Operationalizing financial inclusion on the ground in urban India:

Some Issues for Research

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There has been a great action around financial inclusion in the recent past. While rural India receives adequate attention [if not action] on issues of structural matters like coverage of villages, reporting of number of no frills accounts and also with the active involvement of both the Reserve Bank of India and the Ministry of Finance in issuing directives to the banks to submit a board approved financial inclusion plans.

On the microfinance space there is ample amount of churn. The microfinance industry is going through a testing time, partly due to enthusiasm of the players and partly due to a regulatory overkill.

Examining the plans of the banks in financial inclusion we find that they are largely unimaginative and centered on opening more rural branches, targets for no frills accounts and a huge plan on technology roll out through smart cards and business correspondents and Aadhar enrollment. The inclusion agenda of the MFIs are also driven by supply driven standardized product design, which does help the poor to an extent, but not quite. In this context, it may be important to examine how financial inclusion pans out in Urban India.

We would like to postulate the problem of inclusion in Urban India into two buckets.

First: Inclusion of the excluded.

Second: Inclusion of the included.

To start with, it might be a good idea to get some dipstick data on the extent of exclusion. The real test of inclusion can be asked very much like the McDonalds index of purchasing power parity, by building a quick and dirty index of financial inclusion.

A first-cut Financial Inclusion Test [FIT] model for the mainstream banking sector is discussed below. This will give a sense of the formal inclusion as against the overall populations. We could get an assessment at the non-formal spaces based on the metrics for inclusion of the included.

1. *What is the ratio between unique bank accounts of individuals to mobile connections?* A number nearer one is better. If getting a mobile connection involves proving your identity and address – we have already adhered to the Know Your Customer [KYC] norms. Clearly what is not a barrier for the mobile companies cannot be a barrier for the Banks, unless we are of course saying that the mobile companies are not doing a good job of KYC compliance.

2. *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?* Even assuming a $2 a day wage rate [Rs.100] * 10 days of wages at arriving at Rs.1,000 [a rough cut of Rs.100 per day wages] and five times this amount for large cities/metros. If all welfare payments and other state transfers are mandated to go through bank accounts, this number should be significant. The proportion of such accounts should [almost] reflect the BPL numbers, or the appropriate coloured ration cards issued in the respective cities.

3. *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?* This should broadly be put against the population distribution according to the SEC category.

4. *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?* The higher the number, the more inclusive the bank.

5. *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?* Usually the word inclusion conjures up images of rural areas and NREGA beneficiaries. If we move to urban areas, then we only talk of places like Dharavi. Cuffe Parade and Colaba also have their share of poor and excluded and this should not get out of our radar!

Inclusion of the Included

We would also run a test on inclusion of the included. This test looks at those who have a bank account, a touch point, but still do not possibly use the full range of services because the formal systems do not embrace the poor as potential individual clients who would provide significant business to the banks

1. *What are the Small Credit accounts to Small Deposit accounts [SCADA] ratio?* The definition of these accounts has been discussed in 2 and 3 above. A SCADA ratio nearer 1 is better than away from 1.

2. *What is the proportion of small deposit accounts are technology enabled?* A mobile phone enabled small deposit account should have a greater weightage than a smart card enabled account than a simple no frills account.

3. *What is the proportion of non-threatening/inviting touch points to the total offices of the commercial banks?* The attributes of threatening/uninviting touch points are – [a] having too flashy a building with slippery tiles that inhibits the poor from entering the premises [b] having one or many security guards with huge guns – that may or may not work [c] having collapsible gates with chains and locks making the entry of more than one person difficult [d] having overwhelming dependence on literacy and technology. While we are putting this up, we are obviously indicating that the current structure of the branches are unwelcome touchpoints for the poor. Hopefully if we can count a Business Correspondent [BC]/ Kirana

store as a touch point, then the proportionality of inclusion-friendly touch-points will increase dramatically.

The answer for the above questions should be obvious and not counter-intuitive. If it indeed is obvious, what are the implications for the agenda of financial inclusion in urban areas? The agenda, then is designing appropriate products for the urban poor, delivering those through an appropriate channel and having a plan of integrating the poor as mainstream customers of the financial system wherein depending on the risk appetite of the provider of services, the poor have a menu of institutional options to choose from.

What do we need to know about the customers that would help us design and deliver products:

1. Frequency of cash inflows and outflow patterns. Gaps in the regularity of income due to extraneous factors like temporary setbacks, change of jobs, layoffs etc. [making sense of Financial Dairies]
2. Understanding the structuring of big-ticket items; what these are, how these are funded and how life cycle events are addressed.
3. Understanding the attributes of the current financial products they use – could be bishis, informal savings [lessons from City Savers by Rutherford and Arora], risk mitigation and remittances.
4. Understanding how the financial products - particularly products like health insurance are connected to the infrastructural facilities available.

Response to the knowledge and data:

Solution to the problem:

Using the data generated, devise 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 piligrimage to a holy place is a necessary and significant expense that needs funding;

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. If 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. The family itself might not have thought of such an endeavor. So how do we find solutions who go in search of imaginary problems in urban areas and open up livelihood opportunities?