Submission by Dvara Research to the Ministry of Finance as part of Pre-Budget Consultation with the honorable Finance Minister Smt Nirmala Sitharaman, Jan 2nd 2025

Attendee: Deepti George, Deputy ED & Head of Strategy, Dvara Research

Dvara Research focusses on improving the access to suitable financial services for low-income households and enterprises in India. The four recommendations made in this note have been arrived at in part by the research conducted by the team at Dvara Research, and in part, informed by various interactions with stakeholders involved in the delivery of financial services to Indian low-income households and enterprises.

RECOMMENDATION ONE, is to develop a comprehensive approach for enabling last-mile banking touchpoints, that prioritise uninterrupted Cash-In-Cash-Out (CICO) for the last-mile citizen. Such an approach must embed principles of interoperability, risk sensitivity, and customer-centricity as foundational principles, for serving the interests of the citizen where they are, with as minimal barriers as possible for them.

We know today that without going to an actual bank branch, citizens have the following options to transact with each other – cash, UPI, and the human-touchpoints of the Business Correspondent (BC) ecosystem. Cash infrastructure is well-established almost completely, and UPI requires one to have a smartphone or even a feature phone. But we know that even though access to mobile phones is significantly solved for, survey estimates indicate there are ~150 million Indians above 15 yrs age, who haven't used a phone in the last 3 months prior to the survey (NSSO Comprehensive Modular Survey 2022-23)[1]. These non-users are predominantly the illiterate, the elderly and women. Among non-users of internet, again, 1 in 4 Indians had not used internet in the 3 months preceding the survey. They are predominantly the elderly (3 in every 5), women (1 in every 2). While fewer than one in ten men had used neither the phone nor the internet, more than one in five women had not used either.

Hence it is pivotal to look at the network of BC touchpoints/outlets, most of whom are individual entrepreneurs serving as **AePS-enabled microATMs**[2]. They offer that vital infrastructure that must be provided as seamlessly as possible to Bharat users. In 2023-24, India saw close to 12,000 cr cash withdrawal transactions over 17 lakh AePS enabled micro-ATMs, through which Indians used their bank accounts to take out Rs. 3.14 lakh cr of their own monies. That is about Rs. 2671 on average per transaction, and about 670 transactions per micro-ATM in a year[3]. According to assessment by the Business Correspondent Federation of India (BCFI), there are about 12-13 lakh unique AePS/DMT[4] outlets or Transaction BC outlets (TBC) or Customer Service Points (CSP), that serve private sector

---

[1] See *Access to phones and the internet*, Abhishek Waghmare, Data For India, Feb 2024, available at https://www.dataforindia.com/living-conditions-access-to-comm-tech/

[2] Henceforth referred to as Customer Service Points (CSP) or CBC/TBC outlets, or simply CBC/TBC

[3] Calculated from *No.43: Payment System Indicators*, RBI Bulletin, Dec 2024, at https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/43T_2412202400CBBED41B6443078E3BD999C23BA387.PDF

[4] Domestic Money Transfer (DMT). Data for DMT Agents is not available disaggregated from the larger number.

banks via Corporate BC Network Managers (BCNMs) that provide important aggregation, monitoring and supervision capabilities over these outlets for their respective bank clients, and 2.5 lakh unique such outlets serving PSU banks.

It has been established without doubt that CBC/TBC outlets reduce the cost of service-delivery for banks by eliminating the need to set up physical branches in low-demand areas – and allow for cash withdrawals and transfers – which is the lifeblood for last mile families relying on DBT and incomes from migrant family members.

We draw attention to **three** important facts:

One, CBCs/TBCs are different from the ~2.5 lakh individual BC outlets who are recruited and managed directly by an individual bank's own platforms and who undertake predominantly, On-US transactions for this parent bank. The former are managed by corporate entities (BCNMs) who therefore manage many CSPs on the one hand, and the relationships with various banks on the other hand.

Two, these CBC/TBCs are not considered in the current conceptualization by the Ministry of Finance of the Digital Banking Unit (DBU) Framework for India, which was announced in the Union Budget 2022-23 and is being operationalized since then. While DBUs are part of the government's digital banking vision, emphasizing automation, self-service, and scalability, CBCs/TBCs and similar models serve as the last-mile connectivity solutions for CICO, in regions where digital literacy and/or infrastructure is limited. Both models are complementary and contribute to financial inclusion, but their approach, scope, and target audience differ significantly.

Three, we submit that the practice of "multi-homing" by CBCs/TBCs/CSPs makes for a more flexible AePS environment, providing users with service continuity. Research conducted by Dvara Research[5] with a set of 30 CSPs across three states indicates that transaction failures due to server downtime/failure are a very common experience. A Spice Money study last year found a 34% failure rate in AePS transactions[6]. Customers become distressed when transactions fail after debit from their account, and there is no certainty about when the reversal will take effect. These CSPs lose earnings when they must turn customers away due to the servers being down and may be accused of fraud by customers. Since CSPs make great efforts to cultivate trust and good reputations within their communities, for instance, by providing services late into the night to meet customer needs, this is especially worrying for them. To avoid these outcomes, CSPs regularly acquire licenses from multiple providers. This practice of 'multi-homing' has been observed by our researchers for many years now and corroborated by other stakeholders as well. Holding more than one license allows CSPs to switch servers and access the infrastructure of a second bank when the original acquiring bank is experiencing downtime incidents. However, recent regulatory developments seek to prohibit this practice to reduce fraud in the system. We believe this move will prevent the benefits of flexibility

[5] See *Uninterrupted Cash In Cash Out (CICO): An Agent Success Model*. Aishwarya Narayan, Abhishek Mukherjee, Natasha Agnes D'cruze, Deepti George, Indradeep Ghosh, Dvara Research, March 2024 https://dvararesearch.com/wp-content/uploads/2024/03/CICO-Report_March-2024.pdf

[6] While NPCI publishes statistics on unscheduled downtime of AePS servers (instances where more than three lakh transactions are declined for over 30 minutes), a narrower definition and disaggregation of such incidents across geographies would help to understand the actual extent of server failure issues.

and convenience from accruing to customers and CSPs as it has so far done, and further it may not be effective in stemming the scrouge of fraudsters[7].

In order to re-invigorate and reform the existing approaches to last-mile basic banking that were initiated in 2006, to prevent duplication of efforts, and to bring these services at par with the high standards of customer-centricity that has been achieved in UPI, <u>we recommend the need for drawing up an updated approach for enabling basic banking for last-mile citizens</u> – these are citizens who are ill-equipped to access UPI, bank branches and DBUs. <u>This approach must prioritize uninterrupted Cash-In-Cash Out for the last-mile citizen and embed principles of interoperability, risk sensitivity, and customer-centricity as foundational principles, for serving the interests of the citizen where they are, with as little barriers as possible for them to overcome, in accessing their own monies.</u> We do not need to reinvent the wheel for this. A few ways to do this are:

A. Taking a leaf out of the UPI Playbook, consider a shift from a bank-led approach to a Customer-Service-Point-focused approach in the policy design of this last-mile network[8]. Imagine a future where a CSP, operating as white-label entity, can formally leverage whichever bank's server provides him/her with the highest possibility of a successful transaction for their customer. White labelling of the CSPs delinks the transaction status from the ability of the acquiring bank infrastructure to complete a transaction, and this can become a possibility once appropriate safeguards are upheld. Such non-exclusivity for the CSP (to the acquiring bank) may be enabled by requiring banks and the NPCI to adopt a graded, risk-based approach.
B. Lay down a roadmap through which CBCs/TBCs/CSPs managed by Corporate BCNMs can be given the status of DBU – service providers, provided they meet certain graded operational requirements.
    a. A hybrid/human-assisted model can be developed where CBCs/TBCs/CSPs are upgraded with digital capabilities and supervised by DBUs in nearby hubs.
    b. High-performing CBCs/TBCs can be identified, and investments can be made in their technological and operational upgrade to pilot a "DBU-Plus" model.
    c. Financial and technical support can be offered to CBCs/TBCs/CSPs to encourage a gradual transition to digital operations while retaining their human-centric approach - that goes lock-step with the ever-expanding comfort levels of last-mile users with digital technologies.

[7] See *Need a more flexible AePS environment*, Hindustan Times, Deepti George, Aishwarya Narayan, Oct 24, 2024. https://www.hindustantimes.com/opinion/need-a-more-flexible-aeps-environment-101729782092649.html
[8] Dvara Research's Submission in Response to RBI Draft Directions for Comments on Due Diligence of AEPS Touchpoint Operators, Deepti George and Aishwarya Narayan, Sept 9, 2024. https://dvararesearch.com/wp-content/uploads/2024/09/Response-to-RBIs-Draft-Directions-on-Due-Diligence-of-AEPS-Operators.pdf

RECOMMENDATION TWO, is to significantly solve the final-mile challenge of claim benefits delivery to the families of citizens who die while under the coverage of Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY) as we approach its 10th year since launch.

We know today that –

A. In July 2024, the program completed a little over nine years, with a cumulative enrolment of 20.62 crore and 45.36 crore Indian adults respectively under PMJJBY and PMSBY.
B. Claims disbursement ratio as of July 2024 for PMJJBY and PMSBY was 96% and 76% respectively, compared with the overall life insurance industry which stood at 98.45% -- atleast for PMJJBY, this indicates performance of the scheme close to par with private sector performance.
C. 50% and 22% of PMJJBY and PMSBY policies lapsed between June 2015 and March 2022[9], highlighting the wide gap between cumulative and active enrolments under the two insurance schemes.

Dvara Research has been studying[10] the citizen experience of PMJJBY and PMSBY over the last two years and have looked across the various stages namely, presale, onboarding, auto-renewal, claim settlement, and grievance redress. This study involved 600 survey interviews with active (510 pax) and inactive (91 pax) policy holders across Gujarat and Rajasthan, and families of deceased (14 pax). We found that ~58% of active PMJJBY policyholders and 74% of active PMSBY policyholders in Rajasthan were not aware of holding active policies. This number was much better in Gujarat at only ~21%.

Therefore, we present a few mechanisms to trigger a claim application request from the supply side rather than making it a demand driven endeavor. These are:

A. Once a year, every bank branch is to provide a list of beneficiaries with active PMJJBY and PMSBY coverage – to the Registrar of births and deaths. If the Registrar is indeed the Village Development Officer (VDO) / Sarpanch/ other local body head, this official would already know the list of beneficiaries and the banks in which their bank accounts receive DBT benefits. The Registrar can now be well-equipped to have a conversation with the family of the deceased about whether the deceased was insured under these schemes and if so, the benefits of making a claim.
B. Every month, the Registrar of births and deaths can pull a list of deaths from their online registration portal and share the same in the form of a notice, to the respective bank branch managers in the area under their jurisdiction. This will ensure that the bank manager is now equipped to, and required to, proactively intimate via a notice to the deceased's local address, or via an SMS, about the existence of active policy coverage for the deceased.
C. In the online portal for registration of deaths, a line item can be introduced for the Registrar to check-off, which states – "Have you informed the family to check whether the deceased is

[9] As on March 2022, active enrolment under the PMJJBY and PMSBY schemes were 6.4 crores and 22 crores, respectively, compared to cumulative enrolment of 12.76 crores under PMJJBY and 28.37 crores under the PMSBY, as on April 2022. These numbers were obtained from Ministry of Finance press releases dated 9th and 31st May 2022.

[10] *Assessing the Performance of PMJJBY and PMSBY: A Systems-Level Approach*, Misha Sharma & Niyati Agrawal, Dvara Research, Aug 2024, policy brief and slide deck available at https://dvararesearch.com/assessing-the-performance-of-pmjjby-and-pmsby-a-systems-level-approach-2/

covered under PMJJBY or PMSBY scheme or not? Yes / No" – This will serve well to trigger a recall conversation on the same between the beneficiary's family and the Registrar/bank[11].

We place these three mechanisms as a means to make the claim benefits delivery process be triggered from the supply side at the time of death of the insured under PMJJBY and PMSBY. We strongly believe that these mechanisms, if introduced, can make it possible to realise at scale, the program's positive impact on India's citizens, and serve as a powerful tool to kick-start the demand for insurance by India's households as an essential part of financial management.

The remaining two recommendations pertain to further strengthening the meaningful delivery and use of credit for last mile economic activity.

RECOMMENDATION THREE, is obtaining for India, a humane mechanism for discharge of Personal and Enterprise Debt, by fast-tracking the implementation of Part-III of the IBC, so that a dignified exit from unsustainable debt becomes possible for borrowers.

The environment that a country provides to its enterprises, to dream, innovate, clinch opportunities, solve problems and generate value, will determine the growth trajectories of many promising enterprises and start-ups. One determinant that seldom gets attention is the way failure of the enterprise is treated and whether society victimizes the owners of such enterprises or supports them in restarting economic life in other ways[12].

In India, the sustained push for financial inclusion since the 1960s has been led much by credit inclusion targeted towards MSMEs, a majority of whom are unincorporated, and households. But personal insolvency mechanisms for individuals, households and self-proprietorship and partnership enterprises (with unlimited liability in design, comprising a majority of enterprises) need to be very different from corporate insolvency and bankruptcy mechanisms - because of the absence of a separate legal existence as is in the case for corporates.

Further, government policies should distinguish 'inability' to repay debt from 'unwillingness' to repay and seek to 'forgive the unfortunate'. A humane statutory mechanism for the restructuring or discharge of debt is a crucial instrument through which borrower enterprises and households must be allowed to seek refuge. This will have twin benefits. **One**, it will help to reduce the burden on the government to undertake ad-hoc loan waivers and to (provide and) honor sovereign guarantees as a protection mechanism when domestic household sector and MSME debt becomes too much. **Two**, and more importantly, individuals and households that rely on their own entrepreneurial abilities to support themselves will be able to find a dignified exit in order to start afresh after an event of legitimate failure.

Steps must include:

[11] Our understanding is that the latest 2023 amendments to the Births and Deaths Act 1969, make it possible to operationalize this.
[12] See Civil20 Policy Pack, 2023

1. Fast-tracking the implementation of Part-III of the IBC to provide a mechanism for dignified exit from unsustainable debt for borrowers
2. Designing principles and procedural aspects that make personal insolvency accessible, simpler than its corporate counterpart, and cost-effective while being efficient and impactful.
3. Designing policies that encourage the creation of a 'safe to fail' eco-system especially in contexts where citizens perceive failure resulting from the inability to repay debt as a stigmatising failure (this is the case in many parts of India).
4. Decentralising the approaches to implementing the mechanism, thus obtaining consistent adoption across regions, irrespective of the different cultural dynamics at play.

Dvara Research has published research on the topic of personal insolvency in the past[13].

RECOMMENDATION FOUR is in making credit bureau data available not just for study and monitoring by policymakers and industry but also by civil society actors

Credit Information Companies (CICs)/credit bureaus are custodians of vast volumes of credit and financial information of all borrowers in the economy. Such data is critical to understanding the dynamics of the credit ecosystem and our country's macroeconomy. While the Ministry of Finance and other nodal bodies have specific units that can ask for and obtain credit bureau data for studying and generate further insight into the state of the economy, the private sector entities too can purchase anonymized data for the purpose of analysis that feeds into business strategy development. But this data is not available in India to access for civil society actors such as research institutions and think tanks unless the research questions are aligned with the interests of credit bureaus themselves. Credit bureaus are custodians of credit data of the real economy, but they must not become gatekeepers of this data in a manner that prevents greater, sharper and more useful insights to emerge about the credit ecosystem, its borrower segments, and the larger economy.

Internationally, several jurisdictions, such as, the United States of America[14] and Germany[15], among others, are already enabling public access. The subsequent research has focused on several aspects of economic research covering the transmission of monetary policy and consumption behaviour, environment, health, industrial economics, labour, marketing, public, and urban economics.[16] Similarly, such data has helped study geographic migration, health insurance reforms, hospital

[13] Consolidated at https://dvararesearch.com/tag/personal-insolvency/
[14] See https://www.povertyactionlab.org/admindatacatalog/transunion-consumer-credit-report-data
[15] See *Analytical Credit Datasets German Part Data Report 2024-12*, Research Data and Service Centre, Deutsche Bundesbank, available at https://www.bundesbank.de/resource/blob/837160/16ef29b1c821064ecb5dc6453e50c727/mL/2024-12-anacredit-data.pdf. Section 1.5 of the report, titled "Data accessibility", discusses how one may access anonymised credit records of individuals for research purposes. Also see *Features of Public Credit Registries: An International Comparison,* Dwijaraj Bhattacharya and Maria Fernandez, November 2021, Parts II, accessible at https://dvararesearch.com/features-of-public-credit-registries-an-international-comparison/
[16] See NBER Working Paper titled, "Consumer Credit Reporting Data" (Aug, 2024); accessible at: https://www.nber.org/papers/w32791

admissions, human capital, intergenerational co-residence, etc.[17] The current regulatory framework for CICs, the Credit Information Companies Act (2005), is silent on such public access. Thus, it is recommended that public access to credit bureau data be enabled for research purposes with adequate anonymization and use case restrictions.

[17] *ibid*