A Study

On

An Exploratory Study on Financial Inclusion Performance Parameters of District Central Cooperative Banks

Submitted by

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Executive summary

1.1 The cooperative banks are at a juncture where there is a perceived state of confusion. This is because on one hand they need to deliver on financial inclusion mandates and on the other hand they need to address several related issues simultaneously to sustain in the banking business. In such a scenario, it's required that they carve out a proper business strategy to provide the financial services at the bottom of the pyramid in a viable manner. Financial inclusion is to be undertaken in a manner so that the delivery of financial services is financially feasible for the bank and useful for the clients.

At this juncture it is quite necessary to assess the performance of cooperative banks on various dimensions of financial inclusion. Since Financial Inclusion is a very broad concept, it may not be possible to do so without development of a proper yardstick which takes into account the various indicators of each dimension of Financial Inclusion. Merely banking the unbanked may not be synonymous to financial inclusion if it's not sustainable in the long run. So, it is equally important to understand whether the financial inclusion deliverables are met in a sustainable and responsible manner.

The present study aims to study the present status of DCCBs with regards to Financial Inclusion outcomes and identify the gaps in present as well as desired status to achieve full financial inclusion in a sustainable way. This will be done by developing a robust index which will adequately reflect the financial inclusion performance of the bank on all identified parameters.

1.2 Research Methodology

Research Design: The '*exploratory research design'* is used for this study, where the financial inclusion performance measurement parameter is identified. The identified parameters is used to develop a performance index which will capture the financial inclusion related activities of the bank. The yardstick, so developed is validated and tested through a pilot project to gauge the performance of select DCCBs. The study is conducted in two phases. In the first phase performance parameters is identified and indicators is used to develop the index. In the second phase, the index so developed is tested through a pilot study to validate the results.

I. Phase 1

An exhaustive list of parameters and indicators of financial inclusion on access and usage dimension is identified by reviewing the relevant literature. Focus group discussion and in-depth interviews is conducted to further seek opinion on identified parameters and prepare a final list of items for the study. Each parameter / indicator is accorded a relevancy weight age by eliciting rating response from experts in the Financial Inclusion domain

II. Phase 2

The instrument so developed is tested and validated through a primary survey of select DCCBs. This will ensure that internal inconsistencies are eliminated and the parameters truly reflect the financial inclusion efforts of the bank along with sustainability of operations**.**

Dimensions of the Study

Five main dimensions have been identified for the study which is accessibility, product availability, financial literacy, technology adoption and inclusivity. All the four dimensions essentially capture the essence of Financial Inclusion. Detailed indicators/items/parameters were developed under each of these dimensions. Each dimension was scored in a manner so that the scores individually reflect performance on each dimension and collectively reflect the overall financial inclusion performance of the bank.

Scale development

The items of the scale used to measure the perception of the respondents were developed based upon the literature review and extensive discussion with subject matter experts in the area of banking and finance, especially in the credit and lending space and the author's own knowledge and experience. The criterion given by Edwards (1957) was used to construct the items to develop standardized instrument based on Likert (1932) scaling technique. Thus, initially a draft of 35 statements was prepared, and the same were subject to item analysis by eliciting response from eight subject matter experts.

1.3 Findings

I. Product Availability

As seen, 60% of the domain experts place a high level of importance to the "Product Availability" dimension. The cooperative banks can provide the customers with ways to grow and protect their incomes, smooth their consumption/investment patterns and enhance their saving capacity through the provision of adequate financial products. This promotes financial stability, fosters the financial sector, and spurs economic growth by mobilizing savings and supporting investment. A total of 6 indicators namely, "Availability of Zero Balance and No Frills Account", "Agricultural Credit", "Agricultural Allied Credit", "Non Farm Credit", "Kisan Credit Card" and "Product Availability with PACS" are important for "Product Availability" dimension of financial inclusion.

II. Technology Adoption

55% of the domain experts place a high level of importance to the "**Technology Adoption**" dimension. The initiatives of cooperative banks need to be technology driven so as to make the financial services deliverable in a cost effective manner, tailor made by the customers to best suit their requirements. The available technology is a necessity nowadays in cooperative banks, many small cooperative banks from rural regions have less technical expertise. To make society technologically efficient, the technology solution needs to be a cost effective centralized solution with extensive parameterization to support the local usage and custom; be easy to use by grassroots level staff, having an online help facility as well as being available.

The experts placed a high demand for CBS technology which enables the bank to extend high end services such as RTGS, ATM, CTS clearing from any Bank branch. In addition to this the provision of RTGS / NEFT, providing SMS Alert and existence of IT team / Department in the Bank are important from the point of view of "Technology adoption" dimension.

III. Financial literacy

In financial inclusion, financial literacy is important for the financial stability. Providing the financial market/services that people demand, financial literacy stimulates the customers, making people aware of what they can demand. 45% of the domain experts place a high level of importance to the “Financial Literacy” dimension. “Conduct of Financial Literacy and Awareness Camps, Drives, programmes”, “Customer education for digital transaction by demonstration through Mobile Van”, “Community Based Financial Education Initiatives”, “Awareness on PMJDY benefits” and “Financial Literacy for Employees” are important parameters to be covered in financial literacy dimension, according to the 50% of domain experts. The customer’s issues in financial inclusion include knowledge of financial products and services, credit absorption capacity, etc. The cooperative bank issues cover financial markets, network of banks and other financial institutions, appropriate design of products and services, etc.

IV.Accessibility

According to the domain experts, 56% places a high level of importance to the “Accessibility” dimension. 3 indicators that is “Availability of rural Bank Branches”, “BC (Business Correspondent) with PoS” and “Bank sakhi/ Bank Mitra with PoS” are important from the point of view of “Accessibility” dimension.

The business correspondent strategy will help cooperative banks to promote delivery of banking products at the doorstep of the customers. Furthermore, there is increased evidence that integrating accessibility in the design of products and services from the start results in cost savings and more streamlined and efficient processes that enhance customer experience.

V.Inclusivity

45% of the domain experts place a high level of importance to the “Inclusivity” dimension. To uplift the social and economic status, inclusivity plays a crucial role, inclusivity helps to provide assistance to rural poor and agriculture growth. Inclusivity that also helps women for their empowerment, it bridges the social differences created by society. 4 indicators that is “Lending to Women Micro entrepreneurs”, “Special Deposit Schemes for women” “Special Credit Schemes for women” and “Simplification of Documentation” are important from the point of view of “Inclusivity” dimension.

1.4 Suggestions

In order to improve the demand side aspects of financial inclusion, policy as well as technology should target critical areas like process optimization, tackling implementation issues, simpler delivery models, building financial capabilities and more need based and fine-tuned products and services. The study intends to make the following suggestions based on the findings.

1. DCCBs need to use technology significantly in order to enhance their delivery models and product portfolios.

2. They also need to develop a full range of products and align their lending not just on collateral but also venture into cash based lending.

3. At policy level, credit counseling centers should be made mandatory either by reviving existing scheme or by rolling out new policy programme. This should be integrated into the mainstream working of the credit department of banks. More impetus and incentives should be given for on lending activities and small ticket loans.

4. One of the most important objectives of PMJDY was direct benefit transfer. However, prior to this and even after this scheme, several accounts are used for transfer of benefits. The problem of multiplicity of bank accounts has also been highlighted in this study. Therefore, convergence of other government schemes with PMJDY should be initiated in a systematic manner.

5. Community education, peer to peer learning and creating change agents at grassroot level can bring about positive change in the financial attitude of people and spread financial awareness simultaneously.

6. Going forward the scheme should be linked with some livelihood intervention programmes. Since income of poor and rural population is mostly uncertain and seasonal, some other income generating schemes should be converged with PMJDY. This ensures that the account remains relevant for a beneficiary.

7. Since urban accounts under the scheme were also opened by banks to fulfill targets, it is

8. Well performing cooperative banks, should be rewarded or incentivized for taking up financial inclusion interventions in their geographical jurisdictions. Good practices should be documented and publicized heavily through change agents and civil society organizations.

9. C-KYC and e – KYC guidelines are followed by all the banks as per RBI norms. Still there is a perceived challenge in terms of producing documents repeatedly to the banks. Such issues should be taken up very seriously by internal departments as it adversely effects customer convenience and hampers the prospects of future uptake of services.

10. The CSR activities of banks, financial institutions and financial service providers should be directed towards building financial capability interventions. Training and education of bank officials, school teachers, civil society organizations, cluster level federations, gram panchayat members etc should be a part of such initiatives.

11. There is a need to develop new approaches towards financial education for different types of financial decision making. This ranges from everyday money management decisions to long term financial planning to sustainable livelihoods. A good example could be 'Just in Time' education.

12. Traditional methods of imparting literacy can be replaced with innovative approaches driven by cutting edge technologies. In India, more than 50percent of the unbanked adults have a

mobile phone. India is entering a Fintech Revolution where technological innovations can play a major role in achieving financial inclusion in rural areas

13. Innovative approaches of credit counselling for especially vulnerable sections of the society like small and marginal farmers are need of the hour because many farmers are still in the clutches of money lenders and other informal sources for their financial needs.

14. To escape the poverty trap, it is not only the availability of credit but also the ability to use it is important. This comes when a person is made more capable of generating income through a self-sustaining livelihood activity. This should be envisaged in the existing initiatives of financial literacy e.g, there should be more emphasis on livelihood generation in the financial literacy programmes.

15. Financial services and products are composed of remittances, savings, credit, pensions, investments, insurance etc. Demand, usage and knowledge differ across categories. Thus, capability approach will enable us to understand what solutions will work in what areas.

16. The National Strategy on Financial Education of 2012 needs to be appropriately reconstituted by incorporating tailor made education for different types of target groups.

17. India is in the process of designing a Financial Inclusion Strategy. At this juncture, it shall be meaningful if financial capability aspects like levels of literacy, technology adoption, peer to peer learning, usage of credit etc. are considered and given due importance to address demand side issues.