iitm research park
Bringing unlike minds together

IITM INCUBATION CELL

A Report on
Financial Inclusion Challenges

FOREWORD

IIT Madras Research Park (IITMRP) and IIT Madras Incubation Cell (IITMIC) have been at the forefront of technological innovation which have the potential to benefit society. Access to finance for those with low-income is one of the critical requirements for society's inclusive development. IITMRP/ IITMIC will strive to make India a leader in the world in 'Fintech for Inclusion' by 2030.

They have partnered with the Reserve Bank Innovation Hub, towards this. Together, they plan to focus on policy reviews as well as on co-incubating start-ups which have transformative potential for the sector through innovation.

IITMRP has a strong fintech presence with companies like Kaleidofin, Dvara Trust, Stellapps, IFMR Lead, Samunnati, payAgri and Northern Arc as a part of their ecosystem. It has also partnered with FinBlue, Crescent Innovation and Incubation Council, Atal-Great Lakes Balachandran Incubator, KSR Educational Institutions, Sona Incubation Foundation, M.A.M. College of Engineering and Technology, Maxcelerator Foundation, Samunnati Foundation, Villgro Innovation Foundation, Thiagarajar College of Engineering – Technology Business Incubator and Presidency University to incubate start-ups in the Fintech space. It has already incubated Vest-in-villages and Agami Fintech Solutions towards this. Further, it is in the process of tying up with CredAvenue and Setu.

Working along with these partners, IITMRP/IITMIC will come-up with policy reports (aperiodic in the beginning) with recommendations which can strengthen financial inclusion. This report is the first in this direction, focusing on challenges faced by the under-banked population due to account charges for financial services and KYC requirements for gaining access.

We would like to sincerely thank Kaleidofin Private Limited for providing critical inputs and helping with the preparation of this report. We also express gratitude to Prof. Suresh Babu (Dept. of Humanities and Social Sciences, IIT Madras, currently with Niti Aayog), Mr. Rajesh Bansal (CEO-RBIH), Ms. Aditi Namdeo Srivastava (CPO-RBIH) and Mr. Mahadevan Balakrishnan (ex-COO, NPCI) for their valuable inputs and feedback in fine-tuning of the report.

We hope that the highlighted points enable regulators and policy makers to deliberate on action needed on these points to enhance financial inclusion in the country.

Dr. Ashok Jhunjhunwala

President – IITM Research Park, IITM Incubation Cell and Rural Technology and Business Incubator (RTBI)

Table of Contents

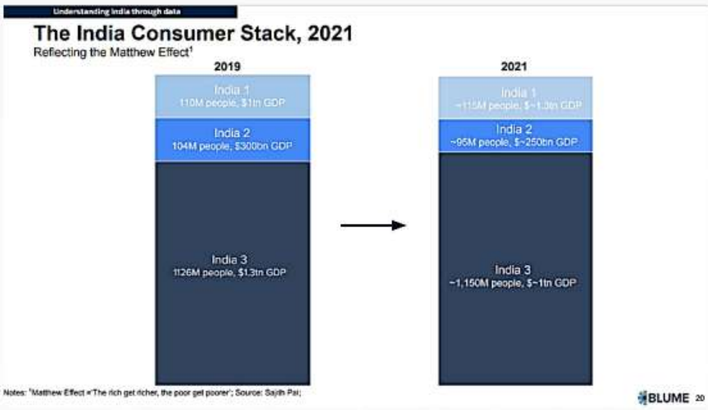
Introduction

Over the last decade, financial services in India have undergone a transformation, driven by technology enablers, and supported by the government and regulators such as RBI. This includes robust interventions such as the introduction of a national identification number (Aadhaar), Jan-Dhan Yojna schemes and an increased push towards digitization via the UPI platform. Jan-Dhan Yojna has been particularly successful in increasing the banking penetration, with over 44.5 crores new accounts created since 2015, resulting in India having outperformed the growth curve of all its ASEAN peers. The UPI platform has been another initiative that has been a roaring success, experiencing a meteoric rise in adoption across the country from INR 0.38 crores in monthly transaction value (in the month of July 2016) to a current value of INR 8,26,843 crores (in the month of Feb 22)[1]

However, despite these successes, there are still significant hurdles in making a full range of financial services available to all sections of the population in India, and there are still 'financially excluded groups'. National Payments Corporation of India (NCPI) reported that while 1 in 2 of the richest 20% households in the country uses digital payments, only **1 in 4 of the poorest 40% households use it.**[2] As per a recent survey by 1Bridge, nearly 40 per cent of rural consumers said they're unaware of UPI and digital payments and/or don't know how to use it.[3] Even in terms of banking penetration, around 14% of Jan Dhan accounts, i.e **5.82 crore accounts were inoperative as of August 2021**[4]**.**

'Financially excluded groups' refer to low-income groups and those sections of society that have traditionally been excluded from formal financial services, like the elderly. These groups have faced challenges in accessing the full range of products and services from formal financial channels. As per the updated RBI circular (March 14th, 2022) for microfinance loans, low-income households are those which have an annual income of less than INR 3,00,000.[5]

Further, the income inequality in the country has only been growing. As per the Indus Valley Annual Report 2022, the wealth of India's richest households has increased by 30% while the wealth of poorest Indian households has decreased by 30% over the past 3 years.[6]



The widening income gap, also known as the Matthew Effect

[1] UPI Product Statistics, published by National Payments Corporation of India.

[2] Report on Digital Payment India 2020 14th Jan'21 2 Final (npci.org.in)

[3] https://www.news18.com/news/tech/very-few-people-in-rural-india-use-upi-for-payments-report-4964450.html

4 https://www.thehindubusinessline.com/economy/over-582-crore-jan-dhan-accounts-inoperative-finance-ministry/article35832894.ece

[5] Reserve Bank of India - Notifications (rbi.org.in)

[6] Indus Valley Annual Report 2022.pdf

In addition to functional bank accounts for savings and deposits, this target segment (i.e the economically disadvantaged) would also greatly benefit from sound financial advice. However, current KYC regulations and source tracking of funds regulations exclude them from accessing basic investments products such as mutual funds. Therefore, physical assets such as gold, or informal (and extremely risky) channels, such as chit fund investments, continue to be the norm for this segment of the population.

Compounding factors such as lack of physical access to cash in - cash out points, despite the continuous addition to banking correspondent locations, high banking charges (which include charges applied to digital transactions that are often free for most regular accounts)[7], and current taxation frameworks continue to disproportionately affect low income populations and senior citizens, which keeps them from reaping the benefits from the revolution in financial services that the rest of India is experiencing.

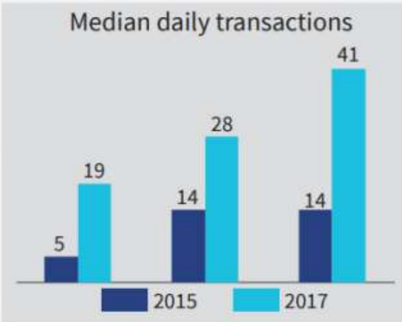
This paper presents evidence of such charges and advertised costs on the website by various banks. Such charges are often labelled as 'technology error' or an error in the system while entering data and construed as not representing the entire banking system. However, there have been multiple cases of such charges found in input from the field studies, some of which are highlighted in this report. As this customer segment usually has lower literacy with access to emails etc. possible only in rare cases, even reading narration of expenses in the statements, which is in English, is a challenge for them. So, writing to the Ombudsman for grievance redressal is hard for them, and regulatory intervention may be needed to protect them from such charges and impact of these errors. Otherwise, these factors result in loss of trust of this customer segment in the banking system, leading to continued reliance on cash.

The paper outlines some of these obstacles and includes recommendations on overcoming them, so that the concerted efforts of the government, industry, and regulators come to fruition in making financial services truly inclusive across India.

[7] BSBDA Small Account Fees & Charges - Account Fees & Maintenance Charges | HDFC Bank vs Common Fees and Charges for Savings Account (hdfcbank.com)

Section I: Cash in Cash Out (CICO) Access

A strong and functional Business Correspondent (BC) network is critical to the delivery of financial services to the last mile. BCs help plug any gap in the financial continuum, ensuring that products and services that originate from the government and within the formal financial sector, are carried right to the end customer, particularly in the more remote parts of the country.



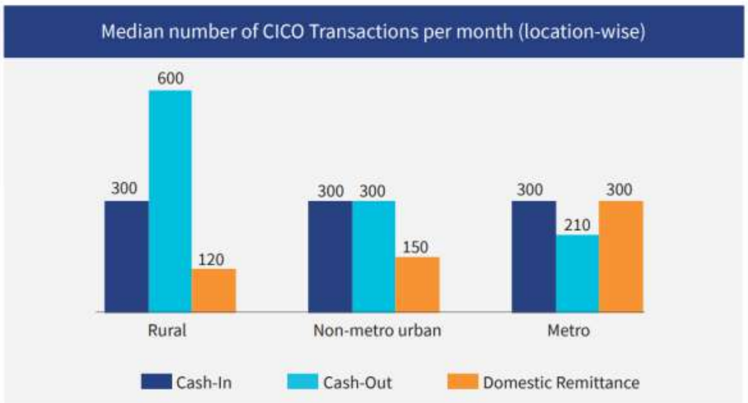
Median daily transactions in India increased by about 140% from 13 in 2015 to 31 transactions in 2017.

For instance, a strong BC network is critical in ensuring that beneficiaries derive maximum benefit from government to person (G2P) programs, such as DBT (direct to bank transfers). The role that BCs play in the delivery of G2P services is clearly evidenced by the fact that the median daily transactions through BC agents in India increased by about 140%[8] within 3 years since the introduction of schemes such as PMJDY in 2015[9].

A location-wise analysis shows that most of these BC transactions are in rural areas, where the economy is (still-largely) cash reliant; and the largest number of transactions are cash-out transactions.

Source: Microsave Report on Agent Networks: Ideas and Lessons from India.

However, access to BC points can be an issue for customers. An average rural customer lives about 4-5 kms from a functional and available, when needed, CICO point, which is more significant in the rural context, considering that these customers often don't have the means of transportation or road infrastructure that, say, an urban customer would. This adds to a customer's cost of accessing a BC.



Source: Microsave Report on Agent Networks: Ideas and Lessons from India

The presence of an active BC agent network depends solely on healthy transaction economics; if the unit economics do not work, agents become dormant or leave the agency business. Increasing the charges per customer is not an appropriate solution, since that would add an undue financial burden on a section of the population that can bear it the least. A few possible solutions to this conundrum have been proposed in the recommendations below.

---

[8] From 13 in 2015 to 31 transactions in 2017: [Agent-networks-Ideas-and-lessons-from-India.pdf (microsave.net)]

[9] https://financialservices.gov.in/banking-divisions/Important-Schemes.

Bank Charges through BC

Even if a customer can physically get to a BC touch point, most of them charge around 0.5% to 1 % of the transactions value as costs for CICO services. This is subject to a minimum payment which, through field research, we have found to be typically between INR 20-30 per transaction, occasionally going up to INR 60, sometimes in violation of bank-policy. While some banks have published costs of INR 10 as minimum charges, these amounts are almost always exceeded in most informal polls and surveys, and sometimes includes charges levied by the agent. Below is an example of cash-in charges booked when the customer deposited the amount in the home branch. No such charges were discussed with the customer at the time of making the deposit.

Example:

09-Jun-2021	FEE CHG, CASH DEPOSIT CHARGES	₹ 60.00
09-Jun-2021	DEPOSIT, cash deposit mylapore branch	₹ 100.00

Cash-in charges for Jan-Dhan account: ₹60 charged for ₹100 deposit

Recommendations:

(a) Providers might try the concept of service and sales agents, in-line with recommendation in the report by Microsave[8]. In this model, sales agents offer CICO along with a full range of services including KYC, and onboarding new customers, and non-financial services, while service agents offer CICO services alone.

(b) Taking this a step further we propose that any person, including kirana store owners, tradesmen, or even a private individual with a smart phone should be able to function as a CICO service agent by allowing payment platforms to offer a "BC mode" supported by UPI.

(c) An individual with a smart phone should be able to download any UPI app, enable "BC mode", accept cash and make the electronic transfer to the customer's account; or they should be able to offer cash to the customer by debiting their accounts. While in theory it is possible to do this even today, several shop keepers are concerned that such transactions will be treated as additional sales and there may be obligations under either GST or income tax. The "BC Mode" would create a legitimacy of being able to do such transactions and keep the records of these transactions flagged as a separate from the transactions that pertain to the stores.

(d) Any transaction that is done under the "BC Mode", would generate a fee, which can be mandated by RBI/ NPCI to be only charged digitally. This fee will be auto calculated and charged to the customer account and credited to the merchant/ individual using the app under "BC Mode" automatically. No fee over and above this can be levied to the customer.

(e) This digital only auto-generated fee component will have the following effects:

i. It will incentivize individuals/volunteer agents to use the agent mode rather than just completing the transfer via their regular UPI accounts.

ii. The fee amount itself will be regulated by RBI rather than allowing agents to set their own charges.

iii. Any data security/privacy concerns can be addressed, by ensuring that any sensitive customer data sent or received from the agents' phone is encrypted.

iv. This will also result in the government having an official record of the total volume of fees that are being borne by the customer for CICO services. It can choose to reverse these charges fully or partially as a DBT to the customer to encourage the adoption of digital banking in the country.

v. This should also be mandated for all existing BC networks that they may not charge any amounts to the customers as fee and all fees shall only be deducted from the bank account of the customer. This will also bring down the instances of customers being overcharged by BC operators.

Section II: Account Charges

(a) Transaction Charges

Basic savings bank deposit accounts (BSBDAs) under Jan Dhan Yojna allowed the unbanked population to open a basic, no-frills account with no requirement of minimum balance, and allowing four withdrawals in a month, which could include cash withdrawals or any online transactions.

As per the original scheme, if the number of transactions exceeds the allowed four, then each additional transaction attracts charges For instance, a leading bank (Bank A) levied a charge of ₹17.70 for every debit transaction beyond four in BSBDA accounts, while another leading bank (Bank B) charges ₹150+GST for the 5th transaction on a BSBDA account. While Bank A has claimed to have refunded amounts collected post 1st Jan 2020, as directed by the Central Board of Direct Taxes (CBDT), Bank B and some others continue to maintain these charges as per their websites. These are only examples, though, and such costs and levies are charged by all banks. Reversal as claimed by Bank A is a welcome move, however, in several cases, applying these charges has triggered other costs such as insufficient balances for National Automated Clearing House (NACH) mandates set-up on the account etc.

Example:

All type of withdrawals & deposits	Unlimited Deposits are free Maximum 4 free withdrawals per month through any mode (including Cash withdrawal @ Branch / ATM, NEFT, RTGS, IMPS, Clearing, DD/MC issuance etc.)
5th withdrawal onwards, the charge will be applicable as per nature & mode of that particular withdrawal as mentioned below.	
Cash withdrawals at Home / Non Home Branch (self / third party)	5th transaction onwards - Rs.150/- per transaction (plus taxes) Third Party Cash transactions upper limit is Rs.25,000/- per day Above Rs.25,000 – Not allowed

Transaction Charges: As listed on HDFC's website- INR 150 charged from 5th transaction onwards, including digital transactions[10]

The limit of four transactions and these charges were from a time before digital payments became ubiquitous and was intended to be only for cash withdrawal. However, despite the adoption of digital modes of payments, banks have retained and extended these legacy charges for any kind of debit transactions including ones not involving cash-withdrawal, even though the cost to the bank is much lower in these cases. This is applicable even if the transactions are completely online. This results in BSBDA holders paying disproportionately high banking charges calculated based on the number of digital payments via these accounts, creating a strong disincentive for adopting digital payments.

10 Reported by Livemint, on November 24, 2021: https://www.livemint.com/industry/banking/digital-transaction-charges-row-no-charges-for-basic-savings-bank-deposit-bsbd-accounts-says-sbi-11637735675973.html

10 BSBDA Small Account Fees & Charges - Account Fees & Maintenance Charges | HDFC Bank

(b) Insufficient Balance Charge:

Another egregious charge is when an ATM transaction gets declined due to insufficient balance. Independent of the cost of withdrawals, this cost is applied even if no cash is dispensed. The cost of pinging the servers to check the balance is low compared with the costs that are currently being applied on the customers.

Example:

Post Date	Value Date	Details	Chq.No	Debit	Credit	Balance
		BROUGHT FORWARD :				215.79Cr
12/05/21	12/05/21	WDL TFR INSUFFICIENT BAL ATM 3199937124990 AT 12499 JALALPUR		23.60		192.19Cr
20/05/21	20/05/21	DEBIT ATMCard AMC 459200*		147.50		44.69Cr
21/05/21	21/05/21	DEP TFR NEFT P14121010937203 6 CNRB0003004 JAY NATH RAM ME AT 04430 PAYMENT SYS			20000.00	20044.69Cr
25/05/21	25/05/21	ATM WDL ATM CASH 11451 BELWA		9.44		20035.25Cr
25/05/21	25/05/21	ATM WDL ATM CASH 11451 BELWA		4023.60		16011.65Cr
25/05/21	25/05/21	ATM WDL ATM CASH 11451 BELWA		4023.60		11988.05Cr
25/05/21	25/05/21	ATM WDL ATM CASH 11451 BELWA		2023.60		9964.45Cr
27/05/21	27/05/21	ATM WDL ATM CASH 11471 REHAT		4023.60		5940.85Cr
29/05/21	29/05/21	ATM WDL ATM CASH 500 SBI J		5000.00		940.85Cr
04/06/21	04/06/21	DEP TFR IMPS115512956167 MOB NO: 1010000713			10000.00	10940.85Cr

A charge of INR 23.60 is applied due to insufficient balance after an attempted ATM withdrawal.

17.09.19	ATM CASH 92602 BHAGWAN BAZAR OATM	SA	500.00		500.00Cr
17.09.19	INSUF BAL ATM DECLINE CHARGE-170919 199937000543 AT 00054 CHAPRA		23.60		476.40Cr
17.09.19	ECS/ACH RET CH		65.64		410.76Cr
20.09.19	SMS CHARGES JUN-AUG 2019		12.00		398.76Cr
24.09.19	[redacted] LIMITED ESIGN		295.00		103.76Cr
25.09.19	INTEREST CREDIT			7.00	110.76Cr
30.09.19	MAB SB Debit		17.70		93.06Cr
07.10.19	[redacted] ESIGN		93.06		0.00Cr
04.11.19	CASH DEPOSIT SELF AT 00054 CHAPRA			11000.00	11000.00Cr
04.11.19	ECS/ACH RET CH		201.94		10798.06Cr
04.11.19	MAB SB Debit		17.70		10780.36Cr
	Uncl Bal: 0.00	[Clr Bal: 10780.36 Cr;] MOD BAL:		0.00	

See 2nd entry: INR 23.60 is applied as the "ATM decline charge"

(c) Standing Instruction (SI) Charges

Some banks charge a fee for setting up and processing standing payment instructions (NACH) for each transaction, leading to further cost pressures. Often, the accountholder is not aware of these charges until they find it on their bank statements or worse, encounter transaction failures because of low account balances due to these charges being applied without their knowledge and consent.

Example:

Date	Narration	Chq./Ref.No.	Value Dt	Withdrawal Amt.	Deposit Amt.	Closing Balance
01/07/20	CREDIT INTEREST CAPITALISED	000000000000000	30/06/20		191.00	23,980.83
22/08/20	IMPS-0235211[redacted]ICIC-XXXXXX XX[redacted]FROM HDFC TO ICICI	0000023521[redacted]	22/08/20	500.00		23,480.83
22/08/20	IMPS-023521[redacted]HDFC-XXXXXX XX[redacted]FROM ICICI TO H	0000023521[redacted]	22/08/20		1,000.00	24,480.83
26/08/20	IMPS P2P 02352117[redacted]#22/08/2020 230820 -MIR2023809[redacted]	MIR2023809[redacted]	26/08/20	5.90		24,474.93
01/09/20	NEFT DR-ICIC000[redacted]-SANDOZ - MUM-N245201229[redacted]NET BANKING SI -FRO M HDFC TO ICICI	N245201229[redacted]	01/09/20	200.00		24,274.93
03/09/20	NEFT CR-ICIC0S[redacted] N-20658[redacted]	0000002065[redacted]	03/09/20		200.00	24,474.93
09/09/20	STANDING INSTRUCTION CHGS 010920-MIR2025 133[redacted]	MIR2025133[redacted]	09/09/20	29.50		24,445.43

Transaction charges for Elderly account: ₹ 29.50 per transaction charged for online payment through standing instruction, ₹ 5.90 charged for IMPS payment

(d) ECS Bounce/ Transaction Failure Charges

National Automated Clearing House (NACH) facility enables installments and/or periodic payments to be deducted automatically on the due date, however if there is a payment failure due to insufficient balance, a heavy penal charge is levied on the customer, which could be as high as INR 500+ GST.

Example:

Financial Institution	ECS Bounce Charges (INR)
Axis Bank	500
ICICI Bank	500
HDFC Bank	350-750
State Bank of India	295
Tata Capital	450

Bounce charges from financial institutions in India, including public and private sector and NBFC.

For customers in the informal sector, where unpredictable and uneven cash flows are the norm, these charges are a huge deterrent.

In the erstwhile non-digital era, which relied on manual clearances of payment mandates, one could argue that the high processing costs incurred by the bank justified these charges. However, with the currently available digital infrastructure, including connected core banking systems, a charge of up to INR 500+GST for insufficient balance seems like a legacy practice that continues without review.

Example:

17.09.19	ATM CASH 92602 BHAGWAN BAZAR OATM	SA	500.00		500.00Cr
17.09.19	INSUF BAL ATM DECLINE CHARGE-170919 199937000543 AT 00054 CHAPRA		23.60		476.40Cr
17.09.19	ECS/ACH RET CH		65.64		410.76Cr
20.09.19	SMS CHARGES JUN-AUG 2019		12.00		398.76Cr
24.09.19	[redacted] LIMITED ESIGN		295.00		103.76Cr
25.09.19	INTEREST CREDIT			7.00	110.76Cr
30.09.19	MAB SB Debit		17.70		93.06Cr
07.10.19	[redacted] ESIGN		93.06		0.00Cr
04.11.19	CASH DEPOSIT SELF AT 00054 CHAPRA			11000.00	11000.00Cr
04.11.19	ECS/ACH RET CH		201.94		10798.06Cr
04.11.19	MAB SB Debit		17.70		10780.36Cr

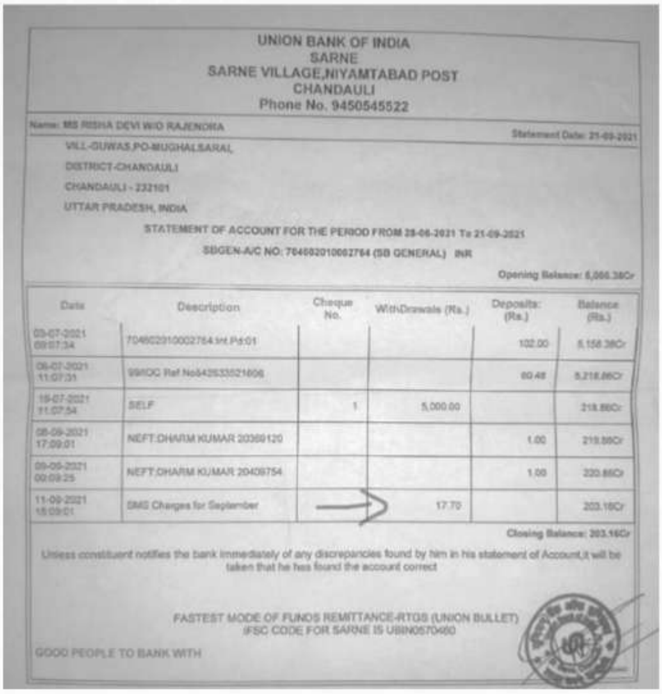
Uncl Bal: 0.00 [Clr Bal: 10780.36 Cr;]+MOD BAL: 0.00

See 3rd entry: ECS/ACH return charges of INR 65.64

(e) SMS Charges

SMS alerts started out as a security feature designed to keep the customers updated on the transactions conducted through the account, to keep a check on any fraudulent transactions. However, the banks have started sending too many SMSes and have started levying huge charges (like ₹17 per quarter) on customers, even though the costs of SMSes for banks are very low. This proves to be substantial for households in low- income group.

Example:



UNION BANK OF INDIA
SARNE
SARNE VILLAGE,NIYAMTABAD POST
CHANDAULI
Phone No. 9450545522

Name: MS RISHA DEVI W/O RAJENDRA

Statement Date: 21-09-2021

VILL-GUWAS,PO-MUGHALSARAL
DISTRICT-CHANDAULI
CHANDAULI - 232101
UTTAR PRADESH, INDIA

STATEMENT OF ACCOUNT FOR THE PERIOD FROM 28-06-2021 To 21-09-2021

SBGEN-A/C NO: 704602010002764 (SB GENERAL) INR

Opening Balance: 6,066.38Cr

Date	Description	Cheque No.	WithDrawals (Rs.)	Deposits (Rs.)	Balance (Rs.)
03-07-2021 09:07:34	704602010002764:Int.Pd:01			102.00	6,158.38Cr
06-07-2021 11:07:31	99IOC Ref No842533521606			60.48	5,218.86Cr
19-07-2021 11:07:54	SELF	1	5,000.00		218.86Cr
08-09-2021 17:09:01	NEFT:DHARM KUMAR 20369120			1.00	219.86Cr
09-09-2021 00:09:25	NEFT:DHARM KUMAR 20409754			1.00	220.86Cr
11-09-2021 15:09:01	SMS Charges for September		17.70		203.16Cr

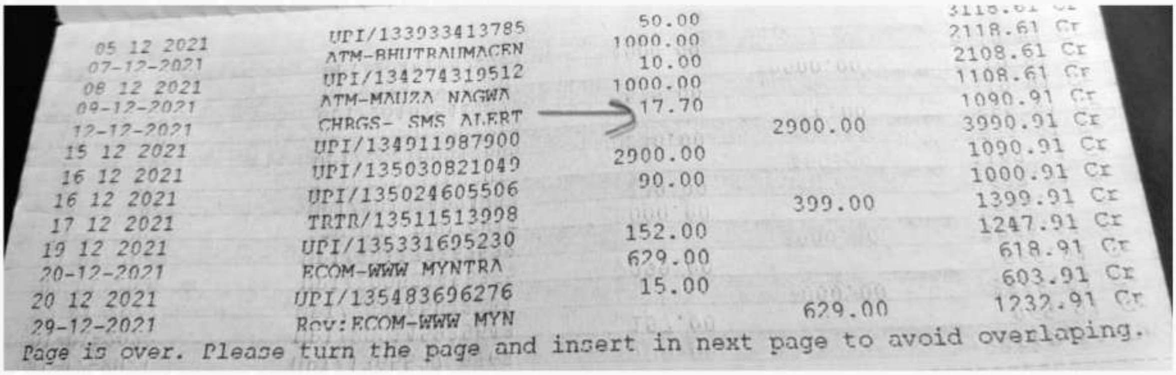
Closing Balance: 203.16Cr

Unless constituent notifies the bank immediately of any discrepancies found by him in his statement of Account,it will be taken that he has found the account correct

FASTEST MODE OF FUNDS REMITTANCE-RTGS (UNION BULLET)
IFSC CODE FOR SARNE IS UBIN0570460

GOOD PEOPLE TO BANK WITH

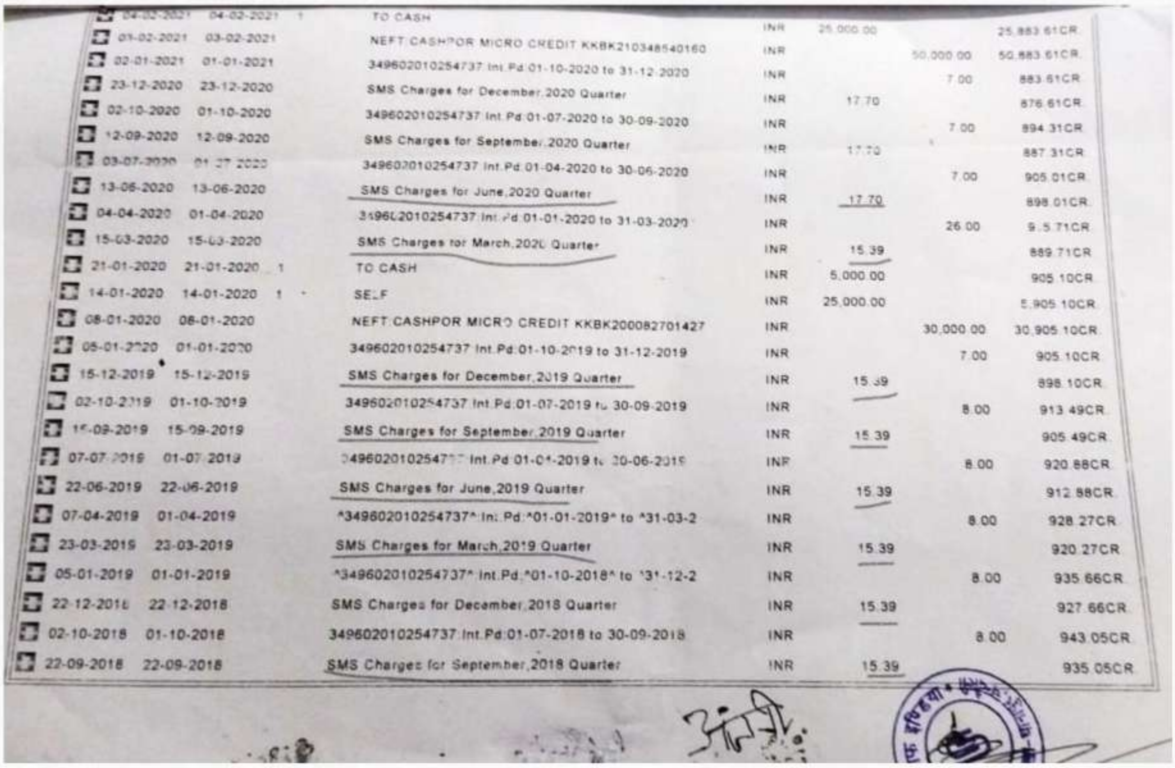
Union Bank SMS charges: INR 17.70



05 12 2021	UPI/133933413785	50.00		3118.61 Cr
07-12-2021	ATM-BHUTRAUMACRN	1000.00		2118.61 Cr
08 12 2021	UPI/134274319512	10.00		2108.61 Cr
09-12-2021	ATM-MAUZA NAGWA	1000.00		1108.61 Cr
12-12-2021	CHRGS- SMS ALERT	17.70		1090.91 Cr
15 12 2021	UPI/134911987900		2900.00	3990.91 Cr
16 12 2021	UPI/135030821049	2900.00		1090.91 Cr
16 12 2021	UPI/135024605506	90.00		1000.91 Cr
17 12 2021	TRTR/13511513998		399.00	1399.91 Cr
19 12 2021	UPI/135331695230	152.00		1247.91 Cr
20-12-2021	ECOM-WWW MYNTRA	629.00		618.91 Cr
20 12 2021	UPI/135483696276	15.00		603.91 Cr
29-12-2021	Rev:ECOM-WWW MYN		629.00	1232.91 Cr

Page is over. Please turn the page and insert in next page to avoid overlaping.

Indian Overseas Bank SMS charges: 17.70



04-02-2021	04-02-2021	1	TO CASH	INR	25,000.00		25,883.61CR
01-02-2021	03-02-2021		NEFT CASHPOR MICRO CREDIT KKBK210348540160	INR		50,000.00	50,883.61CR
02-01-2021	01-01-2021		349602010254737 Int.Pd:01-10-2020 to 31-12-2020	INR		7.00	883.61CR
23-12-2020	23-12-2020		SMS Charges for December,2020 Quarter	INR	17.70		876.61CR
02-10-2020	01-10-2020		349602010254737 Int.Pd:01-07-2020 to 30-09-2020	INR		7.00	894.31CR
12-09-2020	12-09-2020		SMS Charges for September,2020 Quarter	INR	17.70		887.31CR
03-07-2020	01-07-2020		349602010254737 Int.Pd:01-04-2020 to 30-06-2020	INR		7.00	905.01CR
13-06-2020	13-06-2020		SMS Charges for June,2020 Quarter	INR	17.70		898.01CR
04-04-2020	01-04-2020		349602010254737 Int.Pd:01-01-2020 to 31-03-2020	INR		26.00	915.71CR
15-03-2020	15-03-2020		SMS Charges for March,2020 Quarter	INR	15.39		889.71CR
21-01-2020	21-01-2020	1	TO CASH	INR	5,000.00		905.10CR
14-01-2020	14-01-2020	1	SELF	INR	25,000.00		5,905.10CR
08-01-2020	08-01-2020		NEFT CASHPOR MICRO CREDIT KKBK200082701427	INR		30,000.00	30,905.10CR
05-01-2020	01-01-2020		349602010254737 Int.Pd:01-10-2019 to 31-12-2019	INR		7.00	905.10CR
15-12-2019	15-12-2019		SMS Charges for December,2019 Quarter	INR	15.39		898.10CR
02-10-2019	01-10-2019		349602010254737 Int.Pd:01-07-2019 to 30-09-2019	INR		8.00	913.49CR
15-09-2019	15-09-2019		SMS Charges for September,2019 Quarter	INR	15.39		905.49CR
07-07-2019	01-07-2019		349602010254737 Int.Pd:01-04-2019 to 30-06-2019	INR		8.00	920.88CR
22-06-2019	22-06-2019		SMS Charges for June,2019 Quarter	INR	15.39		912.88CR
07-04-2019	01-04-2019		"349602010254737" Int.Pd:"01-01-2019" to "31-03-2	INR		8.00	928.27CR
23-03-2019	23-03-2019		SMS Charges for March,2019 Quarter	INR	15.39		920.27CR
05-01-2019	01-01-2019		"349602010254737" Int.Pd:"01-10-2018" to "31-12-2	INR		8.00	935.66CR
22-12-2018	22-12-2018		SMS Charges for December,2018 Quarter	INR	15.39		927.66CR
02-10-2018	01-10-2018		349602010254737 Int.Pd:01-07-2018 to 30-09-2018	INR		8.00	943.05CR
22-09-2018	22-09-2018		SMS Charges for September,2018 Quarter	INR	15.39		935.05CR

Escalating SMS charges from INR 15.39 (till March 2020) to INR 17.70 currently.

Recommendations:

(a) Transaction Charges: As the limitation of 4 transactions per month for BSBDAs was defined considering the cost to banks for cash withdrawals through ATMs, RBI can consider making this limit applicable only to cash transactions. Transactions done online, particularly via UPI etc. should be exempt for several reason:

a. Cost to banks for these transactions is significantly lower. Removing these charges will enable BSBDA holders to adopt digital modes of payments faster.
b. Once digital payments become ubiquitous, eventually there will be less need for large volumes of cash to be physically moved across the country.

(b) *ATM decline charges:* Banks can only charge a fixed markup over the cost they incur, especially for BSBDA accounts. Having this will bring some oversight, so the charges are within reasonable limits. Pinging a bank's servers to determine that there is insufficient balance in the account doesn't incur a large cost to the bank. Therefore, charges to the customer can be reduced from INR 20 to a very small amount, especially as most regular accounts have no such charge applied in case of insufficient balance.

(c) *Standing Instruction (SI) and IMPS charges:* There should be a high-level review of these charges, including the real costs to banks from SI and IMPS transactions. Supported by the government, RBI can consider waiving these charges on Jan-Dhan and senior citizen accounts.

(d) *Transaction failure charges:* RBI could consider reducing transaction failure charges. Also, exempting such charges where the intended account is a Mutual Fund scheme account will help reduce the burden on low-income customers who are still in the process of entering the formal economy and building banking habits.

(e) *SMS charges:* For Jan Dhan and senior citizen accounts, consider making these charges zero. Although RBI had issued a circular[12] requiring banks to charge customers based on actuals, higher charges are sometimes booked to customers, considering the costs are less than 1 paise per SMS. Something along the lines of an expense linked cap can be introduced so that banks do not disproportionately apply charges to customers

[12] https://www.rbi.org.in/commonperson/English/Scripts/Notification.aspx?Id=1292

Section III: Tax Deduction

As per current tax laws, banks deduct TDS for interest income exceeding ₹40,000 at a rate of 10%. For senior citizens, TDS is deducted for interest income above ₹50,000.

At the same time, section 194P of the Income Tax Act provides an exemption to senior citizens above 75 years having only pension (and associated interest income from it) from filing income tax returns (ITR). Also, individuals with income less than ₹2.5L are exempted from filing ITR.

As a result of these requirements, these two demographics are either unable to claim the refund of TDS deducted or are forced to file Income Tax Return despite the exemption. In a lot of cases, individuals are not familiar with the tax deductions and the possibility of claiming a tax refund, thereby causing them to lose out on the amounts.

Recommendation:

While the IT department has a mechanism in place for exemption from TDS deductions, the process is not very streamlined:

Form 15G or 15H has to be submitted to the banks for exemption from deductions; however, these are required to be submitted at each branch of an institution through which interest is received. Individuals in the low-income group that rely on daily wages and/or senior citizens that may have limited mobility and health issues find it challenging to complete the form submissions multiple times. Instead of customers above 75 years giving a declaration that tax deduction must not be done, the banks should consider no tax-deduction as norm and not be allowed to deduct TDS. In case such customers have higher interest, banks should get explicit waiver signed by the customer or on-line waiver so as to deduct TDS. This would also have the added benefit of reducing the number of refunds that have to be processed each year.

Section IV: KYC Challenges

KYC processes in India need to undergo a comprehensive review to ensure that the objective of the exercise (i.e AML compliance is achieved), without creating an undue barrier to inclusion. Several aspects of the KYC process may be more stringent than necessary, for instance, requiring a PAN card when a strong alternate ID such as Aadhaar Card is available.

Some of the key-KYC related challenges are:

- **Advisory Services requirements**: SEBI regulations mandate an investment advisor to capture PAN details of individuals seeking financial advice as a part of the KYC process. This is challenging for low-income groups as most individuals in this group don't possess a PAN card. However, most individuals in these groups have an Aadhaar card. Also, this requirement seems to be becoming outdated very quickly given that PAN and Aadhaar linkage is nearing completion (for individuals who possess both).

  Further, advice is not equal to a financial transaction and does not on its own create any AML or tax evasion related concerns.

- **PAN exempt KYC**: There are PAN exemptions available for investments upto ₹50k/year, however, the PAN exempt KYC requires either OTP or biometric verification, both of which have issues. Further, OTP based KYC is not considered full KYC and there is a requirement to do verification over a video call (which again, presents a unique set of challenges).

  Issues with OTP based KYC: A large portion of the population across urban (particularly the elderly), semi-urban and rural areas do not have updated mobile numbers linked to their Aadhaar card. This is because updating the mobile number requires an in-person visit to an Aadhaar centre, which is a challenge for people living in remote areas, or the elderly that may have mobility issues, or low-income populations that will lose a day's wages if they skip work. Very often, these individuals forego completing this process, making them unable to complete KYC via Aadhaar OTP authentication.

  Issues with biometric KYC: The availability of biometric scanners is far more limited as opposed to an OTP, with known challenges of transporting biometrics for validation and issues associated with unreliable network connectivity. Also, biometrics are not always 100% reliable particularly when it comes to fingerprints. For example, fingerprints of those involved in manual labor are unreliable due to cuts and bruises or for senior citizens are hard to capture due to changes in skin.

  Issues with completing video KYC: KYC via a real time video call between the bank staff and the customer, has the following challenges:
    - People in remote areas have network issues while trying to establish connections.
    - Low availability of bank officials, particularly outside of business hours (when most of the target population is available for KYC) compounds the challenge.
    - Validation is done against IDs which may be very old (like old photographs etc.) making it further difficult to complete the verification in areas with network issues.

With these challenges, individuals have no choice but to complete manual KYC, which is both time-taking and onerous.

- **Multiple KYC requirement**: The same KYC process is required to be repeated multiple times, for example, when a customer opens a new bank account, to access additional products or services, and/or to make investments such as in mutual funds. Even though these products/services/investments are being accessed through a KYC compliant bank account when the entire chain of transactions can be tracked back to the customer, there are still multiple KYCs required, which is redundant.

Recommendations:

(a) With 99% of India having an Aadhaar card, and with the process of linking PAN and Aadhaar nearly being complete, the requirement of a PAN card to complete KYC can be removed. Rather than requiring two separate documents such as a PAN card and an Aadhar card, an OTP or biometric verification along with an Aadhaar card should suffice as an added layer of security.

(b) An OTP based KYC should be considered as full KYC, which should allow customers to start transacting.

(c) There is a need to remove any entry barriers to formal financial services posed by the KYC process, so unbanked customers are able to take their first steps towards financial inclusion. It is counterproductive to take a document-heavy approach with a section of the population that struggles with low financial literacy in the first place. Particularly for low-income groups and the elderly, where there are lesser AML concerns, KYC should be simplified to encourage ease of access to financial services. Going forward, if the volume of transactions for a specific customer crosses a certain threshold, RBI can mandate that a more detailed (second level) KYC be conducted.

(d) Similarly, financial advice doesn't always translate to a transaction, so customers should be able to access advisory services without KYC. A simple KYC (as detailed above) can be completed prior to any actual transactions taking place.

(e) To further simplify the paperwork, there should be a common KYC for all products and services linked to a bank account.

(f) The option to update mobile numbers linked to Aadhaar should be made available at all biometric authentication points, to reduce the vast number of mobile number mismatches across the country. Also, the option to update mobile numbers when purchasing a new SIM should be provided (especially since Aadhaar is used as the ID proof for obtaining a new SIM).

(g) In person KYC (and live-video KYC) can be replaced by a non-live (non-human) option, with encrypted liveliness checks built in. Along with this, RBI should consider embedding an assisted mode supported by technology.

Section V: Other Challenges

(a) Lack of Flexibility in Savings Products.

For most of the under-banked and unorganized sectors, income is irregular and can vary significantly from month to month. As a result, the surpluses that these households can set aside can vary drastically, sometimes even causing a short duration liquidity deficit. Consequently, individuals in these populations prefer to invest in physical assets like gold, which can be easily pledged to borrow against.

To tide over short-term liquidity crunches, customers should have the ability to borrow against their own savings, by creating a lien on already invested sums. However, lien marking these assets requires a power of attorney (PoA) and current e-sign regulations don't provide the ability to sign a PoA through an e-sign. This leads to challenges of signature mismatches (since most of this population is only functionally literate), as well as increased costs when relying on paper-based process.

Recommendation:

Partial exit of mutual fund holdings or other investments may not be the best option because of entry/exit loads. If SEBI can allow financial entities to create security electronically, without a paper-based process, it will allow individuals to borrow against these formal assets more seamlessly, making this a more attractive option to physical assets such as gold.

(b) Language & Cultural Barriers & Customer Protection.

Most customers from the target segment articulate their experiences with banks as feeling unwelcome or disrespected. Further, there are often gaps in communication when these customers interact with bank officials, including a lack of gender sensitivity in that cultural context, and an inability on the part of the bank officer to effectively communicate details of various products, associated risks and costs, and the range of options and benefits available to them.

These chasms widen even further when it comes to digital financial services, due to the lack of familiarity with technology, an inadequate understanding of the terms of service and ineffectual customer protection frameworks. The ecosystem of digital payments is therefore limited to a privileged subset of the populace.

Recommendation:

(a) RBI should encourage bank staff interacting with the target segment to undergo adequate language and sensitivity training to ensure they overcome any language/cultural barriers. There should be adequate capacity building, so they are able to communicate the nuances of the financial product in local languages and dialect.
(b) BCs are an effective way to lower cultural barriers, making it even more important to strengthen India's BC network (including non-dedicated agents).
(c) A digital bank with electronic interactions, local language automation, live customer service, and honest, transparent pricing and charges could significantly help improve penetration of formal savings channels.
(d) A strong framework for customer protection and grievance redressal is required to protect the interests of those customers who are in remote geographies and have lower levels of awareness. There is a need to think about new types of grievances that may arise from digital transactions on account of failed transactions, deficiency in services depending on internet connectivity, and instances of fraud, or lapses in cyber security and data protection.

Conclusion

The past few years have been an exciting time for financial services in India. All its key stakeholders, including the central government, regulators, the technology industry and the financial services industry have been working in tandem, by engaging in dialogue, leveraging off of each other's successes and collaboratively creating products and solutions that have leapfrogged India into the digital age.

Our innovation and achievements in financial services are rivaled only by the sheer size and scope of the Indian market. But with this comes the realization that Indian society is large, heterogenous and still struggling with fundamental inequities.

Of a population of 90 crore adults, only a small percentage has ever made (at least one) digital transaction; this could be because a young adult in rural India only has access to a feature phone, or because an elderly person in an urban city is unfamiliar with setting up a digital account. Chit funds and money lenders are still the first choice for crores of Indians, with large sections of society viewing banks as inaccessible institutions where they will always be unwelcomed or viewed unfavorably. This could be because a middle-aged woman in a semi-urban town is unable to overcome the language barrier to communicate with a bank officer, or because a migrant worker in a large city, with no address proof, is denied access to financial advice.

We are uniquely placed for the first time in history to increase social mobility and lower the barriers to inclusion that have kept so many Indians locked into cycles of poverty for decades. This next step in financial inclusion can be realized much like our last- with a commitment towards collaboration, innovation, and engagement from stakeholders across academia, industry, and government alike.

x-x-x-x