POLICY BRIEF OCTOBER 2014

Financial Inclusion Metrics- Part II

Key Takeaways

The aim of universal financial inclusion is to ensure that every adult Indian has easy, reliable and affordable access to all financial services. Without reliable and granular data, the true extent of exclusion and effectiveness of policy initiatives cannot be ascertained. While policy makers place targets to achieve every year e.g. number of bank accounts opened, there are other metrics that give significant information to measure the progress of the inclusion mission. This two part policy brief series looks at the current data landscape in India; the first part of this took up the inclusion metrics currently tracked by policy makers, while this, the second part, puts down the other sources of information from various surveys that can assist towards more effective policy.

- All surveys consistently point to the fact that targets set for the financial inclusion mission in India have focused on quantity rather than quality.
- While the number of business correspondent agents and villages covered by banking outlets have increased dramatically since 2010, CGAP-CAB surveys from 2012 and 2013, as well as surveys by MicroSave show low level of transactions and a high level of dormant, in many cases missing, agents in the field. Clearly, more emphasis must be placed on raising commercial viability of agents.
- The Financial Inclusion Tracker Survey (FITS) of 45,204 Indians in 2014 reported low active use of bank accounts. Among poor, rural bank-account holders, only 46 percent have used their accounts actively. Within active users, there is little uptake of advanced financial services like fixed deposits, bill payments etc. Banks need to put in greater effort in meeting these needs of the newly banked.
- While the RBI has been moving towards placing more agents, rather than branch expansion, rural respondents for the FITS reported accessing banking services at branches and ATMs, rather than at the agent; this once again reveals the break-points in the bank-BC model that need to be fixed.
- The FITS report highlighted significant differences in financial behaviour across gender and geographies; financial service providers, particularly banks, need to understand the reasons behind the variations and address the problems effectively. Regional heterogeneity in the country calls for more granular data and deeper analysis of behavioural differences.
- Even if policy makers choose not to set explicit targets, they must monitor the trends in number of transactions per day, the number of active agents and accounts, the number of products being used by the newly banked, gender and regional disparities etc. It is only then that India can reach its goal of universal financial inclusion.

Background

Even as Indian policy makers framed their targets of financial inclusion through the number of bank accounts opened, number of villages covered by banking outlets etc., there was a growing suspicion that the rising numbers were not as healthy as they looked. CGAP and College of Agricultural Banking conducted a survey of 850 CSP across 11 states in early 2012 that showed that there were several implementation issues on the ground, and a focus on quality of services provided was more crucial than insistence on quantity. It is for this reason that the current Pradhan Mantri Jan Dhan Yojana must proceed with caution, as it pushes the banking sector to cover 7.5 crore rural households within six months. Since the CGAP-CAB survey, there have been more insights coming from various surveys that are now being conducted on a regular basis, and that can give policymakers clear direction to their efforts. Some of the key surveys have been highlighted in this policy brief.

CGAP-CAB National Survey of Banking Agents: 2012 and 2013

The first national survey of banking agents conducted by CGAP in 2012 in collaboration with the College of Agricultural Banking set out the demographics of banking agents and the problems faced by them on the ground. This provided a baseline for the findings and when the survey was repeated a year later, the main findings saw little improvement. One of the biggest concerns regarding the deployment of banking correspondent agents in India has been the focus on increasing the number of agents, rather than the business of banking. As a result, the CGAP-CAB survey showed that the number of transactions per day was not only low in 2012, it also did not increase a year after publishing the findings of the survey. The survey found that the reported low levels of usage and low levels of compensation continued in 2013; though the number of agents increased, especially in rural areas, banking activity was low.

Another striking insight was that of the 2358 agents who had been selected from bank records for the survey, 47% could not be a part of the survey: 983 of the 2358 agents were not contactable and 87 were unwilling (either they had stopped work or were unhappy with the work).

Figure 1 : CGAP- CAB 2013 Transaction activity by Business Correspondent Agents

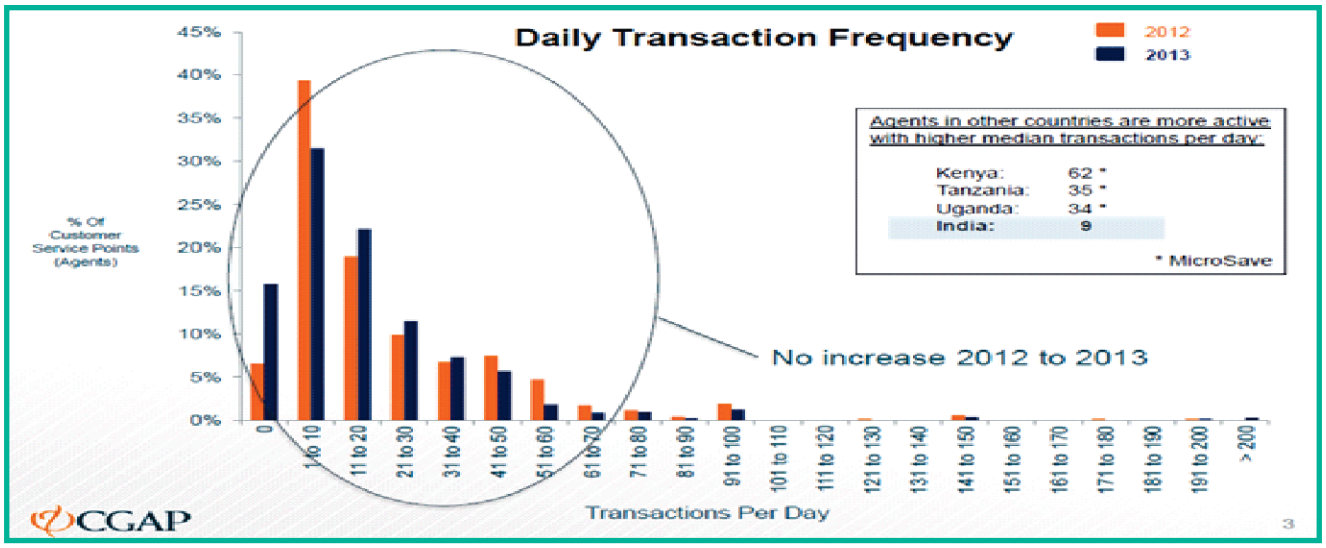


Table 1: CGAP-CAB Comparison between surveys in 2012 and 2013

Particulars		2012	2013	
CSP agents who had never transacted		5%	16%	Worsened
Agents with technical capability that allows clients to transact	at other CSPs	65%	48%	Worsened
Unprepared to transact		11%	25%	Worsened
Median account opening time		10 minutes	10 minutes	Same
Median account activation time		4 days	9 days	Worsened
Median CSP income		Rs. 2700	Rs. 2700	Same
Visited by Bank/BC in prior month		82%	89%	Improved
Visited by Bank/BC in prior week		60%	72%	Improved
Those paid on time		50%	48%	Same
Received training		90%	85%	Worsened
Positively viewed Bank's/BC support		64%	58%	Worsened

The surveys a year apart showed that the emphasis on meeting the targets of numbers of agents in the field had clearly had a negative impact on the objective of inclusion.

MicroSave Report 2014

The case of missing and dormant agents is a recurring insight from other field studies. MicroSave conducted a survey in Uttar Pradesh and Bihar of 2,932 villages with a population of greater than 1,000. These states are the two states with large populations, high poverty and high financial inclusion gaps. The survey found that according to State Level Bankers' Committee (SLBC) data, only 39% were covered through customer service points (CSPs). Of the agents on record, 76% could be visited. The research revealed that 61 villages in the SLBC records could not even be traced, pointing to the severe problem of bank managers pushing to meet targets set by the government, with no monitoring system in place. The results of the survey showed that only 7% of the villages had transaction ready CSPs; only 4% had CSPs available to transact every day. Just a little over 2% of the appointed CSPs were doing more than 10 transactions a day, and less than 4% were earning more than Rs. 2,000 a month, with a median monthly income as low at Rs.1,500 and so quite likely to quit the business soon.

"The prevalence of dormant CSPs and the unfortunate state of the CSPs that are operating indicates the poor management of agents' operations by financial service providers and business correspondent network managers. This is further compounded by the lack of a viable business proposition for all the links in the value chain. Until this changes, we can safely assume that neither Aadhaar-enabled benefit transfers nor financial inclusion will take off." (MicroSave, 2014)

Intermedia Financial Inclusion Tracker Survey, India 2013-14

In order to create a standard benchmark across developing countries and monitor changes in financial behaviour over time, the Financial Inclusion Insights programme has begun conducting surveys among adults in Kenya, Tanzania, Uganda, Nigeria, India, Pakistan and Bangladesh. In India, a nationally representative survey of 45,024 Indian adults, ages 15 and older, was conducted from October 2013 to January 2014, on access

and use of financial services, as well as barriers and potential for future use. The following insights from the study reiterate findings from similar studies done previously, and as the survey has the largest sample size so far and will allow comparisons with other countries, there are valuable lessons here for policy makers.

The survey finds that the increase in the number of bank accounts and bank branches is not translating into active use. In particular, among poor, rural bank-account holders, only 46 percent have used their accounts actively.

Activity within the group of active bank-account holders is limited mainly to withdrawals and deposits. Just 9 percent use their bank accounts for receiving wages through direct deposit, 2-3 percent send or receive money from family and just 5 percent pay a utility bill through their accounts. Interestingly, despite the government policy push for agents in the field, 82 percent in this group of rural, active bank-account holders said their preferred method of accessing their account was at a bank branch, while 18 percent chose ATMs. Bank branches and ATMs are preferred by these respondents because they are "safe," and safety is preferred over "easy" or "fast" access, thus the BC model is clearly not generating enough confidence within the newly banked.

There are various reasons for this: insufficient support from banks could result in agents who may lack transaction capability, insufficient commissions and income could lead to agents being disinterested in cultivating business, banks could be more comfortable with business at branches rather than through agents etc. Yet, this does go to show that mere presence of agents in the field does not lead to increased banking services through these access points.

There are other significant behavioural insights that need more attention from policy makers. For instance, most rural bank-account holders who use bank branches and ATMs said they are less than 5 kilometers away from where they live, yet active use depends on more than physical proximity to bank branches and ATMs, especially for women in rural areas.

Further, there are significant gaps in active use reflecting the large socio-economic differences in India. These barriers need

Figure 2 : FITS 2014 Banking Activity in India

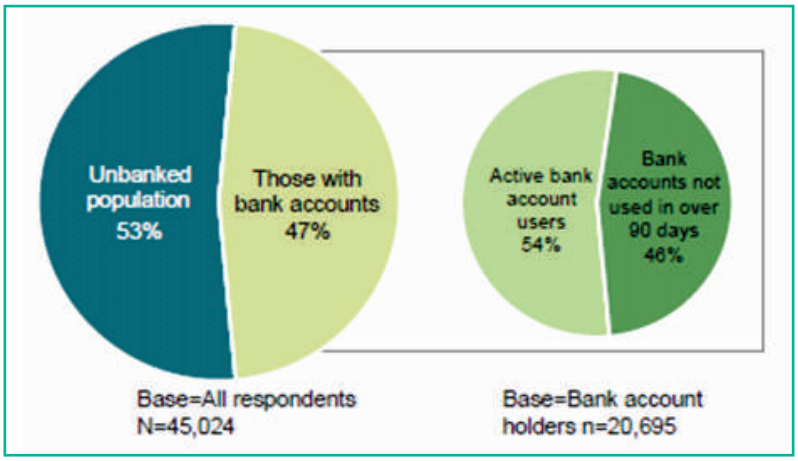


Figure 3 : FITS 2014 Trust in Financial Service Providers

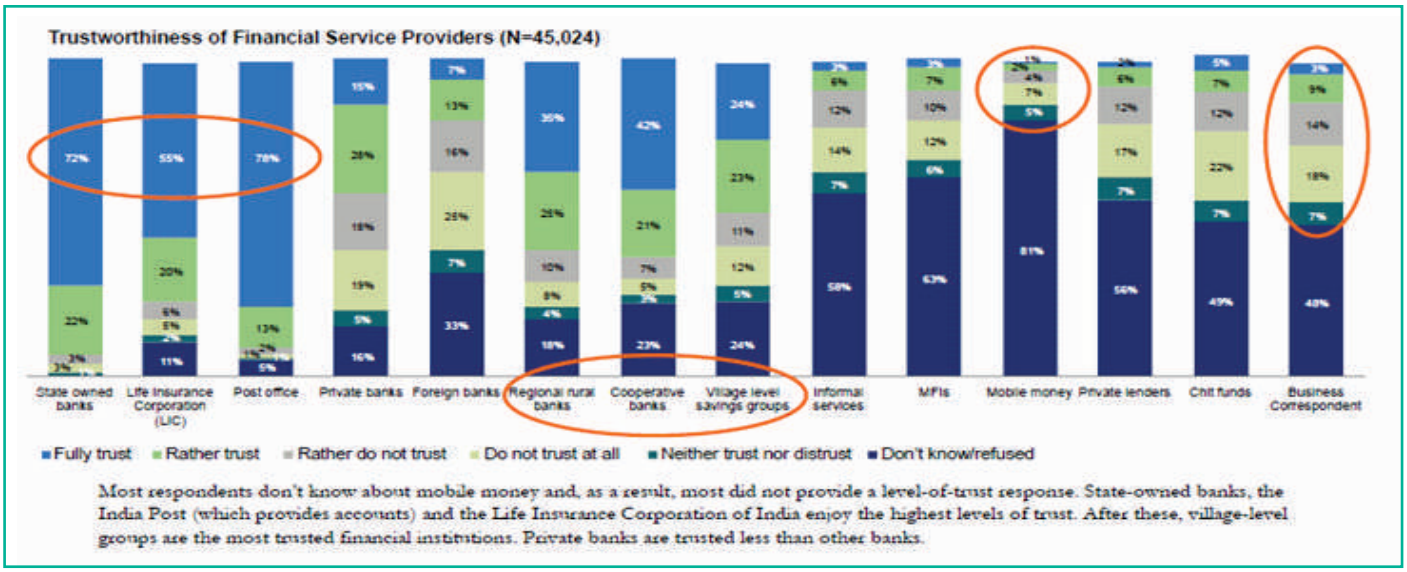
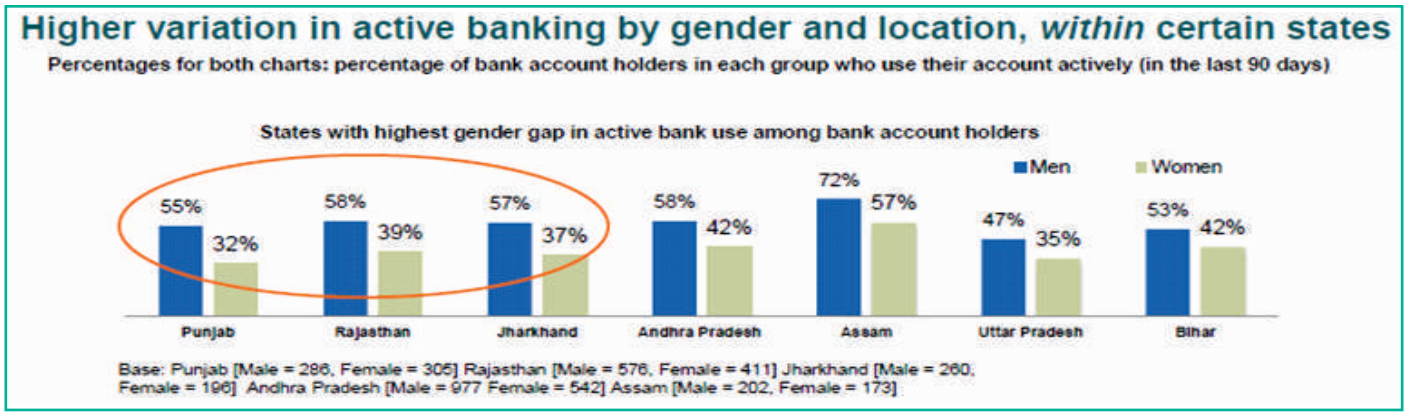


Figure 4 : FITS 2014 Banking patterns across gender across states



to be analyzed and addressed to ensure that financial inclusion reaches everyone.

The survey also showed that while government welfare payments do seem to be a catalyst for opening a bank account, a detailed qualitative study with government-payment beneficiaries across four districts in the state of Maharashtra, revealed that those who receive digitized payments are not using other transactions and services. There is very little communication from government officials and banks to beneficiaries about the benefits of moving to digitized payments. Often, people are compelled to switch to the bank mode, and banks rarely go beyond this to explain other products and services like mobile banking, bill-payments or savings through fixed deposits. Interestingly, respondents reported that they would be interested in using more services, hence increased communication and incentivizing banks are needed to go ahead.

The FITS also tracks awareness and use of mobile money in the country, and though these are currently at very low levels, it is crucial to monitor the changes across time and compare with other countries.

Other Surveys

The GSMA Global Mobile Money Adoption Survey that is being conducted annually since 2011 has begun to track operators from India as well. While this nascent industry faces a different regulatory landscape in India, given evolving technology and models, it is important for policy makers to keep abreast of developments in other countries. For instance, the growing trend of savings through mobile money worldwide shows that these services are not limited to remittances alone and have the potential to meet basic financial needs of the unbanked.

Surveys that have looked at the commercial viability of the business correspondent agents such as the MicroSave survey in 2012 need to be conducted regularly to monitor the bank-led model. Unless agents on the field are receiving sufficient income and support, the newly-banked will remain deprived of access to financial services. It is crucial to monitor the products and services being offered and their offtake by consumers, technology capability of agents, business management, commissions and incentives and ultimately, track the profitability and sustainability of agents.

The way ahead

As policymakers frame the national strategies for financial inclusion, the targets to be achieved must be in sync with the objective of attaining meaningful and universal inclusion. While progress of the mission is tracked through number of accounts opened, villages and households covered, number of business correspondent agents in the field etc., data on targets achieved may show a completely different picture from the ground reality. Various surveys noted in this policy brief have pointed consistently to the fact that the focus on quantity has led to slippage in quality of services. It is crucial that insights from these surveys are included in the progress reports of the mission. Even if policy makers choose not to set explicit targets, they must monitor the trends in number of transactions per day, the number of active agents and accounts, the number of products being used by the newly banked, gender and regional disparities etc. Without such a comprehensive monitoring system, India will fall behind in its goal of ensuring that every Indian has access to and uses basic financial services from mainstream financial players.

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