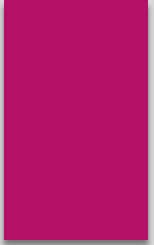


# Financial Inclusion in India For Whom?

GOKHALE INSTITUTE OF POLITICS AND ECONOMICS

17<sup>TH</sup> OCTOBER 2016



***“Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players”***

# India's Financial Inclusion Landscape

## Bank-led model

- Rural cooperative banks 1950s
- Bank nationalisation– 1969 and 1980: Priority sector lending norms
- Lead Bank Scheme, establishment of Regional Rural Banks (RRBs-1975-76)
- Service Area Approach (1989), Self-Help Group-Bank Linkage Programme (1989-90)
- Local Area Banks
- 2005-06 – turning point - no-frills accounts and institutionalization of the framework of Banking Correspondents (BCs).
- Allowed for-profit BCs in 2010 along with allowing charges
- Board-approved Financial Inclusion Plans (FIPs): 2010-13 and 2013-16 were interspersed with the implementation of PMJDY by the Government of India during 2014-15
- 2014 ongoing – differentiated banking – Payments Banks and Small Finance Banks

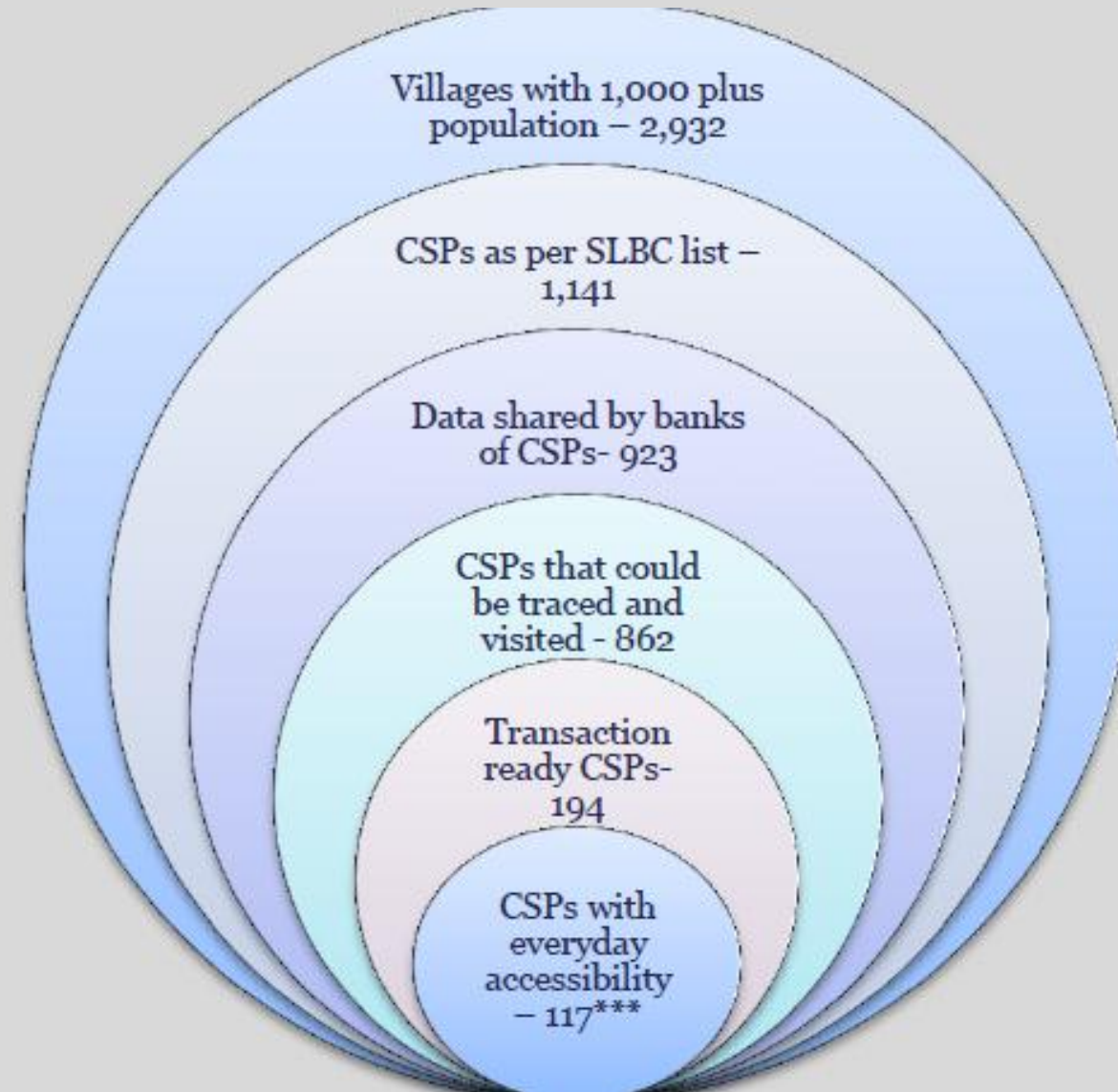
**Table IV.6: Financial Inclusion Plan-Summary Progress of All Banks Including RRBs**

<b>Particulars</b>	<b>Year ended March 2010</b>	<b>Year ended March 2014</b>	<b>Year ended Mar 2015</b>	<b>Progress April 2014 - Mar 2015</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Banking Outlets in Villages - Branches	33,378	46,126	49,571	3,445
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages -Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126.0	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in ₹ billion)	44.3	273.3	365.0	91.7
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through BCs (Amt. in ₹ billion)	10.7	39.0	74.6	35.6
BSBDAs Total (No. in million)	73.5	243.0	398.1	155.1
BSBDAs Total (Amt. in ₹ billion)	55	312.3	439.5	127.3
OD facility availed in BSBDAs (No. in million)	0.2	5.9	7.6	1.7
OD facility availed in BSBDAs (Amt. in ₹ billion)	0.1	16.0	19.9	3.9
KCCs (No. in million)	24.3	39.9	42.5	2.6
KCCs (Amt. in ₹ billion)	1,240.1	3,684.5	4,382.3	697.8
GCC (No. in million)	1.4	7.4	9.2	1.8
GCC (Amt. in ₹ billion)	35.1	1,096.9	1,301.6	204.7
ICT A/Cs BC Transaction (No. in million)*	26.5	328.6	477.0	477.0
ICT A/Cs BC Transactions (Amt. in ₹ billion)*	6.9	524.4	859.8	859.8

\*: During the financial year.

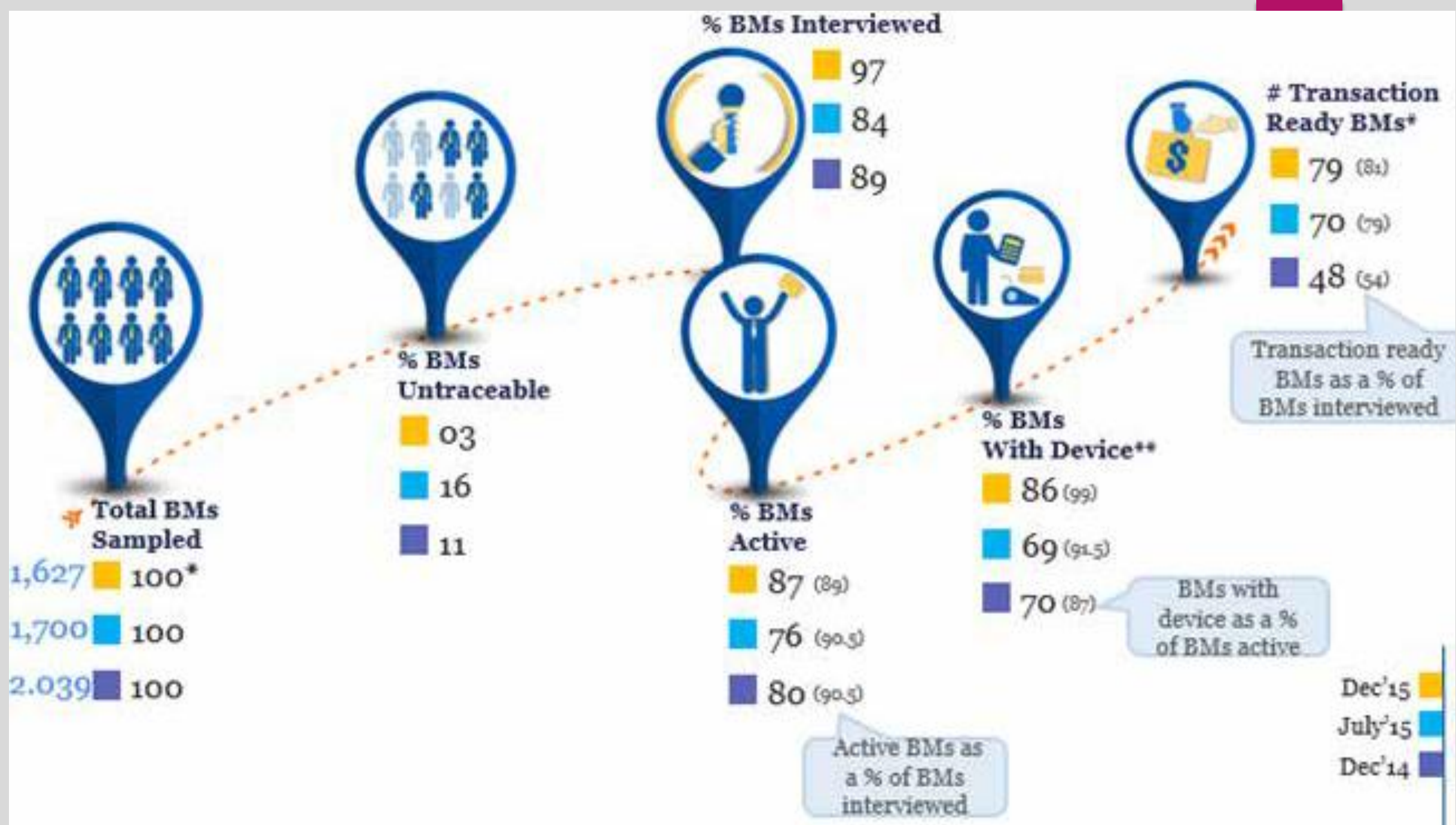
# The Problem?

MicroSave Survey 2013 Five Districts of UP and Bihar



# HAS PMJDY CHANGED ANYTHING?

- Firstly, the basic framework for monitoring financial inclusion in India has changed. The PMJDY Mission Directorate began to put out detailed data on its website, which was updated regularly.
- The second significant shift under the PMJDY has been that the mission has gone beyond provision of simple no-frills accounts to meeting overall financial needs - government benefits, overdraft facility, life and accident insurance, pension are all linked to these savings accounts.
- The third significant change has been the surge in awareness for banking services amongst the masses. This was due to a massive campaign from August 2014 through all channels of media.
- The fourth shift has been the use of an independent firm to monitor the progress of the PMJDY as it was being rolled out.



- Significant shift seen in the savings behaviour - the share of those not saving at all has fallen from 12% in Wave II to 8% in Wave III.
- High female participation- for every three PMJDY customers who opened a bank account for the first time, one was a female customer.
- **On the negative side**, agent dormancy amongst interviewed BMs has increased slightly, now around 11%.
- Rise in multiplicity of accounts. 67% customers in Wave III reported PMJDY as their first formal financial account, compared to 86% in the first two rounds. BUT almost all those with multiple accounts reported active use of their alternate accounts, so they are not financially excluded.
- **Operational issues:** 14% of the customers who came to the BMs were unable to open a PMJDY account, with reasons like “incomplete account opening form”, rejection of documents by bank branches etc.
- Delivery and activation of RuPay cards and unreliable connectivity remain challenges.
- There is still low awareness regarding insurance and pension schemes and lack of clarity on overdraft eligibility.





**TIME TO MOVE NOW BEYOND  
MANDATES!**

## **GOVERNMENT ROLE: Issues according to PMJDY Mission**

- Fixing connectivity issues
- Keeping the accounts “live”
- Brand awareness and sensitisation to ensure the “demand side pull effect” continues
- Paying commission on DBT to improve viability of business correspondent agents
- Providing services in difficult areas including parts of North East India, Himachal Pradesh, Uttarakhand, Jammu and Kashmir, and 82 Left Wing Extremism affected districts.

**INDUSTRY ROLE: Find the business case: Customer centricity**

## WHY IS THERE A PROBLEM OF EXCLUSION IN THE FIRST PLACE?

- First, most of the poor have irregular incomes. Therefore, transactions are irregular. Casual wage labour is typically on a daily basis, and also because self-employment, whether in agriculture or otherwise has many associated uncertainties, including high seasonality.
- Second, and this is natural given low incomes, each transaction is of low value.
- Third, their credit requirements and deposits also tend to be of low value.
- Fourth, the poor have few assets.
- Fifth, they have poor records of the assets that they do possess, typically land records.
- Sixth, the underprivileged are highly time constrained, cannot easily take time out during peak hours.
- Seventh, the bulk of credit requirements are for what are typically considered to be non-productive consumption purposes

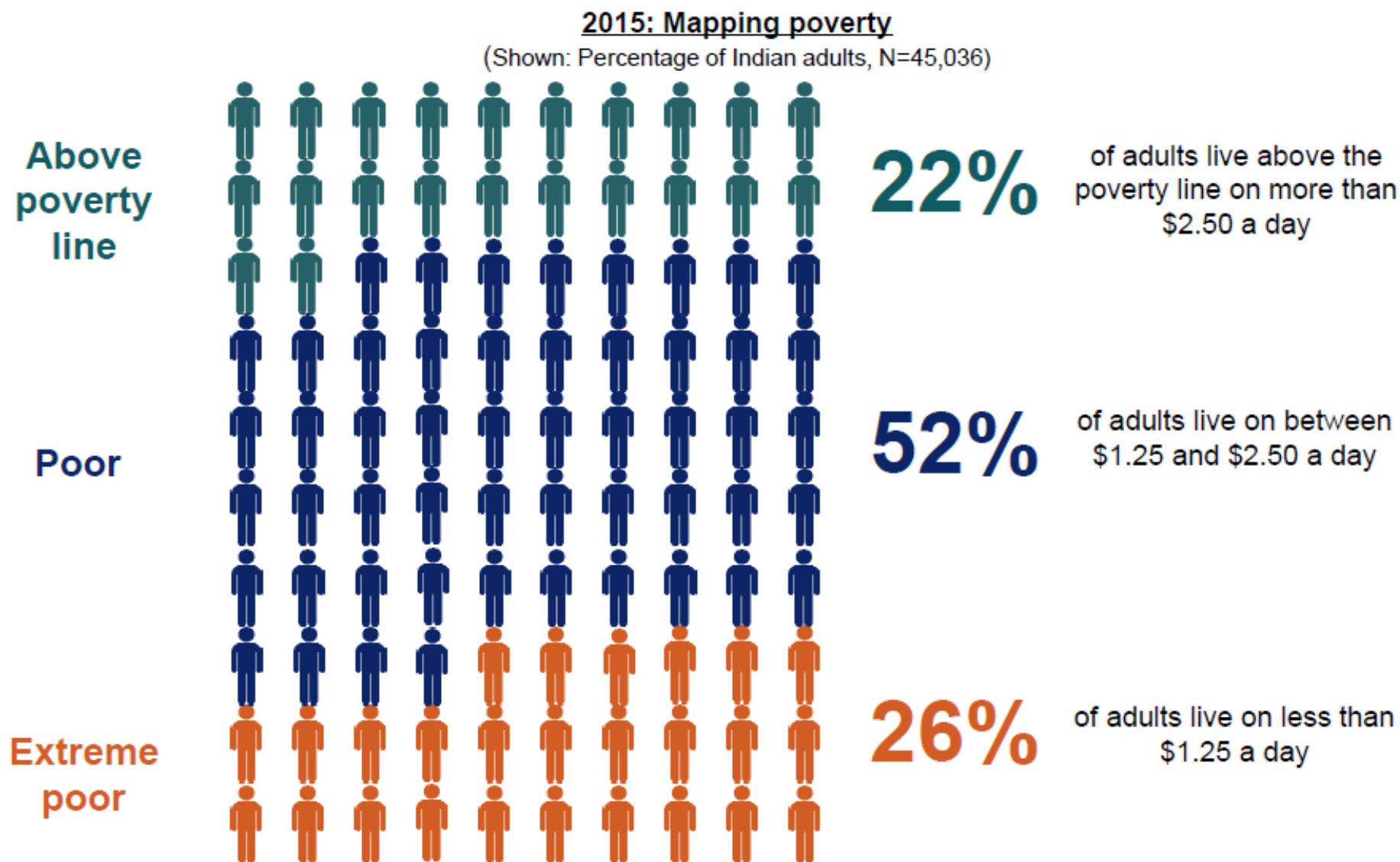
## **ANSWER TO THIS CHALLENGE HAS COME THROUGH DIGITAL TRANSACTIONS**

Of all the electronic transaction delivery mechanisms the mobile phone is by far the most likely candidate for providing a cost efficient pipe to masses.

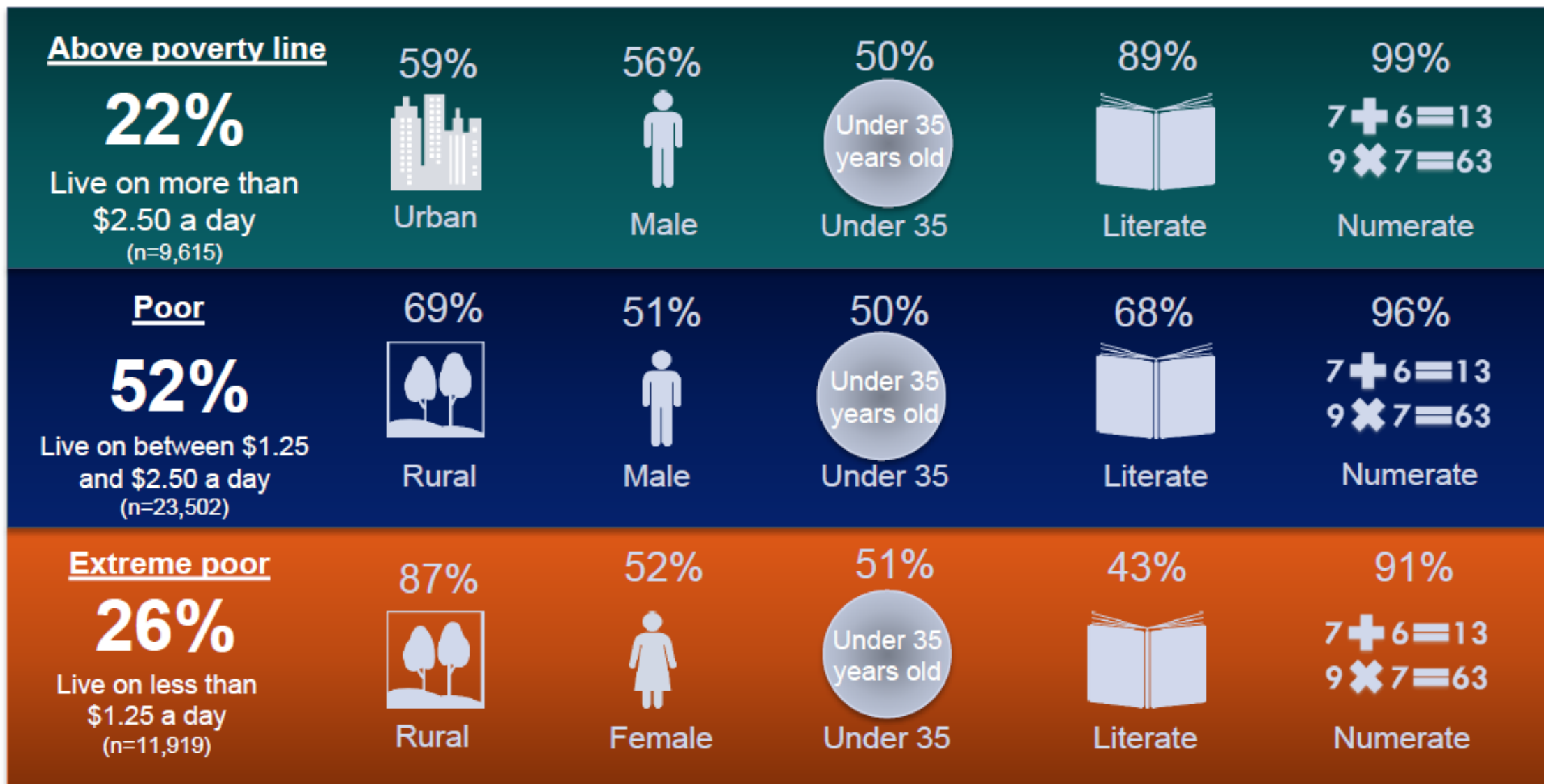
**BUT**

Products and processes have to match customer profile

## About as many Indian adults live in extreme poverty (less than \$1.25/day) as do above the \$2.50/day poverty line



## India's extreme poor face greater obstacles in the form of geographic remoteness, illiteracy



## Digital inclusion is low among the poor, especially among the extreme poor

### Above poverty line

**22%**

Live on more than  
\$2.50 a day  
(n=9,615)

81%



Own a mobile  
phone

76%



Financially  
included

75%



Own a bank  
account

10%



Own an NBFI  
account

67%



Digitally  
included

### Poor

**52%**

Live on between \$1.25  
and \$2.50 a day  
(n=23,502)

60%



Own a mobile  
phone

66%



Financially  
included

64%



Own a bank  
account

10%



Own an NBFI  
account

49%



Digitally  
included

### Extreme poor

**26%**

Live on less than  
\$1.25 a day  
(n=11,919)

40%



Own a mobile  
phone

53%



Financially  
included

51%



Own a bank  
account

7%



Own an NBFI  
account

34%

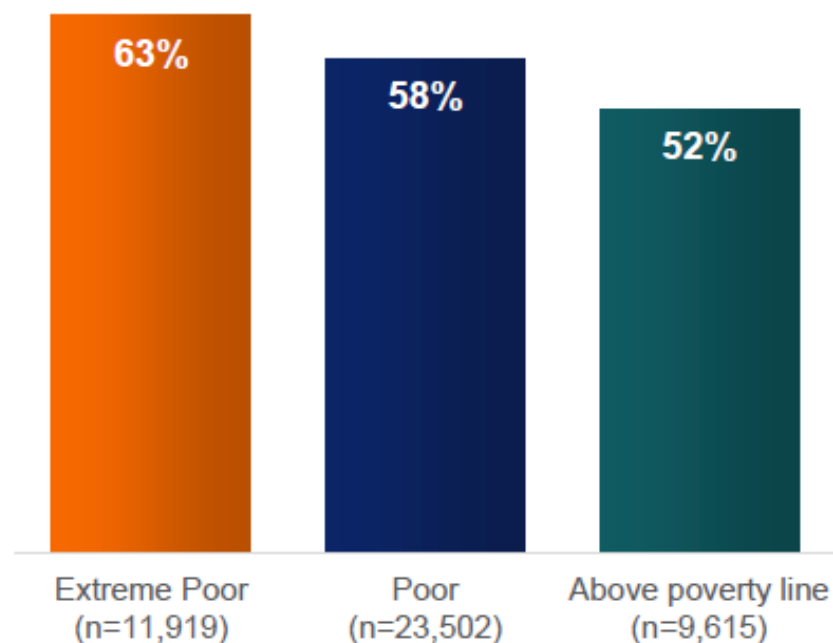


Digitally  
included

## The extreme poor are more likely to have borrowed money in the previous year; informal borrowing increases with poverty level

### 2015: Have borrowed money in the last year

(Shown: Percentage of adults, by poverty level)



### 2015: Most common sources of loans

(Shown: Percentage of adults who took out a loan, by poverty level)

	<u>Extreme poor who borrow</u> (n=7,506)	<u>Poor who borrow</u> (n=13,738)	<u>Above poverty line who borrow</u> (n=5,045)
Community	→ 82%	→ 76%	→ 70%
Money lender	27%	24%	19%
Bank	→ 6%	→ 13%	→ 23%
Savings/lending group	4%	6%	7%
MFI	2%	3%	4%

Above poverty line: Those who live on more than \$2.50 a day.

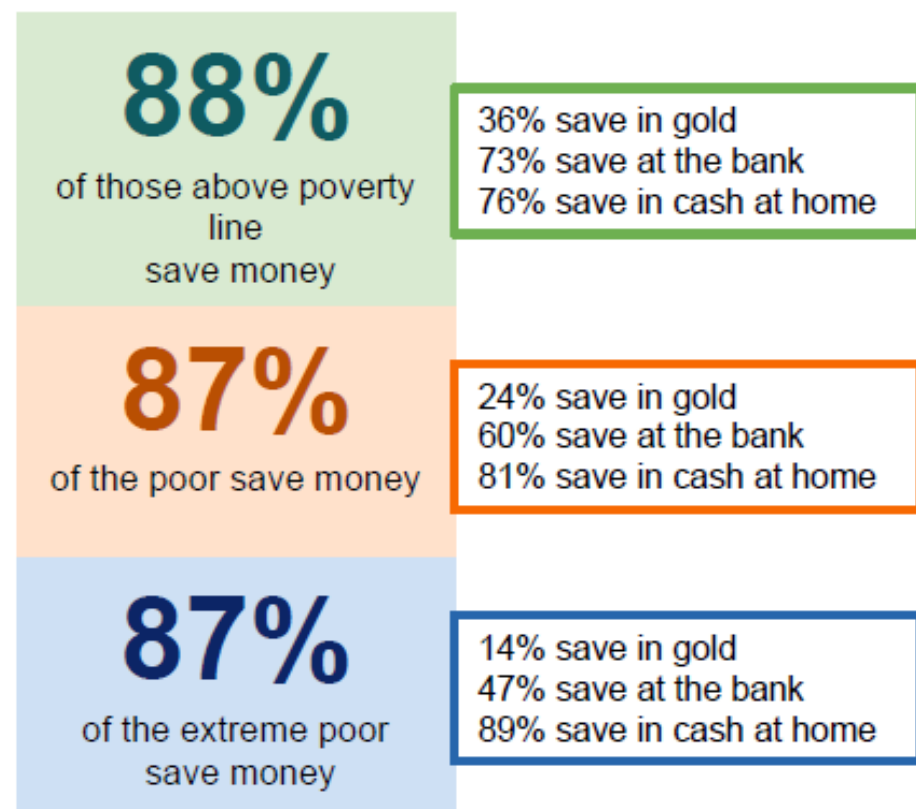
Poor: Those who live on between \$1.25 and \$2.50 a day.

Extreme poor: Those who live on less than \$1.25 a day.

Source: InterMedia India FII Tracker survey Wave 3 (N=45,036, 15+), June-October 2015.

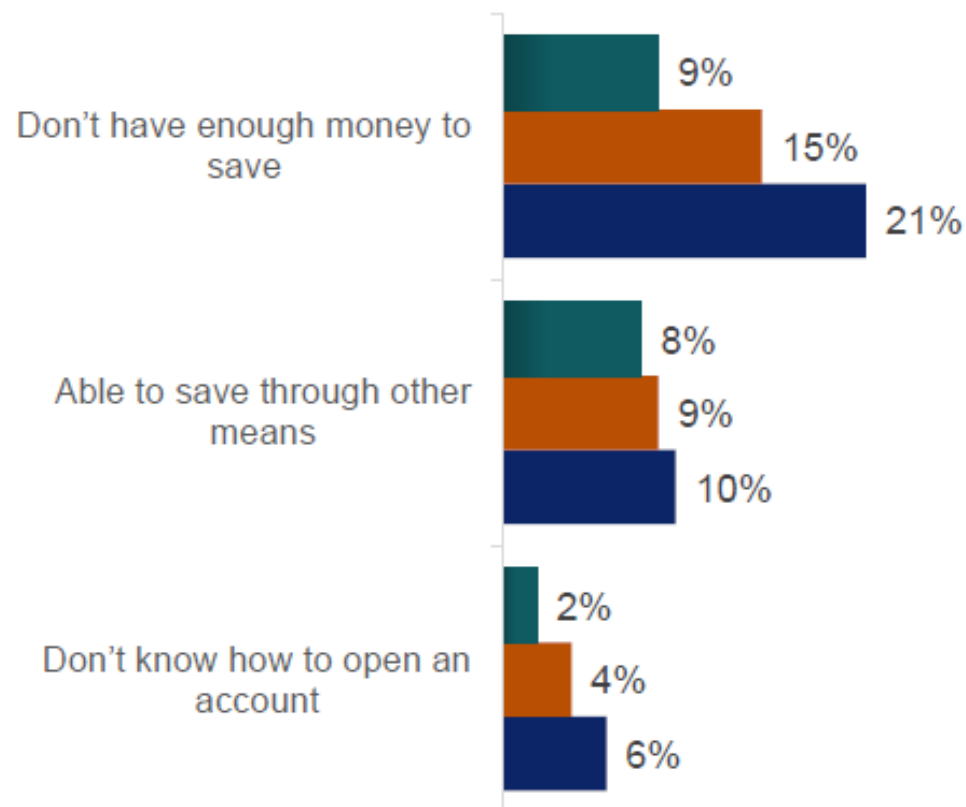


## Though a vast majority of Indians save, they do not feel they have enough to save in a bank account



### 2015: Reasons for not saving in a bank

(Shown: Percentage of adults, by poverty level)



■ Above poverty line who save (n=8,540)

■ Poor who save (n=20,552)

■ Extreme poor who save (n=10,347)

Above poverty line: Those who live on more than \$2.50 a day.

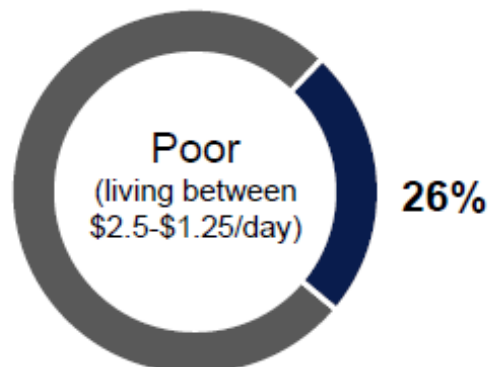
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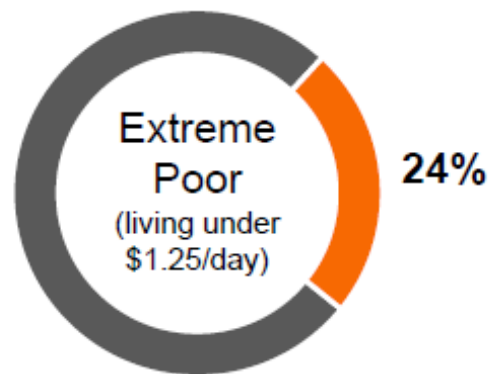
## About one in four of the extremely poor and poor are G2P recipients; the extreme poor are less likely to receive government payments via a bank

### 2015: G2P payment recipients

(Shown: Percentage of adults, by poverty level)



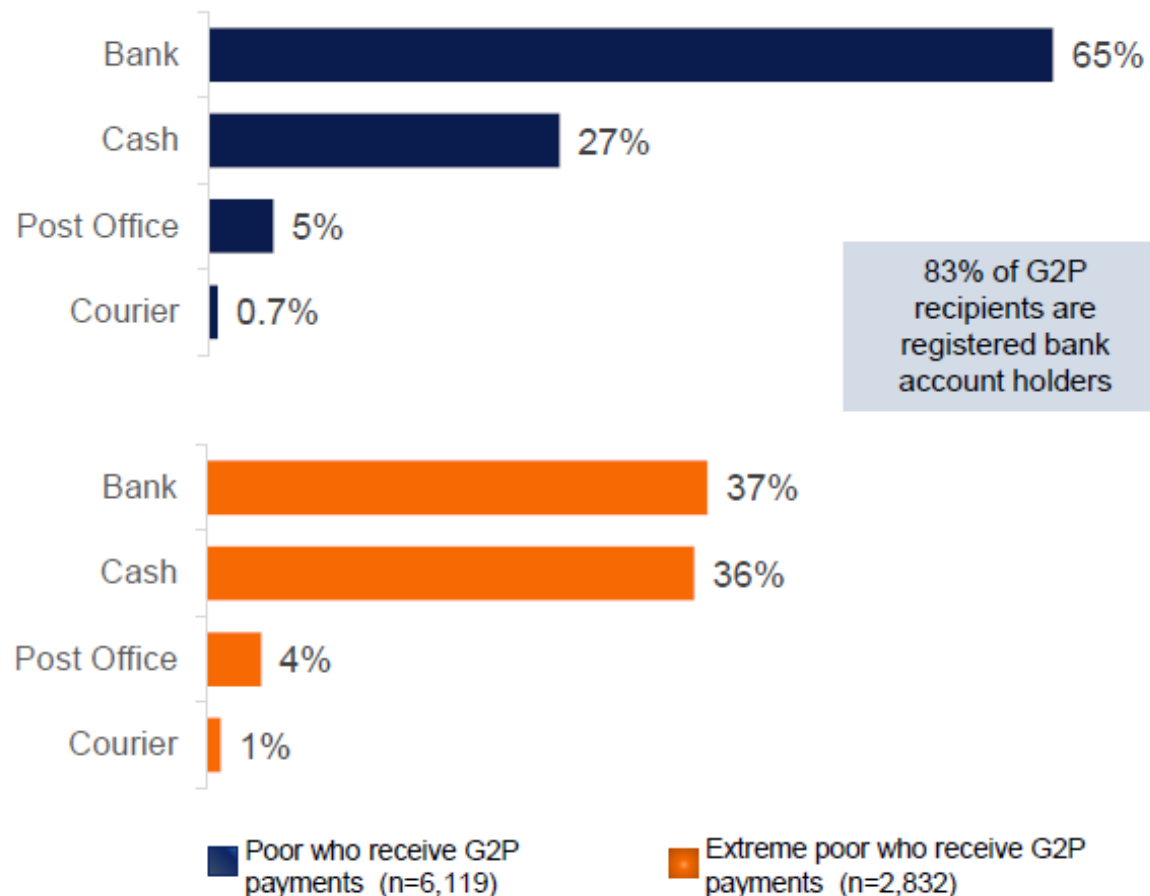
Poor  
(n=23,502)



Extreme poor  
(n=11,919)

### 2015: Means of receiving G2P payments

(Shown: Percentage of adults by poverty level who receive G2P payments)



Question allowed for multiple responses.

Source: InterMedia India FII Tracker survey Wave 3 (N=45,036, 15+), June-October 2015.

**Consumer research by CGAP (Doing Digital Finance Right,2015) in 16 countries, including India, has brought out seven key concerns of low income customers while using digital transactions, in order of reported priority:**

- 1. Inability to transact due to network/service downtime**
- 2. Insufficient agent liquidity or float, which also affects ability to transact**
- 3. User interfaces that many find complex and confusing**
- 4. Poor customer recourse for grievances and queries**
- 5. Nontransparent fees and other terms**
- 6. Fraud that targets customers**
- 7. Inadequate data privacy and protection**

**Source: CGAP, 2015**

# A SEGMENT THAT IS USUALLY IGNORED IN FI DISCOURSE WOMEN

Figure - 1: Share of Adults with Registered Bank Account

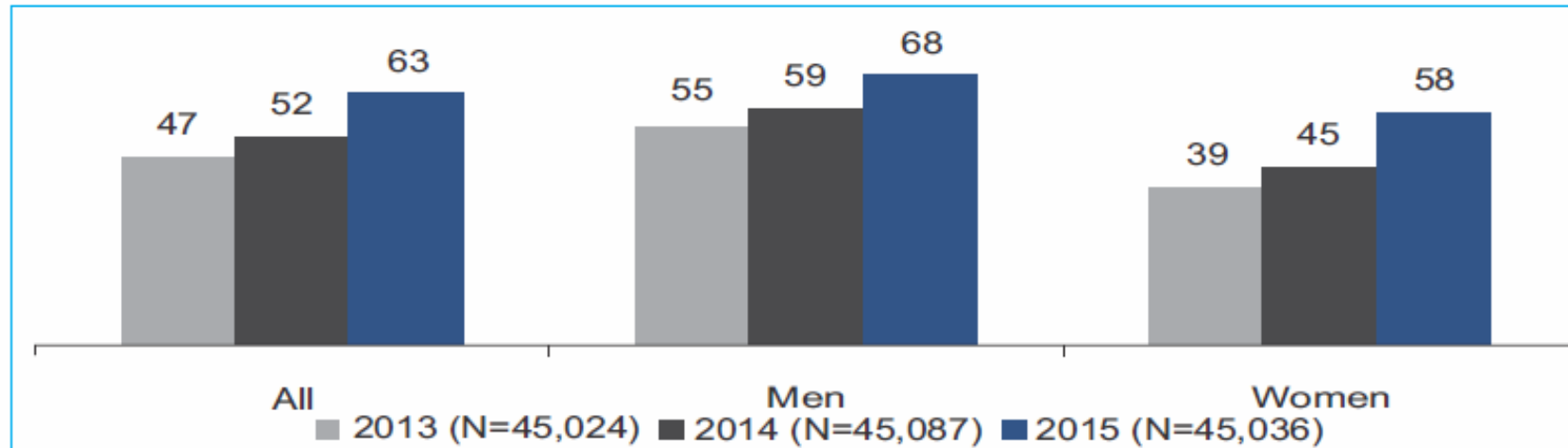
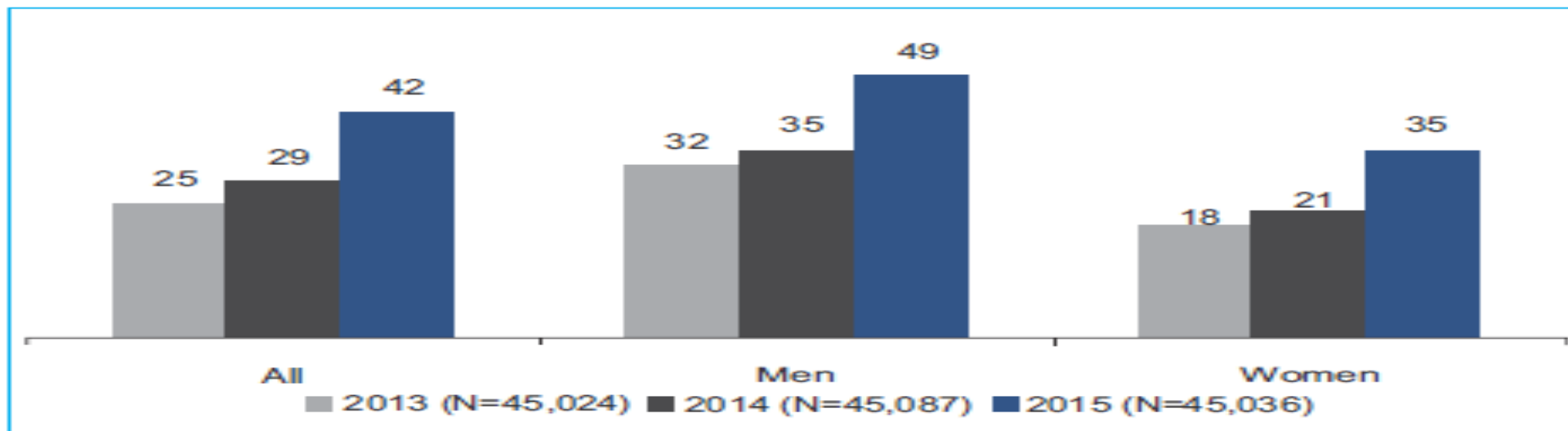


Figure - 2: Share of adults registering active bank use (past 90 days)

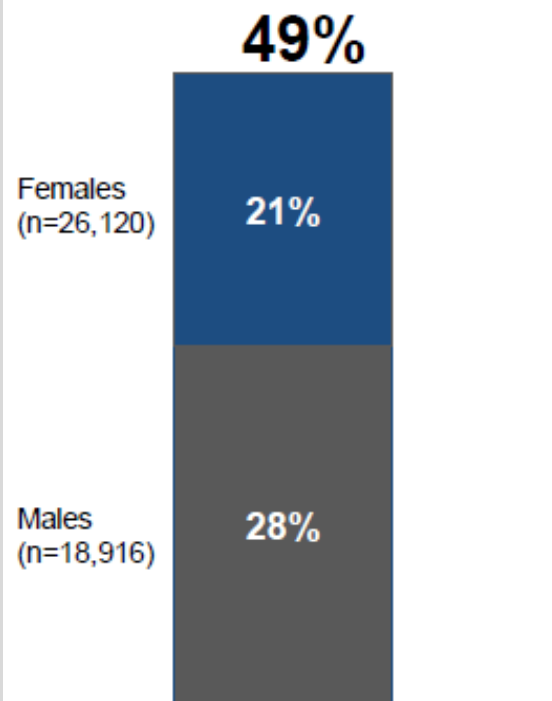


Source: InterMedia India FI Tracker surveys Wave 1 (N=45,024, 15+), October 2013-January 2014; Wave 2 (N=45,087, 15+), September-December 2014; Wave 3 (N=45,036, 15+), June-October 2015.

# Women are at a disadvantage for access to, facility with a mobile phone

## 2015: Digital inclusion

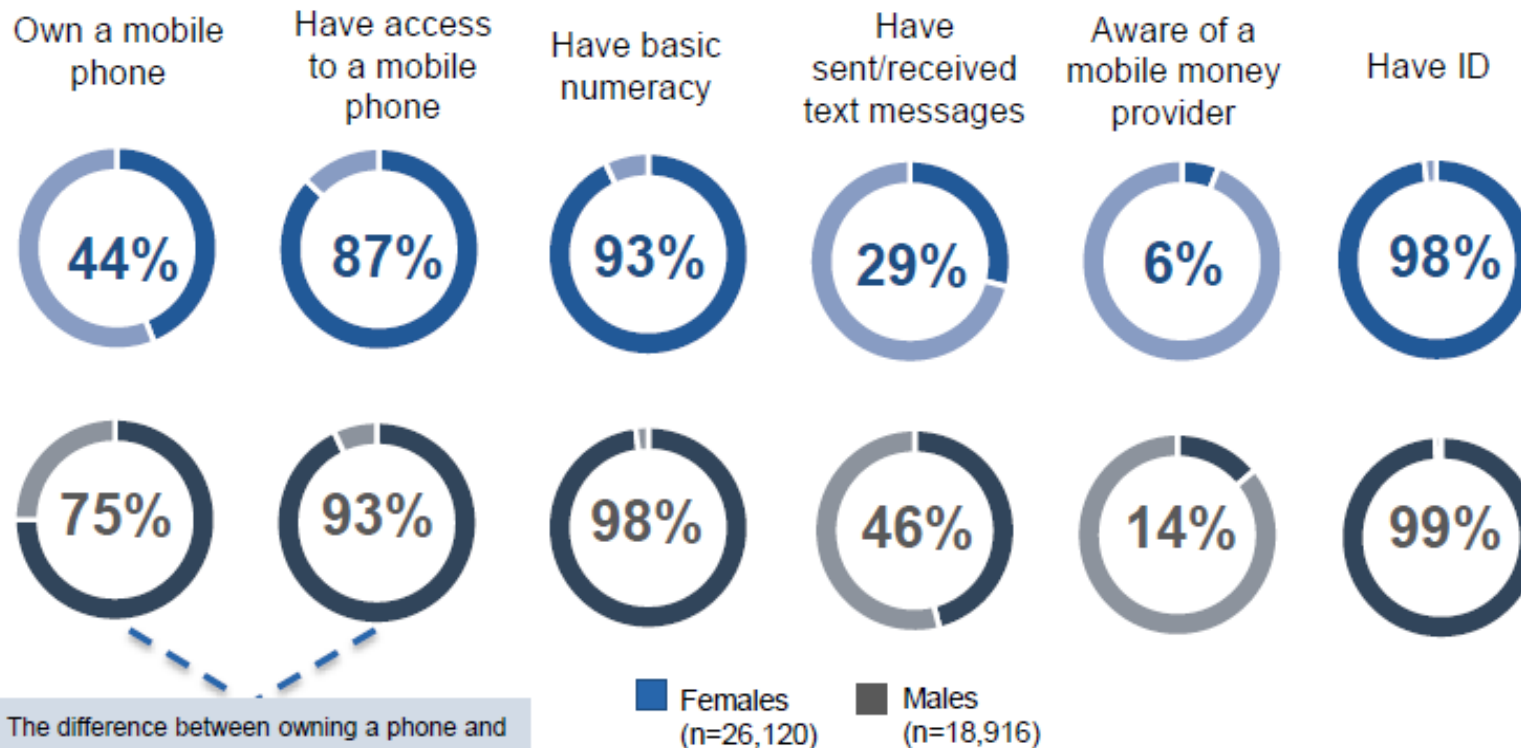
(Shown: Percentage of adults, by gender)



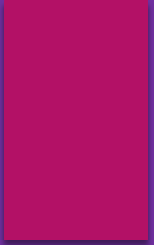
Digital Inclusion

## 2015: Readiness for digital financial services (DFS) use

(Shown: Percentage of adults, by gender)



The difference between owning a phone and being able to access one plays a significant role in women's technological skill development. This may be why we see a significantly higher number of males with mobile money accounts vs. females..



Finally, unless financial service providers look at the profile and requirements of each customer segment and cater to their concerns, the challenge of financial inclusion will remain on the ground, though data may show it is resolved on paper and government records!

WHAT'S YOUR TAKE?