money to users as quickly as possible (covering expedition fees, unlocking debit cards for immediate access, etc.).

In response to COVID-19, organizations provided financial support and government benefits through [prepaid](#) or [debit cards](#).

- **Expectations.** Users who feel most comfortable withdrawing from the pooled funds for an emergency expense have a shared group understanding (contract), either written or spoken, about how emergency funds will be used, how the account will be replenished, and the life of the savings group.

To support group members in identifying and agreeing to shared expectations, an onboarding process and/or formal group agreement should be developed.

- **Trust.** Trust is a crucial element of any savings circle, both among group members and between users and the product host. In our pilot, groups were diverse in terms of relationship. Groups developed a savings habit regardless of group makeup, but groups with a weaker bond were more hesitant to withdraw.


We found that trust for the group leader translated to trust for the group. When one person formed a group of people who didn't necessarily know the other group member(s), the group trusted each other because they trusted the group leader. We are continuing to test the necessary depth and type of relationship between group members for a successful group experience.

Next Steps

Our findings suggest early evidence of, and desire for, collective savings. There is an opportunity for fintechs and financial service providers to use collective savings and other innovative approaches to acquire customers and help them build up emergency savings.

Reflecting on the experience, one user said, **“In a group setting it holds everyone accountable.”**

In our ongoing effort to build innovative approaches to emergency savings for LMI households, we will continue to test and develop this promising new practice.



Please contact Jerome Barnes, info@buildcommonwealth.org to explore how your fintech or financial services organization can work with Commonwealth’s innovation lab team.



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