

Furthering Financial Inclusion: The Role of India Post Payments Bank

A dissertation submitted to the Punjab University, Chandigarh for the award of Master of Philosophy in Social Sciences, in partial fulfilment of the requirement for the Advanced Professional Programme in Public Administration (APPPA)

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Certificate

I have the pleasure to certify that **Ms Madhumita Das** has pursued her research work and prepared the present dissertation titled “**Furthering Financial Inclusion: The Role of India Post Payments Bank**” under my guidance and supervision. The dissertation is the result of her own research and to the best of my knowledge, no part of it has earlier comprised any other monograph, dissertation or book.

This is being submitted to the Punjab University, Chandigarh, for the purpose of Master of Philosophy for Social Sciences in partial fulfilment of the requirement for the Advanced Public Programme in Public Administration (APPPA) of the Indian Institute of Public Administration (IIPA), New Delhi.

I recommend that the dissertation of **Ms. Madhumita Das** is worthy of consideration for the award of M. Phil degree of Punjab University, Chandigarh.

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List of Abbreviations

ADB	Asian Development Bank
AePS	AADHAR enabled Payment System
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
AML	Anti-Money Laundering
AP	Access Point
ATL	Above the line (advertising)
BC	Business Correspondent
BO	Branch Post Office
BSBDA	Basic Savings Bank Deposit Account
BTL	Below the line (advertising)
C2G	Citizen to Government
CFT	Combating the Financing of Terrorism
CGAP	Consultative Group to Assist the Poor
CRISIL	Credit Rating and Information Services of India Limited
DBT	Direct Benefits Transfer
eKYC	Electronic Know Your Customer
FI	Financial Inclusion
FIAC	Financial Inclusion Advisory Committee
G2C	Government to Citizen
GCC	General Credit Card
GDS	Grameen Dak Sevak
GoI	Government of India
GPMI	Global partnership for Financial Inclusion
HO	Head Post Office
IMPS	Immediate Payment System

IPPB	India Post Payments Bank
KCC	Kisan Credit Card
KYC	Know Your Customer
MSME	Medium and Small Enterprise
NABARD	National Bank for Agriculture and Rural Development
NEFT	National Electronic Fund Transfer
NPCI	National Payments Corporation of India
OVD	Officially Valid Document
P2P	Person to Person
PFMS	Public Finance Management System
PLI	Postal Life Insurance
PMJDY	Prime Minister Jan Dhan Yojana
PO	Post Office
PoS	Point of Sale
POSB	Post Office Savings Bank
POSA	Post Office Savings Account
QR	Quick response
RBI	Reserve Bank of India
RPLI	Rural Postal Life Insurance
RRB	Regional Rural Bank
SHG	Self Help Group
SO	Sub Post Office
SOP	Standard Operating Procedure
UIDAI	Unique Identity Authority of India
UNCDF	United Nations Capital Development Fund
UPI	Unified Payments Interface
UPU	Universal Postal Union

Glossary of Terms

Aadhar eKYC - Aadhaar eKYC is a service offered by the Unique Identification Authority Of India (UIDAI) to businesses and organizations to validate the identity of an individual by verifying the personal details of an individual such as name, address, etc. against his or her biometric information held with the Aadhaar database. It is a paperless, quick and cost effective way of conducting the basic AML & CFT protocols for opening a bank account, applying for a mobile connection, etc.

Access Points – Post Offices at different levels, such as the Head Post Offices (mostly at District level), Sub-Post Offices (at District and Taluka level) and Branch Post Offices (at villages), act as physical access points, where customers can access the PO counters for IPPB services.

Alternative data - In a world that is increasingly digital, individuals and MSMEs are generating relevant data outside of the traditional financial system sources of information that can help improve credit scoring. These new sources of data may include the use of cloud-based services, use of internet and mobile services, e-commerce platforms, social media, shipped or received packages, online recordkeeping, call data records, airtime top ups as well as P2P, C2G, and G2C transaction data. Coupled with big data processing techniques, these new data sources help provide a more comprehensive picture of an individual or an organization's ability to repay loans.

Branchless banking - refers to the delivery of financial services outside conventional bank branches, using agents or other third-party intermediaries as the principal interface with customers, and relying on technologies such as card-reading point-of-sale terminals and mobile phones to transmit the transaction details. Although the term

“banking” is used, branchless banking is not limited to bank services; it includes a broad array of financial services often provided by nonbanks.

Collateral Something pledged as security for repayment of a loan, to be forfeited, in the event of a default.

Credit history Refers to a record of a borrower’s or potential borrower’s responsible repayment of debts.

Credit score Is a numerical score representing an individual’s creditworthiness resulting from a level analysis of the individual’s credit history.

Digital financial services According to the G20 High-Level Principles for Digital Financial Inclusion, digital financial services are “financial products and services, including payments, transfers, savings, credit, insurance, securities, financial planning, and account statements. They are delivered via digital/electronic technology such as e-money (initiated either online or on a mobile phone), payment cards, and regular bank accounts.”

Digital payments The term digital payment or e-payment is digital financial service generally understood to mean a transfer of value from one payment account to another using a digital device (such as a mobile phone or computer) and electronic communications channel (such as mobile wireless data). This includes payments made with electronic bank transfers, mobile money, and payment cards (e.g., credit, debit, prepaid).

Effectively excluded – This study posits that those individuals or households who either do not have an account (**unbanked**) or do not regularly use their accounts at least once a month (**underbanked**) are **effectively** (financially) **excluded**. While these groups need to make essential financial transactions of various kinds such as payments,

fund transfers, etc., they are unable to utilize the available formal financial services for most of their needs.

Financial exclusion - “Processes that prevent poor and disadvantaged social groups from gaining access to the financial system” (Leyshon & Thrift, 1995). Absence of ownership of, or access to, particular types of financial services or products, including forms of credit (ANZ, 2004).

Financial resilience Refers to an individual’s ability to withstand life events that impact his or her income and/or assets. Examples of these events include unemployment, divorce, disability, or health problems.

Financial sophistication curve – People irrespective of their income receive and make payments. The next stage is to save and for some transfer funds to others. Thereafter, once financial awareness sets in, they may buy insurance and some may seek credit or make investments. This study posits that, individuals and households generally follow a **Payments- Savings- Fund transfer- Insurance- Credit- Investments** trajectory as they progressively climb the Financial sophistication curve.

Flexible loan product Refers to a loan that allows the borrower to increase or decrease the amount borrowed, or to vary the repayments. In some cases, they may allow you to miss the occasional payment, as set out in the Credit Agreement.

Flexible savings product In this context, refers to a committed savings account that yet provides individuals with the flexibility to make small and incremental payments. This flexibility allows individuals to better manage their liquidity.

Formal Financial Services – Financial services such as payments, deposits, saving, remittances, credit, insurance, investments, provided by all types of financial

institutions including banks, credit unions, microfinance institutions, and post offices and that fall under prudential regulation by a government body or a regulator.

Frontline Agents – The Postal staff such as the Postal Assistants at the IPPB Counters in Post Offices, the postmen and Grameen Dak Sevaks (the Branch Post Masters and delivery staff at village POs) who provide IPPB services to the customers

Micro-insurance Refers to the protection of low-income people against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved.

Micro-loan or micro-credit The extension of loans of very small amounts at low interest to impoverished borrowers or small businesses.

Micropayments Refers to a financial transaction involving a very small sum of money (for instance, transactions of under USD\$ 1). It is most commonly used for transactions carried out digitally.

Mobile money According to GSMA, mobile money can be defined as a service in which the mobile phone is used to access financial services.

Mobile wallet An account that is primarily accessed using a mobile phone.

Newly included – Individuals or household who have recently joined the formal financial system by opening an account, a mobile money account or pre-paid instruments

Pay-as-you-go Refers to a system where costs are met as they arise, or services are paid for before they are used. New business models are emerging where mobile payments or other forms of digital payments are used to facilitate payment processing.

Prepaid systems Systems where costs for services are paid before the final consumer has availed the service

Sex-disaggregated data Data that is broken down by sex, helping reflect the different realities and contexts of men and women, allowing for a better understanding of the needs, challenges, and preferences of both sexes.

The Maya Declaration - A statement of common principles regarding the development of financial inclusion policy made by a group of developing nation regulatory institutions during the Alliance for Financial Inclusion's (AFI) 2011 Global Policy Forum held in Mexico

Unbanked – A person or household without an account in a formal financial institution such as a Bank or a mobile money operator

Underbanked – A person of household who has a bank account or a mobile money account but does not have adequate access to it or does not use it regularly, preferring to manage their financial transactions through cash

Voucher It is a prepaid financial service that entitles the holder to a predetermined value that can be exchanged for goods and services. These can be paper-based or digital (usually called e-vouchers). E-vouchers electronically store value.

Chapter 1

Introduction

1.1 Background

1.1.1 The World Bank defines Financial Inclusion as the ease of access to useful and affordable financial products and services for individuals and businesses delivered in a responsible and sustainable way (World Bank, 2019). Its Global Findex Database (2017) estimates that a disproportionate number of women, young adults, unemployed persons, people with low and irregular incomes, low levels of education, and those living in rural and remote areas make up the World's 1.7 billion financially excluded adult population.

1.2 The most common manifestation of financial inclusion is the availability of a transactional account with a formal financial institution, such as a Bank. Those who do not have access to a bank account are frequently unable to save for exigencies or use convenient means of transferring funds and making payments. They find it difficult to access credit and mitigate risks through insurance. They typically have to do all their transactions in cash which makes finances far more costly to access, manage and secure (Demirgüç-Kunt, et al, 2018). It also deprives them of any transaction or credit history that can make them eligible for cheaper institutional loans. Thus, the financially excluded are unable to adequately invest in their health, education and businesses, which reduces their earning potential and pushes them into further penury in case of unexpected emergencies such as job loss, crop failure, major illnesses etc.

- 1.3 Lack of access to appropriate financial services therefore, perpetuates and exacerbates social inequalities and prevents the excluded from realizing their individual potentials and contributing adequately to the society's growth aspirations.
- 1.4 A growing body of research has demonstrated the causality of financial inclusion to economic growth (Faye & Triki, 2013). Various multi-lateral organizations such as the World Bank, the Asian Development Bank (ADB), the African Development Bank (AfDB), the Alliance for Financial Inclusion (AFI), the United Nations Capital Development Fund (UNCDF), the Global partnership for Financial Inclusion (GPII) of the G -20, CGAP, individual national governments and Central Banks across the World are grappling with the recalcitrant barriers to financial inclusion, despite seminal progress achieved towards a more egalitarian access to financial services in the past decade. The problem is more acute for developing economies with large populations dispersed over wide geographic areas and across the rural-urban divide (Duflos, 2016). Many countries have achieved success in using their Postal infrastructure for financial inclusion (Planning Commission, GoI, 2009) (UPU, 2019).

1.2 Statement of the Problem

- 1.2.1 For India, the World's largest democracy and the fastest growing economy, it is critical to ensure that citizen in every part of the country irrespective of social strata, educational, cultural and linguistic backgrounds and economic or technological wherewithal, are able to participate in the formal financial system easily, affordably and confidently (RBI, 2018).

- 1.2.2 According to the 2011 census, 68.8% of the population still lives in rural areas. The financially excluded or under-served population, especially the poor and marginalized sections of the society, typically are unable to build up financial resilience in the absence of access to formal financial services and have to rely more on informal sources of finance. Informally sourced funds from moneylenders, especially at times of emergency, are at arbitrary and often usurious costs (Helms & Xavier, 2004). Thus, typically the cost of finance tends to be highest for those who can least afford it. Financial inclusion can therefore be the driver of economic empowerment and help Indians at the bottom of the pyramid, take the benefit of opportunities to save, borrow, get insurance and work for a more resilient financial future that allows them greater social mobility.
- 1.2.3 Financial Inclusion drives in India have traditionally focused on increasing the penetration of bank branches, availability of accounts and provision of credit. Yet, even after twelve 5-year Plans, less than 10% of gram Panchayats have bank branches (RBI, 2018). The costs of setting up a bank branch in rural areas is un-remunerative and the Banking Correspondent (BC) model introduced in 2006 as an alternative has not been universally successful (The Economic times, 2016). As a result, only about 40% for rural households are accessing credit and penetration of all kinds of insurance taken together in rural areas is only about 25% (NABARD, 2018). Although, a World record breaking number of bank accounts (approx. 33 cr) were opened under the Prime Minister Jan Dhan Yojana (PMJDY) between the years 2014-17, more than 20% are inactive, as are 48% of all bank accounts. India has the largest proportion of inactive accounts and the second largest number (19 cr) of financially excluded

adults (Demirgüç-Kunt, et al, 2018). Obviously, more is needed, than just opening of bank accounts, for effective financial inclusion to happen.

1.2.4 In order to give a further boost to financial inclusion, the GOI has launched the India Post Payments Bank (IPPB) on 1st Sept, 2018. IPPB aims to leverage the network of 1.55 lac post offices, as access points (AP) of IPPB for furthering financial inclusion (IPPB, 2018). Commercial banks have poor presence in rural areas with only about 50,000 branches in rural and semi-urban areas. In contrast, 1.39 lacs (approx. 90%) of post offices (POs) function in rural areas (India Post, 2018). IPPB aims to redefine financial inclusion by introducing account opening, basic banking, payments etc., not only at nearby post offices but also the doorsteps of customers (henceforth called doorstep banking), through the trusted and familiar Postman/ Grameen Dak Sevaks (GDS), as a means to assist adoption and usage of formal financial services.

1.2.5 The world over, banking, payments and other financial transactions are increasingly moving away from the brick and mortar model of physical bank branches to the internet and mobile banking platform. Promotion of digital payments is a major component of GoI's Digital India initiative (CashlessIndia, 2019). While Urban India is adopting convenient, affordable and near instantaneous digital banking and payments solutions, availability, confidence and trust in using these platforms are practically non-existent in rural areas. IPPB has introduced some frugal innovations that could help in catalysing adoption of digital payments in rural areas.

1.3 Aim of the Study

This study aims to identify the existing gaps in adoption of formal financial services in India and the role IPPB is likely to play in bridging them.

1.4 Rationale for choosing this topic

1.4.1 There is a growing realization that citizen in rural areas and vulnerable groups everywhere, face multiple barriers to financial inclusion (Demirgüç-Kunt, et al 2018). Exclusion has both supply and demand side dimensions that get sharply exacerbated in rural and remote areas. Multiple barriers to access, availability and ease of usage of suitable financial products, lead to geographic, social, technological and also voluntary exclusion.

1.4.2 The Postal infrastructure in many countries have had great success in enhancing financial inclusion in their respective jurisdictions. In the words of Mr Bishar A. Hussein, Director General, Universal Postal Union (UPU, 2013), *“Financial inclusion may have caught the world’s attention only in the last decade. However, this has been the primary preoccupation of the UPU for the past 140 years.”* 1.5 bn people across the world already use postal financial services (UPU, 2019). The Postal Banks have, in general been closer to the people, especially in rural areas and have been more innovative in their methods of outreach.

1.4.3 IPPB has, in its turn, proposed doorstep banking through the Postman/GDS for payments, remittances, deposit /withdrawals and access to third party financial products such as insurance, credit, etc. as its USP. Its target clientele are individuals, small businesses and small merchants with special focus on rural areas, urban migrants, women and low-income households in both urban & rural areas. It has deployed simple mobile Apps and several innovations to aid

in quick and reliable transactions by those confident of using mobile banking themselves, as well as those who would prefer to transact at PO counters or be assisted at their doorstep (referred here as ‘IPPB’s FI measures’).

1.4.3 Thus, this initiative has the potential of making banking accessible and serving the vulnerable sections in both urban and rural areas, who might be most in need of assistance, in availing low cost digital financial services. The rationale for selecting this particular topic for research is to gauge early signs of acceptability of GoI’s latest drive for financial inclusion and suggest strategies for furthering adoption and improved usage of formal financial services.

1.5 Research gap

1.5.1 Although a couple of papers have been published on the potential of IPPB by some scholars (Meena Kumari, 2017) prior to its operationalization however, to the best of knowledge, no systematic study has yet been undertaken on efficacy of IPPB, the GoI’s latest intervention for Financial Inclusion, after its launch. This study is therefore, the first in understanding on ground acceptance of IPPB’s FI measures. The researcher has 23 years of experience of serving, in both rural and urban areas, in many parts of the country, as an Indian Postal Service Officer. Till recently, as the nodal officer for setting up the IPPB, the researcher also has necessary domain knowledge of the objectives of the IPPB project and can help analyse the field research inputs to provide relevant recommendations for improvements or iterations, going forward. Often, the gap between planning and implementation of a project, is not realized till a long time afterwards, during which vital momentum is lost. This study is therefore, aimed at filling this crucial knowledge gap.

1.6 Objectives

This study attempts to analyse the potential of intermediation through IPPB in bridging the gap in financial inclusion i.e. in enhancing adoption of formal financial services in India. The research will thus focus on studying the reasons for poor adoption of formal financial services in rural India & among urban migrants, understand how other developing countries have enhanced financial inclusion, study the strengths of IPPB and how it proposes to further financial inclusion among its target clientele. before exploring the acceptability of IPPB's FI measures among its target clientele and finally suggest the way forward, for further effective financial inclusion

1.7 Research Design

This was primarily an exploratory research. Some amount of descriptive research was also required for the background information on the known gaps in financial inclusion and some of the methods employed by other developing countries in addressing them, with a view to draw parallels for implementation in India, as also to examine IPPB's potential in providing workable solutions. The actual barriers faced in effective financial inclusion and the early signs of acceptability of IPPB's FI measures, were explored through one to one interviews and Focus group Discussions (FGD) conducted among a cross-section of its target clientele, at a few locations in NCR. The insights from the survey was analysed using the Technology Acceptance Model (TAM) and results interpreted to suggest measures for furthering effective financial inclusion.

1.8 Chapterization scheme

The dissertation is organized into seven chapters. This being the first, introduces the concept and the need for the study. The next, **Chapter 2**, delves into the rich and growing body of research into the various aspects of financial inclusion, drawing heavily from the knowledge produced by various multilateral organizations active in this space, such as the World Bank, the Asian and African Development Banks, UNCDF etc. As also the Indian institutions such as RBI, NABARD, CRISIL and scores of independent researchers who have done seminal work in FI in general and in various developing countries, in particular. **Chapter 3** discusses the research methodology followed in this study. **Chapter 4 & 5** details IPPB's strengths, opportunities and its plans for furthering FI. Apart from the information on the IPPB and DoP website, these two chapters draw heavily upon the researcher's personal knowledge of the IPPB project, in the absence of published information on IPPB. **Chapter 6** discusses the findings of the survey and presents key analyses thereof. The last, **Chapter 7**, draws conclusions from the field research which has shown encouraging signs for the goal of financial inclusion. It also presents detailed recommendations of the iterations required to effectively implement financial inclusion in the specific context of IPPB but that hold true for any entity embarking upon a similar mission.

Chapter 2

Literature Review

2.1 Chapter Structure

This chapter introduces the concept of financial inclusion, its definitions as the field has evolved, discusses why it matters and consequences of inadequate financial inclusion, delves into the literature on the various reasons of exclusion and factors important for financial inclusion before briefly describing India's financial inclusion journey, so far. It goes on to focus attention on digital means of enabling financial inclusion and draws insights from the experiences of other developing countries in their campaigns for deepening and broadening financial inclusion, that can be useful for India's latest initiative for furthering financial inclusion.

2.2 Introduction

In a world of more than 7 billion people, studies suggest that inequality is on the rise, with the richest 1% controlling 82% of the World's wealth created last year, whereas more than half or 3.7 billion people did not see any prosperity at all (Oxfam, 2018). 85% of the World's poor live in rural areas (Alkire, 2014) while most economic growth happens in cities. Asymmetric and non-inclusive growth increases inequalities and stunts the overall growth potential of humanity while concentrating economic wherewithal in the hands of a few (Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015). The world's poor have limited access to quality health, education, and utility services that impact standards of living, constraining their economic opportunities (UNDP, 2018). Addressing social, political and economic inequalities is essential in order to

harness the growth potential of the society as a whole. Access to financial services can help development in multiple ways by making it easier for the poor to escape poverty through affordable investment in their health, education and earning options (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess., 2018). It can also help Governments reach the needy with affirmative action ensuring easier access to formal financial services.

2.3 Understanding Financial Inclusion

2.3.1 Financial inclusion is studied in the context of access to formal financial services as distinct from that of access and use of informal sources of finance. Although the term financial inclusion is of relatively recent coinage, Governments and Central banks across the world have been working to increase the reach of formal financial services for long. The most common manifestation of formal financial services is the possession of a bank account. Financial inclusion is also most commonly understood in terms of ‘overcoming of factors of exclusion’ and therefore is most relevant in the context of people who are more excluded from formal financial services such as those in rural areas, belonging to poor households and women (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess., 2018). The earliest definitions of financial inclusion were therefore in terms of spread of bank branches in unbanked areas and the availability of accounts among the underprivileged.

2.3.2 In India, RBI used the term ‘Financial Inclusion’ for the first time in its Annual Policy Statement of 2005-06 (RBI Annual Policy, 2005) to define a policy of introducing ‘no frills’ accounts that would allow the poor in rural areas to open basic banking accounts with no minimum balance. As the realization of the

extent of exclusion increased, the need to define financial inclusion was felt. In 2008, a committee set up by the RBI under Shri C. Rangarajan opined that:

“Financial inclusion may be defined 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”. (RBI Annual Policy, 2005)

2.3.3 However, inclusion is not just about access, Sarma (2008) suggests that availability and usage of the formal financial system by all members of an economy are also important dimensions of financial inclusion and should form part of a comprehensive Financial Inclusion index. Further, in a paper titled Financial Inclusion & Development, a cross-country analysis, Sarma and Pais (2008) conclude that financial exclusion is oftentimes a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanisation and poor connectivity seem to be less financially inclusive.

2.3.4 Globally, over 10% people live in extreme poverty on less than \$1.9 a day and 1.3 bn live in multi-dimensional poverty (UNDP, 2019). Sudden illnesses or natural disasters can wipe out household assets and trap families in poverty (Rentschler, 2013). Globally, 39% of the poorest 40% of households lack an account, making it nearly impossible for them to accumulate savings or establish a financial history to access other financial services (Demirgüç-Kunt, et al 2018). Most of them live in rural areas.

2.3.5 Access is poor not just in rural and remote areas but also among the urban poor, migrant workers, women and marginalized sections. About half of the urban households in India are financially excluded (Pal & Pal, 2012).

- 2.3.6 The RBI, has therefore broadened its definition of financial inclusion as the *“the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players”*. (Chakrabarty, K. C., 2013). But the emphasis on usage of accounts was yet to come.
- 2.3.7 Thus, financial inclusion came to denote a process that ensures the ease of access, availability, and usage of the formal financial system for all members of an economy (Sarma, 2016).
- 2.3.8 The process of evolution of the theme continued with Dr Raghuram Rajan, former Governor of RBI (2016) with a further widening of scope to include the demand side variables, *“Financial inclusion is about (a) the broadening of financial services to those people and enterprises who do not have access to financial services sector ; (b) the deepening of financial services for those who have minimal financial services; and (c) greater financial literacy and consumer protection so that those who are offered financial products can make appropriate choices.”* He also broadened the scope of financial inclusion which used to be credit centred to include universal access to a wide range of services such as savings, payments, and insurance and equity products at an affordable cost.
- 2.3.9 The United Nations Capital Development Fund defines Financial inclusion as *individuals and enterprises being able to access and use a range of appropriate and responsibly provided financial services offered in a well-regulated environment.*

2.3.10 Traditionally Financial inclusion has been achieved through brick and mortar Bank branches and in more recent times through banking agents. However, as inclusion seeks to cover the poorest and the more remotely situated, the cost of operations of a physical banking network become prohibitive. Technological intervention through digital means of providing financial services are increasingly gaining grounds. Therefore, The Global Findex database (2017), compiled by the World Bank defines Financial inclusion as “*access to and use of formal financial services either through a traditional bank account or through digital means*”.

2.3.11 We have thus seen financial inclusion evolve from mere access to a bank account for individuals in vulnerable groups to ease of access, availability of suitable products and usage of formal financial services not only by individuals especially those in the hitherto excluded sections, but also enterprises. Financial literacy and responsive customer protection are now generally accepted as integral to financial inclusion.

2.4 Importance of Financial inclusion

2.4.1 Financial inclusion thus encompasses all initiatives that make formal financial services available, accessible and affordable to all segments of the population. This necessitates greater focus on those groups that have historically suffered exclusion due to their location, gender, occupation, income level, level of awareness and familiarity to the formal financial sector. Not just individuals, in many developing economies, more than 90% of all employment is generated by the informal sector. In low-income countries, the contribution of small enterprises to employment is higher than contributions of medium and large enterprises (IFC, 2013). Unfortunately, the smaller of the enterprises are as

excluded as individuals and face multiple barriers to accessing cheap and adequate finance. Therefore, it is imperative to enable them to build their capacity, lower their barriers to access formal financial services, enhance their income generation potential, reduce their operating costs and better manage the risks associated with the livelihoods they support. In case of micro-enterprises surviving on very small margins, financial inclusion can bring down costs of financing and operations and may help create livelihood for others by opening up local entrepreneurial opportunities. The harnessing of the untapped potential of these individuals and businesses currently excluded or underserved by the formal financial sector, would thus lead to inclusive economic growth that is both socially and politically sustainable. Financial inclusion therefore, envisages a well-functioning financial infrastructure, that allows individuals and companies to engage more actively in the economy, while protecting their rights (Faye & Triki, 2013).

2.4.2 On an individual level, financial inclusion enables each person to manage their finances confidently, affordably and securely, take sound financial decision to invest in themselves, their housing, education, health, plan for their future and protect themselves against short term financial distress by reducing their vulnerability to unexpected income shocks or sudden illnesses (Thorat, 2007). This is especially important for those who are already dealing with multiple social, cultural, educational and economic handicaps (Leeladhar, 2006).

2.4.3 At a macro-economic level, financial inclusion enhances macro-economic stability by mobilizing domestic savings, generating investments, creating employment, helping lift sections of the population out of poverty and shoring up Government revenues (Hurtado, et al, 2013). Financial inclusion is

therefore necessary to ensure that economic growth performance is inclusive and sustained.

2.4.4 The absence of financial inclusion on the other hand, perpetuates the existing inequalities in the society and negates the potential of growth for the economies. Throughout the World, societies that score higher on financial inclusion are the more prosperous ones compared to the ones that are not. Numerous studies have shown the impact of financial inclusion on human development indicators such as reducing poverty and inequality. Countries with lower per capita income, higher unemployment, higher financial and social inequality, lower adult literacy, and lower urbanization tend to have lower financial inclusion. Availability of road, telecom and internet infrastructure also plays a positive role in enhancing financial inclusion (Sarma & Pais, 2008).

2.4.5 Globally, 69% adults have bank accounts. In high-income economies (HIE), more than 94% of adults are financially included compared to about 63% in developing economies (Demirgüç-Kunt et al, 2018).

2.4.6 Financial Inclusion is intrinsic to the achievement of as many as 8 of the 17 2030 Sustainable Development Goals (SDG)s. These are, SDG1, on eradicating poverty; SDG 2 on ending hunger, achieving food security and promoting sustainable agriculture; SDG 3 on promoting health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Additionally, in SDG 17 on strengthening the means of implementation there is an implicit role for greater financial inclusion through greater savings

mobilization for investment and consumption that can spur growth (UNCDF, 2019).

2.4.7 More than 80 institutions belonging to developing countries, together representing more than 75% of the unbanked have signed the Maya declaration (AFI, 2019), a set of measurable commitments to Financial Inclusion made by the Alliance of Financial Inclusion (AFI) member countries. The commitments cover four areas, aligned with the G20 Principles for Innovative Financial Inclusion (GPFI, 2017), including, harnessing cost- effective technology that increases access and affordability, implementing a proportional framework that advances synergies, integrating consumer protection and empowerment and utilizing data for informed policymaking and tracking results.

However, for effective policies on financial inclusion to be framed, the reasons of exclusion has to be first understood.

2.5 Reasons for exclusion

2.5.1 **The unbanked** – The Global Findex Database (2017), a cross country survey of 150,000 adults conducted by the World Bank in 140 countries finds that globally 1.7 bn¹ (~31%) adults are still unbanked i.e. without an account at a financial institution or through a mobile money provider. Most of the financially excluded are in developing economies (DEs). China, India, Indonesia, Pakistan, Mexico and Nigeria account for half of the world’s unbanked. India with 190 mn² has the second highest number of unbanked people after China. 56% of the unbanked are women. Half of the unbanked belong to the bottom 40% of poorest households. In countries where financial

¹ bn - billion

² Mn - million

inclusion is high, almost all the unbanked come from poorer households. About 62% of the unbanked have primary school or less education. 47% unbanked adults are also unemployed, majority of them women. In developing economies, 31% of the unbanked are wage seekers. India has been able to close the gap substantially and increased the availability of accounts to more than 80% adults due to the success of its Pradhan Mantri Jan Dhan Yojana (PMJDY), undertaken between years 2014-17.

2.5.2 The reasons for being unbanked – The Global Findex database (2017) lists **not having enough money** as the reason cited by nearly two thirds of the respondents (~20% cited this as the only reason). Followed by those who felt that they **‘do not need an account’** (30%), **‘another family member has an account’** (26%), **‘costs’** (20%, though much higher for Latin American respondents), **‘distance to the service provider’** (22%), **‘lack of required documentation’** (20%), **‘distrust in the financial system’** (16%), **‘religious concerns’** (6%, predominantly in Islamic communities).

2.5.3 Indian studies - A National Financial Inclusion survey done by **NABARD** in 2016-17 in rural and semi-urban areas finds that the amount of savings, investments and incidence of credit increased with monthly consumption expenditure (which in turn is a function of rising income). Although the survey reports 87% of all households (HH) in rural and semi-urban areas have bank accounts, overall, only about 50% total households (HHs) reported savings in the last year and 48% saved in a formal financial institution (Banks, SHG etc.) (NABARD, 2018). Therefore, a very significant proportion of bank account holders do not/ cannot take adequate advantage of formal financial services and have little financial histories. These underbanked people also end up

effectively financially excluded. The **CRISIL Inclusix 2018** report notes that varied studies have proved that exclusion from the banking system results in a loss of 1% to the country's gross domestic product (GDP). It calculates a financial inclusion index for India at 58 out of 100 (up from 40.1 three years ago) based on penetration of four parameters- branch, deposit, credit and insurance through banks, insurers and micro-finance institutions. It found that the deposit account penetration had increased phenomenally on account of PMJDY. Although, credit accounts and insurance too had increased but there are still only about 20 cr borrowers and approximately 34 cr insured compared to 165 cr bank account holders in India. There is also wide disparity in inclusion among states and districts in India with the North Eastern states lagging way behind while the southern states are the leaders. (CRISIL, 2018)

2.5.4 **Inactive accounts** – However, having an account does not necessarily imply its usage. Account owners do not necessarily save. Only about 50% of those who save, use their accounts to do so. Globally 20% of all accounts are inactive i.e. have no transactions in the last 12 months. Although India doubled its proportion of banked adults from 40% to 80% in the space of three years since 2014 due to the PMJDY program, its proportion of inactive accounts at 48% is the highest in the World (Demirgüç-Kunt, et al, 2018). An inactive account represents a missed opportunity of usage or effective financial inclusion.

2.5.5 **Usage of formal financial services** - In HIEs borrowers typically seek credit from formal institutions, whereas in DEs, most access loans from friends and family and other informal sources due to lack of required documentation to prove identity and eligibility as also lack of collaterals and credit histories. In DEs, most account holders do not receive their wages, payments for goods and services produced, remittances directly into their accounts or make payments

of utility bills, purchases etc. directly from their accounts (Demirgüç-Kunt, et al, 2018). This reduces the utility of bank accounts and lead to sub-optimal usage.

2.6 Factors of Financial Inclusion

Research has shown that social, technological and economic factors affect financial inclusion (Kabakova & Plaksenkov, 2018). People with higher level of education (Klühs, 2017), higher social status and more secure economic conditions tend to be financially included (Devlin, 2005). Current efforts for furthering Financial Inclusion in India focusses on two major dimensions – **Access** (penetration of bank branches) and **availability** of bank accounts. But depth in financial system does not necessarily mean ease of access to all (World Bank, 2008). It is also important to understand the various factors of inclusion that impact adoption and actual **usage** of formal financial services. Inclusion has both supply and demand side factors. These can be classified as:

2.6.1 Supply side factors

Factors largely contributed by the banking industry, government and the regulators

2.6.1.1 Accessibility - Globally access to a bank account is taken as the primary determinant of financial inclusion. Availability of banking services is found to be strongly associated with the propensity of a household to be financially included (Pal & Pal, 2012). Commercial banks however, see little justification for setting up branches in remote and rural areas due to difficulty in generating

profitability. Hence, the egalitarian goal of increasing access to banking, has to mainly be, driven by regulation (Rajan, 2017).

Accessibility of formal financial services may further have the following major aspects that can be either in or out of the control of an individual service provider:

Factors in the control of the service provider

- i **Convenience of access** – Physical distance for accessing service has an immediate impact on the time, effort, and opportunity cost expended for accessing services for unbanked or underserved people (CRISIL, 2018). The Global Findex database 2017 finds that globally, 22% of the financially excluded cited physical distance as the reason for not availing formal financial services. There have been regular mandates from the RBI for expansion of branch and ATM networks of scheduled commercial banks, cooperatives, private banks. The introduction of banking correspondents in rural areas and Banking Facilitators (BC/BF) to act as agents of banks in rural areas (2006) and lately the introduction of differentiated banks – the Payments Banks and Small Finance Banks (2015), has progressively reduced the distance to be travelled to access formal financial services (RBI, 2018).
- ii **Requirement of documentation** – Traditional banking relies on long and complicated forms that collect information to determine the identity, address and eligibility to avail particular financial products and services. Globally 20% of the unbanked report lack of documentation as the reason for not having accounts (Demirgüç-Kunt, et al). Before the ubiquitous spread of AADHAR as GoI's unique identity program for all citizens, many

Indians at the bottom of the pyramid, especially in rural areas, migrant labourers, those outside formal employment and without any identity or address proof were unable produce adequate documentation. This made them ineligible for most of the formal financial products and services. Because of the ‘procedural hassles’ involved in formal banking services, people prefer to borrow from informal credit sources even though it may be far more costly and risky (CRISIL, 2018).

- iii **Simplicity of processes** – The traditional paper based process of customer on-boarding is cumbersome (CRISIL, 2018), requires infrastructure for printing and issuing forms, storing, safe keeping and retrieving documents, multiple stages of manual verifications making it costly, time consuming, manpower and capital intensive to provide services. This deters both service providers and first time users to pro-actively seek customers/ services, especially in rural areas where business is non-remunerative.
- iv **Infrastructure costs for the service provider** – In rural areas due to lack of adequate infrastructure, service providers suffer from high fixed costs of operations (Rajan, 2016) and generate lower return on investments resulting in the poor & small depositors in remote areas being excluded, since it is hard to service them profitably. Even when driven by mandates, Banks tend to target the most accessible and the least risky customers since the social benefits that accrue from inclusion cannot be monetized them in the short term, in the process continuing to marginalize the weaker sections (Rajan, 2017). Therefore, for effective financial inclusion to happen, the technology and processes chosen by the service provider must be such that its infrastructure costs is minimal.

Factors outside the control of the service provider

- v **Supporting infrastructure & regulatory framework**- In an increasingly connected world, reliable electric supply, availability of stable telecom connectivity, all weather roads (Sarma & Pais, 2008) and a supportive regulatory framework are crucial to accelerate financial inclusion. RBI's introduction of AADHAR based e-KYC as proof of both identity and permanent address was a watershed development in promoting financial inclusion in India, since it allowed harnessing a paperless customer onboarding process that leveraged the power of digital technology through biometric authentication of a customer (RBI, 2016). This allowed crores of people who possessed no other documentation, to open basic accounts and enter formal banking.

2.6.1.2 Availability

- i **Availability of suitable products** – the financially excluded need simple, low risk and predictable products tailored to their needs. Mis-selling of products that are more sophisticated can erode both their meagre resources and the credibility of the service provider (Mundhra, 2016). The unavailability of suitable products is a major reason for poor offtake of formal financial services (CRISIL, 2018). The first requirement of the poor are affordable payments, remittances and savings instruments, followed by credit and investment opportunities. However, overzealousness of banks to extend credit as the first product of financial inclusion to the very poor, can lead to chronic indebtedness (Rajan, 2017). Accounts should allow multifarious use to be adequately useful and not have a narrow focus just on access to a very basic, limited purpose account as has been demonstrated

in case of the South African low-frills Mzansi bank accounts that showed early promise (Planning Commission, GoI, 2009) but could not get fully integrated into the banking architecture due to high costs and the limited utility (Fisher-French, 2012).

- ii **Service availability at the time needed** – Financial products and services are needed not only at specific points in a customer’s life cycle but also at a convenient time of the day. Often the branch timings mean that the already impoverished customer has to forego gainful employment or work that may be otherwise important to her, in order to avail financial services (CRISIL, 2018).

2.6.2 Demand side factors

These factors are largely contributed by the service recipient and the front-line representatives of the service provider and determine how well a service that is available will be adopted. Many of these are documented in literature and some are commonly experienced in service delivery.

2.6.2.1 Awareness

A large number of well-intentioned programs suffer from poor offtake due to lack of awareness on ground.

- i **Financial Literacy** – Basic understanding of financial concepts, products and risks is crucial for selection of suitable products by customers. Proper education of both the agents of the service provider and the vulnerable sections of the customers is necessary to prevent mis-selling and avoiding loss to the

unsophisticated customers. Financially literate customers are far more likely to regularly use their accounts and move up the value chain of financial products and services. Research has found financial literacy definitely contributes to higher financial inclusion, the effect most visible for poorer countries with less developed financial sector and fewer bank branches (Klühs 2017). Continuous financial education of the agents and customers is necessary to build financial capability i.e., ability and motivation for financial planning (RBI, 2017).

- ii **Customer protection measures** – Consumers especially first time users are apprehensive of using unfamiliar financial products due to fear of losses and difficult procedures in reclaiming funds. A fair, transparent, and robust customer protection mechanism that is understood well enough by intended beneficiaries is crucial to adoption of a financial product or service. Therefore, the presence of simple and responsive query resolution and grievance redressal mechanisms that are easily accessible in local language and pro-active dissemination of information about the same through multiple media goes a long way in increasing confidence in the system.

2.6.2.2 Usage

Globally 20% of account holders do not use them. India has the largest proportion (48%) of inactive accounts (Demirgüç-Kunt, et al, 2018). Access to and availability of formal financial services therefore is a necessary but not a sufficient condition to ensure usage as seen in the case of marginally used accounts by the underbanked. The following factors influence the use of formal financial services.

- i **Affordability** - multiple studies have shown that affordable costs of transactions are important for both customer and service provider (CRISIL,

2018). Globally 20% of respondents report high transaction costs as the reason for not availing formal financial services (Demirgüç-Kunt, et al, 2018). While the customer would like the costs to be minimum, if it is not remunerative for the service provider to provide quality service in rural areas, the customer may ultimately have to incur higher indirect opportunity cost to avail services in the town.

ii **Trust in & Comfort of dealing with the service provider** – Globally 16% of respondents report distrust in the financial system as the reason for not availing formal financial services (Demirgüç-Kunt, et al, 2018). The attitude of the service providers (in banks etc.) tends to be condescending towards the low net worth and unsophisticated customers. Banks in rural areas are often manned by outsiders who do not inspire confidence (Rajan, 2017). The use of local language increases the comfort of the service recipient (CRISIL, 2018) and they feel reassured in dealing with familiar faces.

iii **Confidence in using technology** – With introduction of technology in banking and payments, an increasingly larger number of customers are moving to self-service channels such as ATMs, internet and mobile banking/payments. Several studies across the world has shown that a smartphone/internet savvy customer confident of using technology, is far more likely to perceive a digital platform as easy to use on her own, adopt the same and continue to use it regularly. Thus, self –efficacy drives adoption (Wang, 2013).

The above may have different relative significance for people depending upon the geographic, educational, economic, social, technological barriers they face to inclusion.

2.6.2.3 Additional Factors of Financial Inclusion Proposed

Experience in working in the financial sector suggests the following additional factors for adoption

- i **Availability of intermediation (assistance)** – Not all among the poor, relatively uneducated, unemployed, those living in rural areas, not owning smartphones, will be capable of jumping onto the digital banking and payments bandwagon. They may also not possess the basic wherewithal (smartphones, basic education) to do so. Although 87% of rural households have mobiles (NABARD, 2018), currently only a small proportion of these are smartphones capable of running banking & payments Apps. These people will need assured assistance for adopting the benefits of digital financial services without the need for investing in costly equipment. Intermediation will therefore be necessary.
- ii **Simple and easy user interface**– ease of use is critical for adoption of self-service channels such as mobile & internet banking and payments especially for users who are not proficient in using them. It is also critical for the front-line staff of the service provider to ensure stakeholder buy-in.
- iii **Quick and reliable transactions** - Speed and accuracy of transactions ensured through secure and reliable authentication mechanisms and backed by immediate confirmation of transaction in local language can increase confidence in the usage.
- iv **Lack of inter-operability** between different players in the financial system also contributes towards poor usage (Planning Commission, GoI, 2009).

2.7 India's financial inclusion journey

2.7.1 The Government of India (GoI) has been seized of the need to provide banking for all, especially in the rural areas and among the underprivileged. The process started way back in 1969 with the Nationalization of Banks and mandating the Public sector banks to provide service in semi-urban and rural areas. This led to manifold increase in penetration of banks beyond the profitable urban areas. The GoI also launched the World's biggest financial inclusion program, the PMJDY in 2014 that has resulted in close to 33 cr bank accounts being opened mostly by the Public sector banks with coverage in both urban and rural areas which has contributed to 55% of all bank accounts opened Globally between 2014-17 (Demirgüç-Kunt, et al 2018)

2.7.2 The Central Bank and the Banking regulator, Reserve Bank of India has taken a series of measures to improve access of the vulnerable groups to banking services

Initiatives taken during 1960s and 1970s

- i. Focus on increasing targeted credit to the neglected economically weaker sections of society.
- ii. Lead Bank Scheme launched for coordinating rural lending (1970).
- iii. Development of the rural banking ecosystem including State Co-operative Banks, RRBs (1976), rural and semi-urban branches.
- iv. Implementation of the social contract with banks.

Initiatives taken during 1980s and 1990s

- i. Branch licensing policy to focus on expansion of commercial bank branches in rural areas.

- ii. Establishment of National Bank for Agriculture and Rural Development (NABARD) (1982) to provide refinance to banks providing credit to agriculture.
- iii. SHG-Bank Linkage Program launched by NABARD (1992).
- iv. Entrepreneurial credit products like a General Purpose Credit Card (GCC) and a Kisan Credit Card (KCC) (1998).

Initiatives taken during 2000s

- i. Introduction of Financial Inclusion policy (2005)
- ii. Introduction of ‘No frill accounts’ - with NIL or very minimum balances as well as charges that would make such accounts accessible vast sections of the population.
- iii. Changing the guidelines for priority sector lending to bring excluded people from both rural and urban areas under the coverage of institutional finance.
- iv. A policy of providing credit through multiple channels, viz. involving self-help groups (SHGs) and microfinance institutions (MFIs)
- v. Introduction of agent banking through the business correspondent (BC) model to solve the ‘last mile’ delivery of banking (2006)
- vi. Simplifying procedures and processes for micro and small enterprises (MSMEs)
- vii. Adopting information and communication technology (ICT) solutions for greater outreach and lower transaction costs (CBS).
- viii. Changing of the ‘no frill accounts’ to Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with zero minimum balance and facility of ATM card/ Debit card.
- ix. Relaxation of KYC Norms for small accounts (2005), thereby simplifying procedure.

- x. Introduction of e KYC leveraging the unique identity provided by the UIDAI
- xi. Simplified Branch Authorization to address the issue of uneven spread of bank branches as amended from time to time
- xii. Mandatory opening of 25% of new branches in unbanked rural centres
- xiii. Introduction of Direct Benefit Transfer - validating identity through Aadhaar Card to route all social security payments through the banking network using the Aadhaar based platform.
- xiv. Financial Literacy programs - Through Financial literacy and education, information on the general banking concepts is disseminated to diverse target groups through differentiated standardized contents
- xv. Mandating Financial Inclusion Plan of Banks (2010) - Banks are encouraged to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs).

Table 2-1 Progress report on Financial Inclusion Plan

Particulars	End-March 2010	End-March 2017	End-March 2018**
1	2	3	4
Banking Outlets in Villages – Branches	33,378	50,860	50,805
Banking Outlets in Villages>2000-BCs	8,390	1,05,402	1,00,802
Banking Outlets in Villages<2000- BCs	25,784	4,38,070	4,14,515
Total Banking Outlets in Villages – BCs	34,174	5,43,472	5,15,317
Banking Outlets in Villages – Other Modes	142	3,761	3,425
Banking Outlets in Villages –Total	67,694	5,98,093	5,69,547
Urban locations covered through BCs	447	1,02,865	1,42,959
BSBDA - Through branches (No. in Million)	60	254	247
BSBDA - Through branches (Amt. in ₹ Billion)	44	691	731
BSBDA - Through BCs (No. in Million)	13	280	289
BSBDA - Through BCs (Amt. in ₹ Billion)	11	285	391
BSBDA - Total (No. in Million)	73	533	536
BSBDA - Total (Amt. in ₹ Billion)	55	977	1,121
OD facility availed in BSBDAs (No. in million)	0.2	9	6
OD facility availed in BSBDAs (Amt. in ₹ Billion)	0.1	17	4
KCC - Total (No. in Million)	24	46	46
KCC - Total (Amt. in ₹ Billion)	1,240	5,805	6,096
GCC - Total (No. in Million)	1	13	12
GCC - Total (Amt. in ₹ Billion)	35	2,117	1,498
ICT-A/Cs-BC-Total Transactions (Number in million)	27	1,159	1,489
ICT-A/Cs-BC-Total Transactions (Amt. in ₹ billion)	7	2,652	4,292

** : Provisional.

(Source: RBI Annual Report, 2017-18)

- xvi. BC registry portal – to monitor activities of the Business Correspondents hired by Banks
- xvii. BC certification course – for ensuring standardized training to BCs
- xviii. CCC scheme for MSMEs – use of certified credit counsellors to bridge the information asymmetry of small and micro-entrepreneurs and help the banks make better credit decisions
- xix. The licensing of differentiated banks – Small Finance Banks (full service, limited jurisdiction) and Payments Banks (limited service specific mandate) to further financial inclusion in 2015.
- xx. National Strategy for Financial Inclusion document is being finalised under the aegis of the Financial Inclusion Advisory Committee (FIAC)

2.8 Digital financial inclusion

- 2.8.1 Financial Inclusion, especially in far flung, rural areas and among poor customers comes at an unviable financial cost to the traditional, brick and mortar financial system (Klapper & Singer, 2014). Digital Financial services through mobile phones can help deliver services efficiently and affordably and at scale with widespread benefits for both the hitherto excluded and the financial sector as a whole (Faye & Triki, 2013). By bringing down the time, effort and expenses related to accessing formal financial services, it can significantly lower the barriers to access, help families save money, cope with shocks, and protect assets against risk (Jack & Suri, 2014). If ease of use and reliability of transactions can be ensured, it can also significantly aid in the adoption of financial services (Demirgüç-Kunt, et al 2018).
- 2.8.2 Inclusive digital financial services refer to mobile money (financial transaction services using mobile phones), online (digitally opened and operated)

accounts, electronic payments, insurance and credit, combinations of them and newer Fintech (Financial Technology) apps, that reach people who were formerly excluded. Digital financial inclusion, when provided responsibly and sustainably in a well regulated environment, not only drives growth, but also enables faster progress towards the sustainable development goals (UNCDF, 2019). Digital Finance can help address many of the underlying inequalities that are known to exacerbate exclusion. In the following paras, we look at just a few.

2.8.3 **Agricultural credit gap**- Formal financial institutions meet less than a sixth of the \$200 billion in financing needed by small farmers living in emerging economies (Dalberg, 2012). Digital financial services can enable farmers to access credit for seed and fertilizer, reduce risk through digital micro-insurance, and securely save their earnings to improve financial resilience. Inclusive digital financial services can allow poor people to gain easier access to accounts, build up resilience to cope with unexpected economic shocks, access social security benefits in a cheaper and more secure way, and make investments in economic opportunities that can lift them out of poverty (Ouma, et al 2017). **Digital finance can help check leakages** and corruption and thus help build a faster, more transparent and trustworthy financial system (GSMA, 2016) as has been seen in India, where an estimated \$15 bn savings have accrued due to direct transfer of Govt. benefits into bank accounts through the DBT program (DBT, 2018).

2.8.4 **Healthcare** is rather inaccessible for many poor households around the World. Globally about 100 million people slip into extreme poverty every year due to sudden health emergencies (WHO & World Bank, 2017). In low- and middle-income countries, citizen have to pay 37% of all health expenditures out of

pocket, compared to 21% in high-income countries (WHO, 2015), partly due to low levels of public and private health insurance coverage (Escobar, et al 2010). Digital finance can make public or private micro health insurance affordable and viable for more people. Digital payments can lower costs of registering, paying premiums, and receiving disbursements (Prashad, et al 2013).

2.8.5 **Education** - In low- and middle-income countries, 82% of school fees are paid in cash (Demirguc-Kunt, et al 2015) which can involve long wait times and incur hidden fees for parents, waste of the time and effort for teachers and unpredictable revenue streams for schools due to late payments negatively impacting education outcomes (Mbiti, 2016). Digital finance can reduce administrative costs by making payments of salaries in remote areas easy and also allow lower-income households access government benefit transfers for education.

2.8.6 **Gender gap** - 35% of women worldwide, approximately 980 million, remain excluded from the formal financial system. They are also 6% less likely to use formal financial services (Demirgüç-Kunt, et al, 2018). Women-owned small businesses face a credit gap of \$1.7 trillion globally, limiting their ability to grow their businesses (IFC, 2017). The lack of sex-disaggregated data hinders policymakers and financial service providers from designing policies and products that meet the needs of women (Women's World Banking, 2017). Digital financial services give women greater control over their own finances, including safe, convenient, and discreet access to banking accounts (UNWomen, 2017). Digital financial services can help collect sex-disaggregated data, which helps policymakers to develop female-friendly policies, and service providers to design better digital financial products for

women. Thus, the digital financial inclusion can help bridge the fundamental barriers to access and usage of formal financial services.

2.8.7 Countries that did not have a deep penetration of banks in the hinterlands or where the traditional formal financial systems were not very robust, but where increasing penetration of mobile telephony has been able to provide mobile broadband, especially in Africa, have been able to harness technology to leapfrog other countries, in the spread of digital financial inclusion to significantly ameliorate poverty and lack of development (Kpodar & Adrianaivo, 2011). The results of a long-term impact study on a mobile money service in Kenya, M-PESA, found that use of **mobile money** has allowed as many as 194,000 households – 2% of the Kenyan population – escape poverty, and has been effective in improving the economic lives of poor women and of members of female-headed households (Faye & Triki, 2013).

2.8.8 Digital finance could benefit billions of people by enabling inclusive growth that adds \$3.7 trillion to the GDP of emerging economies within a decade (McKinsey Global Institute, 2010). Globally, 1 bn or two thirds of the financially excluded adults have mobile phones (Demirgüç-Kunt, et al, 2018). **The mobile phone can thus become the primary medium** for achieving financial inclusion.

2.8.9 **Payments are key** – In High Income economies (HIE) all Govt. and almost all private sector wages are paid into accounts. In most DEs, whereas most of the Government payments are made into accounts, majority of the private sector wages, payments for agricultural produce, income of the self-employed and 3/4th of the utility bill payments are in cash. The Global Findex database finds that, ~100 mn unbanked receive Govt. benefit transfers in cash, 230 mn receive private sector wages and 235 mn are paid for agricultural produce in cash. 260

mn use cash or other over the counter services for remittances. Millions of bank account holders across the world, also receive Govt. and private sector payments, are paid for agricultural produce in cash and still make utility payments and remittances in cash. Millions were found to have opened their first accounts to receive digital payments (Demirgüç-Kunt, et al 2018). **The greatest opportunity for financial inclusion therefore, lies in digitization of payments, especially for Government benefits and private sector wages.**

2.8.10 In HIE and in DEs with widespread account ownership, a rising number of account owners are using their accounts to make digital payments. In HIE, 80% use credit or debit cards, 50% use mobile phones and 66% use internet to make transactions from their accounts, including utility payments and for e-Commerce, whereas less than 25% account holders do so in the DEs. In majority of the DEs, a growing number of account holders shop online but prefer to pay by Cash on Delivery except in China, where most payments are made online (Demirgüç-Kunt, et al, 2018). **Popularizing digital payments therefore, can substantially increase usage of accounts.**

In the following section, the experiences of other developing countries in enhancing financial inclusion using traditional and digital means will be studied in pursuit of the Objective no. 2 and to answers **Research question no. 2** i.e how other developing countries have enhanced financial inclusion.

2.9 Experience of other developing regions/countries

2.9.1 Africa

2.9.1.1 **Background** - In Africa 33% of the population live in abject poverty, 36% have no formal education (Evans, 2018), 23% have access to bank accounts. According to the African Development Bank, the low levels of Financial

inclusion in Africa owes its origin to supply side constraints such as underdeveloped formal financial systems, poor quality of infrastructure and small scale of economies, making servicing large sections of the rural, scattered population, economically unviable. On the demand side, lack of education, poor levels of financial awareness and in the case of women, restrictive cultural norms, values and customs prevent them from accessing formal financial services (Faye & Triki, 2013). The next few paras focuses attention on the financial inclusion challenges that women face in Africa.

2.9.1.2 **Women and financial inclusion-** Women account for only 20% of the banked population of the continent, compared to 27% for men. They face multiple economic barriers, socio-cultural barriers and unfavorable enabling environment apart from physical distance and lack of financial literacy. Most women operate in the informal sector and typically earn lower wages than men. Few have ownership titles and can offer any collaterals. This makes them unattractive clients for formal financial institutions. As a consequence, women end up relying almost exclusively on informal sources of finance which offer only short term funding and charge high interest rates.

2.9.1.3 In several African countries, such as the Democratic Republic of the Congo, Namibia, Rwanda, Swaziland and Uganda, women are not able to open accounts or make legal transactions, let alone apply for credit, unless a male family member signs for them. Such requirements exist for instance in Sub-Saharan Africa, where a male family member's signature is necessary for any woman seeking to open a bank account, or to make money transfers (Bardasi, et al 2007). Studies estimate that Uganda has foregone 2% of GDP growth per year because of policies that restrict women's full participation in the economy (Ellis, et al, 2006).

2.9.1.4 As vital contributors to job and value creation, micro, small and medium enterprises are the lifeblood of Africa's economy (IFC, 2013). Despite the rise in female entrepreneurship in Africa, the continued exclusion of women is a huge challenge for female entrepreneurs, and women in general, to accessing finance. The problem is exacerbated in rural areas where only a tenth of women benefit from credit available to small farmers and receive less than 1% of total credit to agriculture. Far higher credit applications from women face rejection. Women therefore, scarcely use financial services compared to men other than for receiving remittances (Taylor & Boubakri, 2013) and the exclusion cycle perpetuates due to lack of verifiable financial histories.

2.9.1.5 **Microfinance has helped** – Micro-finance has contributed to increase in women's access to finance by fostering collateral free joint liability or group loans. This has turned the tide in **West Africa** where women dominate the food trade market (Burjorjee, et al 2002).

2.9.1.6 **Innovative products have been devised** - Exim Bank (Tanzania) has developed a special product known as the Tumaini Account targeting women clients' propensity to save to provide their families with education and healthcare services. Both personal loans and loans to small and medium enterprises are offered under this program using the **savings balances** in Tumaini accounts **as a guarantee**. Sero Lease and Finance Ltd (SELFINA), Tanzania used innovative techniques for its 25,000 female clients offering **micro-leasing** to female clients which in turn allows them to own the assets in the end, and to use it as collateral when they are in need of liquidity. This had two fold benefits: a direct benefit, allows women to utilize the equipment

for business growth; an indirect benefit, helps women to build a reputation of repayment (Taylor & Boubakri, 2013).

2.9.1.7 The Development Finance Company of Uganda Bank Limited (DFCU) imparted **training** to women on business skills, adding to their confidence. As a result of this endeavor, women achieved a lower default rate (1.5%) compared to men (2.5%). Collateral requirements applied by banks present a significant obstacle for women entrepreneurs. Tailor made solutions were introduced through the **unconventional collaterals** such as jewelry, receipts, or accumulated savings by institutions like the Access Bank Nigeria, NBS, Malawi, DFCU Uganda (Taylor & Boubakri, 2013).

2.9.1.8 **Digital Finance has been a game changer** – With 960 mn mobile subscribers and 80% penetration, Africa is one of the most connected continents. Evans (2018) found empirical evidence that internet and mobile phones have had a causal effect on enhancing digital financial inclusion among the poor in Africa. With 444 mn unique mobile subscribers, and 135 mn mobile money accounts Sub-Saharan Africa leads the World in mobile money (GSMA, 2019). More than 20% adults in countries like Burkina Faso, Cote d' Ivoire, Gabon, Kenya, Senegal, Tanzania, Uganda and Zimbabwe own only mobile money accounts and their numbers are increasing 4 times more rapidly than the ownership of bank accounts (Demirgüç-Kunt, et al, 2018).

2.9.1.9 **The various Business models for Digital Financial Service Delivery in Africa.** These models differ primarily on the type of institution establishing the relationship with the end customer, and can be classified into three broad categories (Faye & Triki, 2013):

- a) **Bank-focused models-** Bank-focused models refer to models where a traditional bank uses non-traditional low cost delivery channels to provide banking services to its existing customers through ATMs, internet banking or mobile phone banking. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking. Hence, it has limited effects on financial inclusion.
- b) **Bank-led models** offer a distinct alternative to conventional branch-based banking in that customers are given the opportunity to undertake financial transactions using a whole range of retail agents (or through mobile phones) instead of using bank branches. It may be implemented by using either business correspondent (BC) arrangements or by creating a joint venture between a Bank and a Telecom operator/non-bank entity. In this model customer account relationship rests with the bank. This model was used in Kenya where private and state-owned banks pioneered the use of mobile technology at retail outlets to deliver banking services to previously unbanked low-income and rural population. For instance, **Equity Bank** has developed a network of over 1,000 “banking agents.” These agents are lottery outlets, post offices, supermarkets, grocery stores, and petrol stations. In small shops, the shopkeeper handles banking services for customers, and in larger stores, a store employee is dedicated to this purpose. This model has a significant inclusive dimension in the sense that it can contribute to reaching those excluded from financial systems.
- c) **Non-bank-led models** refer to models where a bank has a limited role in the day-today account management. Typically the bank role is limited to safe keeping funds. Account management functions are conducted by a

non-bank entity (very often a Telecom operator) which has direct contact with individual customers. Deployments such as “**Orange Money**” in Senegal, Mali, Côte d’Ivoire, Niger, Cameroun, Madagascar are led by Telecom operators and do not require ownership of a bank account. Similar deployments have been launched by Telecom groups such as Airtel (“**Airtel Money**”) and Vodacom (“**M-Pesa**”). The non-Bank led model has a **tremendous transformational impact** since it has the potential to reach clients that are excluded from conventional financial systems.

2.9.1.10 **Specific country examples**

2.9.1.10.1 **Kenya: M-Pesa** is often cited as the pioneer of mobile financial services in Africa. It is currently the leading mobile money service in Kenya, accounting for more than 27,000 agents who handle over 30 million transactions daily. In Kenya 19% of mobile recharge is done using M-Pesa. With the rise of interest-earning bank-integrated mobile savings systems, beginning with the launch of the **M-KESHO** system in March 2010 a far more useful bouquet of services are now on offer (Faye & Triki, 2013). **M-TIBA**’s mobile health wallet enables health payments, savings, and access to credit. It has already reached 1 million Kenyans since its launch in 2016, facilitating 150,000 patient visits to medical facilities and \$2 million in medical payouts (Ilako, 2018). **M-KOPA**, a pay-as-you go solar company, has raised \$65 million in local-currency debt, using its expected future revenue in digital payments as collateral. With only cash payments, the company would not be able to continue expanding in underserved areas (GSMA, 2017). Digital billing and

payment services has also helped the Kenyan water utility to increase its revenue collected by 28% in 18 months. With women-headed households adopting mobile money, the country saw a 22% reduction in extreme poverty and savings went up by 20% between 2008 and 2014. In addition, 185,000 women left farming jobs for better, more stable jobs in business or retail (Suri & Jack, 2016).

2.9.1.10.2 South Africa: mobile financial services are widely used in South Africa with approximately 6 deployments: First National Bank (FNB) with around 2 million customers, Wizzit with over 250,000 subscribers, Flash Mobile Cash by Eezi with a network of 42,000 home shops, MTN Mobile Money, and finally Vodacom, in partnership with Nedbank offering M-Pesa.

2.9.1.10.3 Tanzania: More than 4.3 million mobile financial transactions have been made since the country introduced such services in 2007, equivalent to 40% of the country annual GDP. The Bank of Tanzania has encouraged operators to go beyond person to person (P2P) services and offer other mobile financial services including business to person, business to business, micro savings, micro insurance, micro loans and credit history information. Initial results have been recorded with some mobile financial service providers partnering with local savings groups to provide savings services and others encouraging consumers to link their mobile e-wallet to financial institutions. **eWaterpay**, Water Aid's (a water utility's) payment digitization project resulted in tripling water utility payments and reducing water collection waiting time from 3 hours to 10 minutes on average within a year, benefiting women in particular (Water.org, 2018) (Sippy & Dugange, 2019). Farmers who accessed

digital financial services such as micro-insurance through mobile money earned 16% more than their uninsured peers, due to higher investment (Global Index Insurance Facility, 2016).

2.9.1.10.4 **Uganda** - Replacing cash with prepaid cards and mobile payments helped national electricity distributor **Umeme** raise its collection rate from 84% in 2006 to 98% in 2016, enhancing financial viability (Umeme Ltd, 2017). 12,000 Ugandan farmers, were offered digitized payments by a leading coffee exporter. This cut costs by 27% by eliminating the inefficient and unsafe process of transporting cash. Digital payments were 45% cheaper than cash (CGAP, 2017) considering indirect benefits such as higher business productivity and better quality products produced by farmers who now had faster, more reliable access to funds to invest in their farms.

2.9.1.10.5 **Sierra Leone** - Shifting to digital payments at the height of the Ebola crisis from 2014 to 2016 helped critical health workers receive their pay quicker, reducing payment time from over a month to around one week. This eliminated worker strikes and secured the Ebola response workforce that saved countless lives (Bangura, 2016).

2.9.1.11 The main services offered by mobile financial service providers include P2P fund transfers, bill payment, receiving bulk payments (including Government benefits) and mobile recharge. The most popular being mobile recharge. 33% of the transactions in East Africa were P2P fund transfers since it was much cheaper to do so than transacting in cash or accessing bank accounts. Second generation mobile financial services such as saving services, credit and micro insurance services have been also developed in Africa but remain quite limited.

2.9.1.12 Africa has thus taken a phased approach with small digital payments serving as entry point to formal financial services followed later by a suite of financial services such as savings, credit and insurance.

2.9.2 Asia

2.9.2.1 Financial inclusion in Asia remains challenging and large disparities in the use of financial services persist. The proportion of households with access to formal bank accounts varies widely across countries. In-country disparities can be even larger when access to financial services is examined within population segments and across income levels (ADB, 2014). For many years, governments have recognized the need to extend access to financial services. They have promoted financial inclusion through public sector banks, agriculture credit programs, and micro and small enterprise credit programs.

2.9.2.2 **Microfinance** -The microfinance revolution, pioneered by the Grameen Bank in Bangladesh in the 1970s, focused on the reality that the formal financial system has not been successful in reaching the poor. Using peer monitoring and group-based approaches, microfinance agencies have shown that the poor are bankable and that innovative models can allow the poor to benefit from finance (Morduch, 1999).

2.9.2.3 **Evolution of FI** - The narrow focus on credit has given way to a broader approach that includes micro-savings, micro-insurance, and remittance and payment transfers. The most recent innovations include the related models of e-banking, branchless banking, and agency or business

correspondent banking to overcome the barriers of distance and the high cost of setting up traditional bank branches in remote areas.

2.9.2.4 In recent years, governments have realized that specific financial programs and agencies can only flourish in an appropriate policy environment. The last few years have seen the development of national financial inclusion master plans and strategies in many countries, along with efforts to regulate microfinance agencies to better protect the users of their services.

2.9.2.5 Evidence suggests that higher exclusion is associated with higher income inequality and with vulnerable groups (young, uneducated, unemployed, and the poor in rural areas). Hence, in countries where rising population and income inequality are still concerns (like in the China, India, and Indonesia), providing an environment that better enables access to financial services can be challenging. In Thailand, where formal account penetration is high, the poorest 40% of households are much less likely to have an account than the richest 60%. Similarly, in India, only 21% of adults from the poorest quintile have a formal account compared to 56% from the richest quintile (Demirguc-Kunt, et al 2015).

2.9.2.5.1 **China** - Financial reforms have played a critical role in the success of financial inclusion in China. Although efforts to promote financial inclusion started in the 1950s, it was only after deeper reforms in the rural financial system were implemented in 2005, that significant gains were achieved. Reforms allowed the rural banking system, once dominated by state-owned banks, to diversify and enabled new market players (such as agro-related banks, village township banks, and postal savings banks) to expand financial services to rural areas. The reforms

also resulted in the creation of some innovative products and services for financial inclusion such as the SME Board and ChiNext (Growth Enterprise Board), two innovative funding markets for small and medium-sized enterprises (SME) that are unique to the country (ADB, 2014). China has taken to internet and mobile payments in a very big way. Many Chinese are now using their mobiles to perform a wide range of transactions, such as transferring money, paying bills, booking hotels, buying tickets, and shopping in online stores (Wai-Ming & Lai, 2014).

2.9.2.5.2 **Indonesia**'s efforts to promote inclusive finance have been encouraging despite constraints posed by the country's geography and challenging regulatory environment. The success of its key programs such as TabunganKu (My Savings) and People's Business Credit, as well other initiatives on mobile banking and microfinance, attests to this (ADB, 2014). The practical projects implemented by Bank Rakyat Indonesia, a private bank, to reach thousands of unbanked individuals and firms also show the critical role that the private sector can play in financial inclusion. The government of Indonesia has moved to card based vouchers for 1.4 million recipients of subsidized rice in 2017. This has resulted in 9 out of 10 recipients getting higher quality food (Sulastri & Kumar, 2018).

2.9.2.5.3 **Philippines** - a combination of good policy environment and strong market support has proved to be an effective approach to financial inclusion. As one of the pioneers of mobile banking, the Philippines has shown how technological innovations, supported by good business models and government policies, can be harnessed to deliver low-cost and efficient financial services to the poor. The same market-oriented

approach has led to the provision of better and more diversified **microfinance services** such as **micro-deposits and micro-insurance** (Fujimoto & Rillo, 2014).

2.9.2.5.4 **Thailand**'s approach to financial inclusion is also unique in the sense that unlike other countries, the pursuit of inclusive finance is primarily driven by the government—and with significant results. The Village Fund is now recognized as one of the largest microfinance institutions in the world, providing subsidized credit to farm households and small firms in rural areas. It has also become a model for other countries to develop successful microfinance programs (Terada & Vandenberg, 2014).

2.9.2.5.5 **Bangladesh** – Apart from its very successful micro-finance experiment pioneered by the Grameen Bank, Bangladesh has surged ahead in adoption of mobile money often in conjunction with other financial systems to achieve developmental goals. E-Banking has also been found to have enhanced the performance of Banks (Siddik, et al 2017). The national government and the World Bank have partnered to support micro-financed installation of hygienic toilets, leveraging mobile money for loan repayments (WorldBank, 2017). By paying incentives with mobile money, MAMA Bangladesh managed to mobilize enough community health agents to register over 1 million new mothers to their maternal mHealth program. The mothers received vital health information from pregnancy to infancy on their mobile phone (Health Finance and Governance, 2015).

2.9.2.6 Asia therefore has taken a more credit centered path to financial inclusion with traditional banks being bolstered by micro-finance. Digital payments

are becoming important in many of the countries, especially among the poor and the young.

2.9.3 Latin America

2.9.3.1 A large population in Latin America and the Caribbean (**LAC**) still lacks access to formal financial products and services especially in the rural and remote areas and among the poorer households. Only 39% of adults have an account at a formal financial institution in LAC countries (Demirguc-Kunt & Klapper, 2012) amongst lower income individuals the percentage is lower (25.3%). This is mainly due to the inability of formal financial institutions to find viable business models in serving low-income people as potential clients. Low-cost, high quality financial services with greater product differentiation, good customer service, high accessibility, and ease of use remain yet to be achieved.

2.9.3.2 Countries such as Brazil, Costa Rica, and Chile, that have experienced strong economic growth in recent years, have the largest number of adults with formal accounts, even among the low income adults; while other countries with slower economic performance, like El Salvador and Nicaragua, have more financially excluded adults. Haiti counts one of the lowest numbers of low-income adults holding an account in the LAC region, similar to trends documented in African fragile states.

2.9.3.3 However, having access to formal accounts does not necessarily imply that financial products are actually used. Of the 39% of adults in LAC with an account, only about 30% conduct more than three transactions (deposits and withdrawals) a month, while close to 50% make between one and two transactions a month. An estimated 10% are inactive. Only 9.5% of adults in

LAC save formally. The population in LAC seems to rely more on informal mechanisms with 25.7% of adults keeping savings outside the formal financial system, in cash or in assets (e.g., livestock). Informal savings mechanisms, such as savings circles or clubs, are used by low- and middle-income families to save and to access loans in several countries, including Mexico, Guatemala, El Salvador, Costa Rica, Panama, Colombia, Peru, and Bolivia. Evidence shows that low-income people participating in savings groups can save around USD100 after the first year of participation, which for many constitutes their first experience in saving money (Hurtado, et al 2013).

2.9.3.4 Access to financial services in LAC remains limited in part due to the high cost of intermediation. Twice as many people in LAC report cost as the major barrier in accessing bank accounts than those in other regions of the world. The minimum cost of opening an account represents, on average, more than 5% of GDP per capita in Latin America, and the cost to keep an account open is about 2% of GDP per capita. For the lowest income quintile, the cost of opening an account represents more than 30% of average income, and in Bolivia it represents more than 100%, making these costs a major challenge for financial inclusion in the region (Arreaza and Rodríguez, 2011).

2.9.3.5 It is estimated that 40% of MSMEs in LAC region need credit but have neither a loan nor an overdraft (Stein, Golland, & Schiff, 2010). A large proportion of the population in the LAC region regularly receives various kinds of payments, such as government subsidies and international remittances. Specifically, more than 129 million people benefit from conditional cash transfers (CCTs) in more than 19 countries in the region. Also, in 2011, the total volume of international remittances sent to the

countries of the region reached USD 61 billion. Studies show that only 10% of the LAC population uses an account to receive government payments, and only 4% to receive international remittances.

2.9.3.6 Efforts to expand access to the formal financial system in LAC, specifically in terms of savings products, have been accompanied by the adoption of new regulations that promote the development of simplified accounts, which entail minimum requirements for opening accounts and lower costs to clients.

2.9.3.7 In recent years, most countries in LAC have extended the reach of formal financial services using innovative and cost-effective models such as banking agents and more recently, mobile channels. In Peru, Banco de Crédito estimates that a cash transaction at a branch costs about \$ 0.85, compared to \$ 0.32 if it is run through a banking agent (Ivatury & Mas, 2008). With changing regulations, different branchless banking schemes through agents have been successfully implemented across the LAC region. The agent banking model is not uniform and varies in terms of the products and services provided by agents, types of businesses serving as agents, and incentive structures. Yet, it has been useful to move forward the financial inclusion agenda in LAC

2.9.3.8 **Digital Finance hold the key** - In LAC, wide access to digital technology could enable rapid growth in financial technology use: 55% of adults own a mobile phone and have access to the internet, 15 percentage points more than the developing world average. Since 2014, the share of adults making or receiving digital payments has risen by about 8 percentage points or more in such economies as Bolivia, Brazil, Colombia, Haiti, and Peru. About 20 percent adults with an account use mobile or the internet to make a transaction through an account in Argentina, Brazil, and Costa Rica. By

digitizing cash wage payments, businesses could expand account ownership to up to 30 million unbanked adults, almost 90% of whom have a mobile phone (World Bank, 2019). Many financial intermediaries in the region are currently using mobile technology to provide different services, ranging from approving loans to clients and SMS reminders for credit payments, to enabling payments directly through a mobile wallet.

2.9.3.8.1 **Brazil** - was an early adopter of an agent banking framework and has achieved a record performance in bringing financial services to its population through agents. Its network of about 150,000 banking agents, also called “banking correspondents,” include post offices (Banco Postal) and lottery points (Caixa Economica Federal) (CGAP, 2010). Since the implementation of the agent banking regulation in Brazil, the number of correspondents increased from 19,000 in 2000 to approximately 150,000 in 2010. In 2010, 2.6 billion transactions were made through banking agents across the country; and in 2011, 100% of Brazilian municipalities had at least one bank branch, outpost or correspondent. Efforts to increase outreach through banking correspondents were coupled with initiatives to reduce costs through regulation, simplified accounts, social programs and payroll guarantee loan (Tombini, 2012). Conditional social transfer program Bolsa Família cut transaction costs from nearly 15% in 2001 to below 3% in 2005 by bundling all benefits onto one electronic payment card (Lindert, et al 2007). The successful program contributed to a 12%–18% reduction in poverty (Higgins, 2012).

2.9.3.8.2 **Colombia** –65% of the low-income population in Colombia save in cash. It was one of the first countries to adjust its regulation to incorporate simplified accounts. This was part of the Colombian government’s efforts

to expand access to financial products and services in the country. Other countries that have adopted a similar framework are Mexico, Chile, and Brazil. Other large LAC financial intermediaries such as Banco Estado in Chile, Bancolombia in Colombia and Banrural in Guatemala, are also finding that a large network of agents in low-income neighbourhoods and rural areas can scale up simplified bank accounts rapidly (Hurtado, et al 2013). Smart public transport transit cards in Bogota lifted ridership by 56% among recipients in just one year. This helped reduce traffic congestion and encouraged participation in the labour force (Hernandez & Quiros, 2016).

2.9.3.8.3 **Ecuador** - In Ecuador, Banco de Guayaquil has developed a network of more than 3,600 banking agents (Banco del Barrio) covering 96% of Ecuador's territory and offering various financial products and services targeted at low-income people. In 2011, Banco de Guayaquil launched a simplified account known as "cuenta amiga," which is sold by banking agents as a kit with an activated debit card and a user manual. The account can be immediately activated with basic documentation. In less than one year, more than 250,000 accounts were opened. Another service provided through this channel is the payment of government conditional cash transfers, which cover more than 360,000 beneficiaries. This model also benefited business owners, who have seen increases in their sales and profit per banking transaction. (CGAP, 2010) (AFI, 2012) .

2.9.3.8.4 **Paraguay** - Tigo Paraguay provides an example of this: in partnership with financial institutions, it has built an agent network and promotes financial literacy in a country where an estimated 78% of the population is financially excluded, and in which only 30% of municipalities have access

to financial services. The success of Tigo's Mobile Money product lies in its deep market knowledge, successful distribution network, and effective marketing strategies reaching 1 million users with 2,100 agents between 2008 and 2013 (Camilo & McCarty, 2011). Currently, about 50% of Paraguayans use Tigo money and 10% of all low value payment transactions in country are routed through the Tigo wallet, serviced through more than 4,000 agents spread out over 97% of the national territory. In early 2012, Tigo partnered with two established Paraguayan Banks - Visión Banco and Banco Familiar - to develop *Credimóvil*, a highly successful loan product that allowed Tigo Money users to apply for micro loans of between \$100 and \$400 using only their national ID. To apply for a loan, users would simply send their ID number via SMS to Tigo, which in turn ran an automatic check of the users' creditworthiness using transactional and other available data. Individual credit decisions would be made in an average of 20 minutes, much faster than through conventional methods. (Keller & Vivanco, 2018). This helped the Banks multiply their reach deep into the rural areas. Tigo also provides mobile money services in Guatemala, Honduras, Bolivia and El Salvadore. It has recently tied up with Moneygram for remittances into the Tigo wallet in El Salvadore, a country where incoming international remittances amounted to 17% of GDP in 2015 (Paypers, 2016) .

2.9.3.8.5 **Haiti** – Haiti is one of the most conflict-ridden countries in the World today, with very poor State capacity. It has also had to contend with a series of natural calamities including earthquakes and hurricanes. To compound the problem, only 33% of the population, mostly in its towns, have access to financial services. However, with rising mobile penetration, the share of

adults with a mobile money account in Haiti rose from 4% in 2014 to 14% percent in 2017. More than 40% of account holders also have mobile money accounts. These proved to be very useful for disaster relief during emergencies like the Earthquake in 2010.

2.9.3.9 **In Latin America and the Caribbean** therefore, branchless banking through agents and digital payments through mobile money has played a major role in enhancing financial inclusion.

2.10 Summary

Different developing countries have thus taken different routes to enhancing financial inclusion. While Africa has given primacy to digital payments through mobile money, Asian economies have been driven by the spread of banks and micro-finance and the LAC by branchless banking through agents. However, in all regions, the future of financial inclusion seems to be firmly connected with the spread of digital finance through the mobile platform. As an asset light, ubiquitous and convenient medium, the mobile phone is likely to become the focal point of affordable financial services delivery especially to the poor, living in the far flung areas.

Chapter 3

Research Methodology

3.1 Introduction

3.1.1 Financial inclusion of all citizen of the country is essential for equitable economic growth. Access to a bank account is the usual metric for financial inclusion. However, the review of Literature reveals that access to and usage of a bank account is difficult for people in rural and remote areas, the women, the unemployed, the elderly, and those with low/ irregular incomes. Despite rapid strides taken to ensure availability of bank accounts to about 80% adults, India is still home to the World's second largest unbanked population and the highest percentage of inactive accounts. The GoI in its latest bid to effectively include the unbanked and underbanked, has set up the India Post Payments Bank, a differentiated bank, with a mandate to further the cause of financial inclusion through the ubiquitous network of 1.55 lac post offices. IPPB has started operations since 1st Sept, 2018 and is currently completing its nationwide roll-out. There are 3 times as many post offices (PO) in the rural areas compared to bank branches. Apart from providing banking at the POs, IPPB has also announced plans to introduce assisted banking at the doorstep of its customers through the postmen and Grameen Dak Sevaks (GDS), mobile banking, SMS and missed call banking as different channels. Intermediation through IPPB thus, has the potential of significantly enhancing financial inclusion among those who hitherto faced several difficulties in accessing and using banking services.

3.2 Research Objectives

This study attempts to analyse the potential of intermediation (through banking at nearby POs, assisted doorstep banking and other innovations introduced) by IPPB in bridging the gap in financial inclusion (FI) i.e. in enhancing adoption of formal financial services in India. Thus, the objectives of the research were the following:

1. To study the reasons for poor adoption of formal financial services in rural India, among low income households and migrants in urban areas
2. To understand how other developing countries have enhanced financial inclusion
3. To study the strengths of IPPB and how it proposes to further financial inclusion among its target clientele
4. To explore the acceptability of IPPB's intermediation measures for FI among its target clientele
5. To suggest way forward for further effective financial inclusion

3.3 Research Questions

The study thus concentrated on finding answers to the following research questions:

1. What are the major reasons for poor adoption of formal financial services in rural India, among low-income households and migrants in urban areas?
2. How have other developing countries enhanced financial inclusion?
3. What are the strengths of IPPB and how does it plan to further financial inclusion among its target clientele?

4. What kind of acceptability is there for IPPB's intermediation measures for FI among its target clientele?
5. What other strategies can IPPB adopt for further effective financial inclusion?

3.4 Conceptual framework

Based on the literature survey, a preliminary list of factors found impacting financial inclusion were drawn up and it was decided to check whether IPPB's FI measures were likely to address these. The following conceptual framework was proposed, based on the theoretical underpinning of the Technology Acceptance Model (Davies, 1989), a model widely used to study user acceptance and adoption of technology solutions.

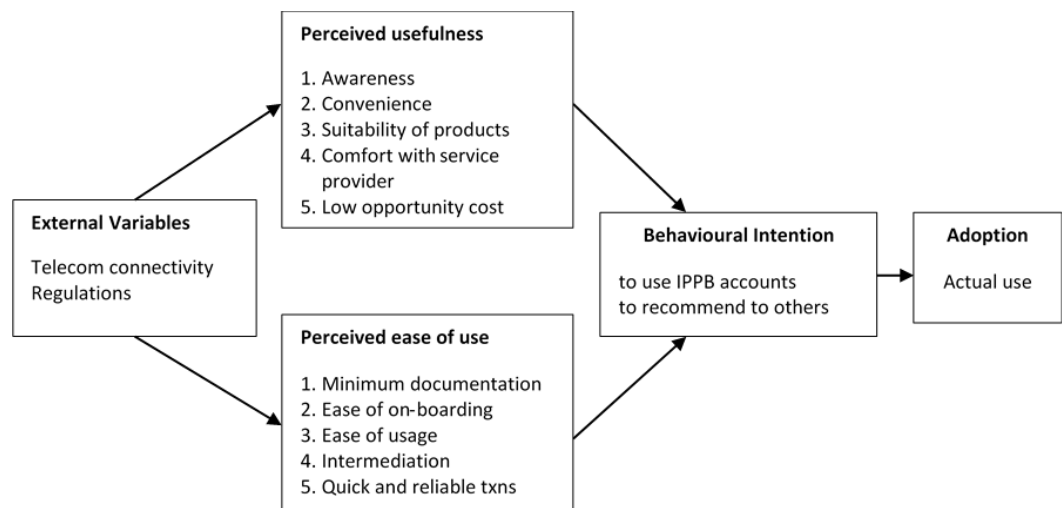


Figure 3-1 Conceptual framework for the study

3.5 Research Design

The very nature of the problem being studied requires a deep understanding of the interplay of a multitude of reasons for the phenomenon (financial exclusion) and the likely difference that an intervention (IPPB) can make to the situation. The most common and useful research methodology for such studies is of **Qualitative research** (Flick, 1999). Since the experiences,

perceptions and feelings of people were to be ascertained the paradigm chosen was **Interpretive** research, a strategy commonly used in making sense of situations and drawing meaningful inferences (Stivers, 2000). The chosen design of the study was **Exploratory** since the aim was to probe the participants' realities vis-à-vis formal financial services and understanding their response to the intermediation proposed by IPPB that may eventually lead to improvement of the desired phenomenon of financial inclusion among the intended beneficiaries. This kind of insight cannot be gained through quantitative studies unless a lot of data has been gathered and even then the reasons why a particular phenomenon is happening might be difficult to deduce.

3.6 Research methods

Considering the target respondent profile, the study employed the following methods

1. **Primary survey through a semi-structured interview schedule** (Annexure 1) administered by the researcher in face –to-face, in one-to-one conversation with respondents at different locations. Given that this was a study about inclusion, it was important to level the field for participation of all irrespective of education, exposure and ability to deal with questionnaires. Therefore, a conscious decision was taken, to conduct one to one interviews in vernacular. Since complex and interconnected issues were sought to be discussed in a limited time frame, neither totally structured nor completely unstructured interviews would have worked and hence a semi-structured interview schedule that allowed necessary flexibility and purpose to the exercise was selected. As

Gill et al (2008) conclude, semi-structured interviews are indeed a preferred technique in such cases.

2. **Focus Group Discussions (FGD)** to understand a community perspective of issues faced and solutions needed. Again this is a tried and tested method to encourage participation by people and get insights into why people think and behave in certain ways (BMJ, 1995)
3. **Observation** by the researcher of the ground realities and interaction between the different players.

3.7 Pilot study

The research was conducted as a pilot study on account of the following:

1. The intervention being studied (IPPB) has been launched less than 6 months ago and it is currently undertaking a rapid roll out of its services pan India through about 1.5 lac post offices. Its operations are unlikely to have fully stabilized and therefore this study can provide insights for a more extensive subsequent study.
2. The time and resources available for this study conducted along with other regular course work, as a part of a 10-month professional training program was not conducive for a broader scale of study.
3. Financial services sector is subject to a very dynamic regulatory regime and is prone to frequent disruptions due to Fintech innovations. This study was intended as a quick dip-stick test to gauge early signs of possible adoption and probable iterations that may be needed for optimum results.

3.8 Data sources

The study was based on both Primary and Secondary data sources. Secondary research was conducted through literature survey of journals, websites, periodicals, policy documents, academic reports of World Bank, NABARD, CRISIL, annual reports, news items, RBI banking databases, etc. Primary data was collected through the primary survey, FGDs and observation. While secondary sources were solely used for the research Questions 2 & 3 (Chapters 2, 4 & 5), the primary data collected was used to validate the answer gleaned from the review of literature regarding research question no 1 (Chapter 6, section 6.5). Research question no. 4 was purely addressed through primary data (Chapter 6, section 6.6). The answers to research question no 5 was developed mostly based on the insights gained from the field work.

3.9 Survey locations

Four locations having varying degrees of availability of financial services were selected for the survey, two each in Delhi and Haryana to give a well-rounded view of the ground realities of financial inclusion for citizen of urban as well as rural areas. The locations in Delhi included migrant colonies and small business owners (Sangam Vihar & Kalkaji). The locations in Haryana were the urbanized village of Anangpur in Faridabad district and rural village of Ahulana in Sonapat district. The locations chosen ranged from having multiple banks in close proximity (Kalkaji) to no banks in a 13 km radius. The details of survey locations is given in Chapter 6 para 6.2.

3.10 Sample for the study

In depth interviews - 50 respondents were selected for interviews through convenience sampling (non-probability sampling) among the target clientele

including some mobile banking users at the 4 survey locations. The respondents were invited to participate in the survey by the local post office and IPPB officials. Those who responded and agreed to be interviewed or join the FDG, were included. Some who joined on their own and wanted to share their views were also included. The respondents interviewed included both existing and potential IPPB customers, with the former making up more than 3/4ths of the sample. Those who were not yet customers were included to understand the reasons for the same. The participants in the interview belonged to a heterogeneous group including both genders, different age groups, education, occupation and income profiles. The interviews were conducted on various days from the last week of November, 2018 to the first week of January, 2019.

Pre-testing – Prior to commencing the interviews, the interview schedule was rigorously tested in two rounds of pre-testing on 9 respondents similar to the target respondent profile drawn from the same two states. It was also peer tested by two colleagues, who provided useful suggestions. The insights gained were used to fine-tune the final set of questions. The experience of the pre-testing suggested addition/deletion/modification of some questions as also threw up a range of responses to the open-ended questions. Some of the more common ones were included in the interview schedule for ease of coding of responses but not offered as alternatives to the respondents to choose from.

Two FGDs were held with ~15, more or less homogenous group of participants at two survey locations; Anangpur (urban) on 28.12.2018 and Ahulana (rural) on 03.01.2019. Since women in Anangpur were unable to attend FGD due to social restrictions, apart from individual interviews, an

unstructured group discussion was held with ASHA (women health) workers and ANMs in the Primary Health Centre there.

3.11 Data Analysis

The analysis of data collected followed the grounded theory of inductive analysis, one of the most widely used interpretive strategy in social sciences (Denzin, 1994). The data collected was analyzed to find inter-relationships and helped to arrive at the most important factors of effective exclusion and the most likely to be adopted features of IPPB's FI measures. Inductive analysis of these vis-a-vis the requirements found on ground helped formulate recommendations for effective implementation of Financial inclusion, presented in Chapter 7, section 7.3.

3.12 Limitations

As already said, the main limitation the study faced was of time available for field study and analysis which limited the number of locations and the respondents who could be covered. That said, the researcher managed to interview 2.5 times the number of respondents originally planned mainly due to the enthusiasm of the respondents to be part of the survey. The study was stopped when a clear pattern had emerged in both the rural and urban survey locations and no new kinds of responses were being received. Another limitation was resources. The interviews took about 40 minutes to complete and therefore, a larger survey would ideally require a team of interviewers who must be well trained to administer complex interview schedules.

3.13 Ethics

The research proposal was approved by IIPA and was conducted with full consent of the participants. The survey was conducted in a transparent and open

manner. Throughout the primary survey, the researcher remained primarily a listener and in the FGDs a moderator for the conversation flow after initiating discussions on relevant topics. A number of new perspectives were gained, which were deliberated upon for recommending the future course of action for effective financial inclusion. Notwithstanding the researcher's prior association with the IPPB project, every effort was made to remain value neutral and be true to the voice of the people.

3.14 Summary

The Qualitative research methodology chosen was dictated by the objectives of the study proposed to be undertaken. The research questions were framed accordingly. A conceptual framework was selected to guide the research. An exploratory research design was selected within an interpretive paradigm. Given the constraint of time available and cognizant of the early stages of IPPB's implementation, the study was modelled as a pilot study. Both primary and secondary data sources were used as required, to answer different research questions. Primary surveys were chosen as the main instruments of research and findings triangulated with results from FGDs and researcher's own observations. Within the constraints of time, the sample was selected by convenience sampling. Data analysis followed the grounded theory of inductive analysis and the insights drawn were instrumental in arriving at recommendations for furthering financial inclusion.

Having looked at the background information on Financial inclusion and the experience of some other developing countries in enhancing the same, the next chapter deals with the research question no. 3, and the strengths of IPPB.

Chapter 4

India Post Payments Bank -Strengths and Opportunities

4.1 Chapter Structure

This chapter traces the background to the setting up of the India Post Payments Bank, the insights drawn from a market assessment and customer needs survey conducted by DoP, the parent organization, to determine the key business opportunities for IPPB and the strengths to which, it would need to play in order to fulfil its role in furthering financial inclusion in India.

4.2 Background

4.2.1 The Department of Posts (DoP), has been one of the oldest public service institution in India, in existence for more than 160 years. With a reach of 1.55 lakh physical points of presence (of which ~90% are in rural areas), DoP has the most widely distributed postal network in the world. In addition to delivering mails and parcels, DoP also has significant experience in delivering financial services (Priyadarshee, et al 2010) such as postal savings schemes, life insurance and money remittance services (India Post, 2018).

4.2.2 DoP has undertaken an IT modernization project to equip itself with requisite modern tools and technologies. As part of this initiative, it has set up a pan-India wide area network of 25,000+ post offices, a core banking solution (CBS) for its Post Office Savings Bank (POSB) rolled out in 24,000+ urban and semi-urban post offices. It has also deployed ~1000 ATMs, and a rural ICT micro-ATM program with an aim to digitize ~130,000 branch post offices (BO) in rural areas, using hand-held computing devices, to aid propagation of DoP's financial services business (India Post, 2018).

4.2.3 Considering its deep reach in the rural areas and the customers’ need for financial inclusion or catalyzing access to formal financial services, DoP had originally aspired to set up a Universal Bank. However, the Reserve Bank of India (RBI) and the Government advised DoP to start a differentiated bank focusing on deposits and payments. As such, when the final guidelines for Payments Bank were issued, DoP applied for a license in January 2015.

4.2.4 India Post Payments Bank (IPPB) was thus setup under the Department of Post, Ministry of Communication with 100% equity owned by Government of India. The fundamental mandate of IPPB is to become the most accessible, affordable and trusted bank for the common man in India, removing barriers for the unbanked and reducing opportunity costs for the underbanked, and in doing so, promote the adoption of cashless transactions in a predominantly cash economy. IPPB is set up with 650 branches (approx. one branch in every district) to create a platform which will bridge a critical gap in access to formal financial services across India. It would do so by leveraging the Department of Posts’ (DoP’s) unparalleled reach and visibility across India, through its 155,000 post offices and the trust that it enjoys among the common man.



Source: IPPB

Figure 4-1 IPPB built on the Strong Foundation of the Post Office

- 4.2.5 **Regulatory guidelines** - IPPB is set up as a separate legal entity under the RBI's differentiated banking license which allows a Payments Bank to offer demand deposits such as savings and current accounts with an end of the day (EOD) balance ceiling of Rs 1lac, payments and remittance facilities. As per RBI's guidelines (RBI, 2014), a Payments Bank is not allowed to offer lending products or credit cards to their customers. They can however, function as Business Correspondents (BC) to other banks and regulated financial service providers to offer credit, insurance and investment products (RBI , 2016) as their agents. As a special case, IPPB was allowed link its accounts with the existing Post Office Savings Bank (POSB) accounts of a customer to sweep out funds in excess of Rs. 1 lakh EOD balance from the IPPB account.
- 4.2.6 As per the RBI guidelines, IPPB is to have a professionally managed Board and function at an arms-length from the DoP, which quite apart from being its owner would also act as its Business Correspondent, providing the last mile delivery capability to IPPB through its Post Office counter and delivery staff (Postmen in urban areas and Grameen Dak Sevaks (GDS) in rural areas), in return for a share of the revenue/commission earned by IPPB in the form of user fees and incentives to the frontline DoP staff (who would act as agents of IPPB). The GoI, as the 100% shareholder waived payment of transfer price by IPPB to DoP till it transformed into an universal bank.
- 4.2.7 **Business model** – The business model envisaged was that IPPB would design products, define business processes, take care of regulatory compliances, and build the technology infrastructure and training for its Banking and payments

software while the DoP was to provide the use of its post offices and the front-line staff for providing the customer interface.

4.3 External market and Payment ecosystem assessment

Emerging trends and market opportunities for IPPB in the payments ecosystem were assessed by DoP to determine the niche for IPPB to fill

4.3.1 Dominance of cash: Cash continues to dominate the retail payments, however driven by adoption of smartphones and biometric based payments; the rise in market share of digital payments is imminent. IPPB would need to address this need to reduce cost of availing services by the customer, cut its own operational expenses and bring about savings for the economy

4.3.2 Access to subsidy funds remains a challenge: While transfers of subsidies into bank accounts is relatively successful, the access to the actual money remains a problem due to limited last mile presence of the banks. IPPB would need to provide friction-less access to DBT to those in rural areas, especially women

4.3.3 Payments market size: The total retail payments market estimated at ~ Rs. 83 lakh crore, with retail payments and mass transit accounting for a major share of the market. This is a largely untapped market, due to the absence of cost effective, acceptance infrastructure for digital payments. IPPB would have to find workable solutions that are asset light, convenient and simple to use, even in rural areas.

4.4 Customer needs survey

DoP also conducted a nation-wide survey at the beginning of the planning process to understand the needs of IPPB's target customers, their challenges in

accessing financial services and perception about availing services from the post office etc. The survey found;

- 4.4.1 **Access to bank accounts:** A significant majority of the customers have bank accounts, however access is an issue with high incidence of underbanked segments in the rural hinterland, among urban housewives and the elderly.
- 4.4.2 **Assisted channels needed:** Even with high mobile phone access and growing smart phone adoption, the use of digital channels for banking and payments is low and hence the use of assisted channels will be preferred especially among the rural customer base
- 4.4.3 **Door-step service:** The proposed value added feature leveraging the ability of the postman to reach every doorstep to extend banking intermediation was found to be universally liked. A significant portion (~25%) of respondents who were currently spending greater than Rs. 50 to make a banking transaction were willing to spend money to avail doorstep banking
- 4.4.4 **3rd party products:** High awareness (98%) and likelihood of usage (45%) was found for insurance products, among the target segments. With respect to loans, there's a high incidence of the use of informal channels (> 60%) and insufficient access to formal credit especially for personal loans and working capital loans
- 4.4.5 **Trust in DoP and preference for IPPB:** There was universally high level of trust in DoP and the postman (73%), which would be easily extended for

providing financial services through IPPB and a clear preference for IPPB as a Payments bank over others.

4.5 Key business opportunities for IPPB

Thus the key business opportunities for IPPB would include bill payments, mass transit/transportation, direct benefits transfer, Person to person (P2P) fund transfers, Consumer to Government (C2G) payments (taxes, fees, duties etc.), in-store merchant payments and e-Commerce cash on delivery segment. Acting as BC to other financial institutions and offering carefully curated 3rd party products such as credit, insurance and investments was a significant opportunity.

Table 4-1: Key Business opportunities for IPPB (Payments)

Aspect	Payment Opportunities for IPPB
In-store/physical payments	<ul style="list-style-type: none"> Physical payments constitute 98% of all consumer retail payments presenting a large opportunity especially in semi-urban and rural areas
Direct Benefit Transfer	<ul style="list-style-type: none"> Large opportunity for the targeted disbursement of Govt. subsidies Over Rs. 3,600 billion of subsidies/ benefits to be transferred to beneficiaries
Mass Transit	<ul style="list-style-type: none"> IPPB could tie-up with mass transit operators to offer pre-paid instruments that can be used across multiple modes of transportation (e.g. bus, train, metro, etc.)
Bill Payments	<ul style="list-style-type: none"> Large market which is predominantly cash based Growth at 8% CAGR is expected to take the market to Rs. 920,000 cr. by 2020
C2G Payments	<ul style="list-style-type: none"> The Govt. is taking active steps to digitize a large part of C2G payments that include taxes, fines, levies, duties etc.
E- Commerce	<ul style="list-style-type: none"> Growth in e-commerce expected, with a number of players introducing indigenous payment solutions; replacements for COD are being explored

4.6 IPPB's Strengths

IPPB's strengths are basically derived from its leveraging of DoP's last mile delivery capabilities and include:

- 4.6.1 Un-paralleled rural presence** - 90% (~1,39,000) of the post offices are in rural areas, i.e. 3 times the number of rural bank branches
- 4.6.2 Local and familiar staff** – The Post office staff, especially in rural areas, are local, speak the local language and belong to the same or nearby locations, therefore are familiar to the people
- 4.6.3 Experienced counter staff** – The POSB has been running postal savings schemes more than 130 years. Staff at Head Post Offices (HO) and Sub Post Offices (SO) at district and taluka levels, are experienced in handling retail liability operations and processes on modern Core Banking System (CBS). However, the Grameen Dak Sevaks (GDS) at Branch Post Offices (BO) would need to be trained and equipped on digital platforms.
- 4.6.4 Cash Management capabilities** - There is an existing cash handling network connecting post offices (PO) from the District to the village level across the country. Cash movement logistics is handled along with mail operations resulting in lower operating costs due to sharing of infrastructure and has to be strengthened to take on higher traffic due to IPPB.
- 4.6.5 Existing customer base** – There is an existing customer base of more than 20 cr POSB and Postal Life Insurance (PLI) customers apart from other walk-in money transfer customers, who are already availing financial services from the Post office.
- 4.6.6 Value proposition over POSB:** POSB is a stand-alone suite of savings scheme that are not interoperable with the larger banking system. As a result, the POSB customers are not able to use the money in their accounts for any

payments transactions or transfer it to any account outside the POSB. This limits the utility of the POSB accounts to a simple savings vehicle and necessitates a cash out/cheque withdrawal in case the customer wanted to use it. IPPB would add tremendous value to the linked POSB accounts by making them inter-operable with the larger banking system, while providing payments facilities to the POSB customers from the IPPB account such that IPPB would be a vehicle for payments '*kharche ka khata*' while POSB would be one for savings '*bachat ka khata*' .

4.7 Competitive positioning






- 4.7.1 Payments banks today have a market space relatively untapped by incumbent/ universal banks. Even though universal banks have opened a large number of bank accounts, particularly under the Pradhan Mantri Jan Dhan Yojana (PMJDY), the opportunity to get these new banking customers to transact and transact intensively is largely unexplored.
- 4.7.2 This is because the incumbent banks with their legacy costs/ infrastructure have found such customers to be unviable. Even as technology has changed the economics of providing services to such customers, encouraging them to transact, the incumbent banks find this proposition to be somewhat divergent from their core business model, which is to lend money raised through deposits. Nonetheless, there is likely to be head-to-head competition between payments banks and incumbent banks in certain customer segments/ geographies.
- 4.7.3 IPPB has a significant competitive advantage in terms of the proximity and the long-standing relationship the post office has with underbanked/ unbanked

customers, and is therefore uniquely positioned to tap into this aforementioned unexplored market. Most of these customers have known and dealt with their local post office far more than they would have dealt with any incumbent bank, if at all. They are generally less intimidated by and more comfortable with their local post office.

4.7.4 The survey found IPPB to be very strongly placed vis-à-vis other payments banks. It scored high on all 5 parameters that will drive the success of the payments bank model, i.e.: Distribution reach, existing customer base, existing tech platform readiness, group synergies/ partnership, experience in delivering financial services to the underbanked/ in rural areas

4.7.5 The following graphic shows other payments banks relative scores on these parameters, indicating thereby the relative competitive advantage that IPPB has (IPPB is the only payments bank which scores high on all 5 parameters).

As such, IPPB has tremendous potential, which it needs to realize.

Category of Player	Strategic Levers	Potential Customer Base	Player					
Telecom Players	Sales and Distribution reach Existing customer relations and history	Pan India existing customer base	Airtel	●	●	●	●	●
			Vodafone	●	●	●	●	●
			Idea	●	●	●	●	○
			Reliance Jio	●	○	●	●	○
Business Correspondents	Experience in customer on-boarding, transaction model, existing BC network	Rural & Urban poor segments	FINO	○	○	●	○	●
Wallet	Digital processes (eg. onboarding, self service), quick transaction processing and settlement	Urban white collar/students	Paytm	○	●	●	●	○
Technology Player	Ready agent network through bank/NBFC tie-ups to extend network	Urban mid income segment customer	NSDL	○	●	●	●	○

Legend: ● High ○ Low



Distribution reach



Existing customer base



Existing tech. platform readiness



Extent of Group synergies and/or partnerships



Experience in financial services to unbanked-rural

Source: IPPB Detailed Project Report

Figure 4-2: IPPB's advantage- Competitor benchmarking on crucial parameters

4.8 Summary

IPPB was set up to fulfil the unmet need of financial inclusion in India, by leveraging the deep penetration, existing experience in providing financial services and the trust enjoyed by the post office among the citizen in every corner of the country. By inheriting the distribution capabilities, ready customer base and the technological readiness of the parent organization, IPPB could potentially keep its costs of operation to the minimum and would be starting from a position of strength. The GoI provided the initial funding for its capital and operational costs through budgetary provision. The new entity was thus given a reason to be born and necessary wherewithal to exist. The next chapter would dwell on how IPPB planned to go about fulfilling its mission.

Chapter 5

IPPB's Plans to Further Financial Inclusion

5.1 Chapter structure

This chapter will deal with IPPB's vision, mission, objectives, and its strategy for financial inclusion for its target clientele. It will focus on IPPB's channels of service delivery, its bouquet of products and services, the innovations it has brought to the table before turning to a brief description of its operational preparedness in terms of co-ordination with the DoP machinery, technology deployed, training and motivation of agents and monitoring mechanisms instituted.

5.2 Vision, Mission & Objectives -

IPPB was set up with the following ideals;

5.2.1 **Vision** - Building the most accessible, affordable and trusted bank for the common man.

5.2.2 **Mission** - Catalyzing easy access to formal financial services by removing the barriers for the unbanked and reducing the opportunity cost for the underbanked.

5.2.3 **Mandate** - Financial Inclusion through the extensive postal network.

5.2.4 **Objectives** -

- (i) Taking financial inclusion to every corner of the country through the combined network of the Bank and the linked Post Offices.

- (ii) Bringing a large number of individuals and small businesses into formal banking channel.
- (iii) Provide a secure and reliable payments channel for social security payments under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), National Social Assistance Program (NSAP) etc. and all Government to Citizen (G2C) transactions.
- (iv) Become the preferred partner for service delivery for Government (Central, State and Local) by connecting citizens, irrespective of their location, financial or educational status to deliver products and services to beneficiaries.
- (v) Tie up with various other banks, insurance companies, mutual fund houses and other financial institutions and service providers to help in customer acquisition and distribution of third party products.
- (vi) Safe, economical and reliable money transfer to meet the needs of migrant laborers and the unorganized sector.
- (vii) To provide a payments platform for integrating services provided by Government and Private sector for the economic upliftment of the poorer and marginalized sections in both urban and rural India.
- (viii) Build the most accessible payments bank through various channels including Post Office Counters, mobile phones, and internet as well as at the doorstep of the customers and encourage the transition to a less cash economy.

5.3 Strategy for Financial Inclusion

- 5.3.1 **Accessibility:** With a network of 1.55 lakh post offices countrywide, and more than 3 lakh Postmen and GDSs servicing the last mile, IPPB will be India's most accessible Bank. IPPB's Doorstep Banking Service will be its

differentiator. With it, it's customers may not even need to leave their homes to access banking, even if they were not conversant with mobile banking.

5.3.2 **Affordability:** IPPB will leverage interoperable public technology infrastructure of RBI, National Payments Corporation of India (NPCI) and Payments Settlement Systems to offer last mile affordable banking. Aadhar-based customer onboarding of IPPB will reduce the cost of customer acquisition – a benefit that will be transferred to the end customer.

5.3.3 **Ease of Banking:** The last mile delivery agent i.e. postman, GDS is trained with financial knowledge, and equipped with a smartphone and biometric device, enabling him/her to offer financial services and guidance with relative ease. IPPB's QR card eliminates the need for customers to remember their account number and PIN and is especially designed for the poor and less educated customers.

5.3.4 **Digital Ecosystem:** IPPB would become a part of the country's digital banking ecosystem. It would have deep linkages with payment and settlement infrastructure / systems such as NEFT, RTGS, IMPS, Bharat Bill Payment Payments System (BBPS), Public Fund Management System (PFMS), Aadhar Based Payment System (ABPS) and National Automated Clearing House (NACH). At macro level IPPB's 360 degrees' payments products and services would create transparency, remove corruption and leakages by removing cash from the system, enabling a less cash economy and thus contribute to India's GDP. At individual level, customers can transact without cash through digital channels (IPPB mobile app, QR card at PO, doorstep and merchant locations).

5.3.5 **Financial Literacy:** IPPB seeks to promote financial inclusion through financial literacy, educating customers on how insurance secures the unsecured, how wealth grows from small financial investments and how even a little saving can go a long way towards building a better future.

5.4 Target Clientele

IPPB's customer segments can broadly be classified in three categories: Retail, MSME and Institutional.

5.4.1 **Retail Customers:** Among the retail customers, the following have been prioritized: Rural Heartlands (farmers, laborers, DBT beneficiaries etc.), Rural Influencers (panchayat, large farmers, teachers, etc.), Students, Senior Citizen (pensioners), Urban migrants (construction/ factory workers, drivers etc.), Small businesses, *Kirana* (grocery) store owners and Homemakers (*Source: IPPB*

Figure 5-1).



Source: IPPB

Figure 5-1 IPPB customer segments & service channels

- 5.4.2 **MSMEs:** Within MSMEs, small and micro enterprises (<1 cr. turnover) have been prioritized as the competitive intensity is lower and the latent banking needs could be well served by IPPB.
- 5.4.3 **Institutional:** Among the institutional customers, Government (both state and central, and their associated entities) has been prioritized as it is the source of a large volume of subsidy payments, followed by cooperatives to acquire their customers

5.5 Channels of service delivery

- 5.5.1 **PO counters** - IPPB will leverage DoP's physical assets, infrastructure, and people optimally for a cost-effective channel structure: HOs, SOs, and BOs will function as physical banking access points and provide counter facilities for customers. As a very high proportion of target customers tend to use branches for financial transactions, those are expected to be major channels for IPPB in the near and medium term
- 5.5.2 **Doorstep-** Significant proportion of customers are willing to adopt and pay for doorstep banking, and this is expected to be a critical differentiator for IPPB, especially in rural areas
- 5.5.3 **Mobile App** - Current usage of mobile banking is very low. Through its easy to use, mobile App IPPB hopes to progressively encourage its customers towards using this self-care channel by driving awareness, providing training, incentivizing mobile transactions, and creating an ecosystem that accepts mobile payments. Over time, as the maturity of customers increases

and smartphones permeate through the population, significant share of customers would be expected to utilize self-service channels

5.5.4 **Other channels** – IPPB will also deploy other channels such as Internet banking, SMS/Missed call banking, IVR and call centers etc.

Through the above, IPPB attempts to provide a multi-lingual, seamless Omni-channel experience to its customers.

5.6 Products and Services

The realities of the financially excluded in India are the lack of identity documents except AADHAR (which is now near universal), difficulty in accessing far off bank branches, transacting in language other than their mother tongue, dealing with complicated forms and processes and for the very poor-maintaining minimum balances etc. There are practically no alternative mechanisms available in rural and much of semi-urban India to transact in any medium other than cash, making it impossible for the excluded to avail of cheaper and more convenient digital means of transactions, that are common among the more urban and included citizen. IPPB's products and services are therefore designed to address each of these needs of its target clientele and consists of the following (Source: IPPB

Figure 5-2) (IPPB, India Post Payments Bank Ltd. , 2019):

5.6.1 **Demand deposits – Savings accounts** – IPPB Savings accounts are available to anyone above 10 years of age. It can be opened with no minimum balance, in a paperless e-KYC process, with only the customer's AADHAR card and biometrics, using a simple, quick process available currently in 13 languages. Thereafter, there is no requirement of maintaining an average minimum balance. The account is activated instantly on opening and allows deposits up to an EOD balance of Rs 1 lac and unlimited withdrawals from the deposited amount. In case the customer has a PO savings (POSA) account, the two accounts can be linked and any amount in excess of the ceiling allowed in IPPB account can be automatically swept out to the linked POSA account at EOD. Apart from deposit/withdrawal, the account can be used like any bank

account for receiving payments, transferring funds, making utility bill payments, payment for airtime (mobile), DTH recharge, paying insurance premia etc. across all three channels i.e., PO counter, at customer's doorstep and through the mobile App, as per the convenience of the customer. Industry benchmark interest is calculated on EOD balances on a daily basis and paid quarterly. Free physical account statements are issued quarterly and free SMS mini statements are issued instantly.

IPPB Offerings:

DEPOSITS	• Savings Account • Current Account
MONEY TRANSFER	• Simple & Secure • Instant • 24X7
DIRECT BENEFIT TRANSFERS	• MGNREGA • Scholarships • Social welfare benefits and other • Government subsidies
THIRD PARTY PRODUCTS	• Loans • Insurance • Investments • Post Office Savings Schemes
BILL & UTILITY PAYMENTS	• Mobile and DTH recharge • Electricity, water & gas bills • Donations & insurance premiums
ENTERPRISE AND MERCHANT PAYMENTS	• Postal products • Digital Payment of e-commerce delivery (CoD) • Small merchants/ kirana stores/ unorganised retail • Offline payments • Cash Management Services

Source: IPPB

Figure 5-2 IPPB products and services

Current accounts – are meant for small merchants, *Kirana* stores and individual businessmen and is a pre-requisite for becoming a merchant on the IPPB platform. Account can be opened instantly, with no initial balance. Thereafter there is a requirement to maintain a nominal minimum average balance. The account can be used to accept customer payments after downloading and registering the IPPB mobile App. The account provides cash management, cheque book facility, unlimited cash deposit and withdrawal (subject to per day amount ceilings in rural areas). It provides the facility of accepting QR code based payments from IPPB customers for goods purchased

and services availed, ensures instant credit and settlement of transactions and hassle free accounting of payments directly into the merchant's account. IPPB also provides cash management services on nominal payment saving the rural merchant the trip to the nearby town to deposit/withdraw cash into/from his account. Assistance for doing all these is available from the postman/GDS through doorstep service.

5.6.2 **Money transfer** – IPPB provides seamless connection to the public payments infrastructure and offers most of the fund transfer options through the Immediate Payments System (IMPS) that credits the transferred funds immediately into the recipient's account 24x7, National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS) for more than Rs 2 lacs at a time. All these are priced competitively.

5.6.3 **Direct Benefits Transfer** – IPPB provides convenient access to all kinds of Govt. subsidy transfers into the customer's account which can then be accessed through all three channels. Customers can opt to receive DBT of the subsidies by linking their IPPB account for the purpose.

5.6.4 **Bill & Utility Payments** – IPPB provides mobile and DTH recharge, mobile, Landline, Broadband postpaid bill payments, payment of electricity, water, gas etc. utilities as well as payment of insurance premia using all three channels PO counter, doorstep and mobile App.

5.6.5 **Enterprise & Merchant Payments** – IPPB enables digital payments across PO counters (for payment of postal, POSB products), at doorstep and at merchant locations through the simple mechanism of QR code based payments. At PO counters and merchant locations this can be by both push and pull

methods. A smartphone user can scan the merchant (or PO counter) QR code on his IPPB mobile App to make payments. Alternatively, the merchant (or counter personnel) can scan the QR code (or bar code) on the customer's QR card to identify the customer and send an OTP authentication to the customer to complete the transaction, without the need for any other piece of hardware. IPPB thus provides an asset light, cheap, convenient and secure way to transact digitally without any added cost to the customer or the merchant and can bring down the cost of cash for the financial ecosystem.

- 5.6.6 3rd Party products – IPPB Plans to provide useful insurance, credit, retirement plans and investment products through future partnerships with insurance companies (including DoP's Life insurance products), banks, mutual funds, pension funds etc., especially for its rural customers who have virtually no access to but have felt needs for products like health and accident insurance, personal, working capital, education loans, pension products etc.

5.7 IPPB's Innovations

5.7.1 Doorstep banking

The ability of the postman and GDS to reach customer's doorsteps as part of their normal mail delivery functions has been leveraged by IPPB to provide its customers the value added service of banking at their doorsteps. In a country where convenient access remains the most intractable problem for effective financial inclusion, this facility at a nominal service charge is likely to be the game changer for financial inclusion and the differentiator for IPPB. Currently, account opening, cash deposit/withdrawal (up to a ceiling amount of Rs 5000/- per visit), mobile recharge, bill payments, fund transfer, non- financial account

servicing such as nomination, registration of standing instructions etc. is offered through the postmen/ GDS at the comfort of the customer's own premises at a nominal charge of Rs 25/- for each cash transaction and Rs 15/- for digital transactions. The customer can either request for a doorstep transaction through phone banking or simply request service from a postman/GDS on his delivery beat.



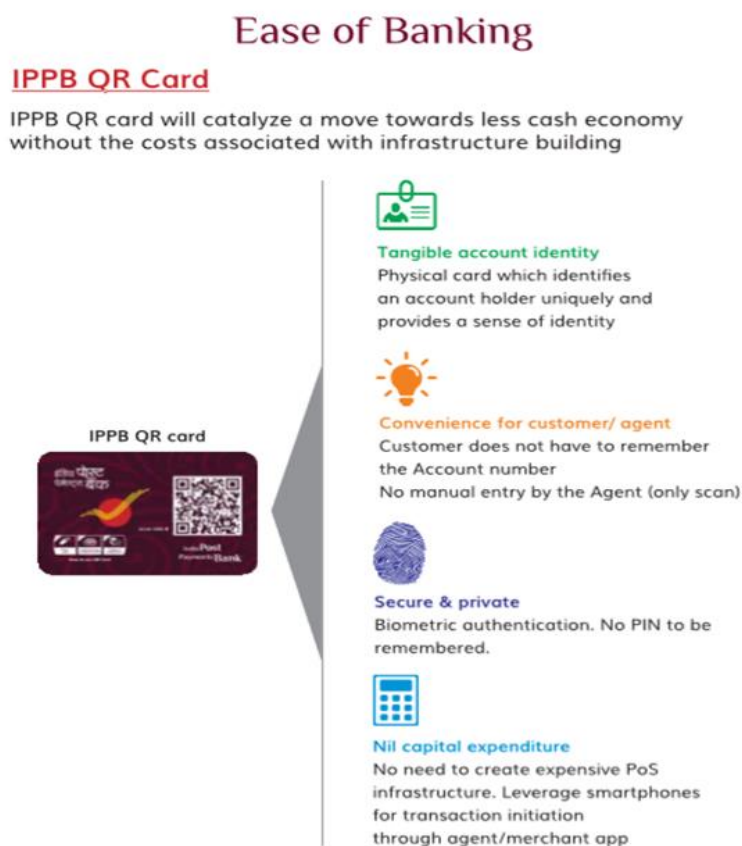
Source: IPPB official website

Picture 5-1 Doorstep banking

5.7.2 QR card

The IPPB QR card is a frugal innovation that is specifically designed to provide an uniquely simple, secure and convenient way of accessing their accounts to the financially excluded, who may not have the exposure, experience and sophistication to remember account numbers, PIN or be aware of ways to prevent unauthorized access to their savings. It is a simple plastic card with a pre-printed unique number encoded in the two dimensional QR code. At the end of the account opening process, a randomly selected QR card is scanned and the unique number on that card becomes linked to the customer's account number,

mobile number etc. The card gets issued after linking and is instantly capable of giving access to the account for transactions.



Source: IPPB

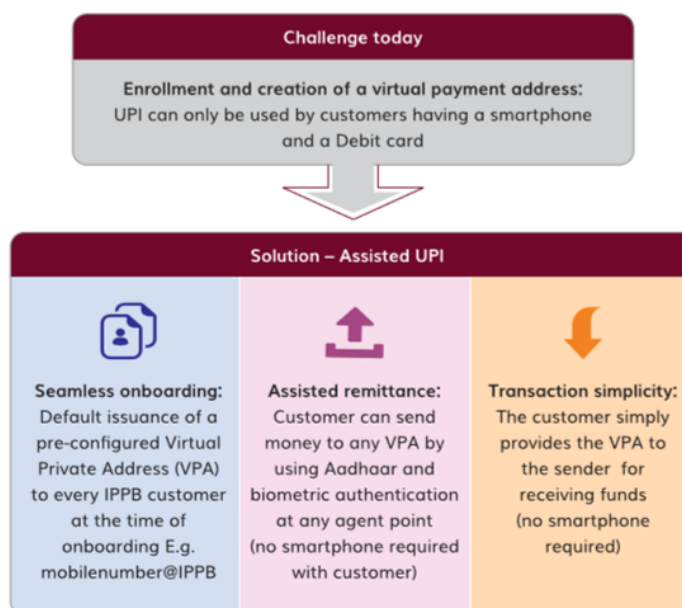
Figure 5-3: IPPB QR card- a pioneering innovation for financial inclusion

At any subsequent point, when a credit or debit transaction (whether deposit/withdrawal, or fund transfer, bill payment etc.) is required, the customer only has to produce her card. The doorstep banking agent/PO counter personnel then scans the QR code and proceeds with the transaction, which is completed only with the biometric authentication of the customer. Therefore, it becomes very easy for even an illiterate person to transact confidently. One common fear of the uninitiated is the loss of cards. Since the transaction from the account can only be done on personal authentication and at one time only one QR card be linked to an account, the loss of the QR card poses no risk to

the account holder. Since it costs a tiny fraction of what a conventional card would and is randomly issued from available inventory, IPPB can easily cancel the earlier card and re-issue another without complicated inventory management.

Assisted UPI – A first in India

A unique financial inclusion initiative in partnership with NPCI



Source: IPPB

Figure 5-4 Assisted UPI - a first in India

5.7.3 Assisted UPI

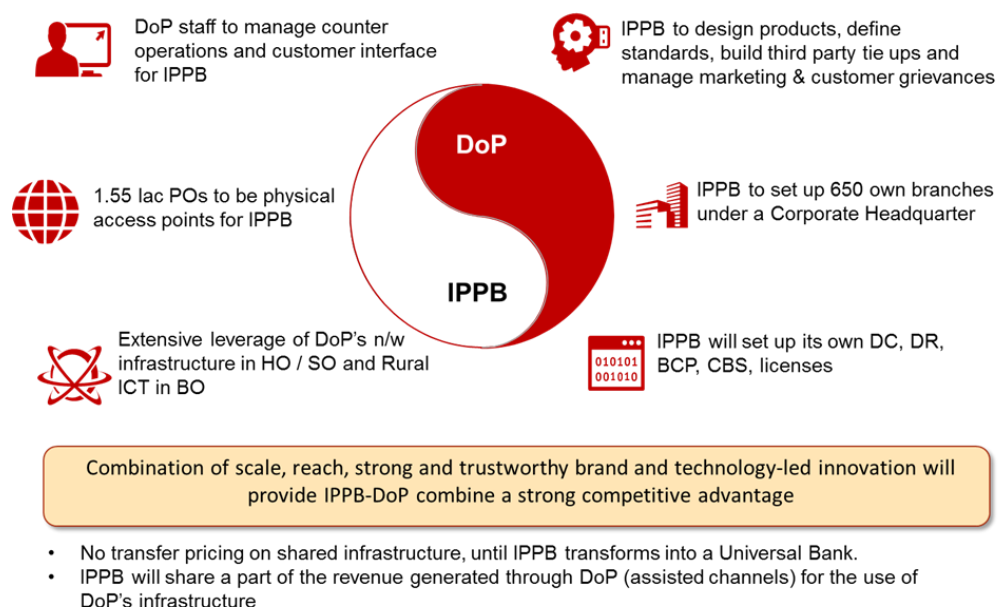
Since 2016, the National Payments Corporation of India (NPCI)'s Unified Payment Interface (UPI) has become a preferred mode of inter-operable digital payments in urban areas. However, although the payment process itself is simple, the process of on-boarding on the platform is not. It also requires the customer to have a debit card, again not a given among the poor and the rural account holders. By implication, UPI is available only to the already financially included and those with smartphones. Therefore, IPPB in collaboration with the NPCI, pioneered an assisted UPI platform, in which along with the account a default virtual payment address (VPA) ID is generated that would allow the customer to receive and make UPI payments using the VPA ID as a proxy to the account number Source: IPPB

Figure 5-4. This would be very beneficial for remittances which otherwise requires account numbers and IFSC code of the receiving bank, difficult proposition for the newly included, even those who have only a feature phone.

5.7.4 Multi-lingual operations & read aloud facility– Keeping in mind the comfort of its customers and in order to give maximum confidence to them, all of IPPB’s channels and products are available in 13 major Indian languages. Additionally, at all important points of a transaction before and after the account is debited or credited, a read aloud functionality of the agent App (the application on the mobile devices of the postal agents) loudly articulates the amount and the nature of the transaction about to be/ just performed and is followed by instant confirmation through SMS.

5.8 DoP – IPPB coordination

The relationship between DoP and IPPB was constructed on the lines of a typical business correspondent model, and was formalized using a Memorandum of Understanding (MoU) with laid down service quality standards. Each organization is supposed to play to its strength while complimenting the other in a synergistic collaboration.



Source: IPPB Detailed Project Report

Figure 5-5 DoP- IPPB integration model

At a broad level, IPPB's organization structure has a corporate office with central control over operations, circle level offices with circle level oversight, and branches with territorial oversight and operations. Since IPPB leverages DoP's manpower and infrastructure for customer facing operations, its engagement with various DoP stakeholders across all levels is crucial to ensure alignment of objectives, and operational compliances. Institutional mechanisms have been put in place for joint coordination and monitoring exercises at various levels at regular intervals.

5.9 Technology

IPPB has deployed state of the art agile, scalable, secure, technology that allows fast on-boarding and quick transactions across the desktop (in urban PO counters) and the mobile channel (both self-service customer App and the assisted agent App). It has provided the desktop software on DoP's existing desktops in the (urban POs) Head Post Offices and Sub Post Offices and

supplied the App as well as the hardware (mobile phones and biometric readers) in the (rural) Branch Post Offices.

5.10 Training and communications

The training of an estimated 3 lac postal assistants (counter personnel), postmen and GDS on the basics of banking and IPPB operations has been one of the largest re-skilling exercises ever taken up. The accent has been on simplicity and functional knowledge of the (postal) agents which would be enhanced by the on the job handholding provided by the IPPB field staff

5.11 IPPB personnel

IPPB has been manned by the best talent available in the banking (both public and private sector) and payments industry in India. It has a corporate HQ manned by subject matter experts and is headed by a professional Board, quite independent of and yet well-coordinated with DoP with the Secretary DoP also serving as the Chairman of the Board of Directors of IPPB. However, more importantly, 95% of IPPB personnel are field functionaries. In particular the cadre of the Territory Manager/Officer who have the role of re-training, handholding, monitoring the postal frontline agents apart from local marketing and customer acquisition functions with a jurisdiction of up to 150 post offices under an IPPB branch, are going to be the key to the success of IPPB's financial inclusion efforts.

5.12 Incentives to agents

IPPB would pay commissions from its earnings to DoP for every transaction done through DoP, part of which would be paid to the staff as incentive based on a defined structure (for e.g. flat incentive for account opening, percentage based for transactions). The GoI has approved paying the incentives accrued

directly into the agents' account so that he/she is motivated in conducting IPPB's business and through it, the financial inclusion agenda.

5.13 Summary

It would appear therefore, that IPPB has all the ingredients in place for making an effective push for financial inclusion across the length and breadth of the country. It is a very significant step taken by the Government of India with a great potential for success. It has been launched on 1st Sept, 2018 and though it has been less than 6 months, it has very rapidly spread its operations to more than 1,30,000 post offices. It is important to take stock of how it is being perceived and the early signs of acceptance of its FI measures among its target clientele. Since its success would impact a huge population, it is also important to see if there are any implementation bottlenecks and if some mid-course corrections are required. That will be the focus of the next two chapters of this study.

Chapter 6

Findings & Analyses of Data

6.1 Introduction

6.1.1 This study primarily explored the barriers to financial inclusion in rural areas and among the more excluded sections in urban areas and the potential of IPPB in lowering these barriers, through a pilot study of the early signs of acceptability of IPPB's financial inclusion (FI) measures among its target clientele of individuals, especially women, urban migrants and low income households in both rural and urban areas.

6.1.2 Considering the target respondent profile, the study employed a primary survey through a semi-structured interview schedule administered by the researcher in one-on-one conversation with respondents. 50 respondents were selected through convenience sampling among the target clientele including some mobile banking users in three districts of two NCR states (Delhi and Haryana). The interviews were conducted on various days from the last week of November, 2018 to the first week of January, 2019. The interview schedule was rigorously tested in two rounds of pre-testing on 9 respondents similar to the target respondent profile drawn from the same two states. It was also peer tested by two service colleagues who provided useful suggestions. The insights gained were used to arrive at the final set of questions. The interview schedule (Annexure 1) was structured into 5 broad sections; Part A - Respondent information (Q No. 1 to 16) detailing the profile of the respondents. Part B - Financial Services availed (other than IPPB) (Q No. 17-32), detailing current status of financial inclusion/exclusion of each respondent. Part C – IPPB

account (Q No. 33- 46) assessing awareness about IPPB, possession, mode of on-boarding and usage of IPPB accounts. Part D – Acceptability of IPPB’s measures (Q No. 47- 64) – exploring user experience and perceptions about usefulness of IPPB’s FI measures and Part E – Likelihood of adoption (Q No. 65 – 71) – eliciting responses on likelihood of future usage.

6.1.3 Focus Group Discussions (FGD) with about 15 participants were held, one each at an urban and a rural location to understand the major concerns of the community as well as to triangulate the findings of the individual responses.

6.1.4 **Chapter structure-** Before going to the details of the findings of the survey, a general perspective of financial services available at the survey locations is presented in the following section 6.2, followed by respondent profile in section 6.3, current status of financial inclusion at these locations in section 6.4, the factors that cause some to be effectively excluded in section 6.5, how IPPB measures up to address the barriers and early indications of the customers’ acceptability of its offerings in section 6.6 and suggestions of the customers for making IPPB’s products and services more useful to them.

6.2 FI perspective of the Survey locations

6.2.1 The locations were chosen from among the access points that had gone live at launch or shortly thereafter and had achieved varying degrees of customer acquisition. They were selected carefully to include migrant colonies in Sangam Vihar and Kalkaji in South Delhi district, small business persons and low income families in Badarpur and Anangpur (urban village) in Faridabad district and a cross section of respondents in Ahulana (rural village) in Sonipat

district Haryana (Figure 6-1). FGDs were held in Anangpur (28th Dec, 2018) and Ahulana (3rd Jan, 2019).

6.2.2 Among the urban survey locations, Kalkaji is a middle class locality with pockets of JJ clusters. It has a plethora of bank branches and provides comparatively the highest access to formal financial services of all four locations in the study. The migrants can be seen thronging the branches around pay day to send money home.

6.2.3 Sangam Vihar, is Delhi's largest unauthorised colony with mostly migrant population. There are Bank branches nearby but do not have enough capacity to serve the requirements of the teeming populace of the colony. A visit to the branches reveal long queues, jostling crowds, frayed tempers and harassed bank officials.

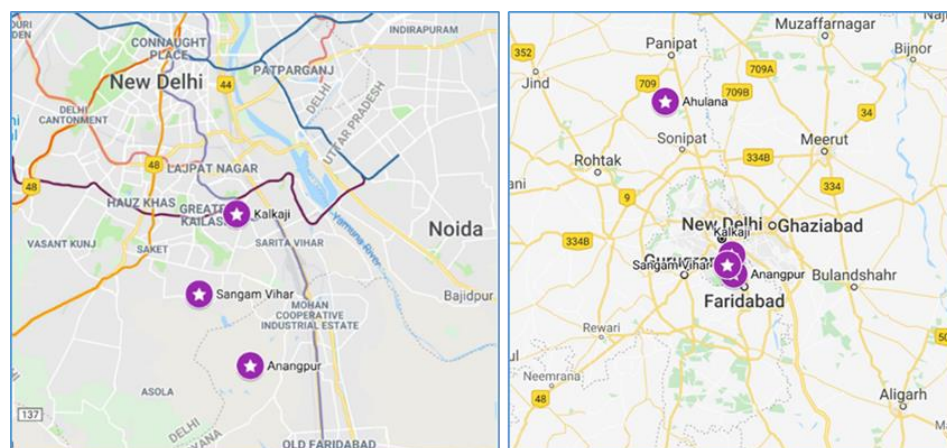


Figure 6-1 Survey locations

6.2.4 Anangpur is an urbanised village that has recently come under the Greater Faridabad municipality but is yet to get a bank branch or be connected by regular public transport. Situated 7 kms away from Faridabad city, the nearest bank branches are 4 km away in a gated, affluent neighbourhood called the 'Greenfield colony'.

6.2.5 Ahulana is a village of about 3400 population, 35 Km from the district HQ at Sonipat. 70% adults of the village are engaged in farming activities. The village has no bank. Most villagers have to travel 13kms to Ganaur, the Tehsil HQ, to access their accounts. Some who have ATM cards need to travel 7 km to another village with a Central Bank of India branch and ATM. However, the ATM is apparently not serviced regularly and is reportedly out of cash most of the time. It was indeed found out of cash on the date of survey. The village has no public transport. Some private jeeps ply to Ganaur twice a day to connect the local passenger train (timings not matching with the Bank counter hours). Therefore, the villagers are required to use their own/hire private transport/depend on friends and neighbours to go to town.

In each of these locations post office is available and the services of India Post Payments Bank have commenced.

6.3 Respondent Profile

This section presents the findings of Q no. 1-16 of Part A of the interview schedule. 50 respondents of both genders, different age groups, educational status, varied occupations, income groups and access to technology were interviewed to understand how different factors of accessibility and availability of formal financial services impact their adoption of these services. This section presents the attributes of the respondents interviewed.

6.3.1 Rural-Urban profile: Consistent with the focus of the study, more rural respondents (60%) were interviewed. (Figure 6-2)

Location of respondents

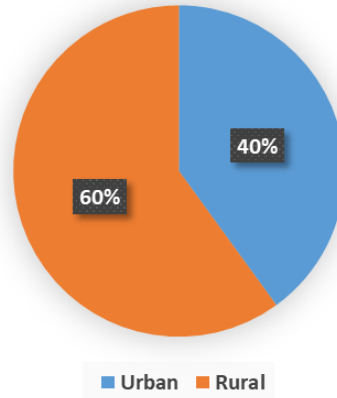


Figure 6-2 Respondent profile: Rural- Urban

6.3.2 Gender profile: Initially due to the social customs in Haryana which even in this day and age, discourage women’s movements in public spaces, the researcher faced difficulty in getting women to participate in the study. However, all out efforts were made in enlisting the support of some senior women of the community and Asha and ANM workers, to ensure near equal female participation. Ultimately, 22 women participated taking their proportion to 44% of the total respondents (Figure 6-3). 54% females interviewed were from rural areas as were 64% males interviewed.

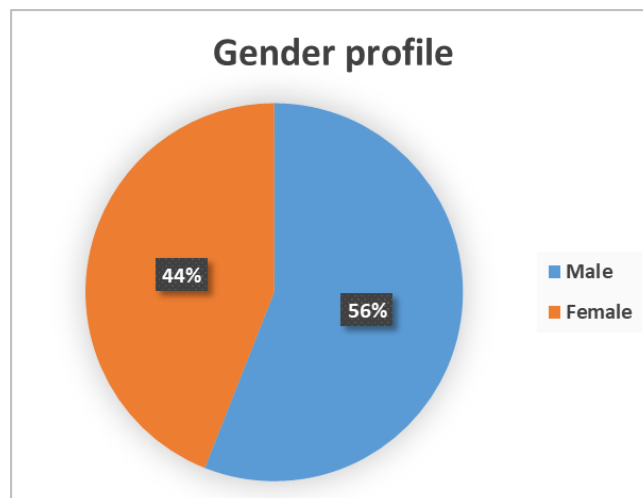


Figure 6-3 Respondent Profile: Gender

6.3.3 Age profile: In order to gain insights into specific inclusion issues faced by people, care was taken to talk to respondents of all age groups, while focussing on the working population. A robust participation of respondents over the age of 60 years was ensured (Figure 6-4). Thus the age profile of the respondents straddled the entire age spectrum from 15-35 years (34%), 35-60 years (44%) and > 60 years (22%).

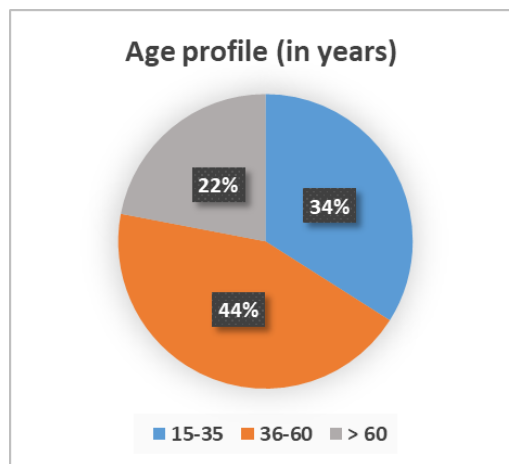


Figure 6-4 Respondent Profile: Age groups

6.3.4 Languages known - Respondent's comfort with languages was also ascertained (Figure 6-5). 59% were comfortable only with vernacular language.

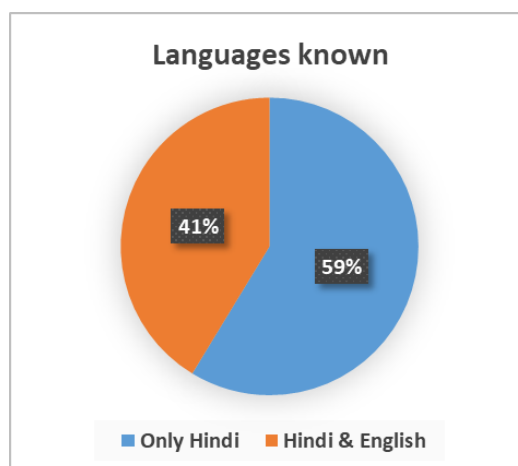


Figure 6-5 Respondent profile: Languages Known

6.3.5 Education profile: The respondents belonged to different educational backgrounds (Figure 6-6). 86% of the respondents were educated but of the 7 respondents who had received no formal education, five were female above 35 years of age and two males over 60 years of age. Equal number of males and females had attended primary and middle schools but the proportion of males who received higher education increased with each stage after that. As will be borne out in subsequent sections, lower education levels seem to have implications for employment, financial independence and attitudes towards use of financial products for both gender.

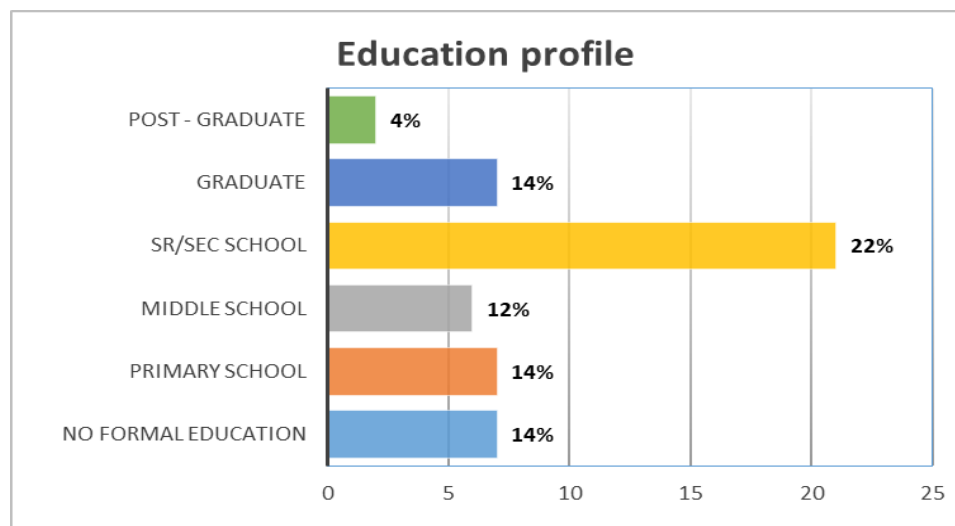


Figure 6-6 Respondent profile: Education status

6.3.6 Occupation profile: Attempts were made to include respondents from various walks of life in the study (

6.3.7 Figure 6-7). Housewives were included as a separate category. Except for the 16% Government servants all other respondents were in the informal sector. The largest group were farmers, followed by housewives, public and private

servants, businesspersons, labourers, drivers and some active job seekers who are currently unemployed.

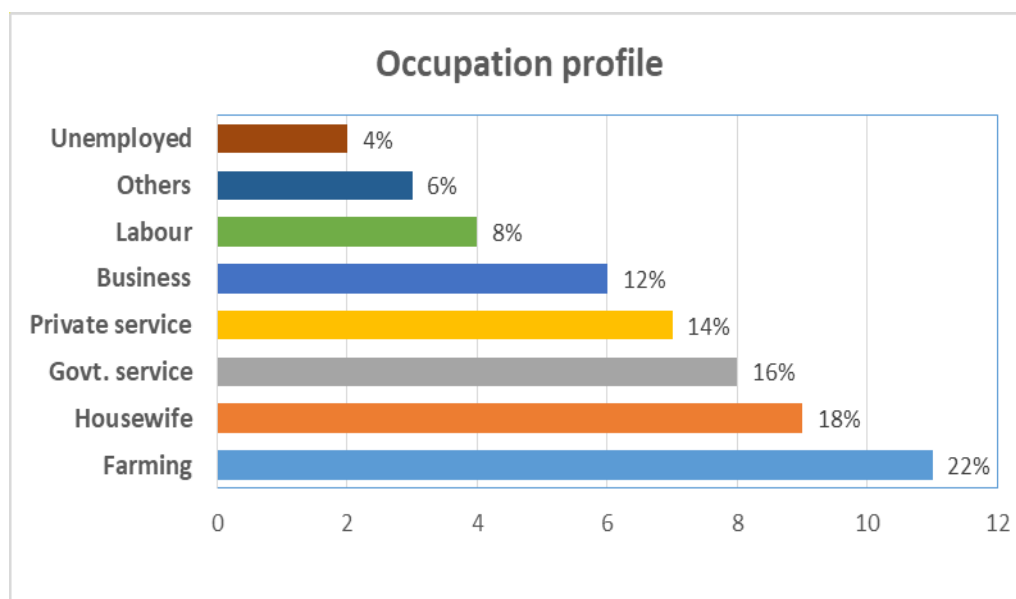


Figure 6-7 Respondent profile: Occupational status

6.3.8 Migrants: 18% respondents were economic migrants, all living in urban areas. 8% were recent migrants, having shifted within the last two years. 6% had their families staying at their native place in other States. 6% respondents had set up their own small businesses, 4% were blue collar workers (drivers etc.) and the others were white collar workers employed in the private/public service.

6.3.9 Income profile: In consonance with the aim of the survey, the focus was on interviewing respondents in the lower income brackets. 72% of the respondents reported annual family income of less than Rs 5 lacs (Figure 6-8). Only 6% of the rural respondents reported annual family income of >Rs 5 lacs while 60% reported income of <Rs 1 lac. In contrast, only 10% of the urban respondents reported income of < Rs 1 lac. 83% of those who responded 'can't say' to the question, were women, further emphasising their marginalisation in financial

matters. As brought out in subsequent sections, income levels appear to impact the extent of financial inclusion.

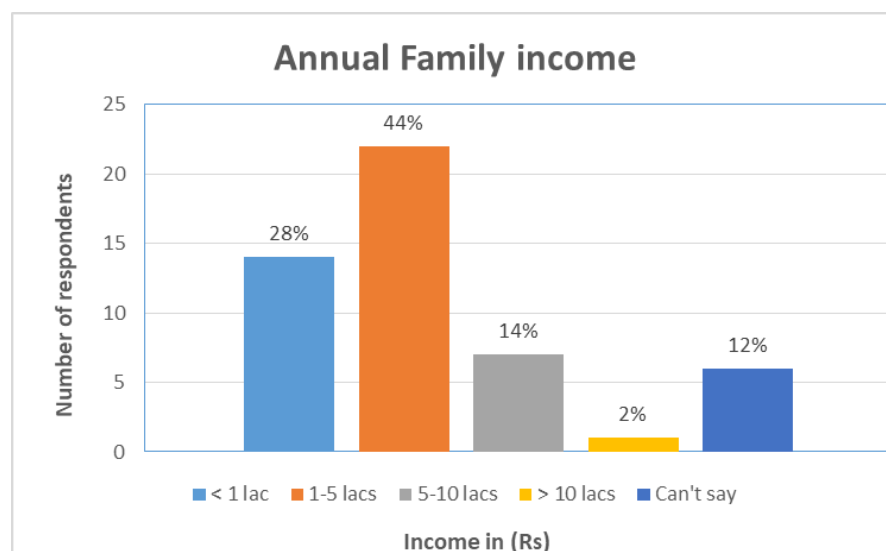


Figure 6-8 Respondent profile: Annual family income

6.3.10 Mobile ownership: 88% of the respondents own mobile phones. The total number of smartphone and feature phone owners were equal at 22 each. Although there were many more feature phone owners in rural areas compared to urban areas, the number of smartphones among the rural respondents were more comparable to their urban counterparts (Figure 6-9). 83% of those respondents who did not own mobiles, were women. Even in rural areas, those with smartphones were found confident of using WhatsApp and even Facebook.

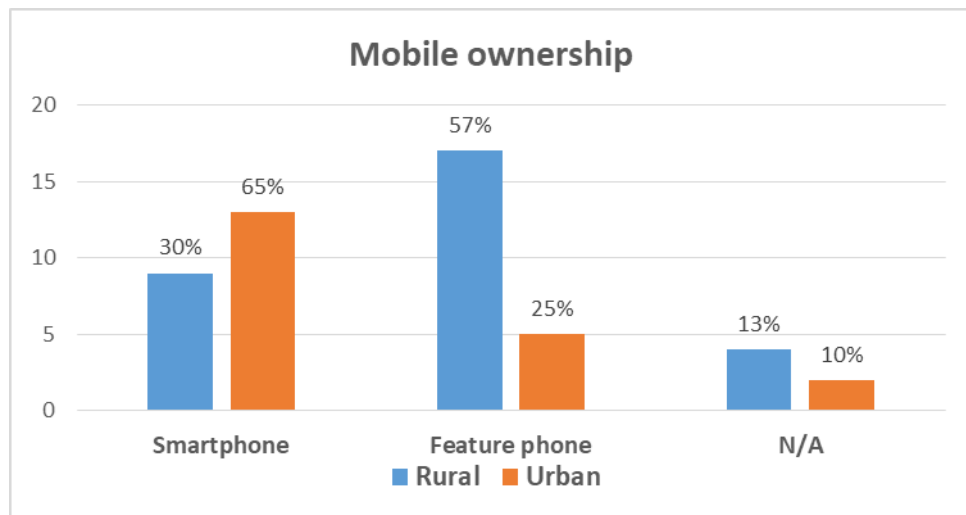


Figure 6-9 Respondent profile: Rural Urban divide in type of mobile phones owned

6.3.11 Quality of mobile connectivity - 96% of the respondents reported getting good mobile connectivity. It bodes well for banks like IPPB that have given primacy to the mobile platform for banking and payments.

6.3.12 Internet connectivity - Only about 20% respondents had internet at home, mostly in urban areas.

6.3.13 Distance from service provider – In two survey locations (Kalkaji and Sangam Vihar) both Bank/PO were available within 2 Kms. However, in Anangpur Banks/ATMs are 4 Km away and in Ahulana, for most respondents, Banks were 13 km away, some had accounts in a Bank 7 km away. The nearest ATM is also 7 Km away. At all locations Post office was available at an easily accessible place within walking distance.

6.3.14 Key takeaways – Respondents were reasonably distributed among all relevant categories to afford a well-rounded appreciation of the financial inclusion needs of the target clientele of IPPB. All respondents were willing to be

interviewed and most were articulate about their financial needs and current usage of financial services. About half of the respondents who participated in individual interviews in Anangpur and Ahulana also participated in the FGDs held at these locations. In the following sections, wherever the views expressed in the FGD were substantially different or found to meaningfully supplement the information gleaned through the individual interviews, they are separately mentioned as part of the analyses presented at the end of the sections.

For example, most participants in FGDs reported that they get good mobile connectivity. There are issues with consistent electricity supply in both locations in Haryana but they are able to recharge their mobile phones. There is hardly any internet connections in individual homes and since mobile data is now quite affordable most are unlikely to acquire PC/laptop or internet at home.

The next two sections 6.4 & 6.5 delve into the Research question no. 1 viz., **“What are the major reasons for poor adoption of formal financial services in rural India and among urban migrants?”**

6.4 Financial Services availed – Current status (other than IPPB)

6.6.1 This section presents the findings from Part B of the interview schedule. Through Question 17-32, the respondents were asked about the financial services (other than IPPB) they were availing and the mode of financial transactions that they were using currently, in order to understand their ease of access and comfort of usage of existing formal financial services. The aim was to identify those who were not using available formal financial services, optimally.

6.6.2 Possession of Accounts – Q no. 17 asked respondents what all physical/digital accounts they possessed. 88% respondents reported having bank accounts, 44% also had Post Office Savings Bank (POSB) accounts, 11% had digital wallets/pre-paid instruments, etc. However, 12% possessed none (Figure 6-10). 36% of the bank account holders were female. All rural respondents (60% male & 40% female) had bank accounts. 70% of the urban respondents (50-50% male and female) possessed bank accounts.

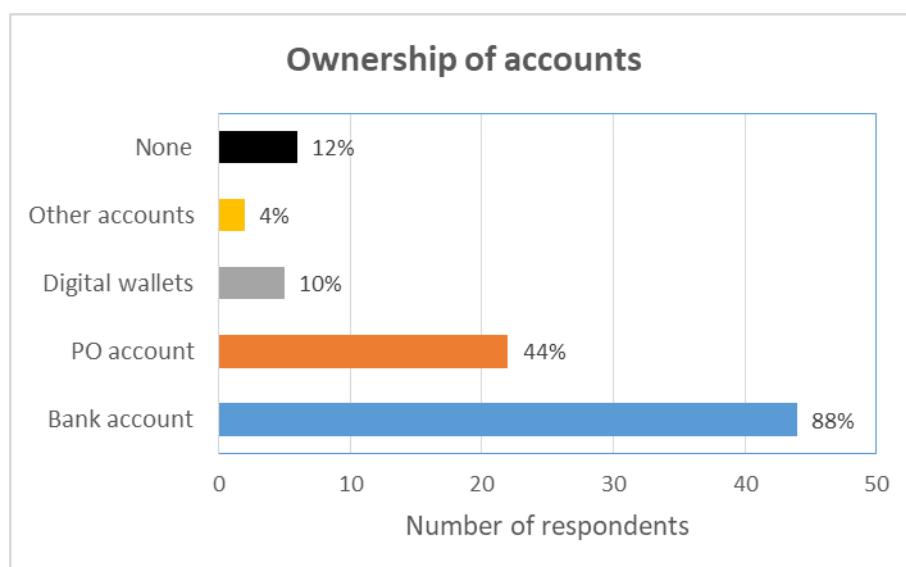


Figure 6-10 Ownership of Accounts

6.6.3 Although 90% respondents lived within walking distance (2 KMs) of a post office, more than half did not own POSB or Rural Postal Life Insurance products provided by the post offices. 77% of the PO all account holders in the survey were rural respondents.

6.6.4 Q no. 18 asked them how many bank accounts the respondents possessed. 36% had more than one bank account. Out of these 77% were males. Only

18% of all female respondents had more one bank account. The corresponding figure for men was 50%.

6.6.5 Q no. 19 asked those who are unbanked why they did not possess accounts.

All 6 unbanked were female respondents from Anangpur. Reasons given ranged from not having enough money to save cited by all, to the lack of banking facilities nearby, availability of accounts with other family members and lack of required documents cited by most. A minority felt they did not need accounts and were cognizant of the social disapprobation of women's movements in public. The results are analysed in detail in section 6.5.1 on the unbanked.

6.6.6 Financial transactions made –In order to understand what the respondents'

transactional requirements were, through Q no. 20 all respondents were asked about the frequency of the different types of financial transactions they were making (Figure 6-11). The most frequently made transactions by all respondents were payments for purchases of daily use. 58% respondents reported making these payments daily, while 36% do it weekly. Payment of mobile recharge/utility bills are the next most common transactions. 70% make them every month. These are followed by savings transactions. 26% save every month and 13% save every qtr. 24% transfer funds to someone else every month. Negligible numbers of respondents reported paying insurance premium, EMI for loans or investments at monthly, yearly or occasional intervals.

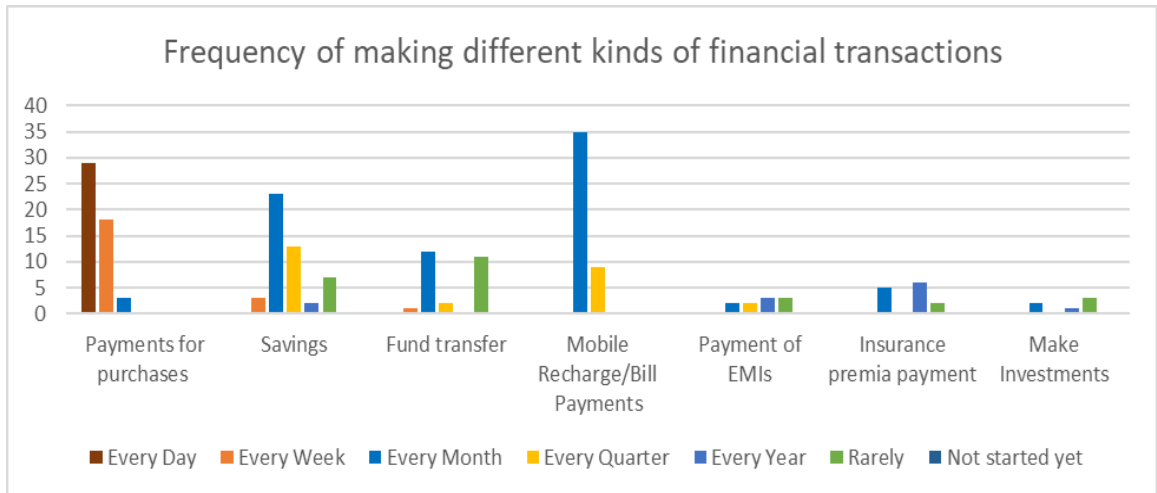


Figure 6-11 Respondents' frequency of making different kinds of financial transactions

6.6.7 Therefore, the **spectrum for financial transactions requirements** for the respondents, seems to be payments, savings, fund transfers, insurance, credit and investments, in that order (Figure 6-12). This is also the practical sequence of gaining financial capability for an individual.

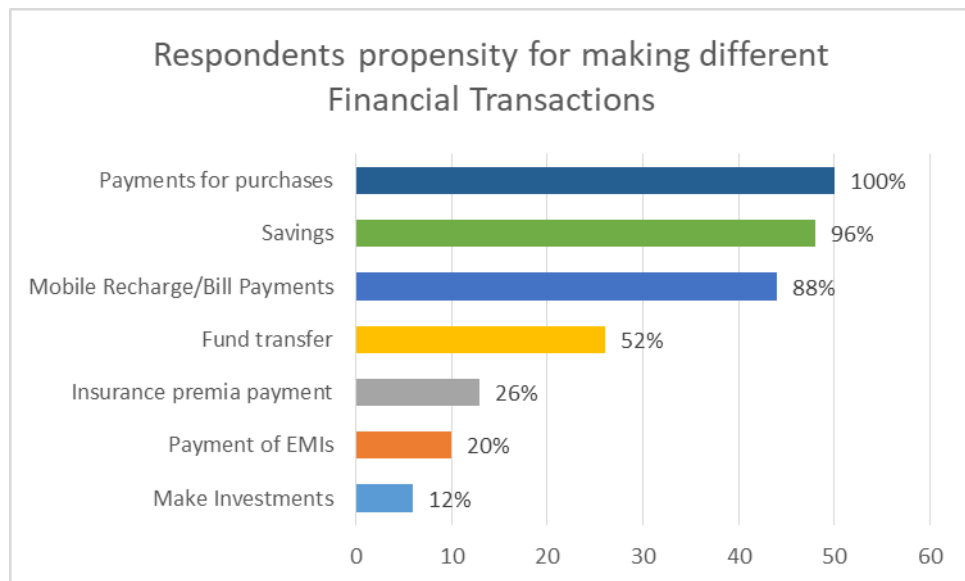


Figure 6-12 Respondents propensity for making financial transactions

6.6.8 **Usage of bank accounts** – In order to understand what proportion of the respondents' requirements for financial transactions were being fulfilled by their bank accounts, Q no. 21 asked those who possessed bank accounts,

what they used the accounts for, majorly. An overwhelming majority (75%) used their accounts for savings, followed by fund transfers (38%), receiving salary/wages/DBT (20%). However, the use of bank accounts for the two most frequently made transactions viz., payments for purchases and payment of mobile recharges/utility bills was very poor at 14% and 18% respectively (Figure 6-13) and confined mostly to urban respondents who regularly made digital payments. Although Savings was clearly the most important reason for use of bank accounts for an overwhelming majority, 25% of those who reported saving, at least occasionally, did not use bank accounts to do so. Thus, barring a few urban, digital payments users, bank accounts were not being optimally used by most respondents, for most of their frequent financial requirements.

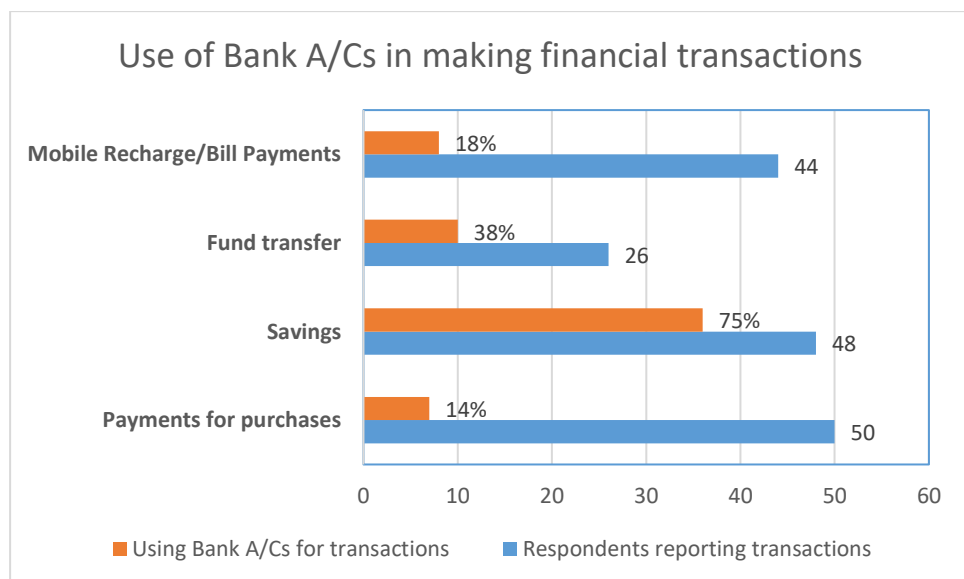


Figure 6-13 Proportion of respondents using bank a/cs for making different financial transactions

6.6.9 Dependence on Cash - Respondents were asked how much of their payment transactions they made in cash (Q no.28). 66% reported making 100% of

their transactions in cash. Another 20% used cash most of the time. Only 14% reported < 50% cash usage. 86% of this latter group were urban and were able to make digital payments, while the only rural respondent who mostly used digital transaction was the young *Sarpanch* (elected village head) of Ahulana, a regular user of digital payments through Mobile banking.

6.6.10 Mode and ease of withdrawal of cash - A related question no. 29 dwelt on how they withdrew cash from their accounts. Only 28%, respondents used ATMs as the primary mode of cash withdrawal. Overwhelming majority of ATM users (78%) were urban. 74% rural bank account holders did not have ATM cards. Only half of the rural respondents who had ATM cards, regularly used them. However, on many occasions when the nearest ATM in another village did not have cash, they had to access bank counters. Of the rest, some who had PO accounts sometimes withdrew cash from PO counters, but majority (63%) had to travel to the bank counter at the Tehsil HQ to withdraw money. A few reported inability to fill forms/use ATMs to withdraw money without assistance.

6.6.11 DBT beneficiaries – Through Q no. 25-27 respondents were asked whether they were DBT beneficiaries, what benefits they were receiving and how. 48% respondents were receiving DBT of LPG subsidy in their bank accounts. 75% beneficiaries were in rural areas. 62.5% were male. 50% were in the 35-60 years age group. Interestingly, there were fewer beneficiaries (43%) in the poorest income bracket (Figure 6-14). All of them were rural, had to travel 13 km to their bank account to access the DBT amount and as a result only 33% reported accessing their bank accounts regularly. Once again, access to

even benefits, was most difficult for those who most needed it. Beneficiaries of Old age/ widow/handicapped pension in Ahulana reported benefits transfer to their Post office accounts and no difficulty in access.

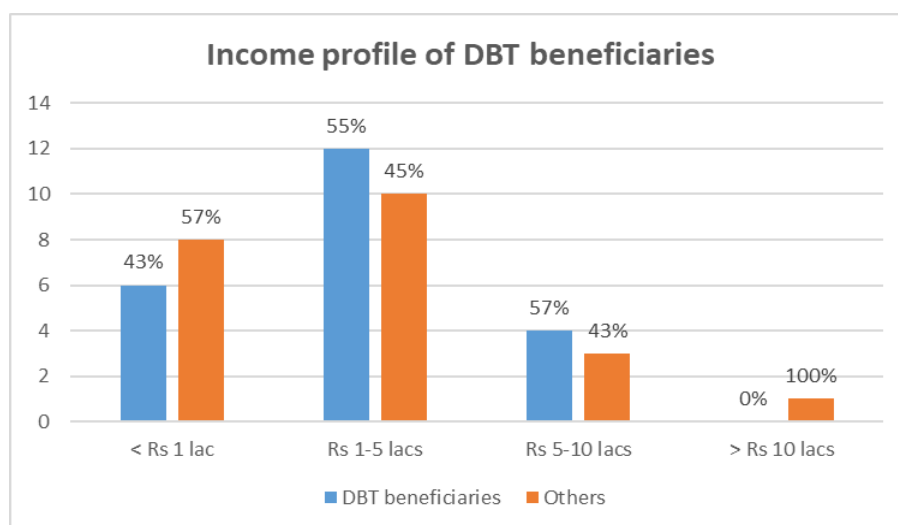


Figure 6-14 Income profile of DBT beneficiaries

6.6.12 Mode of bill payments – In response to Q 30, half of the respondents intimated that they paid for their mobile recharge at a nearby shop. Only about 26% were able to do this online either themselves or with the help of a family member. Only these respondents are likely to be using their bank accounts or digital payments instruments linked to their accounts for making these payments. The rest either paid bills at the concerned service provider’s outlet or sometimes through bill collection agents sent to rural areas by the service providers.

6.6.13 Mode of fund transfers – The family’s need to send money to other relatives/friends and the medium used to do so was ascertained through Q nos 31 &32. Only 14% respondent said they sent money to a family member every month. 86% of them used their bank accounts to do so. 18% reported sending money occasionally, 60% of them used bank accounts. However, almost all of the 26% who reported sending money on a rare occasion, did so

in cash through known person. A few mentioned going personally to hand over the assistance.

6.6.14 Frequency of use of bank accounts – In order to determine the extent of usage of bank accounts, through Q no. 23, the respondents were asked to indicate how often they used their accounts. About 26% reported using their bank accounts at least once a month and another 22% reported using it more often. However, 20% reported rarely using their bank accounts. Most of the 20% respondents who reported using their accounts about once a quarter, could not actually remember when they had last used it or for what purpose and are actually likely to be occasional users. This has to be seen in the context that the universe of their financial transaction requirements was much larger and far more frequent. Thus, only 48% respondents in this survey (Figure 6-15) were found to use their accounts regularly (i.e. at least once a month). Along with the unbanked, the remaining, who use it occasionally or rarely, are **effectively excluded (52%)**.

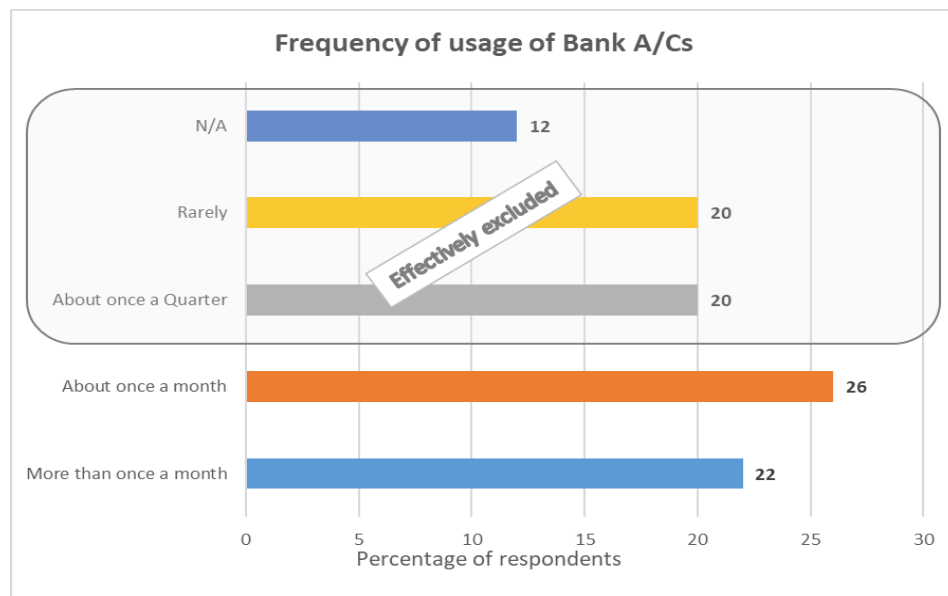


Figure 6-15 Respondents' frequency of using bank a/cs

6.6.15 PO Financial Services – Q no. 24 asked the respondents how much they used the financial services (other than IPPB) offered by the Post office. Most of the urban respondents seemed unaware of the financial services offered by the Post office. There was greater awareness and usage of PO financial services in rural areas where 65% respondents reported using their POSB accounts and Rural Postal Life Insurance products regularly, compared to 43% rural respondents reporting regular use of their bank accounts (Figure 6-16). Rural respondents intimated that earlier they were receiving all subsidies in their PO accounts or by money order at home but after the PMJDY program, DBT has been progressively moved to Bank accounts.

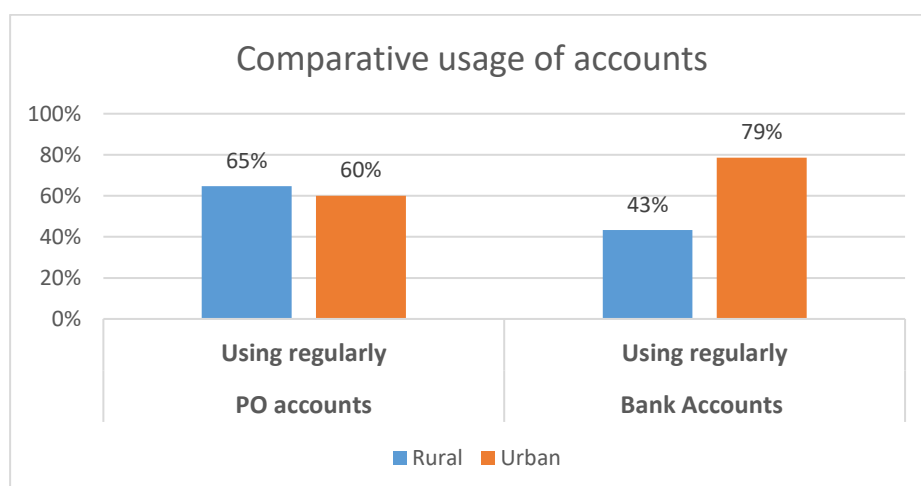


Figure 6-16 Comparative usage of Bank and Post Office accounts

6.6.16 However, 29% of the effectively excluded in rural areas were also not availing Post Office financial services in-spite of the PO being close by. Most of them were unaware of the services available. Therefore, sustained financial literacy programs are required for effective outreach.

6.6.17 FGD inputs at Anangpur – During FGD, the Corporator and residents at Anangpur, mentioned their major problem was that the bank branches were

4 km way. They had to use own/hire private transport and spend about Rs 50/- for each round trip and spend at least 2-3 hrs to even access the DBT they received for LPG subsidy or pay their electricity bills at the Department's extension counter. Compounding the problem for women are the social mores, in the *Jat* dominated areas, that restricts their movement in public. No woman could attend the FGD in Anangpur despite the researcher's requests, as their participation alongside men was not socially unacceptable. The men were not even supportive of the suggestion that banking could be brought to the women at their doorsteps. The women arrived later in small groups after the men left, with their faces covered and had to be interviewed inside the post office. It transpired that few women have their own bank accounts, or hold any jobs and even those who possess accounts hardly ever use them. If they needed to use the accounts, they had to depend upon the male members of their families to take them to the bank, help with documentation required and then escorted back. Interestingly, one apparently influential male participant who had been rather non-committal about any need for bank accounts of the women in his extended family during the FGD, later during individual interview, reversed his public stand taken. He agreed that women should have access to financial services because *"they'll use it more constructively for their families..."* and that *"since they are far busier than men throughout the day, the bank needs to be closer and services available at hours convenient to them"*. When asked whether banking at their doorsteps would help, he again reversed his earlier public position and said *"it would be really useful for women"*. He added that while *"he could not say this publicly in a community gathering but winds of change were blowing hard and it's a matter of time before a lot of patriarchal*

restrictions are discarded to accommodate young women taking up higher education and employment”.

6.6.18 FGD inputs at Ahulana - The FGD participants at Ahulana also reported difficulty with accessing the bank counters/ATMs. They reported greater ease of transacting in their local post office. For example, they felt it convenient that old age, widow and handicapped pensions were being paid into the beneficiary’s PO account in Ahulana but LPG subsidy beneficiaries were being inconvenienced by the DBT coming into bank accounts which was much more difficult to access, 13 Km away at the Tehsil HQ, especially since the ATM at a nearer location was mostly out of cash. There was much more consistency in views expressed in one-on-one interviews and the community’s views in the FGD in Ahulana.

6.6.19 Key analyses – High penetration of bank accounts have been achieved even in rural areas. However, the access to accounts is still difficult outside of the most urbanized areas. This has serious implications for inclusion. Further, in about half the cases, available accounts are not being used optimally due to a multitude of interdependent reasons. The most important reason is the inability to use bank accounts in rural areas for the most frequently made payment transactions, payments for purchases and utility bill payments due to the lack of acceptance ecosystem for account based payments. This causes a high dependence on cash. Even when the salary, wage, DBT or a fund transfer comes directly to a bank account, the recipient is unable to use it, unless withdrawn in cash. This limits the utility of the account significantly for those who are unable to access it easily. Post Offices are located close by

and rural citizen are able to use them easily. But till recently the combination of GoI's focus on Banks for financial inclusion drives and the limited bouquet of special purpose, small savings and life insurance products sold through post offices, have meant that while the larger interoperable financial system of the banks is practically out of reach for most, the post office in the neighbourhood is under-utilized. The resultant effect of the sub-optimal use of both institutions is causing a large proportion of the citizenry being left effectively excluded from the formal financial system.

6.5 The effectively excluded

For this study the effectively excluded are defined as those respondents who either do not have an account (**unbanked**) or do not regularly use their accounts at least once a month (**underbanked**). While these groups need to make essential financial transactions of various kinds such as payments, fund transfers, etc., they are unable to utilize the available formal financial services for most of their needs.

6.5.1 Unbanked respondents - All the unbanked respondents in the survey were urban housewives from Anangpur. Cutting across age groups, educational backgrounds and to an extent even income groups (Figure 6-17), these women came across as a rather un-empowered lot, with little financial say.

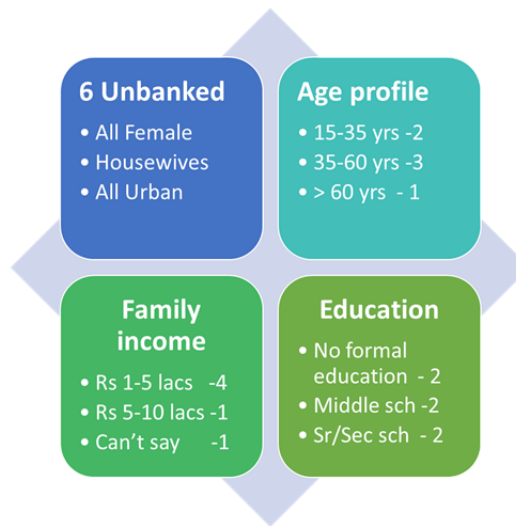


Figure 6-17 Profile of the unbanked respondents in the survey

They cited quite a few reasons for not having a bank account of their own (Figure 6-18), also mentioned briefly in para 6.6.5 of the previous section.

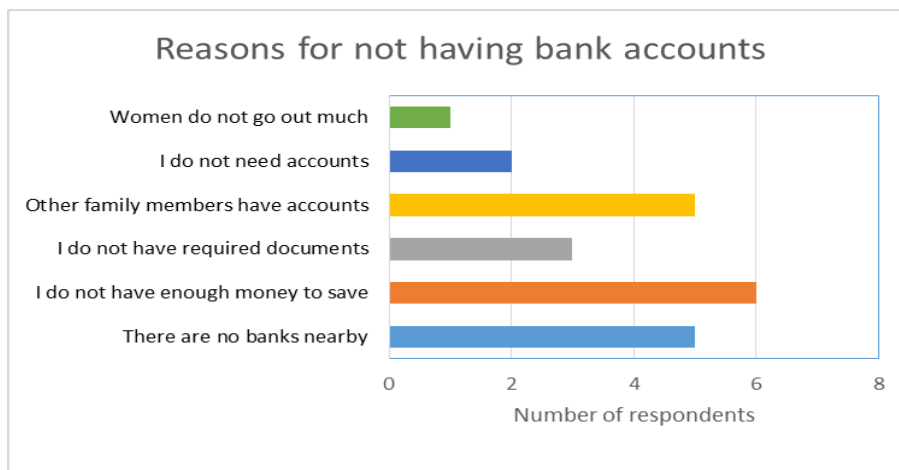


Figure 6-18 Reasons for not having bank accounts

6.5.2 However, the most pertinent answer seemed to be given by one young woman who said that the main reason was the movement of women in public spaces was frowned upon in their community. This cultural taboo was evident in the FGD where the menfolk clearly and authoritatively told the researcher that the women could not join alongside them, in the same meeting. The few women seen on the streets all had veils drawn. Surprisingly, the restriction on the freedom of the women to freely participate in economic activity was felt more

acutely in Anangpur, that is closer to both the national capital (10 km) and its district HQ (7 Km), compared to Ahulana, which is much farther away.

6.5.3 Interestingly, this lady was accompanied by her mother-in-law. On being asked whether this practice of holding women back from doing more with their abilities was not detrimental for the family, the latter considered for some time and opined that “*things needed to change and that the problem was more in families adhering to strict patriarchal mores*”. She thereafter, went and called a few more of her female relatives to interact with the researcher.

6.5.3.1 All these women admitted to saving small sums of money from the allowances given by their husbands for the family’s monthly household expenses. This meagre, hidden saving they then spent on an occasional indulgence for themselves or their children. They were apprehensive of saving in bank accounts as they were unable to access the bank on their own and did not want their men folk to know about the money they managed to save. As one of them said “*even if the men didn’t ask to use the money or reduce the amount given to them for household expenses, the amount saved was too meagre to justify the rigmarole*” of hiring transport, traveling 4 km especially when they could not do so independently and the men were not supportive. Therefore, in this case, **social exclusion seems to be an important cause of Financial exclusion.**

6.5.4 The Underbanked – Including the unbanked described above, 52% of the respondents of the study are effectively excluded for all practical purposes.

This section analyses the attributes of the underbanked and the factors that contribute to their relative exclusion from formal financial services.

6.5.4.1 58% effectively excluded respondents in this survey are women and 65% are rural respondents. Among the excluded too, more women in rural areas are effectively excluded. Exclusion seems to have an inverse relationship with higher education. 75% respondents with middle school or lower education profile are found to be effectively excluded compared to <10% of those with Sr./Sec or more educational attainment (Figure 6-19).

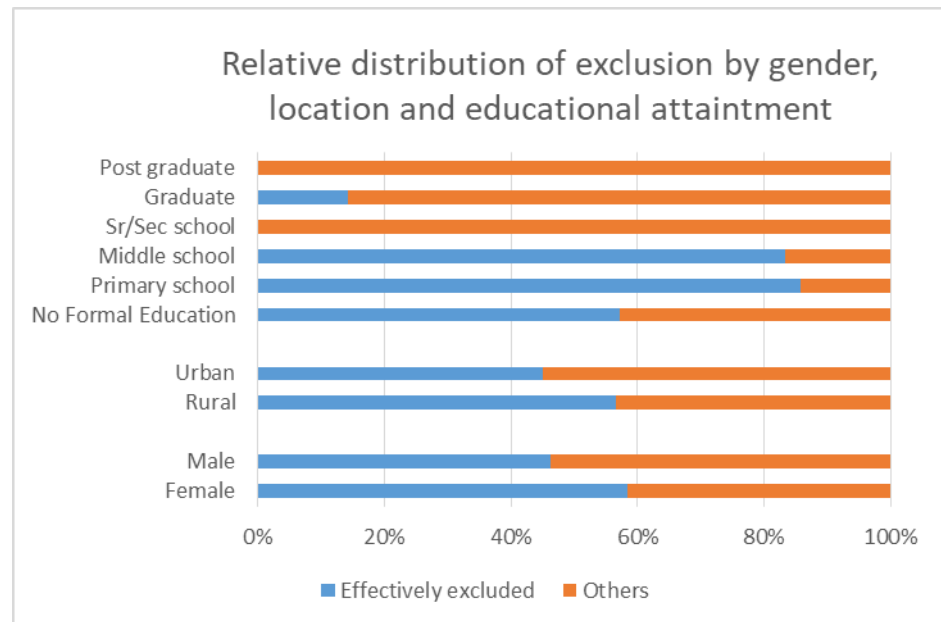


Figure 6-19 Relative distribution of exclusion by gender, location and educational attainment

6.5.4.2 Similarly, more respondents in the younger and older age groups 15-35 and > 60 years are underbanked than the ones in the working age group 35-60 years (Figure 6-20).

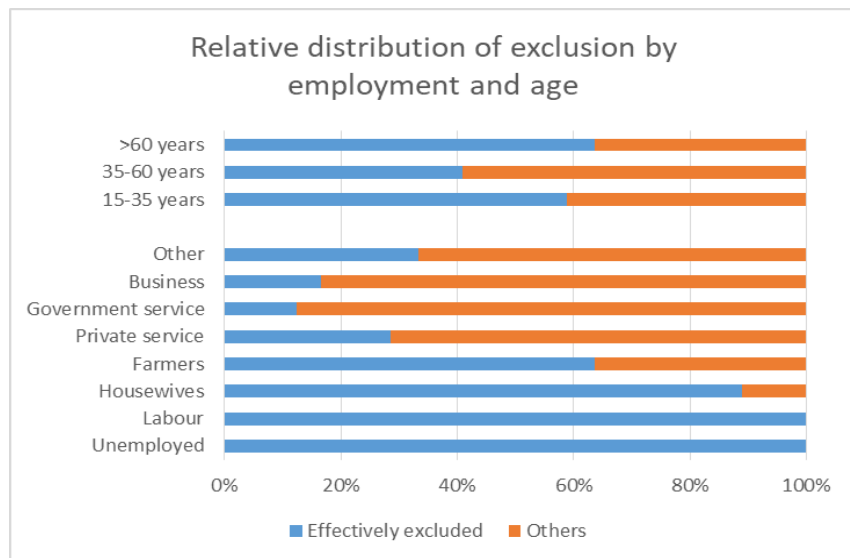


Figure 6-20 Relative distribution of exclusion by employment and age

6.5.4.3 All the un-employed, labourers, housewives and twice as many farmers are effectively excluded compared to respondents in business or salaried professions (Figure 6-20).

6.5.4.4 The most striking difference is visible in annual family income of the underbanked. 88% of those with income < Rs 50,000, 66% of those between Rs 50,000- Rs 1 Lac and 50% of those in the Rs 1-5 lac income bracket are underbanked, while only 12.5% of those having family income above Rs 5 lacs are underbanked (Figure 6-21).

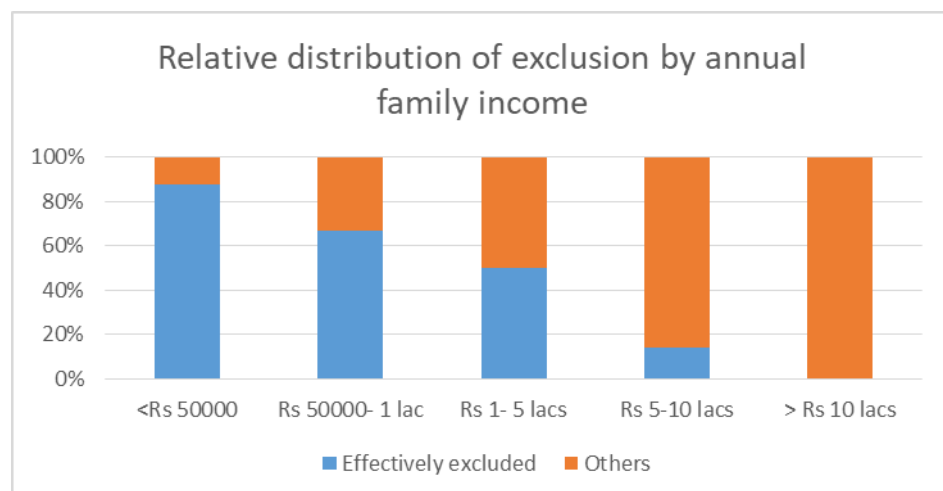


Figure 6-21 Relative distribution of exclusion by annual family income

6.5.4.5 Profile of the effectively excluded - Thus more people living in **rural** areas, **women, youth, elderly**, those having **lower educational level**, either **unemployed** or in occupations with **irregular income** streams and earning **lesser family income** are effectively excluded.

6.5.4.6 Cash usage - Almost all of the effectively excluded used cash for all their financial requirements. Lesser than 30% had access to ATMs. More than 75% would have to travel to the bank branch to withdraw cash (Figure 6-22). This is poignant in the context that, 30% of these respondents had annual family income of less than Rs 1 lac and could ill afford the transportation charges. As a result, a near complete dependence on cash coupled with high opportunity cost of access to accounts perpetuates a negative loop of voluntary exclusion. The cost of availing financial services for the very poor is thus far higher than what it costs the affluent.

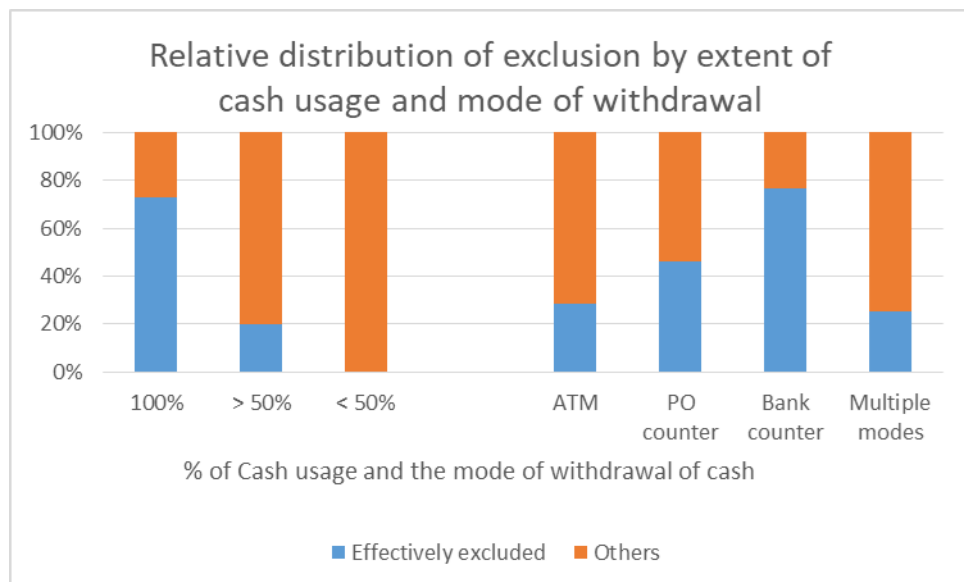


Figure 6-22 Relative distribution of exclusion by the extent of cash usage and mode of its withdrawal

6.5.5 **Factors influencing usage of Bank accounts** – Respondents were asked to indicate the most important reasons that impacted their frequency of usage of bank accounts. The respondents mentioned multiple factors that influence their propensity to use bank accounts. However, the most commonly cited were ‘distance to the Bank’, ‘crowds encountered’, overall ‘time taken to complete transaction’, ‘documentation required’, ‘complexity of procedures’, ‘lack of money to save’, opportunity ‘cost of use’, difficulty with ‘language of forms’, ‘lack of comfort’ in dealing with Banks and the ‘attitude of bank employees’. Other reasons given were ‘lack of awareness of products and services available’ ‘non-availability of cash in Banks & ATMs’ ‘lack of connectivity/ software malfunction’ on bank counters especially by the respondents who had to travel from far. Some of them mentioned ‘difficulty in getting conveyance’, ‘dependence on others for filling forms’, ‘rate of interest’ and even ‘reliability and safety of transactions’ (Figure 6-23).

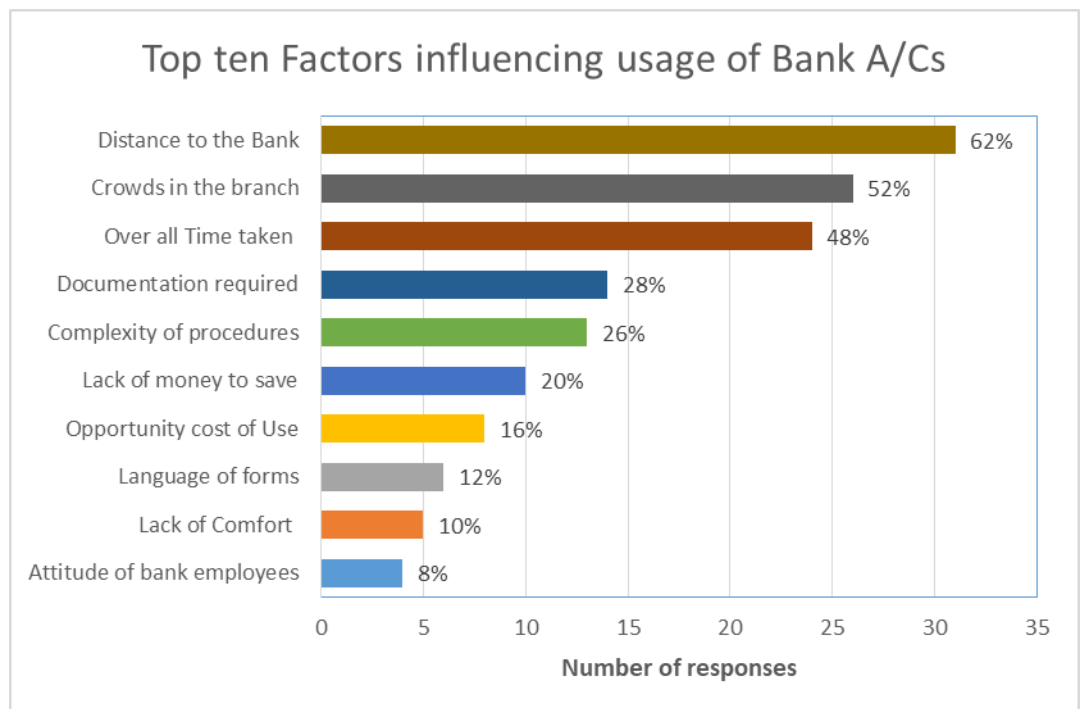


Figure 6-23 Top ten factors influencing usage of bank accounts

6.5.6 83% rural DBT beneficiaries mention ‘distance to the bank’ as the main difficulty in accessing accounts as do the 39% DBT beneficiaries who are effectively excluded. During FGD, a few beneficiaries of LPG subsidy said they had to shell out about 20% of the subsidy amount on transportation alone and therefore, they wouldn’t access their accounts more than 3-4 times a year.

6.5.7 **Key reasons for poor adoption of formal financial services identified –**

Thus the most persistent causes of exclusion that lead to poor adoption of financial services come across as:

- a) **Ease of access** (physical **distance**) to the service provider
- b) **Adequacy of availability** - exemplified by crowding in branches
- c) **Overall time taken** to complete a transaction -impacted by both the above
- d) **High opportunity cost** of availing the service – in terms of money and time
- e) **Reliance on documentation** – often difficult for the excluded to produce
- f) **Cumbersome paper based processes** – often with attendant problem of
- g) **Unfamiliarity with the language** and content of forms, especially for the uneducated and poorly educated
- h) **Lack of comfort** in dealing with impersonal bank officials for whom the financially excluded do not form the preferred customer base
- i) **Feeling of intimidation** and being condescended to – further erodes the confidence of the customer
- j) **Suitability of products** -Lack of easy to use and asset light payment options that maximized the benefits of accounts and minimized the opportunity cost of transactions.

6.5.8 These then are the issues that an institution like IPPB would need to address in order to further Financial inclusion among its target clientele. The following section deals with the **Research Question no. 4** viz., “what kind of Acceptability there is for IPPB’s FI measures among its target clientele?”

6.6 India Post Payments Bank

Since its nation-wide launch on 1st Sept, 2018, India Post Payments Bank has commenced operations at all four survey locations through the post offices as its access points. As one of the latest financial institutions to be licensed by the RBI with a mandate to deepen effective financial inclusion in rural areas, among low income groups and migrants and as the only bank 100% owned by GoI, it is expected to address some of the most persistent factors of exclusion. One of the greatest strengths of IPPB is that it rides on the huge, pre-dominantly rural network of the post office all over India. It has deployed an agent banking platform for rural areas that is operating through the Postmaster and delivery staff of the POs who have been trained as its frontline agents and equipped with smartphones and bio-metric readers. In bigger, urban post offices like the access points surveyed in Delhi, IPPB has also deployed desktop s/w for PO counters.

IPPB has commenced operations through the post offices at all four survey locations (from mid Nov in Kalkaji & Sangam Vihar and since launch in Sept in Anangpur & Ahulana). It has significant number of accounts at all four access points; Kalkaji HO (~100), Sangam Vihar (~90), Anangpur (~240) and Ahulana (~650).

This study henceforth focusses on how IPPB fares/ can be expected to fare against the 10 most persistent factors of exclusion identified in the previous section. To do that, we go back to the interview schedule.

6.6.1. Awareness about IPPB

For any new solution to be adopted, the first requirement is there should be awareness about what it offers and how it benefits people. Part C, Q nos 36 - 40 of the interview schedule deals with the respondent's awareness about IPPB, its channels, products and services, digital payments etc. Individual respondents were asked if they were aware of IPPB. 86% responded in the affirmative.

6.6.1.1 Medium of awareness- Given the rather low key publicity that IPPB has had till now, respondents were asked how they became aware of this new institution. It would appear that BTL activities such as, outreach by the PO staff, word of mouth publicity and the domino effect of a crowd around on-boarding camps organized by IPPB and the post office was responsible for most of the awareness generated (Figure 6-24). While Kalkaji, Sangam Vihar and Ahulana had standard signages, information boards, banners, posters etc., Anangpur was not found supplied with any posters or information board.

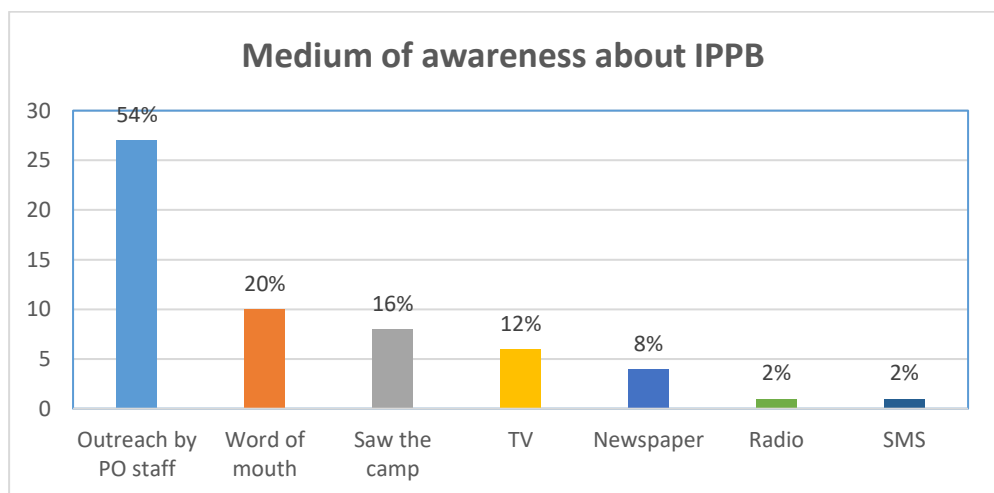


Figure 6-24 Medium of awareness about IPPB

6.6.1.2 Awareness about services available – There was a good level of awareness and apparent enthusiasm about the services available through IPPB (Figure 6-25). While awareness about savings, bill payments, fund transfer was good, adequate awareness is yet to be created about the utility of the account for various other payments.

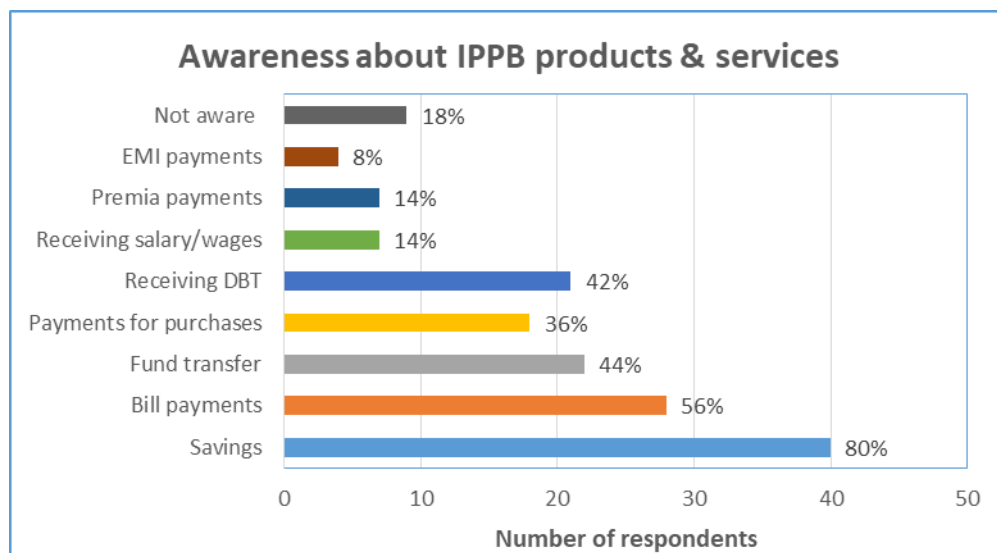


Figure 6-25 Awareness about IPPB products and services

6.6.1.3 Awareness about channels – IPPB offers multiple channels for banking including at the PO counter, at customer’s doorstep through the postman/Grameen Dak Sevak (GDS), self-service through the IPPB mobile APP, SMS/misled call banking etc. There appeared to be good level of awareness about the PO channel. However, there appeared to be lower awareness about the doorstep (which was declared the USP of the Bank) and the mobile channel (Figure 6-26). PO staff and IPPB officers seemed to indicate that some technical glitches in charging for doorstep transaction, lack of clarity on process, non-availability of help desk at designated number and the pre-occupation with rapid customer on-boarding was the reason they were expected to concentrate on the PO channel to begin with.

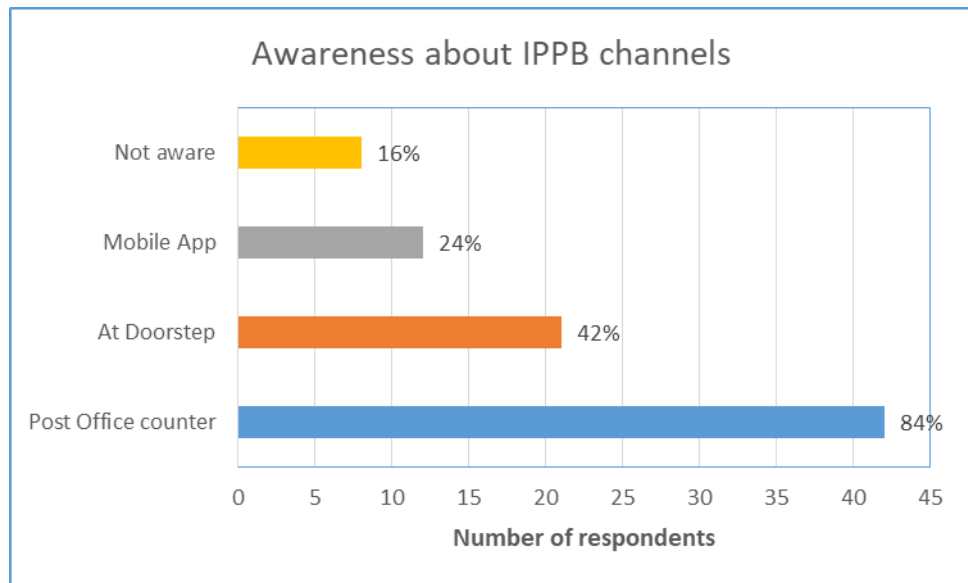


Figure 6-26 Awareness about IPPB channels

6.6.1.3 Awareness about QR cards – Only 46.8% respondents were aware that the IPPB QR card could be used to effect digital transactions at doorstep and at IPPB merchant locations without the need for any additional physical acceptance infrastructure. Most respondents were not aware that it can enable them to make as well as receive payments. Apparently, like doorstep banking, creating an ecosystem of merchants who would accept digital payments through the IPPB QR card has not yet been implemented by IPPB. Only 36% respondents were aware that IPPB provides free intra-bank (within IPPB) fund transfers and cheaper rates for inter-bank transfer of funds than most other banks.

6.6.2 Possession of accounts – 76% of the respondents had already opened IPPB accounts. All but one had opened Savings accounts. One, a businessman had opened both Savings and Current accounts. 10% respondents expressed desire to open accounts and some went ahead to

open them on the spot. It was noted that 50% of the hitherto unbanked respondents in Anangpur had opened IPPB accounts (Figure 6-27). 77% of the hitherto effectively excluded, including 75% of respondents who were DBT beneficiaries were now IPPB account holders. IPPB had within a few short months increased the customer base of the post office.

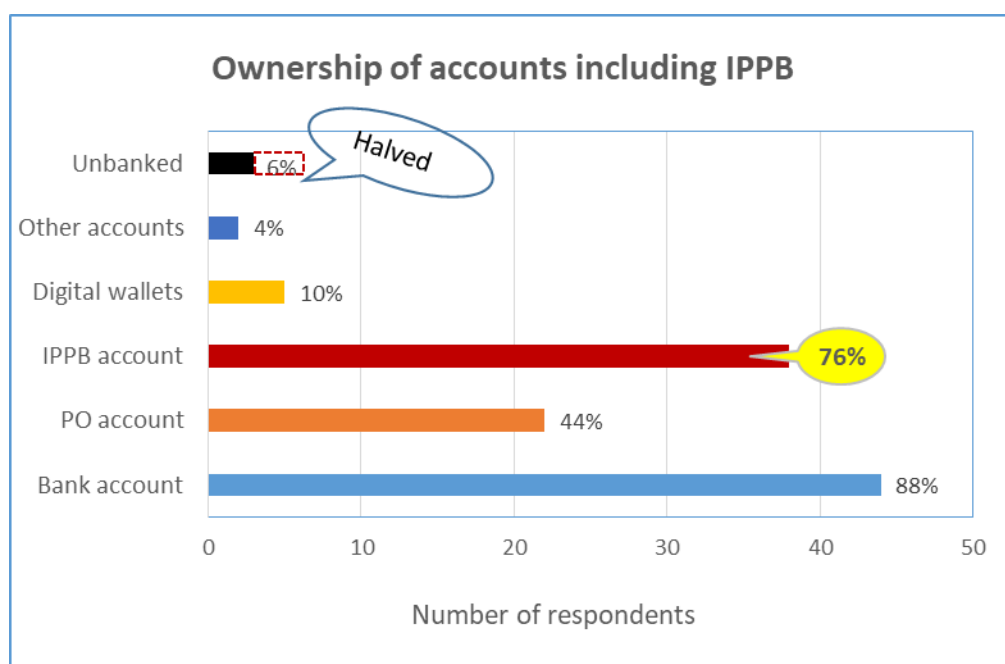


Figure 6-27 Early impact of IPPB on ownership of accounts

6.6.3 Convenience

One of the most important attributes of IPPB is that it provides great convenience of accessing its accounts through multiple ways.

6.6.3.1 Distance from the nearest PO – In response to Q no. 10, 66% of the respondents had reported living within 1 KM and 90% reported living within 2 KMs i.e. walking distance of the nearest post office. All respondents felt

this was a major enabler. During FGDs all the rural and most of the urban participants demanded that all government subsidies/scholarships, be made available at their PO through IPPB.

6.6.3.2 Channels used for on- boarding – Q no 44 asked the IPPB customers among the respondents, how their accounts were opened. 65% accounts were opened at the PO counter by the PO staff, followed by 30% by the PO staff at camp. One each were opened at doorstep and through mobile App by the account holder himself (Figure 6-28).

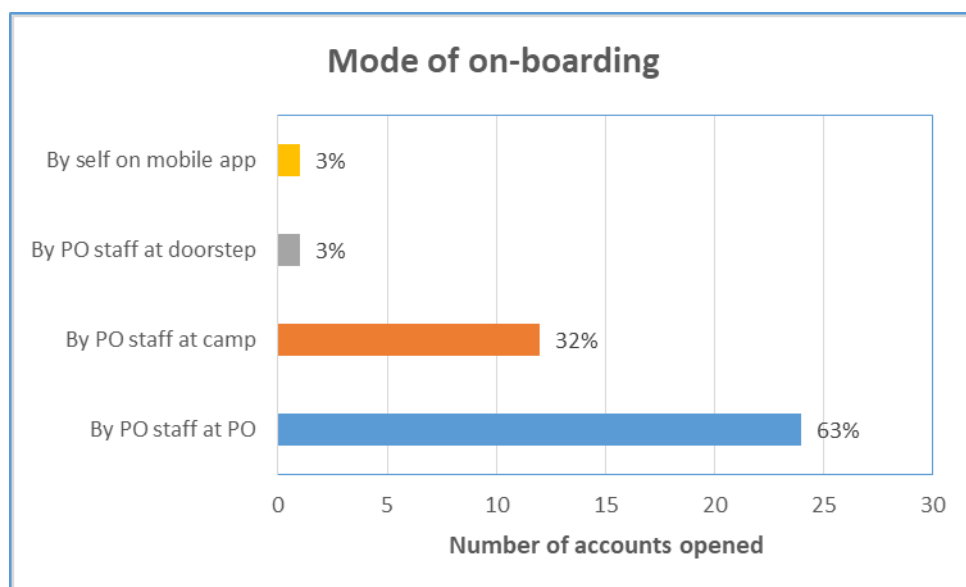


Figure 6-28 Channel used for on-boarding customers

6.6.4 Documentation required

82% of the accounts were opened with only the AADHAR card and biometrics of the account holder. 18% reported having produced AADHAR and PAN card. One respondent mentioned that he had produced some other photo ID. This was a far cry from what they had experienced earlier for opening bank accounts. All respondents hailed the ability to open accounts with the AADHAR card as the primary document since it was universally available.

6.6.5 Time taken for account opening

66% of account holder respondents report that their account was opened in less than 5 min. Another 31% report account opening within 5-10 min (Figure 6-29). Only one respondent reported more than 15 min time. As a consequence of nearby location, minimal documentation, quick, simple and paperless process of on-boarding, 92% account holders found it very convenient to become IPPB account holders.

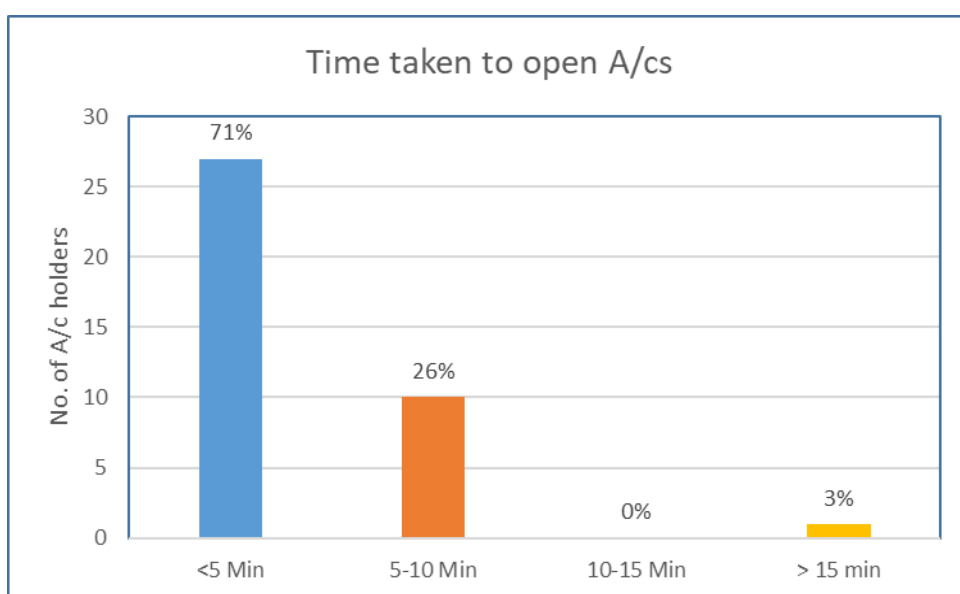


Figure 6-29 Time taken to open IPPB accounts

6.6.6 Transactions done

Q nos 48-50 gauged the current usage of the IPPB accounts. 64% of the accounts were opened in the preceding quarter after the Sept, 2018 launch, however, only 40% of the respondents reported having made transactions. Most commonly made transactions were reported to be cash deposits and utility bill payments, followed by fund transfers (Figure 6-30).

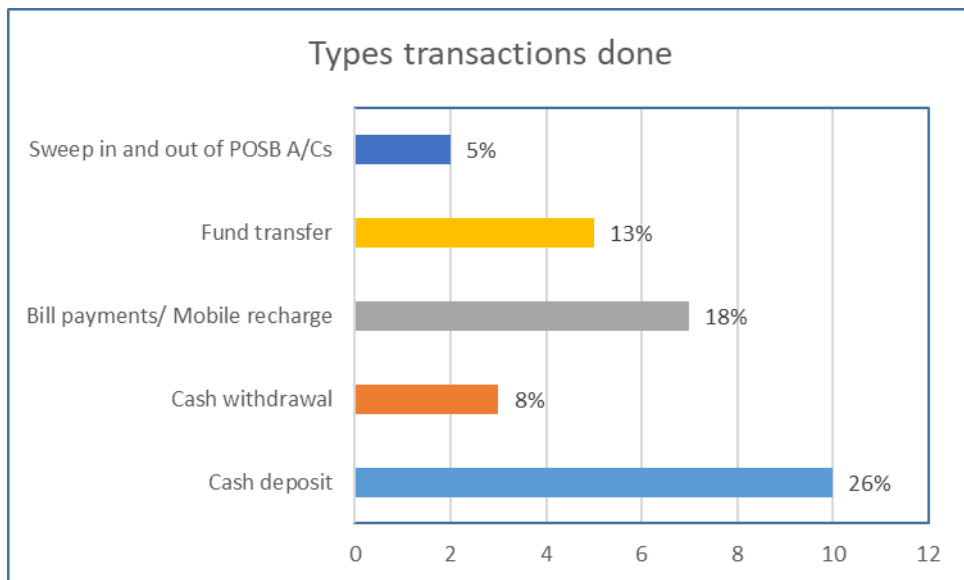


Figure 6-30 Types of transactions done by IPPB customers

Reasons for fewer transactions – The respondents were asked why they have not used their IPPB accounts more. The responses ranged from *‘haven’t needed to yet’*, *‘lack of knowledge of how to use accounts’*, *‘lack of money’* etc. Most of the accounts opened in Sept/Oct, 2018 with zero balance remain unused till Jan, 2019. The PO staff at all four survey locations indicated that the initial instruction from IPPB was to concentrate exclusively on account opening and that currently they are advising customers to fund their accounts for transactions.

6.6.7 Ease of Usage

Q 51 to 64 dealt with ease of use and satisfaction with the various channels of transactions IPPB provides

6.6.7.1 Post Office counter

Post Office counter is likely to be the most commonly used channel for on-boarding as well as transactions, in rural areas. About 40% of the account holders report satisfaction with services at the PO counter. The satisfaction is higher in rural areas than in urban areas.

6.6.7.2 Doorstep banking

IPPB's doorstep banking facility was seen as a game changer in financial inclusion. While launching the bank, the GoI had emphasized that doorstep banking would be IPPB's USP. However, at none of the four locations surveyed, the facility was as yet operationalized. A variety of reasons were tentatively offered by the postal staff acting as IPPB agents as also the IPPB officers, including technical glitches like problems with geo-tagging which produced erroneous charges, difficulty with accounting of cash, confusion about operational procedures and even lack of demand from the customers.

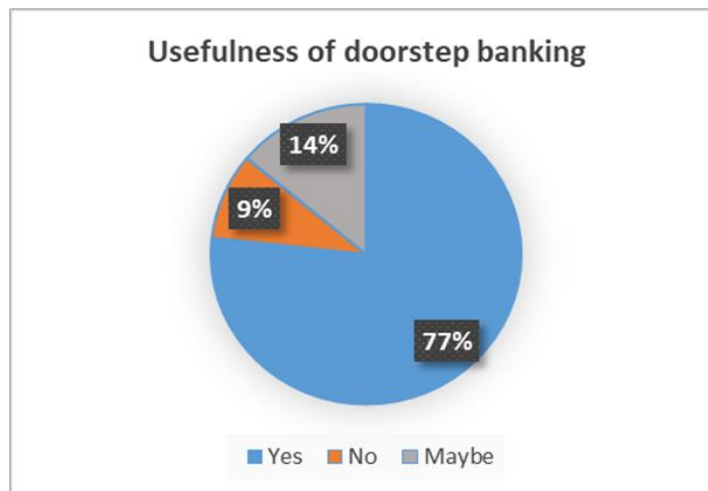


Figure 6-31 IPPB customers' perception about usefulness of doorstep banking

6.6.7.3 Usefulness of Doorstep banking

However, when the respondents were asked whether they believed doorstep banking would be useful for them and what they liked most about it, 77%

responded (Figure 6-31) that it would be useful. 89% felt that this facility would be very convenient especially for the old, the infirm, pregnant ladies and people who lived at a distance from the post office. 61% felt that it would save time and money and 51% felt it would provide them a reliable and safe alternative to banking as they know it.

6.6.7.4 Affordability

70% felt that the charge of Rs 25/- per transaction for cash transactions and Rs 15/- per digital transaction was affordable for them. 28% felt they would rather not spend on it (Figure 6-32). Mostly those who stay near the PO and those who have lower annual family income felt they would rather use the free PO channel. However, majority of especially urban respondents, felt that their time and effort was more valuable. The Delhi Government's recently introduced charges of Rs 50/- for doorstep delivery of citizen services was cited by some respondents as a benchmark (PTI, 2018).

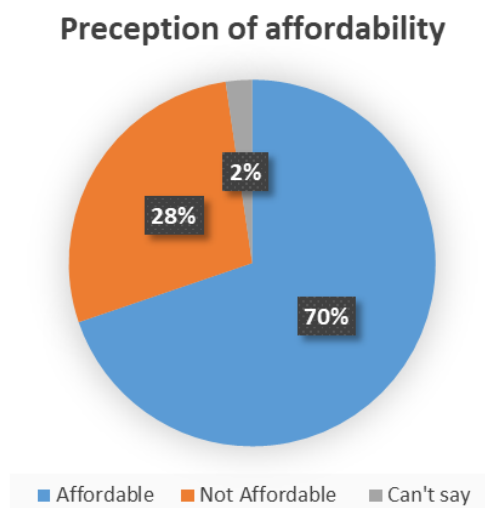


Figure 6-32 Respondents' perception about affordability of doorstep banking

6.6.7.5 Mobile banking

Out of the 44% smartphone owners among the respondents, 90% have opened IPPB accounts. 60% are regular users of digital payments, 50% have tried the IPPB mobile App and 23% of them report making transactions regularly. They are all Sr/Sec and above educated, hold higher paid Govt./Private sector jobs and seem better aware of IPPB's products and services. Transactions they report making are mobile recharge, bill payments, fund transfer, sweep-in and out of the account holder's linked POSB accounts. 10% report using it multiple times a week to help others make bill payments. Another 20% use it multiple times a month to pay bills/ transfer funds. The features most liked in the mobile App are its easy process (by all who have tried it), simple user interface, speed, usefulness of products and availability in vernacular (Figure 6-33).

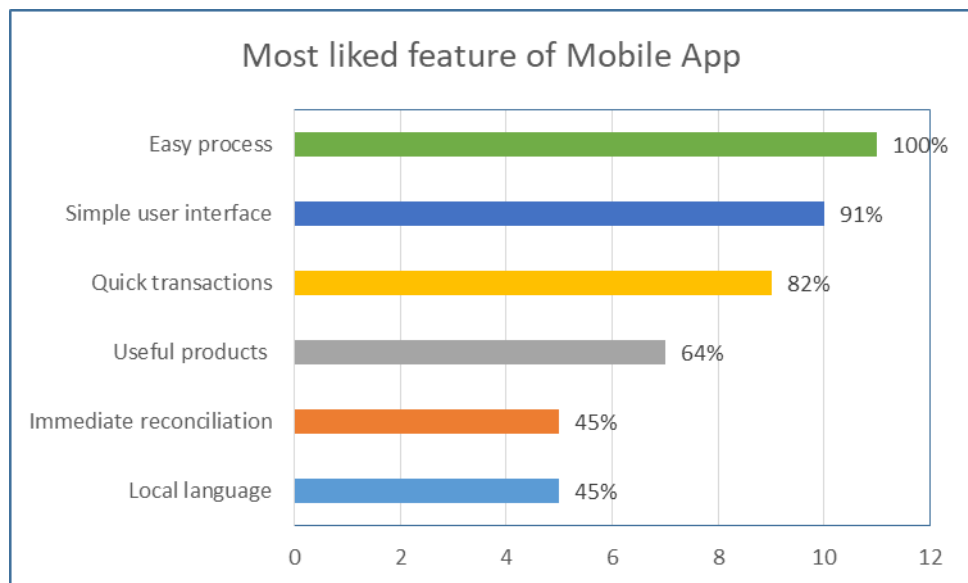


Figure 6-33 Most liked features of the IPPB mobile App

6.6.8 Likelihood of adoption

Q no 65 to 70 gauged the respondents' perceptions and inclination towards adopting IPPB's channels, products and services. The first question in this section was to the non-account holders and the rest to all respondents.

6.6.8.1 Likelihood of opening IPPB A/cs

The 12 Non IPPB account holders in the survey were asked their likelihood of opening IPPB accounts. 42% responded with a definite 'Yes'. The rest responded with a 'Maybe'. They represent the unmet potential of IPPB. 50% were somewhat aware of IPPB and its services but had not got around to open accounts while the other half were not aware of IPPB. Since all had expressed likelihood of becoming IPPB customers, the remaining questions were asked of all respondents.

6.6.8.2 Preference for products and services of IPPB

Respondents were asked to indicate which of the products and services currently available with IPPB, they would be most likely to use. Overwhelming majority (94%) would like to use the account for savings, but significant proportion would also want to use it for receiving salary/DBT (76%), for making bill payments (58%), fund transfers (42%) and more than a third (36%) for making payments for day to day purchases (Figure 6-34). This represents the needs of its customers presently unmet by existing accounts. Payments (both receiving and making) especially in the rural areas and among the urban population not yet used to card payments, is the potential growth area for IPPB and a clear differentiation that it can have vis-à-vis its competitors.

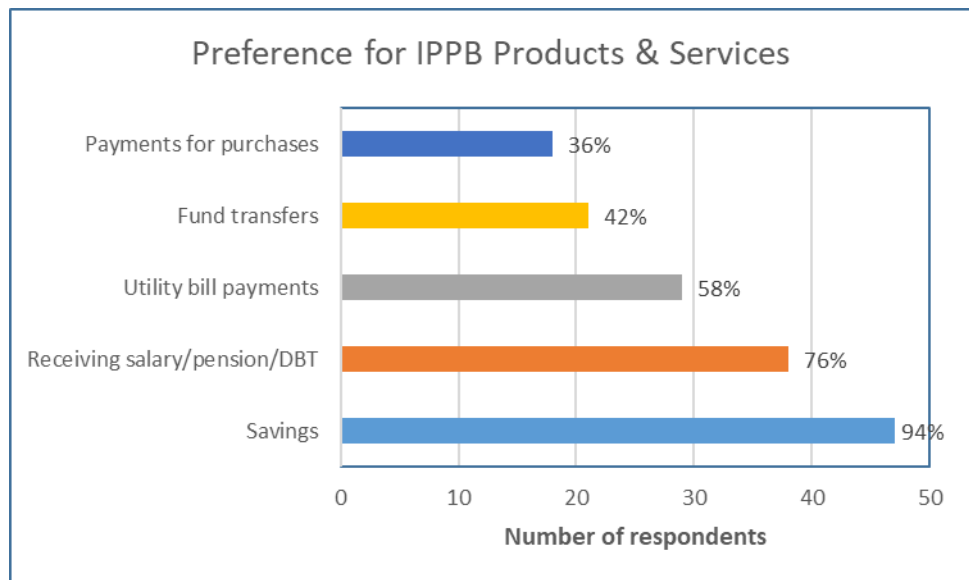


Figure 6-34 Preference for IPPB products and services

6.6.8.3 Preference for IPPB channel – Respondents were asked to indicate their preference for channels they would like to use for accessing their IPPB accounts. Most respondents would like to use the PO channel most of the time but 30% would like to use doorstep banking also and 28% would like to use the self-service channel through the IPPB mobile App (Figure 6-35).

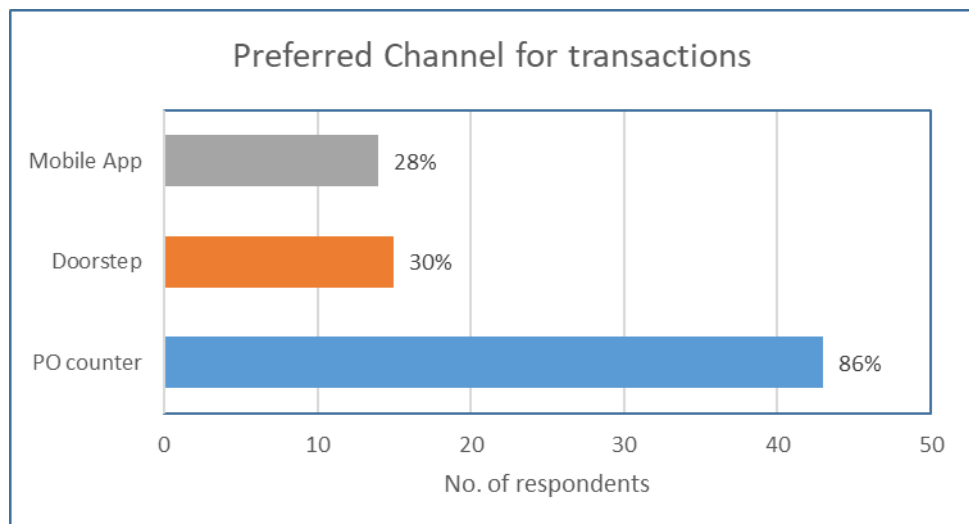


Figure 6-35 Preference of Channels for transactions

The actual use of doorstep banking and mobile banking channel are likely to be mutually exclusive. Those who are proficient on mobile banking are

unlikely to need assistance at doorstep. On the other hand those for whom self-service through mobile banking is not an option, are likely to opt for doorstep banking as an alternative to PO channel. Those who stay farther from the post office and earn better may prefer to save time and effort by requesting banking at their doorstep.

6.6.8.4 Most liked features of IPPB – Respondents were asked to indicate the features of IPPB that appeared most useful to them. Ease of on-boarding and accessing services, no forms, comfort in transacting with PO staff, useful products and services, quick & easy transactions in vernacular, were the most popular responses (Figure 6-36). Therefore, convenience, comfort and confidence in accessing and availing services seemed to be the main sentiments expressed.

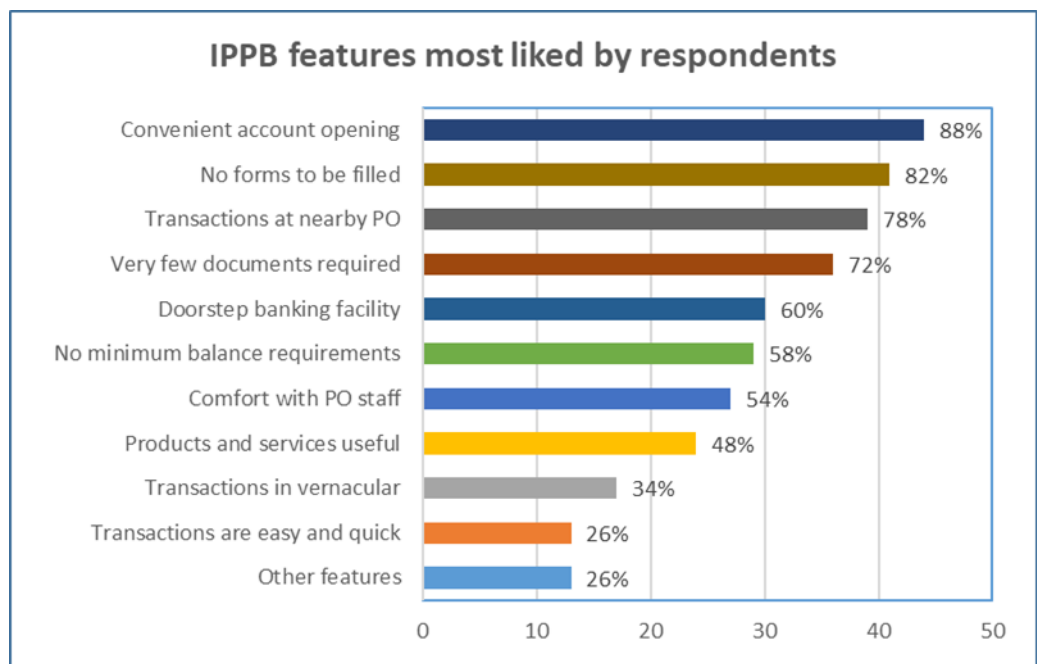


Figure 6-36 IPPB features most liked by respondents

6.6.9 Likelihood of usage

Respondents were asked about the likelihood of usage of their accounts. 63% of a/c holders were certain that they would use their accounts regularly, 21% were very likely and 16% were likely to do so (Figure 6-37).

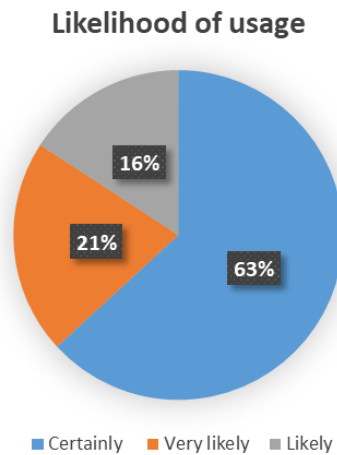


Figure 6-37 Account holders' likelihood of usage of IPPB accounts

6.6.10 Likelihood of recommendation to others

The account holders and other respondents also seemed highly enthusiastic about recommending opening of accounts in IPPB to their friends and family (Figure 6-38).

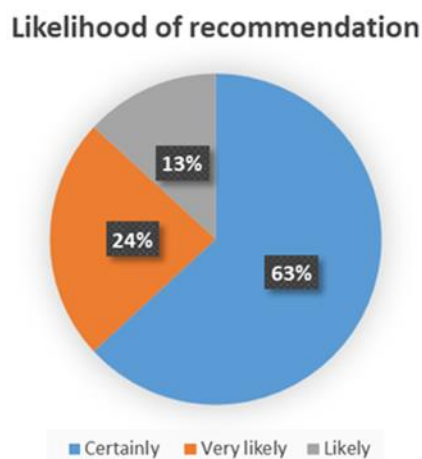


Figure 6-38 Account holders' likelihood of recommending IPPB to others

6.6.11 Scope for improvement

Irrespective of the apparent completeness of any scheme, there is always scope for further improvements, especially since in IPPB's case it attempts to cater to a large cross-section of customers with varying needs. The respondents were asked for their suggestions about how IPPB could be more useful to them.

6.6.11.1 Suggestions of respondents to make IPPB more useful – Three specific suggestions were sought.

1) **For improvement of service delivery at PO channel** – While most respondents had no particular response, a few were forthcoming

The Post office staff should be available at the post office for longer
There should be proper equipment at the counter
Staff need to be more sympathetic towards customers
More advertisement may be made
Suggestion register should be available
Internet connectivity of Postal counters and its Infrastructure issue.
All satisfactory.

Figure 6-39 Respondents' suggestions about the Post office channel

Branch Post offices (BO) in rural and in some newly urbanized areas (in this survey, Ahulana and Anangpur respectively), function for 4-5 hours in a day. For PO counters in urban areas that run on PCs, availability of proper equipment, connectivity and in general better staff attitudes were suggested. The availability of postal staff for longer duration in the BO was stressed during the FGD in Anangpur. During FGD in Ahulana, participants pointed

out that the limit of cash transaction for the access point @ Rs 25,000/- per day was too low. This would limit the number of account holders who can transact to 5-10 per day. A single merchant could need to deposit more than the current daily cash limit for the Branch Post Office. Also it transpired that none of the account holders had received their quarterly account statements. For a bank that wants to catalyse a shift away from traditional passbooks, timely delivery of quarterly accounts statements are a necessary confidence building measure.

2) **For improvement of the Mobile App** – The IPPB mobile App users were, in general quite happy with it, except for a couple of respondents who were having trouble with the App version they had downloaded. The redressal of their grievance by IPPB was reportedly tardy. When taken up with the IPPB officers, it appeared they were also unable to get quick and useful redressal from the back-end. This is a huge red flag for IPPB. Customer base is small at the moment. As it grows, any inability to quickly redress issues will lead to rapid loss of customers in the extremely competitive space of mobile banking.

3) **Suggestions for making IPPB more useful** – Most of the suggestions were around generating more awareness about IPPB's offerings, how it helps access to other postal products and services and consistency in mobile App/version of App. A very constructive suggestion was for IPPB to work with Aanganwadi, ASHA workers and ANMs to improve outreach to women. A few elderly respondents insisted on introduction of passbooks, setting up of ATMs and issuance of ATM cards. However, the majority seemed to be satisfied with the concept of confirmation of transactions

through SMS and appreciated that ATMs could not be the solution in villages.

6.6.12 Linkage with other financial services desired

Respondents were asked what other financial services they would like to avail through the agency of IPPB. The highest preference was expressed for personal loans (54%), followed by health insurance (42%), life insurance (40%), vehicle loans (34%), working capital loans (10%) etc. Respondents also wanted to link their IPPB accounts with other postal schemes (Figure 6-40).

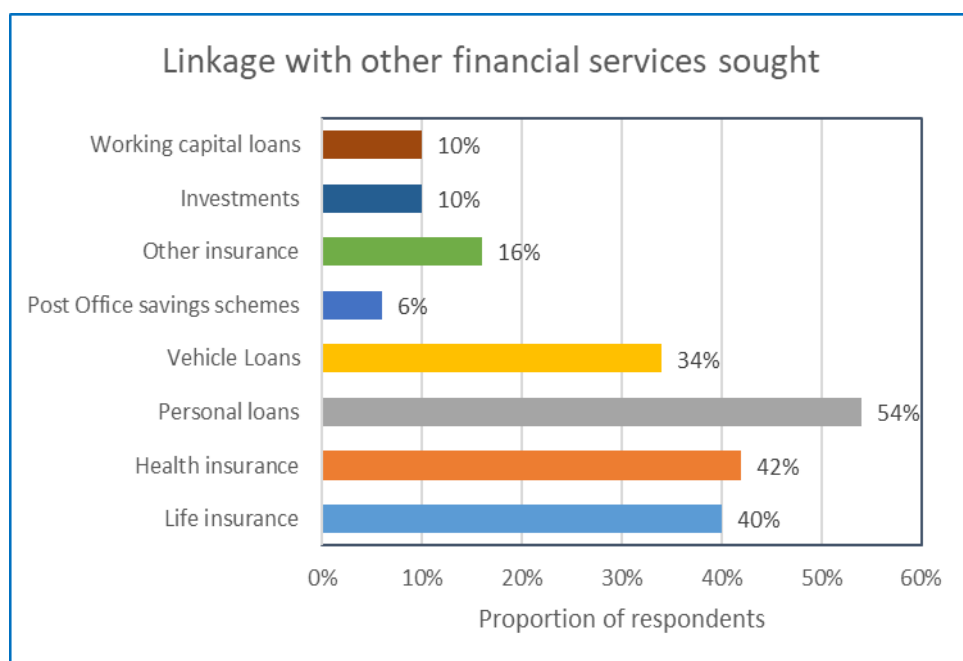


Figure 6-40 Linkage with other financial services sought

6.7. Key Analyses

The following are the major takeaways from the survey

IPPB appears to have serious potential to lower most of the barriers to financial inclusion identified in previous section (see 6.5.7). It seems to be best suited to address the most frequently expressed problems of FI (Table 6-1)

Table 6-1 Comparison of respondents' experience in banks with their experience of IPPB

Respondents experience in Banks		Respondents experience in IPPB	
Problem reported	Frequency	Facility appreciated	Responses
Distance to the Bank	62%	Transactions at nearby PO	78%
Crowds in the branch	52%	Doorstep banking facility	60%
High opportunity cost of Use	16%	Banking at convenience	88%
Over all Time taken	50%	Easy and quick transactions	26%
Documentation required	28%	Very few documents required	72%
Complexity of procedures	26%	No forms to be filled	82%
Language of transactions	12%	Transactions in vernacular	34%
Lack of Comfort with bank staff	10%	Comfort with PO staff	54%

The followings paras present analyses of the overall points impacting FI perspectives gleaned from the interview data, the FGDs and supplemented with the researcher's own observations and insights drawn from the interactions with the PO and IPPB staff during the course of the study.

6.7.1 Value proposition–Lajo (name changed) a primary school educated, housewife of Ahulana belonging to a poor family that earns less than Rs 1 Lac per annum, a DBT beneficiary and one of the effectively excluded explained the value proposition of IPPB as she understood it. Since account opening could be accomplished in 5 min, with only her AADHAR card, with no minimum balance, at her doorstep and an IPPB QR card could be issued instantly allowing her to begin using her account immediately– the biggest deterrent to financial inclusion i.e., difficulty of accessing a bank account, was solved for her. Thereafter, she could easily walk to the nearby PO (without the need to spend money on conveyance). She could deposit/withdraw cash, receive DBT, and recharge her mobile (at no extra

cost). She would be transacting in her own language, without filling up forms, or depending upon someone else to enable her. So she could use her own account for all her current financial requirements, in the way she deemed fit. She had the comfort of transacting in a familiar place, with a familiar person associated with the Post Office, (an age old trusted Government organization) who she could approach anytime. With a smile she added that she could now help her husband pay the family's electricity bill and save him the trip to town. The other respondents too seemed to get this value proposition clearly. Indeed 3/4ths of DBT beneficiaries among the respondents, have now opted for receiving DBT in their IPPB accounts. However, the shift being very recent, the study could not ascertain whether they had actually started receiving DBT in their IPPB accounts.

6.7.2 Change in regulation – On 25th Sept. 2018, 25 days after the launch of IPPB, the UIDAI revised its guidelines for e KYC based account opening (on the basis of a Supreme Court verdict on the use of AADHAR for opening of bank accounts), restricting it to only DBT beneficiaries. For Lajo's neighbour, Raj Lal (name changed), the process of inclusion remains difficult. A middle aged, illiterate, farm labourer, he supports a family of 4 on a very irregular income, totalling less than Rs 50,000 a year. Too poor to afford an LPG cylinder and the recipient of no other Government subsidy he has missed opening an account before the change in regulation was implemented,. He has an account in a Bank at the Tehsil HQ, but rarely uses it. The new regulation mandates that for non-DBT customers, accounts can be opened using any of the 6 OVDs, essentially a paper based process. Since IPPB economizes on operational costs in rural areas by keeping account opening and transactions completely

paperless using its mobile-based Agent App, (non eKYC) paper based account opening is available only at its branches at district HQs. If Raj Lal, like Lajo, wants to avail the services of IPPB he has two options, one to go the nearest IPPB branch at Sonipat (35 Km away) and possibly spend an entire day to get his account opened or continue to be effectively excluded.

6.7.2.1 Going into the merits of restricting the eKYC based, paperless account opening to DBT customers is not in the scope of this study, however, purely from the perspective of financial inclusion of a large number of effectively excluded, who may not be DBT beneficiaries, this is a retrograde step. For the families receiving subsidies, DBT tends to be coming for a single member of the family, usually the male head of the family. The poorer of the non DBT beneficiaries also tend to be the most effectively excluded since they haven't had a reason to be connected with the formal banking system. Therefore, the brunt of the impact of the change in regulation will be felt by the women, the very poor, unemployed youth and the elderly; mostly people who have no other proof of identity than AADHAR. To obligate them to go all the way to the district HQ to physically show the same identity proof as is accepted for the eKYC process for the DBT beneficiaries, is patently discriminatory and insensitive to the realities of financial exclusion.

6.7.2.2 IPPB has made certain changes in its account opening process including an additional OTP authentication for ascertaining from the customer whether he is a DBT customer and then mandating the agent (PO staff) opening the account to physically check a photo ID and confirm identity for KYC purposes. It lost a couple of months and crucial momentum in customer acquisition in the meanwhile. However, the new process may not be a failsafe

mechanism. Though Raj Lal doesn't say it and indeed may not at the moment realize it, but there is a third option someone in his position can exercise. That of simply declaring that he's a DBT customer and would like to opt for using his AADHAR as the OVD and routing his DBT through IPPB. If that happens, there is no effective way of for the agent to verify this in the present system and such cases may go undetected for a period till it results in a data mismatch at an aggregate level, at some point. That may lead to regulatory hassles later and be extremely difficult to pinpoint and rectify.

6.7.2.3 However, given that the account opening is a one-time activity, once that is achieved, IPPB's value proposition remains intact

6.7.3 Preponderance of zero balance accounts- During the survey it transpired that most of the accounts opened in Sept/Oct, 2018 were with Zero balance. Possibly this was due to account opening drives in which customer acquisition was the main aim. Apparently, to begin with, there were also some problems faced in accounting for the cash deposited in accounts, prompting a decision to go for zero balance (accounts opened with no deposit). However, most of these accounts with zero balance remain unused till Jan, 2019. This has been an experience in many earlier inclusion initiatives too, notably the PMJDY where although phenomenal numbers of accounts were opened due to the strong push from the Government, more than 67% accounts were zero balance in the first 6 months and took two years to reach the average transaction levels (Chopra, 2017).

6.7.4 Inadequate focus on transactions - An account that is not funded, is of no use to either the account holder or the Bank. The account holders seem aware of what it could be used for but seemed to be waiting for some cue to start using it. The IPPB agents however were concentrating on account opening.

At present, accounts are being opened with Rs 100/- or more. But a nominal funding of the account alone will not substantially change the customer behaviour. Considering the account usage behaviour of the effectively excluded, the aim should be to demonstrate usability of accounts.

6.7.5 Doorstep banking - Another issue noticed was that while as per IPPB's plan for doorstep banking, postmen/GDS delivery agents were supposed to provide the service on their beats along with their delivery works. In practice, in the urban HO/SOs although all postmen were reportedly trained and equipped with mobile phones only one or two postmen were being detailed for IPPB camps on a few days on the request of the IPPB branch manager. In rural areas the facility had not yet been started. As brought out in the study, in both urban and rural areas, doorstep banking facility could be a great enabler for the effectively excluded. Its effective introduction is widely anticipated and there is significant demand for the service. Even if a majority of the customers who live close to a Post office do not use it, doorstep banking is IPPB's unique differentiator vis-à-vis its competitors. It's a good to have facilitation that can also help in sustained customer acquisition and continuous financial literacy, especially for the women, the elderly, the infirm and people who do not visit post offices regularly. To that extent it is important for inclusivity and should be available for those who want it. Especially since it has already trained and equipped the postmen, no extra cost is involved for IPPB for enabling the facility, whereas it stands to earn substantial revenues from the service charges, a part of which is supposed to be shared with the agents on ground to motivate them towards taking IPPB's services to every doorstep.

6.7.6 Financial inclusion and cash usage have an inverse relationship - As brought out by the study, payment for purchases are the most frequently made financial transactions carried out by all respondents. They are also the ones, for which bank accounts are used the least. Only those who regularly used digital payments, i.e., mostly urban, mobile banking users and multiple account holders, were using their bank accounts frequently. All the rest and especially the effectively excluded were primarily using cash for their day to day transactional requirements. They had to access a bank counter/ATM to withdraw cash. Paradoxically, they also lived the farthest away or suffered the greatest issues of accessing banks/ATMs which meant it was difficult for them to access their accounts on a regular basis. Consequently, most of them preferred to transact informally, outside of the banking system and keep their cash with them. For the poorer in this category, who had little to save, it meant rarely using their accounts, unless mandatorily required to do so (example access Govt. subsidies credited through DBT).

6.7.7 ATMs are not the answer - The solution however, is not more ATMs in rural areas as is exemplified by the existing unviable ATMs, like the one in Khedi (7 km from Ahulana), that is infrequently serviced and reportedly to be mostly out of cash. ATMs are capital intensive to install and equally costly to run. They also end up perpetuating the cash economy. Cash is very costly for the economy, entailing expenditure at every stage of printing, storing, securing, transporting, counting, authenticating (checking counterfeits), accounting and disposal. Every institution dealing with cash, incurs costs, on many of the above activities. Unfortunately, this cost of cash is one of the least apparent to most customers since a majority of it is invisible, funded by the Government and passed on indirectly as taxes or lumped into service charges by the service

providers. An average villager does not readily recognize how much it costs to access cash, simply because *'it has always been so'* and he does not have a feasible alternative to exercise.

6.7.8 Feasible alternative to cash— ~ 90% of all transactions in India are made in cash (McKinsey , 2016). Despite rapid strides made in digital payments, notably in the months following the demonetization in Nov, 2016, following the gradual remonetisation in the first quarter of 2017, cash once again rules the roost (Joseph, 2018) and there are plenty of reasons why. It is abundantly available, convenient, has no visible direct costs, there is complete trust in its value, provides immediate settlement, has no dependence on language, requires no training for its use, needs no infrastructure for proximate transactions and has no dependence on electricity, telecom or even physical connectivity for transactions. A feasible alternative to cash must tick all the boxes that currently makes cash the most preferred medium of transaction. However, most payment alternatives need specific and costly acceptance infrastructure such as - the credit/debit card requires PoS machines, AADHAR enabled Payments Systems (AePS) require Micro-ATMs, AADHAR Pay requires a bio-metric device and so on. Infrastructure that costs capital to buy and recurring operational expenses to run, besides needing continuous maintenance. The near absence of necessary acceptance infra in semi-urban and rural India has largely kept the rural economy cash based. Asking millions of retail merchants in the rural areas to invest in PoS and Micro-ATM is not a viable option. What is needed is a shift to digital payments by creating an asset light acceptance ecosystem that allows for simple to use, mobile to mobile, secure and authenticated payments.

6.7.9 Digital Payment options - Urban India has taken to a number of such options through digital wallets/pre-paid instruments, UPI etc. But even these require both payer and payee to be smartphone users. Although smartphone penetration in rural areas is increasing rapidly, most of the effectively excluded are still feature phone users and would get excluded unless digital payments solutions that includes feature phones are brought in. Some currently available solutions such as USSD are not easy to adopt and has significant associated costs. Even after a feasible alternative is found however, digital payments in rural areas would entail a behavioural change in both the payer and the payee and needs to be consistently handheld by players able to provide on-ground intermediation for gradual adoption.

6.7.10 IPPB's digital payments solutions- One of the greatest value proposition of IPPB is that with its QR card in the hands of the payer (even one who owns a feature-phone), and an IPPB merchant App with the payee, even a small grocery purchase or say a payment for a haircut can be made directly from one bank account to another, without the need for either cash or any physical acceptance infra, other than the merchant's smartphone. Thereby, ticking all the boxes on availability, convenience, egalitarianism, ease of use and immediate settlement at no extra cost, provided reasonably good telecom connectivity is available. Additionally, it has benefits of avoiding the cost of cash, making funds and transactions secure and adding visibility to the velocity of money in the economy. Thus, going forward, integration with other payments options such as the Bharat QR can allow interoperable digital payments through the card and UPI based transactions with other bank accounts/payment instruments. In doing so, IPPB can significantly contribute to the GoI's digital India initiative. Therefore, IPPB needs to move quickly to

create a merchant ecosystem for digital transactions so that rural areas can leapfrog the ATM phase that the citizen in the urban areas have gotten used to.

6.7.11 Merchant acquisitions yet to start- As per IPPB's plan for FI, setting up of a merchant ecosystem should have happened simultaneously with customer acquisition. Possibly, just like doorstep banking it has not yet got proper attention due to the focus on the customer acquisition. However, in the absence of a merchant ecosystem accepting digital payments from the IPPB account, it would suffer from deficiencies similar to other bank accounts and the chances of the account becoming central to the financial empowerment of the effectively excluded will diminish. There were requests from respondents to start merchant payments early. Even those who have never tried digital payments showed willingness to try it. IPPB can currently enjoy first mover advantage in this huge segment Pan India. However, if it doesn't, the turf would likely be lost to the next crop of payment companies that will shortly begin targeting virgin rural payments market with similar frugal innovations.

6.7.12 Digital receipts as important as payments – However, for costs of transactions to be minimum, both receipts and payments in digital medium is required. We have discussed above that if a DBT beneficiary received benefits directly into her accounts but had to do most of her transactions in cash, she'd have to encash the benefit at the bank branch/ATM and incur opportunity costs of transport, time, effort, possibly lost wages etc. However, if conversely, she wants to make payments digitally but receives her wages in cash she'd need to deposit the cash into her account and incur the same costs in reverse. Opening an account in IPPB could drastically reduce her opportunity costs of accessing cash at the nearby cash-in-cash-out point in the post office but if the number of customers depositing cash and demanding cash-outs did not match, the post

office's costs of handling cash would become prohibitive. As seen playing out in rural areas, people who get paid in cash and carry out all their payments in cash, will keep only what is a clear surplus in a bank account and the frequency of doing so will be determined by their ease of access to the account. As a result, they'll lose out on possible interest income, have greater risk associated with securing cash and have poor banking and transaction histories, reducing their attractiveness as borrowers or as lives worth insuring. On the other hand, as seen increasingly in urban areas, those who get paid directly into their accounts and have the option of paying for most of their financial needs directly from their accounts, will withdraw only that much cash as is absolutely necessary and just in time. Thus, maximizing their interest earnings, security of funds and leaving a healthy banking history that makes them attractive borrowers, lives more worthwhile insuring and so on. Therefore, both in its own interests of keeping operational costs down and enhancing the value proposition for its customers, it is imperative for IPPB to simultaneously encourage employers and buyers to make payments of salaries, wages, pensions and payments for goods and services bought directly into the accounts of its customers.

6.7.13 Internet Banking may not be big - Since mobile data has become very cheap, and the need to invest in an individual PC/laptop does not exist for most people, the prospect of home internet connections in rural areas does not appear very bright. Although Village Panchayats are progressively being connected through optic fibre connections, these are likely to remain public utilities. Internet banking is therefore unlikely to be a big draw anytime soon, especially in rural areas.

6.7.14 DoP-IPPB co-ordination – Since the frontline agents at Customer Service Points (POs and doorstep) are DoP employees and at the same time act as IPPB’s agents, the interplay between the two organizations assumes crucial importance. The level of synergy between the frontline staff of the post office and their administrative officers on one hand and the IPPB branch staff appeared tentative at best, with some mutual confusion about roles to be played by each.

6.7.15 Training of frontline staff – The nature of the job expected from the frontline staff requires continuous training and re-training of the staff. While the staff at Anangpur and Ahulana appeared adept at opening accounts on the agent App, their knowledge about how to acquire merchants and conduct financial literacy for popularizing payments transactions using the QR cards and the Merchant App appears deficient. The Territory officer/Manager of IPPB need to step into a training role.

6.7.16 IPPB has not invested enough in marketing – In all four survey locations, most of the awareness had been generated through account opening camps by the PO staff. Very few had seen any publicity in newspapers, radio or TV. While outreach by staff and word of mouth publicity is great, it is not optimal to rely solely on it, because there is likely to be great variation in the results due to the level of interest taken by individual postal staff and their managers. These BTL publicity measures need to be consistently supported by ATL measures such as Radio jingles, talk shows, SMS campaigns in vernacular language, TV spots etc.

6.8 Validation of Conceptual framework

Based on the results of the survey, as presented in Section 6.6 the following internal variables emerge clearly as important in creating behavioural intentional to use the service offering.

6.8.1 Perceived usefulness – Convenience in the account opening process in IPPB and the ability to transact at the nearby post office and at doorsteps, provided effective solution to the most difficult problem of access to the service provider, expressed by most of the respondents. **Useful products and services** offered, that can address most of their financial needs including the most frequently made payment transactions for purchases and utility bill payments can mean that a single account meets all their immediate requirements. **Trust in** a Government owned **service provider and Comfort** of dealing with familiar and approachable postal staff is boosting necessary confidence of the hitherto effectively excluded towards using their accounts. All of the above translates to lesser friction of access and **lower opportunity costs** in terms of money, time and effort to make use of formal financial services. **Awareness** of useful services available at close proximity at affordable rates, both through the Post office outreach programs and the word of mouth referrals from peers, was found contributing to the perception of usefulness of IPPB among its target clientele.

6.8.2 Perceived Ease of Use – Minimum need of **documentation** for account opening and no need of any documentation for subsequent transactions coupled with zero requirement to fill forms, is a major enabler for most of the effectively excluded, especially those unable to read or write and those with lesser education and exposure. The **Ease of on-boarding** within a few minutes without any requirement of minimum balance or encountering cumbersome

processes lends crucial confidence to the uninitiated about making subsequent transactions through a channel of his/her choice. The **simple user interface** and easy processes aid **self -efficacy** of the mobile App user while the availability of necessary **intermediation** through the postman at his/her doorstep leads to the **ease of transactions**. Safety of funds deposited in the accounts due to (bio-metric based) authentication mechanisms, **quick execution and** immediate confirmation through SMS makes for **reliable transactions**.

6.8.3 External Variables (EV) – Good quality Telecom (Mobile) connectivity is absolutely crucial for the success of the mobile (agent, merchant and self-service) banking applications. Since about 85% IPPB's points of presence (PO access points in rural areas and delivery staff on the beats) would be operating on the mobile platform and all mobile banking customers would be accessing their accounts via mobile connections, consistency of the medium would be the determining factor for good quality access to services. At all survey locations, telecom connectivity available through Airtel, Jio, Vodafone, etc. were found to be rather good. The decision to let the local postal staff to decide connectivity should be procured from the telecom service provider with the best service in his/her area is showing good results. Although not adequate for all the requirements of the people, however, **electricity supply** seemed to be at least adequate to keep the mobiles charged and the BTS towers working reasonably. The EV with the most impact during the period of study turns out to be, **regulations**. The regulator's pro-inclusion enablement of AADHAR based eKYC for all, in 2016 for opening bank accounts had paved the way for rapid developments in the FI space. However, a regulatory restriction of the

same after the launch of IPPB services has caused major disruption in the customer on-boarding process for non-DBT customers, increasing the cost of customer acquisition and processing for IPPB several times and negating the frictionless customer experience of the <5 min, paperless, account opening process, so appreciated by customers.

6.8.4 Behavioural intention – There is demonstrable intention to use IPPB's services as a result of the various factors contributing towards Perceived usefulness and Perceived ease of use discussed in paras 6.8& 6.8.2 above. 84% have indicated strong intention to use IPPB's accounts regularly. 86% also intend to strongly recommend their friends and family to use IPPB services. About 20% have expressed further desire to in future, have financial products and services of other service providers, linked to their IPPB accounts.

6.8.5 Adoption - 76% of the respondents have already opened IPPB accounts. 40% have already started using them. 90% of the smartphone users among the respondents have opened IPPB accounts and 50% are using the mobile App. Therefore, the conceptual framework proposed in Chapter 3, section 3.4, stands validated.

6.8.6 Summary - IPPB has to consolidate the early gains in customer acceptance of its plans by following through with fully implementing its major FI initiatives and regular monitoring of performance against responsive service delivery standards, as its activities expand. The next chapter presents the researcher's conclusions and some recommendations that apply specifically to IPPB but holds true generally for any entity working for financial inclusion.

Chapter 7

Conclusions and Recommendations

7.1 Conclusions - The clear positives

Early signs of success are clearly visible on the following counts:

7.1.1 Value Proposition - The basic value proposition of IPPB as a Government owned Payments Bank that provides convenient access to one's account, enables a variety of useful payment transactions, provides savings, affordable fund transfers and access to DBT of Govt. subsidies seems to be well understood by its target clientele, especially the effectively excluded. They understand that, IPPB has brought banking to their doorsteps.

7.1.2 Availability of trusted intermediation – They also appreciate that IPPB has made assistance available for making affordable payments and banking transactions at their doorstep/ nearby post offices through the trusted agency of the local Postmaster and delivery staff. This initial handholding for the hitherto unbanked /underbanked to participate more effectively in formal financial sector is necessary.

7.1.3 Provision of interoperability to POSB - Existing Post Office Savings Bank customers appreciate that the IPPB account allows seamless transfer of funds to and from their POSB accounts. The linked IPPB account connects their existing POSB accounts (which were earlier only small savings instruments outside the banking system) to the interoperable banking ecosystem. This could allow ~17 cr Postal savings accounts holders, especially the majority in rural areas, easier access to the banking products, thus effectively integrating a

previously isolated customer base into the financial mainstream and also facilitate payments for POSB products themselves.

7.1.4 Increase in market share - In the few short months of its existence, IPPB has shown the potential to substantially increase the market share of the post office, by bringing in new customers, both in urban and rural areas, who were not earlier availing the financial services from the post office. It is helping increase the footfall, diversify the product portfolio of the more than 150 years old organization and helping enhance its relevance in contemporary society.

7.1.5 Enhancement of capabilities of the PO staff – There is appreciable increase in the capabilities of the postal staff trained and engaged in IPPB functions. Not only are they becoming technologically adept but because IPPB has introduced paperless, authentication based transactions, it is beginning to simplify their traditional way of working and record keeping.

7.1.6 Digitization of PO transactions – The IPPB payments solutions are beginning to provide a way of digitizing the hitherto almost 100% cash transactions across various interfaces of the post office with its traditional customers. This can be a major driver for GoI's Digital India initiative in semi-urban and rural areas.

7.2 The potential concerns:

IPPB needs to address the following for consolidating the early gains and maintain necessary momentum for making rapid progress for FI

7.2.1 The regulatory issue – The impact of the regulatory change instituted by restricting use of AADHAR authentication for activities other than targeted delivery of benefits on FI in general and on the business models of Payments Banks like IPPB that depend significantly on Fintech would appear to be

significant. Clarity on how to move forward on both customer acquisition of non DBT customers and biometric based transaction authentication (envisaged as a major security feature for doorstep transactions) is yet to emerge on ground.

7.2.2 Slow growth of transactions –While these are early days and the bank has just about completed one of the fastest roll out of services across the country in a very short period of 4 months, it needs to look beyond the number (~1.3 lac) of outlets added or even the (~ 32 lacs) accounts opened, at how many of these accounts are actively transacting. This study shows that most of the actively transacting accounts are urban respondents using the IPPB mobile App in other words the already well banked individuals. These respondents largely appeared happy with the user experience and utility of the account. However, most of the accounts of the effectively excluded are yet to see transactions beyond the initial cash deposit.

7.2.3 Behavioural change difficult - Financial inclusion is not just about access to and availability of a service, which IPPB has already achieved with its presence deep in rural India, but more importantly it is about a behavioural change towards usage. While some would and (about 2/5ths of the account holders in this study) already have pro-actively tried the services on offer, the relative lack of exposure and years of diffidence of the effectively excluded to reach out and demand service, has to be overcome empathetically by IPPB. There are enough indications about a strong intention to use the accounts which must be converted to regular adoption by encouraging the account holders to try the services.

7.2.4 Delay in implementing doorstep banking –It is not clear whether the technical and operational problems being faced initially for operationalizing

doorstep banking have subsequently been set right. But the fact that the same had not been clearly communicated to the frontline, points to either a rethink on the stated USP by IPPB or a problem in smooth dissemination of information to its frontline agents. In either case, it is something that IPPB needs to put serious thought to, as doorstep banking can help in both creating greater awareness on the usefulness of the accounts and facilitating the conversion of the inactive accounts into active ones.

7.2.5 Delay in merchant acquisitions – Building a robust merchant ecosystem that accepts direct payments from IPPB accounts should be a top priority as ability to make payments for purchase of goods and services would increase the utility of the account and help create transaction histories and behaviour patterns of customers. This would in turn help IPPB cross sell other appropriate financial services to its customers and earn fee incomes.

7.2.6 Gaps in implementation – It's been only a few months and many of the functionalities of the account have not yet been tried in the field. However, there are a few red flags, that need immediate attention. None of the account holders, even those who opened their account in Sept 2018 have received their first Quarterly account statement. The researcher couldn't find any DBT beneficiary who had yet received their DBT into their IPPB accounts. This may point to some systemic issues that IPPB needs to sort out with the DBT mission & PFMS immediately. The call centre number given for doorstep banking was tried, repeatedly, but found non-functional.

7.2.7 DoP-IPPB co-ordination – Synergistic coordination in planning, execution and monitoring of services through the postal channel will be absolutely crucial. Regular institutionalized monitoring of business targets, FI goals and agent motivations is required by both organizations, at all levels and needs to

become an organizational culture. The current information dashboard available with IPPB field staff is very rudimentary and not adequate even for monitoring within the branch. The access points and the DoP managers have almost no real time business data available.

7.2.8 Field feedback crucial - IPPB has an enviable field force not only in its agents at the post offices but also its own territory officers in each of its 650 branches. An institutional and documented mechanism to actively seek and act upon operational, technical and marketing feedback from the field must be put in place.

7.2.9 Motivation of frontline staff – This is an agent led business model and the training, wherewithal and motivation of the frontline PO staff in furthering the goals of financial inclusion must be kept high. While IPPB had announced incentive plans for them, none of the agents, even the ones like the BPMs of Anangpur and Ahulana who had opened hundreds of accounts, had yet been paid any incentive.

7.2.10 Preponderance of pre-paid mobile connections linked to accounts – It was noticed that most of the accounts holders have linked their pre-paid mobile numbers with their IPPB account. While there's nothing IPPB can do about it, since the only connections the a/c holders have are pre-paid, but it poses a risk if the a/c holder changes his connection without getting the new mobile number registered in his account. Anticipating that many will not think of doing so, IPPB will have to include awareness about the process of changing crucial parameters of their account as part of its financial literacy campaigns and also devise an alternate mechanism to re-activate accounts that face such issues.

7.2.11 Problem redressal – The process of raising operational or technical issues by an access point and getting their redressal from the IPPB backend is not yet

smooth. The phone banking number given for doorstep banking could not be raised despite repeated trials during the study. The matter was raised with the IPPB backend but no resolution could be found. The process needs to be streamlined and feedback loops created.

7.3 Recommendations

Drawing from the insights gained from the study, the following recommendations are made for furthering financial inclusion in India.

7.3.1 Recommendations for the Government of India

7.3.1.1 Post Offices should be prioritized as hubs of financial services in rural

areas- People in rural areas are more comfortable and regular in using the financial services of Post offices than Banks. Those who had both accounts used the former significantly more due to reasons of accessibility, familiarity and trust. There are important lessons here for policy planners. Obviously, rather than expending capital in proliferating brick and mortar bank branches and ATMs, if more financial services were made available through the POs and their service delivery capabilities were enhanced, it would improve the offtake of formal financial services in rural areas and bring down the overall cost of delivery for the financial sector.

7.3.1.2 DBT of all kinds of subsidies should be moved to IPPB- DBT of Govt.

subsidies into banks cause multiple difficulties of access to the rural beneficiaries. Since IPPB is the only Govt. bank, has been set up with the specific mandate of Financial Inclusion and has established a far larger footprint of availability in rural areas, it stands to reason to route DBT

primarily through IPPB. That was one of the primary demands of the rural and peri-urban respondents in this study. However, since it is a new system, IPPB should be tasked with first demonstrating capability of handling the crores of transactions from various different Ministries/Departments to ensure there is no disruption of the flow of benefits to the beneficiaries. Once demonstrated, this route should be used for all such schemes viz., income support to farmers, old age pensions, allowances to expectant mothers etc.

7.3.1.3 Creation of a digital payments ecosystem in rural areas – Payments are the

most frequently made transactions even in rural India. As long as they continue to be made in cash, and bank accounts are used only to receive benefits or service loans, adoption of formal financial services will be low. Populating rural areas with physical acceptance infra for digital transactions will entail avoidable expenditure. Penetration of smartphones and the capability of most rural citizen to use UPI like transactions will take a lot of time. QR code based transactions like the one introduced through the IPPB QR card can allow rural merchants to receive digital payments from even feature phone users without any special effort at training. In order for digital payments to become a reality in rural India, it is equally important to ensure that salaries, wages and pensions are paid into easily accessible bank accounts rather than in cash. Detailed recommendations and suggested action plans are given in paras 7.3.2.10 to 7.3.2.15 below suggesting an umbrella approach to include a large section of the informal sector. Although, the recommendations are contextualized to IPPB's possible future strategies for FI they apply equally to any financial institution(s) embarking upon a sustained plan of action for inclusion.

7.3.2 **Recommendations for IPPB**

7.3.2.1 Seek regulatory dispensation - A case needs to be made with the Government and the regulator to allow AADHAR - eKYC for account opening and AADHAR authenticated payments in rural areas and for the underbanked adults in urban areas. The security and reliability of doorstep transactions would be impacted if biometric authentication is disallowed. The issue of privacy and sharing of personal data has to be tackled through stringent mechanisms of informed consent rather than by deprioritizing the need of financial inclusion of the poor and excluded.

7.3.2.2 Focus on the effectively excluded – IPPB has established a deep presence in every nook and corner. While its services should be available to all, true to its mandate of financial inclusion and in consonance with its motto, the focus should be on the ones most in need of inclusion.

7.3.2.3 Organize financial literacy camps – Institutionalize holding of basic financial literacy drives in rural areas and among the urban poor, in which information about IPPB accounts and its uses, possibilities of linkage with PO services, various Govt. welfare schemes and progressively other products of other partner financial service providers may be explained. Sensitize the local Postmaster to work with the Gram Panchayat/Municipal authorities to include periodic address to the Gram Sabha/Ward meetings. Involve the Asha, ANM, Aanganwadi workers to better reach the women. Use doorstep banking as an occasion of imparting Financial literacy. A picture is worth a thousand words and a video is worth hundred pictures. Not every postmaster, Postal manager or IPPB territory officer can be expected to speak well extempore or remember all salient points to convey. It would be good to supply them with audio-visual content, disseminate infographics through social media, and use the *nukkad-*

natak (street play), folk theatre and road show formats as well as radio jingles, talk shows extensively and regularly to create awareness.

7.3.2.4 Use vernacular – The need to use vernacular language cannot be over-emphasized. Language is one of the important barriers to ease of usage of formal financial services. As per plan, in rural areas, IPPB was to use vernacular in everything from signages, pamphlets, account statements, agent/mobile Apps etc. Most of these, including the agent App is in vernacular but the read aloud feature of the agent App is still in English. IPPB should fix that and ensure sending account statements in vernacular for those who are more comfortable in it.

7.3.2.5 Prioritize appropriate products & services- People need payments solutions for day to day purchases, utility payments, savings, fund transfers, insurance, loans, investments – in that order. The effectively excluded need to be first given ability to use IPPB’s payments solutions and savings options (including the range of POSB products). Bringing them more sophisticated financial products like loans and investments should be on a longer horizon. These can be offered to the more financially adept who can understand the pros and cons involved.

7.3.2.6 Activate accounts - It is true that account usage picks up over time. However, as long as an account stays inactive it represents a missed opportunity of being useful to the holder and is actually a drain on the Bank’s resources. Longer the accounts stay unused, the more exponential would be the efforts needed to activate them later. Therefore, IPPB should focus on increasing transactions in its accounts by checking with the customer if she’d like to do any transaction from her account immediately after opening it and institutionalize a follow up again within a month to ascertain whether she needs help, so that she gains

confidence in using the account. A customer who is taken care of, is one who values the association and invests more in the relationship. Most of IPPB's customers would never have experienced a service provider caring for them. Doing that as part of a SOP may help create a culture of caring for the most vulnerable, in consonance with IPPB's motto.

7.3.2.7 Revise cash transaction limits for access points in BOs – The current limit for cash transactions in Branch Post Office (BO) and at doorstep at Rs 20000/- & Rs 5000/-per transaction respectively appear to be restrictive for a rural access point that has even one regularly transacting merchant. IPPB branches may institute an empirical study to determine the feasibility and desirability of enhancing these limits.

7.3.2.8 Initiate Doorstep Banking– IPPB should use the tremendous ability to reach the customer through doorstep banking and use it to provide targeted services to those who most need it. IPPB should reach out to the Govt. to ensure that the beneficiaries of Old age/disability pensions, maternity benefits should be paid these benefits at their doorstep with the Government picking up the doorstep charges.

7.3.2.9 Set up utility bill payments camps - at PO and other convenient locations at the beginning of the month and use such camps for further financial literacy. Push awareness of the availability of premium payment options for insurance products etc. Check whether they'd like to avail fund transfers or link their existing POSB accounts, R/PLI policies.

7.3.2.10 Focus on creating a merchant ecosystem – Irrespective of rural or urban areas the major needs of everyone is to buy groceries, garments, medicines, household items etc. In urban areas people also need to buy milk and other food items regularly. The neighbourhood shops, vegetable/fruit vendors, street

food vendors cater to large number of customers making these micro-payments, every day, mostly in cash. Often people visit a few shops for most of their needs. Although, they operate in the informal economy and individually they may have a small capital base, many have significant turnovers and loyal customer bases. With its last mile presence in both rural and urban areas, IPPB should focus on these micro-enterprises as hubs of financial inclusion.

7.3.2.11 Adopt a customer behaviour led business strategy - It may be a good idea to check with customers being acquired about which shops they frequent and acquire the most popular merchants on priority. IPPB needs to task its marketing staff to work with the local PO agents to ensure signing up at least one shop, per month, per post office for the next 6 months in rural areas and multiples of that number including street vendors in peri-urban and urban areas. As the efficacy of the merchant payments App is demonstrated, these merchant locations can in turn become the nuclei of further customer acquisition, so that an organically growing network of intersecting and interconnecting transactional highways between actively transacting individuals can be created.

7.3.2.12 Expand to cover services – Apart from goods, people spend on services. Service providers like milkmen, maids, drivers, gardeners, barbers, *dhobis*, *presswalahs* etc., are being paid mostly in cash. These micro-service providers typically work long hours to make ends meet and have little wherewithal to access formal financial services. As part of a worthwhile digital payments campaign, IPPB should take up drives to financially include such individual service providers.

7.3.2.13 Provide salary/wage/pension solutions – Unless people receive their major incomes into their accounts, the intent to transact digitally will not actually fructify. Almost all salaries in the informal sector are paid in cash. Therefore, even as IPPB creates a digital payments ecosystem, it should pro-actively reach out to employers in the informal sectors with curated facilities to pay salaries/wages into the employees’ accounts. In the formal sector, payment of salaries, wages and indeed pensions to employees/ former employees of Education, Forest, Health Departments and the Defence Forces living in rural and remote areas is a huge business opportunity that needs to be tapped into.

7.3.2.14 Seek partnership with people – It is also important to reach out to individuals/households that currently pay for services in cash. IPPB could launch ‘social give back’ campaigns for its more included customers in urban as well as rural areas to refer such retailers and individual service providers to open IPPB accounts. There could be a reward and recognition scheme for those who refer ‘new to banking’ merchants/ service providers. Such a scheme could be supplemented by Government sponsored incentives to promote digital payment of goods/salaries/services rendered by the citizen.

7.3.2.15 Look at the bigger picture – Thus, an ever expanding chain of mutually transacting individuals can be created, fuelling demand for digital payments and generating rich source of data for designing/cross selling more sophisticated financial products. The network effect of such an ecosystem of transacting customers could be phenomenal and drive a significant behavioural shift in the community towards ubiquitous digital payments.

7.3.2.16 Spin off benefits – The two biggest beneficiaries of such an approach would be the Government and IPPB itself. The former will reap benefits of a lesser reliance (reduced expenditure) on cash and a significantly more formalized

economy. IPPB would be building up transactional histories of millions of micro-entrepreneurs and their customers, both hitherto largely and equally invisible to the formal financial service providers and policy planners. This would be crucial for realizing its potential growth trajectory.

7.3.2.17 Handhold customers up the financial sophistication curve – As discussed earlier, customers need a different bouquet of financial services at different stages of their financial inclusion journey. Once easy and secure payments, both payments into accounts (salary/wages/benefits/payments for goods sold/services rendered) and made out of the accounts (payments for purchases, services/utilities consumed, liabilities serviced), are taken care of, appropriate and safe savings instruments need to be offered. Fortunately, for IPPB the entire bouquet of Government guaranteed savings schemes of the Post Office including Recurring deposits, Fixed deposits, Public Provident Fund, Monthly income schemes, special savings schemes for the girl child *Sukanya Samridhi* accounts, etc. are available. Further IPPB can help curate goal based savings products with flexible terms and seek affirmative action by Governments to support higher interests to the ‘newly included’ customers.

7.3.2.18 IPPB’s own bouquet of interoperable fund transfer mechanisms are already on offer. The next financial product that must be offered to all, should be insurance. The Postal Life Insurance and Rural Postal Life Insurance products are already available through the DoP, as are various Govt. sponsored insurance (welfare) schemes. For the other insurance schemes, credit and investment products IPPB can begin with facilitating access to a curated basket of suitable products of other financial service providers.

7.3.2.19 Offer Payment gateway services – Build/collaborate to acquire online payment processing abilities to offer a payment gateway for e-commerce

activities of the India Post to help in digitizing its postal products, financial services and e-marketplace initiatives. In fact, as it signs up MSMEs/artisans/craftsmen etc. it could facilitate them to market their wares through the postal channel, i.e. in physical post shoppes, the India Post e-marketplace and using the Media Post (advertising in post offices) facilities.

7.3.2.20 Partner with DoP to offer seamless e-Commerce experience – The post office has unmatched physical delivery capabilities even in the remotest of places across the country. ~ 1000 private courier and logistics companies use the post office to deliver their parcels in tier 3-6 locations and even many peri-urban localities in Tier 1 & 2 cities. IPPB should build interoperable online payment capabilities in its account to enable its customers to smoothly adopt e-commerce irrespective of their location.

7.3.2.21 Diversify product portfolio - IPPB as a payments bank cannot offer credit, insurance or investment products, however, it can partner with other banks/insurance companies/fund houses etc. to source these products for its customers. IPPB may also decide, in time, to transform into a universal bank to offer the full range of financial services to its customers. If it succeeds in creating a large customer base, that may be also be something that the regulator and the Government may want. Even if it continues to be a Payments bank, it would need to diversify its product range through partner institutions, to remain relevant for its clientele. The following recommendations may sound futuristic but needs to be planned well in advance, to stay ahead of the rapidly changing Fintech scenario.

7.3.2.22 Transition to a platform player- Customers in this study have already indicated strong preference for personal loans, vehicle loans, health insurance, life insurance etc. As its clientele move up the financial sophistication curve,

IPPB should progressively move the network so created to an entirely inter-operable platform to provide seamless connections to more financial services from other financial services providers, taking on an advisory and a facilitator role for more and more customers who make the transition. In order to do so, IPPB has to acquire significant capabilities in data mining and predictive analytics which must start now with embracing of a variety of emerging technologies.

7.3.2.23 Crack the credit conundrum - The traditional focus of FI in India has been expansion of bank branches to provide credit. However, most of the effectively excluded are wary of credit, which is almost a cultural taboo and for good reason. Often, if friends and family are unable to extend it, the only available source of funds in times of need, is informal cash credit from money lenders at extremely high interest rates of 4-5% per month. No middle class or urban customer would ever pay such usurious rates, yet the financially excluded customers, who far have lower economic wherewithal, have no choice. Repaying such loans is back breaking and defaulting means falling into a debt trap. Formal credit is far cheaper but most loans offered, are secured loans against collaterals. For the majority of the poor in rural areas, documentation of physical assets is scarce and mutation of land title is difficult to establish due to imperfect records and fragmentation of land holdings. Many, such as the landless labour, may have no collateral to offer.

7.3.2.24 Consider cash flows - Due to irregular and uncertain income streams, the poorest of the potential borrowers mostly require unsecured loans. Exactly the product that bankers find most risky to offer without credit histories. Human discretion in deciding credit worthiness is predicated on intimate knowledge of the customer, which banks do not have. Therefore, discretionary lending has

been prone to corruption, inefficiency and considerable risk of turning into a bad loan. Inflexible repayment schedules that do not consider the borrower's cash flows, lead to defaults, penalties, restructuring, ever-greening of loans and ultimately loan waivers, ruining of his credit history and in some extreme cases, (farmer) suicides.

7.3.2.25 Introduce emerging technologies of Artificial Intelligence (AI), Machine Learning (ML) **in devising personalized financial solutions** – IPPB, especially if it follows the path of building a digital payments ecosystem recommended above, will generate huge amounts of transactional data. Existing data analytics protocols are likely to fall short of computing power and business logic to customize product offerings to individual customers. To supplement, IPPB should look at deploying an AI powered rule engine that can achieve process automation through multiple datasets to speed up data analysis and sift through transaction data to analyse cash flow patterns in individual accounts over different time periods to determine investable surpluses.

7.3.2.26 Use Alternative data for Credit scoring - Machine learning algorithms can then be deployed to work with these patterns on such alternative data, consider the customer's age, current income and assets, match them with similar patterns in peer groups to prepare predictive models of the risk tolerance and how much an individual customer can allocate to an optimum suite of financial products to achieve her financial goals. The insight gained can then be used to offer customized, affordable, secure and flexible micro-credit for the purpose she needs it and the repayment schedules structured according to her repaying capability. Start with small amounts and short tenures. As she repays, gains confidence and establishes her credentials as a responsible borrower, interest rates can be progressively lowered and the loan amount increased with

increasing credit-worthiness. Government can chip in with interest subvention for good borrowers.

7.3.2.27 Predict risk scores for flow based credit - Given adequate data, AI & ML deployed can also figure out accurate credit and risk scores analysing behaviour patterns in payment transactions and learn from cues in the ecosystem to predict and detect fraudulent activities faster and increasingly more accurately. The insights gained can be used to customize flow based credit products suited to the specific needs of individual borrowers and tailored to her repaying capacity.

7.3.2.28 Use Natural Language Processing (NLP) and Roboadvisory services to augment financial literacy– If IPPB is successful in triggering the network effect, its client base will scale exponentially. Cost effective servicing of the information demands of a ‘new to banking clientele’, may well prove to be its ‘Achilles’ heel’. Lack of awareness of appropriate products will expose the uninitiated to significant risk of misspelling, especially by other financial services providers sourcing customers through IPPB. The newly included will need time, patience and verbal advisory, in their local language, to understand product features in order to choose wisely, without the necessity to write/type queries. IPPB’s call centres will struggle to service calls and its costs will spiral. It will help to follow up regular marketing efforts with the use of missed call Roboadvisory services (Kudwa, 2018). An automated Customer service can call back through voice chatbots/ interact through voice SMS providing product information, process inputs, simple clarifications, portfolio advice and complaints handling, in local language, running NLP on voice data. This can be invaluable for raising awareness, 24x7 handholding, cross selling and delivering superior customer experience, at far reduced costs.

7.3.2.29 Use Blockchain– Considering the issues around using AADHAR authentication for KYC and transactions, an alternative worth exploring, could be Blockchain’s decentralized, distributed ledger and shared protocols for uploading and customer consent triggered sharing of KYC documents. Peer to peer alternative lending platforms using the Blockchain’s trusted network, can be leveraged for providing micro-credit in a fast, secure and transparent way, in compliance with regulatory guidelines and without compromising the confidentiality of user data. Once, the appropriate loan or insurance product is selected by the customer, smart contracts can be used to execute the transactions quickly without the need for any intermediary. Similarly, Blockchain can be used for tamper proof storage of land/asset records, health records, transaction records etc., leading to faster claims settlement and aid in audit functions.

7.3.2.30 Design On-demand savings, loans, insurance, investment products - All this can help IPPB and its partner service providers design hyper-customized product suites (Accenture, 2018) with flexible ticket sizes, tenures, combinations etc. and constantly iterate them to the needs of the customer throughout his/her journey along the financial sophistication curve. The excluded at the base of the wealth pyramid need differentiated products rather than miniaturized versions of products that work well for the more affluent. A vegetable vendor may require only a few thousand rupees credit to move from a patch on the footpath to a wheelbarrow that allows him to foray into affluent residential colonies and sell door to door, at higher margins. He may benefit from a loan that allows daily repayment and does not penalize him, if he misses a few days, due to sickness or a trip home to his native place. A fishmonger who currently pays a few Rupees daily to a chit fund collector and runs the risk

of losing everything to a Ponzi scheme has no feasible alternative, because no bank offers her the convenience of collecting what she can save, while she goes about her business. A recurring deposit account that accepts whatever amount she wants to put in, whenever she can and automatically iterates the interest earned, may help her upgrade to a proper stall in the fish market. A monthly income scheme that allows a labourer to deposit a part of his daily/weekly wages in the sowing/harvesting season and get a monthly allowance in the lean season, when he's out of work, may mean the difference between two square meals for his family the year around. Yet such products cannot be offered currently without leveraging the computing power of AI based rule engines iterating the learning from transactional data. All of this needs to be predicated on an ethically strong, customer consent driven, architecture that ensures security and integrity of data.

7.3.3 A nationwide follow up study required – This Pilot study was conducted within the constraints of the very short time period available, on a small sample of respondents, at a few locations in two States, even before the full roll out of the Bank was completed. It has nevertheless provided early indications of what may work, what may cause problems. It has suggested some ways forward for the role that an institution like IPPB can play in furthering Financial Inclusion. This would need to be followed up by triangulation with quantitative studies using secondary data of account activity and periodic follow up with pan-India primary surveys conducted on a far larger sample size, to undertake overall impact assessment on financial inclusion of the hitherto effectively excluded in the country. Another important aspect would be to see how many of the effectively excluded are converted into active users by IPPB.

7.4 Conclusion - Financial inclusion is not a destination reached with launching a branch in an underbanked area or opening an account of an unbanked individual. It may instead, be seen as a continuous journey towards ensuring availability of affordable alternatives, building capability of exercising informed choice to select appropriate products, enhancing ease of adoption and confidence of usage of a variety of formal financial services, for all adults, especially those who suffer multiple barriers to access formal financial services. It is a journey, that begins with the access to a bank accounts or a payment solution but must handhold the customer through successive stages of adoption of progressively sophisticated financial services to finally establish a seamless linkage between the bank account, payments systems, fund transfer protocols, insurance, credit, investments and more. Awareness and education is needed to be responsibly imparted, not only about the availability and benefits of a financial product but also about any risks involved for the customer to make informed decision about its suitability. Only when it becomes equally effortless and affordable for all, to confidently access financial services as and when they need it, will they be able to focus maximum time and effort on productive enterprise and the economy will be able to reap the maximum benefit of individual growths. This study therefore posits that, financial inclusion is the journey of a society along the **access- availability- usage - linkage continuum** and remains a work in progress for the Government and the regulator as long as there is asymmetry in effective access for anyone in the society.

IPPB is in a position to make a significant impact on financial inclusion in India, especially among the rural populace and among the urban excluded,

especially homemakers. It must however, focus on catalysing the creation of a digital payments ecosystem and stimulate transactions in the accounts it is opening. It has to train its field agents and officials to tap the pulse of its clientele and ensure appropriate products and services are available timely.

Furthering Financial Inclusion: IPPB target clientele survey

Date:

Declaration to respondent

Dear Sir/Madam,

This study is part of the M(Phil) research study undertaken by Ms. Madhumita Das, participant 44th APPPA, Indian Institute of Public Administration. The research work is focused on the factors of exclusion and the role IPPB can play in furthering financial inclusion. You are requested to kindly spare your valuable time and contribute to the study by answering these questions. All responses will be kept confidential and will be used only for academic purposes by the researcher.

Approx. time anticipated: 40 min

Location Information

- i State _____
- ii District _____
- iii City/Town/locality

- iv Urban/rural _____

- v IPPB Access Point

- vi Distance from nearest town

Start time:

End time:

Part A: Respondent Information

Your name and personal details are being requested merely for the academic purposes, and the same will not be disclosed, mishandled or misused for any other purposes.

1. **Name (optional):** _____
2. **Contact number:** _____
3. **Gender (Choose one):**
 - a. Male
 - b. Female
 - c. Other
4. **Age in years (Choose one):**
 - a. >15
 - b. 15-35
 - c. 35-60
 - d. >60
5. **Languages which you can read/write**

6. **Education level : (Choose one)**
 - a. No formal education
 - b. Primary school
 - c. Middle school
 - d. Secondary school
 - e. Graduate
 - f. Post graduate

7. Occupation: (choose appropriate)

- | | | |
|------------------|------------|--------------------|
| a. Farming | d. Artisan | h. Housewife |
| b. Govt. Service | e. Labour | i. Unemployed |
| c. Business | f. Teacher | j. Private service |
| | g. Student | k. Other_____ |

8. (For rural respondents) In which village do you live?

(For urban respondents) Since when have you been living in this city/town (no. of years)? _____

9. Where are you from originally _____

10. How far is your home from the nearest post office?

- a. <1Km b. 1-2 Km c. 2-5 Km d. >5Km

11. Where does your family stay?

- a. With me b. At my native place c. Other

12. What is your approximate annual family income?

- | | |
|------------------|--------------|
| a. < Rs 50000 | e. >Rs10 lac |
| b. Rs 50001-1lac | f. Can't say |
| c. Rs 1lac-5 lac | g. NA |
| d. Rs 5-10 lac | |

13. Do you own a mobile?

- a. Yes b. No

14. Type of Phone owned

- a. Smartphone b. Feature phone c. NA

15. Do you have internet at home?

- a. Yes b. No

16. How is the mobile connectivity you get?

- | | |
|----------------|---------------|
| a. Very good | d. Mostly bad |
| b. Mostly good | e. Very bad |
| c. Good | |

Part B: Financial Services availed (other than IPPB)

17. Which of these do you have? (Choose all appropriate)

- a. Bank accounts
- b. Post Office accounts
- c. Digital wallets
- d. Other accounts
- e. None of the above

18. How many bank accounts do you have? (Choose one)

- a. 0
- b. 1
- c. 2
- d. > 2

19. In case you don't have a Bank account, what are the reasons for not having it? (Ask an open ended question. Choose all appropriate answers given / add as applicable)

- a. There are no banks nearby
 - b. I do not have enough money to save
 - c. I do not have the required documents
 - d. Other family members have a/cs
 - e. I do not need account
 - f. I do not understand the process
 - g. It is too costly
 - h. Can't say
 - i. NA
 - j. Other _____
-
-

20. What is the frequency with which you make the following payments?

		Every day	Every week	Every month	Every quarter	Every year	Rarely	Not started yet
a	Payments for purchases							
b	Savings							
c	Transfer funds							
d	Mobile recharge/bill payments							
e	Pay EMI for loans							
f	Pay insurance premia							
g	Make investments in							

financial instruments								
-----------------------	--	--	--	--	--	--	--	--

21. For which of these do you use your bank a/c? (Choose all appropriate)

- a. Payments for purchases
- b. Transfer funds
- c. Receiving salary/wages
- d. Savings
- e. Mobile recharge/bill payments
- f. Receiving DBT
- g. NA

22. How often do you use your bank account (Choose most appropriate)

- a. Almost every week
- b. More than once a month
- c. About once a month
- d. About once in 3 months
- e. Rarely
- f. NA

(For those opting for d & e, ask if they remember when and why they accessed their bank accounts)

23. The most important reasons that influence your frequency of using bank accounts? (Ask an open ended question. Choose all appropriate answers given / add as applicable)

- a. Distance to the Bank
 - b. Complexity of procedures
 - c. Documentation required
 - d. Time taken
 - e. Crowds in the branch
 - f. Language of forms
 - g. Attitude of bank employees
 - h. Comfort in conducting transaction
 - i. Suitability of working hours
 - j. Knowledge of product features
 - k. Availability of products and services suitable to me
 - l. Cost of use
 - m. I do not need accounts
 - n. I do not have enough money
 - o. Other _____
-
-

24. How frequently do you visit the post office for postal, savings bank, PLI/RPLI etc.?

- a. Every week
- b. Every month

c. Occasionally

d. Don't have these products

(Discuss the reason for their answer)

DBT information

25. Are you a DBT beneficiary?

a. Yes

b. No

26. What benefits are you receiving?

27. How are you receiving the benefit? (Choose one)

a. In my bank account

d. By cash

b. In my PO account

e. NA

c. By Money order

(Discuss any issues being faced in accessing DBT)

Cash Usage

28. How much of your payment transactions for purchasing household needs, paying bills, mobile recharge etc. do you do in cash?

a. 100%

c. <50%

b. >50%

d. 0%

29. How do you withdraw cash? (Ask an open ended question. Choose all appropriate answers given / add as applicable)

a. From bank counter

d. Can't do it myself

b. From PO counter

e. Don't need to withdraw

c. At ATM

f. NA

30. **How does your family pay bills/ recharge mobiles? (Choose whichever appropriate)**

- a. At bank counter
- b. At post office
- c. At electricity/telephone office in town
- d. At nearby shop
- e. Online
- f. Other means _____

31. **How often do you need to transfer funds to family/others (Choose one)**

- a. Every month
- b. Occasionally
- c. Rarely
- d. Never

32. **How do you transfer money to family members? (Choose whichever appropriate)**

- a. Through bank account
- b. Through money order
- c. Through money transfer agents
- d. Through mobile remittance
- e. In cash through known person
- f. Through ATM
- g. Other means _____
- h. Can't say
- i. NA

Part C: IPPB account

Awareness

33. **Have you heard of India Post Payments Bank** a. Yes b. No

34. **How did you hear about IPPB? (Choose whichever appropriate)**

- a. From the PO staff
- b. Radio
- c. TV
- d. Newspaper
- e. SMS
- f. From known person
- g. Other
- h. Not aware
- i. Saw the camp

35. **Are you aware for which of these can you use your IPPB accounts? (Ask an open ended question. Choose all appropriate answers given / add as applicable)**

- a. Savings
- b. Receiving salary
- c. Bill payments
- d. Payments for purchases
- e. Fund transfers
- f. Receiving DBT

- g. Receiving Pension
- h. Payment of postal savings/mails
- i. Payment of Insurance premia
- j. Payment of Loan EMIs
- k. Not aware
- l. Other _____

36. Are you aware through which of these different channels you can do banking with IPPB?(Choose all appropriate)

- a. At the PO
- b. At your doorstep
- c. On your mobile through IPPB App
- d. Not aware

Are you aware of the following?

37. Digital payments can avoid the need for withdrawing, carrying and securing cash
?Yes/No

38. With the IPPB QR card and a simple feature phone, you can make all kinds of transactions at the doorstep and at a merchant location directly from your account
Yes/No

39. You can both make and receive payments through the IPPB QR card
Yes/No

40. You can send money to anyone at much cheaper rates through IPPB
Yes/No

Availability of account (Tick whichever appropriate)

41. **Do you have an IPPB account?** a. Yes b. No

(If answer to Q 41 is no, impart basic info on salient features and ask)

42. **Would you like to open an IPPB a/c?** a. Yes b. No c. Maybe

(If answer to Q 42 is yes and if the respondent opens an account during the period of the survey and for all respondent who have IPPB accounts proceed to the next question, else jump to Q 53.

For those responding no, ask for reasons)

43. What kind of IPPB account do you have? a. Saving b. Current

Customer on-boarding

44. How was your IPPB account opened? (Choose one)
- a. By PO staff at PO
 - b. By PO staff at doorstep
 - c. By self on mobile App
 - d. By PO staff in camp
45. What documents did you have to produce for account opening? (Choose all appropriate)
- a. AADHAR card
 - b. Pan card
 - c. Photograph
 - d. Other _____

Part D: Acceptability of IPPB's measures

46. How much time did the account opening process take?
- a. < 5 min
 - b. 5-10 min
 - c. 10-15 min
 - d. > 15 min
47. Did you find the account opening process convenient? (Choose one)
- a. Very convenient
 - b. Somewhat convenient
 - c. Convenient
 - d. Somewhat inconvenient
 - e. Inconvenient

Current Usage

48. When did you open the account?
- a. Less than a month ago
 - b. More than a month ago
 - c. Between 2-3 months
 - d. More than 3 months ago
49. Have you made any transactions with your IPPB account? a. Yes b. Not yet

50. a. If yes, what kind of transaction have you done?

- b. If not, why not? _____
- c. Which channel did you use? _____

PO counter

51. Are you satisfied with IPPB service at the PO counter? a. Yes b. No
c. NA
52. Do you have any suggestions for improving service at PO counter?

Doorstep banking

53. Do you feel doorstep banking will help you in using your account as often as you need to?
a. Yes b. No c. Maybe
54. Do you feel doorstep charges of Rs 25/- per txn is affordable for you?
a. Yes b. No c. Can't say
55. Which features do you like in doorstep banking? (Ask an open ended question. Choose all appropriate answers given / add as applicable)
- | | |
|--|--|
| a. It is very convenient | c. I can transact reliably through my postman /GDS |
| b. I can save time and money on transportation | d. Other_____ |

Mobile banking

56. Have you tried the IPPB mobile APP? a. Yes b. No
57. If yes, what transactions have you made? _____
58. **What features do you find useful about the App?** (Ask an open ended question. Choose all appropriate answers given / add as applicable)
- | | |
|--------------------------|-----------------|
| a. Simple user interface | b. Easy process |
|--------------------------|-----------------|

- c. Available in local language
- d. Assisted UPI on-boarding
- e. Quick transaction
- f. Immediate reconciliation
- g. Useful products and services
- h. Other _____

59. How frequently do you use the App? _____

60. What improvements would you like on the mobile APP?

Digital Payments

61. Do you regularly make digital payments using cards/mobile payments? a. Yes b. No

62. If so, what kind of payments?

63. Do the shopkeepers in your area accept digital payments? a. Yes b. No c. Can't say

64. Would you like to make digital payments for your day to day purchases at the local shops using your IPPB A/c? a. Yes b. No c. Can't say

Part E : Likelihood of adoption

Channels

65. Which channel are you most likely to use? (Choose all appropriate)

- a. At the PO
- b. At my doorstep
- c. On mobile through App

66. For which of these are you most likely to use your IPPB account (Ask an open ended question. Choose all appropriate answers given / add as applicable)

- a) Savings
- b) Receiving salary/pension
- c) Making Payments (Bills/EMI/rent etc.)
- d) Fund transfers
- e) Receiving DBT
- f) Payments for purchases

67. **What do you think are the most useful features of IPPB account?** (Ask an open ended question. Choose all appropriate answers given / add as applicable)

- | | |
|--|---|
| a. Account can be opened conveniently | g. I feel comfortable with the PO staff |
| b. I can do banking at my doorstep | h. Transactions are easy and quick |
| c. I can transact at nearby post office | i. Immediate confirmation through SMS |
| d. Very few documents are needed, which I have | j. Can be done at a time convenient |
| e. No forms to be filled | k. I can do it myself through mobile |
| f. I can transact in a language I know | l. Products and services are useful |
| Any other _____ | m. No minimum balance required |

68. Do you have any other suggestions to make IPPB more useful to you?

69. **How likely are you to use IPPB's products and services for your financial needs?**

(choose one)

- | | |
|----------------|-------------|
| a. Certainly | d. Probably |
| b. Very likely | e. Unlikely |
| c. Likely | |

70. **How likely are you to recommend IPPB to your friends and family? (choose one)**

- | | |
|----------------|-------------|
| a. Certainly | d. Probably |
| b. Very likely | e. Unlikely |
| c. Likely | |

Linkage with other financial services

71. **Other Financial services that you would like to avail using your IPPB**

account (Ask an open ended question. Choose all appropriate answers given / add as applicable)

- | | |
|---------------------|--------------------------|
| a. Life insurance | d. Personal loans |
| b. Health insurance | e. Working capital loans |
| c. Other insurance | f. Vehicle Loans |
| h. Investments | g. Others _____ |

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