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From Social Banking to Financial Inclusion

Understanding the Potential for Financial Services Innovation in India

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Abstract

When it comes to savings for the poor and financial inclusion efforts, India is a dynamic market ripe for innovation and experimentation. Its extensive web of financial service providers as well as the incidence of large-scale exclusion are contradictory features that also make it a market worth examining.

Though the Government of India has taken the unprecedented step of mandating that public and private banks serve unbanked and under-banked households, access and quality of financial services remain major challenges. India is home to the largest number of unbanked people in the world, and where access exists, it does with varying degrees of quality.

In order to mobilize actual savings activity, infrastructure and quality financial services need to co-exist. At this intersection, both the Government of India and financial institutions will need to collaboratively engage and experiment to push the frontiers of savings innovation. This may involve more systematically leveraging electronic banking channels, in particular mobile banking, as well as relevant government initiatives like government-to-person payments and the biometric authentication program.

According to financial institutions interviewed in this study, the next step for India's financial sector will need to be a refocusing on short-term sustainability and eventually long-term profitability in banking the poor. Not only does India present fertile ground for experimentation, scalability, and innovation, but it is also a financial landscape with examples of progress and failure that hold valuable lessons for cross-country learning.

This study provides a detailed picture of the current savings opportunities available to India's unbanked and underbanked households, as well as an examination of innovative efforts underway that are targeting low-income populations. Through both primary and secondary data collection and informant interviews, this study highlights the strategies, features, regulations, and technologies behind these innovations.

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Introduction

India's massive and highly complex financial landscape is being shaped by a variety of different financial institutions and government regulations. Savings mobilization is at the forefront of the country's financial inclusion efforts, and the Indian government has launched an unprecedented plan to provide all unbanked and under-banked households access to banking primarily through the No Frills Account (NFA). Policymakers have also worked to harness the potential of electronic and mobile banking as a way to extend branchless banking services to all unbanked households. To date, almost 100 million NFAs have been opened across India.

Despite these important steps, access to financial services remains a major challenge. According to the Ministry of Finance, large sections of India's poor remain shut out of the formal banking system.[1] In a recent presentation, the Deputy Governor of the Reserve Bank of India, demonstrated that close to half of Indians remain without bank accounts, and the country is home to the largest number of unbanked households in the world, 145 million. Where access does exist, a wide range of products with varying degrees of quality are proliferating across India to meet emerging demands.

The incidence of these two seemingly contradictory features of India's savings landscape—the extensive web of financial service providers as well as the incidence of large-scale exclusion—have made India a dynamic and important financial market worth examining. Not only does India present fertile ground for experimentation, scalability, and innovation, but also a financial landscape with concrete examples of progress and failure that carry valuable lessons for cross-country learning.

This study provides a detailed picture of the current savings opportunities available to India's unbanked and under-banked households, as well as an examination of innovative efforts underway that are targeting low-income populations. Through both primary and secondary research, this study highlights the strategies, features, regulations, and technologies behind these innovations. In order to provide a multi-dimensional analysis, we draw heavily from both supply-side data, including 29 informant interviews and 37 mystery-shopping exercises conducted with 48 financial institutions, and demand-side information, including previous reports, studies, and research.

This report continues as follows: first, we provide a glimpse of the savings habits and demands of low-income households; the second section examines the regulatory efforts shaping financial access, including the spread of No Frills Accounts, the development of the Business Correspondent model and the use of biometric identification; third, we provide an overview of the financial service providers in India and their products' features, including pricing and technology. In order to provide concrete examples of specific institutions developing innovative or promising products, we integrate case studies throughout.

Research Objectives

The objectives of the study are the following:

1) To understand the savings landscape in India in the context of the diversity of financial institutions serving the poor.

2) To identify innovative products and delivery channels and understand what features make a product accessible and attractive to low-income households.

3) To draw lessons from the financial inclusion campaign of the Reserve Bank of India (RBI) and the Indian government and the impact that this has had on access to savings.

Key Terms

Business Correspondents (BCs): BCs are networks that manage or operate agents who engage in certain financial activities on behalf of a bank including small transfers, collection of deposits, and opening of accounts. BCs are seen as key players in government mandates to expand financial services to rural and small towns where no brick and mortar bank branches exist.

No Frills Accounts (NFAs): NFAs are basic savings accounts that are geared towards low-income populations often to meet government mandates. These accounts are considered accessible to the poor and have a low or zero minimum opening balance, few opening requirements, minimum charges, and a maximum balance of INR 50,000 (USD 1,000).

Financial Inclusion: The Reserve Bank of India has made financial inclusion the cornerstone of its agenda. It aims to increase access to financial services to unbanked and low-income households, particularly through the expansion of Business Correspondents and No Frills Accounts.

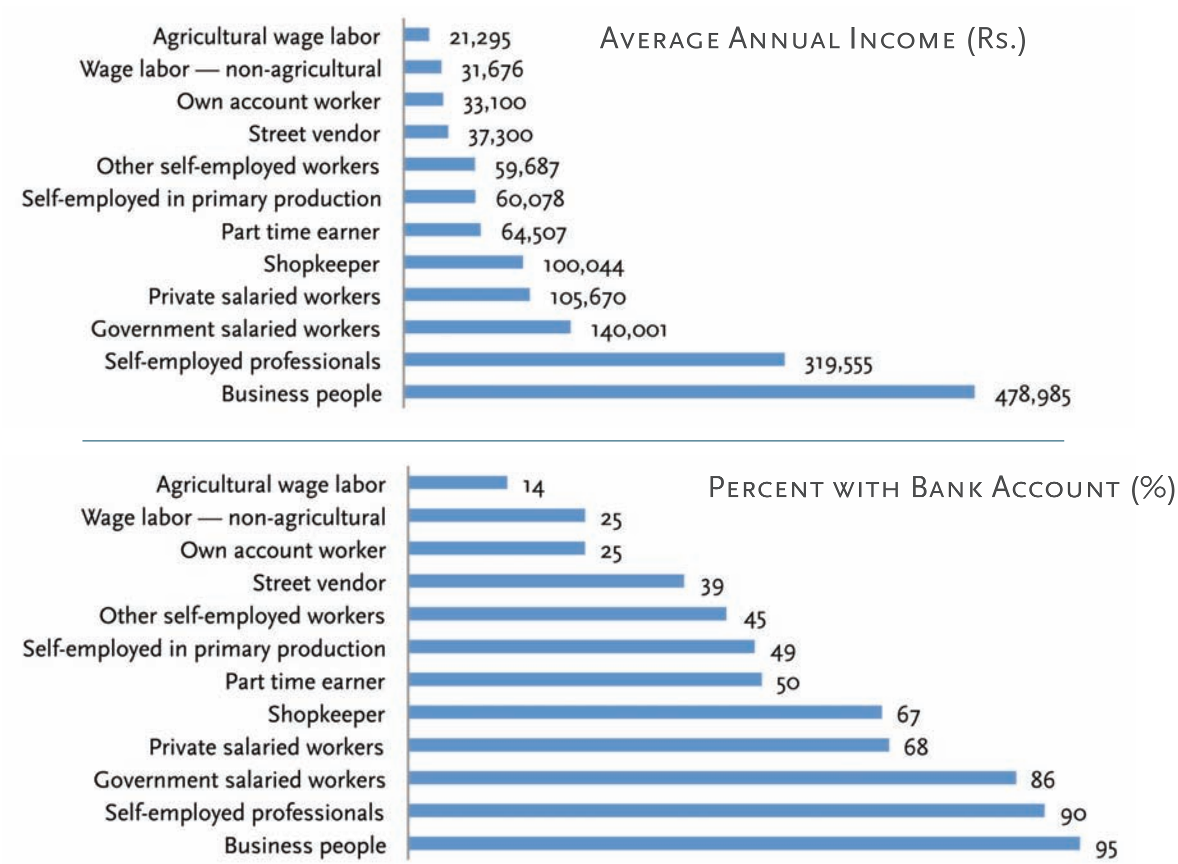
Although the majority of low-income Indians do save, they often do so informally and have numerous perceptions relating to formal institutions that present challenges for bridging this gap to established financial services. There is a clear need to take a closer look at the current usage, demand for, and perceptions of savings across these clients in India. This section examines how savings fits into India's financial landscape and offers demand-side insights to better understand the opportunities and challenges to mobilizing savings across the country.

Do Indian Households Actually Save?

The percentage of Indians living under USD 1.25 (PPP) a day decreased from 60 percent of the total population in 1981 to 42 percent in 2005. But the number of people living under the USD 1.25 a day poverty line has actually increased, from 421 million in 1981 to 456 million in 2005. In 2011, the country's banking system reportedly excluded close to 145 million households, and only 55 percent of Indians had a deposit account.[2] Despite this low rate of official savings, 81 percent of Indian households do save, according to a 2007 survey by the National Council for Advanced Economic Research. Over half the respondents of the sample captured below save in a planned manner, and two-thirds do so at a monthly frequency.

In India, access to financial services correlates very closely to income. A survey from 2006–2007 by Invest Indian Market Solutions shows that banks are able to cover almost

Figure 1: Average Annual Income vs. Bank Account Access[4]



all groups with an annual income above INR 200,000 (USD 4,000), but that number drops significantly as average annual income decreases.[3] At the low-income end, only 14 percent of agricultural wage laborers save with a bank compared to 95 percent of business people, at the higher-income end (Figure 1).

In addition to income, several factors influence a low-income household's use of banks and preference for informal services:

- **Time Spent to Conduct Bank Transactions**: In a survey of Commercial Banks' No Frills Accounts usage, nearly 40 percent of account holders indicated that the time spent conducting banking transactions represented a challenge for them. A majority of these respondents reported spending more than 60 minutes at the bank counter to conduct a single transaction, leading to a loss in wages.[5]

- **High Costs of Travelling to Banks**: In the same survey, 37 percent of respondents indicated that they spend more than INR 30 (USD 0.60) to travel to the bank. Many respondents stated that they also incur unintended expenses when they travel to banks, which adds to the overall cost.[6]

- **Cultural and Psychological Barriers**: Low-income households believe that it is primarily rich households that save in bank accounts, whereas poor households are seen to be more likely to save informally at home or in livestock.[7] Bank accounts are seen as being meant for larger amounts and the institutions themselves are seen as serving more educated clients, since transacting involves reading and filling out official forms.[8]

- **High Minimum Deposits**: Banks typically require high minimum balances to open accounts, which low-income households are unable to provide.

- **Lack of Proper Documentation**: Poor households rarely have proof of identity, address, or employment. This problem is more acute for women and migrant workers.

What Kinds of Savings Products Do Indians Want?

Research has revealed that low-income households look for the following savings products attributes:

- **Liquidity**: Since low-income households are vulnerable to economic and health shocks, they need access to funds during emergencies. There have been reports that low-income households withdraw their fixed deposits prior to the specified maturity date in order to meet emergency needs. Such circumstances make products which lack liquidity less attractive.

- **Acceptance of Small Savings**: Low-income households need to save in a place where small deposits are acceptable. Many bank accounts require high minimum balances which present a significant barrier to entry. Similarly, low-income households perceive banks as catering to those willing to save higher amounts.

- **Safety**: Low-income households care about the security of their savings and have stressed the importance of trust in decisions about building relationships with financial institutions. While certain banks, government-sponsored insurance schemes, and post offices have a high level of trust because they carry an official stamp of approval, trust can also be earned simply through experience and time.

• **Return on Savings**: Low-income households also care about returns on their money. Many households pick informal over formal savings avenues, such as saving in livestock or lending out money to friends and neighbors because these practices are seen as offering higher rates of return.

Bringing low-income populations in India into the formal financial sector will require multi-faceted financial products. Their needs might seem relatively simple—safety, liquidity, and proximity—but dealing with a large number of unbanked and under-banked customers in a local context means prioritizing certain features and long-term approaches and finding a way to build upon government efforts and mandates. These mandates are outlined in the following section.

From Social Banking to Financial Inclusion

Social banking, or development banking, is predicated on the belief that access to finance, and thus to the banking sector, is critical for low-income households to achieve better employment opportunities and lift themselves out of poverty. In terms of products, social banking policy, until recently, tended to concentrate primarily on improving access to credit for low-income households. Now policies are increasingly looking to savings and financial inclusion.[9]

As demand-side studies[10] began to show that low-income households require not just credit but also access to a range of services, including insurance, savings, and remittances, the Indian government moved towards a formal policy of financial inclusion. While the goals of both social banking and financial inclusion are similar, there is one important difference. Financial inclusion aims to provide low-income households access to a full suite of financial services (not just credit).

The financial inclusion mandate rests on two broad initiatives: the opening of basic bank accounts for all unbanked households, and the promotion of agent-based banking, known as the business correspondent (BC) model. In order to extend banking access, the government mandate required banks to both offer No Frill Accounts and establish bank branches in all villages with over 2,000 citizens. These two initiatives have had profound and opposing effects on innovation in the field of financial services for

Table 1: Timeline of Important Events in India's Quest for Financial Inclusion

1935	Reserve Bank of India (RBI) established
1947	Independence
1955	Imperial Bank nationalized and renamed the State Bank of India
1969	All banks with deposits of at least INR 500 million nationalized
1980	All banks with deposits of at least INR 2 billion nationalized
1974	Priority Sector requirements established: public banks to lend 1/3 of funds to small- scale industry (SSI) and agriculture
1977	1:4 rule established: any bank wishing to open a branch in an already banked location (such as a town) must open four branches in unbanked locations
1979	Priority Sector requirements established for private banks
1980	Modification of Priority Sector Rules: 40% of funds to go to SSI and agriculture
1992	Liberalization of financial sector; 1:4 rule repealed
2005	Promotion of No Frills Account: basic zero-minimum balance savings account
2005	Mahatma Ghandi National Rural Employment Guarantee Act enacted
2006	Promotion of the Business Correspondent (BC) or electronic and mobile banking
2009	Establishment of the Unique Identification Authority of India
2010	Promotion of the Swabhimaan program to extend outreach to all villages with a population of 2,000 and above

the poor. Though NFAs were designed with low-income Indians in mind, the government mandate did not incentivize banks to market them to customers, resulting in high dormancy rates (see Case Study 1). At the same time, the existence of the NFA as an "account for the poor" stifles savings product innovation in that banks generally see little incentive to develop their own products with competitive features to attract low-income markets.

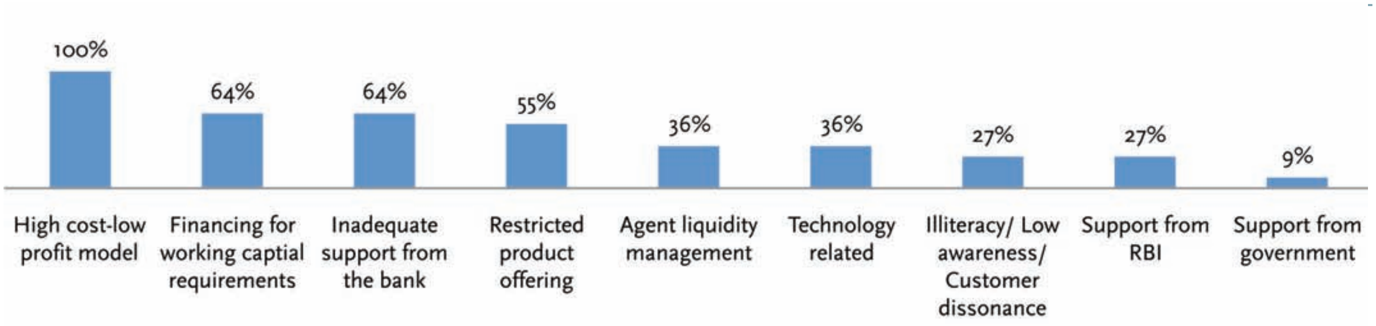
The second part of the financial inclusion mandate, however, has encouraged innovation in how banking services are delivered to the marginalized. In spite of the significant advances made in extending branches to underserved areas, it was not sustainable to locate physical bank branches in every Indian village. Because the government mandate did not provide funds or subsidies to banks for extending their presence into unbanked villages, financial institutions were compelled to find and experiment with new delivery methods. It was in this context that policymakers and banks sought to channel financial inclusion through the BC model and mobile banking.

No Frills Accounts and the Business Correspondent Model

In 2005, the Reserve Bank of India (RBI) compelled banks to offer a basic banking No Frills Account either with zero or very low minimum balance in order to attract low-income households.[11] These accounts have simplified opening requirements, which include providing a letter of introduction from an existing bank account holder who has been active for at least six months. NFAs are targeted towards low-income groups not only due to their simplified requirements but also because their total balance is capped at INR 50,000 or USD 1,000. If the account surpasses that threshold, it must be converted into a regular savings account and the account holder must submit documents to fulfill normal know your customer (KYC) opening requirements. When the drive to increase financial inclusion through NFAs was initiated, these accounts were opened in bank branches. With the development of new delivery channels, NFAs are now offered primarily through the agent-assisted electronic banking BC model.

In 2006, the RBI formally moved to promote financial inclusion by the use of business correspondents (BCs) in lieu of traditional bank branches.[12] These BCs can undertake the following activities: collection of small savings, disbursal of credit, sale of insurance, mutual funds, and pension products, and receipt and delivery of small value money transfers. At the outset, only non-profit institutions were allowed to engage in the BC business. Now most entities can become BCs with the exception of for-profit micro-

Figure 2: Issues and Constraints Limiting Business Correspondents[16]



Case Study 1: Why There is Dormancy in No Frills Accounts, and How to Change It[17, 18, 19, 20]

Here are the challenges of offering NFAs in India:

- NFAs require better marketing and targeting. Many customers do not understand how NFAs can be used as savings accounts. Some call it the "*pradhan's* account" (the account of the village headman), implying that it is meant only to receive government payments.
- For those with NFAs in banks, dealing with a bank entails its own travails. 37 percent of respondents spend over INR 30 to travel to the bank. Once they are at the bank, 71 percent report spending over 60 minutes filling output forms and standing in line in order to transact. Not surprisingly, 68 percent report loss in wages every time they go to a bank.
- Bankers say that customers are naturally slow to trust BC agents. Banking depends on trust and relationship building which takes time, and the BC channel is new.
- The stripped-down account does not fully match the diverse needs of unbanked households who want a full feature product that helps them manage their financial affairs. Customers complain that the account does not come with chequebooks, ATM cards, or passbooks.

Despite these challenges, there are opportunities to increase activity and indications that activity may pick up:

- When asked what the future of BC sustainability looks like, about 45 percent of the BCNMs surveyed believed the future was promising.
- Regional Rural Banks point out that although the BC business has not been profitable, banks have found it useful to have agents in the village because they help market other bank products. One RRB in Tamil Nadu found that the demand for loans and applications shot up after appointing a BC agent who helped clients better understand the product offerings.
- Other banks, such as Axis Bank, believe that offering multiple products through the BC channel is the way to make financial inclusion sustainable. Products that the bank specifically designed for low-income households include a fixed deposit with lower balances, recurring deposit accounts with small deposit requirements, NFAs with over-draft facilities, and group insurance for the urban poor.
- Remittance or money transfer products have proved extremely popular. Eko, an electronic-banking service provider and BCNM in India, showed a phenomenal increase in number of agents and volume of transactions since it began the service.
- Research suggests that low-income households are willing to pay for high-quality access to financial services. In a recent *MicroSave* study, 80 percent of respondents were willing to pay for BC services, with a transaction fee between 1 and 2 percent.

finance institutions and non-banking finance companies. The expansion of the BC network is a cornerstone of the government's financial inclusion agenda, which mandated that all banks, private and public, should ensure outreach to those villages in India with a population of 2,000 and above by March 2012.[13] This outreach was accomplished via BC, by locating physical branches in such villages, or through methods such as ATMs or mobile vans.[14]

As of March 2012, banks had covered 74,199 villages, or 99.7 percent of the target assigned to them. Two years earlier, banks had 21,475 branches in rural areas, but by March 2012, they provided banking services in rural areas through "138,502 outlets, comprising 24,085 rural branches, 111,948 BC outlets and 2,469 outlets through other modes" such as ATMs and mobile vans.[15] Thus far, a total of 99 million NFAs have been opened. With the financial inclusion mandate being fulfilled primarily by promulgating the BC model across India, the RBI recently issued a more ambitious statement urging banks to cover villages with populations below 2,000.

Despite an impressive number of account openings, the majority of these accounts are used simply to receive and withdraw government benefits such as Mahatma Ghandi National Rural Employment Guarantee Act payments, the largest G2P system in the world. Some studies estimate that up to 90 percent of these accounts are inactive or dormant. In informant interviews, it was reported that achieving the financial inclusion targets set by RBI is paramount for banks, both private and public; however, some banks refer to this as "the cost of doing business." Even those banks that do not have financial inclusion mandates, such as foreign banks, are slowly entering this space. Many suspect that such efforts are only an attempt to help their applications for additional bank branch licenses with the RBI.

There are a number of factors that impede the sustainability of the business correspondent network managers (BCNMs). A survey conducted by MicroSave showed that many BCNMs felt that they operate in a high-cost, low-profit environment and face several challenges (Figure 2). BCNMs have also reported that institutional and government support to establish their services and raise awareness around the BC concept has been limited. "Who owns the customer has become a major question," says one manager who was interviewed. BCNMs believe that since the bank accounts are held at the bank, banks should have a responsibility in formulating and implementing a marketing strategy. Banks, on the other hand, blame unenthusiastic BC agents for the high dormancy rates of NFAs.

Mobile Banking

In India, estimates show that around 200 million mobile phone users in India do not have a bank account.[21] The

Mobile Banking In India: Finding the Right Partnership between Banks and MNOs

Even though mobile banking is still in its early stages in India, with huge domestic remittance channels, ever-growing mobile networks, and increasing financial inclusion mandates, banks and MNOs are increasingly looking to partner with each other. Bank-led and MNO-led models each have specific advantages:

- The bank-led model can more easily integrate mobile channels with already offered financial services, including a combination of savings, credit, insurance, and/or remittances. Furthermore, in order to ensure consumer financial protections expand to mobile banking services, regulators often see clearer parallels with existing banking regulations.

- The MNO-led model usually leverages a more extensive distribution network, and in many countries, including India, mobile penetration is much higher than banking penetration. Although a model like M-PESA may have been meant for money transfers, there is increasing evidence that users do use M-PESA as a store for their money.[23]

RBI has stipulated that mobile banking services must be led by banks with interoperability among mobile network operators (MNOs).[22] A debate has been unfolding surrounding the effectiveness of this approach. Some have argued that these stipulations have undercut the success of India's mobile banking environment and weakened the value proposition for MNO engagement and experimentation. Others argue that it will ultimately lead to more substantial financial inclusion and that MNO-led initiatives, such as M-PESA in Kenya, despite gaining widespread usage, have been slow to or not deeply integrated with financial accounts.

Recently, a partnership model to mobile banking has taken off. Airtel mCommerce Services (subsidiary of Bharti Airtel, India's largest MNO) and Axis Bank (one of the largest private sector banks in India) announced a partnership in May 2012 to offer a mobile banking and payment service targeting India's unbanked. Axis Bank will offer No Frills Accounts to customers over Airtel's mobile network of over half a million outlets and recharge agents. Through this account, customers will be able to deposit, transfer, and withdraw money, and the corresponding BC model will also allow customers to conduct banking transactions through designated Airtel recharge outlets. The service is focused on serving domestic remittance channels and is currently available in Delhi and Mumbai (where large populations of migrant workers reside) and Bihar and East Uttar Pradesh (where many migrant families live). Until the partnership with Axis Bank, Airtel had access to only a prepaid wallet system license, which allowed clients to put money onto their Airtel money accounts and make limited payments without withdraw capabilities. Other large scale launches have taken a similar approach, including M-PAISA, a mobile money and banking platform based largely on M-PESA, which linked MNO Vodafone with HDFC bank and launched in late 2011.

Considering the impact of formal banking and MNOs' ability to reach previously excluded populations, these partnerships represent a substantial potential for encouraging financial inclusion. New technologies might prove useful in expediting processes for BCs in rural areas as well as in other situations where traditional banking models have failed to meet customer needs.

G2P Payments

In 2012, almost USD 40 billion will be delivered in benefits and subsidies across India. The BC channel has been instrumental in reducing leakages from government social welfare schemes that pass G2P payments through bank accounts. The large number of beneficiaries receiving government payments and the government's intention to channel these payments via BCs and formal bank accounts show that G2P payments have enormous potential to increase financial inclusion. However, the evidence thus far indicates that those who receive payments typically withdraw all or almost all the amount received, thus rendering the account as a simple pass-through.[24, 25, 26] Interviews with

A Policymaker's View on Financial Inclusion

The Deputy Governor of the RBI stresses that the goal of routing G2P through bank accounts and BCs is to provide unbanked households with a truly *inclusive account*, rather than merely a *transactional account*.[27]

"Let me reiterate that financial inclusion is not mere State Benefit Transfers. ... It is not enough to open a No Frills Account and maintain that banking services are available. *De minimus*, four banking products need to be provided for it to qualify as availability of banking services. These are:

a. A savings cum overdraft account
b. A pure savings product ideally a recurring or variable recurring deposit
c. A remittance product for EBT and other remittances
d. Entrepreneurial credit such as GCC, KCC

... Beyond this, banks are free to provide any other products such as insurance, mutual funds, etc. as per their assessment and capability."[28]

banks for this study indicate that over time, as beneficiaries become more familiar with the BC and banking systems, there will be a gradual tendency to keep some money in these accounts.

Biometric IDs

The government has also undertaken the task of providing all residents of India with a unique identification number, known as the *Aadhar* (or the foundation) that is tied to individuals' fingerprints and iris scans. Under the Unique Identification Development Authority of India (UIDAI), the *Aadhar* number will serve as a proof of identity and address in any location in India. It is expected that this number will make it easier for individuals to register with public and private agencies such as banks, telecom companies, and state governments. As of mid-April, 170 million households had received a unique identification number, with preliminary reports showing that 56 percent of those who signed up did not previously have a portable ID (such as a driver's license or passport) and 87 percent had an annual income below USD 2,000.[29]

Aadhar is expected to advance financial inclusion in the following ways:[30]

- It will provide low-income households with a proof of identity which will allow them to more easily open bank accounts and access financial services by expediting compliance with KYC and anti-money laundering (AML) requirements.[31, 32]

- The *Aadhar* Enabled Payment System (AEPS) is envisaged as a means to provide low-income and under-banked households with access to banking at their doorsteps through micro ATMs or a point of sale (PoS) machine used by a BC agent to communicate with the bank's server. This platform uses fingerprints and the *Aadhar* number for verification and allows for deposits, withdrawals, and money transfers.

- The *Aadhar* project has partnered with several banks, including the RBI and the National Commission for Payments Corporation of India (NCPI), to create an *Aadhar* Payments Bridge (APB). The APB will store all beneficiary information including bank account number and the *Aadhar* number. Since the unique *Aadhar* number is used for beneficiary verification, this process will instantly reject fakes and "ghosts." Currently, many beneficiaries who receive G2P payments under multiple schemes have opened different accounts for receiving money under each scheme. In areas where the APB is live, the beneficiary chooses one account to link to his or her *Aadhar* number and all entitlements under multiple schemes are delivered to the one account.[33]

Taken together, these initiatives by the UIDAI help create a more unified and interoperable system for BC banking in India while also helping to reduce leakages in the government payment system.

In the end, access to finance has two aspects: the quantity and quality of access. While the government's financial inclusion efforts have made strides to increase the number of those who have access by opening NFAs, pushing for the development of alternative delivery channels such as BC outlets and e-payments systems, and improving government identification, the quality of financial access remains under question. Increasingly, financial institutions are focusing not only on opening accounts but also on promoting their actual use.

Savings Service Providers in India

This section surveys the main types of formal financial institutions — including commercial banks, cooperatives, deposit taking non-banking financial institutions (NBFCs), postal banks, and insurance providers—and examines their efforts to mobilize savings. The table below provides an overview of these regulated service providers operating across India and the activities that they are allowed to engage in:

Given that a large portion of the unbanked population lives in rural areas, looking at the types of deposit products offered by different institutions alongside geographic distribution of branches can provide insight into whether or not formal savings services are reaching the poor (Table 3).

Table 2: Summary of Regulations in the Formal Financial System in India[34]

Financial Institution	Regulated by	Basic services provided/scope of activities allowed
Commercial Banks • *Regional Rural Banks* • *Public Sector Banks* • *Private Sector Banks* • *Foreign Banks*	RBI and Registrar of Companies	All banking services—credit, deposits (recurring, fixed, savings and current), sale of third party products (insurance, mutual funds, gold coins), remittances, bill payment
Cooperatives	Registrar of Cooperatives, NABARD and respective state governments (RBI also regulates both rural and urban cooperatives)	All banking services—credit, deposits (recurring, fixed, savings and current), sale of third party products (insurance, mutual funds, gold coins), remittances, bill payment
Deposit-taking NBFCs	RBI and Registrar of Companies	Credit and term deposits
Postal Banks (India Post)	Department of Posts	Banking services—deposits (recurring, fixed, savings, pensions), remittances, postal insurance—and distributor of mutual funds and bonds
Insurance Companies	Insurance Regulatory and Development Authority (IRDA) and Registrar of Companies	Term insurance and endowment insurance

Figure 3: Share of Deposits by Institution Type[35]

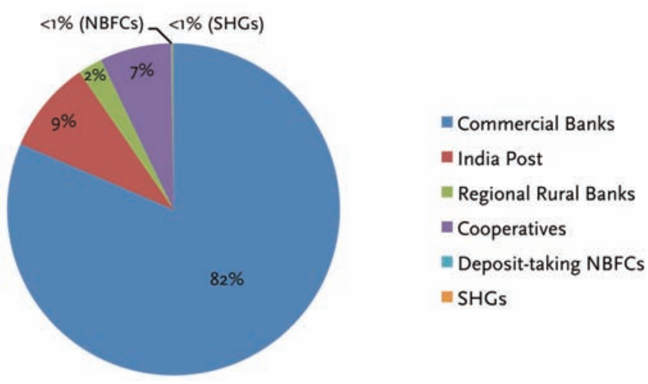


Figure 4: Share of Deposit Accounts Held by Institution Type[36]

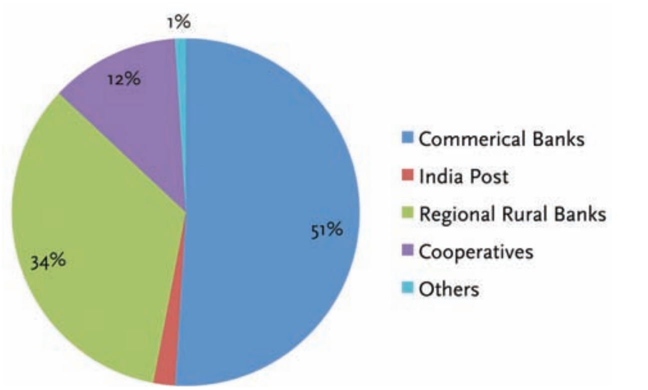


Table 3: Breakdown of Financial Information by Institution[37, 38]

	No.	No. of Branches	% of rural Branches	Total deposits (in INR million)	Deposits (in US $ million)	Demand Deposits	Savings Deposits	Term Deposits
Commercial Banks	83	76,993	40%	56,164,320	1,123,286	11%	24%	65%
Postal Banks	-	154,866	90%	6,189,430	123,789	n/a	5%	95%
Regional Rural Banks	82	16,034	77%	1,662,320	33,246	6%	55%	40%
Cooperatives	97,410	n/a	n/a	4,740,910	94,818	n/a	n/a	n/a
Deposit-taking NBFCs	297	-	-	119,640	2,393	0%	0%	100%
SHGs	746,000	-	100%	70,160	1,403	0%	100%	0%

Commercial Banks[39]

According to the 2003 Rural Finance Access Survey (RFAS), commercial banks represent slightly more than half of the savings accounts in India, and regional rural banks (RRBs) are the second biggest provider of formal savings services.[40] It is clear that the different types of commercial banks across India are playing an increasingly important role in extending financial access.

There is evidence of financial deepening in the banking system in the number of people served per branch. As Figures 5 and 6 show, the number of branches has increased over time, and the number of people served by each branch has decreased. In addition, the outreach of Indian banks also compares favourably with other countries such as Mexico and Indonesia, both in terms of population per branch and in terms of area covered by each branch.[42]

Aggregate deposits have shown to be increasing over time. Figure 7 shows time deposits to be especially consistent in their growth over the last four decades. While the volume of term deposits has always been greater than that of savings deposits, by 2011, the total amount of term deposits grew to be over twice the amount of savings deposits. This suggests that over time customers have valued returns over liquidity, making features such as interest rates ever more important to savings product development.

In spite of the important role that commercial banks play in mobilizing savings and their extensive coverage, research shows that they have difficulty serving poorer households. The 2003 RFAS shows that larger farmers have greater access to financial services than small or marginal farmers.[50] Thus, while 66 percent of large farmers have a savings bank account, the same can be said of only 30 percent of low-income or marginal farmers.

Figure 5: Average Population per Commercial Bank Branch[41]

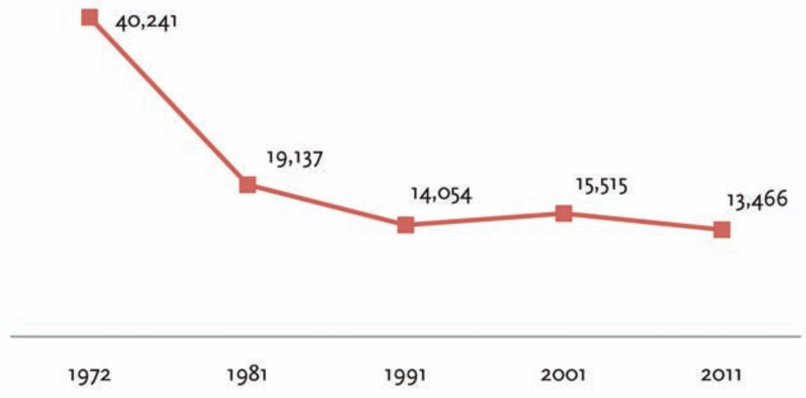


Figure 6: Financial Deepening in India[43, 44, 45]

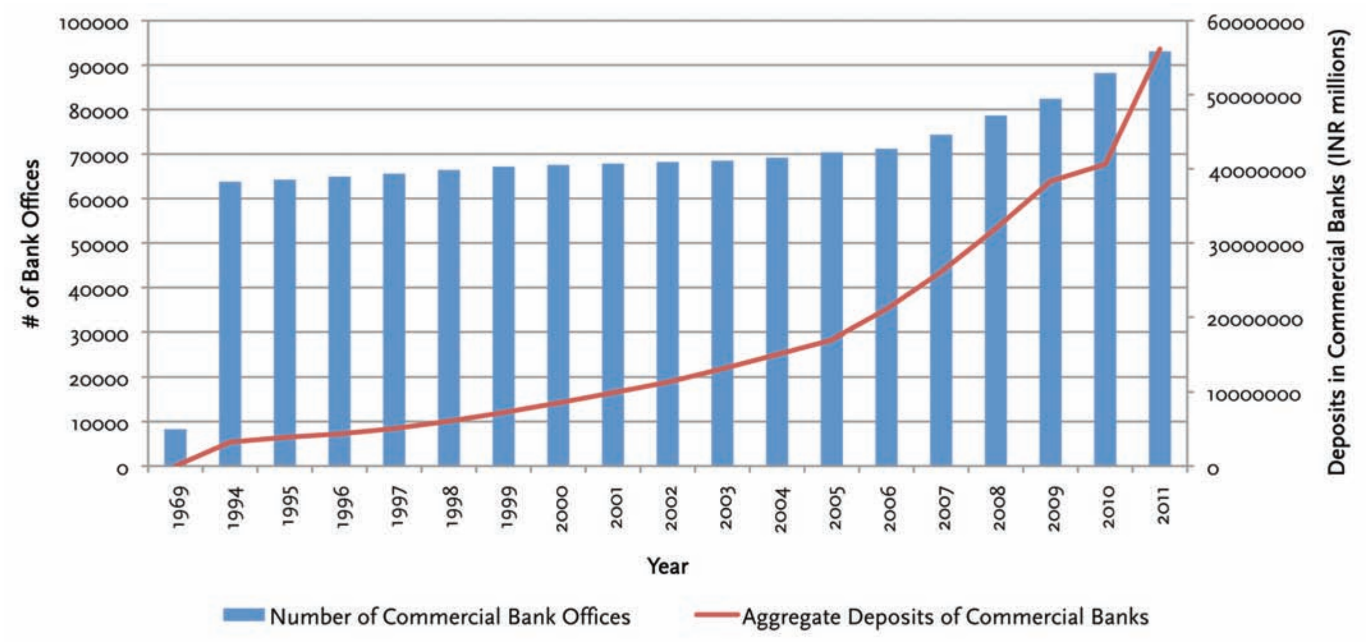
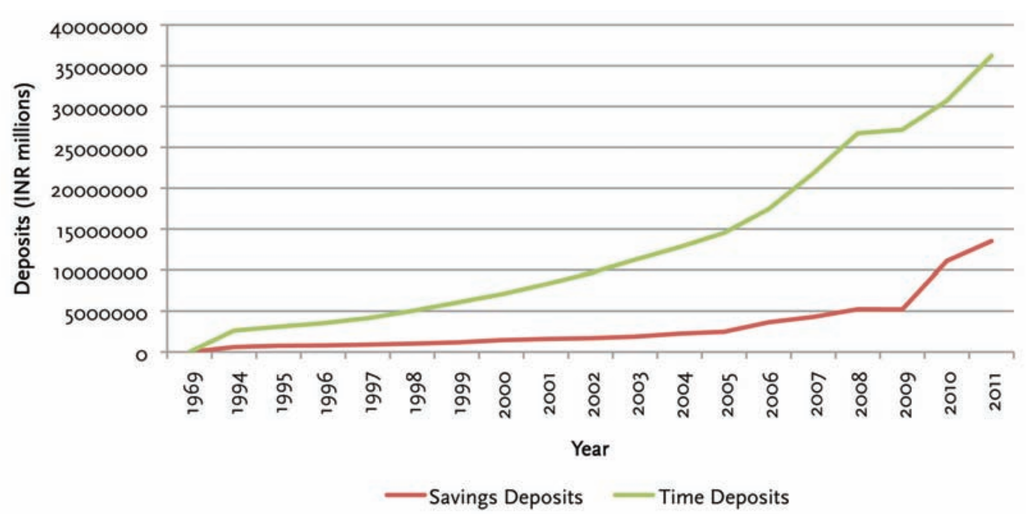


Figure 7: Trends in Deposits (Commercial Banks)[47, 48, 49]



Case Study 2: Nano-Branch Banking Pioneer[46]

Bank of Baroda (BoB) is a public sector bank with 3,991 branches and around 39,000 staff. An estimated 30 percent of its branches are in rural India and 26 percent of branches are in semi-urban areas. BoB has pioneered a nano-branch banking concept (which is now being promoted to other banks by the Ministry of Finance) and works to simplify services and reduce costs in serving rural areas. The nano-branch banking model works on a hub and spoke basis, where several ultra-small branches are connected to, and overseen by, a larger traditional bank branch. BoB has about 1,700 nano-branches in the rural areas of Gujarat, Rajasthan, and Uttar Pradesh and plans to open 1,000 more branches in 2012.

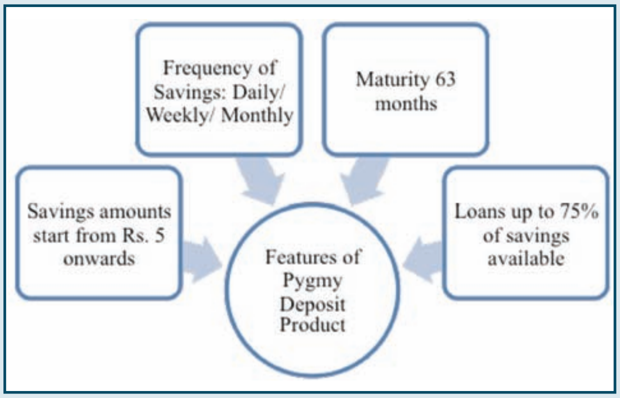
Nano-branches are linked to the nearest BoB bank branch and are open for operation on a weekly basis. Nano-branches are staffed by one BC agent and one senior employee from the nodal branch. These branches have a point-of-sale machine, passbook printer, and laptop to carry out necessary banking services such as withdrawal and deposit, balance enquiry, and statement of account, and the bank employee also clears loan approvals and provides advisory services.

This model has a number of benefits. First, the cost of operating a nano-branch is much lower than operating a traditional bank branch, and these branches also have much lower transaction costs than bank branches. The space of 100 to 200 square feet is often provided for free by the local village panchayat, or government. Nano-branches allow BoB to leverage one of its core strengths, which is building an expansive network to provide financial services at the last mile. It plans to cover 90 percent of the villages allotted to BoB under the financial inclusion mandate through nano-branches.

Case Study 3: Doorstep Savings Collection Since 1928

Syndicate Bank is a public sector bank in the southern state of Karnataka. It was established in 1925 to extend financial services to local weavers in and around Karnataka who were affected by the economic crisis in the handloom industry. The bank believed that in order to rebuild their livelihoods, weavers needed access to a safe and convenient place to save their small incomes, and in 1928, they instituted a scheme called the Pygmy Deposit scheme. As part of the scheme, roving agents of the bank collected small savings at the doorsteps of their clients. When it first started, agents would collect amounts as low as two *Annas* (one *Anna* is about a sixteenth of one rupee). Today the Pygmy Deposit Scheme is one the bank's most highly visible products, with the bank collecting INR 20 million on a daily basis.

This program works on the principle that "little drops of water … make the mighty ocean." This deposit scheme is well suited to the needs of clients who typically earn a small daily income and it targets small savers like shopkeepers, small entrepreneurs, and housewives.

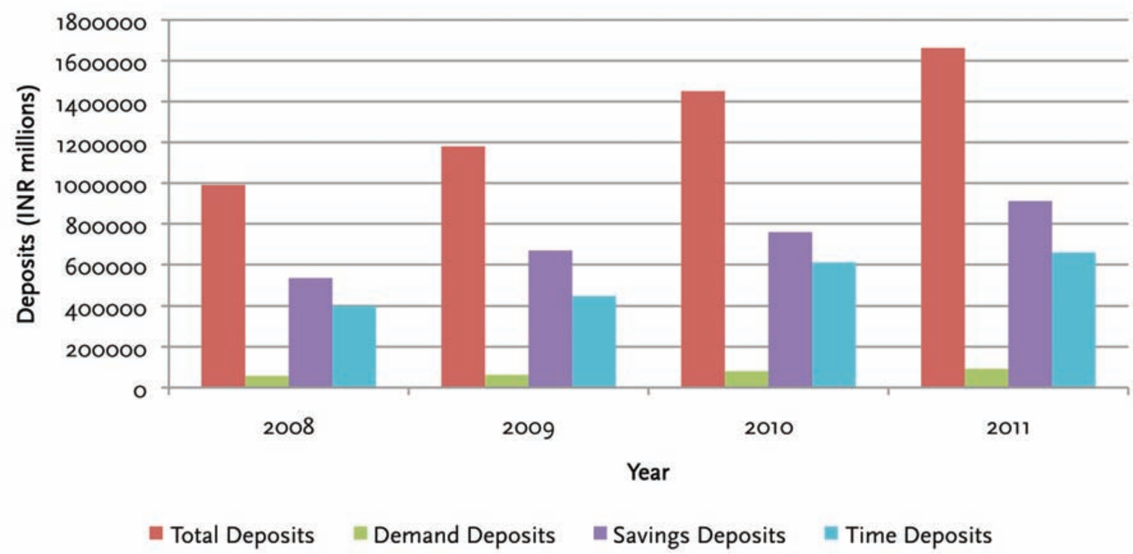


Over a period of 63 months, deposits grow into a lump sum which can be used to meet future commitments or milestones. Over time, the bank has introduced a variety of small changes to the product to make it more attractive. For example, customers can transfer any amount equal to or greater than INR 5,000 into a term deposit account where the money earns a slightly higher rate of interest. The Pygmy product is unique in that it offers the potential of higher returns compared to an ordinary savings account, encourages customers to save towards a goal, such as education or marriage, and provides them the convenience of doorstep collection.

Regional Rural Banks

Regional Rural Banks (RRBs) are a type of government-owned commercial bank that account for 19 percent of total deposits in rural areas.[51] Over the past couple of years, deposits in RRBs have been growing, but in different ways compared to other commercial banks. For example, regular savings deposits in RRBs exceed term deposits, and a larger number of accounts that are opened focus on high liquidity (Figure 8).[52]

Figure 8: Trends in Deposits (Regional Rural Banks)[53]



Case Study 4: A Regional Rural Bank Offering a Multi-Faceted Approach

Pallavan Grama Bank (PGB) is an RRB, operating in the southern state of Tamil Nadu. It is co-owned by the Government of India (50 percent ownership), the Government of Tamil Nadu (15 percent) and Indian Bank (35 percent). PGB is focused on implementing a financial inclusion plan in approximately 207 villages with a population below 2,000 inhabitants and aims to cover about 99,131 households through rethinking its product development, access points, and technology integration.

Product Development: The bank has introduced two products to complement its financial inclusion drive. The first is the "Pallavan Akshaya Savings Bank," a NFA with an overdraft facility of INR 500 to 5,000. The bank has opened 3,908 accounts so far, of which 389 accounts have an overdraft balance. The second is the "Pallavan Kathiroli Kanakku" a General Credit Card (GCC) to cater to the needs of small traders by provides the opportunity to renew their loans with limited documentation and at numerous access points while also furthering overdraft up to INR 25,000.

Micro-Banking Centers: According to informant interviews, PGB has also set up five micro-banking centers (MBCs) in five villages. These MBCs function on a pre-notified day and time every week and are manned by BC and bank staff. The bank official undertakes various activities during his allotted days, including collecting applications for the opening of accounts, recovery follow up, and also field verification. The MBCs are provided with a laptop connected to the bank's server so that various other services such as account balance checks and transactions can be performed instantly. The BCs undertake the cash transactions through a point of sale device.

Technology Utilization: For the past two years, PGB has offered ATM cards to its customers. The cards are co-branded with Indian Bank, a large public sector bank, and provide access to a network of 1,128 Indian Bank ATMs. PGB has also partnered with Western Union to enable clients to transfer money to any bank account in India.

Cooperatives[54]

Cooperatives are an important savings avenue for rural and semi-urban households and are divided into two distinct networks—rural and urban. While cooperatives have 50 percent more accounts than commercial banks, the volume of deposits in the rural and semi-urban branches of commercial banks is six times greater than the deposits in rural cooperatives.[55] This is for two reasons. First, almost three quarters of the account holders in cooperative institutions are marginal farmers, with limited income. Second, cooperative institutions have other subsidised funding available to them from government sources and are thus not as incentivized to mobilize deposits. Overall, 98.3 percent of cooperative institutions in India are rural yet they garner just 23.6 percent more in total deposits than urban cooperatives (Table 4).[56] The average volume of deposits per branch is 47 times higher in urban rather than rural cooperatives.

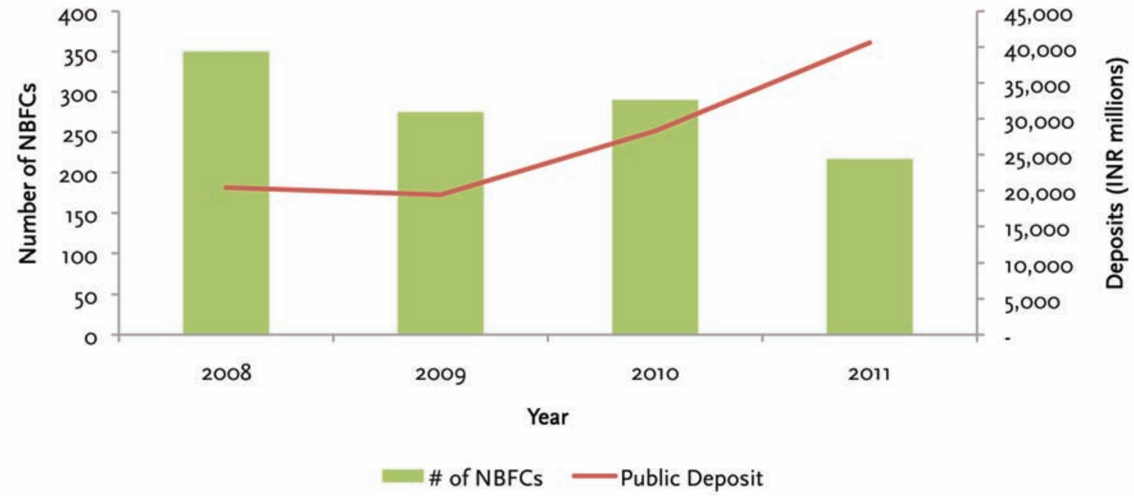
Table 4: Financial Information by Cooperative Type[57]

Cooperative Type	Total deposits (INR million)	Total deposits (USD million)	Deposit (INR millions)/ Institution Ratio	Deposit (USD millions)/ Institution Ratio
Urban	2,120.310	42,406	1288.9	25.8
Rural	2,620,600	52,412	27.4	0.55

Deposit-taking NBFCs

Non-banking finance companies (NBFCs) are private financial institutions that provide diverse services such as equipment leasing, hire purchase, loans, and investments. Residuary NBFCs are a special category of NBFCs that are permitted to mobilize deposits. Data show that while the number of deposit-taking NBFCs (hereafter referred to NBFC-Ds) has been declining, the deposits they collect have shown a steady increase over time.[59] The decline NBFC-Ds has primarily been due to more stringent regulations, which have made it difficult for non-bank institutions to accept public deposits. However, the demand for

Figure 9: Volume and Deposits and Number of Branches (NBFCs)[60]



Case Study 5: A Hybrid Business Correspondent Working to Combat Dormancy in No Frills Accounts

Janalakshmi Financial Services (JFS) is a for-profit NBFC serving urban low-income populations, with the promoter stake held in the not-for-profit entity Janalakshmi Social Services (JSS). Since for-profit MFIs are not legally allowed to act as BCs in India, JFS provides BC services through its not-for-profit arm, JSS, which acts as a BC for Axis Bank. JFS provides low-income focused services in 42 cities through 66 branches.

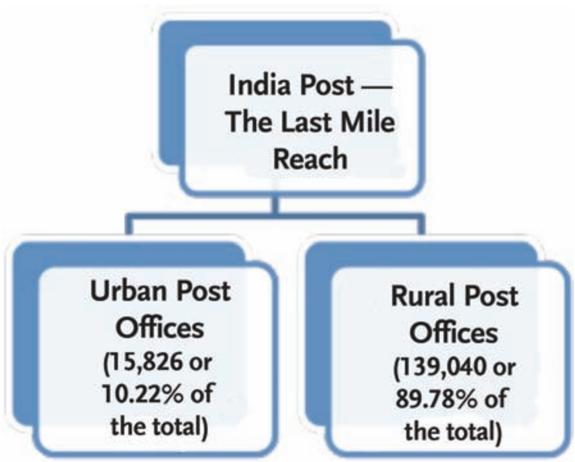
JSS started providing BC services in late 2010. To date, the initiative has been launched in three of India's metro cities: Bangalore, Chennai, and Delhi. JSS has also opened 380,000 NFAs, comprising 130,000 accounts for JFS clients and 250,000 accounts for non-clients. When JSS opens an NFA, it instantly provides a debit card for the account to facilitate activity. While JSS currently offers only one product through BCs, there are plans to offer more products such as remittances and recurring and fixed deposits by the end of 2012. JSS reports that only 15 percent of these accounts are dormant, which is much lower than the 80 to 90 percent dormancy seen in NFAs across India.

The reasons for this relatively high level of activity include the widespread provision of debit cards, which is not common in NFAs, and the success of integrating the account with external financial services. For example, all MFI clients now access their loan disbursements from their account, and JSS has also tied up with a micro-pension provider in India. Another reason for this increased activity has to do with JSS staff engagement. The institution has worked to drive agent involvement by having two sets of agents with different responsibilities and incentives. One set, called Sales Field Executives, market and help open NFAs. They have targets of opening 15 NFAs per day. Service Field Executives are focused on providing the actual savings services and must complete 30 transactions per day. Both types of agent are paid through a combination of salary and performance incentives.

the savings services provided by deposit-taking NBFCs clearly exists, as demonstrated by the increase in deposit collection.

NBFC-Ds primarily use word-of-mouth marketing to promote their products and services. Usually, they begin their operations in a village after speaking with the village head or *sarpanch*, and other important stakeholders. They then appoint agents who network to engage more agents and garner clients. Over time, satisfied clients spread the word to others. *MicroSave*'s research shows that almost all clients of NBFC-Ds join at the recommendation of an existing client or by seeing their friends and relatives join.[61] It is not uncommon to see almost all households in a village saving with one particular NBFC-D.

Figure 10: Geographic Breakdown of Post Office Branches[63]

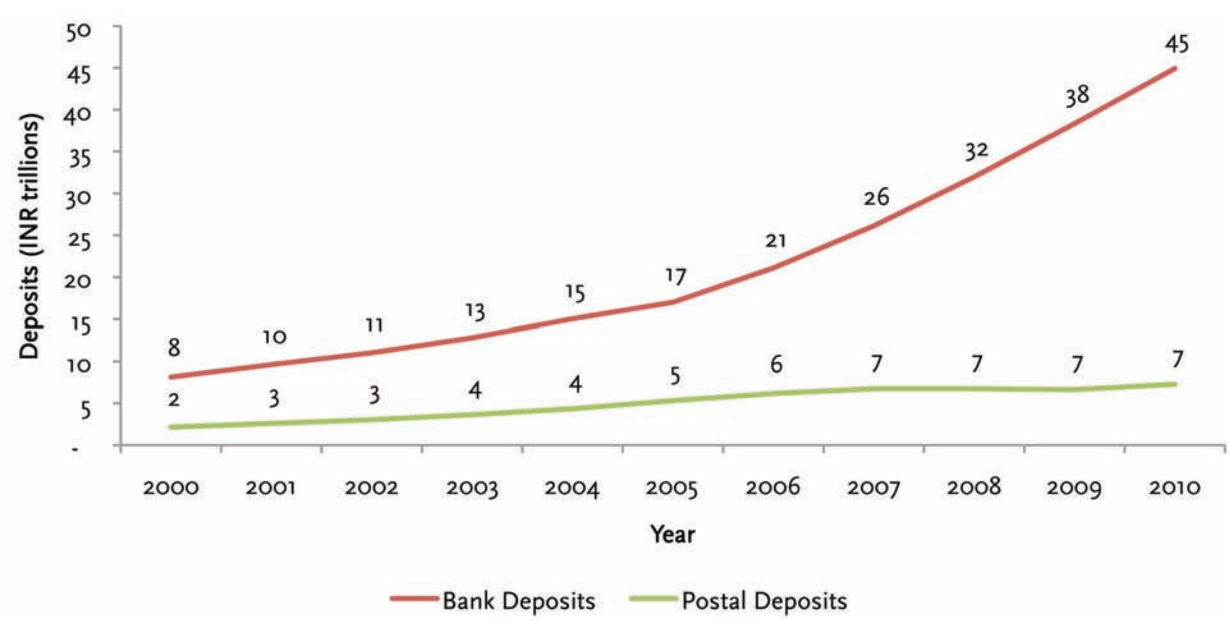


Postal Banks (India Post)

Post offices are ubiquitous in India, and 90 percent of post offices are located in rural areas. On average, one post office branch serves about 7,814 people, which corresponds to 5,992 people per branch in rural areas and as many as 23,828 in urban areas.[62] Because of this large presence in rural and remote areas, India Post is considered one of the most recognizable brands across India among low-income, rural populations, and at the community level, the postman is a well-known community member who is able to leverage this recognition to mobilize savings.

There are 264 million accounts in the postal system, of which 96 million (36 percent) are savings accounts. These deposits amount to INR 6,189 billion or USD 123.78 billion.[64] Regular savings bank accounts account for only INR 301 billion or USD 6.02 billion of India Post's deposit base.[65] Figure 11 shows that although deposits in postal savings accounts have been increasing over time, savings in commercial banks have shown a much sharper increase. Although India Post is not growing its customer base at the same rate as other financial institutions, for rural communities, it still represents an important savings avenue.

Figure 11: Commercial Bank and Postal Bank Deposits[66]



Insurance Providers

In many ways, life insurance in India is considered a long-term savings option since many life insurance (endowment) policies promise a specific return over time for the amount insured.[67] As of September 2011, there were 49 insurance companies in India.

While the insurance market has been open to the private sector since 2001, the Life Insurance Corporation of India (LIC), a public entity, continues to dominate the market. LIC was responsible for issuing 37 million, or 77 percent, of the total life insurance policies issued in 2010–11. LIC also has the largest number of branch offices in rural areas, while the newer private sector entrants to the field are attempting to expand in the urban and semi-urban areas first. As Case Study 6 shows, insurance providers are

Case Study 6: Offering Micro-Pensions or Long-Term Savings to Low-Income Households

Invest India Micro Pension Services (IIMPS) approaches the delivery of pension products to the poor by working with a number of partners (microfinance institutions, community-based organizations, banks, cooperatives, worker unions, government departments, and NGOs). The network of partners collects modest pension contributions and insurance premiums from low-income workers and then pools and transfers them, at a low transaction cost, to regulated asset management and insurance firms contracted by IIMPS. IIMPS operations span 70 districts across nine Indian states and enable around 150,000 working poor to save for old age.

The IIMPS approach focusses on implementing secure and scalable mechanisms that harness credible existing institutional capacity for outreach and service delivery. IIMPS undertakes a range of development, promotion, and public education efforts to promote mass-scale voluntary coverage of pension and insurance arrangements by the working poor, especially by low-income women workers. IIMPS has also developed a proprietary micro-pension administration and recordkeeping software platform (sCube), which issues and administers individual pension and insurance accounts. The following products are offered by IIMPS:

1. **Pension product—NPS-Lite**: This is a Government of India pension scheme. The government co-contributes INR 1,000 for people who contribute INR 1,000 per year. This has a lock-in of 20 years.

2. **Pension product—Retirement Benefit Pension Fund (RBPF):** This product is offered by Unit Trust of India (UTI). This scheme has a lock-in of 5 years.

3. **Life insurance product—Janashri Bheema Yojana**: This is a death-cum-disability insurance scheme targeted to low-income populations. Total annual premium is INR 200, out of which the client has to pay INR 100 and remaining INR 100 is paid by the government. In case of natural death, the nominee of the insured would get INR 30,000; and in case of accidental death or permanent disability, INR 75,000 is provided. In addition, the deceased insured client's children who are in high school receive a scholarship for their continued education (INR 1,200 per child per annum).

4. **Insurance for overseas workers—Mahatma Gandhi Pravasi Suraksha Yojana**: This is a special scheme of the MOIA (Ministry of Overseas Indian Affairs) for overseas Indian migrant workers that helps them save part of their income on a regular basis for their resettlement back to India and retirement. The MOIA also contributes towards pension and resettlement from its own budget. The major benefits from this scheme are:
   a. Pension benefit from NPS-Lite
   b. Return and Resettlement (R&R) savings benefit from UTI AMC
   c. Life Insurance benefit from LIC

experimenting by adding a variety of savings components to their insurance policies, creating non-traditional savings products for low-income populations.

Savings providers across India offer a diversity of approaches and target markets. With regulations shaping and pushing the boundaries of these activities, institutions are increasingly mobilizing savings and adapting their role to serve poor populations Although commercial banks represent more than half of all savings accounts across India, when it comes to low-income and rural populations, cooperative institutions, deposit taking NBFCs, India Post, and insurance providers are all actively providing savings products and, increasingly, niche services to their clients. These savings products are examined in detail in the next section.

Savings Product Development Data

We collected data on 146 products across thirty seven financial institutions in India.[68] These institutions were identified as offering innovative savings services to low-income segments during preliminary research and by SPINNAKER partners.[69] To further understand savings product strategies and how savings development fits within the wider

Figure 12: Number and Types of Institutions Covered in Mystery Shopping[71, 72]

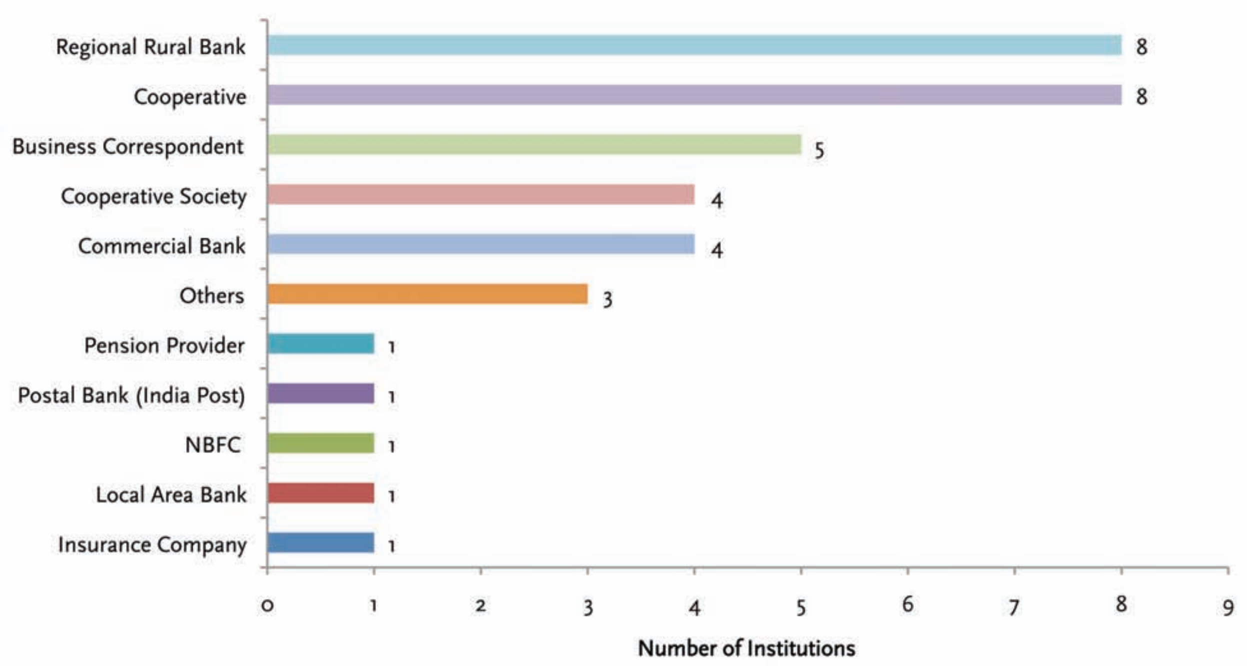
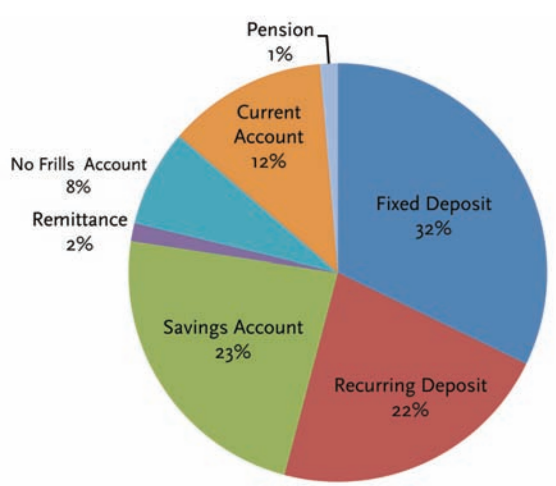


Figure 13: Types of Products Surveyed



financial system, the team also conducted interviews with 29 financial leaders across India. The participating institutions were a mix of public sector banks, private sector banks, cooperatives, cooperative societies[70], regional rural banks, microfinance institutions, non-banking financial companies, and others, as shown in Figure 12.

Overview of Savings Products Types

Using the common nomenclature throughout the Indian financial sector, below we provide brief descriptions of the different types of savings products offered across the Indian financial market.[73]

Current Account: a simple non-interest bearing transaction account that allows the account holder to write cheques against the funds in the account. There is no limit on the number of withdrawals or deposits in this account, and it is mainly used by clients who run businesses. Only banks, cooperatives, RRBs, and local area banks can provide a current account.

No Frills Savings Account (NFA): an interest-bearing savings account offered by all banks, including public and private sector banks, cooperatives, RRBs, and local area banks. These accounts have a maximum balance of INR 50,000 (USD 1,000), low KYC requirements, and a zero minimum opening balance. NFAs are frequently used to channel G2P payments such as MNREGA, Indira Awaas Yojana (rural housing scheme), scholarship payments, and social security payments such as pensions.

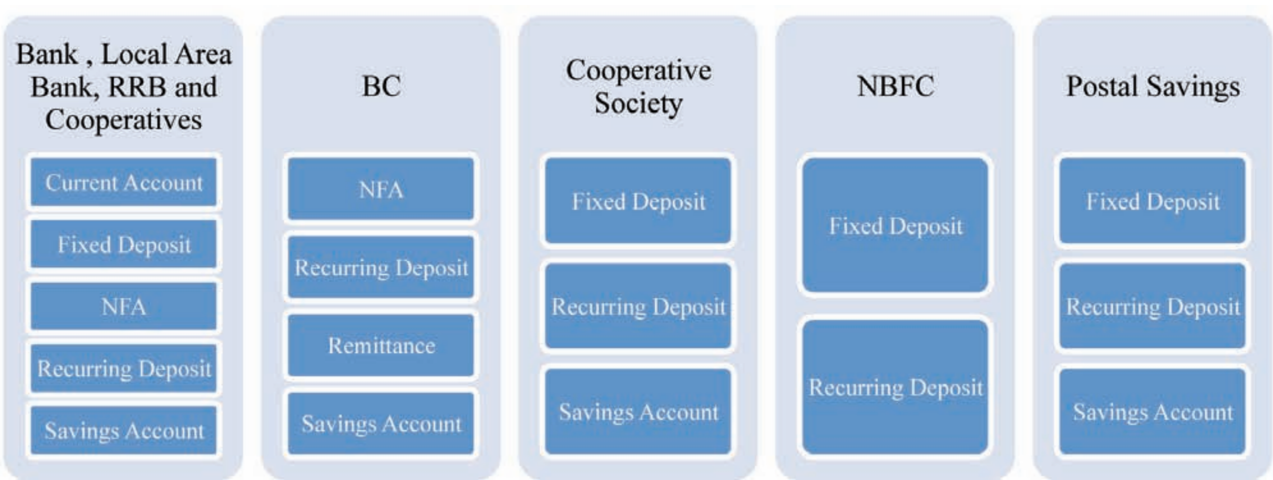
Traditional Savings Account: an interest-bearing savings account, with generally no maximum balance. These accounts do have transaction restrictions, but are more flexible than recurring and fixed deposit accounts. They are offered by both private and public sectors, including cooperatives and regional rural banks.

Recurring Deposit (RD): an interest-bearing commitment savings account where those with regular incomes deposit a fixed amount every week, month, or other pre-determined frequency. Customers deposit funds for a fixed period of time and are permitted to withdraw funds without penalty only upon maturity. RDs are similar to making fixed deposits (FDs) of a certain amount in regular instalments every month. Commercial banks, RRBs, and cooperative institutions offer this product as well as some NBFCs and post offices.

Fixed Deposit (FD): a term deposit account that is offered to provide a higher rate of interest than a regular savings account. These are offered with varying periods to maturity from 10, 15 or 45 days to one year, but can be as long as 10 years. The defining criterion for a FD product is that the money cannot be withdrawn before maturity without penalty. Some cooperatives and NBFCs do not allow premature withdrawal at all.

Figure 14 below captures how these savings accounts are dispersed across the different savings providers in India.

Figure 14: Types of Institutions and the Savings Products Offered



Case Study 7: Providing the Poor with Multiple Financial Choices

IFMR Rural Finance implements financial programs through Kshetriya Gramin Financial Services (KGFS) institutions. There are currently five KGFS programs operating across India. Each KGFS branch serves around 2,000 households within an average radius of four to five kilometres (two to three miles). The fundamental premise underlying the KGFS model is that a complete set of financial services is required to enable a household to plan for the future, enhance income, and protect against shocks. In order to build up the diversity of its portfolio, KGFS has worked to develop or connect its beneficiaries with the following financial products:

No Frills Accounts: In February, KGFS started providing NFAs to customers in collaboration with Axis Bank. Savings and withdrawal facilities are provided through the KGFS branch level staff who act as BC agents for the bank. The KGFS-Axis Bank NFAs are distinct in that customers can perform transactions using a provisional bank account within 15 minutes of account opening. A normal NFA is opened within three days after Axis Bank verifies the customer's documents.

National Pension System-Lite (NPS-Lite): NPS-Lite is a pension scheme launched by the Government of India to help low-income citizens save at least INR 1,000 per annum while receiving an equal contribution from the government.

Money Market Mutual Funds: Money market mutual funds pool the money from investors into a liquid and stable instrument, investing primarily in money market funds of short maturity (e.g. treasury bills). Returns are based on market conditions and can vary from 5 to 7 percent. KGFS offered this product to customers, allowing them to save a fixed amount every month based on their capacity; the money collected each day was then aggregated and put into a money market mutual fund, and returns were paid out based on investment. However, the Indian capital markets regulator, SEBI, ruled that the product was not compliant with existing regulations.

KGFS products benefit from unusual technology integration. Because connectivity is major problem, particularly in the mountainous areas of North-East India, IFMR has installed a "longitudinal wi-fi system" in collaboration with Indian Institute of Technology (IIT–Madras) in the Uttarakhand State. This allows KGFS branches to have real-time connections and enable automated transaction processing and data capture.

Product Features and Characteristics

This section takes a closer look at the features and characteristics of the 146 savings products that we examined and offers a comparison of how these features differ across savings providers and product types.

Pricing and Fees

In order to open a savings account, customers often face monetary barriers to entry in the form of minimum opening deposits and fees. In India the product data collected indicate that fees are, for the most part, non-existent. However, many product and institution types do require a minimum opening deposit. A zero minimum opening deposit is the defining feature of a No Frills Account.

Table 5 shows the significant variation in minimum opening deposits for each type of product and institution. When fixed deposits are considered, the lowest minimum balance is accepted by post offices and select commercial banks. While the lowest minimum opening balance offered by NBFCs is INR 5,000 (USD 100), many commercial banks require INR 1,000 (USD 20). Cooperatives require a minimum balance of INR 100 (USD 2) to open a FD account.

The highest minimum balance required by a recurring deposit product is INR 500 (USD 10). Since recurring deposits are collected periodically, their ticket size is small compared to the fixed deposit. Commercial banks like Syndicate Bank are very popular in this regard because under the Pygmy Scheme, smaller deposits are accepted as well (see Case Study 3). Current accounts at commercial banks generally do not require a minimum opening

Table 5: Minimum Opening Deposit Amount (INR)

Institution Type	Fixed Deposit	Recurring Deposit	Savings Account	Current Account
Commercial Banks	5,000-10,000	100	50-1,000	0
Cooperative Societies	1,000-5,000	30-500	30-200	n/a
Cooperatives	100-1,000	50-500	100-1,000	1,000-5,000
Regional Rural banks	100-5,000	50-100	0-1,000	200-10,000
Local Area banks	1,000	10	500	3,000
NBFCs	5,000	1	n/a	n/a
Postal Banks (India Post)	100	10	50	n/a

Figure 15: Average Interest Rates Offered by Different Product Types[74, 75]

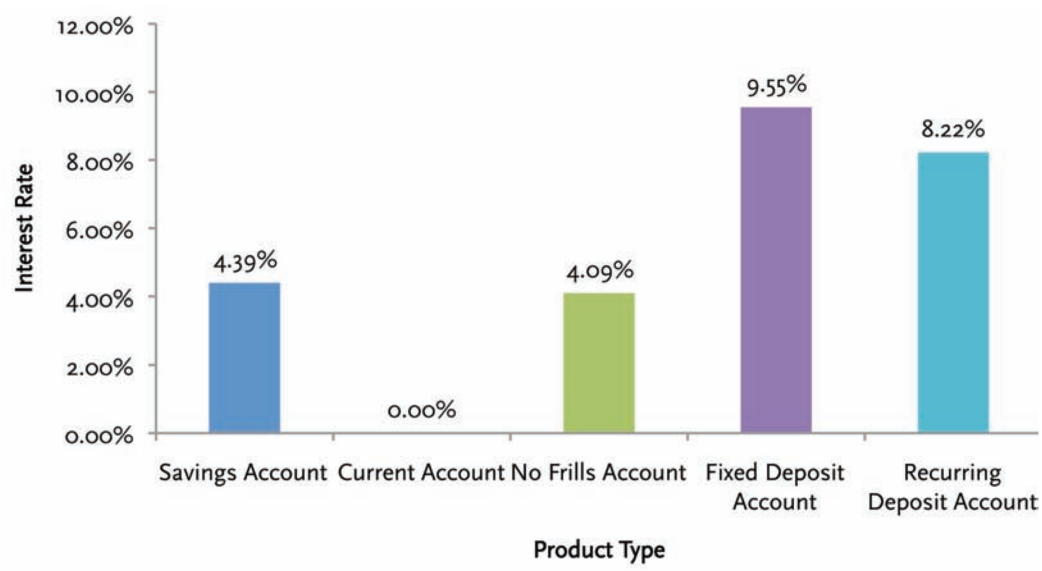
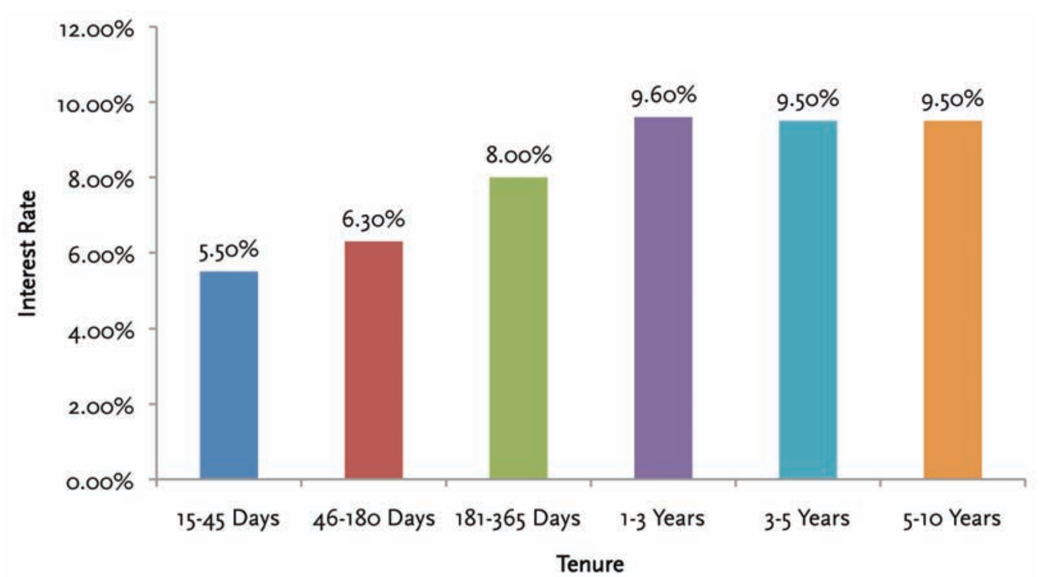


Figure 16: Average Interest Rates for Fixed Deposit Accounts by Varying Tenures



deposit. However, these accounts pay zero interest because they provide a very high level of flexibility. SPINNAKER's product data suggests that the minimum opening deposit for traditional savings accounts varies from zero to INR 1,000 (USD 20), but no opening fees are charged.

Overall, the majority of institutions expect clients to open savings accounts with a minimum deposit. Interestingly, no monthly operational fees were associated with any RD products and opening fees for any product were only charged by one institution type, deposit-taking NBFCs.

The interest rate varies between 5 and 11 percent across products (Figure 15). To compensate for liquidity, fixed deposits provide higher rates of interest than traditional saving accounts. FD holders can choose to either reinvest their interest and take the account to maturity (cumulative FD) or withdraw the interest periodically (simple FD). Generally, the longer the term of deposit, the higher the rate of interest, but a bank may offer a lower rate of interest for a longer period if it expects the interest rates at which RBI lends to banks ("repo rates") to dip in the future.

However, RD accounts earn a lower rate of interest than FD accounts. The interest rates offered on RDs are between 5 to 9 percent per annum, but some cooperatives surveyed also offer rates as high as 10 to 12 percent. If any installment is delayed, the interest payable on the account is reduced, and will not be sufficient to reach the maturity value. If the client wants to withdraw the RD before maturity, there is an interest deduction or penalty up to 1 percent on the proceeds of the RD. Thus, a premature withdrawal of INR 20,000 (USD 400) will result in a penalty of INR 200 (USD 4). According to the product data collected in this study, traditional savings accounts receive a nominal interest rate of 4 to 5 percent on this account. While interest rates on these accounts were previously regulated by the RBI, there has been a recent movement to allow banks the freedom to decide the savings bank interest rate, including some products with rates as high as 6 to 7 percent per annum.

In our examination of withdrawal restrictions, none of the products had any fees if withdrawn on maturity. However, monetary and other restrictions existed, including:

- Some commercial banks charge Rs. 50 per year for withdrawal at the bank branch to encourage the use of ATMs and other delivery methods.

- Cooperatives and BCs restricted the amount an individual could withdrawal at one time. All BCs enforced a withdrawal cap.

• One percent deduction in the interest rates in case of premature withdrawal of a fixed deposit/ recurring deposit or other penalty at all banks, RRBs and cooperatives.

• In 25 percent of RRBs, there were restrictions on the number of times an individual could withdraw funds. In general, clients could withdraw 25 to 50 times every six months.

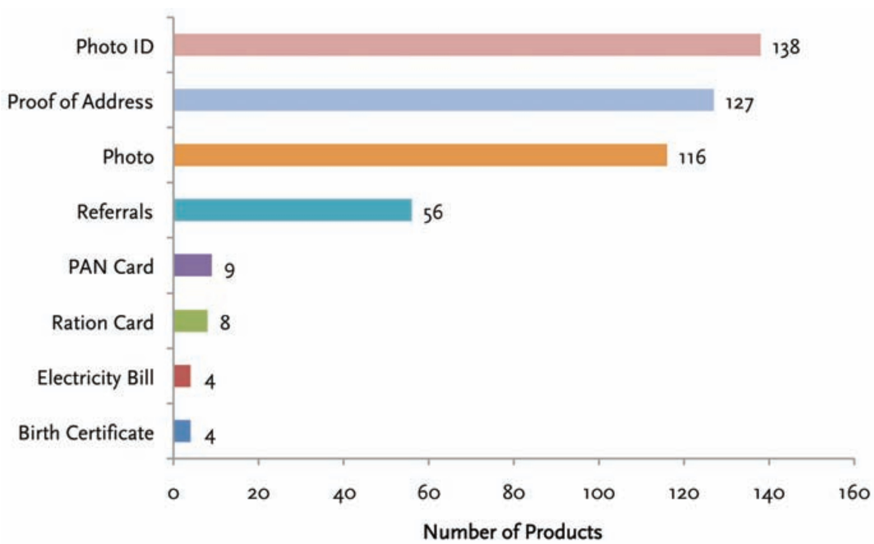
• Members of cooperatives can withdraw their savings fully only at the termination of their membership. This is applicable for all of the cooperatives.

• Inactivity fees are charged by most banks. The time frame of when an account is considered dormant varies from bank to bank along with the associated fee (ranging from INR 50 to 100). Cooperatives charged inactivity fees of INR 50.

KYC Opening Requirements

Many institutions have "know your customer" (KYC) opening requirements to verify a new client's identity and in some cases financial history. In India, the KYC requirements across all institutions are almost standardized and require a customer to submit passport size photographs, valid ID, and proof of a valid address. However, the product

Figure 17: Number of Products with KYC Opening Requirements



data collected in this study indicate certain trends in KYC opening requirements dependent on both institution and product type (Figure 17).

In order to open a current account, all of the following are needed: 1) proof of identity, 2) proof of address, 3) photo of account holder(s), and 4) a referral by an existing account holder. These KYC opening requirements are stringent and prevent easy account opening, particularly for low-income Indians. Traditional savings accounts require customers to visit the branch and offer photographs, proof of identification (any government ID card such as a voter's ID, driver's license, or tax liability card) and address (ID card or utility bill), and a referral from a person who has an account with the bank. For minors, KYC requirements also include a birth certificate. These requirements are the same for an RD account, and some banks also require that the client have a traditional savings account before opening an RD account. All RRBs and often cooperatives require a pre-existing or current account holder to introduce new account applicants. All BCs work on "relaxed KYC norms" and require only a photograph and a valid ID.

Incentives and Services

To attract new customers and increase use of their savings products, institutions sometime offer customers incentives and services such as prizes, discounts, and interest rate premiums. According to our analysis, 35 percent of the institutions offer incentives and 62 percent of the institutions offer additional services along with their products. Some of the incentives and services being offered were the following:

- For India Post, returns that are earned are tax free, and deposits made in the post office qualify for a tax rebate under section 80 of the Income Tax Act.

- Cooperatives offer integrated G2P services such as widow pension, senior citizen pension, MNREGA payments, and Indira Awas Yojana (housing support from the government).

- In response to the death of a member, some cooperatives provide a sum of INR 20,000 to family members of the deceased.

- Banks offer loans on the fixed deposits, and clients can take a loan of up to 80 to 90 percent of the FD amount.

- Some partnering NGOs provide livelihood support, health and hygiene education, insurance, ornamental loans, and other loans.

Target Markets

We also collected data on whether or not a savings product targeted specific markets with regard to occupational

Table 6: Incentives and Services Offered Across Institutions

Total Institutions	No. of Institutions Covered	% of Institutions which Offer Incentives	% of Institutions which Offer Services
Postal Banks (India Post)	1	100%	100%
Commercial Banks	4	50%	75%
Cooperative Societies	4	0%	75%
Business Correspondents	5	20%	60%
Cooperatives	8	38%	50%
NBFCs	1	0%	100%
Local Area Bank	1	100%	0%
Regional Rural Bank	8	50%	75%
Insurance Company	1	0%	0%
Pension Provider	1	0%	0%
Others	3	33%	67%
Total	**37**	**35%**	**62%**

group, geography (rural vs. urban populations), gender, and age. Banks' savings products targeted a wide range of clients, including business people, government workers, salaried workers, and senior citizens. Some banks also reported offering child-focused savings accounts to encourage savings behavior at a young age; parents act as joint account holders until the child reaches 18 years of age. In addition, savings products targeting senior citizens (above 60 years of age) are also popular, and an additional premium (mainly 0.5 percent extra interest on fixed deposits) is reported to attract this age group.

The cooperatives participating in the study often included a target market as part of their core mission. Urban cooperatives predominately served low and middle-income groups in cities, which included factory workers, laborers, small shopkeepers, and micro-entrepreneurs. There are also women-focused cooperatives like Annapurna Mahila Credit Cooperative Society, whose mission is "an empowered woman in a sustainable family." Fifty percent of the cooperatives in this study reported having a rural client focus, mainly made up of farmers. Thirty seven percent of the cooperatives reported a focus on farmers and agriculturists.

Delivery Channels

Of the 37 institutions surveyed, 26 offered branch-based transaction services. Debit cards (provided by 11 percent of institutions) and internet-based transactions (provided by 11 percent), which were reported as being less popular among low-income groups, were provided mainly by private and public sector banks. The eleven institutions that did not offer branch-based banking include NBFCs, BCs, and small cooperative societies which function solely through agents.

Delivery channels vary greatly by product type. The traditional savings accounts surveyed can only be opened at a bank branches. Current accounts are primarily opened and operated only in branches, but some banks are beginning to provide this facility through agents. On the other hand, banks provide No Frills Accounts to low-income popula-

Figure 18: Delivery Channels Used by Institutions and Products[76]

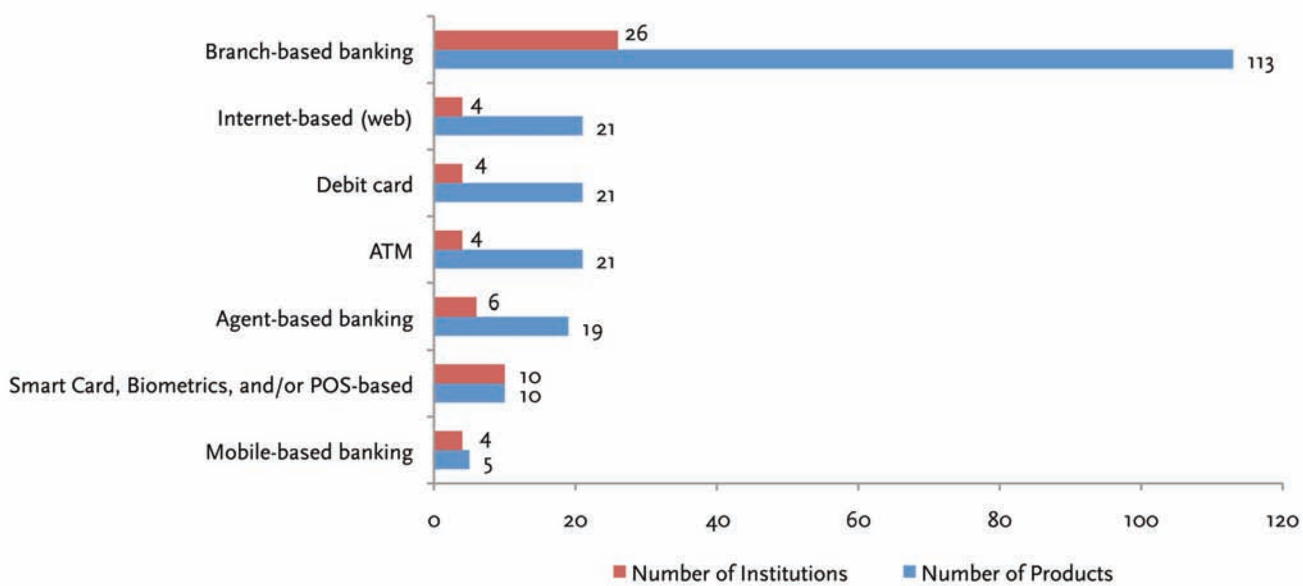
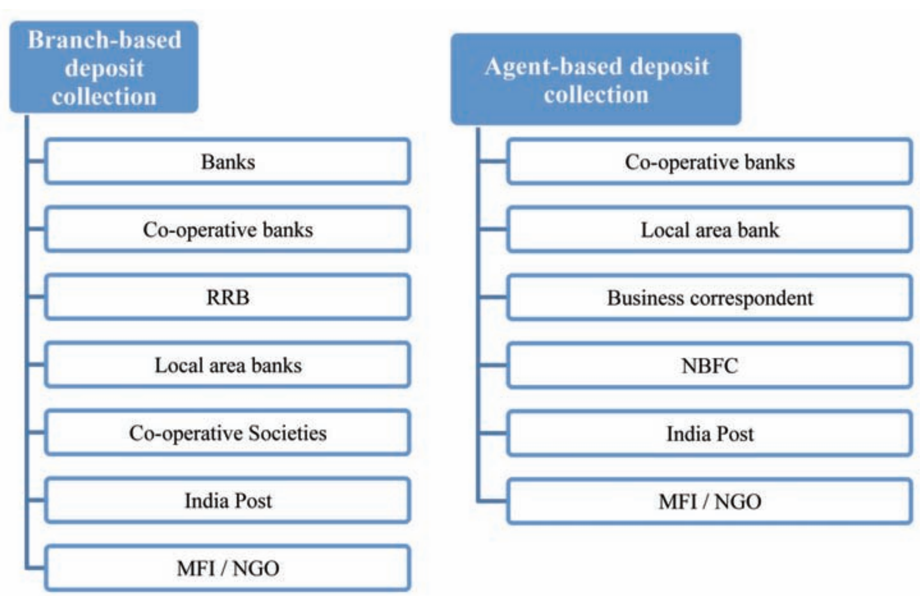


Figure 19: Location of Recurring Deposit Collection



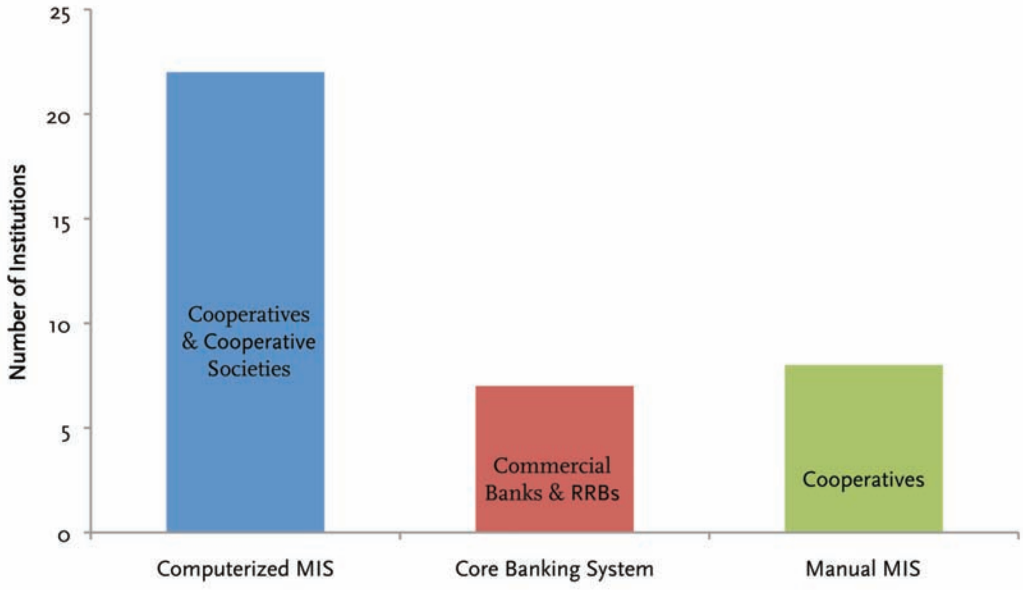
tions through their branches and increasingly through BC networks. These agents offer basic services such as account opening, deposits, withdrawals, and balance checking at customer services points (CSP) using point-of-service (POS) and smart card technologies. A BC agent is typically a recognizable person in the village—a shopkeeper, housewife, or retiree—and can be stationary (operating from a fixed place, typically a shop in the village) or mobile (visiting a series of villages on pre-defined days and offering door-step services).[77] A majority of NFA holders, therefore, are not required to visit bank branches for any type of transaction. Finally, while most banks and post offices require customers to come to a branch to open FDs, NBFCs tend to provide this service to clients at their doorsteps, and cooperative societies offer this service within the village. Agent-based banking is provided by 43 percent of the institutions surveyed.

Management Information Systems

A Management Information System (MIS) is a backend technology used by financial institutions that *captures* raw data from various activities, *converts* the data into usable information, and then *disseminates* this information to staff. Apart from facilitating day-to-day supervision and control of activities, the information generated by MISs is considered essential for prudent business decisions. The main types of systems used by the financial institutions covered here include: Manual MIS, Computerized MIS and Core Banking System. (For further details on these different MIS, please see Annex 5.)

Despite the disadvantages of manual systems, 21 percent of institutions, mainly cooperatives and cooperative societies, rely on the manual maintenance of records in forms and ledgers. This is compared to the majority of institutions (59 percent) who reported using computerized MIS. Only 19 percent of the surveyed institutions used a CBS system, predominately public sector and private sector banks and RRBs.

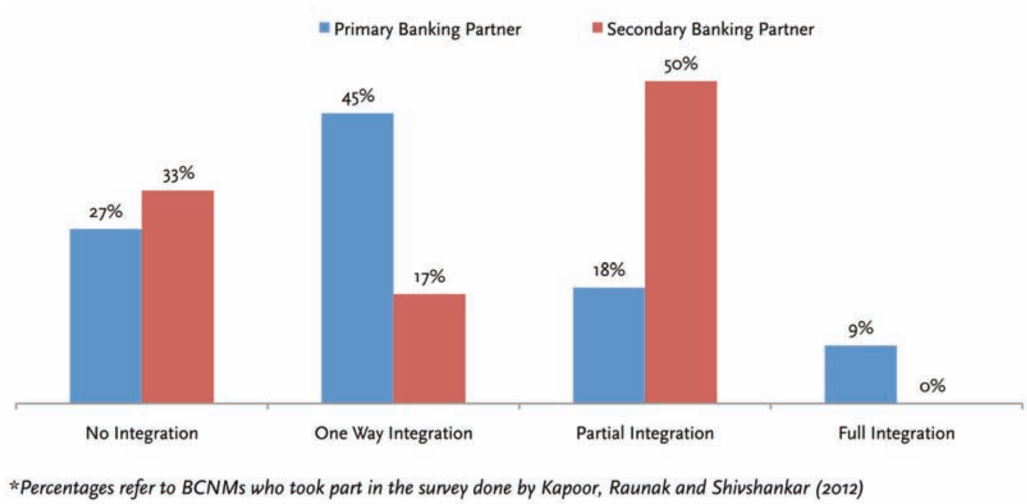
Figure 20: Backend Information Systems Used Across Institutions



Case Study 8: The Need for Further Integration between Business Correspondents and Banks[78]

In March 2012, *MicroSave* carried out a survey of eleven leading Business Correspondent Network Managers (BCNM) to better understand their back-end technology systems and the extent to which BCNM networks were integrated with their partner bank's Core Banking System (CBS). The integration of NFA accounts (opened by BCNMs) provides customers with several benefits, including broader access to the banks' delivery channels (for example, both branches and ATMs), which increases the chance of sustainable activity.

Business Correspondent Integration with Core Banking Systems*



In most cases, normal bank accounts are hosted on a core banking system of the bank, whereas the NFAs opened by BCNMs are hosted on a financial inclusion (FI) server of the bank. This usually entails the following scenarios:

- A no-integration scenario: customers can access (deposit and withdrawal) NFAs at the customer service point (CSP) only. They cannot transfer money to customers hosted on the bank's CBS and vice versa. They cannot use any other banking channel like internet banking, ATMs, etc.

- A one-way integration scenario: the CBS is linked to the FI server. The BCNM network is given one-way access that enables clients to transfer money to anyone on the CBS server but not vice versa.

- Partial integration: NFA customers can use the bank's ATMs for withdrawal of money in addition to the services from the CSP. Hence, they get some of the benefits of a customer hosted on CBS.

- Full integration: makes no distinction between a FI server client and a CBS client.

Conclusion

While India's impressive economic growth over the past two decades has been encouraging, the nation still has a long way to go in terms of poverty reduction. In particular, over the past decade, the Government of India has prioritized and taken steps towards increasing financial inclusion to address the 145 million unbanked households spanning the country. Although almost 100 million government-mandated No Frills Accounts targeting the poor have been opened, studies suggest that dormancy rates can run as high as 90 percent. Despite this, demand studies suggest that low-income Indians can and do want to save. Yet in order to save in a formal account, both infrastructure and quality financial services need to leverage each other's development.

At this intersection, both the Government of India and financial institutions will need to collaboratively engage and experiment to push the frontiers of savings innovation. In order for banks to meet the RBI's ambitious financial inclusion mandates, their product development and delivery has relied on partnerships with business correspondents. The success of this sometimes strained relationship will depend on more systematically leveraging electronic banking channels, in particular mobile banking, as well as relevant government initiatives like government-to-person payments and the biometric authentication program.

Despite many criticisms of the RBI's policies, our research indicates that the government and banks have a role not only in the opening of accounts but more importantly in promoting meaningful financial inclusion. This will require moving beyond just financial access to developing product features that, according to market research, the poor have a demonstrated desire for. Furthermore, RBI policies should include incentives to financial institutions to promote these products as well as increase savings activity. The next step for India's financial sector and overcoming the dormancy rates of No Frill Accounts involves a similar shift in thinking like that from social banking to financial inclusion in which the focus of short-term sustainability and better understanding the value in banking the poor should be central. In the end, financial institutions need to envision long-term profitability as a possibility, and the poor need to experience tangible benefits from formal savings in order for both parties to see value and a way forward for financial inclusion.

Our data collection and informant interviews indicate that this shift will need to be bolstered by the involvement of several active players including commercial banks, cooperatives, deposit-taking NBFCs, postal banks and insurance providers. This diversity of savings providers has motivated certain institutions to experiment and specialize in their approaches and product offerings. In particular, urban and rural cooperatives are centered on serving a specific target market and their product development strategies reflect this. Furthermore, postal banks and deposit-taking NBFCs are predominantly located in rural areas and their savings mobilization approaches are often dependent on reputation and familiarity within individual communities. Finally, insurance providers are recognizing the value of and demand for savings by adding a savings component to their services.

Further data and research on the profitability and scalability of different savings experiments and innovative approaches will provide insight into what is needed for this larger shift to a more sustainable model. The size and scope of our data collection allowed us to shed light on several areas of innovation but could not catch many nuances and unique experiments happening across India. Furthermore, while financial inclusion in India is put forth by a national mandate, the country's decentralized structure has prevented uniform implementation of RBI policies. India's rapidly changing financial, economic, and demographic landscapes provide an even larger imperative for sustainable yet inclusive finance. Better integration of product development, delivery infrastructure, and government efforts will help India achieve its ultimate goal of inclusive growth.

Annex 1. Research Methodology

Tool	Purpose	Coverage
Informant Interviews	To gain the perspective of senior management of various financial institutions in India on the role that savings mobilisation plays in their product mix, product development, and business strategies.	29 institutions
Mystery Shopping	To conduct a first-hand examination of savings products being offered in order to identify product innovations and levels, and gaps of access for low-income households.	37 institutions and 146 products
Secondary Research	To review research, reports, websites, and flyers in order to understand the savings and finance landscape in India and demand-side influences.	41 research papers, 6 circulars from RBI and Ministry of Finance, 6 websites, and other resources

Annex 2. Participating Institutions

Institution Name	Institution Type	Location	Mystery Shopping	Informant Interview
Bihar Kshetriya Grameen Bank (Sponsored by UCO Bank)	RRB	Bihar	X	
The Bhagalpur Central Co-operative Bank Ltd. Apex body (Bihar State Co-operative bank)	Cooperative	Bihar	X	
Bank Sanjivani Vikas Foundation-GAYA (BC for PNB, SBI and Samastipur Kshetriya Grameen Bank)	Business Correspondent	Bihar	X	
Syndicate Bank	Bank	Bihar	X	
Motihari Central Cooperative	Cooperative Society	Bihar	X	
Samastipur Kshetriya Gramin Bank	RRB	Bihar	X	
Uttar Bihar Kshetriya Grameen Bank	RRB	Bihar	X	
Magadh Central Co-operative Bank	Cooperative	Bihar	X	
Madhya Bihar Gramin Bank-Sponsored by Punjab National Bank	RRB	Bihar	X	
NIDAN-Sec-25 company	Business Correspondent	Bihar	X	
Bagnan Cooperative	Cooperative	West Bengal	X	
Bangiya Gramin Bank	RRB	West Bengal	X	
Cashpor	Business Correspondent	Uttar, Pradesh	X	
Sahara	NBFC/Cooperative	Uttar, Pradesh	X	
Paschim Banga Gramin Bank	RRB	West Bengal	X	
Unique Social Equality	Business Correspondent	West Bengal	X	
Union Bank of India	Bank	West Bengal	X	
Life Insurance Corporation of India	Insurance Company	West Bengal	X	
UCO Bank	Bank	West Bengal	X	
Gurgaon Central Cooperative	Cooperative Society	Delhi	X	
Gurgaon Gramin Bank	RRB	Delhi	X	
Delhi Nagrik Sahkari Bank	Cooperative	Delhi	X	
Kangra Cooperative	Cooperative	Delhi	X	
GeoSansar	Business Correspondent	Delhi	X	
IIMPS	Pension	Delhi	X	X
Eko	BC	Delhi	X	
India Post	Post Office	Delhi	X	
Integra	BC	Delhi	X	
Andhra Pragati Gramin Bank	RRB	Andhra, Pradesh	X	X
Andhra Bank	PSU	Andhra, Pradesh	X	X
Anantapur District Cooperative	Cooperative	Andhra, Pradesh	X	X
Kanaikal Primary Agricultural Cooperative Society	Cooperative	Andhra, Pradesh	X	X
Amma MACs	Cooperative Society	Andhra, Pradesh	X	X

Institution Name	Institution Type	Location	Mystery Shopping	Informant Interview
SEWA	Cooperative Society	Andhra, Pradesh	X	X
Cooperatives Promoted by CDF	Cooperative Society	Andhra, Pradesh	X	X
Bartronics	BC	Andhra, Pradesh	X	
Krishna Bima Samrudhi Bank	Local Area Bank	Andhra, Pradesh	X	
Gram Tarang	BC	Andhra, Pradesh		X
State Bank of India	Bank	Mumbai		X
Corporation Bank	Bank	Mumbai		X
Standard Chartered Bank	Bank	Mumbai		X
Axis Bank	Bank	Mumbai		X
FINO	BC	Mumbai		X
Bank of Baroda	Bank	Mumbai		X
Mumbai Bank	Bank	Mumbai		X
ICICI Bank	Bank	Mumbai		X
Hindustan Credit Cooperative	Cooperative Society	Mumbai		X
Jagannath Credit Society	Cooperative Society	Mumbai		X
New Satara Zilla Coop Society	Cooperative Society	Mumbai		X
Central Bank of India	Bank	Mumbai		X
Pallava Gramin Bank	RRB	Chennai		X
Canara Bank	Bank	Pondicherry		X
Annapurna	Cooperative Society	Pune		X
Chaitanya	Cooperative Society	Pune		X
Punjab National Bank	Bank	Delhi		X
IFMR	Community Finance Organisation	Chennai		X
Initiatives for Development Foundation	BC and SHG promoter	Bangalore		X
Janalakshmi Financial Services	BC	Bangalore		X

Annex 3: Informant Interview Guides

Table 1: Practitioner Key Informant Interview Guide

Core Questions	Probe Questions
On Types of Products and Outreach 1. What savings products do you offer to the public?	• What are the differences among these products? • What differentiates them from other savings products in the field (minimum opening balances, utilization of technology, and return on savings)? • What product features are most important to the market?
2. What is the position of your institution in the advocacy to mobilise savings from the poor?	• What market segments do you target (rural communities) and why? • What are the characteristics of low-income savers in your institution? •How accessible are your products to low-income groups? Why do you say so? • What are the different roles of financial institutions in the financial landscape? • How do you understand the business case of low-income savers? • What is your attention paid to savings in comparison to credit services?
On product design, innovation and delivery 3. What have been your experiences in serving the low-income groups with savings products and services?	• How do you utilize technology to enhance the product experience for your customer and/or internal efficiency? • What is the role of marketing in your strategy to reach more savers? • What regulatory recommendation would you make?
4. How do you currently develop (improved or new) savings products?	• When was the last time you went into savings product development—improved or new? • What market information do you use?
5. How do you know if the savings product is successful?	• What indicators of success do you use in savings products? • How do you measure or assess impact?
6. What challenges do you face in delivering savings products? Please elaborate.	• How do you overcome these challenges? • What savings product information do you monitor internally as part of product management?
7. What information support would you need to help you better strategize the management and growth of your savings portfolio?	• What external sources of information do you currently use in managing your savings program? • What specific information do you get from these external data sources?
Targeted and institution specific data questions based on mystery shopping:	

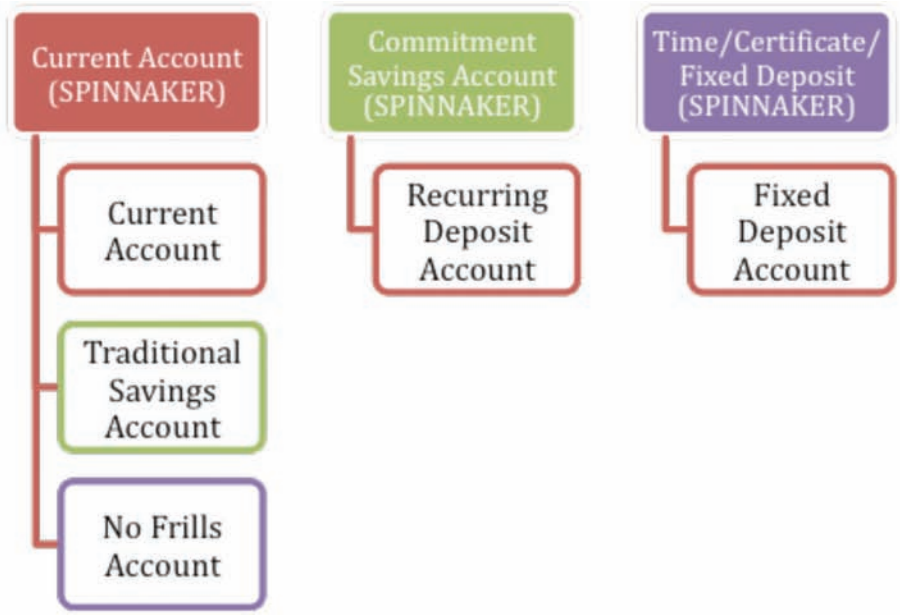
Table 2: Regulator Key Informant Interview Guide

Core Questions	Probe Questions
1. What is your overall assessment of the existing supply of savings services in the country?	• What types of institutions are currently offering savings services to the poor? What are their successes, challenges and opportunities? • To what extent is there focus on the low-income groups? What are currently underserved markets (geographic/ demographic)? • Do the institutions use adequate strategies to serve the low-income segment? If so, which strategies do they use? How do their strategies differ from those strategies towards higher income clients?
2. What is your advocacy position to increasingly mobilize savings among the poor?	• How do current government policies enable access of savings services to the poor? How is this expected to change in the future? • What are the main policy challenges to expanding financial access to the poor (e.g. appropriate products, accessible points, cultural preferences, unwelcoming banks, etc.)? • What are your specific activities or services to move this advocacy forward?
3. For a regulatory body that covers widely dispersed financial institutions, how does your group interact with them?	• What methods of communication do you use? Which ones are found to be more effective? Why?
4. What information does your specific group routinely gather for advocacy work?	• What are your experiences in using information to advocate for wider mobilization of savings? • What are other uses of information you found while doing advocacy or oversight functions?
5. In your dealings with many stakeholders, what innovative services on savings have you come across with?	• Which product features and delivery mechanisms do you find effective? • What resources are used in the design or delivery of these innovative services?

Table 3: Network Key Informant Interview Guide

Core Questions	Probe Questions
1. What is your network's view on financial services for low-income people, especially savings?	• Among your members, what types of institutions are currently offering savings services to the poor? • What are some of the challenges/constraints your members face with regards to savings mobilization? • Is there a strong focus on the low-income segment? What are the currently underserved markets (geographic/ demographic)?
2. What is your advocacy position to increasingly mobilize savings among the poor?	• What are some of the lobbying areas you have recently focused on with regards to promotion of savings among the poor? • What are the general characteristics of low-income groups?
3. What is the network's position on advocacy for financial inclusion of the poor especially in savings?	• What are the main policy challenges to expanding financial access to the poor (e.g. appropriate products, accessible points, cultural preferences, unwelcoming banks, etc.)? • What policy advocacy is in place to enable wider access of savings services to the poor? • What are your specific activities or services to move this advocacy forward?
4. Among your members, what innovative services on savings for the poor have you come across with?	• Which products were introduced? What delivery channels do you find effective?
5. What assistance or services does the network provide to help members develop their products to be more responsive to the needs of the target market?	• Which of these services are mostly demanded by members? • In addition to network support, what resources are used by members in the design or delivery of new products?
6. What information does the network routinely gather from members?	• How is network information shared? • How is network information used? • What are the challenges in motivating members to share data to the network? • What suggestions can you give to keep an online platform of shared resources actively participated in by members?
7. Which information especially on savings is considered sensitive by the network and its members?	•What network policies do you have on information management (e.g. to promote transparency, benchmarking against performance standards)?

Annex 4: Relationship between SPINNAKER and India Landscape Product Definitions



Annex 5. Overview of Different Management Information Systems

Manual MIS: Some organizations (which include mainly cooperatives like Bagnan and Motihari cooperatives and societies like PACS) rely on manual systems, which involve maintenance of records in forms and ledgers. Some of the disadvantages of this type of system include: laborious and time consuming data recording, the possibility of errors and data manipulation, difficulty in maintaining large amounts of data, unsecured data/information, and cumbersome reporting. This type of MIS is suitable for small organizations with limited client bases. Considering the disadvantages of manual MIS, some cooperatives, like the Magadh Central Cooperative, plan to computerize its branches and move to a core banking system (CBS).

Computerized MIS: In this MIS type, organizations can operate in a semi-automated mode or a fully automated mode. The data are entered into a computer and transferred to the head office via CDs or flash drives. The fully automated system has an automated and integrated MIS. The data transfer between branches and head office happens online. Such a system is more advanced and has many advantages:

- Provides accurate and updated information from branch to head office
- Useful in tracking historical data of clients
- Activities, such as disbursements, repayments, deposits, withdrawals, and money transfers are completed more quickly and with minimum opportunity for errors.
- Helps in faster decision making and avoids frauds

Core Banking System (CBS): Most banks use core banking systems to support their operations; CORE stands for "centralised online real-time environment." This means that the entire bank's branches access applications from centralised data centers. Any transactions are instantly reflected on the bank's servers and the customer can withdraw deposited money from any of the bank's branches throughout the world. The core banking system uses software installed at different branches and interconnected by means of communication lines like telephones, satellite, internet and so forth.

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69 Savings for the Poor Innovation and Knowledge Network (SPINNAKER) is a partnership of organizations examining and developing savings products for low-income populations. This study is the third research project conducted by SPINNAKER to capture savings product data, on-the-ground perspectives, and efforts of local leaders. For more information, please visit Spinnakernetwork.org.

70 Cooperative Societies are run by members and are not promoted by the government. While they have to report to the Registrar of Cooperatives, they come under the purview of state governments.

71 "Others" includes 2 microfinance institutions and 1 NGO.

72 Local area banks are set up to cater to the credit needs of local people and to provide efficient and competitive financial services in their area of operation (mainly rural and semi-urban areas). Although the geographical area of operation of such banks is limited to two contiguous districts, they are allowed to perform all functions of a commercial bank. Currently there is only one such institution in India, so it was not included in the previous section's analysis.

73 Savings products in the SPINNAKER database are classified into the following broad categories: "current accounts", "commitment savings accounts", and "time/certificate/fixed deposit accounts". Annex 4 shows how the different product types surveyed fall into these three overarching categories. The following analysis will use the classifications listed in this section.

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