Financial Inclusion of the Urban Poor: Issues and Options

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Introduction

In India, most studies on poverty have been centred on the rural poor and urban poverty has received little attention of the policy makers. With the rapid growth of big cities, slums, the breeding grounds of urban squalor and poverty, swell primarily due to increased migration of the poor from the villages in search of better employment opportunities and improved standard of living. All poor, however, do not live in slums. In fact, the urban poor population in the country is estimated to be nearly eight crore whereas the slum population hovers around four crore. Most of the working population in urban areas work under utterly deplorable conditions in unorganised sector with a very few livelihood options. The deprivation of urban poor is further accentuated as more than 40 per cent of adult Indian urban population has no access to a bank account (this figure would be more if multiple accounts held by individuals are factored), and, thereby depriving them of savings, credit, remittance and other financial service facilities from the formal financial system. Against this background, this paper tries to study the issues and options involving financial inclusion of the urban poor.

Financial Exclusion of the Urban Poor: The Issues

Savings and Credit Needs

In a study undertaken by the author in Kusum Pur, an urban slum of Delhi (Box 1), it was revealed that around 54 per cent of the respondents were non-savers and lack of resources to open and maintain a bank account was one of the important reasons for their financial exclusion. Managing savings well by the urban poor is critically important but often neglected leading to absence of a secured source of finance to meet life cycle as well as investment needs. The study also revealed that nearly 58 percent of the families of the sample population do not have an account either in bank or post office despite being surrounded by 13 bank branches.

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Box 1: Savings and Borrowing Behaviour of the Urban Poor

In a study conducted during May 2007 in Kusum Pur to understand the financial behaviour of the urban poor and its correlation with the financial exclusion, it was revealed that the reasons for their low or no savings could be attributed to their low earnings, bigger family size with single earning member and poor money management skills. The saving options exercised by the respondents included, keeping money at home to meet exigencies, saving in a bank by the inhabitants having salary accounts in banks, putting savings in recurring deposit accounts in banks/post offices for compulsory savings and other informal saving options like putting savings in a committee-a chit fund like option prevailing in Kusum Pur. Keeping in view poor savings behaviour existing in Kusum Pur, an experiment was conducted by distributing piggy banks among the respondents to encourage regular savings and during the follow up visits, it was revealed that there is a hidden scope for the urban poor to save through regular savings and counselling for better money management skills. As regards their borrowing behaviour, it was revealed that they borrowed money primarily for treatment of self/family members, followed by their borrowing for social obligations and for meeting expenses for their house building/repair/purchasing of plots. They prefer to borrow from friends/relatives even at an exorbitant interest rate of 10-15 per cent per month as the lender lives within the borrowers' community and understands the borrowers' financial situations and constraints. Loans are short term and exchanges of money can be done near home. This source is also not restricted by delays in repayments and the (24x7x365) availability of credit, especially in times of emergency despite the exploitive interest rates. Informal credit also allows the poor to make investments during seasons when they earn the most money and match periodic cash outflows with their wage cycles though they have to repay at a very high interest rate.

Remittance Requirements

In India, huge flow of migrants, poor and the not-so-poor, criss-cross the country in search of a better life for themselves and their families who mostly stay behind in their villages. They take up non-contractual and non-permanent jobs, such as, house help, security guards, daily wage labourers, hawkers, beggars staying on the streets and petty workers working in and around the industrial areas in cities. These migrants need a fast, low cost, convenient, safe and widely accessible remittance service to send money to their families and dependents to meet their consumption needs and other life cycle needs in particular, medical emergencies. Safe, speedy and affordable means of remittance, however, remains a major problem for the migrant domestic labour in urban, many of whom unlike overseas migrants do not even have bank accounts either at their native places or their work places.

With a rapid increase in the population of working mothers, maid-supplying agencies like Chhotanagpur Working Womens' Forum (CWWF) of Delhi are mushrooming in big cities these days. A quick study of the members of CWWF (Box 2) revealed that the migrants have very limited options for remittance, such as, postal money order, bank drafts, sending cash through returning friends/relatives. As compared to the option of sending money through postal money order at a charge of 5 per cent, money sent through bank drafts is though a cheaper option, most recipients do not have access to banks for encashment. The third option of sending money through friends/ relatives would mean waiting for their visits to villages, and besides, there is a risk of theft. Sending money through informal money transmitters is fast and can provide good service in certain urban areas but has many attendant risks.

Most of these migrants originate from the states of Bihar, Orissa, Jharkhand, Chhatisgarh and migrate to the sates of Gujarat, Rajasthan, Delhi, Mumbai and other big cities of India. For instance, in Orissa, around 25 lakh people migrate to other regions in search of work. Gujarat is prime destination state for the migrant labour of Orissa. Despite their low wages and low savings, they also have to send back money whatever little they have to their families

Box 2: Remittance Requirements of Migrant Labour

A quick study was conducted in the Chhotnagpur Working Womens' Forum (CWWF) of Delhi, an agency providing domestic helps to various households spread in and around Delhi. Most of the 100 members of CWWF earn Rs. 2000- 5000/- per month as domestic help and generally send a huge chunk of their monthly earnings to their families (as their expenses are completely borne by their employers) staying in remote villages of Jharkhand, Chhatisgarh, West Bengal and Orissa either through money order or through friends/relatives visiting their/neighbouring villages. Both these options are time consuming and may not meet their families' emergency needs. For people with no or low level of education, sending money through instant money order may not be a feasible option as the receiver need to have an identity proof and has to comply with certain tedious formalities to send/receive money. The study revealed that the poor immigrant-members of CWWF face this problem on many occasions while remitting money to villages for urgent needs.

through not-so-safe and costly money transfer services. Consequently, when their dependents in the village are faced with an emergency their only recourse is the money lender, leading to more indebtedness thus, perpetuating migration in a vicious circle.

These dire needs of the migrants led the social engineers to think of micro finance institutions (MFIs) as a possible delivery channel to meet their remittance requirements. However, to make the MFI sustainable for providing remittance service to the migrants, there is a need to have a critical mass of migrants in the place of destination from a place of origin, which is generally in a remote village, having no access to bank branches. One such MFI "Adhikar" (Box 3) operates between area of villages around Tangi in Orissa, area of origin to Gandhidham (GDM) and Surat, the destination areas through a tie-up with the banks in Bhubaneswar (BBSR). Adhikar presently provides remittance services to migrants of GDM and Surat in Gujarat and their remittance pattern suggests that they remit an average of Rs. 1275/- per month. An insight into their saving behaviour suggest that they keep their savings with the "mukkadams", some of it as arrears payments, or with trusted elder workers, or in bank accounts, usually as recurring deposits until the deposit matures or the saved amount has been large enough to be remitted home. Adhikar's Shramik Sahajog initiative has achieved some success in being able to meet both savings and remittance needs of the migrants.

The second requirement for an MFI could be to provide a cost effective remittance service to migrants besides offering an integrated financial product to meet both their savings and remittance needs thus, enabling them to send money through a fast and safe channel while earning interest from their regular savings at the destination place.The initiative of banks like Development Credit Bank (DCB) to open no-frills account for the migrant labour in major cities can be a step in the right direction (Box 3).

Box 3: Adhikar: Meeting the Remittance Needs of Migrants of Orissa

Adhikar, an NGO-MFI based in Orissa, set up an organization of Oriya migrants in Gandhidham (GDM) in the State of Gujarat, called 'Shramik Sahajoga' (SS) to address the problem of remittance by the migrants so as to ensure the migrant workers remittance reaches their family and enables the family to access these funds to undertake income - generation activities. Savings and remittance money received in cash is accepted by the SS staff in GDM during office hours or during afternoon visits to the main residential neighbourhoods. The money is deposited on the same or at least, next day, in Shramik Sahajog's bank, which allows simultaneous (and free) crediting of amounts deposited in GDM to Shramik Sahajog's account in Bhubaneswar (BBSR) branch of the same bank. The field office disburses most remittances within 24 hours and all within 48 hours. Thus, the remitted money reaches the destination in 2-3 days and at a transaction cost of 2-3 per cent. Presently Adhikar has a tie-up with four banks in Bhubaneswar (BBSR). As per the new strategy now adopted, the Development Credit Bank (DCB) may open no-frills account for all the workers in GDM as per the relaxed KYC norms and then the required amount can be remitted from their individual accounts to the SS-BBSR account. This would solve the problem of the limit of Rs. 50000/- and enable the worker to deposit his earnings in his bank account thus, earning interest on his savings. (website: www.adhikarindia.org).

Other Financial Services Requirements

It is estimated that more than 90 per cent of the Indian population does not enjoy social protection of any kind, a higher proportion than those who are unserved by the banks in respect of savings and credit. There are however strong synergies between micro-insurance, micro-credit and micro-savings. Insurance offers protection to assets created under credit programmes, and protects savings from being wiped out by shocks arising out of sickness, death, accidents or asset loss caused by fire, drought, floods and riots. While both savings and insurance provide protection against such shocks, insurance offers a higher degree of protection, especially when savings have just commenced and are still being built up to provide an adequate cushion on their own. Thus, there is a new set of incentives for the insurance industry to reach the poor. The great deal of innovation in new product development and service delivery is taking place in partnership with MFIs and others, such as SEWA Bank's insurance and pension products in collaboration with the Life Insurance Corporation (LIC) and the Axis Bank.

In the lines of the business correspondent model, NGOs, SHGs, and MFIs have been recognised as micro-insurance agents for purposes of acting as intermediaries between the insurance companies and the urban poor. SEWA and DHAN Foundation are the two pioneers in the area of providing micro insurance to the urban poor. As SEWA's members were employed in the informal sector and recognised as workers, they were deprived of compensation in times of accident or illness. This made them highly vulnerable to even small shocks which would not affect people of similar economic status but with

regular income. In fact, a survey of 100 defaulters conducted by SEWA Bank confirmed that the roots of default could often be traced back to shocks such as, maternity, sickness, asset loss, or bad weather.

Livelihood during old age may be termed as a major problem for the urban poor with the lack of proper support system and their inability to work in their old age. Relieving the elderly poor women from suffering and ensuring that they spend their non-productive years with dignity has been a cause SEWA Bank has worked on for a long time. Although SEWA's pension programme is at too early a stage to be evaluated, and the appropriate risk mitigation mechanisms may still be improved and developed, interest has been expressed by other MFIs and organizations to replicate the model and enable poor self-employed women to provide for their old age. All these innovative products can however be delivered to the urban poor at their doorstep through the business correspondents of banks.

Financial Inclusion of the Urban Poor: Options

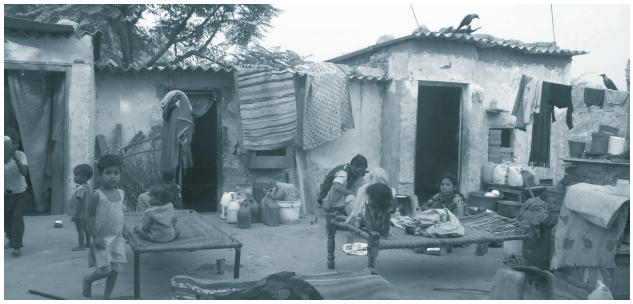
Urban poor generally come from various parts of the country and social groups, possibly impacting the quality of social networks formed within self-help groups as well as restricting the ability of banks/MFIs to gather information on them. Other reasons attributing to banks/MFIs inhibition in providing financial services to the urban poor may be primarily due to lack of identity proof, lack of cohesion among the inhabitants of urban slums, irregular incomes and migration among the workers to and from rural areas in contrast to the rural poor who have a permanent address proof as needed for requisite documentation. For banks/MFIs entering the financial market for the urban poor, there is a need to do a reality check on the myths relating to urban micro finance. While conducting the study in Kusum Pur, the author has observed that many slum dwellers have been living along with their families in the same location for a generation or more and even when they go home to visit their villages, for a month or two, they come back to the same area because of their familiarity with the area. In such slums, getting a permanent proof of identity by the slum dweller, though, is a problem. Select banks/MFIs, however, have found ways to establish that the borrower has a fixed local address, despite lack of formal documentation. Besides, the current drive of the Delhi Government to provide a unique identity card to all vendors/hawkers and the Central Government's proposal to issue integrated smart cards to the beneficiaries of various government schemes may help in solving the problem of identity proof for a certain section of the urban poor.

With the implementation of employment/income generation schemes for the disadvantaged groups, such as, Prime Minister Rozgar Yojna (PMRY) and Swarna Jayanti Shahari Rozgar Yojna (SJSRY), formation of joint liability groups (JLGs) of the urban poor for provision of bank credit with collective obligations for interest and loan repayments is an option. In urban areas, JLGs, even SHGs, can obtain credit by forming a homogenous group in the growing resettlement colonies keeping in view the diversity of occupations, financial needs and time availabilities of the urban poor. The next step may be to give individual loans, namely, micro-enterprise loans to select JLG members who establish a good track record through group borrowings, entrepreneurship skills and who want larger loans for productive purposes. Their higher risk is usually addressed by obtaining security in some form and higher interest rate.

Though SHGs can handle urban heterogeneity since they are designed to accommodate different loan amounts, and, like chit funds can accommodate non-borrowing or net saver members who prefer to sit back and earn interest on loan taken by others, not many SHGs are functioning in urban microfinance. The prime reason for under-developed SHG sector in urban areas is the misconception that there is a lack of homogeneity among the urban slum dwellers, though a reality check suggests that there is a scope to develop homogenous groups required to form SHGs among the slum dwellers as kinship ties back home can be re-established among some of them who have migrated from the same village generations ago and have similar financial needs. With the implementation of a number of urban development projects like Jawaharlal Nehru National Urban Renewal Mission (JNNURM), there is a possibility of growth in resettlement colonies as the migrants with better employment and educational opportunities and improved standard of living will tend to bring their families from villages and settle down in urban areas, thus, providing space to form more and more homogenous groups required for forming SHGs in such areas.

Besides demystifying the misconceptions involved in selecting the appropriate delivery channel in urban areas, there is a need to customise financial services for the poor keeping in view their life cycle needs.

Product development is an essential activity for market responsive financial institutions. As clients and their needs change, the market-led, demand driven financial institutions must refine their existing products to develop new ones. Effectively conducted, systematic product development will result in products that are popular in clients and more cost-effective operations for the financial institutions. As market-led microfinance puts the customer at the centre of the business, the importance of '8 Ps' of marketing that includes product, price, promotion, place, positioning, physical evidence, people and process is emphasised after rolling out the financial product. Marketing of the product may be followed by inviting feedback from the clients that may help in improvising the product.



Meeting the Savings Need

Innovating micro-saving products, per se, to meet savings needs of the urban poor may not be enough. Innovative financial products offering composite solution for possible investment opportunities besides catering to their savings needs have to be thought of for including the urban poor in the banking network. South Africa's E-Bank Plan (Box 4) demonstrates how a commercial bank can use market information to bundle services for low-income clients. Its uniqueness lies in its focus on demand enhancement. Sensitivity to the needs of the basic banking customer led to innovation of a new product that has proven to be valuable to him/her providing a cheaper delivery mechanism. There is, therefore, a need for the banks in India to provide add-on features, such as, ATM facility, matching contribution by the Government /municipal bodies to encourage savings by the urban poor through no-frills account. Banks may design suitable saving bank accounts, may be in the form of savings plus accounts - a mix of savings and term deposit account. The minimum balance in the savings bank portion may be fixed at Rs. 100/- and the rest of the savings may be swapped to the term deposit account thus, giving the customer a higher rate of interest without jeopardizing liquidity. Providing smart card bundled financial services to the poor and the not-so poor can be a step in the right direction.

Catering to the Credit Demand

Indian experiences of urban micro-credit are relatively limited compared to those around the world. As the oldest MFI in India, SEWA Bank is a prime example of how flexibility and sensitivity to the needs of poor clients can enable an organisation to successfully deliver the financial services in the urban context. Janalakshmi, formerly known as Sanghamitra Urban (SU) Programme, administered by the Bangalore branch office of the Sanghamitra Rural Financial Services offers innovative group lending products to the urban poor through the Self-Help Affinity (SHA) groups. More such innovative products, including those developed around the General Credit Cards (GCC), may be explored by banks/MFIs.

Box 4: E-Bank Plan of South Africa

To provide basic financial services to the urban poor, the Standard Bank of South Africa created an innovative institution called E-Bank that specifically targets the low-income market. The idea was to offer an integrated combination of product and delivery features, including user-friendly conveniently located branches and technology and exploiting the cost savings of computerized services. E-banks are conveniently located in high-traffic areas in colourful, well-designed, user-friendly kiosks. All financial services are delivered through ATMs. Each E-bank location has 3 -4 assistants to help guide unsophisticated users of the ATMs. The e-bank offers a single depository account with card-based access-there is no checking privileges and no passbook. All money in the account earns a 2 percent interest rate as long as the client maintains a minimum stipulated balance. With a fully automated system, the E-bank can monitor accounts and reward savings performance. It pays an additional 3 per cent interest premium over the base deposit rate of 2 per cent to clients who maintain balances above the stipulated minimum for over six months. Depositors who exhibit either regular savings behaviour or who maintain a specified balance above the minimum become eligible for drawings and prizes. Besides, instead of relying on traditional advertising methods, E-Bank has used market presence, life insurance and prizes to generate word-of-mouth advertising. The approach is providing product and delivery features that are valuable enough to make the low-income clients willing to pay ATM transaction fees slightly above the market norm and high enough to cover banking costs.

The experience of South Africa in setting up credit information bureaus (CIBs), especially in urban areas with weak contract enforcement, is worth exploring. CIBs would help in improving credit repayment rates by reducing moral hazard problems as well as support access to credit. This would also allow borrowers to build reputational collateral and have more bargaining power for the terms of credit. Lenders can use the credit information of the borrowers as a verifiable proxy of income and support their credit decisions. Similar initiatives would help in greatly covering the urban poor under the credit network of the banks/MFIs.

Providing Remittance Facilities

To include the migrant labour in the ambit of banking network, there is a need to have a multi pronged approach that could include, setting up/ tying up with NGOs /MFIs at the places of origin and destination of the migrants through a business correspondent model, opening up of no-frills accounts for the migrants at the destination place and forming cooperatives among the family members of the migrants originating from rural areas (Box 5), etc.

However, to meet the remittance requirements of migrants, MFIs need to have a competitive edge over the informal private operators in large centres. In Surat, NGOs/ MFIs like Adhikar has a potential edge over its competitors for offering loans and insurance to members both in Gujarat and in Orissa. MFIs need to identify major inter-state migration corridors in the country. As there are not many MFIs that have a presence in both originating and destination areas like Adhikar, tie-ups between MFIs in different sets of origin-destination pairs, or between MFIs and banks in either the originating and destination areas may be explored. With an estimated value of average remittance of Rs. 2000- 3000/- per person, it is expected that the estimated value of annual remittance may go up to Rs. 9000 crore, thus, creating a huge potential for MFIs to grow in this area.

Other Financial Services for the Urban Poor

The section of the urban poor, who are determined to save regularly even with their low earnings, should be provided an investment option that fetches highest rate of return on his/her savings. Mutual funds, pension for the unorganized sector and micro insurance products customized to the financial needs of the poor have to be developed. The recently launched mutual fund products with an entry point of Rs 50/- and Rs 100/- may be a step in the right direction.

Box 5: Ajeevika: Financial Services for the Migrants

Aajeevika Bureau is a specialized facility to provide services to unskilled, seasonal rural migrants of Rajasthan who flow in large numbers to cities, farms and factories of Gujarat, Maharashtra and beyond for employment. Through its centres at originating and destination places, it provides registration and photo identity to the migrants, undertakes skill training and placement services linking labour to markets and provides financial services for migrants and their dependent families. The financial services programme of the bureau, with a registered membership of 8000 migrants, aim to reduce the risks, costs and constraints in seasonal movement and relocation, improve access of migrants to formal institutions and services, facilitate linkages of migrants to banks at destination and origin to enable large scale opening of bank accounts for saving, provide composite micro loans to migrants and their families and impart financial literacy. It is presently negotiating a Business Correspondent (BC) arrangement with the State Bank of India to provide suitable remittance services.

Use of Business Facilitators/Outreach Agents & ICT Solutions

As advised by RBI in January 2006, banks may use intermediaries, such as, NGOs/SHGs, MFIs/insurance agents/other individuals/ Civil Society Organisations (CSOs) and community based associations as the Business Facilitators (BF) to provide support services without handling cash. Doorstep banking services through the Business Correspondents (BC) like NGOs/MFIs/ SHG Federations may also be explored as they can take care of credit needs of the urban poor from first contact to final repayment besides their savings, remittance and other financial service requirements. Customised ATMs with a voice recognition technology in local languages, mobile phones whose penetration is also increasing in urban slums, handheld devices /Personal Digital Assistants (PDAs) that store information to provide access to the urban poor anytime and anywhere can be used as important ICT tools for financial inclusion besides mitigating the risk of engaging the outreach entities.

Initiatives by Banks for Financial Inclusion of the Urban Poor

Banks need to take up the financial inclusion efforts not only as a part of their corporate social responsibility but as a vibrant business model. A few banks like the Union Bank of India, Indian Bank and Citi Bank have now launched pilots using such ICT tools to financially include disadvantaged groups in cities/towns. Union Bank of India

is covering the hawkers in Mumbai (Box 6) and Indian Bank has launched the programme to open "no-frills" accounts at the door step of the migrants staying in Dharavi slums in Mumbai with the assistance of the local community leaders, NGOs ("Nirman") and provide ATM facility and smart cards to them in association with technology provider like FINO. Citi Bank has recently launched a specially developed biometric ATM that has multiple language capabilities as also a voice enabled navigation facility (similar to IVR) with visually simple screens and colour coded buttons to guide their 'Citibank Pragati' no-frills savings account holders to carry out routine banking transactions with ease.

Financial Literacy for the Urban Poor

The financial education efforts have to be customized to encourage savings and create greater awareness towards the banking services to cover the urban poor under the banking network. The author's study in Kusum Pur revealed that there is a scope to plug the spending leakages to improve their saving behaviour through proper counselling by putting across a few real life situations. The key lies in to *educate*, *motivate* and *encourage*. The Reserve Bank of India, as part of its financial literacy programme, has brought out comic books on basic banking for school kids and common persons (www.rbi.org.in/financialeducation) to provide general information and guidelines to the common persons. The comic books with an easy-to-understand storyline and appealing sketches try to explain the importance of savings and the basic banking services. Banks can play a major role in imparting financial counselling to the urban poor, especially updating them on the available financial services by up scaling their credit counseling initiatives. Bank of India's ABHAY, ICICI Bank's DISHA and Union Bank of India's Union Mitra are among the few banks that have opened credit counselling centres as initiatives towards such financial literacy.

Conclusion

With rapid growth of urbanisation, social engineers have been compelled to give attention to providing financial services to meet the savings, credit, remittance and other financial requirements of the urban poor and not so poor engaged in the informal/unorganised sectors. Financial inclusion should not begin and end with opening of bank accounts. In fact, product innovation in financial services keeping in view their life cycle needs is the need of the hour. Rolling out of an innovative financial product, however, should not be undertaken without adopting a systematic approach that involves conducting market research on the financial needs, developing a proto type, analysing the associated risks, pilot testing of the product, etc. Launch of the product should also be backed by an effective '8Ps'marketing strategy. Linkages with NGOs/MFIs/community based associations/ cooperatives/occupational unions/trustworthy individuals as the Business Facilitators/ Correspondents of banks may be encouraged to deliver the financial products to the urban poor at place and time convenient to them. For improved efficiency and better risk management, innovative ICT solutions have to be leveraged to provide banking services at the doorstep of the excluded groups. As financial literacy plays a significant role as an "auto pilot" mechanism to empower the urban poor to proactively seek support from the formal financial institutions, banks/MFIs need to formulate and implement multi pronged strategy of financial literacy for achieving greater financial inclusion in the urban areas as a successful business model rather than just considering it as a part of their corporate social responsibility.

Box 6: Financial Inclusion Drive for Hawkers in Mumbai

Hawkers find it difficult to visit bank branches during regular work hours for the fear of loss of business. But they have the intention to save. To provide banking services at their doorstep, Union Bank of India (UBI) has given smart cards to hawkers and opened no-frills accounts for them with the help of the Hawker's Association of Mumbai and its partnership with the FINO Fintech Foundation. The Business Correspondents appointed by the latter go to these hawkers with 'point of transaction' (POT) terminals. By swiping the card on these handheld devices, hawkers can deposit their savings or withdraw money. The data from the cards, stored on the terminals get transferred to the bank's servers. To cover one lakh: hawkers in its drive, UBI has to place 200-250 terminals. This initiative will not only encourage the hawkers to save but also provide them credit though general credit card. As hawkers increase transactions, UBI would provide an insurance cover to them through a group policy from the Life Insurance Corporation of India. In the next stage of inclusion, UBI would provide loans for their children's education.