


POLICY BRIEF OCTOBER 2014
Financial Inclusion Metrics- Part I
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 takes up the inclusion metrics currently monitored by policy makers, while the second part goes beyond this set to point to other sources of information that should be tracked regularly.

- Financial inclusion metrics in India have focused largely on banking indicators. While this is in line with the policy of bank-led inclusion, the emphasis has been on Scheduled Commercial Banks. Indians tap many other sources for their financial needs that must also be reflected in the data, e.g. accounts and transactions in Regional Rural Banks, Cooperative Banks, microfinance institutions etc. The latest move of the government to expand the Pradhan Mantri Jan Dhan Yojana to cooperative banks which have connected the Core Banking System is a positive step.
- Inclusion metrics have to move from tracking the number of bank accounts and banking correspondent agents to include transactions in accounts and per agent. This will work towards ensuring actual usage of banking services.
- Data should also cover the nature of transactions per access point and per account, to map the move towards less-cash in the economy.
- The geographic and socio-economic heterogeneity in India calls for data at a much more granular level. Currently most data are available at state and district level, however data should be collated from financial service providers at city and village level also.
- Various service providers collect data that remain confidential. Regulators and the various departments and ministries of the government should work together towards creating a system of data-sharing across sectors and service providers that will provide dividends for all.

Background

Financial inclusion has been specifically targeted as a development goal since the mid-2000s and the 'United Nations Blue Book, "Building Inclusive Financial Sectors for Development" released in 2006, explicitly recognised the fact that financial exclusion restricts countries from their poverty reduction goal. In 2009, the Report of the Centre for Global Development (CGD) Task Force on Access to Financial Services laid down ten broad policy principles for expanding financial access, including data collection, monitoring and evaluation. According to Principle 10: Ensuring data collection, monitoring, and evaluation: Governments should ensure collection of sufficient data to

- allow for the determination of the gaps in access to financial services that will facilitate private-sector solutions;
- provide accountability of public policy for monitoring and evaluation of the effectiveness of pro-access policies; and,
- help build a better, research-based understanding of what works in relation to access.

This two part policy brief set examines the data landscape in India, highlights what is being tracked by policy makers, the missing indicators and proceeds, in the second part, to report insights from surveys that have crucial data that can shape the inclusion mission more effectively.

India's Financial Inclusion Performance

Each country needs to set up systems for regularly updated data on various parameters of inclusion. There are a few basic indicators that each country must compile data on, to measure progress across time and relative to other countries, and these have been set out in the G20 Financial Inclusion indicators. The set of basic metrics includes nine indicators of access to, and usage of, financial services:

1. Percentage of adults with an account at a formal financial institution
2. Number of depositors per 1,000 adults OR number of deposit accounts per 1,000 adults
3. Percentage of adults with at least one loan outstanding from a regulated financial institution
4. Number of borrowers per 1,000 adults OR number of outstanding loans per 1,000 adults
5. Percentage of SMEs with an account at a formal financial institution
6. Number of SMEs with deposit accounts/number of deposit accounts OR number of SME depositors/number of depositors
7. Percentage of SMEs with an outstanding loan or line of credit
8. Number of SMEs with outstanding loans/number of outstanding loans OR number of outstanding loans to SMEs/number of outstanding loans
9. Number of branches per 100,000 adults



Table 1 : India - Key Indicators for Financial Inclusion

	India 2005	India 2013	Brazil 2013	China 2013
Commercial bank branches per 1,000 km2	23.17	35.68	8.45	9.32
ATMs per 1,000 km2	5.93	38.96	23.16	55.75
Outstanding deposits with commercial banks (% of GDP)	47.3	69.98	45.92	156.62
Deposit accounts with commercial banks per 1,000 adults	611	1197.57	1153.52	40.44
Commercial bank branches per 100,000 adults	9.02	12.16	47.7	7.85
ATMs per 100,000 adults	2.31	13.27	130.74	46.94
Outstanding loans from commercial banks (% of GDP)	31.2	55.14	47.15	101.38
Loan accounts with commercial banks per 1,000 adults	100.99	147	2358.2	...

Source: IMF Financial Access Survey Database

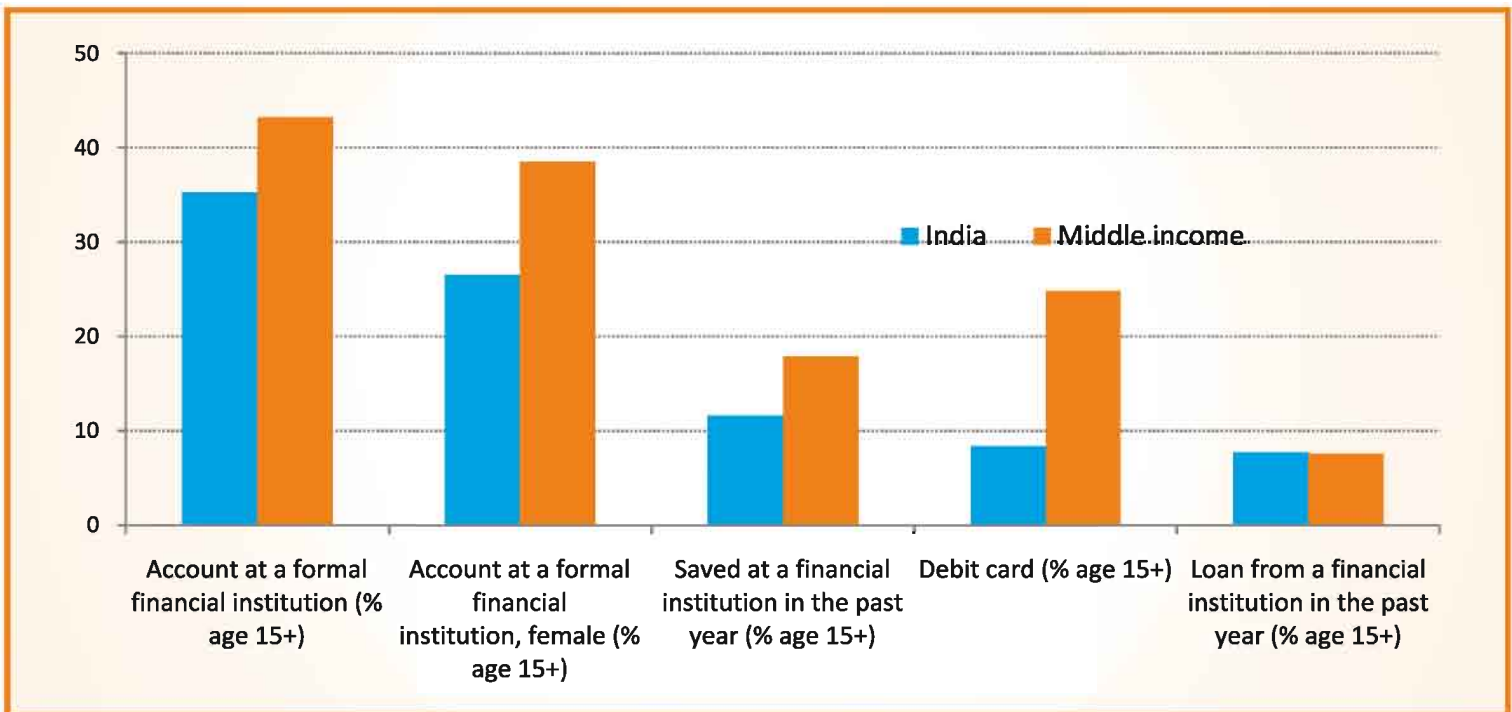
In addition, the database covers 78 indicators to map savings, credit, access, usage, payment modes etc. with cuts by gender, income and geography. The main sources of data are the International Monetary Fund's Financial Access Survey (FAS) and the World Bank's Global Findex and Enterprise Surveys for firms.

The FAS is the one point stop for supply-side data on financial inclusion, with internationally-comparable basic indicators of financial access and usage. The survey has also added indicators for mobile money since this year. The database contains 152 time series and 47 key indicators which are grouped into two categories, geographic outreach of financial services and use of financial services. As can be seen from the table below, India has made progress in the key indicators.

In order to ascertain the demand side of inclusion metrics globally, the World Bank Global Financial Inclusion (Global

Findex) Database, funded by the Bill & Melinda Gates Foundation, began in 2011 to measure how adults in 148 countries save, borrow, make payments and manage risk. The report using survey data shows that 50 percent of adults worldwide have an account at a formal financial institution. There are significant differences in account penetration across regions, income groups and individual characteristics. 22 percent of adults reported having saved at a formal financial institution in the past 12 months, and 9 percent reported having taken out a new loan from a bank, credit union or microfinance institution in the past year. Around 35 percent of the unbanked reported barriers to using banking services - high cost, physical distance, and lack of proper documentation - all of which can be addressed through appropriate policy. Looking at regional, demographic and income cuts, insights from this dataset can help formulate more effective policy.

Figure 1 : India's Status of Financial Inclusion, 2011



Source: World Global Findex, 2011



Global databases tend to be slightly outdated, as they compile data from across the world. While the FAS data takes from financial institutions, for most variables it does report for 2013, though there are gaps. The World Bank Global Findex will report 2014 data next year and the Enterprises Survey, which is part of the G20 database, currently reports data from India from 2006, the most dated set. We now turn to the Indian data landscape, to the metrics that are tracked by the policy makers.

Policy Targets in India

For India, “Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all members of the society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players”. The government and the RBI have essentially followed a bank-led model for expanding access to financial services and the financial inclusion plan has evolved over the years, with approval of Business Correspondent agents in 2006, increased use of technology through payments platforms, introduction of Core Banking Solutions for online connectivity of all bank transactions etc. Banks were given targets to achieve under three-year Financial Inclusion Plans:

- Number of branches opened, number of branches opened in unbanked villages and in villages with population greater than or less than 2000 in separate phases

- Number of Business Correspondent outlets opened
- Number of Basic Savings Bank Deposit Accounts opened
- Number of emergency credit (Overdraft facility) provided
- Number of Entrepreneurial credit (Kisan Credit Card/General Credit Card) provided
- Transactions done in the above accounts through branches as well as through Bcs

The progress of inclusion is therefore tracked through data that comes through the regular system from Scheduled Commercial Banks, with tables like these given by the RBI annually.

In addition to these parameters, the RBI also tracks the following on an annual basis, though there are no policy targets set: Growth in Self Help Group-Bank linkage, growth of Micro Finance Institutions, bank credit to MSME, Insurance and Equity Penetration in the country.

For the government, on the other hand, the policy targets have so far been coverage of unbanked villages under the Swabhimaan mission of 2011 and ATM coverage in villages. Out of the 5.92 lakh villages in the country, only 74000 villages could be covered under the previous programme. Hence under the new Jan Dhan Yojana launched in August 2014, the target has shifted from village to household as a bank account for every household, with a Rupay ATM/Debit Card, life and accident insurance cover and an overdraft facility with due

Table 2: Financial Inclusion Plan coverage reflecting the progress made so far

Particulars	Year ended	Year ended	Year ended	Progress
	Mar. 2010	Mar. 2013	Mar. 2014	Apr. 13 - Mar. 14
1	2	3	4	5
Banking Outlets in Villages - Branches	33,378	40,837	46126	5289
Banking Outlets in Villages - Branchless Mode	34,316	2,27,617	337678	110061
Banking Outlets in Villages -Total	67,694	2,68,454	383804	115350
Urban Locations covered through Bcs	447	27,143	60730	33587
Basic Savings Bank Deposit A/c through branches (No. in million)	60.19	100.8	126.03	25.23
Basic Savings Bank Deposit A/c through branches (Amt. in Rs. billion)	44.33	164.69	273.29	108.6
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.27	81.27	116.93	35.66
Basic Savings Bank Deposit A/c through BCs (Amt. in Rs. billion)	10.69	18.22	38.95	20.73
BSBDAs Total (No. in million)	73.45	182.06	242.96	60.9
BSBDAs Total (Amt. in Rs. billion)	55.02	182.92	312.25	129.33
OD facility availed in BSBDAs (No. in million)	0.18	3.95	5.92	1.97
OD facility availed in BSBDAs (Amt. in Rs. billion)	0.1	1.55	16.04	14.49
KCCs - (No. in million)	24.31	33.79	39.94	6.15
KCCs - (Amt. in Rs. billion)	1240.08	2622.98	3684.49	1061.51
GCC- (No. in million)	1.39	3.63	7.43	3.8
GCC - (Amt. in Rs. billion)	35.11	76.34	1096.89	1020.55
ICT A/Cs-BC- Transaction - (No. in million) (During the Year)	26.52	250.46	328.57	328.57
ICT A/Cs-BC- Transactions - (Amt. in Rs. billion) (During the Year)	6.92	233.88	524.37	524.37

Note: KCC=Kisan Credit Card, GCC=General Credit Card, BC=Business Correspondent

Source: RBI, 2014



diligence by the banks. With the Census 2011 data reporting only 54.4% of rural households availing banking services in the country, the PMJDY has set a target to cover 7.5 crore rural households and 2.5 crore urban households by January 2015. There are also ongoing surveys being conducted in all states, to check the coverage of the scheme at the household level; the data are not publicly available yet.

Lacunae in the current data landscape

While all these targets and indicators tracked above are essential, these do not give a complete picture. As the inclusion mission progresses, as technology evolves, there will be a natural evolution towards more and varied indicators. As RBI Deputy Governor, Dr. K. C. Chakrabarty noted, "Like any broad based financial system, financial inclusion measures and performance monitoring system require a rich body of performance data and analytics" (RBI, 2012). This must go beyond the supply side parameters that are being tracked currently. Yet, even within the scope of data from financial institutions, the RBI and the government must expand the data being tracked now to include a more comprehensive set.

- Financial inclusion metrics in India have focused largely on banking indicators. While this is in line with the policy of bank-led inclusion, the emphasis has been on Scheduled Commercial Banks. The latest move of the government to expand the PMJDY to cooperative banks which have connected the Core Banking System is a positive step. However, Indians tap many other sources for their financial needs that must also be reflected in the data, e.g. accounts and transactions in Regional Rural Banks, Cooperative Banks, microfinance institutions etc. Progress made by all these institutions must be tracked as well towards financial inclusion.

It is important that inclusion metrics have to move from just covering the number of bank accounts and banking correspondent agents to including the number of transactions in accounts and per agent. This will point to the level of dormancy in accounts and agents, and allow for corrective measures at a regional level.

Data should also cover the character of transactions per agent and per account, to map the move towards less-cash in the economy. The use of mobile banking, mobile money in PPIs etc. also are important indicators that should be monitored.

The geographic and socioeconomic heterogeneity in India calls for data at a much more granular level. Currently most data are available at state and district level, however data should be collated from banks at city and village level.

The way forward

One way to expand the data landscape in the country is through data sharing by more institutions, e.g. banks, MFIs, PPIs, telcos, credit bureaus, insurance providers etc. This would involve creating benchmarks and sharing definitions across industry to create a consistent dataset. For instance, MFI industry data on loan per customer, profiles of customers, regional cuts etc. would help banks understand the commercial viability of offering credit to these customers, while sharing of data on airtime sales by telcos can give a

better picture of income dynamics of a particular village or neighbourhood in the city. As Claudia McKay and Jake Kendall note, the problem is worldwide: "Mobile network operators are reluctant to share their number, type and volume of transactions, active customer base and overall profitability while commercial banks are unwilling to share total number of segmented customer base, overall profitability, loan portfolio, deposit portfolio and ATM transactions" (CGAP, 2013). Going forward, regulators and the various departments and ministries of the government should work together towards creating a system for data-sharing that will provide dividends for all.

While metrics on status and progress of financial inclusion are related primarily to the supply side with data coming in regularly from financial institutions, it is also important to measure progress through the growth in the number and type of products being offered, volume of transactions and returns on the products, assessments of the commercial viability of various delivery channels, growth of financial literacy, and reduction in barriers to inclusion as mentioned by respondents e.g. cost of provision of services, distances etc. The government and the RBI can initiate surveys to map such indicators, so that policy and industry can adapt strategies to ensure that the financial inclusion mission goes beyond issuing bank accounts to each person/household in the country.

The second part of this policy brief set on Financial Inclusion Metrics takes up the current surveys that provide valuable evidence to policy makers from the field on various aspects such as demand for services, commercial viability of agents etc.

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