# Harnessing digital finance to unleash the true potential of financial inclusion

*Given the position and resources of IEPFA, IEPFA can lead a project of financial education, especially focusing on digital financial transaction, in rural India. In essence, it is expected that the financial education drive in rural areas will lead to Indian focus on promoting "Cashless economy" amid COVID-19 crisis and thereafter amongst rural populace.*

## 1. Background

Digital financial services (DFS) offer a relatively cheap and convenient source for deposit, withdrawal, and transfer of fund/money. It can also aid in reducing leakage and inefficiencies in various government benefit transfer schemes for poor. In emerging economies, implementation of digital finance through Fintech provider increases financial inclusion. In last couple of years, the financial infrastructure has undergone a huge transition in India with more emphasis on cashless transactions. Physical distancing, self-quarantine and work from home (WFH) culture in COVID19, has further prompted many to opt for digital financial transactions. While, poor are the one facing more adversity in this situation.

In a recent research, carried out using RBI and NPCI data, it was observed that despite all the advantages and efficiency associated with digital financial transaction and COVID19 itself having presented an opportunity to mainstream the digital financial transaction, the usage of such digital financial transaction remained at more or less the same level as pre-COVID19 period. Though the usage of digital financial services like AEPS, APBS, UPI, etc. increased in first initial months of lockdown, with relaxation in lockdown the increase in digital financial transactions are not as desired (Figure 1). The low-income groups can be benefitted more with the adoption of digital financial services as their efforts to obtain services by going physically to banks or ATMs can drastically get reduced.

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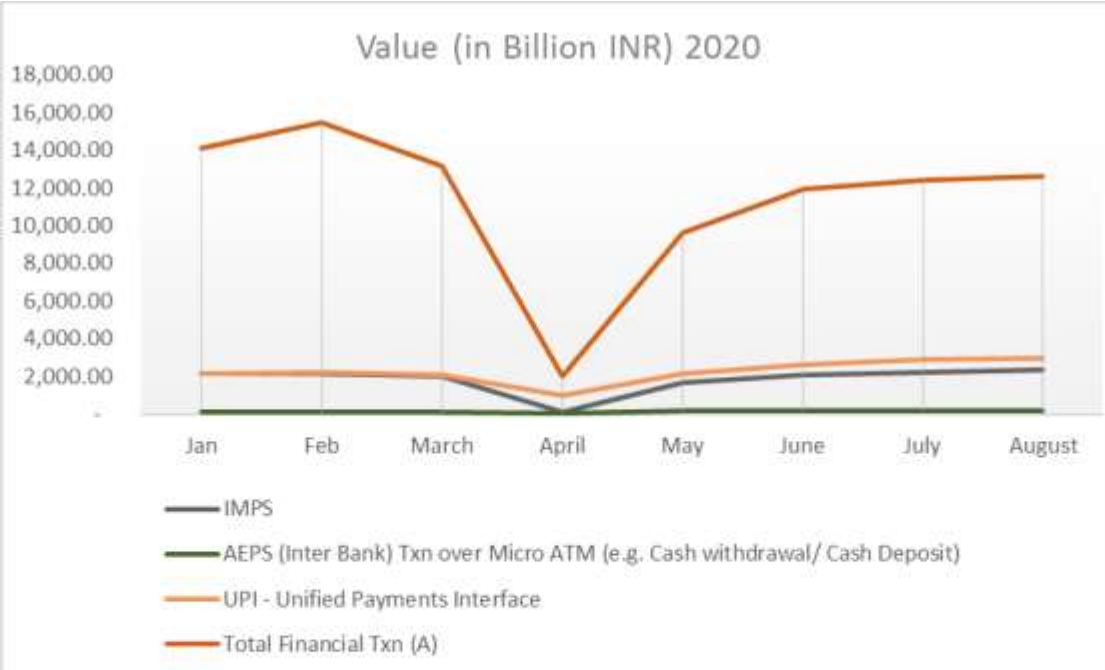


Figure 1: Digital financial transactions (Volume)
(Source: NCPI data, 2020)

The recent study, on the extent of digital financial services usage in pre and post COVID-19 scenario by poor, provided many meaningful insights to us. The article outlined a number of reasons for poor adoption of digital financial services among poor like:

- Absence of fully developed infrastructure evident in low penetration of smart phone, very few financial apps for non-smart phone, rising cost of mobile data as compared to purchasing power of low-income group of public, underdeveloped physical infrastructure of mobile towers, broadband network, etc.
- Fear of unknown and fear of exposure to risk of cheating - It seems that the most significant factor in holding back the initiation of digital financial transaction is the fear of unknown. It's not easy to convince the first time users, who may be the neediest ones, to start using digital financial transaction.
- Lack of skills to carry out digital financial transaction is a result of low general literacy, low digital literacy and low financial literacy. This is more the reason why practical programs of financial education and handholding of the training process become so important.
- Issues of safety – cyber security: The general perception amongst the non-users, especially in the low income category, is that once the digital financial transaction starts, someone may play trick and the money from the account can get fraudulently withdrawn.
- Behavioural issues and past experience of carrying out financial transaction is a big psychological barrier, as generally, people have been used to handling cash and using services of banks. They are more comfortable and are at ease to transact, if option of physical/direct financial transaction is available.

- Concerns related to UPI transactions: Potential users of UPI have voiced numerous concerns related to usage of the UPIs. A few of the most significant concerns of UPI users have been addressed by NPCI and are tabulated at Annexure I (Detail explanations and address to other relevant issues related to UPI are on the website of NPCI)

Thankfully, with the recent developments of financial and physical infrastructure by the government, physical and internet connectivity is no longer a major deterrent in most of the places in the country.

In such a scenario, it is important to focus more on financial education to encourage people in using digital financial services. Past studies on financial education depicts a positive relationship between financial education and financial behavior through improved financial decision making. Financial education includes teaching various financial concepts like saving, budgeting, borrowing, spending, etc. For coping with the income shocks and better managing emergency expenditure by low income group populace, financial education can play imperial role especially in rural areas. Deepak Mohanty high level committee report[1] emphasized on cash-in and cash-out points through micro ATMS, mobile wallet and Rupay in rural area for increasing access to the formal payment services. National strategy for financial education (NSFE) 2020-25[2] by the government also focused on digital financial services as one of its strategic objective for safe and secure transaction. Further, Department of Economic Affairs in monthly economic review report[3] (August, 2020) also asserted the need of digital finance for increased financial inclusion. Particularly in remote areas, widespread adoption of digital payment can definitely help to strengthen resilience after COVID-19.

It has been observed that rural communities in particular have suffered more in comparison to the urban households in COVID19 crisis. A recent study[4] reported a major drop in income among 88% of rural households. It is believed that mainstreaming digital financial transaction through financial education would enable them to attain improved financial position.

Considering the growing need for the financial education to promote digital financial transaction, for creating larger impact by this program of digital financial transaction related education, it would be better that various stakeholders collaborate in facilitating the outreach of program of financial education, especially focusing on digital financial transaction, to every corner in the country.

This concept note outlines a number of steps to be taken in close collaboration with various ministries in state/central government for enabling better reach of the financial education programs to poor communities especially in rural areas.

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[1] https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CDDP03062019634B0EEF3F7144C3B65360B280E420AC.PDF
[2] https://www.pfrda.org.in/writereaddata/links/nsfe%202020%20-25271250f7-f683-4def-83bf-774dd77269ca.pdf
[3] https://dea.gov.in/sites/default/files/MER_August%202020.pdf
[4] https://www.brinknews.com/quick-take/rural-communities-are-suffering-the-most-from-indias-lockdown-financial-losses-urban-income-covid/

## 2. Objectives of the program

The goal of this program is to encourage and facilitate digital financial transaction in rural regions of India through practical program of investor/financial education. The overall goal is to educate the rural citizens on making improved financial decisions and use digital means of carrying out financial transactions.

The broader objectives of the program would be:

- Sensitization of need of financial education and digital financial transaction at the lowest democratic structure of government, i.e. Panchayats
- Improvement of financial decision making among rural citizen related to saving, investment and retirement plans
- Empowerment of women to make better financial choices and manage drudgery
- Promotion of financial inclusion and literacy among young children and adult
- Enabling farmers, small entrepreneurs in rural areas, etc. to understand the significance of using financial services from formal sources

In partnership with like -minded agencies, groups and various ministries in the Central and State governments, this program aims to promote digital financial transaction in the rural areas of India leading to efficiency, security and ease of carrying out financial transaction.

Implementation of the program can be staggered and done region/state wise. To start with, the state of Uttar Pradesh can be chosen. As per the latest report of the Ministry of Statistics and Program Implementation (released on 7 January 2020)[5], the state per capita income is very low in state like Uttar Pradesh. There are 75 districts with around 97,941 populated villages in Uttar Pradesh[6]. Later, the program is to be implemented in other states as well.

[5] http://mospi.nic.in/download-reports
[6] http://up.gov.in/Social-Demography.pdf

## 3. Approach

The road map for the programs is shown in Figure 2 below,

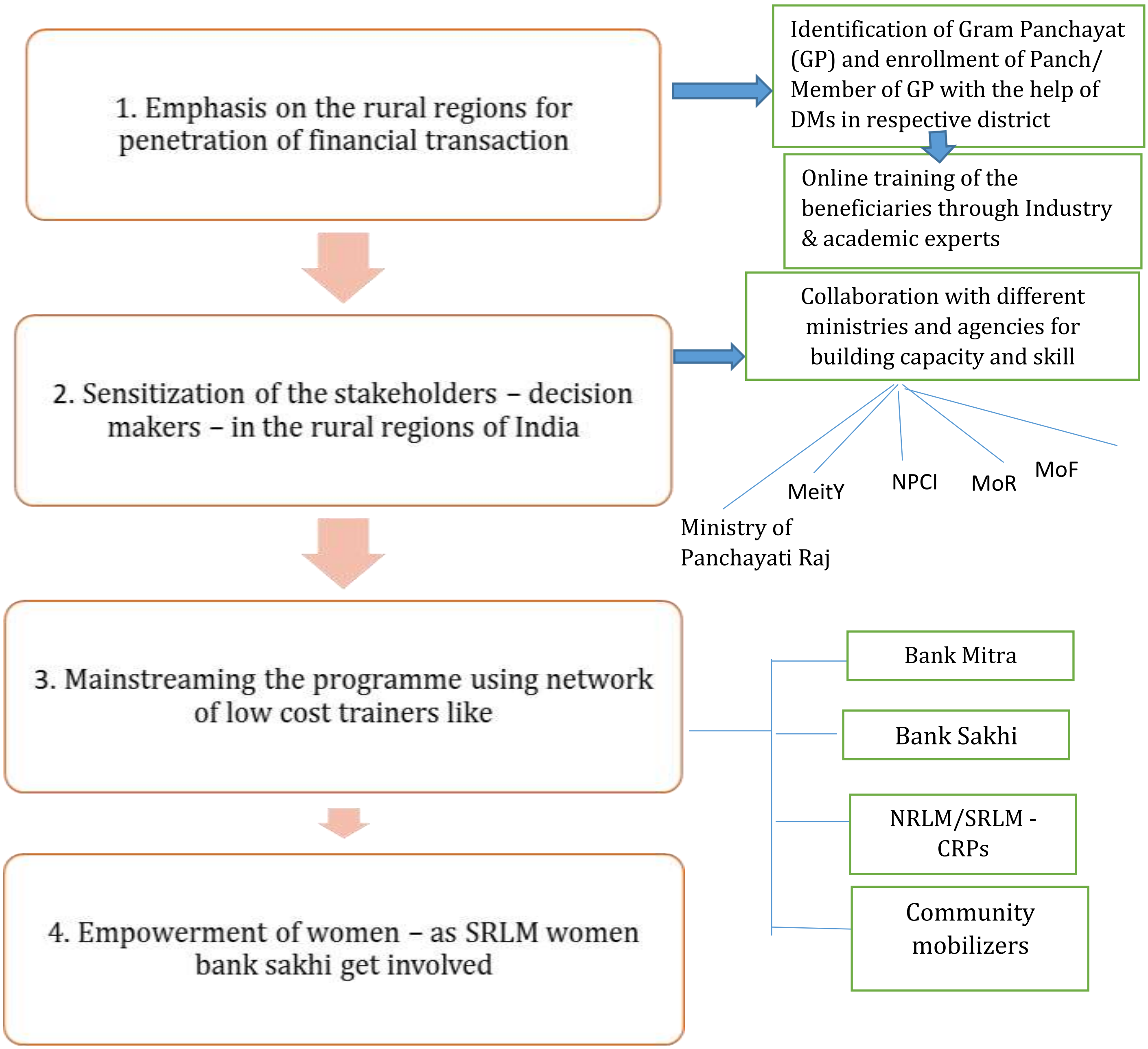


Figure 2. Road Map for financial education program in rural part

## 4. Collaboration with various ministries and stakeholders

The program would be led by IEPFA under the Ministry of Corporate Affairs. Given the scope of this program, the pre-eminent position that IEPFA holds in India for investor/financial education and protection, the resources that IEPFA has and overall, the experience that IEPFA has gained in providing financial/investor education and protection, IEPFA would take the lead role in implementing, coordinating and managing the program.

Indicative collaboration with various ministries would be as under:

***Ministry of Panchayati Raj (MPR):*** The Ward Members, or Panchs of a Gram Panchayat can play an important role in mobilizing and motivating people in a village. MPR through various capacity building schemes and programs is already working on developing skill sets in the rural areas. The enrollment of Panchayats through MPR in this program would help in taking the program to the lowest level of democratic decision making structure in India, which, in turn, will help in broad-basing the program of financial education in rural areas. Indian Panchayat system has three levels. First level is the Gram Panchayat or the village level. Second level is the Panchayat Samiti/Janpad Panchayat which is at the Block level. The top most level in Panchayat system is the Zila Parishad or the District Panchayat. This program focusses on Gram Panchayats (GP). Once the program has been conducted in online mode for GP members, then under their supervision, the program would be implemented for PMJDY account holders residing in the coverage area of those GPs. SRLMs, for example that of Bihar, already has a very vibrant and active cadre of trained Community Resource Persons (CRPs) and women members (Bank Sakhis). Further training of these CRPs and Bank Sakhis, especially on digital financial transaction, would be arranged using online mode through experts from NPCI at CSCs and offline mode at RSETIs. Later, respective Panchayat member/head of these GPs would be coordinate and supervise these programs of financial education program/training of PMJDY account holders in GP area (Figure 3).

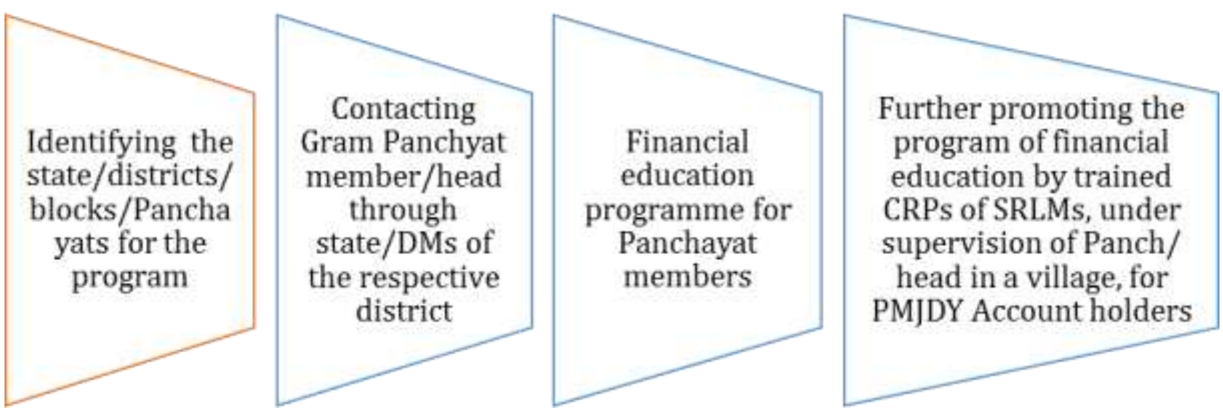


Figure 3: Delivery of financial education program on digital financial transaction

***Ministry of Rural Development*** (MoRD)– National Rural Livelihoods Mission (NRLM) was launched by the Government of India under the Ministry of Rural Development (MoRD). NRLM aims at creating effective and efficient institutional platforms for the rural poor, enabling them to have improved access to financial services and selected public services. NRLM had been set out with an agenda to mobilize and to reach out to 7.0 Crore BPL households, across 600 districts, 6000 blocks, 2.5 lakh Gram Panchayats, 6.0 lakh villages in the country. The mobilization was to be into self-managed SHGs and federated institutions and to provide support to them for livelihoods collectives. NRLM/SRLM under MoRD have suitable linkages at the district level with District Rural Development Agencies (DRDAs), Panchayat Raj Institutions (PRIs) and Resource Organizations (ROs). SRLMs also have cadres of ground level workers comprising Bank Mitra, Community mobilizers (CMs) and Financial Inclusion/Literacy Community Resource Persons (FL-CRPs) supported by BC/Bank Sakhi, who work as rural entrepreneurs providing banking related services. NRLM has also about 20,000 trained field level Financial Literacy trainers. Out of these trainers, better trained and performing trainers can be used on the ground to help with this program of digital financial education. Based on local availability and suitability of the cadre members, in consultation with SRLMs, relevant persons can be enrolled under the program for dissemination of digital financial education to large masses in villages.

***Ministry of Electronics & Information Technology (MeitY):*** MeitY functions to provide e-infrastructure for delivery of e-services across India. Common Services Centers (CSCs) in villages provides one-stop solution to a wide variety of services like rural banking, insurance, agriculture, utility services. Etc. As IEPFA is already partnering with CSC, further collaboration with MeitY for this project will assist in better utilization of resources in Gram Panchayats like CSCs, where these training programs can be provided on an online mode.

***National Payments Corporation of India (NPCI):*** NPCI would provide academic and technical resource needed for digital financial literacy through development and production of material and training modules. Initially, a basic program of digital financial transaction can be planned. In later phases, programs can be designed in a manner considering the socio-economic and demographic groups like separate module for employed/unemployed women, farmers, old aged person, etc.

***Ministry of Finance (MoF):*** Financial inclusion through PMJDY has gained massive traction in India. As on date there are about 41.13 Crore PMJDY account holders. Most of these accounts are with Public Sector Banks and RRB, whose staff structure has not gone up in the same proportion as the PMJDY account has gone up (as compared to non-PMJDY regular accounts). Promotion of digital transaction in those accounts would help manage the load of banking staff better. Through this program, the PMJDY account holders in selected villages can be educated, under the supervision of Panch or GP leader, who would have attended first hand training on various digital financial services.

**Provisioned for wider participation:**

It is also suggested that for better recognition of efforts of IEPFA/MCA in the area of investor/financial education as well as for ensuring better buy-ins of the program by various stakeholders, participation is also suggested by other agencies/institutions/stakeholders, such as:

a) Besides the collaboration with various ministries, various international agencies like Better than Cash Alliance – UNSGSA, Gates Foundation, World Bank group institutions, ADB can also be roped in to strengthen the program, provide funding support and help get international recognition of the efforts of IEPFA.

b) Collaboration with financial sector regulators and specialist agencies like NCFE, etc. may also be considered, as such a program would be helpful in implementing the new National Strategy for Financial Education.

## 5. Other operational aspects: How would it be done?

It is important for these financial education programs to focus more on "doing" aspects rather than just "classroom teaching/studying" aspects. For example, when financial education programs are carried out for PMJDY account holders or SHG women members in a village, "Doing aspect" could be actually carrying out digital transfer of small amount of fund amongst the group members.

It is hoped that even if only a few of the members of SHG carry out the digital financial transaction initially, it could have huge demonstrative impact for not only all the other trainee members but also other members of the community from where the trainee members come. User knowledge and attitude of use of digital financial transaction could play a big role in helping mainstream digital financial transaction. Field based network of low cost trainers like Bank Mitras, Bank Sakhi and FI-CRP of Rural Livelihood Missions and slightly more focused network of Internet Saathi can prove very useful in helping mainstream digital financial transaction.

To operationalize the strategy of popularizing digital financial transaction in villages, a small group of 6-12 (this can be higher, depending on the availability of interested people) people would require to be formed by Panch/member of GP in a village. This group would be further divided into two sub groups. At least one member from each sub-group should have a smart phone, PMJDY bank account and BHIM app installed on the phone. A simple transfer of INR 5 is to be made from the member of 1$^{st}$ group using his account and his phone number@upi to the member from 2$^{nd}$ group. Then the member of the 2$^{nd}$ group (recipient of the first transaction) would do a similar reverse transfer to the account number/phone number of the person (transferor) of the 1$^{st}$ group from which he had received INR 5. If other members have smart phones and they are interested in learning about carrying out transactions, then they would be also encouraged to do similar transaction amongst themselves. Under the supervision and guidance of GP, children of

PMJDY account holders, who are tech-savvy and comfortable using the smart phones, can also be allowed to participate in the training program to assist the PMJDY account holders. Similarly, the other participants will be asked to do the same with each other

The transaction done in this manner will encourage them to adopt digital transaction. Currently, BHIM app transactions are free so the whole exercise would provide a zero-cost experience.

For covering all the Panchayats across country and then covering all the PMJDY account holders, it would require massive effort, resources and time. Just to get an idea, for covering even 1% of the PMJDY account holders, i.e. about 41 lakh account holders would be required to be covered.

Just to illustrate, over a period of 5 years, on an annual basis, these account holders can be conservatively covered by such programs of financial education as under:

| **Year** | **Coverage of 1% of current PMJDY Account holders** |
| --- | --- |
| 1st year | 2 lakhs |
| 2nd year | 4 lakhs |
| 3rd year | 8 lakhs |
| 4th year | 11 lakhs |
| 5th year | 16 lakhs |
| **Total** | **41 lakhs** |

IEPFA would require to work with NRLM to get an idea of deployment of its CRPs to get further idea of requirement of HR and financial resources. If 100% of current PMJDY account holders are to be covered then the plan and resources would be accordingly required to be scaled up.

For this reason, phase-wise implementation of this program may be planned. It would be a good idea to focus on the developing states of India in the first phase. For this reason, it is planned to execute the program in the state of Uttar Pradesh.

For implementing the program across country, IEPFA would require to set up a Project Management Unit (PMU) and allocate required resources. MCA had already set up PMU, for example for MCA21, and the experience can be handy for executing this program also. Establishment of a Project Management Unit (PMU) would be helpful in managing and coordinating the overall implementation of the project and carrying out proper management of its resources to ensure that the objective of the program is realized.

As this program involves working with various ministries and agencies, it is suggested that a small committee, comprising representatives of ministries and agencies, may be formed. To start with the concept paper can be shared with these ministries and agencies for getting their initial views and suggestions.

# Annexure I

### What happens if the user's mobile phone is lost?

In case of mobile loss, one needs to simply block his mobile number thus no transaction can be initiated from the same mobile number which is a part of device tracking and at the same time UPI pin would be required for any transaction which is not to be shared with anyone. As the UPI-PIN is required to authorize all transactions, that PIN will not be known to any third person (who has the phone) and hence they will not be able to use the UPI app. In addition, user should immediately contact NPCI customer support at the user's bank in the event the phone gets lost.

### What if the user's account is debited but the transaction does not go through?

UPI provides for real time reversals for declines and amount would be transferred back to the payer account immediately. In case if it does not reverse the amount immediately, the user can contact her/his bank for the same.

### Where does the user register a complaint with reference to the UPI transaction?

The user can also raise her/his grievance or check status of UPI transaction through the UPI App of the participating banks.

### What happens if the UPI transaction of the user has failed but her/his bank account has been debited?

In case of failures, money will be refunded back to user's account. Sometimes this takes longer than intended. If the user does not receive the refund within 1 hour, s/he should contact customer support at her/his bank.