Profile of Survey Respondents

Survey conducted between May to November 2016 of 24,966 individuals across rural Uttar Pradesh and Delhi / NCR.

- 58% of the adult rural sample and 67% of the adult urban sample had bank accounts.
- Over a third had not operated their accounts in last three months and a fifth in the last six months.

Factors Influencing the Need and Preference for Banking

Access (CEILING): Greater the distance to the branch, the likelihood of an account having zero balance was nearly 80%.
- 28% likelihood of an account sliding into low-usage the farther an individual was located from the bank branch.

Competency: Competence to bank influences the preference of households towards formal banking because it allows households to get comfortable with the process of banking itself and thereby choose a product which best meet its immediate requirements.
- If a household is able to select an optimal kind of product, its likelihood of staying engaged with formal banking would improve.

Household economics (FLOOR): A household’s occupation profile explained the ability of households to choose a product aligned to their economic need.
- Low-income household’s preference for banking, was influenced by factors such as prioritising liquidity over depositing savings in a bank account.
- Individuals self-employed in agriculture were three times as likely to opt for current and regular savings account (by 46%) and were 82% more likely to opt for a current account over a recurring deposit account as the former makes it easier to manage liquidity.
- Off-farm casual labour group showed a lower preference for PMJDY account and regular
savings. Greater the off-farm activity at a village level, greater was the preference to favour institutions such as Grameen Banks and co-operative societies over keeping money at home.

- Workers employed under MGNREGA were 75% more likely to opt for a PMJDY account and having used such an account to receive payments, the same workers were 39% more likely to opt for a savings account.
- Further, greater the scale of MGNREGA activity in a village, the preference for formal banking institutions (including Grameen Banks) increased by 32%.

The nature of occupation of an individual forms the floor of their preference to bank while access acts as a ceiling. In between these two actions, there is enough room to build competencies. The key, however, is to design engagement models within the context of the current reality of the economics of low income households, factoring in the nuances around gender and rural-urban differences.

- Improving competencies using financial literacy and lowering the access ceiling are natural areas of strength for any digitally enabled financial inclusion intervention.
- For lowering the access ceiling, it is important to look at digital platforms as enablers.

**Financial Literacy:** Lack of literacy especially in villages, dominates the inability of households to fully extract benefits of formal banking.

- A third of women in rural areas and a fifth in urban areas were illiterate with another 27% (rural or urban) having a primary education or less.
- Our survey found out that improved financial literacy did not necessarily result in improved frequency of banking transactions with the relationship being statistically weak.

**Lack of Trust:** Lower income households are at a higher risk to any negative fall-out from breach of information because they are often not aware of the risk of issues such as identity theft, misuse of personal information.

- There is an issue of trust as low-income households are wary of lack of physical contact when it comes to digital transactions.

**DFS as a catalyst**

- The catalytic potential of Digital Financial Services (DFS) emerges from the fact that once DFS reaches a critical mass of users who can latch on to it, it can provide scale.
- Innovations in DFS around financial capability is an important way to innovate engagement models, considering the immediate access/uptake that DFS provides.
- DFS solutions need to target women as digital gatekeepers, since women showed a definite greater propensity to bank and use the phone as a medium to engage.
- Supply-side innovation in engagement models through DFS would work best when executed at the margin through building the right partnerships with relevant stakeholders.

**Role of women in propelling digital financial inclusion**

- 48% of women exhibited a preference for depositing money in formal banks and 72% in rural banking institutions, compared to men who preferred to keep it at home.
- Women who had their phone linked to bank accounts were very proactive in seeking updates on bank account.
- On average, 44% of men in rural areas and 60% in urban areas mentioned seeking updates beyond usual banking transactions such as withdrawals and deposits, the figures were 57% and 66% respectively for women.
**Recommendation and Conclusion**

**Balancing convenience, cost, privacy and security in DFS solutions:** Crafting solutions that balance convenience against safeguarding informational privacy, security and costs lies at the heart of using DFS to achieve the synergistic effects of the Jan Dhan, Aadhar and Mobile (JAM) trinity.

**Targeting the Right DFS Gatekeepers:** It is important to find the right gatekeeper (those with mobile phones) in households to ensure transition from merely uptake to adoption.

**Investing in Capacity Building Measures:** It is critical to invest in capacity-building measures like providing exposure and training to clients in using digital channels for bank accounts and improving the skill and understanding of the use of mobile phones is important to ease clients into using DFS.

**Partnering the Right Stakeholders for DFS Adoption:** Adoption and expansion of DFS by various kinds of banks, MFIs and financial institutions would require identifying and partnering with the right stakeholders in the enlarging digital financial services ecosystem.

**Expanding the Product Portfolio of Financial Services by Banks:** Current usage of bank accounts is largely transactional and for bank accounts to become the medium for financial
inclusion, it will need to become the singular point of access for different financial products.

**Innovation through DFS:** Leveraging banking innovations through DFS is far more prudent to build upon existing relationships, organisational structures, physical systems of operations and customer practices of traditional models.

**DFS Incentives:** Finally, make incentives work harder. It is important to nudge people to see broader benefits of using digitally-enabled tools to get more value out of their bank accounts.