INDICUS FOUNDATION

INDICUS CENTRE FOR FINANCIAL INCLUSION

POLICY BRIEF March 2017

Monitoring the Progress of Financial Inclusion in India

Key Takeaways

The financial inclusion landscape in India is changing dramatically due to two main factors – a) the success of the Pradhan Mantri Jan Dhan Yojana in covering households and ensuring availability of agents at their designated locations through GIS based transparency and b) the operationalisation of the niche Payments Banks and Small Finance Banks through 2017.

The next step requires detailed day to day tactical monitoring. This calls for an overhaul of the current data collection and dissemination system. 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.

- 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. Data should map the move towards a less-cash economy. The quarterly TRAI Performance Indicator Report provides a good template for reference.
- 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.
- 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.

Section I The Problem: Inadequate data

Financial inclusion has been explicitly set out as a policy objective for more than a decade in India with the banks bearing the mandate for providing the requisite outreach and services. The Reserve Bank of India and the Government of India called on banks to implement three-year Financial Inclusion Plans (FIP) starting in 2010. These targets were oriented at capturing overall coverage of banking services across the country and included the number of brick and mortar branches opened in unbanked villages, Business Correspondent outlets, credit to entrepreneurs and farmers through General Credit Cards or GCC and Kisan Credit Cards or KCC. Transactions through the Basic Savings Bank Deposit Accounts (BSBDA) were also monitored. The RBI has been releasing a Financial Inclusion Progress table in the its Annual Report since 2012. There are currently eighteen parameters that are aligned to the targets set under the FIPs.

Progress on financial inclusion is reported only annually by the RBI and gives a snapshot at the national level. The data show an impressive outreach of banking services through branchless banking – the number of bank branches in rural areas has increased from 33,378 in March 2010 to 51,830 in March 2016, while the number of branchless banking outlets in rural India has risen from 34,316 in March 2010 to 534,477 in March 2016. However, it does not provide any visibility into the activity of agents or accounts at a granular level.

In fact, the RBI has no specific details of the business correspondent outlets. Details of the branchless outlets are available with individual State-Level Bankers' Committee (SLBCs) and there is no accounting for how many of these branchless outlets are active. A MicroSave survey of five districts in Uttar Pradesh and Bihar in 2013 (The Curious Case of Missing Agents in Rural India) revealed that as per the SLBC records of Uttar Pradesh and Bihar, these districts have a total 1,141 agents. Of these, data could be found for 923 agents, and 862 could be visited. "Interestingly, the remaining 61 villages in the SLBC records could not even be traced—no one had heard their names or could identify such villages". The MicroSave survey found that agents were available and working in just 4% of the villages stated in the SLBC records. While the RBI has been aware of the problem of missing agents in its database, there have been no attempts to implement more stringent tracking.

The Pradhan Mantri Jan Dhan Yojana ushered in a new approach to data metrics and dissemination in 2014. Not only was an ambitious target of covering 100% households within five months set, it was achieved with significant overhaul in the monitoring and supervision process. The PMJDY Mission Directorate did not just track the number of accounts, a number of indicators are being monitored regularly - Aadhaar seeding, provision of RuPay cards, usage of overdraft facility, payment of Bank Mitra remuneration, transaction readiness of Bank Mitras etc. Transparency increased with state and district level data available on the PMJDY website and with a GIS locator available online for banking services, the availability of Bank Mitras improved dramatically (MicroSave, PMJDY Assessment Wave III). These changes have not yet been picked up in the data metrics collected and disseminated by the RBI for non-PMJDY agents and accounts.

While the policy objective is now moving steadily toward enhancing usage of banking services, and not merely coverage, this year will see an increased role being played by private banks. Till March 2017, three Payments Banks and six Small Finance Banks have begun operations, and these have already brought in wide diversity in service delivery and products offered. They are also currently rolling out their services in phases, making their impact in different regions of the country and it will take time for all new banks to register a national footprint. It is important to monitor their growth through appropriate metrics that will give a true picture of their impact on financial inclusion and to understand the effectiveness of the policy innovation in niche banking.

Indicus has been flagging the issue of improved data metrics for long (See ICFI policy briefs October 2014, June 2016, October 2016). One of the key recommendations made was to “Put in place a unified, harmonised database of the financial inclusion footprint, in terms of outlets, service points, devices, connectivity and agent networks, aggregated and monitored by a single source” (Service Quality Standards in Telecom Connectivity for Financial Inclusion, Indicus Policy Brief November, 2015). This recommendation was picked up by the RBI Committee on Medium Term Path for Financial Inclusion (Recommendation 6.7) and a timeline for an online BC registry set by the RBI's First Bi-monthly Monetary Policy Statement, 2016-17 for June 2016. However, this has not yet been actualised. In October 2016, the Internal Working Group on Rationalisation of Branch Authorisation Policy recommended a robust online and real-time system to capture location and details of all activity of all banking outlets as well as regular on-site and off-site monitoring for proper supervision, “uninterrupted service” and “timely addressing of customer grievances”.

The Reserve Bank of India has realised the need to overhaul its data collection and dissemination processes. The changing dynamics now call for immediate action. It is crucial that the data collection processes and metrics highlight the dark spots of financial and network coverage at the village level. The next section details appropriate metrics and release formats.

Section II Appropriate Financial Inclusion Metrics

For too long, the progress on financial inclusion has been measured by growth in the overall number of basic accounts and agents. The number of transactions per account and per agent are significant measures of effective banking network. In addition, the type of transactions, account balances, downtime experienced by agents in transacting all need to monitored. Quality of service parameters should be set out and monitored. Leaving customer redressal to banks, with hardly any feedback on effectiveness of the measures, will harm financial inclusion efforts in the long run.

Monitoring the transaction activity by account, agent and RuPay card will provide a good measure of adoption of formal financial services. The Financial Inclusion Insights annual survey by Intermedia shows that bank account ownership increased from 52 percent in mid-2014 to 63 percent by mid-2015, while active account holders increased from 29 to 42 percent. While this is a significant rise, there will be significant variation across regions, within states, across gender and across income categories – data need to be tracked across these layers to measure the true effectiveness of India's financial inclusion mission.

It is also important to monitor the types of transactions for which accounts are being used. For instance, agent transfers for liquidity, fund transfers (person to person, person to bank etc.), government payments (welfare payments, salaries, pensions etc.), utility bill payments, cash deposit and withdrawals, loan disbursements and repayments, donations, retail payments, international remittances, etc. Such a detailed classification allows visibility into the trends across various transactions and helps identify where additional support may be necessary.

It is time to move beyond national numbers and focus efforts on financial inclusion more precisely. With more than 6 lakh villages, granular metrics will help the government identify the dark spots of financial and network coverage, where extra attention needs to be focused. Here, it would be useful for the RBI to refer to the quarterly report on Performance Indicators released by the Telecom Regulatory Authority of India (TRAI) that gives detailed analysis according to benchmarks set for various parameters. While the parameters tracked are specific to the telecom sector, appropriate metrics can be detailed for the banking sector. The number of subscribers is provided by type of service, service area, service provider, active subscribers and the breakup is given by rural/urban and public sector/private sector breakup. In addition, the minutes of usage per subscriber per month is detailed in each type of service segment. This data therefore reveals the activity level and characteristics of each segment across geographies.

TRAI has also set up Quality of Service parameters with specific benchmarks, e.g. downtime less than 2%, resolution of billing/ charging/credit & validity complaints within 4 weeks, percentage of customer calls answered by the operators within 90 sec, termination of service within seven days etc. Hence there are nine network related parameters and nine customer service quality parameters. Each service provider's performance

Figure 1: Dashboard to monitor agent activity

Source: Centre for Digital Financial Inclusion

under each benchmark is monitored for each service area (state/circle).

What is crucial to note is that non-performance in meeting the set benchmarks is called out by service provider. By placing this information in public domain every quarter, the TRAI therefore holds the performance of service providers on network and customer service to public scrutiny.

Data from non-banking sources

In addition to the data that must be collected from within the banking sector, the RBI must coordinate with others to source data that is crucial to resolving implementation issues. It is well known that banking agents and rural branches suffer significantly from unreliable network. RBI can coordinate with TRAI to identify the exact locations where connectivity issues are hampering bank and digital payments network. The COAI has developed a portal that gives tower level GIS mapping, these can be integrated with the GIS mapping of the banking agents (not just PMJDY Bank Mitras) and real time monitoring will enable visibility into the problems faced by agents in conducting banking business.

In addition, the NPCI should be encouraged to show more detailed analytics that will reflect the share of service providers in digital transactions and a geographic granular picture to show regional/district trends. This will allow appropriate solutions to be identified for specific areas and segments. Detailed analytics from NPCI can in fact help to resolve many of the persistent issues that are plaguing digital payments. For example, while the USSD channel has been postulated as the best channel for financial inclusion since 2011, banks and telecom companies have blamed each other for the low adoption by customers. One factor alleged by the banks was that the telcos blocked access leading to high failure rate of transactions. In a closed-door workshop conducted by Indicus by stakeholders from bank and telco regulators and firms, it was recommended that a Root Cause Analysis of the failed transactions would help identify the precise failure points. While such an analysis may take time, a beginning can be made with NPCI providing more detailed analytics of USSD transactions and rate of failure, to identify reasons behind dropped sessions.

Further, as mentioned in the Economic Survey 2016-17, the success of digital payments will depend considerably on the inter-operability of the payments system. The Survey points out that the need for every individual bank registered on NPCI's Unified Payments Interface (UPI) to facilitate and not thwart inter-operability. Detailed data provided by NPCI showed that the decline rate for Off-US transactions on Aadhaar-enabled payments was nearly 56 percent, almost double that for On-US transactions. The Survey noted, "One plausible hypothesis for this differential is that the larger banks are declining transactions involving smaller remitting banks while ensuring that transactions involving themselves are honored. There could be valid reasons for this. But such problems will need to be addressed, since payments banks, telecommunications companies, and small banks are in the vanguard of financial inclusion. So their access to the UPI platform will be critical for advancing digitalization, especially for the poor". Clearly, detailed data shared by NPCI and put out in the public domain will put pressure on all stakeholders to cooperate in the eco-system.

Section III Data Dissemination

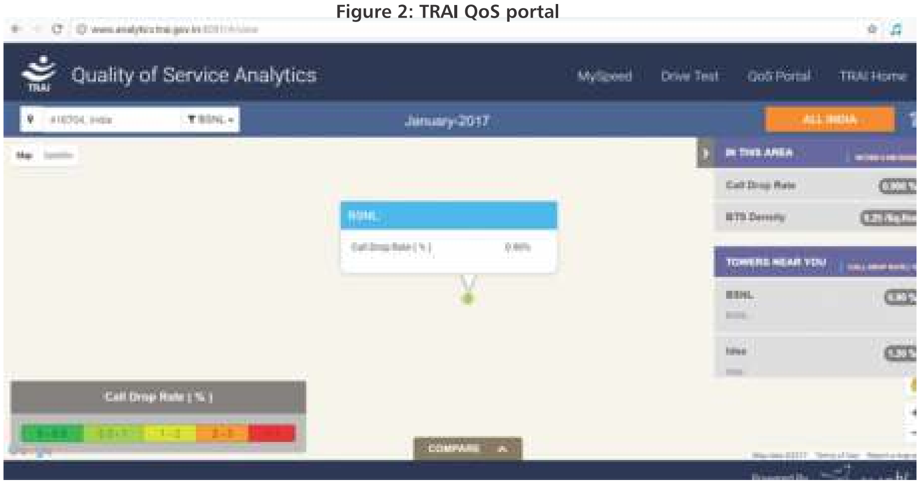
With rapid evolution in the profile of the service providers, it is crucial for the RBI to break away from an annual data release format and provide as updated a report as possible, at least quarterly, on the progress of financial inclusion at a more granular level. There are already some successful templates working in India which the RBI can adapt.

To begin with, the PMJDY website is an excellent example of bringing accountability and transparency to the financial inclusion mission. The website is regularly updated (fortnightly for some indicators and monthly for others) giving full transparency into a number of parameters related to PMJDY accounts and Bank Mitras. However, agent activity levels and detailed transaction metrics are still not being released. Here the Reserve Bank of India can take a look at the dashboard set up by the Centre for Digital Financial Inclusion to monitor agent activity for a public-sector bank. The screenshot is shared in Figure 1, with personal details smudged.Finally, the TRAI QoS portal provides visibility into network connectivity for each pin code in India, by service provider (See Figure 2).

Section IV The way forward

With the changing dynamics in the financial inclusion service provision, it is time for a complete overhaul of India's data collection systems. India is rapidly moving into the digital age; the need of the hour is a database that accurately reflects progress on financial inclusion, that is updated in real time and integrated with the RBI's Database on the Indian Economy. The RBI and the banking industry must work together to put in place a system of online reporting that is harmonised across all players. Monitoring data at a granular level of city, block and village will help in pinpointing the gaps in coverage and service delivery and will assist in providing appropriate solutions for these gaps. Coordination with other entities like TRAI and NPCI will provide visibility into specific areas, the dark spots of financial and network coverage, that need more attention. The ultimate aim of financial inclusion is to make a significant impact on the lives of the poor and appropriate data at the granular level is the first step to measuring India's progress against poverty.

Figure 2: TRAI QoS portal



References

- Indicus Centre for Financial Inclusion, October 2014, “Financial Inclusion Metrics-Part I”, http://indicus.org/admin/pdf_doc/20141125105416.pdf
- Indicus Centre for Financial Inclusion, November 2015, “Service Quality Standards in Telecom Connectivity for Financial Inclusion”, available at http://indicus.org/admin/pdf_doc/20151203085012.pdf
- Indicus Centre for Financial Inclusion, June 2016, “Closing the Gender Gap in Financial Inclusion”, available at http://indicus.org/admin/pdf_doc/Policy-Brief-June_2016.pdf
- Indicus Centre for Financial Inclusion, October 2016, “Making Financial Inclusion Work For The Poor”, available at http://indicus.org/admin/pdf_doc/Policy-Brief-October-2016.pdf
- Intermedia, March 2016, Financial Inclusion Insights Tracker Survey Wave III India, available at http://finclusion.org/uploads/file/reports/InterMedia%20FII%20Wave%203%202015%20India.pdf
- MicroSave, March 2016, PMJDY Assessment Wave III, available at http://www.microsave.net/files/pdf/PMJDY_Wave_III_Assessment_MicroSave.pdf
- Ministry of Finance, Economic Survey 2016-17, Chapter 3 available at http://indiabudget.nic.in/es2016-17/echap03.pdf
- Reserve Bank of India, Annual Report 2015-2016, available at https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1177
- Reserve Bank of India, October 2016, Report of the Internal Working Group on Rationalisation of Branch Authorisation Policy, available at https://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=854
- Telecom Regulatory Authority of India QoS portal available at http://www.analytics.trai.gov.in:8081/#/view
- Telecom Regulatory Authority of India, 30th December 2016, “The Indian Telecom Services Performance Indicators July - September, 2016”, available at http://www.trai.gov.in/sites/default/files/Indicator_Reports_Ending_Sep_30122016.pdf