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Financial Inclusion

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Ours is a very unusual age. Throughout history, since innovations have to recover their cost, they were most frequent in goods and services that only the rich could afford. Internet and Communication Technologies (ICTs) are an area of rapid innovation. Many services based on them are accessible to all, regardless of income. Almost all adults (and too many children) have mobiles. This is a product that meets a real consumer need. Product differentiation and the low margin and high volumes business model make it profitable for private industry. Indian digital public infrastructure has created externalities for many private businesses, who can build on free platforms. India's G20 presidency seeks to share such successes with other countries India's inclusive approach defining its G20 presidency is largely an extension of its domestic vision of growth and prosperity for all sections of society.

Much of the innovation in India is to be seen in the financial services industry and it facilitates 'active inclusion' defined as creating conditions for the many to contribute to and participate in opportunities. Rising resources and capabilities empower and convert the excluded into active participants. It also improves

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targeting of redistributive strategies to tackle persistent poverty. Kristalina Georgieva, Managing Director of IMF said at the third G20 Foreign Ministers and Central Bank Governors' meeting in July 2023 in Gandhinagar, Gujarat that "Digitalization provides great promise if we learn from proven successes, like that of India's in public digital infrastructure, as a foundation for dynamism and growth."

Households

Starting with the aim of ensuring every household had at least one person with a bank account, the focus of India's Financial Inclusion strategy has shifted from "every household' to "every adult." A no-frills bank account scheme introduced in 2014 – known in India as the PM Jan Dhan scheme -- has already brought about near total inclusion in banking services. Internet and mobile banking reduces the cost of service expansion in remote areas. Banking services no longer depend on expensive branches. Areas of low population density can be covered through tech-enabled banking correspondents. Central Bank Digital Currency (CBDC) will also reduce the cost of reaching the excluded.

In his address to both houses of the US Congress, Prime Minister Narendra Modi, who championed the no frills banking scheme, said: "We took banking to the unbanked with the world's largest financial inclusion drive. Nearly five hundred million people benefited." As a result, 478 million Prime Minister Jan Dhan bank accounts were opened during 2014-2022. This enables the government to make direct benefit transfers without leakage. Participating in the G20 High Level Symposium on Digital Public Infrastructure in February 2023, Georgieva referred to India's tremendous success in transferring the equivalent of $37 billion in rupees, as aid, directly into the bank accounts of beneficiaries during the Covid-19 pandemic to shield them from the economic fallout.

With more and more no frills accounts opening up, by 2022, public sector banks (PSBs) had about 1.7 trillion rupees available for lending from Jan Dhan accounts even though active usage of these accounts remains low. As the mobile example shows, if a product is affordable, easy to access and satisfies customer needs, even lower income categories start using it intensively. Expanding the bouquet of financial services available through these accounts can increase both usage and financial inclusion. For example, illness and accidents are a major cause of slippage below the poverty line, but insurance is expensive for the poor. Innovations in general insurance, however, are making cheaper bite-sized policies available for specific illnesses or for 'pay as your drive'. Digital sales on public platforms serviced through bank accounts have low time and transaction costs, which enable adoption even by the less literate. Other such services as well as loans, need to be activated through Jan Dhan accounts.

India has made rapid progress in digital payments. The free public payment interface UPI helped boost growth in digital payments to 15.2 per cent in 2020. UPI transactions reached 7.3 billion, worth INR 2.11 trillion in October 2022, doubling from its value in July 2021. By volumes, the number of transactions in India is estimated to be 11 times that of the US and Europe combined and thrice the number of transactions in China. Of course, all this has been possible due to a sharp spike in the total number of broadband internet users in India, that stood at 807 million in July 2022.

According to the Economic Survey 2023, "based on the pillars of a digital identity (Aadhaar), linking bank accounts with (the no fills) PM-Jan Dhan Yojana (bank accounts), and the penetration of mobile phones within the population (popularly known by the acronym JAM), India has witnessed significant progress in financial inclusion in recent years."

The population covered with bank accounts increased from 53 per cent in 2015-2016 to 78 per cent in 2019-2021 (as per National

Family Health Survey). International evidence shows that countries at the same level of development have taken almost half a century to achieve the extent of India's massive expansion in access to bank accounts. Numerous digital public goods such as digital verification, digital signature, digital repositories (Digilocker), and digital payments UPI have supported financial inclusion by improving access to formal financial services and reducing transaction costs. Greater financial inclusion and access to credit incentivise higher consumption and investment, leading to higher economic growth," the Economic Survey observed.

Remittances are a major income source for the poor. Waves of payment innovation have steeply reduced domestic intermediation costs that were constant at about 2 per cent. They may bring down cross border payment costs that have been constant at 4-5 per cent for hundreds of years. In recent months, India has tied up with countries like Singapore, France and the United Arab Emirates to link India's real-time retail payment system, UPI, with their financial systems that will allow payments to be made through Indian rupees and facilitate faster and cheaper remittances. In the case of France, Indians travelling there can make rupee payments using UPI, replacing a system where they could only use credit and debit cards for payments. The linkage of UPI with payments systems of other countries shows confidence in the Indian home-grown retail payment system that it can be safely and seamlessly integrated with the payment systems of these countries and provide secure channel for payments and remittances. India received $89 billion in foreign remittances in 2021-22, the highest ever in a year by any nation. The World Bank has projected that this number to rise to $100 billion in the current year.

The unique feature of India's digital architecture is that it is open source i.e. owned by public institutions and backed by the Reserve Bank of India and not by private monopolies like Google in the US, for instance.

This has opened up opportunities and allowed our entrepreneurs and companies to innovate, introducing newer financial products and services. This, in turn has led to mushrooming growth of a vibrant fintech sector in India.

Small Enterprises

There are many non-bank financial companies (NBFCs) and fintechs whose main purpose and business model is financial inclusion. They leverage customer knowledge, advantages in risk-assessment and distribution to lend where banks find it difficult. But their borrowing cost is high. Digital lending is expected to bring a 30-40 per cent reduction in cost, but cost of finance, operation and customer acquisition is high for fintechs. Co-lending through partnerships with government run or Public Sector Banks, who have the low cost deposits, can combine strengths and reduce costs of loans.

Small firms tend to be excluded from formal finance. Their accounting is often poor and data with bureaus is dated. But current topline cash flow is reported in government sales tax data. Machine learning can combine this with banking and bureau data in minutes to give an assessment for the probability of default and enable lending. There is an account aggregator initiative. The open credit enablement network (OCEN) has created a standard protocol for the interface between registered buyers, sellers and financiers with open APIs.

Creating an identity has simplified and enabled access to formal credit for many of these groups. More than 3,270,000 street vendors have availed of a first loan of ₹10,000 under the PM SVANidhi Scheme, and of these, more than 690, 000 have availed a second loan of ₹20,000, according to the Economic Survey. Other digital systems, such as the Goods and Services Tax Network (GSTN) and e-Way Bill system have enabled the formalisation of business transactions. The increasing number of GST taxpayers, from 7 million in 2017 to more than 14 million in 2022, indicates the expansion in formal businesses. Formalisation of transactions, for even the smallest of amounts, has been possible with the wide usage of the digital payment system of UPI. The greater formalisation will enhance the productivity of individuals and businesses in the economy through improved access to credit and efficiency gains in their operations.

Public Goods

The poor are more dependent on public goods and infrastructure since the rich can pay for substitutes. Better resources available to the less well-off increase their agency. Therefore, improving medical, education and physical infrastructure increases the market size and induces inclusive market-led innovations, while pure income transfers need not shift the poor to dynamic technologies that show continuous improvement.

Clean air, water and absence of natural calamities are some of the most important resources required but climate change is threatening these. Emerging and developing economies (EMDEs) are excluded from the international financial resources required for adaptation and mitigation. They receive only 20 per cent of the finance available under this head and it is four times more expensive. Inclusion in provision of finance is urgently required to reduce global climate change risks.

IMF-World Bank estimates that 15-60 per cent of low income countries are in or approaching debt distress. Emerging Markets sovereign bond yields have gone up from about 5 per cent to about 8 per cent and the cost of borrowing for 25 per cent of highly indebted Emerging Markets is very high. Generous climate finance is a public good that can reduce Emerging Market fiscal stress emerging market and help reach SDG goals. Debt for nature swaps can improve habitats, reduce poverty as well as debt for many EMDEs. G20 can enable the better natural resource accounting required for purpose.

G20 has to work towards agreement among diverse creditors. Debt restructuring works when it is generous. Mandating private participation in credit databases and preventing asset seizures under restructuring can help. Climate related collective action debt clauses can reduce holdup. High cost of financing in emerging markets is largely driven by currency risk that often does not materialize. Innovative long-term currency hedges based on portfolio insurance and reinsurance or central bank swaps, that leverage country data with the IMF to reduce costs, can be developed. Since most of the shocks that have raised EMDE debt and its costs have been external, it is just that debt rollovers, restructuring, relief and swaps are made conditional on such events.

Increased financial inclusion has been identified by the World Bank as having a direct impact on the achievement of seven of the 17 Sustainable Development Goals. Financial inclusion impacts SDGs like ending poverty, hunger and making the world a more equitable place. It is noteworthy that speeding up the achievement of the SDGs is one of the main priorities of India's G20 presidency. Spotlighting India's experiences in adopting financial inclusion methods on scale fits neatly into this goal of our presidency. It is also particularly relevant for the countries of the Global South whose voice India is amplifying at G20 meetings. India has always expressed its readiness to help its partners on their development journeys and the success of scale achieved and implemented in India.


G20

"We need to move from "I" to "We" for creation, innovation, and viable solutions.

"I" to "We", that means thinking of the whole from the self, the well-being of "us" instead of just "me".

We have to emphasize on this. We must connect every class, every country, every society, and every region of the world. And this is the essence of the One Family concept."

— Shri Narendra Modi
Hon'ble Prime Minister of India