

The six village story - India

An assessment of the real gap in financial inclusion




Research report

October 2023



MSC conducted The Real Gap (TRG) study to unpack the on-ground status of banking services' access and usage

The Real Gap (TRG) study's objectives were to:

-  Understand the status of access to banking services in rural India;
-  Understand the usage of banking and digital financial services;
-  Understand the customer perspectives on the delivery of banking services.



Authors:

Gayatri, Mimansa Khanna,
Priyal Advani, Shivank Mishra



Review support:

Akhand Tiwari, Manoj Sharma



Data analytics:

Rahul Chatterjee, Chinmay Dabhade






Research partners:

Marketing and Development Research Associates (MDRA)




The study covered 958 households and 2,862 adult individuals across six selected villages.

958 households comprise



-  1,406 adult women
-  1,255 adult women with 1,326 bank accounts
-  151 adult women with no bank account



-  1,456 adult men
-  1,307 adult men with 1,432 bank accounts
-  149 adult men with no bank account

Note: As per the [World Bank Findex report](#), 2021, account ownership has reached 71% of adults in developing economies and 78% of adults in India own a bank account.

Summary of insights



Access to bank accounts

Lack of ownership of bank accounts

- 90% of individuals represented in the study have a bank account, while the remaining **10% do not have a bank account.**
- **Only 2% of individuals** in the study said they do not have a bank account due to limited access to banking points.



Usage of bank accounts

Inactive bank accounts in the past 12 months

- 86% of individuals use their bank accounts at least once in 12 months - only 14% were inactive

Use of bank accounts

- 42% of female account owners and 37% of male account owners use their bank accounts at least once a month.
- 34% of male account owners who have not used their accounts in the past three months are farmers, while 56% of such female account owners are homemakers.

Preference of banking channels

- Around 80% of individuals mentioned using bank branches to open and operate bank accounts.
- 88% of the account owners who used Business Correspondents (BC) agent points to open bank accounts use it for cash withdrawals.

Digital financial services

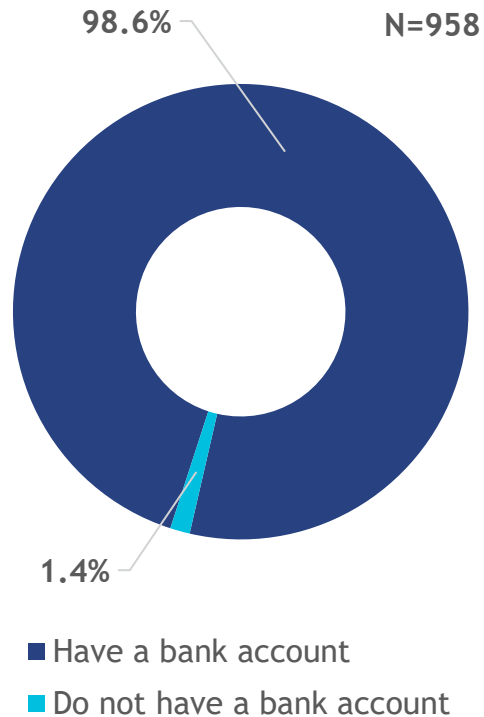
- 37% of male respondents use digital devices, compared to only 12% of female respondents.
- United Payment Interface (UPI) is the most commonly used digital financial service; 14% of male respondents and 1.4% of female respondents use UPI.

The real gap in access to formal banking services



None of the members in 1.4% of households have a bank account

Bank account ownership among households



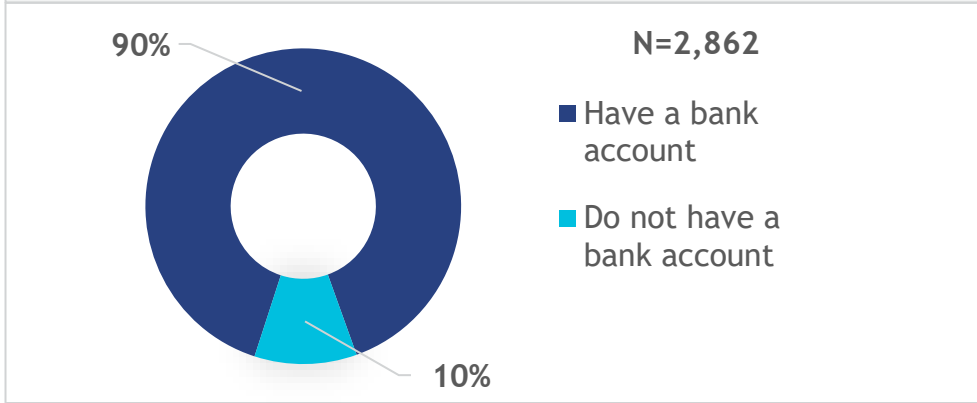
Key findings from the 1.4% of households (n=14) where none of the members have a bank account:



- Most of these households **have a family size of 2-4 members**, and have **only one earning member**;
- Members of 10 out of these 14 households cited the distance from the banking point as the reason why they do not have a bank account;
- In the majority of households, the adult family members have either never gone to school or could not complete primary education;
- The primary source of income for these households is farming or labor activities, such as skilled labor, unskilled labor, and agricultural labor.

10% of individuals do not have a bank account

Bank account ownership among individuals covered in the study

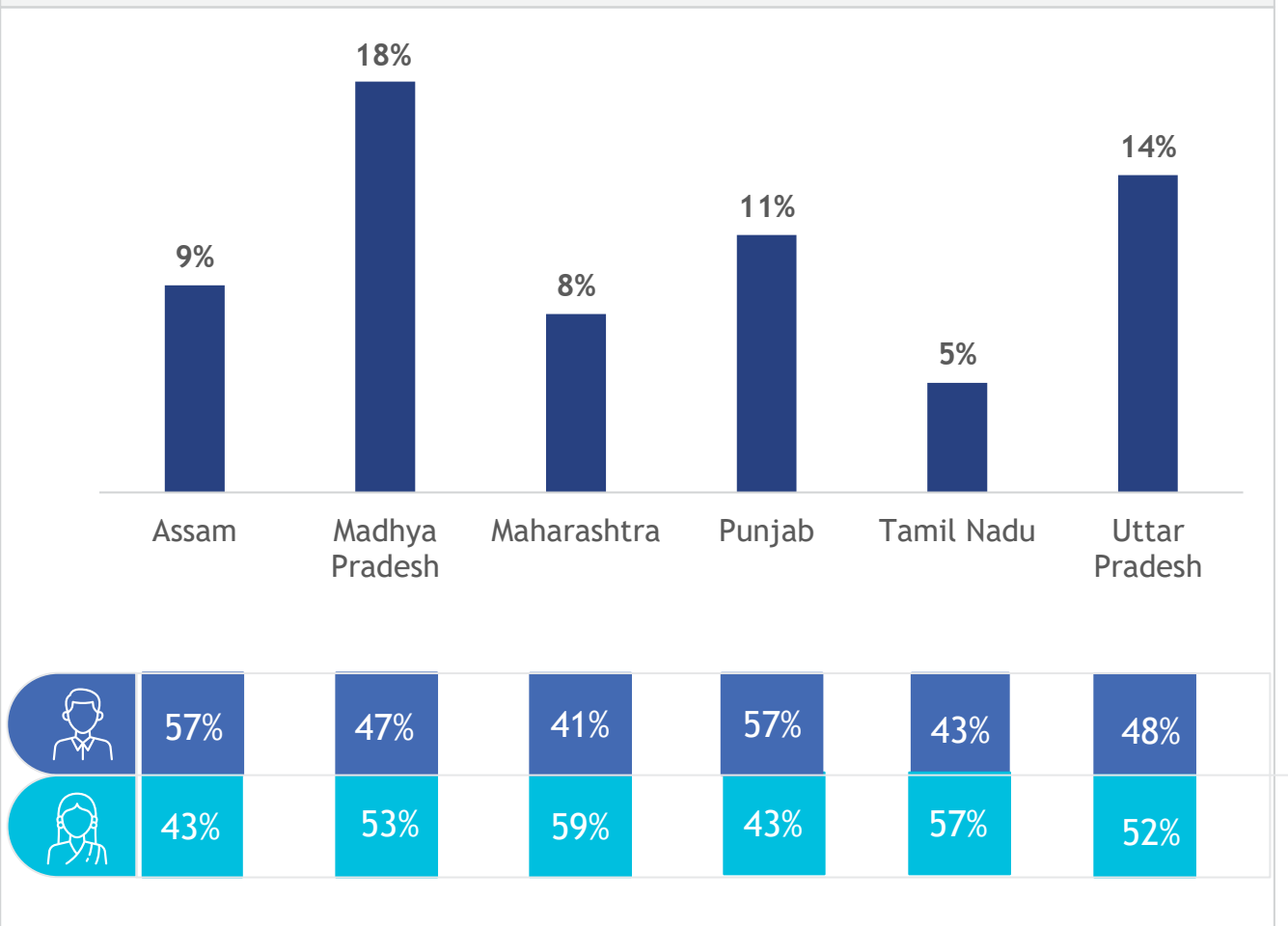


10% of men and 10% of women do not have a bank account. Findex 2021 also suggests that [India has no gender gap in account ownership](#).

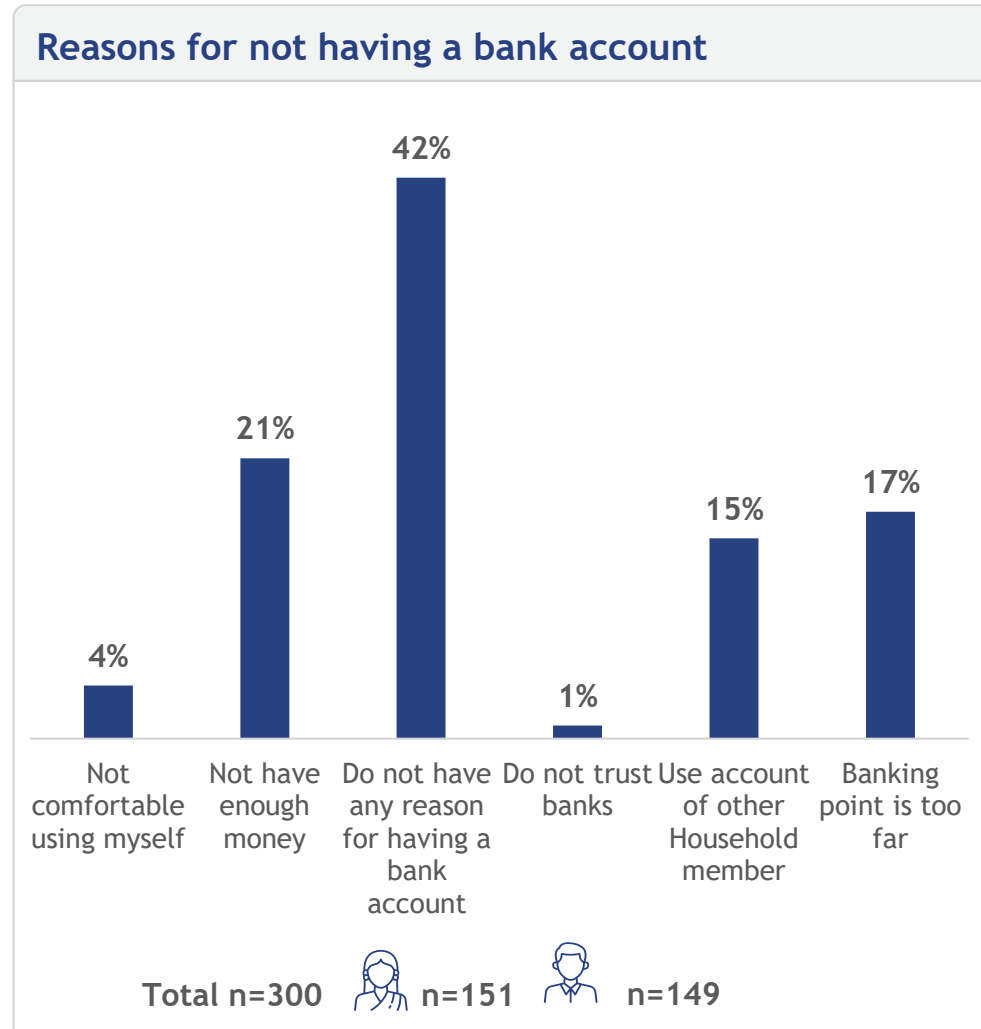
56% of individuals who do not have bank accounts are 15-24 years old. [Individuals in older age brackets are more likely to own bank accounts than people in younger age brackets](#).

66% of those who do not have bank accounts are either homemakers, students, or unemployed.

The proportion of individuals without a bank account ranges from 5% to 18% across geographies.



No perceived need to have an account is the most cited reason for not having a bank account



*See [slide 26](#) for the banking access points' mapping in all six villages covered in the study.
Note: 1 USD = INR 82.59 (as on 10 July 2023)



Top three reasons for not having an account

Of the 42% of individuals who cited having no reason for opening a bank account:

- 37% are under 20 years of age
- 67% earn below USD 12.11 (~INR 1,000) per month;
- 66% are either students, homemakers, or unemployed.

This also indicates that [poor people do not feel the need to have accounts due to their very low income.](#)

21% of individuals cited not having enough money to open a bank account. Individuals with no or low income are less likely to own a bank account.

19% of 151 women and 15% of 149 men cite that the banking point is far.

- The [Global Findex data](#) also shows that 43% of respondents without a bank account in India cite that the primary reason why they do not have a bank account is the long distance from the nearest financial institution. Meanwhile, 36% of respondents without a bank account cited lack of money as the reason.
- Only 2% of individuals (17% of the 10% excluded) are excluded due to lack of access to banking points; this shows the expanding outreach of bank branches and alternate channels, such as BC agent points.

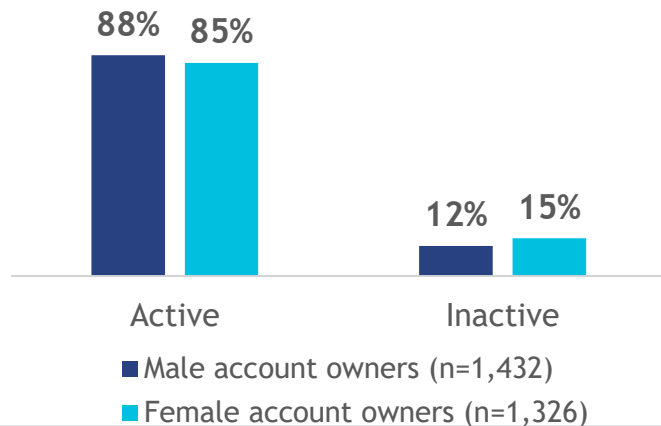


Usage of bank accounts

86% of the individuals mentioned that they use their bank accounts at least once in 12 months

The proportion of account inactivity varies across all six villages and ranges between 4% in Tamil Nadu and 19% in Madhya Pradesh.

Female account owners (15%) have more inactive accounts than male account owners (12%)



Individuals with lower education levels and limited or no income are less likely to have active accounts

68% of individuals with inactive accounts have only attained primary education; **60%** of such men and **75%** of such women have only attained primary education.

46% of these men are laborers while **59%** of such women are homemakers.

72% of individuals with inactive accounts earn below USD 60.54 (~INR 5,000) per month; **52%** of these men earn more than ~USD 60 per month while **81%** of these women do not earn any income.

369 individuals owned **380** inactive bank accounts: 10% have at least one active bank account and others are inactive, while the remaining 90% have no active bank accounts.

A 2016 MSC [publication](#) reported a 33% duplication rate for PMJDY accounts, highlighting that simply [opening a bank account does not guarantee financial inclusion](#), as many become inactive within months. The Indian Finance Minister has [recently](#) instructed Regional Rural Banks (RRBs) to address PMJDY account duplication, indicating that the problem still persists.

Note: As per the [World Bank Findex report](#), 35% of the people with bank accounts in India have inactive accounts, with 32% women and 23% men. The data from The Real Gap (TRG) study by MSC represents only six Indian villages representing different geographical zones in the country.

Note: 1 USD = INR 82.59 (as on 10 July 2023)

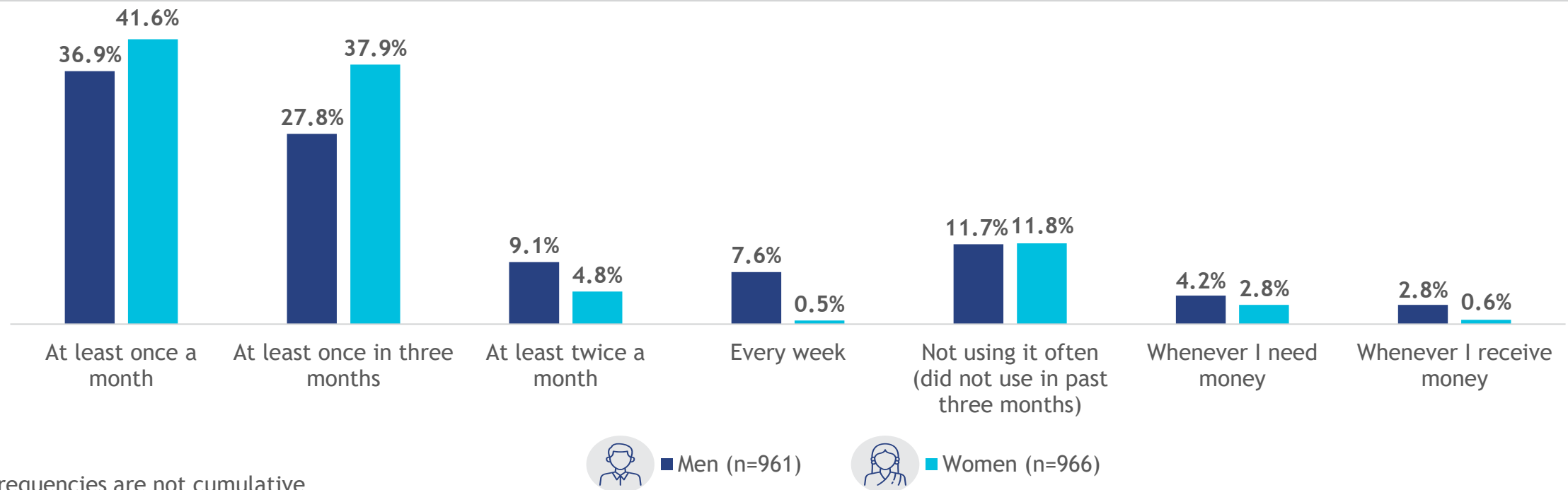
All rights reserved. This document is proprietary and confidential.

42% of female account owners and 37% of male account owners mentioned that they use their accounts at least once a month

Approximately 83% of account owners use their accounts at least once in three months, indicating a noteworthy quarterly frequency of account usage.

People who studied above the primary level are 66% more likely* than people who did not go to school to use an account more than once a month. [Education has a positive impact on financial literacy, savings, and the use of formal financial services.](#)

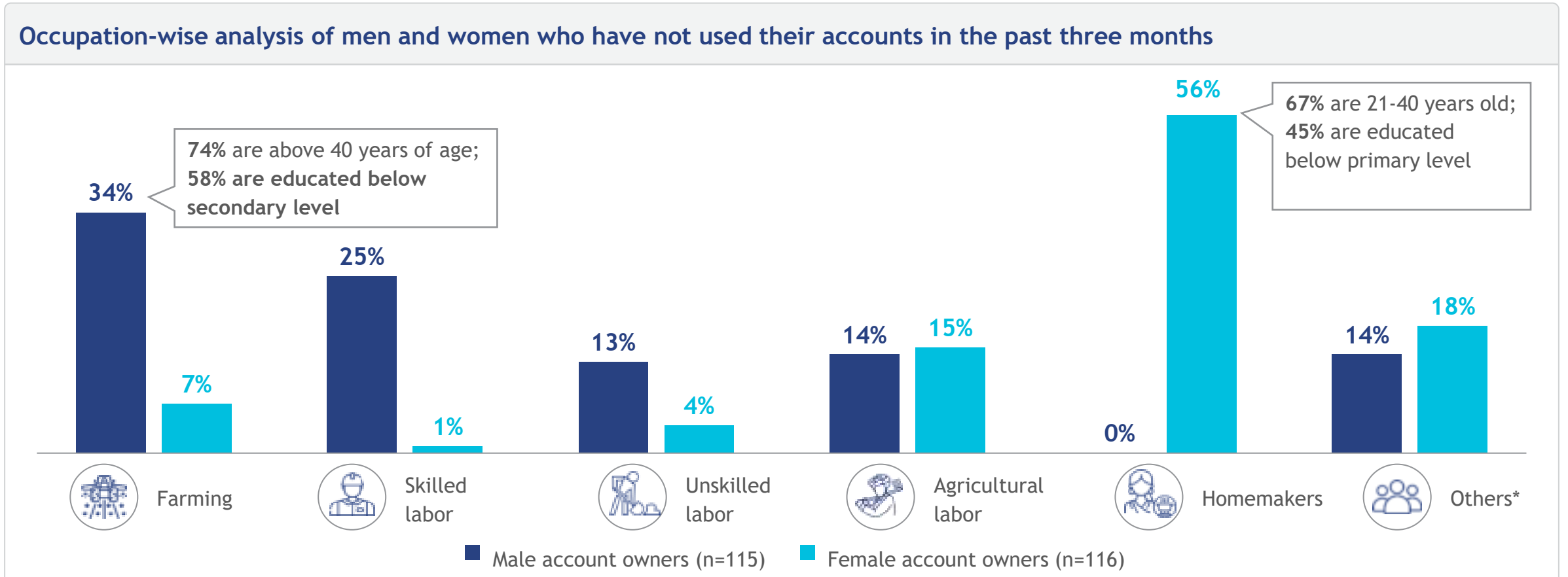
Frequency of usage of bank accounts



*Insight from regression analysis

An equal percentage (12%) of male and female account owners have not used their bank accounts in the past three months

34% of male account owners who have not used their accounts in the past three months are farmers, while 56% of such female account owners are homemakers.



*The "Others" category includes individuals in the following occupations: a. Business; b. Government or private service; c. Livestock and related activities; d. Students or Unemployed people

The frequency of bank account usage differs for people who open their accounts for DBT from those who open them for savings

Reasons to open bank accounts



Female
account
owners
(n=966)



Male
account
owners
(n=961)

67% of women and 64% of men opened bank accounts to save money for the future.

35% of women and 39% of men opened bank accounts to receive money from their acquaintances.

34% of women and 23% of men opened their bank accounts because everyone else was opening them.

30% of women and 18% of men opened their accounts because somebody in their family asked them to open them.



86% and 83% of individuals who opened their accounts for DBT and savings respectively, have used their accounts at least once in the past three months.

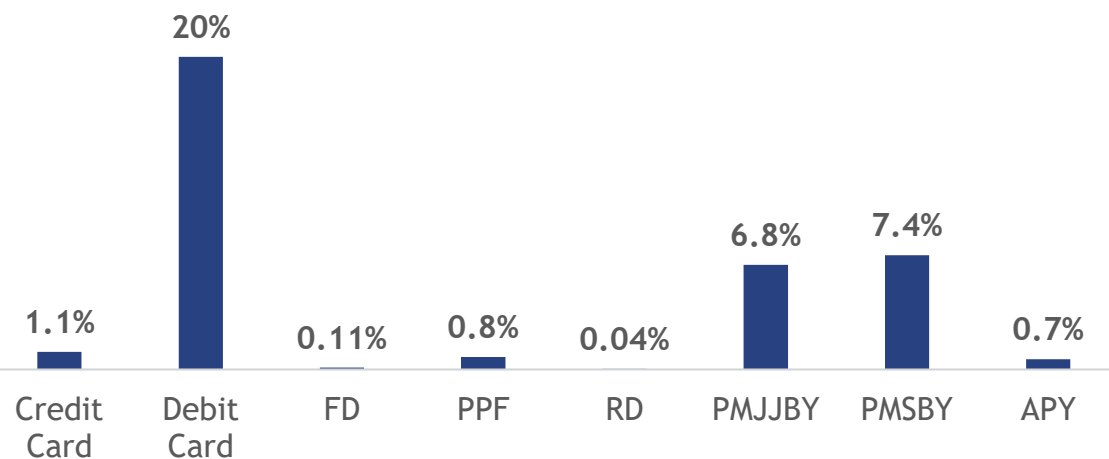
Government initiatives like PMJDY have successfully provided millions with their first bank accounts and increased the usage of these accounts through subsidies and Direct Benefit Transfers.

Note: 1 USD = 82.59 INR (as on 10 July 2023)

The usage of financial services remains low for both bank account-linked¹ and non-linked financial services²

Usage of bank account-linked products* remains low

N=2,758 account owners



¹Note: FD = Fixed deposit; PPF = Public Provident Fund; RD = Recurring deposit; PMJJBY = PM Jeevan Jyoti Bima Yojana; PMSBY = PM Suraksha Bima Yojana; APY = Atal Pension Yojana

- [Findex 2021](#) suggests that about two-thirds of unbanked adults could not use their bank accounts and linked financial services without assistance.
- Financial services, such as insurance, pension, and investments, [have only started to tap into their full potential](#) in outreach.

This indicates that the financial product design does not account for customer usage patterns and capabilities. [Price sensitivity is high](#) among LMI customers. Target beneficiaries believe some financial products are unaffordable or do not meet their immediate needs.



In the category of products and services not linked with bank accounts:

- **18%** of individuals with a bank account save in deposit schemes not linked to their bank account.
- **4%** of individuals with a bank account have insurance products, such as personal, health, and accident insurance, which are not linked to the bank account.

²Note: Deposits schemes, such as chit funds, informal deposits, and insurance products, such as personal, health, or accidental insurance



Unpacking account usage Classification of user profiles

The study indicates four categories of individuals based on their degree of usage of financial products and services* (1/2)



No bank account

Individuals do not own an account and may be using accounts of other family members.



Low financial inclusion

Individuals own inactive bank accounts** and do not use any service or product.



Moderate financial inclusion

Individuals own active bank accounts but use only one service or product.



High financial inclusion

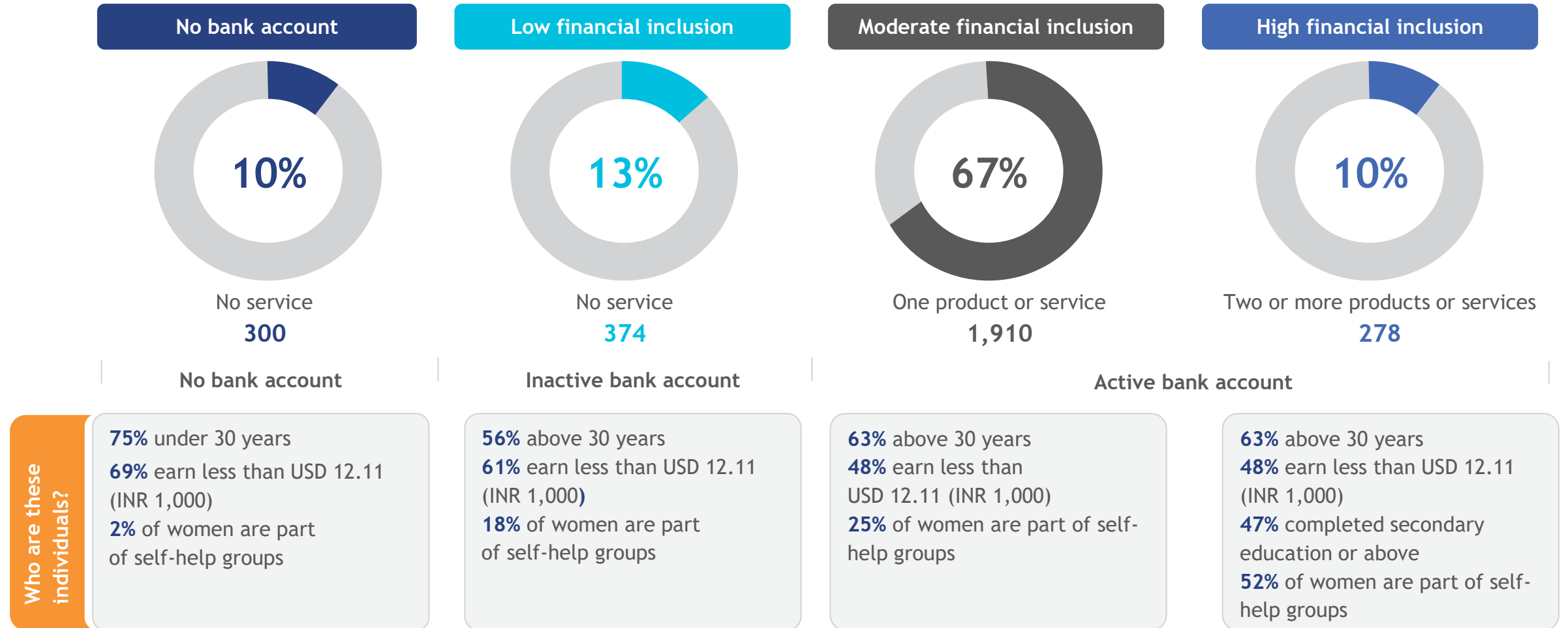
Individuals own active bank accounts and also use multiple financial services or products.

*Financial products and services considered here are debit and credit cards, fixed or recurring deposits, PMJJBY and PMSBY, Atal Pension Yojana, digital financial services, and other non-formal financial institution-linked insurance

** Here, inactive accounts refer to the bank accounts not used in the past 12 months.

Note: Refer to [Slide 27](#) for the details on scoring and categorization

The study indicates four categories of individuals based on their degree of usage of financial products and services (2/2)



* Here, inactive accounts refer to the bank accounts not used in the past 12 months.

Note: 1 USD = 82.59 INR (as on 10 July 2023)



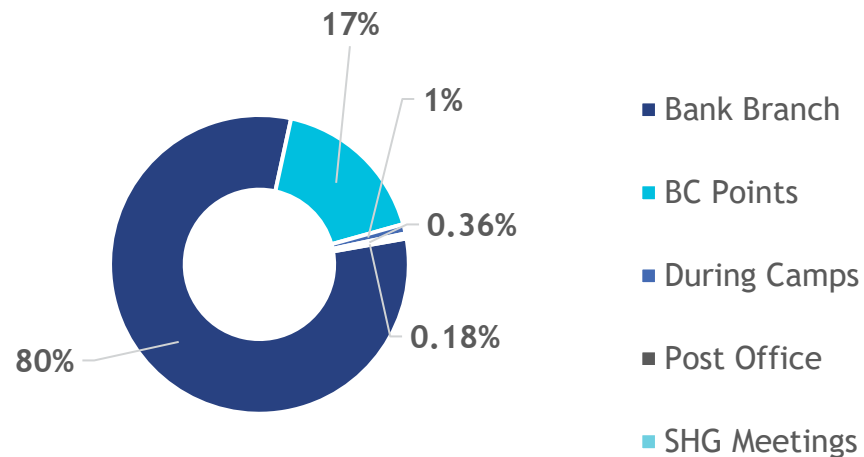
Use of banking channels

Bank branches are the most used channel to open bank accounts followed by business correspondent (BC) agent points

The use of bank branches to open bank accounts ranges from 47% in Assam to 89% in Tamil Nadu. The use of BC agent points to open bank accounts ranges from 3% in Tamil Nadu and Uttar Pradesh to 44% in Assam.

80% of accounts are opened at the bank branch, while 17% are opened at BC agent points

N=2,758



8% more women than men choose to open accounts at BC agent points.

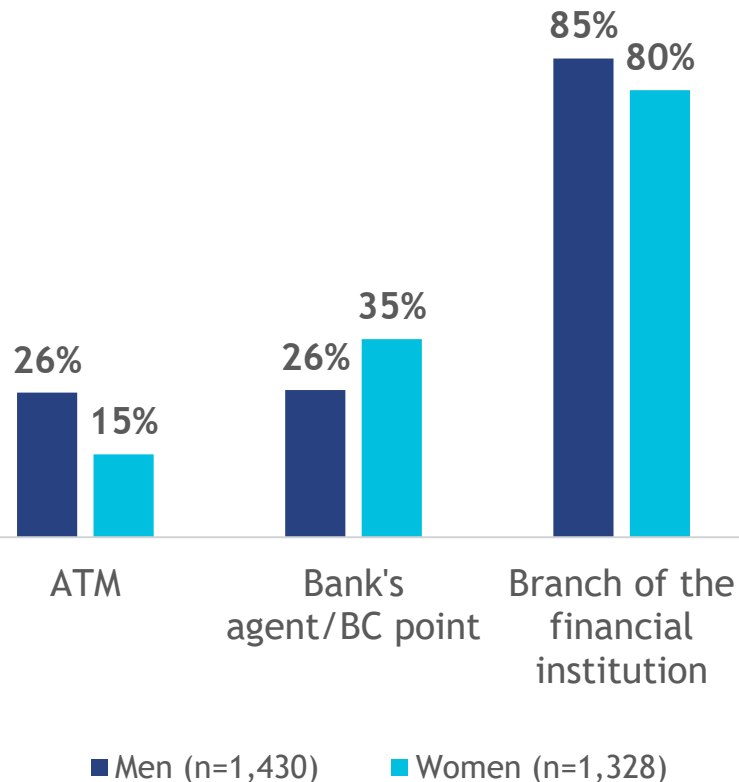
- 84% of male account owners open accounts at bank branches, while 13% open at BC agent points.
- 76% of female account owners open accounts at bank branches, while 21% open at BC agent points.
- 78% of youth account owners (15-34 years) open their accounts at bank branches, while 20% open them at BC agent points.

Note: 1 USD = 82.59 INR (as on 10 July 2023)

Bank branches are the most used channels to operate accounts

31% of individuals mention that they transact at business correspondent (BC) agent points.

Proportion of individuals and their use of channels to operate accounts



- 49% of those earning less than ~USD 60 (INR 5,000) per month, and 79% of those earning a higher monthly income have bank branches as their only preference to operate bank accounts.
- 14% of those earning less than ~USD 60 (INR 5,000) per month and 13% of those earning a higher monthly income have BC agent points as their only preference to operate bank accounts.



BC agent point is a preferred channel for individuals with low-income

- 48% of the individuals who operate bank accounts at BC agent points earn less than ~USD 12 (INR 1,000) per month, while 28% earn more than ~USD 60 (INR 5,000) per month. Lower-income individuals might prefer BC agent points as they take less time and offer door-to-door service.
- 52% of these individuals are in the age group of 21-40 years;
- 38% of these individuals are educated below the primary level.

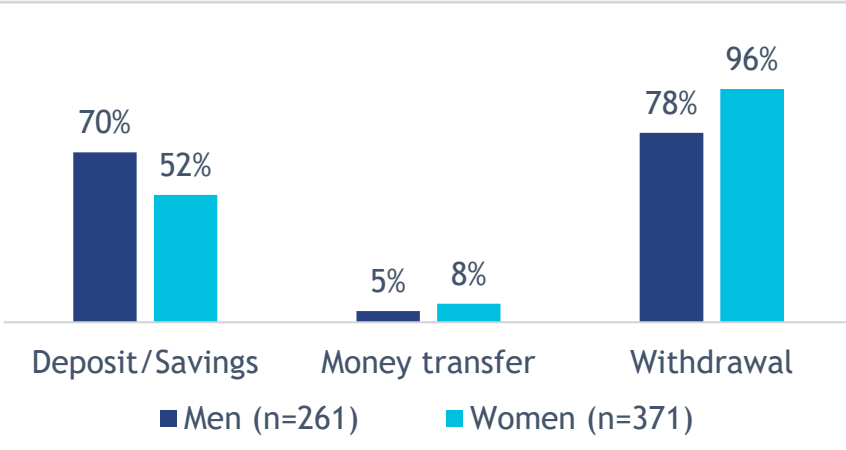
People with lower education levels and lower incomes prefer BC agent points for financial transactions as they offer banking services to them conveniently at a location close by or at their doorstep, which saves their time and transportation costs.

Note: 1 USD = 82.59 INR (as on 10 July 2023)

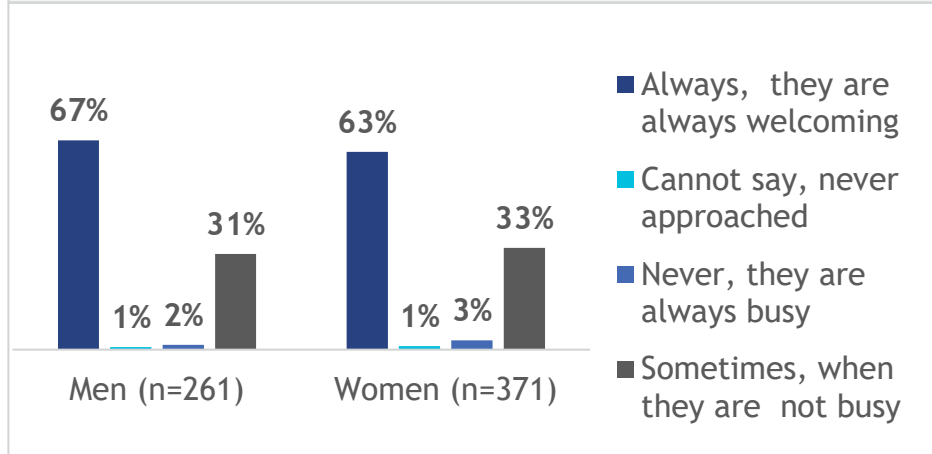
Women are 47% more likely to use a BC agent point than men*.

Cash withdrawals are more prominent than deposits at BC agent points. 88% of the account owners who operate their accounts at BC agent point use it to withdraw cash


More female account owners use BC agent points to withdraw cash



65% of account owners who use BC agent points mention that BC agents dedicate sufficient time



56% of account owners who use BC agent points say that the BC agent can always offer the required product and services.

 Those who completed primary education are **35% more likely**** to use BC agent points than those who did not. [Education and knowledge play a role in the adoption of alternate banking channels.](#)

The [financial services space \(FSS\) framework](#) explains that women require motivation, convenience, and regular cash flow in their accounts to start using financial services and sustain usage. Women are more likely to use BC agent points as they are located nearby and are more convenient for women to access financial services, which helps women expand their FSS.

MSC's [DEBIT framework](#) provides evidence of how women's perception of a particular channel and tendencies for loss aversion makes them stick to tried and tested channels.

*Insight from regression analysis; significant at 1% level of significance;

**Insight from regression analysis; significant at 5% level of significance

Note: 1 USD = 82.59 INR (as on 10 July 2023)



Use of digital financial services



The usage of digital devices and digital financial services is higher among men than women



37%,

i.e., 323 out of 870 men use digital devices

- Nearly **39%** of all men who use digital devices belong to the 21-30 age group.
- Around **28%** of the men who use digital devices have passed senior secondary.
- Moreover, **33%** of men who use digital devices are farmers.



12%,

i.e., 113 out of 907 women use digital devices

- **43%** of all women who use digital devices belong to the 21-30 age group.
- **30%** of women who use digital devices have passed senior secondary.
- **40%** of women who use digital devices are homemakers.



The proportion of men and women who use digital devices varies with study locations. Among men, 14% to 66% use digital devices, and among women, 3% to 25% use digital devices across the six villages.

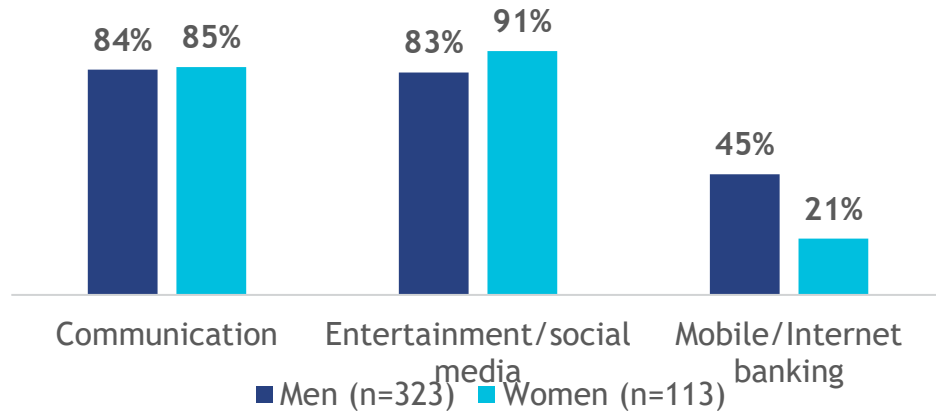
As per the GSMA Consumer Survey, 2022, the effective gender gap in India in mobile ownership and mobile internet adoption stands at 11% and 40%, respectively.

Only 45% of men and 21% of women use digital devices for digital banking

Men and women majorly use digital devices for communication and entertainment.

During COVID-19, the time people spent on the phone increased, but it did not translate to a proportionate use of DFS.

Purpose of using digital devices among women and men users



Despite potential growth in digital payment users in response to the COVID-19 pandemic, significant digital financial exclusion remains.

MSC's study on the impact of COVID-19 on the LMI segment also suggests that COVID-19 has boosted the uptake of digital payments, but cash transactions still dwarf the alternatives.



A deep dive into men who use digital devices for mobile or Internet banking

- 47% belong to the age group of 21-30 years. 39% of them are farmers.
- 73% use UPI and 34% use Internet banking.
- 92% have attained primary education or more.



A deep dive into women who use digital devices for mobile or Internet banking

- 50% belong to the age group of 21-30 years. 46% of them are homemakers.
- 54% use UPI and 29% use Internet banking.
- 96% have attained primary education or more.

UPI is the biggest DFS use case among various payment options

14% of all men and 1.4% of all women use UPI. This difference is largely because of the gender gap in the use of digital devices. 37% of men and 12% of women who use digital devices use UPI.



38% of women who use UPI are homemakers, and **36%** of men who use UPI are farmers. **86%** of these farmers who use UPI earn monthly incomes of more than ~USD 60 (INR 5,000)¹.



62% of female UPI users, and **79%** of male UPI users use it at least once a week.

MSC's [Payments Instruments Rails \(PIN Rails\)](#) dashboard suggests that UPI is India's biggest digital payment channel, with around 7.4 billion cumulative transactions worth USD 1,600 billion.

[According to a study](#) analyzing digital financial inclusion in India, male individuals with higher age, education, working status, and higher income are more likely to adopt digital financial services.

¹ Exchange Rate: INR 1 = USD 0.012 as of 3rd August, 2023




Annexes



Mapping of banking access points

In all the six villages, the banking access points*, such as bank branches and business correspondent (BC) agent points, are present in a radius of 5-10 km.

|  State from where the sampled village is selected |  Nearest bank branch |  Nearest BC agent point |
|--|---|--|
| Assam | 10 km | Four BC agent points within 5 km |
| Madhya Pradesh | 7 km | Two BC agent points within 5 km |
| Maharashtra | 10 km | One BC agent point in the village |
| Punjab | Four banks within 4 km | One BC agent point within 3 km |
| Uttar Pradesh | One bank within 3 km | Two BC agent points within 3 km |
| Tamil Nadu | Two banks within 6 km | One BC agent from a nearby village visits once every week |

*This information is based on data from field executives during surveys and assessment of mobile application for access points.

Scoring and categorization of usage

A composite score is developed to measure the degree of the usage of financial services and products by each individual. The individuals are placed into four categories based on their scores.

| | Score | | | | | |
|---------------------------------|---|--|-------------------------------|---------------------------|----------------------|-------------------------|
| | 0 | 1 | 2 | 3 | 4 | 5 |
| Financial services and products | Account in a formal financial institution | | | | | |
| | No account | No personal account; uses household member's account | Inactive joint account | Inactive personal account | Active joint account | Active personal account |
| Digital financial services | No | Either UPI or Internet banking | Both UPI and Internet banking | - | - | - |
| Debit and credit cards | No | Either debit or credit card | Both debit and credit card | - | - | - |
| Fixed or recurring deposits | No | Either FD or RD or both | - | - | - | - |
| PMJJBY and PMSBY | No | Either PMJJBY or PMSBY or both | - | - | - | - |
| Atal Pension Yojana | No | Yes | - | - | - | - |
| Other non-FFI linked Insurance | No | Yes | - | - | - | - |

The composite score of each individual may range between 0 to 13.

| Categorization | Score | Classification |
|----------------|-------|---|
| Excluded | 0 | Individuals with no personal account |
| | 1 | Individuals who use other household member's account |
| Low usage | 2 | Individuals with an inactive joint account and use no financial service or product |
| | 3 | Individuals with an inactive personal account and use no financial service or product |
| | 4 | Individuals with an inactive personal account and use any one financial services or product, or Individuals with an active joint account and use no service |
| Moderate usage | 5 | Individuals with an active account and use no service or product, or Individuals with an active joint account who use any one service or product |
| | 6 | Individuals with an active personal account and use any one service or product |
| High usage | 7 | Individuals with an active personal account and use any two services or products |
| | 8 | Individuals with an active personal account and use any three services or products |
| | 9* | Individuals with an active personal account and use any four or more services or products |

*No individual has reported five or more services, hence the actual score range is 0 to 9.

Overview of the TRG study's research methodology

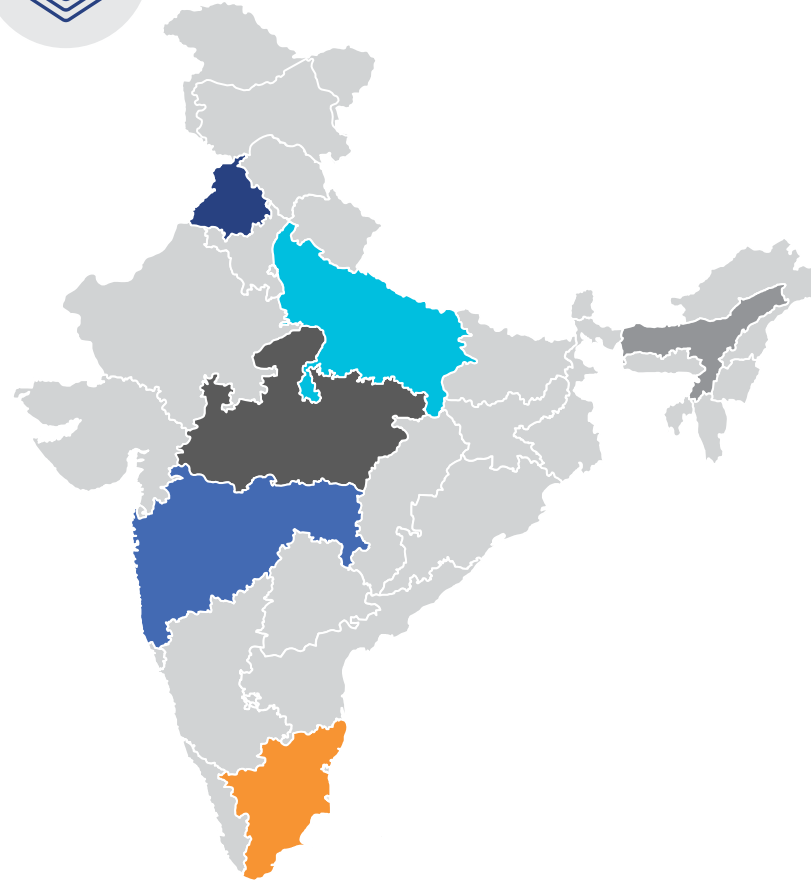


Methodology

- We followed a complete enumeration method for data collection.
- We collected data from each adult member of each household from the sampled villages.
- Each of the selected six villages across six states had around 150-200 households and represented a typical rural village of the respective district.



Geographical distribution



- Firozpur (Punjab)
- Fatehpur (Uttar Pradesh)
- Hailakandi (Assam)
- Aurangabad (Maharashtra)
- Guna (Madhya Pradesh)
- Virudhunagar (Tamil Nadu)

Note: Each interview has three tools: **Tool 1** for the head of the household, **Tool 2** for a male member with a bank account, and **Tool 3** for a female member with a bank account.

Sample distribution of the TRG study (1/3)

The study provides insights into 958 households comprising 2,862 adult individuals across six selected villages.

958 households comprise



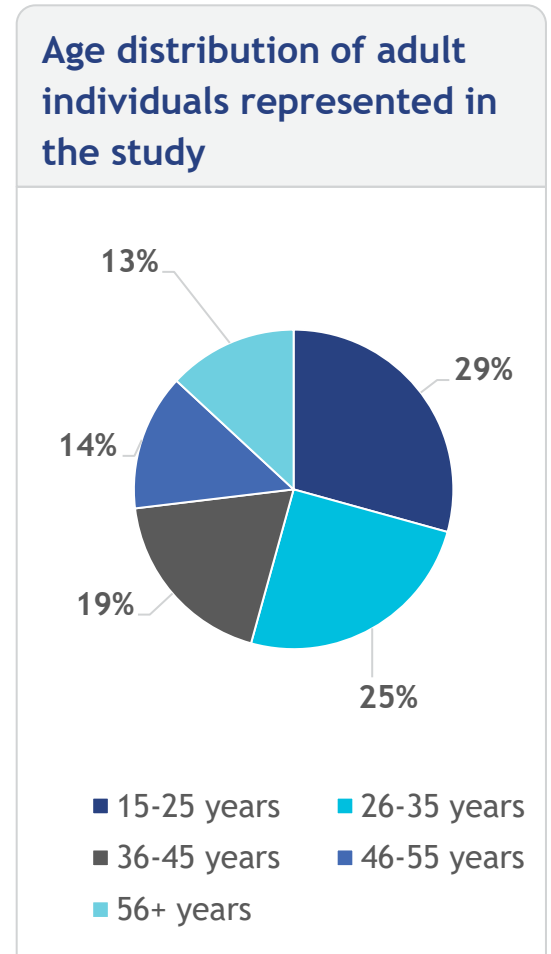
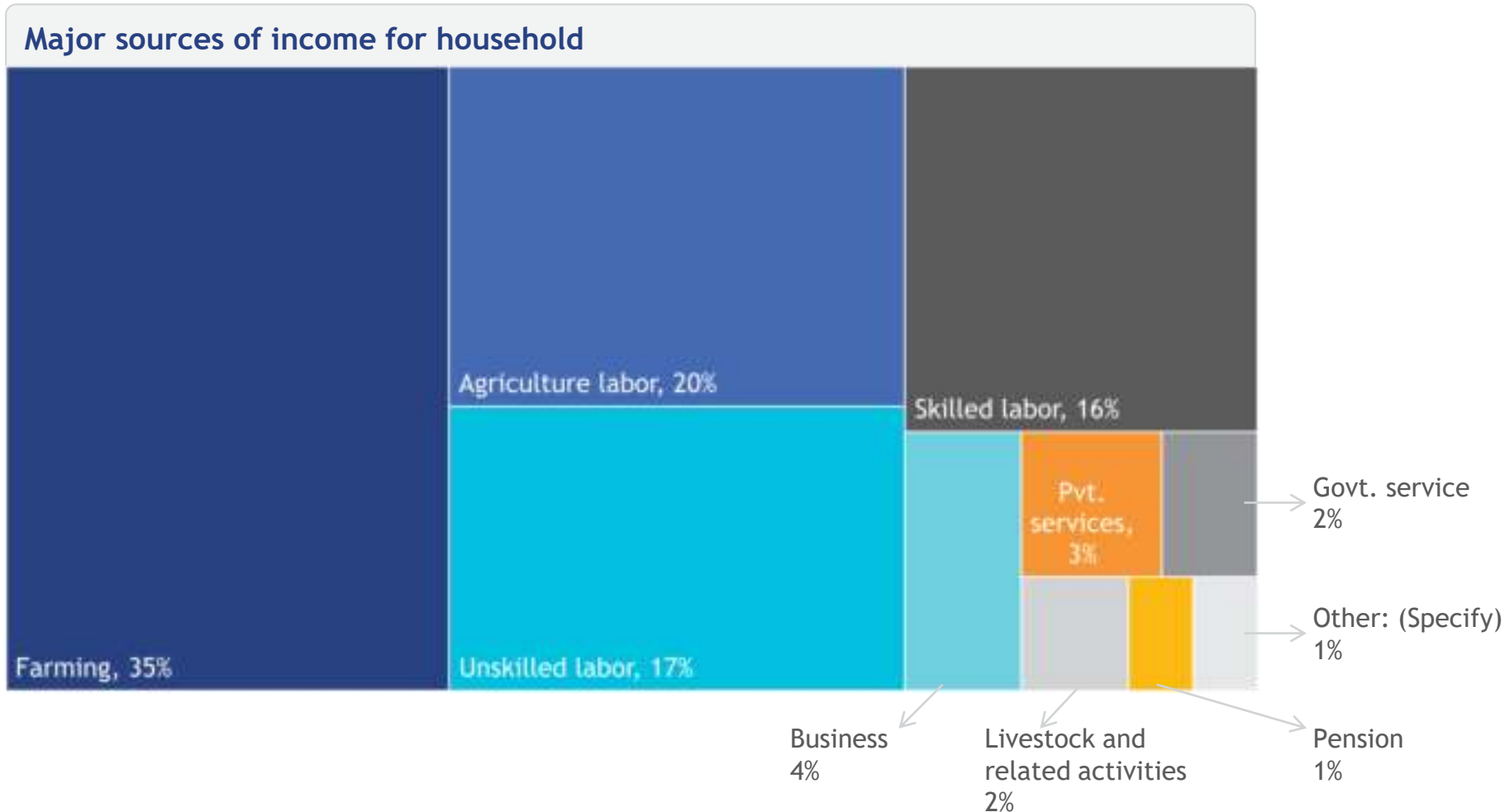
Reasons to open bank accounts

| State | *Total household (As per local stakeholders) | Tool-1 | Tool-2 | Tool-3 | House closed or respondent not available at home | Refusal |
|----------------|--|--------|--------|--------|--|------------|
| Tamil Nadu | 163 | 174 | 167 | 170 | 1 T2, 2 T3 | 2 T2, 1 T3 |
| Maharashtra | 162 | 155 | 144 | 148 | 7 HH, 1 T2, 1 T3 | 1 T2 |
| Madhya Pradesh | 170 | 141 | 119 | 114 | 15 HH | 14 HH |
| Punjab | 107 | 102 | 99 | 100 | 3 HH | 2 HH |
| Assam | 191 | 183 | 157 | 179 | 13 HH | -- |
| Uttar Pradesh | 179 | 228 | 207 | 221 | 8 HH | 4 HH |

* We have used the term “bank account owners” to show the analysis of bank accounts. Some of these account owners can be the same person, as some individuals hold more than one account.

Sample distribution of the TRG study (2/3)

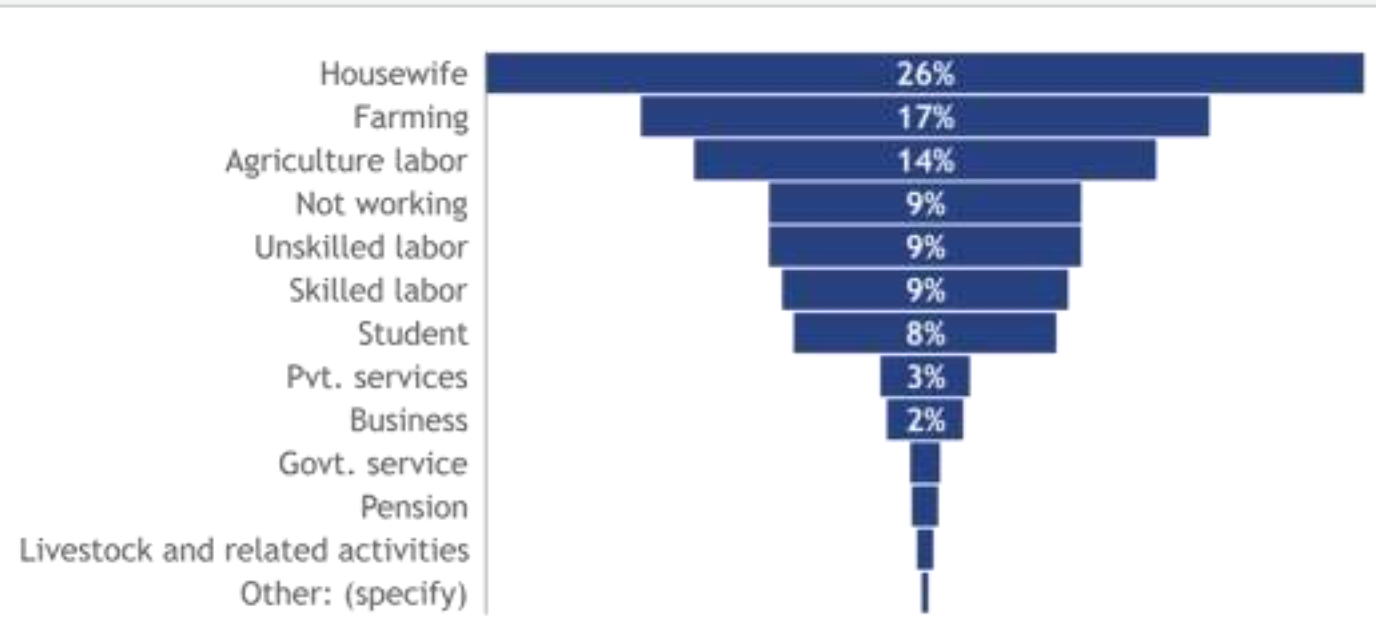
The study provides insights into 958 households comprising 2,862 adult individuals across six selected villages.



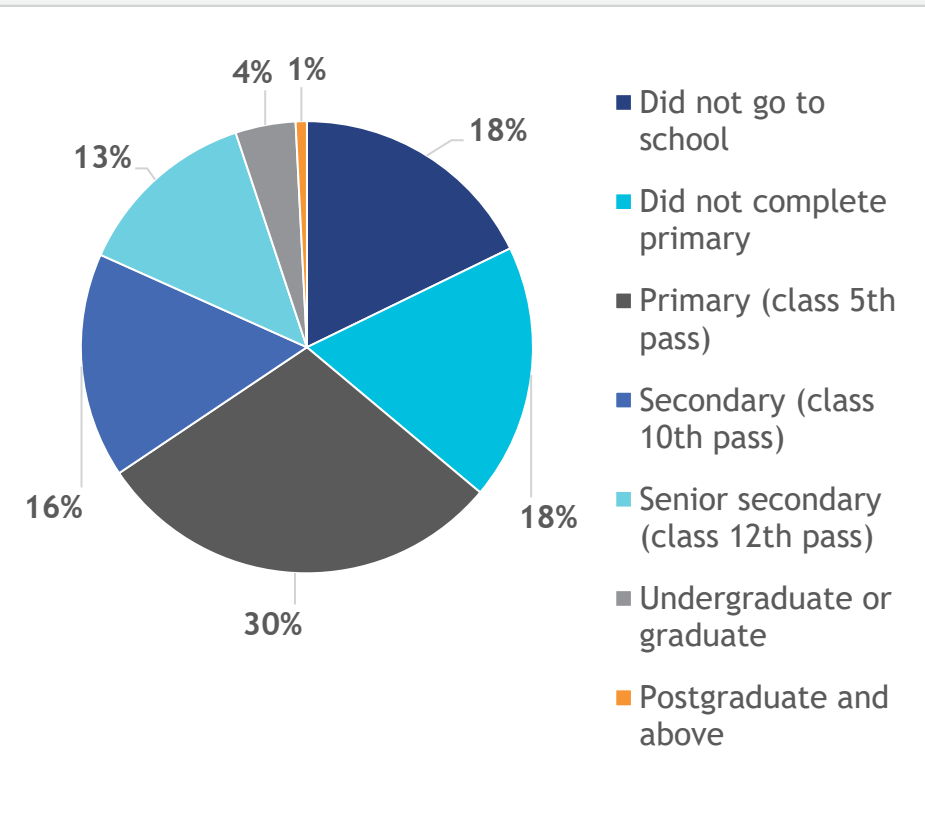
Sample distribution of the TRG study (3/3)

The study provides insights into 958 households comprising 2,862 adult individuals across six selected villages.

Distribution of primary occupation of individuals represented in the study



Education profile of individuals represented in the study



Monthly income

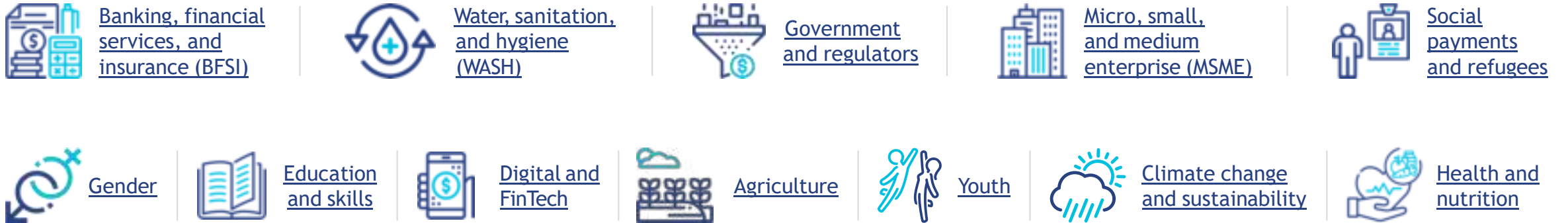
76% ≤ USD 60.54
(INR 5,000) a month

24% > USD 60.64
(INR 5,000) a month

Note: 1 USD = INR 82.59 (as on 10th July 2023)

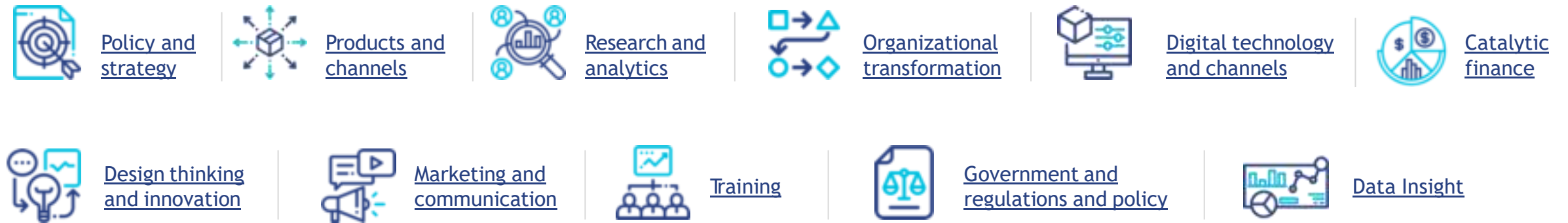
Sectors we work in

Providing impact-oriented business consulting services



Multi-faceted expertise

Advisory that helps you succeed in a rapidly evolving market



MSC is recognized as the world's local expert in economic, social and financial inclusion



International financial, social and economic inclusion consulting firm with **25+** years of experience



>200 staff in **10** offices around the world



Projects in **~68** developing countries

Our impact so far

>550
clients

>1,300
publications

Assisted development of digital G2P services used by **>875 million** people

Implemented **>875 DFS** projects

Developed **>275 FI products** and channels now used by **>55 million** people

Trained **>10,500** leading FI specialists globally

Some of our partners and clients





[MSC corporate brochure](#)

Contact us at info@microsave.net

Asia head office

28/35, Ground Floor, Princeton Business Park,
16 Ashok Marg, Lucknow, Uttar Pradesh 226001, India
Tel: +91-522-228-8783 | Fax: +91-522-406-3773 | Email: manoj@microsave.net

Africa head office

Landmark Plaza, 5th Floor, Argwings Kodhek Road
P.O. Box 76436, Yaya 00508, Nairobi, Kenya
Tel: +254-20-272-4801/272-4806 | Email: anup@microsave.net

