

Financial Inclusion

Need for Differentiation between Access and Use

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With no financial capacity to save and invest, a dismal record of use of bank accounts and the severe lack of trust in the current model of using business correspondents, it is extremely difficult to envisage how opening of bank accounts will slowly help inculcate the habit of saving among the poor. The government needs to rethink the measures to make financial services more inclusive and ask whether just opening bank accounts is the means to achieve it.

The Jan Dhan Yojana (JDY) was launched on 28 August 2014 and gauging by the 1.5 crore bank accounts that were opened on a single day, signalled accelerated efforts by the government to make financial inclusion a key goal to change lives, reduce risks, and make a broader section of the population a part of the growth process. Almost 7 crore accounts were opened up to 5 November 2014 which means one bank account being opened every 12 seconds. This is truly astounding though it takes second place to the programme of building a toilet every seven seconds under the Swachh Bharat Abhiyan. In both these cases it is important to inquire whether access to a bank account or to a toilet translates into actual use of these services, otherwise this would just turn into a mere numbers chasing game.

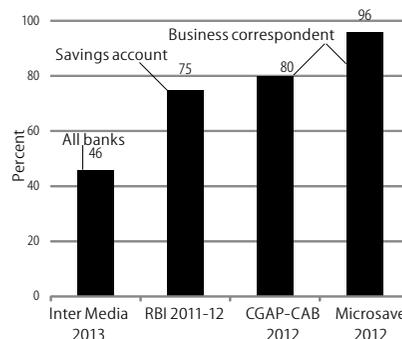
Financial Services

The Rangarajan Committee (2008) broadly defines financial inclusion as universal access to financial services by the poor and disadvantaged people at an affordable cost. In India, by the very definition of financial inclusion, the focus of the rhetoric has primarily been on access to these services according to a set of various indicators like the percentage of households having a bank account or the number of bank branches per 1,00,000 of the population. On paper, and as the data released by the department of financial services, reveals, the country has made substantial progress in making financial services available to the poor and the pace is picking up fast. Between 2001 and 2011, the number of households with a bank account in rural areas increased from 30% to 54% displaying a growth of 80%. While the growth in the urban areas was more modest at 37%, in 2011 over two-thirds

of households had a bank account. Overall, in 2011 almost 60% of households had access to credit.

However, if the purpose of opening a bank account is to use financial services and save and invest, then the performance is dismal. According to the World Bank's Global Financial Development Report (2014) only 11% of those who had a bank account had savings and only 8% took loans. Equally alarming are the number of bank accounts that are opened and lie dormant. The Reserve Bank of India (RBI) 2011–12 Annual Report indicates and official data released by the government shows that almost 75% of savings accounts lie dormant (Figure 1). These figures get more dismal if we look at the accounts opened by business correspondents (BCs). Surveys by the Consultative Group to Assist the Poor (CGAP) and the College of Agricultural Banking (CAB) and Microsave (2012) indicate that an astonishing 80% to 96% of these accounts in rural areas lie dormant. Moreover, the 2012 CGAP-CAB survey also indicated that 47% of the BCs they attempted to contact were untraceable. With over 3,30,000 BCs operating in rural areas covering close to

Figure 1: Dormant Bank Accounts



40% of the villages, and 60,000 operating in urban areas, it is clear that reach does not necessarily translate into use.

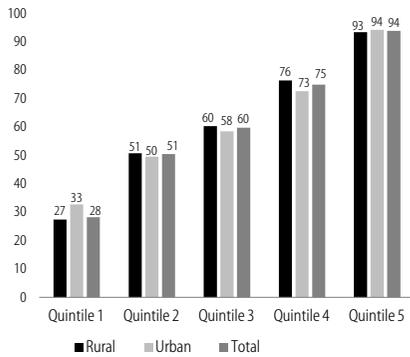
Targeted Groups

The purpose of financial inclusion policies is to make affordable saving, investment and insurance options available to the poor and the vulnerable. Not surprisingly, the most underserved are those in greatest need of financial services — the bottom 40%. The National Council of Applied Economic Research (NCAER) National Survey of Household

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Income and Expenditure (NSHIE) 2011–12 survey indicates that on average, less than 30% of those in the bottom-most quintile have a bank account, and about 50% of households falling in the second quintile have bank accounts as against the national average of 60%. It is also

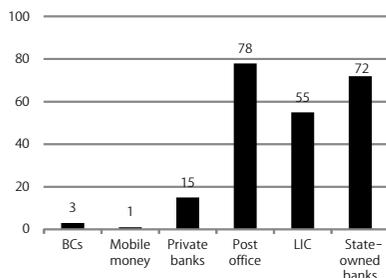
Figure 2: Per Cent of Households Having Bank Account by Quintiles



Source: NCAER–NSHIE Survey 2011–12.

seen that lack of financial access is the highest among casual wage labourers. The NSHIE survey indicates that casual wage labour comprise 38% of all households at the all-India level but only about

Figure 3: Percentage of Households Who 'Fully Trust' Financial Services



Source: Inter Media India FII Tracker Survey 2013–14.

40% of them have a bank account. Moreover a large fraction of these accounts are only used to withdraw payments for work done under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). In these cases while having a bank account does decrease corruption and promotes transactional efficiency, it does not mean affordable credit from formal sources for the rural poor who continue to rely on informal sources of finance at high interest rates for their credit needs.

In fact, the Sarangi Committee report of the Task Force (2010) on Credit Related Issues of Farmers notes that the small and marginal farmers who own more than 80% of the agricultural holdings

are “disturbingly” becoming more indebted to the moneylenders. As per this report, farm households not accessing credit from formal sources as a proportion to total farm households are more at 95.91%, 81.26% and 77.59% in the north-eastern, eastern and central regions, respectively. These numbers are staggering, and goes to show that even if on average 54% of rural household have a bank account as per the 2011 Census, the actual purpose of more inclusive access is not translating to affordable credit for the poor who really need such services.

Financial Capacity and Trust

The next big question is to understand who saves and invests and whether government policies are successful in making the poor use more financial services. The NCAER–NSHIE 2011–12 survey shows that over 70% of the savings in formal institutions is by non-agricultural white collar workers. The poorer and more disadvantaged group of households in agriculture and allied activities form just a mere 1% of the savings in formal institutions. In times of financial stress, the poor, whom the JBY scheme targets, still resort to moneylenders for their credit needs.

Trust also plays a dominant role in financial sector participation by households. In India, the current service delivery model of using BCs and mobile money to increase outreach faces a formidable trust barrier. The Inter Media India FII Tracker Survey (2013) report bleak figures — just 3% of households fully trust BCs with their financial transactions and only 1% of households trust the use of mobile money. If you couple lack of trust with the fact that over 47% of the BCs are untraceable after they open an account, it will probably

explain why 80% to 96% of accounts opened by BCs lie dormant and defeat the very purpose of making financial services more accessible and affordable for the poor.

Multidimensional Index

With no financial capacity to save and invest, a dismal record of use of bank accounts and the severe lack of trust in the current “rock star” model of using BCs, it is extremely difficult to envisage how opening of bank accounts will, as officials put it, slowly help inculcate the habit of saving among the poor. The government needs to rethink the measures to make financial services more inclusive and whether just opening bank accounts is the means to achieve it. As a start, a more multidimensional index of financial inclusion needs to be computed to include both financial deepening indicators which could include the number of bank accounts per household and the number of bank branches per 1,000 kilometres, as well as financial habit indicators such as the number of bank accounts that are actually used, both by quintiles as well as by the category of the chief earner in a household (whether a casual wage labourer, a salaried employee, etc). On another level, ways to incentivise BCs and improve their profitability will have to form part of a holistic financial inclusion strategy to improve record of usage and retain agents. Ultimately, both access and use will be necessary to smooth consumption and reduce risks for the poor. The mere chasing of numerical targets of financial access becomes meaningless unless deeper issues that address financial capability and trust in service delivery are tackled simultaneously.

EPW Index

An author-title index for EPW has been prepared for the years from 1968 to 2012. The PDFs of the Index have been uploaded, year-wise, on the EPW website. Visitors can download the Index for all the years from the site. (The Index for a few years is yet to be prepared and will be uploaded when ready.)

EPW would like to acknowledge the help of the staff of the library of the Indira Gandhi Institute of Development Research, Mumbai, in preparing the index under a project supported by the RD Tata Trust.