Financial inclusion of the urban poor

V Gayathri, CEO - LabourNet

Rathish Balakrishnan, Director – Sattva Media and Consulting Pvt. Ltd.

Financial Inclusion is firmly established as a policy objective of Government of India and the Reserve Bank of India (RBI). The Committee on Financial Inclusion defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."[1]

However, we are far from realizing the vision of universal financial inclusion. One of the key challenges has been that the debate of financial inclusion in India has largely been rural-centric. The analysis of the issues impeding inclusion and the subsequent strategy formulation has been based on, among other factors, challenges in making banking services accessible in rural areas.

This paper aims to analyze the challenges in realizing financial inclusion in urban India and possible solutions to address the same. The findings are substantiated with on-the-ground experiences of LabourNet in delivering financial services (including bank accounts, pension schemes and health and insurance) to the poor.

About LabourNet

LabourNet is a platform through which informal sector workers can access services which enhance their lives and enable their livelihoods. LabourNet registered workers

- Access financial products and services provided by mainstream banking and insurance agencies
- Have access to a systematic assessment system which recognizes their prior learning at the time of registration

[1] http://www.nabard.org/pdf/report_financial/summary_recommendations.pdf

- Have access to continuous and modular skill enhancement at a pace and time that they are comfortable with
- Can get information on work available in various markets – close to home to distant markets
- Access life enhancement products such as information about availability of region specific food at a cost which is affordable; affordable rental and own housing; transport choices; clothing – all at wholesale prices.

Financial inclusion in the urban context

Financial exclusion in the urban areas is a rising problem. The country's urban population is increasing at a faster rate than the total population. Much of this population comprises of migrants, who account for a substantial part of the 400 million people that comprise India's workforce work in the unorganized sector. According to McKinsey Global Institute, about 40% of Indians will be living in cities and towns by 2030 directly increasing in the number of urban poor. Providing financial services to the growing population will require addressing the following challenges.

Build a network of scalable institutional business correspondents

One of the fundamental characteristic of the rural community is the availability of strong community networks. Given such community linkages, individual business correspondents who are part of the social network (kirana shop owners, for instance) can work effectively as financial intermediaries by leveraging their relationships with the community. However, in the urban context there are no such established community structures. Even among residents in a physical location, the engagement is limited. This is accentuated in the case of migrant workers, who are constantly on the move and do not integrate themselves with the community.

This impedes financial inclusion in three ways. Firstly, the identity of an individual is ascertained purely through a set of pre-defined documents, which workers more often than not do not possess. Secondly, business correspondents have to make substantial investments to build their network within the community. This is not feasible for individual business correspondents who consider the income generated through providing financial services as a complement to their existing sources of revenue. Thirdly, in the urban context where time is money, workers require instant access to services. However, the existing business correspondents in the urban areas have limited geographical coverage and are not pervasive enough to support their needs.

Hence, there is a need for business correspondents in urban areas who have the mandate to build far-reaching networks within the community, engage closely with the customers to evangelize relevant financial products and facilitate last mile access for the workers to transact. This can be achieved only through an institutional model of delivering Business Correspondent services whereby organizations with existing networks with the urban poor so that they can leverage the same to deliver the services.

Provide instant access through Technology

It is always assumed that urban areas do not have a problem of last mile due to the ubiquity of service providers and the pervasiveness of the delivery infrastructure. However, last mile in the urban context is often measured as time since it directly impacts the wages one can earn. Hence, addressing the last mile problem in the urban context requires providing door-step access to service through proven technologies (such as mobile phones and ATMs).

Today, while the customers are able to open no-frills accounts in banks, they do not have access to ATM cards to be able to deposit and withdraw amounts. For instance, LabourNet worked together with Punjab National Bank (PNB) to open no-frills accounts for unorganized workers. When PNB stopped providing ATM cards there was an immediate and substantial drop in the utilization of the bank accounts. Workers need ATM cards and are willing to spend money to obtain the same. However, the banks are unwilling to accommodate this.

Hence, design of financial services should keep in mind these needs to ensure effective utilization. While technology plays a crucial role in realizing inclusion, achieving financial inclusion requires an ongoing engagement with the workers, which technology alone cannot provide. Hence it is important to combine technology with accessible physical infrastructure and a scalable network of intermediaries.

Get the buy-in of the delivery ecosystem

The promise of inclusion is realized only when the final delivery of the services, such as health and accident insurance is achieved. Today, the availability and engagement of the delivery ecosystem (E.g. hospitals) in the urban areas is assumed. However, in reality the urban poor do not have too many choices on the ground to address their needs.

Firstly, the design of the services does not consider the full circle of service and hence create process overheads for providers. For instance, when LabourNet worked with HDFC-Healing Fields in providing insurance products, they did not account for the after-sales processes that the poor need such as admitting workers to the hospital and helping workers at the hospitals get the correct set of documents so their claims are not rejected. In addition, claim processing for the workers was a major challenge.

Secondly, hospitals do not find the urban poor a financially viable segment. The current schemes are not structured to be financially attractive to the service providers. In addition, these schemes do not attract sufficient workers and hence do not provide an attractive customer base to the hospitals creating a vicious circle impeding adoption among both parties.

Thirdly, the existing services do not address the most important needs of the customers. Today LabourNet's experience has shown that outpatient care is where the workers spend the highest amount of money. However, there are no existing services that address this need even though workers are willing to pay for these services.

Invest in awareness

Though financial education is an integral part of the financial inclusion mandate, today there are no systems in place in the urban context to provide financial education to the workers. This is especially crucial since there is a need to not only sell financial products where the customers have an explicit need (e.g. opening bank accounts) but also to evangelize products that do not have immediate benefit but provide a protective cover against unexpected shocks e.g. Savings schemes, pensions. To do so will require a constant and consultative engagement with the workers and not just a transactional one.

The need for awareness is also often underestimated while launching new products. When LabourNet attempted to deliver National Pension Scheme (NPS) Lite to unorganized workers, it realized that workers did not understand the need or urgency for a pension scheme. There was a strong need to have effective communication and training collaterals to effectively train the channels and raise awareness among the workers. However, the authorities wanted to invest in training and communication once the intermediaries start getting new customers.

Remove operational bottlenecks

Today, banks interpret the Know Your Customer (KYC) norms differently resulting in substantial differences in the banking practices. The intermediaries incur overheads in adapting to the differences in requirements and needs across banks. For instance, when LabourNet worked on providing financial services to the workers, they had to follow different guidelines when engaging with Canara Bank and Corporation Bank. Punjab National Bank had different guidelines for Haryana and Bangalore.

Also, some banks mandate that Business correspondents have to be individuals. For instance, Corporation Bank only recognizes individuals as Business correspondents. Hence, organizations like LabourNet have to register one of their staff members in the bank, which is not very optimal.

It is important that the clear guidelines are defined across banks around standard operating practices. These guidelines should be based on the practices that have been implemented successfully today.

Move away from one-size-fits-all approach

Urban poor is not a homogeneous group with similar needs and capacity. Today, the term encompasses the self-employed, the wage workers, and the paid workers all of whom have different saving and consumption patterns. By creating product offerings to customer segments divided by the poverty line the actual needs of the customers are not addressed.

For instance, there are two health insurance products today in the market targeting those above poverty line and below poverty line respectively. However, if one considers the health risks, the saving patterns of the daily wage workers vs. the paid workers today it is clear that the packaging of the service should be different for these two segments. Providing market-aware choices to customers directly and positively impacts adoption. Doing so also makes it attractive to the delivery ecosystem such as hospitals since the overall mix of the customers becomes financially viable for them to serve.

Conclusion

There is a large and unmet demand for financial services among urban poor today. However, delivery of financial services to the poor is still far from reality. Replicating solutions that have been designed for rural areas will not be able to address challenges specific to urban areas. In order to realize the vision of financial inclusion, there is an urgent need for an approach that acknowledges and addresses the urban-specific challenges.

Specifically, there is a need to identify and support institutional business correspondents who can provide the right scale and efficiency that is essential to deliver financial services in urban areas. It is important to tailor the financial products to the needs of various market sub-segments than adopt a one size-fits-all approach. Finally, it is important to co-opt the delivery ecosystem to ensure the full circle execution by making the solutions financially viable and attractive to them as well.

LabourNet's experiences have proved that the urban poor are willing to pay for services that improve their quality of lives. Bringing to market relevant solutions and delivering them effectively will create a win-win situation for all.