

## CLOSING INDIA'S GENDER GAP IN FINANCIAL INCLUSION

### Key Takeaway

1. India needs gender-based supply side data on financial inclusion that includes data on the agent network and usage of accounts. As the key regulator, the Reserve Bank of India should take this up on a priority basis.
2. A comprehensive demand side national survey of progress in financial inclusion should be conducted to help identify specific challenges in gender parity at a very granular level, and also supplement data from the administrative side mentioned above.
3. All financial service providers must sensitize their work force and their products and processes to the needs of women. This includes training and sensitizing branch staff, tapping alternate channels to make banking more accessible, encouraging door step delivery of some services etc.
4. Women entrepreneurs often are at a disadvantage when assessed by traditional credit scoring models that rely on collateral, documentation etc. Innovations like the new credit scoring models based on psychometric testing, developed by the Multilateral Investment Fund and Harvard's Entrepreneurial Finance Lab, show the way forward. An explicit note or white paper from the RBI or DFS would help evolve such mechanisms in India.

Women customers account for 165.9 million (or more than 51 percent) of the 314.2 million Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts opened till the end of March 2018. As of December 2017, almost 75 percent of the loans offered under the Pradhan Mantri Mudra Yojana (PMMY) for micro-entrepreneurs went to women (Lok Sabha Starred Question No. 267, 5th January, 2018). However, women, especially those in the lower economic spectrum, continue to have limited access and usage of formal financial channels. It is well known that focusing on better financial opportunities for women raises economic productivity and improved development outcomes for the next generation (IMF, May 2018). This policy brief identifies the challenges in bringing all women within the financial inclusion fold in India and highlights key policy takeaways for the government and regulators.

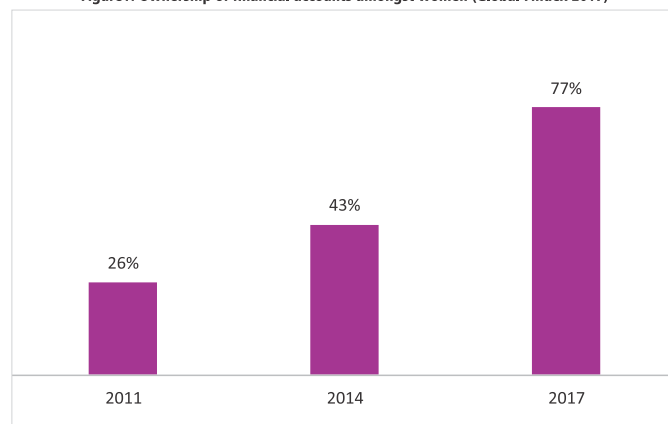
### Status of India's Gender Gap in Financial Inclusion

The Pradhan Mantri Jan Dhan Yojana has clearly made an impact in bringing women into the fold of formal banking sector. According to the recently released Global Findex 2017, the percentage of women in India who reported owning a bank account, or an account at any other financial institution, rose from 26% in 2011 to 43% in 2014 to 77% in 2017.

The gender gap in terms of account ownership has effectively reduced from 20 percentage points in 2014 to 6 percentage points in 2017 – a noteworthy outcome of India's financial inclusion mission. While the gender gap in ownership of accounts is low, the gender gap in usage of these accounts is 11 percentage points.

Critical differences emerge as we delve deeper into usage patterns, more than half or 54 % of the women with an account reported having made no deposit or withdrawal in the past year, while only 43 percent of men had such inactive accounts. Only 17% of the women have any saving in such accounts, though this figure is up from 7% in 2011. Borrowing from financial institutions has dropped from 7% to 5% over the period, and the percentage of women sourcing loans from family and friends has risen from 18% in 2011 to 30% in 2017. Thus, despite the proliferation in accounts, informal networks appear relatively stronger than before. It is evident that gender

Figure1: Ownership of financial accounts amongst women (Global Findex 2017)



parity in access and usage continues to require policy attention.

Data on women entrepreneurs in India is dated and while this underscores the need for more regular data collection and dissemination, the essential facts will no doubt hold good today. The latest Economic Census conducted in 2013-14 in India showed that 13% of the proprietary non-agricultural and 21.5% of agricultural establishments were owned by women – this accounted for 5.2 million non-agricultural and 2.76 million

agricultural establishments in 2013-14. At the same time, access to formal finance is a big challenge for women-owned enterprises; according to estimates in 2012, 92% of the financing needs were sourced from self, family, friends or informal sources, while just 3.1% came from formal financial sources (Improving Access to Finance for Women-owned Businesses in India, IFC). Interestingly, it is not as if women do not approach the formal sector - as reported in the IFC Enterprise Finance Gap Database, the rejection rate for loans to women-owned formal SMEs in India is 2.5 times higher than that for men. The reasons for the higher rate of rejection are well understood - women often have limited or no credit history; they lack adequate collateral and official documents; women-owned businesses are typically smaller leading to higher administrative costs of servicing; bank officials may have gender biases, etc.

## Circumventing Barriers

The challenges faced by women are well known and these are compounded when it comes to the financial domain - high commitments to family duties, constrained mobility outside the home/neighbourhood, restrictions on interacting with males, lack of decision making powers within the house and need for husband/father's concurrence for official documents, diffidence dealing with formal finance channels, etc. There is a lack of sensitivity to women's needs in both social and economic domains and this is also reflected in the actions of financial service providers. Policy can correct these imbalances through improved awareness, incentives, regulation and mandated targeting in extreme circumstances. The Indicus view however is to avoid highly intrusive policy or regulation that mandates specific actions on industry players.

## Sharing of Data on Coverage and Usage

In the Indicus Centre for Financial Inclusion Policy Brief on

the gender gap in financial inclusion, June 2016, we had set out the first step to correcting the problem as putting in place a process that will bring in gender-disaggregated data. As a member of the Alliance for Financial Inclusion (AFI), India had pledged to close the gender gap in financial inclusion by implementing the Denarau Action Plan adopted in Fiji at the 2016 Global Policy Forum. While there is as yet no official gender-wise data available, the Reserve Bank of India has recently announced setting up a Data Sciences Lab that is set to be operational by December 2018 (RBI, April 5, 2018). The RBI could use this opportunity to set up a framework within the Lab for collecting and analysing gender-disaggregated data reported to it by financial service providers. Moreover, the data from banking and payments can be matched to data from household surveys that show the socio-economic profiles and unmet financial needs.

Currently, the lack of publicly available data on coverage and usage behaviour is limiting the identification of gaps and opportunities. And in the absence of a clear picture, financial service providers do not have requisite understanding of the needs of low income women customers. Finally, India's heterogeneity makes it crucial that the data be granular, and financial service providers match their approach to the needs of specific customer segments and regions.

## Improving Access through Woman-to-Woman Interface

One of the greatest challenges in increasing access to and usage of financial services is the time and cost expended on reaching a banking outlet. In states like Uttar Pradesh, Bihar, Rajasthan etc., where mobility of women is severely restricted, the situation is even more serious. A woman agent, who is part of the community and who can make home visits, could make a significant difference in raising the comfort level for women, and therefore usage of bank accounts. Unfortunately, the RBI data and the detailed PMJDY database do not provide any

*"There are more chances of a woman getting her bank account opened if there is a woman agent in the village. With women, she simply feels more comfortable."*

**- a woman agent in Vijayanagaram, Andhra Pradesh**

*"Female agents do not get to know of opportunities as much as male agents can. Male agents can build better relationships with bank officials as against female agents."*

**- woman agent in Kapoorthala, Punjab**

information on the gender of agents.

The share of female agents according to the Agent Network Accelerator Survey has reportedly reduced from 13% in 2013 to 9% in 2015 and 8% in 2016 (MicroSave, February 2018). The survey noted that 71% of women agents are located in rural areas and 65% of female agents are dedicated compared to 44% male agents. The median number of daily transactions conducted by women agents was 37 compared to 31 for men agents, and they earned lower monthly revenue (USD 78 compared to USD 93) and profits (USD 23 compared to USD 34). This could be attributed to the fact that women mostly offered dedicated service, that is did not conduct any other business other than banking, from their outlet. Enabling the identification of areas that have relatively lower levels of women agents through official data allows banks in a competitive set-up to be better able to respond to the latent need.

There is some evidence that working with Self-Help Groups (SHGs) helps reduce the cost of access and therefore improves usage, as has also been recently proposed by the Ministry of Rural Development (Times of India, 21 June 2018). This recommendation, if accepted by the Department of Financial Services, should be tracked over time to determine its efficacy in targeting inclusion for women. Though there is rarely a one-size fits-all solution in the highly heterogeneous landscape of India, tapping into the vast network of existing groups such as SHGs or Cooperatives etc. could however help make financial service more accessible for underprivileged women. Under the National Rural Livelihood Project (NRLP), since June 2017 over 1500 women from SHGs have been trained as agents of partner banks across six low-income states, other such pilots are also ongoing across the country and could be beneficial in areas that have a well-established network of SHGs and limited agent networks.

## Improved Understanding of New Digital Domains

Even though the use of the mobile phone and digital payments has been seen to raise the adoption of banking and financial services, women continue to be at a significant disadvantage here. As per the Findex database, the percentage of men who made or received digital payments rose from 27% in 2014 to 35% in 2017, and for women, the share went up from 11% to 22% over the same period. Owning a mobile phone is also a serious challenge for women, as the GSMA survey in 2017 showed. The GSMA survey looked at unique subscriber penetration and found that in India, the gender gap in ownership was high - an estimated 65% of women owned a mobile phone as compared to 84% of men. Moreover, the same data also unsurprisingly reveals, even those women who use their own phones require permission for purchase decisions.

Change in society will happen gradually, however, these

should not come in the way of setting goals for inclusion. Data insights from surveys like the GSMA one can help tailor policy and industry moves to specific environments. For instance, the use of SMS based one-time password (OTP) for verification may prove to be a serious constraint in areas where women have a lower propensity to have a dedicated mobile phone.

## Circumventing the Problem of Financial History of Female Borrowers

One key problem has to do with the financial history of the female borrower. Traditional risk-assessments models that focus on credit history and availability of collateral fail when it comes to women who may have the experience but not the documentation or asset ownership. However, there is significant global evidence that, under the right conditions, commercially feasible lending to women through microfinance and other non-formal methods is possible (D'Espallier et al., 2009). The Multilateral Investment Fund and Harvard's Entrepreneurial Finance Lab (EFL) set up new credit scoring models, based on psychometric testing that can help identify better quality borrowers. Since this helps circumvent the problem of lack of history, fewer rejections of creditworthy women borrowers are reported (Lee, 2013).

Preliminary results from the use of such psychometric testing have been positive. For instance, in Indonesia, the pilot run by BTPN and EFL in 2012 reported that the added-value of EFL's psychometric test was a decrease of 17% in default (Jonathan Daniel, 2012). In Ethiopia, a leading MFI, the Amhara Credit and Savings Institute conducted the exercise with more than 2000 customers over a two-year period from 2015 to find that those who scored higher on the test were seven times more likely to repay their loans compared to lower performing customers (World Bank, April 2018). Case studies from Malaysia and Janalakshmi Financial Services in India showed that a) the cost of collection reduced, but not the cost of lending, and b) alternative measures like psychometric testing supplement, but cannot replace traditional methods of credit scoring. As these exercises so far have been with MFIs, the learnings can be taken forward by banks towards more effective credit scoring for women borrowers.

Whether it is these or other such tools, evidence-based research on their use and its outcomes is needed to understand the creditworthiness of women-owned SMEs, and in India. However, without a policy push in this direction, industry is unlikely to take up such studies by itself. As a first step a note or white paper from the RBI or DFS would help evolve such mechanisms in India.

## The Way Ahead

Bridging the gender divide in financial inclusion is a challenge that India must take up, now that the basic mission of providing accounts has been successful. There are several



policy and industry-led measures to ensure greater women's financial inclusion and a strategy plan from the DFS should set the roadmap for the country. The first step must be to get granular data to understand the specific demand and supply side barriers, that may vary across location in India.

The AFI report, Policy Frameworks to support Women's Financial Inclusion, March 2016, highlighted the necessity of collecting financial data disaggregated by gender and conducting policy related research. Though India is a member of the AFI, the RBI is yet to release gender-disaggregated banking statistics. An annual national survey, by the National Statistical Survey Organisation or any other credible institution, should be initiated to give a clear picture of unmet financial

needs for women at a granular level.

From the banking industry side, there is much that can be done - sensitising work force and their processes; increasing access for women through door-step banking; utilising new and more appropriate credit rating methodologies; initiating market research to develop appropriate products and services for women are some instances.

Bringing gender parity into the fold of the formal financial sector may seem like asking for a social revolution. However, once industry and policy makers understand the context within which women operate and their unmet financial needs, gender parity will not be a distant dream.

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