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Inclusive finance India SUMMIT 2019

December 4 & 5, 2019
New Delhi

Advancing Financial Inclusion in India since 2004

THE SUMMIT REPORT


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Inclusive Finance India Group of Advisors

Brij Mohan, Sector Expert (Former Executive Director, SIDBI)

Lt. Vijayalakshmi Das, Former Managing Director, Friends of Women World Banking

Ajay Tankha, Sector Expert

Amit Arora, Financial Inclusion Advisor, World Bank Group

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Harsh Shrivastava, CEO, MFIN

Alok Misra, Professor & Chairperson, Centre for Financial Inclusion & Digital Finance, MDI, Gurgaon

Vipin Sharma, CEO, ACCESS Development Services

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Speakers:

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VALEDICTORY
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PREFACE

While the worries of an impending economic slowdown continue to occupy policy makers, the financial inclusion campaign has demonstrated fair resilience and has recorded steady growth. Since the last Inclusive Finance India Summit, 40 million new Jan Dhan accounts have been added taking the number of accounts opened under the scheme to 370 million, of which over 196 million are of women. New social protection schemes for farmers and informal sector workers were introduced during the year including the PM KISAN Yojana offering income support for small and marginal farmers and the PM Shram Yogi Mann Dhan Yojana – a voluntary contributory pension scheme for informal workers earning less than Rs. 15,000 per month. Both the new schemes are showing favorable initial uptake. However, the progress on usage of the overdraft feature of JDY accounts and new enrolments and persistence under the existing allied schemes for insurance (Jeevan Jyoti Bima Yojana and Suraksha Bima Yojana) and pension (Atal Pension Yojana) has been sluggish. On the credit side, the PSB Loans in 59 Minutes portal is a promising new initiative that proposes to simplify access to bank credit to MSMEs and individuals, including business, personal, home and auto loans, through digitization.

The NBFC MFI sector reported 29.8 million clients having loan portfolio outstanding of Rs 639 billion as of September 2019, demonstrating an increase of 33% and 46% during the year respectively. Last year 1.27 million Self Help Groups were added taking the number of savings-linked groups to over 10 million by March 2019, with a membership of over 125.24 million. While the public sector banks, continue to strive towards delivering on the challenging expectations of financial inclusion targets on various fronts, other institutions including the private banks, MFIs, NBFCs, Corporate BCs, the new Small Finance Banks & Payments Banks as well as the emerging fintech companies are also working on scaling up of inclusive products, processes and models.

The focus of the Summit themes for 2019 was clearly on the client. The Summit continues to bring together a diversity of stakeholders to share experiences, celebrate accomplishments, flag concerns, and propose recommendations for improving both policy and practice towards making financial inclusion meaningful for clients. With new institutions, innovative models, technology infusion, and focused programmes of the government - the diversity of themes that need discussion is vast, posing a challenge of prioritizing session themes for the two days.

The Summit through its 8 plenary and 6 technical sessions across the two days delved into various policy and operational issues with views and experiences of over 70 speakers.

It is now over a decade since the Report of the Rangarajan Committee on Financial Inclusion (set up by the RBI in 2008) was released, with path breaking recommendations. Dr. C Rangarajan joined the Summit for an exclusive fireside chat on his perspectives on the evolving landscape for financial inclusion in India and how it augurs for tangible gains to the last mile clients for the future. While focus on women was a cross-cutting sub-theme across a few sessions, a dedicated plenary deliberated on the financial inclusion policy framework for adequate focus on women and inputs to plug the gaps. Technology in advancing financial inclusion is a recent focus of the Summit, an important session debated on the 'merits and perils' of promoting technology as a panacea for last mile challenges; and another session provided a platform to emerging fintech companies to showcase their solutions. A couple of sessions deliberated on offering more appropriate, need based credit products to microfinance clients, as also obstacles to moving beyond credit and offering investments and insurance services to BOP segments.

INTRODUCTION

Inclusive Finance India Summit seeks to inform, influence and support policy towards strengthening an enabling environment, besides providing a platform to discuss key issues and challenges and build consensus on the way forward. The sessions during the 2019 Summit aimed to understand the roles of diverse stakeholders, identify impeding and enabling factors and assess the value of different models. The sessions were also dedicated towards understanding technological innovations and exploring private sector initiatives and government initiatives to further progress in the space of financial inclusion.

The Summit provided many opportunities for Ministry officials, representatives from RBI, Private Sector Banks, SFBs, Financial Institutions (NBFC, MFI and others), Payment Gateways, Credit Bureau, Fintechs, Impact Investors, Multilaterals and policy makers to interact, engage, initiate dialogue and enable action through partnerships, innovation and facilitating policy support in the financial inclusion space.

The summit was coming together of old and new ideas. New ideas covered during the summit included digital platforms for registering for the sessions, deeper engagement with delegates by way of keeping the discussion going on and off the dais through live polls, and Q& A, etc with the endeavour to make the event paperless. Side events during the summit created considerable buzz and interest among the participants. MFIN and ASSIST co-hosted a side event to bring together MFIs and investors to help channelize debt flow to small and growing MFIs, and IFMR at KREA University organised a roundtable on appropriate financial products focussed on women entrepreneurs.

The Inclusive Finance India Summit 2019 took off with the Inaugural session in the presence of eminent guests; Alkesh Wadhwani, India Country Director, Poverty Alleviation, Bill & Melinda Gates Foundation, Parag Mehta, Executive Director & Senior Vice President, Mastercard Center for Inclusive Growth, V. Vaidyanathan, MD & CEO, IDFC First Bank, and Dr. Arvind Mayaram, Economic Advisor, Govt. of Rajasthan, Former Finance Secretary, Government of India & Chairman, ACCESS Development Services.

EVOLVING LANDSCAPE OF FINANCIAL INCLUSION IN INDIA - SPECIAL FIRESIDE CHAT

Prof M S Sriram, Visiting Faculty, Center for Public Policy, Indian Institute of Management – Bangalore in *Conversation with* **Dr. C Rangarajan, Former Governor, Reserve Bank of India**

The conversation started with the regulators perspective on what's next after the institutional infrastructure for pursuing the agenda of Financial Inclusion is in place, with bank branches opened, BC infrastructure, MFI operations and Government policies like PMJDY. According to C. Rangarajan the context of Financial Inclusion has been ever changing and is ascribing different meanings at different times. While a lot has been done, the sector has still not reached the end with institutional innovation, there exist more possibilities. The focus of the government and regulators should be on making existing institutions and structures more effective. During the fireside chat, Dr. C. Rangarajan also emphasized the continued relevance of a multi-agency approach nurtured over the past decades by the Government of India and the RBI and urged inclusive financing institutions to stay true to the spirit of their inception. Financial Inclusion cannot be seen as a single agency delivery model. The multi-agency approach encompasses the SHG movement, Urban cooperatives and Regional Rural Banks. The SHG movement was a substantial innovation, moving focus of credit from men to women. After the 1996 circular, the banks considered SHGs as part of their mainstream credit operations. SHGs changed the paradigm of banking. The importance of SHGs and MFIs must be ascribed to the people it is catering to and the average size and purpose of loans.

The need of the hour is to shift the lending practices into a more robust system. Promoting retail loans is a promising option where there is need for local players to be a part of the lending side ecosystem within a much resilient framework for the lending practices. The customer base still harks back to traditional lending practices even if there are other financial instruments present. The point of contact and the lending infrastructure needs to be more user friendly and remotely accessible.

BUILDING A CLIENT – CENTRIC FINANCIAL SERVICES ARCHITECTURE – WHAT NEXT? EXPERTS TALK

Anchor: Sharon Buteau –Executive Director LEAD at Krea University

A customer-centric approach to product design and delivery can offer value for financial institutions, customers, and the ecosystem at large. Apart from a strong business case for an 'outside-in' approach, customer-centric solutions can empower clients by responding to their needs and empowering them with the tools to control their financial lives and mitigate risk and uncertainty.

In a series of Ted-style talks, experts from the Krea University ecosystem discussed the key principles, from various perspectives, essential for designing a customer-centric financial services architecture in India and how to create a truly responsive and inclusive financial services sector that offers long-term value to all stakeholders. The talks were focused around Enabling last-mile access through Technology, Integrating Humanities and Social Science Concepts in Creating a Customer Centric Financial Ecosystem, Women and Customer Centricity, and Leveraging Insights from the Ground.

Interface of Women with Indian Financial System

Talk by Soumya Kapoor, IWWAGE (Initiative for What Works to Advance Women and Girls in the Economy) at Krea University

- Gender disparity in number of inactive accounts under Jan Dhan Yojana is stark. Inactivity stems from various reasons spanning from insufficient cash at disposal, limited working knowledge of operating bank account to interacting openly with a BC correspondent.

- BC assisted and guided schedules is critical for usage of bank accounts and other financial services by women.
- While there are empirical studies clearly articulating and highlighting strong rationale for financial products and services for women, not much is explored or discussed for supply of women-workforce in financial services for servicing women clients.
- Practitioners have mentioned challenges related to mobility, lack of disciplined time commitment from women field officers and safety as primary concerns.
- Also women workers look for stability of income flow and largely field officer's fixed and incentive are linked with targets. Such incentive structures at times act as a barrier for women workforce to participate in financial services sector.
- Apart from the tangible challenges outlined above, many practitioners mentioned that they need field officers who can "run around" and becomes a "sales rock star" indicating strong gender bias even before actual hiring.
- Designing a customer –centric, gender responsive and inclusive financial services architecture will need to address the issue of missing women workforce in financial services space.

Creating a Citizen Centric Financial Ecosystem

Talk by Dr. Bisnu Mohapatra, Dean of School of Interwoven Arts and Sciences (SIAS) at Krea University

- The role of Rights based approach, esp. for marginalised communities, for universal financial inclusion is not explored much and provision of financial services is largely market driven. Market led solutions solve for efficient resource allocation and return maximization, and financial services design and delivery is largely left for the market to engage, provide and serve customers/client guided by the principle of shareholder's value maximization.
- In contrast to the existing state of supply for financial services, many citizen studies have highlighted that India as a country expects state to provide for basic goods and services. Interestingly, studies have highlighted provision of basic financial services are perceived as responsibility of state to provide. While delivery mechanism of such services could be in partnership with private players, state cannot absolve themselves from providing such services.

- The primary concern with making a client centric argument is customers and clients are individualised and narrowed down to very thin categories. Customers and clients are defined as a segment consuming certain products and having certain preferences at certain price points. The market has to solve for these preferences. The client centric approach does not acknowledge rights and neither makes a strong enough argument for accountability.
- Hence it will be critical to incorporate the dimension of citizens instead of just clients in the discourse, including tenets of rights based approach in designing more considerate and sensible financial inclusion architecture.
- The idea of clients and citizenship should be connected to the social structure of the society. The idea of citizenship applied properly to financial services, can do a lot of good to the client centric imagination-
  - It will allow paying attention to multiple facets a client has, for e.g. access to finance/ market is connected to many things like education, upbringing, social capital etc. This would help identify, understand and acknowledge the complexities to be addressed while designing a resilient system.
  - It will facilitate including technology perspective basis the understanding that technologies introduced are connected to unequal social forces in the society. Technology is not a neutral entity, it rides on capital and private interest.
  - It will allow room for designing accountability mechanisms.

Enabling Last Mile Access through Technology

Talk by Dr. Gaurav Raina, Head of Research Council at Krea University

- Adoption and sustained usage of technology at last mile is complex. Technology adoption is largely use case driven even for a fairly educated and tech-savvy population segment. Any technology adoption targeted for last mile will have to be articulated strongly for clear use-cases.
- Designing systems and architecture which will enable transfer of money will have to be designed for trust, comfort along with interoperability, fastness and security.
- The last mile issues like language are still not addressed in a fairly stable mobile payments segment yet. Multilingual applications, user-interfaces and customer support is critical for breeding trust and comfort from user's standpoint.
- UPI and IMPS are recent but are increasingly contributing to digital payments. There has been a 10x increase in per capita digital payments in the last 5 years and a 10x increase is expected in the upcoming 3 years. There are around 100 million unique UPI users in the country.
- The national unified USSD platform did not require to download an app. This is the only payment channel where both value and volume has dropped. It is difficult to isolate reasons why it hasn't taken off. From the people owning mobile phones, 50% people are using smartphone and the other feature phones. Only 1/5th of them are using UPI with rapidly increasing numbers. The number of USSD users on feature phones is dropping.
- However, USSD has seen a smashing success in South Africa. One of the reasons for that is – multilingualism - seeing/hearing things in their own language provides a sense of comfort leading to confidence which acts as a proxy for trust in the system, an important component missing in India's USSD offering.
- For digital financial services to contribute towards universal financial inclusion, there is need to pay attention to triangulation of practical use cases, human behaviour pivoted against cultural, gender, age, socio-economic lens and map it carefully to underlying technology.

GRADUATING JLG CLIENTS TO ENTERPRISE LOANS - DRAWING INFERENCE FROM DATA

Moderator: Dr Jennifer Isern, CEO, Catalyze Global Impact, LLC

Lead Presenter: Subhrangshu Chattopadhyay, Senior Vice President - Sales, CRIF High Mark

Speakers: Vibhas Chandra, National Manager – Individual Loans, Ujjivan Small Finance Bank
Devesh Sachdev, MD & CEO, Fusion Microfinance
Raul Rebello, Senior Vice President, Axis Bank
Jagadish Ramadugu, CEO, Vaya Finserv

Clients segments that were being served by MFIs are now being covered by other (non MFI) non-banking finance companies and commercial banks as well. All the three categories of financial institutional are disbursing microfinance (JLG) loans in addition to some institutions offering retail and enterprise loans possibly to the same clientele (non JLG).

CRIF presented industry insights from the study of India's microfinance customer base and the graduation of borrowers to individual loans over time and highlighted the emerging trends and patterns of lending.

The session deliberated on the scope and challenges for MFIs and other financial institutions to offer more differentiated and suitable products to microfinance borrowers that have the potential to graduate from the JLG methodology to retail loans. Panelists discussed the current landscape, opportunities, scope and challenges for MFIs to offer more differentiated and meaningful products to graduated JLG borrowers, challenges faced by them to scale the unsecured small ticket individual product offering within the qualifying asset limit ambit.

Key findings from CRIF study

- There is no difference in repayment rates, roll forward and roll backward rates for customer cohorts who had taken group-backed loans only and a combination of group-backed loans and individual loans.
- Asset quality at portfolio level for the cohort which had both individual loan and group backed loans did not reveal any relationship between repayment behavior of customer towards individual liability and group liability. CRIF highlighted, before any conclusions to be drawn on possible co-relation or independence of customer behavior towards repayment, the vintage and seasoning of individual loan portfolio has to be considered.
- There in recent increase in volume of disbursements towards smaller ticket individual loans indicating service provider's preference towards disbursing personal loans or consumer durable loans.
- Clients of group-backed product serviced by only banks (bank-only micro-finance group customer) were offered standard bank products like PSL agri loans, Home Loans and later business loans as cross-sell offering from banks.
- Customers who were serviced only by NBFC-MFIs under group-loans usually received two-wheeler loans, gold loans followed by business loans by NBFCs and NBFC-MFIs subsequently.
- The cross-sell product profile has also a very clear rural-urban pivot to it and is largely state driven. For. Eg. Cross-sell of non-JLG product is largely urban dominated by housing and home improvement loans in Maharashtra. While in states like Odisha, Bihar, WB, cross-sell is observed in rural segment mirroring the JLG portfolio. Cross-sell in Rajasthan was fairly interesting with preponderance of business loans in semi-urban and urban area and mostly dominated by local financiers and not necessarily PAN –India service providers.

Key Takeaways

- From a practitioner's point of view, the transition from pure operating business model with clear and tested cost, risk and return framework under group-backed micro-finance operation to a more credit underwriting led business model with fairly different gestation period, cost, risk and return paradigm is extremely challenging. The transition call for a "mass-standard" product to a "mass-customized" product which is adaptive, responsive and innovative needs serious investment in building teams, culture and capabilities.
- MFIs in India attract largely growth capital. Investors and boards of MFIs mostly have growth orientation and return expectation resulting from consistent, scalable growth and steady asset quality. Under such a scenario, scaling individual lending will need testing and piloting of different models and hence attracting risk-capital investors will be critical for any MFIs to seriously scale non-JLG portfolio.
- Finding interest from debt investors to support new products is extremely difficult. MFIs with new products within their 15% non-qualifying limit available find it challenging to convince regular debt investors for fund-raise for standard JLG-portfolio. The relative riskiness attached to an unseasoned, lesser vintage portfolio is high.
- At an operational level, non-group lending product design in India is mostly responsive in nature and is largely driven by customer demand or field officer feedback. Data driven customer segmentation is critical and materially significant for a sound proactive product design. However current mode of customer level data collection, storage and retrieval are not seamlessly integrated and amicable enough for any meaningful non-group product design-exercise.

MOVING BEYOND CREDIT - BARRIERS TO UPTAKE AND USAGE OF SAVINGS AND INSURANCE

Lead Presenter: Deepti George, Head of Policy, Dvara Research

Practitioner Perspectives:
- Sucharita Mukherjee, CEO, Kaleidofin
- LVLN Murty, Dy. CEO, Dvara KGFS
- Garance Richard Wattez, Head of Emerging Markets, AXA

Open House Moderator
Priyanka Chopra, COO, CIIE- A, Bharat Inclusion Initiative

Low income households need access to a range insurance and investment solutions, which can protect them against risks arising from unforeseen events and enable goal-based savings to help fulfil their life goals, thus ensuring their comprehensive financial well-being. The efforts in financial inclusion in India have been dominated by access to bank accounts and credit, and significant progress has been made on these fronts. The creation of enabling public infrastructure for digital payments and the advent of digital and tech-enabled business-process innovations have led to significant inroads being made on the transactions/ payments front. Despite this enabling environment being created for the supply side, the uptake and usage of retail investment and insurance solutions remain very low in India, leaving low-income households to depend on credit as a substitute for these solutions.

Considering that demand for insurance and investment solutions is well-established and is key to enabling financial well being, Dvara Research undertook a study to understand the challenges faced by a variety of distribution channels in offering these products to low-income households in India. In this technical session, Dvara Research shared findings from this study - there are issues around product design, distribution model and incentives, and KYC and payments infrastructure, which pose problems common to all types of providers as well as to customers. Besides these, the study also finds certain issues unique to multi-product institutional providers for whom the investment or insurance sale is secondary to a deposit or credit relationship with the customer. This set the stage for two carefully chosen practitioners who shared their unique experiences of gauging and overcoming challenges in delivering inclusive investment and insurance products.

Key Takeaways

- Credits + Savings + Insurance should be seen as a package opposed to a linear sequence for rolling out financial inclusion.
- 60 million people in India fall back into poverty from middle class due to lack of insurance.
- A recommendation to help provide a comprehensive package of products would be the universalization of KYC with the different regulators.
- Practioners attributed the biggest challenge of supplying products beyond credit, to the high cost of on boarding customer.
- The perception around insurance needs to be changed, efforts to promote insurance as a protection product rather than a savings product.
- Access to insurance products is a big challenge to its uptake- Insurance products are often based on work contracts and a large chunk of India’s working population is in the informal economy.

MAKING FINANCE WORK FOR WOMEN - SCANNING POLICY TO BREAK NEW GROUND

Moderator: Girija Srinivasan, International Consultant, Development Finance and Rural Livelihoods

Speakers:

- Anand Sherkhane, Additional Development Commissioner, Ministry of Micro, Small and Medium Enterprise, Government of India
- Alka Upadhyay, Additional Secretary, Ministry of Rural Development, Government of India
- Siddharth Sanyal, Economist, Bandhan Bank
- Harsh Shrivastava, CEO, MFIN
- LR Ramachandran, Chief General Manager, Department of Financial Inclusion & Banking Technology, NABARD

Women contribute only 18% to the national GDP in India; and their workforce participation hovers around 27%. Among these, poor women are mostly self-employed; they are subsistence farmers and micro entrepreneurs, and while their work is critical for family well-being, they earn significantly less than men. Access to finance is an important impediment that keeps women out of the mainstream economy. It is therefore imperative that for meaningful financial inclusion of women, focused and deliberate policy attention is given. In India, women have been the focus of the two significant microfinance channels – the MFI and the SHG Bank linkage model. The SHG bank linkage model is one of the largest microfinance programmes in the world that has linked unbanked women to formal financial institutions. Beyond this, there is no formal policy attention to financial services for women.

In terms of ownership of bank accounts, the gender gap in India had substantially dropped from 20% in 2014 to 6% in 2017 as per the Findex reports, largely due to the progress made under the Jan Dhan Yojana. By September 2019, 196.2 million PMJDY of the total of 368.9 million were of women. This however does not translate in visible any way to women beginning to benefit from financial inclusion. However outside of the SHG programme, there do not seem to be any other programmes and policies which promote and push flow of loans and access to other financial services specifically for women. One of the key policies to push loans to underserved segments is the Priority Sector Lending targets for banks. The government had set up the Bharatiya Mahila Bank for specific focus on women, which did not take off and was subsequently merged with the State Bank of India. The PM Mudra Yojana promotes loans to micro and small enterprises, without any specific targets or focus on women.

The session discussed whether there is adequate, deliberate focus on reaching women with financial services within the current policies and schemes aimed at promoting financial inclusion. It provided recommendations for policy consideration to enable meaningful inclusion of women, particularly from poor and low income segments, in the mainstream financial sector. The session touched upon MoRD's experiences, challenges and core strategies pivoted across NRLM and other financial inclusion policy framework in leading the economic development campaign and advancing financial inclusion for women. The session also discussed on Ministry of MSME's effort in bringing focus on access to finance for women enterpreneurs. The session had detailed discussion on product suitability, need for women specific financial institutions and partnerships for facilitating better coverage for women.

Key Takeaways

- While the financial services access points with respect to basic credit is largely available to women as customer segment, quality of financial services and diversity of products offered needs to be improved.
- There is a glaring need for infusing gender bias (tilted towards women) by way of appropriate incentives and subsidies in policies, which are otherwise designed gender neutral. Such positive bias opens up opportunities both at supply and demand side to increase women participation in financial inclusion spectrum.
- Women do not shy away from using technology platform; the retention and sustained usage rate of technology is significantly better than for men as customer segment. Hence JAM trinity holds immense potential in reducing the gender gap in financial inclusion.
- While lower ticket micro-loan segment is largely dominated by women borrowers on group-backed models, there is need for higher order loan sizes for individual women and women owned enterprises.
- One-size-fits-all approach might not work while providing services targeted for individual enterprises unlike micro-credit.
- The shift of focus on ecosystem development and not just product development is critical. Similarly shift of focus of policy makers from manufacturing sector to trading and services sector has brought spotlight on women as target beneficiary.
- Market intervention, technology skilling and regulatory framework needs to be conducive for making women as an entrepreneurial and economically active segment. Economically vibrant women and women businesses presents itself as financially viable value proposition for financial institutions to pursue after.
- There is need to aggregate smaller women enterprises by way of producer companies for efficient delivery of services and usage of financial and other resources.
- For making finance work for women, there is an accentuated need for strong relationship between financial institutions and communities. This relationship has to be routed through community resource persons or similar cadre of Feet-on-Street who can help break the opaqueness of operating environment of small, micro and dwarf enterprises. It will bring comfort to many mainstream commercial financial institutions as more information is made available about the enterprises.
- Concerted effort to break the information asymmetry around availability of various schemes, products and bouquet of benefits is also critical to create empowered and informed demand from women.

DIGITAL FINANCIAL INCLUSION – TRUTH VS HYPE!!

Moderator: Stephen Rasmussen, Lead, Technology Program, CGAP

Speakers:
- Dr Pawan Bakhshi, India Lead, Financial Services for the Poor, BMGF
- Monika Halan, Consulting Editor, Mint
- Sangram Singh, President, Indifi Technologies Pvt Ltd
- Victoria White, Managing Director, Accion Global Advisory Solutions
- Anand Bajaj, Managing Director & CEO, Nearby Technologies Pvt Ltd

There is an incredible amount of excitement around fintech. There are people working on insurtech, payments, reverse factoring platforms, blockchain-based identity solutions, digital micropensions, marketplace lending platforms, digital credit, e-commerce, regtech, suptech, artificial intelligence, machine learning…literally, everything under the sun. There is so much energy, creative thinking and money going into this space, it is breathtaking."

"Poor people are the critical piece of this equation. They remain central to the story but are easy to lose sight of in the excitement around technology and innovation."

In the above context, this session reflected on expectations from digital financial services to cater to the financially excluded and the last mile in the backdrop of high level of excitement about digital bringing a revolution through enabling outreach, reducing costs and making it possible to offer comprehensive suite of financial services, versus the progress made so far. The session also deliberated on the efficacy of digital services in connecting with the non-digital world of excluded segments who continue to operate in cash, infrastructure readiness (tech and non-tech) in India, digital access and capabilities among specific segments (such as women) and geographies, to truly realize the potential of digital financial services.

Key Takeaways

- 220 million transactions/month have been enabled through UPI & 60-70% first time customers are reported by Tier 2 cities.
- Digitization has led to democratization of transactions to the excluded.
- The issue with digital financial inclusion is not technology but customer centricity.
- The regulatory architecture and market design is not conducive of building trust.
- Payments technology has no revenue model; it has become a public good.
- With the demographic change and young people consuming things digitally, financial products will be a sub-set of that consumption.
- Physical infrastructure can be replaced by digital services because of its scalability in outreach.

HR CHALLENGE IN MFIS - THE NEED IS TO FIX IT, NOW

Moderator: Manoj Sharma, Director, MicroSave Consulting

Speakers:

- Achla Savyasaachi, Head – State Initiatives, MFIN
- H P Singh, MD, Satin Microfinance
- Vineet Chattree, Director, Svatantra Microfinance
- Sadaf Sayeed, CEO, Muthoot Microfin
- Manoj Nambiar, MD, Arohan Financial Services
- Sridhar Ganesh, Professor of Strategic HR and Organizational Behaviour

The success of the microfinance model is based on the four pillars of (1) capability of field staff and management, (2) client preparedness, (3) technology and (4) systems and processes - but hinge more on one of these, the capability of field staff and ability of the management to build and strengthen it. In the current context, while the top of HR pyramid in mf Industry has more or less been endowed with the latest expertise and know-how to guide business-strategy, develop expansion plans, design systems and processes including tech integration etc.; ironically, the bottom end of the pyramid, the people who have the responsibility to deliver these strategies, plans and processes has remained unchanged and continues

to be traditional in its outlook, skills and approach. The microfinance model in the field continues to rely on client connect, social collateral through peer group mechanism, low cost model of hiring school pass outs, simple evaluation of the client and her household for lending. This gap is causing friction and putting core systems, processes and people shouldering the key responsibility to deliver microfinance services under arduous strain.

This session discussed the industries position on this friction, the trade-offs and/or complementarities between business scalability and HR processes and how MFIs are dealing with these challenges.

Key Takeaways

- Digital Portfolio has doubled in the last four years – More than 50% loans by traditional financial players are given out digitally.
- Technology in MFIs is broadly used for operational control- transparency & efficiency.
- HR Practices should focus on promotions and pay roll – focus should be on soft skill trainings and development of employees.
- While MFI products have not changed, technology in MFI does not impact the quality of life of its customers.
- Managers should have managing teams and people as a Key Responsibility Area.
- Organization structures should be people oriented. Building pride and recognition in work place and treating employees as a resource adding value to the organization – can help retain employees.

DIGITIZING SMALL MERCHANT TRANSACTIONS - BRINGING THEM INTO THE FOLD OF FORMAL FINANCE

Moderator: Santanu Mukherjee, Asia Program Manager, Accion

Speakers:
- Aloka Majumdar, Senior Vice President and Head, Corporate Sustainability, HSBC
- Vikas Varma, Chief Operating Officer, Mastercard – South Asia
- Rishi Gupta, MD & CEO, FINO Payments Bank
- T N Sasidhar, MD & CEO, BASIX Sub-k iTransactions
- Sanjeev Chandak, Co-founder, CEO, ftcash

Small and micro merchants have the potential play a major role in accelerating financial inclusion and driving economic growth. Such small businesses are not traditionally reached by banking and formal payment services. Many of these micro merchants transact primarily in cash, which prevents both the businesses themselves and their customers from joining the world's formal economy.

New technologies that automate services (financial and non-financial) provides an unprecedented opportunity to bring the unserved or underserved micro, small merchants and their customers into

the fold of formal finance. Technology enables creation of digital footprint of merchant & customer transactions which leads to improved visibility of financial lives of the missing middle, atleast on the expenditure and revenue side. It opens up the access to the universe of financial services that can be available to the masses beyond micro-credit. The digital transformation of transactions, businesses and subsequently financial services will lead to better, faster, cheaper, and safer financial products; a transformation that would provide the small businesses / merchants and families with the tools they need to run, buy and sell better. This will help them have better control over their financial lives, manage and deal with emergencies, seize opportunities, and realize their potential.

There are tangible benefits to private sector organizations from pursuing greater usage of digital technologies, especially digital payments, in their supply chains. First, digital payments allow for the realization of operational efficiencies by streamlining processes and reducing reliance on cash-based value chains. Second, digital payments enable opportunities for market expansion that leverage new data on consumer segments to better target products and services. Third, a more inclusive business model enhances a brand's value in today's age where consumers increasingly place a premium on sustainable practices. In this context, the session discussed on the true potential of digitization in delivering the financial inclusion dream, challenges faced in driving digitization drive across banks, BC players, payment banks and other ecosystem service providers. The session also discussed on the challenges around adoption of data driven approach to credit underwriting. It also discussed in detail about the importance of partnership in achieving scale, challenges faced w.r.t. to providing high quality customer experience across partners. It also discussed about the importance of putting clients at the centre of institution's practices - including seeking customer feedback, designing merchant-centric products, with advent of new technologies and increased digital interfaces.

Key Takeaways

- Digitization is a journey; the impact of digitation in terms of increasing the coverage of financial inclusion is felt in micro-merchant segment which are either acting as BC to bigger players or are standalone micro-retail unit.
- The true benefits of digitization of operations by micro-merchants in terms of pricing and better product offering is yet to be observed.
- Most dialogues unintentionally limit the scope of digitization to credit and payments. However, it is critical to see digitization as being subsumed in daily life. This will need concerted efforts through capability building, behavior change and outreach.
- Partnerships hold key to the immense possibility of bringing efficiency and scale, especially in a market like India which is incredibly diverse.
- Time taken to execute partnerships in terms of real output is critical. Conscious effort has to be made to ensure "getting down to do business" quickly as markets, opportunities and customer needs evolve and change much rapidly in a digital world.
- Building and maintaining a culture around customer centricity while translating partnerships into reality needs clear framework on roles and responsibilities, resolution and escalation frameworks, processes for right control over customer touch points, universal/standardized fair practice codes and relentless focus on customer feedback and grievances.
- Right incentives for market enablers and service providers to continue to offer the services to the excluded segment are an important factor. Policy support in terms of appropriate design of rewards and incentives is critical to achieve scale in partnership with market players.

SIGNIFICANCE OF SUSTAINABLE FINANCE - SEEDING THE IDEA AMONG FINANCIAL INSTITUTIONS

Moderator: Neha Kumar, India Programme Manager, Climate Bonds Initiative

Speakers:
- Mohan Tanksale, Former Chief Executive, India Bank's Association (IBA)
- Chandan Bhavnani, Executive Vice President, Responsible Banking, Yes Bank
- Srinivas Bonam, Executive Vice President, IndusInd Bank
- Shrimohan Yadav, Chief General Manager, Reserve Bank of India
- Royston Braganza, CEO, Grameen Capital India Limited

The session brought together multi-stakeholders to discuss what it takes for policy makers and regulators to nudge banks and other financial institutions for integrating the principles of Environmental, Social, and Governance (ESG) and Sustainable finance in their core financing strategies. In 2007, the RBI recognized and stressed upon the need to prioritize sustainable development efforts by financial institutions in India. With the growing evidence and shift in consciousness of financial institutions to move towards responsible financing, the time is apt for the RBI to start considering Fair and Sustainable finance principles in mainstream policies and regulations. The session tied together relevant actors to

Significance of Sustainable Finance - Seeding the Idea among Financial Institutions

engage in a discourse on the opportunities and challenges that are present for weaving sustainable finance principles within the financial inclusion strategies of financial institutions, especially banks. The session also focused on the need of integrating sustainable finance principles in core strategies, and adopt and bring ESG and Sustainable finance in mainstream discourse.

Key Takeaways

- The panel emphasized that while the foreign investors ask for ESG compliance, most financial institutions lack awareness and the required technical capacity. The audience echoed this with 60% voting for lack of awareness in financial institutions and governance bodies as the top barrier for mainstreaming sustainable finance in India.
- The next impending barrier as polled by the audience was lack of policy and regulatory guidance. The panel recommended that the regulator should provide clearer definitions under the PSL guidelines.
- While the sector is growing steadily, there is need for greater push for innovations through partnerships to ensure sustainable financing ensured across channels. There has been 10.2 billion dollars of issuances of Green Bonds in India in the last 4 years.
- It is important to undertake small efforts which will eventually get consolidated and coordinated similar to the evolution of MFI financing.
- For banks and financial institutions, risk evaluation and viability of the projects is paramount. FIs have to adopt Sustainable financing guidelines voluntarily rather than being pushed by regulation.

SMALL FINANCE BANKS - THE JOURNEY SO FAR AND WHAT LIES AHEAD

Moderator: N Srinivasan, Sector Expert

Speakers:
- Shrimohan Yadav, Chief General Manager, Reserve Bank of India
- Govind Singh, MD, Utkarsh Small Finance Bank
- Nitin Chugh, President, Ujjivan Small Finance Bank
- Gaurav Malhotra, Director - Financial Institutions, CDC

It is now over four years since the RBI issued licenses to 10 financial institutions to set up Small Finance Banks (SFBs) with the objective to provide financial services to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities. Of the 10, 8 were Microfinance Institutions, most of which have either completed or are close to completing three years of operations as SFBs. For most SFBs however, the portfolio continues to be dominated by microfinance loans and the share of retail liabilities is low. By September this year, all SFBs had been granted scheduled status by the RBI. Meanwhile, the RBI also released the draft guidelines for on tap licensing of SFBs, raising the expectations of MFIs and NBFCs for the next level of transformation into banking institutions.

The session provided an opportunity to review the extent to which this new set of differentiated banks have succeeded in achieving the objective of financial inclusion so far, and discussed operational, structural and regulatory challenges faced by them as they transformed themselves from largely mono-line asset backed revenue businesses to a diversified asset and liability backed profitable businesses. The session discussed various aspects of providing an enabling and supportive framework to SFBs for them to realize the potential of transforming into the bankers to the last mile, and also highlighted lessons learnt for financial institutions aspiring to be SFBs in future.

Key Takeaways

- The transition journey to SFBs from MFIs was marked with challenges with the highest priority being to build trust among customers, market players and investors that MFIs can indeed be "banks" who have the intent to be in the financial system for long run as true "Banks".
- Of the various challenges faced, compliance challenge was the most critical as senior management time was primarily devoted to dealing with compliance adherence. Others include developing a truly granular liability franchise and diversifying asset line by venturing into new but related business verticals. On the regulatory front, meeting the requirements of dilution of shareholding and public listing remain an on-going concern.
- SFBs have tackled the challenges of building liability by mobilizing wholesale deposits to begin with, while the intent and long term vision continues to be have retail liability base. Similarly, diversifying to new asset classes required setting up a strong team, integrating the team into the culture and investing in the right technology.
- At a steady state, the liability business built up will be largely retail driven and deposit sizes will be small, however, the volume of transaction will be very high. To manage high volumes on liability side on a base that is built up on smaller deposit size, keeping costs under control while delivering the services is critical. Cost efficiency can be achieved through investment in innovative technology. Strengthening SFB's readiness to manage volumes and diversity of services will need prudent investment in technology.
- SFBs have emerged as an investible asset class for mainstream capital market investors. Investor community has set higher benchmarks for SFBs on metrics to track return on investment compared to the private sector banks. Key strengths that have made SFB a lucrative proposition to invest in is largely driven by high standards of governance, strong grasp and understanding of customer and continued focus on vision of creating impact at scale.
- Quality of service and ability to provide door step service is critical for SFBs to claim and retain market share.
- Compliance adherence is at times, significantly more for SFBs than regular mainstream banks. Increased compliance and regulatory requirements for SFBs helps build trust. Since regulator's prime responsibility is to protect the interest of depositors, SFBs attracted greater vigil and supervision given that they are new to the system.
- Moreover, it is considered prudent to undergo the rigor of adhering to increased scrutiny and compliance. It builds a culture of trust with the regulator, investors and customers.
- To build a resilient SFB ecosystem, it is important to build trust and building trust will need the effort to build a culture around transparency and highest standards of governance. Compliance helps in achieving those standards till they become part of organizational culture.

IN PURSUIT OF IMPACT INVESTMENT – WHAT WORKS AND WHAT DOES NOT?

Moderator: Sandeep Farias, Co-Founder & Managing Director, Elevar Equity
Practitioner Perspectives:
- Alok Mittal, Co-Founder, Indifi Technologies
- Kshama Fernandes, Managing Director & CEO, Northern Arc Capital

Impact investing, or an investment strategy that weighs both financial and social returns has, for the past several years both globally and in India, focused on microfinance sector. Now, as the financial inclusion space is evolving with emergence of new institutions including NBFCs focused on the unbanked/BoP segments as well as fintechs and enablers with models that help financial services (including but not limited to credit) reach the last mile, these diversity of institutions focused on inclusive finance strive to raise impact focused capital for growth.

The session discussed the challenges faced in raising capital though the life cycle of an entity - including investor perspectives, the evolving investing landscape, with a focus on negotiations, closings and missed opportunities. The session also touched upon other considerations - such as the differences between financial and strategic investors, the importance of impact measurement and some key terms. The session was a freewheeling and candid conversation among speakers who have raised and invested capital.

Key Takeaways

- Perceived risks with asset classes dealing with excluded segments emanating from facts around income instability and inability to absorb economic shocks, had kept mainstream investors away from investing in "high impact" enterprises.
- Data backed arguments to attract efficient capital to the Impact enterprises was critical to build conviction within the investor class to invest. Data led insights helped articulate the case for investing in "impact" sector as a sensible, scientific and smart move.
- However, the narrative in India among investors evaluating investment opportunities in Impact space is largely driven by commercial returns with "possible impact creation" as a positive additionality. Hence as an investment seeker, it is important that the entrepreneur uses the widely acceptable narrative and language which a commercial investor uses.
- While there are a variety of options in terms of products and instruments to raise capital, planning the capital structure and building the debt portfolio needs concerted effort at the level of the management. It is important that entrepreneur invests in putting in place the contours of its debt portfolio and quality of debt investors in terms of diversity, cost of capital and instrument flexibility.
- To attract efficient capital from diverse investors consistently, it is important to have a resilient core business model and a robust data collection, management and maintenance system. Representing the business and building the case for investment needs data and hence organization should invest early on data management and representation.
- Ownership of fund raise process by the entrepreneur, in case of both debt and equity, is critical.
- Equity structures are unnecessarily convoluted and there is need for standardization of equity term-sheet.

A PEEK INTO THE FUTURE OF INCLUSIVE FINANCE – FINTECH FLASH TALKS

Anchor: Anil Gupta, Partner, MicroSave Consulting
The Session featured Flash Talks by new and emerging fintech models. Through a series of short elevator pitches from a curated list of Fintechs, the session provided an exciting sneak peek in to the landscape of how the future of inclusive finance looks like in India. The session aimed at highlighting innovations in digital financial inclusion pipeline – prototypes, business models which have the potential to reach the masses and address some of the toughest financial inclusion challenges.

The fintechs were carefully selected from a curated list of entities operating in the digital financial inclusion space. Digital financial service providers act as a catalytic pillar for driving universal access and usage. The key pivots for ensuring universal financial inclusion through digital mode are inclusive product design, building on and leveraging existing ICT and financial infrastructure, increased availability of access points and financial literacy, among others. The selected fintechs were operating in the financial services space addressing inclusion problem around democratizing availability of financial products – savings(FinLok, insurance (Riskcovry), credit (Bridge2Capital, RupeeCircle), solving for cost-efficient and innovative service delivery channels (MiMo) and inclusive product design (NavanaTech).

The fintech's presented how their model addressed the inclusion problem, profile of their clients, partnerships, current outreach and scalability of the model. The different companies that presented were;

1. **Mohammed Riaz, Co-Founder, Bridge2Capital**
   Bridge2Capital - Bridge2Capital facilitates small merchants to avail credit limit through a mobile application-based paperless interface. Within five minutes, a verified merchant can be linked to a formal credit provider, and get a credit limit. Once linked, the merchants can start uploading their purchase invoices into Bridge2Capital's app without leaving their premises.

2. **Tanuj Sinha, Co-Founder, Finlok**
   Finlok - Finlok is a financial platform that helps people save money and avail hassle-free credit leveraging their social networks through the proven financial model of group savings. Finlok is a financial platform that helps people save money and avail hassle-free credit through a group savings-based financial model.

3. **Raoul Nanavati, Co-Founder, Navanatech**
   Navanatech - Navana develops innovative design solutions that help illiterate and semi-literate people to use modern digital mobile services intuitively. Navana Tech offers research-driven design standards and developer tools to assist businesses to build intuitive mobile user-interfaces. The Navana Tech Voice Dialer feature allows users to add or search for a contact by saying the name instead of typing it.

4. **Chiranth Patil, Co-Founder, Riskcovry**
   Riskcovry - Riskcovry is an omni-channel “Insurance-in-a-Box” for consumer businesses (like Financial Institutions/FinTechs and Retail/eCommerce) to enable any insurance product from any insurer across any customer engagement channel, seamlessly.

5. **Abhishek Gandhi, Co-Founder, RupeeCircle**
   RupeeCircle - RupeeCircle has developed phygital (digital + offline) loan processes to reach out to underbanked individuals with customized loan offerings. They have disbursed INR 70 million with an NPA of less than 2% while ensuring average annual returns of 18% for investors on the platform.

6. **Lathika Regunathan, Founder, Mimo- Technologies**
   Mimo technologies- MIMO works with Financial Inclusion, Logistics & Distribution companies, MFI & NBFCs, Entertainment- including broadband and Telecom, Banking and Insurance companies to take these products to semi-urban and rural India. The Agent network with the Wallet (closed loop wallet) solution is the backbone of the system.

11th INCLUSIVE FINANCE INDIA AWARDS

The Inclusive Finance India Awards is an initiative instituted by ACCESS Development Services in partnership with HSBC. The Awards provide a way of recognizing efforts and performance of various institutions and some individuals that have contributed in advancing the goal of financial inclusion. The 11th Inclusive Finance India Awards were presented on Day 1 of the Summit. The awardees were felicitated by Dr. Krishnamurthy Subramaniam, Chief Economic Advisor, Govt. of India and Mr. Surendra Rosha, CEO, HSBC, India.

This year the final list of Awardees includes highly credible names:

1. Microfinance Organization of the Year – **Credit Access Grameen Limited**
2. Fintech Innovation in Financial Inclusion – **Nearby Technologies Pvt Ltd**
3. Housing Finance Company Lending for Affordable Housing – **Shubham Housing Development Finance Company Ltd**
4. Non-Banking Finance Company Lending to Micro and Small Enterprises – **Aye Finance Pvt Ltd**
5. Innovation and Inclusiveness in Priority Sector Lending by Banks – **HDFC Bank**
6. Contribution to Advancing Financial Inclusion by an Enabling Institution – **Stichting Rabobank Foundation**
7. Contribution to Advancing Financial Inclusion by an Individual – **Samit Ghosh, Founder, Ujjivan Small Finance Bank**
8. Jury Special Award for Lifetime Contribution to Advancing Financial Inclusion in India – **Dr C Rangarajan, Former Governor, Reserve Bank of India**

Making Financial Products more Responsive for Women Entrepreneurs

Women entrepreneurs in India comprise only 10% of the total number of entrepreneurs in the country. User-centric, context-specific financial instruments, and their access and uptake continue to be a key barrier for women-owned enterprises. Researchers from IWWAGE and LEAD opened the side event providing an overview of the current landscape of women entrepreneurs in India and the challenges they face in accessing financial products. Key recommendations over the discussion, the group agreed that

- It is very important to work towards changing gender norms, however that takes time.
- Thus, it was recommended that financial instruments should be tailored for women entrepreneurs to take into account these gender norms and work around them to craft products that work for women entrepreneurs now. This means, for example: developing flexible products that take into account women's irregular work schedule; building on the BC models so that women have less to travel to access services;
- Developing alternative credit scoring systems that rely less on collateral and more on, for example, trustworthiness; and
- Bundling credit/business-support products with others that address household needs (education, health, etc.) so that they will be more appealing/bring more value to women entrepreneurs.
- Participants in the discussion agreed that following this approach will not only help women entrepreneurs grow their business in the short-term and given the current gender norms, but also contribute to changing the underlying gender norms that prevent women from accessing financial services in the first place by increasing women agency and economic empowerment.

Microfinance-Investors Market Place

MFIN has been continuously taking several steps to build investors' confidence within the sector and facilitate equity investment for MFIs (both Debt & Equity). The Lenders & Investors Meet, which MFIN organizes every year, is one such endeavor to connect the MFIs with lenders & investors and built a mutual relationship for a better understanding of different institutions operating within the sector. This year, MFIN is hosted the 'Lenders and Investors Meet' in New Delhi at the Inclusive Finance India Summit to provide a platform for the Member MFIs, Lenders and Investors to interact, with focus on small and medium sized MFIs (portfolios below Rs 500 Cr). The Meet was structured to facilitate one-to-one discussions which provided a platform for the Member MFIs, Lenders and Investors to interact, with a focus on small and medium sized MFIs (portfolios below Rs 500 Cr).

A Pitchbook was created capturing information of 15 small and medium MFIs which was circulated with potential lenders/investors to ascertain their interest in engaging with a particular MFI during the meet. The meet witnessed participation from 12 lenders/investors and 15 small & medium MFI's with a total of 40 participants. A total of 54 meetings were organised.

Knowledge Fair

The knowledge Fair saw participation from Green Light Craftsilicon, Smart Campaign, Sistema.bio, Samsung, Vindhya - e- infomedia and Inclusions Social, showcasing products, technology and models.

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