

Financial Inclusion - JAM & DBT

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Financial Inclusion – Critical to Economic Development

“Financial inclusion is broadly defined as both access to and usage of appropriate, affordable, and accessible financial services”

Inspite of consistent efforts still some ground needs to be covered for universal financial inclusion:

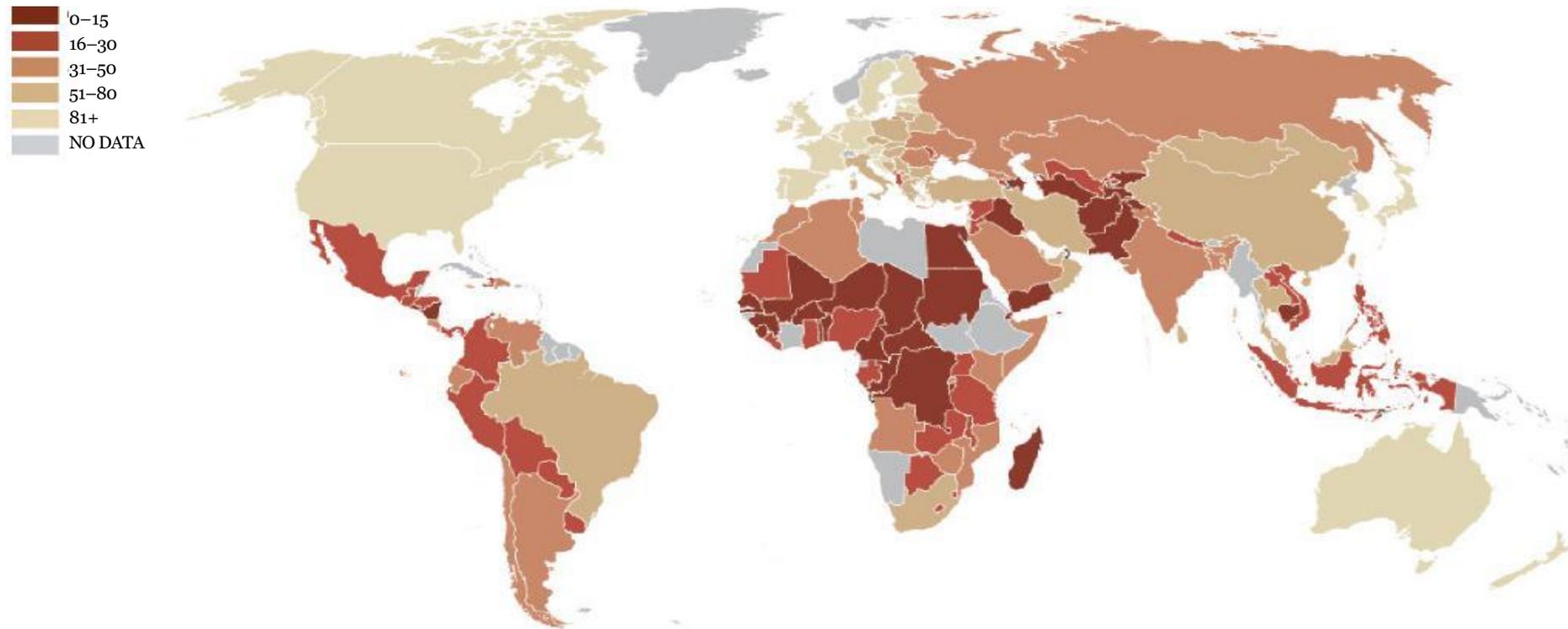
Globally, more than 2 billion adults do not have a formal account

Only about one out of every five adults living on less than \$2 (U.S.) per day has a formal account—***that means nearly 80 percent of poor adults are excluded*** from the formal sector

Less than half that number of adults in developing economies is banked: only 41 percent.

For women in developing countries, **only 37 percent have formal accounts**, compared to 46 percent of men

Financial Inclusion – Critical to Economic Development



Adults with accounts at a formal financial institution

Benefits for Governments when they digitize payments

Increased transparency

Digital payments improve traceability of the payment process



Evidence from India shows that making social security pension (SSP) payments digitally via smart cards results in **47% reduction in bribe demands** for obtaining the pay and the incidence of ghost recipients also falls

Lower Costs

Cost reduction is specially striking when considering large-scale government-to-public payments



In Brazil, the Bolsa Família program **reduced its transaction costs from 14.7 percent of total payments to 2.6 percent** when it bundled several benefits onto one electronic payment card

Benefits for Recipients of Digital Payments

Lower Costs

Digital payments lower access costs for account holders

Increased control

Digital payments allow remitters greater control over money sent home



Migrants from El Salvador to the United States were much more likely to open savings accounts at a partner bank in El Salvador, and accumulated more savings at the partner bank, if they were offered an account with the greatest degree of monitoring and control

Increased incentive to save

Research shows that digital payments increase the propensity to save and invest in financial products

Improved speed and timely delivery

Digital payments can be virtually instantaneous, regardless of whether the sender and receiver are in the same town, district, or country

Benefits for Recipients of Digital Payments

Increased risk management

Helps connect individuals to the broader economy and can strengthen informal insurance networks.



A mobile operator and an insurance company in Kenya **jointly offer micro-insurance to farmers** to protect them against drought or excessive rains, **46 percent of their clients are women**

Increased security

By improving access, cash amounts carrying are reduced

Increases in women's economic participation and empowerment

Evidence suggests that digital transfers empower women within their households, particularly in the case of recipients of social cash transfer



In Kenya, **mobile money transfers increased women's economic empowerment**, by making it easier to request remittances from their husbands who migrated to urban areas for work



In Niger, there is evidence that mobile transfers, **shifts intra household decision-making in favor of women**, i.e., the recipients of the social cash transfer

Digital Payments and Financial Inclusion in India: Set to take off



The financial services ecosystem promises opportunities for myriad stakeholders shift from the industry players and regulators to the citizens setting up a stage for financial inclusion take off

Digital Payments and Financial Inclusion in India: Set to take off

Enablers for Financial Inclusion Take off

New Bank Licensees

- Payments Banks & Small finance banks are expected to innovate and enhance inclusion

Jan Dhan Yojna

- With almost universal bank account access Jan Dhan provides the platform for reaching full financial inclusion

Mudra Bank

- MSME's and SME's can look to MUDRA bank for easy access to finance

DBT

- DBT can be the vehicle to deliver efficient and effective social transfers to the citizens

Banks + Telecom Operators

- ***This completes the JAM trinity in synergy with the DBT model for implementation***

Recommendations

Innovative Regulation

- RBI and other regulators need to display hands-on regulation on an ongoing basis and continue in the spirit in which new bank licenses have been granted
- This will enable players to build sustainable businesses and contribute effectively to inclusion

Encouraging Innovation

- Globally new start-ups and models like peer-to-peer lending have helped speed up financial inclusion
- In India also, these products could be relevant and SEBI has put out a discussion paper in public domain on the same. A final positive decision in the next 8-12 months would be a big boost for the sector

Recommendations

Addressing Payments Commissions

- Research and available data has shown that adequate commissions on payments (like G2P payments) is necessary to build a sustainable business model
- Enhanced flow of social benefits from the DBT system would also help in supporting viable business models
- This needs to be tackled at the earliest to help set-up a viable payments eco-system

Industry Collaboration

- With new entrants competing with established banking and financial services players there is a need for collaboration and working together
- Market players, in the next year, need to evolve a collaborative mechanism (self-regulation) to ensure that competition does not to unsavory practices

Recommendations

Enhancing consumer protection

- With new banking entrants customers are likely to have a choice of complex and hybrid financial products
- It is hence necessary that regulators and industry (through self-regulation) looks to curtail such practices

Inter-regulatory coordination

- With banking players ranging from Telecom operators to MFI's competing with the traditional banks regulators also need to collaborate
- It is foreseen that there may be areas which require collaboration between different regulators like RBI, TRAI, IRDA etc.

Recommendations

Increasing financial literacy

- There needs to be a concerted effort at increasing financial literacy
- A specialized programme, within the Jan Dhan effort, focused on financial literacy may be useful to drive adoption of banking products

Incentivizing cashless transactions

- Cashless transactions need to be incentivized to bring more people into the formal banking system
- Small businesses, Medium to small retailers, MSME's etc. avoid electronic transactions
- Measures like GST or even a direct tax benefit for cashless transactions could be solutions to such issues

Recommendations

Aggressive expansion of DBT

- There needs to be a concerted efforts to expand the number and depth of schemes that are routed through DBT
- Fertilizer subsidies, Pension payments, PDS , scholarships and others are just some of the potential areas which can be on the DBT channel
- A clear time-bound schedule for enabling these schemes on the DBT mode could be a strategy which would deepen financial inclusion efforts strongly

Thank You !