



# Financial Capability Building Practices in India

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# 1. Overview of the Financial Inclusion Landscape

The financial inclusion landscape in India has a long history that can be traced back to the cooperative movement at the turn of the 20th century. However, in the last 15 years, financial inclusion has taken on new dimensions, with the growing realization that access to finance is a critical building block in the economic development of the country. A diversity of stakeholders—government institutions, public and private banks, pension providers, self-help groups, microfinance institutions (MFIs), financial education providers, and support organizations—have played significant roles in driving financial inclusion in recent years. Between 2011 and 2014, account ownership grew from 35 percent to 53 percent of the population aged 15 years and older.<sup>1</sup> The massive mobilization of the financial sector to pursue financial inclusion contributes to our selection of India as an example for the study of the status of financial capability interventions in developing countries.

In recent years, the Government of India has been notable in its pursuit of financial inclusion. The current government under Prime Minister Modi launched an ambitious scheme (*Pradhan Mantri Jan Dhan Yojana*, or PMJDY) to provide all Indian households with access to a basic bank account, connected to a RuPay debit card. The Reserve Bank of India (RBI) has expanded the types of bank licenses it issues to include small finance banks and payment banks, specifically to further the financial-inclusion agenda. The RBI authorizes banks to leverage business correspondents to ensure last-mile connectivity. While dormancy and low account balances have been challenges, it is indisputable that the government has enabled hundreds of millions of people to connect to banks since Prime Minister Jan Dhan Yojana took office in 2014.

Payment banks are the latest category of institutions launched by the RBI to increase financial inclusion. They are allowed to offer small savings accounts and payments services to the migrant workforce, low-income households, and small businesses. Although they cannot make loans, payment banks can: accept deposits, issue debit cards, conduct payments transactions through multiple channels, act as a business correspondent (BC) to a bank, and distribute financial products like mutual funds and insurance policies. Eleven organizations received the first round of payment bank licenses: Reliance Industries, Aditya Birla Nuvo, Paytm, Vodafone, Airtel, Department of Posts, Cholamandalam Distribution Services, Tech Mahindra, National Securities Depository Limited (NSDL), Fino Paytech, and Sun Pharma's founder Dilip Sanghvi. Although many of these organizations were already operating in the payments space, the experience with payments banks is still very new, and it is too soon to know how successful they will be in increasing financial inclusion.

Soon after issuing payment bank licenses, the RBI also issued a license for small finance banks that are meant to cater to the unbanked and under-banked. While the set of financial products that are provided by a small finance bank are similar to those provided by a universal bank, they are expected to lend 75 percent of their adjusted net bank credit to the priority sector and cannot lend to large corporates or groups, or act as a business correspondent of a bank. Ten organizations have received the small bank finance license in the first round: Au Financiers, Capital Local Area Bank, Disha Microfin, Equitas Holdings, ESAF Microfinance and Investments, Janalakshmi Financial Services, RGVN Microfinance, Suryoday Micro Finance, Ujjivan Financial Services, and Utkarsh Micro Finance. With these new entrants, the financial inclusion landscape is set for a transformation.

Serious challenges remain in the financial inclusion landscape, such as a significant “last-mile” challenge, with access continuing to be much stronger in urban and peri-urban areas. Regulation for MFIs remains a challenge given the cap on operational expenses, which limits MFIs’ ability to deliver services in harder-to-reach areas or to higher-risk populations.

## **Financial Education**

Following the 2008 global financial crisis, the Indian government began paying increased attention to financial literacy. Senior government leaders realized the importance of having a cadre of well-informed and financially capable citizens. India’s National Strategy for Financial Education (NSFE) has helped shape the actions taken by public, private, and social sector actors. The national strategy aims to “spread awareness about basic financial products in order to link new users to the formal financial sector, to educate existing users of financial products and services to make informed choices, and to ensure consumer protection for all the users.”<sup>2</sup> Through the national strategy, the government and regulators seek to partner with a multitude of stakeholders, including banks, MFIs, civil society organizations, and NGOs.

Citing the OECD, the government’s strategy defines financial literacy as “a combination of financial awareness, knowledge, skills, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being.” It states that this can only be achieved through sound financial education, defined as “the process by which financial consumers/investors improve their understanding of financial products, concepts and risks, and through information, instruction and/or objective advice, develop the skill and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.”<sup>3</sup>

Although the document has clear definitions, it is at best a guiding framework. It lacks clarity on who is responsible to conduct financial education activities and what the delivery mechanism should be. Each of the wide variety of stakeholders targeted by the NSFE tends to implement financial education in their own way. There is currently no mechanism for assessing the quality and impact of these financial education or literacy initiatives. Government metrics for impact only track the number of customers enrolled.

One of the main ways banks and large financial institutions have responded to the NSFE, with encouragement from the regulator, is through financial literacy camps. These short-term, one-time sessions are often conducted by retired bankers. Participants learn about financial products offered by the hosting financial institution and are encouraged to enroll in these products. The camp setting is only suitable for mass messages. One challenge with such camps is that the information is often limited to a single financial product that the local bank wants to promote. Most of the information, therefore, is not linked to individual or household needs and thus clients may be steered toward products of limited application to their lives. Nor is much attention paid to skill development or consumer behavior. Since these camps tend to be held at remote locations that lack access to a bank branch, adoption and usage tends to be low.

Financial and social sector providers also reach clients through financial literacy centers. For instance, in response to the poor design and lack of impact of the government-led literacy camps, GIZ and Swadhaar, a microfinance institution in India, piloted their own financial inclusion and literacy centers. These centers provide a range of free activities to the communities, such as telling community members about financial services available to them, providing in-home education and counselling, and linking clients to financial service providers who can help them reach their goals. On the whole these centers are considered successful, and GIZ has published training materials for other entities to use, such as frequently asked questions for trainers and ideas for managing and operating the centers.

## 2. Financial Education and Capability Programs

Financial capability in India is evolving slowly. Without a clear government-led strategy, the term itself has not yet found a home in the lexicon of financial service providers. Uncovering what providers are doing to help their clients learn to make good financial decisions was difficult for this reason. With the top-down push to focus on generating massive numbers of financial education participants, few banks focus on financial capability. MFIs, which have a closer relationship with low-income clients, have more opportunity to experiment with interventions that connect to behavior.

### *Banks and MFIs*

Most financial institutions, whether banks, non-bank financial companies (NBFCs), or MFIs, have not considered integrating financial capability into their business models. They often segregate financial education in a separate department and deliver messages through classroom training. Usually, a not-for-profit arm of the MFI or bank delivers financial education. This separation is employed so that the costs of financial education do not increase the operational expenses of the for-profit arm which, for MFIs, are capped by regulation. For banks, this allows for utilization of funds under their Corporate Social Responsibility (CSR) mandate. For MFIs, the financial education program is usually timed to take place prior to a loan disbursement, and can cover topics such as product terms and conditions, management of personal and business finances, or preparation of cash flow statements. Training is often provided in partnership with technical agencies such as Accion.

While most banks and MFIs have not fully embraced financial capability, our scan discovered a few exceptions.

The new management team at Ratnakar Bank Limited (RBL), one of the oldest banks in India, launched a strategy that makes financial inclusion a core aspect of the business. With this in mind, RBL has been focusing on understanding their clients better, particularly how they use their services and whether client behavior is changing as a result. RBL has partnered with Swadhaar India (an MFI), IFC, and Accion to offer a financial literacy program as a means to gather baseline data about clients. After the program, RBL conducts focus group discussions to assess what clients would like to learn and whether the sessions met their requirements. To gather this data, RBL uses technology such as smartphones and tablets that link to their back-end system. This information will be used by their business correspondents and front-line agents to offer the right products and deepen their relationships with customers. The head of strategy of RBL said, “Financial literacy can be preachy. One has to look beyond financial literacy to provide what customers want and make sure the services make sense to their lives.”

Although its financial education program uses traditional delivery methods, RBL is notable within the Indian banking context in two ways. First, it brings financial education into the bank's operations (rather than placing it in a separate department), and second, it energetically gathers client information to shape its offerings.

### ***Swadhaar***

Swadhaar operates in Madhya Pradesh, Maharashtra, Gujarat, and Rajasthan, and provides group and individual loans. Swadhaar started a financial inclusion and literacy center called FinAccess, managed by its non-profit arm, as a response to a study that revealed that Swadhaar's financial literacy programs had led to an increase in product awareness among clients, but not an increase in uptake. These centers provide financial training and assistance, as well as individual counselling and support for financial decisions. This is done through counsellors and a senior trainer. Distinct offerings cater to women, men, and working youth who can attend evening classes. The training for women consists of five one-hour sessions and covers concepts such as budgeting, saving, prudent consumption, and information on financial products and their uses. Participants are given a budget diary and taught to prepare a monthly budget and track their daily expenses.

### ***Janalakshmi***

Janalakshmi also operates with the combination of a for-profit business and a non-profit arm called the Jana Urban Foundation. The Foundation is the custodian of all projects pertaining to customers, including customer education, research to understand uptake of products, customer insights, and making the business model more customer-centric.

As a part of their financial advisory services work, Janalakshmi has partnered with ideas42 to launch the 'Rules of Thumb' project. This project looks to move beyond the provision of standard classroom training to micro-entrepreneurs to test a new financial capability intervention that departs from the traditional methods in two ways: it simplifies the training into easy to adopt, easy to remember rules of thumb; and it uses mobile technology to deliver the material cheaply and at moments of time that are useful for micro-entrepreneurs. The evaluation is currently being carried out with micro-entrepreneurs who have taken average loans ranging from Rs. 50,000-Rs. 200,000. (A longer description of Janalakshmi's several initiatives can be found in the main report.)

### ***KGFS***

The KGFS model, owned by IFMR Rural Channels, is a branch-based model that aims to deliver a complete suite of financial products to customers who live within a 5-7 km radius around the branch. The delivery of these services is done by a front-line staff member called a "wealth manager" who is trained to gather financial information about each customer and recommend personalized products. The data gathered includes household-level information such as the number of household members, their occupations, their dates of birth, assets, liabilities, income, and expenses, to create a rough cash flow statement for the household. KGFS offers a number of truly unique contributions to financial capability, particularly its strategy of developing close customer relationships that truly understand every client need and can offer products based on those needs.

To build an intimate relationship with its clients, KGFS offers services on a number of levels:

- Financial advice based on each client's unique set of needs and challenges. To do this, wealth managers are trained to map client needs to available products. In fact, staff training is a main focus of KGFS, as building the capability and skills of front-line staff often leads to good financial advice for clients.
- Good advice is backed by the ability to provide products at that point in time, which ensures immediate adoption of advice. Wealth managers are equipped with technology-enabled tools to simultaneously collect data and sign clients up for products.

The wealth managers at KGFS are not incentivized for the sale of products. Instead their performance is judged by metrics such as enrolment rates and accuracy of household information. To aid the wealth managers in their work, the system classifies customers into 'at-risk'/priority categories, based on a complex algorithm that analyzes data gathered about the customer. For instance, a household that has a single earning member who has not taken insurance is classified as a high priority household. This allows the wealth manager to prioritize the set of customers that they should meet to convince them of the need for various products. The ultimate choice of taking the product is still with the customer and the wealth manager is not 'incentivized' to push sales, but merely to show the customer the need to take the product.

### ***A New Payment Bank: FINO***

FINO Paytech (Financial Inclusion Network & Operations Paytech Ltd.) received one of the new payment bank licenses. FINO Paytech is a Mumbai-based organization that builds and implements technologies that enable financial institutions to serve under-banked populations. FINO Paytech offers a banking and payments system that uses smart cards and agent-operated mobile POS terminals to facilitate transactions between institutions and customers.

Financial institutions face a number of challenges when serving low-income customers, including illiteracy, information asymmetry, inadequate infrastructure, security and high costs relative to transaction size. FINO provides both services used by the end client directly (e.g., smart cards), and back-end systems for financial service providers (e.g., accounting, MIS, and POS terminals).

The use of smart cards allows customers to learn by doing. For example, in the savings account product, the smart card enables people to check balances, transfer funds, make deposits, and withdraw cash. The cards can also be used to access government subsidies, payments, and credit, as well as health, life, and weather insurance. Other services include a remittance solution that enables individuals to send remittances from cash-to-smart card, card-to-bank, or card-to-card; a deposits management product that enables institutions to process recurring deposits or mutual funds; and a credit scoring solution for banks and MFIs with plans to extend to credit bureaus and financial risk management services. In addition to this range of services, FINO offers structured and customized financial literacy programs (FLP) using communication material in local languages to convey the message of financial literacy interactively.

## ***Online Services and Other Models***

These online services are generally aimed at middle class customers with bank accounts and internet access. They mirror similar products in the U.S. and other high-income countries. While not immediately applicable to the base of the pyramid, they introduce new models into the Indian scene, and as internet access grows, they will become more relevant to more segments of the population.

### ***IndianMoney.com***

IndianMoney.com provides free consultation services and financial advice to ensure customers are not misguided while buying various financial products. This is unique since IndianMoney.com is not connected to any financial service provider and only acts as a provider of advice. The process is simple. Before buying any financial product, a potential customer leaves a voice message with IndianMoney.com at 022-6181-6111. A financial advisor will call back from IndianMoney.com and provide free and unbiased advice on any kinds of financial products, including insurance, mutual funds, loans, bank accounts, deposits, stock, or real estate. One can also visit IndianMoney.com and browse the website and blog for information. IndianMoney.com does not sell any financial product and only provides customers with information that will help them decide whether to buy a financial product or not.

IndianMoney.com recently launched a financial education pilot with Karnataka Vikas Grameena Bank. IndianMoney.com clients can sign up for a series of two-to-three minute phone lessons that cover financial topics of their choice at a rate of 1-2 rupees per minute. At the end of each call, they are given the option to sign up for a product or service with a bank that is connected to the financial education module. The local branch is notified and reaches out to the client.

### ***Namaste Credit***

Namaste Credit targets micro, small, and medium enterprises that find it hard to access bank loans or access loans at a premium. Namaste Credit matches funding needs of these businesses with lenders and helps secure a loan with minimum hassle through an online portal. The portal helps borrowers choose the right product and rates the business using a proprietary credit rating algorithm, while providing required information and paperwork to multiple lenders. For borrowers, this can translate into offers from multiple lenders with transparent offer terms that allows them to choose the best product. This also translates into a shorter lender loan decision process, allowing businesses to raise capital in time.

### ***Money View***

Money View is a personal money manager on a mobile app that aims to assist clients to develop “financial fitness.” Money View captures credit card and bank account transaction information by analyzing the SMS messages financial service providers are required to send to clients after every electronic transaction. The application uses this information to provide a daily, weekly, and monthly summary of financial expenses. It works across multiple accounts to track bills, expenses, and account balances. The application also allows users to set a monthly budget and alerts users when the limit is approached.

### **CRISIL Foundation**

CRISIL Foundation is one of the examples we found that provides behaviorally informed interventions to lower-income customers. It works in partnership with RGVN, an NGO in northeast India. CRISIL trains front-line staff, known as CRISIL Mitras (Hindi for “friend”), to facilitate learning by encouraging discussion and interaction among clients. It created games based on the games native to the region that many clients played while growing up. For instance, a game similar to ‘Hop Scotch’ teaches players about goal-based financial planning and how to save for a particular life-event. Another offering is a game based on ‘Passing the Parcel,’ where the clients are educated on the concepts about insurance and how they can protect themselves against unforeseen shocks. The CRISIL Mitras also provide financial advisory services to women through an app on a ‘phablet’ (phone-tablet) developed by CRISIL Foundation. The app helps the CRISIL Mitras provide recommendations such as: repay your high interest loan; buy livestock insurance; or start paying in to a pension, depending on relevance to the customer. Given poor connectivity, the app allows data to be stored offline and syncs to the server whenever the Mitras have access to internet/data services.

## **3. Future Opportunities**

With so many first time accounts being opened so quickly, and with the advent of payment banks, small finance banks and other providers catering to the base of the pyramid, the importance of financial capability for India is likely to increase manifold. With huge reliance on technology, and the ability to be present at the doorstep of the customer created by mobile and other payment solutions, there are more opportunities that financial service providers organizations can explore. Traditional banks, NBFCs, MFIs, and payment banks will soon have the technological ability – or may already have it – to incorporate some of the elements in the interventions just described (IndianMoney.com, etc.) that interface with customers cheaply through phones and tablets, that make learning fun, and that provide tailored analysis, advice and communications. In order to take advantage of these opportunities, however, these institutions will first need to understand the necessity for behaviorally informed principles when setting out to help clients build their financial capability.



## Endnotes

**1** Asli Demirguc-Kunt, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden, “The Global Findex Database 2014: Measuring Financial Inclusion around the World,” *Policy Research Working Paper 7255*, World Bank, Washington, DC (2015).

**2** OECD, “Advancing National Strategies for Financial Education; A Joint Publication by Russia’s G20 Presidency and the OECD,” p.128 (2013).

**3** *Ibid.*

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