

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. MicroSave's assessment of the PMJDY mission with regard to the agent network and customer awareness has revealed good results from the ground. Clearly the PMJDY mission is achieving its objective of providing access to basic financial services to all households in India. Going ahead, the focus must remain on strengthening the agent network. Here the Reserve Bank of India has moved towards setting up an agent database as well as ensuring standardized certification and training. The challenges of low commissions, delays in payment of commissions and inadequate support that are straining the chain for inclusion at the last mile need to be addressed.

Digital retail transactions picked up steam in 2015, and the latest game changer in payments comes from the Unified Payment Interface being launched by the NPCI, that will enable seamless and easy payments between bank accounts. Further, in June 2016, the Insurance Regulatory and Development Authority of India (IRDAI) drafted the Insurance E-commerce Regulations laying out guidelines for a self-network platform to sell and service policies online.

The first payments bank to get its license was Bharti Airtel in April 2016. In partnership with Kotak Mahindra Bank, it is slated to begin operations this year. Capital Small Finance Bank Limited became India's 1st Small Finance Bank, starting operations on April 24, 2016. In May three potential payments banks surrendered their in-principle approvals. On August 1, the Reserve Bank of India released guidelines for on-tap licensing of universal banks that will increase competition in the banking sector.

The JAM Trinity (Jan Dhan Yojana account + Aadhaar number + Mobile number) has heralded a new focus for financial inclusion and less-cash economy. The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill, 2016 was passed as a money bill in March 2016, opening up the use of Aadhaar for government payments and benefits. The Direct Benefits Transfer programme has been extended to more schemes, with pilots on to test models for food, fertiliser and kerosene subsidies.

This note takes stock and updates the Indicus policy brief of December 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.

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. Issue guidelines on commission disbursement time limits and sharing of DBT charges among banks and agents
- Clarify legal and enabling provisions for use of Aadhaar for government disbursements not borne from Consolidated Fund of India
- Map telecom connectivity coverage density (voice, 2G, 3G, 4G) at SSA and tower level, and monitor/ report data quality metrics at granular (tower or SSA level)
- Clarify the eligibility of Payment Banks in processing DBT transfers at par with Scheduled Commercial Banks

B: Create a ubiquitous, interoperable retail acceptance infrastructure

- Build in cost efficiency and improved security of KYC through a singular KYC/e-KYC regime with centralised common pool repository with appropriate data security and control
- Issue guidelines on interchange transaction fees for white label BCs to provide person to person transactions using IMPS and other traceable transaction platforms
- Evolve accreditation of BCs and BCAs for various financial products and services, to enhance the financial viability of the retail network for financial service transactions

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
- Work towards building customer consent architecture, including enacting appropriate legislation that defines the scope of sensitive personal information and governs its use based on principles of prior informed consent and affixing liabilities

Top Priorities

- The core issue of viability of Business Correspondent Agents (BCAs) for delivering benefits at the last mile remains. The inadequacy of the 1% commission notified by the Finance Ministry in Jan 2015, and its uncertain disbursement and distribution among banks and BCs are reportedly making this a key cause of the high churn of BCAs. This needs to be resolved equitably.
- The business of Payments Banks to be operational by 2017 will be influenced significantly by their eligibility to process Direct Benefits Transfers on a competitive basis and at par with incumbent players. This requires clarification in operational aspects.
- With the Aadhaar Bill now in place, it is necessary to clarify its use for expenditures not borne out of the Consolidated Fund of India.

A. Maximize the impact of PMJDY

Potential Barrier	Asks	Main Responsibility
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. The sharing of remuneration between banks and BCs is not transparent or proportionate to costs incurred by each. Banks and BCs are uncertain about the schedule of reimbursement for DBT commissions.	Establish a viable DBT commission system, commensurate with delivery costs, whereby commission rates are higher in particularly hard-to-reach geographies. Consider large financial payments architecture as a public good; have a time bound rationalization of DBT service charges to enable investment recovery, and then migrate to competitive pricing models Issue guidelines on commission disbursement time limits and sharing of DBT charges among banks and agents.	Ministry of Finance.
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. The coverage of DBT has been expanded in 2016. The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill, 2016 has been passed and applies to all expenditures paid out of the Consolidated Fund of India.	Clarify legal and enabling provisions for use of Aadhaar for government disbursements not borne from Consolidated Fund of India.	Ministry of Finance Relevant line ministries Ministry of Law and Justice, Parliament. State Governments.
Weak telecom connectivity and bandwidth hinders e-KYC and biometric / PIN authentication and limits digital transactions in remote areas. Telecom coverage is reported at the state or circle level and does not provide visibility into coverage at village or SSA level.	Map telecom connectivity coverage density (voice, 2G, 3G, 4G) at SSA and tower level, and monitor/ report data quality metrics at granular (tower or SSA level).	PMJDY Mission Directorate Telecom Regulatory Authority of India (TRAI).
Lack of clarity on whether Payments Banks will be allowed to process DBT payments directly, which are now allocated only to Scheduled Commercial Banks. In some schemes like MGNREGA, the state needs to identify and nominate the banks for processing payments.	Clarify the eligibility and guidelines for Payment Banks to be designated for processing DBT transfers/credits into Aadhaar seeded beneficiary accounts	Reserve Bank of India(RBI)/ Ministry of Finance, Line Ministries

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.	Build in cost efficiency and improved security through a singular KYC/e-KYC regime with centralised common pool repository with appropriate data security and control.	RBI Indian Banks' Association (IBA), TRAI
Nesting BCs as captive extensions of individual banks restricts the potential of the retail footprint for financial transactions. 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.	Issue guidelines on interchange transaction fees for white label BCs to offer person-to-person-transactions using IMPS and other traceable transaction platforms 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.	Ministry of Finance RBI

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

Potential Barrier	Asks	Main Responsibility
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. Financial service providers lack credible data to establish credit scores of the poor. Sharing of customer data and financial transaction trends can aid customer profiling and risk management.	Create appropriate regulatory framework for cross-sector partnerships– banks, insurance, telcos – to offer bundled mutual products, and share transaction analytics with due security safeguards and with informed prior consent of customers. Work towards building customer consent architecture, including enacting appropriate legislation that defines the scope of sensitive personal information and governs its use based on principles of prior informed consent and clear liabilities.	RBI, Telecom Regulatory Authority of India (TRAI), Insurance Regulatory and Development Authority of India (IRDA) Ministry of Home Affairs Ministry of Law and Justice Ministry of Corporate Affairs

Table 1: Progress of Pradhan Mantri Jan DhanYojana (All figures in crores, as on 03.08.2016)

Bank	RURAL	URBAN	TOTAL	NO OF RUPAY CARDS	AADHAAR SEEDED	BALANCE IN ACCOUNTS (Rs.)	PERCENTAGE OF ZERO-BALANCE-ACCOUNTS
Public Sector	10.02	7.87	17.89	14.80	9.19	32184.75	24.5%
Regional Rural	3.50	0.57	4.07	2.83	1.57	7083.57	21.2%
Private	0.52	0.32	0.84	0.78	0.35	1526.51	36.8%
Total	14.04	8.77	22.81	18.41	11.11	40794.85	24.3%

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

Table 2: Position of Bank Mitra Infrastructure Report as on 05.08.2016

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	159860	126688	125938	33172	750	113608	106153	83423	116203

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

Rural Telecom Density as on 31st Dec 2015



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.