Expanding the Financial Services Access for the Poor in India-Critical Approach

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We critically look at the factors of expanding financial services access for the poor in terms of measure, impact, policies, barriers and promotion along with actions taken in the Indian context in the past and the present. We suggest that the corrective actions to be taken in the future should be more dynamic with respect to market development along the path to an inclusive digital financial system tailor made to our interventions based around four initiatives: payment system with right scale and size; regular financial services at right scale and size; partnership with new differential players; and research and Innovation.

Key Words: Financial Inclusion, Innovation, Principle and Policies, Financial Intermediaries, Regulations

1. Introduction

Poor people have a dynamic relation with poverty. Every few years, millions of people around the globe including India move out of poverty by successfully adopting better farming methods and new technologies, capturing investment opportunities, or finding new jobs. At the same time, people also fall back into poverty due to social and economic shocks (Krishna, 2003). If available at critical moments, effective tools for savings, payment, credit, and insurance can play a key role in determining whether a poor household is able to capture an opportunity to move out of poverty or weather a shock without being pushed deeper into poverty. Access to financial services plays a significant role in this matter.

Financial services access is widely considered essential for the economic well-being of poor households in developing countries. Financial services like savings, payment and credit smoothen out household level consumptions, while financial services like insurance help against risk. It also helps in investment in education and other forms of capital (Honohan and King, 2012). Despite this, levels of access to financial services vary widely with up to 2.5 billion people globally financially excluded from having access to financial services (Morduch et al, 2009). Over the last 20 odd years, in the past, innovations in microfinance had taken center stage in efforts to expand financial access, now attention is slowly shifting to opportunities to reform the banking system to have access to various financial services to the financially excluded (Karlan and Morduch, 2009) including access for the poor. The objective of this paper is to critically look at the factors of expanding financial services access for the poor in terms of measure, impact, policies, barriers and promotion along with actions taken in the Indian context in the past and the present and suggest the corrective actions to be taken in the future in the Indian context.

1.1 Meaning of Access to Financial Services

Access to financial services entails an absence of obstacles to the use of financial services. These obstacles can be price or non-price barriers to finance. There is also a difference between access to the ability to use and actual use of financial services. Similarly, financial exclusion can be voluntary or involuntary, where insufficient income and/or high risk, discrimination, contractual and/or information framework, product and price barriers bar access to financial services. Failure to make this distinction can complicate efforts to define and measure access. Clearly, access to financial services has three parts with respect to who gets offered what products at what price. These are:

- The suppliers,
- The users and
- The product.

Financial services access for the poor can be understood as the share of poor households or individuals including microenterprises of self-help groups that have access to financial services like deposit, payment, credit, insurance, and risk, if they choose to do so. But if it is involuntarily having no or limited financial services access, then it is referred to as the unbanked. Financial services access for the poor can have substantial effects on their welfare and can contribute to poverty reduction. These include access to liquidity, a safe place to store money, transferring money to and from family members and creditors, and finding ways to decrease risk. It allows the unbanked poor to move toward an inter-sequential of resources encouraging savings and removing the limitations of self-finance. In India at present over 75 million households which is nearly 60% of Indian population does not have access to formal banking services (Nachiket Mor Committee, 2014) and hence are unbanked and most of them are poor. This translates to over two times the entire population of US as unbanked people even after nearly 45 years of bank nationalization.

2. Expanding Access to Financial Services

Expanding financial services access can be justified in several ways. A well-functioning financial system, financial institutions and markets provide opportunities of best investments by channeling funds to their most productive uses, hence, growth, better income distribution, and poverty reduction. When they do not work well, opportunities for growth are missed, inequalities persist. This process also offers other services like savings, payments, and risk-management products to large participants, and seeking out and financing good growth opportunities wherever they may be. Without inclusive financial systems, poor individuals need to rely on internal resources. Similarly, imperfections like transaction and contract enforcement costs, information asymmetries in financial market are particularly binding on poor, and without expanding access, such constraints make it difficult for poor to finance better investment projects resulting in poor efficiency of resource allocation with adverse implications for growth and poverty alleviation (Galor and Zeira, 1993).

A growing body of evidence indicates that increasing poor's access to financial services has the potential to accelerate the rate at which they move out of poverty, and help them hold on to the gains they have made. Recent development theories also emphasize the role of access to finance in terms of lack of finance as the critical determinant of persistent income inequality and slower growth. Thus, reforms that promote expanding access to financial services need to be at the core of the policy agenda of a nation. In fact, evidence suggests that developed financial systems are associated with lower inequality. Hence, improving access to finance is likely not only to accelerate economic growth, but also to reduce income inequality and poverty (World Bank, 2008). This argument is built on the theoretical and empirical finance and growth literature survey of Levine (2005) and the importance of a well-developed financial system for economic development and poverty alleviation (Beck et al., 2004, Honohan 2004a).

While Claessens (2005) suggests that access to financial services is not the cure all remedy, there is definitely a causal link between poverty reduction, growth and access to financial services. In fact, one way of fostering economic growth through financial development is by entry of new firms (Klapper et. al., 2004) and the "creative destruction" process of Schumpeterian theory. This implies access to finance for large parts of the population is important to expand opportunities beyond the rich and is crucial for a thriving democracy and economy (Rajan and Zingales, 2003). In effect, Mor (2005) suggests that broad financial access can be the missing link between the growth rate that we have and the growth rate we seek. This is also supported by a socio-political argument which sees access to financial services on a similar level as access to basic needs such as safe water, health services, and education (Peachey and Roe, 2004).

Motivation: To summarize, our motivation on expanding access to financial services is because financial exclusion is likely to act as a brake on development, and theoretical models have shown that financial market frictions can be the critical mechanism for generating poverty traps and slower growth. We find extensive empirical literature exists on the links between financial development and growth, but, limited evidence exist linking access to financial services to outcomes. This access dimension of financial development has often been overlooked, mostly because of serious data gaps on who has access to which financial services and a lack of systematic information on the barriers to expanding access. This becomes important in the context where it has been evidenced by the World Bank that fraction of households with an account varies by region and increases with income.

As already mentioned earlier that access availability is different from access use, while access is likely to be wider in the sense that some may have access, yet may not wish to use services, usage is much easier to measure, and understanding usage requires information on both demand and supply. Thus, the need to collect indicators that measure both: actual use of various services like savings, payment, credit, and barriers to access, to identify boundaries and causes of exclusion. Hence, some of the questions that arise with expanding access to financial services are: Just how limited is access around the world? What are the present indicators to measure financial access? What are the chief obstacles and barriers to broader access or analyze its determinants? How important is access to finance as a constraint to growth or poverty reduction or evaluate the impact of access on growth, equity, and poverty reduction? What is the role of government in building inclusive financial systems?
Clearly, if we want to expand access to financial services for the poor, we need to have knowledge of the three factors:

- Measure,
- Impact and
- Policy;

3. Measuring Access to Financial Services

We first start with the measures of financial access as well as the barriers that prevent the poor from using financial services so that effective policies and principles focusing on institution reforms, innovations and developing infrastructures, technology with incentives through prudential regulations can be implemented.

Until recently, the main proxy variables that measured financial access included density indicators, based on provider/supply side information, were the number of bank accounts per 1,000 adults, number of bank branches per 100,000 adults, or ATMs per capita, but this gave little information on the extent to which the poor have been excluded. This gap in user/demand side information is now available through "Global findex" (Kunt and Klapper, 2012) on 148 economies around the world jointly developed by the World Bank, the Bill and Melinda Gates Foundation and Gallup, Inc. These measure how adults in these economies manage their daily finances and plan for the future. These include over 40 indicators and variables related to savings, account, payments, credit and risk.

- The first set of indicators focuses on formal accounts, and the mechanics of the use of these accounts like frequency of use, mode of access, the purpose of these accounts, barriers to account use and alternatives to formal accounts like mobile money. The account penetration indicator measures individual or joint ownership of formal accounts. Indicators relating to the receipt of payments measure the use of formal accounts to receive wages and remittances.
- The second set of indicators focuses on savings behavior including the use of community-based savings methods and the prevalence of savings goals.
- The third set of indicators focuses on sources of borrowing from formal, semi-formal and informal financial intermediaries. The formal financial intermediaries include the commercial and development banks, rural banks, post bank, savings & loan companies, deposit-taking microfinance banks. The semi-formal includes the credit unions and the microfinance NGOs whereas the informal includes the savings collectors, savings and credit associations like chit funds, nidhis, and moneylenders. Our country till now had depended on the semi-formal and the informal financial intermediaries for financial inclusion. It is now only that our country is focusing on the use of the formal financial intermediaries to expand the access to financial services to include the poor and the non-poor financially excluded households. The third set of indicators also focuses on purposes of borrowing like mortgage, emergency or health purposes.
- The fourth set of indicators focuses on use of insurance products for health care and agriculture. It is also expected that by 2017, Global Findex will have enough indicators to compare within a country. This will allow for a better understanding of the impact of financial inclusion policies in a region inside a country for expanding access to financial services for the poor.

The indicators clearly indicate that there are multiple barriers which have affected the access to financial services. These are:

- Geographical factors
- Economics factors
- Financial sector inefficiencies and inadequacies
- Institutional deficiencies
- Regulatory and policy issues
- Law and order
- Infrastructure
- Technology and
- The socio-cultural factors.

All these can be again captured under supply and demand side constraints as well as under ecosystem within which the supply and demand act. Beck and Torre (2007) suggests that expanding access to financial services should include identifying different demand and supply constraints and including both supply and demand side frictions that can lead to lower access and analyzing it. The analysis helps identify unbanked and banked population, and the binding constraint to close the gap between the two.

Beck et al (2007a) developed indicators of access for three types of financial services namely deposits, loans, and payments across three dimensions viz. physical access, affordability, and eligibility. They evidence that barriers such as availability of locations, minimum balance, fees, interest rates, documents requirements and procedure time vary across countries and are negatively correlated with access to financial services. They measured these barriers in terms of branch and ATM penetration, by income quintile per population for physical access; number of documents required to open a checking account for eligibility; and number of days to process a SME loan application, minimum balance required to open a checking account, minimum balances and costs of transferring funds with respect to fees for affordability.

These have important policy implications for expanding access to poor. They also evidence that barriers are lower in countries with higher income, better contractual/information systems, greater openness and competition in banking, greater transparency standards, media freedom, and greater market discipline.

In a similar study, Honohan and King (2012) evidence that income and education is key demand/user side determinants of access to financial services. The results show that improving financial sector knowledge is associated with a significant increase in being formally banked. RBI has already taken a step in this direction by engaging Business Facilitators (BF). Summarily even if financial institutions expand their reach, bringing credit, savings, and micro-insurance to those previously without access, potential poor often do not readily adopt the range of offerings. That's not because the services aren't needed; rather, those who would benefit most from these products often have no experience with formal financial services and often don't see them as a likely part of their lives.

King (2012) evidences the characteristics of 'unbanked' households with lower incomes, lower education, without an access to a mobile, and have lower levels of financial sector knowledge and number of formal documents in their name than the remainder of the population. Ellis et al. (2010) for the first time show a clear link between access to financial services and the ability of households to invest in education or a business, that can contribute to economic growth and alleviate poverty. They also evidence that semi-formal and informal financial services are very important in providing access, but formal financial services tend to be used more for investment purposes.

Clearly expanding access to financial services will transform into financial inclusion only with financial education, and engaging BFs is a big step in this issue.

4. Impact of Access to Financial Services

Next, as mentioned earlier, is the second factor: impact to understand how important is access to finance as a constraint to growth or poverty reduction or evaluate the impact of access on growth, equity, and poverty reduction? What are the channels through which improved access affects firm growth? What is the impact of access to finance on households and microenterprises? What aspects of financial sector development matter for broadening access to different types of financial services? What techniques are most effective in ensuring sustainable provision of credit and other financial services on a small scale?

Beck et al. (2007a) evidence that financial access promotes firm growth, similarly financing constraints hurt firm growth in terms of impact of various self-reported obstacles on growth of firm sales among which financial obstacle effected the most. They also evidence that small firms face discrimination from bank in terms of lending, interest rate, paperwork, as well as higher financial obstacle. But, when access to financial services through different formal channels is finally made, the impact is higher firms start-ups, dynamism, innovation, and equilibrium size respectively. The most important evidence with respect to access to financial services is that it is pro-poor; they find that with increase in financial depth poverty alleviation takes place but with significant indirect effects. These include the welfare impact of direct access of the poor. In aggregate, they evidence stronger effects for the poor in terms of having jobs and higher wages.

Thus, to promote pro-poor growth it is important to improve access to financial services for not only the poor but for all financially excluded including the new firms and the unbanked non-poor.

5. Policy and Principles to Access to Financial Services

The third factor is policy. Adopting policies to expand access to financial services need understanding the role of government in building inclusive financial systems. Given that financial systems in many developing countries serve only a small part of the population, expanding access remains an important challenge across the world as well as in our country, leaving much for governments to do. Not all government actions are equally effective. As such, better principles for effective government policy on broadening access, drawing on the available evidence is needed. India has actually made progress in this aspect.

Markets will not provide for all, but building institutions matters with respect to policy on protection of property rights, and contract enforcement. Priority should be on information infrastructures over enforcement of creditor rights, ease of recovery on individual debt contracts over resolution of conflicts between different claimants. Specific policies on credit registries, issuing national identification numbers, reduce costs of registering and repossessing collateral should also be a priority. We should encourage innovation in terms of e-finance, and m-finance with legal clarity and financial education. Policies to promote competition, technology and stability should be inculcated. This improves the speed with which new access are adopted. Competition can also include foreign entry which may improve access over time.

Good prudential regulations on protection against abusive lending, increased transparency and formalization are important keys. Ellis et al. (2010) suggests reducing costs and increasing financial services by supporting innovations such as m-banking, e-banking, including the use of new distribution channels such as local stores; investing in financial literacy or marketing programme to improve understanding of financial services and their availability particularly for poor; establishing digital asset registries to make it easier for people to qualify for loans; and supporting regulatory reform and capacity building to create the right environment and incentives for financial providers to expand access, balancing it with stability. By reducing barriers to financial services, such policies could help to stimulate household investment and thus contribute to growth and poverty reduction.

Summarily, policies framed should be such that it should reduce the expendable resources in both time and money that poor use to finance their current activities, and, increase poor's capacity to manage economic shocks and capture income-generating opportunities. It should generate economy-wide efficiencies by digitally connecting poor to their peers, financial service providers, government services, and other counterparties. In this matter, direct government action in the past had mixed results, in fact, the scope were more limited than often believed. Experience with government banks with respect to direct lending had not been positive. Despite best efforts, much of microfinance, especially for the poor relied on grants and subsidies, similarly credit subsidies undermined the incentives to introduce access-expanding innovations.

Clearly, policies for expanding access to financial services have three goals:

- Availability of suitable products at affordable prices;
- Stability; and
- Wise use of government support.

It has to be understood that for poor households, credit is not the only or the principal service they need, savings and payments services are more important. And, with savings and payment services, the results are more mixed, as such differential banking may help kick start certain financial services. There is also the political economy concern, financial access is lacking not only for the poor, but for large segments of non-poor and as such, focusing on the "excluded" may help promote reforms to expand access for all. Summarily, access policies have three issues:

- First, expanding financial access, including best practices for stimulating informed demand as well as for adequate competition among suppliers;
- Second, regulation of financial service providers, and
- Third, avoiding distortions when public resources are used to provide financial services.

These issues are complex, and financial access is often not the main priority of policy makers, but the need for a set of principles to guide the financial-access policy creation directed primarily with improving financial access. At a time of increased focus on financial-sector policy and of regulatory tightening, it is important not to lose sight of the goal of increasing the access to appropriate financial services essential to the escape from poverty. It is in this spirit that adequate principles should be framed for financial-sector policymakers to act as guidelines. The CGD Task Force on Access to Financial Services (2009) has proposed ten principles with respect to the above mentioned policy issues. In India, Nachiket Mor Committee (2014) has also proposed six principles with policy issues.

In short, the new message is very clear, access to finance is limited, barriers lead to exclusion for the non-poor as well as the poor, finance is not only pro-growth, but also pro-poor. But pro-poor policy should not focus exclusively on the poorest, as there are large spill-over effects of finance. Government policy agenda is lengthy but few quick fixes including building institutions, prioritizing reforms, underpinning infrastructures to exploit technological advances, promoting competition, and ensuring that regulation provides the correct incentives. The very poor are likely to need subsidies to access financial services, but better for savings and payments than for credit.

6. The Inclusivity of Access to Financial Services

Many interventions have been proposed to make noticeable dents in poverty levels like regular wages, education for girls, each holding a place in the scheme of development, but none on its own has proved to be a catalyst as imagined. However, in recent years, much anticipation has been placed on the transformative power of financial access.

The best-known advocate has been Muhammad Yunus with his Grameen Bank to serve the poor of Bangladesh. Yunus speaks forcefully about the power of access to microcredit (now expanded to microfinance which includes savings and insurance) to transform the businesses of poor households leading to higher income and with it better opportunities, showing that innovativeness in credit market brings efficiency and equity, and outcomes are not necessarily Pareto efficient (Besley, 1994, Stiglitz and Weiss, 1981). It reinforces the assumption that marginal return to capital is large when capital is scarce leading to the claim that the poor have sizeable returns to reap from financial access.

Yet banks had difficulty providing such access profitably. The reason being: lack of collateral, size of transaction and cost to attract interest from the banks (Johnston and Morduch, 2008). No doubt, the microfinance revolution is also contend with this problem along with other factors correlated with poverty which undermines the effectiveness of financial access in raising incomes and risks blinding policymakers to the broader financial needs of poor which are similar to the needs of a better household. Access to finance to expand businesses can generate income to facilitate these needs.

But as Collins et al (2009) show that financial activities are most often driven by a basic set of needs: daily food, illness, and other sizeable expenses including investment opportunities as they arise. None of these needs are tied to running small businesses, and yet all are equally important for everyone. Hence, access to finance has become access to financial services to provide credit, savings, payment and insurance rather than primarily delivering microcredit.

7. The Indian Scenario

7.1 The Past

We in our attempts to address access to financial services started with building infrastructure including an apex institution and dedicated regulator, over 50000 rural bank branches including RRBs, over 150000 post offices with basic banking services and cooperatives (Srinivasan and Sriram, 2003). We started the microfinance movement in 1992 and met success in our own way (NABARD, 2004), but the cumulative disbursement were about one tenth of our demand (Mahajan and Nagasri, 2000) compared to successful nations like Brazil and South Africa who also started at the same time, and who focused more on unleashing the systemic forces. Whereas our government in eagerness nationalized banks; gave huge subsidies, treated self-help groups as panacea and pushed banks and departments to form these groups with aggressive targets without a better policy, and infrastructure. This became the cause of our initial failure to achieve real progress.

The areas of corrective actions which in a broader sense still exist can be basically divided into three parts.

- First is the increased complexity in the regulation of banks where the provider side needs to overcome psychological barriers. Banks continue to pursue the corporate and the retail banking along with priority sector lending. Business such as expanding access to Financial services to poor are harder to pursue in terms of strict monitoring, but if carried out in a commercial manner, this can give better risk adjusted returns because of the divergence and other benefits to banks given by the government entailing new markets, customers, and opportunity to provide needed boost to Indian economy. And, if real progress is met, then perhaps even a foreign entry is not needed to expand access to financial services.
- Second is the development of basic financial market infrastructure to overcome physical barriers to access. In India, most people with full access still prefer to use cash. The unbanked has no other option but to use cash, and most of them are very poor, without any steady wage, and have exposure to high systemic shocks, which is the driver of remaining poor. Even after overcoming the psychological barrier serving such a customer presents extreme physical barrier with respect to infrastructure. We can overcome this systematically with digitalization.
- Third is enabling the regulatory framework to overcome regulatory barriers to access. Even if we overcome the above two barriers, there are actions that need to be taken on the regulatory side like RBI, IRDA, SEBI to include explicit goal of universal access to financial services, engaging Business Facilitators (BF), and Business

Correspondents (BC) with better wages, and other deregulation with respect to interest rates, maturities, financial innovations.

7.2 The Present

The Reserve Bank of India (RBI) appointed a Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households in the month of Sep. 2013 with three motives:

- To frame a clear and detailed vision for financial inclusion and financial deepening;
- Designing principles for achievement of financial inclusion and financial deepening; and
- Development of comprehensive framework to monitor the progress of financial inclusion.

The panel submitted its report in July, 2014. Two bare facts brought by the panel include: 90% of small businesses have no links with formal financial institutions; and about 60% of the rural and urban population does not even have a functional bank account which highlights the importance of expanding access to financial services.

To achieve this vision, the Committee outlined six vision statements. These are:

- Universal Electronic Bank Account for each Indian resident, above the age of eighteen years;
- Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges;
- Sufficient Access to Affordable Formal Credit;
- Universal Access to a Range of Deposit and Investment Products at Reasonable Charges;
- Universal Access to a Range of Insurance and Risk Management Products at Reasonable Charges; and
- Right to Suitability of financial services.

In continuation, four design principles were laid down by the committee, namely Stability, Transparency, Neutrality, and Responsibility, to guide the institutional frameworks and regulation. This ensures that the impact of the goal will not compromise the stability of the financial system, with complete transparency on the impact during current and stress situations, besides the treatment to a participant must be strictly neutral, and the provider is responsible for sale of suitable financial services to customers.

The committee argues in favour of multiple models and partnerships to emerge various financial entities focusing on specialists instead of general institutions. After the initial failure in the past, this is a clear right step in the right direction to achieve real progress in the present for the future.

In the spirit of this vision and based on RBI's approach on differentiated Banks, it's coming out with draft regulations for payment banks; and seeking industry views on its new policy on creating small banks, the Committee recommended RBI to give license for different region with lower entry barrier to focused banks such as Payments Banks to ensure rapid out-reach of payments and deposit services; Wholesale Consumer Banks, and Wholesale Investment Banks with focus on deepening the penetration of credit services without any retail deposit activity. This committee has for the first time outlined an alternative banking framework, which can target the unbanked more effectively.

In keeping with the framework, RBI has since given license to a MFI in April 2014 to start banking (Bandhan Bank) which is already having over 2100 branches spread over 22 states and majority of the branches are in the north-eastern states. It has also started with a women only bank (Bharatiya Mahila Bank) in Nov. 2013 to expand access to the women who have nearly 50% less formal accounts compared to men. Similarly, Microfinance institutions were brought under the ambit of the RBI with the Micro Financial Sector Development and Regulation Bill, 2011.

In keeping with this vision, RBI and the government has since taken few more innovative steps. One of them is the use of Indian Post Office with massive information technology modernization, based on success stories such as the Brazil's Correios-Bradesco strategic partnerships, or Morocco's Poste Maroc model of partnering with multiple financial institutions, which show that the postal network can be an effective tool to leverage increased access to financial services to the poorest. Already over 64 lakh accounts had been migrated to CBS. Over 26,840 post offices will adopt CBS by 2016 in the initial stage. All account holders will be provided with an ATM card in partnership with RuPay, and about 2800 such ATMs would be installed by end of 2015. Later on these ATMs will be merged with banks for universal use. RuPay is an Indian domestic card scheme conceived and launched by the National Payments Corporation of India (NPCI). It was created to fulfill the Reserve Bank of India's desire to have a domestic, open loop, and multilateral system of payments in India for better penetration.

Another innovative step to penetrate the non-banked area has been the introduction of white label ATMs in India. RBI has issued authorization to four entities. The objective of permitting non-banks to operate white label ATMs was to enhance the spread of ATMs in semi-urban and rural areas, where bank-owned ATM penetration has not been growing.

Money transfer using mobile is another innovative service that enables instant money transfer from one place to another place using mobile, through Indian post offices, through mobile service providers, or through mobile wallet service provider like MobiKwik. This service is a boon for those who regularly remit money to faraway places but do not have access to a formal bank account except access to a mobile phone, personal or with an agent. It has also encouraged banks and mobile phone companies to form alliances.

Another innovative method to expand access to financial services has been the introduction of banking correspondent. The role of a BC is to act as an interface between the bank and its customers in places where traditional banking is not feasible. Deposit and withdrawal of money is handled by the BC. Similarly, banks have engaged business facilitators (BF) to educate the poor in unbanked areas on financial services.

On 15th August 2014, Prime Minister Narendra Modi, unveiled the 'Pradhan Mantri Jan Dhan Yojana' scheme of the government on expanding access to financial services which will give access to bank accounts to the poor with each account holder getting a Ru-Pay debit card and a Rs 1 lakh insurance cover. The government's mission would have two phases. Most activities will be done in the first phase (till the end of Oct. 2014, over 75 million bank accounts have been opened), and insurance and pension would be covered in second phase by 2018. All these new accounts will be basic banking accounts without any minimum balance. As the banks will not earn any revenue from these accounts, government will channelize all direct benefit transfers to these accounts and also pay the banks a 2% commission or fee to sustain the cost of maintaining the account. Different district will be allocated to different banks and the access to formal banking services will be provided with the help of business correspondents and agents.

The challenge will be establishing a viable system of NBFC-MFIs, postal service staff and public distribution shops becoming BCs with adequate incentives. About 50,000 villages are in forest or hilly areas which will be covered by telecom companies for mobile facility. How much of this will be sustainable in the long run will be a big question as the whole project is still based on government subsidy and commission?

8. The Future

Where do we go from here? Is there still a better alternative for sustainability? We can start with the economic barriers that prevent poor people from accessing financial services and then assess how these economics must change at affordable prices. One of the reasons is the use of direct cash which perpetuates the poor’s marginalization from the formal financial system as these pay high costs to store, transport and process cash.

Therefore, the best alternative is to help shift the majority of this cash-based financial transactions into digital form through various digital interface. The digitization of cash creates opportunities for delivering value beyond cost savings in four ways:

- It can be disaggregated into smaller units of right size for the cash flow needs of poor;
- It can be recorded and used to construct accessible financial histories to develop products that are better matched to unique financial needs and risk profiles;
- It allows money to bypass the home and helping users to overcome self-control challenges;
- The digital financial infrastructure creates the opportunity to maximize adoption and effective usage.

But just increasing access to services is insufficient; the poor must also adopt and use these services. In the past, development interventions plagued by technologies that were made available to their intended users, were not adopted.

To address this demand-side challenge, service providers along with the regulators should support research and product design experiments to better understand what work best to encourage poor people to adopt and actively use financial services over these platforms. Only the combined effect of these interventions will accelerate the rate at which poor people transition out of poverty while decelerate the rate at which they fall back into poverty.

This change should be more dynamic with respect to market development along the path to an inclusive digital financial system tailor made to our interventions based around four initiatives:

- Payment system with right scale and size;
- Regular financial services at right scale and size;
- Partnership with new differential players; and
- Research and Innovation.

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