



IFC Workshop on Financial Inclusion Indicators
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Measuring financial inclusion from the demand side¹

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¹ 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.

CAFRAL Workshop on Measuring Financial
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Issues Discussed at the Workshop

- Why should we measure financial inclusion from the demand side ?
- What data should we collect to measure financial inclusion from the demand side ?
- What should be the sampling and survey methodologies?
- What should be a measure of financial inclusion from the demand side: an index or a dashboard?

Before Those

Grey Areas of Existing Definitions:

- Extant definitions are fairly congruent
- Access focused: do not capture usage and outcomes
- Emphasise convenience and flexibility – exclude issues such as suitability, financial advice, wealth management etc.
- Need focus on firms as well as households – a distinction which is very thin and unclear, currently

Conclusion: The concept of financial inclusion has to evolve beyond its current focus on provision of access to financial products and services **with an additional focus on the quality of use.**

Objectives of Demand Side Measurement

- Financial Inclusion is measured predominantly from the supply side – **top down** – and does not capture perspectives of small businesses and low income households
- The demand side – **bottom up** – measures would supplement the existing supply side measures to improve the picture
- Policy makers and regulators can use such measures:
 - to modify the policies and strategies;
 - to facilitate measurement of outcomes of various policy initiatives
- Financial service providers can use such measures:
 - to design customised financial products for specific regions and categories of consumers

Demand Side Financial Inclusion Indicators Should Capture

- Not just income but types of income and income sources
- Savings in informal and formal institutions
- Ways in which households mitigate risk
- Household and small business demand for financial services
 - Use of bank/post office account
 - Payments
 - Savings
 - Credit
 - Insurance

Suggestion: Using measures similar to World Bank's Global Findex might help the measures to be internationally comparable

Demand Side Financial Inclusion Indicators

Socioeconomic and Demographic Characteristics

- In addition to usual socioeconomic and demographic characteristics such as **location, age, income, education and occupation**, look into finer nuances such as **house or living space, access to water, sanitation, medical facilities, changes food consumption, migration status, land holding, physical disability, social group**, etc.
- Purpose of collecting additional socioeconomic and demographic parameters should be:
 - To correlate inclusion and exclusion;
 - To perform a social audit on banks' progress given the results and conclusions from tracking the impact on these parameters over time and space;
 - And hence, to impact policies and strategies of regulators and practitioners

Demand Side Financial Inclusion Indicators Should Help Identify Barriers

- There is demand for financial services. But there is need to identify the reasons for nonusage and, more importantly, understand why usage does not translate into good outcomes
- Barriers mentioned in the World Bank Global Findex are a good starting point: distance, awareness, affordability, trust, lack of documentation, religious/cultural barrier, lack of money
- Additional suggestions: consumer experiences, financial literacy, lack of customised products, unwillingness of banks to lend in certain cases, insufficient infrastructure of financial service providers ...

Latent Demand for Financial Services: At the ATM Kalwakurthy, Mahabunagar, Andhra Pradesh



Lessons from the Field

Reasons for Exclusion

- Two main reasons:
 - low income of, and nature and scale of business with poor households
 - perception that these households are highly risky and not profitable
- Another reason:
 - Missselling of products, high commissions and regulations to change these

Question: Can the regulators look at these more carefully to give us some insight on why households are making the kind of financial decision they are making?

Survey Methodology

- Simple but meaningful ratios would give more insight on what are the trends rather than an index
- Nature of sample should enable both national and granular level measurement and analysis
- Focus on both households as well as businesses
- For households, responses should be obtained at both household and individual member level
- Should capture both financial indicators as well as key socioeconomic and demographic indicators
- **Frequency:** more frequently than some of the existing national surveys such as All India Debt and Investment Survey (AIDIS) conducted once in 10 years.

Noteworthy Data Collection Initiatives in India

- **Yale – Center for Micro Finance/Institute for Financial Management and Research longitudinal data survey:** a detailed survey on how respondents meet their financial needs and thereby helps to identify the new financial tools which current surveys fail to capture
- **The Invest India Incomes and Savings Survey (IISS):** a unique unit-record database that links the incomes, investment and savings portfolios, insurance and credit positions, financial sector access and the like across 321 million members of rural and urban India.
- **The Centre for Monitoring Indian Economy (CMIE) Household Panel survey:** quarterly for 150,000 households

Tentative Action Plan

- Finalize methodology, questionnaire design and agreement of content among stakeholders
- Conduct a pilot survey with a sizeable portion of the sample to ensure appropriate responses are received
- Analyze the pilot results and redesign survey, if necessary
- Prepare and administer the survey among the target population
- Prepare survey results and cross-check against other data sources, depending on the capacity available to mine the results
- Propose additional questions to the existing Indian National Sample Survey Office (NSSO) surveys