



Irving Fisher Committee on  
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BANK FOR INTERNATIONAL SETTLEMENTS

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**Financial inclusion – issues in measurement & analysis<sup>1</sup>**

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<sup>1</sup> This presentation was prepared for the workshop. The views expressed are those of the author and do not necessarily reflect the views of the BIS or the central banks and other institutions represented at the workshop.

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# Financial Inclusion – Issues in Measurement & Analysis

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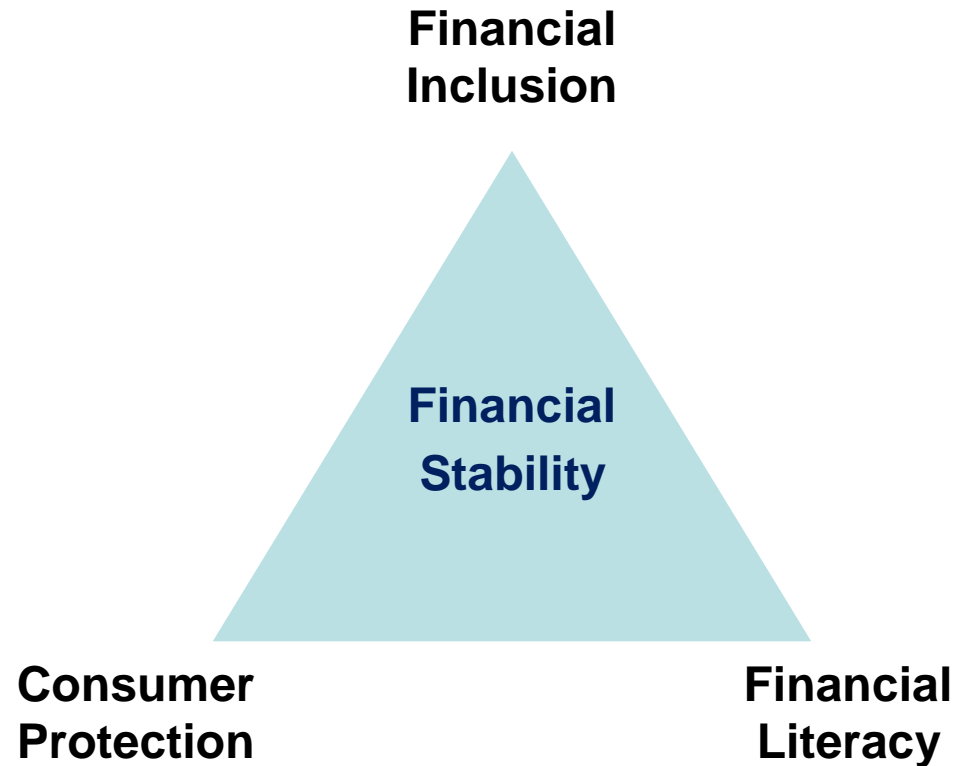


# Financial Inclusion

*An essential Pre-requisite for measurement is to understand the context and framework of Financial Inclusion. Any effort to measure the various dimensions of financial inclusion is not possible without explaining the context and framework.*



# Trinity to make Financial Stability Possible





# Financial Inclusion- Definition

*“Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all the members of the society in general and vulnerable groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players”*



# Twin Aspects of Financial Inclusion

- Financial Inclusion and Financial Literacy are twin pillars. While Financial Inclusion acts from supply side providing the financial market/services what people demand, Financial Literacy stimulates the demand side – making people aware of what they can demand.



- Developing Economies face the problem of low level of literacy, poor accessibility and low demand. Therefore it is necessary for developing an Index for measuring both Access as well as the level of Literacy.



# Framework of Financial Inclusion-I

- **Assessment of enabling environment**
- **Penetration Issues**
- **Barriers to Financial Inclusion**
- **Demand for financial services**
  - **Access Issues – Availability of Banking facilities**
  - **Financial Education & Literacy**
    - Awareness of financial products and services
  - **Availability of appropriate products**
    - **Savings Products**
    - **Emergency Credit (Overdrafts)**
    - **Remittance Products**
    - **Entrepreneurial Credit (KCC/GCC)**



# Framework of Financial Inclusion - II

- **Supply of financial services**
  - **Ease of Access**
    - Time Dimension
    - Distance Dimension
    - Pricing Dimension
    - Terms & Conditions
  - **Fairness & Appropriateness of Products**
    - Education
    - Consumer Protection





# Framework of Financial Inclusion-III

- Monitoring of Products
  - Micro Level Monitoring
    - Transaction level monitoring
  - Customer Level Monitoring
  - Product Level Monitoring
  - Macro Level Monitoring
- Assessment & Outcome of Policy
  - Assess whether the FI model is viable
  - Conduct an Impact Analysis
  - Penetration study



## Information Needs – Stages

- Proposal/Definition Stage
- Environmental Stage
- Implementation Stage
- Monitoring Stage
- Overall Assessment Stage



# Information Needs – I

- Basic Indicators to Measure Access
  - Brick & Mortar Structures
    - Number of branches per 1000 population
    - No. of ATMs per 1000 sq.km.
  - Alternate banking outlets – ICT based BC Model
- Product stage -
  - Number of Products
  - Types of products



# Information Needs – II

- Implementation & Assessment Stage
  - Progress of Initiatives and Impact Analysis
    - Penetration of FI – Growth / Changing pattern of
      - No. of customers
      - No. of products
      - Volume of transactions
      - Returns on the products
  - Macro and micro level impact
    - Use of surveys
  - Viability of delivery models and Sustenance of Initiatives
  - Spread of Financial literacy
  - Measuring constraints in FI



# International Measurement Initiatives

- World Bank's Financial Inclusion Database April 2012 (FINDEX)
  - Survey based data on 148 countries (2011) on a set of indicators that measure, how adults save, borrow, make payments, and manage risk.
  - Reported in terms of the proportion of people (of age 15+)
- IMF's Financial Access Survey July 2012 (FAS)
  - Supply-side annual data for 187 jurisdictions, including all G20 economies for the period 2004-2011
  - Data on basic indicators of financial access and usage such as spread of bank network, ATMs, Number of deposit and loan a/cs, Deposit-GDP and Credit-GDP ratios.



# Financial inclusion – The Indian model

## Policy Developments

- Inclusive Growth – National Objective
- RBI Initiatives since 2005
- Three year Financial Inclusion Plan (2010-13) – A Structured, Planned & Integrated Effort
- Rangarajan Committee on Financial Inclusion (2006-08)
- Financial Stability and Development Council (2010)
- RBI Advisory Committee on Financial Inclusion (2012)



# Financial inclusion – The Indian model

- Adopted a Bank led model - To introduce a bouquet of products related to Savings, Payments & Credit together
- Mainstream banking institutions only have the ability to offer the suite of products required to bring in effective/meaningful financial inclusion.
- Other intermediaries and technology partners such as mobile companies have been allowed to partner with banks in offering services collaboratively



# Financial Inclusion - Strategy

- RBI encouraged the ICT model which would enable banks to circumvent the barriers of geography and ensure efficient FI.
- ICT based delivery model – Technology-neutral to facilitate easy up-scaling and customization, as per individual requirements.
- Strategy to create an eco-system comprising of a combination of Branch and ICT based BC outlets for evolving an effective Financial Inclusion Delivery Model.





## Financial Inclusion Initiatives- I

- Encouraged the SHG Bank Linkage Programme – 4.79 million SHGs covering 97 million poor households were credit linked till last year under the programme
- Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform
- Substantial liberalisation of the BC based service delivery model in phases
- Domestic Scheduled commercial banks permitted to freely open branches in Tier 2 to Tier 6 centres
- Banks mandated to open at least 25% of all



## Financial Inclusion Initiatives - II

- **Know Your Customer (KYC) documentation requirements for opening bank accounts relaxed for small accounts substantially**
- **Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.**
- **Pricing for banks totally freed. Interest rates on advances totally deregulated**
- **Separate programme for Urban Financial Inclusion initiated**



## Financial Inclusion Initiatives- III

- **Roadmap for providing banking services** – A structured way of covering villages. In the first phase villages with population above 2000 was targeted. The focus has now shifted to villages with population less than 2000. [BC Model - Chart](#)
- **Introduction of New Products** – Making available a minimum of four banking products through the ICT based BC model.
- **Financial Inclusion Plan for Banks** - All domestic commercial banks - public and private sector have drawn a Board approved 3 year Financial Inclusion Plan (FIP) starting April 2010.



# Financial Inclusion PLAN - Monitoring

- **Banks' 3 Year FIPs include :**
  - **No. of branches opened, of which the no. opened in unbanked villages and in villages with population > than and < 2000**
  - **No. of BC outlets opened**
  - **No. of Basic Savings Bank Deposit Accounts opened**
  - **No. of emergency credit (OD) provided**
  - **No. of Entrepreneurial credit (KCC/GCC) provided**
  - **Transactions done in the above accounts through Brick & Mortar branches as well as through BCs**
- **Close Monitoring by Reserve Bank of India - Monthly Reporting - Annual Comprehensive**



# FIP – Monitoring Format

SR	Particulars	
1	Total No. of Branches	
2	, No. of Rural Branches	
3	No. of branches in unbanked villages	
4	Total No. of CSPs Deployed	
5	No. of banking outlets Out of 1 above in villages with population > 2000	Through Branches
6		Through BCs
7		Through Other Modes
8		<b>Sub Total : &gt; 2000</b>
9	No. of banking outlets in villages with population < 2000	Through Branches
10		Through BCs
11		Through Other Modes
12		<b>Sub Total : &lt; 2000</b>
13	Total Banking Outlets in all villages	
14	No. of BC outlets in Urban Locations	
15	Basic Savings Bank Deposit Accounts (BSBDAs) through branches	No. in million
16		Amt. Rs. In billion
17	Basic Savings Bank Deposit Accounts (BSBDAs) outstanding through BCs	No. in million
18		Amt. Rs. in billion
19	Basic Savings Bank Deposit Accounts (BSBDAs) (Bank as a whole)	<b>No. in million</b>
20		<b>Amt. Rs. In billion</b>
21	OD facility availed in BSBDAs	No. in million
22		Amt. Rs. In billion



# FIP – Monitoring Format...

23	KCCs outstanding - through Branches	No. in million
24		Amt. Rs. In billion
25	KCCs outstanding - through BCs	No. in million
26		Amt. Rs. In billion
27	KCCs-Total (Bank as a whole)	<b>No. in million</b>
28		<b>Amt. Rs. In billion</b>
29	GCCs outstanding through Branches	No. in million
30		Amt. Rs. In billion
31	GCCs outstanding through BCs	No. in million
32		Amt. Rs. In billion
33	GCC-Total (Bank as a whole)	<b>No. in million</b>
34		<b>Amt. Rs. In billion</b>
35	Transactions in BC-ICT Accounts (during the quarter) *	Savings Deposit (No. in million)
36		Savings Deposit (Amt. Rs. In billion)
37		Credit/OD (No. in million)
38		Credit/OD (Amt. Rs. In billion)
39		Term Dep./RD (No. in million)
40		Term Dep./RD (Amt. Rs. In billion)
41		EBT/Remittance (No. in million)
42		EBT/Remittance (Amt. Rs. In billion)
43		Others (No. in million)
44		Others (Amt. Rs. In billion)
45	Total of Transactions in BC-ICT Accounts	<b>No. in million</b>
46		<b>Amt. Rs. In billion</b>



# FIP – PROGRESS UPTO JUNE 2012

SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Quarter ended June 12	Progress April-June 12
1	Total No. of Branches	85457	91145	99242	99771	8097
2	No. of Rural Branches	33433	34811	37471	37635	2660
3	No. of CSPs Deployed	34532	60993	116548	120098	55555
4	Banking outlets in Villages with population >2000	37791	66447	112130	113173	45683
5	Banking outlets in Villages with population <2000	29903	49761	69623	74855	19862
6	Banking Outlets through Brick & Mortar Branches	33378	34811	37471	37635	2660
7	Banking Outlets through BCs	34174	80802	141136	147167	60334
8	Banking Outlets through Other Modes	142	595	3146	3226	2551
<b>9</b>	<b>Total Banking Outlets</b>	<b>67694</b>	<b>116208</b>	<b>181753</b>	<b>188028</b>	<b>65545</b>
10	Urban Locations covered through BCs	447	3771	5891	6968	2120
11	No Frill A/Cs (No. In million)	73.45	104.76	138.50	147.94	33.74
12	Amount in No Frill A/Cs (Amt In billion)	55.02	76.12	120.41	119.35	44.29
13	No Frill A/Cs with OD (No. in million)	0.18	0.61	2.71	2.97	2.10
14	No Frill A/Cs with OD (Amt In billion)	0.10	0.26	1.08	1.21	0.82
15	KCCs-Total-No. In million	24.31	27.11	30.23	30.76	3.12
16	KCCs-Total-Amt In billion	1240.07	1600.05	2068.39	2094.00	468.34
17	GCC-Total-No. in million	1.39	1.70	2.11	2.29	0.41
18	GCC-Total-Amt In bilion	35.11	35.07	41.84	43.21	6.77
19	ICT Based A/Cs-through BCs (No. in million)	13.26	31.65	57.08	62.77	25.44
20	ICT Based A/Cs-Transactions (No. In million)	26.52	84.16	141.09	45.96	141.09



## How Index can help measure penetration over and above capturing access

Total No. of Branches	99771
No. of Rural Branches	37635
No. of villages covered	188028
No. of Business Correspondents	120098
No of people provided with Basic Savings Bank Accounts (No. In million)	147.94
Average balance in these accounts (in Rs.)	800
No. of people credit linked (No. in million)	36.02
Average balance outstanding in these credit linked accounts (in Rs.)	60000
No. of Accounts opened by BCs (No. in million)	62.77
No. of transactions in ICT Based A/Cs opened by BCs (No. In million)	45.96
No. of transactions per BC per day	4
No. of transactions per ICT account per day	.01





# ISSUES

- Demographic Spread – How to provide banking services to villages with low population – Viability?
- Evolving of an Appropriate Business Model & an Efficient Delivery Mechanism
- Financial Literacy – Status of awareness
- National Level Coordination of all the stakeholders like Banks, Governments, Civil Societies, NGOs etc. required to achieve the objective of financial inclusion.



# Measurement Challenges – CONCLUSION

- Financial inclusion concepts, policies, delivery models and implementation processes are evolving and as such depends on the environment. It is therefore essential that the policy for achieving total financial inclusion has to change to adapt to the needs of the environment.
- Existing initiatives in measuring financial inclusion are commendable, yet there is a need for greater focus on the micro and distributional dimensions
- Finally the focus of Financial Inclusion should be more on the people aspect involved rather than the accounting aspect.
- The focus of information systems in banking business have to change from traditional accounting model to customer centric business model. This would call for expanding the scope of presently adopted measures of financial inclusion.



# Thank you

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