Financial Inclusion – A customer-centric approach - Sumita Kale, 9th September 2016

This talk takes from two policy briefs we have done at Indicus Centre for Financial Inclusion

Digital Financial Inclusion - Addressing Customer Concerns - Policy Brief October,2015

Closing the Gender Gap in Financial Inclusion - Policy Brief June,2016

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Thanks for giving me a chance to talk about the space that I have been following for more than a decade now. At Indicus, our work centres around development and policy, our research is evidence based and we go by insights from data. What do we understand by financial inclusion, the term? There are many definitions, but the one by Vijay Kelkar, : By financial inclusion, we mean delivery of financial services, including banking services and credit at an affordable cost to the vast sections of disadvantaged and low-income groups. The various financial services would include access to savings, loans, insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded. All definitions in India in recent times emphasise ALL financial services and affordability.

The focus was different in the past. Along with all development challenges, India has grappled with financial inclusion for long but stress in earlier years after bank nationalization was on credit – priority sector lending, and some amount of mandate on branches in rural areas. Then around 2005, the emphasis moved to no-frills accounts, Business Correspondents instead of branches. From Financial Inclusion Plans where villages were to be covered in phases to the blitzkrieg launched under the PMJDY, the general stress has been on mandates. I am not going into the details of the history, these would be a part of your course. The question I am trying to look at today in this lecture is : where is the customer in all this planning?

The RBI and the government have always gone with a bank-led model for financial inclusion. This has some inherent challenges. Remember that banks take in deposits and earn from the credit they give out. On both fronts, the poor have certain characteristics that will make it difficult for the conventional models to provide services.

- First, most have irregular incomes. And their transactions are also irregular. This is because casual wage labour is typically on a daily basis, and also because self-employment, whether in agriculture or otherwise has many uncertainties associated with it, not to mention a high degree of seasonality.
- Second, and this is natural given low incomes, each transaction is of low value.
- Third, their credit requirements and deposits also tend to be of low value.
- Fourth, the poor have few assets.
- Fifth, they have poor records of the assets that they do possess, typically land records.
- Sixth, the underprivileged are highly time constrained and cannot easily take time out during peak hours.
- Seventh, the bulk of credit requirements are for what are typically considered to be non-productive consumption purposes.

So while financial inclusion has over the years, largely been seen as a problem affecting rural areas, the crux of the problem actually lies in the income characteristics of the household. With rapid urbanisation, the proportion of people living in rural areas is also going down. When it comes to access to banks, the distinction between rural and urban matters less than the income differential. Without appreciating the particular needs of the poor, it would not be possible to create appropriate policy responses.

So what is the problem? Since a bank’s business comes from credit, let us examine the needs of formal credit delivery. Formal credit giving organizations would require some appraisal of credit worthiness. Credit, whether in larger or smaller amounts, for the rich or poor, requires that the borrowers have the ability to repay. In the absence of adequate collateral, or organised sector regular employment, a history of transaction becomes critical. Given that the poor are typically employed in the unorganised sector, transactional history is missing as well.

Lack of assets, missing records, irregular incomes and transactional history, loans for consumption, all conspire against formal sector credit – whether it is given directly by banks or through entities such as Bank Correspondents. That leaves network-based credit mechanisms such as those followed by self help groups (SHGs). The problem here is that
of stability of community based networks. Migration and rapid economic growth create conditions that weaken traditional communities very rapidly. Multiple credit from multiple networks, high cost of credit, interest rate arbitrage, dependence on subsidy or benefits from government are some elements affecting their ability to provide credit universally. This is not of course to say that SHGs and MFIs have no long term role, merely, that they have certain weaknesses that will prevent them to serve the needs of the underprivileged universally.

The answer to this challenge has come through digital transactions – the costs are reduced dramatically, and they have the great advantage of being recorded and logged and easily accessible. Of all the electronic transaction delivery mechanisms the mobile phone is by far the most likely candidate for providing a cost efficient pipe to masses. And it is here that policy attention has been focused. It should be noted that whatever be the system of e-money – whether pre-paid card, e-wallet, Internet transaction, etc., the mobile can provide the last mile access to the masses.

So we find that the govt and the RBI have been looking at technology – the back end payments infrastructure has been set up over the past few years – RTGS, NEFT, IMPS, setting up NPCI with the banks, it now has a Aadhaar enabled Payments Bridge for government payouts and recently launched the Unified Payments Interface that allows you to send money from phone to phone through an app. There is also the USSD – an SMS based system to send money from one bank account to another. And then we also have the new Payments Banks and Small Finance Banks – meant to specifically address the issues for low income customers.

Where do we stand today?

Anyone who wants to service the poor using a digital channel has to make sure that the product and the process are truly customer-centric. For digital financial transactions to permeate to the bottom of pyramid, there needs to be a seamless experience that builds trust, convenience and is competitive. The question is how far can technological solutions really resolve the problems? The poor are comfortable with cash, and deal in networks they trust. The Intermedia survey showed that while the Pradhan Mantri Jan Dhan Yojana has played a stellar role in raising bank account ownership, for credit needs, people continue to turn to their family and friends, the community they belong and the village moneylender. These networks are not easy to replace and technology will have to be used to mimic the familiarity in the age-old relationship between the village money lender and the poor.

The Financial Inclusion Insights Survey by Intermedia in 2015 shows that whether it is literacy or owning a mobile phone, the numbers look progressively worse as income levels drop. While the UPI is a game changer in payments, as things stand today, it will have limited value to the bottom of the pyramid.

More importantly, the poor are already running their financial lives the way they best know it, within the networks that they are comfortable with. Disrupting these reliable bastions will take ingenuity and time and most important, trust. The toughest nut to crack will be using technology to deliver credit to the poor

BUT, what does the customer worry about?

From their perspective, the poor will not intuitively adapt to a faceless digital world. a recent CGAP report Doing Digital Finance Right, many low income users are not only “new to both formal finance and technology, they also live precarious financial lives that allow little room for error. Enabling users to understand and mitigate risks and minimize potential losses when using these new products and services will be critical for DFS to meet users’ expectations and needs and, in turn, achieve sustained financial inclusion.”

CGAP 7 concerns of the poor in using digital financial services 16 countries survey

While the financial inclusion policy and regulation in India is focused on banking, it must address the topmost concern of low income customers - the inability to transact due to network/service downtime. Unreliability of power and network leads to many consumers leaving their cash, PIN and other personal details with the agent to conclude the transaction when connectivity is restored – this leaves them exposed to misuse of their funds by agents. Interrupted and incomplete transactions, temporary loss of access to accounts during the downtime and non-receipt of real time confirmations of completed transactions all deter more consumers from conducting financial transactions digitally. According to the Helix Institute’s Agent Network Accelerator Survey: India Country Report 2015 32% agents reported incidents of service downtime, agents reported a median of eight occurrences of service downtime per month for a median of two hours per occurrence, only 23% of agents reported receiving prior warning of downtime and agents reported denying a median of two transactions per downtime instance amounting
to 4% of total monthly transactions conducted by an agent. Service providers can institute dedicated IT teams to monitor connectivity issues, use dedicated USSD platforms to reduce service interruptions etc. Even as the Indian government has embarked on a Digital India mission, the quality of digital connectivity must be monitored at the granular level for financial inclusion, i.e. the Sub-Service Area level, by the PMJDY Mission Directorate. Another important challenge is power sector reforms at the state level to ensure 24*7 supply to the last mile.

The second most important concern reported by low income customers is insufficient agent liquidity or float, which takes away access to their own money. Liquidity management at the agent level is a significant challenge for the system and reported to be a problem by one-third of the agents surveyed in the ANA Survey 2015 in India; rebalancing needs to be done more frequently and takes significant time. Fluctuations in client demand, having to close their store to rebalance, insufficient funds to buy more float, and the time required to travel to and wait at the rebalance point are all challenges that need to be addressed. Lack of liquidity results in increased risks as personal information is shared between agents and customers to reduce transaction costs. Banks and Business Correspondent Network Managers must monitor liquidity in real time, set up minimum liquidity standards and ensure that every agent can access adequate liquidity with ease – this includes measures like toll-free numbers for agents, using aggregators, sensitizing bank branch employees to agent need etc.

When it comes to digital transactions, customers have reported finding user interfaces complex and confusing: The issues raised by consumers here include complicated and unintuitive menus, transactions that require too many steps that result in time-out during bad connectivity, use of formal rather than colloquial language etc. that inhibit easy uptake of digital transactions. Many customers also have difficulties creating and memorizing PINs, they choose easy numbers often suggested by the agent, write them down, or share them, leaving their accounts vulnerable to misuse. Keystroke errors are another serious problem that brings down the confidence of users, especially as most service providers put the burden of responsibility on the customer for any mistakes in entry. There are examples of best practices already in India, e.g. Eko has a one-step process that is easy for customers to navigate and M-PESA offers menus in various regional languages. The onus lies on the service providers to ensure that interfaces are designed keeping in mind the needs of low income customers.

Another key concern expressed by low income customers is that they are not sure whom to approach for their queries or complaints, there is also a natural diffidence that keeps the poor from interacting with official authorities. Weaknesses in customer recourse arrangements and poor performance in resolving complaints and queries are fundamental problems in most countries, and the lack of assured assistance puts people off from trying to use digital modes for financial transactions. Often call-centre representatives are inadequately trained and cannot resolve the issues, visiting centres for assistance takes time and money and call drops and connectivity issues limit remote assistance as well. Beneficiaries of government benefits are even more reluctant to make their complaints heard, afraid of what may be seen as confrontation with authority. Even though the Reserve Bank of India’s Charter of Customer Rights (detailed in the next section) has set out guidelines for financial service providers, the reality on the ground is that these guidelines are not always being followed. The Helix Institute’s Agent Network Accelerator Survey: India Country Report 2015 conducted over 2,682 agents across India revealed that only 59% agents knew about the call centre helpline, using it a median of twice in a month, implying low awareness and use of the systems in place by the banks. Compliance of mandatory requirements is low at the agent outlet – only 37% outlets displayed the grievance redressal number, tariff rates were displayed only at 32% outlets and only 42% of the outlets had even the agent code displayed. Here government advertisements through various media channels can help raise customer awareness of their rights, and put pressure on providers for compliance.

Another key concern of low income customers relates to nontransparent fees and other terms of service. Customers are wary of opaque charges and difficult to understand terms of transactions; this becomes particularly problematic for credit and insurance services where contractual agreements are involved. For instance, customers are not informed about withdrawal charges being applicable when they use an ATM, particularly of another provider. There is also opacity in OTC transactions, where pricing is dependent on the agent and not the service provider. All service providers must ensure complete transparency of charges during a transaction.

Interestingly, fraud is a less commonly reported, yet existing threat for low income customer - though the perception of fraud is high, reported cases are few. While most frauds are found to be committed with connivance of insiders within the system and by agents, phishing and scamming from outside the system is also a risk. With high sensitivity to this risk, the instinctive response of low income customers is to cash-out and leave nil balances in the
accounts. All service providers have to improve their data analytic capacities to detect suspicious trends in transactions and behavior. While customer awareness through SMS alerts, media announcement etc are important, it is also essential to ensure that agent relationship and commission structures are incentivized for ethical behavior. Mechanisms should also be developed for coordinated sharing of data and information among service providers to better detect and respond to fast-moving frauds.

As digital finance expands, risks of compromised safety of digital data, poor understanding of new uses of personal data and unforeseen outcomes, such as identity theft or money laundering arise. There are raised concerns of data privacy and protection as both service providers and consumers are grappling with the implications of security and privacy in a world that their lives are increasingly going online. A recent CGAP study (2014) showed consumers in Tanzania worried about how their data might be used by a mobile service and what information would be accessed, at the same time they were willing to allow a single-use access to their data in exchange for the possibility of getting a loan or financing on better terms. Consumers should be lead through clear explanations of the terms of usage, including informed consent to allay fears – service providers must build such systems with their services. The Public Interest Litigation in the Supreme Court against the use of Aadhaar is one example of strong concerns regarding data privacy and security. The government must engage with stakeholders to enact an appropriate data protection and privacy law based on informed consent, opt-in/opt-out features and comprehensive security and well-delineated responsibilities for the holders of sensitive personal information.

Doing Digital Finance Right in India

The RBI has been focused on mitigating risks of fraud and instability in the financial system and operational guidelines for mobile banking (July 1, 2015) and for Pre-Paid Payment Instruments (July 1, 2015) are detailed in respect of customer protection and technology and security standards. In the case of electronic banking frauds, the onus of proving that the customer was at fault lies on the bank, failing which, banks would be required to compensate the customer promptly. Customers can approach the Banking Ombudsman for complaints against both banks and PPIs. In April 2014, the RBI’s Monetary Policy Statement noted that “consumer protection is an integral aspect of financial inclusion and proposed to frame comprehensive consumer protection regulations based on domestic experience and global best practices.” The final Charter of Customer Rights set out in December 2014 was as follows:

**Charter of Customer Rights**

1. **Right to Fair Treatment:** Both the customer and the financial services provider have a right to be treated with courtesy. The customer should not be unfairly discriminated against on grounds such as gender, age, religion, caste and physical ability when offering and delivering financial products.

2. **Right to Transparency, Fair and Honest Dealing:** The financial services provider should make every effort to ensure that the contracts or agreements it frames are transparent, easily understood by and well communicated to, the common person. The product’s price, the associated risks, the terms and conditions that govern use over the product’s life cycle and the responsibilities of the customer and financial service provider, should be clearly disclosed. The customer should not be subject to unfair business or marketing practices, coercive contractual terms or misleading representations. Over the course of their relationship, the financial services provider cannot threaten the customer with physical harm, exert undue influence, or engage in blatant harassment.

3. **Right to Suitability:** The products offered should be appropriate to the needs of the customer and based on an assessment of the customer’s financial circumstances and understanding.

4. **Right to Privacy:** Customers’ personal information should be kept confidential unless they have offered specific consent to the financial services provider or such information is required to be provided under the law or it is provided for a mandated business purpose (for example, to credit information companies). The customer should be informed upfront about likely mandated business purposes. Customers have the right to protection from all kinds of communications, electronic or otherwise, which infringe upon their privacy.

5. **Right to Grievance Redress and Compensation:** The customer has a right to hold the financial services provider accountable for the products offered and to have a clear and easy way to have any valid grievances redressed. The provider should also facilitate the redress of grievances stemming from its sale of third party products. The financial services provider must communicate its policy for compensating mistakes, lapses in conduct, as well as non-performance or delays in performance, whether caused by the provider or otherwise. The policy must lay out the rights and duties of the customer when such events occur.
While consumers in India are generally unaware of their rights, many have approached the Banking Ombudsman for grievance redressal. The latest available Banking Ombudsman Report for 2013-14 does not classify complaints from electronic transactions separately from other categories. However, card related complaints comprised 24.1% of the total complaints and formed the second largest category of complaints; 58% of these came from ATM/Debit Cards. Complaints included issue of unsolicited cards, sale of unsolicited insurance policies and recovery of premium, charging of annual fees in spite of being offered as 'free' card, authorization of loans over phone, wrong billing, settlement offers conveyed telephonically, non-settlement of insurance claims after the demise of the card holder, exorbitant charges, wrong debits to account, non-dispensation/short dispensation of cash from ATM, skimming of cards, fraudulent withdrawals using debit/credit cards etc. Clearly, even though consumer awareness is relatively low in India, consumers are taking recourse to the official mechanisms for their grievances. While the RBI has set out the requisite framework for financial service providers, it is for all firms to abide by the spirit of the guidelines and ensure that the interests of the consumers, particularly the low income customers, are met.

Another segment that needs specific attention is Women

Ownership of accounts: Intermedia results show 61 percent women as financially included in 2015 compared to 48 percent in 2014. Compared to the 13 percentage point rise for women, the share of financially included men rose from 60 percent to 69 percent over the year. MicroSave’s assessment of PMJDY (March 2016) notes that for every three PMJDY customers who opened a bank account for the first time, one was a female customer.

When it comes to registered bank accounts, at 58 percent in 2015 compared to 45 percent in 2014, women see a 13 percentage point rise in ownership. While the gender divide has narrowed from 14 points to 10 points, there is still a long way to go.

Usage of accounts: The challenges ahead come out starker with data on usage of accounts. While men and women show more active usage of bank accounts over the year, the proportion of women actively using bank accounts is still 35%, compared to 49% of men.

Unmet financial needs: Women stand at a disadvantage in the traditional Indian society and this shows in the results of the survey in financial behaviour – just 9% of women are insured, compared to 18% of men. While savings rate is similar to men at 87%, typically even bank account holders save more cash at home, and not in the bank. As regards credit, 55% of women have borrowings, compared to 61% of men.

The Intermedia survey results show that 91% of adult Indian women are ready for inclusion – that is, they have basic literacy and numeracy skills, and have identification documents with them. While this is reassuring, as noted earlier, only 58% have a bank account, and just 35% use the account actively. The challenges faced by women in accessing financial services are well known in our country – high commitments to family duties, constrained mobility outside the home/neighbourhood, restrictions on interacting with males, low levels of education, lack of decision making powers within the house etc. In fact, the lack of sensitivity to the needs of women pervade our social and economic life.

The first step to correcting the problem is to put in place a process that will bring in gender-disaggregated data. In the absence of a clear picture of the issues, financial service providers do not have a understanding of the market, especially of low income women customers. Given India’s high heterogeneity, it is crucial that the data is granular, and financial service providers match their approach to the needs of specific regions. One of the greatest challenges in increasing access to and usage of financial services is the time and cost expended on reaching a service point. The challenge is of course compounded for women, especially in states like Uttar Pradesh, Bihar, Rajasthan etc., and a woman agent, who visits the home or within the village, would make a significant difference in raising the comfort level, and therefore usage of bank accounts.

Once the government databases begin to register the participation of women in the agent network, there will be instant visibility to the low levels, allowing banks to be more sensitised to the specific geographies where the challenges are graver.

Gender analysis conducted by MicroSave (Where are Women Agents in Indian DFS, April 2016) brought out the following issues that inhibit women from becoming agents.
A female's decision to become a banking agent is largely dependent on approval of her family, particularly her husband.

The social acceptance of a female working as a banking agent is a key factor in determining her success in the agency business.

Familial responsibilities and societal norms limit the operational capabilities of women agents.

Women agents have lower levels of engagement with banks compared to their male counterparts.

While these issues are inextricably linked to social and cultural values, service providers can put in place measures that will encourage more women to participate as agents. This could be through flexible operational hours, targeted customer base, sensitising bank officials to deal with women agents on priority at branches etc.

With the increasing emphasis on the potential of the mobile phone as an instrument to access banking and financial services, it must be noted that women are at a significant disadvantage here – the Intermedia survey reveals that less than half own a mobile phone, just 29% have sent/received messages. The fact that 87% have access to a mobile phone may seem encouraging at first glance, however given the social pressures on women, especially in rural north India, it is not clear whether access to a mobile phone will immediately and automatically translate into control over their finances. While there are reports of some villages imposing restrictions on women owning mobile phones (See Reuters Report, February 26, 2016), the ground reality is that many rural households own a single device and control is usually in the hands of men. While there are strong social pressures, policy makers should keep in mind the fact that digital financial services are the best solution that can offer women greater privacy, confidentiality, and control over their finances. Here, agent support can be crucial to motivate women to use financial services despite the restrictive social norms.

Clearly, digital literacy is key here and banks should work towards enhancing women’s conversancy with phone based transactions. Other measures like using voice-based services and women agents from the local community would also be solutions. The country will be looking to the new incoming payments banks for innovations here that will address the gender gap effectively.

1. The Reserve Bank of India should lead to bring together gender-based data in financial inclusion – this includes data on the agent network as well as usage of accounts and financial services. An annual national survey of progress in financial inclusion should be conducted by the National Statistical Survey Organisation, this will help bring out specific challenges in gender parity at a very granular level.

2. Financial service regulators should work to support greater financial inclusion for women. The Pradhan Mantri Mudra Yojana, offering collateral free loans has had good response from women, who lack the typical collateral that banks need to extend credit.

3. All financial service providers must sensitise their work force and their processes to the needs of women. This includes training branch staff and agents, tapping existing networks of women e.g. Self Help Group members as agents, encouraging door-step service delivery, along with awareness of digital channels, conducting market research to ensure suitable products and service delivery.

Finally, unless service providers look at the profile and requirements of each customer segment and cater to their concerns, the challenge of financial inclusion will remain on the ground, though data may show it is resolved on paper and government records!