Indicus Centre For Financial Inclusion

INDICUS FOUNDATION

POLICY BRIEF DECEMBER 2018

GOVERNANCE FRAMEWORK FOR INDIA'S FINANCIAL INCLUSION MISSION

KEY TAKEAWAYS

This policy brief sets out the need to revise the definition of financial inclusion in India, looks at the appropriate indicators that should be monitored under a new expanded definition and then makes the case for a more relevant decentralized governance framework. The way forward is briefed below.

a. ***A more comprehensive definition:*** *Given the current reach of the Pradhan Mantri Jan Dhan Yojana (PMJDY), the government and the Reserve Bank of India (RBI) now need to use a more comprehensive definition of financial inclusion, as set out by the Global Partnership for Financial Inclusion (GPFI), "Financial inclusion" refers to a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers. "Effective access" involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options.*

b. ***Improving the monitoring framework:*** *Under the expanded definition the indicators to monitor would include a comprehensive list covering the state of access infrastructure, availability of services and sustainability of provision at the last mile.*

c. ***Coordinating between regulators:*** *The Ministry of Finance's Department of Financial Services (DFS) should take the lead in coordinating financial inclusion policy and data sharing across the multiple regulators and levels of administration.*

d. ***Assigning leadership to the district:*** *Rather than the State - Level Bankers Committee (SLBC), the District Consultative Committee (DCC) would be the appropriate authority to lead the financial inclusion mission. With the expansion of government subsidies and other schemes, the District Collector has become the nodal officer and is more closely identified with the target segments for financial inclusion; the SLBC on the other hand remains remote and more concerned with pure banking concerns.*

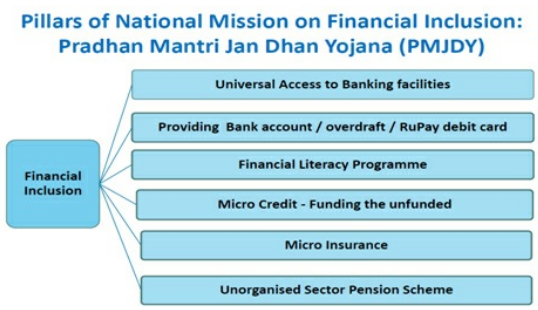
e. ***A more efficient unit of monitoring:*** *The unit for monitoring must now change from the Sub Service Area, with one fixed point branch outlet for 1000 - 1500 households. The financial inclusion parameters must be mapped to MGNREGA granularity which is the best in the country currently. The Gram Panchayat thus becomes the relevant unit for monitoring.*

f. ***Accessible and comprehensive monitoring dashboard:*** *Finally, an institutional change needs to be effected through dashboards that map the progress of the indicators at a granular level, in real time. These dashboards should be visible to all levels of authority from the local to the RBI Financial Inclusion and Development Department (FIDD) and DFS. This will enable transparency and visibility into specific issues that are affecting specific locations, and alert the relevant authority to resolve the same.*

REFRAMING THE OBJECTIVE

So far, the focus of financial inclusion in India has been defined as access to bank credit and expansion of branches, or access points, in rural areas. Accordingly, targets have been set for banks and progress in financial inclusion is measured by the number of branches and outlets in villages, number of basic savings bank deposit accounts, overdraft facility and transactions in these accounts, loans through Kisan Credit Card and General Credit Card etc. (Table IV.6 Annual Report 2017 - 18, RBI). In 2008, the Rangarajan Committee on Financial Inclusion, expanded the definition from credit to include all financial services, including savings, insurance, payments and remittances (and this naturally includes digital transactions) and the target group moved from rural to "the disadvantaged and low - income groups." However, there has been no monitoring of progress on these indicators and these target segments were not clearly identified either. This led to many gaps in reporting, for instance, the present annual release by the Reserve Bank of India of national - level data provides no visibility into the dark spots that exist across the country where coverage is still inadequate.

From 2014, the Pradhan Mantri Jan Dhan Yojana (PMJDY) targeted access to all basic financial services to all households in India through bank outlets and has made a small shift in the way the mission is being monitored by introducing GIS mapping of agents, weekly updates on a number of indicators at the state level etc. On the demand side, the first move towards understanding the financial lives of the rural poor has come through with the NABARD All India Rural Financial Inclusion Survey 2016 - 17. The survey is the first comprehensive study of the penetration of various aspects of financial inclusionin rural and semi - urban centres across India, across agricultural and non - agricultural households, covering indicators like savings, debt, income, expenditure and investment, consumption patterns; parameters such as borrowing behaviour, financial knowledge, use of Kisan Credit Card (KCC), usage of digital modes to access services, incidence and response to distress events (such as crop failure, death of earning member), insurance coverage for crop insurance, life and accident insurance penetration, pension coverage, etc. insurance penetration, pension coverage, etc.



With this report, India now has a benchmark to compare the changes in financial lives of rural households over time as the survey is stated tobe repeated every three years.

It is time for India to move to the most comprehensive definition of financial inclusion set out by GPFI:

"Financial inclusion" refers to a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers. "Effective access" involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options.(GPFI, 2011)

With this definition, the government and the RBI would be taking a holistic view of the provision and move towards a usage - based approach rather than a delivery based one. This more user centric definition will also enable a more appropriate choice of measures to monitor financial indicators which can be categorized into three segments:

1) The state of access infrastructure: This would include the spread of bank branches, ATMs, deployment of Bank Mitras, data connectivity at the granular level, device uptime of micro - ATMs etc.
2) The availability of services i.e. the bouquet of financial services being offered at the access point and the offtake (opening of accounts, cash services, remittances, government benefits, savings, insurance, pensions etc., activity of the Bank Mitras in the number and type of transactions.
3) Sustainability of the last mile coverage i.e. commissions paid out, income earned by the agents and by each partner in the value chain of service provision.

Making the leap to bringing all these data points together calls for an overhaul of the data collection and dissemination system. Indicus has been flagging the issue of improved financial inclusion metrics[1] for long. As noted in ICFI Policy Brief March, 2017, India is rapidly moving into the digital age; the need of the hour is a database that accurately reflects progress on financial inclusion, ground up, and updated in real time (See Appendix 1). This is critical as universal usage of financial services is the ultimate goal of financial inclusion, and not simply access. In the next section, we move the needle ahead from the data collection and dissemination system to the governance framework for effective monitoring of progress at each level of the chain.

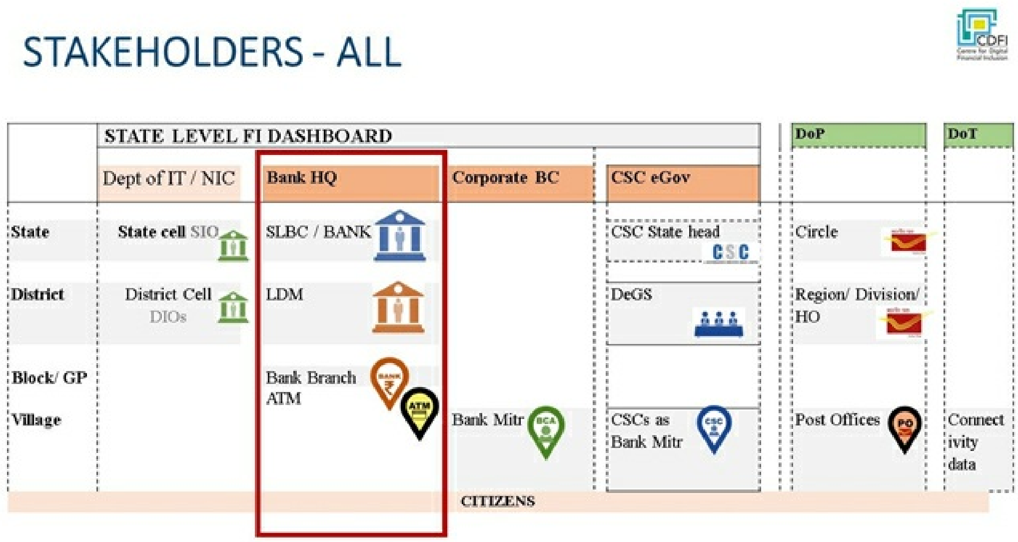
REFOCUSING THE GOVERNANCE STRUCTURE FOR FINANCIAL INCLUSION

As things stand currently, mandates are set by the RBI and DFS, and the State - Level Bankers Committee (SLBC), normally chaired by the Chief Secretary of the concerned state, is the key responsible authority. At the local level, it is the District Consultative Committee (DCC) chaired by the District Collector, which operates under the Lead Bank Scheme (LBS), and is supported by regional offices of RBI's Financial Inclusion and Development Department (FIDD). However, the SLBC and DCC have been compliance driven so far and this structure was appropriate as long as the inclusion mission was restricted to access to banking and credit. This policy brief calls for a more decentralised governance structure, aligned to the expanded definition of financial inclusion.

1. To begin with, it is important to ensure coordination between multiple regulatory and departmental entities at the top, as we move beyond pure banking as the objective of financial inclusion. Various responsibilities are spread between different ministries and departments at the central, state and local government level, RBI, TRAI, NPCI, UIDAI, IRDA, PFRDA, SEBI etc. and policy alignment as well as data sharing become key to effective governance. Ideally, the DFS should take the lead in coordinating across these multiple entities. Some examples that stand out where lack of coordination has impacted the inclusion mission – a) the lack of clarity on e - KYC over the last few years, and especially after the Supreme Court verdict would have been assuaged if the DFS had coordinated between the RBI and UIDAI – banks in general and Payments Banks in particular have been hit hard[2], b) connectivity issues are hampering bank and digital payments network at specific locations, that need to be identified. The COAI portal that gives tower level GIS mapping can be integrated with the GIS mapping of all banking agents in the BC registry set up by the IBA, and with analytics from NPCI, can give real time visibility into the problems faced by agents in conducting banking business.

2. It is now time to move away from mandates and targets of access set by the Central Government and RBI towards monitoring usage of financial services.The role of the apex should be to monitor through comprehensive dashboards that map the progress of indicators at a granular level and in real time. These dashboards should be visible to all levels of authority from the local functionary to the RBI FIDD and DFS. A common dashboard creates a common language between stakeholders, policymakers and regulators and also the personnel involved in day to day issues. Figure 2 shows how all levels of stakeholders should be connected to the dashboard. This will enable transparency and visibility into specific issues that are affecting specific locations, and alert the relevant authority to resolve the same.

Figure 2 Stakeholders for Financial Inclusion Dashboard (Source: CDFI)



3. Rather than reforming the SLBC to align with financial inclusion, as recommended by the Committee on Medium - Term Path for Financial Inclusion (RBI 2015), it is the DCC that should be the appropriate authority to lead the financial inclusion mission. With the expansion of government subsidies and other schemes, the District Collector has become the nodal officer and is more closely identified with the target segments for financial inclusion; the SLBC on the other hand remains remote and more concerned with pure banking concerns.

4. The unit for monitoring so far has been the Sub Service Area or SSA, with all villages (around 6 lakhs in number) mapped into 1.59 lakh Sub - Service Areas, with one fixed point branch outlet for 1000 - 1500 households. It is crucial to map financial inclusion parameters to MGNREGA granularity which is the best in the country currently, and move to the Gram Panchayat as the unit for monitoring. The Gram Panchayat is already integrated with the District Collector for multiple government schemes, the target segments are also well identified at this level, and its building can house a banking access point.

THE WAY FORWARD

To sum up, it is time that the DFS and RBI work together towards refocusing the governance framework for achieving meaningful and sustainable financial inclusion across the country. To begin with, the DFS should take the lead in coordinating between the multiple layers of administration and multiple regulatory authorities to give full clarity on policy and governance. Rather than mandates and targets to banks, the focus should now move to effective and sustainable service provision at the last mile. For this, there must be a system of online reporting through a dashboard that is harmonised across all levels of stakeholders. Rather than the SLBC, the DCC should be made the nodal authority for effecting financial inclusion, with the Gram Panchayat, and not the Sub Service Area, as the basic unit.

The ultimate aim of financial inclusion is to make a significant impact on the lives of the poor. For a large heterogenous country like India, the true picture can only emerge througha system of real time monitoring of appropriate data at the very last mile, which will enable appropriate location specific solutions.

APPENDIX 1: The key takeaways from ICFI Policy Brief "Monitoring the Progress of Financial Inclusion in India", March, 2017 remain to be addressed:

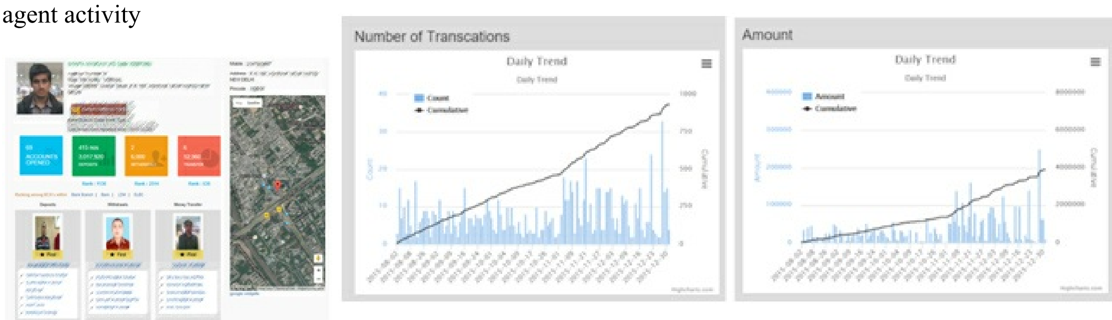
1) Metrics on the progress of financial inclusion must reflect the usage of banking services by the poor, especially in rural India. The present annual release by the Reserve Bank of India of national - level data provides no visibility into the dark spots that exist across the country where financial and network coverage are still inadequate. Quarterly granular data at the village level will reveal the true extent of inclusion amongst the target segments and will facilitate appropriate policy and industry initiatives.

2) Inclusion metrics have to move from tracking the number of bank accounts and banking correspondent agents to include transactions related metrics. The RBI must set up a dashboard that tracks transaction metrics in real time at branch and agent level (See Figure 3). Data should map the move towards a less - cash economy. The quarterly TRAI Performance Indicator Report provides a good template for reference.

3) India's geographic and socio - economic heterogeneity calls for data at a much more granular level. Currently most banking data are available at state and district level; data should be collated at city and village level. A finer template will make it easier to identify coverage gaps and devise appropriate group - specific measures.

4) An inter - departmental data sharing mechanism is essential. A system of data - sharing across sectors and service providers will provide dividends for all. For instance, RBI should connect with TRAI to monitor network connectivity at agent level and with NPCI for detailed analytics for failure rates of transactions. Such visibility will help untangle issues of implementation.

Figure 3 Dashboard to monitor agent activity



[1]Financial Inclusion Metrics-Part I - Policy Brief October,2014, Financial Inclusion Metrics-Part II - Policy Brief October,2014, Closing the Gender Gap in Financial Inclusion - Policy Brief June,2016, Making Financial Inclusion Work For The Poor - Policy Brief October,2016, Monitoring the Progress of Financial Inclusion in India - Policy Brief March,2017

[2]ICFI, "Payments Banks - Where To From Here", Policy Brief November,2018

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