Business Standard

Subir Gokarn: Demanding to be included

A recent survey points to ways in which financial inclusion and its impact can be enhanced

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In the 1977 film, *Annie Hall*, Woody Allen opens with two jokes that, he says, best reflect his attitude towards relationships. The first, which he attributes to Sigmund Freud via Groucho Marx, is that he would never want to belong to any club that would have him as a member. The second is about two guests eating lunch in a summer resort. One says, "The food here is terrible!" The other responds: "And the portions are so small, too!" Having watched the film a countless number of times, I have come to the conclusion that these actually describe quite accurately the fundamental ambiguities in many complex phenomena. In this column, let me focus on financial inclusion.

Enormous amounts of strategising, mandates to banks and other financial intermediaries, incentives and disincentives and so on have gone into the process. And yet where we stand today suggests achievement far less than expected, let alone desired. Thus far, the debate has revolved round the "supply side" of the equation - the appropriate organisational and incentive frameworks for expanding financial access.

In this column, I want to look at it from the "demand" perspective - the characteristics and expectations of the new consumer of financial access, who is the target of the inclusion strategy. A recent consumer survey carried out by InterMedia, titled "India: Financial Services Use and Emerging Digital Pathways", provides a basis for this. The survey of around 45,000 individuals was carried out between October 2013 and January 2014, and the organisation proposes to carry out a tracker survey every year. A trajectory of financial inclusion can, thus, be viewed over time, either validating or challenging the strategies being implemented. But, for the moment, the baseline survey provides insights into the immediate challenges that the strategy must address.

The survey highlights both the relatively low overall level of access and utilisation of services from the formal financial sector, and the significant variation across states and, importantly, across gender. There is a lot to be learnt from the disaggregations, but within the confines of this column, let me highlight a few aggregate findings that reflect both the extent of progress and the nature of the opportunities.

First, with respect to access and utilisation, the following numbers are significant. Over 90 per cent receive wages and remittances in cash. Only 47 per cent actually have a bank or mobile account, and, of this group, only 54 per cent (or 25 per cent of the whole population) used their accounts in the previous three months. As for people below the poverty line (the survey uses $2.50 a day as the threshold), only 20 per cent had an account. On the borrowing side, only 11 per cent actually borrow from a bank, with another four per cent relying on savings groups. The rest borrow from personal networks and the informal sector, with about 12 per cent citing use of moneylenders.

On the flip side, although only a quarter of the population saved money, 70 per cent of these used a bank to deposit their savings, with another three per cent using savings groups. Of the entire population, 72 per cent conveyed high levels of trust in institutions identified with the government, including the public sector banks; as distance from the government increased, trust levels declined.

Second, with respect to the role of technology in inclusion, only 0.3 per cent have ever accessed a mobile money account, with some fraction of this actively using them. Only six per cent of the population were aware of these services, and most of the utilisation was either for remittance or for recharging their telephone accounts. As far as direct payments from the government go, 12 per cent were actually receiving these, with about a third of these being paid by direct transfers into their account. Significantly, only 13 per cent of recipients said that they had to pay bribes to get their payments.

Let's look at these patterns through the Woody Allen lens. Financial access and utilisation possess classic network characteristics. It only makes sense to be a part of the network if the people and institutions you transact with the most are also part of it. If they aren't, then it isn't a club you benefit from belonging to even if they ask you to be a member. The obvious reason why there is so much dependence on cash is that everybody relies on it. Let alone individuals, so many government agencies insist on either demand drafts (which, on the basis of my own recent experience, are incredibly difficult to get), or - you guessed it - cash! Digital transfers from the individual to the agency are an absolute must if large numbers of people are to appreciate the benefits of opening accounts. Accept payments through mobile transfers and people will rush to open accounts.

On the very poor record of borrowing from banks, the "terrible food-small portion" ambivalence comes to mind. Several people have pointed out that even the best-targeted product that a bank offers nowhere meets the requirements of the average self-employed person or micro-enterprise. They have small but very frequent cash requirements, unconventional collateral (such as a prime location) and face significant cash-flow risk. Banks typically have nothing to offer that fits this business profile. At the policy level, inclusion cannot be viewed as only providing deposit services; the supply of credit as a means of enhancing productivity and livelihoods is a critical objective. Serving up the right products at the right scale has, so far, been missing from the inclusion menu. But, to achieve the larger goals, it must be done.

On digital payments, the achievement is obviously very small. The question is, what will make it grow? The network externality is clearly important here. The effort to enrol people into the system, particularly the poor, must go hand-in-hand with a concerted move to mandate digital transfers at all levels of government. With overall mobile phone access as high as 85 per cent (even the state with the lowest access records 60 per cent), this is a combination waiting to be exploited.

In sum, inclusion is meaningful when large proportions of mutually transacting groups are brought in together. To keep them in, the right kinds of products in the right kinds of sizes need to be offered. To maintain trust, explicit involvement of the government is needed. How complicated can this be?

The writer is director of research, Brookings India, and former deputy governor, Reserve Bank of India. These views are his own.

The survey cited can be accessed at www.finclusion.org