



POLICY BRIEF DECEMBER 2015

DIGITAL FINANCIAL INCLUSION: AGENDA FOR INDIA

India has made tremendous progress towards universal financial inclusion in 2015 and the Pradhan Mantri Jan Dhan Yojana (PMJDY) has been central to the leap ahead. The target of 100% household coverage in bank accounts enabled with bundled benefits of debit card, overdraft and insurance cover has been the big game changer in the landscape. The focus under PMJDY is now on reducing zero balance accounts, down to 31.81%, and on monitoring adequate infrastructure and remuneration to Bank Mitras (Business Correspondents). National surveys by CGAP-CAB and MicroSave had shown up the last mile challenges of high agent dormancy, highlighting inadequate remuneration as the primary reason. The PMJDY mission therefore mandated a minimum monthly payment of INR 5,000 to Bank Mitras. A recent assessment by MicroSave showed that remuneration has increased but averaging INR 3,951. Low commissions, delays in payment of commissions and inadequate support are straining the chain for inclusion at the last mile.

Digital retail transactions have picked up steam in 2015, with mobile banking transactions crossing INR 300 billion in value in October and PrePaid Payment Instruments crossing INR 35 billion monthly since July. The Budget for 2016-17 is expected to announce several measures to promote cash-less transactions, including income tax rebates to merchants and consumers for card spends.

The game changer ahead will come from new niche banks; in August, the Reserve Bank of India granted in-principal approval to 11 applicants to set up Payments Banks and in September, 10 applicants received in-principal approval for Small Finance Banks.

The JAM Trinity (Jan Dhan Yojana account + Aadhaar number + Mobile number) has heralded a new focus for financial inclusion and less-cash economy. This calls for increased coordination between financial services and telecom government departments as well as regulators. However, the use of Aadhaar received a temporary setback in 2015. Hearing petitions against Aadhaar, the Supreme Court stipulated in August that use of Aadhaar must be voluntary for government schemes, referred the issue of "right to privacy" to a larger Constitutional Bench and restricted the use of Aadhaar to two schemes of PDS (Public Distribution System) and LPG subsidy. This order was extended in October to allow the voluntary use of Aadhaar for the Mahatma Gandhi National Rural Employment Guarantee Act, all types of pension schemes, employee provident fund and the Prime Minister Jan Dhan Yojana. Pending legislation for the National Identification Authority of India should be completed at the earliest in 2016.

This note takes forward the Indicus policy brief of March 2015, where the remaining policy and regulatory barriers to digital financial inclusion in India were set out, assessed against three key objectives:

- A. Maximize the impact of PMJDY by addressing the last mile challenges in the agent network
- B. Create an interoperable, ubiquitous retail acceptance infrastructure
- C. Cultivate an enabling environment for enhanced digital savings, credit, and insurance services

While compiling the priorities in March 2015, one critical barrier rose to the top - the inadequate commission government pays to banks for successful delivery of DBT payments in rural areas. Unfortunately, this remains the top call out as this issue remains unresolved in December 2015. The 1% commission notified by the Finance Ministry in Jan 2015 barely covers the bank's costs, making it difficult to pay Business Correspondents and their agents. Keeping the agent network viable should be the topmost priority, and there is merit in starting with higher commissions - the Report of the Task Force on an Aadhaar-Enabled Unified Payment Infrastructure had recommended 3.14% - and progressively reducing these over time as transactions, and thus agent viability, increase.

More critically, even these commission charges have reportedly not reached the banks, calling for the need for clear budgetary allocation and transparent and timely payment flows.

The Priorities

A: Maximize the impact of PMJDY by addressing the last mile challenges in the agent network

- Establish a viable DBT commission system, including a multi-tier structure commensurate with delivery costs to ensure viability of agents at the last mile of service delivery.
- Accelerate financial literacy to increase transactions and activity in accounts.
- Clarify the eligibility of Payment Banks in processing DBT transfers at par with Scheduled Commercial Banks.

B: Create a ubiquitous, interoperable retail acceptance infrastructure

- Establish e-KYC access targets for all banks.
- Implement guidelines for agent interoperability through access to Immediate Payment Service (IMPS) for person to person transactions.
- Devise capital cost structures and remuneration terms including inter-change fees for effecting transactions to enable investment case for retail infrastructure.
- Implement universal telecom coverage obligations with signal quality standards and broadband access.

C: Cultivate an enabling environment for enhanced digital savings, credit, and insurance services

- Create appropriate regulatory framework for cross-sector partnerships: banks, insurance, telcos to offer bundled mutual products, and back end data analytics.
- Evolve regulatory guidelines for telcos, banks and insurance providers to share subscriber transaction history and analytics with due security safeguards



A. Maximize the impact of PMJDY

Potential Barrier	Asks	Main Responsibility
<p>Banks and BCs find the DBT service charges (1%) non-remunerative and inadequate to cover the costs incurred on the field. This has been a critical constraint in creating an effective and sustainable delivery chain in the last mile.</p> <p>The sharing of remuneration between banks and BCs is not transparent or proportionate to costs incurred by each.</p> <p>Banks and BCs are uncertain about the schedule of reimbursement for DBT commissions.</p>	<p>Establish a viable DBT commission system, including a multi-tier structure commensurate with delivery costs, whereby commission rates are higher in particularly hard-to-reach geographies.</p> <p>Consider large financial payments architecture as a public good; have a time bound phase-out of DBT service charges to enable investment recovery, and then migrate to competitive pricing models</p> <p>Issue guidelines on remuneration sharing between Banks and BCs, commensurate with actual costs.</p> <p>Issue guidelines on disbursement time limits for DBT commissions.</p>	<p>Ministry of Finance</p>
<p>The success of the digital financial system depends on DBT flows attaining necessary scale and economic viability. The active participation of line ministries administering various schemes is essential.</p>	<p>Create focal points at relevant line ministries to expand DBT coverage for schemes – seeding and de-duplication of beneficiary accounts with bank account and Aadhaar numbers.</p> <p>Obtain statutory legitimacy for Aadhaar and the UIDAI through parliamentary processes</p>	<p>Ministry of Finance Relevant line ministries</p> <p>Ministry of Law and Justice, Parliament.</p>
<p>Weak telecom connectivity and bandwidth hinders e-KYC and biometric / PIN authentication and limits digital transactions in remote areas.</p> <p>Present voice tele-density metrics are insufficient to monitor quality of financial transactions and call for monitoring of data services availability and quality.</p> <p>Telecom coverage is reported at the state or circle level and does not provide visibility into coverage at village or SSA level.</p>	<p>Monitor telecom connectivity footprint more granularly at the tower level and availability and quality of service metrics for wireless data services.</p> <p>Map SSA level telecom data service coverage to identify unconnected or poorly connected Bank Mitra outlets and initiate time-bound plan for universal coverage</p>	<p>PMJDY Mission Directorate Telecom Regulatory Authority of India (TRAI)</p>
<p>Lack of clarity on whether Payments Banks will be allowed to process DBT payments directly, which are now allocated only to Scheduled Commercial Banks.</p>	<p>Clarify the eligibility of Payment Banks in processing DBT transfers at par with Scheduled Commercial Banks</p>	<p>Reserve Bank of India(RBI)/ Ministry of Finance</p>



B. Create a ubiquitous, interoperable retail acceptance infrastructure

Potential Barrier	Asks	Main Responsibility
Multiple KYC requirements of banks, telcos and other service providers add to costs and potential for errors. A common KYC system for banks and telcos will ensure a seamless identification of customers across services at lowest costs.	<p>Evolve a singular KYC/e-KYC regime with centralised common pool repository with appropriate data security and control.</p> <p>Establish protocols for querying and validation of identity by banks, telcos, and payment service providers without sharing of back end data from repository.</p>	RBI Indian Banks Association (IBA), TRAI
<p>Nesting BCs as captive extensions of individual banks restricts the potential of the retail footprint for financial transactions.</p> <p>There is no policy framework for establishing interoperability among BC agents of different banks to provide services not directly linked to cash withdrawals and deposits into bank accounts.</p>	<p>Implement guidelines for additional services that BC agents can provide to customers as independent parties without creating liabilities for the principal banks.</p> <p>Issue guidelines for accreditation of BCs for various financial products and services, to enhance financial viability of retail network for payment and financial service transactions.</p>	Ministry of Finance RBI

C. Cultivate an enabling environment for digital savings, credit, and insurance services

Potential Barrier	Asks	Main Responsibility
<p>Banks, payment service providers, insurance/pension providers and telcos are unable to exploit synergies in serving same customers due to multiple domain regulators and restrictions on sharing of customer data.</p> <p>Financial service providers lack credible data to establish credit scores of the poor</p> <p>Sharing of customer data and financial transaction trends can aid customer profiling and risk management.</p>	<p>Evolve regulatory guidelines for telcos, banks and insurance providers to share subscriber transaction history and analytics with due security safeguards and with informed prior consent of customers.</p> <p>Create appropriate regulatory framework for cross-sector partnerships: banks, insurance, telcos to offer bundled mutual products.</p>	RBI, Telecom Regulatory Authority of India (TRAI), Insurance Regulatory and Development Authority of India (IRDA)

Table-1: Progress of Pradhan Mantri Jan Dhan Yojana (All figures in crores, as of 30th December 2015)

Bank	RURAL	URBAN	TOTAL	NO OF RUPAY CARDS	AADHAAR SEEDED	BALANCE IN ACCOUNTS (Rs.)	PERCENTAGE OF ZERO-BALANCE-ACCOUNTS
Public Sector	8.61	6.93	15.54	13.61	7.22	23034.86	31.89
Regional Rural	3.06	0.51	3.57	2.57	1.01	5025.66	29.67
Private	0.44	0.30	0.74	0.66	0.23	1165.04	40.57
Total	12.10	7.73	19.84	16.85	8.45	29225.56	31.81

Source: <http://pmjdy.gov.in/account>

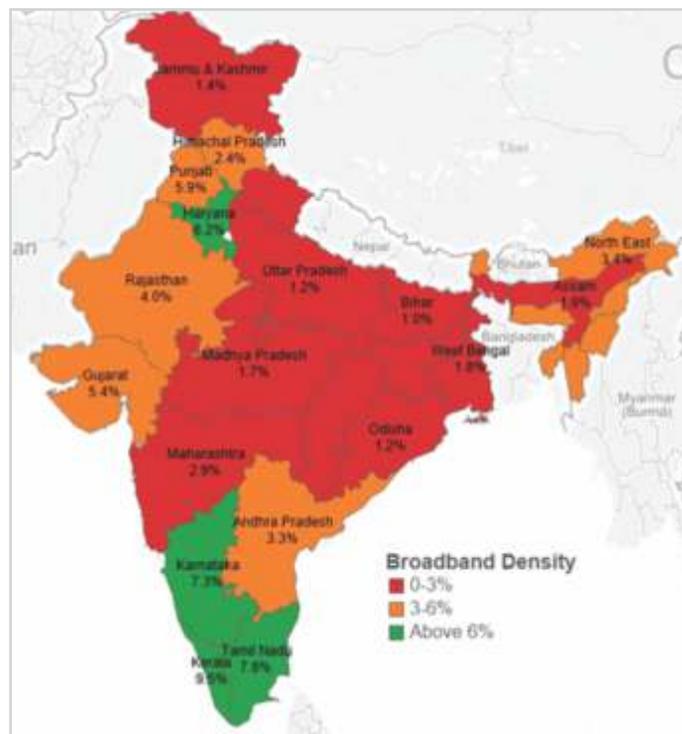
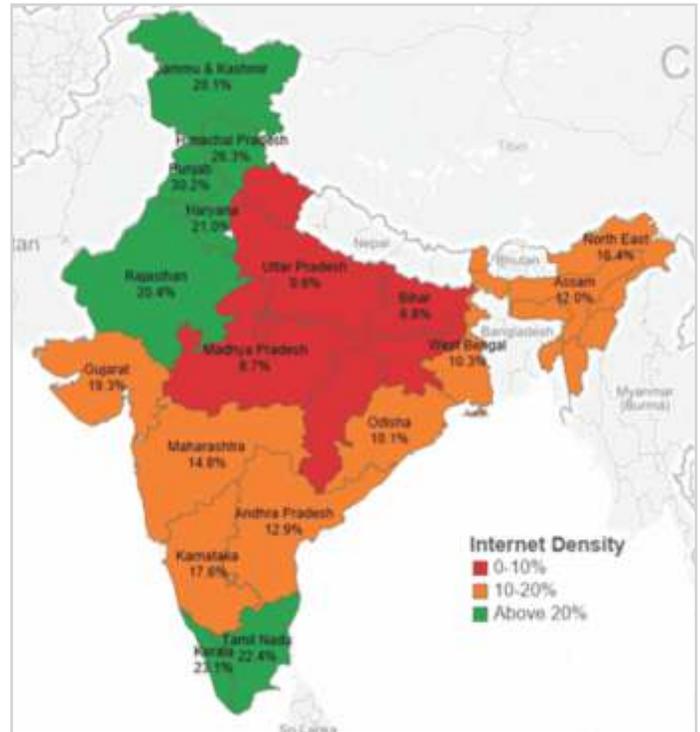
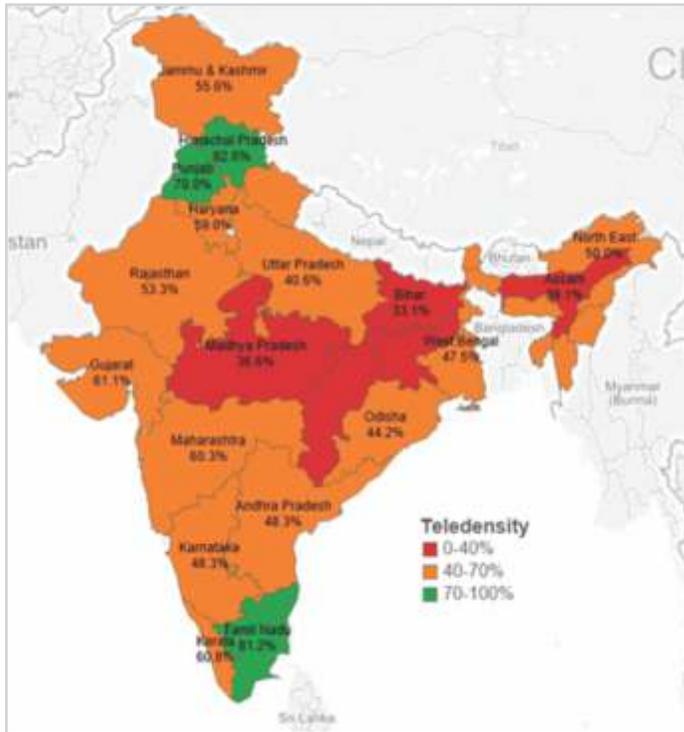
Table-2: Position of Bank Mitra Infrastructure December 2015

Banks	Number of Sub Service Areas (SSA) allotted Rural	Total Number of Bank Mitra Required	SSA covered through fixed location Bank Mitra	SSA covered through Branches	Number of locations uncovered due to connectivity	Number of Active Bank Mitra doing Transactions	Number of Device Capable under EKYC Transaction	Number of Device Capable under RuPay Card Based Transaction	Number of Devices Capable under AEPS Transaction
GRAND TOTAL	159916	126829	126039	33087	790	110959	95566	33626	105019

Source: <http://pmjdy.gov.in/infrastructure>



RURAL TELECOM SERVICE COVERAGE



Note: Data for maps sourced from Quarterly Monitoring Reports, TRAI.

Telecom Service Areas: Madhya Pradesh includes Chhattisgarh, Uttar Pradesh includes Uttarakhand, Bihar includes Jharkhand, North-East includes Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, West Bengal includes Sikkim etc.