

Operationalizing financial inclusion on the ground in urban India:

Some Issues for Research

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Introduction: The challenge of inclusion

- Big Picture:
 - Expansion of Bank Branch network
 - Interest subvention
 - Write offs
 - Mandating payments through bank accounts
 - MNREGA
 - Aadhar
- Most of the above is happening in the rural space. What is the big initiative in the urban space?

Introduction: The challenge of inclusion

- Microfinance:
 - ▣ Churn in the sector
 - ▣ Solutions are supply driven

- Banking
 - ▣ Tokenism with “Dharavi” as a metaphor

Challenge of inclusion

- Microfinance:
 - ▣ Churn in the sector
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- Understanding inclusion through two buckets
 - ▣ Inclusion of the Excluded
 - ▣ Inclusion of the ‘Included’

Let's find data for a financial inclusion test [FIT]

- Inclusion of the Excluded....
 - What is the ratio between unique bank accounts of individuals to mobile connections?
 - What is the proportion of 'operative accounts' [to total individual accounts] that have an average balance of Rs.1,000 in semi urban areas and an average balance of Rs.5,000 in urban and metropolitan areas?
 - What is the proportion of small borrowal accounts [as per the old definition of Rs.25,000] to total individual accounts in and semi-urban areas and small borrowal accounts [as per the new definition of Rs.200,000] in urban and metropolitan areas?

Let's find data for a financial inclusion test [FIT]

- Inclusion of the Excluded....
 - What is the proportion of small ticket transfers of less than Rs.5,000 [from individual account to individual account] to total individual to individual transfers?
 - How many large metropolitan branches [having a retail interface and a cash counter] headed by the rank of Assistant General Manager and above have their own plans/targets of financial inclusion?

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Let's find data using a financial inclusion test [FIT]

- Inclusion of the Excluded....
 - ▣ What are the Small Credit accounts to Small Deposit accounts [SCADA] ratio?
 - ▣ What is the proportion of small deposit accounts are technology enabled?
 - ▣ What is the proportion of non-threatening/inviting touch points to the total offices of the commercial banks?

Let's collect data to design products

- Cash flow patterns. Gaps in the regularity of income due to extraneous factors like temporary setbacks, change of jobs, lay offs etc [making sense of Financial Dairies]
- Understanding the structuring of big-ticket items; what for; how are they funded; and how life cycle events are addressed.
- Understanding the attributes of the financial products they use – could be bishis, informal savings [lessons from City Savers by Rutherford and Arora], risk mitigation and remittences.
- Understanding how the financial products are related to real world - example: how is health insurance connected to the infrastructural facilities available.

How do we use the data?

- Solution to the problem:
 - ▣ Design products that mimic the current usage of financial services in a manner that is friendly and useful.

Our rural research indicates that a three-year housing loan works; Rutherford's study indicates that saving up for school-fees is prevalent through collection agents; A study by Sanghamithra indicates that an annual pilgrimage to a holy place is a necessary and significant expense that needs funding;

How do we use the data?

- Solution in search of a problem:
 - ▣ What do we learn from rural microfinance experience?
 - The rural microfinance shows the product design was not in sync with the received knowledge.
 - Rural areas are largely agrarian, with most of the cash flows peaking in the harvest season, and even non-agriculturalists being paid and settled as per the harvest peaks
 - Microfinance through its one time loan and a weekly repayment defied this essential cash flow logic.
 - The product worked because, the loan amounts were small, it targeted women who had disguised unemployment, possibly used common resources and slack time to add value to the family.
 - This would not have come of a FGD.
 - So... how do we find solutions who go in search of imaginary problems in urban areas and open up livelihood opportunities?





Thanks

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