CAFRAL organized a Workshop titled ‘Measuring Financial Inclusion from the Demand Side’ on June 8, 2012 at National Institute of Bank Management (NIBM), Pune involving participation of eminent researchers, academia, rating agencies and financial service providers. The workshop aimed at setting in motion a continuing effort in the field of financial inclusion by providing a platform for cross fertilization of ideas.

In the introductory note, Mrs Usha Thorat, Director, welcomed the participants and informed them about CAFRAL’s mission to evolve as a global research and learning institute. She emphasised the need for active collaborations to synergise the efforts made by the institutions with similar mandates for promoting cross country research.

To set the workshop in motion, Mrs Thorat initiated her speech with a comprehensive definition of financial inclusion and the need for measuring financial inclusion from the demand side. Since its first indication in RBI’s Monetary Policy in 2005, various efforts have been made in the field for measuring financial inclusion from the supply side using available information. However, the supply side approach, being a top down approach, could not capture the full picture about the financial inclusion, especially from the perspectives of small businesses and low income households. Thus, there is a need to look at financial inclusion from the perspective of the current and prospective consumers, which can be achieved by the demand side measurement of financial inclusion. The demand side approach will contribute to policy making process and facilitate measurement of the outcomes of various policy initiatives. The workshop addressed the key questions pertaining to the measurement of financial inclusion from demand side: Is there a need for such a measurement approach? What should be the sample? , What should be the methodology of the survey? What would be the benefits and the costs involved in measuring demand side financial inclusion? Etc.

Among the speakers, Ms Bindu Ananth from the Institute of Financial Management and Research (IFMR) Trust made a presentation, highlighting the grey areas pertaining to various definitions and approaches to measurement of financial inclusion. She suggested that the existing definitions of financial inclusion which are fairly congruent and access-focused do not capture usage and outcomes. The concept of financial inclusion needs focus on firms as well as households and it should accommodate not only the issues like convenience of access but also the issues like suitability of products, provision of financial advice and wealth management services, which are not reflected in the current definitions. The broadening of the concept will be useful for policy makers in identifying the efficiency of the financial inclusion initiatives.
Existing Indian surveys which measure access to finance from the demand side suffer from various problems such as disaggregation and periodicity. Illustratively, the National Sample Survey Organisation (NSSO) survey is done once in 10 years. Some of the newer initiatives like the Yale-CMF-IFMR longitudinal data survey, the Invest India Incomes and Savings Survey (IiSS) and the Centre for Monitoring Indian Economy (CMIE) Household Panel survey try to address these issues. These efforts mark a strong beginning to measure access. However, even if good data were available on access, there is a need to identify the reasons for non-usage and more importantly comprehend why usage does not translate into good outcomes. Financial inclusion is a means to an end but not an end itself. The functional approach to measuring supply and demand is one of the recent measurement innovations initiated by Professor Greg Fisher of London School of Economics (LSE) with CMF-IFMR. This comprises of 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. Another such attempt is the financial diaries by Collins et. al. (2009) which tracks every financial transaction of a household over a period of time including type, value and reason for transaction. These innovations can be integrated with large surveys to understand the concept more comprehensively to address the conceptual as well as measurement challenges faced.

Professor Mandira Sarma from Jawaharlal Nehru University, New Delhi emphasized the importance of adopting a multidimensional approach for measuring financial inclusion. A popular measure of financial inclusion is given by the proportion of banked adults. This measure only indicates the incidences of financial inclusion and ignores several other important dimensions of an inclusive financial system like availability, usage, affordability etc. Hence, a more comprehensive and internationally comparable measure needs to be designed in order to incorporate all dimensions of financial inclusion. In her attempt to develop an Index of Financial Inclusion (IFI), Professor Sarma demonstrated a multidimensional approach similar to United Nations Development Programme’s (UNDP) development indexes like Human Development Index or Gender Development Index. However, she explained that the IFI is superior to the UNDP indexes as it is based on a distance-based approach rather than simple averaging approach of the latter. She also briefly presented her computations of the IFI values and corresponding ranks for several countries for the period 2004-2010.

Professor Rupayan Pal from the Indira Gandhi Institute of Development Research (IGIDR), Mumbai, gave a brief description of the framework he used to develop an axiomatic measure of financial inclusion based on the household data available from the NSSO’s All India Debt and Investment Survey (AIDIS) 2002 and the Reserve bank of India’s Banking Statistics. This measure is readily implementable and it can be broken down to determine policy priorities. Using the outreach of banking services data for 17 major states in India for the years 1982, 1992 and 2002, an index is constructed as the arithmetic mean of the
dimension wise indicators. The research study revealed that the supply side information based estimates of the financial inclusion index could be positively associated with the share of households using institutional credits (SHIC) in both rural and urban areas. To identify the policy priorities, the percentage contribution of individual indicators of banking outreach to overall financial inclusion was calculated. The study concluded that the improvement in geographic penetration of bank branches and credit availability should get the policy priority to enhance financial inclusion in India.

By sharing his experiences of working at ground level for an intensive study on households and their total usage of financial services from both formal and informal sectors in Andhra Pradesh, Dr. S. Ananth gave an overview of the issues and complexities that one may face in the measurement of financial inclusion. According to Dr. Ananth, households in Andhra Pradesh pose a peculiar set of problems where, while the income levels have grown, the level of indebtedness has grown even faster due to certain unintended consequences including encouragement to housing, increased needs for consumption, education, health and repayment of old debts. As formal institutions meet only 20% to 50% of the credit needs, households have to resort to informal sources of borrowing. Hence, the concept of financial inclusion needs to evolve with an additional focus on the quality of use and not just provision of access to financial inclusion products and services. Further, it was found that there is a latent demand for financial services but access to the same is often discouraged due to various problems such as distance, lack of financial literacy, insufficient infrastructure, lack of customised products, unwillingness of banks to lend in certain cases etc. Thus, the financial inclusion measure also needs to take into account the nature of current access. In the past, the government and the banking service providers have made several efforts like opening up of various bank accounts and online remittance facilities. However, the prevalence of issues like the dormant accounts and the accounts used by multiple people in villages for remittances distorts the picture for measuring the true extent of financial inclusion. Additionally, in Andhra Pradesh, banks are rarely used to park savings. The most common forms of savings are those at chit funds and plantation companies, which are not considered formal in nature. It is important to recognise such incidences and capture and quantify them. Any attempt to quantify financial inclusion will have to capture the types of incomes as well as the income sources, the number of earning members of the households, the periodicity of incomes, and the savings in informal and formal institutions, apart from including what a household might consider as its assets. Knowledge of the nature of present service providers and access to banking services is also extremely vital.

Using AIDIS 2002 data, Professor Rama Pal from the Tata Institute of Social Sciences (TISS) and Dr Rupayan Pal from the IGIDR examined income-related inequality in utilisation of formal financial services. They used concentration curve and concentration indices to measure the inequality in utilisation of formal financial services across the Indian states. Their results showed that financial exclusion was observed across all income groups. Lower
income households faced higher exclusion as they showed very low utilisation rates. The analysis showed that (a) income related inequality in financial inclusion varied widely across sub-national regions in India, but it was quite high in most of the cases, (b) income related inequality in financial inclusion could not be considered as synonymous to income inequality. A notable result was that greater availability of banking services fostered financial inclusion, particularly among the poor.

Mr Mahesh Vyas from Centre for Monitoring Indian Economy (CMIE) gave a detailed description of the salient features of the quarterly household panel survey conducted by the CMIE for the past four years. The objective of this survey is to gather data pertaining to the financial health of households in India. The quarterly survey covers 150,000 households with a total of 700,000 individuals. Information is collected both at the household level and at the individual member level for the preceding three months. The sample is created from homogenous regions which are constructed as clusters of neighbouring districts having similar agro-climatic conditions, district level urbanisation and extent of female literacy. The sample covers 100 such homogenous regions, including both rural and urban areas.

At the household level, the survey captures information about detailed sources of income, as many as 100 expenditure heads, sources and purposes of borrowing, ownership of assets, and the amount and share of investments in the form of bank deposits, equity shares, and mutual funds. In addition, demographic, income and financial data are collected at the individual level. For example, the financial data records information on usage of bank accounts, ATM cards, credit cards, insurance policies and provident fund policies. Details on mobile phone usage including their mobile numbers are also recorded for random verification of the authentication of data collection.

Mr. Vyas also gave his views on the impact of fragmented nature of the Indian survey industry which has implications for the quality of surveys done, the impact of political strife on the successful completion of surveys and the advantage of having a repeated panel which ensures cleaning up of fake entries. Participants enquired about the presence of questions related to access barriers and the adjustments to the survey estimates which would occur after the release of 2011 census data. There were further discussions on the recall period and the representativeness of the panel for national level household income and expenditure estimations and the reliability of monthly verses quarterly estimates.

Smt. Veena Mankar of ‘Swadhaar’, a non-government organisation devoted to urban slums in Mumbai enriched the discussion forum with some interesting insights from her ground level experiences and ideas about the consumer needs and the reasons for exclusion from the demand side. Deriving from her experience with the Swadhaar clients, she explained that two principal for exclusion could be (i) low income, and nature and scale of business of slum households and the (ii) the perception about these households as highly risky and not
Inadequate credit given by currently available formal sources on rigid terms may affect demand from formal sources. In this context, the questions to be asked are (1) how much credit is needed? and (2) How much is sourced from the formal financial sector?

Demand exists for services that require minimum documentation and provide for specific needs in terms of amount, repayment flexibility and timeliness of availability.

The ability to build formal credit history is an important factor and there should be a way to link this with efforts made to bring the excluded into the mainstream.

Having a trusted source for savings plays an important role. The local person(s) from the community inspires ‘trust’ and rotating savings schemes within the community become important vehicles for doorstep mobilisation of saving, which in turn provide a social flavour that creates the motivation to save. Unfortunately, there are risks that households could also fall prey to Ponzi schemes run by some individuals.

Savings of households should have an important weightage in the index. However, currently most of the banks’ offerings in the form of a savings account do not meet their needs. This is where the role of Banking Correspondent network for savings and payments could become important, if it’s able to facilitate frequent savings of small amounts at a convenient location.

Creating awareness about products that individuals think they do not need currently or are not demanding because of the lack of awareness about their benefits can play an important role in impacting demand patterns for certain products such as pension and micro insurance products. Accordingly, the weightage of these products would change with change in demand affected by the increased levels of awareness. This change in demand may be a more suitable variable to measure than the current level of awareness, which is hard to quantify using household surveys.

There is a need to understand if usage can be linked with demand at all instances. For example, an urban slum client who is extremely individualistic might, only out of compulsion or lack of any other available product design, end up using the product that requires group collateral. The amount of the loan remains fixed and does not change with changing needs of the customer, leading to inadequate credit. Thus, exiting from the money lender option becomes even harder. This has implications for the existing product design processes.

Understanding individuals’ hierarchy of credit needs is important to find out what weightage would they give to various products and services.

Needs of the micro entrepreneur should be weighted differently from the household needs.
For insurance and pension products, increased awareness is needed before we start to give them weightage in the index. The index should also use the availability of credit and good payment record as an indicator to give a picture of the level of actual usage from the demand side. Coverage is another important issue. Should the index measure inclusion at the individual level or at the household level? Should it also cover the small business level?

It is inevitable that some of the household needs (especially for credit) will be mixed with business needs in case of informal businesses. Whilst it may not be feasible to track this at a household level for the financial index, it would be useful to have a separate indicator for micro enterprises.

Bringing out the importance of an understanding of the parameters underlying the demand for financial services from all income levels, Ms Renuka Sane, Economist at IGIDR, asked thought provoking questions the financial inclusion initiatives from the distribution and regulation perspective, and the impact of inclusion initiatives on household decisions. She emphasised that it is important to address what kinds of products are being pushed to customers, given an institutional and regulatory framework that exists in India today and what is the nature of processes taking these products to the end users.

To answer these questions, the impact of macro level regulation on distribution and product design and hence the final demand for them should be looked at. There is a need for critical understanding of why informal sources are actually bad for the end user. What is driving households to the informal sources and hence, creating such low levels of participation in the mainstream financial space? Can the role of the regulator in this regard be looked at more deeply to give use some insight on why households are making the kind of financial decision they are making?

Problems that currently exist in the system with respect to mis-selling or high commissions or with respect to regulations that come out to change these very same errors in the system do have impact on participation. If the household surveys that intend to collect demand side inclusion data keep these aspects in mind, we should then focus on encouraging the academia and financial services providers to use these data more effectively to inform their processes and distribution channels as well as rework their product designs and other interventions in order to make them more impactful.

Dr. S.L. Shetty, Adviser to the Economic and Political Weekly Research Foundation agreed broadly with the agenda of studying financial inclusion from the demand side. He, however, expressed some reservations when it came to measuring the same with the help of an index that throws up a number. The study of financial inclusion presupposes the exclusion component and it becomes very important to do a profiling exercise of those that are excluded rather than go out and measure the extent of inclusion using an index. There is a
need to understand the patterns of behaviour of those that are included and excluded. Exclusion can take place from the institution side as well as from the demand side.

Financial exclusion from the supply side essentially takes place when institutions that are expected to include vast sectors of poor in India do not actually achieve this. Therefore, it becomes a kind of social exclusion of vast masses of people leading to social and economic deprivation.

Banks should look at financial inclusion as a new role in an emerging India. People’s aspirations are rising and banks should prepare themselves to play a role in helping the households in realising their aspirations to have upward mobility, socially and economically. Households needing credit for social purposes today may also need credit for productive purposes over time. Thus, banks have a critical role in making this transition happen. A study of financial inclusion from the demand side must touch upon these broader issues and not just attempt measurement.

**Round Table Discussion:**

1. **On measurement:**
   a. It was decided that the measurement was not going to be done for the entire population. Measurement exercise should focus essentially on low income groups that are excluded or have some degree of inclusion.
   b. However it was also pointed out that doing so would affect randomness, and there would be no harm done if we take the entire population to be represented by the index.
   c. A suggestion was also made that apart from just an inclusion measurement we can also be tracking an index simultaneously, along the lines of ‘ease of doing business index’ created by the World Bank, that tracks barriers of doing business. As barriers reduce, the inclusion index should show better results.
   d. In conclusion majority of participants agreed that there was indeed some value in the exercise of measurement from the demand side, while they also noted that just a number between 0 and 1 would be of very little use for policy makers and practitioners. It was suggested that looking at simple but highly meaningful ratios would give us more insight on what are the trends rather than an index.

2. **On the definition:**
   a. The question of coverage of the definition of financial inclusion was discussed and it was decided that a broader view would be helpful from the perspective of a regulator as well as a practitioner. This means that we are not just talking about banks as service providers but also NBFCs who provide access to various savings instruments and insurance products as well.
b. Added to this is the specification that these banks and NBFCs are formal or regulated institutions.

3. The socio-economic, demographic characteristics to be collected:

The purpose of collecting selected socio-economic and demographic parameters should be:

a. To be able to help in the correlation with inclusion and exclusion
b. To perform a social audit on banks’ progress given the results and conclusions from tracking the impact on these parameters over time and space.
c. And hence to be able to impact policy and strategy of regulators and practitioners.

The question raised was, what would be the bare minimum information needed that can help us measure usage and then correlate them to some socio-economic demographic profile when we do a national level survey of the households?

a. CMIE captures great detail at the individual level
b. To this the other characteristics that can be added are:
   i. Physical disability
   ii. Social group
   iii. Questions on house or living space, access to water, sanitation, medical facilities etc.
   iv. Also we should be able to track changes in their food consumption basket.
   v. Religion and community
   vi. Migrant status
   vii. Land holding

4. On identifying barriers:

On the question of what kind of questions should be used to focus on identifying barriers to inclusion from the demand side, it was agreed that questions on lines similar to the World Bank’s Global Findex would be a good starting point. Added to this, we could ask some questions on consumer experiences as well. Although financial literacy was pointed out to be an important barrier, the challenges in actually measuring current awareness were also brought out during the discussion.

5. Proposal to add questions to the existing NSSO survey:

a. An effort would be made to pass on some ideas to the committee that is to redesign the AIDIS, set up under the chairmanship of Professor Vaidyanathan with regard to adding a detailed component in the survey on financial services.
b. The Economic census that is done every five years would also be an option along with the follow up surveys on the unorganised manufacturing firms and the unorganised non-manufacturing firms that are done also once every five years.

c. The Micro, Small and Medium Enterprises (MSME) Census done every 10 years would also be looked at for gathering information on barriers to access in the MSME sector.

6. Key Indicators:

a. Indicators would cover savings with banks, savings in the capital market, loans, payments, insurance and pension.

b. Indicators would capture the proportion of utilisation of inclusion products from the formal sector and the weightage would be given according to the usage patterns.

The optimal amount of data to be collected from households should be such that it is enough to have policy impact and also benefit academic research going forward. For example, if the data collected allow us to make distinctions between voluntary and involuntary exclusion and help us identify the reasons behind such exclusion, then it would have some serious implications for policy. The demand side data collected should also help us make out how much of what is demanded can be provided on a commercially viable basis and how much would require public spending to step in.

In conclusion, it was highlighted that there is a need to bring together a group of researchers and practitioners who would narrow down on the optimal level of socio-economic demographic characteristics required to complete the profiling of households who are excluded.