

FINANCIAL INCLUSION **insights**

APPLIED RESEARCH FOR  digital financial inclusion

INDIA

QUICKSIGHTS REPORT FOURTH ANNUAL FII TRACKER SURVEY

Fieldwork Conducted September 2016 through January 2017

January 2016



BILL & MELINDA
GATES *foundation*

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Key definitions

Access – Access to a bank account or mobile money account means an individual can use bank/mobile money services either via their own account or via an account of another person.

Active account holder – An individual who has a registered account and has used it in the last 90 days.

Active user – An individual who has used any financial services account for any type of transaction in the past 90 days via his/her own account or somebody else's account.

Adults with DFS access – Adults (15+) who either own a DFS account or have access to someone else's account.

Advanced use of DFS – Advanced use of DFS includes activities beyond basic cash-in/cash-out and person-to-person transfers (e.g., savings, bill pay, investment, insurance, etc.).

Below the poverty line – In this particular study, adults living on less than \$2.50 per day, as classified by the Grameen PPI.

Cooperative – Typically, a business or other professional organization that is owned and run jointly by its members, who share the profits or benefits. Cooperatives can release some of the profits/funds as loans to its members.

Digital financial services (DFS) – Financial services provided through an electronic platform (mobile phones, electronic cards, the internet, etc.).

Dormant accounts – Registered accounts that have never been used or that have not been active (e.g., used in the past 90 days).

Financially included – Included individuals are those who have an account with an institution that provides a full suite of financial services and comes under some form of government regulation. Services include savings, money transfers, insurance or investment. Institutions that only offer loans to consumers, such as some MFIs, are not considered to be full-service institutions.

Full-service nonbank financial institutions – Financial institutions that offer their customers at least one of the following services: savings, money transfers, insurance, or investment.

Grameen Progress out of Poverty Index (PPI) – A poverty measurement tool from the Grameen Foundation wherein a set of country-specific questions are used to compute the likelihood that a household is living below the poverty line.

Microfinance institution (MFI) – An organization that offers financial services to low-income populations. Almost all give loans to their members, and many offer insurance, deposit and other services.

Mobile money (MM) – A service in which a mobile phone is used to access financial services.

Nonbank financial institution (NBFI) – A financial organization that is not formally licensed as a bank or a mobile money provider, but whose activities are regulated, at least to some extent, by the central bank within the country. Such financial institutions include cooperatives, Post Office Banks and savings and credit cooperatives.

Non-full-service financial institution – Institution that offers a limited range of financial products or services, often in an informal setting. These institutions are not included in the financial rate calculation and include money lenders, money guards and other savings groups.

Payment banks – Limited-service (i.e., cannot lend or issue credit cards) financial institutions.

Pradhan Mantri Jan-Dhan Yojana (PMJDY) – A national financial inclusion campaign designed to extend DFS-capable bank accounts to the entire unbanked adult population.

Registered active user – Individual who holds a registered financial services account and has used it in the last 90 days.

Services beyond basic wallet – DFS transactions that go beyond simple deposits, withdrawals or money transfers.

Unregistered/over-the-counter (OTC) user – An individual who has used a financial service through someone else's account, including an agent's account or the account of a family member or a neighbor.

Urban/rural – Urban and rural persons are defined according to their residence in urban or rural areas as prescribed by the national bureau of statistics.

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Country context

- **Financial inclusion: The Indian government promotes financial inclusion through a series of National Missions, of which Pradhan Mantri Jan-Dhan Yojana (PMJDY) – a multi-component approach to creating universal access to banking facilities – is the flagship program.**
 - PMJDY has succeeded in expanding access to banking facilities to over 100 million Indian adults, or 13 percent of the adult population.
 - PMJDY is currently in its second phase of implementation, which entails expansion of registration efforts to hard-to-reach areas and expansion of services accessible by PMJDY account holders, including overdraft facilities and microinsurance schemes.
 - Other financial inclusion schemes include the launch of payment banks, which are limited-service financial institutions designed to extend financial services to the unbanked. Payment banks are anticipated to increase the number of financial service access points in India by more than 100,000, of which no less than 25 percent must be allocated to areas the government deems as underbanked.
- **Digital payments: Over the past year, the Indian government has increasingly promoted cashless (i.e., digital) transactions. This includes waving service taxes for certain digital transactions; installing points-of-service machines at railway stations and discounting ticket costs if digital payments are used; and allowing digital payments for government services, among other measures.**
 - In April 2016, the National Payments Corporation of India, the umbrella organization supported by the Reserve Bank of India that is charged with overseeing all retail payment systems, launched the pilot for the Unified Payments Interface (UPI). The UPI is a mobile application which facilitates secure person-to-person transfers and merchant payments across banking platforms; currently, more than 30 banks participate in the UPI.
 - The ability to conduct cashless transactions is a core component of PMJDY. PMJDY account holders are eligible to receive a debit card (i.e., the account has digital access capabilities).
- **Demonetization: On Nov. 8, 2016 (during survey data collection), Prime Minister Modi announced that existing 500 rupee (~\$7.50) and 1000 rupee (~\$15) notes would no longer be considered legal tender, effective that same night, and would have to be exchanged for the newly created 500 (~\$7.50) and 2000 rupee (~\$30) notes.***
 - This process, which came to be known as demonetization, caused an immediate cash crisis, as these notes comprised 86 percent of all legal tender and served as the means for most transactions, as 90 percent of all transactions in India are conducted in cash.**
 - While the immediate objective was to eliminate tax evasion, demonetization also can be viewed as a financial inclusion policy. Exchanges for valid notes must take place at financial institutions through a registered account. Extended periods of limited cash availability resulted in increased utilization of DFS products, according to supply-side data.***
 - It is too early to know the full impact of demonetization on financial inclusion. While the exchange period ended on Dec. 30, 2016, cash withdrawals were still being rationed as of the first week of 2017.**

*Justin Rowlett, "Why India wiped out 86% of its cash overnight." *BBC News*. Nov. 14, 2016, retrieved from <http://www.bbc.com/news/world-asia-india-37974423>

**Wade, Shepard, "After Day 50: The Results From India's Demonetization Campaign Are In." *Forbes*, Jan. 3, 2017, retrieved from <http://www.forbes.com/sites/wadeshepard/2017/01/03/after-day-50-the-results-from-indias-demonetization-campaign-are-in/#6be9f616552e>

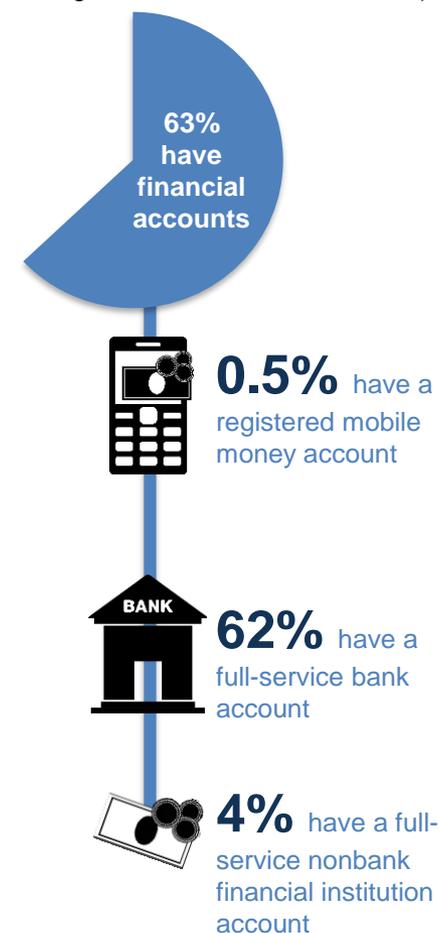
***Demonetization has boosted RuPay card usage by seven times: NPCI. (2016, December 27). Retrieved from <http://www.dnaindia.com/money/report-demonetization-has-boosted-rupay-card-usage-by-seven-times-npci-2287022>

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Notable statistics

- No significant effects of demonetization were detected in initial comparisons of the data collected before and after Nov. 8, 2016.
- Banks remain the driver of Indian financial inclusion; 99 percent of all financially included Indian adults (63 percent of the population) hold a bank account.
 - Sixty-four percent of Indian adults have ever used a bank account (either their own or one belonging to someone else). This is the highest rate of all FII countries.
 - The majority (64 percent) of Indian bank account holders are active users (i.e., had used their accounts in the 90 days preceding the survey). This rate is low compared to other FII countries and is likely depressed by the volume of new accounts in the market.
 - The proportion of bank account users who use advanced services declined this year, both as a result of new accounts in the market and drops in certain advanced activities such as receiving G2P payments.
 - The self-reported ability to access a bank account digitally fell sharply, from over 45 percent of Indian adults in 2015, to 30 percent in 2016.
- Less than 1 percent of Indian adults have used mobile money. Awareness of a mobile money provider declined slightly from 10 percent in 2015 to 8 percent in 2016.
 - While awareness declined, the conversion rate from awareness to use increased from 7 percent in 2015 to 9 percent in 2016.
 - Mobile-based products that do not fit our definition of mobile money (e.g., PayTM) have supplanted mobile money to a degree. Two percent of Indian adults have used these products, compared to the 0.7 percent of Indian adults who have used mobile money.
- Five percent of Indian adults reported using an NBFIs in 2016, compared to 10 percent in 2015. This decline was driven by decreases in MFI and Post-Office-Bank access and registered account ownership.
 - Four percent of Indian adults reported holding a full-service NBFIs account, compared to 9 percent in 2015.
 - In 2016, 2 percent reported using a Post Office Bank account, compared to 4 percent in 2015; 0.5 percent of Indian adults reported having used a full-service microfinance institution (MFI) account, compared to 2 percent in 2015; and, 3 percent reported using a semi-formal savings/lending group, compared to 4 percent in 2015.

2016: Registered users of financial services* (Shown: Percentage of Indian adults, N=45,535)



*Overlap representing those who have multiple kinds of financial accounts is not shown.

Source: InterMedia India FII Tracker survey Wave 4 (N=45,535, 15+), September 2016-January 2017.

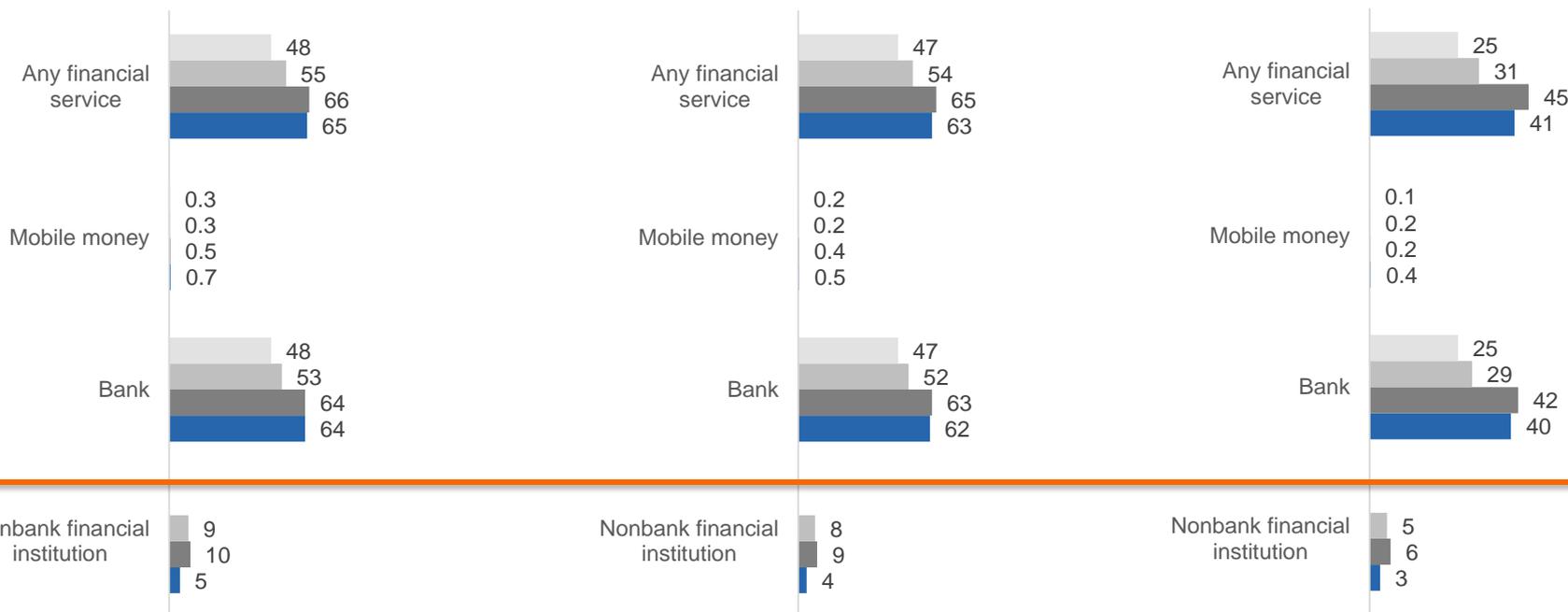
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Account access and ownership of registered accounts declined slightly while active use declined substantially due to declines in nonbank financial institution (NBFI) access, account ownership, and active use

Financial account access

Registered financial service users (Shown: Percentage of Indian adults for each year)

Active* financial service users



■ 2013 (N=45,024) ■ 2014 (N=45,087) ■ 2015 (N=45,036) ■ 2016 (N=45,535)

Types of account ownership are not mutually exclusive. *Used the account in the last 90 days

Source: InterMedia India FII Tracker surveys Wave 1 (n=45,024, 15+), October 2013-January 2014; Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

FII Survey Tracker Details

Survey Summary

- Annual, nationally representative survey (N=45,535) of Indian adults aged 15+
- Face-to-face interviews lasting, on average, 61 minutes
- Fourth survey (Wave 4) conducted from 9/5/2015 to 1/2/2017
- Tracks trends and market developments in DFS based on the information gathered in the first survey, conducted in 2013, the second survey, conducted in 2014, and the third survey, conducted in 2015

Data Collection

- Basic demographics and poverty measurement (Grameen Progress Out of Poverty Index)
- Access/use of mobile devices
- Access/use of mobile money
- Access/use of formal financial services (e.g., bank accounts)
- Access/use of semi-formal and informal financial services (e.g., MFIs, cooperatives, village savings groups)
- Financial literacy and preparedness
- General financial behaviors

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FII India Tracker Survey details

	% of survey
Gender	
Male	51%
Female	49%
Geography	
Urban	33%
Rural	67%
Income	
Above the \$2.50/day poverty line	31%
Below the \$2.50/day poverty line	69%

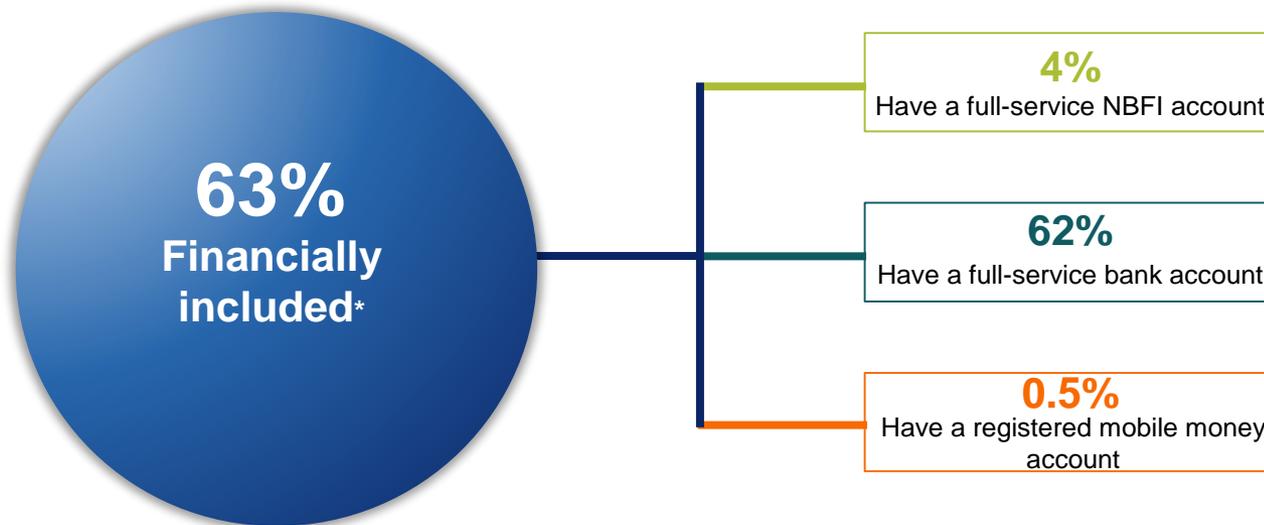
	% of survey
Age	
15-24	27%
25-34	23%
35-44	20%
45-54	14%
55+	16%
Aptitude	
Basic literacy	60%
Basic numeracy	97%

Figures are weighted to reflect national census data demographics.

Source: InterMedia India FII Tracker survey Wave 4 (N=45,535, 15+), September 2016-January 2017.

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Bank account ownership drives Indian financial inclusion; 99 percent of financially included adults own a bank account



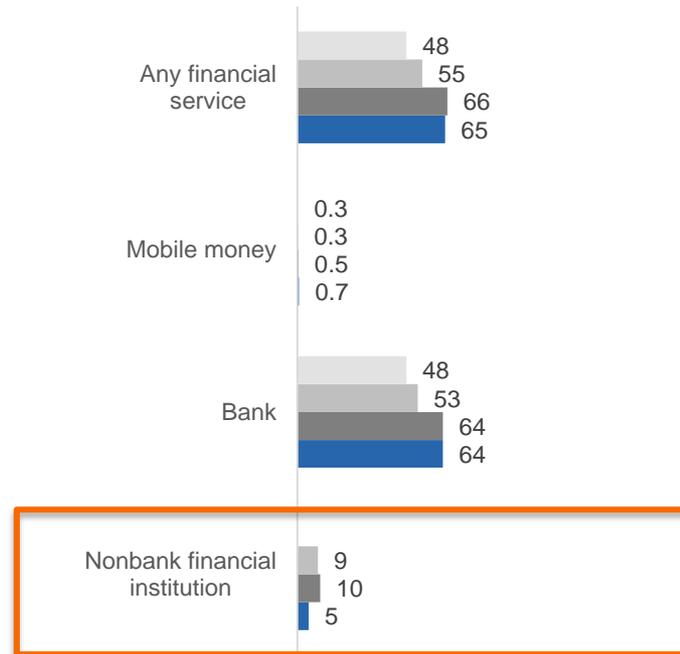
*Overlap representing those who have multiple kinds of financial accounts is not shown.

Source: InterMedia India FII Tracker survey Wave 4 (N=45,535, 15+), September 2016-January 2017.

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Bank access has substantially supplanted NBFi access: NBFi access dropped, bank access held steady, but overall financial access was effectively unchanged

Access to financial services
(Shown: Percentage of Indian adults for each year)



■ 2013 (N=45,024) ■ 2014 (N=45,087) ■ 2015 (N=45,036) ■ 2016 (N=45,535)

Types of accounts are not mutually exclusive.

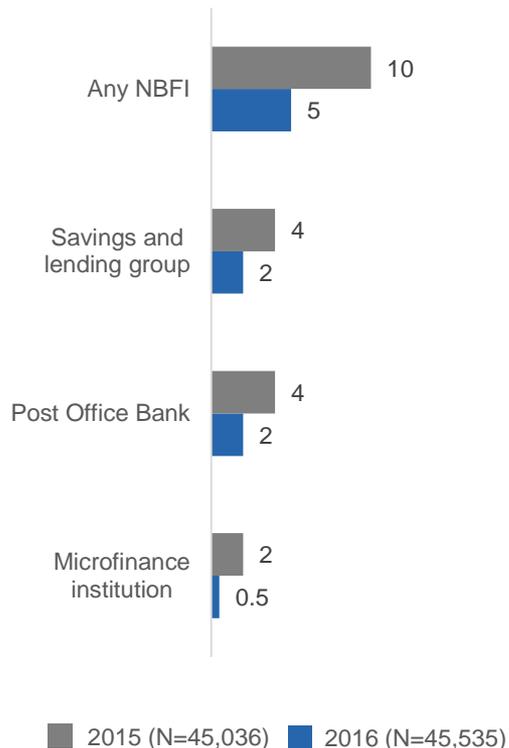
Source: InterMedia India FII Tracker surveys Wave 1 (n=45,024, 15+), October 2013-January 2014; Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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The decline in NBFi use was driven by more Indian adults becoming sole users of banks, rather than users of banks and NBFIs

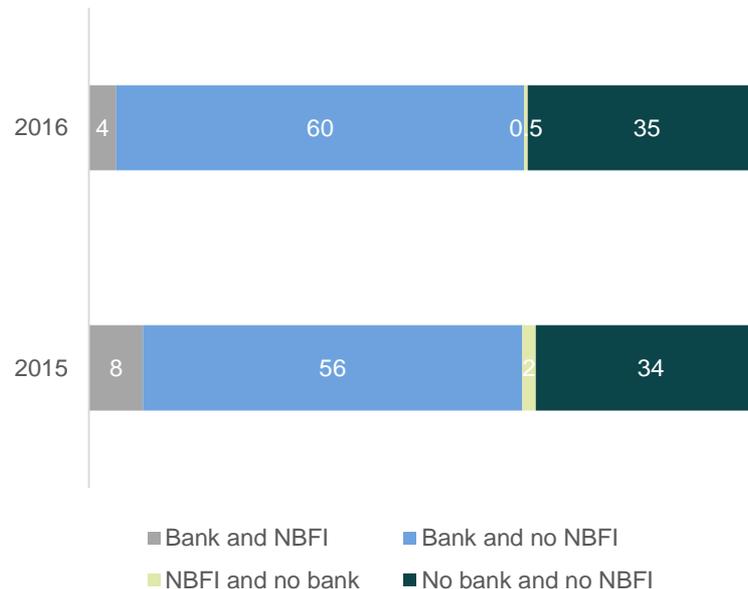
NBFi users by provider type

(Shown: Percentage of Indian adults, by year)



Bank and NBFi access profiles

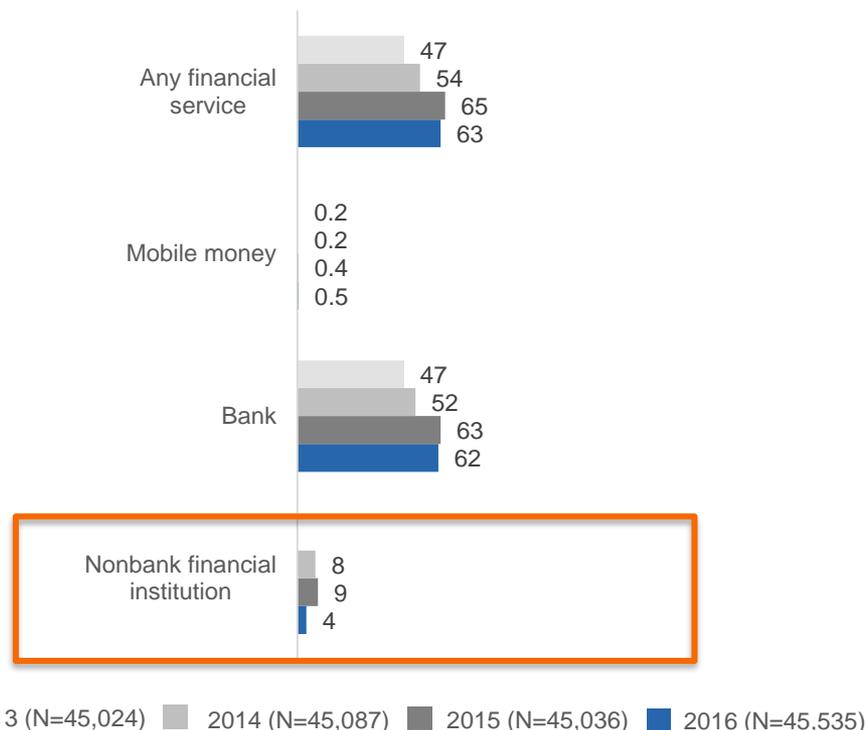
(Shown: Percentage of Indian adults, by year)



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The share of registered account holders decreased slightly due to a decrease in NBFI account ownership

Registered financial service users
(Shown: Percentage of Indian adults for each year)



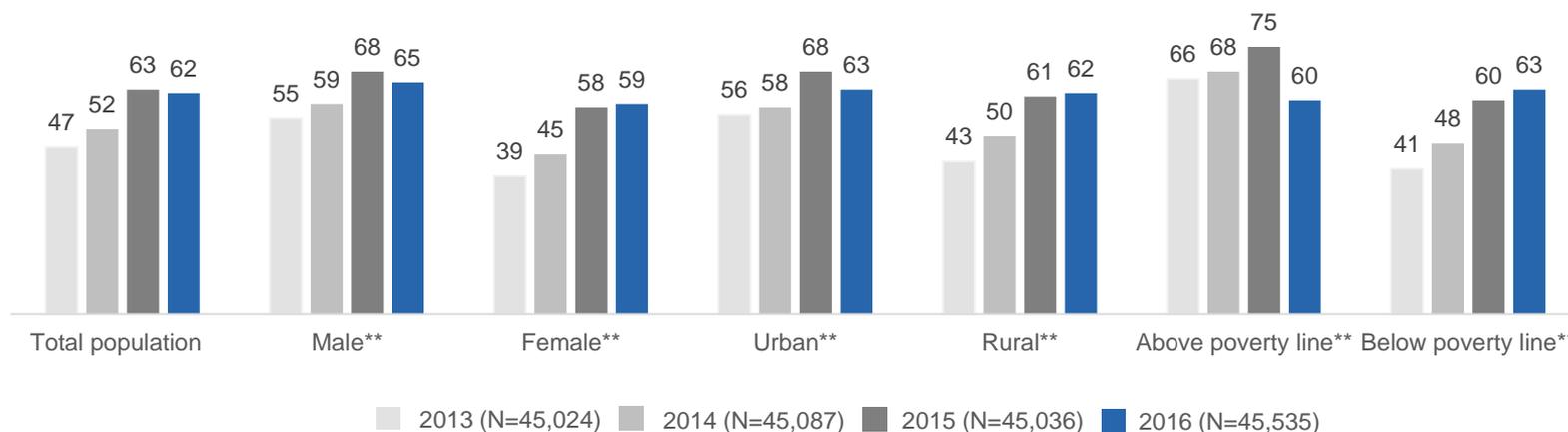
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The 1 percent decrease in registered bank account holders includes larger declines among men, urban residents, and those living above the poverty line that were offset by increases among the larger population below the poverty line

Demographic trends for registered bank account use*
(Shown: Percentage of Indian adults who fall into each category, by year)



*Categories are not mutually exclusive

** Statistically significant Pearson chi2 p<0.0005 for each demographic category

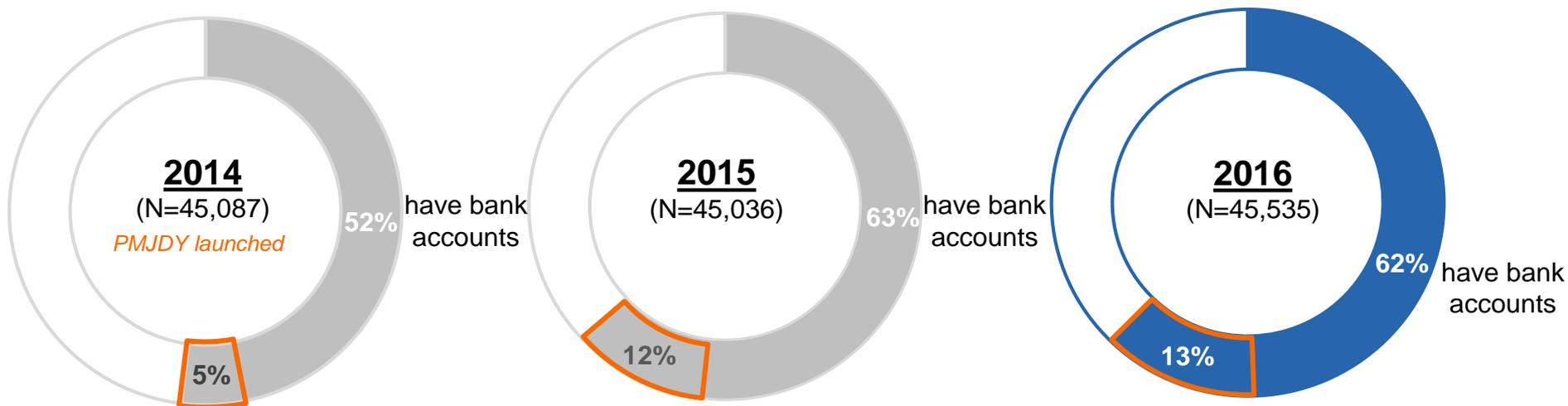
Source: InterMedia India FII Tracker surveys Wave 1 (n=45,024, 15+), October 2013-January 2014; Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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Bank account ownership is increasingly facilitated by PMJDY account availability; 21 percent of bank account holders (13 percent of all Indian adults) report holding a PMJDY account

Bank account and PMJDY account ownership

(Shown: Percentage of Indian adults, by year)



5% of Indians reported opening an account through PMJDY.* This equates to 10% of accounts overall attributable to PMJDY.

12% of Indians reported opening an account through PMJDY.* This equates to 19% of accounts overall attributable to PMJDY.

13% of Indians reported opening an account through PMJDY.* This equates to 21% of accounts overall attributable to PMJDY.

*PMJDY was launched in August 2014.

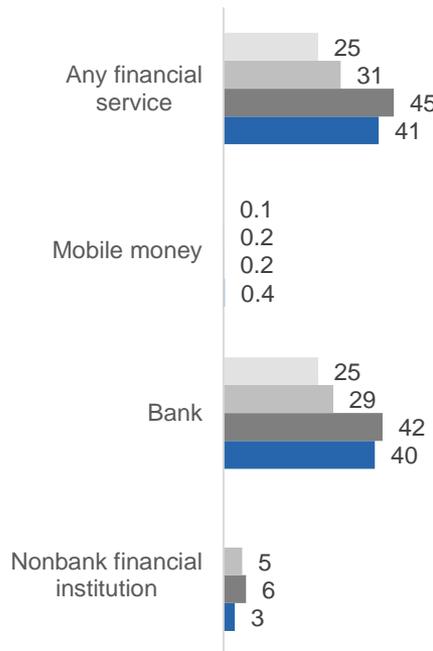
Source: InterMedia India FII Tracker surveys Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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The proportion of active account holders dropped by 4 percentage points due to declines in the proportion of adults who are active bank account holders or active NBFIs account holders

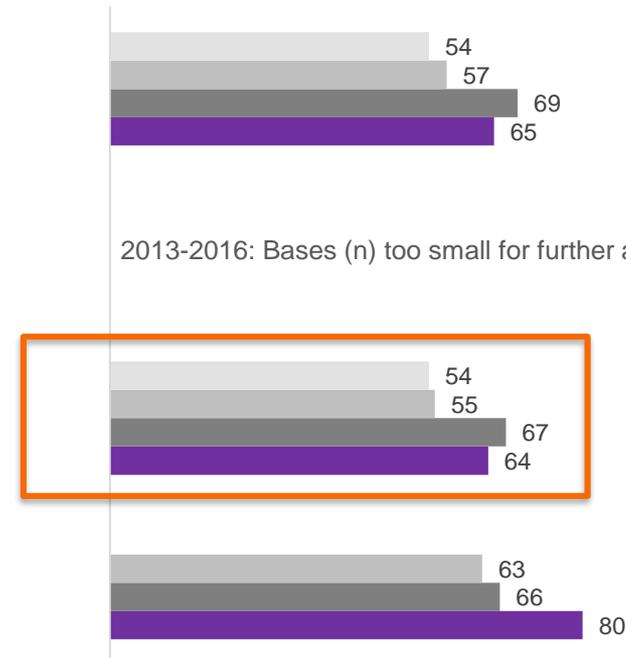
Active financial account holders

(Shown: Percentage of Indian adults)



Active financial account holders

(Shown: Percentage of registered users for each type of account, by year)



66 percent of account holders who opened their accounts through PMJDY are active users, compared to 64 percent of account holders who did not open their accounts through PMJDY.

2013 (N=45,024) 2014 (N=45,087) 2015 (N=45,036) 2016 (N=45,535)

Types of accounts are not mutually exclusive.

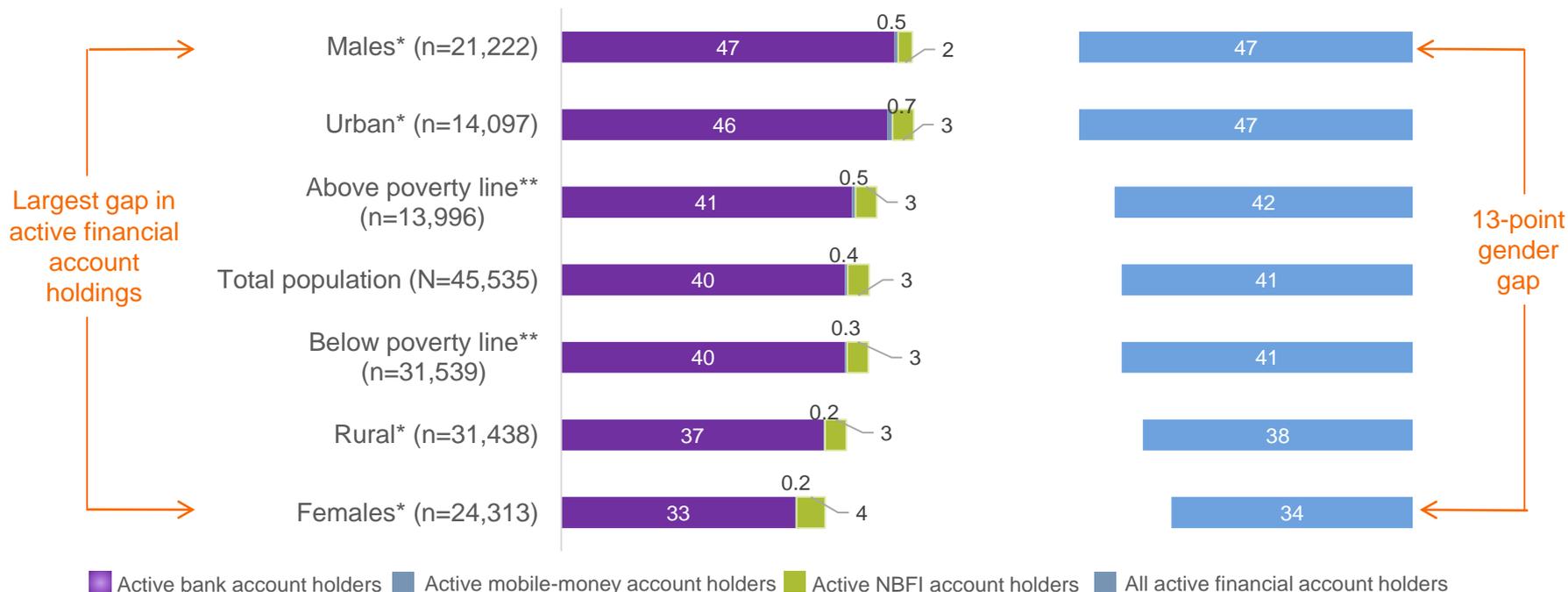
Source: InterMedia India FII Tracker surveys Wave 1 (n=45,024, 15+), October 2013-January 2014; Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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Active registered financial service use remains concentrated among male, urban and above poverty line populations; large divides persist across gender and geography

2016: Active account usage by demographic

(Shown: Percentage of each subgroup)

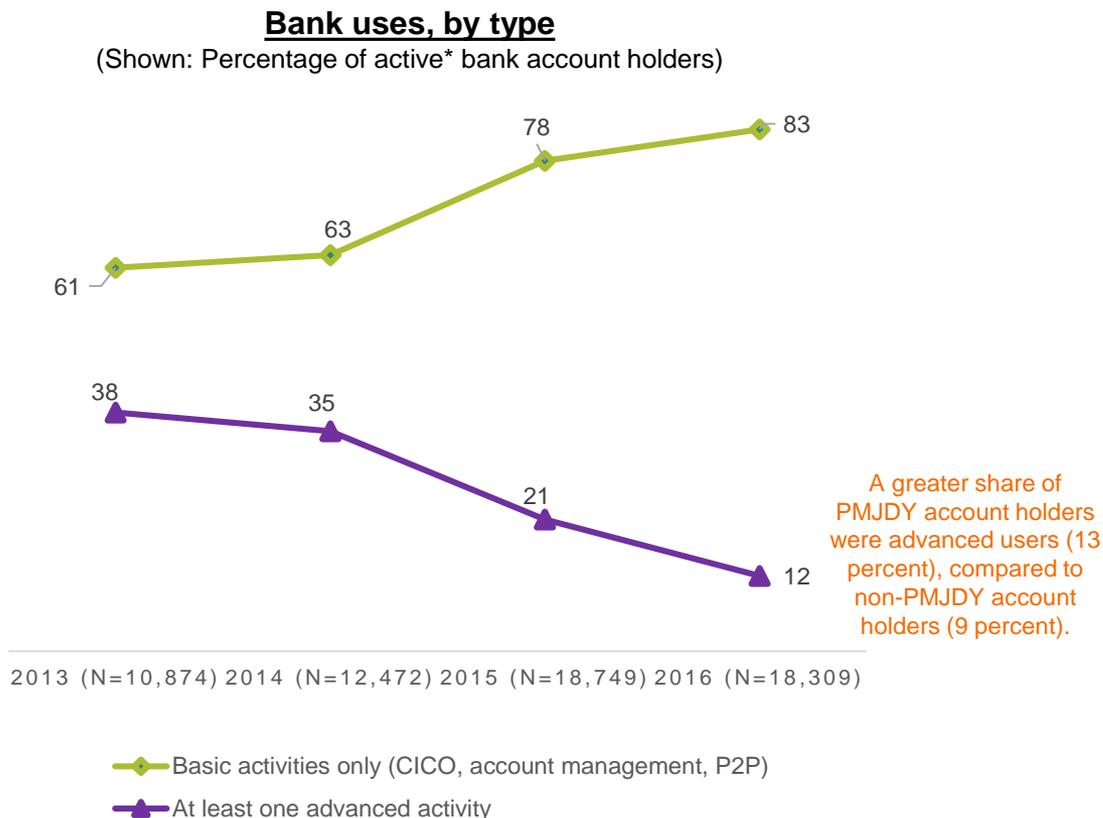


Categories are not mutually exclusive

*Pearson chi2 p<0.0001 ** Pearson chi2 p=.0232

Source: InterMedia India FII Tracker survey Wave 4 (N=45,535, 15+), September 2016-January 2017.

Active bank account holders increasingly utilize only basic account features; 12 percent of active bank account holders utilized an advanced feature in 2016



*Used the account in the last 90 days

Due to the changes in the questionnaire some data points may not be directly comparable across years.

Source: InterMedia India FII Tracker surveys Wave 1 (n=45,024, 15+), October 2013-January 2014; Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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Bill pay, buying airtime and saving/setting aside money are the advanced services used most frequently by active bank account holders; a decline in G2P payments partly drove the overall drop in advanced account usage

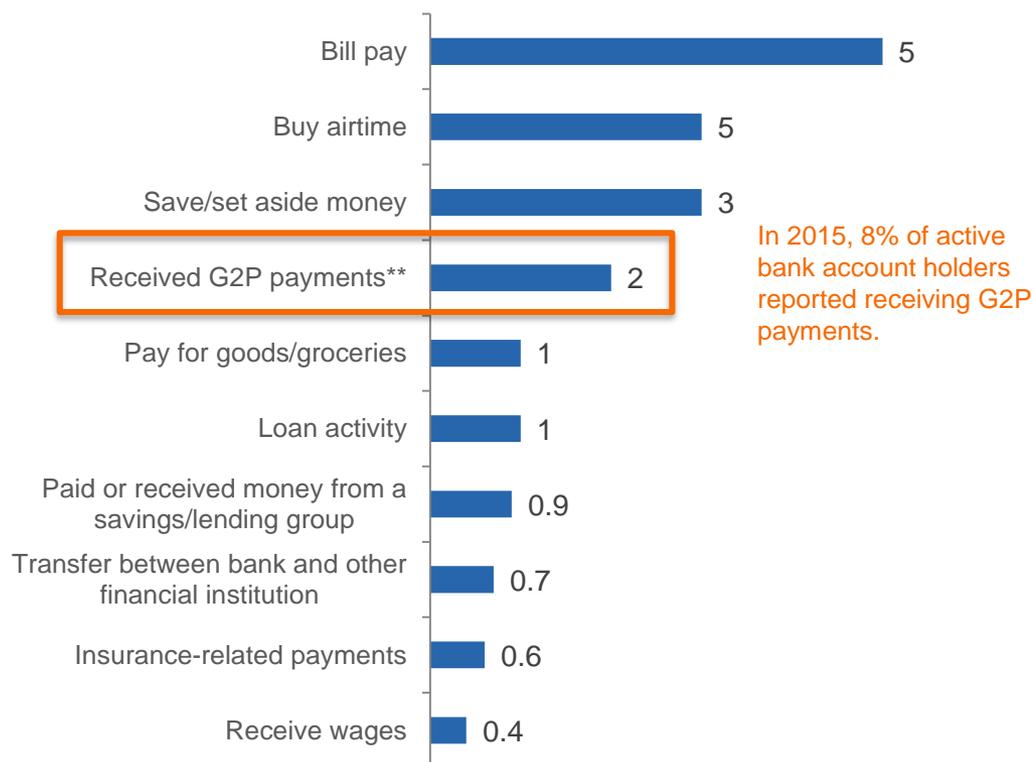
2016: Advanced bank account uses

(Shown: Percentage of active* bank account holders, n=18,309)

12%

of active registered users have used at least one advanced function through their account

(vs. 21% in 2015 and 35% in 2014)



Question allowed for multiple responses. *Active refers to account use within the 90 days preceding the survey. **Government-to-person payments

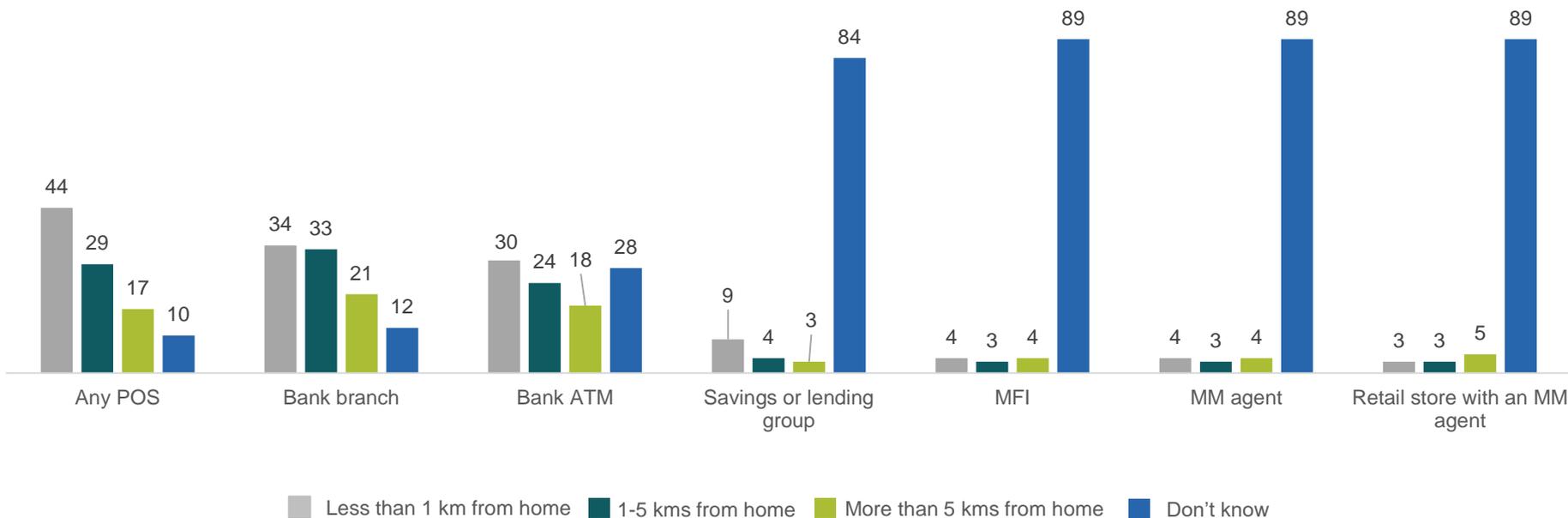
Source: InterMedia India FII Tracker survey Wave 4 (N=45,535, 15+), September 2016-January 2017.

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Less than half of Indian adults are aware of any nearby (<1km) point of service; banks and ATMs are the most well-known access points, while awareness of mobile money access points is minimal

2016: Proximity to points-of-service (POS) for financial institutions

(Shown: Percentage of Indian adults N=45,535)

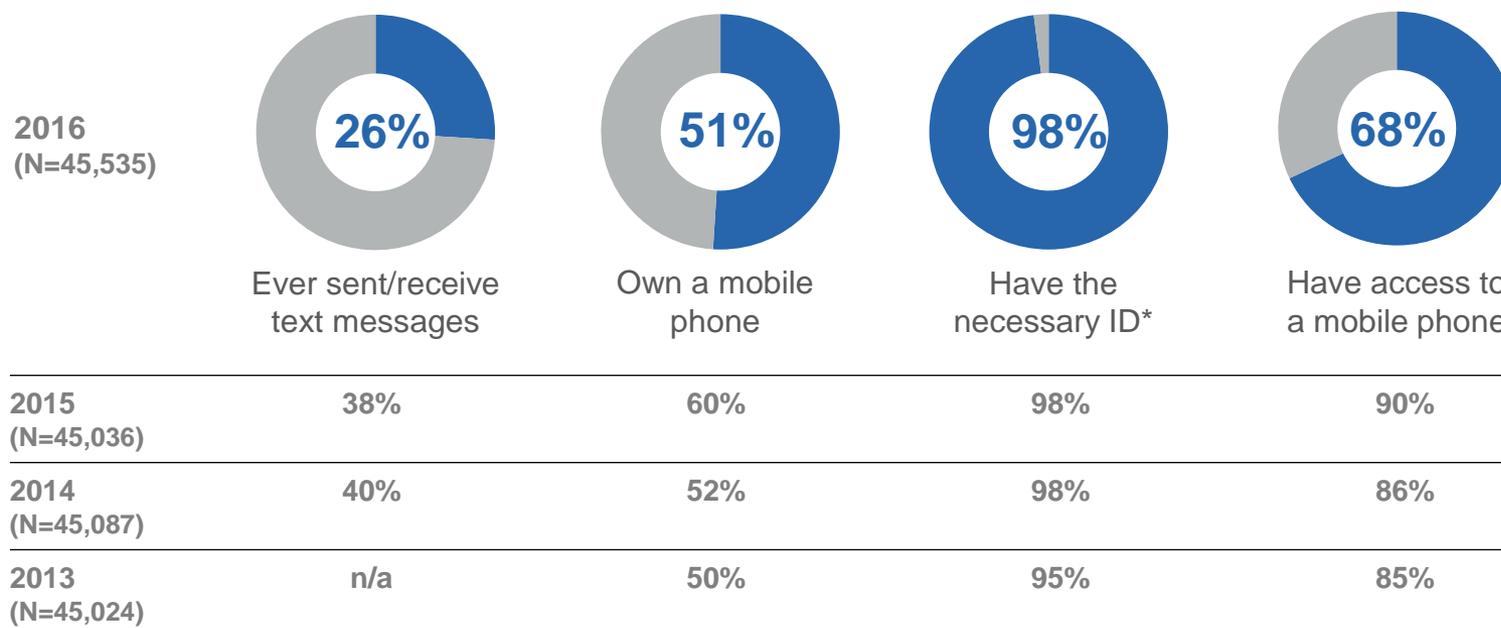


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Most Indian adults lack the core components of DFS readiness; specifically, SIM card ownership and SMS experience are lacking across the population

Key indicators for use of digital financial services

(Shown: Percentage of Indian adults, by year)

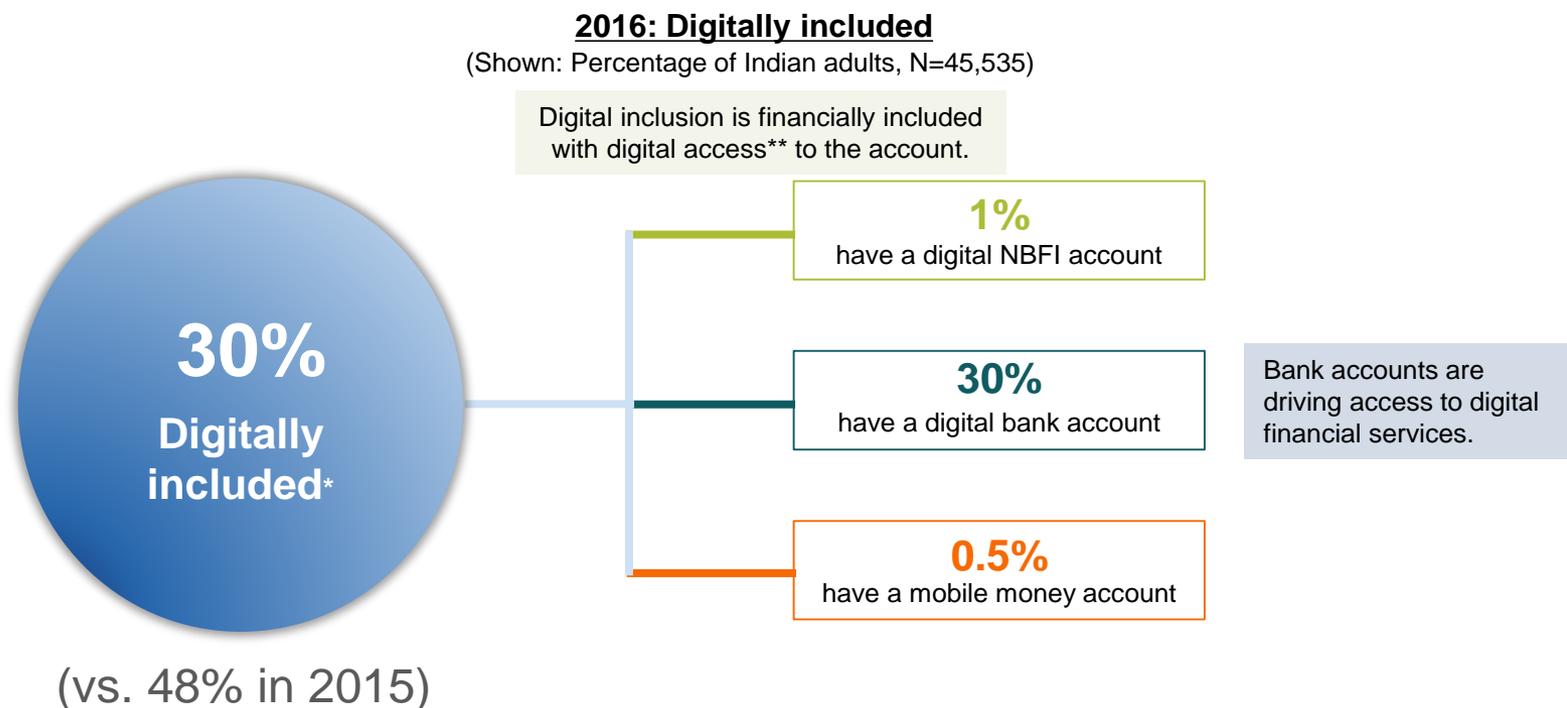


*Identification documents (ID) necessary for registering a mobile money or a bank account include one of the following: an Aadhaar card, PAN card, passport, voter's card, driver's license, employee ID, birth certificate, ration card or school ID.

Source: InterMedia India FII Tracker surveys Wave 1 (n=45,024, 15+), October 2013-January 2014; Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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Thirty percent of Indian adults report having the option to access their accounts digitally – a decline from 48 percent in 2015 – despite no apparent change in the types of available accounts



*Overlap representing those who have multiple kinds of financial accounts is not shown.

**Digital access to an account means that an individual can access their account via any number of electronic platforms, including debit and credit cards, electronic money transfers, or mobile phones.

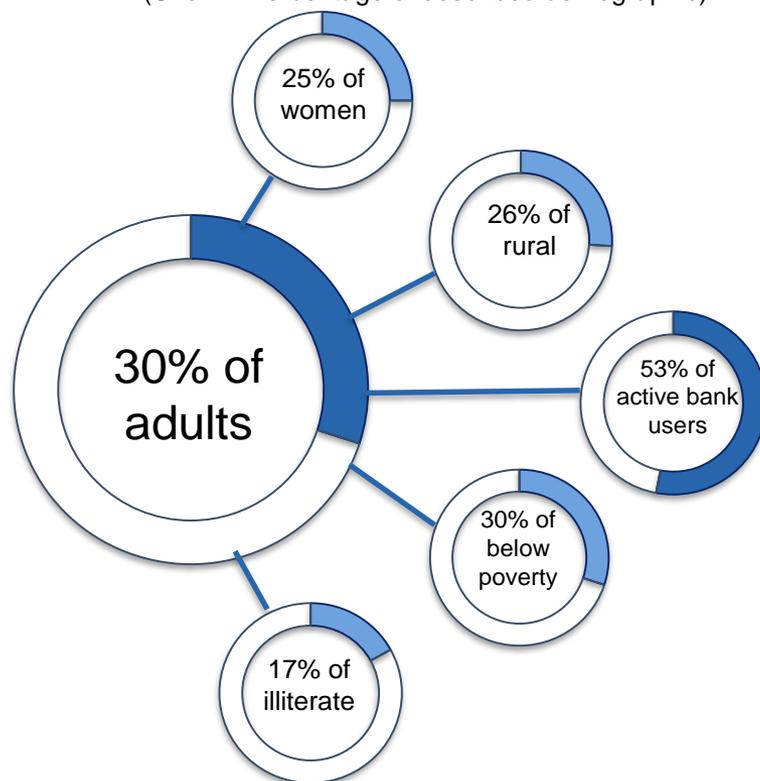
Source: InterMedia India FII Tracker survey Wave 4 (N=45,535, 15+), September 2016-January 2017.

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The majority of active bank account holders can access their accounts digitally; however, the overall access rate is depressed by a lack of awareness of available digital products

2016: Potential digital bank access by demographic

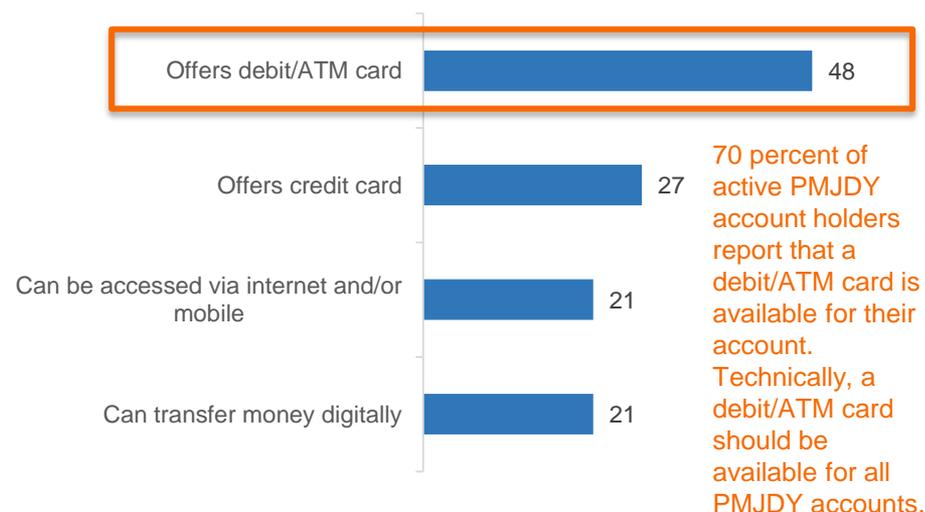
(Shown: Percentage of described demographic)



2016: Potential digital access among active bank account holders

holders

(Shown: Percentage of active bank account holders, n=18,309)



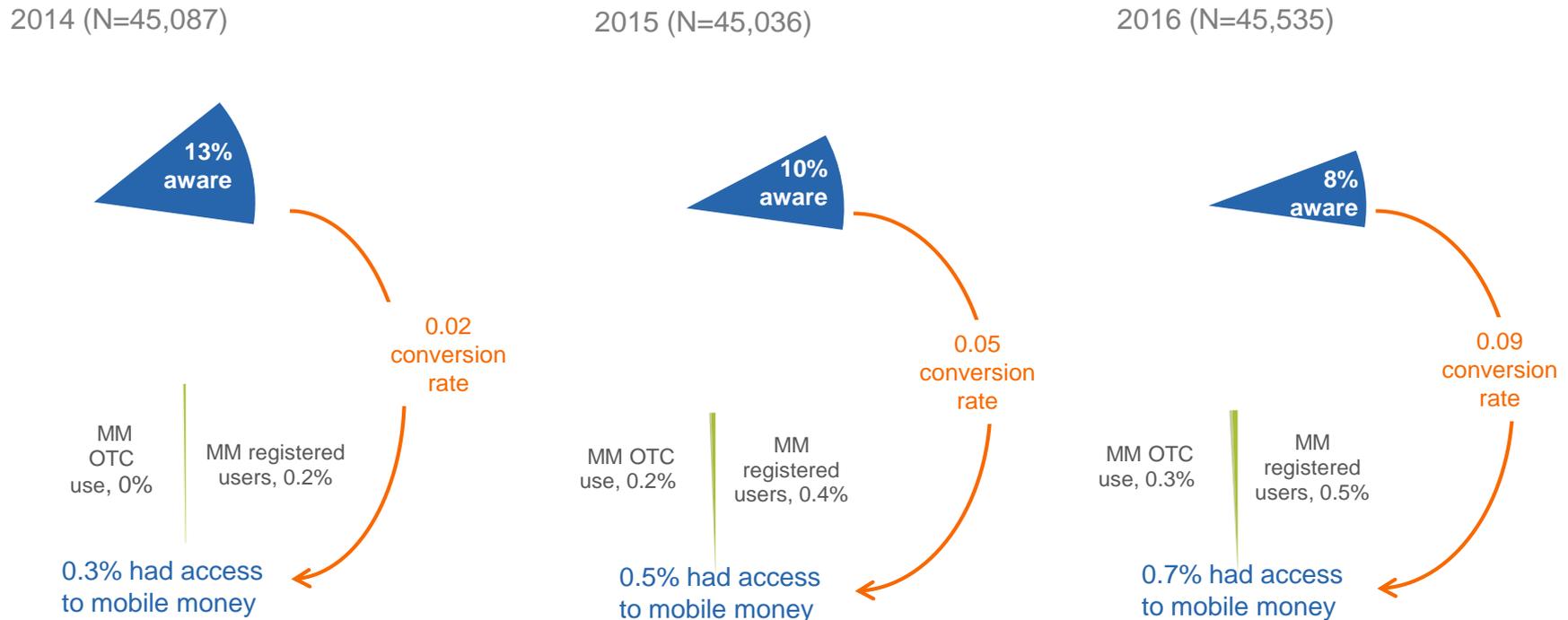
Digital bank accounts are those that offer at least one of the following options: debit/ATM or credit cards, internet or mobile access, or a digital money transfer capability.

Source: InterMedia India FII Tracker survey Wave 4 (N=45,535, 15+), September 2016-January 2017.

While mobile money awareness declined, a greater share of Indian adults were mobile money users compared to 2015

Conversion from awareness of mobile money providers* to mobile money use

(Shown: Percentage of Indian adults for each year)



*Awareness of at least one mobile money provider

Source: InterMedia India FII Tracker surveys Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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Bank account ownership fell by only 1 point, but active DSVAs account ownership fell to 22 percent, vs. 34 percent in 2015, suggesting that awareness of DSVAs-related products fell

Main FSP Indicator	2014	2015	2016	Base Definition
	%	%	%	
	Base n	Base n	Base n	
Adults (15+) who have active digital stored-value accounts	22%	34%	22%	All adults
	45,087	45,036	45,535	
Poor adults (15+) who have active digital stored-value accounts	17%	29%	21%	All poor
	35,511	35,421	31,539	
Poor women (15+) who have active digital stored-value accounts	12%	24%	16%	All poor women
	20,691	20,949	16,994	
Rural women (15+) who have active digital stored-value accounts	12%	23%	13%	All rural women
	17,759	18,027	16,812	
Adults (15+) who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	9%	8%	3%	All adults
	45,087	45,036	45,535	
Poor adults (15+) who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	7%	6%	3%	All poor
	35,511	35,421	31,539	
Poor women (15+) who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	5%	5%	2%	All poor women
	20,691	20,949	16,994	
Rural women (15+) who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	5%	5%	2%	All rural women
	17,759	18,027	16,812	

Digital stored-value accounts: accounts in which a monetary value is represented in a digital electronic format and can be retrieved/transferred by the account owner remotely. For this particular study, DSVAs include a bank account or NBFIs account with digital access (a card, online access or a mobile phone application) and a mobile money account.

Source: InterMedia India FII Tracker surveys Wave 2 (n=45,087, 15+), September-December 2014; Wave 3 (n=45,036, 15+), June-October 2015; Wave 4 (n=45,535), September 2016-January 2017.

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