State of Technology, Policy & Financial Inclusion in India

CPRsouth, Infosys Campus, Mysore
5th September 2013

Samit Ghosh, Founder & Managing Director, Ujjivan Financial Services
Financial Inclusion: We have been striving to achieve this for over 100 years....

Cooperative Movement
State Bank and its subsidiaries
Regional Rural Bank
NABARD, SIDBI Self Help Group (SHG)
SGSY, NRLM
Mobile Banking, Financial Literacy, Unique ID Number

Nationalization of Banks Priority Sector Lending Lead Bank Scheme Service Area Approach
SHG Bank Linkage Relaxed KYC, Business Correspondents

......Deregulation, New Initiatives
Total average penetration (47 %)

Even in the 47% included households, a large portion is inactive.

No-Frills Account – 182 million (as in Mar’2013)

Income (INR per annum)

Source: BCG Survey, Oct-Dec 2010
Micro Credit, Micro Insurance & Micro Pension Penetration

Micro Credit:

MFIs: 31.4 million customers – Rs. 208 /$3 Billion
SHG Bank Linkage: 98.1 million customers – Rs.306 /$4.7 Billion

Micro Insurance:

- Lives covered under Micro insurance:

<table>
<thead>
<tr>
<th>Year</th>
<th>Covered (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-2009</td>
<td>14.7</td>
</tr>
<tr>
<td>2009-2010</td>
<td>19.8</td>
</tr>
<tr>
<td>2010-2011</td>
<td>18.9</td>
</tr>
<tr>
<td>2011-2012</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Micro Pension:

- 37 million government employees & salaried people covered under pension.
- Micro-pension – 2 million (IIMPS & NPS Lite)
- 275 million paid workers are excluded by formal pension arrangements.
“Dharma regulation has little effect, while persuasion has much more effect.” - Emperor Ashoka (269-32 BC)
What is Financial Inclusion for the poor?

“Financial Inclusion”

“Universal access of a wide range of financial services at a reasonable cost” – Financial Sector Reform Committee

“RBI has articulated that financial inclusion is much beyond opening no-frills account or providing access to a self-employment loan.” Microfinance Advisory Group

“Meeting all personal and business financial needs of an economically active poor customer/household” – Ujjivan Financial Services
Reducing cost with Technology

- Branch: High Cost (Rs 40–60)
- ATM: Medium Cost (Rs 13–17)
- Call Centre: High Cost (Rs 8–10)
- Offline BC: Medium Cost (Rs 4–6)
- Online BC (ICT led model): Low Cost (Rs 2–4)
- Internet/Mobile: Lowest Cost (Rs <0.5)

Cost 1/10th of branch / txn
Remittance with NPCI

Goal: To touch every Indian by 2020 with one or the other payment service

**National Payments Corporation of India** (NPCI) was incorporated in December 2008 and is aimed to operate for the benefit of all the member banks and their customers.

NPCI would function as a hub in all electronic retail payment systems which is ever growing in terms of varieties of products, delivery channels, number of service providers and diverse Technology solutions.

RuPay  IMPS  AEPS  CTS  NFS  ACH
**RuPay: India’s Payment Network**

*RuPay* is the Indian domestic card payment network being set up by National Payments Corporation of India (NPCI) at the behest of banks in India.

**The objectives are:**

- Reduce overall transaction cost for the banks in India by introducing competition to international card schemes.
- Provide card payment service option to many banks who are currently not eligible for card issuance under the eligibility criteria of international card schemes.

40% Cheaper than Master/Visa
Accepted at 91,000 ATM’s
Already, more than 4 million RuPay cards issued

**National Financial Switch (NFS)**
Largest domestic ATM network, NFS gears up to become world’s best ATM network
Aadhaar – Unique Identification System &
Direct Cash Payment System (AEPS)

- More than 400 million Aadhaars identity numbers/cards issued.
- Aadhaar enabled direct cash transfer for government subsidies
Mobile Banking through IMPS

- More than 850 million mobile subscribers in India
- 60:40 ratio of Urban: Rural subscribers
- M-Banking started in 2008 in India

Opportunities:
- Low Cost
- High potential due to its sheer penetration level
- Quick Transaction
- Cross selling by banks (for Insurance, Pension etc.)

Challenges:
- Mobile companies cannot provide banking services on their platform without partnering with banks.
- Field agents of BCs may not be able to handle volumes for withdrawal
- Customers may not build trust in a BC agent to do savings with them.
- Requires micro ATMs to reduce the cost further for customers in stead of BC agents

For M-banking in a BC model, Customers are charged approx. 1% for remittance and 2% for withdrawal
How Technology Shaped Micro Finance Industry

Credit Bureau Story

- Introduced after Andhra crisis in 2010
- Bureau Check online – From zero use in 2009 to 100% credit check in 2012 by MFIs have set a benchmark on how technology can change behavior.
- Helped reduce delinquency & bring in customer discipline
- Reduced multiple borrowing and over-lending

Credit Bureau Data Base (Highmark):

- 55 million Borrowers Records
- 103 million a/c details
- 165 MFIs submitting data on a weekly/monthly basis
Technology and Ujjivan

“Technology is important to give more loans to customers in lesser time”
Nagarathna, Loan Officer, Ujjivan

CURRENT IT INFRASTRUCTURE
Core-Banking Dot Net Version – 324 branches & 4 regional offices across 21 states on line.
• Branch freed from LAN restrictions and real time transaction updating can be done

Document Management System
• A move towards paperless office and better tracking & monitoring of documents

CURRENT DEVELOPMENTS for IMPROVING PRODUCTIVITY
Transaction updating in field through Mobile – Trucell
• Online posting of Repayment, Disbursement, Attendance & Loan Utilization Check

Loan sourcing and appraisal - Artoo Solution
• Mobile Android based technology for field staffs and web based for loan application processing for Individual Lending
Income
• Average monthly income increased by 47% at Rs. 4,347.
• Monthly income has increased for 80%, remained same for 1% and declined for 19%.
• 74% have a monthly household income of more than Rs. 10,000, up from 23% 2010.

Savings
• 81% in 2013 are able to save from time to time from 63% in 2010.

Banking & Life Insurance
• 63% have a bank account in 2013 up from 39% in 2010
• 24% have a life insurance in 2013 from 16% in 2010

Aadhar Card & Mobile Phones
• 57% have Aadhar Card
• 92% have mobiles up from 69% in 2010

Sample Size – 1500 customers in 8 states
Policy hurdles for achieving Financial Inclusion

- **Savings:**
  - Not allowing NBFC-MFIs to accept deposits
  - No frills account not an ideal vehicle for savings for poor – Need ATM access
  - BC not viable in its current form

- **Remittance:**
  - Mobile Banking should be propagated as a separate channel and not perceived as an extension of a bank account
  - Interoperability to ensure collaboration of banks, mobile payment service providers and mobile network operators.

- **Loans:**
  - Banks and NBFC-MFIs - not level playing field : Priority Sector Lending

- **Insurance**
  - NBFCs not allowed to be Corporate Agents

- **Aadhar**
  - MFIs not allowed to be Agents

- **Every Financial Inclusion initiative works in silos**
THANK YOU

Question & Answers

GREAT PLACE TO WORK®
Best companies to work for 2013
India
Top 10 Company to Work for in India

Among first MFIs to meet global standards of customer protection