Measuring Financial Inclusion From Demand Side

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**Occupation:** General Store Owner

**Loan Purpose:** Purchasing stock

- Has owned a small general store for the past 20 years
- First Loan – purchase a fridge for the store
- Subsequent loans – business expansion, inventory purchase
- As a result of MFI loans, her monthly profit has increased from Rs. 5,000 – 6,500 (USD 100-130) to Rs. 10,000 – 12,000 (USD 200-240)
- She can now afford to pay for her son’s education and was able to have a big wedding for one of her daughters
Ashokkumar Kasare

**Occupation:** Coconut Seller

**Loan Purpose:** Purchasing stock

- Sells coconuts in the Government Colony neighborhood in Bandra (East)
- Profit margins were limited by amount of stock he could afford to purchase
- Only earner in family of 6 (wife + 4 children)
- Successive MFI loans enabled him to significantly increase profit margins, improve the quality of the stock he purchases, and afford his childrens’ education
- He is in his 3rd cycle loan, which is for Rs. 30,000 (USD 600)
Study on No Frill Account Users

The “Novice” User

Almost certainly his first bank account
- Can hardly believe it himself, that he actually has a bank account
- Fearful of putting his money in, suspicious, nervous
- Keeps his bank card very carefully, a prized possession
- Happy to go along with the bank’s rules, undemanding
  - The awe – and pleasure - of being an account holder is enough
- Will be a while before he actually utilizes his savings account
  - And longer still before he recognises the many benefits it could have.
- Unaware of the limits on total balance or transactions
  - But having ATM access anywhere would definitely add to his joy.
- Profile: Humble, almost defeated, just wants to get by without problems as far as possible; a follower. Likely to have a zero-low balance, mainly because of lack of funds and fear of being cheated.

The “Experienced” User

Not new to bank accounts and possibly has multiple accounts
- Not in awe of the bank or its systems; irritated at its limitations
- Was drawn by the glamour of being able to have an ICICI bank account
  - Which had thus far been out of reach
  - Disappointed that it was not quite the same thing
  - Proud of his ICICI badge nevertheless.
- Wants more facilities, mostly cheque related
- Chafes at the upper limits
- Of transactions per day, of total savings that he can hold in the account
- Profile: Worldly, impatient, wants to get ahead, confident, thirsting for success and money. Could have a zero balance – mainly because it is a useful facility being provided so why not use it?
Who is financially excluded/underserved?

Excluded due to low income
- Economically weaker House holds – annual incomes upto Rs 60/120K?
- Daily Wage earners / Migrant Workers
- Working Youth <18 years

Excluded due to scale of business – incomes >120K/annum
- Microentrepreneures (Men, Women)
- Home based enterprises
- Mobile / hawkers

Excluded due to location – urban slum areas

Excluded due to Nature of work / other
- Vulnerable, economically active groups – minorities, street children, pavement dwellers, sex workers, bar girls, lepers, HIV+, etc
Profile of Urban Slum HH / Dwellers

- Households 4-5 members ( +5 years -20 years)
- Single working males – Migrant/ Youth from villages
- Self Employed, Informal Salaried, home based /mobile business, micro entrepreneurs
- Uncertain/ seasonal & variable income flows
- Almost exclusively cash based transactions – no record / financial history
- Work on “daily economics and cash flow” rather than “income, profit and budgeting”
- Very little planning for life cycle events/ emergencies
- Education for Children – a priority
- Aspirational –
  - improve income
  - a house with more space and amenities
  - Use private services
Profile of Urban Slum HH - contd

- build non monetary assets (jewellery, utensils, additional space in house, land in village)
- High Spend on Health (for Illness - not preventive)
- HH have a colour TV
- HH have two wheeler ownership (non metros)
- 75% of HH use mobile service (98% of mobile subscribers are prepaid)
- Strong ties to home village - travel 1-2 times annually
Financial Behaviour and Access to Financial Services...

Saving
- 50-60% of households have bank account
- Very few Migrant men have bank account – due to lack of KYC documents
- Micro-entrepreneurs have bank accounts but usage is low
- Over 60% of the women do not have an individual bank account
- Almost all women save minimum Rs. 200 per month
- Prefer to save in one or more informal sources like Bhishi, Funds or Local schemes (marketed by local person)
- Think local saving options as safe and convenient
- Savings is primarily for higher education of children, marriage, purchase/ expansion of house
Financial Behaviour and Access to Financial Services ...

Insurance
- Some have life insurance (largely LIC)
- No awareness and access to health insurance
- Find the cost of insurance very high
- Insurance is largely equated to savings

Remittance
- Money is remitted through local agent
- Commission charged is Rs.50 / Rs.1000 (can be higher)
- Sending money via agent is considered easy and reliable
- High level of trust on agents

Ponzy Schemes
- Tendency to invest in schemes promising high returns
- Many such schemes marketed by local person whom they trust
Access to Credit - Households

Credit (Households)

- Bank’s - credit is limited, time consuming and has indirect costs at client’s side
  - No assets
  - No credit history
  - No formal income documentation

- MFI’s / Cooperative or Credit Society – Medium to high direct Cost/Reasonably Regular & Reliable
  - Group collateral/ Guarantor required
  - Rigid product
  - Inadequate
  - High Cost (including indirect)
Access to Credit – Households contd

- Informal sources – Friends and family
  - First Source
  - Nil Cost
  - Limited

- Local Bishi/ Chit Fund – (SHG features)
  - Own savings (Not entirely safe)
  - Convenient access
  - Can be high cost if emergency

- Moneylender
  - Ease of access
  - Exploitative Cost
  - High amounts meeting cash flow needs
Barriers to Formal Access – Supply or Demand?

- Credit – Inadequate Supply with Rigid Product Terms
- A Financial Identity with Transaction and Credit History
- Safe Savings & Remittances – Demand side
  - Suitable Products – small & frequent transactions
  - Liquidity – anytime access
  - Trust – local face
  - Location – Almost Doorstep delivery (BC + E /M Payment channel? )
  - Simple Eligibility / Comfort to transact
  - Will be willing to pay to transact

- Insurance & Pensions – Awareness, Knowledge, Training, Doorstep delivery, flexible payment options – local FILC
Ranking of Financial Needs - Households

- Reduce dependence on high cost informal debt
  - Emergency Access (replace Moneylender)
- Remittances - Location and network – quick, trusted, frequent, small amounts
- Credit for Consumption smoothening – fluctuating incomes
- Credit to Increase Income Levels
  - Education / Skill Training
  - Entrepreneurs – Working Capital
  - Asset Building – Business/ Personal
- Credit for Home purchase/ home improvement (lack of title)
- Saving for Life Cycle Needs/ Consumption smoothening
- Insurance – Life and Health (Low awareness)
- Pensions – (Negligible Awareness)
  IMMEDIATE vs LONG TERM
Ranking Financial Needs - Microentrepreneurs/ Home based Businesses

- Small working capital cycle – 1 to 30 days (credit available from suppliers/ money lenders at daily / weekly / monthly rates – 1%-5% a day, 5-10% p.month)
- Profit margins of 10-30% over inventory cycle
- Credit for asset/ longer inventory (30-90 days) - more difficult – Friends & Family, Moneylenders, Supply Credit
- Mixed Household/ Business Needs
- Cash flow smoothening – seasonality
- General Business Insurance (Use moneylender credit as a substitute)

*(Even small but regular credit can have maximum impact on HH economics and create employment)*
Ranking of Financial Needs – Service Features

- Can get the product with minimum time and documentation (time has opportunity cost of income)
- Easy to use frequently and do small transactions – inability to wait to build and aggregate to larger sizes
- Doorstep Convenience / Proximity
- Trust with the agent/ physical intermediary – very critical for this segment
- Willing to incur reasonable transaction costs for above
Constructing the Financial Inclusion Index

- Credit Need - Credit Used - % of Formal Credit
- Other Products
  - No frill accounts / e wallets
    - Balances
    - Transactions
  - Micro Insurance – Need?
  - Micro Pension – Need?
- Remittances – Amount sent/ received, frequency and % formal bank/ PO/ e payment channels
- Credit & Payment Record / History with Credit Bureau
Coverage for Financial Inclusion Index

**Individual Vs House Hold Financial Inclusion?**
- HH access or HH access with role of woman in financial transactions (not decisions)?
- When women are financially literate, have access to financial products, it is a step towards empowerment of women. They favorably impact HH economics.

**House Hold VS Small businesses?**
- HH and Business needs may be mixed but HH access does not imply enterprise access – especially to credit
- Informal Microenterprises’ access to formal credit, non-cash payment channels and insurance should be separately included in the Index
THANK YOU

The presenter is a practitioner in the urban financial inclusion space with no research experience.
Data of 6448 Financial Education Participants indicates that a significant segment of the CWE living in slum communities work as informal workers or are microentrepreneurs.