NOTE NUMBER 08

FEBRUARY 2013

FINDEX NOTES

The Global Findex Database

Financial Inclusion in India

Asli Demirguc-Kunt

Leora Klapper

Douglas Randall

In India 35 percent of adults have a formal account and 8 percent a formal loan, according to new data from the Global Financial Inclusion (Global Findex) database. The data allow comparison with other South Asian and BRICS economies as well as within India, where they reveal deep disparities by gender and other individual characteristics in how adults use financial services. The database can be used to track the effects of financial inclusion policies in India and develop a deeper and more nuanced understanding of how people save, borrow, make payments, and manage risk.

WWW.WORLDBANK.ORG/GLOBALFINDEX

Perhaps more than any other country, India has striven to extend financial access to all its citizens. Both the public and private sector have been engaged in this undertaking—from early efforts to expand the outreach of banks to rural areas and promote rural banks and priority sector lending, to more recent efforts to expand the provision of "no frills" accounts and resolve ongoing debates over mobile payment regulations. Yet attempts to improve the scope and quality of financial access have been hindered by the lack of systematic indicators on the use of different financial services—both formal and informal—in India.

The Global Findex database provides such indicators, measuring how people in India and 147 other economies around the world save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above, covering 97 percent of the world's adult population. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note features Global Findex data based on more than 3,500 interviews across India.[1]

FIGURE 1

Account penetration

Adults with an account at a formal financial institution (%)

Note: Other South Asia comprises Afghanistan, Bangladesh, Nepal, Pakistan, and Sri Lanka. *Other BRICS economies* comprises Brazil, Russia, China, and South Africa. *Rest of developing world* includes both groups and excludes India.

Source: Demirguc-Kunt and Klapper 2012.

How Many Own Formal Accounts—and for What Uses?

India remains a long way from universal financial inclusion: only 35 percent of adults in the country have an account at a formal financial institution—a bank, credit union, cooperative, post office, or microfinance institution.[2] Still, account penetration in India is just below that in the rest of the developing world, and it exceeds the average among the other five South Asian countries covered by the Global Findex database—Afghanistan, Bangladesh, Nepal, Pakistan, and Sri Lanka (figure 1). But it is significantly lower than that in the other BRICS economies—Brazil, the Russian Federation, China, and South Africa.[3]

BILL & MELINDA GATES foundation

THE WORLD BANK

While the Global Findex database does not provide statistically reliable estimates of account penetration for all Indian states, it does provide such estimates for the most populous ones. These show significant variation. About 50 percent of adults in Andhra Pradesh and the National Capital Territory of Delhi and 40 percent in Gujarat, Kerala, and Maharashtra report having a formal account. But less than 30 percent do so in Bihar, Orissa, and Rajasthan.

As in the rest of South Asia, there is a large gender gap in the ownership of formal accounts in India. Women are 41 percent less likely than men to have a formal account: while 44 percent of men report having an account, only 26 percent of women do so. By comparison, in the rest of the developing world women are 22 percent less likely than men to have an account. The gender gap is even greater in Maharashtra, Rajasthan, and Uttar Pradesh, where women are more than 50 percent less likely than men to have an account. Interestingly, across India the gender gap is smallest among the poorest: in the bottom fifth of the income distribution, account penetration is 23 percent among men, 19 percent among women.

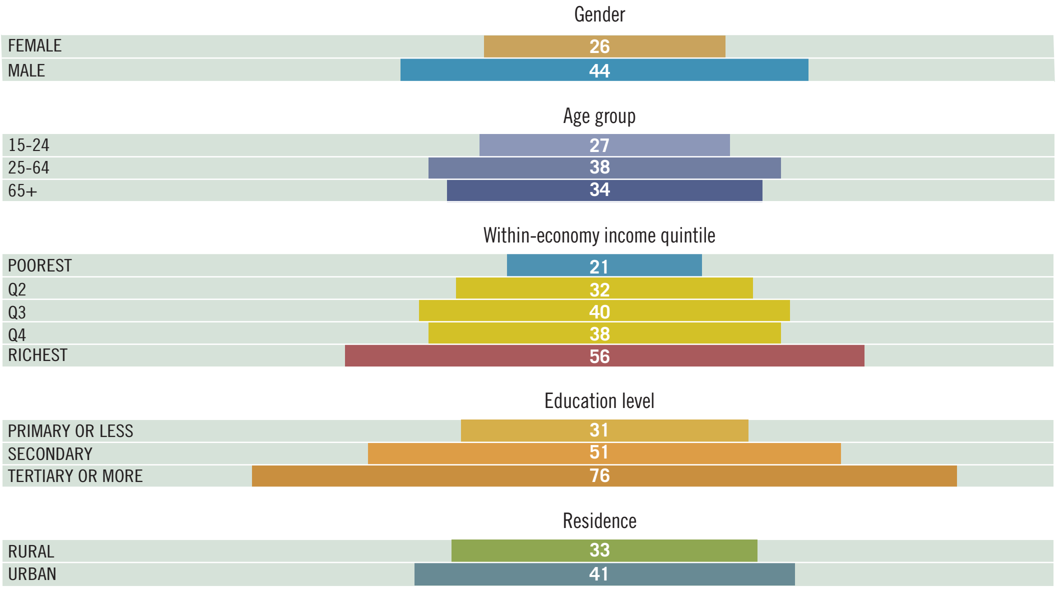
Account penetration also varies enormously by age, income level, and education (figure 2). While 21 percent of adults in the poorest fifth of the income distribution have a formal account, 56 percent of those in the richest fifth do. And while 31 percent of adults with a primary education or less have a formal account, the share is 76 percent among those with a tertiary education.

Among those who have an account, most access it fairly infrequently. About 70 percent of account holders report making deposits or withdrawals only once or twice a month, and 7 percent report making zero deposits or withdrawals in a typical month. Of course, the frequency with which account holders access their account is closely related to *how* they do so. Despite the growing prevalence of automated teller machines (ATMs) and bank

FIGURE 2

Account penetration in India by individual characteristics

Adults with an account at a formal financial institution (%)



Source: Demirguc-Kunt and Klapper 2012.

agents, the vast majority of account holders in India still make deposits and withdrawals primarily over the counter at a branch of their financial institution: 89 percent say they most commonly do so for deposits, and 70 percent for withdrawals. In the highly urbanized National Capital Territory of Delhi, however, a slight majority of account holders report making withdrawals mainly from ATMs.

Only 8 percent of adults (23 percent of account holders) in India have a debit card, a far smaller share than the 41 percent in the other BRICS economies. And few account holders in India rely on bank agents for account access: only 6 percent report accessing their account primarily over the counter at a retail store or through some other person associated with their bank.

Why do Indians open and maintain accounts at formal financial institutions? Saving money and receiving wages or other work payments appear to be the primary uses of formal accounts in India: 31 percent of account holders report having saved at a formal financial institution in the past 12 months, and 24 percent report having used their account to receive wages or payments for work or from selling goods. Using an account to receive wage and work payments is more common in the rest of the developing world, where 37 percent of account holders report doing so.

About 13 percent of account holders in India report using their account for business purposes. Among account holders who report owning a business, 32 percent do so. About 11 percent of account holders report having used their account in the past 12 months to receive money or payments from the government, while only 7 percent report having used their account to send or receive remittances to or from family members living elsewhere.

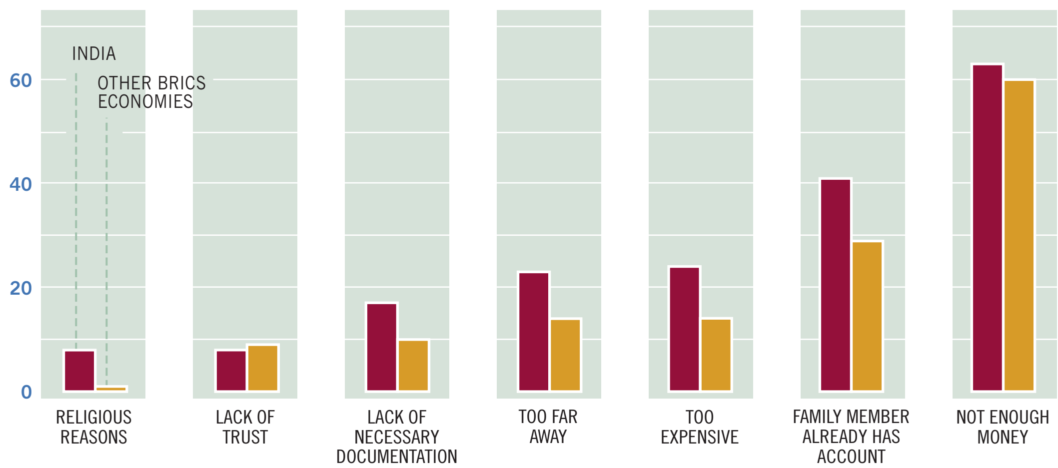
What Are Barriers to Access?

Five hundred million adults in India have no formal account and thus no entry point into the formal financial system. The most commonly reported reason for not having a formal account is lack of enough money—a barrier reported by 63 percent of unbanked adults and the only one reported by 25 percent (multiple responses were permitted) (figure 3). In

FIGURE 3

Self-reported barriers to use of formal accounts

Non-account-holders reporting barrier as a reason for not having an account (%)



Note: Respondents could choose more than one reason. *Other BRICS economies* comprises Brazil, Russia, China, and South Africa.
Source: Demirguc-Kunt and Klapper 2012.

this, India is similar to many other developing economies: in 102 of 110 developing economies surveyed, lack of enough money is the most commonly reported barrier to account ownership. More unusual is the reason cited second most often in India: a family member already having an account. This was cited by 41 percent of unbanked respondents—and by 46 percent of unbanked female respondents. This result suggests that indirect account use is widespread among women, a concern because of the impact that lack of asset ownership may have on empowerment and self-employment opportunities.

Distance, cost, and lack of necessary documentation were each cited by about 20 percent of unbanked respondents, rates exceeding those in other BRICS economies. Not unexpectedly, rural residents without a formal account were particularly likely to report distance as a barrier (29 percent). Those in the bottom fifth of the income distribution were particularly likely to report cost (34 percent). Adults self-identifying as Muslims were no more likely than others to report religion as a reason for not having a formal account.

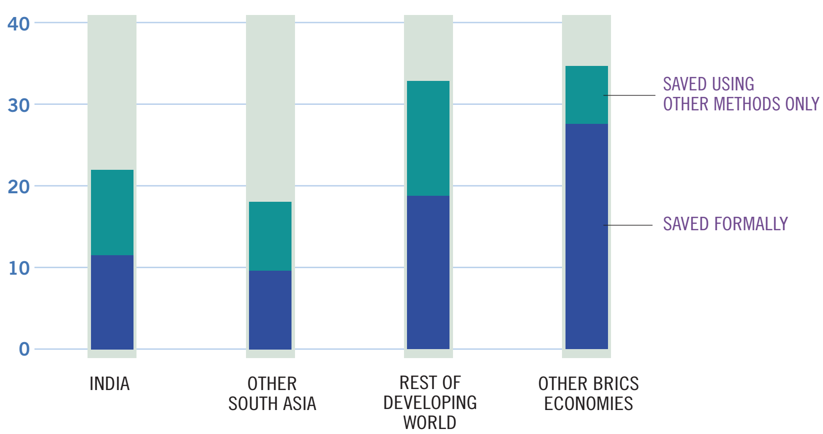
How Do People Save?

Saving appears to be less common in India than in the other BRICS economies: 22 percent of adults in India report having saved through any means in the past year, compared with 35 percent in Brazil, China, Russia, and South Africa (figure 4). A few states are exceptions, however: in Gujarat and West Bengal about 40 percent of adults report having saved in the past year.

FIGURE 4

Formal and informal saving

Adults saving any money in the past year (%)



Note: Other South Asia comprises Afghanistan, Bangladesh, Nepal, Pakistan, and Sri Lanka. *Other BRICS economies* comprises Brazil, Russia, China, and South Africa. *Rest of developing world* includes both groups and excludes India.
Source: Demirguc-Kunt and Klapper 2012.

Similar differences show up in formal savings activity. In India 12 percent of adults—or just over half of those who save—report having saved at a formal financial institution in the past year. In the other BRICS economies 28 percent of adults—or almost 80 percent of savers—report having done so.

If one goal of increasing account penetration in India is to increase formal saving, it is useful to analyze savings behavior among those who already have a formal account. The Global Findex data show that this group is more than four times as likely to report having saved using any method as those without an account (with 46 percent of account holders reporting having saved, and 10 percent of non-account-holders doing so). The data do not support analysis of whether account ownership has a causal effect on savings behavior, however.

How does formal savings behavior by account holders compare internationally? As noted, in India 31 percent of account holders report having saved at a formal financial institution in the past year; in the other BRICS economies 43 percent do so. It is possible that in India wage accounts set up by employers are not conducive to long-term savings accumulation. New products that target existing account holders could be used to encourage saving in formal financial institutions.

As with account penetration, Global Findex data reveal a large and statistically significant gender gap in formal savings behavior. While 16 percent of men in India report having saved formally in the past year, only 7 percent of women do so.

What Are the Sources and Purposes of Borrowing?

In India, as elsewhere in the developing world, the most frequently reported source of new loans is friends or family (figure 5). About 20 percent of adults in India report having borrowed money from friends or family in the past year, and an even larger share (24 percent) among those in the poorest income quintile.

A slightly larger share of adults in India (8 percent) report having borrowed from a formal financial institution in the past year than in the other BRICS economies (7 percent). This may reflect the relatively well-developed microfinance industry in India. In Andhra Pradesh, a state whose microfinance industry has been the focus of much (often negative) attention, 20 percent of adults report having borrowed from a formal financial institution in the past year—a far larger share than in high-income economies.

About 7 percent of adults in India report having borrowed money in the past year from a store by using installment credit or buying on credit, a practice that is more common in other South Asian countries such as Bangladesh and Nepal, but less so in the other BRICS economies. But compared with their counterparts in both groups of economies, adults in India rely more on informal lenders—moneylenders or loan sharks—to meet their borrowing needs. Indeed, the share who report borrowing from informal lenders (7 percent) is almost as large as the share who report borrowing from formal financial institutions (8 percent). Informal borrowing is particularly common in Bihar, where 15 percent of adults report having borrowed from an informal lender in the past 12 months.

Credit cards, a common mechanism for obtaining short-term credit in high-income economies, are exceedingly rare in India. Just 2 percent of adults in India report owning a credit card, compared with 8 percent in South Africa and 29 percent in Brazil.[4]

Why do Indians borrow? Fewer than 5 percent of adults in India report having an outstanding loan to buy a home, renovate a home, or pay for a funeral or wedding. About 6 percent

FIGURE 5

Sources of new formal and informal loans

Adults borrowing from source in the past year (%)

Note: Respondents could report borrowing from more than one source. *Other South Asia* comprises Afghanistan, Bangladesh, Nepal, Pakistan, and Sri Lanka. *Other BRICS economies* comprises Brazil, Russia, China, and South Africa. *Rest of developing world* includes both groups and excludes India.
Source: Demirguc-Kunt and Klapper 2012.

report having an outstanding loan to pay school fees, and 14 percent an outstanding loan for emergency or health reasons.[5] Of those with a loan for emergency or health reasons, only 17 percent also report having borrowed money from a formal financial institution in the past year, suggesting that this type of debt is financed largely through informal borrowing.

How Widespread Is Mobile Money?

The question of how best to introduce and expand mobile payment systems has been hotly debated in India in recent years. But mobile money has yet to gain traction, a fact perhaps related to the government's decision to pursue a bank-led industry model. According to the 2011 Global Findex data, just 4 percent of adults report having used a mobile phone in the past year to pay bills or to send or receive money. India does not lag behind other South Asian and BRICS economies in this regard. But evidence from several Sub-Saharan African countries—particularly Kenya, where 68 percent of adults use mobile money—suggests that creating a thriving mobile payment system is not out of reach for India.

Conclusion

As the first public database of indicators that consistently measure people's use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data set can be used to track the effects of financial inclusion policies in India and elsewhere and develop a deeper and more nuanced understanding of how people around the world save, borrow, make payments, and manage risk. By enabling policy makers to identify segments of the population excluded from the formal financial sector, the data can help them prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

WWW.WORLDBANK.ORG/GLOBALFINDEX

1. The complete database isavailable online.
2. The survey sample for India excludes the states of the Northeast and remote islands. The excluded area represents approximately 10 percent of the total adult population.
3. Statistics are weighted by country-level adult population.
4. Information is collected on the ownership of credit cards but not their use.
5. Respondents chose from a list of reasons for borrowing, so it is possible that reasons not listed (borrowing to start a business, for example) are also common.

The reference citation for the Global Findex data is as follows:

Demirguc-Kunt, A., and L. Klapper. 2012. "Measuring Financial Inclusion: The Global Findex Database." Policy Research Working Paper 6025, World Bank, Washington, DC.