Crisil inclusix essay

Bank of India for their support and guidance. CRISIS particularly thanks Reserve Bank of India for sharing data at a district level, which was the basis of this analysis. CRISIS also acknowledges the guidance of various institutions and individuals who have supported this initiative with full enthusiasm.

Name Designation Department of Financial Services, Ministry of Finance (MOB) Shari Rajah Taker Secretary, Department of Financial Services, MOB SMS Sentential Shirtwaists Additional Secretary Department of Financial Services, MOB Shari Mesh Kumar Joint Secretary, Department of Financial Services, MOB

Shari Sandmen Kumar Director, Department of Financial Services, MOB Reserve Bank of India (RIB) DRP K C Charitably Deputy Governor, RIB or suburbs Garn EX-Deputy Governor, RIB SMS OSHA Throat Director, CAFTAN DRP Deeply Pant Josh Executive Director, RIB Shari Gout Chatterer Adviser, Department of Statistics & Information Management, RIB DRP Sandy Bose Director, Department of Statistics & Information Management, RIB Indian Banks Association DRP K Rumanians Chief Executive, BIB Mr. K unchristian Deputy Chief Executive, BIB In addition to the above, we received enthusiastic support and guidance in his venture from a number of serving and retired senior officials who were then at the helm of affairs in various departments in the Ministry of Finance. 5 6 FOREWORD The first step to addressing a problem is quantifying it; especially if the magnitude of the challenge is as vast as taking financial inclusion to every corner of the country. Financial inclusion is a vital component of the Government of Indian’s agenda and also a priority for the Reserve Bank of India (RIB).

Despite a considerable focus on the inclusion agenda, efforts are often hindered by lack of relevant measurement tools and availability of high laity data. Given Crisis's expertise in the science of building robust and objective evaluation frameworks, we saw a role for ourselves to help fill this GA p. CRISIS Inclusion is a pro bono initiative, driven by CRISIS'S stated goal Of making markets function better. Two years ago, CRISIS initiated work on developing CRISIS Inclusion, a one-of-its-kind benchmark index to accurately measure the extent of financial inclusion in India, right down to the district level. The analytical framework we have developed has solid structural components.

Once the methodology was finalized, following an active consultation process tit financial institutions, regulators and policy makers, the team at CRISIS spent 1, 500 man-hours in painstakingly collating 200, 000 data points from 165 banks across 632 districts to compute the index. Currently, CRISIS Inclusion measures financial inclusion by evaluating the penetration of banking services. CRISIS Inclusion also has the flexibility to add on, in a modular fashion, other financial intermediaries such as insurance and pension services, Non- Banking Finance Companies (NBS) and Micro-Finance Institutions (Mass) as and when credible data from these sectors becomes available at the district bevel.

Since the index will be updated periodically, it will be possible to monitor and measure improvements over time. The first report presents financial inclusion metrics in 632 districts of the country over a three-year timeshare (2009-201 1).

The index will help policymakers map the progress of financial inclusion and take remedial measures wherever they spot areas of concern. It will also help banks set financial inclusion targets for themselves and measure outcomes. Would like to specially acknowledge the strong supporter have received from the RIB and Ministry of Finance in this endeavourer. The data for CRISIS Inclusion is sourced from the RIB. Am also grateful to the dedicated and driven team of CRISIS analysts that has made CRISIS Inclusion a reality. Pope that the rigorous framework and analysis that have gone into the making of CRISIS Inclusion will play a major role in accelerating the pace of financial inclusion in the years to come.

But this is merely a beginning. As a nation, developing an analytical and metrics-oriented culture will be key to tackling other persistent macro-economic challenges. And CRISIS will be doing its bit to enable this change. Rope Kudus Managing Director and CEO CRISIS Ltd 7 8 EXECUTIVE SUMMARY Financial inclusion is a key enabler of economic and social development. In India, where a large section of the population still lives outside the ambit of formal financial services, the need to focus on inclusion is of paramount importance.

As a part of its commitment to corporate social responsibility, CRISIS saw this as an opportunity to put its knowledge of the financial sector and its expertise in creating world-class analytical frameworks and indices to use.

The effectiveness of the financial inclusion agenda in India can be significantly enhanced if there are objective ways to measure it. We, therefore, decided to rate a tool that would help policy-makers, regulators, and financial sector intermediaries at large in measuring the extent of financial inclusion, both at a broader, and disaggregated level. This vision was the genesis of CRISIS Inclusion. In achieving this goal, we have received significant support from the Reserve Bank Of India and the Ministry Of Finance.

What is CRISIS Inclusion? CRISIS Inclusion is Indian’s first comprehensive measure of financial inclusion in the form of an index.

It is a relative index that has a scale of O to 1 00, and combines three very critical parameters of basic banking services -? branch integration (BP), deposit penetration (EDP), and credit penetration (CAP) -? together into one single metric. For each of these parameters, CRISIS evaluates financial inclusion at the national/ regional/ state/ district level visit-;- visit a defined ideal. A CRISIS Inclusion score of 1 00 indicates the ideal state for each of the three parameters. For ease of readers, CRISIS Inclusion scores have been divided into the following four categories that indicate different levels of the financial inclusion.

CRISIS Inclusion Score 55 Level of Financial Inclusion HIGH Between 40. 1 and 55. 0 ABOVE AVERAGE 25. 0 and 40. 0 25

BELOW AVERAGE LOW The colors in the table for each of the rows indicate the colors used to depict each of the four categories.

9 Methodology CRISIS Inclusion follows a robust, transparent, and yet easy to understand approach. Its methodology is similar to other global indices, such as Unit’s Human Development Index. An important design element of CRISIS

Inclusion is the use of non-monetary parameters. This implies that the index uses parameters that focus only on the ‘ number of people’ whose lives have been touched by various financial services, rather than on the ‘ amounts’ deposited or loaned. This helps negate he disproportionate impact of a few high-value figures on the overall picture.

Another critical construct of the index is its scalability and flexibility.

Currently, the index uses the available information from the relevant banking related services, but it is capable Of adding more parameters from other financial services (such as insurance) and providers of financial services (such as non- banking financial companies) in future to widen its scope. Benefits and uses CRISIS Inclusion provides a bird’s eye view of the state of financial inclusion in the country. At the same time, it gives ground-level information on the regress made on the inclusion front even in the remote districts of rural India.

This two-pronged approach holds immense potential for policy-makers, regulators, and bankers as it helps to identify priorities, design focused programmer to push the inclusion agenda and most importantly, measure the progress made.

Some of the possible applications of CRISIS Inclusion are: n 10 policy-makers, both at the central and state levels, will be able to use CRISIS Inclusion not only to objectively measure the extent of financial inclusion, but also design tailor-made initiatives for areas with low inclusion levels. They can also priorities financial education in districts lagging on this front. The index will help regulators decide on differential prudential requirements for business generated from districts with low levels of financial inclusion. It will also assist them in deciding whether there is a case for according ‘ priority sector’ status to lending in such areas.

Bankers will find CRISIS Inclusion useful for formulating financial inclusion plans with measurable outcomes.

They will also be able to continuously monitor implementation of banks’ financial inclusion agenda and evaluate the performance Of the field staff engaged in this activity. Key findings Our report offers eight key findings about the existing state of financial inclusion in the country: 1. The all-India CRISIS Inclusion score of 40. 1 (on a scale of 100) is relatively low.

It is a reflection of under-penetration of formal banking facilities in most parts of the country. Just one in two Indians has a savings account, and only one in seven Indians has access to banking credit. In fact, the bottom 50 scoring districts have just 2 per cent of the country’s bank branches. 2.

Deposit penetration (EDP) is the key driver of financial inclusion in India.

The number of savings bank accounts, at 624 million, is lose to four times the number of loan accounts at 160 million. 3. Focused efforts to enhance branch presence and availability of credit are extremely critical. The bottom 50 scoring districts in India have only 4, 068 loan accounts per lake of population, which is nearly one-third of the all India average of 1 1 , 680 . Similarly, these districts have just 3 branches per lake of population, as compared to 7.

6 branches per lake of population at an all-India level. 4. There are clear signs of improvement in the CRISIS Inclusion score over the past three years.

The CRISIS Inclusion score at an all-India level has improved to 0.

1 in 2011 from 37. 6 in 2010 and 35. 4 in 2009. Improvement in deposit penetration score is the key driver of this improvement. 5. Wide disparities exist across India and within states in terms of access to financial services.

Indian’s six largest cities have 11 per cent of the country’s bank branches. At the other end of the scale, there are four districts in the North-Eastern region with only one bank branch each. 6. The key driver for the continued high performance of the top 50 districts is the significant increase in deposit and branch penetration (BP). The EDP score for these districts increased by a significant 9. In 2011, over 2009.